

## Interim Report January 1 – March 31, 1999

### Total Return Better than Index

- *The value of the portfolio of listed stocks rose by 4 percent during the first three months of the year, compared with 6 percent for the General Index. Through April 30 the value of the portfolio had increased by 15 percent, while the General Index had increased by 11 percent.*
- *Net asset value was SEK 166 per share and CPN on March 31 and SEK 184 per share and CPN on April 30.*
- *Total return for Industrivärden's Class A stock for the period January 1 – April 30, was 19 percent, compared with 13 percent for the Findata total return index.*
- *Consolidated earnings after financial items totaled SEK 125 M (185) for the first quarter. Of this amount, gains on sales of stocks accounted for SEK 110 M (162).*

### EARNINGS<sup>1</sup>

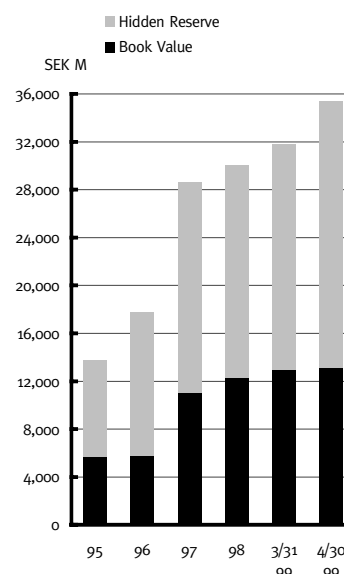
Consolidated net sales amounted to SEK 1,099 M (1,115). Earnings after financial items totaled SEK 125 M (185). Of this total, gains on sales of listed stocks amounted to SEK 110 M (162).

### DEVELOPMENT FOR PORTFOLIO OF LISTED STOCKS

The market value of the portfolio of listed stocks as per March 31 was SEK 31,821 M (year-end 1998: SEK 30,043 M), and the hidden reserve was SEK 18,817 M (year-end 1998: SEK 17,749 M). Adjusted for purchases and sales, growth in value since the beginning of the year was 4 percent, compared with 6 percent for the General Index.

During the first three months of the year, purchases of listed stocks totaled SEK 995 M, while sales totaled SEK 529 M. Thus stocks were bought for a net value of SEK 466 M. Major purchases consisted of 2,660,000 Ericsson, 900,000 Volvo, 92,100 Pfizer, 550,000 Skandia, and 1,000,000 Mandator. Major sales consisted of 1,430,000 Astra (the entire holding) and 1,500,000 Ericsson (of which, 700,000 were borrowed shares). The sales from the listed

Market Value of Listed Portfolio and Hidden Reserve



<sup>1</sup>

Industrivärden has ownership stakes in AGA, Ericsson, SCA and Skanska which exceed 20 percent of the number of votes after full dilution. The consolidated income statement and balance sheet presented in this interim report do not include any part of these companies' reported earnings.

portfolio resulted in a capital gain of SEK 110 M.

### PRICE TREND FOR THE SIX LARGEST SHAREHOLDINGS

The trend during the first quarter for the six largest shareholdings, which accounted for 84 percent of the portfolio's value on March 31, was as follows:

<u>Company</u>	<u>Share of portfolio value on March 31, %</u>	<u>Price change, Jan.-March, %</u>
Ericsson	31	2
Handelsbanken	13	-16
Sandvik	12	16
SCA	10	2
AGA	9	-4
Skandia	9	23

*Ericsson* performed worse than the General Index during the first quarter, although with large positive and negative deviations. At its highest, Ericsson's stock was up 14 percent, while at its lowest it was down 8 percent.

*Handelsbanken* has long had better profitability than the average for Sweden's other commercial banks. Despite this, its stock performed worse than both the banking and financial services index and the General Index.

*Sandvik* performed better than the General Index as well as the engineering index. Stock in cyclical companies like Sandvik and SSAB had strong growth during the first quarter.

*SCA's* strategy of gradually increasing the share of high value-added products has led to a positive and stable earnings trend in recent years. However, during the first quarter, SCA's stock performed worse than both the forestry index and the General Index.

*AGA* performed worse than the General Index, but on a par with most of its competitors in the international gas market.

*Skandia* clearly outperformed the General Index. The shareholding in Skandia, which has been acquired gradually since 1995, has had very good value appreciation.

The market value of the portfolio of listed stocks on April 30 was SEK 35,412 M, and the hidden reserve was SEK 22,265 M. Adjusted for purchases and sales, the portfolio grew in value by 15 percent since the beginning of the year. The General Index rose by 11 percent during the same period.

### INDUCTUS

Inductus' net sales amounted to SEK 660 M (695), which entails a decrease of 5 percent compared with the first quarter of 1998. Earnings after financial items totaled SEK 34 M (35).

### INDUTRADE

Indutrade's net sales amounted to SEK 422 M (410), an increase of 3 percent compared with the first quarter of 1998. Earnings after financial items totaled SEK 31 M (38).

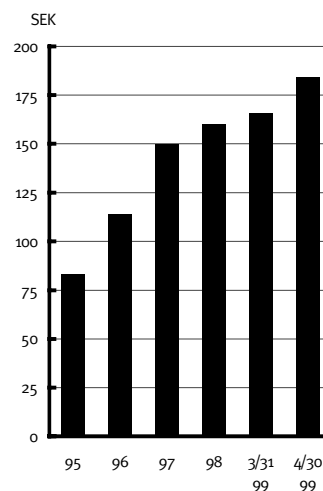
**CALCULATED NET ASSET VALUE**

Industrivärden's net asset value<sup>2</sup> on March 31 has been calculated at SEK 31.8 billion, or SEK 166 per share and CPN. Net asset value as per April 30, 1999, has been calculated at SEK 184 per share and CPN.

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Net Asset Value per Share  
and CPN

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Stockholm, Sweden, May 4, 1999

Clas Reuterskiöld  
President and CEO

**AUDITORS' EXAMINATION**

This interim report has not been examined by the Company's auditors.

**FINANCIAL CALENDAR**

An interim report for the period January–June will be released on August 18, 1999.  
An interim report for the period January–September will be released on November 4.  
A year-end report for the 1999 financial year will be released on February 15, 2000.  
The Annual Report for 1999 will be distributed at the end of March 2000.

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<sup>2</sup> Composition of net asset value is shown in the table on page 9.

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**IndustriVärden Consolidated Income Statement**


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SEK M	<b>1999</b>	1998	1998
	<b>Jan.-March</b>	Jan.-March	Jan.-Dec.
Net sales	<b>1,099</b>	1,115	4,580
Cost of goods sold	<b>-732</b>	-745	-3,057
<b>Gross earnings</b>	<b>367</b>	370	1,523
Development costs	<b>-19</b>	-21	-83
Selling costs	<b>-182</b>	-178	-741
Administrative costs	<b>-107</b>	-104	-431
Other operating income and expenses	<b>0</b>	1	8
<b>Operating earnings</b>	<b>59</b>	68	276
Dividend income from listed stocks	<b>2</b>	1	1,067
Capital gains on sales of listed stocks	<b>110</b>	162	974
Capital gains on sales of other stocks	<b>-</b>	-	29
<b>Earnings before financial items</b>	<b>171</b>	231	2,346
Interest income	<b>8</b>	4	17
Interest expense (excl. CPN interest)	<b>-59</b>	-53	-232
Other financial items	<b>5</b>	3	17
<b>Earnings after financial items</b>	<b>125</b>	185	2,148
CPN interest	<b>-25</b>	-21	-101
<b>Earnings before taxes</b>	<b>100</b>	164	2,047
Tax on earnings for the year	<b>-10</b>	0	-129
<b>Net earnings for the year</b>	<b>90</b>	164	1,918

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**Breakdown by Business Unit**

SEK M	Net sales		Earnings after financial items	
	1999 Jan.-March	1998 Jan.-March	1999 Jan.-March	1998 Jan.-March
Inductus	<b>660</b>	695	<b>34</b>	35
Indutrade	<b>422</b>	410	<b>31</b>	38
Dividends from listed stocks	-	-	<b>2</b>	1
Other, net	<b>17</b>	10	<b>-52</b>	-51
	<b>1,099</b>	1,115	<b>15</b>	23
Capital gains on sales of listed stocks	-	-	<b>110</b>	162
	<b>1,099</b>	1,115	<b>125</b>	185

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**IndustriVärden Consolidated Balance Sheet**


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SEK M	<b>March 31 1999</b>	March 31 1998	Dec. 31 1998
Intangible assets	<b>103</b>	94	101
Tangible assets	<b>704</b>	708	706
Shares and participations	<b>13,099</b>	11,155	12,382
Other financial assets	<b>77</b>	72	71
Inventories	<b>725</b>	721	718
Accounts receivable, trade	<b>858</b>	874	878
Other current receivables	<b>100</b>	284	117
Liquid assets	<b>817</b>	249	1,200
<b>Total assets</b>	<b>16,483</b>	14,157	16,173
Shareholders' equity	<b>10,059</b>	8,837	9,974
CPN loans	<b>448</b>	450	448
Provisions	<b>328</b>	320	323
Interest-bearing long-term liabilities	<b>1,695</b>	1,266	1,709
Noninterest-bearing long-term liabilities	<b>0</b>	9	0
Interest-bearing current liabilities	<b>2,816</b>	2,369	2,709
Noninterest-bearing current liabilities	<b>1,137</b>	906	1,010
<b>Total shareholders' equity and liabilities</b>	<b>16,483</b>	14,157	16,173
Visible equity ratio, percent	<b>64</b>	66	64
Adjusted equity ratio, percent <sup>3</sup>	<b>83</b>	87	83

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<sup>3</sup> Includes surplus values of listed stocks.

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**IndustriVärden Consolidated Statement of Cash Flows**

SEK M	<b>1999</b>	1998	1998
	<b>Jan.-March</b>	Jan.-March	Jan.-Dec.
<b>OPERATING ACTIVITIES</b>			
Earnings after financial items	<b>125</b>	185	2,148
Adjustment of items not included in cash flows:			
Depreciation	<b>37</b>	36	144
Reversal of result of sales of stocks	<b>-110</b>	-162	-1,003
Reversal of other items not affecting cash flows	<b>20</b>	4	-367
Taxes paid	<b>-96</b>	-19	-58
<b>Cash flow from operating activities before changes in working capital</b>	<b>-24</b>	44	864
Cash flow from changes in working capital	<b>246</b>	-206	-58
<b>Net cash flow from operating activities</b>	<b>222</b>	-162	806
<b>INVESTING ACTIVITIES</b>			
Purchases of listed stocks (incl. stocks received as dividends)	<b>-995</b>	-247	-2,025
Sales of listed stocks	<b>495</b>	355	2,149
Net purchase/sale of other fixed assets	<b>-48</b>	-22	-123
<b>Net cash flow from investing activities</b>	<b>-548</b>	86	1
<b>FINANCING ACTIVITIES</b>			
Loans raised and amortization of debt	<b>-53</b>	35	824
Dividends and CPN interest paid out	<b>-</b>	-	-728
<b>Net cash flow from financing activities</b>	<b>-53</b>	35	96
<b>Net cash flow for the period</b>	<b>-379</b>	-41	903

**Change in net debt**

	12/31/98	Cash flow	Change in loans	Other changes	Outcome 3/31/99
Liquid assets	1,200	-379	-	-4	817
Long-term interest-bearing liabilities	1,709	-	-154	140	1,695
Current interest-bearing liabilities	2,709	-	101	6	2,816
Interest-bearing pension provision	132	-	-	1	133
<b>Net debt</b>	<b>3,350</b>	<b>379</b>	<b>-53</b>	<b>151</b>	<b>3,827</b>

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**Portfolio of Listed Stocks as per March 31, 1999**


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	Number	Market value		Percent of portfolio's value
		SEK M	SEK per share and CPN	
Ericsson	46,520,000	9,909	52	31
Handelsbanken	14,650,000	4,197	22	13
Sandvik	23,000,000	3,772	20	12
SCA	18,382,000	3,272	17	10
AGA	28,615,000	2,947	15	9
Skandia	17,750,000	2,716	14	9
Skanska	8,463,577	2,370	12	7
SSAB	12,046,600	1,240	6	4
Pfizer	530,000	608	3	2
Volvo	2,300,000	491	3	2
Other (<SEK 200 M)		299	2	1
<b>Total</b>		<b>31,821</b>	<b>166</b>	<b>100</b>

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The listed portfolio above included the following stocks which were out on loan:

	<u>Number</u>
Sandvik	33,000
SCA	51,900
SSAB	40,000
Other stocks	12,500

The listed portfolio above did not include 700,000 borrowed Ericsson shares.



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**Composition of Net Asset Value**

	SEK billion		SEK per share and CPN	
	April 30	March 31	April 30	March 31
Listed stocks	35.4	31.8	185	166
Industrial and trading operations	3.6	3.6	19	19
	39.0	35.4	204	185
Other assets and liabilities	-3.8	-3.6	-20	-19
	<b>35.2</b>	<b>31.8</b>	<b>184</b>	<b>166</b>

Total number of shares and CPNs: 191,206,984

The portfolio of listed stocks has been valued at current market value. The industrial and trading operations have been valued using a P/E multiple of 15 (the same as at year-end 1998), based on current forecasts of the companies' earnings for 1999. The P/E multiple for the engineering industry according to the Affärsvärlden equities indicator was 21 at year-end 1998, 19 at the end of March, and 23 at the end of April 1999.

For data pertaining to the composition of net asset value on all reporting occasions during the past five years, see "The Analysis Tool" on IndustriVärden's website.

## **Clas Reuterskiöld's Speech at Industrivärden's Annual General Meeting, April 21, 1999**

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

It is with great satisfaction to note that interest in Industrivärden has risen sharply in recent years. Thus the number of shareholders and holders of CPNs today amounts to nearly 30,000, compared with 23,000 five years ago. I take this gratifying development as a sign that our conscious efforts at making Industrivärden better known through regular presentations and other measures have yielded results. Naturally, in the future, too, we will maintain a high level of activity in our information and investor relations. One goal in this context is to further increase the number of shareholders and especially foreign ownership.

### **Professional Management at a Low Cost**

Industrivärden's pledge to investors is to provide professional management of an equities portfolio whereby the investor delegates the responsibility to Industrivärden to choose which stocks should be owned and how this ownership shall be exercised. Management is conducted at a cost that is less than 0.2 percent of managed assets. Compared with most fund management, this must be seen as a low cost at the same time that we in my view have all the resources and expertise needed to conduct effective management.

In view of the service that we offer, natural owners of Industrivärden stock are investors without any equities management function of their own, who at the same time are interested in a balanced risk investment. Examples of such investors are foundations, various types of funds, and more or less well-to-do individuals. But it is also our pleasure to note that a large percentage of Industrivärden's stock is owned by large institutions with own fully developed research and management resources.

### **Active, Long-Term Ownership**

Our portfolio management is characterized by continuous analysis of existing and potential holdings. In addition, one objective of our management is to serve as active owners by providing industrial and financial expertise to the portfolio companies. Through board representation we want to have a part in influencing the development and value appreciation of the companies in which we have made major investments. Our work approach requires a long-term perspective. Thus, unlike many other investors, we cannot "vote with our feet," since we would thereby lose our ability to influence.

What, then, do we mean by being active owners? The question has several answers which complement each other. One key role as an active owner is to contribute to effective resource allocation. This entails being ready to assist with capital when warranted. Just as important is ensuring that the company in question does not bind more capital than what is necessary for its operations, since capital should be transferred to the shareholders. Examples of this are SSAB, Skanska and, most recently, AGA.

Another fundamental task is to put demands on the company management concerning the company's earnings and development in general. Making demands can sound more passive than active. But this is not the case. Often it is a thankless task, but at the same time, based on experience it is my firm belief that results don't just happen. Clearly formulated demands require a company's management to make an extra effort to achieve the set objectives, regardless of whether these are expressed in quantitative or qualitative terms. In other words, it is important to make sure that the companies maintain a high level of activity and that they create value that will benefit Industrivärden's shareholders.

On repeated occasions in the past, I have stressed that a board is a team that works on behalf of all a company's shareholders. Therefore, it is not possible to couple a certain measure to the efforts of an individual board member. Thus, in connection with accomplishments in a portfolio company, we cannot issue a statement and present examples of the activity that is constantly being conducted at IndustriVärden. Despite this, I will assert that board members with ties to IndustriVärden have played a decisive role in a large number of matters that have increased the value of the companies in which we are major shareholders.

### **Sale of PLM**

I just pointed out that having a long-term perspective is fundamental to our credibility as an active owner. However, this does not mean that we never exit from a holding. A very recent example was the sale of our holding in PLM. As I point out in the Annual Report, an important factor underlying the sale was the changed market conditions for PLM's products. PLM's management did an exceptional job and, considering the circumstances, the company reported satisfactory earnings. However, the competition and market in general were not ready to actively participate in the necessary restructuring of the European glass packaging market. Added to this was the turn of events in Russia during the past year, with a sharp deterioration in economic and market conditions for the newly constructed can factory outside Moscow. Taken together, these factors gave us reason for concern about PLM's earnings performance in the years immediately ahead. Against this backdrop, neither IndustriVärden nor other shareholders would receive a competitive return on their invested capital. This was the reason for our sale of the shares in PLM and our demand that the buyer at the same time give the other shareholders the opportunity to relinquish their shares according to the same terms.

It is in the nature of things that a holding company with a long-term investment horizon and the ambition of being an active owner cannot present a major business deal every month. Despite this, the sale of the shares in PLM was one in a long line of deals during the past five-year period. As a result, our assets today have an entirely different composition than they did in 1994.

Then, nearly half of the market value of our assets consisted of subsidiary shareholdings, compared with just under ten percent today. Thus during the period we divested the subsidiaries Mont Blanc, Elitfönster and Thorsman/Wibe in the Inductus Group – and the real estate company Fundament – with handsome capital gains as a result. The same applies for the divestment of PLM, which took place in three steps: first a market listing with preferential rights for our own shareholders, thereafter a secondary placement, and finally, the previously mentioned sale in 1998.

### **Major Changes in the Listed Portfolio**

In the portfolio of listed stocks, too, significant changes have taken place during the past five-year period – among other things, by investing the capital released from the above-mentioned sales in listed stocks.

In 1993 the portfolio of listed stock consisted of seven holdings: AGA, Ericsson, Euroc, SCA, Handelsbanken, Skanska and Ferro. Added to these were options in SSAB. The portfolio had a market value of SEK 10 billion.

Today's portfolio is more than three times as large and includes stocks in nearly twenty companies. The shares in Euroc and Ferro have been sold, and a number of new stocks have been added. The options in SSAB have been exercised, and IndustriVärden has thereby become one of the company's largest owners. The holding in Skanska has been doubled, and IndustriVärden has taken on the role of prime mover with respect to execution of the company's ongoing restructuring.

### **Good Value Appreciation for Skandia and Pfizer**

A new, large holding has been added through the purchase of stock in Sandvik. Added to this is the buildup of what we call the medium-term portfolio, valued at between three and four billion kronor, or approximately ten percent of our total assets. The most significant holdings are Skandia – where we are now one of the three largest owners – and Pfizer, which represents the high growth pharmaceutical industry. Both Skandia and Pfizer are good examples of our research and management competence. The purchases in Skandia began in 1996. To date we have invested approximately SEK 800 M in the company, with a current value of approximately SEK 2.7 billion – a growth in value of nearly two billion kronor. The purchases in Pfizer, which began almost a year ago to this date, have amounted to approximately SEK 500 M to date and have shown in good value appreciation.

The changes carried out in our assets have been conducted according to a well-thought-out plan and after careful consideration of each business decision.

### **Concentrated Portfolio of Stocks**

Although the number of companies in which we are shareholders has risen, a central aspect of our strategy is that our portfolio should be concentrated to a limited number of companies. This is a crucial prerequisite in order for us to satisfactorily be able to exercise our role as an active owner. It is also a requirement in order for us to be able to monitor and have insight into the various holdings. Another positive result of our concentration strategy for us as well as the stock market – and this applies for the listed portfolio as well as our wholly owned operations – is that it is easier for current and future shareholders to analyze IndustriVärden's stock.

In addition to the transactions mentioned above, a large number of small transactions have been carried out and an even larger number have been analyzed and considered without being carried out. A financial investor like IndustriVärden is continuously evaluating its own business proposals as well as proposals from external parties. It is in the nature of things that such evaluation must be conducted under secrecy. If not, the external flow of ideas would quickly cease. Against this background, it is our policy to never comment on questions about or otherwise comment on deals between ordinary reporting occasions whether or not they have been carried out, or even been taken up for consideration. Naturally, we provide information if required by the stock exchange's or other rule systems, such as in connection with major increases or decreases in ownership positions. Choosing a model in which we would comment in certain cases but not others would quickly lead to a situation in which we would not be able to guarantee our pledge of secrecy to our business partners, at the same time that our credibility with the media would quickly run the risk of being undermined.

### **Purchase of Ericsson Shares**

Our policy has been respected by the market and journalists, and has worked well. However, just over a month ago it caused some problems from an information standpoint. The background to this was that we received an offer from the Wallander and Hedelius Foundation to purchase 2.66 million Class A shares in Ericsson. The proposal was considered carefully in view of Ericsson's heavy weighting in our portfolio, and on the other hand, its valuation as a growth stock. Our response after careful deliberation was that we wished to acquire the offered shares. The purchase was conducted at the current market price, without a premium, and as a direct deal without transaction costs. The purchase totaled SEK 572 M and was partly financed through the sale of Ericsson B-shares. The decision was made by the executive management within the investment limits set by the Board of Directors.

I want to emphasize that the deal was based on strictly commercial grounds and according to the same criteria as all other transactions, that is, that it would contribute to the objective that the value of our assets should perform better than the stock market average.

Anything else for me and the company management would be most odd, not least in view of the substantial personal investments we have made in stocks and options in IndustriVärden, while the result of our bonus program is dependent on the return of IndustriVärden's stock.

#### **Good Growth in Value for Listed Portfolio...**

Our interim report for the first quarter will be ready for distribution on May 4. In the meantime, I can already say that 1999 has gotten off to a decent start for IndustriVärden. Growth in value of the portfolio of listed stocks from January 1 through April 19 was 12 percent, compared with 11 percent for the General Index.

#### **... and for the IndustriVärden Stock**

Our own stock has also performed well, advancing 18 percent as of April 19, which is 7 percentage points better than the index. We thus once again have a development that is very attractive compared with other holding companies.

Over the years I have learned that making forecasts is very difficult not only concerning the weather, but just as much when it comes to stock prices. Despite this, I look optimistically on IndustriVärden's future and the future of its stock price, and I do so with the knowledge about the high quality of our listed as well as unlisted shareholdings.

### **Decisions at IndustriVärden's Annual General Meeting**

IndustriVärden's Annual General Meeting was held at the Grand Hotel in Stockholm on April 21, with Chairman of the Board Bo Rydin presiding.

- The Meeting decided to raise the dividend by 20 percent, to SEK 4.50 per share. CPN interest thus amounts to SEK 5.18. The record date for the dividend was set at April 26, and thus the dividend and CPN interest were paid out through VPC on May 3.
- Directors reelected to the Company's Board were Bo Rydin (Chairman), Inga-Britt Ahlenius, Carl-Erik Feinsilber, Tom Hedelius (Vice Chairman), Lennart Nilsson, Clas Reuterskiöld (President and CEO) and Björn Wolrath.
- As auditors, the chartered accounting firm Öhrlings Coopers & Lybrand AB was elected for the period through the 2002 Annual General Meeting.