EAC

EAC Annual General Meeting on 27 March 2012

Chairman's report

[Slide 3: Supervisory Board's report by Henning Kruse Petersen]

[Slide 4 – Eventful 2011]

2011 was an interesting and eventful year for EAC.

As you may know, our ambition is to grow our two businesses into strong and independent companies – each with its own identity and a convincing scale making it attractive to investors.

We have worked on the geographical expansion and increasing the activities in order to recreate the size and results corresponding to what was given up with the sale of EAC Industrial Ingredients in 2010.

The strategy is based on EAC's fundamental objective of creating shareholder value, and we are convinced that the true value of our businesses is expressed far better when they are independent of each other and of EAC.

[Slide 5 – Consolidation of Santa Fe]
The first important step in the consolidation of Santa Fe was the acquisition of the Australian moving and relocation company, WridgWays. We acquired the company in December 2010. The acquisition doubled revenue in one stroke and added a large continent to Santa Fe's strong Asian platform.

We thus reinforced our leading position in the extensive and attractive growth regions in Asia and Australia, and we created a unique basis for further exploitation of the market opportunities. It enabled us to a far greater extent to deliver what is requested by our customers, i.e. *comprehensive international solutions* of high quality. We have further distanced our competitors in the region, and we definitely have not been disappointed by the customer reaction.

Consequently, we were also convinced that continued geographical expansion was the right way to go.

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[Slide 6 – Consolidation of Santa Fe]
After thorough analyses and negotiations we could publish the agreement in May 2011 of the acquisition of Interdean – Europe's leading provider of moving and relocation services (MR).

The step to Europe was in every way substantial. Firstly, the acquisition resulted in yet a doubling of the Santa Fe business. It is also essential to stress that the 35 new markets added by the acquisition was an ideal supplement to Santa Fe's existing geographical coverage. There was no overlap.

The Interdean acquisition also gave access to a unique portfolio of large European-based but globally operating companies. Customers with employees posted in growth regions all over the world, and which now can see a substantial advantage in having one service supplier serving them directly in more than 50 countries in Europe, Russia, the Middle East, Asia and Australia.

The acquisition of Interdean was completed on 1 August 2011, and now seven months later the new big Santa Fe Group is well on the way of integrating its activities and creating a common management platform which will make the Santa Fe consolidation a success.

These initiatives have brought us significant steps farther towards the realisation of our strategic ambition of turning Santa Fe into a company of a scale and a strategic potential justifying an independent stock exchange listing.

[Slide 7 – Strengthened foundation in Plumrose]
In Plumrose, we have also worked intensively on the pursuit of the objectives in the strategy plan of strengthening the business through targeted investments.

We invest with borrowed money which makes good sense when you operate in a high-inflationary economy as it is the case in Venezuela. And that applies to an even larger extent as we are favoured by a number of advantageous conditions as a food producer.

First and foremost this gives the possibility of financing growth through so-called "agro loans" on which we pay a fixed interest of 13 per cent annually. When the inflation concurrently deteriorates the purchasing power by 30 per cent, it does not leave much doubt that this is a sensible way of using the resources. In addition, we benefit from a number of privileges which makes it highly attractive for us to expand our activities. This gives us a unique possibility to continue strengthening the platform for the long-term value creation and thus reach the ambition of also turning Plumrose into an independent company operating within the remaining EAC frame.

In February 2011 we signed the agreement to acquire the Venezuelan food producer, La Montserratina. With this acquisition we added a perfect match of new quality products, strong brands and additional production capacity. Practically simultaneously with this acquisition we opened a new large and efficient national distribution centre which ensure an ideal starting point for the continued strengthening and expansion of the Plumrose activities.

We are still on the look-out for new acquisition opportunities which can contribute to further strengthening of the business. In principle, the growth strategy also include geographical expansion to for instance Brazil and Ecuador where there has been a positive economical development in recent years.

However, the regulation of currency transfers out of Venezuela leaves us with limited possibilities of completing any acquisitions outside Venezuela. Still, we continue to evaluate alternative possible expansions, and our focus is primarily on continued strengthening of the position of Plumrose in Venezuela.

[Slide 8 – Good results in 2011]
Looking back on a year where the international markets were affected by economical slowdown, debt crisis, turbulent finance and share markets and international political drama, it is encouraging to be able to present a financial statement which confirms that both of the good business models continue to create growth and value. I think that the numbers in the annual report document this statement. Let me go through it here:

[Slide 9 – Income statement]
Revenue increased from DKK 3.9bn in 2010 to DKK 6.3bn in 2011. Excluding organic growth the numbers are influence by:

1. The acquisition of Australian WridgWays for the entire year
2. The acquisition of Interdean, which was included in the statement as of 1 August 2011
3. Plumrose' acquisition of La Montserratina
4. Also, they have implemented price increases in Plumrose, which were driven by the high inflation in the country and which contributed considerably to the increased revenue.
5. Finally, the exchange rate development also contributes to the total positive picture.

Earnings before interest, tax, depreciations and amortisations– i.e. EBITDA – excluding other taxes amounted to DKK 573m compared to DKK 329m last year. This resulted in a total EBITDA margin in both businesses of 9.1 per cent.

The financial items resulted in a total net income of 7m. The financial items for the year include – on the negative side:

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1. Foreign exchange losses
2. Interest expenses and fees, primarily in connection with loans in Plumrose.

Factors on the positive side:
1. Hyperinflation regulations with a net monetary gain of DKK 195m.

Associated companies contributed with DKK 2m from the remaining activities in Thailand which were not included in the sales agreement regarding Industrial Ingredients.

Taxes are calculated at DKK 97m compared to DKK 137m in 2010.

The share of minority interests was DKK 80m – i.e. somewhat higher than the DKK 26m last year. This is primarily due to the high pig prices in Venezuela which result in a high profitability in the Procer pig farm.

In total, EAC's share of the result in 2011 was DKK 162m. Please note that the comparative figure of DKK 735m last year is highly influenced by the proceeds of the sale of Industrial Ingredients. When deducting that, the real comparative figure is DKK 188m.

[Slide 10 – Balance sheet]
EAC's share of equity at the end of the year was slightly under DKK 2.7bn compared to DKK 2.4bn last year.

The increase is due to the following i.a.:
1. Inflation adjustments in Plumrose
2. Net profit for the period

In return this was counteracted by:
1. Exchange rate adjustments
2. Purchase of treasury shares
3. Dividend payments during the year.

Cash and cash equivalents amounted to DKK 629m. The comparative figure from this item was also influenced by the sale of Industrial Ingredients.

Return of invested capital was 16 per cent compared to 11.3 per cent in 2010. The improved return was primarily owing to the increased profitability in Plumrose.

At the end of the year, the equity ratio was 44 per cent and thus continue being at rather a satisfactory level.

[Slide 11 – Development and results]
With these words I'll give the word to Niels Henrik Jensen, who will take you through the development in both businesses in more detail.

[Slide 12 – Santa Fe Group among the leading service providers in the world]
In 2011, we lifted Santa Fe from being among the market-leading *regional* companies to a whole new league among the *world's leading* service providers of moving and relocation services.

[Slide 13 – Effective integration in Santa Fe]
The two big acquisitions leading the way for this quantum leap was carried through in only eight months, and it has naturally required quite a lot of attention among management and employees in the three merged organisations and in the parent company.

During the integration process we focused on creating a common platform for sale and marketing in the new Santa Fe Group. We have created a strong common visual identity to be applied effectively in the marketing of the company. Going forward it consists of Santa Fe's red horse as the shared logo, but is supported by the three regional company names: Interdean, WridgWays and Santa Fe, all of which individually represent high goodwill and recognition in their respective markets. In 2012, WridgWays thus celebrates its 120-year anniversary. We have consolidated sale and marketing of the entire group in its new head office in London, as it is close to important decision-makers of the European-based multinational companies.

A common group technology plan is being prepared so we can optimise and coordinate all aspects of the operation. The integration of the Australian organisation, WridgWays, is practically in place. The integration of Interdean was initiated in mid-August, and we have come a long way in this process as well. We have held two management seminars with participants from all units in order to align the future strategy and strengthen the integration efforts.

It is a good and efficient process, and we are pleased that it has been so well received among customers and partners. Consequently, we are also starting to see the positive sales effects with new multinational customers signing up and expanding existing agreement compensating for the agreements lost with former partners in Europe and Australia as we now are their direct competitors all of a sudden. That is also part of the price – and we knew that beforehand.

[Slide 14 – Positive market development and growth]

At the same time we have been favoured by a positive market development. This development is driven by the very dynamic economies in Asia which have quickly returned to high growth and rapidly increasing FDI as a consequence. Also the continued growth in the Australian mining industry affects the demand positively. Therefore, in spite of the global financial crisis, we have experienced a total rise in the number of relocations, and especially relocations to Asia, Australia and the Middle East are growing. All in all, this formed the basis for a solid increase in both moving and relocation services in all our geographical regions. We also continued the expansion of the Asian records management business with a higher level of activity in the existing markets and continued expansion of the geographical coverage.

[Slide 15 – Results affected by acquisitions]
When we look at the income statement, it is, of course, also affected by the two acquisitions.

Revenue was DKK 1.8bn. This is equivalent to an increase of 184 per cent in local currencies and slightly less when transferring to DKK. Earnings – EBITDA – was DKK 155m corresponding to an increase of almost 125 per cent. This results in an EBITDA margin of 8.6 per cent which is lower than last year. This is primarily a result of earning margins in Europe, and thus also in Interdean, are lower than what we are used to seeing in Asia and Santa Fe. Earnings in Interdean have nevertheless been on the rise lately, and we expect that the implementation of Santa Fe's efficient service concepts, transfer of best practice and economics of scale in general will contribute to a fast return to the previous level.

[Slide 16 – 2012 outlook]
In 2012, we expect the positive development in the moving and relocation industry will continue with continued FDI's in Asia and growing economies in both Asia and Australia. We do not expect economical growth in Europe, but we expect that the strengthened business platform will be able to attract more new customers and partners in the coming year.

2012 will be the first year in which we report for the entire Santa Fe Group including the full year for both acquired businesses. The results will thus also be our new basis for comparison going forward. We expect revenue of about DKK 2.5bn and an EBITDA margin of about 8.5 per cent.

[Slide 17 – Acquisition strengthens position]
As mentioned by the Chairman, we also expanded the business in Venezuela through an acquisition, and the integration of the new activities has been completed with good results.

[Slide 18 – Efficient sale and marketing]

Plumrose has built up an extremely efficient sale and marketing machine. The acquired product portfolio is now fully integrated, and through the year it has be relaunched in a new packaging and efficiently promoted – also in a large number of new regional markets in Venezuela.

Efficient sale, marketing and a number of new product launches have by and large been the drivers behind the positive business results during a year with challenging market conditions. The high inflation reduced continuously the consumers' purchasing power, and even if the Venezuelan economy generally developed positively due to the high oil prices, the total market for basic food decreased by 10 per cent. Still, Plumrose managed to strengthen its position within the most important product categories.

A crucial criterion for operating a profitable business in a highly inflationary economy is to be able to raise prices in accordance with the inflation rate. Also in this field Plumrose documents positive results. Backed by the strong brands which are highly recognised by the consumers and by its solid position in the market, Plumrose has succeeded in implementing price increases for the entire product portfolio without losing market shares or market acceptance.

[Slide 19 – Results driven by price increases]
This is also indicated when turning to the financial results:

According to historical accounting policies revenue increased by 34.1 per cent in USD and by 26.6 per cent in DKK to DKK 3.7bn. Growth was primarily driven by the price increases carried out throughout the year, but also the higher revenue from the acquired La Montserratina is included. EBITDA rose by 36.6 per cent in USD and by 27.8 per cent in DKK. This resulted in an EBITDA margin on par with the previous year.

[Slide 20 – 2012 outlook]
We expect continued high inflation in the coming year driven by large public spending prior to the election in October. We also expect the underlying economy to continue its positive development with GDP growth of around 4 per cent. Labour contracts are due for renegotiation which will influence costs, and the intense political attention on price increases will put earning margins under pressure in the coming year. Still, we expect that through intense marketing, continuous product launches and efficiency improvements to realise revenue of around DKK 5.6bn and an EBITDA margin of about 9.5 per cent (reported hyperinflation accounting).

[Slide 21 – Report from the Supervisory Board]
With these remarks I give the word back to the Chairman.

Thank you to Niels Henrik Jensen.

[Slide 22 – Work of the Supervisory Board]
As usual, I would like to give a few comments on the work of the Supervisory Board the past year. Apart from the regular, formal tasks, we have, of course, focused on follow-up and execution on the group strategy in the two businesses. In that connection, we held both actual meetings and a number of phone conferences which ensure an efficient decision process. It is important to us in this process to have a close dialogue with the management teams in both businesses, and during the past year we have met with them several times – both on their home turfs and ours. That has been very beneficial.

A more tedious reoccurring item on the agenda of the Supervisory Board are the outstanding dividends and royalties which we still have not received from Venezuela. I have addressed this item on several general meetings, and at times I have been quite confident that a solution to the problem was imminent.

Unfortunately, I must ascertain today that the Venezuelan authorities did not keep their promise even if they promised to allow the payment on several occasions.

Naturally, the authorities do not act without political backing, and it is striking that the present government in Venezuela simply do not prioritise private enterprise – and in praxis do not recognise the value of the businesses contributing to the development in the country.

We continue our pressure, but in reality I cannot say when there might be any news in the matter. In the meantime we make sure – as I described earlier on – that the money is not only deposited on an account being eaten up by inflation. No, the money is being invested and activated in new value creation in the business.

The primary election has just been held in Venezuela, and when the people are going to elect their next president in October, it will be the first time in twelve years that the opposition is united behind one trustworthy candidate and thereby presents a real alternative to the present government.

However, we also hear that the incumbent president, Hugo Chavéz, is ill, and consequently we expect much political and market uncertainties in the coming months. But regardless who is in government after the October election, we do not expect that the conditions will change from day one.

We will, of course, keep EAC's shareholders informed about the development and report when there is relevant news in this regard. But let me make it absolutely clear that we have operated in Venezuela for more than 50 years under changing governments, and no matter who is in power, we will continue running our business with clear focus on the creation of long-term value creation to our shareholders.

[Slide 23 – Supervisory Board remuneration]
The fee to the Supervisory Board for 2012 is part of the formal annual general meeting, and we suggest that the fee is unchanged so that the Chairman receives DKK 600,000, the Deputy Chairman DKK 450,000 and the two other members each DKK 300,000.

[Slide 24 – Management incentive programme]
Previously, we had a share-option programme for the group management. This programme ran over three years and expired in 2009, but options remain to be settled, and we keep a holding of treasury shares to cover this. Let me stress that the terminated programme in EAC in praxis turned out to be not very to the managers involved, and as you can see from the chart behind me, it is only one of the three grants which is not ”under water” despite the positive development of the share price during the last couple of months.

The first portion of share options in this programme was given in 2007 a share price of DKK 278. This was equivalent to EAC's share price at that time – plus 10 per cent – which is completely in line with common praxis for such programmes. The share price of DKK 278 is equivalent of a total market value of DKK 4.6bn. It is striking that Plumrose *alone* at that same time was estimated to have a value of more than two billion DKK in average among the analysts. And I can guarantee that the quality of the business has not been reduced since then – on the contrary.

On 21 March 2012 the entire EAC market value was 2.1bn. Normally, it is not good form to comment on value assessments made by the market, however, it is difficult to hold back a certain astonishment how little the underlying value creation in EAC is reflected in the share price.

On this basis, we in the Supervisory Board are not of the opinion that a traditional share option programme would be the right solution under the present group conditions. We want to find a model which makes the right incentives for the management teams in both businesses where the management remuneration in one business is not reliant of the results and developments in the other. We are convinced that independent programmes for each of the business units will create the best possible basis for the continued value creation and thus also to the advantage of EAC's shareholders. We will, of course, inform you of the results of these considerations once available.

[Slide 25 – Next strategic steps]
In 2012, we have come quite a long way with the strategy execution, and we can see that the initiatives are leading us in the right direction. In the coming year we are to complete the integration of the new units and further prepare the businesses for their independence.

Our specific ambition is for Santa Fe in the second half of 2013 or no later than during 2014 to have established a value-creating and well documented business that it forms the basis of an IPO.

The financial target is that in the course of the coming three years we will built the company to have an annual revenue of DKK 3bn and an EBITDA margin of about the very attractive 9-10 per cent, which we have delivered in Santa Fe historically.

The exact timing is, of course, dependent of how the share markets and the global economy develop during the intervening time. But as the point of departure we regard it as an absolutely realistic objective.

As of 1 January 2012 we have the foundation of the management set-up which will prepare the company for a stock exchange listing. We have established a holding company for Santa Fe managed by an independent supervisory board with EAC's President & CEO Niels Henrik Jensen as chairman and with Connie Astrup-Larsen and Mats Lönnqvist from EAC's Supervisory Board as rank-and-filer. Furthermore, we are currently looking for industry peers to supplement this board with relevant competences, experience and network within Santa Fe's line of business.

The commercial management of the Santa Fe Group has moved from Hong Kong to London, which will be the setting for the new global head quarter under the leadership of Santa Fe's CEO, Lars Lykke Iversen, and his team. London is an international nerve centre for business, investment, transport etc., and it is close to the main part of Santa Fe's customers and business partners in Western Europe and the USA. We will take stock of the markets before deciding where the future IPO will take place.

The newly elected board and the experienced management team in Santa Fe will in the year to come work systematically on realising and visualising the value creation i the company in order for the price to be as attractive as possible. An indicator for a future value assessment of Santa Fe could be based on what we have paid for the two companies which we have acquired the past year and which are on par with our peer group. Here the price is equivalent to about eight times the company EBITDA.

If this level also applies for Santa Fe, it is easy to calculate the value of Santa Fe to be higher than the current market value of all of EAC. The IPO proceeds will, of course, go to EAC's shareholders.

Subsequently, Plumrose will be the only future activity in EAC. We will then stand with a focused business and a more pure share which investors can relate to. Plumrose is a dynamic, market-leading and extremely profitable business in a large country with a considerable market potential, still. Alone the assets ensured by Plumrose with our insurance companies represent more than 400m USD or about DKK 2.25bn.

We are convinced that a split-up of EAC will make it easier to understand the values in both our businesses. Ultimately, it will be up to the markets to decide, of course. But we in EAC's Supervisory Board, Executive Board and management teams carry on with the intensive work to further develop the businesses and make the potential and value creation actually entailed visible.

[Slide 26 – Dividend and share buyback]
We propose today that a dividend of DKK 5 per share is paid. This is equivalent of a total dividend payment of DKK 62m.

As part of the strengthened cash contingency plan – i.a. for dividend payment- we have decided to allocate an extraordinary dividend from Plumrose to the parent company of a total of 12m USD.

Last year we managed to buy USD denominated Venezuelan bonds. Such emissions are allocated by the government, and it was both unexpected and unusual that we were offered such an allocation. Nevertheless, we saw it as an attractive opportunity to acquire convertible currency, and it is the proceeds from the sale of these bonds at a price of 6.12 which we are using to fund the extraordinary dividend payment.

The dividend is not connected to the previously mentioned approved dividends and royalties from previous years which we still have owing to us at exchange rate 4.30. But the bond sale renders us with the possibility of getting money out of Venezuela – though at a higher rate than what we in principle are guaranteed through the official system. On the other hand this is real cash.

Today we also suggest that the Supervisory Board is authorised to buy treasury shares. It is a standard authorisation, but also an indication that we continuously will consider the possibilities of carrying through actual share buybacks when the necessary liquidity is available.

[Slide 27 – Group outlook for 2012]
Let me round off by summarising our expectations to the Group results in 2012

For all of EAC we expect revenue around DKK 8.1bn.

Group EBITDA margin before interest, taxes, depreciations and amortisation is expected around 8.5 per cent.

The outlook is based on an average USD exchange rate of 5.60 for 2012 and an official rate in Venezuela of 4.30.

For the sake of good order I would like to end the outlook by underlining that we live in a changeable world and are daily exposed to financial and market risks beyond our control.

[Slide 28 – Thank you to management and employees]
I hope that this report has given you a good insight into the development of EAC's two businesses and our ambitions for road ahead. I would like to finish by thanking the management and employees in the entire Group for their great effort and commitment behind the good results which we achieved in 2011. I look forward to continueing that in 2012.

[Slide 29 – Thank you for your attention]
Thank you for your attention.