

# Interim report

## January-June 2005

**During the first** six months the Group's net sales amounted to SEK 626 m (680) and pre-tax profits amounted to SEK 10 m (44).

**The Group's profit** after tax was SEK 7 m (29) and earnings per share was SEK 0.89 (3.78) for the first six months of the year.

**During the last 12-month** period the Group's net sales was SEK 1,257 m (1,241) and profit before tax for the period amounted to SEK 37 m (29).

**Due to the** cautious market HL Display is concentrating on the task of improving profitability based on current sales volumes.

# A cautious market – growth is delayed

*During the first half of the year HL Display has been affected by the cautious climate in the market, which has been noticeable above all in the company's main markets in Western Europe. Sales have been lower than expected, which means that HL Display will find it difficult to achieve its profitability targets during the second half of 2005.*

In recent years HL Display has been applying targeted measures to create the conditions for long-term improvements in profitability. At present we are a more efficient company with lower costs and better resource utilisation than only a couple of years ago. Last year we also earned a dividend for our hard work. Increased sales combined with a lower cost base meant that we achieved a significant improvement in profits. However, during the first six months this year sales have been poorer than expected. The explanation lies mainly in the fact that the first half of the year saw a cautious attitude towards new investments in the retail sector in parts of Western Europe, particularly in France, the UK and Germany. Other markets have performed largely as planned.

In recent years we have experienced surges in demand for our products as the change in our positioning resulted in increasingly large-scale projects. We do not believe that the fact that sales this year have fallen short of expectations is an indication that demand has fallen in the longer term. Nor have new competitors or concepts in the market reduced our competitive strength.

## **Hard-discount segment puts pressure on the industry**

The success of the hard-discount chains, in terms of both turnover and profits, has generated changes within the food retail sector, and intensive work is now under way to counter the competition from the hard-discount chains. The measures fall into two main approaches: adaptation or increased differentiation. The chains that have chosen to adapt are responding with price reductions throughout the entire product range, or in basic products such as bread and sugar. Some chains have introduced a low-price department into their regular stores, where products such as rice, coffee and beans are sold loose, and consumers can measure out the amount they require. This approach puts new demands on subcontractors in the sector, including HL Display, and we can see that our competitors are having to adapt accordingly.

The part of the food retail sector that is trying to differentiate itself from the hard-discount chains is instead focusing on strength-

ening the shopping experience. In this context HL Display is already the obvious business partner when it comes to fitting out the store in an attractive, targeted way. New merchandising options are often combined with a focus on delicacies, fresh food and in-store service.

In the longer term, the success of the hard-discount chains is creating new opportunities for HL Display, as these companies also need solutions for merchandising and in-store communication.

## **Continued efficiency improvements**

At present we find it difficult to assess for how long the market will remain cautious, and we are therefore concentrating on our task of improving profitability based on our current sales volumes. We are continuing to work on cost control, and are focusing on resource utilisation throughout the whole organisation. During the year we have implemented measures, and more are planned, to adapt our costs to the current market situation.

Work is now under way at all HL Display's factories to rationalise the production processes. We are improving efficiency through better resource utilisation and increased automation. At the same time we are reducing costs by manufacturing in alternative materials. The measures are estimated to start improving profits during late autumn.

An action plan has been initiated with the aim of evaluating and standardising our extensive product range. A reduction in the number of articles processed and held in stock generates savings throughout the whole organisation.

We have also taken action to increase the impact of our sales work. We have increased the focus on HL Direct, our sales channel based on telephone sales, the Internet and EDI, which makes it possible to increase the number of customer contacts and create more efficient routines for repeat orders. Direct sales initiatives can thus be concentrated on HL Display's key accounts, especially those that are expected to be able to generate business in the immediate future.

"We are continuing to work on cost control, and are focusing on resource utilisation throughout the whole organisation."



### Markets

As already mentioned, the trend in HL Display's major markets in Western Europe has fallen short of expectations. These markets account for a significant proportion of the company's sales, and therefore have a definite impact on us. Sales in many other markets in Western Europe, including Scandinavia, have shown a positive trend. Sales are also growing as expected in Eastern Europe and Asia. Work on setting up a factory in China is continuing, and we expect production to be able to start in November 2005. The initiative aimed at retail non-food is proceeding according to plan, and has generated good results in the first half of the year. This is an increase from low levels, but it does indicate that this is a segment in which HL Display has the potential to expand.

### Turnover and net income

The Group's turnover during the period totalled SEK 626 m (680), a reduction of 8 per cent compared to the same period in 2004. In spring 2004 HL Display invoiced an unusually large customer project, which explains SEK 45 m. The change in the value of the Swedish krona compared to export currencies has had a positive effect on turnover to the order of SEK 4 m compared to the previous year. The operating profit for the first six months was SEK 8 m (49), and the profit before taxes was SEK 10 m (44). The change in the value of the Swedish krona has had a positive effect on the operating profit to the order of SEK 2 m compared to the previous year. Net interest for the period totalled SEK -4 m (-3), while the conversion difference and other currency effects totalled SEK 6 m (-1).

### Capital investments

During the period net investments in fixed assets totalled SEK 21 m (23). Planned depreciation totalled SEK 23 m (23).

### Financial position

As at 30 June 2005 liquidity was SEK 67 m (92), compared to SEK 112 m at the beginning of the year. Net debt increased to SEK 102

m (75), of which SEK 32 m is reclassification of leasing agreements. A dividend payment was made of SEK 19 m (13). Cash flow from current operations decreased to SEK -19 m (20). Operating cash flow was SEK -2.07 (1.75) per share. On the balance sheet date the equity/assets ratio was 44 (41) per cent, compared to 45 per cent at the beginning of the year.

### Personnel

The average number of employees during the period was 939 (970). The number of employees on the balance sheet date was 939 (981), compared to 933 at the beginning of the year.

### Prospects for the rest of 2005

The year end report for 2004 stated that the expected growth rate for 2005 would be at least 10 per cent. The objective was to achieve a profit margin of 10 per cent on an annual basis during the second half of 2005. The sales trend during the first half of the year was worse than expected. As communicated earlier it is therefore considered that it will be difficult to achieve a sales increase of 10 per cent in 2005. As a consequence of this, it will also be difficult to achieve a profit margin of 10 per cent on an annual basis during the second half of 2005. The long-term objective of a sustainable profit margin of 10 per cent remains in place. A more accurate forecast of the results for the full year will be published in connection with the quarterly report for the third quarter.

Stockholm, July 2005

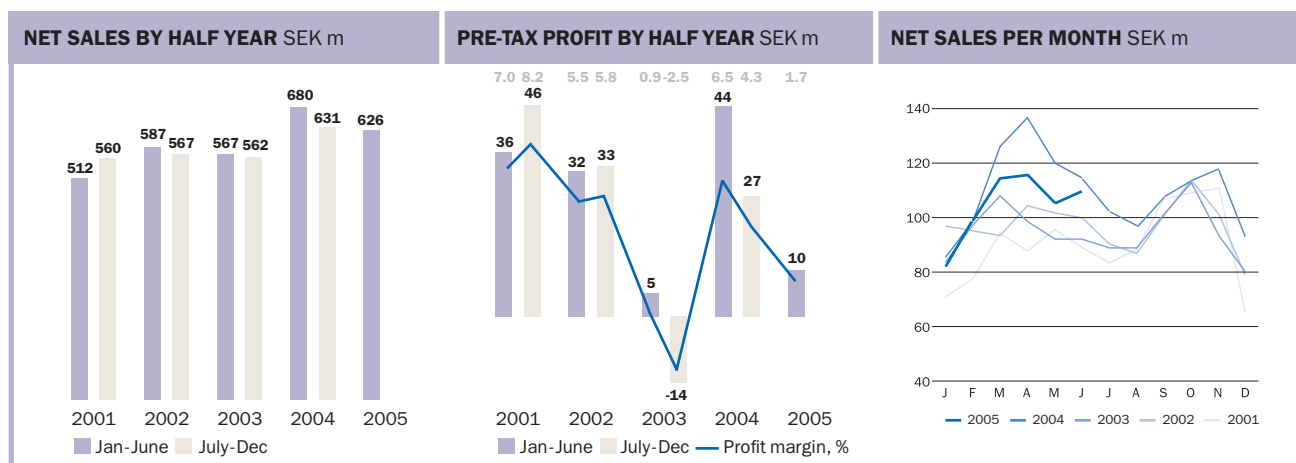
Anders Remius, Managing Director

Summary of consolidated income statement <sup>1)</sup>

SEK (000s)	April-June 2005	April-June 2004 <sup>6)</sup>	Jan-June 2005	Jan-June 2004 <sup>6)</sup>	Jan-Dec 2004 <sup>6)</sup>
Net sales	331,573	371,913	625,550	679,833	1,311,003
Cost of goods	-188,591	-206,453	-355,544	-367,202	-719,884
<b>Gross profit</b>	<b>142,982</b>	<b>165,460</b>	<b>270,006</b>	<b>312,631</b>	<b>591,119</b>
Selling expenses	-90,843	-93,972	-178,129	-180,590	-349,102
Administrative expenses	-31,185	-29,399	-61,936	-61,430	-119,140
Research & development expenses	-10,379	-10,594	-21,164	-21,032	-42,142
Other operating income/expenses	-384	-1,138	-352	-702	3,929
<b>Operating profit</b>	<b>10,191</b>	<b>30,357</b>	<b>8,425</b>	<b>48,877</b>	<b>84,664</b>
Financial income and expenses <sup>2)</sup>	911	-3,355	1,932	-4,984	-13,819
<b>Profit before tax</b>	<b>11,102</b>	<b>27,002</b>	<b>10,357</b>	<b>43,893</b>	<b>70,845</b>
Tax <sup>3)</sup>	-3,774	-9,069	-3,521	-14,867	-24,108
<b>Net profit</b>	<b>7,328</b>	<b>17,933</b>	<b>6,836</b>	<b>29,026</b>	<b>46,737</b>
Assignable to:					
The shareholders of the parent company	7,298	18,067	6,906	29,281	47,372
Minority share of net profit	30	-134	-70	-255	-635
<b>Net profit</b>	<b>7,328</b>	<b>17,933</b>	<b>6,836</b>	<b>29,026</b>	<b>46,737</b>

Data per share

	April-June 2005	April-June 2004 <sup>6)</sup>	Jan-June 2005	Jan-June 2004 <sup>6)</sup>	Jan-Dec 2004 <sup>6)</sup>
Number of shares	7,688,872	7,688,872	7,688,872	7,688,872	7,688,872
Number of shares after dilution	7,712,939	7,708,142	7,716,078	7,706,653	7,707,139
Earnings per share after full tax, SEK	0.95	2.33	0.89	3.78	6.08
Earnings per share after dilution and full tax, SEK	0.95	2.33	0.89	3.77	6.06
Share price at the end of period	110.00	122.00	110.00	122.00	137.00
P/E-ratio, Dec 31	—	—	—	—	22.53



Summary of consolidated balance sheet

SEK (000s)	June 30, 2005	June 30, 2004 <sup>6)</sup>	Dec 31, 2004 <sup>6)</sup>
Intangible fixed assets <sup>4)</sup>	3,334	4,692	3,470
Tangible fixed assets	179,457	186,165	182,246
Financial fixed assets	13,185	19,028	16,064
<b>Total fixed assets</b>	<b>195,976</b>	<b>209,885</b>	<b>201,780</b>
Inventories	130,629	127,607	115,873
Current receivables	323,278	322,117	292,724
Cash and bank	67,198	91,560	112,013
<b>Total current assets</b>	<b>521,105</b>	<b>541,284</b>	<b>520,610</b>
<b>Total assets</b>	<b>717,081</b>	<b>751,169</b>	<b>722,390</b>
Shareholders' equity	315,873	309,662	328,214
Long-term liabilities	96,681	123,311	104,487
Current liabilities	304,527	318,196	289,689
<b>Total shareholders' equity and liabilities</b>	<b>717,081</b>	<b>751,169</b>	<b>722,390</b>

Change in shareholders' equity

SEK (000s)	June 30, 2005	June 30, 2004 <sup>6)</sup>	Dec 31, 2004 <sup>6)</sup>
Opening balance	328,214	293,432	293,432
Dividends paid	-19,222	-12,687	-12,687
Net profit of the period	6,836	29,026	46,737
Other changes in shareholders' equity <sup>5)</sup>	45	-109	732
<b>Closing balance</b>	<b>315,873</b>	<b>309,662</b>	<b>328,214</b>

Summary of consolidated cash flow statement<sup>5)</sup>

SEK (000s)	April-June 2005	April-June 2004 <sup>7)</sup>	Jan-June 2005	Jan-June 2004 <sup>7)</sup>	Jan-Dec 2004 <sup>7)</sup>
Operating profit	10,191	29,245	8,425	46,636	80,334
Depreciation	10,538	11,411	22,170	23,157	46,460
Other items not affecting liquidity	2,397	-491	2,885	-58	1,736
Interest received	-1,731	150	-2,399	893	2,339
Interest paid	-2,387	-2,173	-4,618	-4,372	-8,487
Income tax paid	-9,963	-3,791	-15,981	-12,510	-11,195
Change in working capital	-15,298	-21,412	-29,440	-33,562	-18,621
<b>Cash flow from operational activities</b>	<b>-6,253</b>	<b>12,939</b>	<b>-18,958</b>	<b>20,184</b>	<b>92,566</b>
Investing activities	-7,820	-11,502	-16,754	-23,283	-45,376
Financing activities	8,655	11,277	-9,103	-181	-30,017
<b>Cash flow for the period</b>	<b>-5,418</b>	<b>12,714</b>	<b>-44,815</b>	<b>-3,280</b>	<b>17,173</b>

**ADAPTATION TO IFRS**

The changeover to IFRS (International Financial Reporting Standards) has only had a limited impact on HL Display's accounts. The adaptation to IFRS has implied that the rental agreements for two properties will be classified as financial leases according to IAS 17 Leases. Also a survey of the leasing agreements has lead to further reclassifications.

IAS39 Financial Instruments: Recognition and measurement has not had a

material impact on the valuation of HL Display's financial instruments. Any embedded derivatives do not exist. There is a minority share in the Group. This is according to IFRS included in shareholders' equity and amounted to SEK 0.1 m on balance sheet date.

For a detailed statement of the recalculation of 2004, see the press release at [www.hl-display.com](http://www.hl-display.com).

Key figures the last five quarters

SEK (000s)	Q 2 2005	Q 1 2005	Q 4 2004 <sup>7)</sup>	Q 3 2004 <sup>7)</sup>	Q 2 2004 <sup>6)</sup>
Net sales	331,573	293,977	324,064	307,106	371,913
Operating profit/loss	10,191	-1,766	14,063	19,635	30,357
Profit/loss after financial items	11,102	-745	8,900	16,878	27,002
No. of employees end of period	939	954	933	946	981

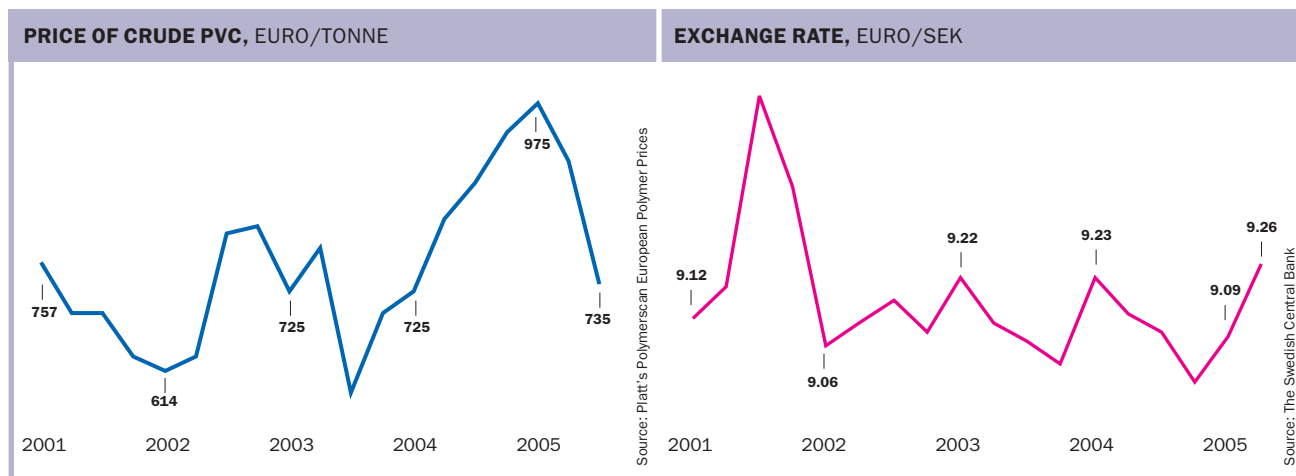
Key figures for the Group<sup>1)</sup>

SEK (000s)	6 months Jan-June 2005	6 months Jan-June 2004 <sup>6)</sup>	6 months Jan-June 2003 <sup>7)</sup>	12 months July 2004 - June 2005	12 months July 2003 - June 2004 <sup>7)</sup>	12 months July 2002 - June 2003 <sup>7)</sup>	Full year 2004 <sup>6)</sup>
Net sales	625,550	679,833	567,467	1,256,720	1,241,371	1,134,604	1,311,003
Operating profit	8,425	48,877	7,018	44,212	35,730	43,152	84,664
Profit before tax <sup>2)</sup>	10,357	43,893	4,854	37,309	28,565	37,791	70,845
Profit margin, %	1.7	6.5	0.9	3.0	2.3	3.3	5.4
Equity/assets ratio, %	44.0	41.2	47.8	44.0	43.3	47.8	45.4
Net investments, SEK m	20.6	22.6	15.5	40.5	46.5	35.8	42.5
Return on total capital, %	-	-	-	7.4	5.5	7.0	12.4
Return on equity after full tax, %	-	-	-	7.8	4.9	8.3	14.7
Shareholders' equity per share, SEK	41.08	40.27	39.83	41.08	40.09	39.83	42.69
Earnings per share after full tax, SEK	0.89	3.78	0.41	3.19	1.97	3.25	6.08
Earnings per share after dilution and full tax, SEK	0.89	3.77	0.41	3.18	1.96	3.25	6.06

Notes

- 1) This interim report is established according to International Financial Reporting Standards (IFRS), the by EU approved standards that are to be applied from 2005. Comparison figures have been recalculated since January 1, 2004. The accounting and valuation principles applied in this interim report are, if not stated otherwise, equal to those in HL Display Annual Report for 2004, where principles and definitions can be found.
- 2) Of which, translation differences as per 30/06/05: SEK 1.7 m, 30/06/04: SEK -0.2 m, 30/06/03: SEK -0.3 m, 31/12/04: SEK -0.6 m.
- 3) Full tax.
- 4) Whereof goodwill as per 30/06/05: SEK 0.0 m, 30/06/04: SEK 0.6 m, 31/12/04: SEK 0.0 m.
- 5) Cash flow statements as per April-June and January-June before exchange differences of liquid assets.
- 6) The figures are recalculated according to the International Financial Reporting Standards.
- 7) The figures are not recalculated according to the International Financial Reporting Standards.

This report has not been audited by the company auditors.



# The Share

## Share price development

HL Display's share price fell by 17 per cent during the first six months of 2005, while SIX General Index rose by 9 per cent. Since its Stock Exchange launch in 1993, the share's value has increased by 665 per cent from SEK 14.37 (corrected for bonus issues) to SEK 110 on June 30th 2005. During the same period SIX General Index increased by 214 per cent. During 2005 HL Display's peak price has been SEK 172, and its lowest SEK 107. As of June 30th 2005, HL Display's Stock Exchange value was SEK 846 m.

## Trade volumes

During the first half of 2005, 275,110 shares were traded at a value of SEK 39 m, corresponding to 4 per cent of the total number of HL Display shares.

## Share capital

The share capital as of June 30th 2005 totalled SEK 38,444,360, divided among 7,688,872 shares, each with a par value of SEK 5. Class A shares carry one vote and class B shares 1/10 of a vote. All shares provide equal entitlement to a share of the company's assets and profits. A block of shares amounts to 100 shares.

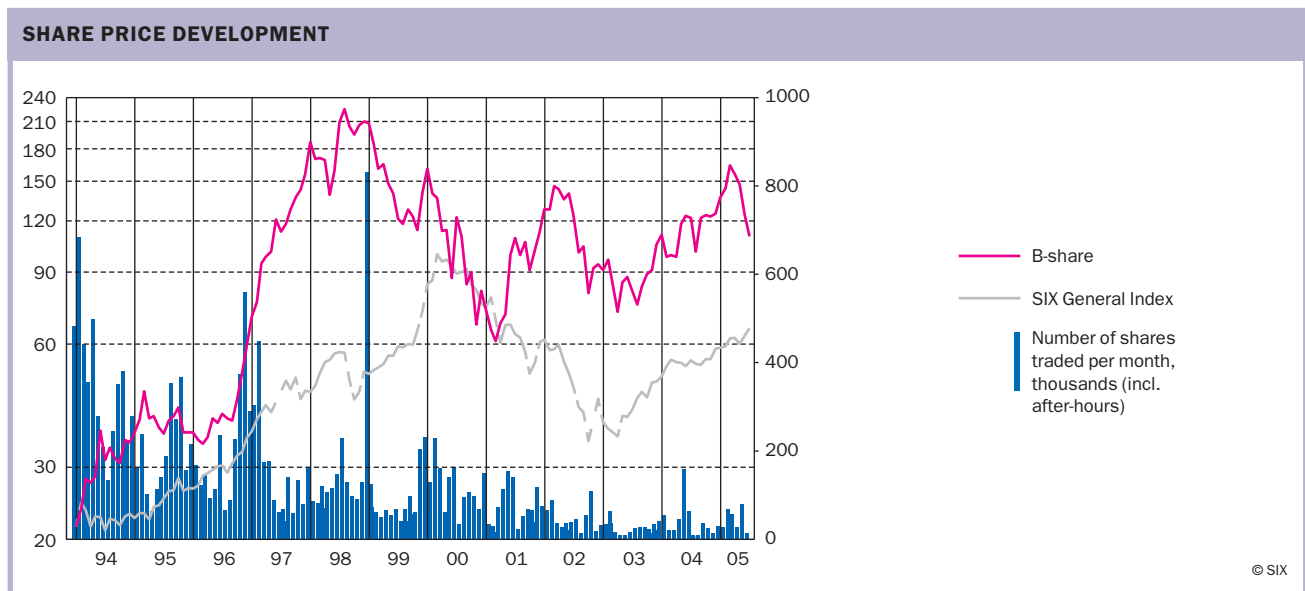
## Shareholders

As of June 30th 2005 the number of shareholders was 2,331 (2,479). The proportion of institutional shareholders is estimated at 54 (53) per cent of capital and the proportion of foreign shareholders is 2 (2) per cent. 78 (78) per cent of all shareholders in HL Display each owned less than 500 shares.

In terms of capital, the biggest shareholders as of June 30th 2005 were: the Remius family with 31 per cent, Ratos with 29 per cent and Lannebo Fonder with 10 per cent.

## Dividend policy

HL Display's board of directors has agreed that a more offensive dividend policy will be applied in future. In the long term it is the board's intention that the dividend ratio will be the equivalent of 30 to 50 per cent of the profit per share after taxes. This year's dividend was SEK 2.50 (1.65) per share, corresponding to a dividend increase of 52 per cent.



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# B

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PORTO BETALT  
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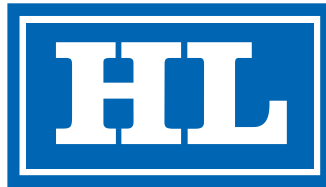
**HL Display is Europe's** leading supplier of products and solutions for merchandising and in-store communication. With 50 years' experience, the company has expertise in displaying goods in stores in a way that increases sales and makes work in the store more efficient, and at the same time gives the end consumers all the information they need to make their purchasing decision.

HL Display has had an annual growth rate of 18 per cent in the last ten years. The company's main market is Europe, but HL Display is also currently expanding in Asia. The company's customers include leading retail chains and brand manufacturers all over the world.

HL Display has just under 1,000 employees in 28 countries, and has since 1993 been listed on the Stockholm Stock Exchange's O-List.

#### **Financial information 2005**

Monthly report, 7 months:	August 12
Monthly report, 8 months:	September 13
Interim report, 9 months:	October 14
Monthly report, 10 months:	November 15
Monthly report, 11 months	December 13



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