

## CEO's message

As 2013 progressed it grew clearer that the world economy is returning to a period of improved growth, even though this development was weaker than anticipated in emerging markets. What is particularly interesting and which benefits Industrivärden's investments, is that it is now the developed economies that are showing increasingly stronger signs that the effects of the worst financial crisis in our time are beginning to trail off. These signs of higher growth are most apparent in the U.S. In Japan we can also see positive effects of the country's expansionary policies – the so-called Abenomics – even though consumers are still clutching hard to their wallets. From a global economic perspective, it is good that inflation is now rising in Japan and that the country's economy appears to have removed the threat of deflation. In euroland, the negative trend has slowed, and signs of a turnaround could be seen not only in Germany, but also in the countries hit most severely by the financial crisis, such as Spain. France, on the other hand, is still a major source of concern, with an increasingly stagnant economy and lack of necessary reforms toward a clearer market economy. It is positive to see that the UK is showing signs of a stronger recovery than anticipated.

Sweden has managed relatively well through the crisis, despite the fact that the Central Bank of Sweden has kept short-term interest rates unnecessarily high, which has hampered the country's export industries through an excessively strong Swedish krona, all else unchanged. Swedish growth could have been stronger in 2013, and the high level of unemployment could thereby have been lower.

In pace with investors' ever-brighter outlook for the future, the world's stock markets – led by the U.S. – performed very well in 2013. In addition, there are two other factors – both functions of the prevailing views on economic growth – that have been at least as significant for the positive development. First, risk aversion has subsided, entailing that the willingness to invest in higher risk assets has risen. Second, long-term interest rates have begun rising, albeit from a very low level. Added to this is the fact that the U.S. Federal Reserve Bank has started tapering the QE stimulus program. Taken together, these factors indicate that the bond rally that has continued during the entire crisis is now on its way to an end. As a result, a large volume of liquidity will now be searching for returns in other assets. This is good news for equities, which have not performed as well as bonds, commodities and gold since the turn of the millennium.

In 2013 the Stockholm Stock Exchange rose 23%, while in the U.S., the S&P 500 index gained a full 30%. For Industrivärden's Class A stock the price increase was 18%, mainly owing to weaker performance for Volvo, Sandvik and SSAB. Industrivärden's net asset value, including reinvested dividends, grew 24% to SEK 155 per share. The total return for the Class A and C shares was 23% and 18%, respectively, compared with 28% for the return index. However, our business is long-term in nature, and our performance should therefore be evaluated from a longer time perspective. For the longer 5-, 10-, 15- and 20-year periods, Industrivärden's stock has generated a higher average annual total return than the Stockholm Stock Exchange. This comparison is even stronger in comparison with a European or world index.



In this relatively favorable stock market climate, Industrivärden has carried out a number of good deals that have contributed to growth in net asset value and created better balance in the portfolio. In 2013 we sold our holdings in Höganäs and Indutrade for SEK 1.5 billion and SEK 3.3 billion, respectively, which freed up a total of SEK 4.8 billion. Of these funds, we invested SEK 2.4 billion, including SEK 0.5 billion in a rights issue, in ICA Gruppen, and SEK 0.5 billion in the Finnish company Kone.

In early 2013 Industrivärden was given the opportunity to acquire 10% of the shares in the new ICA Gruppen. Through our total investment of SEK 2.4 billion we are now a part-owner of one of the leading retail companies in the Nordic countries. The total return for ICA Gruppen's stock was 81%, and the holding today is worth SEK 4.0 billion.

We have also built up a small holding in the Finnish elevator manufacturer Kone. The company matches our investment criteria in many respects, and the investment was made in consensus with Kone's principal owner.

In early 2013 we divested our shares in Indutrade, a company that we built up ourselves and introduced on the stock market in 2005. We stayed on as an owner until 2013, and during the 24 years that we served as an active owner in Indutrade, the company's sales grew from SEK 1 billion to SEK 8 billion, with good profitability. This favorable development is also reflected in our return on the investment. Based on a modest investment of approximately SEK 300 M, we have received total,

aggregate cash flows of approximately SEK 6.7 billion, of which roughly SEK 1.7 billion consisted of dividends and Group contributions, etc.

The second major deal during the early part of last year was the sale of our holding in Höganäs. In connection with a decision by the company's principal owner, Lindéngruppen, together with a partner to make a public offer for Höganäs in order to further develop the company outside of the stock market, we opted to sell our shares. During the nine years that we served as an active owner of Höganäs, our growth in value was SEK 0.7 billion on an investment of SEK 0.8 billion.

To be sure, the business of investing is a central part of an investment company's mission. Industrivärden's most important duty, however, is to serve as a long-term active owner in order to influence and support the development of its portfolio companies. This is mainly achieved through active board work and other contact interfaces in the respective companies. During 2013 our holdings were characterized operationally as well as in terms of their stock performance by the divergent economic trend we have seen during the last 18 months. Overall, the economy has performed well during this period. But in our traditional industrial companies, like Sandvik, Volvo and SSAB, order bookings have fallen since the euro crisis gained new momentum in summer 2011. This negative trend continued until September 2013. This stands in contrast to the financial sector, where the banking systems have rebounded and activity has increased, with favorable performance for the banking sector.

Handelsbanken's Swedish branch operations are performing well, with good profitability, and the bank scores considerably higher in customer satisfaction surveys than the industry as a whole. Outside Sweden, the bank has continued to grow organically on the merits of Handelsbanken's tried-and-tested model for growth. Handelsbanken now has 161 branches in the UK and 18 in the Netherlands. The new branches are based on Handelsbanken's decentralized organizational model and have quickly shown good profitability. Handelsbanken's stock performed strongly during the year and closed the year at a new all-time high. We think it is unfortunate that the Swedish government has shown a clear unwillingness to make necessary adjustments to Swedish corporate governance principles in the implementation of the EU's CRD IV bank-

ing directive. By strictly limiting the number of permissible directorships for a board member of a bank, the scope for action is being restricted in a well-working corporate governance model. This will hurt not only the banks, but the industrial sector as a whole.

SCA's stock also performed well, owing to the accomplishments of the major transformation carried out by the company in recent years, and rose 40% in 2013 to an entirely new level and all-time high at year-end. This happened in tandem with the company's revaluation as a consumer and hygiene products company. SCA has managed to successfully integrate the European tissue operations it acquired from Procter & Gamble and Georgia Pacific, with substantial synergy effects. Moreover, the company has strengthened its cost effectiveness, considerably accelerated its pace of innovation, and adapted its forest products business to changed market conditions. The cash flow that is generated in the European operations can now be used for continued expansion in emerging markets. It is therefore gratifying that SCA, through its public offer on the Hong Kong Stock Exchange, secured majority ownership of slightly more than 50% in the Asian tissue company Vinda. This creates a platform for further expansion in China, one of the world's largest and fastest growing markets for tissue products.

Sandvik is currently in the midst of a change process aimed at accelerating growth and strengthening profitability, while dampening the effects of future economic swings. In 2013 the Machining Solutions and Materials Technology business areas showed favorable earnings and signs of improved demand. Through its Sandvik Mining business area, Sandvik has large exposure to the international mining sector. The business has experienced a sharp decline in order bookings over a number of quarters in pace with cuts in investments being made by mining companies. This is ultimately an untenable situation, since existing mining operations are in need of extensive replacement and development investments. In the long term, Sandvik Mining is without a doubt a business area with good prospects for growth and high profitability. The restructuring that is now being carried out – including both short-term capacity adjustments and long-term structural measures – bodes well for Sandvik's prospects to benefit from the fundamentally favorable development potential for the business area. In the Construction and Mining business

## HIGHLIGHTS 2013

### Net asset value

- Net asset value at year-end was SEK 155 per share (129), an increase of 24% (29%) for the year including reinvested dividends.

### Total return

- The total return for Industrivärden's Class A shares was 23%, which is 5 percentage points less than the return index.
- The total return for Industrivärden's Class C shares was 18%, which is 10 percentage points less than the return index.
- For the longer 5-, 10-, 15- and 20-year periods, Industrivärden's Class C shares have generated a higher total return than the Stockholm Stock Exchange. This performance is even better in comparison with the European and World indexes.

### Equity transactions during the year

- Stocks were purchased for SEK 6,916 M (3,262) and sold for SEK 8,305 M (2,149). Stocks were sold for a net amount of SEK 1,389 M (-1,114).
- In order to build net asset value and to create a better balance in the portfolio, a number of major transactions were carried out in 2013:
  - *New, long-term ownership position in ICA Gruppen*  
Acquisition of 10% of the votes and capital in ICA Gruppen, one of the leading retail companies in the Nordic region. The investment totaled SEK 2.4 billion. At year-end 2013, the market value of the holding was SEK 4.0 billion.

areas, where demand has been very weak, restructuring programs are currently under way to adapt operations to the market and to develop an improved customer offering.

Modern-day Volvo has been created through a series of major acquisitions – in both the trucks and construction equipment segments – financed by the sale of Volvo Cars in 1999. Volvo is now in the midst of a major phase of change, with the introduction of a new, functional organization and improvements in cost effectiveness. The aim of these measures is to better capitalize on the efficiency improvement and synergy effects created by a global manufacturing and business system, with a number of different brands. The ultimate aim is to increase Volvo's profitability while making the Group more resilient to cyclical fluctuations. For Volvo, order bookings for trucks have stabilized at the same time that the group's largest model renewal programs for the Volvo, Renault, UD Trucks and Eicher brands have been very well received by customers. The market for construction equipment has gone through a tough period, and Volvo has taken measures to make the necessary adaptations.

Through a determined effort Ericsson is today one of the few companies that can offer end-to-end solutions for all major standards for mobile communication. The company has been especially successful in the profitable services segment, which today accounts for roughly half of Ericsson's total sales. In 2013 Ericsson won several important contracts for the fourth generation mobile network (LTE), where it has a leading position. The scope of the recently announced patent settlement with Samsung illustrates the value of Ericsson's substantial R&D activities.

Skanska continues to further develop its proven successful model for international construction and project development activities. Following an expansion of its construction business in the U.S., Skanska has now also established the company's model for infrastructure and commercial real estate development projects in the U.S.

SSAB, like the European steel industry as a whole, has struggled with high commodity costs, overcapacity and soft demand. The merger with Rautaruukki is therefore a logical deal that will generate tangible cost

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synergies. SSAB is issuing new shares and acquiring Rautaruukki. Industrivärden has declared its intent to stay on as a principal owner in the new company.

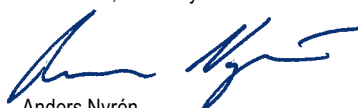
During the past year Industrivärden's Class C stock reached price levels that make it profitable to convert our convertible loan 2010–2015. During 2013, 12% of the convertible loan 2010–2015 was converted to new Class C shares.

Our short-term trading posted a strong profit of SEK 140 M during the year, which again exceeded our management costs, which corresponded to 0.17% of managed assets. Our short-term trading has now earned roughly SEK 1.2 billion since the start in 2003.

The Board of Directors proposes a dividend of SEK 5.50 per share, which entails that – as in previous years – we have achieved our goal of paying a dividend yield that is higher than the average for the Stockholm Stock Exchange.

2014 marks 70 years since Industrivärden was founded, and Industrivärden's stock has performed well since the company's stock market introduction. Given our know-how and resources, combined with our portfolio of well-positioned quality companies, I see great potential for continued, competitive growth in value for Industrivärden.

Stockholm, February 2014



Anders Nyrén  
President and CEO

#### ■ Holding in Höganäs sold

Sale of entire holding in Höganäs for SEK 1.5 billion to H Intressenter. Industrivärden's total return during the time of its holding was 11% per year, compared with 10% per year for the total return index.

#### ■ Holding in Indutrade sold

Sale of entire holding in Indutrade for SEK 3.3 billion. During the holding period since 1989, Industrivärden's initial investment of approximately SEK 0.3 billion generated receipt of cash flows totaling SEK 6.7 billion.

#### ■ New investment in Kone

A shareholding has been built up in the Finnish elevator manufacturer Kone. The market value of the holding is SEK 0.9 billion.

#### Favorable profit from short-term trading

■ Short-term trading generate a profit of SEK 140 M, and the management cost was SEK 130 M, or 0.17% of managed assets.

#### Conversion begun of first convertible loan

■ In 2013, 5.5 million new Class C shares were issued, corresponding to 12% of the convertible loan 2010–2015, as a result of requests to convert convertibles to stock.

#### Proposed dividend

■ The Board of Directors proposes a dividend of SEK 5.50 per share (5.00), corresponding to a dividend yield of 4.5% (4.6%) for the Class C shares, compared with 3.7% (3.5%) for the Stockholm Stock Exchange.