

# LAGERCRANTZ GROUP AB (publ)

## Year-end report April 1, 2003 – March 31, 2004

- **Net revenues increased to MSEK 1 568 (1 463).**
- **Income after taxes increased to MSEK 14 (9).**
- **Earnings per share increased to SEK 0.57 (0.34).**
- **Cash flow from current operations amounted to MSEK 72 (70).**
- **Jan Friis resigns as President and Chief Executive Officer and is succeeded by CFO Per Ikov.**
- **The overall market outlook has improved.**
- **A dividend of SEK 0.90 is proposed (0.90).**

### NET REVENUES AND RESULT

Net revenues amounted to MSEK 1 568 (1 463). Operating income amounted to MSEK 27 (27), with an operating margin of 1.7 percent (1.8). The revenue increase is attributable primarily to division Electronics that acquired Unitronic AG during the preceding financial year.

A charge of MSEK 3 was made against fourth quarter earnings. This amount consists of costs incurred in restructuring the management of division Electronics.

Income after financial items for the period amounted to MSEK 23 (16), and earnings per share were SEK 0.57 (0.34). The falling U.S. dollar exchange rate had a negative effect on the Group's revenues and earnings.

The Group's result was also impacted negatively by the continued weak market situation for the business in division Electronics. A new division management

has been appointed and further cost-containment actions will be taken during the first quarter of the current year.

Despite one-time costs, a weak market and negative foreign exchange rate effects, the Group's income improved compared to the preceding year.

### MARKET

The overall market situation for the Group's business continued to be stable. In our opinion, the general economy has bottomed out and has been replaced by a cautiously raised level of optimism.

## ELECTRONICS

Net revenues amounted to MSEK 938 (843). Operating income increased to MSEK 7 (3), with an operating margin of 0.7 percent (0.4).

The market conditions for the business in division Electronics, which had been marked by weak demand, have seen a positive development during the latter part of the financial year. In our opinion, the market will improve during the coming year.

The process of improving the Group's profitability continued during the year. This work has entailed a structural streamlining of the business, where, among other things, local purchasing and storage services have been centralized in Sweden. This process continues and in connection therewith further cost-containment action will be taken during the first quarter of the current year. These measures will reduce the cost level by about MSEK 8 annually.

The businesses in the area of industrial communication, where the Company has a strong position, enjoyed a satisfactory development during the year. During the month of March, an international distribution agreement was concluded with Siemens Wireless Modules. This agreement strengthens Electronics' position in this market, where it is believed that the Group has excellent potential for growth.

The company ISG Systems AB, which was acquired in the month of October 2003, was transferred from division Communication to division Electronics as of April 1, 2004 for the purpose of taking better advantage of synergies in customer cultivation, and technology and product development.

A new division management was appointed with effect from the month of May 2004.

## PRODUCTION SERVICES

Net revenues amounted to MSEK 194 (183) and operating income increased to MSEK 11 (7). The operating margin was 5.7 percent (3.8).

The business registered a good development during the year.

The market situation for the business in Production Services is stable and profitability is expected to stay good for the current year.

## COMMUNICATION

Net revenues amounted to MSEK 436 (437). Operating income was MSEK 10 (14), with an operating margin of 2.3 percent (3.2).

The division's business is organized in three areas: Security, Communication & Infrastructure, and Software & Consulting.

Area Security improved its result slightly compared to the preceding year. Demand for solutions for secure data transfer is growing, at the same time as competition is mounting in the area.

Area Communication & Infrastructure did not see a satisfactory development during the year. Demand in the telecom sector has begun to pick up speed, however and a positive development of income is expected.

The business in the Software & Consulting area recorded a positive development during the year and this business contributed meaningfully to the division's result. The market outlook for the current year is seen as continuing to be good and a favorable development of earnings is expected.

## DIVISIONS

|                     | Net revenues  |               | Operating income |               |
|---------------------|---------------|---------------|------------------|---------------|
|                     | 12 months     |               | 12 months        |               |
| MSEK                | 2003/<br>2004 | 2002/<br>2003 | 2003/<br>2004    | 2002/<br>2003 |
| Electronics         | 938           | 843           | 7                | 3             |
| Production Services | 194           | 183           | 11               | 7             |
| Communication       | 436           | 437           | 10               | 14            |
| Parent              | -             | -             | -1               | 3             |
| <b>GROUP TOTAL</b>  | <b>1,568</b>  | <b>1,463</b>  | <b>27</b>        | <b>27</b>     |

### NET REVENUES – quarterly data

| MSEK                         | 2003/2004  |            |            |            | 2002/2003  |            |            |            |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                              | Q 4        | Q 3        | Q 2        | Q 1        | Q 4        | Q 3        | Q 2        | Q 1        |
| Electronics                  | 232        | 232        | 245        | 229        | 222        | 221        | 198        | 202        |
| Production Services          | 49         | 49         | 48         | 48         | 47         | 46         | 44         | 46         |
| Communication                | 127        | 122        | 90         | 97         | 105        | 112        | 108        | 112        |
| Parent Company/consolidation | -          | -          | -          | -          | -          | -          | -          | -          |
| <b>GROUP TOTAL</b>           | <b>408</b> | <b>403</b> | <b>383</b> | <b>374</b> | <b>374</b> | <b>379</b> | <b>350</b> | <b>360</b> |

### OPERATING INCOME

| MSEK                         | 2003/2004 |          |           |          | 2002/2003 |          |          |           |
|------------------------------|-----------|----------|-----------|----------|-----------|----------|----------|-----------|
|                              | Q 4       | Q 3      | Q 2       | Q 1      | Q 4       | Q 3      | Q 2      | Q 1       |
| Electronics                  | 0         | 1        | 8         | -2       | 3         | 1        | 2        | -3        |
| Production Services          | 2         | 3        | 3         | 3        | 3         | 2        | 2        | 0         |
| Communication                | 4         | 4        | 0         | 2        | 5         | 4        | 5        | 0         |
| Parent Company/consolidation | -2        | 1        | -1        | 1        | 1         | 1        | 0        | 1         |
| <b>GROUP TOTAL</b>           | <b>4</b>  | <b>9</b> | <b>10</b> | <b>4</b> | <b>12</b> | <b>8</b> | <b>9</b> | <b>-2</b> |

| CONSOLIDATED STATEMENT OF INCOME                                     | 3 months      |               | 12 months ending |               |
|--|---------------|---------------|------------------|---------------|
|  | Jan./<br>Mar. | Jan./<br>Mar. | 31-mar           | 31-mar        |
|  | 2003/<br>2004 | 2002/<br>2003 | 2004             | 2003          |
| MSEK   |               |               |                  |               |
| Net revenues   | 408           | 374           | 1 568            | 1 463         |
| Cost of goods sold   | -313          | -273          | -1191            | -1088         |
| GROSS INCOME   | 95            | 101           | 377              | 375           |
| Other operating expenses<br>(of which depreciation and amortization) | -91<br>(-5)   | -89<br>(-5)   | -350<br>(-19)    | -348<br>(-18) |
| OPERATING INCOME   | 4             | 12            | 27               | 27            |
| Financial income and expense   | 0             | -2            | -4               | -11           |
| INCOME AFTER FINANCIAL ITEMS   | 4             | 10            | 23               | 16            |
| Taxes  | -1            | -5            | -9               | -6            |
| Minority interest in the year's income                               | 0             | -1            | 0                | -1            |
| INCOME FOR THE PERIOD  | 3             | 4             | 14               | 9             |
| Earnings per share, SEK  | 0,12          | 0,16          | 0,57             | 0,34          |
| Weighted number of shares outstanding after repurchases ('000)       | 24 078        | 25 639        | 24 696           | 26 561        |
| Number of shares outstanding after the period's repurchases ('000)   | 24 078        | 25 078        | 24 078           | 25 078        |

*In view of the strike price of the outstanding options of SEK 32.80 and the current market price of the share, outstanding options have no dilutive effect.*

#### CONSOLIDATED BALANCE SHEET

| MSEK                                      | 2004 03 31 | 2003 03 31 |
|---|------------|------------|
| ASSETS                                    |            |            |
| Intangible fixed assets                   | 47         | 23         |
| Tangible fixed assets                     | 96         | 106        |
| Financial assets                          | 40         | 42         |
| Inventories                               | 224        | 230        |
| Short-term receivables                    | 304        | 292        |
| Liquid funds                              | 138        | 110        |
| TOTAL ASSETS                              | 849        | 803        |
| SHAREHOLDERS' EQUITY AND LIABILITIES      |            |            |
| Shareholders' equity                      | 402        | 442        |
| Minority interest                         | 0          | 11         |
| Provisions                                | 76         | 77         |
| Long-term liabilities                     | 7          | 6          |
| Current liabilities                       | 364        | 267        |
| TOTAL SHAREHOLDERS EQUITY AND LIABILITIES | 849        | 803        |

## CONSOLIDATED STATEMENT OF CASH FLOW

| MSEK   | 2003/<br>2004 | 2002/<br>2003 |
|--|---------------|---------------|
| Current operations before changes in working capital | 35            | 23            |
| Changes in working capital                           | 37            | 47            |
| Cash flow from current operations                    | 72            | 70            |
| Investments in subsidiaries and other business units | -33           | -9            |
| Investments in other fixed assets, net               | 0             | -15           |
| Cash flow from investments operations                | -33           | -24           |
| Dividend & repurchase of own shares                  | -46           | -58           |
| Financing operations                                 | 37            | -42           |
| Cash flow from financing operations                  | -9            | -100          |
| PERIOD'S CASH FLOW                                   | 30            | -54           |
| Liquid funds at beginning of year                    | 110           | 172           |
| Exchange rate difference in liquid funds             | -2            | -8            |
| Liquid funds at end of period                        | 138           | 110           |

### Change in working capital

| MSEK                            | Apr.-Mar.<br>2003/2004 | Apr.-Mar.<br>2002/2003 |
|---------------------------------|------------------------|------------------------|
| Opening balance                 | 442                    | 484                    |
| Period's translation difference | -8                     | 7                      |
| Repurchase of own shares        | -23                    | -34                    |
| Dividend                        | -23                    | -24                    |
| Period's income                 | 14                     | 9                      |
| Closing balance                 | 402                    | 442                    |

| SEK   | Mar. 31<br>2004 | Mar. 31<br>2003 |
|---|-----------------|-----------------|
| NUMBER OF SHARES OUTSTANDING, thousands                 |                 |                 |
| Number of shares outstanding after period's repurchases | 24,078          | 25,078          |
| Number of shares held in treasury                       | 1,836           | 2,786           |
| Return on capital employed, %                           | 5.9             | 5.6             |
| Return on shareholders' equity, %                       | 3.3             | 1.9             |

## PROFITABILITY, FINANCIAL POSITION AND CAPITAL EXPENDITURES

The return on capital employed for the full year was 5.9 percent (5.6). The corresponding figures for return on equity were 3.3 percent (1.9).

The equity ratio at the end of the period was 47 percent (56).

Shareholders' equity per share amounted to SEK 16.70 (17.60).

Cash flow from current operations for the period amounted to MSEK 72 (70). The Group's financial net indebtedness was MSEK 2 at the end of the period, as compared with a net claim of MSEK 19 at

the beginning of the financial year.

Investments in fixed assets amounted to MSEK 8 (18).

## ACQUISITIONS

Possession was taken on April 1, 2003 of the remaining 49 percent of the shares in electronics supplier Unitronic AG.

On October 1, 2003 Lagercrantz Group acquired all shares outstanding in ISG Systems AB. ISG Systems acts as systems integrator with a product range that includes customized solutions for traffic surveillance and process monitoring in seaports.

## PARENT COMPANY

The Parent Company's internal net revenue amounted to MSEK 25 (28) and income after financial items was MSEK 106 (1). This result includes exchange rate adjustments on intra-Group lending in an amount of MSEK -5 (4), and dividend and write-down of subsidiary in a net amount of MSEK 113 (0).

The Parent Company has a committed credit facility in the amount of MSEK 250. MSEK 86 (36) of this facility was utilized at the end of the financial year. Liquid funds at the beginning of the year amounted to MSEK 0 (13). No substantial investments were made except for the above mentioned investments in subsidiaries.

## EMPLOYEES

The number of employees in the Group at the end of the period was 585 (573).

## DISTRIBUTION OF SHARES AND REPURCHASES

The share capital at the end of the period amounted to MSEK 51.8. 4 692 class A shares were converted to class B shares during the period under review. The distribution on classes of shares is as follows thereafter:

| <u>Classes of shares</u>               | <u>Shares</u>      |
|--|--------------------|
| <u>outstanding</u>                     |                    |
| Class A shares                         | 1 101 810          |
| Class B shares                         | 24 812 422         |
| <u>Class B shares held in treasury</u> | <u>- 1 836 423</u> |
| <u>Total</u>                           | <u>24 077 809</u>  |

In September 2003 Lagercrantz cancelled 1 950 000 repurchased own shares. During November 2003 a further 1 000 000 shares were repurchased and the Company now holds 1 836 423 own class B shares in treasury. This is equivalent of 7.1 percent of the capital and 5.1 percent of the votes in Lagercrantz.

The average cost of the shares held in treasury amounts to SEK 21.96.

## TRANSITION TO IFRS

From the 2005/2006 financial year the Group will be reporting according to International Financial Reporting Standards (IFRS, the former IAS). The annual report for 2004/2005 will therefore be the last to be compiled in accordance with the recommendations of the recommendations of the

Swedish Financial Accounting Standards Board. These recommendations have gradually been closing to conform with IFRS. However, there are still a number of differences between the recommendations of the council and IFRS. The differences widen with the changes IFRS is currently undergoing. Based on what is today known, the more important changes between the Group's present accounting principles and the coming IFRS will be as follows:

- Reporting of financial instruments, which means that more types of instruments will be reported at net realizable value.
- Goodwill and certain intangible assets, will no longer be amortized on a straight-line basis. An annual evaluation will be made as to whether a writedown requirement exists and will become mandatory.

The Group's financial reports will also be affected by changes in requirements for classification and disclosures according to IFRS. Lagercrantz began the job during the 2003/2004 financial year of surveying and preparing for the transition to IFRS. This work is being done with the aid of consultants and in dialogue with auditors. This will continue on an ongoing basis since new and revised recommendations are released continuously.

A survey of the pension liability according to RR 29 was performed during spring 2004 and the outcome will affect shareholders' equity in an amount of approximately MSEK -3. In Lagercrantz's opinion the new known recommendations will have no material effect on the financial reporting in other respects.

## EVENTS AFTER THE PERIOD UNDER REVIEW

### New President & CEO

Jan Friis resigns as President & CEO effective as of May 11, 2004. The Group's current CFO, Per Ikov, has been appointed new President & CEO by the Board of Directors. Per Ikov, age 42, holds a Bachelor of Science (Econ.) degree, and has long-standing experience as a leader in the Group.

Jan Friis will be at the disposal of the Board of Directors and the new CEO until his retirement in April 2006.

Niklas Enmark has been hired as the Group's new

CFO. Niklas Enmark, who begins his employment at the end of May, is 32 years old and holds a Bachelor of Science (Econ.) degree. His most recent position was with Investor as investment manager for Investor Growth Capital.

## PROPOSALS FOR THE ANNUAL GENERAL MEETING

### Dividend

The Board of Directors proposes an unchanged dividend of SEK 0.90 per share. The total dividend is equivalent to MSEK 22 (23).

### Repurchase of shares

The Board of Directors proposes a renewal of the mandate of the Board of Directors to repurchase own shares. The proposal includes a mandate for the Board of Directors to repurchase own shares during the period until the next following regularly scheduled Annual General Meeting so that the Company's

holdings from time to time does not exceed 10 percent of the total number of shares outstanding. Repurchases shall be made via the Stockholm Stock Exchange. The mandate of the Board of Directors is also proposed to include the possibility of using repurchased shares as payment for acquisitions or to sell repurchased shares in ways other than via the Stockholm Stock Exchange to finance acquisitions.

*This year-end report has been prepared in accordance with recommendation RR20 of the Swedish Financial Accounting Standards Council. The same accounting principles and methods of calculation have been used in the interim report as were used in the Annual Report for 2002/2003, with the exception of the new recommendations for 2003 of the Swedish Financial Accounting Standards Council, which have no effect on the Group's reported result and financial position..*

Stockholm, May 11, 2004

Jan Friis  
President & CEO

## REPORT OF EXAMINATION

We have reviewed this year-end financial report in accordance with the recommendation issued by the Swedish Institute of Authorized Public Accountants. A review is significantly limited in comparison to an audit. Nothing has come to our attention that causes us to believe that the year-end financial report does not comply with the requirements the Swedish Securities and Clearing Operations Act and the Swedish Annual Accounts Act.

Stockholm, May 11, 2004

George Pettersson                      Thomas Thiel  
Authorized Public Accountant    Authorized Public Accountant

An interim report for the period April 1 – June 30, 2004 will be published August 24, 2004.

The Group's annual report will be distributed to the shareholders in mid-July 2004 and will be available at the Company's head office and on its Website at the same time.

The Annual General Meeting will be held in Stockholm August 24, 2004.

Organization number 556282-4556