



## PRESS RELEASE

### INTERIM REPORT JANUARY - JUNE 1999

(Unaudited)

- **AGA reports income before tax for the first half of 1999 of SKr 1,181m (911). Earnings per share after full tax amounted to SKr 3.41 (2.57).**
- **Sales amounted to SKr 7,483m (7,471). This level could be maintained in spite of weak economic development in the mature markets and a substantial devaluation in Brazil. Healthcare's sales rose by 9 percent.**
- **Operating income was SKr 1,016m (962), which corresponds to an operating margin of 13.6 percent (12.9). Earnings include a SKr 70m capital gain from the sale of AGA's subsidiary in the U.K. as well as an expense of SKr 46m for the inhaled nitric oxide project in the U.S.**
- **Net cash flow from operations improved to SKr 385m (-566).**
- **In accordance with a recommendation issued by the Swedish Financial Accounting Standards Council, AGA has reclassified certain former high inflation countries, including Brazil. This means that the current rate method is applied when translating financial statements from these countries. As a result, operating income for the first half of 1999 is SKr 95m higher but since net financial expense has increased by the same amount, income before tax is unaffected.**

#### Sales

In January-June 1999, the Group's sales amounted to SKr 7,483m (7,471). The devaluations in Brazil in January 1999 and in Russia in August 1998 have had a negative impact on sales of approximately 2 percentage points and a 1 percentage point decline was due to the sale of operations, primarily the subsidiary in the U.K. This was partly compensated by a positive effect of 2.5 percentage points from changed exchange rates for non-devalued currencies.

Economic growth was relatively weak in most markets in Europe and the majority of countries in South America are in recession. Growth in North America remained stable. In Europe, however, some improvement could be noted in the second quarter and the effects of the financial unease in Brazil have moderated.

Sales for the industrial gas operations amounted to SKr 6,399m (6,472). Sales volumes increased for pipeline deliveries including OSS but decreased for most cylinder gases and were largely unchanged for liquid air gases. Prices remained under pressure in several markets, for example liquid air gases in Western Europe. Significant sales increases are reported, however, in South America with the exception of Brazil and Venezuela. In North America, sales increased substantially in Mexico. In Europe, the largest sales increases are reported in Finland, Italy, Spain and Romania.

Healthcare's sales amounted to SKr 1,084m (999), an increase of 9 percent. The division achieved large increases in most markets, except in Brazil and Russia, where devaluations led to a sharp reduction in sales revenues. AGA's treatment method with inhaled nitric oxide (INO) is expected to receive marketing authorization in the U.S. within the next few months. Prior to this, the INO operations acquired in the U.S. in 1998 will not provide any significant revenues and report a deficit of SKr 46m for the first half of the year.

## **Earnings**

The Group's operating income amounted to SKr 1,016m (962), including a capital gain of SKr 70m from the sale of the British subsidiary. Excluding this capital gain, operating income was largely unchanged compared with the first half of 1998. The effect of changed exchange rates for non-devalued currencies was positive by approximately 3 percentage points, while the INO operations in the U.S. had a negative earnings impact of 5 percentage points.

When translating the financial statements of foreign subsidiaries into Swedish kronor AGA has previously regarded the majority of countries in Latin America and Eastern Europe as high-inflation countries and therefore applied the so-called monetary method. Since inflation in several of these countries has fallen to normal levels in recent years, AGA changed to the current rate method when translating statements for the subsidiaries in Argentina, Brazil, Chile, Mexico, Peru and Uruguay, as well as Poland and Hungary with effect from January 1, 1999. The monetary method is still used for Colombia, Ecuador, Venezuela, Russia, Ukraine and Romania.

Application of the current rate method meant that operating income for the first half of 1999 was SKr 95m higher than it would have been according to the monetary method, but net financial expense was also SKr 95m higher. The effect on first-half income before tax was therefore zero as was the effect on net income. The figures published previously for the first quarter of the year have been revised. As a result operating income was increased by SKr 60m to SKr 475m while income before tax was reduced by SKr 16m to SKr 768m with a similar SKr 16m reduction in net profit to SKr 518m.

The 1998 closing accounts included a SKr 720m provision in operating income for the estimated costs of the efficiency improvement programs, which were started in 1998 and will extend to the year 2001. SKr 112m of this provision was utilized in the first half of 1999.

The subsidiary in the U.K. was sold to Air Products on May 6. The sale is subject to approval from the competition authority and the capital gain has not yet been confirmed but is estimated to amount to SKr 70m.

The number of employees decreased in the first half of 1999 by 322 people to 9,881. The sold subsidiary in the U.K. had 103 employees.

The Group's net financial items comprised an expense of SKr 290m (51). The increase is mainly due to a lower return on liquid assets and to exchange rate differences on the dollar loans of the South American subsidiaries.

Income before tax amounted to SKr 1,181m (911), including a SKr 455m capital gain from the sale of AGA's shareholding in Industrivärden and SKr 70m from the sale of the British subsidiary. The tax expense amounted to SKr 348m (284), including capital gains tax of SKr 127m. The sale of the subsidiary in the U.K. is not subject to tax.

The net income for the period amounted to SKr 831m (625) and earnings per share after full tax amounted to SKr 3.41 (2.57).

### **Financing and investments**

The redemption of every tenth share for SKr 140 per share or a total of SKr 3,408m decided by the Annual General Meeting was carried out in June. For technical reasons, a new issue of 179,581 class B shares for SKr 140 per share and 24,344,043 class C shares without dividend rights for SKr 5 per share was made in conjunction with the redemption of shares. The class C shares will be redeemed as soon as the formal procedure has been completed in the district court. The combined number of class A and B shares amounts to 219,275,975, which will be used as the basis for calculating earnings per share with effect from June 29.

Net cash flow from operations for the period amounted to SKr 385m (-566) after dividends to shareholders amounting to SKr 730m (730). Cash flow from investing activities is included in a positive amount of SKr 171m (-871), since SKr 595m was provided by the sale of shares in Industrivärden and SKr 424m by the sale of subsidiaries.

In the first half of 1999, AGA invested SKr 697m (1,095) in new plant and equipment and a further SKr 193m was invested in plant and goodwill at acquisitions. Investments in new plant and equipment corresponded to 9 percent (15) of sales. A new air separation plant in Peru and a capacity extension in the U.S. went into operation, and an air separation plant is under construction in Italy.

The Group's financial net debt increased during the period by SKr 2,740m to SKr 6,515m. The increase resulting from the redemption of shares was counteracted by the positive net cash flow from operations. Liquid assets decreased by SKr 1,462m to SKr 972m and loans increased by SKr 1,585m to SKr 7,794m. The net debt/equity ratio therefore increased to 75 percent from 31 percent at the beginning of the year. To finance the redemption of shares, AGA issued bonds with varying interest rates and maturities in an MTN program.

The Group's equity ratio amounted to 37 percent at June 30 compared with 47 percent at the beginning of the year. Shareholders' equity decreased by SKr 3,544m to SKr 8,672m. In addition to the redemption of shares mentioned above, equity was reduced by a currency adjustment of SKr 372m due to the changed translation method for certain countries.

**Next report**

AGA's nine-month report will be published on October 27.

Lidingö, August 17, 1999

AGA AB (publ)

Lennart Selander

President and CEO

**QUARTERLY DATA**

SKr million

	Q 1	Q 2	Q 3	Q 4	Q 1*	Q 2
	<u>1998</u>	<u>1998</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>	<u>1999</u>
Sales	3,752	3,719	3,733	3,884	<b>3,683</b>	<b>3,800</b>
Operating income, excl. restructuring costs and capital gains	501	461	452	344	<b>475</b>	<b>471</b>
Operating margin, percent	13.4	12.4	12.1	8.9	<b>12.9</b>	<b>12.4</b>
Net financial items	-40	-11	-75	-101	<b>-162</b>	<b>-128</b>
Income after financial items, excl. restructuring costs and capital gains	461	450	377	243	<b>313</b>	<b>343</b>
Restructuring costs, etc.	—	—	—	-975	—	—
Capital gains	—	—	—	—	<b>455</b>	<b>70</b>
Net income	319	306	271	-526	<b>518</b>	<b>313</b>
Earnings per share after full tax, SKr	1.31	1.26	1.11	-2.16	<b>2.13</b>	<b>1.28</b>
No. of employees, end of period	10,720	10,494	10,291	10,203	<b>10,146</b>	<b>9,881</b>

**PER GEOGRAPHIC MARKET**

	Jan.-June	Jan.-June	Jan.-Mar.*	Jan.-Mar.	Full year
	<b>1999</b>	1998	<b>1999</b>	1998	1998
<b>Sales</b>					
SKr million					
Western Europe	<b>4,226</b>	4,155	<b>2,135</b>	2,096	8,460
Eastern Europe	<b>356</b>	369	<b>173</b>	181	751
North America	<b>1,729</b>	1,658	<b>835</b>	848	3,277
South America	<b>1,172</b>	1,289	<b>540</b>	627	2,600
Total	<b>7,483</b>	7,471	<b>3,683</b>	3,752	15,088
Of which Industrial gases	<b>6,399</b>	6,472	<b>3,162</b>	3,249	13,050
Of which Healthcare	<b>1,084</b>	999	<b>521</b>	503	2,038

**Operating Income**SKr million, excl. restructuring costs  
and capital gains

Western Europe	<b>699</b>	734	<b>366</b>	380	1,348
Eastern Europe	<b>13</b>	-7	<b>3</b>	-8	-26
North America	<b>84</b>	131	<b>40</b>	70	244
South America	<b>150</b>	104	<b>66</b>	59	192
Total	<b>946</b>	962	<b>475</b>	501	1,758

**Operating Margin**

Percent

Western Europe	<b>16.5</b>	17.7	<b>17.1</b>	18.1	15.9
Eastern Europe	<b>3.7</b>	-1.9	<b>1.7</b>	-4.4	-3.5
North America	<b>4.9</b>	7.9	<b>4.8</b>	8.3	7.4
South America	<b>12.8</b>	8.1	<b>12.2</b>	9.4	7.4
Total	<b>12.6</b>	12.9	<b>12.9</b>	13.4	11.7

\* Quarter 1 restated according to the changed currency translation method.

**CONSOLIDATED INCOME STATEMENT**

SKr million

	<b>Jan.-June 1999</b>	Jan.-June 1998	<b>Jan.-Mar.* 1999</b>	Jan.-Mar. 1998	Full year 1998
Sales	<b>7,483</b>	7,471	<b>3,683</b>	3,752	15,088
Cost of sales	<b>-4,478</b>	-4,549	<b>-2,212</b>	-2,279	-9,176
<b>Gross income</b>	<b>3,005</b>	2,922	<b>1,471</b>	1,473	5,912
Selling, R & D, and administrative expenses	<b>-2,181</b>	-2,054	<b>-1,062</b>	-1,019	-4,352
Restructuring costs, etc.	—	—	—	—	-975
Other operating earnings, net	<b>186</b>	77	<b>59</b>	39	169
Share of income in associate companies	<b>6</b>	17	<b>7</b>	8	29
<b>Operating income **</b>	<b>1,016</b>	962	<b>475</b>	501	783
Net financial items	<b>-290</b>	-51	<b>-162</b>	-40	-227
Capital gain on sale of shares in Industrivärden	<b>455</b>	—	<b>455</b>	—	—
<b>Income before tax</b>	<b>1,181</b>	911	<b>768</b>	461	556
Tax ***	<b>-348</b>	-284	<b>-256</b>	-141	-184
Minority interests	<b>-2</b>	-2	<b>6</b>	-1	-2
<b>Net income</b>	<b>831</b>	625	<b>518</b>	319	370

**Earnings per share after full tax**

SKr, 1998 before restructuring costs	<b>3.41</b>	2.57	<b>2.13</b>	1.31	4.46
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\*\* Depreciation charged to  
operating income

	<b>918</b>	889	<b>453</b>	445	1,822
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*** Paid tax	<b>245</b>	216	<b>212</b>	109	330
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\* Quarter 1 restated according to the changed currency translation method.

**CONSOLIDATED BALANCE SHEET**

SKr million

**30 June****31 Dec.****1999****1998****ASSETS**

Goodwill	<b>1,137</b>	1,046
Plant and equipment	<b>16,520</b>	17,804
Shareholdings	<b>259</b>	544
Long-term investments	<b>307</b>	–
Long-term operating receivables	<b>167</b>	157
<b>Total fixed assets</b>	<b>18,390</b>	19,551

Inventories	<b>937</b>	939
Current receivables	<b>3,181</b>	3,135
Liquid assets and investments	<b>972</b>	2,434
<b>Total current assets</b>	<b>5,090</b>	6,508

<b>TOTAL ASSETS</b>	<b>23,480</b>	26,059
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**SHAREHOLDERS' EQUITY AND LIABILITIES**

Share capital	<b>1,218</b>	1,217
Restricted and free reserves	<b>6,623</b>	10,629
Net income	<b>831</b>	370
<b>Total shareholders' equity</b>	<b>8,672</b>	12,216

<b>Minority interests</b>	<b>81</b>	87
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Provisions for pensions	<b>1,133</b>	1,141
Provisions for deferred tax	<b>2,279</b>	2,269
Provisions for restructuring	<b>608</b>	720
<b>Total provisions</b>	<b>4,020</b>	4,130

Long-term loans	<b>5,409</b>	2,628
Short-term loans	<b>2,385</b>	3,581
<b>Total loans</b>	<b>7,794</b>	6,209

Other long-term liabilities	<b>2,411</b>	476
Other current liabilities	<b>502</b>	2,941
<b>Total other liabilities</b>	<b>2,913</b>	3,417

<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>23,480</b>	26,059
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Net debt	<b>6,515</b>	3,775
Net debt/equity ratio, percent	<b>75.1</b>	30.9
Equity ratio, percent	<b>37.3</b>	47.2

**CONSOLIDATED STATEMENT OF CASH FLOWS**

SKr million	Jan.-June 1999	Jan.-June 1998	Full year 1998
<b>OPERATING ACTIVITIES</b>			
Operating income	1,016	962	783
Reversal of depreciation	918	889	1,822
Reversal of restructuring reserve, etc.	-251	—	975
Adjustment for associate companies	4	-7	-18
Net financial expense	-290	-51	-227
Paid tax	-110	-209	-319
<b>Cash flow before change in working capital</b>	<b>1,287</b>	<b>1,584</b>	<b>3,016</b>
<b>Change in working capital</b>	<b>-343</b>	<b>-549</b>	<b>-272</b>
<b>Dividends to shareholders</b>	<b>-730</b>	<b>-730</b>	<b>-730</b>
<b>Cash flow from operating activities</b>	<b>214</b>	<b>305</b>	<b>2,014</b>
<b>INVESTING ACTIVITIES</b>			
New plant and equipment	-697	-1,095	-2,002
Sale of plant and equipment	42	225	305
Acquisitions, etc.	-193	-1	-331
Sale of subsidiaries	424	—	—
Sale of shares in Industrivärden	595	—	—
<b>Cash flow from investing activities</b>	<b>171</b>	<b>-871</b>	<b>-2,028</b>
<b>NET CASH FLOW FROM OPERATIONS</b>	<b>385</b>	<b>-566</b>	<b>-14</b>
<b>FINANCING</b>			
Redemption of shares	-3,408	—	—
New issue of shares	147	—	—
Change in loans	1,732	477	-401
Change in long-term investments	-307	—	—
<b>Cash flow from financing activities</b>	<b>-1,836</b>	<b>477</b>	<b>-401</b>
<b>NET CASH FLOW</b>	<b>-1,451</b>	<b>-89</b>	<b>-415</b>
<b>LIQUID ASSETS</b>			
Liquid assets at beginning of the year	2,434	2,823	2,823
Net cash flow for the period	-1,451	-89	-415
Exchange rate adjustment	-11	1	26
<b>Liquid assets at the end of the period</b>	<b>972</b>	<b>2,735</b>	<b>2,434</b>