

President and CEO Clas Reuterskiöld's Address to Industrivärden's Annual General Meeting

Honored shareholders and holders of convertible participating notes in Industrivärden, ladies and gentlemen:

During the 1990s, the decade we just put behind us, we witnessed a rapid development of the Swedish and international stock markets. Trading volume on the Stockholm Exchange was SEK 104 billion in 1990, or SEK 0.4 billion a day. In 1999 the corresponding values were 25 times higher, or SEK 2,609 billion and SEK 10 billion, respectively. This trend continues, and daily trading volume in the current year has amounted to nearly SEK 20 billion.

Today's stock market is characterized by a fast pace and also often by sharp swings. The time when most stock trading was conducted by the banks' trust departments is long past. A new and highly paid group of professionals – the analysts – has sprouted up. Newspapers have dramatically expanded their coverage of business events and the stock markets. Modern and effective information systems are continuously feeding news to the markets, which is stimulating stock trading.

In the newspapers we can read about a small, new, but growing group of participants in the stock market – day traders. These are individuals who make a living trading stocks by taking advantage of price fluctuations during a given day.

This group will never account for more than a small portion of total trading in the market. On the other hand, we can see that modern people practically everywhere are taking a greater interest in equities, especially as a means of securing their finances for retirement and senior years. This rapid growth in savings is taking place directly in stocks, but even more so indirectly – through insurance companies and mutual funds.

In pace with this increase in activity, competition for investors' favor is rising. By continuously drawing attention to themselves and publishing news on a regular basis, companies are seeking to boost investor interest and increase their valuations. The parade of dot-com companies headed to the stock market, which have gained a large following of shareholders, is a clear example of this heightened interest.

Faced with this changing stock market, as shareholders you are surely asking the question: does a holding company like Industrivärden have a role to play in the New Economy?

My answer is an unequivocal yes! At Industrivärden we have been continuously adapting to the new situation, even though our investment horizon is characterized by a long-term approach. We create value for our shareholders through analysis and active ownership. This management method works well and has given Industrivärden's shareholders a solid return over the years.

It is true that we do not issue spectacular news every day and every moment. But this does not due to any lack of activity at Industrivärden or in the companies in which we serve as active owners.

When I gave my first address to Industrivärden's Annual General Meeting in 1995, roughly 45 percent of our assets consisted of wholly owned subsidiaries. Today this share is below 10 percent. This change has taken place partly because our shareholders wanted it to. At the same time, we have earned substantial capital gains from the value built up in these companies. This has contributed considerably to our own favorable performance on the stock market.

In pace with the scaling down of our wholly owned operations, major reallocations have been made in our portfolio of listed stocks. Holdings like PLM and, now, most recently, AGA, have disappeared. The holding in Sandvik has been added. Additional shares have been bought in Skanska, Handelsbanken, and Ericsson.

A medium-term portfolio, as we call it, including shares in Skandia, has been built up. Our analysis indicated early on that Skandia's stock would be a winner. This enabled us to make purchases at what

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are today comparatively low prices. In all we have bought SEK 1.6 billion in Skandia stock – an investment that has grown to more than SEK 9 billion today.

Another noteworthy feature in our medium-term portfolio is our focus on the pharmaceutical sector. Granted, this sector performed weakly during the past year. However, we did not see this as a threat, but as an opportunity to buy stock at attractive prices, since our judgment was – and is – that drug stocks will enjoy good growth in value over time. We have taken advantage of the opportunity to buy stock in the American company Pfizer, in the Danish company Lundbeck, in Pharmacia and in Karo Bio. Our holding of pharmaceutical stocks today is worth SEK 2.7 billion, or four percent of the total portfolio value. For our part I can see additional investments in this sector, at the same time that I can say that our pharmaceutical stocks have performed well in recent months.

The continuous changes that have taken place in IndustriVärden's portfolio – not least with a greater focal point in growth stocks – are a key explanation for the favorable return that has been created for our shareholders. Equally important, however, are the changes that have taken place in the companies in which we are major owners. Our policy is to influence developments in the portfolio companies through active ownership. It would be presumptuous to take credit for everything that has happened in these companies. But I will say without hesitation that the directors nominated by IndustriVärden, by virtue of their competence, commitment and driving role, have made a very significant contribution to the positive development of the portfolio companies.

Ericsson is today one of the world's largest companies in terms of market capitalization. Last year, however, the company got off to a weak start in terms of earnings as well as its stock price. Added to this was a substantial, negative cash flow. Following an action program adopted during the summer, this trend was reversed, and Ericsson finished the year with the best quarterly results ever and the regained confidence of the stock market. This positive trend has continued with undiminished intensity in the current year.

A significant event at Sandvik in 1999 was the sale of the Saws and Tools business area and a concentration on the three remaining business areas: Tooling, Mining and Construction, and Specialty Steels. Although earnings were hurt by the repercussions of the Asian crisis, the negative effects were limited through extensive cost-cutting. Sandvik reported improved earnings as well as strong order bookings during the final quarter. The current fiscal year has gotten off to a good start, even though the stock price has been lagging thus far following a good trend in 1999.

Since its acquisition of PWA a few years ago, SCA has been working intensively on concentrating its operations in more consumer-oriented and thus less cyclical products. In 1999 the fine paper business was separated to a company that is jointly owned with MoDo/Holmen. SCA will be divesting its ownership in the newly formed company. As a result of measures taken to date, the priority Hygiene and Packaging business areas today account for more than 80 percent of SCA's sales, with favorable earnings development.

Skanska is continuing its work on refocusing and concentrating its operations in construction and project development. During the past year the company sold off additional noncore assets. The divestment of the shareholdings in Scancem, SKF and Piren have generated more than SEK 10 billion. Some of these funds have been invested in the core business through acquisitions of construction companies in Argentina, the U.S., and most recently, in Norway and Poland. The released funds will also be used for a share repurchase and for a bonus dividend to the shareholders.

Through this brief review of events during the year at IndustriVärden and in the companies in which we are major owners, I hope that I have described convincingly how IndustriVärden also has a given place in the New Economy. We have proven that our model of analysis, active ownership, and long-term approach works. And as I note in my letter to the shareholders in the Annual Report, we have also succeeded for a number of years in giving our shareholders an annual return that is roughly three percentage points higher than the average for the Stockholm Exchange.

On March 10 the new law allowing companies to repurchase their own shares went into effect. This law was long awaited, particularly since Sweden was one of the few countries in the western world in which stock buybacks were not allowed.

Industry and the financial markets have undergone a sweeping internationalization in recent years. Particularly against this background, it is important that our laws, across the board, give Swedish companies the same conditions as foreign listed companies have. Divergent Swedish rules can present an obstacle to investment in Sweden and/or make Swedish as well as foreign investors choose to place their investment capital in stock markets outside Sweden.

At IndustriVärden we look favorably upon this new opportunity. As active owners we have also been instrumental in decisions to carry out share repurchases by Handelsbanken, Skanska and SSAB.

The use of repurchases has risen rapidly during the last five years – in the U.S. and in Europe. There are many reasons why repurchases have become so popular. Some of the most important ones are

- * to elevate the share price
- * as part of a company's dividend policy
- * as a hedge for bonus and incentive programs
- * as an efficient means of adapting a company's capital structure.

With regards to the first three motives, the rules stipulate restraint concerning the use of a stock buy-back to elevate the share price, and IndustriVärden's bonus programs are not that large that they need to be hedged. Nor is using a buyback as an alternative to paying a dividend suitable in view of the special tax rules that apply for holding companies, such as the right to deduct dividend payments.

A holding company's task is to invest the funds put at its disposal by the shareholders in a diversified, balanced-risk portfolio of securities. By definition, then, a holding company does not have any surplus capital. This can only be true, however, if the holding company manages its assets in a satisfactory manner.

At IndustriVärden, we have set the objective that our portfolio management should generate a higher average return for our shareholders than the stock market average. As I just mentioned, we have delivered on this pledge in good measure.

If in the future we should not succeed with this goal, the situation would come into another light. But that is not the case now. At the same time, I have a firm belief in our ability to continue giving our shareholders a good return in the future.

One recurring view is that a share repurchase program can be used to reduce a holding company's discount to net asset value. Unfortunately, I cannot find any solid reasons why this should be the case – in theory or practice.

Another view often set forth is that with a high discount to net asset value, there is hardly a better investment alternative than a repurchase of own shares. As appealing as this reasoning may sound, in my view it is entirely illogical. In such case, the best option would be to liquidate the company entirely, and for such a measure there are better methods than repurchasing shares.

Having said this, it should be apparent that my view, and that of the Board, is that a large share repurchase program is not suitable for IndustriVärden. There may be occasions, however, in which a limited program could be of value. Examples of such situations are repurchases intended to improve the company's debt-equity ratio and/or to use repurchased shares at a later date as payment in a major deal. Therefore, in order to have some freedom of action in this matter, the Board has recommended that the Meeting decide to authorize the Board to purchase a maximum of 5 million shares on the market, which could subsequently be sold or transferred in some other way. I should mention, however, that it is far from certain that the Board will exercise such a mandate, especially since a holding company does not have any actual cash flow and therefore must finance a share repurchase through disinvestment or debt. Added to this is the fact that a holding company must safeguard its equity

since, because of the discount to net asset value, it is more or less impossible to strengthen the capital base through a new issue.

My intention here has been to present my views on the matter of a share repurchase. I will return to this matter under point 12 of today's agenda.

Recently the issue of the voting power of Ericsson's Class A shares has come up for discussion. This issue has many aspects, several of which are based on subjective judgments and assessments. Here I would like to comment only on one aspect, namely, the difference in value between Ericsson's A and B shares.

During the 1990s, the average price difference between these share classes was about 10 percent. However, the variations have been large. Currently the difference is only a few percent. A few years ago it was nearly 50 percent. For IndustriVärden, the difference back then was substantial, and such a difference could just as well arise again.

Refraining from any such substantial surplus value without compensation is a matter that IndustriVärden's board can not reasonable take responsibility for on its own. Therefore, should the issue of reclassification of the shares come to a head, naturally I see it as a matter that should be dealt with by a general meeting of IndustriVärden's shareholders.

Finally, a word on the future. As I pointed out earlier, IndustriVärden has been very successful at achieving the targets it has set in recent years. I am also very confident about the future. Against the backdrop of this status, today I informed the Board that I wish to leave my position as CEO of IndustriVärden by the next Annual General Meeting. I gave my notice at the same time that I had the pleasure to report strong development during the first quarter of this year to the Board and the stock market. Our portfolio of listed stocks grew by more than 20 percent in value, or 6 percentage points better than the index. The surplus value of the portfolio grew by more than SEK 10 billion. Our subsidiary operations are showing sharp earnings improvement and profitability that is far better than our internal goal of 20 percent. These figures show with desired clarity the high quality of our listed portfolio and subsidiaries. At the same time, they underscore my optimistic view of IndustriVärden's future.

Thank you for your attention.

Clas Reuterskiöld

IndustriVärden's Annual General Meeting was held on May 5 at the Grand Hotel in Stockholm, at which the following decisions were made.

- The AGM decided to raise the dividend by SEK 0.50 per share and to pay a bonus dividend of SEK 1.20 per share, for a total dividend of SEK 6.20 per share. CPN interest was thus SEK 7.13. The record date for the dividend was set at May 10, and thus the dividend and CPN interest are expected to be paid out through VPC on May 15.
- Directors reelected to the Company's Board were Bo Rydin (Chairman), Inga-Britt Ahlenius, Carl-Erik Feinsilber, Tom Hedelius (Vice Chairman), Lennart Nilsson, and Clas Reuterskiöld (President and CEO). Finn Johnsson joined the Board as a newly elected Director, since Björn Wolrath declined reelection. Finn Johnsson is CEO of Mölnlycke Health Care and a director on the boards of Perstorp, Skanska, and Volvo, among other companies.

The accounting firm Öhrlings PricewaterhouseCoopers AB was elected at the 1999 Annual General Meeting to serve as auditors for the period through the 2002 Annual General Meeting.

- The Board was authorized to make decisions on purchases of the Company's own stock on the stock market and on transfers of the Company's own stock on the stock market or in another manner during the period up until the next Annual General Meeting. Purchases will be allowed of up to 5 million shares of the Company's stock at the market price prevailing at the time of purchase. Transfers on the stock market will be allowed at the market price prevailing at the time of transfer. Transfers in another way will be allowed at a market price determined by the Board of Directors.
- A proposal from HQ.SE Strategifond, which owns shares corresponding to 0.5 percent of the votes and 0.6 percent of the capital stock, to authorize the Board to purchase the Company's own stock, up to one-tenth of all shares in the Company, for the purpose of thereafter canceling the acquired shares by reducing the capital stock, was recalled at the initiative of HQ.SE Strategifond.