

Press Release

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Increased competition and falling dollar mean lower profit for VSM Group

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- **VSM Group's turnover dropped by 9.5% during 2004 to SEK 2,165 million, a reduction in fixed exchange rate terms of 3.8%.**
- **Increased price competition resulted in fewer sewing machine sales in the mid segment.**
- **Operating result before amortization of intangible assets (EBITA) fell during same period to SEK 182 million (SEK 270 million).**
- **SmartFuture rationalisation programme expected to reduce annual costs by around SEK 100 million as early as 2005.**
- **Strong sales of the company's new embroidery machines and software. After sales were boosted by 15%.**

VSM Group recorded a total turnover of SEK 2,165 million (SEK 2,393 million) in 2004. This represents a drop of 9.5% compared with the previous year, and is equivalent to a fall of 3.8% expressed in fixed exchange rate terms.

Operating result before amortization of intangible assets (EBITA) was down to SEK 182 million (SEK 270 million). The result for the period amounted to a profit of SEK 33 million (SEK 103 million).

There are a number of reasons for the reduced turnover and profit: continued weakening of the dollar, greater pricing competition from sewing machines produced in low-cost countries and provisions totalling SEK 65 million for one-off restructuring costs associated with the SmartFuture rationalisation programme.

The notice of job cuts, announced in December last year as part of the company's rationalisation programme to increase profitability, will be implemented as planned during the spring. In all, just under one hundred Huskvarna positions have been affected in line with separate information to be issued in the next few days.

"We regret the effect that these measures will have for several of our colleagues," says Svante Runnquist, CEO of VSM Group. "But in view of what is happening in the global market, we need to act quickly and decisively in order to keep our competitive edge for the future."

VSM Group's financial director Gunnar Vidén points out that SmartFuture, which began last autumn, is going better than expected and that, as a result, it has been possible to increase ambitions gradually in terms of cost reduction.

“As early as this year, 2005, we expect to be able to cut costs by SEK 100 million, and by even more in 2006 and 2007,” he explains.

The US dollar has plummeted by 40% since its peak in 2001. This has had an impact on both sales and profits, although currency-protection measures have dampened the effect. The weakening of the dollar has also led to increased price competition; furthermore, several of VSM Group’s competitors are cost-neutral in terms of production, since their production is based in China (where the currency is pegged to the dollar) and other low-cost countries.

“Price competition has increased, particularly in the low and medium segments, in line with our Japanese competitors shifting production to low-cost countries,” adds Runnquist. “This has led to lower volumes for both Husqvarna Viking and Pfaff in those segments, although we enjoyed continued success in terms of embroidery machines and after sales.”

While turnover has fallen, the company’s new products – including the state-of-the-art embroidery machine Designer SE, to be launched in Sweden this summer – have sold extremely well both in the US market and in a number of European countries. The same is true of the company’s new software. After sales lifted by 15% last year, excluding sales of spare parts.

“This demonstrates our strength in developing world-class products for creative sewing enthusiasts,” Runnquist concludes. “At the same time, we will increase our efforts to reach a more efficient cost base, increase volumes in the low and medium segments and thereby neutralise the effects of the dollar on our results.”

Key figures (amounts in SEK million)

	October-December		January-December	
	2004	2003	2004	2003
Net sales	685	746	2 165	2 393
Operating result before amortization of intangible assets (EBITA)	62	133	182	270
Net profit	-6	63	33	103
Net profit per share in SEK	-1,85	19,92	10,45	32,80
Cash flow from operations	207	210	156	235