

The market and the world around us

ÅF's services – a summary

Each year ÅF carries out around 57,000 assignments for some 21,000 clients. Projects vary in duration from just a few hours to over 200,000 hours commanding contract fees of from just a few thousand kronor to as much as SEK 200 million.

ÅF works with technical consulting for industry (approximately 70 percent of revenue) and infrastructure projects (approximately 30 percent).

ÅF works with both process and manufacturing industries throughout the entire chain from product development (Systems Division) to automation and industrial IT (Engineering Division), as well as with the planning and development of production plant and the processes and environmental considerations associated with this (Process Division).

The Infrastructure Division supplies systems, mostly electrical, IT and HVAC and sanitation, to commercial properties and plant:

examples include sophisticated climate control technology for buildings and factories and also railway signalling systems.

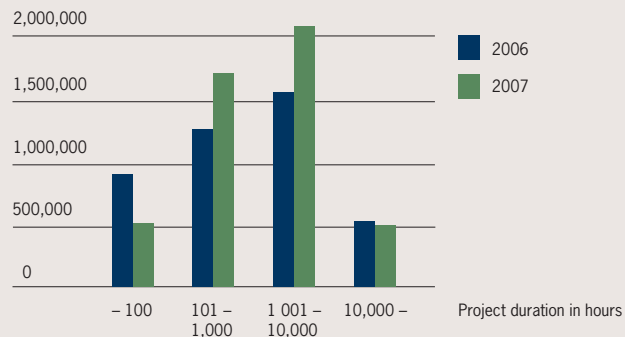
The Inspection Division inspects, tests and certifies plant and systems for clients in both industry and infrastructure

Clients

ÅF's ten largest clients in 2007 were Banverket (the Swedish National Rail Administration), Ericsson, FMV (the Swedish Defence Materiel Administration), Fortum, LKAB, Sappi, Stockholm's regional transport authority (SL), Vattenfall, Volvo Cars and Westinghouse.

Together these clients accounted for 20 percent of total invoiced sales.

Size of ÅF projects, in number of hours



In order to better secure activity levels and thus improve profitability, ÅF is making active endeavours to increase the proportion of long-term assignments.

Market

Technical consulting is a very large industry in Sweden. According to the Swedish Federation of Consulting Engineers and Architects (STD), sales for Swedish companies working in this field totalled some SEK 40.5 billion in 2007, with the ÅF Group accounting for almost 10 percent of this amount. The industry employed 43,100 people, slightly more than 8 percent of whom worked for the ÅF Group.

During 2007 the market for ÅF's services as a whole was good.

The market for the Engineering Division was strong in all segments, with investments in the environment and energy industries continuing to drive developments.

Demand was also strong for all of the services offered by the Infrastructure Division. Environmental improvements and efficiency gains are major driving forces in this sector.

Demand for the services of the Inspection Division developed well and by more than for the market in general. The trend is for more and more sectors to be regulated by technical inspections at the same time as ongoing harmonisation processes in the EU are fuelling an increase in demand.

For the Process Division the market remained very buoyant in all energy-related segments, particularly nuclear power, hydro-power and thermal power stations. In the pulp & paper industry demand was brisk from the chemical pulp segment in 2007.

The market for the Systems Division was good in all segments and industries in 2007, with telecoms performing particularly well.

Outlook – Nordic countries

Demand is expected to remain strong for consulting services despite certain warning signals about a downturn in the economy. The trend towards globalisation that has driven demand and intensified the competitive situation for industry in Sweden and its Nordic neighbours seems set to continue.

Many industrial plants in Sweden need to be modernised to improve efficiency, and the country is also on the threshold of extremely extensive investments in road and rail infrastructure, so the market for consulting services in these areas is considered to be very good. The situation in Norway is similar.

Efficiency investments in industry often focus on energy and the environment and this will fuel demand for consulting services throughout the Nordic region for a long time to come.

ÅF anticipates that demand for services in the energy sector will remain strong in both Sweden and Finland, particularly in renewable fuels.

For the pulp & paper sector projects in the Nordic countries and the rest of Europe alike are focused on maintenance investments, which is expected to lead to moderate rates of growth in ÅF's case.

Geographical spread of ÅF business



ÅF's domestic markets are the Nordic countries, the Baltic countries and Switzerland, but the company is becoming increasingly international. It has its own establishments in around 20 countries, but conducts business activities and attracts clients all over the world. Of a total of some 4,000 employees, approximately 900 are based outside Sweden.

High energy prices continue to drive a brisk process of change in Norway's oil and gas industries, but, in addition, demand for consulting services in infrastructure remains strong in Norway.

In Denmark, while foodstuffs and pharmaceuticals remain strong sectors, demand for consulting services is also rising as a result of the pressure for change in the Danish oil and gas industries.

Outlook – Other markets

There is great potential in Russia, Eastern Europe and South-East Asia. Industry is in dire need of modernisation and demand for energy is great. However, there are signs that the market is becoming overheated in the energy sector in Russia and Eastern Europe. Feasibility studies lead almost invariably to investment phases, and suppliers have raised their prices significantly. However, in view of the extent of the new investments needed, it is difficult to see how the market can cool off in the immediate future.

The enlargement of the EU, and the increased demand for the harmonisation of technical safety regulations that follows in its wake, means that demand for third-party inspections is rising continuously. This clearly benefits ÅF's inspection operations.

In the pulp & paper industry most of the big investments are being made in Asia and South America where the raw materials cost less.

Increased internationalisation

ÅF is becoming an increasingly international company and work is taking place continuously to standardise the structure of our internal information banks, develop the ÅF intranet, adopt a common graphic profile and develop guidelines in the form of methods, systems and processes, and shared corporate values and aims.

Of a total of approximately 4,000 ÅF co-workers, some 900 now work outside Sweden.



Re-acceleration of growth after brief slow-down

The Chief Economist of Handelsbanken, Jan Häggström, shares his insights into international economic trends over the coming years.

How do you see the prospects for the international economy for 2008–2009?

“2008 will be slightly weaker than 2007. But there are huge variations between countries and sectors, so the picture is far from uniform. The USA is still experiencing a slow-down, with GNP growth of around 2 percent this year, and growth in Europe will slow to just over 1.5 percent. Although there will also be a downturn in the emerging economies, this should be viewed in the light of their previously extremely high levels of growth. For example, Asia excluding Japan will slip just slightly from an average growth of 8.5 percent to around 8 percent. The picture is much the same in other emerging markets, such as Russia, the Middle East and certain South American countries. In these areas, growth will continue to be strong, averaging between 4 and 6.5 percent. In the second half of 2008, we expect the forecasts for the USA to improve. The decline in the construction of new homes will flatten out, and as it does so, growth will accelerate both in Europe and the rest of the world. By 2009, global GNP growth could be back to the levels we saw in 2006 and 2007.”

What signs of continuing prosperity do you see?

“Demand for raw materials, energy and food will remain high. A shortage of capacity in these areas has forced up prices. That’s why investment in areas such as oil extraction, mining operations and agricultural production has been so lucrative – and will continue to be so! Emerging economies have consistently shown extremely strong growth in productivity, and have been less dependent on credit expansion than the USA and Western Europe. Consequently, the impact of the credit crisis has been less severe in these countries. In a global perspective, these factors provide a strong counterbalance to falling house prices and a contracting construction market for new homes in the USA and Western Europe.”

Are there any dark clouds on the horizon?

“In both the OECD economies and the new emerging economies, a shortage of labour and wage increases may continue to contribute to overheating. That is why many countries have tightened up their monetary policies. As a result, rising interest rates are now beginning to impact on private consumption and the construction of new homes in the western world. Although the USA has started to reduce its interest rates, it will take some time before the consequences of this work their way through the system.



As a result, we will continue to have two faces to the world economy, not one. And the brakes will have to be applied – albeit gently – in the emerging countries as well, in order to keep inflation under control.”

What impact has international nervousness about the credit market had on business activities in the industrial sector?

“Financial concern in the USA is linked primarily to the real estate market. This means that the areas of the industrial sector most closely linked to the real estate sector are affected most: for example, suppliers of sawn timber and consumer products, such as furniture. Industries that focus on producer goods have, however, suffered only a limited impact, thanks to strong demand from the emerging economies. And the pattern is similar in Europe.”

Which sectors will perform best over the next few years?

“Energy, raw materials and foodstuffs remain strong, and this will continue to fuel investment. Many investors are also showing an interest in new and profitable technologies, including alternative sources of energy. Many of the most rapidly expanding economies, such as Russia and some South American and Middle Eastern states, are now enjoying the benefits of large amounts of oil-related revenue, which they are reinvesting in the transport sector and in other forms of infrastructure.”