

ANNUAL REPORT 1999



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This annual report is, in all essential respects, a translation of the Swedish original. In the event of any discrepancy between the Swedish and the English document, the Swedish original shall prevail.

Traction in Brief

Traction is a venture capital company founded in 1974. Operations consist of developing wholly or partially acquired companies. To this end, Traction has developed its own methodology, which has its primary focus on customer relationships, capital flow and risk management.

Traction is currently engaged in some thirty wholly or partially owned projects, the largest of which are the engagements in AcadeMedia, BioPhausia, Duroc, Easy T, Kjessler & Mannerstråle, Maxitech Elektronik, Svecia International Equipment and Thalamus Networks (formerly Advantech).

Traction's equity amounted to MSEK 361 as of December 31, 1999. In addition hereto, there were unrealized surplus values in the portfolio of listed shares amounting to MSEK 270. The return on equity was 20 percent in 1999. Historically, the average annual return on equity over the past ten years has been 38 percent.

The share is listed with Stockholms Börsinformation (SBI) since 1997. An application has been filed for listing on the O-list of OM Stockholm Stock Exchange.

Financial Information 2000

Date of Publication of Planned Financial Information:

- | | |
|--------------------|---|
| ► May 17, 2000 | Quarterly report for the period January – March |
| ► August 15, 2000 | Quarterly report for the period January – June |
| ► November 7, 2000 | Quarterly report for the period January – September |
| ► February 7, 2001 | Financial report for 1999 |

Financial information may be obtained via e-mail by subscription to www.traction.se or by e-mail to post@traction.se.

Shareholder Information

Annual General Meeting

The regularly scheduled Annual General Meeting of AB Traction (publ) will be held at 3:00 p.m., April 11, 2000 at Spårväghallarna, sal Perrongen, Birger Jarlgatan 57 A, Stockholm.

Participation

Notice of participation in the proceedings of the Annual General Meeting shall be made to AB Traction, P.O. Box 3314, SE-103 66 Stockholm, telephone +46-8-506 289 00, telefax +46-8-506 289 30. The deadline for giving notice of participation is April 5, 2000.

Participation in the proceedings of the Annual General Meeting is reserved for shareholders who are registered in the share register maintained by Värdepapperscentralen VPC AB not later than March 31, 2000. Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their own name in order to participate in the proceedings of the Annual General Meeting.

Dividend

The Board of Directors propose a dividend of SEK 0.35 per share. The Board of Directors has proposed April 14, 2000 as record date. The dividend is expected to be remitted by VPC April 19, 2000.

The Year in Brief

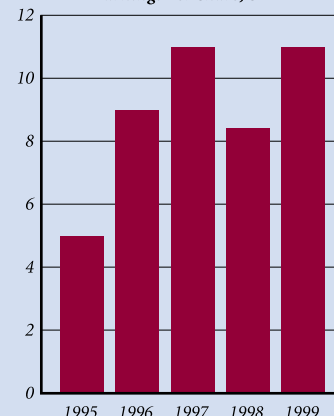
- ▶ Profit after taxes MSEK 59.9 (47.7)
- ▶ Earnings per share SEK 10.60 (8.40)
- ▶ Return on equity 20 percent (19)
- ▶ Unrealized increase in value of the portfolio of listed shares by MSEK 214 to MSEK 270.

Significant Events During 1999 and the Beginning of 2000

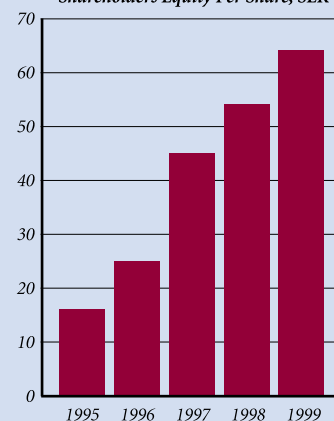
- ▶ **New Projects:** Berg & Hav, BioPhausia, Hagakure Network, MedMera Distribution.
- ▶ **Expanded Ownership:** Thalamus Networks (which was distributed by AcadeMedia), Kjessler & Mannerstråle (KM), MediaKey.
- ▶ **Exits:** CMA, Itca Holding, KM-Lab (which was distributed by KM), PC Card International, Target Games, Ögonlasern.
- ▶ **Organization:** New business areas, Traction UK and a business for SPP-arbitrage. Expansion of the Board of Directors with Sven-Christer Nilsson (former Group Chief Executive of Ericsson) and Rickard Björklund (founder and former President of Matteus Fond-kommission).

Equity offerings in affiliated companies AcadeMedia, Duroc, Easy T and Thalamus Networks totaling about MSEK 300.

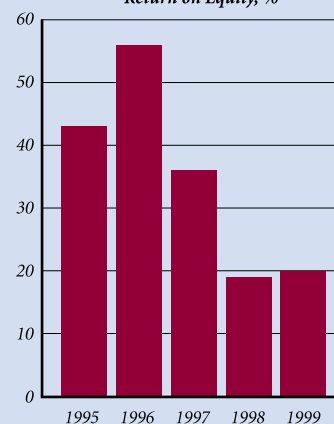
Earnings Per Share, SEK



Shareholders Equity Per Share, SEK



Return on Equity, %





President's Statement

Dear Shareholders,

1999 was a very good year for Traction. We were able to report a profit after taxes of MSEK 60 and a significant increase in the hidden reserve in our holdings of publicly traded shares. This reserve increased by MSEK 214 to MSEK 270. After the beginning of this year, the reserve has continued to grow even more. On top of this there is a measure of refinement in our holdings of shares that are not listed. We have also absorbed significant restructuring costs and investments directly over the income statement.

The market price of our share has to a limited degree reflected the performance of our underlying values and our long-term capability of generating returns. Successes have been won as a consequence of the market's sharp revaluation and as a result of hard work in the companies and on the part of Traction. In the typical instance, our involvement in affiliated companies entails a lot of work with business development issues. Currently, however, much effort has been put into various capitalizations in the market. We want to see to it that our affiliates are prepared for a continued surge in the market as well as for a downturn, which means that companies must be very well

capitalized and ready for new business regardless of market scenario.

Within Traction, we have a long-standing tradition of utilizing the technology breakthrough we are now witnessing as the cost of data storage and communication of large amounts of data is being drastically reduced. This development has been going on for some time. As an engineer, I have been waiting for a long time for new and better opportunities and I have been appalled at the slow development. The technology is still relatively unreliable and there is a significant lack of capacity. But even with today's technology there are significant opportunities to utilize it for new applications and to exploit it in new and growing areas. The restructuring in this part of the economy is underway and we try to participate and find new opportunities therein.

Many of our affiliates are very active in exploiting the new opportunities offered by these technologies and almost every company in our sphere of interest is affected by the new technological opportunities.

academedia works with interactive learning, or e-learning. This market segment is gigantic and under intense transformation.

easy t is a leading Internet travel agency and a supplier of computer systems for selling low-price tickets over the Net.

kjessler & mannerstråle, km, is in the process of building an intranet with large databases and fast communication for a so-called knowledge management system, by which KM will be able to increase its productivity significantly. In the next phase, KM will be part of a major international company in the industry. We would prefer to lead such a structural transformation.

thalamus networks, the former Advantech, is active in the creation of broadband distribution to households and property owners. The company connects TV and Internet telephony as well as individual data networks.

New Economy?

One hears a lot about the new economy these days. We cannot see that such a phenomenon exists. There is development of the technology and there are mighty valuations of many companies, but this follows an entirely normal pattern. Many people say

that you can build companies by giving away or under-pricing your services, only to raise the prices in the future, or even better, just sell shares based on a large customer base. We believe that customers who make selections solely based on price constitute a very short-term customer base, and hence represent little or no value. We will therefore keep at our long-established business philosophy, where growth and profitability go hand in hand. We know that it works.

Traction is expanding rapidly at present. In part, we have become engaged in major projects, but we also want to increase the number of smaller projects. Among these we find the most profitable companies, but they also require the greatest input of work.

The market for venture capital has changed markedly over the past year. A large number of companies and funds have been formed. This is a recurring phenomenon: Success spurs newcomers. For every boom of this kind, there is a growing number of new players. When reality catches up, only a few remain. We are usually able to do well in upturns as well as downturns. Since Traction has a long-established philosophy, and offers a service different from that of our colleagues, we are never in direct competition with them. Some potential clients think that we deliver the same service, but in that case we prefer to stay out of the deal. Our colleagues essentially offer financing, while we sell a working partnership. This is precisely what makes the Traction Share so difficult to value. Some people think that it is matter of valuing a stock portfolio, while we engage in a business process where our holdings are low-value works in progress. It is impossible to value these holdings individually. Instead you have to look at our long-term capability of generating a return and relate that to our equity. Based on an expected excess return, a multiple can then be put on the equity.

Traction Prepares for Growth

The development of Traction and several of our affiliates was dramatic during the past year. Never before have the financial markets showed so much interest in our companies. That is something we try

to cultivate. After their equity offerings, AcadeMedia, Duroc and Easy T have achieved very strong financial positions and are therefore in a position to exploit their very large potential. Thalamus Networks is a viable company and will, after the current capitalization, be even stronger. We intend to let other companies do the same thing, and as a result the rate of development and acquisition can rise even further.

In order to support our clients, broaden the customer base and to give better service, we need to expand our staffing. New recruits must believe in us and be willing to work according to our methodology. They need a few, but not many, years of work experience, they have to be business minded and they have to possess salesmanship. We are looking for people with a variety of backgrounds, such as corporate counselors/attorneys, controllers, auditors, marketing managers, PR persons, human resource managers/recruiters, sales people and chief executives. Our aim is to grow from 14 associates at present to about 25.

In addition to the need for personnel in Traction itself, we are always on the lookout for persons who can take a business idea and with our backing build a company of it. We have plenty of ideas, but new ones are always welcome. Implementation is the hard part – and that's where we work together.

Traction is also expanding towards an international market. We have opened an office in the UK and are planning further expansion.

The long-term plan is to set up Traction companies in several countries. Our concept is not only learnable, but can also be scaled up. Despite the simplicity of the concept, nobody has attempted to copy it. It seems like most people want the world to function in a different way. Let them believe that. We know that our model works.

Stockholm, March 2000

Bengt Stillström

The Business

Business Concept

To apply Traction's business development method in wholly or partly owned companies, generating high returns and increasing values.

Business Philosophy

- ▶ We take a long-term view.
- ▶ Traction is not out to create a conglomerate. Traction works with a number of independent companies – clients, whose increased values are to be realized in the longer term.
- ▶ Our sphere of activity lies within the general transformation of companies. The requisite technical and industry expertise must be available in the company itself.

Our first objective is to sell management; financing is a secondary priority. It is the combination that is interesting.

Goals

- ▶ To achieve average annual growth of equity of at least 25 percent.
- ▶ To create profitability in our wholly and partially owned companies.
- ▶ To minimize the risk and raise the return on our projects.

Strategy

Prerequisites to achieve Traction's goals:

- ▶ The ability to choose the right projects, in reality, the right partner – the corporate manager.
- ▶ Sufficient financial resources to enter into interesting projects.
- ▶ Consistent application of our methodology to minimize risk and raise the return on investment.
- ▶ Project managers who can provide corporate managers with the support and complementary expertise they require to complete the business project.

- ▶ Project managers with varying expertise and different backgrounds to cover the varying needs our companies may have.
- ▶ Project managers with ability to step in as transitional corporate managers in restructuring situations, often until a new management has been appointed.

Exit Strategy

For Traction it is important that our companies display long-term growth. We don't make money on dividend income, but earn capital gains when we sell equity. Our basic premise is that we regard our ownership as "perpetual", but our shares are, in principle, always for sale at the right price and to a better owner. All Traction sales are preceded by consultation with our partners. We define better owner as a company that is able to do more for the company than Traction can.

Traction's Methodology for Successful Business

The common denominator for Traction's business is to apply our own methodology for corporate development on all companies in which we become involved. This means that customers, investors, partners and personnel by necessity must sympathize with our philosophy and our approach to business. Because what we sell is that methodology, that's what we make money on, and that's the commodity our clients buy. If you do not want it, you obviously shouldn't have to buy it. We try to be very explicit on this point, since there are those who approach us without this knowledge and with entirely different preconceived notions. This leads to long and meaningless discussions and, in the worst case, if we fail to be sufficiently observant, to the formation of a partnership in which we pull in different directions.

Traction's methodology has its primary focus on

customer relationships, capital flows and risk management, and is summarized in the box below. When reading these principles, they appear truly simple and self-evident, but in practice they can be quite difficult to follow. Some shy away from following these principles when confronted with the practical difficulties. Others believe that they are impossible to follow.

Every time capital is infused in a company, the level of risk rises and profits usually decline. The reason for this is that management's razor-sharp focus on the company's business disappears. It simply becomes less important to get money from the customers. There is a tendency to go after new ventures and costs tend to grow with a declining requirement for immediate return. The money burns a hole in your pocket, but you call it an investment. One doesn't listen to what the customers are willing to pay for when one has one's own money to spend. And yet, every business needs capital. But it must be infused in moderation and with great care. One of Traction's duties is to see to it that our clients

nurture their use of capital, and at the same time utilize all opportunities of obtaining external capital.

The most significant aspect of our methodology is that we let the companies develop according to what they have actually succeeded in selling, rather than be guided by what one believes others will buy in the future. Our heroes are the sellers who do two important things: First, they bring back money to the company and, secondly, they bring home information about what can be sold, basically how the products should be designed. The heroes of others are the people with product ideas who are aided by a large capital infusion to build a company. Of course we need ideas and inventions, but we have learned that they have to be subordinate to what the customer will actually pay for. If that is not the case, the experimentation tends to be very expensive. But to each its own. We feel that we must emphasize, however, that the entrepreneur ends up with a larger part of the pie with our method.

Traction's Methodology in Brief

To Create Revenue Before Costs

- ▶ Make sales first, buy later.
- ▶ Let revenues govern costs.
- ▶ Cease activities when funds are short.
- ▶ Let customers and suppliers finance development.

Minimizing Fixed Costs

- ▶ Cover fixed costs by taking orders.
- ▶ Convert fixed costs into variable costs.
- ▶ Do not invest without specific orders.
- ▶ Do not recruit without specific orders.
- ▶ Outsource activities and use consultants.

Controlling the Crucial and Unique Elements of the Business

- ▶ Each business has a unique core. Guard it jealously.
- ▶ Product control.

- ▶ Market control.
- ▶ Do not allow suppliers and intermediaries to take over.
- ▶ Have direct contact with end-users.
- ▶ Guard the brand name and make sure you own it.

Avoid Becoming Involved in Activities that Others Know Better

- ▶ All business contain a host of conventional services and skills. There are always others who are specialists. Use them – but only retain those who are able and strong.
- ▶ Reduce the business activities to a core operation and expand it later if possible.

Avoiding Risk

- ▶ Basic business – something to live off when things are sluggish.
- ▶ Assume one risk at a time rather than many at once.

- ▶ Combine unique elements with the conventional.
- ▶ Let others share in the risk – customers and suppliers. Otherwise refrain.
- ▶ Only take risks the company can afford.
- ▶ Do not borrow for losses, only for business.

Capitalizing on Opportunities

- ▶ Sell to one customer, then two, then four – not to all at once.
- ▶ Find customers who derive unique benefits from the new products, and customers who wish to try something new – known as early adopters.
- ▶ Try many approaches, develop what works, and quickly cease what doesn't.
- ▶ Let the customers' desires and willingness to pay govern the company's activities.

Traction's Formula

The key to Traction's historically very high return is a combination of a number of different profitability factors. Each factor in itself increases the value and/or minimizes the risk exposure in Traction's holdings. If you succeed in combining all factors, the return on capital infused can be very high. Traction's goal is to see to it systematically that the three most important factors, all components of the model for return below, perform well individually, but above all to create the sought-after combination of factors.

Factor 1: Asymmetric Risk Profile

Traction's capital infusion in its portfolio companies is relatively low. In part, this is Traction's way of getting paid for its very active ownership, in part it is a function of Traction's capital-extensive business methodology in the portfolio companies. This results in a relatively small capital contribution in each respective project, which in turn leads to a limited risk, at the same time as a small capital base gives rise to a higher return. We only stand to lose our wager, but the profit can be many times that wager.

Factor 2: Growth with Profitability

When the entrepreneur develops his company together with Traction, the goal is to produce growth while maintaining profitability. With Traction's participation, it is often possible to accelerate the rate of growth since the entrepreneur has a strong and competent partner at his side, who in addition to management support will contribute long-time experience in different forms of cooperation, internationalization, acquisitions, etc.

Factor 3: Revaluation Situations

Traction puts a sharp focus on realizing changes in the basis for valuation of its holdings. A few examples can be mentioned:

- ▶ If the company is made attractive to an industrial investor, its value can double many times over.
- ▶ If the company obtains a market listing, the value can double many times over at the same time as additional capital can be raised, which coupled with Traction's methodology increases the opportunity for long-term growth.
- ▶ When companies find themselves in acute profitability and liquidity problems, their value drops drastically. For those who then have the courage to take on the challenge and the economic risk, the revaluation gain in the event of a successful reconstruction can be both fast and large.
- ▶ Undercapitalized companies with competent management and interesting projects become more valuable if additional capital is infused. And if the investment continues and the company is guided to a higher level, the return can be extreme.
- ▶ Overcapitalized companies lose less in value than you take out of them.
- ▶ Valuable companies that are hidden in other larger companies can also be helped out into the limelight and be valued higher as a consequence.

Result: High Profitability

Each of the above mentioned factors lead individually to increased values. Traction's job is to combine all three factors, which leads to high leverage on capital infused. Historically, Traction has proven that together with the entrepreneurs, its methodology and skilled project leaders, it can produce a high return for an extended period of time.



Traction's Organization

Traction is organized in three units: Traction Venture, Traction Invest and Traction UK. Traction Venture is the part of our organization where we are minority owners and have a partner who is a large owner in the company and who leads the business. Traction Invest is the part where we have a hired manager running the business and we are the principal owner. Our responsibility to, and relationship with, the manager is different in this case. That is the reason why we let this be reflected in our organization. Traction UK is a first step in establishing Traction in several European countries.

Traction Venture

In Traction Venture, Traction's business is conducted with entrepreneurs through a group of Venture Managers. The business concept here is to develop growth companies as a partner to the entrepreneur. With Traction as a business partner, the entrepreneur creates opportunities for growth under profitability.

We get paid for our services by buying into the company at a reasonable price as a partner. We participate in the development of the company and then sell our stake – preferably together with the entrepreneur – and then hopefully realize a healthy profit. The entrepreneur consequently makes no gains when we enter. Instead, the person in question “buys” us in. By not charging solely for consulting services rendered, Traction creates a flexible compensation model, well suited to growth companies with limited capital resources.

Conditions for our participation in a project include:

- ▶ An entrepreneur with the right qualifications, in other words a person who is extremely industrious and durable. Somebody who gets things done, has the ability to hold on to money and get the customers to pay, be satisfied and buy again.
- ▶ That the entrepreneur believes in our methodology and is willing to abide by it.
- ▶ A business concept that creates opportunities for expansion.

Traction's primary mission is to strengthen growth companies with management, but we can also assist companies with financing during an initial build-up phase. Such financing is provided on normal market terms and should be replaced by external financing as soon as opportunities for raising funds in the open market exist.

Traction Invest

Traction Invest invests in companies where Traction assumes responsibility as principal owner and the chief executive is essentially a hired hand, but often with an incentive program.

Typical investments for Traction Invest are reconstructions, turnaround situations, “ownerless” companies, management buy-outs, etc. Traction Invest's principal may be a bank, a restructuring specialist, major companies, “old” owners, existing management, etc. This type of investment typically requires more operative effort on the part of Traction than Venture investments.

Traction Invest operates on the basis of Traction's business concept, its approach to entrepreneurship, its methodology and its exit strategy. In essence, Traction uses the same model for all investments, but the relationship with management is significantly different when the principal responsibility rests with us.

Traction Invest consists of a group of Investment Managers who have the possibility to work as temporary chief executives and to set the strategic direction. Our main task is to appoint and actively work with and support the company's management and chief executive, while at the same time ensuring that the Board of Directors does its job efficiently and well.

Traction UK

Traction UK was formed during the autumn of 1999 and is a first step in Traction's long-term ambition of being established in several European markets.

The market for Traction's services is significant, but in order to succeed, establishment must be local, with associates who fully sympathize with and understand Traction's methodology. Traction's foreign companies must therefore be partially manned with persons who have worked for Traction in Sweden for a number of years. Erik Albinsson is responsible for Traction UK and is employed by the wholly owned subsidiary Traction Management Ltd. Erik Albinsson was previously responsible for Traction Invest and has worked for Traction since 1996.

Traction currently has two investments in the UK: 49 percent of Banking Automation and a smaller stake in MediaKey.

We further hope that an international network of Traction companies will facilitate the business relations and expansion of our client companies.

SPP-arbitrage

SPP-arbitrage is a new business area in Traction. The objective is to exploit the market that will emerge as a consequence of SPP's complicated decision as to how corporate claims on SPP will be

disbursed and used. This market will include trading in SPP shell companies, complicated sale and lease-back of human resources, pension solutions with other insurance companies, exits from collective bargaining agreements, etc. The business will also involve actual corporate transactions. These deals will require counseling and intermediaries such as a brokerage function.

Business Models

- ▶ We help the company utilize its balances with SPP as quickly as possible.
- ▶ We acquire and sell companies with SPP accounts.
- ▶ We acquire and sell SPP accounts.

Our compensation will be either in the form of a commission or by getting a margin on the sale or purchase.

Claes Thulin will be responsible for the business area. For further information, refer to www.spp-pengar.nu.

SPP is a mutually owned trade mark of Försäkringsbolaget SPP.

Organization



◀ **Bengt Stillström**, 56,
Managing Director. M.Sc. (Eng.) and
Master of Management. Founded
Traction in 1974. Director of a large
number of companies in Traction's
sphere of interest. Shares owned:
660,000 class A, 3,158,150 class B.



Claes Gyllenhammar, 54, ▲
LL.M. Active in Traction for 16 years.
Director of a large number of compa-
nies in Traction's sphere of interest.
Shares owned, privately and via
companies: 82,700 class B.

Lars Olof Larson, 40, ▶
Controller, B.Sc. (Econ.). Active in
Traction since 1997. Formerly
controller at John Mattson Fastighets
AB. Shares owned: 5,000 class B, and
10,000 options for class B shares.



Ulf Svensson, 31, ▼
Venture Manager. M.Sc (Eng.).
Previously consultant with Cap
Gemini and product manager with
HL Display.

Traction Venture

Klas Gustafsson, 33, ▶
Venture Manager and head
of Traction Venture. B.Sc.
(Econ.). Active in Traction
since 1998. Previously
consultant with ALMI Före-
tagspartner. Shares owned:
3,000 class B.



Petter Stillström, 28, ▲
Venture Manager, M.Sc. (Econ.).
Previously project manager with the
corporate finance department of
Hagströmer & Qviberg Fond-
kommission.



◀ **Till Gutzen**, 29,
Venture Manager.
Diplom Wirtschaftsinge-
nieur, M.Sc (Eng.).
Appointed to the post of
President of subsidiary
Maxitech Elektronik at
the beginning of 1999.

Traction Invest

Joakim Lindén, 35, ▶

Investment Manager and head of Traction Invest. B.Sc (Econ.). Active in Traction since 1996. Previously project leader in Securum. Shares owned: 6,300 class B, and 5,000 options for class B shares.



Claes Thulin, 45, ▼

B.Sc (Econ.), Investment Manager and responsible for the business in SPP-arbitrage. Previously active in Camaros SDN Bhd, Malaysia.



Joakim Sundqvist, 34, ▲

Investment Manager, LL.M. Formerly with law firm Foyen & Co.



◀ **Tomas Karlsson, 38,**
Investment Manager. Previously President of subsidiary Svecia International and Tolerance Holding.



Erik Salén, 31, ▲

Investment Manager, M. Sc. (Eng.). Previously Account Manager in Allgon and own consulting firm.

Traction UK



◀ **Erik Albinsson, 38,**

Managing Director, Traction Management Ltd. M.Sc. (Eng.). Previously head of Traction Invest and President of Maxitech. Active in Traction since 1996.

The managers of the subsidiaries and affiliated companies are shown in the listing of addresses and in the company descriptions.

Board of Directors

Mats Olsson, 51, ▶

M.A., Chairman of the Board. Chairman of Safe-Pay. Director of Effnet, Kipling, TurnIt and Modig Machine Tools. Director since 1988. Shares owned, privately and via companies: 16,200 class B.



Sven-Christer Nilsson, 55, ▼

B.Sc., previously with Ericsson for 17 years, most recently as President and CEO. Founder and Director of Startup Factory, Director of Utfors, Establish and Northstream. Sven-Christer Nilsson will be elected at the Annual General Meeting to be held April 11, 2000. Shares owned: 400 class B.



Rickard Björklund, 38, ▲

founder and former President of Matteus Fondkommission. Rickard Björklund will be elected at the Annual General Meeting to be held April 11, 2000. Shares owned, including family: 3,000 class B.



◀ Bengt-Arne Vedin,

59, Ph.D. (Eng.), Director of Metamatic, Uppfinnarkollegiet and Sällskapet Riksdagsmän och Forskare and the presiding committee of Bild och Ord Akademien. Secretary General of Ruben Rausing's Fund for research relating to new businesses and innovations, member of The Royal Academy of Sciences (IVA), and the World Academy of Art and Science. Director since 1984. Shares owned: 20,200 class B.



Petter Stillström, see above, ▲

Director since 1997. Shares owned, privately and via partially owned company: 340,000 class A, 172,770 class B.



Bengt Stillström, see above. ▲

President, CEO and Director since 1974.

Auditor

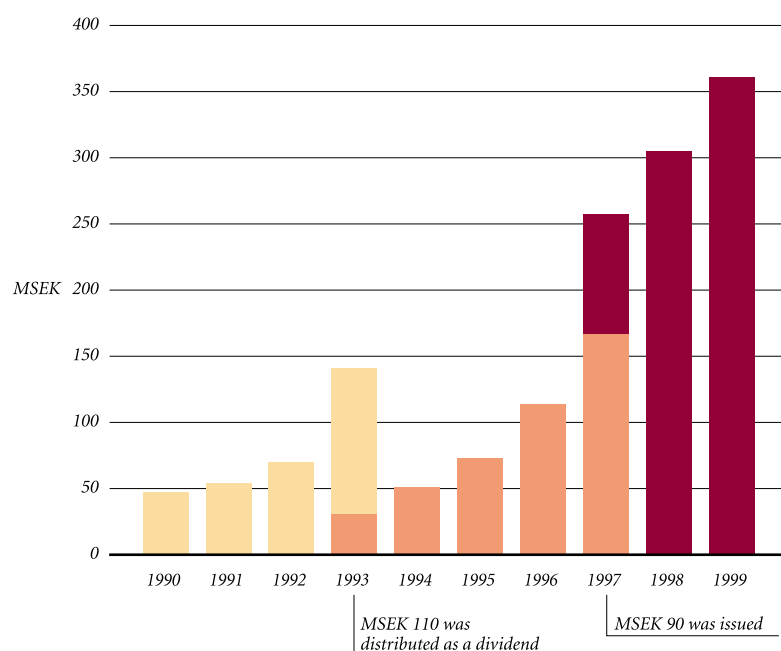
Anders Roos, 56,

Authorized Public Accountant with SET Auktoriserade Revisorer, Stockholm. Auditor of Traction since 1985.

10-Year Summary of Traction

| MSEK | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|-------|-------|-------|-------|-------------------|-------|-------|-------------------|-----------------|-----------------|
| Income Statement | | | | | | | | | | |
| Operating revenue ¹⁾ | 230 | 112 | 126 | 111 | 67 | 167 | 182 | 400 | 420 | 471 |
| NET PROFIT | 13 | 7 | 16 | 71 | 19 | 22 | 41 | 54 | 48 | 60 |
| Balance Sheet | | | | | | | | | | |
| Fixed assets | 127 | 69 | 105 | 93 | 57 | 46 | 120 | 185 | 197 | 234 |
| Current assets | 115 | 86 | 90 | 54 | 94 | 57 | 41 | 202 | 251 | 268 |
| Liquid funds | 27 | 28 | 63 | 104 | 18 | 50 | 33 | 48 | 34 | 47 |
| TOTAL ASSETS | 269 | 183 | 258 | 251 | 169 | 153 | 194 | 435 | 482 | 549 |
| Shareholders' equity | 47 | 54 | 70 | 141 | 51 | 73 | 114 | 257 ³⁾ | 305 | 361 |
| Restructuring reserves | 59 | 22 | 24 | 21 | 23 | 4 | - | 13 | 11 | 1 |
| Venture capital under management | 49 | 47 | 70 | 24 | 16 | 5 | 4 | 7 ⁴⁾ | 6 ⁴⁾ | 6 ⁴⁾ |
| Long-term liabilities | 54 | 33 | 34 | 36 | 13 | 13 | - | 41 | 47 | 44 |
| Current liabilities | 60 | 27 | 60 | 29 | 66 | 58 | 76 | 117 | 113 | 137 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 269 | 183 | 258 | 251 | 169 | 153 | 194 | 435 | 482 | 549 |
| Financial Highlights | | | | | | | | | | |
| Proportion of risk-bearing capital | 58% | 67% | 64% | 74% | 54% | 54% | 61% | 64% | 67% | 67% |
| Equity ratio | 17% | 30% | 27% | 56% | 30% | 48% | 59% | 59% | 63% | 66% |
| Equity per share, SEK | 10 | 12 | 15 | 31 | 11 | 16 | 25 | 45 | 54 | 64 |
| Earnings per share, SEK | 3 | 2 | 3 | 16 | 4 | 5 | 9 | 11 | 8 | 11 |
| Dividend per share, SEK | - | - | - | 24 | - | - | - | - | 0.70 | 0.35 |
| Return on equity | 38% | 15% | 30% | 101% | 23% ²⁾ | 43% | 56% | 36% | 19% | 20% |
| Price/earnings ratio | | | | | | | | 8.8 | 6.3 | 7.0 |
| Market price per share, SEK | | | | | | | | 97 | 53 | 74 |
| Market price per share/equity | | | | | | | | 2.1 | 1.0 | 1.2 |
| Average number of shares outstanding | | | | | | | | 5 042 | | |
| Number of shares outstanding at year-end | 4 600 | 4 600 | 4 600 | 4 600 | 4 600 | 4 600 | 4 600 | 5 670 | 5 670 | 5 670 |

Evolution of Shareholders' Equity



The compilation on the left side refers to the Traction Group with due consideration given to internal restructuring.

- 1) Operating revenue includes dividends, capital gains and shares in profit of affiliated companies from 1995.
- 2) In computing return on equity for 1994 (23 percent), due consideration was given to the MSEK 110 distributed as dividend at mid-year.
- 3) Equity offerings were made in 1997 adding nearly MSEK 90 in new equity.
- 4) The item includes profit sharing loans and minority interest.

Definitions

| | |
|---|---|
| Proportion of risk-bearing capital | The sum total of shareholders' equity, restructuring reserve and venture capital under management as a percentage of the balance sheet total. |
| Equity ratio | Shareholders' equity as percentage of the balance sheet total. |
| Earnings per share | Market price of the share divided by the average number of shares outstanding during the year. |
| Price/earnings ratio | Market price of the share divided by earnings per share. |
| Return on equity | Net profit as a percentage of shareholders equity at the beginning of the year. |

A Small Selection of Transactions Over the Past Five Years



A small selection of events during the past few years. In reality, there are many, many other events, some of which may later prove to be very important.



1994

Founded AcadeMedia. Invested in Sweden Table Tennis, Target Games, Tolerans Ingol and InnoGraphic. Centrum Invest was sold at a good profit to Steen & Ström Invest in Norway. Failed in a transaction with a Norwegian company that was to acquire Banco Bryggerier. Traction was forced to take over the Norwegian company and clean up the situation. Restructuring of the Group in the course of which equity was reduced by MSEK 110 which was distributed to the shareholders.



1995

Mutter Media was sold to Schibstedt in Norway and Team Tejbrant to Åke and Folke Tejbrant. Maxitech Elektronik and Två Ögon were acquired.



1996

About 20 percent of the shares in JP Bank were acquired. AcadeMedia acquired MacMeckarna, Engine Interactive was started and InnoGraphic was phased out. Equity offerings were made allowing the employees to become part owners. AcadeMedia



became an affiliated company after having been a subsidiary.

Soneruds became a new affiliated company. Duroc made two equity offerings and became listed on the SBI-list. The business in Standard Radio was sold to Raytheon Inc., USA and Styrkonsult Drives was sold to Controle Techniques PLC, England.

Maxitech's production capacity was doubled through a new investment.

1997

Equity offering in Duroc. Before the offering, Traction sold some shares and subscription rights in Duroc, and then participated in the offering, which was also partially underwritten by Traction. Equity offering and market listing of Soneruds. Executive Entertainment was started together with an entrepreneur. Invested in Bricad Holding and Signalteknik. Traction participated in the financial reconstruction of Svecia Screen Printing System, went in as a majority owner and guaranteed financing. AcadeMedia acquired Thalamus Networks and arranged equity financing and wider ownership. Purchased additional shares in JP Bank and issued an option for all shares held. Completed a private placement of shares in Target Games. Purchased 13 percent of the shares in Kjessler & Mannerstråle, and shares in Epic Multimedia. TOTAB Totalentreprenad was sold to BPA. Traction made a public offering and the stock was listed on the SBI-list. In a secondary offering, shares were sold to major investors. Shares were issued for a total of MSEK 90 and the Company got about 2,000 new shareholders.

1998

The shares in JP Bank were sold to Sparbanken Finn and Gripen. Participated in a private placement in Thalamus Networks. Became shareholder in CMA again, a company Traction has been involved with since 1980. CMA sold its system integration and PC business to Merkantidata. Invested in Easy T, Itca Holding, Mobilsystem, PC-Card International, Promecta Footwear, Skandinaviska Salutorget and Tempelman. The stakes in Kjessler & Mannerstråle, AcadeMedia, Bricad Holding, Target Games and Tolerans Ingol were raised. Subsidiary Maxitech Elektronik acquired Ericsson's corresponding unit in an outsourcing transaction. Financial reconstruction of Svecia. Duroc acquired toolmakers in Robertsfors (from Mikro-Verktyg) and in Västerås (from ABB). The shares in Epic were sold to AcadeMedia, who also bought additional shares. The engagements in Fun Track and Novum Kan were concluded. Traction gained investment company status under Swedish tax legislation.

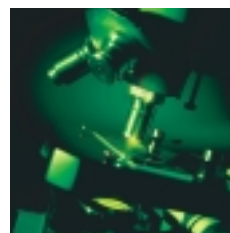
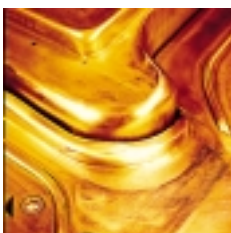
1999

Traction turns 25 years. The shares in CMA were sold at a good profit. Traction guaranteed equity offerings in AcadeMedia and Duroc. Obtained additional shares in Thalamus Networks in connection with a distribution from AcadeMedia. Invested in MedMera Distribution, Hagakure Network and Berg & Hav. Received shares in KM Lab from Kjessler & Mannerstråle, which were immediately sold to the Dutch company AlControl. Completed two private placements in Easy T. Duroc acquired Swedish Saw Blades. Underwrote an issue of convertible debentures in BioPhausia; Traction subscribed for conver-

tible debentures equivalent to 14 percent of shares outstanding after full conversion. Expanded ownership in Kjessler & Mannerstråle and Recco. The holdings in Itca Holding, Skandinaviska Salutorget and Target Games were sold. The shares in Ögonlasern were sold. More shares in Thalamus Networks were subscribed for and some shares were sold. The Board of Directors was expanded as Sven-Christer Nilsson, former President and CEO of Ericsson, and Rickard Björklund, founder and former President and CEO of Matteus Fondkommission, participated in the work of the Board of Directors since autumn 1999 and will be elected in connection with the year 2000 Annual General Meeting. Traction UK was formed.

2000 January-February

Traction applied for a listing on the O-list of the Stockholm Stock Exchange. AcadeMedia acquired BIG, Business Intelligence Group, sold its holding in Epic Multimedia with a large capital gain and made a private placement of MSEK 100. The holding in PC Card was sold. A claim on BioPhausia was converted to equity. Decided to underwrite an equity offering in Estinvest. A bid was made for all outstanding shares in Kjessler & Mannerstråle, but the bid was withdrawn since it was not accepted by KM's second largest shareholder. Traction started new businesses based on its own ideas. One of these is to advise companies with large claims on SPP, and to trade in SPP accounts. Traction realized some profits and increased the reserve in companies publicly traded by a total of MSEK 280 during the first two months of the year.



Valuation of Traction

Traction focuses its operations on profit and the evolution of shareholders' equity. As shown by the 10-year summary on page 12, the average annual return on equity has been 38 percent. During 1999, the return was 20 percent, which is lower than Traction's long-term goal of 25 percent. At the same time, the reserve in the portfolio of listed shares increased by MSEK 214, with the effect that 1999 must be regarded as a very successful year. It should be noted, however, that the market's valuation of our holdings of shares in affiliated companies fluctuates widely and that the increase in reserves cannot be added directly to the year's result.

Traction reports its holdings in affiliated companies according to the equity method, which means that only Traction's proportion of the profit and equity in affiliated companies are consolidated in Traction's accounts, regardless of whether or not the affiliated company is publicly traded. Traction also amortizes any goodwill arising on acquisitions of affiliated companies over five years.

One consequence of this conservative accounting method is that if Traction acquires an affiliate holding in a listed company with a high net asset valuation, such as Microsoft or Nokia, the amortization of goodwill will exceed the profit share from the affiliated company at the same time as the value over market value of the shareholdings will not appear in Traction's balance sheet. Traction's computation of equity is thus comparable to other operating companies, but not to the way in which publicly traded investment and asset management companies compute equity.

In the case of equity offerings in our affiliated companies, where the issue price exceeds the company's equity, Traction's book value is adjusted to reflect our share of equity. The adjustment is attri-

butable to the goodwill sold. Such equity offerings effects have arisen during 1999 in AcadeMedia, Duroc, Easy T and Thalamus Networks.

A net asset valuation of Traction requires additional information about our affiliated companies which we are not free to disclose since they are in early and/or quickly changing phases of development. The values of small companies are also very fickle since they are dependent on key individuals and hence difficult to sell. Only at later stages of a company's development, when it can demonstrate sustainable growth with less dependency on individual persons, can it be sold to industrial or financial players.

It is natural for Traction to be compared to regular operating companies and our return, including capital gains, should be related to our equity. The current value of Traction's holdings is actually of secondary interest. Our ability to identify interesting projects/companies, to develop them and finally realize them, means that an investment in Traction should be an attractive investment over the longer haul.

Traction's parent company is an investment company for purposes of Swedish tax legislation, which means that capital gains are tax-exempt. Dividend and interest income is taxable, however, after deduction of interest expense, while dividends paid to shareholders are deductible. In addition, two percent of the Company's net asset value at the beginning of the year has to be recorded as revenue. The net asset value consists of the market value of the Company's portfolio of shares. With current tax rules, the dividend can be adapted to the Parent Company's revenue in such a way that no tax expense arises in the Parent Company. This is also our dividend policy.

Presented below is a consolidation based on Traction's core business in order to provide a clearer picture of Traction. When Traction's core business, consisting of venture capital, consulting and financing operations is consolidated, the following balance sheet emerges based on market values as of December 31, 1999 on those parts where a market value is possible to provide.

Shares in subsidiaries refer to Fastighets AB

Tofta, Maxitech Elektronik, Svecia International Equipment, Tempelman and Tolerans Ingol Holding. These companies had aggregate 1999 revenues of about MSEK 385.

For further information about Traction's affiliated companies and subsidiaries, reference is made to the notes to the financial statements relative to the official balance sheet contained in the Annual Accounts.

Balance Sheet Central Traction, December 31, 1999

| ASSETS | MSEK | Market value | Reserve |
|---|------------|--------------|------------|
| Shares in subsidiaries | 28 | | |
| Major holdings listed below | 185 | 457 | 272 |
| Other listed holdings | 14 | 12 | -2 |
| Other holdings not listed | 27 | | |
| Lending | 85 | | |
| Other assets | 15 | | |
| Liquid funds | 29 | | |
| TOTAL ASSETS | 384 | | 270 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| Shareholders' equity | 361 | | |
| Other liabilities | 23 | | |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 384 | | |

Listed Holdings, December 31, 1999

| | Number of 1,000 shares | Percentage of capital | Book value, MSEK | Listed value, MSEK | Market price per share, SEK |
|--------------------------------------|------------------------|-----------------------|------------------|--------------------|-----------------------------|
| Kjessler & Mannerstråle | 1.815 | 41 | 53 | 89 | 49 |
| Duroc | 774 | 15 | 27 | 63 | 82 |
| AcadeMedia | 883 | 34 | 27 | 98 | 111 |
| Thalamus Networks (former Advantech) | 2.111 | 27 | 20 | 108 | 51 |
| Easy T | 162 | 20 | 8 | 32 | 200 ¹⁾ |
| Mediakey Plc | 3.450 | 5 | 6 | 16 | 5 |
| Ångpanneföreningen | 185 | 3 | 22 | 25 | 133 |
| Scandiaconsult | 120 | 2 | 13 | 13 | 110 |
| Biophausia (conv. deb.) SEK par | 8.849 ¹⁾ | (14) | 9 | 13 | 145 |
| Total | | | 185 | 457 | |

1) Refers to the most recent equity offering price.

2) Equivalent to 2,082,000 shares after full conversion. Conversion price SEK 4.25/share.

The Traction Share

Share Capital

The share capital in Traction AB amounts to SEK 5,670,000 divided into 5,670,000 shares, of which 1,000,000 shares are of class A and 4,670,000 are of class B. Each share has a par or nominal value of SEK 1. Each share entitles its holder to equal rights to the Company's assets and profit. Class A shares entitle their holders to 10 votes per share and class B shares entitle their holders to one vote at shareholder meetings. At shareholder meetings, each person entitled to vote may vote the full number of shares held or represented by him or her, without limitation.

Evolution of Share Capital

| Year | Transaction | Increase in number of shares | Increase in share capital, SEK | Total share capital, SEK | Number of shares | Par value, SEK |
|------|----------------|------------------------------|--------------------------------|--------------------------|------------------|----------------|
| 1994 | Stock dividend | 20 | 10,000 | 460,000 | 920 | 500 |
| 1994 | Split | 459,080 | 0 | 460,000 | 460,000 | 1 |
| 1995 | Stock dividend | 0 | 4,140,000 | 4,600,000 | 460,000 | 10 |
| 1997 | Split | 4,140,000 | 0 | 4,600,000 | 4,600,000 | 1 |
| 1997 | Rights issue | 700,000 | 700,000 | 5,300,000 | 5,300,000 | 1 |
| 1997 | Rights issue | 370,000 | 370,000 | 5,670,000 | 5,670,000 | 1 |

Traction has conducted business since 1974. A new parent company was created in 1994, however. There are no convertible debentures, options or other securities outstanding that could increase the number of shares outstanding. However, the Board of Directors has been authorized by the 1999 Annual General Meeting to decide, on one or more occasions, to make an equity offering of up to 1,000,000 class B shares without regard to the preferential rights of shareholders. The Board Directors has proposed an extension of this authorization, which is on the agenda for the 2000 Annual General Meeting. On that occasion, the Board of Directors will also request authorization to buy back own shares in a number of up to one tenth of the outstanding number of shares, such authorization to remain valid until the next following regularly scheduled Annual General Meeting

Shareholders

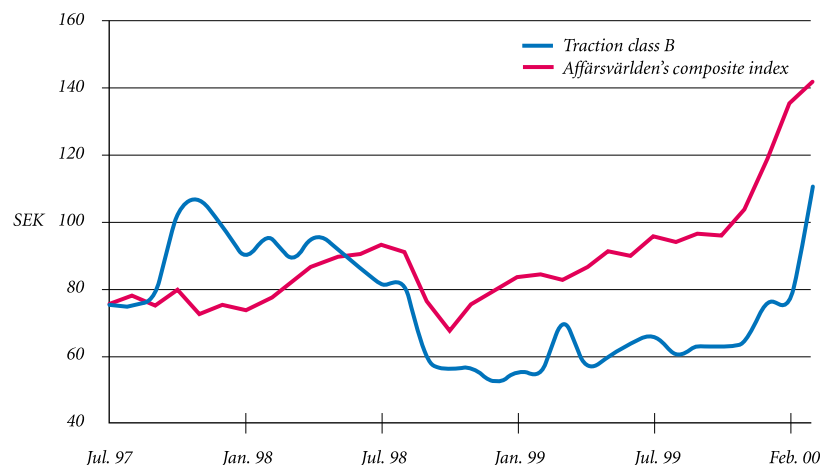
| | Number of class A shares | Number of class B shares | Proportion of capital, % | Proportion of votes, % |
|--|--------------------------|--------------------------|--------------------------|------------------------|
| Bengt Stillström | 660,000 | 3,158,150 | 67,3 | 66,5 |
| Creatum AB | 340,000 | 166,820 | 8,9 | 24,3 |
| Småbolagsfonden | | 144,500 | 2,6 | 1,0 |
| Claes Gyllenhammar with companies | | 82,700 | 1,5 | 0,6 |
| Traction Nouveau AB's Pensions Trust | | 63,500 | 1,1 | 0,4 |
| N.G.L. Förvaltning AB | | 32,700 | 0,6 | 0,2 |
| Traction's foundation for Science and Innovation | | 26,900 | 0,5 | 0,2 |
| Sound Invest | | 26,500 | 0,5 | 0,2 |
| Bengt-Arne Vedin | | 20,200 | 0,4 | 0,1 |
| Johan Rapp | | 20,000 | 0,4 | 0,1 |
| Other shareholders | | 928,030 | 16,2 | 6,4 |
| Total | 1,000,000 | 4,670,000 | 100,0 | 100,0 |

Number of Shares Per Shareholder

| | Number of owners | Number of shares | Percentage of capital | Percentage of votes |
|-------------------|------------------|------------------|-----------------------|---------------------|
| 1-500 | 808 | 181,600 | 3,2 | 1,2 |
| 501-1,000 | 154 | 138,255 | 2,5 | 1,0 |
| 1,001-5,000 | 125 | 294,625 | 5,2 | 2,0 |
| 5,001-20,000 | 34 | 345,550 | 6,1 | 2,4 |
| 20,001-100,000 | 6 | 240,500 | 4,2 | 1,6 |
| 100,001-1,000,000 | 2 | 651,320 | 11,5 | 25,3 |
| 1,000,001- | 1 | 3,818,150 | 67,3 | 66,5 |
| Total | 1,130 | 5,670,000 | 100,0 | 100,0 |

Share Price Performance

Traction's class B share is listed by Stockholm Börsinformation (SBI) since July 1997. The Traction share gained in value during 1999 by 35 percent. At year-end 1999, the latest paid quotation was SEK 74 per share. The highest bid price for the share during the year was SEK 79 and the lowest SEK 52.



Dividend Policy

Traction's dividend policy is based on the premise that dividends and other distributions to the shareholders should be made in a tax-efficient manner. For purposes of the Swedish tax legislation, Traction is an investment company, the effects of which include that dividends are tax-deductible against interest income and the standard income consisting of two percent of the Company's net asset value as of December 31. With current tax rules, the dividend is adapted to the Parent Company's revenue in such a manner that no tax expense arises in the Parent Company.

ACADEMEDIA AB

An IT revolution is upon us and no part of everyday life is left untouched. One of the most tradition-bound segments is already affected and will continue to be heavily affected by the opportunity of storing, processing and distributing vast amounts of data with the aid of data and information technology. It is a segment that absorbs a large portion of society's resources and has a lifelong effect on every individual. That segment is education.

Education is knowledge transmission and is customarily accomplished in classrooms and through books. But the new media technology paves the way for improvement and lowering the cost of learning. By participating in a process, by experimenting, knowledge is consolidated. Interactive media, which make it possible to create education where the pupil participates actively and hands-on, is therefore an efficient way of teaching complicated things.

Everybody has something to gain from interactive education. For companies, there are huge cost savings and a faster and more precise dissemination of knowledge in support of, for instance, critical processes. The cost savings are the result of increased efficiency in education and less fall in production. For the individual there are benefits in the form of being able to learn at your own pace and at the time that suits you best. For companies, there is opportunity for follow-up, diagnostics and reporting of employee proficiency.

Education supported by interactive technologies is usually called computer-aided education or Computer Based Training. Based on its extensive experience, AcadeMedia uses a broader term; e-learning, which is also a registered trade mark in the AcadeMedia Group.

The Company

The opportunity of becoming a successful e-learning company is based primarily on two factors. First, you must know the new media technology and understand how it can be used in fields such as education and training. Second, you must be able to package and present knowledge in an efficient manner. The latter means the use of images, sound and text in such a way as to support the learning process, as opposed to traditional textbooks and teaching aids. Interactive learning's pedagogy is created in the interaction between the new media technology and the pedagogy of learning.

As a consequence of the two critical factors for e-learning companies, two types of business are conducted in AcadeMedia.

Business area New Media Learning, which is conducted under the name of MacMeckarna, is one of the country's largest education companies in the area of media technology.

MacMeckarna are archetypical so-called "early adopters" and live under the motto "The Innovator, Not the Imitator." One example hereof is the course for newspaper makers in WAP technology, where the company at the same time sells a WAP hotel service. The emphasis of MacMeckarna's activity is training in new media technology, which is accomplished with, precisely, new media technology.

MacMeckarna are also active as consultants in this field and as principal of the Masters of Media University that provides vocational training in new media technology. The training programs comprise 90 or 105 university points and entitle the student to student loans.

Gravity is the name under which business Interaktiv Produktion is conducted. With its 60 consultants, Gravity is probably the country's, or even Europe's, largest player in the area of interactive computer-supported education. Gravity produces interactive education packages and presentations, which are used for training, information and marketing. The productions are published on the medium or combination of media that most effectively achieve the customer's desired objective. The Internet or an intranet is usually used. Some CD productions are still being made. Gravity offers qualified means tests and target group analysis, feasibility studies, well developed interactive pedagogy, thoroughly edited manuscripts and creative design. Over the past four years, Gravity has produced over 400 interactive education packages and presentations.

The Future

During the first part of year 2000, AcadeMedia has acquired Malmö-based Business Intelligence Group (BIG) with some 20 consultants. BIG has two areas of operation, one of which is interactive education. BIG has also developed a Learning Management System, that is a training platform with administra-

tive support. BIG's operations will be integrated with those of Gravity.

In its financial report for 1999, AcadeMedia announced that for some time it has been intensifying its efforts to create a complete training and education portal for the entire European Market. The training portal, which is expected to be named "AcadeMedia.com," contains several advanced, longer training programs developed in-house in new media and information technology. All training will be sold directly over the Internet in six different languages as early as by autumn 2000.

A private placement with a number of Swedish institutions was completed for AcadeMedia in February 2000. With this capital infusion, and the proceeds of close to MSEK 60 from the sale of Epic Multimedia, AcadeMedia has a strong financial position for robust expansion, organically as well as by acquisition. As of February 2000, AcadeMedia's equity capital amounted to MSEK 205.

The agenda for 2000 includes further concentration of the business in the direction of e-learning, internationalization and development of the company's knowledge management business. As the largest individual owner of AcadeMedia, Traction has the ambition to support AcadeMedia to make it one of the leading e-learning companies in Europe.

AcadeMedia is listed on SBI's stock list, with Matteus Fondkommission as market maker. The company intends to seek a listing on the O-list of the OM Stockholm Stock Exchange during 2000. Further information is available at www.academedia.se.

DUROC AB

Duroc is a good example of a company developed using Traction's methodology. Traction has been a part owner of Duroc since 1993. Together with our partner, entrepreneur Lennart Olofsson, we have gradually developed the company over the years from a smallish technology company with a few employees and with modest sales, into today's Duroc that is an established industrial company with a unique technology as a base for the business and further expansion.

In 1997, we made the call together with our partner, the entrepreneur, that time was ripe for ownership diversification. In the same year, the share began trading on the SBI-list. Since August 1999, the share is traded on the O-list of the OM Stockholm Stock Exchange. In connection with the share's introduction on the O-list, a rights issue was made to the company's shareholders, through which MSEK 85 was infused in the company.

Traction's goal today is to continue participating as an active owner in the company, together with the entrepreneur, and develop it into a successful, expansive and profitable industrial company.

Duroc stands by its adopted strategy, since 1997, of expanding and building the company by acquiring subsidiaries in which Duroc's unique technology can be implemented. Thereby exciting opportunities are created for these subsidiaries to become unique and competitive in their respective business areas.

Application

Application is today a division of the parent company, Duroc AB. Division Application is responsible for development and sales of the core operation, that is, surface refinement of materials and components using laser technology and systems solutions in conjunction therewith. Laser technology can be combined with additives in the form of ceramic materials and alloys in the form of powder material, with which unique material and product properties can be obtained. Application's sales are to external clients, but also internally to the subsidiaries.

Duroc Rail

Duroc Rails business concept is based on Duroc's technology for the purpose of creating longer life for railway wheels, more efficient wheel maintenance, less noise and lower costs for wheel maintenance per transport kilometer. Duroc Rail operates a facility for wheel maintenance in Notviken, Luleå. A laser facility for Duroc-treatment of railway wheels was

commissioned at the Notviken facility in 1999. SJ, MTAB and a number of other railcar owners are long-time Swedish customers. During 1999, deliveries were also made to customers in the UK and Germany. The objective is to establish operations in Europe during 2000. Efforts to accomplish such establishment were intensified during the autumn of 1999.

Duroc Tooling AB

Duroc Toolings business concept is to utilize Duroc's technology for the purpose of achieving lower costs for the users of forming tools for sheet metal and plastics forming, and forging and injection casting. Duroc Tooling has operations in Västerås and Robertsfors, where different types of forming tools are made for account of customers. Shipments of Duroc-treated tools were made in 1999. The intention is to intensify this to achieve a breakthrough in 2000. Producing tools aside, the facility in Robertsfors also builds systems based on Duroc technology.

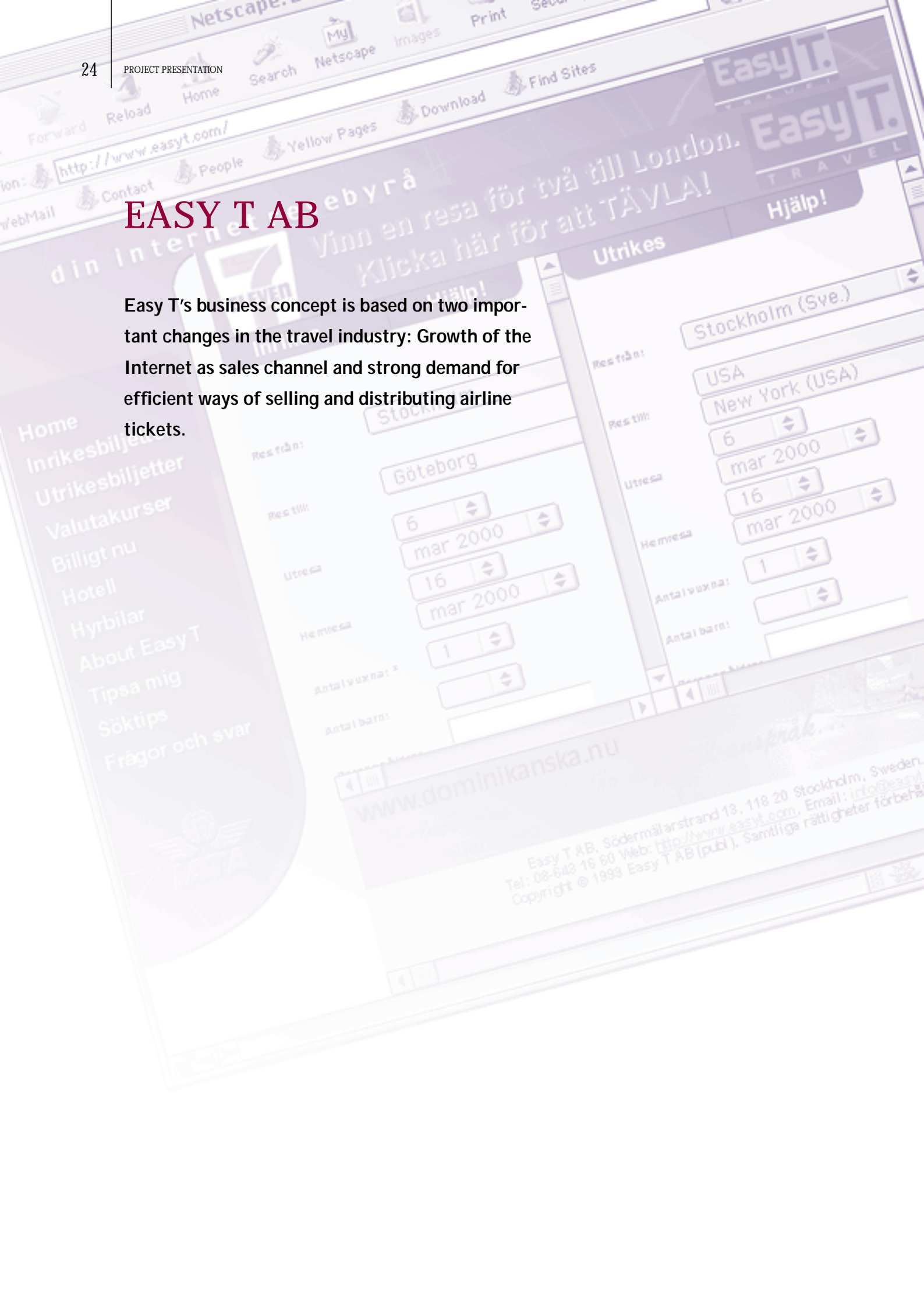
Swedish Saw Blades AB

Swedish Saw Blades AB in Laholm was acquired towards the end of 1999. The company manufactures and sells saw-blades and has sales of MSEK 80. The company has suffered profitability problems for several years. Since the company was acquired, efforts have been made to restructure the company to restore profitability. This work is well under way and is expected to be completed by autumn 2000. It should be remembered that Duroc already in the beginning of the 1990's developed a new type of saw-blade for wood and metal. This development will now be implemented at Swedish Saw Blades. The intention is for this company to constitute one more platform in the Duroc Group.

Further information about Duroc is available at www.duroc.se.

EASY T AB

Easy T's business concept is based on two important changes in the travel industry: Growth of the Internet as sales channel and strong demand for efficient ways of selling and distributing airline tickets.



The use of the Internet as a purchasing channel is predicted to grow dramatically over the next few years. IDC believes that sales to consumers will top SEK 400 billion by year 2002. Of all e-commerce, the biggest growth is expected in the travel industry. Increased pricing pressures, especially in sales of regular airline tickets, will result in the demise of many traditional travel agencies and in demand for more efficient selling.

About 380 million airline tickets were sold in Europe during 1998. The value of these tickets is estimated to be about SEK 1,064 billion. Between 70 and 80 percent of the total volume is sold by travel agencies. The remainder is sold by the airlines directly.

Easy T's business model is based on getting as many as possible to use our proprietary system T-Book to make air travel reservations. The more people that use the system, the higher revenue for Easy T.

The Company

Since inception in 1997, Easy T has launched a unique Internet-based system for flight reservations and has created one of the leading online-selling travel agencies in the Swedish market. The focus so far has been on the Swedish market, but during 2000 expansion plans for the major markets in Europe will be implemented. Every day more than 10,000 persons use T-Book to plan and purchase their airline tickets.

Operations have been split into two parts: Easy T Travel, which includes the travel agency, and Easy T Software, which includes systems sales and development. Travel has developed during the year into a well functioning travel agency. Travel is found today at www.easyt.se and www.billigflyg.com. Easy T Software has focused on further development of the T-Book system.

Easy T had sales in 1999 of about MSEK 24, most of which was derived from the travel agency business. Systems sales were intensified during the latter part of 1999 and Easy T today has customers in Sweden, Norway, Finland and Ireland. Among Easy T's cooperation partners and licensees can be mentioned Spray's travel service Mr Jet, Scandinavia Online's Passagen, DN resor, Travellink, Travel Lab and Dagens Industri's di.se.

An equity offering was floated during 1999 in the amount of about MSEK 40, aimed at a limited circle of investors. Easy T now stands well prepared for continued controlled expansion.

The Future

During the next several years Easy T will establish travel agencies in new markets, and systems sales in each respective market. The strategy is based on the fact that every domestic market for low-price airline tickets is unique, and that you have know each locality well in order to implement a system with the right features.

The goal for the next few years is to establish travel agencies in at least three new markets. Operations are being started in Britain. Germany, Netherlands, France and the Nordic countries are prioritized markets. The choice of key personnel is crucial to which markets are selected. Another important factor in choosing markets is the rate at which the Internet will be accepted as a purchasing channel.

Starting in March 2000, unofficial trading in Easy T's shares will be handled by Hagströmer & Qviberg Fondkommission.

Further information about Easy T is available at www.easyt.se.

THALAMUS NETWORKS AB

Thalamus Networks offers property/network owners and residents broadband-based IT services that create intelligent living. Thalamus Networks is among the operators who have delivered the largest number of commercial Internet connections via broadband and has the longest operating experience in Sweden.

1999 was the year when the market became aware of what can be accomplished with high-speed connection of households to the Internet. Companies of all sorts that could say the word broadband attracted attention, regardless of whether they had customers and a business, or only deep pockets for marketing. It is easy to explain why the segment attracted attention. Information technology drives the opportunities for distributing entertainment, education and whatever else over the Internet. Such distribution requires large capacity networks and connections to give the users good results. Companies able to contribute to this development obviously have a promising future. In addition to the seemingly simple job of connecting households to the Internet, data and information technology offers great opportunities for improving living conditions, especially through interactivity at home.

The Company

Again during 1999, Thalamus Networks, the former Advantech, has expanded its marketing efforts. The company, which already in 1996 connected the first tenants to the Internet, concentrates its marketing to the segment it works with. Thalamus Networks is a company independent from network owners and offers broadband to property and network owners without stealing the customers' focus from his or her landlord/management firm. The property owner is Thalamus Networks' customer and the tenant is the property owner's customer. The property owner rents the operator service from Thalamus Networks. In this way the property owner gets an incentive for future revenue, while not having to take any risk that the technology may become obsolete.

The business logic seems to be accepted since Thalamus Networks probably is the largest operator in Sweden. Thalamus Networks also has established strategic alliances with several network owners, who wish to enhance their networks with the aid of Thalamus. Examples of such network owners are Göteborgs Energi and Stokab.

Thalamus Networks delivers its services by cable-TV, opto fiber and Ethernet (LAN). Thalamus Networks is also a supplier of computerized property surveillance with about 100 man-years experience of steering and control. All types of control is offered, but weather control developed by

Thalamus Networks is a big seller since it in combination with thalamus.net gives the property owner energy savings of 15–45 percent. Thalamus Networks' range of services is developed to make "the intelligent home" possible.

thalamus®.net

Internet connection at a fixed price

thalamus®.energy

Climate control in real time

thalamus®.access

Access control and reservation system for common areas

thalamus®.info

Information services such as local TV, local text TV, electronic bulletin boards

thalamus®.tele

Telephony systems

Thalamus Networks cooperates with the leading suppliers in the market as a system integrator and partner. Thalamus Networks can be found today in the following locations: Stockholm, Göteborg, Malmö, Ängelholm, Halmstad and Landskrona.

The Future

During the beginning of 2000, the development of a broadband portal has begun. It will help property and network owners offer broadband services to households. The portal will be loaded primarily with local content and utility services. There are also a number of operational and strategic goals that will be realized during the operating year. As a consequence of the current competitive situation, and the fact that most operators lack quality services, Thalamus Networks chooses to report on its activities as they are implemented.

Traction's intention is to support Thalamus Networks actively to establish it as the leading supplier of high-quality broadband services to property and network owners.

Thalamus Networks' shares are unofficially traded through Matteus Fondkommission. An equity offering and a listing on the O-list of the OM Stockholm Stock Exchange are planned for the spring. Further information about Thalamus Networks is available at www.thalamus.se.

KJESSLER & MANNERSTRÅLE AB

KM is one of the leading consulting companies in Sweden, and sells qualified consulting services in the fields of technology, environment and architecture.

KM was established in 1934 and has for more than 60 years assumed responsibility for a number of attention-attracting projects in Sweden as well as internationally. Today's company has about 800 employees and operations at some 30 locations. KM's customers are found in industry, among service companies, municipalities and county councils, government agencies and authorities, building contractors, construction and real estate companies. KM is listed on the A-list of the OM Stockholm Stock Exchange.

Traction is the principal owner of KM since 1998 and in February 2000 a public offer was made to the other shareholders to tender their shares to Traction at SEK 65 per share. Our hope was that the offer, with a premium of about 20 percent, would be perceived as attractive. The objective behind the offer was to ensure that KM would be an active part of an international company in the industry. The initial discussions so far have broken down over the valuation of KM's large claims on SPP. By acquiring all of SPP, this can be facilitated since the valuation of the SPP funds can be split away from such talks. The offer was withdrawn when the second largest shareholder declared that the offer was too low and could not be accepted. Traction's stake in KM has increased to 49 percent and we continue to work in the same manner as before.

Since Traction became the principal owner, KM has a new Board of Directors and management. The business concept has been reformulated and the strategic orientation has been changed. The new strategy has not yet given the desired result and the company continued to operate at a loss in 1999. A program is now under way in the company to improve its way of doing business and to exploit the enormous competence that exists in the group.

The focus on knowledge management, or the systematic re-use of knowledge, to use the right associates for the right projects, to develop the firm's associates as well as the corporate culture, and to create and utilize modern information technology, are additional examples of activities in progress.

Further information about KM is available at www.km.se.

Other Projects

BANKING AUTOMATION LTD

Banking Automation is a British company that manufactures deposit machines, a kind of cash dispenser in reverse, primarily for banks, but also for transportation companies, shopping centers and for similar applications. The machines are placed as free-standing units inside the banking premises and also through the wall out to the street, or in unmanned banking premises. UK, Germany, France, Holland, Belgium and Ireland are the largest markets. A sales company has been established in the United States, where sales efforts were intensified during the year.

Banking Automation developed new products during the year in the area of change machines. These machines are primarily used by small businesses to handle small change cash. Further information is available at www.banking-automation.com.

BERG & HAV AB

Berg & Hav is active in sales and distribution of sports and leisure time apparel. The company holds the right to sell Mountain Hardwear's line of clothing in Sweden.

Berg & Hav has been in business for eight years. Sales have expanded throughout this period. Sales in 1999 reached close to MSEK 30. The company's entrepreneur contacted Traction during 1999 aiming to develop the company with Traction as a partner. Further information is available at www.berg-hav.se.

BIOPHAUSIA AB

BioPhausia AB conducts research and development of pharmaceuticals in the areas of micro-circulation, connective tissue biology and macro molecules. Today the company has one product, Rescue Flow, approved in the European market. BioPhausia is listed on the O-list of the OM Stockholm Stock Exchange. Further information is available at www.biophausia.se.

BRICAD HOLDING AB

Bricad Holding is the principal owner of Swedish Tool AB, a company that markets and sells multi-operation machine tools, CNC lathes, tool grinding machines, etc. The company had 1999 sales of about MSEK 51 plus agency business. In addition hereto, the company is active in real estate management and has four wholly and partially owned properties located in the Greater Stockholm Area.

Further information is available at www.swedishtool.se.

EXECUTIVE ENTERTAINMENT SWEDEN AB

Executive Entertainment is a young, independent company in the music industry.

FASTIGHETS AB ORNAMENTIK

FAB Ornamentik owns an industrial/office property in Central Eskilstuna consisting of about 7,500 square meters of space, and two companies in the printing business: Mälarskylt and Silk Screen Company.

FASTIGHETS AB TOFTA

FAB Tofta owns a property in Åkerberga. The property was built at the end of the 1980's and contains about 2,000 square meters of rentable space.

GEODYNAMIK AB

Geodynamik develops and markets systems controlling the packing of blast rock and other fill and paving. The packing is performed faster, simpler and more profitably, and the results are documented to assure quality. Further information is available at www.geodynamik.com.

HAGAKURE NETWORK AB

Hagakure Network is active in the field of Human Resource Management, through search and matching of applicants, but is now also establishing an interactive service for recruitment. The customers consists of well-established companies as well as new high-growth companies within media and IT. Further information is available at www.hagakure.com.

JALMARSON-THIAS AB

Jalmarson-Thias produces, markets and sells bite valves for animal stalls. Most of the production is exported. Operations are conducted in Eskilstuna with six employees. A wholly owned subsidiary, Alcometaller AB, processes and sells propeller blades and rotor blades, primarily to customers in the Nordic region. This part of the business is conducted on the company's own premises in Örebro with about 18 employees. Alcometaller accounts for most of the company's total revenues of about MSEK 35. Further information is available at www.jalmarson-thiasab.se.

MAXITECH ELEKTRONIK AB

Maxitech Elektronik, located in Åkersberga outside Stockholm, manufactures customer-specific thick-film and hybrid circuits. Thick-film circuits is a type of circuit board where certain components are printed right onto the carrier. Maxitech is wholly owned by Traction.

Thick film technique means that a wiring pattern and resistors are printed onto a carrier, typically a ceramic wafer, via a screen-printing technique. The printed pattern is then dried and sintered (burned) onto the carrier at high temperature. Several layers can be printed and the resistors can be tuned to exact values with laser equipment. Some of the advantages of thick film technology over regular circuit boards are the high heat transfer rate, large packing density and high reliability. The ceramic is also suitable as carrier for certain high-frequency applications.

Typical applications for thick film technology can be power products, such as transformers where heat resistance is critical, and control computers in

tough environments, such as engine rooms in cars.

During the spring of 1998, Maxitech acquired the thick film manufacturing operation in Kista from Ericsson Components AB. Ericsson's machinery was taken over in the acquisition and moved to Maxitech's premises. With this acquisition, Maxitech has grown from a small to a medium-sized company in its line of business industry segment, with sales of more than MSEK 70 in 1999.

Maxitech concluded a long-term cooperation agreement with Ericsson during the year.

In cooperation with clients and suppliers, Maxitech has built a unique competence in the production of thick film circuits for the electronics industry. Maxitech has very modern machinery with a high degree of automation.

Maxitech's sells mainly mass-produced circuits to customers in Sweden as well as abroad.

Read more about thick film at www.maxitech.se.

MEDIAKEY PLC

Traction owns a minority stake (4.8 percent) in the British company MediaKey. This company is active in the media industry and produces titles in new as well as traditional media. MediaKey is the parent company of Marshall, operating under the trade marks of Marshall Publishing, Marshall Media and Marshall Editions. The shares in MediaKey are traded on the AIM-list in London. Further information is available at www.mediakey.co.uk.

MEDMERA DISTRIBUTION AB

MedMera is a value-added distributor of IT and home electronics products for the Swedish consumer market. The company distributes products in the areas of multimedia, communication and PC systems. The company also sells modems under its own brand name, Telix. Further information is available at www.medmera.se.

MOBILSYSTEM AB

Mobilsystem is a supplier of systems for mobile data collection. The company's main product, MOBI-BOX, is used for trip recorders, car pools and for evaluation of environmental vehicles.

MSS DATA AB

MSS Data develops PC software for accounting, invoicing, etc.

PROMECTA FOOTWEAR AB

Promecta Footwear is a fast-growing company in the shoe industry. Via subsidiaries in Estonia, Lithuania and Poland, the company sells ladies' and men's shoes under its own brand names Del Mondo, Excel, Marina Riva and Patrol. Promecta also designs and manufactures shoes for the Swedish market under the Dahlin brand name. During 1999, the company acquired a majority stake in Poland's largest shoe chain, ZIP.

RECCO AB

Recco markets avalanche rescue systems and sells reflectors both through sporting goods retailers and for installation in ski boots and ski wear. The system is internationally established at about 200 leading ski resorts. Further information is available at www.recco.se.

SIGNALTEKNIK C. SVENSSON AB

Signalteknik is a consulting and development company in the electronics and data technology industry. The company's specialty is high-tech, quality products developed in-house for solving measuring problems, primarily in the areas of vibration, sound and temperature for industrial and service companies. The products of Signalteknik are permeated by platform and modular thinking. The company's own products currently are diagnostic instruments for electrically powered vehicles for detection of battery, vehicle and charging problems, and a new programmable, platform-independent PCMCIA card that functions as a measuring instrument. Further information is available at www.signalteknik.se.

SONERUDS MASKIN AB (PUBL)

Soneruds Maskin AB is a company in Hudiksvall that specializes in accessory solutions for excavators, loaders and earth-moving equipment. The compa-

ny's main product is a patented system for attaching tools to and is marketed under the OilQuick name. Further information is available at www.soneruds.se.

SVECIA INTERNATIONAL EQUIPMENT AB

Since the start in 1948, Svecia has developed and manufactured printing presses and other equipment for screen printing. Svecia's customers are found in the graphic industry, manufacturing industry and the glass industry. With its focus on the user, environment, the best possible printing quality and cost effectiveness, Svecia has achieved a position as the world's leading supplier. The Svecia Group has about 180 employees all over the world and is owned by Traction since 1997.

Svecia's equipment is manufactured at its own plants in Sweden, Italy and Spain, and sales are via company-owned sales companies in Germany, France, Spain, Hong Kong, the United States and Italy, and via a global network of distributors. The previous production in the United States was phased out during the year and certain production of dryers was moved to Spain. Rationalization and efficiency-improvement measures were implemented in Sweden during the year and a number of projects were completed. Cost-saving measures have been carried out in Italy, both in administration and in production.

Management in the Swedish subsidiary was strengthened in areas such as production control, and with an externally recruited subsidiary manager.

Svecia received a very positive response from both new and old customers during the year, and from industry media. This has resulted in sharply rising order bookings. Svecia's Multicolor Line, SAM X, has become a success, with installations in Sweden, France and Russia. Also during 1999, Svecia received its first order for SAM X from the important U.S. market.

Further information is available at www.svecia.com.

SWEDEN TABLE TENNIS AB

Sweden Table Tennis AB (STT) manufactures and sells table tennis equipment under the STIGA and

Banda brand names. STIGA® is a registered trade mark owned by Stiga AB. STT is wholly owned by Fastighets AB Valhalla, which also owns an industrial property in Eskilstuna. Further information is available at www.tabletennis.se.

TEMPELMAN AS

Tempelman AS is an Estonian parent company that through its wholly owned subsidiary, Tempelman Securities AB, deals in securities in Stockholm. Tempelman Securities AB is under the supervision of the Swedish Financial Inspection Authority. Traction was engaged by the management of Tempelman during the spring of 1998 for assistance in reconstructing the basically bankrupt group. Operations in the Baltic States were phased out during the spring of 1999 and the Swedish operations will be closed during the spring of 2000, whereupon the company will contain cash balances only.

TOLERANS INGOL HOLDING AB

Tolerans Ingol is a technology-intensive company that develops and manufactures high-speed rotation stickers for printing plants. The products are sold via printing press manufacturers, such as Heidelberg

and MAN Roland, and via a network of agents, and in certain cases directly to the end customer.

During 1999, Tolerans went through a true transformation, from having been a company with varied manufacturing to today being totally focused to broaden its position as a world leader in rotation stickers. At mid-year, Tolerans moved its operations to new premises, at the same time strengthening its competence and resource pool in design and development. This is an element of the company's staff competence development, which in turn will give shorter lead times in the development of new and more advanced rotation stickers. Further information is available at www.tolerans.com.

TVÅ ÖGON AB

The company develops and sells eyeglasses. In-house designed and produced reading glasses and sunglasses are sold via a number of chains, tax-free shops and as promotional articles for companies. These products are also exported to Iceland, Norway and Finland. Två Ögon also has obtained agencies for eyeglass frames and sun glasses under the trade names Hugo Boss, Elle, Esprit, Aristar and Char-mant in Sweden. These eyeglasses are sold through opticians.

ANNUAL ACCOUNTS

The Board of Directors and the President of AB Traction (publ) hereby submit their Annual Accounts and consolidated financial statements for the financial year ending December 31, 1999.

ADMINISTRATION REPORT

Business

The Group's business consists of developing companies, which are wholly or partially acquired. Traction has developed its own method for business development, which is distinguished by sharp focus on customer relationships, organization of operations in such a way that the need for capital diminishes, and by seeking opportunities and minimizing risk. The Parent Company is an investment company and owns a portfolio of wholly owned subsidiaries, affiliated companies, and smaller investments in other companies. The consulting business was transferred to subsidiary Traction Konsult AB during the year. This company serves a group management function and as consultants for the portfolio companies, while AB Traction Finans is the Group's in-house bank. To give the truest possible picture of the business, dividends, net capital gains and shares in profit from affiliated companies are reported among operating revenue.

Significant Events During the Financial Year

New Projects

Traction became a part owner in the following companies during the year: BioPhausia AB, pharmaceutical research, Datadistribution AB, data distribution, Hagakure Network AB, recruitment, and Berg & Hav AB, wholesaler in leisure wear and sports equipment.

Extended Ownership

Additional investments were made in Kjessler & Mannerstråle AB (KM) during the year. Through AcadeMedia AB's distribution of shares in Thalamus Networks AB (the former Advantech), AB Traction became the largest owner of Thalamus Networks. Additional investments were also made during the year in Tempelman AS.

Exits

The entire holding in CMA Europe AB was sold during the first quarter. Some shares in AcadeMedia AB and Thalamus Networks AB were sold during the year. Skandinaviska Salutorget AB was declared bankrupt.

Capital Gains

Capital gains were generated primarily through the sale of shares in KM-Lab, which were distributed by KM. Gains were also generated in the sale of shares in AcadeMedia AB and Thalamus Networks AB, and in the sale of the entire holding in CMA Europe AB. The entire holding of shares in Ögonlasern i Stockholm AB and all class B shares in Target Games were sold.

Underwriting of Equity Offerings

AB Traction guaranteed equity offerings in Duroc AB, AcadeMedia AB, Easy T AB and BioPhausia AB during the year.

Other Investments

Investments were also made in Ångpanneföreningen AB, Scandiaconsult AB, Jacobson & Widmark AB and SWECO AB.

Allocation of SPP Funds/Pension Reserves

SPP has allocated just over MSEK 7 to companies in the Traction Group. Traction has an additional MSEK 7 in reserves in its own pension trusts.

Financial Information

Consolidated revenue for 1999 amounted to MSEK 471 (421) ((401)), of which dividends, net capital gains and profit shares in affiliated companies accounted for SEK 78.9 (48.0) ((49.3)). Profit after taxes amounted to MSEK 59.9 (47.7) ((54.1)). The Group's balance sheet total as of year-end was MSEK 549 (482) ((435)).

The proportion of risk-bearing capital increased to 67 percent (67) ((64)) and the hidden reserve, that is, the difference between book value and market value of listed affiliated companies, increased to MSEK 270 (56) ((128)).

Significant Events After Financial Year-end

Traction has made an offer for all outstanding shares of KM at SEK 65 per share. The offer was withdrawn when KM's second largest shareholder declined to accept the offer. Additional shares in AcadeMedia AB and Thalamus Networks AB have been sold. All shares in PC-Card International AB have been sold, as have the remaining shares in Target Games AB. Traction has participated in an equity offering in the British company Mediakey Plc and Traction will underwrite an equity offering in Estinvest. A claim on Biophausia AB has been acquired with the intention of converting same to equity in the company. Traction has started a new business area, SPP-arbitrage, which will assist companies to extract their claims on SPP quickly.

For further information, refer to www.spp-pengar.nu.

Expected Future Development of the Company

The increase in value of the portfolio of listed securities, together with funds freed up by exits, provide the financial base necessary for continued efforts to add new and interesting projects to the project portfolio and for further development of existing projects. Continued strict application of the Traction method in our projects also augurs for continued growth in value and profitability.

Proposed Allocation of Profit (SEK thousand)

Parent Company

The following amounts are available to the Annual General Meeting:

| | |
|---|----------------|
| Retained earnings | 221,731 |
| Net profit for the year | <u>28,371</u> |
| | 250,102 |
| To be allocated as follows: | |
| Dividend to the shareholders SEK 0.35 per share | 1,984 |
| To be carried forward | <u>248,118</u> |
| | 250,102 |

Group

The Group's unrestricted equity amounts to SEK 244,462 thousand. No allocation to statutory reserves is required. The Parent Company's and the Group's results and financial position are presented in the following income statements and balance sheets, cash flow analysis and notes to the financial statements.

INCOME STATEMENTS

Amounts in SEK thousand

| | Note | 1999 | Group 1998 | 1997 | 1999 | Parent Company 1998 | 1997 |
|---|------|-----------------|-----------------|-----------------|----------------|------------------------|----------------|
| OPERATING REVENUE | 3 | | | | | | |
| Net revenues | 2 | 388 296 | 366 388 | 317 278 | - | 2 | 43 |
| Other operating revenue | | 4 010 | 6 892 | 34 203 | - | - | - |
| Dividends from subsidiaries | | - | - | - | - | - | 143 303 |
| Other dividend income | | - | 223 | 7 208 | - | 223 | 2 |
| Net capital gains | | 70 633 | 46 827 | 43 529 | 65 284 | 8 689 | 25 687 |
| Shares in profit of affiliated companies | 4 | 8 268 | 993 | -1 419 | - | - | - |
| Total operating revenues | | 471 207 | 421 323 | 400 799 | 65 284 | 8 914 | 169 035 |
| OPERATING EXPENSE | 3 | | | | | | |
| Raw materials and consumables | | -245 639 | -132 907 | -168 779 | - | - | - |
| Goods for resale | | -152 | -20 110 | -1 114 | - | - | - |
| Change in inventory of work in progress, finished goods and work in progress for others | | 807 | -16 498 | 2 769 | - | - | - |
| Other external costs | 5 | -45 981 | -90 265 | -82 370 | -561 | -485 | -1 146 |
| Personnel expense | 6, 7 | -101 853 | -106 074 | -87 439 | - | - | - |
| Depreciation and amortization | | -16 297 | -9 669 | -5 098 | -29 500 | -22 000 | - |
| Other operating expenses | | -1 074 | -617 | -2 197 | - | -26 | - |
| Total operating expenses | | -410 189 | -376 140 | -344 228 | -30 061 | -22 511 | -1 146 |
| Operating profit | | 61 018 | 45 183 | 56 571 | 35 223 | -13 597 | 167 889 |
| RESULT OF FINANCIAL INVESTMENTS | | | | | | | |
| Other interest income and similar items | | 5 151 | 6 263 | 7 556 | 81 | 1 190 | 766 |
| Interest expense to Group companies | | - | - | - | -6 933 | -6 517 | -3 937 |
| Other interest expense and similar items | | -5 202 | -2 773 | -9 321 | - | - | - |
| | | -51 | 3 490 | -1 765 | -6 852 | -5 327 | -3 171 |
| Profit after financial items | | 60 967 | 48 673 | 54 806 | 28 371 | -18 924 | 164 718 |
| YEAR-END APPROPRIATIONS | | | | | | | |
| Group contribution | | - | - | - | - | - | 1 608 |
| Profit before taxes | | 60 967 | 48 673 | 54 806 | 28 371 | -18 924 | 166 326 |
| Taxes on the year's profit | 8 | -675 | -1 100 | -661 | - | - | - |
| Minority interest | | -434 | 107 | - | - | - | - |
| NET PROFIT FOR THE YEAR | | 59 858 | 47 680 | 54 145 | 28 371 | -18 924 | 166 326 |

BALANCE SHEETS

Amounts in SEK thousand

| | Note | 1999 | Group 1998 | 1997 | 1999 | Parent Company 1998 | 1997 |
|---|------|----------------|----------------|----------------|----------------|------------------------|----------------|
| ASSETS | | | | | | | |
| Fixed assets | | | | | | | |
| INTANGIBLE FIXED ASSETS | | | | | | | |
| Capitalized development expense | | - | - | 56 | - | - | - |
| Goodwill | | 2 168 | 924 | - | - | - | - |
| | | 2 168 | 924 | 56 | - | - | - |
| TANGIBLE FIXED ASSETS | | | | | | | |
| Buildings and land | 9 | 9 629 | 10 000 | 10 372 | - | - | - |
| Plant and machinery | 10 | 33 260 | 37 739 | 4 130 | - | - | - |
| Equipment, tools, fixtures and fittings | 11 | 4 705 | 2 223 | 6 277 | - | - | - |
| | | 47 594 | 49 962 | 20 779 | - | - | - |
| FINANCIAL ASSETS | | | | | | | |
| Shares in subsidiaries | 12 | - | - | - | 172 512 | 161 843 | 167 255 |
| Shares in affiliated companies | 13 | 163 243 | 107 316 | 139 394 | 234 246 | 194 830 | 270 267 |
| Other listed holdings | 14 | 15 022 | 20 620 | - | 15 022 | 26 203 | - |
| Other long-term securities holdings | 15 | 4 852 | 16 640 | 22 255 | 20 | 12 132 | 18 135 |
| Other long-term receivables | | 991 | 2 196 | 2 274 | - | - | - |
| | | 184 108 | 146 772 | 163 923 | 421 800 | 395 008 | 455 657 |
| Total fixed assets | | 233 870 | 197 658 | 184 758 | 421 800 | 395 008 | 455 657 |
| Current assets | | | | | | | |
| INVENTORIES | | | | | | | |
| Raw materials and consumables | | 33 508 | 21 280 | 33 462 | - | - | - |
| Work in progress | | 12 719 | 33 262 | 24 612 | - | - | - |
| Finished products and goods for resale | | 34 659 | 39 833 | 19 835 | - | - | - |
| Advance payments to suppliers | | 3 858 | 7 885 | 3 099 | - | - | - |
| | | 84 744 | 102 260 | 81 008 | - | - | - |
| SHORT-TERM RECEIVABLES | | | | | | | |
| Accounts receivable | | 99 449 | 88 456 | 63 704 | - | - | 6 |
| Due from Group companies | | - | - | - | 100 | - | 1 608 |
| Due from affiliated companies | | 9 512 | 36 328 | 9 098 | 95 | - | - |
| Tax claims | | 213 | 3 500 | 5 365 | - | - | - |
| Other receivables | | 16 386 | 12 467 | 8 920 | 3 421 | 1 898 | 1 |
| Prepaid expenses and accrued income | 16 | 12 595 | 7 882 | 4 355 | - | 669 | - |
| | | 138 155 | 148 633 | 91 442 | 3 616 | 2 567 | 1 615 |
| SHORT-TERM INVESTMENTS | 17 | 44 824 | - | 29 526 | 47 704 | - | 29 526 |
| CASH AND BANK DEPOSITS | | 46 912 | 33 594 | 48 661 | 13 567 | 1 711 | 25 131 |
| Total current assets | | 314 635 | 284 487 | 250 637 | 64 887 | 4 278 | 56 272 |
| TOTAL ASSETS | | 548 505 | 482 145 | 435 395 | 486 687 | 399 286 | 511 929 |

BALANCE SHEETS

Amounts in SEK thousand

| | Note | 1999 | Group 1998 | 1997 | 1999 | Parent Company 1998 | 1997 |
|---|--------|----------------|----------------|----------------|----------------|------------------------|----------------|
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | | | | | |
| Equity | 18, 19 | | | | | | |
| RESTRICTED EQUITY | | | | | | | |
| Share capital | | 5 670 | 5 670 | 5 670 | 5 670 | 5 670 | 5 670 |
| Premium reserve | | - | - | - | 88 676 | 88 676 | 88 676 |
| Legal reserve | | - | - | - | 982 | 982 | 982 |
| Restricted reserves | | 110 922 | 110 922 | 110 922 | - | - | - |
| | | 116 592 | 116 592 | 116 592 | 95 328 | 95 328 | 95 328 |
| NON-RESTRICTED EQUITY | | | | | | | |
| Non-restricted reserves | | 184 604 | 140 893 | 86 748 | 221 731 | 244 624 | 78 298 |
| Net profit for the year | | 59 858 | 47 680 | 54 145 | 28 371 | -18 924 | 166 326 |
| | | 244 462 | 188 573 | 140 893 | 250 102 | 225 700 | 244 624 |
| Total equity | | 361 054 | 305 165 | 257 485 | 345 430 | 321 028 | 339 952 |
| Minority interest | | | | | | | |
| | | 5 569 | 2 128 | 3 000 | - | - | - |
| | | 5 569 | 2 128 | 3 000 | - | - | - |
| Provisions | | | | | | | |
| PRI pensions | | - | - | 210 | - | - | - |
| Taxes | | 1 095 | 2 095 | 1 936 | - | - | - |
| Restructuring reserve | | 1 000 | 11 002 | 13 474 | - | - | - |
| | | 2 095 | 13 097 | 15 620 | - | - | - |
| Long-term liabilities | | | | | | | |
| Committed credit facility | 20 | 29 715 | 24 727 | 20 765 | - | - | - |
| Due to credit institutions | | 12 912 | 18 945 | 17 925 | - | - | - |
| Profit sharing loan | | 144 | 4 140 | 4 140 | - | - | - |
| Other long-term liabilities | | - | 750 | 22 | - | - | - |
| | | 42 771 | 48 562 | 42 852 | - | - | - |
| Current liabilities | | | | | | | |
| Due to credit institutions | | 20 109 | 12 085 | 3 744 | - | - | - |
| Advance payments from customers | | 19 198 | 25 293 | 20 894 | - | - | - |
| Accounts payable | | 48 085 | 48 714 | 41 991 | - | - | 4 |
| Due to Group companies | | - | - | - | 127 241 | 78 258 | 155 907 |
| Due to affiliated companies | | 300 | 705 | - | 216 | - | - |
| Other liabilities | | 27 180 | 11 056 | 34 316 | 13 800 | - | 16 064 |
| Accrued expenses and prepaid income | 21 | 22 144 | 15 340 | 15 493 | - | - | 2 |
| | | 137 016 | 113 193 | 116 438 | 141 257 | 78 258 | 171 977 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 548 505 | 482 145 | 435 395 | 486 687 | 399 286 | 511 929 |
| Pledged assets | | | | | | | |
| | 22 | 69 806 | 57 436 | 49 393 | Inga | Inga | Inga |
| Contingent liabilities | | | | | | | |
| | 22 | 51 978 | 61 494 | 9 289 | 33 195 | 23 195 | 2 448 |

CASH FLOW ANALYSIS

Amounts in SEK thousand

| | Group | | | Parent Company | | |
|--|----------------|----------------|----------------|----------------|---------------|-----------------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Sources of funds | | | | | | |
| FUNDS GENERATED INTERNALLY | | | | | | |
| Profit before taxes | 60 533 | 48 780 | 54 806 | 28 371 | -18 924 | 164 718 |
| Depreciation and amortization charged to this result | 16 297 | 9 669 | 5 098 | 29 500 | 22 000 | - |
| Taxes | -675 | -1 100 | -661 | - | - | - |
| Total funds generated internally | 76 155 | 57 349 | 59 243 | 57 871 | 3 076 | 164 718 |
| EXTERNAL SOURCES OF FUNDS | | | | | | |
| Group contributions received | - | - | - | - | - | 1 608 |
| Sales of fixed assets | - | 17 073 | 435 | - | 38 649 | - |
| Equity offerings | - | - | 89 746 | - | - | 89 746 |
| Decrease in long-term receivables | 1 205 | 78 | - | - | - | - |
| Increase in long-term liabilities | - | 5 710 | 40 604 | - | - | - |
| Increase in risk capital under management | - | - | 16 474 | - | - | - |
| Total external sources of funds | 1 205 | 22 861 | 147 259 | - | 38 649 | 91 354 |
| Total sources of funds | 77 360 | 80 210 | 206 502 | 57 871 | 41 725 | 256 072 |
| Application of funds | | | | | | |
| Investments in intangible fixed assets | -1 244 | -868 | - | - | - | - |
| Investments in tangible fixed assets | -13 929 | -38 852 | -16 109 | - | - | - |
| Investments in financial assets | -38 541 | - | -52 034 | -56 292 | - | -377 552 |
| Increase in long-term receivables | - | - | -2 274 | - | - | - |
| Decrease in long-term liabilities | -5 791 | - | - | - | - | - |
| Decrease in risk capital under management | -7 561 | -3 395 | - | - | - | - |
| Dividends to shareholders | -3 969 | - | - | -3 969 | - | - |
| Total application of funds | -71 035 | -43 115 | -70 417 | -60 261 | - | -377 552 |
| TOTAL CHANGE IN WORKING CAPITAL | 6 325 | 37 095 | 136 085 | -2 390 | 41 725 | -121 480 |
| SPECIFICATION OF CHANGE WORKING CAPITAL | | | | | | |
| Increase (+)/decrease (-) in inventories | -17 516 | 21 252 | 72 495 | - | - | - |
| Increase (+)/decrease (-) in short-term receivables | -10 478 | 57 191 | 88 088 | 1 049 | 952 | 25 366 |
| Increase (+)/decrease (-) in current liabilities | -23 823 | 3 245 | -40 364 | -62 999 | 93 719 | -171 977 |
| Increase (+)/decrease (-) in cash and bank deposits | 58 142 | -44 593 | 15 866 | 59 560 | -52 946 | 25 131 |
| TOTAL CHANGE IN WORKING CAPITAL | 6 325 | 37 095 | 136 085 | -2 390 | 41 725 | -121 480 |

SUPPLEMENTARY INFORMATION

Note 1: Principles of Accounting and Valuation

General Information

AB Traction's Annual Accounts for 1998 are prepared in accordance with the Annual Accounts Act (1995:1554).

Principles of Consolidation

The consolidated financial statements include AB Traction and companies in which AB Traction, directly or indirectly, owns more than 50 percent of the share capital. The consolidated financial statements are compiled in accordance with recommendation RR1:96 of the Swedish Financial Accounting Standards Council using the purchase method of accounting. Under that method, the assets and liabilities of the acquired company at the time of acquisition are valued to determine their acquisition value in the Group. Any difference between the purchase price and the acquisition value in the Group is reported as goodwill.

The item **Untaxed reserves** is eliminated from the consolidated balance sheet and is split into deferred tax liability and restricted equity. The deferred tax liability is computed using a tax rate of 28 percent. This means that the item **Year-end appropriations** is eliminated from the consolidated statement of income and estimated deferred taxes are charged against the year's result.

The current rate method is used for translation of the accounting records of non-Swedish subsidiaries. This means that all items in the balance sheet are translated using the year-end rate of exchange, while income statement items are translated using the average rate of exchange. Leased object are not reported in accordance with recommendation RR6 by the Traction Holding Group since purchases made after 1996 are immaterial.

Reporting of Affiliated Companies

Shares in affiliated companies are reported according to the equity method. An estimate is made of the amount of positive or negative goodwill in acquired affiliated companies. Such goodwill is amortized over a period of five years against the share in profit from the affiliated company. Retained earnings not paid as dividends are included in consolidated restricted reserves.

Inventories

Inventories are valued at the lower of cost and market, with a requisite deduction for obsolescence.

Fixed Assets/Depreciation and Amortization

Fixed assets are reported at cost with a due reduction for depreciation based on the economic life of the relative assets.

Depreciation/Amortization is Charged at the Following Rates:

| | |
|--|--------|
| Capitalized development expenses | 20% |
| Buildings | 4% |
| Machinery and technical facilities | 10–20% |
| Furniture, fixtures, tools and installations | 20% |

Other Assets and Liabilities

Receivables are carried at their nominal amounts after a deduction for doubtful credits. Other assets and liabilities are valued at cost.

Note 2: Net Sales by Operating Segment and Geographical Area

Net sales by operating segment:

| | 1999 | Group 1998 | 1997 |
|-------------------------------|----------------|----------------|----------------|
| Printing equipment | 300 336 | 292 521 | 243 866 |
| Electronic components | 71 922 | 62 778 | 33 554 |
| Castings | - | - | 31 333 |
| Radio communication equipment | - | - | 145 |
| Other Traction companies | 16 038 | 11 089 | 8 380 |
| | 388 296 | 366 388 | 317 278 |

Net sales by geographic market:

| | 1999 | Group 1998 | 1997 |
|----------------|----------------|----------------|----------------|
| Sweden | 120 062 | 135 111 | 60 229 |
| Rest of Europe | 182 086 | 113 376 | 133 831 |
| Rest of world | 86 148 | 117 901 | 123 218 |
| | 388 296 | 366 388 | 317 278 |

Note 3. Intra-Group Sales

Of the total cost of purchases and revenue from sales, respectively, 17 percent (16) ((20)) of purchase and 17 percent (11) ((13)) of sales have been to other companies in the Group. Transfer prices are equal to market prices.

Note 4. Shares in Profit of Affiliated Companies

| | 1999 | | 1998 | | 1997 | |
|--|--------------|-------------|---------------|---------------|---------------|-------------|
| | Profit | Taxes | Profit | Taxes | Profit | Taxes |
| AcadeMedia AB (publ) | 3 184 | - | 2 500 | - | -931 | - |
| Thalamus Networks AB (publ) (the former Advantech) | -1 406 | - | - | - | - | - |
| Duroc AB (publ) | 177 | - | 263 | - | 1 511 | - |
| Easy T AB (publ) | 7 221 | - | -301 | - | - | - |
| JP Bank AB (publ) | - | - | - | - | -3 250 | - |
| Kjessler & Mannerstråle AB (publ) | 0 | - | - | - | - | - |
| Soneruds Maskin AB (publ) | -356 | - | -507 | - | -622 | - |
| Target Games AB (publ) | - | - | - | - | 0 | - |
| Tempelman AS (subsidiary from 1999) | - | - | -3 797 | - | - | - |
| | 8 820 | - | -1 842 | - | -3 292 | - |
| Other non-listed companies | -552 | -919 | 2 835 | -1 053 | 1 873 | -350 |
| Total | 8 268 | -919 | 993 | -1 053 | -1 419 | -350 |

Shares in profit of affiliated companies are reported gross, not including amortization of goodwill on shares in affiliated companies. Amortization of goodwill on shares in affiliated companies amounts to SEK 5,875 (1,769) ((380)) and is reported in the statement of income as amortization.

Note 5. Fees and Reimbursements to Auditors

| | 1999 |
|----------------------|--------------|
| Parent company | 0 |
| Subsidiaries: | |
| Sweden | 428 |
| Italy | 90 |
| Hong Kong | 57 |
| USA | 100 |
| Germany | 167 |
| Spain | 77 |
| France | 48 |
| Estonia | 88 |
| Group total | 1,055 |

Note 6. Personnel

Average number of employees

| | 1999 | | 1998 | | 1997 | |
|-----------|---------------------|------------|---------------------|------------|---------------------|------------|
| | Number of employees | Male | Number of employees | Male | Number of employees | Male |
| Sweden | 174 | 143 | 183 | 148 | 168 | 141 |
| Italy | 25 | 20 | 28 | 22 | 30 | 26 |
| Hong Kong | 18 | 11 | 16 | 9 | 17 | 10 |
| USA | 15 | 12 | 24 | 21 | 36 | 29 |
| Germany | 12 | 10 | 13 | 11 | 12 | 7 |
| Spain | 8 | 7 | 8 | 7 | 6 | 5 |
| France | 8 | 6 | 7 | 6 | 6 | 5 |
| | 260 | 209 | 279 | 224 | 275 | 223 |

The average number of employees in the Parent Company was 0 (0) ((0)).

Personnel expenses

| | Group | | | Parent Company | | |
|---|----------------|----------------|---------------|----------------|----------|----------|
| | 1999 | 1998 | 1997 | 1999 | 1997 | 1996 |
| WAGES, SALARIES AND OTHER COMPENSATION | | | | | | |
| Presidents and Boards of Directors | 7 443 | 6 854 | 6 473 | - | - | - |
| Other employees | 68 777 | 71 478 | 58 842 | - | - | - |
| Total wages, salaries and other compensation | 76 220 | 78 332 | 65 315 | - | - | - |
| OTHER PERSONNEL, EXPENSES | | | | | | |
| Social benefits | 21 120 | 19 201 | 17 013 | - | - | - |
| Pension costs ¹⁾ | 2 608 | 5 097 | 3 886 | - | - | - |
| Other personnel costs | 1 905 | 3 444 | 1 225 | - | - | - |
| Total other personnel costs | 25 633 | 27 742 | 22 124 | - | - | - |
| Total personnel costs | 101 853 | 106 074 | 87 439 | | | |

¹⁾ Of which to presidents SEK 63,000 (265, 000) ((786,000)).

Note 7. Benefits of Senior Management

Pension costs and liabilities

Pensions benefits are within the limits of the ITP plan. Full provisions have been made through pension funds and insurance. The Parent Company's President has no salary, but will enjoy pension benefits from the Company. Full provisions for this have been made to a pension fund. The Parent Company's Board of Directors receive no compensation.

Severance payments

No agreements for severance payments exist.

Note 8: Taxes

| | Group | | | Parent Company | | |
|----------------|------------|--------------|------------|----------------|------|------|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Current taxes | 1 619 | 1 136 | 625 | - | - | - |
| Deferred taxes | -944 | -36 | 36 | - | - | - |
| | 675 | 1 100 | 661 | - | - | - |

Note 9. Buildings and Land

| | Group | | |
|---|---------------|---------------|---------------|
| | 12/31/99 | 12/31/98 | 12/31/97 |
| Opening balance, cost | 9 291 | 9 291 | 3 715 |
| Purchases | 0 | 0 | 5 576 |
| Closing accumulated cost | 9 291 | 9 291 | 9 291 |
| Opening depreciation | -1 476 | -1 104 | -844 |
| Year's depreciation | -371 | -372 | -260 |
| Closing accumulated depreciation | -1 847 | -1 476 | -1 104 |
| Residual value, Buildings | 7 444 | 7 815 | 8 187 |
| Book value, Land | 2 185 | 2 185 | 2 185 |
| Book value, Buildings and Land | 9 629 | 10 000 | 10 372 |
| Tax assessment values | | | |
| Buildings | 7 292 | 7 292 | 7 292 |
| Land | 2 131 | 2 131 | 2 131 |

Note 10: Plant and Machinery

| | 12/31/99 | Group 12/31/98 | 12/31/97 |
|---|----------------|-------------------|----------------|
| Opening balance, cost | 84 248 | 17 365 | 15 695 |
| Via acquisitions, etc. | - | 83 625 | - |
| Purchases | 4 073 | 70 | 1 787 |
| Sales | -1 139 | -16 812 | -117 |
| Closing accumulated cost | 87 182 | 84 248 | 17 365 |
| Opening depreciation | -46 509 | -13 235 | -11 552 |
| Via acquisitions, etc. | - | -42 816 | - |
| Sales/restructuring, etc. | 890 | 13 926 | 76 |
| Year's depreciation | -8 303 | -4 384 | -1 759 |
| Closing accumulated amortization | -53 922 | -46 509 | -13 235 |
| Residual value | 33 260 | 37 739 | 4 130 |

Note 11: Equipment, Tools, Fixtures and Fittings

| | 12/31/99 | Group 12/31/98 | 12/31/97 |
|---|---------------|-------------------|----------------|
| Opening balance, cost | 5 059 | 20 859 | 3 524 |
| Via acquisitions, etc. | 651 | 796 | 18 416 |
| Purchases | 3 790 | 1 841 | 3 433 |
| Sales/restructuring, etc. | -650 | -18 437 | -4 514 |
| Closing accumulated cost | 8 850 | 5 059 | 20 859 |
| Opening depreciation | -2 836 | -14 582 | -2 461 |
| Via acquisitions, etc. | -315 | -361 | -13 588 |
| Sales/restructuring, etc. | 434 | 12 792 | 4 147 |
| Year's depreciation | -1 428 | -685 | -2 680 |
| Closing accumulated depreciation | -4 145 | -2 836 | -14 582 |
| Closing residual value | 4 705 | 2 223 | 6 277 |

The Group enjoys the use of machinery, equipment and automobiles at a cost of approximately MSEK 6.5 (7.5) ((7.2)) through leasing contracts as of December 31, 1999.

Note 12: Shares in Subsidiaries

The list below includes all significant shares directly and indirectly owned by the Parent Company.

Shares owned by the Parent Company

| Company | Company no | Domicile | Number of shares | Proportion of capital | Book value in Parent Company |
|---|-------------|-----------|------------------|-----------------------|------------------------------|
| AB Traction Finans | 556113-6838 | Stockholm | 460 000 | 100% | 82 000 |
| Traction Konsult AB | 556098-5672 | Stockholm | 1 000 | 100% | 40 000 |
| Förvaltnings AB Vita | 556234-7285 | Stockholm | 1 250 | 100% | 15 000 |
| Svecia International Equipment AB | 556106-8254 | Botkyrka | 1 000 | 100% | 9 950 |
| Fastighets AB Tofta | 556132-1901 | Stockholm | 5 000 | 100% | 5 800 |
| AB Nya Svenska Järnvägsverkstäderna ASJ | 556248-1282 | Falun | 1 000 | 100% | 1 050 |
| Traction Management Ltd | | Oxford | 1 | 100% | - |
| Tempelman AS | | Tallinn | 1 685 400 | 77% | 12 413 |
| Tolerans Ingol Holding AB | 556504-7999 | Stockholm | 14 160 | 60% | 6 299 |
| | | | | | 172 512 |

Shares owned by subsidiaries

| Company | Company no | Domicile | Number of shares | Proportion of capital |
|--|-------------|-------------|------------------|-----------------------|
| AB Traction Finans | | | | |
| Traction Development AB | 556215-7098 | Stockholm | 550 | 100% |
| Traction Konsult AB | | | | |
| Traction Nouveau AB | 556302-0832 | Stockholm | 1 000 | 100% |
| Förvaltnings AB Vita | | | | |
| Maxitech Elektronik AB | 556215-7346 | Stockholm | 30 000 | 100% |
| Svecia International Equipment AB | | | | |
| Svecia Screen Printing AB | 556536-8676 | Stockholm | 10 000 | 100% |
| Svecia Siebdrucktechnik GmbH | | Germany | 300 000 | 100% |
| Svecia France S.A.R.L. | | France | 1 000 000 | 100% |
| Svecia Industrial System S.R.L. | | Italy | 190 000 000 | 100% |
| Svecia Espana S.A. | | Spain | 10 000 000 | 100% |
| Svecia Siebdruckmaschinen A.G. | | Switzerland | 50 | 100% |
| Svecia East Ltd. | | Hong Kong | 99 999 | 100% |
| Svecia USA Inc. | | USA | 100 | 100% |

Note 13: Shares in Affiliated Companies

| Company/Company no | Domicile | Number of shares | Proportion of capital | Other voting right | Book value Parent Company | Book value Group | Market value (SEK thousand) |
|--|------------|------------------|-----------------------|--------------------|---------------------------|------------------|-----------------------------|
| Listed affiliated companies | | | | | | | |
| Kjessler & Mannerstråle AB (publ) – 556049-7850 | Solna | 1 815 250 | 41% | - | 61 136 | 53 391 | 88 947 |
| Duroc AB (publ) – 556446-4286 | Umeå | 773 788 | 15% | (34%) | 69 001 | 26 488 | 63 451 |
| AcadeMedia AB (publ) – 556057-2850 | Stockholm | 882 997 | 34% ¹⁾ | (36%) | 46 410 | 26 731 | 98 013 |
| Thalamus Networks AB (publ) (former Advantech) – 556394-1987 | Ängelholm | 2 111 316 | 27% ²⁾ | (47%) | 21 701 | 19 782 | 107 677 |
| Easy T AB (publ) – 556549-1650 | Stockholm | 161 786 | 20% | - | 1 045 | 7 877 | 32 357 ³⁾ |
| Soneruds Maskin AB (publ) – 556066-5530 | Hudiksvall | 21 900 | 22% | (30%) | 1 599 | 1 501 | 657 |
| Total listed affiliated companies | | | | | 200 892 | 135 770 | 391 102 |
| Other affiliated companies | | | | | | | |
| Banking Automation Ltd | Reading | 1 288 572 | 49% | - | 10 000 | - | - |
| Fastighets AB Valhalla – 556216-6347 | Eskilstuna | 3 000 | 25% | - | 5 000 | - | - |
| Bricad Holding AB – 556264-6298 | Österåker | 12 000 | 40% | - | 4 800 | - | - |
| Recco AB – 556154-6101 | Stockholm | 349 | 49% | - | 3 508 | - | - |
| PC Card International AB – 556360-3215 | Stockholm | 1 044 000 | 60% ⁶⁾ | - | 2 504 | - | - |
| JalmarssonThias AB – 556253-3231 | Eskilstuna | 375 | 25% | - | 2 500 | - | - |
| Två Ögon AB – 556039-8777 | Stockholm | 1 000 | 100% ⁴⁾ | - | 1 694 | - | - |
| Geodynamik HT AB (publ) – 556189-0871 | Stockholm | 100 000 | 20% | - | 1 000 | - | - |
| Fastighets AB Ornamentik – 556225-3004 | Eskilstuna | 500 | 35% | - | 700 | - | - |
| Signalteknik C. Svensson AB – 556207-1547 | Botkyrka | 666 | 40% | - | 400 | - | - |
| Berg & Hav AB – 556298-2560 | Stockholm | 2 000 | 40% | - | 384 | - | - |
| Promecta Footwear AB – 556446-3759 | Stockholm | 2 000 | 40% | - | 325 | - | - |
| Hagakure Network AB – 556562-8426 | Stockholm | 1 000 | 100% ⁵⁾ | - | 316 | - | - |
| Executive Entertainment Sweden AB – 556239-6787 | Stockholm | 5 000 | 50% | - | 111 | - | - |
| Mobilsystem AB – 556414-5794 | Sollentuna | 500 | 33% | - | 38 | - | - |
| Fastighets AB Silk Screen Company – 556579-3527 | Stockholm | 350 | 35% | - | 37 | - | - |
| Skandinaviska Salu-Torget Försäljn. AB – 556524-6815 | Stockholm | 333 | 33% | - | 29 | - | - |
| MSS Data AB – 556267-3185 | Stockholm | 250 | 25% | - | 8 | - | - |
| MedMera Distribution AB – 556462-0988 | Malmö | 1 050 | 35% | - | 0 | - | - |
| Total other affiliated companies | | | | | 33 354 | 27 473 | |
| Total affiliated companies | | | | | 234 246 | 163 243 | |

1) 127,000 call options for class B shares have been issued, primarily to members of senior management in AcadeMedia AB.

2) 16,000 call options for class B shares have been issued to members of senior management. Other owners hold 200,000 call options for class B shares.

3) Latest issue price in connection with private placement to institutional investors.

4) A call option equivalent to 55 percent of the company has been issued to the company's entrepreneur and President.

5) A call option equivalent to 70 percent of the company has been issued to the company's entrepreneur and President.

6) A call option equivalent to 17 percent of the company has been issued to the company's entrepreneur and President.

Note 14: Other Listed Holdings

| Company | Number of shares | Book value | Book value group | Market value | Proportion of capital |
|---|------------------|---------------|------------------|---------------|-----------------------|
| Biophausia (conv. deb.) SEK Par ¹⁾ | 8 849 000 | 8 849 | 8 849 | 12 830 | ¹⁾ |
| Mediakey Plc | 3 450 000 | 6 173 | 6 173 | 16 008 | 5% |
| Total other holdings | | 15 022 | 15 022 | 28 838 | |

¹⁾Equivalent to 2,082,000 shares upon full conversion. Conversion price: SEK 4.25/share. Proportion of capital is 14 percent upon full conversion.

Note 15: Other Long-term Securities Holdings

| Company | Number of shares | Book value | Market value | Proportion of capital |
|-----------------------------|------------------|--------------|--------------|-----------------------|
| Grafikens Hus AB | 4 | 20 | - | - |
| Parent Company total | 20 | - | - | - |
| Nektar (Hedge fund) | 4 000 000 | 4 832 | 4 832 | |
| Group total | | 4 832 | 4 832 | |

Note 16: Prepaid Expenses and Accrued Income

| | Group | | | Parent Company | | |
|------------------|---------------|--------------|--------------|----------------|------------|----------|
| | 12/31/99 | 12/31/98 | 12/31/97 | 12/31/99 | 12/31/98 | 12/31/97 |
| Prepaid expenses | 3 612 | 6 669 | 1 950 | - | - | - |
| Accrued income | 8 983 | 1 213 | 2 405 | - | 669 | - |
| | 12 595 | 7 882 | 4 355 | - | 669 | - |

Note 17: Short-term Investments

| Company | Number of shares | Number of shares in the Group | Book value | Book value Group | Market value Group | Proportion of capital |
|-------------------------------------|------------------|-------------------------------|---------------|------------------|--------------------|-----------------------|
| Ångpanneföreningen AB, class B | 185 000 | 185 000 | 22 395 | 22 395 | 24 605 | 3% |
| Scandiaconsult AB | 120 000 | 128 000 | 13 125 | 14 029 | 14 080 | 2% |
| Target Games AB, class A | 331 500 | 331 500 | 6 630 | 2 232 | 696 | 5% |
| Jacobson & Widmark AB | 50 100 | 53 100 | 4 896 | 5 210 | 5 310 | 1% |
| SWECO AB, class B | 13 000 | 13 500 | 658 | 687 | 878 | - |
| Estico AS | - | 118 500 | - | 216 | 216 | - |
| Tallinn Farmaceuticals AS | - | 7 200 | - | 55 | 55 | - |
| Total short-term investments | | | 47 704 | 44 824 | 45 840 | |

Note 18: Shareholders' Equity – Group

| | Share capital | Restricted reserves | Non-restricted equity |
|--|---------------|---------------------|-----------------------|
| 1999 | | | |
| Opening balance | 5 670 | 110 922 | 188 573 |
| Dividend | | | -3 969 |
| Transfer between restricted and non-restricted capital | - | - | - |
| Net profit for the year | | | 59 858 |
| Closing balance | 5 670 | 110 922 | 244 462 |

| | Share capital | Restricted reserves | Non-restricted equity |
|--|---------------|---------------------|-----------------------|
| 1998 | | | |
| Opening balance | 5 670 | 110 922 | 140 893 |
| Transfer between restricted and non-restricted capital | - | - | - |
| Net profit for the year | | | 47 680 |
| Closing balance | 5 670 | 110 922 | 188 573 |

| | Share capital | Restricted reserves | Non-restricted equity |
|--|---------------|---------------------|-----------------------|
| 1997 | | | |
| Opening balance | 4 600 | 8 897 | 100 097 |
| Rights issue | 1 070 | 88 676 | 0 |
| Transfer between restricted and non-restricted capital | - | 13 349 | -13 349 |
| Net profit for the year | | | 54 145 |
| Closing balance | 5 670 | 110 922 | 140 893 |

Note 19: Shareholders Equity – Parent Company

As of December 31, 1999 the share capital amounted to SEK 5,670,000 divided into 1,000,000 class A shares and 4,670,000 class B shares (total number 5,670,000) SEK 1.00 par value each.

| | Share capital | Premium reserve | Legal reserve | Non-restricted equity |
|-------------------------|---------------|-----------------|---------------|-----------------------|
| Opening balance | 5 670 | 88 676 | 982 | 225 700 |
| Dividend | | | | -3 969 |
| Net profit for the year | | | | 28 371 |
| Closing balance | 5 670 | 88 676 | 982 | 250 102 |

Note 20. Committed Credit Facility

The approved limit for the Group amounts to SEK 35,628,000 (33,911,000) ((30,170,000)). Parent Company 0 (0) ((0)).

Note 21. Accrued Expenses and Prepaid Income

| | 12/31/99 | Group 12/31/98 | 12/31/97 |
|------------------|---------------|-------------------|---------------|
| Accrued expenses | 16 116 | 15 282 | 15 491 |
| Prepaid income | 6 028 | 58 | 2 |
| | 22 144 | 15 340 | 15 493 |

Note 22: Pledged Assets, Contingent Liabilities

| | Group | | | Parent Company | | |
|--|---------------|---------------|---------------|----------------|------|------|
| Pledged assets | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| For liabilities to credit institutions | | | | | | |
| Corporate mortgages | 45 110 | 49 856 | 42 000 | - | - | - |
| Real estate mortgages | 5 500 | 5 500 | - | - | - | - |
| Deposits | - | 1 530 | 1 522 | - | - | - |
| Letter of credit | 10 000 | - | - | - | - | - |
| For pension liability and other liabilities | | | | | | |
| Corporate mortgages | 550 | 550 | 500 | - | - | - |
| For supplier guaranty | | | | | | |
| Corporate mortgages | 8 646 | - | - | - | - | - |
| Escrow funds | - | - | 5 371 | - | - | - |
| | 69 806 | 57 436 | 49 393 | - | - | - |

| | Group | | | Parent Company | | |
|---|---------------|---------------|--------------|----------------|---------------|--------------|
| Contingent liabilities | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| Guaranties | 3 588 | 3 401 | 1 268 | 33 195 | 23 195 | 2 448 |
| Sureties | 1 772 | - | 290 | - | - | - |
| SPP, FPG, PRI | - | - | 6 | - | - | - |
| Advance settlement in bankruptcy and disputes | 46 618 | 58 093 | 7 725 | - | - | - |
| | 51 978 | 61 494 | 9 289 | 33 195 | 23 195 | 2 448 |

Stockholm, February 28, 2000

Bengt Stillström
President and CEO

Mats Olsson

Bengt-Arne Vedin

Petter Stillström

My audit report with respect to this Annual Report was submitted February 28, 2000.

Anders Roos
Authorized Public Accountant

AUDIT REPORT

To the Annual General Meeting of Shareholders of AB Traction (publ), Company number 556029-8654

I have examined the Annual Accounts, the consolidated financial statements, the accounting records and the management by the Board of Directors and the President of AB Traction for 1999. Responsibility for the accounting records and management rests with the Board of Directors and the President. My responsibility is to render my opinion on the Annual Accounts, the consolidated financial statements and the management based on my audit.

The audit has been performed in accordance with generally accepted auditing standards in Sweden. This means that I have planned and performed the audit in such a way as to get reasonable assurance that the Annual Accounts and the consolidated financial statements contain no material errors. The audit procedure includes examination of a sample of supporting documentation for amounts and other information in the accounting records. An audit also includes a test of the accounting principles, and the Board of Director's and management's application thereof, and forming an opinion of the aggregate information contained in the Annual Report and the consolidated financial statements. As a basis for my statement with respect to discharge from liability, I have examined significant decisions, actions and circumstances in the company to allow me to form an opinion as to whether any Director or the President is liable for damages to the company.

I have also examined whether any member of the Board of Directors or the President in any other way has acted contrary to the Companies Act, the Annual Accounts Act or the Articles of Association. I am of the opinion that my audit gives me a reasonable ground for my statements below.

The Annual Accounts and the consolidated financial statements are prepared in accordance with the Annual Accounts Act and therefore provide a fair representation of the Company's and the Group's results and financial position in accordance with generally accepted accounting standards in Sweden.

I therefore recommend that the Annual General Meeting adopts the statement of income and the balance sheet for the Parent Company and the Group, that the profit in the Parent Company be allocated in accordance with the recommendation contained in the Administration Report and that the members of the Board of Directors and the President be granted discharge from liability for the financial year.

Stockholm, February 28, 2000

Anders Roos
Certified Public Accountant

ADDRESSES

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