

Press Release

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VSM Group adapts to tougher market conditions

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- **Net sales** for the January-September 2004 period were down 10 percent to SEK 1,480 million (SEK 1,647 million), corresponding to a 5 percent drop in local currency.
- **Operating result before amortization of intangible assets (EBITA)** was SEK 120 million (SEK 137 million).
- **The net profit** for the period increased from SEK 35 million to SEK 39 million.
- **A wide-reaching efficiency programme – SmartFuture – has been put into operation, aiming to reduce annual expenditure by SEK 100 million within 2 years and to simultaneously increase earnings.**

“There can be no doubt that we have been up against tougher competition in the world market over the year. The continuing weakness of the dollar and the new machines launched by competitors at lower prices in most markets, have had an adverse effect on our sales. The fall has been offset to some extent by increased sales of after markets products,” says the VSM Group’s Sales Director, Jonas Netterström, in his comments on the interim report.

“In response to an increasingly difficult market climate and a lower dollar, we have introduced the SmartFuture efficiency programme, which will involve all units and is aiming to reduce our annual costs by 100 million kronor within two years. The project is also intended to identify new business opportunities enabling us to increase sales through various initiatives, for instance in our agency markets,” says Svante Runnquist, CEO of the VSM Group.

The VSM Group, with its head office in Huskvarna, is the world market leader for home sewing machines in the middle and upper segment. During the January-September period net sales were SEK 1,480 million (SEK 1,647 million). The third quarter was as usual somewhat stronger than the second.

The Group’s principal market, North America, suffered a 4 percent fall in sales, in local currency. The more sophisticated embroidery machines continued to sell well, despite volumes being down overall, and in spite of stiff competition from cheaper and less sophisticated machines. Deliveries of the company’s new ultra modern embroidery machine, Designer SE, got under way in September in

conjunction with a large number of sewing fairs. Over 1,900 North American retailers and their employees passed the oral and written test after three days' training and received qualification certificates for the machines. This qualification is required before they can sell the machines.

"The reception of the Designer SE has exceeded our expectations so far and we are now doing everything we can to increase the rate of production on our Designer line in Huskvarna," says the VSM Group CEO, Svante Runnquist.

Sales fell by 8 percent in the European market, largely due to weak demand overall in the important German market. The measures taken by the VSM Group to tackle costs, aiming to boost profitability in the German market, initially led to lower sales.

The trend in the Nordic countries was very similar to that in North America.

The decline in the other markets was offset by the sales figures for Russia, where products continued to sell well. The net turnover for the other markets was therefore largely unchanged.

The rate of production in our own factories in Huskvarna and Brno, Czech Republic, has been adjusted to the prevailing market circumstances during the period. If the downturn continues it may be appropriate to revise production capacity further.

The operating result before amortization of intangible assets (EBITA) fell from SEK 65 million to SEK 33 million during the third quarter and from SEK 137 million to SEK 120 million during the January-September period. Profit after tax for the period rose from SEK 35 million to SEK 39 million. The currency policy adopted alleviated the effect of the fall in the dollar on profit.

Cash flow from operations fell to SEK -51 million (SEK -12 million) during the period as a result of profit trends and a higher accumulation of inventory than in the corresponding period last year. Profit per share increased, from SEK 11.17 to SEK 12.30.

Key figures (amounts in SEK million)

	July-September		January-September	
	2004	2003	2004	2003
Net sales	502	585	1 480	1 647
Operating result before amortization of intangible assets (EBITA)	33	65	120	137
Net profit	4	29	39	35
Net profit per share in SEK	1,36	9,11	12,30	11,17
Cash flow from operations	4	37	-51	-12