

ADMINISTRATION REPORT

ÅF AB (publ)

Corporate identity number 556120-6474

The Board of Directors and the President of ÅF AB (publ) herewith submit their annual report for the year 2009. ÅF AB, which has its registered office in Stockholm, is the parent company of the ÅF Group.

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 in fields of expertise that include energy and environment, 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 the Nordic region, 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 clients' 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

Given the relative difficulty of the market situation in the wake of the global financial crisis ÅF performed well in 2009, strengthening its market positions during the year, particularly in energy, environment and infrastructure planning.

Operating income totalled SEK 4,692 million (2008: SEK 4,570 million), an increase of 3 percent. Organic growth was negative at minus 4 percent.

Operating profit totalled SEK 388 million (SEK 479 million) and the operating margin was 8.3 (10.5) percent.

The capacity utilisation rate was 71 (74) percent.

Profit after tax was SEK 275 million (SEK 328 million).

Earnings per share, before dilution, totalled SEK 15.86 (SEK 19.08).

The reduction in occupational pension premiums introduced by Alecta had a positive effect on ÅF's operating profit of SEK 40 million in 2008.

Divisional Performance

Energy

Operating income SEK 1,290 million (2008: SEK 1,051 m)

Operating margin 9.7% (12.4%)

The Energy Division is a leading international energy consultant and a world leader in nuclear power consulting.

After a dip in the first six months of the year, the market for energy consulting picked up during the second half, with improvements in the credit market and a more stable situation in the global economy helping to fuel increased activity. At the same time, the urgency of the climate issue is a major influence on the modernisation of energy production worldwide.

Well-filled order books and the improved market situation in the second half combined to help Energy report a satisfactory level of profitability given the weak state of the market in the first six months of 2009.

Profitability for the final quarter of 2009 was highest in the units in Finland and Switzerland, both of which are involved in major international project management assignments in Europe and Asia. These two units, with a total of almost 500 employees, reported operating margins of around 12 percent. The Energy Division's operations in Russia also continued to report a good level of profitability. Profits were lowest in Sweden, but this can be attributed mainly to a strategic focus on rapid organic expansion to strengthen the division's position on its domestic market.

Engineering

Operating income: SEK 1,316 million (2008: SEK 1,452 m)

Operating margin: 9.6% (11.0%)

The Engineering Division is Northern Europe's leading technical consultant for industry. Engineering's performance was adversely affected by weaker demand at the same time as a number of major projects were brought to a conclusion during the year. This led to a fall in capacity utilisation and, consequently, lower profits. Although the economic situation stabilised as the year drew to a close, several sectors of industry remain cautious about making major new investments.

Earnings were buoyed up, however, thanks to the combination of reduced costs and the positive effects of transferring unoccupied consultants to business areas and regions where the outlook is brighter. Demand was strongest within the mining, nuclear power, food processing and pharmaceutical industries. Clients' investments relate mainly to measures to rationalise production facilities, projects related to environmental improvements, the development of alternative fuels and managed transitions to more efficient energy use.

It is worth noting that the market for consulting services in the pulp and paper industry showed signs of a recovery towards the end of 2009 after several years of low levels of activity. In December the division won new contracts with SCA, Mondi and the Swedish Forest Industries Federation (Skogsindustrierna), the trade and employers' organisation for the pulp and paper industries.

Infrastructure

Operating income: SEK 1,774 million (2008: SEK 1,859 m)

Operating margin: 8.0% (10.5%)

The Infrastructure Division holds a leading position in consulting services for infrastructure development in Scandinavia.

With the exception of the business areas for Infrastructure Planning and Energy Efficiency, there was a dip in the market for qualified consulting services in the infrastructure sector as a whole in 2009. Among the measures initiated to combat this were an increase in sales activities, internal transfers of consultants to areas where demand remained brisk, lay-offs and a general review of costs.

The division's largest business area, Installations, with 650 consultants in Sweden and Norway, reported satisfactory results, especially in view of the fact that the market for construction-related services remained depressed. The market segment that once again showed the most rapid growth was energy efficiency conversions in existing properties, where demand for efficient solutions in commercial, industrial and public sector properties remained as strong as ever.

Infrastructure Planning continued to report strong organic growth and rising profits in a market that is now driven by large-scale investments in the Nordic countries' road and rail networks.

Inspection

Operating income: SEK 407 million (2008: SEK 361 m)

Operating margin: 7.0% (12.1%)

The Inspection Division works with technical inspections, chiefly in the form of periodic inspections, testing and certification.

Earnings for the Inspection Division were disappointing. The division's core business developed by and large according to expectations, but profits were eroded by high investment costs for developing testing equipment and specialist expertise for the nuclear power industry. These costs are running far in excess of those budgeted for this initiative, so an action programme was initiated towards the end of the year to reduce development costs and raise income. It is anticipated that the projects within this action programme will begin to break even during the second quarter of 2010, after which they should start to generate a profit.

The market for technical inspections remained positive, although growth was lower than in the corresponding period for 2008. Demand remains good from the nuclear power industry. The Inspection Division has long-term contracts with all three Swedish nuclear power plants and with a handful of plants outside Sweden. Demand also rose from the rail industry.

Acquisitions, disposals and alliances

Through its Inspection Division (ÅF-Kontroll), ÅF established a new, wholly-owned subsidiary in Lithuania in the first quarter of 2009. Operations focus on testing and inspection within the nuclear power industry. The company was initially staffed by 30 employees, all of them transferred as part of an agreement with the state-owned Ignalina Nuclear Power Plant (INPP) that also included a service contract to supply INPP with inspection and testing services.

In the fourth quarter, through its Engineering Division, ÅF took over the operations of two businesses in Malmö and Gothenburg (Sweden) with a total of 27 consultants. The first acquisition was of Etteplan in Malmö with 14 members of staff; the second was of Elektroautomatik with 13 consultants in Gothenburg.

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, R&D costs during the year totalled SEK 41 million (2008: SEK 36 million), mostly in the form of the costs for time spent on R&D projects by ÅF's own salaried employees. In addition to this, ÅF's divisions work with R&D and product development in certain of their client assignments. Revenue from these assignments totalled approximately SEK 455 million.

Cash flow and financial status

Operating cash flow for the year as a whole totalled SEK 306 million (2008: SEK 321 million). The vigorous efforts to reduce capital tied-up have borne fruit. Total cash flow for the year was SEK 66 million (SEK –54 million). Acquisitions completed and additional considerations paid amounted to a total of SEK 40 million (SEK 145 million).

The Group's liquid assets totalled SEK 345 million (SEK 290 million), and the net loan debt at the end of the year amounted to SEK 44 million (SEK 174 million).

Equity per share was SEK 107.36 and the equity/assets ratio was 51.0 percent. At the beginning of 2009 equity per share was SEK 99.46 and the equity/assets ratio was 47.1 percent.

Equity on 31 December 2009 totalled SEK 1,827 million (SEK 1,699 million).

ÅF AB has credit facilities amounting to SEK 750 million.

Investments

Gross investment in property, plant and equipment for 2009 as a whole totalled SEK 43 million (2008: SEK 124 million). In 2008 SEK 32 million were invested in land and buildings to meet the growth in business for ÅF's Swiss operations, ÅF Colenco, and SEK 43 million were invested in ÅF's new headquarters in Solna.

Parent company

Parent company sales, primarily for various intra-group services, totalled SEK 294 million for the period January–December 2009 (2008: SEK 253 million). The parent company reported a loss of SEK 4 million (SEK –39 million) after net financial items. For 2009, SEK 15 million relating to the incentive programme, which, in previous years, has been recognised in the parent company's profit or loss, has been charged to the appropriate subsidiaries. Cash and cash equivalents totalled SEK 4 million (SEK 4 million), and gross investment in machinery and equipment for the year amounted to SEK 10 million (SEK 51 million). In 2008 a total of SEK 43 million was invested in ÅF's new headquarters.

The parent company has increased its participations in Group companies and associates to SEK 2,117 million (SEK 1,019 million) as a result of restructuring of shareholdings.

Environmental work

Together with its stakeholders and society in general, ÅF has an important duty to work towards sustainable development. In many instances, ÅF is tasked with introducing new and better technology, implementing rationalisation measures 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 also acts as an expert resource for ISO in the development of international guidelines for Corporate Social Responsibility, ISO 26000. For details of ÅF's environmental and sustainability work, please see pages 21–25.

A new sustainability plan for ÅF will be implemented during the course of 2010.

Employees

The number of FTEs was 4,182 (2008: 3,948).

The total number of employees at the end of the reporting period was 4,428 (4,448): 3,161 in Sweden and 1,267 outside Sweden.

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

ÅF improved its appeal as an attractive employer. In Universum's annual Career Barometer survey of 5,620 engineers, ÅF moved up to second place overall among Swedish companies in the league table of the most popular employers for 2009–2010. ÅF received awards from Universum for its ranking as runner-up overall and as "Best in Industry".

The internal "Five of Five Thousand" project has identified and defined three main career paths within ÅF: specialist/expert, project manager and manager. At the same time the ÅF Academy has also been established to support these career paths and the development of co-workers in their specific professional role within the company, and to assist managers in this development work. All the courses that are offered by this internal training organisation include modules on entrepreneurial skills. For further details about ÅF's work with human resources, please see pages 14–20.

Sensitivity and risk analysis

The capacity utilisation rate of a consulting company is crucial to its ability to generate a profit. Every percentage point change in this figure affects ÅF's results by plus/minus approximately SEK 50 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 50 million. Methods of reducing sensitivity include the use of sub-consultants, fixed-term employment contracts and increases in the variable salary component, along with measures to broaden expertise and markets and to productise services, which involves packaging a number of services to improve competitiveness and reduce 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 miscalculated. 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 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. In order to attract and retain 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 augment growth by acquiring other consulting companies. The increased risk that this involves is minimised by adopting a systematic approach to acquisitions and insisting on the relevant documentation and reviews. An annual evaluation of recent acquisitions is carried out by the ÅF Board.

Through its operations, ÅF is exposed to various financial risks, such as currency risk, interest rate risk, financial credit risk and client credit risk. Responsibility for the Group's financial transactions and risks is held centrally by the parent company's accounting and reporting 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 of market fluctuations on the Group's earnings. 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 refer to Note 25 and to pages 56–60 in this annual report.

Shares

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

ÅF shares traded at SEK 195.50 at the end of 2009, an appreciation of 64 percent in value over the year. The Stockholm OMXS-PI all-share index rose by 47 percent during the same period.

ÅF's market capitalisation as at 31 December 2009 was SEK 3,329 million (31 Dec 2008: SEK 2,027 million).

During the year there was a turnover of 12,418,178 (12,184,948) shares, valued at a total of SEK 1,770 million (SEK 1,885 million). The average turnover per trading day was SEK 7.05 million (SEK 7.32 million). Shares were traded on 100 (100) percent of trading days.

The total number of ÅF shares on 31 December 2009 amounted to 17,029,501, of which 804,438 were class A shares and 16,225,063 were class B shares. ÅF AB held 142,000 of its own class B shares on 31 December 2009.

The ten largest shareholders in ÅF are listed on page 54 of this annual report.

Performance-related Share Programme 2009

At the Annual General Meeting held on 5 May 2009 shareholders in ÅF AB resolved to implement a new performance-related share savings programme (PSP) for up to 150 key individuals in the company, including the President/CEO.

Employees who participate in the programme can reserve a sum corresponding to a maximum of 5 percent of their gross salary for the purchase of ÅF shares on the Nasdaq OMX stock exchange in Stockholm over a 12-month period from the date of implementation of the programme. On expiry of the application period, 110 ÅF employees in key positions had expressed an interest in purchasing approximately 23,400 shares for the entire 2009 programme, based on the share price at the end of the application period.

In the event that the preset performance targets are met in full, some 99,000 shares will be transferred to these employees without consideration during 2012 and 2013. This can lead to dilution of a maximum 0.6 percent of earnings per share.

The share programmes for 2008 and 2009 can together result in a maximum dilution of earnings per share equivalent to 1.1 percent.

Share buy-backs

In accordance with the mandate given by the Annual General Meeting, ÅF acquired a total of 105,000 of the company's shares in 2009. The purpose of the buy-backs is to safeguard the company's obligations with regard to the Performance-related Share Programme (PSP) approved by the AGM. ÅF owns a total of 142,000 of the company's class B shares relating to PSP 2008 and PSP 2009.

Board of Directors

Following the recommendation of the Nomination Committee eight directors (with-out deputies) were elected by the Annual General Meeting to serve in 2009: Ulf Dinkelspiel, Patrik Enblad, Tor Ericson, Eva-Lotta Kraft, Jon Risfelt, Helena Skåntorp and Lena Treschow Torell were re-elected, and Anders Snell was elected to serve a first term as a director of the company. Anders Snell is Chairman of Ångpanneföreningen's Foundation for Research and Development.

Patrik Tillack and Fredrik Sundin were appointed as employee representatives on the board. Bo G Andersson and Anders Toll are deputy employee representatives.

Ulf Dinkelspiel was re-elected as Chairman of the Board. At its inaugural meeting following the AGM, the board elected Lena Treschow Torell as its Deputy Chair. Please turn to pages 128–129 for a more detailed presentation of board members and directors.

Work of the Board of Directors

During the 2009 financial year, the board held six meetings in addition to 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, are to be dealt with by the board. A presentation of developments with regard to the company's business operations and financial position is a standing item on the agenda. In conjunction with each ordinary meeting of the board, one business area within the company is also scrutinised in greater detail. At the board meeting in August a strategy seminar was arranged with a special review of each division.

Other ÅF employees have participated in board meetings to present reports. Viktor Svensson, ÅF's Executive Vice President, Corporate Information, has served as secretary to the board.

An evaluation of the board's work during the year has been carried out.

ÅF's Corporate Governance Report is presented separately on pages 121–126.

Senior management

In 2009 the ÅF Group's senior management team comprised Jonas Wiström (President and CEO), Jonas Ågrup (CFO), Viktor Svensson (Executive Vice President, Corporate Information), Charlotte Witt (Director, Human Resources), Jacob Landén (General Counsel) and the Divisional Presidents, Eero Auranne, Jörgen Backersgård, Per Magnusson and Johan Olsson. Gunilla Fladvad is the secretary to the senior management group.

Please turn to pages 130–131 for a presentation of the senior executives in the company.

Guidelines for the remuneration of the senior executives of the Company

The 2009 Annual General Meeting resolved that the principles below relating to remuneration and other conditions of employment for senior executives of the company will apply for contracts of employment signed or amended after the Annual General Meeting. By "senior executives of the company" is meant the President/CEO and other members of the senior management group.

ÅF Group policy is that remuneration should be on competitive market terms, to enable the Group to recruit and retain senior executives with the requisite skills and experience. ÅF applies the "grandfather principle", according to which remuneration terms must always be approved by each manager's immediate superior.

The remuneration package of senior executives consists of basic salary, a variable salary element, pension, the use of a company car, other remuneration and eligibility for the share-related incentive programme.

Remuneration is based on factors such as duties, expertise, experience, position and performance. The apportionment between basic salary and variable remuneration is also related to the executive's position and duties. The variable element for

the CEO is a maximum of 75 percent of the fixed annual salary, and for other executives, 60 percent. The fixed annual salary is the current monthly salary multiplied by 12.2. The variable remuneration paid is the amount after the deduction of social security contributions. The variable element is based on outcomes in relation to targets. The targets and salary for the CEO are determined by the Board of Directors. Targets and salary for other senior executives are set by the CEO in consultation with the Remuneration Committee.

Senior executives have defined-contribution pension plans with market contributions. All pension benefits are transferable, and are not, therefore, dependent on future employment. The retirement age for the CEO is 60, and for other senior executives, 65 (with the exception of contracts signed before 2002).

The 2009 Annual General Meeting authorised the board to deviate from the guidelines for remuneration drawn up by the Annual General Meeting, if there are special reasons for doing so in individual instances.

For information regarding previously approved remuneration which has not become due for payment, please refer to Note 8 in this annual report.

The Board of Directors proposes that the 2010 Annual General Meeting resolves that the principles for remuneration and other conditions of employment for senior management for 2010 shall be in line with the principles that have been applied during 2009.

Prospects for 2010

The economic situation deteriorated in 2009 in the wake of the financial crisis and ÅF is therefore bracing itself for another relatively tough year in a very challenging marketplace. However, it is anticipated that the state of the economy in 2010 as a whole will be better than in 2009.

The majority of ÅF's operations are concentrated on industries such as energy, environmental engineering, infrastructure and inspection, where the prospects for long-term expansion remain excellent. ÅF is in a favourable financial position with long-term client relations and a strong brand, all of which bodes well for the future.

Proposed appropriation of profits

Non-restricted profits of SEK 1,175,876,022 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 8.00 per share	135,100,008
To be carried forward	1,040,776,014
Total, SEK	1,175,876,022

The board's explanation of the proposed appropriation of profits will be posted on the company's website, www.afconsult.com. It can also be ordered from the company.