

## **Interim Report from TurnIT AB**

JANUARY - JUNE 2000

24 August 2000

# **Growth and value continue to increase**

- Sales rose by 28 % to SEK 706.1 (550.7) million
- Operating profit (EBITA)<sup>1</sup> increased by 92.7% to SEK 118.3 (61.4) million
- Operating margin reached 16.8 (11.1) %
- Profit after financial items amounted to SEK 77.6 (43.0) million
- Earnings per share after full tax amounted to SEK 4.08 (1.83)
- Cash flow per share<sup>2</sup> was SEK 6.01 (3.01)
- The subsidiary IAR was floated
- Preparations for the floatation of TurnIT Development continue
- Operating profit for 2000 will substantially exceed the previous year's figure

Growth has been excellent during the period, and TurnIT's operating profit has increased in line with the strategy announced in our previous reports. Through strategic acquisitions of growth companies, TurnIT has built up a balanced group, with seventeen IT companies in five different business areas, as well as a development company. The operation has been refined into clear business areas to create competitive units within the framework of TurnIT's IT partner concept and to establish a stable and sustainable high level of profit.

TurnIT has entered a new stage, after the completion of the first expansion phase. Many of the group's subsidiaries can now be given access to external capital through a widening of ownership which will strengthen the company, while TurnIT will benefit from the capital gain. The companies can remain with TurnIT as majority owner – and so participate in the group's IT partner concept – or be sold to enable them to develop in a new environment.

The widening of ownership in IAR Systems was successfully completed during the second quarter. The initial offer price was SEK 28 and the final price paid on 23 August 2000 was SEK 63. The issue provided IAR with SEK 120 million (before the deduction of issue costs) in new equity, and the effect on group operating profit was SEK 83.5 million. The widening of ownership in IAR is an example of how future operating profit will be generated partly through realising the increase in value of the companies. TurnIT's unrealised value in IAR is about SEK 1.2 billion, which exceeds the group's entire intellectual capital by several hundred million Swedish Kronor. The new stage which TurnIT entered this year will establish the group's operating profit at a stable level with high growth, and this will provide the opportunity for substantial strategic investments in both new and existing companies.

During the past quarter, several substantial investments have been carried out, and these have been charged to the income statement. A new major unit has been established within the business area Supplies, and a very large acquisition has been incorporated within business area Outsourcing to create

---

<sup>1</sup> TurnIT measures operating profit on the level of Operating profit before depreciation on intellectual capital.

<sup>2</sup> Cash flow is defined as the profit for the period after adding back minority participations in profits, deferred taxation and depreciation on Intellectual Capital.

one of Scandinavia's leading ASP suppliers. In business areas Software and Communication, further development investments have been made, and these have impacted on operating profit.

Market trends have been affected by the fact that many companies have put IT investment on hold after the substantial investment required to cope with the millennium change. This has affected sales of consultancy services, which fell after a strong beginning to the second quarter, while price competition increased. This has meant that the operating margin in the consultancy business has not improved despite the fact that sales increased. Demand for peripherals has increased in TurnIT's niche as the market for operating services has entered a transition stage. TurnIT's Software companies continue to position their own software for sale on global markets.

Sales in the second quarter have developed largely as expected, and sales for the first half-year increased to SEK 706.1 (550.7) million (adjusting for TriData, which was sold in January 2000, the sales for the previous year become SEK 531 million). Operating profit almost doubled, from SEK 61.4 million to SEK 118.3 million. Operating margin reached 16.8 %. SEK 17 million has been charged to operating profit for restructuring in the ID Network. Profit before tax amounted to SEK 75.8 (41.5) million. Profit after estimated tax was SEK 69.5 (26.8) million.

During the first quarter, TurnIT received notification from SPP of the return of pension funds of SEK 8.9 million. SEK 8.3 of this appears in the results.

## ***Operating trends***

### **TurnIT Supplies**

At TurnIT Supplies, trends in income and profits have been excellent. Sales increased to SEK 198.7 (128.8) million, and operating profit rose by 24 % to SEK 25.0 (20.2) million. Close-down costs of SEK 3 million for that part of Transnordic's business which has not been transferred to Insert have been charged against profits.

SweDeltaco and Network Innovation are continuing to establish Scandinavia's largest e-commerce site – B2B – after the decision to integrate their operations. The two companies will shortly be moving into a newly-acquired joint building. Sales in Scandinavia showed excellent growth, and the share of orders over the Internet continued to grow, approaching 40 % of all orders by the end of the second quarter. The market for peripherals continues to grow in step with the strong growth in economic activity in Scandinavia. Companies are largely concentrating their IT investment in peripheral equipment and the expansion of existing networks.

The integration of the Insert and Transnordic operations has been completed, but at a higher cost than had previously been estimated. LAC Elektronik, which is active in the components market, in particular with components for the mobile phone industry, has grown very strongly in a market characterised by a severe shortage of components. This shortage has led to the company signing a number of annual agreements with leading mobile telephony suppliers.

### **TurnIT Software**

At TurnIT Software, a number of strategic development investments have made their mark on both sales and operating profit. Sales increased to SEK 120.9 (101.3) million, and operating profit rose to SEK 85.6 (10.0) million.

The objective is to have at least two software products launched globally within two years. The business area is growing strongly, and is continuing to invest in its own software development and marketing. Within the group, there are over one hundred members of staff working on the production or development of new software. Among other things, CityData has concluded an agreement with the Swedish distributor of IBM Intellistation to supply the document-handling program, Conisio®, with every PC sold. Innovative IT has developed several products, including a load simulator – Pureload – which measures, for example, how much data a server can handle under stable operating conditions. The new issue of shares in IAR, which was fully subscribed, has ensured that the company now has considerably greater resources for

market expansion and continued software development. IAR has also been selected by Ericsson as a Bluetooth Solution Provider, which gives access to a rapidly growing market segment.

TurnIT's document handling system, Conisio®, can now be offered on the global market, and the Server Load products developed by Innovative IT are in increasing demand for testing load capacity in such installations as Internet servers, as an ever greater range of services is being offered through the Internet. Demand for IAR's products reflects confidence in their unique capabilities, as well as the rapid growth of the market. The driving force is the increased demand for more and more products with advanced technology.

### **TurnIT Communication**

Sales have continued to increase sharply in comparison with the corresponding period in 1999, amounting to SEK 123.7 (66.7) million. Increased competition and strategic investments during the period have reduced operating margins, but a definite improvement is expected during the second quarter. Operating profit stood at SEK 7.6 (5.9) million.

During the period, the business area continued to grow, and a number of important orders were received for network solutions and broadband. A strategically important agreement has been signed with RegNet, which co-ordinates the purchase of broadband for about 40 localities in Gävleborg County. The companies in the business area continue to expand, with the goal of establishing the group as one of Scandinavia's big three IT players in systems integration for communications solutions. Substantial investment has been put into recruitment in Telecom and in the business area's new company, Broadway.

The investment in the Telecom area widens the operation into a complete systems integrator in both data and telecommunications solutions, as well as providing continued focus on the strongly growing market for urban networks and nets for broadband access to residential areas. In this market, Fiberdata operates both as a systems integrator and a supplier of broadband services, through its subsidiary, Broadway. The market for broadband in urban networks and for systems integration has yet to take off, but several major projects are at the procurement stage.

### **TurnIT Consulting**

TurnIT Consulting's operations in Sweden have been affected by the general downturn in demand for expert consultancy. Some strategic investments have also affected profits. Sales increased to SEK 171.0 (150.1) million, and operating profit fell to SEK 12.8 million, compared with SEK 19.6 million in the preceding year.

A number of major master agreements were signed during the period, and demand for consultants for Java and C++ has been excellent. TurnIT has been awarded a number of large e-commerce projects and Streaming Video projects, and an agreement has been signed with Microsoft to provide training via the Internet. Computas, which has the bulk of its business in Norway, has shown excellent growth, and is working steadily on expansion in Europe. The company is investigating the options for establishing operations in the UK. Through the acquisition of Metis from NCR, Computas is now also operating in the USA. The goal of establishing the business area throughout Scandinavia by 2002 remains.

The market for e-commerce systems and Internet related projects continues to grow encouragingly, while the demand for hourly-based expert consultancy is not expected to take off until later in the autumn. This has resulted in massive pressure for transformation in the sector. Demand for skilled project managers and management consultants continues to dominate market trends.

### **TurnIT Outsourcing**

TurnIT Outsourcing has seen the largest investment over the period, and this has affected results. Sales fell to SEK 91.9 (103.8) million, and there was an operating loss of SEK 0.6 million, compared to a profit of SEK 15.5 million in the previous year.

One reason for the drop in sales is that ID Network has reduced its sales of low-margin hardware. The liquidation of less profitable operations and the re-orientation towards supplying ASP services (Application Service Provider), have absorbed substantial resources. SEK 17 million has been charged to operating profit for restructuring during the first half-year. At the beginning of June, Telenor's Swedish IT operation was acquired. As regards the number of employees, this is one of TurnIT's largest acquisitions, and the intention is to integrate this operation with ID Network to create a leading ASP.

For Svenska PA, profit growth remains excellent, and the Norwegian time reporting business which has been acquired has signed its first agreements in Sweden. Svenska PA has concluded a major agreement with Skanska, and Svenska PA has also developed ASP services in the Human Resource field in collaboration with ID Network during the period.

The market for network consultancy and network integration services is now in a transformation phase, and is growing as new technology is being applied. Outsourcing, in the form of leasing applications and operational responsibility through ASP (Application Service Provider) requires investment in new technology and new concepts.

### **TurnIT Development**

TurnIT Development is a venture capital company which invests in IT companies at an early stage in their development. It focuses principally on investing in companies offering well-defined customer benefit, and where there is a market for the company's services. TurnIT Development prioritises vertical B2B solutions rather than broad B2C portals, which are currently showing substantial losses.

TurnIT Development has a continuous inflow of exciting investment projects. Two new investments were implemented during the second quarter, and TurnIT Development now has eight holdings, with stakes of between 2 and 33 % of the shares in the companies. Further investments can be expected during the year.

Bertil Sahlberg has been appointed President of the company, and preparations are in progress for a future flotation. TurnIT's shareholders will be offered direct shareholdings in the company in the event of a flotation, which is expected to happen during the winter. Only minor effects on results arose during the period.

### **Intellectual Capital**

The book value of intellectual capital in the group amounted to SEK 903.6 (579.2) million, which represents an increase of 56 %. Compared with 31 December 1999, the increase was SEK 143 million (19%). During the first half-year, a charge of SEK 10 million was made to profits, for additional depreciation of intellectual capital relating to the Transnordic operation due to the gradual liquidation of the business. Intellectual capital is an essential prerequisite for TurnIT's earnings, and it is through maintaining and developing this capital that the rapid growth of the last three years has been possible.

TurnIT focuses on growth in operating profit, and measures profit at the stage before depreciation on Intellectual Capital. This amounts to SEK 32 million for the period (including the above-mentioned additional depreciation of SEK 10 million). In assessing the value of Intellectual Capital, it can be pointed out that since the flotation of IAR, the market value of TurnIT's surplus value in IAR comfortably exceeds the book value of the group's total intellectual capital, i.e. taking into account all group companies.

### **Financing**

The group's financial situation remains excellent. During the second quarter of 2000, a new share issue was made, based on outstanding options. As a result, the number of share has increased by 475,515, and equity by SEK 33.9 million. A further 253,000 shares have been issued in connection with corporate acquisitions, and this has increased equity by SEK 62.9 million. In addition, a share issue of 100,000 shares was in progress on 30/6, in connection with corporate acquisitions. The number of registered shares as at 30/6 2000 amounted to 17,190,606, and, after registration of the issue now in progress, the number of shares will be 17,290,606.

During the period, the group's interest bearing liabilities increased by SEK 184.3 million, primarily as a result of the increase in long-term liabilities in connection with corporate and property acquisitions.

Equity on 30 June amounted to SEK 965.8 million, and equity per share to SEK 55.86 (44.50). Cash flow per share was SEK 6.01 (3.01), and earnings per share SEK 4.08 (1.83) (after estimated tax).

The proportion of borrowed capital in relation to the balance sheet total at 30 June was 25 %, which is slightly above the Group's target. After the close of the report period, however, SEK 50 million in interest bearing liabilities was amortised. The Group is well-prepared for future acquisitions, with SEK 203 million in cash, SEK 26.5 million in acquisition credit granted but not utilised, as well as the option of issuing the remaining 1,400,000 shares authorised by the General Meeting on 4 April.

## **Investment**

During the second quarter, SEK 123 million was invested in new corporate acquisitions. This brought the level of investment for the year to SEK 202 million. Of this, SEK 82 million was financed through the issue of shares in TurnIT, and SEK 100 million through borrowing. Over and above this, an additional purchase sum of SEK 38 million was paid out in connection with acquisitions made previously. In addition, TurnIT Development has made minority investments totalling SEK 13 million during the second quarter, and overall, SEK 20 million has been invested.

Investment in tangible assets amounts to about SEK 51 million, of which SEK 22 million relates to a property investment. Investment in intangible assets other than intellectual capital (in licences and rights) amounted to SEK 11 million.

## **Personnel**

At the close of the report period, 1,125 (732) persons were employed. On 31/12 1999, there were 906 employees. The average number of employees during the period of the report was 1,081 (708). For the full year 1999, the average number of employees was 811.

In accordance with a resolution of the Annual General Meeting, an incentive scheme has been introduced, with a total of 273,775 options, open to all employees. The scheme will run for five years, with the right of redemption after three years at a redemption price equivalent to SEK 209.40 per share. The scheme has been hedged through an equity swap.

During the second quarter, a group-wide management programme for the group management team and managers of subsidiary companies has been initiated, under the direction of the Stockholm School of Economics.

## **The Parent Company**

The Parent Company comprises common Group functions, as well as the secondary name Transnordic Data, which has now been wound up. Concurrently with the growth of the group, the group management team and the group-wide functions have been substantially strengthened.

## **The Future**

The excellent profit trends lay the basis for investment and restructuring of operations with the aim of creating additional shareholder value in the long term. TurnIT focuses on growth in operating profits, i.e. in profits generated through operations in combination with development profits, and intends to develop its business in areas such as ASP, software for global markets, and communications solutions. In addition, TurnIT intends to participate in the restructuring of the consultancy market.

The inflow of orders and capacity utilisation are expected to improve during the autumn. Over the next year, TurnIT intends to float at least one further company, although other companies may also be considered for flotation, depending on their progress.

TurnIT views its holding in IAR Systems as long term, but does intend to reduce its holding at some time in the future, which, depending on IAR's opportunities for development, should not exceed 50 percent of

the capital and voting rights in the company. The date and method of the reduction in the shareholding will depend on the general market situation or on other circumstances.

We retain our view that profits for 2000 will be on a new and considerably higher level.

TurnIT AB

Peter Enström, President

This report has not been reviewed by the company's auditors.

**Future financial information from TurnIT**

Quarterly report January – September      6 November 2000

Year-end report 2000      20 February 2001

The interim report is also available in Swedish.

**Net sales**

	<u>Supplies</u>		<u>Software</u>		<u>Communication</u>		<u>Consulting</u>		<u>Outsourcing</u>		<u>Joint group</u>		<u>Total</u>
	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m
1997	136.9	35	107.6	28	108.6	28	32.9	9					386.0
1998	222.5	28	132.9	16	135.6	17	165.5	21	145.4	18			801.9
1999	303.1	25	205.6	17	205.5	17	293.3	24	202.7	17			1,210.2
Q1/1999	63.4	25	46.8	19	28.9	12	60.3	24	51.0	20			250.4
Q1+Q2/99	128.8	23	101.3	18	66.7	12	150.1	27	103.8	19			550.7
Q1/2000	104.7	30	58.6	17	54.7	16	86.5	25	40.0	12			344.6
Q1+Q2/00	198.7	28	120.9	17	123.7	18	171.0	24	91.9	13			706.1

**Operating profit (EBITA)**

	<u>Supplies</u>		<u>Software</u>		<u>Communication</u>		<u>Consulting</u>		<u>Outsourcing</u>		<u>Joint group</u>		<u>Total</u>
	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m	%	SEK m
1997	27.4	62	9.1	21	9.1	21	3.8	9			-5.1	-12	44.3
1998	33.3	42	11.6	14	20.5	26	13.3	17	11.6	14	-10.1	-13	80.2
1999	46.0	34	20.9	16	19.8	15	19.7	15	32.8	25	-5.5	-4	133.7
Q1/1999	10.9	37	4.5	15	2.7	9	8.0	27	7.9	27	-4.3	-14	29.8
Q1+Q2/99	20.2	33	10.0	16	5.9	10	19.6	32	15.5	25	-9.9	-16	61.4
Q1/2000	15.1	73	1.1	5	2.4	11	9.2	45	-4.7	-23	-2.5	-12	20.6
Q1+Q2/00	25.0	20	86.6	73	7.6	6	12.8	11	-0.6	0	-12.1	-10	118.3

**Income statement**

	1/1-30/6 2000	1/1-30/6 1999	1/1-31/12 1999
<i>Amount in SEK million</i>			
Net sales	706.1	550.7	1,210.2
Cost of goods sold	-508.7	-380.6	-851.7
<b>Gross profit</b>	<b>197.4</b>	<b>170.1</b>	<b>358.5</b>
Selling expenses	-110.9	-62.4	-140.7
Administrative expenses	-63.6	-46.5	-103.2
Other operating income <sup>1)</sup>	96.4	0.8	20.3
Other operating expenses	-1.0	-0.6	-1.2
<b>Operating profit before depreciation on intellectual capital/goodwill (EBITA) <sup>2)</sup></b>	<b>118.3</b>	<b>61.4</b>	<b>133.7</b>

Depreciation on intellectual capital/goodwill <sup>3)</sup>	-32.5	-15.4	-36.4
<b>Operating profit after depreciation on intellectual capital/goodwill</b>	<b>85.8</b>	<b>46.0</b>	<b>97.3</b>
<b><i>Profit/loss from financial items</i></b>			
Other interest income and similar profit/loss items	4.7	3.2	6.7
Participation in associated companies	-0.5	-	-
Interest expense and similar profit/loss items	-12.4	-6.2	-11.7
<b>Profit after financial items</b>	<b>77.6</b>	<b>43.0</b>	<b>92.3</b>
Minority shareholding	-1.8	-1.5	0.6
<b>Profit before tax</b>	<b>75.8</b>	<b>41.5</b>	<b>92.9</b>
Tax	-6.3 <sup>3)</sup>	-14.7 <sup>3)</sup>	-35.5
<b>Profit after tax</b>	<b>69.5</b>	<b>26.8</b>	<b>57.4</b>

- 1) During the first half-year of 2000, SEK 8.3 million of SPP funds has been taken up as income, as has SEK 83.5 million resulting from the issue of shares in IAR.
- 2) TurnIT defines operating profit as Operating profit after depreciation on tangible assets but before depreciation on intangible assets (EBITA)
- 3) Intellectual capital in Transnordic has been depreciated by SEK 10 million.
- 4) Refers to estimated tax



**Balance sheet***Amount in SEK million**30 June2000 30 June1999**31 Dec1999***ASSETS****Fixed assets**

<i>Intangible assets</i>	917.1	579.2	762.2
<i>Tangible assets</i>	106.8	47.1	60.5
<i>Financial assets</i>	46.2	14.2	11.5
<b>Total fixed assets</b>	<b>1,070.1</b>	<b>640.5</b>	<b>834.2</b>

**Current assets**

<i>Other current assets</i>	480.5	301.5	384.9
<i>Cash and bank balances</i>	203.7	152.4	149.2
<b>Total current assets</b>	<b>684.2</b>	<b>453.9</b>	<b>534.1</b>
<b>TOTAL ASSETS</b>	<b>1,754.3</b>	<b>1,094.4</b>	<b>1,368.3</b>

**EQUITY AND LIABILITIES**

<i>Equity</i>	965.8	727	777.5
<i>Minority shareholding</i>	38.1	7.3	8.7
<i>Provisions</i>	9.8	13.2	10.1
<i>Long-term liabilities</i>	361.2	28.6	186.5
<i>Current liabilities</i>	379.4	318.3	385.5
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,754.3</b>	<b>1,094.4</b>	<b>1,368.3</b>

## Cash flow Report

<i>Amount in SEK million</i>	<i>1/1-30/6 2000</i>	<i>1/1-30/6 1999</i>	<i>1/1-31/12 1999</i>
Cash flow from day-to-day operations			
before changes in working capital	22.9	50.1	104.6
Changes in working capital	-59.1	-43.4	-32.7
<b>Cash flow from day-to-day operations</b>	<b>-36.2</b>	<b>6.7</b>	<b>71.9</b>
<b>Cash flow from investment operations</b>	<b>-251.4</b>	<b>-110.1</b>	<b>-265.9</b>
<b>Cash flow from finance operations</b>	<b><u>342.1</u></b>	<b><u>180.0</u></b>	<b>267.5</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>54.5</b>	<b>76.6</b>	<b>73.5</b>
Liquid funds at start of period	149.2	76.0	76.0
Exchange rate difference in liquid funds	0.0	-0.2	-0.3
Liquid funds at end of period	203.7	152.4	149.2

## Changes in equity

	Equity SEK million	Number of shares
Balance brought forward 1/1 1999	777.5	16 335 196
New share issue in progress on 1/1 2000		126 895
Redemption of options	33.9	475 515
Non-cash issue	62.9	253 000
<b>Number of registered shares as at 30/6 2000</b>		<b>17 190 606</b>
New share issue in progress on 30/6	19.1	100 000
Options liquidity in subsidiaries	2.1	
Translation differences	0.8	
Profit for the period	<u>69.5</u>	
<b>Balance carried forward 30/6 2000</b>	<b>965.8</b>	<b>17 290 606</b>

<b>Key ratios</b>	<b>30 June2000</b>	<b>30 June1999</b>	<b>31 Dec 1999</b>
Operating margin. %	16.8	11.1	11.0
Cash flow per share. SEK	6.01	3.01	6.27
Acid-test ratio. %	160	121	122
Earnings per share. after full tax . SEK <sup>1)</sup>	4.08	1.83	3.69
Earnings per share. after full tax and full dilution. SEK <sup>1)</sup>	4.05	1.76	3.56
Equity ratio. %	57.2	67.1	57.5
Return on equity (full tax) <sup>2)</sup> . %	15.9	9.4	9.6
Return on capital employed <sup>2)</sup> . %	11.5	9.9	9.2
Equity/share. SEK	55.86	44.5	47.23
Interest-bearing debt. MSEK	438.9	151.8	254.6
Debt ratio. times	0.44	0.21	0.32
Interest coverage ratio. times	7.3	8.0	8.8
Sales per employee. SEK thousand	653	778	1 492
EBITA per employee. SEK thousand	109	87	165
Average number of employees	1 081	708	811
Number of employees at end of period	125	732	906
Number of consultants	639	404	463
Share price. SEK	197.00	76.50	194.00
Average number of shares. thousand	17,034	14,620	15,558

1) Earnings per share is calculated as the profit for the period in relation to the average number of shares

2) Yield measures are extrapolated to full year values