

Clas Reuterskiölds Speech to AB Industrivärdens Annual General Meeting on May 11, 1995

Ladies and gentlemen, shareholders and CPN-owners in Industrivärdens!

The economic debate during the past year has in large degree been a discussion about crisis. For certainly, the Swedish State's finances are far from under control. However, the negative development and finances of the Kingdom of Sweden do not necessarily mean that Swedish companies also have financial problems. On the contrary, many companies - particularly export-oriented ones - are showing favorable growth for 1994. Industrivärdens companies are no exception. Quite the opposite! For Industrivärdens, 1994 was the best year ever in terms of results, with reported earnings after taxes of no less than one and a quarter billion kronor.

While I feel great satisfaction with our reported earnings, I am nevertheless obliged to note that our portfolio of listed stocks - adjusted for purchases and sales - performed below the index. In my comments to the Annual Report I point out that it is of questionable value to judge the quality of a stock portfolio by looking only at a short time period, since stocks should be seen as a long-term investment. I have received further support for this view in that our listed portfolio thus far this year has performed better than the Stockholm Stock Exchange's General Index.

AGA, Ericsson, SSAB and Handelsbanken - four companies in which Industrivärdens is a dominant and long-term stockholder - have all presented their first quarter results. In each case, the companies are showing favorable development. Thus both AGA and Ericsson improved their earnings by nearly 50 percent compared with the same period a year ago. SSAB's profit amounted to a full SEK 1.2 billion, compared with SEK 2.1 billion for all of 1994. Even Handelsbanken's earnings are impressive, with profitability that has far exceeded the competitors for many years running.

I look forward to the reports from our two other large holdings with great confidence. Although they have not yet been released, I nevertheless dare say that our entire portfolio of listed stocks is of very high quality.

An extensive account on the operations of our wholly owned subsidiaries is presented in the Annual Report. So I see no need for any additional comments today - with one exception: PLM.

Therefore let it suffice to say that Inductus, Indutrade and Fundament improved their earnings at the same time that they are providing a high, stable return on capital employed.

DIVESTITURE OF PLM

One of the main items of business at today's Meeting is to decide on the Board's proposal to sell PLM, giving preferential rights to Industrivärdens stockholders and holders of CPN, to purchase stock in the company. Against this background, some comments on PLM's situation are in order.

Industrivärdens acquired PLM at the end of 1987/beginning of 1988. This acquisition was made in view of the fact that we saw major potential to improve PLM's earnings and value through active ownership. Among other things, we were interested in speeding up the restructuring that had been initiated at the company, entailing a focus on the packaging operations. One of the first measures Industrivärdens took as an owner was to divest the waste management company Sellberg, whose business was far removed from that of a packaging company.

When it comes to the packaging business, PLM has expanded its Beverage Can Division since 1988 through the acquisition of a formerly half-owned can factory in Berlin, a can factory in Recklinghausen, Germany, and the Austrian can company Austria Dosen. On top of this, we built a brand new can plant in La Ciotat, outside Marseilles, for roughly SEK 700 M.

In the Glass Division, we acquired Redfearn, a listed British glass company, through a public takeover bid. The glassworks in Hammar were closed and the Norwegian company Moss Glassverk was acquired.

The operations of the Plastics Division have been concentrated in recent years to a handful of product areas, with a view to achieving a strong market position in those areas. The main product today is the refillable PET bottle, used mainly for packaging soft drinks and mineral water. Today the PET bottle accounts for nearly half of the Division's sales. Within the framework of the concentration program, more than ten units for non-priority plastic packaging products have been sold or closed.

The final step in PLM's restructuring was carried out in 1994 with the divestiture of the company's Food Can Division. This sale generated capital gain of more than SEK 200 M, while releasing a full SEK 500 M in capital for the benefit of PLM's other divisions.

OPTIMAL STRUCTURE FOR PLM TODAY

When Industrivärden acquired PLM in 1987/88, PLM was a diversified company in the true sense of the word. Today PLM is a strongly focused packaging company, three-fourths of sales go to Europe's largest producers of beer, soft drinks and mineral water, while the remainder mainly goes to wine and liquor producers and the food industry. I don't hesitate to assert that PLM has now found its optimal structure on the whole, at the same time that it has become one of Europe's three or four largest manufacturers of beverage packaging.

From my description of PLM, it is clear that I am highly confident about PLM's structure. Surely some may ask if the same is true about PLM's earnings trend, particularly in light of the results PLM reported a few years ago.

Clearly, earnings were weak in 1992, and even more so in 1993. However, there were reasons for this - above all, the overcapacity that existed in the beverage can market, parallel with generally weak demand in Europe due to the deep recession. Compounding the matter was consumer resistance to by canned beverages in Germany due to an inadequate deposit and recycling system. Nonetheless, the problems were clearly defined and strong measures were taken by PLM's management. Cost-cutting and productivity improvement were chief components in the program carried out within all the company's units.

At the 1993 Annual Meeting, my predecessor Carl-Erik Feinsilber prognosticated for PLM "a strong recovery by 1994, which will put the company on track again in 1995". This prediction may have seemed bold, however, Mr. Feinsilber knew PLM well and the forecast has thus far been right on target. The earnings improvement since the low point in 1993 has been vigorous, and our view today is that PLM in 1995 will show a profit after net financial items, but before nonrecurring items and taxes, of about SEK 500 M.

WHY DIVEST AND WHEN?

With this said, there should be no doubt that I have a favorable view on PLM's structure, market position and earnings trend. With this in mind, you may then ask: Why have we announced our interest in divesting PLM?

One principal reason is that such a sale is well in line with our business concept of acquiring, refining and - at a suitable point in time - realizing the value appreciation were achieved. I want to stress that our intention to sell the company is not based on a view that PLM's earnings will peak in 1995 and thereby be followed by a decline. On the contrary - we have an optimistic view of PLM's future development. This is reflected in our intention to keep 20 to 25 percent of the shares for our strategic stock portfolio. Consequently, even after the sale, Industrivärden will continue to be a dominant and influential owner of PLM. Thus it is our hope and belief that the buyers of PLM's stock as well as Industrivärden will see continued good value appreciation.

Selling PLM right now, however, would not be appropriate. The Swedish stock market has shown considerably instability in recent months. The stock price trend has been erratic, with sudden reversals due largely to fluctuating interest rates. Investors are being selective and the stock brokerages' end-customer volumes have been small. The national budgetary situation has led to major uncertainty. In January and February a large outflow of foreign capital took place. However, during March we again saw an inflow of foreign capital. Nevertheless, in my opinion it is too early to draw the conclusion that foreign investors have regained their confidence in the Stockholm Stock exchange and Sweden.

Another reason to wait with PLM's sale is that several stocks introduced during the year are today being sold at below their original listing price, at the same time that one already started introduction - and presumably several planned introductions - have been postponed due to the uncertainty in the stock market.

There are two reasons why - despite the current market situation - we have brought the issue of the sale of PLM to the annual meeting's consideration. One is our hope that the situation will have stabilized later in the year. This hope is pinned on, among other things, the fact that many listed companies will be releasing positive earnings reports and that the prevailing uncertainty over the supplementary government bill and labor market negotiations will thus subside. This hope may be groundless, however, which could entail a further delay in the sale. Should this happen, it may not be interpreted as if a promise had been broken. Poor development after such a sale is hardly in the buyers' interest. As experience has shown, a weak price trend associated with a market introduction has a tendency to continue also in the longer perspective.

THE AGM DECIDES

The other reason we have taken this issue up for consideration today is that it is the Board's intention to sell the shares with a discount with preferential rights to Industrivärdens stockholders and holders of CPNs. Since such a discount from a legal standpoint may be considered as a dividend, then it is only natural that the Annual meeting make a decision on this matter.

The Board's proposal is that maximum of 75 percent of the shares shall be made available for sale with preferential rights. This future was chosen to provide high flexibility. However, there may be reasons to reduce the percentage available with preferential rights. One such reason is that an international spread of ownership should be in the interest of both PLM and PLM's future stockholders. This would further underscore PLM's position as a leading, pan-european packaging company, while giving the company access to a larger capital market in the event of future need.

During the past year Industrivärdens has been paid visits by a number of investment banks, all of which have offered their services for the eventual market introduction of PLM. In connection with these visits, the banks have also presented their assessments, which across the board have been in the range of SEK 4 billion. Bases on these valuations, the Board has proposed that the price to be paid by the stockholders shall amount to a value corresponding to SEK 3.2 billion for all of PLM. Thus the proposal entails that stockholders who exercise their preferential rights will receive a discount in the range of 20 percent.

"Don't sell your chickens before they've hatched" are words of wisdom worth consideration. Bearing this in mind, naturally the question arises about what we will do with the cash proceeds once PLM has been sold.

Allow me first to make it clear that the sale is not being prepared to finance any concrete, planned investment. Rather, as I said earlier, the sale should be seen in light of the fact that it is a natural part of an industrial holding company's operations to occasionally capitalize on some of the value appreciation it has achieved.

HOLDING COMPANIES COST EFFICIENT

A principal task of an industrial holding company is to offer its stockholders a spread of risk. The company achieves this spread of risk by investing its capital in a range of different securities - preferably stocks.

An alternative way for personal investors to achieve a spread of risk would be to purchase shares in a mutual fund. However, I would have to point out that a major advantage of investing in an industrial holding company is the holding company's low administrative costs. Administrative costs of mutual funds commonly run at 1,5 percent of total assets per annum, while the holding company's administrative costs are well under half a percent. And although one percentage point difference may not sound like a lot, when compounded over a several-year period, the difference is substantial.

INDUSTRIVÄRDEN'S STRUCTURE

As an industrial holding company, Industrivärdens strives to achieve a spread of risk through holdings both of listed stocks as well as of stocks in wholly owned subsidiaries.

Industrivärdens's portfolio of listed stocks consists mainly of a limited number of strategic holdings. Our ambition is to be the largest or second-largest stockholder in these companies. As a large, long-term owner, we can also have a seat on the companies' boards and through active participation on those boards, influence the companies' development and thus even their growth in value.

Industrivärdens has a long tradition of refining and managing subsidiaries. Our approach is based on decentralization. At the same time, we have well-working routines for follow-up and strategic planning. The restructuring of PLM I described earlier, as well as Inductus' and Indutrade's high profitability, clearly show the effectiveness of our work methods.

Even after the proposed sale of PLM, Industrivärdens will continue to be an industrial holding company. Our ambition is that the cash proceeds from PLM will be used to broaden our stockholdings. In addition to strategic holdings in listed stocks, medium-term investment in listed stocks will be made with a view to achieving value appreciation and capital gains. Medium-term investments are also natural pending the opportunity to acquire additional, major, strategic holdings or acquisitions for subsidiaries. The companies in the Inductus Group will thus continue to be engineering companies with good cash flows. A good cash flow also characterizes Indutrade, whose expansion is expected to continue.

FAVORABLE FIRST QUARTER

Finally, a few words on developments thus far this year. Our earnings for the period January through March, after net financial items, but before nonrecurring items and excluding gains on sales of listed stocks, have risen from SEK 32 M in 1994 to SEK 105 M this year. PLM, Inductus and Indutrade have improved their earnings, while Fundament's profit is unchanged. The value of the listed portfolio as per May 5, 1995, was SEK 10.6 billion. Adjusted for purchases and sales, the value appreciation was 11 percent, compared with 7 percent for the General Index.

Industrivärden's net worth - which amounted to SEK 314 per share at yearend 1994 - was SEK 329 per share on May 5.

FORECAST UNCHANGED

Developments thus far in 1995 have been entirely in line with our plans. This means that the forecast I gave in the Annual Report remains: that Industrivärden's - including PLM - earnings after financial items but before gains on sales of stocks and nonrecurring items, will rise from SEK 775 M to approximately SEK 900 M.

Decisions Made at Industrivärden's Annual General Meeting

Industrivärden's Annual General meeting was held in the Vinterträdgården at the Grand Hotel on May 11, with Chairman of the Board Bo Rydin presiding.

- The Meeting adopted the parent Company and Consolidated Income Statements and Balance Sheets, which can be found in the Annual Report.
- The Meeting decided to raise the dividend by SEK 1 to SEK 10 per share. CPN interest thereby amounted to SEK 11.50 per CPN. The record date for payment of dividends was set at May 16, and thus dividends and CPN interest are expected to be paid via the Swedish Securities Register Center (VPC AB) on May 23.
- The following directors were reelected: Inga-Britt Ahlenius, Bo Rydin (chairman), Carl-Erik Feinsilber, Tom Hedelius (vice chairman), Stig Ramel, Clas Reuterskiöld (president and CEO), Marcus Storch and Sverker Martin-Löf (deputy director).

Bertil Edlund and Ulf Pernvi were reelected as auditors, while Margareta Essén and Bertil Johanson were reelected as deputy auditors all of Öhrlings Coopers & Lybrand AB.

- The Meeting decided that a maximum of 75 percent of the shares in PLM AB may be sold with preferential rights for Industrivärden's stockholders and CPN holders, at a minimum sales price corresponding to the price of SEK 3,200 M for all shares in PLM. The decision is conditional upon the decision of Industrivärden's Board to carry out the sale during 1995