



## **Interim Report from TurnIT AB**

JANUARY - AUGUST 2000

**4 October 2000**

This interim report is a supplement to TurnIT's ordinary interim reports, and has been drawn up in consequence of TurnIT's offer for the shares in Arete. Where appropriate, this report should be read in conjunction with TurnIT's half-yearly report, with respect, for example, to previous report periods.

# **Continued growth and increasing shareholder value**

- Sales were SEK 928.3 million
- Operating profit (EBITA) <sup>1</sup> reached SEK 119.5 million
- Operating margin was 12.9 percent
- Profit after financial items amounted to SEK 65.7 million
- Earnings per share after full tax amounted to SEK 3.52
- Cash flow per share<sup>2</sup> was SEK 5.80
- Public offer to Arete shareholders
- TurnIT Communication is building Europe's largest private residential network
- TurnIT Consulting signs master agreement with FMV
- Preparations for initial public offering of TurnIT Development continue
- Operating profit for 2000 will be substantially above the figure for the preceding year

This interim report has been drawn up for the period from 1 January 2000 until the end of August 2000. TurnIT's earnings are largely dependent on the consultants' invoicing. The number of consultants represents about 60 percent of all employees, and this reduces profitability for this period, which includes a large proportion of holidays. Despite this, growth continued to be impressive, and TurnIT's operating profit has grown in line with the Group's strategy. Through strategic acquisitions of growth companies, TurnIT has built up a balanced Group, with seventeen IT companies in five different business areas, as well as a development company. The operation has been refined into clear business areas to create competitive units within the framework of TurnIT's IT partner concept and to establish a stable and sustainable high level of profit.

Since the first build-up stage is complete, the Group's companies can now be divided into three different categories: a profit-generating base, a development company and innovation companies. The strategy is to generate the Group's operating profit in day-to-day operations and from realising development gains through floating or selling Group companies. This gives growth companies in the TurnIT Group access to external capital through wider ownership, which strengthens the companies, while TurnIT benefits from the development gains. The companies can remain with TurnIT as majority owner – and so participate in the Group's IT partner concept – or be sold to enable them to develop in a new environment.

The widening of ownership in IAR Systems is an example of TurnIT's strategy. The new stage which TurnIT entered this year will establish the Group's operating profit at a stable level with high growth, and this will provide the opportunity for substantial strategic investments in both new and existing companies, through "matching". The aim is to create a relatively smooth profits growth. Up to the end of August 2000, a number of major investments were carried out, and these have been charged to the income statement.

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

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



Market trends have been affected by the fact that orders for major consultancy assignments have increased, and that a growing number of clients prefer to sign master agreements with a limited number of suppliers of consultancy services. Orders for system integration solutions and broadband connections have increased, while demand in the business areas Supplies, Software and Outsourcing has grown at the normal rate.

Sales in the first eight months of the year have developed largely as expected, and net sales up to the end of August increased to SEK 928.3 million. Operating profits amounted to SEK 119.5 million, and operating margin to 12.9 percent. SEK 22.8 million has been charged to operating profit for restructuring in the ID Network during the first eight months, Profit before tax amounted to SEK 66.4 million. Profit after estimated tax was SEK 60.3 million.

During the period of the report, TurnIT received notification from SPP of the return of pension funds. SEK 10.2 of this appears in the results.

## ***Operating trends***

### **TurnIT Supplies**

At TurnIT Supplies, trends in income and profits have been excellent. Sales increased to SEK 262.2 million, and operating profit amounted to SEK 34.8 million. Close-down costs of SEK 3 million for that part of Transnordic's business which has not been transferred to Insert have been charged against profits.

Within TurnIT Supplies, SweDeltaco and Network Innovation have returned excellent growth. Efficiency has increased since distribution has been co-ordinated through joint warehousing and administration. LAC's sales in the component market, which is experiencing excess demand, continue to increase. Insert is being restructured after the integration of part of the operation from Transnordic.

### **TurnIT Software**

At TurnIT Software, a number of strategic development investments have made their mark on both sales and operating profit. Sales amounted to SEK 140.4 million, and operating profit to SEK 86.4 million.

The innovation companies grew strongly during the period. The results of CityData's agreement with IBM on the bundling of the document handling program, Conisio, are showing through, and an increasing number of licences are being sold in Sweden. The agreement with IBM has been approved in the USA, and this may also lead to a sale abroad. Innovative IT is enjoying rapidly increasing demand for its load simulation product, Pureload, including from foreign financial institutions. IAR is investing to expand on several markets, and has been appointed by Microsoft as a Windows CE systemsintegrator.

### **TurnIT Communication**

Sales amounted to SEK 171.8 million. Increased competition and strategic investments during the period have reduced operating margins, but a definite improvement became apparent during the second half-year.

Fiberdata operates both as a systems integrator and a supplier of broadband services, through its subsidiary, Broadway. The market for broadband in urban networks and for systems integration has begun to take off, and Fiberdata has won several major procurement orders during the period. The latest large project was the procurement of Europe's largest private residential network, in Malmö for MKB. Fiberdata has also acquired a Norwegian company, ITR A/S. Demand for Reta's services has also increased, and a number of investments are in process of being made in telecoms and data systems integration.

### **TurnIT Consulting**



TurnIT Consulting's operations in Sweden have been affected by the general downturn in demand for expert consultancy. Some strategic investments have also affected profits. Sales amounted to SEK 217.4 million, and operating profit to SEK 5.5 million.

A number of major master agreements were signed during the period, and demand for expert consultants has increased. Greater co-ordination has improved the allocation of expertise, and the Swedish consultancy companies have jointly improved their delivery capabilities. The Norwegian subsidiary, Computas, is preparing to continue its expansion in Scandinavia, and during the period, the number of staff employed by the company rose by 20.

### **TurnIT Outsourcing**

TurnIT Outsourcing has seen the largest investment over the period, and this has affected results. Sales fell to SEK 136.5 million, and there was an operating loss of SEK 1.7 million. The results include restructuring costs of SEK 22.8 million.

Profitability in the Outsourcing operation depends on developing a more cost-effective service, through re-orientating the business towards the provision of ASP (Application Service Provider) services. Within Outsourcing, Telenor's Swedish IT operation was acquired at the beginning of June, and the intention is to integrate this operation with ID Network to create a leading ASP.

Svenska PA continues to report excellent growth, and has, for example, signed an agreement with Skanska.

### **TurnIT Development**

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

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

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

### **Widened ownership in IAR**

The widening of ownership in IAR was carried through successfully during the second quarter. The issue provided IAR with SEK 120 million in new equity, before deducting the expenses of the issue, and improved consolidated profits by SEK 83.5 million.

### **Intellectual Capital**

Intellectual capital is an essential prerequisite for TurnIT's earnings, and it is through maintaining and developing this capital that the rapid growth of recent years has been possible.

The book value of intellectual capital in the Group amounted at the close of the period to SEK 937.9 million. Compared with 31 December 1999, the increase was SEK 177 million (23 percent). During the report period, a charge of SEK 10 million was made to profits for a write down of intellectual capital relating to the Transnordic operation due to the gradual liquidation of the business.

TurnIT focuses on growth in operating profit, and measures profit at the stage before depreciation on Intellectual Capital. This amounts to SEK 41.0 million for the period (including the above-mentioned write down of SEK 10 million). In assessing the value of Intellectual Capital, it can be pointed out that since the flotation of IAR, the market value of TurnIT's surplus value in IAR comfortably exceeds the book value of the Group's total intellectual capital, i.e. taking into account all Group companies.



## **Financing**

The Group's financial situation remains excellent. During the period, a new share issue was made, based on outstanding options. As a result, the number of shares has increased by 477,703, and equity by SEK 34.1 million. The number of registered shares as at 31/8 2000 amounted to 17,292,794.

During the period, the Group's interest bearing liabilities increased by SEK 134.5 million, primarily as a result of the increase in long-term liabilities in connection with corporate and property acquisitions.

Equity on 31 August amounted to SEK 955.2 million, and equity per share to SEK 55.24. Cash flow per share was SEK 5.80, and earnings per share were SEK 3.52 (after estimated tax).

The Group is well-prepared for acquisitions, with SEK 181 million in cash, SEK 26.5 million in acquisition credit granted but not utilised, as well as the option of issuing the remaining 1,318,000 B-shares authorised by the General Meeting on 4 April. The proportion of borrowed capital in relation to the balance sheet total as at 31 August was 22 percent, which is slightly above the Group's target of 20 percent.

## **Investment**

Investment for the year in corporate acquisitions amounts to SEK 230 million. Of this, SEK 82 million was financed through the issue of shares in TurnIT, and SEK 100 million through borrowing. Over and above this, an additional purchase sum of SEK 38 million was paid out in connection with acquisitions made previously. In addition, TurnIT Development has made minority investments of a further SEK 20 million during the report period, and overall, SEK 26 million has been invested.

Investment in tangible assets amounts to SEK 53 million, of which SEK 27 million relates to a property investment. Investment in intangible assets other than intellectual capital (in licences and rights) totalled SEK 12 million.

## **Personnel**

At the close of the report period, 1,163 persons were employed. On 31/12 1999, there were 906 employees. The average number of employees during the period of the report was 1,028. For the full year 1999, the average number of employees was 811.

In accordance with a resolution of the Annual General Meeting, an incentive scheme has been introduced. A total of 273,775 options had been issued as at 30 June, and since then, 2,650 options have been issued to new employees. The scheme will run for five years, with the right of redemption after three years at a redemption price equivalent to SEK 209.40 per share. The scheme has been hedged through an equity swap.

## **The Parent Company**

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

## **Public offer to Arete shareholders**

On 13 September, the Board of Directors resolved to make a public offer to Arete's shareholders and to the holders of options for 1999/2002 and 2000/2003 issued by Arete. The period of application runs from 9 October until 30 October 2000.

## **Other events after the close of the report period**

Fiberdata has signed an agreement with the Municipality of Norrtälje for systems integration services and broadband connection, as well as for a link to the Åland islands. Fiberdata has also acquired the



Norwegian firm, ITR A/S. The Board has resolved to limit the new issue announced on 13 September 2000 to 82,000 B-shares. The issue is directed at institutional investors, at an average price of about SEK 195.

Retea has signed a master agreement with FMV covering about 60,000 hours.

## The Future

The excellent profit trends provide a solid basis for investment and development projects in the subsidiary companies. With the offer to the shareholders and option holders in Arete, TurnIT has taken a major step in the restructuring of the consultancy sector, and the market outlook for the fourth quarter of 2000 and the coming year is now highly favourable.

TurnIT intends to develop further its operations in areas such as ASP, software for global markets and communications solutions, and the Group is very interested in rounding off the operations in TurnIT Communication through new acquisitions.

Over the next year, TurnIT intends to float at least one additional company, although other companies may also be considered for flotation, depending on their progress.

TurnIT views its holding in IAR Systems as long term, but does intend to reduce its holding at some time in the future, which, depending on IAR's opportunities for development, should not exceed 50 percent of the capital and voting rights in the company. During the period, a small block of shares in IAR was sold. The date and method of the reduction in the shareholding will depend on the general market situation.

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

TurnIT AB  
Peter Enström, VD

## Future financial information from TurnIT

Prospectus relating to the offer to Arete's shareholders and the holders of options issued by Arete

4 October -00

Extraordinary General Meeting in connection with the offer for Arete

18 October -00

Quarterly report January – September

6 November -00

Year-end report 2000

20 February -01

## Review report

We have reviewed this interim report in accordance with the recommendations issued by the Swedish Institute of Authorized Public Accountants. A review is considerably more limited than an audit.

Nothing has emerged to suggest that the interim report does not fulfil the requirements laid down in the Annual Accounts Act.

Stockholm 4 October 2000

Anders Malmeby  
Authorized Public Accountant, KPMG

Carl Lindgren  
Authorized Public Accountant, KPMG



### Netsales

	<u>Supplies</u>		<u>Software</u>		<u>Communi- cation</u>		<u>Consulting</u>		<u>Outsourcing</u>		<u>Joint Group</u>		<u>Total</u>	
	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%
1997	136.9	35	107.6	28	108.6	28	32.9	9					386.0	100
1998	222.5	28	132.9	16	135.6	17	165.5	21	145.4	18			801.9	100
1999	303.1	25	205.6	17	205.5	17	293.3	24	202.7	17			1,210.2	100
Q1/2000	104.7	30	58.6	17	54.7	16	86.5	25	40.0	12			344.6	100
Q1+Q2/2000	198.7	28	120.9	17	123.7	18	171.0	24	91.9	13			706.1	100
Jan-aug 2000	262.2	28	140.4	15	171.8	19	217.4	23	136.5	15			928.3	100

### Operating profit (EBITA)

	<u>Supplies</u>		<u>Software</u>		<u>Communi- cation</u>		<u>Consulting</u>		<u>Outsourcing</u>		<u>Joint Group</u>		<u>Total</u>	
	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%	MSEK	%
1997	27.4	62	9.1	21	9.1	21	3.8	9			-5.1	-12	44.3	100
1998	33.3	42	11.6	14	20.5	26	13.3	17	11.6	14	-10.1	-13	80.2	100
1999	46.0	34	20.9	16	19.8	15	19.7	15	32.8	25	-5.5	-4	133.7	100
Q1/2000	15.1	73	1.1	5	2.4	11	9.2	45	-4.7	-23	-2.5	-12	20.6	100
Q1+Q2/2000	25.0	21	85.6	72	7.6	6	12.8	11	-0.6	-1	-12.1	-10	118.3	100
Jan-aug 2000	34.8	29	86.4	72	9.4	8	5.5	5	-1.7	-1	-14.9	-12	119.5	100



## Income Statement

	1.1-31.8 2000
<i>Amounts in SEK million</i>	
Net sales	928.3
Cost of goods sold	-690.3
<b>Gross profit</b>	<b>238.0</b>
Sales expenses	-141.4
Administrative expenses	-84.8
Other operating income <sup>1)</sup>	108.4
Other operating expenses	-0.7
<b>Operating profit before depreciation on Intellectual Capital/goodwill (EBITA) <sup>2)</sup></b>	<b>119.5</b>
Depreciation on intellectual capital/goodwill <sup>3)</sup>	-41.0
<b>Operating profit after depreciation on intellectual Capital/goodwill</b>	<b>78.5</b>
<b>Profit / loss from financial items</b>	
Participation in associated companies	-0.7
Other interest income and similar profit/loss items	5.7
Interest expense and similar profit/loss items	-17.8
<b>Profit after financial items</b>	<b>65.7</b>
Minority shareholding	0.7
<b>Profit before tax</b>	<b>66.4</b>
Tax	-6.1 <sup>4)</sup>
<b>Profit after tax</b>	<b>60.3</b>

- 1) During the period, SEK 10.2 million of SPP funds has been taken up as income, as has SEK 83.5 million resulting from the issue of shares in IAR, as well as SEK 10.1 million.
- 2) TurnIT defines operating profit as Operating profit after depreciation on tangible assets but before depreciation on intangible assets (EBITA)
- 3) Intellectual capital in Transnordic has been depreciated by SEK 10 million
- 4) Refers to estimated tax

**Balance sheet**

31 August 2000

*Amount in SEK million***ASSETS****Fixed assets***Intangible assets* 951.5*Tangible assets* 111.4*Financial assets* 46.1**Total fixed assets** **1 109.0****Current assets***Other current assets* 454.5*Cash and bank balances* 181.1**Total current assets** **635.6****TOTAL ASSETS** **1 744.6****EQUITY AND LIABILITIES***Equity* 955.2*Minority shareholding* 36.8*Provisions* 9.7*Long-term liabilities* 311.4*Current liabilities* 431.5**TOTAL EQUITY AND LIABILITIES** **1 744.6**



## Cash flow report

*Amount in SEK million*

*1 January –  
31 August  
2000*

Cash flow from day-to-day operations before changes in working capital	10
Changes in working capital	<u>-32.8</u>
<b>Cash flow from day-to-day operations</b>	<b>-22.8</b>
<b>Cash flow from investment operations</b>	<b>-239.1</b>
<b>Cash flow from finance operations</b>	<b><u>293.8</u></b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>31.9</b>
Liquid funds at start of period	149.2
Exchange rate difference in liquid funds	0.0
Liquid funds at end of period	181.1

## Changes in equity

	Equity SEK million	Number of shares
Balance brought forward 1/1 1999	777.5	16 335 196
New share issue in progress on 1/1 2000		126 895
Redemption of options	34.1	477 703
Non-cash issue	62.9	253 000
Cash issue	19.1	100 000
Options liquidity in subsidiaries	2.1	
Translation differences	- 0.8	
Profit for the period	<u>60.3</u>	
<b>Balance carried forward 30/6 2000</b>	<b>955.2</b>	<b>17 292 794</b>

**Key ratios****31 August  
2000**

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Operating margin, %	12.9
Cash flow per share, SEK	5.80
Acid-test ratio, %	133
Earnings per share, after full tax , SEK <sup>1)</sup>	3.52
Earnings per share, after full tax and full dilution, SEK <sup>1)</sup>	3.49
Equity ratio, %	56.9
Return on equity (full tax), <sup>2)</sup> . %	10.4
Return on capital employed, <sup>2)</sup> . %	8.0
Equity/share, SEK	55.24
Interest-bearing debt, SEK million	389.1
Debt ratio, times	0.39
Interest coverage ratio, times	4.7
Net sales per employee, SEK thousand	903
EBITA per employee, SEK thousand	116
Average number of employees	1 028
Number of employees at end of period	1 163
Share price, SEK	205.50
Average number of shares, thousand	17 100

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

2) Yield measures are extrapolated to full year values