

Comments by Thomas Oldér, President and CEO, at Svedala's Annual General Meeting, April 11, 2000

- Rise in order bookings of 18 percent during first quarter of 2000 compared with the first quarter of 1999.
- The rationalization program is proceeding according to plan.
- Strong cash flow is expected during 2000.
- Svedala is in a strong position for continued growth and good profitability.
- Conditions are favorable for Svedala to capture market share within service and parts.
- Launch of svedalahus.com this year.

Introduction

Ladies and Gentlemen,

This year marks the tenth anniversary of Svedala's listing on the Stockholm exchange. Consequently, I thought that I would start with a short look back on the history of the company, in order to more easily understand Svedala's position as it faces the future. After that, I thought I would look ahead into the next few years. I will also discuss the company's financial development and say a few words about how this year has started. Since I will be ending my employment with the company this spring, I want to conclude by providing my views on the prospects for Svedala from a more long-term perspective.

Current position:

Building up Svedala

A great deal has happened during the thirteen years that have passed since Svedala was founded. Our sales have increased from SEK 500 M to SEK 14 billion. We have gone from being a used parts company to being a company with resources for complete solutions in the global marketplace.

While much has changed, the basic concept behind Svedala remains exactly the same now as it was then. Ever since its founding, the focus of operations has been service and parts, with the aim of building a complete service and knowledge company.

The strategy we used to achieve our goals was implemented in several parallel steps. Two factors have been especially important. The first has been the acquisition of various equipment manufacturers. The second is the expansion of the Svedala House concept.

All starts with rock

Since its inception in 1987, Svedala has completed a large number of acquisitions of a hundred or so units. Initially, the ambition behind these acquisitions was to obtain a complete assortment of equipment for the processing of minerals. We more or less achieved that goal with the acquisition of Allis Chalmers in 1988.

For Svedala, a complete assortment means that we have products for all phases of mineral processing. Mineral processing begins with boring holes into rock in preparation for detonation. After detonation, stone blocks are reduced in size using crushers and sifters. In the civil engineering industry, work continues with the aid of compacting equipment and paving machinery, such as in the construction of roads and airports, for example. Within the mineral processing industry, size reduction of the rock continues. This occurs through grinding in large mills, followed by enrichment and upgrading. In the final step, our material handling equipment transports the materials on for further industrial refinement.

Complete assortment

In a comparison with competitors, we can see that Svedala is alone in offering a complete assortment. Svedala has equipment for drilling, crushing/sorting, compacting, paving, grinding, enrichment/upgrading, pumping, bulk materials handling and wear protection. Consequently, customers can acquire a whole line of products and services from a single supplier, while our competitors can only meet portions of their overall needs.

Strong market position

Step two in our acquisition strategy was to build up strong positions with the respective product areas. Svedala is either a world leader or one of the leading companies within all of our segments – which include crushers, mills, compacting equipment, pavers, pumps, pyro- and bulk materials handling and wear protection.

Svedala – a service company

Together with the acquisitions, the creation of a marketing organization has been of great importance in the Group's development. Svedala House is perhaps the best known aspect of the company and forms the foundation of our service and parts venture. Currently, there are around 50 Svedala Houses and 200 Svedala Service Centers worldwide. This concept has made us a global player, which means we can meet demand from customers around the globe. Having our

own sales organization also means that we're able to get closer to customers. Our focus on the aftermarket has meant that more than 40 percent of Svedala's invoicing comes from service, repairs and spare parts during 1999.

Complete solutions

In other words, Svedala has a complete assortment of equipment and the market's best and most comprehensive service and parts offerings. This combination gives us the opportunity to be the only company on the market to offer customers complete solutions. That means that we have a very strong platform for the future.

Minerals in everyday life

Prospects for the growth of the global economy are good. The fact is that Svedala's equipment is an important component to facilitate this growth and to contribute to continued technical development. The explanation is that our equipment refines minerals that are used everywhere around us in everyday life. For example, minerals are an important component in infrastructure projects such as roads, railroads and bridges. Moreover, metals are indispensable components in the manufacturing industry, for example, the automotive industry. Power transmission, computers, etc., all require various kinds of minerals, as does paper, plastics and fertilizers.

The Future

Agenda for 2000

The agenda for the current year states that we should further strengthen our position within service and parts. That is occurring along with continued investments in marketing organization and through the launch of our new service package. Another important area is the continued implementation of the costs and capital rationalization program that was presented during 1999.

Service package

An important part of our focus on service and parts is the launch of Svedala's service packages. Customers are offered a number of different packages with various levels of action on the part of Svedala.

- Access guarantee for spare and used parts – Guaranteed delivery of parts within contracted timeframes.
- Inspections package – Inspections of all or portions of [facilities/sites?].
- Preventative maintenance contract in which Svedala's team provides preventative maintenance.

- Maintenance and repair contracts – For a fixed fee, Svedala will provide ongoing maintenance and repairs.
- Production contract – Based on a fixed cost per ton, Svedala will guarantee a certain production volume or product quality.

The goal of these service packages is to increase the number of options for customers and lower their overall costs. Moreover, they can make our own marketing organizations more efficient.

High profitability within service and parts

A clear trend in the market is that customers are outsourcing an increasing amount of service and maintenance to outside vendors. With our strong marketing organization, this provides significant opportunities for growth. Moreover, Svedala's knowledge regarding process provides customers significant efficiency savings that translate into lower overall costs.

Being able to provide the customer the lowest possible total cost is the reason for the favorable profitability for Svedala in service and parts. In 1999, this area accounted for slightly more than 40 percent of the Group's sales and concurrently for a full 80 percent of earnings. Another advantage with service and parts is that sensitivity to market trends is lower than for equipment, with profits being more stable as a result.

Great potential within service and parts

There is significant growth potential for Svedala in the service and parts area. Our estimate is that the value of the market for service and parts is four times greater than the market for equipment. Still, service and parts account for less than 40 percent of sales. While that is a high figure compared with many other manufacturing companies, it is far below the level that is possible to obtain. It is our judgement that we can, under the present corporate structure, strongly increase our sales significantly within service and parts, from today's SEK 6 billion. Several factors indicate that our market share will increase in the coming years:

1. Svedala has a strong marketing organization through Svedala House
2. Svedala's service package provides customers increased flexibility
3. The launch of svedala.com, which I will return to later
4. Svedala stocks parts and performs service on other manufacturers' machines
5. Customers are seeking out global suppliers
6. Customers are seeking suppliers who offer complete solutions

Rationalization program

A significant part of operations has been the implementation of the rationalization program we launched during 1999. The aim of these rationalization efforts is increased efficiency throughout Svedala's organization, in the areas of product development, production and marketing.

After all the acquisitions, this program is a natural step in Svedala's development. The company acquisitions gave us several models within every product segment. Through product development we have assembled the best properties from various models and have developed new, improved versions. The work has resulted in the Svedala World Class Program, essentially resulting in only a single model for each product line. This provides opportunities for significantly more effective production and inventory control.

The rationalization program is going according to plan and will lower our costs by SEK 425 M per year, corresponding to SEK 6 per share. That should be compared with our profit after net financial items of SEK 651 M in 1999. Furthermore, our goal is to reduce capital tied up in fixed assets by more than SEK 1,000 M compared with the level we had during the first quarter of 1999.

At the end of 1999, inventory had been reduced by almost SEK 600 M. Work to reduce inventory continues, and shortly we will be starting yet another project for rationalizing the total operating capital. The rationalization programs mean that the number of employees will be reduced by approximately 1,100 people. At the end of the year, just under 500 had left the company.

Costs to implement the program during the current year total SEK 145 M, of which SEK 20 M for write down of fixed assets.

Financial development and shares

Financial development

Our strategy in recent years has resulted in a positive trend in regards to invoicing, profits and dividends. The exception to that trend was 1999, which posted a decline. The primary explanation for this was mainly weak market demand. It has, however, been recommended that dividends be increased by 9 percent, which should be taken as a sign that we have a favorable opinion about Svedala's future.

Our financial goal is to reach at least an 18 percent return on working capital over one business cycle. For 1999, the return was 9 percent. During the most recent five-year period, the average return has been around 15 percent. The rationalization program, which pertains to both costs and capital expenditures, together with stronger market demand, will contribute to a rapid increase in the company's profitability.

Summary 1999

The past year was a weak one for the company within industries sensitive to business cycles. The mineral processing industry was seriously affected by falling metal prices. Consequently, our customers decreased their investments in equipment. The demand for large projects more or less disappeared completely. At the same time, customers were reducing their parts inventories.

Demand from the civil engineering industry remained stable, with continued good growth especially in North America.

Overall, volumes declined by 3 percent during 1999. The downturn was significant, especially at the beginning of the year. Svedala's profit after net financial items amounted to SEK 651 M, compared with SEK 821 in 1998. Lower volumes are the primary reason for the lower profits.

Profits after net financial items over previous twelve months

A number of factors have affected Svedala profits negatively in recent years. During 1998, the Asian crisis broke out. That was followed by the financial collapse in Russia and a significant economic downturn in Brazil. This resulted in sharply falling metal prices and weak demand from the mining industry.

Another factor that negatively affected profitability was our structural deals. During 1997 and 1998, we acquired a company with annual invoicing of SEK 2,000 M, corresponding to 15% of the company's sales. At the time of acquisition, the company had very low earnings. At the same time, we disposed of Componenta, with annual sales of SEK 500 M and a profit margin of 10 percent. Over the short term, those deals pulled down company's profitability, but at the same time they helped strengthen our market position, especially in Southern Europe. It is our conviction that even these acquisitions will meet the company's profitability goals.

Relatively stable results

Our industry was hit very hard by a slowdown in demand during 1999. In fact, we managed better than many of our competitors. For example, profits at Caterpillar and Case were cut in half. An important explanation as to why Svedala has managed to maintain its profits fairly well, is our strong position within service and parts.

Stock performance

The Svedala share started out quite strong in 1999, since there was a great deal of interest in business cycle-sensitive shares. During the latter part of the year, interest increased significantly for telecom and IT shares.

The general index rose by 66 percent during 1999. Svedala's shares increased by 32 percent during the year. Including the dividend, the return was 37 percent. It is, however, more relevant to compare Svedala's shares with an industry index. Enskilda's Nordic manufacturing index rose by 43 percent during the year.

Summary and prospects

Order bookings in first quarter of 2000

The business cycle in our industry bottomed out in October/November of last year. Since then, we have seen a significant increase in demand. During the period December – March, order bookings were slightly more than SEK 800 higher than compared with the corresponding period one year ago. The months of December, January and March were the best months in the company's history.

During the first quarter, order bookings increased by not less than 18 percent (15% currency adjusted) compared with a year earlier. The increase was more or less equally divided between the equipment side and the service and parts side. No major projects were contracted during the period, but we are noticing that activity within that area has increased significantly. The increase in order bookings is attributed mainly to the construction industry in Europe and North America as well as the development of metallic minerals in North and South America.

Spare parts and service account for more than 45 percent of order bookings. Svedala has an order backlog corresponding to approximately 4 months of sales. This means that the increases we are now seeing in order bookings will be noticeable in invoicing and earnings only after the first quarter.

Svedala's sales during the past 12-18 months

Economic prospects are more or less positive for the entire world. That will result in increased consumption of minerals and rising prices. That, combined with the demand for greater efficiencies, indicates that demand for Svedala's mining industry products will increase.

Overall, prospects are good. We expect higher volumes within service and parts, along with an increase in market share. Demand within the construction industry is expected to increase in Europe and further strengthen in North America. In South America, as well as Asia, we expect stronger markets after a weak 1999.

Thousands of new Svedala Houses offer personalized assistance!

We're now on the verge of opening perhaps our most important Svedala House ever – Svedalahus.com. We plan to establish thousands of new virtual Svedala Houses, where every unit is specifically designed for the individual needs of the customer.

Currently, it is commonplace for engineering companies to establish commerce sites where standardized products are sold at predetermined prices. The advantage to the customer is the ability to quickly and easily place orders.

Svedalahus.com is a more customer-oriented solution than what other companies in our industry have developed so far. Svedalahus.com is a sales and service organization that generates considerable value for our customers. Individual customers can have their own webpage adapted according to their needs and requirements. Customers receive information about all of Svedala's expertise regarding specific customer's production processes, such as manuals, installation drawings and service contracts. Another example of the site's utility is that when a customer experiences a service interruption, they are put directly into contact with specially trained employees from Svedala via the Internet.

Having one's own marketing organization, as Svedala does, is extremely valuable in the effort to promote sales over the Internet. Svedala has control over the entire chain from development and manufacturing of products, to the distribution to customers through our own sales organization. Many competitors lack this comprehensive supply chain, since they are working together with independent distributors. Consequently, when selling over the Internet they often end up in direct competition and conflicts with their distributors.

We see a huge potential for growth and acquiring market share through Svedalahus.com. Moreover, the virtual Svedala House offers the opportunity to reach a significantly more efficient marketing organization.

Good prospects for the future

In conclusion, I want to emphasize that Svedala has a very strong platform to build on as it faces the future. We have good opportunities for growth, especially by increasing our market share in service and parts. The key word is complete solutions. With our complete assortment of equipment and the marketplace's best offer for service and parts, we can deliver customer value over and above what our competitors can achieve.

In total, the market for construction equipment is expected to grow by a full 6 percent annually through the year 2003.

We have good prospects for reaching good profitability. Increased market share and rising demand will yield higher volumes. Our rationalization efforts are reducing our costs considerably and lowering operating capital. These factors, combined with the pay-out of pension funds from SPP of slightly more than SEK 100 M, lead me to expect a strong cash flow during 2000. Consequently, Svedala will receive considerable financial freedom for the future. That financial strength can be used either for additional acquisitions or for the repurchase of own shares.

Thank you

As my last annual general meeting as President and CEO of Svedala, there are of course many people whom I would like to thank for all the years they have been there and the efforts they made for the company. First of all, I would like to recognize all of our employees. Without all your efforts, Svedala would not be in the position it is today. I also want to thank our shareholders for the confidence you have shown over the years. I am convinced that Svedala will continue to generate good dividends for its shareholders in the future. Finally, I would like to extend a thank you to the board for all the years we've worked together. I wish Svedala and my successor, Alf Göransson, all the best.