



WELL ON OUR WAY

President Peter Aru's address at Cardo's AGM, April 2 2007

Mr. Chairman, esteemed shareholders:

Looking back on the financial year 2006, I can see that we laid a good platform for a profitable, growing Cardo. We are well on our way towards achieving our vision of becoming a customer-oriented solution provider and one industrial group with strong growth.

On our way there, we aim to have reached our financial targets in 2008, achieving an operating margin of 10 percent, organic growth of 5 percent and a return on capital employed of 20 percent over a business cycle. With last year's performance, we have shown that we have great prospects of achieving these targets at the appointed time.

Growth increased in all divisions at the same time as we markedly improved the profitability of the group. This is in spite of the fact that we were hit by steep rises in the prices of raw materials during the year, which is something we did not count on when setting the targets, and the fact that we have been engaged in a major process of change involving a new organizational structure since the turn of the year 2005/2006.

Outcome 2006

Our performance in 2006 is an indication of strength of which we are proud. The group's inflow of orders has been increasing for the past seven quarters, and the total rise in 2006 was 11 percent. Net sales for the full year increased by 9 percent on 2005 to slightly less than SEK 8.6 billion. Organically, i.e. excluding acquisitions, the inflow of orders increased by 8 percent and net sales by 6 percent.

During 2006, we grew in most countries in which we operate and enjoyed strong growth in countries outside Europe. This is fully in line with our ambition of increasing our presence in, among other areas, the new emerging markets. Last year, we increased our inflow of orders by 20 percent in Asia, by 14 percent in North America and by 26 percent in Latin America.

Most of Cardo's sales are in Europe. It is, therefore, gratifying that our inflow of orders increased there by 7 percent, particularly in view of the fact that we have seen low or no growth in Europe in recent years. It is also a pleasure to see greater activity in Germany, which is something we have not seen for many years. This is an important market for us, in which we have annual sales of almost SEK 1 billion.

Operating earnings rose to SEK 598 million, as compared with SEK 239 million last year. If I exclude costs of SEK 201 million for the restructuring program that was initiated in 2005, this is still an improvement of 35 percent in operating earnings. A very good result considering the fact that rises in the prices of raw materials had an adverse effect on the group amounting to approximately SEK 40-45 million.

The operating margin amounted to 7 percent in 2006. If we exclude Residential Garage Doors, which is not included in our targets for 2008, we achieved an operating margin of 8 percent. For the entire group, return on capital employed amounted to 15.2 percent, compared with 6.8 percent in 2005. Earnings per share were SEK 13.38, which is a considerable improvement on earnings for 2005 of SEK 4.91 per share.

The Board will later today recommend that the Annual General Meeting declare a dividend that is SEK 1 higher than last year, at SEK 9 per share.



During 2006, the Cardo share enjoyed a positive price trend and rose by 34 percent. During the same period, the index for OMX Stockholm rose by 24 percent.

Door & Logistics Solutions

Door & Logistics Solutions accounts for 48 percent of Cardo's sales. It is our largest division with about 3,000 employees and had sales of slightly less than SEK 4.3 billion during 2006. The operating margin amounted to 8.2 percent.

Crawford, which is the division's corporate brand, offers industrial doors, docking systems and service to selected groups of customers, especially in the transport, logistics and retail sectors. These growing sectors have a large installed base of the products that we offer and are therefore in great continuous need of service. Crawford, which is the market leader in Europe where most sales are made, also enjoys a leading position in China and the Middle East and, in the hangar door field, in the USA. Approximately 40 percent of Crawford's sales relate to service. This gives us a unique position in the market.

Our European sales organization was transformed in 2006 into a new regional model. It is based on four sales regions that are close to the customers, with delegated regional responsibility. The aim is to find synergies between countries in the regions and to shorten decision paths.

In March, we acquired Combursa, a leading provider of docking solutions on the Iberian peninsula. This strengthens our position in this region.

Crawford also began building up a European key account organization during the year in order to coordinate contacts with the international logistics and retail chains. In the course of the year, we entered into agreements on the sale of both products and service with customers such as ProLogis, DHL, FM Logistics, Gefco, Carrefour, Lidl, Hoffer and Metro. In the service field, we are working intensely on offering these customers complete solutions, and during the year the number of new service agreements increased considerably. Among other things, this involves also offering service of our competitors' products. Since it is important that we have similar processes and methods of working, we began a joint training program for our service managers and service engineers in 2006.

The new Romanian production unit that we have decided upon is increasing our presence in the fast growing eastern European market. But it will also, by giving us access to production capacity in what is known as a low-cost area, reduce our production costs. We expect the new unit to be complete at the end of the year. In parallel with the construction of the new plant, we are phasing out a docking plant in Germany. This is, of course, regrettable for the staff affected. But it is necessary for us to achieve our ambition of having the lowest production costs in the industry. The investment in Romania is estimated at SEK 30 million. The cost of phasing out the German operation is estimated to amount to SEK 85 million, whereof SEK 55 million relates to write-downs of fixed assets and the remaining SEK 30 million impacts cash flow. The cost will be charged to the first quarter of 2007. Apart from this, the effect on 2007 is expected to be marginal. As of 2008, we are counting on a positive effect on the earnings of Door and Logistic Solutions amounting to approximately SEK 45 million a year.

To summarize the year: we are well on our way to positioning Crawford as a solution provider that is mainly involved with large international and national expansive customers across Europe as a whole. I am pleased with what we achieved during 2006 and I look forward to a continued positive trend in 2007.



Wastewater Technology Solutions

Wastewater Technology Solutions accounts for 28 percent of Cardo's sales. The division, which had sales of slightly less than SEK 2.5 billion in 2006, has approximately 1,800 employees. Its operating margin amounted to 10.3 percent.

ABS, which is the corporate brand, offers complete solutions in wastewater treatment and wastewater handling applications to public sector customers in particular. We offer a wide range of products, including pumps, mixers, aerators, compressors, control and monitoring systems and service offerings for use in public infrastructure, pumping stations and water treatment plants. There our solutions are an important part of the biological treatment process, but ABS solutions are also used in connection with commercial buildings such as hotels and offices and in residential areas. In addition to this, we also offer dewatering pumps for the construction and mining industries.

In its field, ABS is one of the leading suppliers in Europe, which is the most important market for ABS, followed by North America. Asia, primarily China, and other emerging markets are coming up strongly.

In 2006, ABS continued to implement the strategy we defined in 2004. Among other things, we launched a web-based system for control and monitoring of pumping stations. This is a way of offering our customers value-adding solutions. We received recognition of the fact that we are making progress from the renowned market analysis company Frost & Sullivan. It presented ABS with its "Technology Innovation of the Year Award", citing the fact that ABS focuses on complete solutions with high-quality products.

ABS is also increasingly targeting major key customers. In other words, the large international water companies, which plan, build and operate water treatment plants worldwide. During 2006, ABS also continued to concentrate on emerging markets. In Asia, where we were already represented in Shanghai and Singapore with our own offices, we strengthened our presence with three new sales offices in Beijing, Qingdao and the province of Guangdong in China, where we are also opening an assembly plant during the first half-year of 2007. Through the acquisition of the operation of Style Industries in Australia, we have also gained a good platform for further growth in a well developed water and wastewater market.

With changes to its sales organization similar to those made within Crawford during 2006, ABS also created a regional sales organization in Europe during the first quarter of this year. The aim is the same: to find synergies between countries and to facilitate quicker decision-making close to the customers.

To summarize: the division developed well during 2006. For many countries, the need for equipment to transport and treat water must be met if economic development is to proceed any further. This is a really exciting area and I look forward with confidence to developments within the division, where a new head, Tomas Wängberg, took over this very morning. With this appointment, Cardo's group management team is now complete.

Pulp & Paper Solutions

Pulp & Paper Solutions accounts for 8 percent of group sales. The division had sales of slightly less than SEK 700 million during 2006 and employs around 400 people. The operating margin amounted to 7.9 percent. This is somewhat lower than 2005 and I shall soon return to this. The division consists of two operations: Scanpump and Lorentzen & Wettre. They both target the same customer group: the pulp and paper industry.



Scanpump specializes in process pumps and agitators and is among the global leaders in its niche. Lorentzen & Wettre is the global leader in measuring instruments for checking and improving the quality of paper.

Pulp & Paper Solutions is the most global of Cardo's operations. It is true that most sales occur in Europe, but Asia, North America and Latin America are also important markets for the division.

2006 saw continued implementation of the key account organization, which has proved to be successful. Cooperation between Scanpump and Lorentzen & Wettre intensified in areas that include sales methodology and skills development. During 2006, several new products were launched onto the market. Eighty-five percent of Lorentzen & Wettre's measuring equipment product program now consists of products that were launched during the past 5 years.

Over the years, the development of the pulp and paper industry has had different effects on Scanpump and Lorentzen & Wettre. As a rule, the need for measuring instruments comes later in the investment cycle than the need for the process solutions offered by Scanpump. Lorentzen & Wettre's sales volumes were adversely affected by this towards the end of the year, resulting in consequences for the earnings trend of the division. However, we assess that we have not lost any market shares and we look forward to the future with confidence.

Residential Garage Doors

The Residential Garage Doors division accounts for 15 percent of Cardo's sales. In 2006, sales amounted to approximately SEK 1.3 billion whereof 98 percent in Europe. The number of employees is roughly 800. Happily, we could increase the operating margin to 1.3 percent compared with a negative margin of minus 1.6 percent in 2005.

Residential Garage Doors is one of the leading players in the European market for garage doors. The division markets three different brands: Crawford in the Nordic region and the Benelux countries, Normstahl in central Europe and Henderson in the UK.

During 2006, Residential Garage Doors made an impressive turnaround, moving from negative operating earnings of minus SEK 19 million in 2005 to positive operating earnings of SEK 16 million in 2006. We enjoyed great sales successes with the g30 door series, which is manufactured in Torslanda outside Gothenburg, and with a new Euro door with built-in security features. We continued to develop the concept of dedicated retailers. The increased sales volumes together with a better capacity utilization in production and a number of efficiency measures contributed to the improved earnings.

There is tough competition in the European garage door market. So we cannot be anything other than very satisfied with the improvement in earnings we achieved during 2006. Particularly in view of the rises in the prices of raw materials that have been and are difficult to pass on to our customers.

The garage door division targets the consumer market and in contrast to Cardo's other operations has no service potential. We are therefore, as we have said previously, reviewing our commitment to Residential Garage Doors and hope to find a solution during the fall.

Four challenges for continued growth and profitability

We are now continuing our efforts to create a growing Cardo with increased profitability. This process involves four central challenges. We will increase our revenues in order to grow and generate profitable advantages of scale. To this end, we have produced what we call a sales agenda. At the same time, we are working to a cost agenda, which is about reducing our costs in order to increase profitability and in so doing also strengthen our competitiveness.

In addition, we will develop our service concept, which is an important key to long-term success. And last but not least, we will promote the development of our people, our staff, who will realize our intentions.

1. Increased revenues – Sales agenda for growth

The sales agenda is our strategy for growth. It is based on seven points that are common to Cardo as a whole.

Six of these points are about our organic growth. In my comments to the activities in our divisions in 2006, I have given several examples. Organic growth is the basis of a successful operation and the fact that Cardo is now growing again is an important signal both internally and externally.

Acquisition is the seventh point on our sales agenda. We are searching for and evaluating new acquisition opportunities on an ongoing basis. In the first instance, we are interested in companies with strong market positions in the customer segments where we operate. We are also interested in companies that might establish us in new geographical markets. However, it is necessary to have a good base for the business in order to be able to successfully integrate new companies. We gave priority to creating this base in 2006.

2. Reduced costs – Cost agenda for profitability

In parallel with our sales agenda, we are also working on reducing our costs by constantly rationalizing our internal processes with the aim of creating more efficient sales, order processing, production, logistics and service.

We have also reduced costs as part of the restructuring program that we presented towards the end of 2005. These measures gave savings of SEK 125 million already during 2006. The program is continuing according to plan and we are counting on saving SEK 55 million this year and the remaining SEK 20 million during 2008.

We will now continue to grow and strengthen our profitability. We are seeing good market conditions right now. We assess that the market trend for our products and services will be generally relatively favorable during 2007. This provides conditions for continued organic growth for the group as a whole. At the same time, we expect the prices of raw materials to remain high. We also expect that there will be continuing difficulties for Door & Logistics Solutions and Residential Garage Doors in passing on the price rises to the customers.

It is extremely important that we have control of our costs at every stage. And that for every activity we carry out, we ask ourselves whether or not the customer will be prepared to pay for it. If not, we should change our priorities.

3. Service

And so to our third challenge – service. At Cardo, we have long talked about the importance of service and we have been successful in this field for many years. It is here that we can make the greatest difference and generate great value for our customers. The customer segments that we prioritize are those where the function of our products is critical to the business. This is a condition for our customers to be able to quantify the value that we add. Because the fact is that service is often not at the top of the agenda as long as the equipment works.

But if a door or docking system jams, an incoming trailer truck cannot unload its goods. A large number of local delivery trucks on the other side of the warehouse are delayed and this has consequences for the entire logistics flow. Or if an aeration system in a water treat-

ment plant is unreliable, the quality of the biological treatment process is put at risk. At the end of the day, this may involve a risk of health problems and environmental problems. Or if a broken pump on a paper machine stops production at a cost of hundreds of thousands of Swedish kronor an hour. In such cases, the customer value that we generate is quantifiable, and service becomes a priority for the customer.

Service is our pathway to continued success. Today, we already have more than 1,000 service engineers worldwide who together make slightly more than 600,000 service visits a year. Our people are ambassadors for what we stand for, and are building and developing our customer relations every day.

4. People

It is people who realize our intentions, both internally as well as externally when we meet our customers and collaborative partners. Continued development of our staff is therefore our fourth central challenge. All our staff, regardless of where they are in the world, must be involved in generating positive energy that gives them strength and the willingness to develop the group in the long term. A Cardo where decisions are delegated so as to be as close to the customer and the center of events as possible. Which is based on our staff having such a clear picture of our strategy that they give priority to what takes us in the right direction. Having staff who make the right decisions straightaway generates pace in the organization. This is important, since it is the companies that can react rapidly to the preferences of the market and the customers that will win the game.

Achieving this requires good leaders who can break down and clarify goals and strategies and transform them into action. Leaders who themselves respect our common values and who support, encourage and challenge the organization. We are therefore continuously developing the group's managers and leaders. During the year, we evaluated 400 managers. These evaluations will be the basis of continued skills development and learning.

During 2006, we also implemented a staff survey, which, among other things, showed that our people are positive to our new way of working. This is promising for the development of Cardo.

This is my picture of what is most important for Cardo right now and the challenges that we face. We are continuing to make determined efforts to achieve our long-term vision of becoming a customer-oriented solution provider and one industrial group with strong growth. Considering the results we generated in 2006 and how much we have achieved during the past two years, I can state that we are well on our way.

Thank you.