

## Address by the CEO Annual General Meeting 26 April 2010

Mr Chairman, honoured shareholders and other participants in this AGM

I would like to begin my address with a description of developments in 2009, provide a short analysis of our strategic position, comment on the rights issue and conclude by looking at the result for the first quarter of 2010.

### **Business in 2009**

Geveko is Europe's leading enterprise in horizontal road marking. We manufacture some 55,000 tonnes of road-marking materials per year, which is almost twice as much as the second ranking company in the industry. We have our own contract road-marking activities in 11 countries, mainly in Northern and Eastern Europe, and we sell materials throughout more or less the entire continent of Europe. During the first ten years of the 21<sup>st</sup> century we made 10 or more acquisitions in several countries in Eastern Europe. During the past decade our turnover has increased by almost exactly one billion kronor – from 419 million kronor to 1,435 million.

Geveko's overall strategy was established in 2006/2007 in connection with the decision to change our status from that of investment trust to operative industrial enterprise. The platform for this strategy is based on our intention to consolidate and strengthen our position as Europe's leading enterprise in Road Marking, to adopt a proactive approach to the necessary structuring of the industry, and by taking advantage of economies of scale and synergies to develop more efficient working practices that strengthen our competitive position and improve our profitability.

In 2009 we focused the business closely not only on consolidating the position we had already achieved and improving productivity in the Group in accordance with the strategic plan, but also on endeavouring to master the troublesome and sudden fluctuations that occurred on the various markets in Europe. The financial crisis that made its first impact in the middle of 2008, and the subsequent recession eventually affected our business in many different ways in 2009. Higher demand on some markets as a consequence of government stimuli, steeply declining demand on other markets as a result of public finance problems and an increase in the amount of capital tied up, especially in accounts receivable, eventually put our finances under great strain. Alongside this we had serious operational challenges to master in Poland, where a great deal of energy and dedication was required to get two of the companies we had acquired in 2007 back on an even keel.

We can see from this slide here that we experienced higher demand for road markings on many markets in Western Europe. The factor driving this was the increases in budgeted funds for road maintenance as a means of combating the economic downturn and recession. The situation in Eastern Europe was more fragmented, with everything from stimuli, such as those in the Czech Republic and Slovakia, to cuts of up to 65% in government spending on roads, as in Hungary. In Russia more or less all road-marking projects came to a halt in 2009. We successfully fended off the effects of these abrupt swings by adopting a proactive approach.

In Hungary, for instance, we foresaw a downturn, not on account of public finance problems, which turned out to be the case, but for other reasons. For the past several years we had been modifying the organisation to include more sub-contractors, which improved our flexibility. In Hungary, we succeeded, despite a decline of 25% in sales volumes, in reporting a profit. This was not the case in Poland, where we faced operational problems owing to a change of management at the very time the market declined by some 20-25%.

The consequence was that we lost some 50% of our turnover and had to successively downsize the organisation in response to steadily declining volumes. Towards the end of the year we had to take a serious look at the book value of our assets, and then had to write them down. All in all, an operating loss of 61 million kronor was incurred in Poland.

The organisation has now been downsized to match the lower volumes achieved in 2009, a new management team has been put in place, and I believe we are well positioned to recover, when the market, hopefully, turns back up again.

In 2009 we also integrated the Norwegian and Finnish businesses that were acquired during the second half of 2008. This process has gone as planned. However, the competitive situation in Norway became much keener when a formerly small player in the industry decided to invest in higher capacity. The Danish contracting activities, which declined sharply in 2007 when a municipal reform was introduced, recovered in 2009 and noted a strong performance.

A new organisation was also introduced in 2009, which means that we have concentrated all responsibility for the Group's eight factories under a single management team, all responsibility for contracting activities in 11 countries under another, and all responsibility for material sales under a third. The purpose of this is to enable us to raise productivity, improve flexibility and mobility between different regions on the contracting side, and to rationalise the product range by eliminating overlapping products. The effects of these measures will show through in the result and on the balance sheet during the coming two to three years. One important aspect of this, if not to say a vital element, is to have an effectively functioning IT system. The planning and design of this have been going on for two years and it is now ready for implementation in 2010 and 2011. So far this process has been going ahead as planned.

The Corrosion Protection and Marking Spray businesses in Göteborg were sold in 2009. All that remains of the non-core activities now is a small paint manufacturing business in Finland, which we hope to be able to sell during the current year.

### **Financial developments 2009**

- Turnover amounted to 1,435 million kronor, which is broadly the same as in the previous year. If we take into account the fact that the turnover of the Polish, Hungarian and Russian units was down by some 150 million kronor in relation to 2008, the other units increased their turnover by more than 10%, which is an effect of higher market shares and greater competitive strength on other markets.

- The operating result was a loss of 40 million kronor.
  - √ Poland and Russia lost 70 million kronor, which means that the rest of the business earned a profit.
  - √ The contracting operations in Denmark, Sweden, Finland, the Czech Republic, Slovakia and Romania did well, as did Material Sales to more or less the whole of Western Europe and Ukraine.
- The Group's operative cash flow was positive and amounted to 56.8 million kronor. Large amortisations and write-downs in the year-end accounts depressed the result but did not affect the important cash flow. Capital expenditure was sharply reduced in relation to 2008 and amounted to 58.7 million kronor.
- Invested capital
  - √ The difficulties experienced by customers in financing their activities on account of the general financial turmoil caused accounts receivable to rise in 2008 to a high level, at which they also remained in 2009.
  - √ Of the amounts owing from public sector customers in Eastern Europe that had fallen due by 31 December only a small proportion now remain outstanding. We do not believe there is any risk of credit losses as these customers are national road authorities and, in the odd case, municipalities.

Geveko's customers, especially those on the contracting side, consist almost entirely of public sector bodies whose payment capacity is dependent on the general state of the country's public finances. Recently, a lot of attention has been focused on the indebtedness of various countries, especially after Greece has ended up in a very serious financial crisis. This slide shows various countries' government debt in relation to their GDP.

One of the convergence requirements for membership of the Eurozone is that the government debt may not exceed 60% of GDP. This slide shows that most countries in Western and Southern Europe have a very high national debt, whereas in many countries in Eastern Europe and in all the Nordic countries, that is to say, Geveko's domestic markets, the government debt is relatively low. This will without any doubt have a major impact on future investments in road maintenance and the infrastructure. My view is that in this regard Geveko is particularly well positioned.

### **Follow up of strategic plan**

Geveko's strategic plan, which I have referred to at a number of AGMs in recent years, is based on consolidating and strengthening our position of market leadership in Europe, while also playing a leading role in the necessary consolidation of the road-marking industry. This slide shows where we are now in relation to our plan. We have strengthened our positions on the key domestic markets in the Nordic region. We are going ahead with our acquisition strategy in Eastern Europe.

A number of key areas remain, especially in what we call Operational excellence, i.e. consolidating the positions we have achieved, taking full advantage of the economies of scale and synergies provided by the growth we intend to focus on in 2010 and 2011. This requires a more efficient production structure in our factories as well as our contracting activities, and, naturally, more investment in new products, where we are at the cutting edge with our environmentally friendly, water-based products, prefabricated symbols and intelligent transport systems.

### **Right issue**

At the Extraordinary General Meeting held on 31 March 2010 shareholders resolved in favour of going ahead with the 164 million kronor rights issue proposed by the Board. The issue has been underwritten by Geveko's major shareholders and external institutions. The subscription period expires on 28 April 2010.

The object of the issue is to strengthen the Group's financial flexibility and create long-term freedom of action. We can see in this slide, which shows the position on 31 December 2009 and after completion of the issue, that the company's equity will increase to just under half a billion kronor, that the net debt will be reduced to 252 million kronor, and that the equity ratio and the net debt/equity ratio, two important financial ratios, will have been markedly strengthened.

### **First quarter of 2010**

The activities of the Geveko group are highly seasonal. Only around 7-8% of the annual turnover is attributable to the first quarter of the year. Neither the quarter's turnover nor its result give any guidance as to how the year as a whole will turn out.

The seasonality of the business has been accentuated by the expansion of recent years. This means that the regular losses incurred during the first quarter will increase as the business volume expands. On the other hand, the second and third quarters should see significantly better results than in the past.

As a consequence of the recession, many countries, especially in Western Europe, have decided on stimuli that will have a favourable effect on the market for road markings. Larger budgets for road maintenance will have the most immediate impact for us. Infrastructure investments are also to be welcomed, but they often involve long lead times and our projects, as we all know, come at the end of the chain, about a week before the newly built road is to be opened for traffic. Decisions have been made on the markets in Germany, Belgium, Holland, Norway, Denmark and Finland to step up funding for the infrastructure and road maintenance, which is a good thing. In Great Britain, by contrast, we foresee slacker demand.

As I have already observed, the situation in East European countries is more fragmented. The market prospects in Poland are still weak, possibly last year's downturn will level off. Some budgetary restrictions have been introduced in Romania. The outlook for the Czech Republic and Slovakia looks broadly unchanged for 2010, and in Hungary we can see a cautious recovery from last year's steep decline.

The large infrastructure projects in progress in Eastern Europe for which much of the financing is provided by the EU and the EIB, including the building of motorways in Poland and Hungary, have as yet not been significantly affected by the recession.

On many of Geveko's most important markets contracts are currently being negotiated for road-marking projects for 2010. Based on available information regarding the order intake the overall picture appears satisfactory.

In the winter a decision was made on an action programme, largely involving cost reductions, to boost the annual result by some 60 million kronor. This programme is proceeding as planned and affected the first quarter in the form of cost reductions.

The first quarter's turnover rose by 20% and amounted to 138 million kronor; the increase is entirely attributable to our salt sales business in Hungary. The operating result was a loss of 94.5 million kronor, which is slightly better than the corresponding figure for 2009. The high salt sales had a favourable effect on the result as did lower indirect costs resulting from the cost-reduction programme.

The equity ratio was adversely affected by the strengthening of the Swedish krona as the equity of foreign subsidiary companies was translated into local currencies at lower rates.

#### Conclusion

That brings me to the end of my final address as CEO to Geveko's AGM. I would like to express my deep gratitude to shareholders, Board members and fellow employees, all of whom have contributed with their enthusiasm and dedication to the progress of the Group. We have set off in a new strategic direction, we have taken the first steps, but much still remains to be done. I wish my successor, Stefan Tilk, all the very best, and every success when he takes over the baton after the summer to lead Geveko into the future. I would like to express a particular debt of gratitude to Ove Mattsson, the outgoing chairman of the Board, whose dedication and experience provide me and many others in the organisation with so much support. It has been not only exciting and instructive but also most enjoyable to absorb all the knowledge you have shared with us.

Göteborg, Sweden 26 April 2010

Hans Ljungkvist  
CEO and Managing Director