

**W** INDUSTRIAL  
Annual Report 1997



# 1997 Highlights

- The value of the portfolio of listed stocks on December 31, 1997, was SEK 28,682 M (17,752). Adjusted for purchases and sales, the portfolio's value rose 30 percent (36) from the beginning of the year. The General Index rose 25 percent (38). The total yield for the portfolio was 33 percent (40).
- Net asset value at year-end was SEK 598 (455) per share and CPN, entailing an increase of 31 percent (37) from the beginning of the year.
- The price of Industrivärden's Class A stock rose 43 percent for the year, compared with a 25 percent rise in the General Index. The total yield for Industrivärden's stock was 48 percent, compared with 28 percent for the Findata yield index.
- Sandvik is a new core holding following a stock acquisition worth just over SEK 4 billion.
- The subsidiaries Thorsman and Fundament were sold for a total capital gain of SEK 1,598 M.
- Consolidated earnings after financial items were SEK 2,404 M (1,417). Of this total, gains on sales of stocks accounted for SEK 1,865 M (687), dividends from listed stocks for SEK 426 M (490), and other earnings for SEK 113 M (240).
- The Board of Directors proposes that the dividend per share be raised by SEK 2 to SEK 15. Interest per CPN would thus be SEK 17.25.
- The Board of Directors also proposes a stock split, with four new shares being issued for each existing share held, and four new CPNs for each existing CPN held.



The holdings in the portfolio of listed stocks are represented here by a mobile phone from Ericsson, glass bottles from PLM, and toilet paper from SCA.

# ● To Our Shareholders

Nineteen ninety-seven was another active and eventful year for Industrivärden. On behalf of the Company, it is my pleasure to also affirm that our efforts generated the value added that we have been striving for.

## High Returns

This activity was appreciated by the stock market, where our stock posted handsome gains. Industrivärden's shareholders received a return (price increase plus dividends) of 48 percent – a full 20 percentage points more than the average yield for the Stockholm Stock Exchange. This performance was not a one-time occurrence. Over the last three years Industrivärden's shareholders have received total yearly returns of 40 percent as an average compared with 30 percent for the market average.

The main reason for our strong growth in value is the quality of our portfolio of listed stocks, which contains stock in some of Sweden's finest companies. What may perhaps be lacking is adequate exposure to the rapidly growing pharmaceutical and medical technology sectors. Our ambition is to selectively increase our holding of such shares. Since the choice of Swedish companies is limited – as an exception to our policy of owning exclusively Swedish stocks – purchases of stock in foreign pharmaceutical companies are conceivable.

Although Industrivärden's stock has performed well in terms of price, it has had a lower turnover and thus poorer liquidity than what is desirable. In light of this development a stock split has been proposed. The number of shares (including CPNs) will thereby rise from 48 million to 191 million, and trading will be facilitated primarily for small shareholders. Another positive factor for the stock's liquidity is that trading in warrants is being initiated.

## Industrivärden's Task

According to Industrivärden's Articles of Association, the object of the Company's business is to “own and manage real property and chattels.” Expressed as such, this implies a passive owner role, which incorrectly describes our way of working. For Industrivärden, “management” entails an active role in the greatest sense. It goes without saying, that continuously reviewing the composition of assets is a primary task. Equally important, however, is that we can impact the development in the companies in which we have invested. For many years, active ownership has been our method of creating shareholder value.

Active leadership requires a long-term perspective and action. Despite this, turnover in our portfolio of listed stocks has been rising. In recent years this has typically been around 15 percent, while in 1997 it was more than a fourth.

## Sandvik, Handelsbanken and Skandia

The largest transaction during the past year was the purchase of 22 million shares in Sandvik, amounting to just over SEK 4 billion. Sandvik is an appropriate complement to our portfolio of listed stocks, which previously lacked exposure in the traditional engineering industry. This, however, was more a consequence of the acquisition than a motive, since our choice of stocks is always based on our ambition to receive a better return than the index.

Thus far the Sandvik acquisition has measured up well to our expectations. In view of

Industrivärden's investment horizon it is too early to sum up this investment. However, based on our analysis of Sandvik, we have reason for a continued optimistic view of the stock's performance.

Handelsbanken has traditionally accounted for a significant portion of our portfolio. During the year this ownership stake was augmented in parallel with purchases of stock in Skandia. Both of these investments – which were based on our analysis of the financial sector and companies working there – have been successful and have generated a clearly higher return than the index.



Clas Reuterskiöld,  
president of  
Industrivärden  
since 1994.

### Released Capital

Two other important events during the year were the sales of Fundament and Thorsman. The sale of Fundament was natural based on our view of the potential for value appreciation in the real estate sector and our desire to not manage properties ourselves. The sale was drawn out over time since most potential buyers were property companies that wanted to finance the acquisition with own shares. However, we succeeded in finding a cash solution which met our expectations in terms of value, entailed a lower exposure to the real estate sector, and at the same time released assets for investments in more growth-oriented areas.

Thorsman's activities in recent years have been characterized by a focus on product and market development. These efforts, combined with the effects of the merger with its former sister company Wibe, created a well positioned company in the area of electrical installation material. These measures are prime examples of value creation through active ownership. They can also be seen in the amount we received for Thorsman – SEK 2 billion – giving a capital gain of nearly SEK 1.4 billion. Through this we were able to finance a part of the year's net purchases of listed stocks, totaling just over SEK 5 billion.

### Active Ownership

Active ownership is not limited strictly to measures within our own subsidiaries. Active ownership is in large measure a critical aspect in stewarding growth in value in the listed

portfolio. Our active ownership role is exercised chiefly through participation on our associated companies' boards. An obvious duty in this context is to keep a watchful eye over profitability and efficiency matters. Other key concerns on our agenda for active ownership include monitoring the companies' cash flow and capital structure, as well as organizational matters and concentration on core businesses.

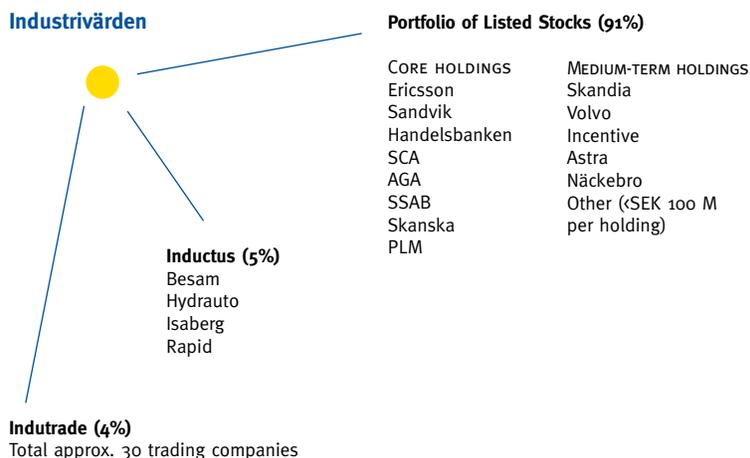
A board is a team working on behalf of all the company's shareholders, and thus it is impossible to couple various measures to the efforts of individual directors. Therefore it would be presumptuous to accentuate the role that Industrivärden's representatives have played in the various boards. What I can say, however, is that a number of decisions were made during the past year which were appreciated by the stock market. Among these can be named the decisions to redeem shares in SSAB and Skanska. Additionally, Skanska has announced that it will be distributing a company with unmortgaged property holdings and a market value of approximately SEK 10 billion to its shareholders. Another example is SCA's completion of the acquisition of PWA through a dominance agreement. This will enable the coordination effects between SCA and PWA to be utilized to their fullest.

With this annual report we leave 1997 behind us in order to instead look forward. Without providing any forecast, I can nonetheless assert that our starting point for the future is favorable. Our listed portfolio contains stocks in companies with solid development potential. As an active owner, our role in the future – as always – will be to drive developments in an effort to provide our shareholders continued good growth in the value of their Industrivärden holding.



Clas Reuterskiöld

AB Industrivärden is a listed industrial holding company whose primary activity is to manage a portfolio of listed stocks as well as stocks in unlisted companies. Industrivärden's shareholders thereby have a stake in a diversified, balanced-risk equities portfolio that is managed at a low cost. To avoid unfair treatment of indirect ownership in equities, holding companies are subject to special tax rules. The most significant of these are exemption from capital gains taxes on sales of stocks and the right to deduct dividend payments, but with a standard earnings increment. Detailed tax rules for holding companies are outlined on page 77.



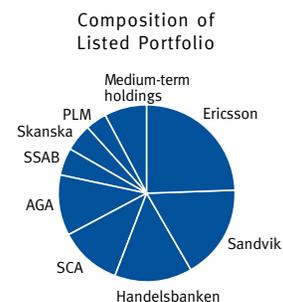
### Business Mission, Strategies and Goals

Industrivärden's business mission is to invest in stocks and – through active ownership – create good growth in value for the Company's shareholders. The objective is to invest in a diversified portfolio of stocks in listed Swedish companies. In addition, a smaller portion of assets are invested in wholly owned subsidiaries, unlisted companies and, in exceptional cases, listed foreign stocks.

The strategy for Industrivärden's equity investments is to invest in a limited number of stocks that are judged to have a high yield potential. The choice of stocks is based on thorough analysis, which means that concordance with the industry composition of the General Index is not a goal in itself. In addition, Industrivärden has chosen not to conduct short-term equity trading.

The portfolio of listed stocks consists today of listed Swedish stocks and is divided into core holdings and medium-term holdings. The core holdings must be large enough to give Industrivärden substantial ownership in the respective companies and thus the opportunity to exercise influence in the companies through active ownership.

An important role for Industrivärden is to contribute to efficient resource allocation, which entails being able to contribute capital when justified. It is equally important to make sure that the companies do not tie up more capital than necessary for their business. Should such be the case, a redemption of capital to the shareholders would be called for. Decisions to redeem capital were made during the past year in the portfolio companies Skanska and SSAB.



The holdings in the listed portfolio are subject to continuous review. Fundamental analysis is a critical aspect of the day-to-day management since decisions to hold or sell a stock affect value appreciation as much as decisions to buy new stocks.

In addition to investments in the portfolio of listed stocks, a certain amount of investments are also made in unlisted stocks, preferably wholly owned subsidiaries. The demands on subsidiaries are that they have good potential for value appreciation and a strong cash flow.

Industrivärden's primary objective is to achieve a total yield that is higher than the average for the Stockholm Stock Exchange, with a level of debt in the Parent Company that is lower than 20 percent of the market-valued assets. Industrivärden also strives to pay a dividend that gives the shareholders a direct yield that is higher than the average for the Stockholm Stock Exchange.

### Investment Orientation for Portfolio of Listed Stocks

The portfolio of listed stocks consists primarily of eight core holdings – companies in which Industrivärden is one of the largest shareholders. These are AGA, Ericsson, Handelsbanken, PLM, Sandvik, SCA, Skanska and SSAB. The combined market value of the core holdings on December 31, 1997, was SEK 26,458 M.

In addition to the core holdings, the portfolio of listed stocks also includes a limited number of medium-term holdings. The goal of these investments is to achieve good value appreciation while maintaining a high degree of liquidity in the investments. The investment horizon is two to three years. The guiding principle is management based on analysis. At year-end 1997 the medium-term portfolio had a market value of SEK 2,224 M.

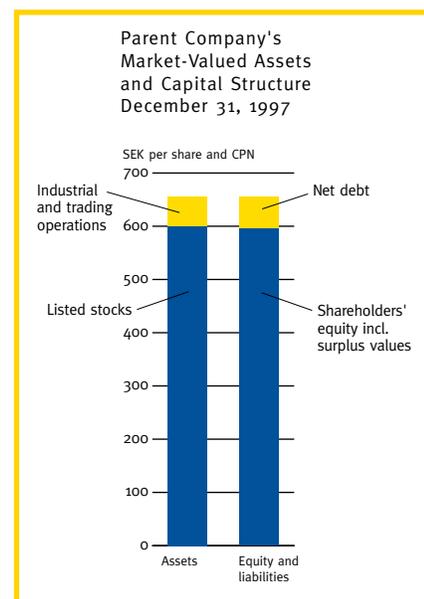
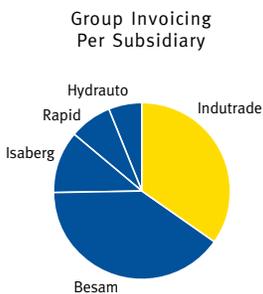
The market value of the portfolio of listed stocks on December 31, 1997, was SEK 28,682 M, corresponding to 91 percent of the estimated value of Industrivärden's total assets.

### Shareholdings Reviewed Continuously

The investment horizon for the core holdings is long-term, which is a prerequisite for being able to actively influence developments within the companies. In several of the companies Industrivärden has been an owner for a long time. However, Industrivärden is always prepared to divest a core holding if such a move would generate value added and contribute to Industrivärden's own growth in value over time.

One motive for divesting a core holding would be that Industrivärden's ongoing analysis shows that the opportunity for acceptable future growth in value is lacking. The sale of a core holding can also be considered in connection with an industrial restructuring, whereby it is assumed that Industrivärden as a seller would receive a share in the restructuring gains that arise.

For the medium-term portfolio, an active ownership role is not sought after. Instead, Industrivärden's judgment of the yield trend is pivotal for investment decisions. Medium-term holdings are sold when the stock price is judged to be favorable from a medium-term perspective.



### Wholly Owned Subsidiaries Complement Listed Portfolio

At the end of 1997, 9 percent of Industrivärden’s assets were in wholly owned subsidiaries. These complement the portfolio of listed stocks and give the Group access to a steady cash flow, thus contributing to the goal of paying a high dividend, among other things.

The subsidiaries are active in engineering and trading, with a substantial degree of international activity.

The strategy is to work from a long-term perspective to acquire and improve subsidiaries, and at a suitable point in time to realize achieved growth in value. Divestitures come into consideration when it is judged that the subsidiaries would be able to develop better in another industrial environment and Industrivärden would thereby receive part of the coordination gains, or when it is judged that the subsidiaries would perform better as listed companies.

The subsidiary operations are strongly decentralized, with delegated responsibility for earnings and capital budgeting. Operational follow-up takes place through a well developed planning and reporting system. Board work in the subsidiaries is led by a chairman from Industrivärden and through the active participation of outside directors.

### Net Asset Value

The stock market traditionally values holding companies based on their net wealth. Industrivärden therefore attaches great importance to calculation of the Group’s net asset value. This calculation is made from a parent company perspective, whereby the portfolio of listed stocks is valued at current market value and the wholly owned industrial and trading companies are normally valued according to current P/E multiples. For a more detailed description, see “Calculating the Market Value of Industrivärden’s Assets” on p. 77.

Total net asset value has risen from SEK 8.9 billion at year-end 1992 to SEK 28.6 billion at year-end 1997, or by 221 percent. Including reinvested dividends, net asset value has risen 287 percent since the beginning of 1993. In comparison, the Findata yield index, which includes dividends, rose by 262 percent during the same period.

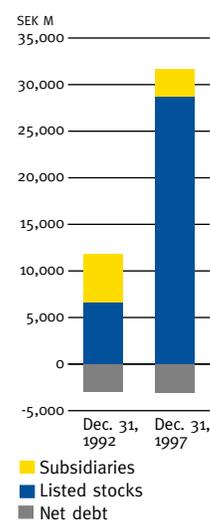
The chart at right illustrates the size and composition of net asset value at the end of 1992 and 1997, respectively.

### Major Transactions During the 1990s

A number of major transactions have been carried out during the 1990s:

- Investment AB Bahco was acquired in 1992, and Bahco’s industrial operations were combined during that year with the industrial operations of Dacke, forming the Inductus industrial group.
- As a result of an expressed strategy of consolidation, the number of subsidiaries in Inductus has been reduced from twelve companies in 1992 to four companies in 1997, through divestitures.
- The shareholding in Scancem (formerly Euroc) was divested in 1994.
- A substantial shareholding in SSAB was acquired in 1994.
- PLM, which was acquired in 1988, was introduced on the stock market in 1995.
- A medium-term stock portfolio has been built up since 1995, with holdings in Skandia, Incentive, Volvo and Astra, among others.
- A new core holding was added in 1997 through the purchase of stock in Sandvik for more than SEK 4 billion.
- The Inductus company Thorsman and the real estate company Fundament were sold in 1997 for a total capital gain of SEK 1,598 M.

Net Asset Value, December 31, 1992 and 1997



# ● Portfolio of Listed Stocks



Olof Wesström, Portfolio Manager

Industrivärden's investments are made in a limited number of listed stocks and require good knowledge about the stock as well as the company. The choice of stocks is based on fundamental analysis and deviates from the composition of the index. Characteristic for most of the investments is that Industrivärden is an active owner with knowledge and the ability to increase the return on the investments. Through active ownership, Industrivärden and its shareholders receive a better return over time than the average offered by the stock market.

As an active owner, Industrivärden can contribute to a higher return by making tough, clear demands on profitability and the right financial structure in the companies. Active ownership is exercised in collaboration with other owners and through an independent, driving company management. The ownership role requires management experience from a variety of conditions as well as a high degree of financial competence. It also requires sustainability and financial resources to support the companies when needed. Industrivärden has these qualifications and has historically succeeded in achieving a favorable return on its listed-portfolio investments.

Decisions to buy, hold and sell stocks in the listed portfolio are based on fundamental analysis of the companies and their operating environments. In addition to the attention paid to the individual choice of stocks, the overall composition of the portfolio is examined continuously.

## Composition of the Portfolio of Listed Stocks

This orientation entails that investments are limited in number, and with active ownership comes a long-term approach. As a result, Industrivärden's shareholders have a convenient means of overlooking the listed portfolio, whose yield has a strong influence on the performance of Industrivärden's stock. To date, investments in Industrivärden's portfolio have been made exclusively in Swedish equities, which reflects the available knowledge and experience rather than prescribed rules.

Most of the listed portfolio's market value is in the core holdings. These are complemented with a limited number of medium-term investments. The total number of stocks in the portfolio is typically around 15. Turnover through purchases and sales during a given year have usually amounted to between 10 and 20 percent of the portfolio's market value. During the past year, activity was considerably higher, with a turnover of 29 percent of the average portfolio value.

## Core Holdings in the Portfolio of Listed Stocks

In the listed companies in which Industrivärden exercises active ownership, the intention is to be one of the largest owners and to use this influence to ensure that the return on the investment exceeds the market average over time. Core holdings are divested from time to time, however, this is an alternative only when the prospects for receiving a competitive return are no longer deemed to be good. Divestitures can also come into consideration in connection with structural transactions, in which a company's future development as well as the return to shareholders are best assured through a sale.

Ownership in companies whose shares represent core holdings is also subject to continuous investment considerations with more limited time horizons. However, no short-term trading is conducted in any part of the listed portfolio.

At the end of 1997 the portfolio contained eight core holdings whose combined market value accounted for over 90 percent of the entire portfolio of listed stocks. These core holdings were Ericsson, Sandvik, Handelsbanken, SCA, AGA, SSAB, Skanska and PLM.

### **Ericsson**

Ericsson is distinguished by strong earnings growth as the world leader in one of today's fastest growing technology areas. The investment in Ericsson stock has outperformed the index for many consecutive years. The Ericsson holding is the single largest investment in the listed portfolio. Industrivärden believes that the company and its stock will continue to perform strongly.

### **Sandvik**

Sandvik is a new core holding which was added during the past year. It is one of Sweden's most successful engineering companies and is judged to have strong prospects for future development as well. As an engineering stock, Sandvik is an attractive complement to the listed portfolio. Industrivärden played an active role in structuring the transaction in which Sandvik's previous largest owner, Skanska, in addition to selling a stake to Industrivärden, divested its holding by distributing part of the shareholding on the market and redeeming most of the remaining holding. Sandvik's stock price has performed well after Industrivärden's acquisition.

### **Handelsbanken**

Handelsbanken is a well managed bank which successfully incorporated Stadshypotek into its operations during the year. The financial sector was judged to be attractive for additional investments in 1997 and Industrivärden increased its holding of Handelsbanken. Handelsbanken's stock has generated very satisfactory returns in the past few years.

### **SCA**

SCA balances its raw material supply between fresh wood and recycled fibers and has further extended its value added processing through a large share of sales directly to consumers. The acquisition of the German company PWA strengthens its market position in Europe. The fundamental problem of poor profitability in the industry has hurt the stock price for a long time. However, SCA's stock generated a good yield during the past year, and Industrivärden shares the stock market's optimistic view of the company's potential for successfully improving profitability.

### **AGA**

AGA's stock price trend has been weak in recent years. Industrivärden sold AGA shares in 1996 and 1997. The company's earnings trend has also been weak due to the competitive situation and major investments, among other things. In its capacity as an active owner, one of Industrivärden's key tasks is to make sure that future investments and the company's direction in general lead to a level of profitability that will once again generate a satisfactory return for the shareholders.

### **Skanska**

Industrivärden took a key initiative in the restructuring of operations and capital structure initiated by Skanska during the year. Additional sales of several major shareholdings and the transfer of capital to the shareholders, in the form of a large property company, will be carried out. The announced measures entail focusing on the core business, which is being further internationalized through the development of several new home markets, among other things. The new strategy has had a favorable impact on Skanska's stock price, which is expected to perform well.

## SSAB

SSAB has done well in a tough industry by specializing extensively in commercial steel. An ambitious investment program is currently being implemented. Industrivärden actively contributed to the proposed stock redemption program that was presented during the year with the aim of improving the capital structure. Steel company earnings and stock prices are highly volatile, however, SSAB's successful specialization has contributed to a relatively even yield. Despite a favorable price trend, the stock is not considered to be highly valued.

## PLM

Since Industrivärden's sell-off of more than 75 percent of the shares in PLM in 1995 and 1996, PLM's stock price has been a disappointment. The company's consistent market strategy and investments in new markets led to an earnings improvement in 1997, which should have a positive impact on the stock price.

## Medium-Term Investments

In recent years with favorable growth in value, Industrivärden has built up a portfolio of medium-term investments which were worth over SEK 2 billion at year-end 1997. The largest investments in this category are Skandia, Volvo, Incentive and Astra.

In addition to the more limited investment horizon, a distinguishing characteristic of these holdings is that they are highly liquid. The investments are intended to complement the core holdings, and purchases as well as sales are based on fundamental analysis.

## The Stockholm Stock Exchange in 1997

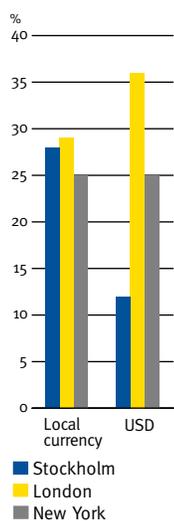
The Stockholm Stock Exchange set a new record in 1997. The Affärsvärlden General Index posted its top daily closing on August 7, and trading volume for the year was dramatically higher than the record set a year earlier. During the past year the index gained a total of 25 percent and the total yield, measured as price increases plus dividends and other transfers to shareholders, was 28 percent. Recalculated to dollars, i.e., taking into account the weakening of the Swedish krona during the year, the price increase was 9 percent and the total yield 12 percent. This entails a lower gain than many of the world's bourses, such as the London and New York stock exchanges.

As 1997 got under way, listed companies' earnings were expected to recover during the year and continue rising in 1998. Expectations were for average increases of 10 percent in 1997 and 15 percent in 1998. After the first nine months of the year, most of the reported earnings were lower than the market's expectations for that point in time. This, combined with the crisis in Asia, contributed to mounting uncertainty toward the end of the year.

Contrary to many forecasts, interest rates on the whole did not turn upward during the past year. Instead, the interest rate decline from the two preceding years continued, although at a considerably slower pace. The Asian crisis subsequently enhanced the decline in long-term rates toward the end of the year due to expectations of lower demand and falling prices. Coupled to this was a shift in investment capital from equities to fixed-income securities, and from the countries in crisis to safer markets.

The continued relaxed monetary policy in 1997 created good liquidity in many of the world's stock markets, and investment in stock funds rose sharply. The strong rise in stock fund savings in Sweden offset the negative impact of the first net sell-off of Swedish equities by foreign investors in many years.

Total Yield on Various Stock Markets



The Stockholm Stock Exchange followed the trend of the stock markets in New York very closely throughout most of the year. The price trend in the markets was characterized by the unusually favorable conditions for equity investments until the Asian crisis began spreading unease during the autumn. The Stockholm Stock Exchange fell considerably more than the markets in New York due to the uncertainty created by the Asian crisis, even though to many observers the valuation of earnings in many U.S.-listed companies appeared more challenging than for Swedish listed companies.

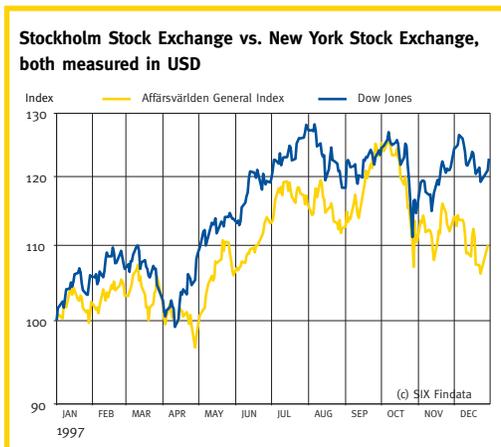
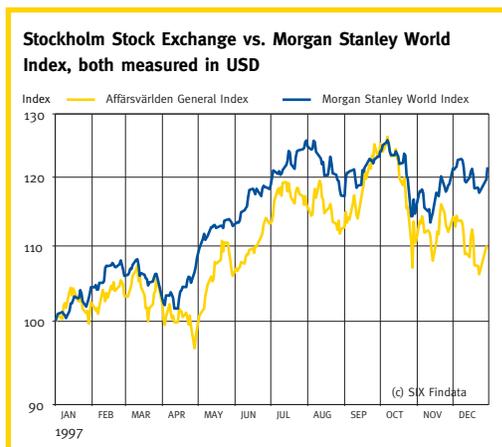
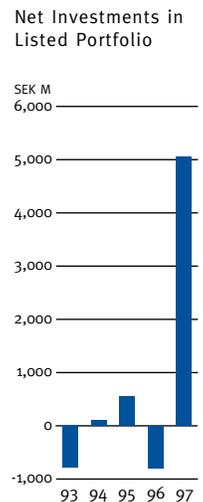
At the end of the year the stock market was marked by successive downward adjustments of earnings forecasts and the uncertainty associated with that. Even after the known downward adjustments of forecasts at year-end, the anticipated earnings growth in 1997–98 remained strong, and listed Swedish companies anticipated record earnings.

**Investment Activities in 1997**

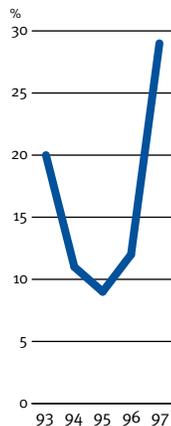
Altogether, stock purchases during the year totaled SEK 5,872 M. The largest single transaction was the acquisition of SEK 4,082 M in Sandvik stock. Following the stock redemption carried out by Sandvik later in the year, this block of shares amounts to 8.5 percent of the capital and 11.2 percent of the votes in the company. Industrivärden is now the second-largest shareholder in Sandvik, and in terms of value the shareholding is the second-largest investment among the portfolio’s core holdings. The price trend for Sandvik’s stock has been favorable since the time of the acquisition.

The motives for acquiring the Sandvik shares were that the company has an appealing strategy with a focus on growth and optimization of the capital structure, and an attractive dividend policy. In addition, the market’s valuation of Sandvik’s stock did not fully take into account the company’s qualities and future potential. Moreover, the Sandvik holding would give Industrivärden a more well balanced portfolio. The investment was preceded by a thorough analysis of the company, and the intention is that Industrivärden, as an active owner, will contribute to the continued favorable development of the company.

Other major acquisitions during the year included additional investments in Handelsbanken and Skandia. A total of SEK 606 M in stock was purchased in Handelsbanken and SEK 411 M in stock was bought in Skandia. The Handelsbanken purchases were motivated primarily by a positive view of the continued interest rate trend and the bank’s integration with Stadshypotek. The purchases in Skandia complement Industrivärden’s exposure to the financial markets and offer a stake in the immense success of Skandia’s savings products. The unrealized gain in the value of these investments since the respective purchase dates up to the end of February 1998 was SEK 234 M and SEK 127 M, respectively.



Portfolio Turnover



Total purchases and sales as a percentage of average portfolio value.

Stock was also bought in Ericsson (SEK 141 M), Incentive (SEK 207 M) and Volvo (SEK 202 M). The acquisition of Ericsson is a medium-term addition to the core holding. The investment in Incentive, which is active in medical technology, complements the exposure to pharmaceuticals. Pharmaceuticals, health care and medical technology have been identified as interesting sectors for further investments in the portfolio.

Sales during the past year totaled SEK 821 M. The largest blocks sold during the year were the entire holding in Custos for SEK 486 M, SEK 151 M in AGA, and SEK 60 M in SCA. Total sales during the year generated a capital gain of SEK 273 M. As a holding company Industrivärden is exempt from capital gains taxes.

During the year, put options were issued for certain shares in an attempt to either acquire them at prices that were judged to be attractive at the time of the issuance, or to receive premium income that would raise the yield of the portfolio. Most of the put options issued during the past year expired without being exercised, and thus Industrivärden was credited with the income.

In the aim of raising the yield of the portfolio, lending of shares from the portfolio was also conducted. Stock lending is made against adequate security.

The total value of stocks purchased and sold in 1997 corresponds to 29 percent of the average portfolio value during the year. This is a considerably higher turnover than during the last few years. An entirely overwhelming portion of stocks purchased during the year performed better than the index after the time of their purchase. Similarly, most of the stocks sold performed worse than the index after the time of their sale.

#### Portfolio Performance in 1997

The market value of the portfolio of listed stocks on December 31, 1997, was SEK 28,682 M. Of this amount, the core holdings accounted for SEK 26,458 M and medium-term holdings for SEK 2,224 M. Adjusted for purchases and sales, the portfolio rose in value by 30 percent during the year, compared with a 25 percent rise in the Affärsvärlden

General Index. Dividend income totaled SEK 426 M and redemption rights were sold for SEK 21 M. Including these transfers, the total yield of the portfolio was 33 percent, compared with 28 percent for the Findata yield index for 1997.

The favorable trend for the holdings in Ericsson, Sandvik (+22 percent since the acquisition, compared with an 8 percent gain for the index during the same period), Handelsbanken, SCA and Skandia, explains why the portfolio performed better than the index. The investment in Ericsson is highly significant for the listed portfolio's performance. Even without Ericsson, however, the portfolio would have gained more than the index, +25 percent, compared with a gain of 20 percent in the index without Ericsson.

From the end of 1997 through February 28, 1998, the adjusted portfolio value rose by 12 percent, compared with +11 percent for the Affärsvärlden General Index.

At year-end the difference between the portfolio's market value and its book value, the hidden reserve, increased to SEK 17,635 M. During the past year the hidden reserve increased by SEK 5,606 M. Through sales during the year, gains totaling SEK 273 M were realized.

#### Price Trend of Portfolio of Listed Stocks

	Change in value, 1997, %	Share of portfolio value, %
Ericsson	46	24
Sandvik	23	17
Handelsbanken	40	14
SCA	29	12
AGA	6	11
SSAB	15	5
Skanska	8	5
Skandia	94	5
PLM	-6	4
Volvo	42	1
Incentive	44	1
Astra	8	1
Näckebo	-1	0
Other stocks		0
Total	30	100

## Portfolio of Listed Stocks, December 31, 1997

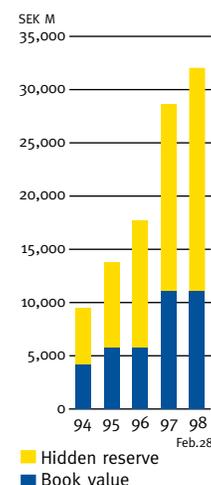
	Class	Number	Market value, SEK M	SEK per share and CPN	Share of port- folio value, %
Ericsson	A	21,930,000	6,897	147	24
	B	400,000	119		
Sandvik	A	22,000,000	4,972	104	17
Handelsbanken	A	14,850,000	4,076	85	14
SCA	A	18,232,000	3,264	69	12
	B	150,000	27		
AGA	A	28,615,000	3,133	66	11
SSAB	A	10,815,000	1,406	31	5
	B	420,000	55		
Skanska	A*	2,774,365	903	29	5
	B	1,525,000	496		
Skandia		3,440,000	1,288	27	5
PLM		10,000,000	1,110	23	4
Volvo	A	1,000,000	212	7	1
	B	550,000	117		
Incentive	A	300,000	215	4	1
Astra	B	1,430,000	191	4	1
Näckebo		1,240,500	143	3	0
Other stocks			58	1	0
<b>Total</b>			<b>28,682</b>	<b>600</b>	<b>100</b>

\* Skanska's Class A shares, which are not listed on the Stockholm Stock Exchange, have been assigned the same value as the Class B shares.

## Price Trend for Listed Portfolio 1993–1997

	1997	1996	1995	1994	1993
Price trend of portfolio, %	30	36	20	-7	66
Index (1992 as base)	328	252	185	154	166
Affärsvärlden General Index, %	25	38	18	5	54
Index (1992 as base)	329	263	191	162	154

Market Value of Listed Portfolio and Hidden Reserve



## Core Holdings in the Portfolio of Listed Stocks

The following pages contain a description of the eight companies whose shares make up the core holdings in Industrivärden's portfolio of listed stocks. These shareholdings are: Ericsson, Sandvik, Handelsbanken, SCA, AGA, SSAB, Skanska and PLM.

The combined market value of the core holdings on December 31, 1997, was SEK 26.5 billion, accounting for 92 percent of Industrivärden's portfolio of listed stocks. The combined market capitalization of these eight companies at that same date was SEK 533 billion, accounting for 25 percent of total value of the Stockholm Stock Exchange.

The chart at right shows the dividends received from the portfolio of listed stocks, which totaled SEK 426 M in 1997.

Dividends Received from Listed Companies



The block of shares in Sandvik was acquired ex-rights to the dividend for 1996.

# Ericsson

Share of votes: 26.4%  
Share of capital: 2.2%

## Key Financial Data

SEK M	1997	1996
Net sales	<b>167,740</b>	124,266
Earnings after financial items, excl. minority interests	<b>17,218</b>	10,152
Earnings per share (SEK)	<b>12.15</b>	7.27
Proposed dividend per share (SEK)	<b>3.50</b>	2.50

## Brief Facts

Holding:  
21,930,000 A-shares,  
400,000 B-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 7,016 M.

Industrivärden is Ericsson's largest shareholder in terms of votes.



Ericsson is the world's leading supplier of equipment for telecommunications systems and related terminals. The company produces advanced systems and products for wired and mobile telecommunications. Ericsson has a very strong international presence, delivering products to customers in more than 130 countries.

Mobile systems are the fastest growing product area, where Ericsson is the world leader with a market share of nearly 40 percent. At the start of 1998 Ericsson's mobile systems served some 75 million subscribers.

Ericsson has experienced very strong growth in volume and earnings in recent years, mainly due to successes in mobile telephony. The volume increase is a result of extensive investments in the development of new products and systems. Annual investments in technical development amount to 16 percent of sales. In 1997, SEK 27 billion was invested to ensure Ericsson's continuing technical leadership in the telecommunications field.

The Mobile Systems unit is undergoing rapid technical development, in which broadband technology is enabling the use of mobile telephones for Internet and advanced multimedia services, including very high quality video and voice communication. Ericsson has been successful in defending its world-leading position, not least in Latin America, where the company has been awarded major contracts in Brazil and Chile.

In the Infocom Systems unit, development of the core product, the company's renowned AXE exchange, has progressed at a rapid pace. Ericsson continues to strengthen its dominant position through the creation of intelligent networks that can handle various types of telecommunications, including data and image.

Development for Mobile Telephones and Terminals was very strong, with nearly a doubling of invoiced sales in 1997. The business area has carried out a number of successful product launches which have been well-received on the market.

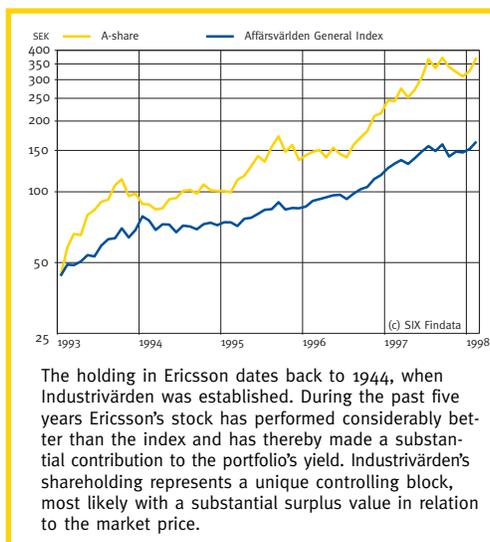
The most important geographic markets ranked by size are the U.S., China, the U.K., Italy, Brazil and Sweden. Sales outside Sweden accounted for roughly 95 percent of total.

### The Year in Review

- Order bookings rose 30 percent. Order bookings for the Mobile Telephones and Terminals business area nearly doubled.
- Earnings after net financial items rose 70 percent to SEK 17,218 M.
- The rise in sales, totaling SEK 43 billion, and the favorable earnings trend were achieved with a positive cash flow.

### Ericsson's Stock

Ericsson's stock is listed on the Stockholm Stock Exchange and eight other bourses in Europe and the U.S. The price of Ericsson Class A shares rose 46 percent in 1997, and trading volume totaled approximately SEK 226 billion on the Stockholm Stock Exchange. Ericsson's market capitalization at year-end 1997 was approximately SEK 292 billion.



# Sandvik

Share of votes: 11.2%  
Share of capital: 8.5%

## Key Financial Data

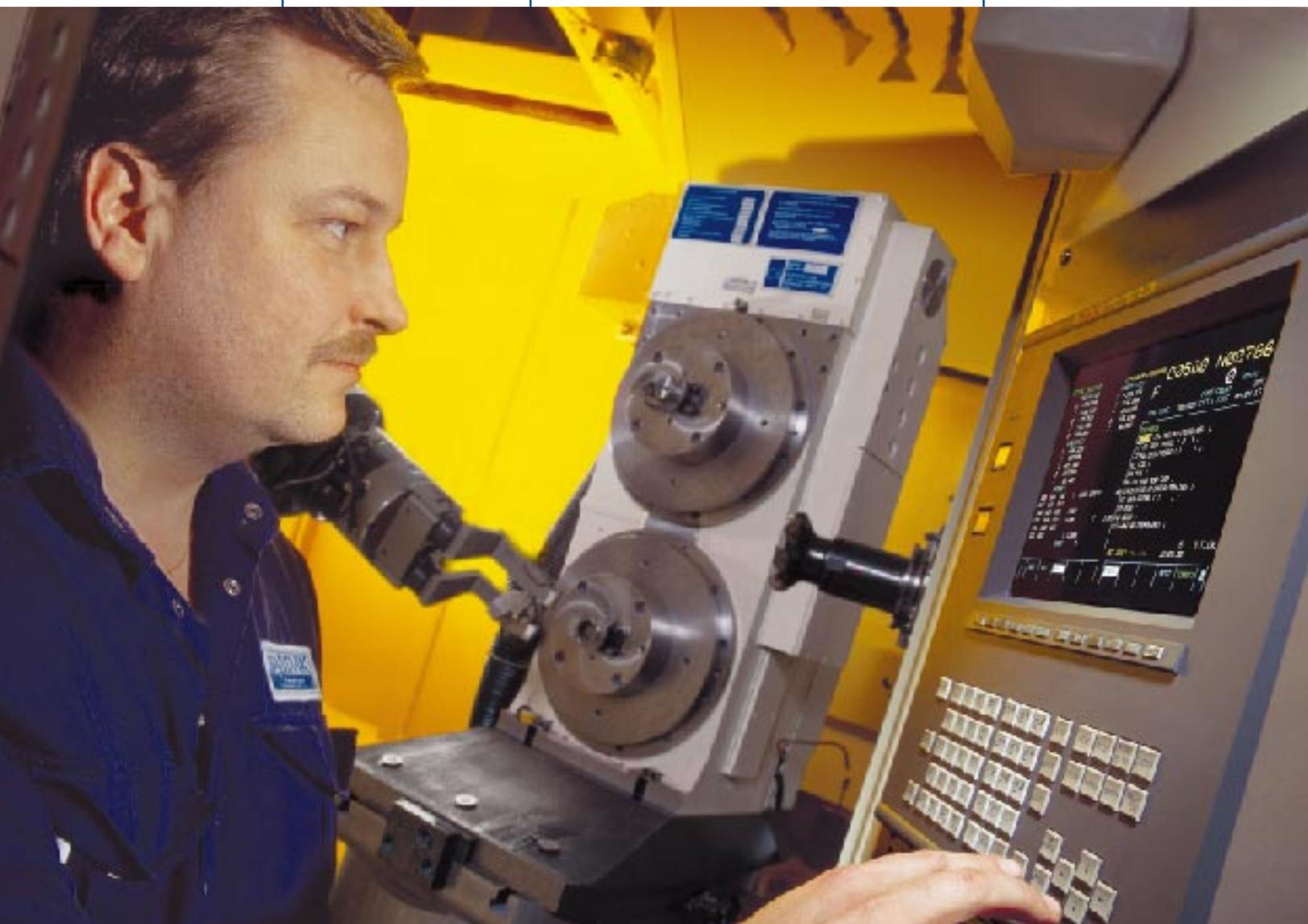
SEK M	1997	1996
Net sales	<b>34,119</b>	28,265
Earnings after financial items	<b>4,205</b>	4,453
Earnings per share (SEK)	<b>10.15</b>	11.20
Proposed dividend per share (SEK)	<b>7.00</b>	6.50

## Brief Facts

Holding:  
22,000,000 A-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 4,972 M.

Industrivärden is Sandvik's second-largest shareholder.



Sandvik is the world's largest manufacturer of cemented-carbide products, such as tools for chip-forming metalworking, rock-drilling tools and cemented-carbide blanks. The company is a leading supplier of stainless steel tube, strip, wire and bar, special metals, and heating materials. Sandvik is also a leading manufacturer of saws and other hand tools as well as conveyor and process systems. Sandvik is one of Sweden's largest export companies, with worldwide business activities through 300 subsidiaries and representation in 130 countries.

Operations are conducted through six separate business areas – Tooling, Rock Tools, Hard Materials, Steel, Saws and Tools, and Process Systems – and through the partly owned subsidiary Seco Tools (61 percent). Each business area has subsidiaries or divisions within joint Sandvik companies, in all major markets.

Sandvik's growth strategy is based on sophisticated and comprehensive research and development activities focusing on material and surface-coating technology, product and application solutions, production and process technology, and information and logistics systems. Sandvik invests more than a billion kronor a year on R&D.

Complementary company acquisitions are also part of Sandvik's expansion strategy. Major acquisitions during the past year included the materials technology company Kanthal and the Finnish drilling machine manufacturer Tamrock.

Due to the favorable earnings trend and strong cash flow in recent years, a certain over-capitalization has arisen. Therefore, in 1994 Sandvik adopted a new dividend policy which entails that the shareholders will receive a dividend averaging at least 50 percent of net earnings after tax during a business cycle. In addition, a stock redemption program worth SEK 4 billion was carried out in 1997.

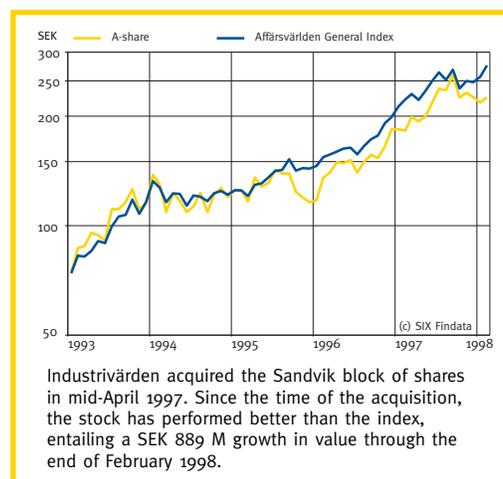
Through the measures taken in 1997 – company acquisitions, the new dividend policy and the stock redemption – Sandvik's capital structure has changed so that its net cash position has been transformed to a net debt, which increases the return on capital.

### The Year in Review

- All shares in the materials technology company Kanthal and the drilling machine manufacturer Tamrock were acquired. At the beginning of the year Sandvik owned 47 percent and 49 percent of the companies' shares, respectively. Sandvik also acquired the American company Precision Twist Drill Co., the world's leading manufacturer of spiral drills made of high-speed steel.
- Stock redemption totaling SEK 4,000 M.
- Net sales developed favorably, with a 4 percent growth in volume for comparable units. Earnings were largely unchanged compared with 1996. Net financial items decreased by SEK 520 M as a result of the capital stock reduction.

### Sandvik's Stock

Sandvik's stock is listed on the Stockholm Stock Exchange and the London Stock Exchange. The Class A share price rose 23 percent in 1997, and trading volume totaled approximately SEK 25 billion on the Stockholm Stock Exchange. Sandvik's market capitalization was approximately SEK 59 billion at year-end 1997.



# Handelsbanken

Share of votes: 6.7%  
Share of capital: 5.7%

## Key Financial Data

SEK M	1997	1996
Total operating income	<b>15,815</b>	14,549
Operating profit	<b>7,820</b>	6,719
Earnings per share (SEK)	<b>25.15</b>	21.32
Proposed dividend per share (SEK)	<b>6.50*</b>	5.00

\*In addition to the cash dividend a dividend of stock in Stadshypotek Fastigheter (real estate) has been proposed.

## Brief Facts

Holding:  
14,850,000 A-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 4,076 M.

Industrivärden is Handelsbanken's third-largest shareholder.



Handelsbanken is one of the leading banks in the Nordic countries. A distinguishing characteristic of Handelsbanken is that overall customer responsibility rests with the local branches, which are responsible for providing customers with expert and coordinated services from all units in the Handelsbanken Group. The local branches are also responsible for the profitability of the bank's overall business relationships with its customers. As a result, Handelsbanken does not prepare central market plans, and product campaigns are rare. This basic concept of decentralized customer responsibility has proved to work flexibly and efficiently during major changes in the bank's business environment. It has also made Handelsbanken an industry leader with respect to cost-effectiveness and lending ability.

Handelsbanken aims to be a universal bank, covering all forms of banking services for companies and individuals alike: investment banking and trading, traditional corporate transactions including factoring and leasing, property finance, payment services and life assurance. In 1996 Handelsbanken acquired Stadshypotek through a SEK 23 billion cash offer. The acquisition of Stadshypotek substantially strengthens Handelsbanken's position in the Swedish home mortgage market, at the same time that Handelsbanken can offer its new customers complementary lending and other banking services.

The Nordic countries are Handelsbanken's home market. With 485 offices in Sweden, 15 in Norway, 12 in Finland and three in Denmark, Handelsbanken is the only bank offering universal service in all the Nordic countries. Starting in 1998, Handelsbanken's activities in the Nordic countries outside Sweden will be conducted as independent regional banks. Activities are also conducted at 20 units outside the Nordic countries.

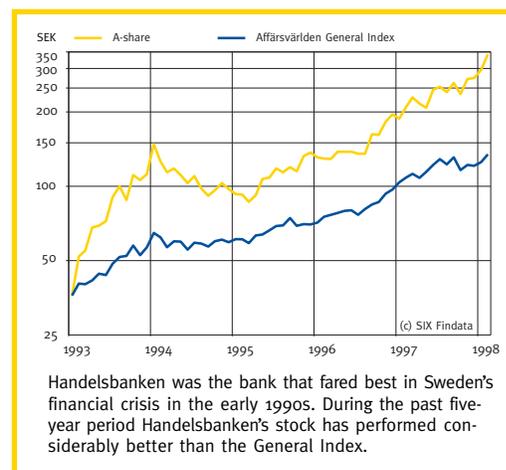
In 1996 and 1997 a total of 12 new branches were added in the Nordic countries outside Sweden. In all, Handelsbanken has approximately 800 employees in Denmark, Norway and Finland. Handelsbanken's activities in the other Nordic countries have now reached such proportions that they are set for organic growth. Offices are also located in Moscow, Tallinn and Warsaw, which means that Handelsbanken covers essentially all the countries around the Baltic Sea.

### The Year in Review

- The added business provided by the new customers acquired through the acquisition of Stadshypotek was greater than expected, and the increase in lending volume has compensated for the predicted drop in mortgage lending.
- Net interest income rose 19 percent, mainly due to an increase in lending volume following the acquisition of Stadshypotek, which resulted in a 16 percent rise in operating profit.
- The proposal has been made to distribute Stadshypotek Fastigheter (real estate) to the shareholders, which would decrease the bank's shareholders' equity by approximately SEK 2.5 billion.
- For the twenty-sixth year in a row Handelsbanken reported a better return on equity than the weighted average of Sweden's other listed commercial banks.

### Handelsbanken's Stock

Handelsbanken's stock is listed on the Stockholm Stock Exchange. The price of Class A shares rose 40 percent in 1997, and trading volume totaled approximately SEK 25 billion. Handelsbanken's market capitalization was approximately SEK 65 billion at year-end 1997.



# SCA

Share of votes: 24.1%  
Share of capital: 9.3%

### Key Financial Data

SEK M	1997	1996
Net sales	<b>58,595</b>	55,405
Earnings after financial items, excl. capital gains	<b>4,457</b>	3,573
Earnings per share, excl. capital gains (SEK)	<b>13.98</b>	10.71
Proposed dividend per share (SEK)	<b>5.75</b>	5.25

### Brief Facts

Holding:  
18,232,000 A-shares,  
150,000 B-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 3,291 M.

Industrivärden is SCA's largest shareholder.



SCA is an integrated paper company with Europe as its primary market. The company is active in hygiene products, packaging and graphic paper. SCA's operations are based on wide expertise in wood fiber properties and their application in products with an increasing degree of value added with respect to moisture absorption (hygiene products), mechanical strength (packaging) and satisfactory printing surface (graphic paper and packaging).

Hygiene products – such as tissue paper, incontinence products, feminine hygiene products and diapers – and containerboard and corrugated board, account for roughly 70 percent of sales. Highly processed printing paper and sawn timber are other important products. SCA's products consist of 93 percent renewable material, mainly wood, wood fiber and recycled fiber. SCA uses equal quantities of recycled fiber and fresh wood fiber in its production.

SCA's business concept is to achieve profitability from a base of products with high value added, which means that the cyclical element is less than for the traditional forest-products industry. The strategic focus is to develop the business through a greater share of processed products and to actively strive for a leading position in these market segments. This strategy forms the foundation for stable, good profitability.

SCA's financial targets include an approximate doubling in the value of SCA's stock (the sum of share price changes and reinvested dividends) about every five years. The company's goal is to have a strong cash flow, i.e., high earnings capacity and financial stability. The related objectives in the various business units are that Hygiene Products will continue developing a competitive product line with favorable growth prospects in a growing number of markets, and focus on certain customer segments. The Packaging business unit will take advantage of the maximal profitability effects created by its strong position in western Europe. In the Graphic Paper unit, work will be concentrated on fine-tuning recent investments and concluding an efficiency-improvement program that was begun a year ago.

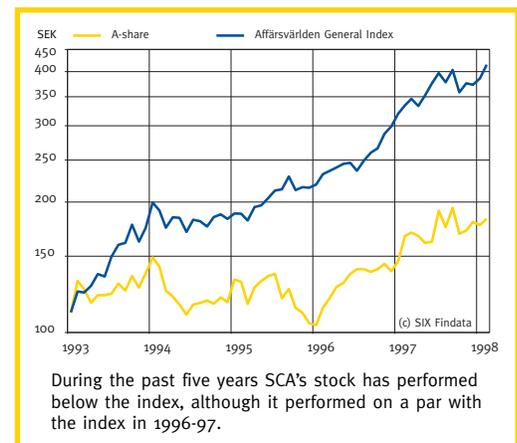
The most important market is Europe, with a concentration in Germany, the U.K., France and Sweden. Sales outside Sweden account for approximately 90 percent of total.

### The Year in Review

- Growth in volume remained strong, amounting to 8 percent for the group as a whole.
- Operating earnings improved for all business units.
- Through various measures SCA has reduced its share of votes in Industrivärden, from approximately 13 percent at the beginning of the year to about 5 percent at year-end.

### SCA's Stock

SCA's stock is listed on the Stockholm Stock Exchange and the London Stock Exchange. In addition, the stock is available to U.S. investors through an American Depositary Receipt program. The Class A share price rose by 29 percent in 1997, and trading volume totaled approximately SEK 12 billion on the Stockholm Stock Exchange. SCA's market capitalization was approximately SEK 35 billion at year-end 1997.



# AGA

Share of votes: 20.2%  
Share of capital: 11.8%

## Key Financial Data

SEK M	1997	1996
Net sales	<b>14,408</b>	12,860
Earnings after financial items, excl. capital gains	<b>1,641</b>	1,757
Earnings per share, excl. capital gains (SEK)	<b>4.51</b>	5.11
Proposed dividend per share (SEK)	<b>3.00</b>	2.70

## Brief Facts

Holding:  
28,615,000 A-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 3,133 M.

Industrivärden is AGA's second-largest shareholder.



AGA is the fifth-largest gas company in the world. The group produces and supplies gases and services in some 40 countries in Europe and Latin America, and in the U.S. AGA's customers are found mainly in the manufacturing, metallurgical, chemical and food industries, and in the health care sector. The company's business concept is to offer products and systems that enhance the productivity, safety and environment of its customers and improve the quality of customers' products. To meet new demands from customers, AGA is working on developing gas technology and offering new products and applications.

AGA's key products are the air gases oxygen, nitrogen and argon, which account for about half of sales. The fuel gases acetylene and propane are also significant, as are hydrogen, carbon dioxide and nitrous oxide. AGA has over a million customers in a highly differentiated market. This broad customer base, the geographic distribution of its business, and the wide range of uses for its products, provide stability and low sensitivity to business cycles.

The capital cost for establishing an efficient, competitive industrial gas operation is very high. This has led to consolidation in the international gas market. The eight largest companies account for more than 75 percent of gas sales in the world.

Europe and the Americas each account for about a third of the world market for industrial, medical and specialty gases. AGA is not represented in other markets. To a large extent the gas market reflects industrial production and the level of industrial manufacturing. Market growth as a rule corresponds to 1.5 to 2 times the increase of a country's industrial production.

Sales outside Sweden account for nearly 90 percent of total. AGA has a long tradition of operations in Latin America and is the leading industrial gas company in the region.

AGA's financial objectives are the following:

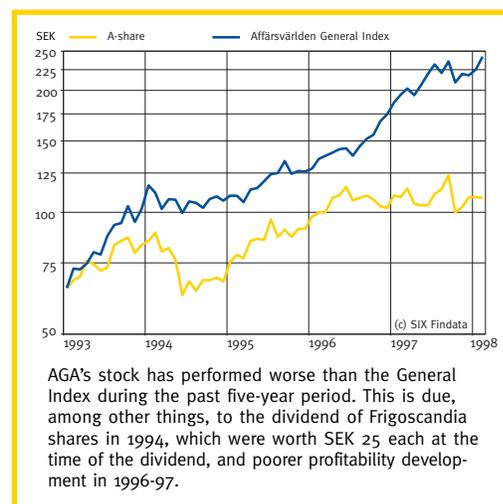
- to grow faster than the market for industrial and medical gases;
- to achieve an operating margin of 15 percent;
- to generate a return on equity of approximately 15 percent and
- to increase earnings per share every year.

### The Year in Review

- Lennart Selander took office as the company's new CEO.
- In 1997 AGA adopted a new organizational structure based on three business areas: Manufacturing Industry, Process Industry and Healthcare. The purpose of the new organization is to increase customer focus and raise operational efficiency.
- Capital expenditures totaled SEK 2,859 M (2,909), marking the culmination of an extensive investment program.

### AGA's Stock

AGA's stock is listed on the Stockholm Stock Exchange, as well as in London and Zurich. The Class A share price rose 6 percent in 1997, and trading volume on the Stockholm Stock Exchange totaled approximately SEK 11 billion. AGA's market capitalization was approximately SEK 26 billion at year-end 1997.



# SSAB

Share of votes: 11.2%  
Share of capital: 8.8%

## Key Financial Data

SEK M	1997	1996
Net sales	<b>17,474</b>	17,162
Earnings after financial items	<b>1,906</b>	2,091
Earnings per share (SEK)	<b>10.40</b>	11.60
Proposed dividend per share (SEK)	<b>4.50</b>	4.00

## Brief Facts

Holding:  
10,815,000 A-shares,  
420,000 B-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 1,461 M.

Industrivärden is SSAB's largest shareholder.



SSAB is the Nordic region's leading manufacturer of flat products in the commercial steel sector. Since the end of the 1980s the product program has been concentrated on thin sheet and heavy plate steel. Sheet steel has a very wide range of applications. The dominant customers are found in the engineering, automotive and construction industries. Heavy plate is used in the manufacture and maintenance of construction machinery, bridges and offshore equipment.

SSAB specializes in high-strength products in the thin sheet segment and on so-called quenched steels – heavy plate products with extremely good abrasion resistance and strength. SSAB is a world-leading manufacturer of quenched steels.

SSAB's market share in Sweden is approximately 50 percent. This strong market position has been achieved through further processing in the wholly owned subsidiaries Plannja, SSAB HardTech and Dickson PSC, and through the partly owned (85 percent) trading company Tibnor.

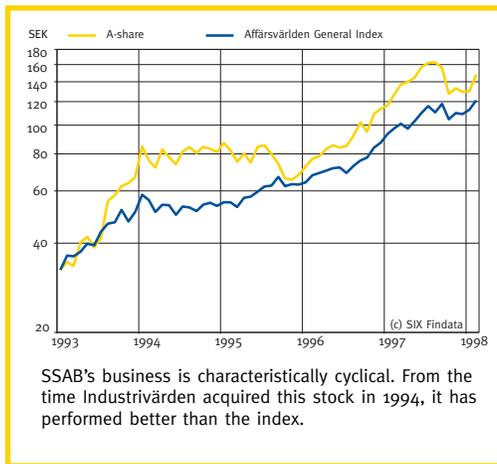
Sales outside Sweden amount to 50 percent of total.

**The Year in Review**

- Demand improved gradually in 1997, enabling an increase in steel prices. However, earnings after net financial items fell due to a deterioration in net interest income.
- Capital expenditures remain at a continued high level, SEK 2,021 (1,274). Two major projects are in progress in the steel operations, which together involve investments of approximately SEK 3 billion. The two projects will create the conditions for continued expansion of SSAB's steel products in both the thin sheet and heavy plate segments.
- The Board of Directors has announced a stock redemption program worth approximately SEK 3 billion in 1998.

**SSAB's Stock**

SSAB's stock is listed on the Stockholm Stock Exchange. The Class A share price rose 15 percent in 1997, and trading volume totaled approximately SEK 7 billion. SSAB's market capitalization was approximately SEK 17 billion at year-end 1997.



# Skanska

Share of votes: 14.9%  
Share of capital: 3.8%

## Key Financial Data

SEK M	1997	1996
Net sales	<b>54,847</b>	45,849
Earnings after financial items	<b>11,025</b>	4,841
Earnings per share (SEK)	<b>62.60</b>	30.60
Proposed dividend per share (SEK)	<b>11.00*</b>	10.00

\*In addition to the cash dividend, a dividend of an unmortgaged portfolio of real estate holdings, worth an estimated SEK 10 billion, has been proposed.

## Brief Facts

Holding:  
2,774,365 A-shares and  
1,525,000 B-shares.

Market value of the holding on Dec. 31, 1997:  
SEK 1,399 M.

Industrivärden is Skanska's second-largest shareholder.



Skanska is one of the leading construction companies in Europe and North America, in addition to being one of Sweden's largest private real estate owners. It also has sizable construction-related industrial operations.

Today Skanska is a global name in the construction industry, with experience in some 50 countries. In addition to Sweden, the U.S., Finland and Denmark are also considered to be home markets for Skanska. Skanska has been able to compensate in large part for the weak Swedish construction market in recent years through its rapidly expanding foreign construction activities. The share of foreign revenues has risen from about 10 percent at the end of the 1980s to 56 percent today. From Sweden, Skanska carries out extensive worldwide project exports, consisting mainly of heavy civil engineering projects as well as turnkey hospitals and hotels.

Operations in 1997 were conducted in the following Business Areas: Building (home construction), Civil Engineering, USA (home construction and civil engineering projects), BOT Projects (Build-Own-Transfer), Industry (construction products and systems), Real Estate and JM (partly owned subsidiary with focus on housing construction in attractive metropolitan areas). Starting in 1998, Skanska's organization will be concentrated in the Sweden, Europe, USA, Project Development and Real Estate business areas, which contain the current business areas.

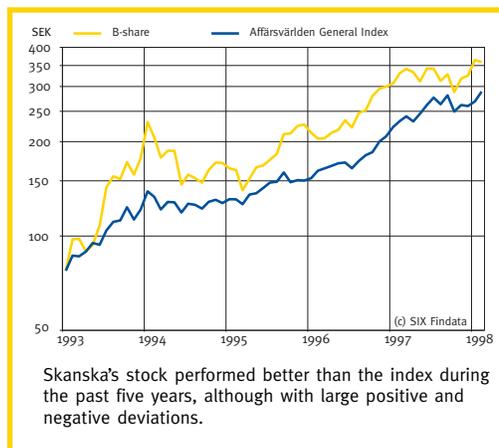
Skanska presented a new strategy in early 1998, which entails a focus on the core activities – build related services and development of projects and real estate – with a higher degree of internationalization and the development of additional home markets. In addition, Skanska intends to divest its shareholdings in non-core businesses, including Scancem, SKF and Sandvik, and will be transferring an unmortgaged real estate portfolio worth SEK 10 billion to its shareholders.

### The Year in Review

- Claes Björk took over as new CEO.
- Most of the Sandvik shareholding was sold, generating a capital gain of SEK 9.1 billion.
- Redemption of one out of every ten shares as the first step in transferring about SEK 15 billion to the shareholders in order to reduce Skanska's over-capitalization. The total redemption amount was SEK 4,972 M.
- Provision of SEK 1,500 M in the 1997 financial statements for restructuring of the Swedish and European operations.

### Skanska's Stock

Skanska's stock Class B is listed on the Stockholm Stock Exchange. The share price rose 8 percent in 1997, and trading volume totaled approximately SEK 16 billion. Skanska's market capitalization was approximately SEK 34 billion at year-end 1997.



# PLM

Share of votes: 23.0%  
Share of capital: 23.0%

## Brief Facts

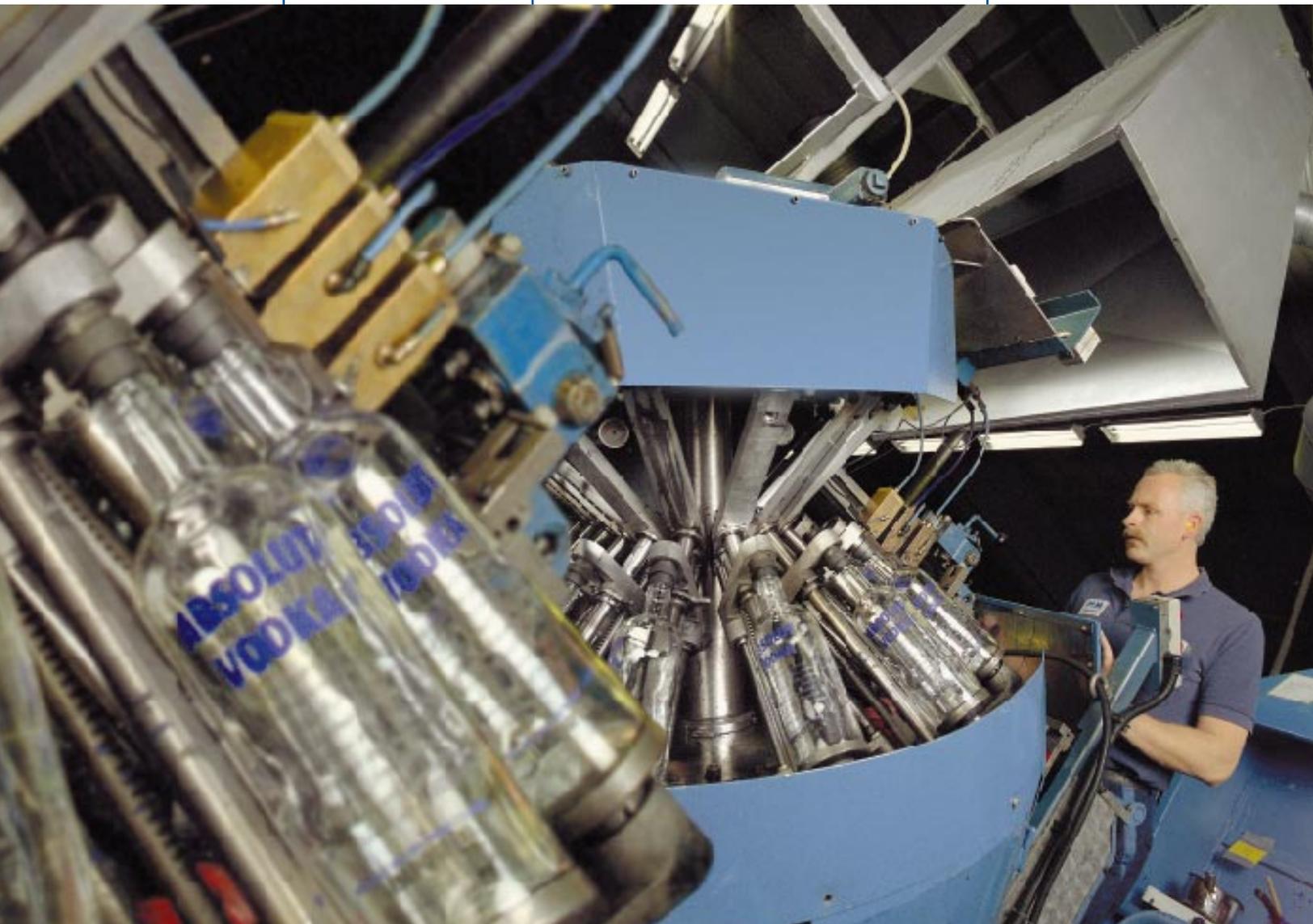
Holding:  
10,000,000  
shares.

Market value of the holding on Dec. 31, 1997:  
SEK 1,110 M.

Industrivärden is PLM's  
largest shareholder

## Key Financial Data

SEK M	1997	1996
Net sales	<b>8,856</b>	8,179
Earnings after financial items, excl. minority interest	<b>575</b>	475
Earnings per share (SEK)	<b>10.03</b>	8.18
Proposed dividend per share (SEK)	<b>2.50</b>	2.00



PLM is one of Europe's leading consumer packaging companies. The company develops, manufactures and markets packages of metal, glass and plastic. PLM's customers are primarily in the European beverage and food industries.

Operations are divided into three divisions: the Beverage Can Division, the Glass Division and the Plastics Division. In all, PLM has 15 production facilities in 10 European countries. It is Europe's fourth-largest manufacturer of beverage cans and the fifth-largest manufacturer of glass packages. In the plastic packaging segment, PLM is one of the top two manufacturers of refillable PET bottles. Sales outside Sweden account for approximately 85 percent of total.

PLM plans to expand in high-growth countries in eastern Europe, as well as in southern Europe, in order to achieve better distribution coverage. A beverage can factory is currently being built in Russia. Startups and acquisitions have taken place in recent years in Poland, the Czech Republic and Denmark. Other units were recently built up in France and Austria.

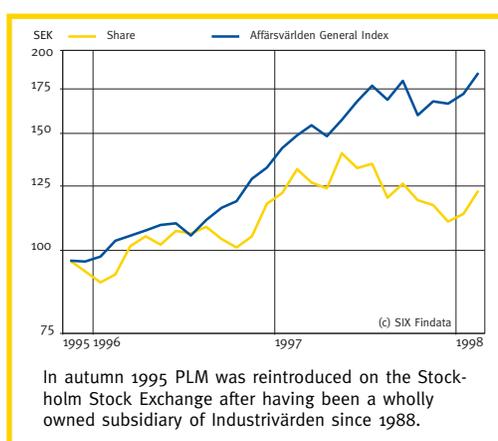
Developing recycling systems for all types of packaging has always been a key element in PLM's strategy. PLM allocates substantial human and financial resources to environmental matters and recycling systems.

### The Year in Review

- Construction was started of a beverage can factory in Russia. The Russian company is owned by a joint-venture in which PLM is the majority owner. Production is scheduled to begin at the end of 1998.
- A minority shareholding of 25 percent was acquired in the Danish packaging company Holmegaard Emballage A/S, with an option to later acquire the entire company. In connection with this, PLM acquired Holmia A/S, a manufacturer of plastic packages and a subsidiary of Holmegaard.
- Earnings after net financial items improved by 21 percent to SEK 575 M, mainly due to improved efficiency and lower costs in the Beverage Can Division. Cash flow from operations improved considerably to SEK 478 M (117).

### PLM's Stock

PLM's stock has been listed on the Stockholm Stock Exchange since autumn 1995. The stock price fell by 6 percent in 1997, and trading volume totaled approximately SEK 1.6 billion. PLM's market capitalization was approximately SEK 4.8 billion at year-end 1997.



As a holding company Industrivärden has an obligation to make demands on the environmental work of its wholly owned subsidiaries as well as on the listed companies in which it is a major owner.

## **Industrivärden's Environmental Policy**

According to Industrivärden's business mission, the Company's objective is to create good growth in shareholder value through active ownership.

In support of this business mission the following environmental policy has been adopted:

Industrivärden shall act to ensure that its subsidiaries and companies defined as core holdings adopt environmental policies – based on their respective operating conditions – that take the following areas into account:

- **The market** The companies shall be responsive to customers' preferences and be responsive to the market's environmental demands.
- **Environmental impact** The companies shall be aware of their environmental impact and work actively to reduce this impact and their use of resources.
- **Legislation** Legal regulations shall be viewed as a minimum requirement.
- **Environmental management** Targets must be quantifiable, and continuous follow-up shall be conducted.

Industrivärden's wholly owned subsidiaries must all have their own detailed environmental plans. Follow-up of the achievement of set targets shall be conducted on a continuous basis. Environmental work is prioritized in various environmental areas, depending on the focus and operating conditions of the individual subsidiary. Priority areas within the Group are: the products and their recycling, energy consumption, the handling and choice of chemicals, emissions to water and the air, waste management and transportation.

To obtain a picture of the wholly owned subsidiaries' current environmental work, environmental concerns in the market, environmental impact and legal regulations, Industrivärden conducted a general environmental inventory of its wholly owned subsidiaries in 1997. The result of this inventory will form the basis of a model for Industrivärden's and its subsidiaries' environmental work in the future.

## **Environmental Policy for Industrivärden's Core Holdings**

Following is a brief account of points that the respective companies want to stress, as abstracted from the environment sections of their most recent annual reports.

In 1996 **AGA** introduced a new corporate environmental policy based on the International Chamber of Commerce's Business Charter for Sustainable Development. Environmental reviews were carried out in conjunction with safety audits at most of AGA's subsidiaries. Within a few years all of the company's subsidiaries in western Europe are expected to have introduced environmental management systems in accordance with the ISO 14001 international standard. Through this system, environmental impact is identified, responsibility and organizational matters are defined, and environmental objectives are set.

AGA's greatest contribution to the environment is made at customer sites by exploiting the opportunities of gas technology. For example, by encouraging customers to bleach



paper pulp with oxygen and ozone instead of chlorine, AGA is helping reduce harmful emissions and create a better work environment.

**Ericsson** requires environmental certification in accordance with the ISO 14001 standard. This requirement applies to all organizations and operations that significantly affect Ericsson's products and services.

Internal environmental audits have been carried out regularly since 1990. As an example of the effects of these regular audits, in the early 1990s Ericsson was one of the first companies in the world to phase out chlorofluorocarbons (CFCs) – Freon, for example – from its production.

The follow-up of products is increasingly performed with the help of life-cycle assessments (LCAs), which are detailed investigations into a product's effects on the environment as seen from various angles – the entire path from extraction of raw material through product development, production and use, to scrapping or recycling. Ericsson is deeply involved in a project to translate LCA information into a form of comprehensible product labeling. The company hopes to show the enormous potential for environmental improvements that mobile telephony and other telecommunications represent compared with physical transport.

**Handelsbanken** is affiliated with the International Chamber of Commerce's Business Charter for Sustainable Development and is a signatory of the UN's environmental declaration for banks. The main principle of environmental guidelines is that, as far as technically and economically feasible, the bank will take measures to minimize adverse environmental impact. An environmental inventory has been carried out at most of the bank's branches.

Investigation into the impact of potential environmental risks associated with borrowers' businesses is one aspect of Handelsbanken's credit risk assessment. Criteria for this have been incorporated into the bank's lending rules. Environmental aspects are also taken into account in business areas belonging to Handelsbanken Markets, such as in determining the composition of assets in mutual funds.

**PLM** takes an active, holistic approach to environmental management, from supply of raw materials to disposal of products after they have been used. The main focus is on recyclable or refillable packaging that contributes to reduced waste volume, minimal consumption of resources and prevention of litter.

PLM plays an active role in organizing recycling systems, often in collaboration with industry associations, customers and retailers. The company is also affiliated with numerous European cooperation organizations, such as EUROPEN (the European Organiza-

tion for Packaging and the Environment) and ERRA (the European Recycling and Recovery Association).

Certification in accordance with ISO 14001 will be carried out in a pilot factory within each of PLM's three divisions. As a first step, the glassworks in Limmared were certified at the end of 1997. PLM will gradually install environmental management systems at all of its other plants.

**Sandvik's** environmental philosophy is a natural part of the Group's overall business activities. As an example of Sandvik's commitment to the environment, the steel mill in Sandviken has increased its flue-gas cleaning to more than 99 percent through major investments in flue-gas cleaning. Recycling of used products is also significant for Sandvik. Stainless steel is relatively simple to recycle. Using sophisticated methods and processes, cemented carbide can also be recycled. Tool production has been made more environment-friendly. As an example, lead-bath hardening has been replaced by induction hardening – a much more environment-friendly alternative.

**SCA's** environmental policy is based on the principles that SCA assumes responsibility for the environment, that the environment is taken into account in investment decisions, that environmental responsibility is incorporated as a natural aspect of all operations, and that information about SCA's environmental efforts should be open and freely available. SCA's environmental initiatives are to be characterized by continuous review and improvement. The aim is to reduce the use of nonrenewable and nonrecyclable resources in the company's production and distribution. This applies to materials as well as energy. EMAS (the EU's Eco Management and Audit Scheme) has been introduced at several plants and will be introduced in all operations where an appreciable environmental impact can be anticipated. ISO 14001 is used as the environmental management system in the forestry activities and in production at several plants.

**Skanska** is a member of the World Business Council for Sustainable Development. The key elements in Skanska's environmental policy are responsibility, long-range perspective and an overall view. Every business unit has been charged with developing an action-oriented environmental program.

Skanska's environmental policy reflects the Group's various roles as project and product developer, builder, real estate manager and business developer. Some 15 facilities have been registered in accordance with EMAS, and one has been certified as meeting the ISO 14001 standard.

In response to the environmental accident that occurred in autumn 1997 in connection with a tunnel-drilling operation in southwest Sweden, the decision has been made to implement a comprehensive environmental management system in all operations, including the contracting and real estate activities as well as the industrial operations. The implementation of a comprehensive environmental management system will entail more stringent routines in a number of areas, not least concerning the choice of materials and methods from an environmental perspective. All Skanska employees will undergo environmental training.

**SSAB** develops, manufactures and markets high quality steel that meets important technical and financial needs. All activities within the company shall be conducted according to the principles of resource conservation and efficiency with respect to raw materials, energy and other natural resources. The commercial operations presuppose an environmental effort that contributes to the sustainable development of steel use by society.

In concrete terms, the company's environmental work has involved measures aimed at reducing emissions into the air and water from coke oven plants, blast furnaces, steel plants and rolling mills. An example of such measures is an investment program in Oxelösund totaling SEK 350 M, which has reduced the emission of particles, sulfur dioxide, nitrogen oxide and benzene by more than half of previous levels.

The Inductus group included four companies at the end of the year, comprising some 30 subsidiaries in Sweden and abroad. The average number of employees at year-end 1997 was approximately 2,700, of whom approximately 1,400 were outside Sweden.

## Objectives

Inductus is a group of medium-sized industrial companies in the light-engineering sector. The Inductus units are required to have a certain minimum size, a market-leading position, an international focus and good prospects for organic growth, among other things. Good earnings capacity and profitability are also required. The operations should not be too capital-intensive.

## Structural Changes

Thorsman was sold to the Nordic Lexel Group for SEK 2,000 M, generating a capital gain for Industrivärden of SEK 1,374 M. Thorsman complements Lexel's operations in the area of electrical installation materials and services.

## Organizational Structure

Inductus' operations are highly decentralized, and each company in the group is fully responsible for its earnings and capital budgeting. This means that each Inductus company must have a complete organizational structure and thus may not be dependent on continuing operative support from corporate management.

The strategy of decentralization and management by objective has proved to work well for Inductus. A thoroughly implemented, decentralized management strategy is especially important for enabling decisions to be made as near to the market as possible.

Corporate management's role is focused on strategic planning, business management and control using a highly developed planning and reporting system. The board work in the subsidiaries is led by a chairman from Industrivärden and through the active participation of outside directors.

Board of Directors:  
 Carl-Erik Feinsilber (Chairman),  
 Jan Blomberg, Carl-Olof By,  
 Bo Damberg, Jan Ekman,  
 Ulla Heikkilä, Tyrone Lindquist,  
 Clas Reuterskiöld (President)  
 and Anders Unger.

## Internationalization

A high degree of internationalization is a key element in Inductus' strategy. Besam, Isaberg and Rapid sell more than 90 percent of their production outside Sweden, while Hydraulto has a growing amount of indirect export.

## Market Position

Besam is the world's largest supplier of door automation. Isaberg is a world-leading manufacturer of staplers. Rapid has a strong position in Europe and the U.S. with its mills for recycling plastic waste. Hydraulto is Scandinavia's largest manufacturer of cylinders for mobile hydraulics.



Clas Reuterskiöld, President

## Sales and Earnings

The general industrial trend in Inductus' most important markets in the Nordic countries and the rest of Europe improved in 1997. In addition, the Inductus companies, which have a high degree of export, benefited somewhat from the weakening of the Swedish krona during the year.

Invoiced sales amounted to SEK 2,776 M (4,064), an increase of 15 percent for comparable units. Measured at constant exchange rates, invoiced sales rose by 10 percent.

Earnings after financial items were SEK 157 M (257). For comparable units, the corresponding earnings in 1996 were SEK 134 M. The return on capital employed was 19 percent (18).

Besam's earnings improved by SEK 21 M, mainly due to good volume growth in most major markets. Earnings for Hydrauto were down, following – among other things – costs for the discontinuation of an unprofitable product group. Isaberg had strong volume growth, especially for copying machines staplers, and reported an earnings increase of SEK 22 M. Rapid showed good order bookings but a slight decline in earnings.

Of the Inductus group's invoiced sales, 13 percent pertained to Sweden, 56 percent to other European countries and 31 percent to the rest of the world.

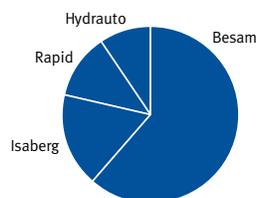
### Return on Capital Employed

The profitability requirement for Inductus companies is that they should generate an average return on capital employed of at least 20 percent over a business cycle. Three of the four subsidiaries exceeded this target in 1997. For the group as a whole, the return on capital employed was 19 percent (18).

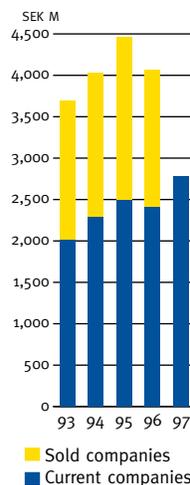
### Inductus in Summary

SEK M	1997	1996	1995	1994	1993
Invoiced sales	<b>2,776</b>	4,064	4,466	4,033	3,701
Of which, outside Sweden, %	<b>87</b>	76	71	73	72
Earnings after financial items	<b>157</b>	257	295	327	297
Return on capital employed, %	<b>19</b>	18	21	22	19
Capital expenditures	<b>107</b>	210	175	138	109
Visible equity ratio, %	<b>32</b>	34	47	48	47
Average number of employees	<b>2,600</b>	3,840	4,279	3,967	3,945
Of whom, outside Sweden	<b>1,406</b>	1,950	1,943	1,842	1,659

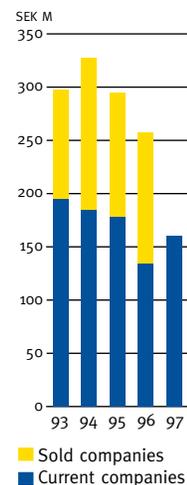
Invoiced Sales Per Company



Invoiced Sales Inductus



Earnings After Financial Items Inductus



## The Inductus Companies

SEK M	1997	1996	1995	1994	1993
<b>Besam</b>					
Invoiced sales	<b>1,707</b>	1,525	1,590	1,505	1,329
Earnings after financial items	<b>103</b>	82	112	105	135
Return on capital employed, %	<b>20</b>	18	27	25	36
Average number of employees	<b>1,520</b>	1,497	1,434	1,327	1,156
<b>Hydrauto</b>					
Invoiced sales	<b>259</b>	205	246	197	154
Earnings after financial items	<b>-18</b>	-15	14	9	3
Return on capital employed, %	<b>neg</b>	neg	20	15	6
Average number of employees	<b>238</b>	238	246	212	213
<b>Isaberg</b>					
Invoiced sales	<b>479</b>	388	381	368	339
Earnings after financial items	<b>56</b>	34	24	38	30
Return on capital employed, %	<b>39</b>	26	16	24	21
Average number of employees	<b>581</b>	547	553	551	504
<b>Rapid</b>					
Invoiced sales	<b>331</b>	295	272	220	186
Earnings after financial items	<b>22</b>	27	26	32	27
Return on capital employed, %	<b>22</b>	27	30	50	36
Average number of employees	<b>261</b>	242	239	201	162

## ● Besam

### Products

Besam is active in door automation, including automated swinging and sliding doors with impulse sensors, and revolving doors. Door automation accounts for about 95 percent of total sales. Service and maintenance of installed systems account for a rising share of sales. Besam's product line also includes Timelox, an electronic locking system for hotels and offices, which has been transferred as from 1998 to Industrivärden as a special development project.

Automatic door openers are used both indoors and in building entrances. The largest application areas are supermarkets, retail chains, terminals and hospitals. Automated doors are becoming increasingly common in such areas as banks, administration buildings, hotels and nursing homes. In some countries they are also used widely by private store owners.

### Markets

The use of door automation has been steadily rising for many years, and new customer groups are emerging continuously. The market for door automation is expected to continue expanding geographically and in terms of application areas. As the world's largest supplier of door automation, Besam is cultivating all the major markets in the Western world and is the market leader in Sweden, the U.S., the U.K. and the Benelux countries, among others.

Besam has subsidiaries in some 20 countries in Europe, the U.S. and Southeast Asia, plus some 30 independent distributors. In all, business outside Sweden accounted for 93 percent of sales in 1997 and 76 percent of the work force.



Bertil Samuelsson, founded Besam in 1962, where he served as president until the end of 1997. Bertil Samuelsson, whose name forms the Besam acronym, sold the company in 1967 to finance its continued expansion. Over the course of Besam's 35-year history the business has grown to become a global operation.

### Competitors

The chief competitors are in the U.S. (Stanley, Door-O-Matic, Horton and Gyro-Tech), Germany (Dorma and Geze) and Switzerland (Tormax and Record). Japan also has several manufacturers. One common characteristic of most of the major competitors is that door automation accounts for a minor portion of their total sales. Besam is one of the few companies in the business that is dedicated exclusively to door automation. None of the competitors have an overall market coverage as large as Besam's.

### The Besam Concept

The Besam concept is built on four cornerstones:

- product development is centralized within the Besam parent company
- component manufacture is handled by subcontractors
- the marketing strategy is established by the Besam parent company
- product sales and service are handled by Besam's own subsidiaries.

This concept gives the company great production flexibility with a minimal capital requirement, at the same time that the various markets can be handled according to local conditions.



Peter Aru, President, Besam (from Jan. 1, 1998)



Besam is the world's largest supplier of door automation. Left: Sliding doors in the entrance to the Passagen mall in Stockholm.

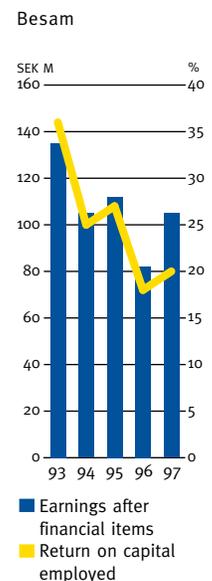
### Production

Besam has assembly plants in Sweden, Germany and the U.S.

### Business Trend 1997

Invoiced sales rose 12 percent. Measured at constant exchange rates, the increase was 6 percent. A large part of the increase is attributable to service of installed systems.

Earnings after net financial items totaled SEK 103 M (82). The windup of the security products operation in France was concluded during the year. The return on capital employed was 20 percent (18).



## Hydrauto

### Products

Hydrauto manufactures customized valve and cylinder components for mobile hydraulics. The company's products are used mainly in mobile cranes and construction machinery.

### Competitors and Markets

Hydrauto is Scandinavia's leading supplier of OEM cylinders and is a European market leader in the mobile hydraulics segment.

The main competitors in Sweden for cylinders are Voac and Dacke Hydraulik, while for valves the primary competitors are Voac, Nordhydraulik and Olsberg. Most of the major machine manufacturers in Europe make their own cylinders, although a rising number are showing interest in alternative supplies.

The Nordic countries are Hydrauto's most important market, where the Partek Group and Volvo are the largest customers. Exports to other European customers have risen considerably in recent years.

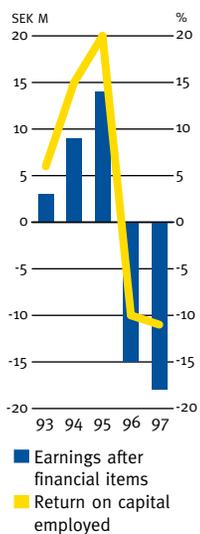


Olov Larsson, President, Hydrauto

Hydrauto is Scandinavia's largest manufacturer of cylinders for mobile hydraulic systems. Hydrauto supplies heavy construction cylinders for Volvo excavators.



Hydrauto



### Development Potential

In an effort to strengthen its international profile, in 1996 and 1997 Hydrauto carried out an extensive investment program in the new construction cylinders product area. This work is being conducted through a cooperation agreement with the Japanese company Kayaba, one of the world's leading manufacturers of hydraulic cylinders. The agreement gives Hydrauto access to Kayaba's design and production technology.

### Production

Production takes place at the Hydrauto's plant in Skellefteå, Sweden.

### Business Trend 1997

Hydrauto's sales rose 26 percent. The business climate improved gradually following a weak start to the year. Due to continued investment in the new construction cylinder product area and costs for the windup of an unprofitable product group, a loss of SEK -18 M (-15) was reported after financial items.

## ● Isaberg Rapid

### Products

Isaberg's products consist of staplers and narrow-gauge staples for the office and tool markets, and are marketed under the Rapid brand name. The product line includes manual and electric staplers. Desktop staplers and stapling pliers are used in offices, while stapling guns and hammers are used to fasten textiles, molding, moisture-barrier film and tar paper. For the OEM market, Isaberg develops staplers that are built into copying machines, among other things.

Operations are organized into the Office, Tools and OEM business units. Each of these units provides staplers and staples.

### Markets

Isaberg is the largest company in Europe in its product area. Its products are sold in more than 100 countries, and more than 90 percent of sales are outside Sweden. The most important markets are Europe and North America. Isaberg's products are also sold through a network of dealers in South America, the Middle East, Africa, the Far East, Australia and New Zealand. Isaberg's Rapid brand is well known and has the broadest market coverage in the world in its product area.

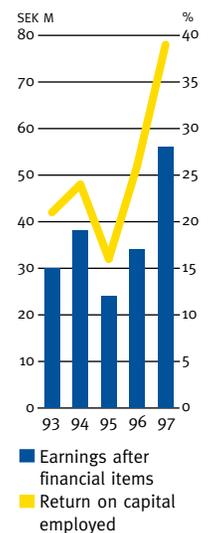
### Competitors

The industry is made up of a handful of global, brand-name producers with strong positions in their home markets, like Arrow, Bostich, Max, Novus, Petrus, Rexel, and Swingline. Some local manufacturing also takes place in certain markets.



Pelle Holm, President, Isaberg Rapid

Isaberg



Isaberg is one of the world's leading makers of staplers.

### Development Potential

Isaberg's sales to end-customers in most markets are handled by distributors. By establishing or acquiring own sales companies in France, Germany, the U.K. and the Netherlands, Isaberg has created the potential in recent years for greater market shares and thus higher production volume in the Swedish plants.

Future market integration can also be enhanced through contact with end-customers and direct delivery from Sweden. Pan-European customers, such as international office supply chains, are a driving force behind the changes in the distribution pattern. Product development is a cornerstone in Isaberg's strategy of facilitating volume growth. Isaberg has developed a specially designed electric stapler with a patented staple cassette for incorporation into office copying machines. Deliveries of these copying machine staplers increased sharply during the year, as did aftermarket sales of staple cassettes. Continued favorable growth is anticipated for copying machine staplers.

### Production

Isaberg's staplers are manufactured in Hestra and Östra Frölunda, Sweden, while staples are manufactured in Hestra and Lützelbourg, France.

### Business Trend 1997

Sales rose by 23 percent, mainly for copying machine staplers, although the standard product line also performed well. Measured at constant exchange rates, sales rose by 20 percent.

Earnings after financial items totaled SEK 56 M (34). The return on capital employed was 39 percent (26). The earnings improvement is attributable to a rise in sales volume and improved production efficiency.

## ● Maskin AB Rapid

### Products

Rapid's products consist of small and medium-sized thermoplastic granulating mills, which are used to grind production waste from molds and rejected plastic products. The milled plastic is returned directly to the manufacturing process, thereby eliminating waste. Thermoplastic can be reused essentially without limit. Granulation is profitable even when the plastic raw material reaches its lowest price level during a business cycle. Moreover, granulation entails environmental benefits through the recycling of left over and scrapped plastic.



### Markets

Rapid is the European market leader and is relatively large in the U.S. A special venture has been in progress for a couple of years in the Far East. In addition to the parent company in Sweden, Rapid has subsidiaries in Germany, France, and the U.S., and a sales office in Singapore.



Rapid is Europe's largest producer of small and medium-sized granulation mills for recycling plastic.

### Competitors

The main competitors are Nelmor and Cumberland (U.S.), Herbolt, Palman and Getecha (Germany), Tria (Italy), and CMB (France).

### Development Potential

Rapid's unique value lies in its strong market position for small and medium-sized granulating mills and its know-how in the efficient manufacture of high-quality, low-noise mills. Rapid aims to further strengthen its market positions through the successive addition of larger mills to the product line.

The market for recycling plastic raw material in manufacturing processes offers the best business opportunities. Rapid focuses exclusively on this niche and has stayed away from the plastic refuse segment.

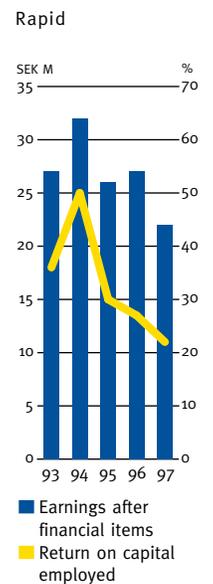
### Production

Rapid's mills are manufactured in Sweden at plants in Bredaryd and Värnamo. In the U.S., the company has had an assembly plant in Rockford, Illinois, for many years, and an additional one began operating in early 1997 in Charleston, South Carolina.

### Business Trend 1997

Invoiced sales rose by 12 percent during the year. Earnings after net financial items amounted to SEK 22 M (27). The return on capital employed was 22 percent (27).

Earnings were charged with costs for the startup of the new assembly plant in the U.S. and extra investments in product development.



Board of Directors:  
 Clas Reuterskiöld  
 (Chairman), Carl-Olof  
 By, Jan Carlborg,  
 Anders Jonson,  
 Linda Paberit,  
 Börje Nordenö and  
 Gunnar Tindberg  
 (President).



Gunnar Tindberg, President

Indutrade is a trading company whose business concept is to provide imported components to industrial companies with a recurring need and thereby offer qualified, technical system solutions. The suppliers consist of international companies with brand-name products and major development resources as well as niche manufacturers. Most of the products are leaders in their respective segments.

Customers are increasingly demanding system and design solutions in which Indutrade provides technical competence in addition to purchasing and logistics know-how. This requires that Indutrade's sales staff serve as technical consultants, which puts high demands on competence in technical service, installation and processing.

Indutrade's principal markets are Sweden, Denmark, Finland, the Netherlands and Belgium. The company is also active in Norway, the Baltic countries and Russia.

### Structural Changes

Indutrade acquired the Finnish company Maanterä at the start of 1997 and the Swedish company Edeco Tools at the end of the year. Both have agencies in the metalcutting industry. Maanterä's invoiced sales were SEK 54 M in 1997, while Edeco Tools had sales of SEK 42 M.

Indutrade also acquired the Finnish agency company Vepu, which sells pumps and valves for the chemical and process industries, and the Leybold group's Finnish operation, trading in pumps, measurement instruments and valves in the area of vacuum technology.

An agency was acquired in the Netherlands for control valves to complement the existing valve program. In Sweden a flow meter agency was acquired.

During the year Indutrade launched a new glue agency, making Indutrade's line of industrial adhesives one of the market's broadest.

### Organizational Structure and Management Philosophy

Indutrade's management philosophy is to delegate earnings responsibility to the companies or units that generate the business. The large companies are structured into product-oriented divisions with full profit responsibility. Indutrade can thus be said to comprise some 35 units, each with sales of between SEK 10 M and 100 M, and employing between 10 and 30 people.

One of Indutrade's objectives is that the group's return on capital employed should amount to a minimum of 20 percent over a business cycle. The return in 1997 was 25 percent (20).

Another objective is to add a certain amount of business volume each year through company acquisitions. This can also take place through the addition of new product areas.

### Products and Markets

Indutrade's business involves the import and sale of technical components to industrial companies in the Nordic and Benelux countries with a recurring need. The products are targeted at local industry. The offering of consumer and capital goods is negligible.

Business is conducted in the following nine product areas:

- Transmission and materials handling
- Mechanical assembly technology
- Silicones, adhesives, sealants and lubricants
- Filtration and process-/water technology
- Tools and engineering
- Structural plastics
- Electrical components
- Compressed air, pneumatics and control technology
- Glass and packaging technology.

In addition to qualified technical products and advanced problem-solving by specialized sales engineers, customers are offered technical support from well equipped laboratories. Some of the group's companies also provide technical service and product improvement assistance – mainly in metalcutting – from efficient workshops.

The suppliers are mainly established in western Europe, the U.S. and Japan. As a rule the Indutrade companies have exclusive agency agreements in their respective geographic markets. Indutrade requires that its suppliers are stable companies with leading positions in their respective product niches, that they are actively engaged in product development, and that they have resources for technical problem-solving.

The customers of the Indutrade companies represent a cross-section of industry, with a concentration in the engineering and process industries. The pharmaceutical and food industries are growing customer groups.



Customers are offered technical support and service in Indutrade's laboratories.  
Left: Inside the filter laboratory in Stockholm.

## Sales and Earnings

The economic situation was strong in Finland and improved gradually in Sweden, while demand in Denmark and the Benelux countries was largely unchanged.

In total invoiced sales in 1997 amounted to SEK 1,492 M, an increase of 9 percent. New agencies and acquired companies accounted for 5 percentage points of this amount, and thus the increase for comparable units was 4 percent. Price increases were negligible.

Indutrade's earnings after financial items totaled SEK 118 M (93). The Finnish companies benefited from a strong economic trend. Newly acquired Maanterä contributed to a very strong earnings trend in Finland. On the other hand, the high exchange rate for sterling had a negative earnings impact on the units that import products from the U.K.

### Sweden

The Swedish operations accounted for 48 percent (55) of Indutrade's sales and thus represent the largest single market. Business is conducted in all product areas except compressed air, pneumatics, control technology, and glass and packaging technologies.

The gradual improvement in the economy for the export industry led to a rise in order bookings for Indutrade. However, total invoiced sales of the Swedish operations in 1997 decreased from SEK 762 M to SEK 738 M, a 3 percent decline from 1996 for comparable units. Invoiced sales of the flow technology group were down by SEK 38 M compared with a year earlier, when a large number of projects were delivered.

Earnings after financial items increased slightly to SEK 85 M.

### Denmark

Granzow is active in compressed air, pneumatics and control technologies, while Linatex specializes in structural plastics. Colly works with process technologies, and Diatom markets products in two areas: mechanical assembly products, and silicones, adhesives, sealants and lubricants.

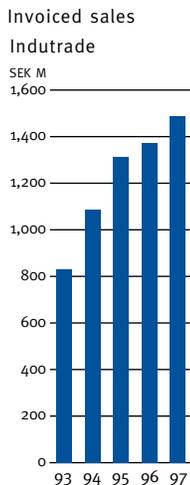
Indutrade's invoiced sales in Denmark amounted to SEK 202 M, compared with SEK 185 M in 1996. Earnings after financial items rose from SEK 4 M to SEK 7 M.

### Finland and the Baltic Countries

In Finland, Indutrade operates in all its business areas except for structural plastics and electrical components. Through recent years' acquisitions of industrial component companies, the previous strong dependence on the public sector has been reduced.

Demand in the Finnish market was good throughout the year. Invoiced sales totaled SEK 300 M, an increase of 58 percent compared with 1996. For comparable units the increase was 29 percent. Earnings after financial items improved from SEK 13 M in 1996 to SEK 32 M.

In recent years Lining has established own subsidiaries in Estonia, Latvia, Lithuania and St. Petersburg, Russia. These work primarily in the water technology sector.



Invoiced sales rose by an average of 16 percent per year during the period 1993-97.

## Benelux

Indutrade operates through the Hitma group in the Netherlands and through CCMP in Belgium. Hitma's companies are active in filtration and process technology, and glass and packaging technology, while the CCMP group works with silicones, adhesives, sealants, lubricants, and industrial chemicals.

Demand in the Belgian and Dutch markets remained steady in 1997. Total invoiced sales in the Benelux region amounted to SEK 246 M (245), and earnings after net financial items were SEK 16 M (10). The strong exchange rate for sterling had a negative earnings impact on Hitma, which imports most of its products from the U.K.

## Indutrade in Summary

SEK M	1997	1996	1995	1994	1993
Invoiced sales	<b>1,492</b>	1,372	1,311	1,087	829
Of which, outside Sweden, %	<b>55</b>	49	59	62	58
Earnings after financial items	<b>118</b>	93	97	118	61
Return on capital employed, %	<b>25</b>	20	21	29	19
Capital expenditures	<b>22</b>	30	41	27	14
Visible equity ratio, %	<b>35</b>	35	30	31	37
Average number of employees	<b>713</b>	694	617	563	512

### Indutrade in Sweden

Alnab  
 Bengtssons Maskin  
 Carlsson & Möller  
 Colly Company  
 Edeco Tools  
 ETP Transmission  
 Euronord  
 G A Lindberg  
 GPA Plast  
 Kaj Mandorf  
 Novum  
 Ventim

### Indutrade in Denmark

Colly A/S  
 Diatom Verktøj  
 Granzow  
 Linatex

### Indutrade in Norway

GPA Plast

### Indutrade in Finland

Oy Colly  
 Lining  
 YTM Industrial  
 Maanterä  
 Novatool  
 Vepu

### Indutrade in the Baltic Countries

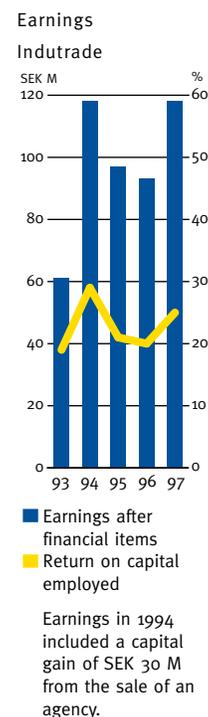
Industek, Estonia  
 Indutek, Latvia  
 Industek, Lithuania

### Indutrade in Russia

Indutek

### Indutrade in the Benelux Countries

Hitma  
 Aluglas  
 CCMP



The Board of Directors and President of AB Industrivärden (publ.) herewith submit their annual report and consolidated accounts for the 1997 fiscal year.

## **Changes in Group Composition**

Thorsman, with systems and products for cable-related electrical installation and approximately 1,400 employees, was sold during the year. Thorsman's net sales in 1996 totaled SEK 1,651 M, and earnings after financial items were SEK 123 M.

Indutrade acquired the Swedish company Edeco Tools and the Finnish company Maanterä, both with agencies in the metalcutting industry.

The property company Fundament, with commercial premises primarily in the greater Stockholm area, was sold. Fundament's rental income in 1996 totaled SEK 110 M, and earnings after financial items were SEK 36 M.

## **Net Sales and Earnings**

Consolidated net sales amounted to SEK 4,275 M (5,547). For comparable units, net sales rose by 13 percent compared with the preceding year. Sales outside Sweden amounted to 76 percent (68) of total.

Earnings before financial items rose by SEK 1,013 M compared with the preceding year, to SEK 2,551 M (1,538). This includes capital gains on sales of listed stocks, totaling SEK 273 M (1996: SEK 679 M, including capital gain of SEK 508 M on the sale of 22 percent of the shares in PLM), and capital gains on sales of other stocks, totaling SEK 1,592 M (8). The latter item mainly refers to the sale of Thorsman, totaling SEK 1,374 M, and the sale of Fundament, totaling SEK 224 M.

Dividends from the portfolio of listed stocks decreased by SEK 64 M to SEK 426 M (490). In 1996 this item included extra dividend income from Handelsbanken and Volvo, totaling SEK 111 M, in the form of shares in Näckebro and Swedish Match, respectively.

Net financial items worsened by SEK 26 M to SEK -147 M (-121). Earnings after financial items totaled SEK 2,404 M (1,417).

The interest expense for CPN loans was SEK 84 M (73). After taxes of SEK -46 M (-58), reported net earnings for the year were SEK 2,274 M (1,286).

A breakdown of the Group's net sales and earnings after financial items by business unit is provided in a table on page 50.

## **Capital Expenditures**

Capital expenditures during the year in tangible fixed assets amounted to SEK 144 M (265), and scheduled depreciation totaled SEK 125 M (180).

## **Financing and Equity Ratio**

The Group's liquid assets amounted to SEK 291 M (478). Interest-bearing liabilities and provisions rose by SEK 2,185 M to SEK 3,721 M (1,536), including SEK 126 M (181) in provisions for pensions. Of total interest-bearing liabilities, SEK 1,655 M (770) consisted of long-term loans, including SEK 94 M (56) in utilized credit lines. Net borrowing increased by SEK 2,372 M to SEK 3,430 M, mainly to finance net purchases of stocks.

The visible equity ratio was 66 percent (73), while the adjusted equity ratio, which includes surplus values of listed stocks, was 85 percent (88).

## Employees

The average number of employees in the Group was 3,332 (4,561), of whom 1,791 (2,309) were outside Sweden. Of the decrease in the number of employees, changes in the Group's composition accounted for 1,323. A breakdown of the number of employees, and information on wages, salaries, remuneration and social security costs for the Chairman of the Board, the President, and other employees, are provided in notes 2 and 3.

## Portfolio of Listed Stocks

The portfolio of listed stocks was worth SEK 28,682 M (17,752) at year-end 1997. The hidden reserve amounted to SEK 17,635 M (12,029). Purchases of listed stocks during the year totaled SEK 5,872 M (563), while sales totaled SEK 821 M (1,365). Thus, stocks were acquired for a net amount of SEK 5,051 M (1996: net sales of SEK 802 M). The result of sales from the listed portfolio was a capital gain of SEK 273 M (1996: SEK 679 M, of which the sale of 22 percent of the shares in PLM accounted for SEK 508 M).

Adjusted for purchases and sales, the portfolio's value increased by 30 percent (36) during the year. The Affärsvärlden General Index rose by 25 percent (38) during the same period.

Dividend income amounted to SEK 426 M (490). The figure for the preceding year included extra dividend income in the form of shares in Närkebro, totaling SEK 101 M, and in Swedish Match, totaling SEK 10 M.

Major purchases of stocks were 22,000,000 Sandvik A, 2,445,000 Handelsbanken A, 1,440,000 Skandia, 300,000 Incentive A and 1,000,000 Volvo A. Major sales were 2,838,000 Custos A (the entire holding), 1,425,000 AGA B and 400,000 SCA B.

## Inductus

Inductus' net sales amounted to SEK 2,776 M (4,064), an increase of 15 percent for comparable units. Measured at constant exchange rates, net sales rose 10 percent. Earnings after financial items totaled SEK 157 M (257). For comparable units, the corresponding earnings in the preceding year amounted to SEK 134 M.

The return on capital employed was 19 percent (18).

*Besam's* net sales rose 12 percent. Measured at constant exchange rates, the increase was 6 percent. Earnings improved, mainly due to favorable volume growth in most major markets.

*Isaberg* has had good growth in volume, mainly for newly developed products. Earnings improved substantially on the preceding year.

*Rapid* reported good order bookings but a slight decline in earnings compared with the preceding year.

The business outlook for *Hydrauto* improved gradually following a weak start to the year. Earnings were lower than in 1996 due to continued development costs and the windup of an unprofitable product area.

Inductus' capital expenditures amounted to SEK 107 M (210), and scheduled depreciation totaled SEK 83 M (129).

### Indutrade

Indutrade's net sales amounted to SEK 1,492 M (1,372), an increase of 9 percent. The trend was especially favorable in the Finnish market.

Earnings after financial items amounted to SEK 118 M (93). The earnings increase can be credited to the Swedish and Finnish subsidiaries. The return on capital employed was 25 percent (20).

Indutrade's capital expenditures amounted to SEK 22 M (30) during the year, and scheduled depreciation totaled SEK 24 M (22).

### Parent Company

The Parent Company, AB Industrivärden, manages the Group's portfolio of listed stocks, subsidiary shareholdings, and other unlisted stocks.

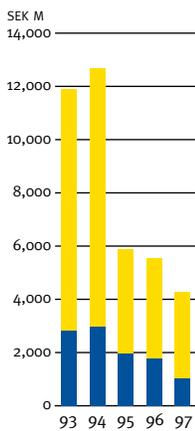
The Parent Company's dividend income from listed companies amounted to SEK 426 M (490). Including capital gains of SEK 1,254 M (902) from sales of stocks, and administrative costs of SEK 52 M (48), earnings amounted to SEK 1,628 M (1,344).

After net financial items of SEK -11 M (+105), earnings totaled SEK 1,617 M (1,449). After costs for CPN interest, totaling SEK 84 M (73), and taxes of SEK 0 M (-8), a net profit of SEK 1,533 M (1,368) is reported for the year.

### Proposed Stock Split

At the 1998 Annual General Meeting the Board of Directors will propose that the par value of the shares be changed from SEK 20 to SEK 5. Shareholders will thus receive four new shares of the same class for each share held. The conversion price of the convertible participating notes (CPNs) will thereby be changed from SEK 92 to SEK 23, and for each existing CPN held, four new ones of the same class will be received. As the record date for the stock split May 29, 1998 is scheduled.

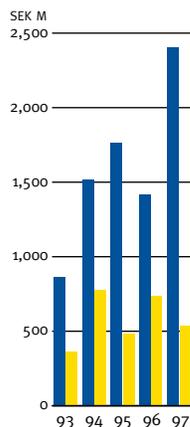
Consolidated Net Sales



■ Outside Sweden  
■ Sweden

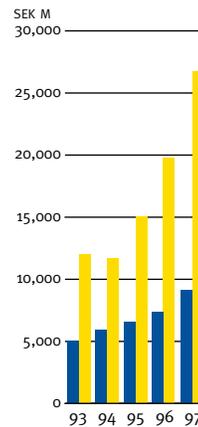
The following structural changes took place during the period:  
**1995:** Sale of PLM  
**1996:** Sale of Elit Fönster  
**1997:** Sale of Thorsman and Fundament

Consolidated Earnings



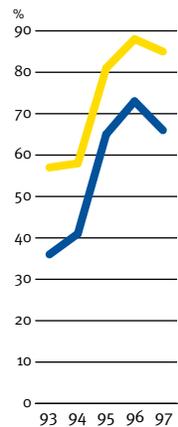
■ Earnings excl. sale of stocks  
 ■ Earnings after financial items  
 ■ Visible equity

Consolidated Shareholders' Equity



■ Adjusted equity  
 ■ Visible equity

Group Equity Ratio



■ Adjusted equity ratio  
 ■ Visible equity ratio

### Proposed Distribution of Earnings

According to the Consolidated Balance Sheet, the Group's unrestricted shareholders' equity amounts to SEK 6,886 M, of which SEK 2,274 M represents net earnings for the year. No appropriations to restricted reserves are proposed.

The following earnings of the Parent Company are at the disposal of the Annual General Meeting:

Retained earnings	SEK 6,182 M
Net earnings for the year	SEK 1,533 M
	<u>SEK 7,715 M</u>

The Board of Directors and President propose that the earnings be disposed of as follows:

To shareholders, a dividend of SEK 15 per share, totaling	SEK 644 M
To be carried forward	SEK 7,071 M
	<u>SEK 7,715 M</u>

The Group's and Parent Company's earnings and financial position are shown in the following income statements, balance sheets, statements of changes in financial position and notes to the financial statements.

Stockholm, March 4, 1998

Bo Rydin  
*Chairman*

Inga-Britt Ahlenius

Carl-Erik Feinsilber

Tom Hedelius

Lennart Nilsson

Björn Wolrath

Clas Reuterskiöld  
*President and CEO*

Our Auditors' Report was submitted on March 12, 1998

Bertil Edlund  
*Authorized Public Accountant*

Ulf Pernvi  
*Authorized Public Accountant*

## ● Consolidated Income Statement

SEK M	Note	1997	1996
Net sales	1	4,275	5,547
Cost of goods sold		-2,858	-3,647
<b>Gross earnings</b>		<b>1,417</b>	1,900
Development costs		-73	-123
Selling costs		-732	-1,018
Administrative costs		-367	-431
Other operating income and expenses		15	33
<b>Operating earnings</b>	1-4,6	<b>260</b>	361
Dividend income from listed stocks	17	426	490
Capital gains on sales of listed stocks	7	273	679
Capital gains on sales of other stocks	5,8	1,592	8
<b>Earnings before financial items</b>		<b>2,551</b>	1,538
Interest income		68	50
Interest expense (excl. CPN interest)		-195	-158
Other financial income	9	4	8
Other financial expenses	10	-24	-21
<b>Earnings after financial items</b>		<b>2,404</b>	1,417
CPN interest	11	-84	-73
<b>Earnings before taxes</b>		<b>2,320</b>	1,344
Tax on earnings for the year	12	-46	-58
<b>Net earnings for the year</b>		<b>2,274</b>	1,286

### Breakdown by Business Unit

SEK M	Net sales		Earnings after financial items	
	1997	1996	1997	1996
Inductus	2,776	2,413	157	134
Indutrade	1,492	1,372	118	93
Dividends from listed stocks	-	-	426	490
Other, net	7	1	-162	-146
	<b>4,275</b>	3,786	<b>539</b>	571
Capital gains on sales of listed stocks	-	-	273	679
Capital gains on sales of other stocks	-	-	1,592	8
Structural changes	-	1,761	-	159
	<b>4,275</b>	5,547	<b>2,404</b>	1,417

### Comments on the Consolidated Income Statement

The income statement has been prepared in accordance with the new Swedish Annual Accounts Act, which went into effect at the start of 1997. All comparison figures have been adjusted in accordance with the new Annual Accounts Act.

In previous years Thorsman and Fundament were included as wholly owned subsidiaries. These two companies were sold during the year.

Consolidated net sales rose 13 percent for comparable units. Sales were favorably affected by the weakening of the Swedish krona in relation to other currencies. Measured in the preceding year's exchange rates, net sales rose 10 percent for comparable units.

Dividend income from listed stocks decreased by SEK 64 M to SEK 426 M (490). Of the preceding year's dividend income, a total of SEK 111 M consisted of one-time dividends in the form of shares in Näckebro and Swedish Match.

Capital gains on sales of listed stocks decreased from SEK 679 M to SEK 273 M. Of the preceding year's capital gains, SEK 508 M pertained to the sale of 22 percent of the shares in PLM.

Capital gains on sales of subsidiaries and other stocks, totaling SEK 1,592 M (8), are reported as "Capital gains on sales of other stocks." The sale of Thorsman resulted in a capital gain of SEK 1,374 M, and the sale of Fundament generated a gain of SEK 224 M.

Net financial items for the Group deteriorated from SEK -121 to SEK -147. The main reason for the deterioration is that net borrowing rose by SEK 2,372 M during the year to finance net purchases of stocks.

Earnings after financial items rose from SEK 1,417 M to SEK 2,404 M. The main reason for the increase is that total capital gains on sales of stocks were SEK 1,178 M higher than in the preceding year. Excluding sales of stocks, earnings after net financial items totaled SEK 539 M (SEK 571 M for comparable units), as shown in a separate table. Inductus' earnings after financial items improved from SEK 134 M to SEK 157 M for comparable units, while Indutrade's earnings improved from SEK 93 M to SEK 118 M.

The tax charge for the year was SEK -46 M (-58). Of this total, company taxes accounted for SEK -56 M (-60) and deferred taxes for SEK 10 M (2). Of company taxes, SEK -4 M (-16) pertained to Swedish taxes and SEK -52 M (-44) to foreign taxes.

## ● Consolidated Balance Sheet

SEK M	Note	12/31/97	12/31/96	SEK M	Note	12/31/97	12/31/96
<b>ASSETS</b>				<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Fixed assets</b>				<b>Shareholders' equity</b>			
<b>Intangible fixed assets</b>				<b>Restricted shareholders' equity</b>			
Goodwill	13	91	116	Capital stock	22	858	858
Intangible rights	13	7	7	Restricted reserves		930	1,059
<b>Total intangible fixed assets</b>		<b>98</b>	123			<b>1,788</b>	1,917
<b>Tangible fixed assets</b>				<b>Unrestricted shareholders' equity</b>			
Land and buildings	14,15	351	1,050	Unrestricted reserves		4,612	3,742
Machinery	14	139	239	Net earnings for the year		2,274	1,286
Equipment	14,15	224	301			<b>6,886</b>	5,028
Construction in progress	14	2	19	<b>Total shareholders' equity</b>		<b>8,674</b>	6,945
<b>Total tangible fixed assets</b>		<b>716</b>	1,609	<b>Convertible participating debenture loan</b>	11	<b>450</b>	450
<b>Financial fixed assets</b>				<b>Provisions</b>			
Shares in listed companies	16,17	11,047	5,723	Provision for pensions	23	126	181
Shares and participations in other companies	16,17	55	55	Provision for taxes		47	81
Long-term receivables		62	52	Other provisions	25	145	117
<b>Total financial fixed assets</b>	18	<b>11,164</b>	5,830	<b>Total provisions</b>	24	<b>318</b>	379
<b>Total fixed assets</b>		<b>11,978</b>	7,562	<b>Long-term liabilities</b>			
<b>Current assets</b>				<b>Long-term liabilities, interest-bearing</b>			
<b>Inventories</b>	19	<b>701</b>	895	Long-term liabilities, noninterest-bearing	15	18	14
<b>Current receivables</b>				<b>Total long-term liabilities</b>			
Accounts receivable, trade		848	1,032	<b>Current liabilities</b>			
Other receivables		46	89	Accounts payable, trade		325	359
Prepaid expenses and accrued income	20	44	57	Accrued expenses and deferred income	28	370	427
<b>Total current receivables</b>		<b>938</b>	1,178	Other liabilities, noninterest-bearing	15	158	184
<b>Short-term investments</b>				<b>Total current noninterest-bearing liabilities</b>			
Cash and bank balances		233	361			<b>853</b>	970
<b>Total current assets</b>		<b>1,930</b>	2,551	<b>Current interest-bearing liabilities</b>	29	<b>1,940</b>	585
<b>TOTAL ASSETS</b>		<b>13,908</b>	10,113	<b>Total current liabilities</b>		<b>2,793</b>	1,555
				<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
				<b>Pledged assets</b>			
				Contingent liabilities			

### Comments on the Consolidated Balance Sheet

The balance sheet has been prepared in accordance with the new Swedish Annual Accounts Act, which went into effect at the start of 1997. All comparison figures have been adjusted to the new Annual Accounts Act. The layout of the balance sheet has been changed, with assets being reported in reverse order in terms of liquidity. Shareholders' equity and liabilities are also reported in reverse order compared with the previous layout.

Tangible fixed assets, i.e., mainly machinery, equipment and real estate, decreased from SEK 1,609 M to SEK 716 M, mainly due to the sale of subsidiaries. Capital expenditures for the year amounted to SEK 144 M.

Financial fixed assets pertain mainly to the book value of the Group's holdings of listed stocks. Net purchases of listed stocks amounted to SEK 5,051 M for the year (1996: net sales of SEK 802 M) and consisted mainly of the acquisition of 9 percent of the shares in Sandvik for SEK 4.1 billion. The market value of the portfolio of listed stocks, adjusted for purchases and sales, rose 30 percent, while the General Index rose 25 percent.

Accounts receivable, trade, and inventories totaled SEK 1,549 M (SEK 1,927 M at the start of the year). The inventory's share of net sales for the year was unchanged at 16 percent, while the corresponding share for accounts receivable increased from 19 to 20 percent.

Shareholders' equity rose by SEK 1,729 M to SEK 8,674 M. The change is mainly attributable to net earnings for the year, totaling SEK 2,274 M, less the dividend payout of SEK 558 M for 1996.

Long-term liabilities rose by SEK 889 M to SEK 1,673 M. This was due to the fact that some acquisitions of listed stocks were financed with long-term borrowing. The choice of long-term financing was based on the judgment that long-term interest rates were at an attractive level.

Current liabilities increased from SEK 1,555 M to SEK 2,793 M. The rise pertained mainly to short-term, interest-bearing liabilities, which were successively amortized during the year with cash generated from the sales of shares in subsidiaries.

On the whole, net borrowing rose by SEK 2,372 M to SEK 3,430 M, as a net effect of purchases of listed stocks and sales of shares in subsidiaries.

The visible equity ratio decreased from 73 percent to 66 percent, while the adjusted equity ratio, whose calculation is based on the market value of the listed stocks, was roughly unchanged at 85 (88) percent.

## ● Parent Company Income Statement

SEK M	Note	1997	1996
Dividend income from listed stocks		426	490
Capital gains on sales of listed stocks	7	273	679
Capital gains on sales of other stocks	8	981	223
Administrative costs		-52	-48
<b>Operating earnings</b>	2,3	<b>1,628</b>	1,344
<i>Interest income</i>			
Subsidiaries		117	228
Others		63	41
<i>Interest expenses</i>			
Subsidiaries		-12	-21
Others		-179	-117
Other financial income	9	2	2
Other financial expense	10	-2	-28
<b>Earnings after financial items</b>		<b>1,617</b>	1,449
CPN interest	11	-84	-73
<b>Earnings before taxes</b>		<b>1,533</b>	1,376
Tax on earnings for the year	12	-	-8
<b>Net earnings for the year</b>		<b>1,533</b>	1,368

## ● Parent Company Balance Sheet

SEK M	Note	12/31/97	12/31/96	SEK M	Note	12/31/97	12/31/96
<b>ASSETS</b>				<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Fixed assets</b>				<b>Shareholders' equity</b>			
<b>Financial fixed assets</b>				<b>Restricted shareholders' equity</b>			
Shares and participations in subsidiaries	16	321	645	Capital stock	22	858	858
Shares in listed companies	16	10,960	5,636	Statutory reserve		721	721
Shares and participations in other companies	16	53	51			1,579	1,579
Long-term receivables from subsidiaries		1,519	2,592	<b>Unrestricted shareholders' equity</b>			
Other long-term receivables		6	6	Retained earnings		6,182	5,372
<b>Total financial fixed assets</b>	18	<b>12,859</b>	8,930	Net earnings for the year		1,533	1,368
<b>Total fixed assets</b>		<b>12,859</b>	8,930			7,715	6,740
<b>Current assets</b>				<b>Total shareholders' equity</b>			
<b>Current receivables</b>				<b>Convertible participating debenture loan</b>			
Receivables from subsidiaries		645	981		11	450	450
Other receivables		13	24	<b>Provisions</b>			
Prepaid expenses and accrued income	20	5	2	Provision for pensions	23	23	21
<b>Total current receivables</b>		<b>663</b>	1,007	<b>Total provisions</b>	24	<b>23</b>	21
<b>Short-term investments</b>		<b>52</b>	114	<b>Long-term liabilities</b>			
<b>Cash and bank balances</b>		<b>84</b>	137	Long-term liabilities to subsidiaries, noninterest-bearing		1	7
<b>Total current assets</b>		<b>799</b>	1,258	Other long-term liabilities, interest-bearing	26	1,560	555
<b>TOTAL ASSETS</b>				<b>Total long-term liabilities</b>			
		<b>13,658</b>	10,188			<b>1,561</b>	562
				<b>Current liabilities</b>			
				Liabilities to subsidiaries			
				Accrued expenses and deferred income			
				Other liabilities			
				<b>Total current noninterest-bearing liabilities</b>			
				Liabilities to subsidiaries			
				Other liabilities			
				<b>Total current interest-bearing liabilities</b>			
				<b>Total current liabilities</b>			
				<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
				Pledged assets			
				Contingent liabilities			

## ● Statements of Changes in Financial Position Group and Parent Company

SEK M	Group		Parent Company	
	1997	1996	1997	1996
<b>Earnings and dividends</b>				
Earnings after financial items	<b>2,404</b>	1,417	<b>1,617</b>	1,449
Depreciation charged to these earnings	<b>144</b>	205	–	1
Dividends and CPN interest paid	<b>-642</b>	-545	<b>-642</b>	-545
Taxes	<b>-46</b>	-58	–	-8
<b>Total earnings and dividends</b>	<b>1,860</b>	1,019	<b>975</b>	897
<b>Change in working capital</b>				
Change in trade accounts receivable (+ decrease)	<b>-104</b>	38	–	–
Change in inventories (+ decrease)	<b>-86</b>	106	–	–
Change in other current assets (+ decrease)	<b>17</b>	-15	<b>344</b>	-54
Change in noninterest-bearing operating liabilities (+ increase)	<b>170</b>	-148	<b>32</b>	59
Opening balances in sold companies*	<b>320</b>	–	–	–
<b>Total change in working capital</b>	<b>317</b>	-19	<b>376</b>	5
<b>Change in fixed assets</b>				
Net purchases/sales of listed stocks	<b>-5,324</b>	13	<b>-5,324</b>	13
Net purchases/sales of other stocks	–	-29	<b>322</b>	1,563
Capital expenditures	<b>-144</b>	-265	–	–
Long-term receivables (+ decrease)	<b>-12</b>	-6	<b>1,073</b>	-1,556
Exchange rate differences, disposals, etc.	<b>-3</b>	124	–	–
Opening balances in sold companies*	<b>936</b>	–	–	–
<b>Total change in fixed assets</b>	<b>-4,547</b>	-163	<b>-3,929</b>	20
<b>Change in other provisions and noninterest-bearing liabilities (+ increase)</b>				
	<b>-2</b>	–	<b>-6</b>	1
<b>Total change in net debt (+ decrease)</b>	<b>-2,372</b>	837	<b>-2,584</b>	923
<b>Financing of change in net debt</b>				
Liquid assets (+ decrease)	<b>119</b>	-71	<b>115</b>	-54
Current interest-bearing liabilities (+ increase)	<b>1,398</b>	-963	<b>1,462</b>	-1,276
Long-term interest-bearing liabilities (+ increase)	<b>1,048</b>	254	<b>1,005</b>	405
Provision for pensions (+ increase)	<b>5</b>	-57	<b>2</b>	2
Opening net debt in sold companies*	<b>-198</b>	–	–	–
<b>Total financing of change in net debt (+ increase)</b>	<b>2,372</b>	-837	<b>2,584</b>	-923

\* Thorsman and Fundament were sold in 1997.

SEK M	Besam	Hydrauto	Isaberg	Rapid	Indutrade
<b>Income statements</b>					
Net sales	1,707	259	479	331	1,492
Cost of goods sold	-1,122	-251	-298	-226	-974
Gross earnings	585	8	181	105	518
Selling and administrative costs, etc.	-474	-23	-122	-79	-396
Operating earnings	111	-15	59	26	122
Financial income and expenses	-8	-3	-3	-4	-4
<b>Earnings after financial items</b>	<b>103</b>	<b>-18</b>	<b>56</b>	<b>22</b>	<b>118</b>
Appropriations, group contributions, etc.	-28	15	-52	-19	-84
Taxes	-23	0	-1	-2	-18
Net earnings for the year	52	-3	3	1	16
<b>Balance sheets</b>					
<b>Assets</b>					
Land and buildings	87	15	21	30	64
Machinery and equipment	86	44	76	34	57
Other	52	10	14	0	79
<b>Total fixed assets</b>	<b>225</b>	<b>69</b>	<b>111</b>	<b>64</b>	<b>200</b>
Inventories	237	56	62	61	284
Receivables	480	66	139	77	302
Liquid assets	50	0	16	12	76
<b>Total current assets</b>	<b>767</b>	<b>122</b>	<b>217</b>	<b>150</b>	<b>662</b>
<b>Total assets</b>	<b>992</b>	<b>191</b>	<b>328</b>	<b>214</b>	<b>862</b>
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>	<b>352</b>	<b>47</b>	<b>93</b>	<b>63</b>	<b>302</b>
<b>Provisions</b>	<b>91</b>	<b>5</b>	<b>36</b>	<b>9</b>	<b>58</b>
Long-term noninterest-bearing liabilities	0	7	0	0	17
Long-term interest-bearing liabilities	39	43	8	32	154
<b>Total long-term liabilities</b>	<b>39</b>	<b>50</b>	<b>8</b>	<b>32</b>	<b>171</b>
Short-term noninterest-bearing liabilities	321	41	131	81	328
Short-term interest-bearing liabilities	189	48	60	29	3
<b>Total current liabilities</b>	<b>510</b>	<b>89</b>	<b>191</b>	<b>110</b>	<b>331</b>
<b>Total shareholders' equity and liabilities</b>	<b>992</b>	<b>191</b>	<b>328</b>	<b>214</b>	<b>862</b>

## Accounting Principles

The annual report and the consolidated accounts is based on the new Swedish Annual Accounts Act.

### Principles of Consolidation

The consolidated financial statements apply to the Parent Company and all companies in which the Parent Company directly or indirectly owns more than 50 percent of the voting rights. Industrivärden complies with the recommendations of the Swedish Financial Accounting Standards Council.

The consolidated balance sheet is prepared according to the purchase method. This entails that the Parent Company's acquisition value of stock in subsidiaries is eliminated against the subsidiaries' shareholders' equity at the time of acquisition. Thus only earnings that have arisen after the date of acquisition are included in the Group's shareholders' equity. Shareholders' equity in acquired subsidiaries is determined on the basis of a market valuation of assets and liabilities at the time of acquisition. If necessary, a provision is made at the time of acquisition for e.g. restructuring and work force reductions in the acquired business (a restructuring reserve). In cases where the acquisition value of stock in subsidiaries exceeds the acquired shareholders' equity in accordance with the above, the difference (surplus value) is reported as a goodwill item in the balance sheet. In accordance with the provisions of the Swedish Annual Accounts Act, goodwill amortization is based on estimated economic life. Normally goodwill is amortized over a period of five years if a longer amortization period cannot be justified. Goodwill items arising prior to 1997 are amortized over a ten-year period, according to their originally estimated economic life-span.

Subsidiaries which have been divested during the year are not included in the consolidated accounts.

The consolidated financial statements contain no appropriations or untaxed reserves. Instead, deferred taxes on these items are included in the year's tax expense or provision for taxes, respectively.

### Associated Company Reporting

Industrivärden has ownership stakes which exceed 20 percent of the number of votes after full dilution in the companies listed in note 17. The presumption according to the Swedish Annual Accounts Act is that companies in which holdings of votes are in excess of 20 percent shall be classified as associated companies and reported according to the equity method. Since such reporting is difficult for holding companies to interpret, and moreover, since it cannot be accurately prepared until all the associated companies' year-end financial statements have been published, Industrivärden has chosen to provide information on earnings and position using the equity method according to a special arrangement (see note 17). As previously, day-to-day developments in the stock portfolio are monitored through changes in the combined stock market value. Information to the market in quarterly reports and the annual report is based on this starting point.

### Translation of Foreign Subsidiaries' Financial Statements

Assets and liabilities of foreign subsidiaries are translated to Swedish kronor (SEK) at year-end exchange rates. Income statements of foreign subsidiaries are translated at the average exchange rates for the year. Translation differences are transferred directly to shareholders' equity and do not affect earnings for the year. To reduce the Group's currency exposure, shareholders' equity in foreign subsidiaries is hedged by loans in foreign currencies. In the consolidated financial statements, exchange rate differences are offset

against translation differences that arise in the foreign subsidiaries' shareholders' equity. See also the section, "Financing and Currency Matters."

#### **Translation of Receivables and Liabilities in Foreign Currencies**

Receivables and liabilities in foreign currencies are valued at year-end exchange rates. Receivables or liabilities that are hedged are valued at the hedge rate. Unrealized exchange gains and losses have been taken to earnings. Unrealized exchange gains on long-term receivables/liabilities are allocated to a foreign exchange reserve after making the necessary offsetting.

#### **Inventories**

The Group's inventories are reported at the lower of cost or market value.

#### **Depreciation**

Machinery and equipment have been depreciated according to plan based on their acquisition values. The depreciation rates are based on the estimated economic lives of the assets. As a rule, investment properties are depreciated by the highest amount allowed by tax rules.

#### **Leasing Agreements**

Leasing agreements of limited value (such as of office machinery), which are classified as financial leasing agreements, are reported as operational leasing agreements. The recommendation for financial leasing is otherwise followed for leases as from 1997.

#### **Definitions of Terms and Key Ratios**

- **Net asset value** Net book values of assets plus hidden reserves in listed stocks and shares in subsidiaries (deferred tax not deducted).
- **Hidden reserves** The difference between the calculated market value and book value.
- **Capital expenditures** Expenditures capitalized in group companies. Acquired companies are included from the date of acquisition.
- **Return on capital employed** Earnings after depreciation plus interest income and dividends, in relation to average total assets less average noninterest-bearing liabilities.
- **Direct yield** Dividend per share in relation to the price of Class A shares on December 31.
- **Total yield** Yield of Class A shares, defined as the sum of the change in the stock price and reinvested dividends.
- **Visible equity** Reported shareholders' equity and CPN loans.
- **Adjusted equity** Visible equity and hidden reserves in listed stocks. Before 1997 hidden reserves in real property were also included.
- **Visible equity ratio** Visible equity and minority interests in relation to total assets.
- **Adjusted equity ratio** Visible equity and minority interests plus hidden reserves in listed stocks, in relation to total assets and hidden reserves in listed stocks. Before 1997 hidden reserves in real property were also included.
- **Earnings per share** Earnings after taxes, divided by the number of shares after full dilution, i.e., the number of shares outstanding plus the maximum number of shares that would be added with the conversion of existing CPNs. The tax expense is charged to consolidated earnings after financial items and minority interests, adjusted for tax-exempt capital gains on sales of stocks, tax-deductible dividends paid (1994: tax-exempt dividend income) and a standard income assumption in accordance with applicable tax rules for holding companies. Full tax is equal to reported tax.

## Financing and Currency Matters

### Organizational Matters

Industrivärden's subsidiaries are independently responsible for the management of their financial risks within the limits set by the Parent Company in a financial policy approved by the Board of Directors. The subsidiaries manage their risks primarily in relation to Industrivärden's treasury unit, which is a central unit of the Parent Company and serves as the Group's internal bank.

### Financing

AB Industrivärden's short-term borrowing consists primarily of a SEK 1.5 billion domestic Commercial Paper Program. Medium-term borrowing consists of a SEK 1 billion Medium-Term Note Program and a USD 175 M Revolving Multicurrency Facility. Loans raised in foreign currencies are swapped to Swedish kronor. Industrivärden's commercial paper program has received a credit rating of K1 by Standard & Poor's.

The principle rule within the Group is that the Swedish subsidiaries finance their operations through loans from AB Industrivärden, and the foreign subsidiaries primarily through local borrowing. Due to its size, AB Industrivärden can effectively manage its total lending portfolio in the Swedish and international markets in order to obtain the best possible outcome with regard to interest rates and risk.

Of AB Industrivärden's total confirmed credit limit of SEK 3.4 billion, SEK 0.8 billion was utilized at year-end (year-end 1996: SEK 0.4 billion). Additionally, a total of SEK 7.2 billion is available through unconfirmed credit lines.

### Flows of Foreign Currencies

The Industrivärden Group's industrial and trading operations consist of Swedish companies engaged in trade both to and from Sweden, as well as foreign companies engaged in their own cross-border trade. Of the Industrivärden Group's invoiced sales, 24 percent are derived from Sweden, 56 percent from the rest of Europe, and 20 percent from the rest of the world.

Exports from Sweden in 1997 amounted to approximately SEK 1,180 M. About 73 percent of this was invoiced in foreign currencies. In cases where invoicing is made in Swedish kronor, the prices are set according to the conditions in the respective markets. The same goes for the Group's imports to Sweden, which totaled SEK 540 M in 1997. Approximately 63 percent of these were invoiced in foreign currencies. The foreign subsidiaries invoice most of their sales in their local markets.

Since the Group's Swedish units conduct substantial trade abroad, the value of the Swedish krona in relation to other currencies has a significant impact on consolidated earnings. Each subsidiary is responsible for its own currency management. The subsidiaries' currency flows to and from Sweden are then matched, and the net flows are hedged in Industrivärden's internal bank. The Group's net flows, in turn, are matched and hedged to varying degrees in the banking system, ordinarily from 75 to 90 percent. Certain currencies are matched against each other. Thus an inflow in FRF is matched with an outflow in DEM. The hedges are made for a period not exceeding the coming five quarters. The Group's estimated net currency flows to and from Sweden in 1998 are illustrated in the table on page 61.

Reported shareholders' equity in foreign subsidiaries is hedged through loans in the currencies of the respective companies. In the consolidated balance sheet, translation differences in subsidiaries' shareholders' equity have been offset against exchange rate differences in corresponding loans.

### Currency Risk in Transaction Exposure, December 31, 1997

The net currency flows, currency hedges and outstanding currency risk at year-end 1997 for currencies whose net flow exceed SEK 15 M are shown in the following table, which is expressed in millions in local currency.

Currency	Estimated net flow 1998 (local currency)	Hedged through forward contracts Dec. 31, 1997 (local currency)	Forward rate	Outstanding currency risk (local currency) (+ inflow) (- outflow)	Share of outstanding currency risk of estimated net flows 1998, %
USD	29.1	13.2	7.6708	15.9	55
NLG	15.0	6.4	3.8793	8.6	57
FRF	23.3	0.0	–	23.3	100
ATS	38.7	2.3	0.6521	36.4	94
SGD	6.2	3.0	5.4100	3.2	52
JPY	-261.1	-40.0	0.0625	-221.1	85
DKK	-13.4	-2.8	1.1293	-10.6	79
ESP	294.5	0.0	–	294.5	100
IEP	-1.9	0.3	11.8258	-1.6	84
DEM	-6.2	0.0	–	-6.2	100
ITL	3,533.3	600.0	0.004450	2,933.3	83

### Industrivärden and the Euro

European Monetary Union (EMU) is scheduled to take effect on January 1, 1999. The new single currency, the euro, will eventually replace the local currency in the countries in the European Union that will be participating in EMU. Sweden has declared that it does not intend to participate in EMU from the start, but that it may join at a later point in time.

The Industrivärden Group will be affected by the introduction of the euro even if Sweden stays outside of EMU. The European subsidiaries in EMU countries will change over to invoicing in euros, and their capital stock will be stated in euros.

Industrivärden has not yet taken a position on the introduction of the euro in the Group's own accounts, however, the matter is being investigated internally. Sales in EMU-participating countries, as far as EMU participation can be judged today, amount to approximately 40 percent of the Group's total sales in 1997. Exports from Sweden to EMU countries in 1997 amounted to approximately SEK 160 M, while imports amounted to approximately SEK 60 M, i.e., roughly SEK 100 M in net flow.

### Year-End Exchange Rates

	Year-end rate		Average rate			Year-end rate		Average rate	
	1997	1996	1997	1996		1997	1996	1997	1996
GBP	<b>13.09</b>	11.57	<b>12.50</b>	10.46	NLG	<b>3.89</b>	3.92	<b>3.92</b>	3.97
USD	<b>7.86</b>	6.86	<b>7.61</b>	6.70	DKK	<b>1.15</b>	1.15	<b>1.16</b>	1.16
DEM	<b>4.38</b>	4.41	<b>4.42</b>	4.45	NOK	<b>1.07</b>	1.06	<b>1.09</b>	1.04
FRF	<b>1.31</b>	1.31	<b>1.31</b>	1.31	FIM	<b>1.45</b>	1.47	<b>1.47</b>	1.46

The ECU index changed from 116 to 118 between December 31, 1996, and December 31, 1997. Had Industrivärden's consolidated balance sheet for 1997 been consolidated at average exchange rates for 1996, invoiced sales would have been approximately SEK 120 M lower. For the Industrivärden Group as a whole, earnings after financial items would not have been substantially affected.

(Amounts in SEK M unless stated otherwise)

• **Note 1**  
**Breakdown of Net Sales and Operating Earnings by Geographic Market and Operating Unit**

Breakdown of net sales by geographic market:

Group	Net sales	
	1997	1996
Sweden	1,039	1,784
Other Nordic countries	634	810
Europe, excl. Nordic countries	1,747	2,214
North America	667	559
Other markets	188	180
<b>Total, Group</b>	<b>4,275</b>	<b>5,547</b>

Breakdown of net sales and operating earnings by operating unit:

Group	Net sales		Operating earnings	
	1997	1996	1997	1996
Besam	1,707	1,525	111	90
Isaberg	479	388	59	36
Rapid	331	295	26	30
Hydrauto	259	205	-15	-11
Thorsman	-	1,651	-	134
Other, net	-	-	-5	-11
<b>Total Inductus</b>	<b>2,776</b>	<b>4,064</b>	<b>176</b>	<b>268</b>
<b>Indutrade</b>	<b>1,492</b>	<b>1,372</b>	<b>122</b>	<b>99</b>
<b>Fundament</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>55</b>
<b>Other, net</b>	<b>7</b>	<b>1</b>	<b>-38</b>	<b>-61</b>
<b>Total, Group</b>	<b>4,275</b>	<b>5,547</b>	<b>260</b>	<b>361</b>

• **Note 2**  
**Average Number of Employees**

	1997		1996	
	Number of employees	Of whom, women	Number of employees	Of whom, women
<b>Parent Company</b>				
Sweden	19	6	19	7
<b>Subsidiaries in Sweden</b>	<b>1,522</b>	<b>349</b>	<b>2,233</b>	<b>470</b>
<b>Subsidiaries outside Sweden</b>				
Austria	59	12	56	11
Belgium	50	15	46	17
Denmark	166	33	188	35
Finland	132	28	135	30
France	231	90	250	124
Germany	244	50	303	68
Ireland	-	-	75	-
Italy	27	10	26	9
Netherlands	235	59	357	65
Norway	9	2	52	16
Singapore	36	11	31	11
Spain	33	9	30	12
Switzerland	20	3	19	2
U.K.	148	23	369	70
USA	356	64	344	65
Other	45	12	28	9
<b>Total</b>	<b>1,791</b>	<b>421</b>	<b>2,309</b>	<b>544</b>
<b>Total, Group</b>	<b>3,332</b>	<b>776</b>	<b>4,561</b>	<b>1,021</b>

\* **Specification to note 3, page 63**

In accordance with the decision of the Annual General Meeting in 1997, a total of SEK 1,400,000 in fees was paid to the members of the Board of Directors. Of this total, the Chairman received SEK 525,000. In addition, one of the directors was paid a fee of SEK 150,000 for serving as chairman of a Group Company.

The President has been paid a salary and other benefits amounting to SEK 3,665,157. Fees from external directorships that the President has held and that have been directly linked to his position have been paid to the Company. The President is entitled to pension according to the national ITP plan from 60 years of age, based on premium payments made for previous pension agreements. The terms of his pension from 63 to 75 years of age entail a level of pay, including general pension benefits, that is equivalent to approximately 45 percent of his salary. In addition, the President is entitled to a yearly direct pension amounting to approximately 4 times the "base amount" (base amount in 1997 = SEK 36,300) from 60 to 75 years of age, accrued from previous employment in Group companies. The Company must give three years' notice if it should terminate the President's employment.

Of the other four members of the executive management, three are entitled to pension from 60 years of age. Two of these are entitled to severance pay equivalent to two years' salary.

The Board of Directors has decided to offer the employees of AB Industrivärden a bonus program, starting in 1998. The bonus will be based on the total yield of Industrivärden's stock as compared to the Findata Yield Index over a two year period. The bonus can be a maximum of 25 percent of salary. A part of the bonus shall be used to acquire Industrivärden stock or warrants.

• Note 3

Wages, Salaries and Other Remuneration; Social Security Costs

	1997			1996		
	Wages, salaries and other remuneration	Social security costs	Of which, pension costs	Wages, salaries and other remuneration	Social security costs	Of which, pension costs
<b>Parent Company</b>	15	9	4	13	8	3
<b>Subsidiaries in Sweden</b>	374	170	44	522	229	80
Total, Sweden	389	179	48	535	237	83
<b>Subsidiaries outside Sweden:</b>						
Austria	18	5	2	17	5	2
Belgium	13	5	–	17	6	1
Denmark	67	2	1	72	1	1
Finland	37	10	6	36	9	6
France	54	25	2	57	26	3
Germany	81	16	6	111	15	6
Ireland	–	–	–	18	6	–
Italy	7	3	–	6	3	–
Netherlands	62	11	5	96	19	8
Norway	2	0	–	15	3	2
Singapore	6	1	1	4	1	1
Spain	7	2	2	6	1	1
Switzerland	7	1	–	8	1	–
U.K.	43	6	3	73	6	3
USA	124	21	8	111	19	7
Other	5	2	2	3	1	1
Total	533	110	38	650	122	42
<b>Total, Group</b>	922	289	86	1,185	359	125

Of the Parent Company's pension cost, SEK 2 M (1) pertains to the Board of Directors and President. The corresponding amount for the Group was SEK 15 M (25).

Wages, salaries and other remuneration, broken down by country and between board members, etc., and other employees

	1997			1996		
	Boards of directors and presidents	Of which, bonuses and similar	Other employees	Boards of directors and presidents	Of which, bonuses and similar	Other employees
<b>Parent Company*</b>	6	–	9	5	–	8
<b>Subsidiaries in Sweden</b>	23	2	351	28	2	494
<b>Subsidiaries outside Sweden</b>						
Austria	1	–	17	1	–	16
Belgium	–	–	13	1	–	16
Denmark	4	–	63	5	2	67
Finland	4	1	33	4	–	32
France	1	–	53	2	–	55
Germany	1	–	80	4	–	107
Ireland	–	–	–	1	–	17
Italy	1	–	6	1	–	5
Netherlands	3	–	59	4	–	92
Norway	1	1	1	2	–	13
Singapore	1	–	5	1	–	3
Spain	1	–	6	1	–	5
Switzerland	1	–	6	1	–	7
U.K.	2	–	41	4	–	69
USA	4	1	120	4	1	107
Other	1	–	4	–	–	3
Total	26	3	507	36	3	614
<b>Total, Group</b>	55	5	867	69	5	1,116

\*See page 62.

• **Note 4**  
**Depreciation**

The income statement's sub-items include depreciation of intangible fixed assets and tangible fixed assets as follows:

Group	1997	1996
Cost of goods sold	81	128
Development costs	3	6
Selling costs	31	40
Administrative costs	29	31
Total depreciation	144	205

• **Note 5**  
**Write-Downs of Financial Assets**

Write-downs of financial assets amounted to SEK 15 M for the Group. These amounts are included in the item "Capital gains on sales of other stocks" and pertain to write-downs of stocks.

• **Note 6**  
**Operational Leasing Agreements**

Group	1997
Leasing fees paid during the period	46
<i>Future, contracted leasing fees</i>	
Expiration in 1 year	45
Expiration in 2 years	24
Expiration in 3 years	15
Expiration in 4 years	9
Expiration in 5 years	8
Expiration in 6+ years	37
Total future leasing fees	138

• **Note 7**  
**Capital Gains on Sales of Listed Stocks**

Sales of	Group and Parent Company	
	1997	1996
Custos A	148	-
AGA A	-	154
AGA B	87	-
PLM	-	508
Other	38	17
Total	273	679

• **Note 8**  
**Capital Gains on Sales of Other Stocks etc.**

	Group		Parent Company	
	1997	1996	1997	1996
Capital gains on sales of subsidiaries	1,598	-	981	-
Capital gains on sales of other companies	9	8	-	6
Gains from merger	-	-	-	224
Shareholder contribution	-	-	-	-7
Write-downs of other stocks	-15	-	-	-
Total	1,592	8	981	223

• **Note 9**  
**Other Financial Income**

	Group		Parent Company	
	1997	1996	1997	1996
Exchange rate differences	1	5	-	-
Dividends	3	3	2	2
Total	4	8	2	2

• **Note 10**  
**Other Financial Expenses**

	Group		Parent Company	
	1997	1996	1997	1996
Exchange rate differences	-23	-19	-2	-28
Other	-1	-2	-	-
Total	-24	-21	-2	-28

• **Note 11**  
**Convertible Participating Debenture Loan**

AB Industrivärden raised a convertible debenture loan through the issuance of convertible participating notes (CPNs) in connection with the Company's acquisition in 1988 and 1989 of stock in and convertible debentures issued by PLM AB. The terms of the loan are described in the prospectus issued in December 1987. The loan matures in 2028. Each CPN has a par value of SEK 92, which is equivalent to the conversion price of one share. Interest is paid yearly, in arrears, to CPN holders on the fifth banking day after the record date for dividends (the so-called interest maturity date). The interest per CPN amounts to 115 percent of the dividend per share decided by the Annual General Meeting for the previous fiscal year. The liability is equivalent to the par value of 4,888,933 CPNs. Earnings are charged with the estimated CPN interest based on the year's proposed dividend.

• **Note 12**  
**Tax on Earnings for the Year**

	Group		Parent Company	
	1997	1996	1997	1996
Paid tax	-56	-60	-	-8
Deferred tax	10	2	-	-
Total	-46	-58	-	-8

• **Note 13**  
**Intangible Fixed Assets**

Group	Goodwill	Intangible rights	Total intangible fixed assets
Opening acquisition value	242	27	269
Investments during the year	18	4	22
Company acquisitions	4	–	4
Company divestitures	-101	-10	-111
Sales and disposals	-3	-2	-5
Exchange rate differences	1	–	1
Closing accumulated acquisition value	161	19	180
Opening depreciation	126	20	146
Depreciation for the year	17	2	19
Company acquisitions	3	–	3
Company divestitures	-76	-8	-84
Sales and disposals	–	-2	-2
Closing accumulated depreciation	70	12	82
<b>Planned residual value, Dec. 31, 1996</b>	116	7	123
<b>Planned residual value, Dec. 31, 1997</b>	91	7	98

• **Note 14**  
**Tangible Fixed Assets**

Group	Land and buildings	Machinery	Equipment	Construction in progress	Total tangible fixed assets
Opening acquisition value	1,331	693	820	19	2,863
Investments during the year	20	42	80	2	144
Company acquisitions	7	–	5	–	12
Company divestitures	-877	-354	-226	-5	-1,462
Sales and disposals	–	-6	-75	–	-81
Transferred from construction in progress	–	14	–	-14	–
Reclassifications	-5	5	–	–	–
Other	–	-3	–	–	-3
Exchange rate differences	3	–	8	–	11
Closing accumulated acquisition value	479	391	612	2	1,484
Opening depreciation	312	454	512	–	1,278
Depreciation for the year	16	34	75	–	125
Company acquisitions	1	–	3	–	4
Company divestitures	-199	-234	-153	–	-586
Sales and disposals	–	-4	-53	–	-57
Reclassifications	-2	2	–	–	–
Exchange rate differences	–	–	4	–	4
Closing accumulated depreciation	128	252	388	–	768
Opening write-downs	–	–	7	–	7
Sales and disposals	–	–	-7	–	-7
Closing write-downs	–	–	–	–	–
Opening revaluations	31	–	–	–	31
Company divestitures	-31	–	–	–	-31
Closing revaluations	–	–	–	–	–
<b>Planned residual value, Dec. 31, 1996</b>	1,050	239	301	19	1,609
<b>Planned residual value, Dec. 31, 1997</b>	351	139	224	2	716

The tax assessment value of Swedish real estate was SEK 190 M (787).

• **Note 15**  
**Financial Leasing Agreements**

	Land and buildings	Equipment	Total
Acquisition value	14	5	19
Accumulated scheduled depreciation	-1	-1	-2
Current liability (1 year)	-	-2	-2
Long-term liabilities			
Expiration in 2 years	-	-2	-2
Expiration in 3 years	-	-1	-1
Expiration in 4 years	-1	-	-1
Expiration in 5 years	-1	-	-1
Expiration in 6+ years	-12	-	-12
Total long-term liability	-14	-3	-17

• **Note 16**  
**Shares and Participations**  
**Parent Company holdings of shares and participations in subsidiaries**

SEK 000s	Reg. no.	Domicile	Share of capital, %	Number of shares	Book value
Gedevo AB	556032-3593	Stockholm	100	1,000	16,905
Herus AB	556028-1718	Stockholm	100	5,000	16,000
Hydrauto AB	556067-0332	Skellefteå	100	150,000	30,749
Inductus AB	556088-4644	Stockholm	100	1,000	4,042
Industrivärden Service AB	556289-9160	Stockholm	100	10,000	1,220
Indutrade AB	556017-9367	Stockholm	100	25,000	137,301
Indutrade Fastighets AB	556180-8428	Stockholm	100	2,950	38,489
Nordinvest AB	556384-5477	Stockholm	100	100,000	74,741
Others					1,146
					320,593

**Parent Company holdings of shares and participations in other companies**

SEK 000s	Reg. no.	Domicile	Share of capital, %	Share of votes, %	Number of shares	Book value
AB Biodisk	556115-6844	Stockholm	37.1	22.2	63,064	20,706
AB L M Ericsson Finans Ericsson Project	556008-8550	Stockholm	5.0	29.8	8,998	3,491
Finance AB	556058-5936	Stockholm	4.7	25.4	220,000	26,395
Stockholms Fondbörs AB	556420-8394	Stockholm	1.4	1.4	20,742	1,943
						52,535

## Parent Company holdings of shares in listed companies

SEK 000s	Number of shares	Share of capital, %	Share of votes, %	Market value	Book value
AGA A	28,615,000	11.8	20.2	3,133,343	704,422
Astra B	1,430,000	0.1	0.0	190,905	143,616
Ericsson A	21,930,000	2.2	26.4	6,896,985	1,191,896
Ericsson B	400,000			119,400	141,294
Handelsbanken A	14,850,000	5.7	6.7	4,076,325	1,056,588
Incentive A	300,000	0.4	0.6	214,500	207,000
Industrivärden CPN A	31,763			14,579	14,956
Industrivärden CPN C	18,325			8,430	8,397
Näckebo	1,240,500	5.2	5.2	143,278	100,481
PLM*	10,000,000	23.0	23.0	1,110,000	466,515
Sandvik A	22,000,000	8.5	11.2	4,972,000	4,082,517
SAS Sverige	300,000	0.4	0.4	34,500	34,500
SCA A	18,232,000	9.3	24.1	3,263,528	788,163
SCA B **	150,000			26,775	16,991
Skandia	3,440,000	3.4	3.4	1,288,280	768,150
Skanska A	2,774,365	3.8	14.9	903,056	252,322
Skanska B	1,525,000			496,388	159,355
SSAB A	10,815,000	8.8	11.2	1,405,950	503,216
SSAB B	420,000			55,020	39,646
Volvo A	1,000,000	0.4	0.6	212,000	201,750
Volvo B	550,000			117,150	78,632
Parent Company holdings of shares in listed companies***				28,682,392	10,960,407
Group adjustment					86,571
Group holdings of shares in listed companies					11,046,978

## Group holdings of shares and participations in other companies

SEK 000's	Reg. no.	Domicile	Share of capital, %	Share of votes, %	Number of shares	Book value
AB Biodisk	556115-6844	Stockholm	37.1	22.2	63,064	20,706
AB L M Ericsson Finans	556008-8550	Stockholm	5.0	29.8	8,998	3,491
Ericsson Project Finance AB	556058-5936	Stockholm	4.7	25.4	220,000	26,395
Miki-Cipro Ltd		Japan	50.0	50.0	200	318
Milltronic Ltd		Canada	0.3	0.3	12,000	523
Sci Rue de Canal		France	50.0	50.0	100	1,133
Stockholms Fondbörs AB	556420-8394	Stockholm	1.4	1.4	20,742	1,943
Other shares and participations****						755
						55,264
Total, Industrivärden Group:						
Shares in listed companies						11,046,978
Shares and participations in other companies						55,264
						11,102,242

\* Industrivärden issued a total of 110,500 call options for PLM stock to members of the Company's management group. Each call option entitles the bearer to purchase one share of PLM stock for SEK 164. The total book value of the corresponding shares is SEK 5,155,000. The total value of the exercise price and expensed premium is SEK 19,227,000.

\*\* Industrivärden – together with Custos, Skandia and Handelsbanken's Pension Fund – issued a total of 301,000 call options for SCA Class B stock to the Company's Management Group; Industrivärden accounts for 105,350 of these options. After re-purchase of 2,450 call options, Industrivärden's remaining participation amounts to 102,900 call options. Each call option entitles the bearer to purchase one share of SCA Class B stock for SEK 178. The total book value of the corresponding shares is SEK 11,656,000. The total value of the exercise price and expensed premium is SEK 19,859,000.

\*\*\* Including stock loans which at the end of 1997 consisted of 155,700 shares of Volvo Class B and 26,800 shares of Ericsson Class A.

\*\*\*\* Holdings with book value below SEK 300,000.

• **Note 17**  
**Associated Company Accounting**

Accounting in accordance with the equity method pertains to the following companies:

	Reg.no.	Domicile	Shareholders' equity	Earnings after taxes	Share of capital, %	Share of votes, %	Number of shares	Book value
Ericsson	556016-0680	Stockholm	52,624	11,941	2.2	26.4	22,330,000	1,333
SCA	556012-6293	Stockholm	24,653	2,759	9.3	24.1	18,382,000	892
AGA	556009-1331	Lidingö	12,275	1,099	11.8	20.2	28,615,000	704
PLM	556003-4844	Malmö	2,977	436	23.0	23.0	10,000,000	467
AB Biodisk	556115-6844	Stockholm	58	22	37.1	22.2	63,064	21
								3,417

Accounting in accordance with the equity method would result in the following earnings:

Group	1997
Net earnings according to the income statement	2,274
Less: Dividend	-249
Plus: Share in associated companies' earnings after tax	749
Net earnings when applying the equity method	2,774

A balance sheet prepared using the equity method would result in the following:

	Balance as per balance sheet	Change using equity method	Balance sheet using equity method
Shares in listed companies	11,047	-3,396	7,651
Shares and participations in other companies	55	-21	34
Participations in associated companies	-	5,667	5,667
		2,250	
Equity reserve	-	2,250	2,250
Unrestricted reserves	4,612	-500	4,112
Net earnings for the year	2,274	500	2,774
		2,250	

• **Note 18**  
**Financial Fixed Assets**

	Shares and participations in subsidiaries		Shares in listed companies			
	Parent Company		Group		Parent Company	
	1997	1996	1997	1996	1997	1996
Opening acquisition value	645	2,255	5,723	5,736	5,636	5,649
Sales	-335	-90	-548	-590	-548	-590
Purchases	-	-	5,872	577	5,872	577
Shareholder contribution	11	-1,508	-	-	-	-
Reclassifications	-	-12	-	-	-	-
Closing accumulated acquisition value	321	645	11,047	5,723	10,960	5,636

	Shares and participations in other companies			
	Group		Parent Company	
	1997	1996	1997	1996
Opening acquisition value	55	18	51	4
Sales	-1	-74	-10	-74
Purchases	16	37	12	121
Write-downs	-15	-	-	-
Reclassifications	-	74	-	-
Closing accumulated acquisition value	55	55	53	51

	Long-term receivables from subsidiaries		Other long-term receivables*			
	Parent Company		Group		Parent Company	
	1997	1996	1997	1996	1997	1996
Opening acquisition value	2,592	1,036	52	47	6	6
Company divestitures	-	-	-3	-	-	-
Increase for the year	40	-	11	7	-	-
Shareholder contribution	-113	1,556	-	-	-	-
Amortization	-1,000	-	-2	-	-	-
Reclassifications	-	-	1	-4	-	-
Translation differences	-	-	3	2	-	-
Closing accumulated acquisition value	-	1,519	2,592	62	52	6

\*Other long-term receivables include SEK 44 M (33) in deferred taxes recoverable.

- **Note 19**  
**Inventories**

Inventories are broken down into the following items:

Group	1997	1996
Raw materials and supplies	213	230
Goods in process	50	92
Finished products and goods for resale	395	546
Work in process on behalf of others	42	26
Advance payments to suppliers	1	1
Total	701	895

- **Note 20**  
**Prepaid Expenses and Accrued Income**

	Group		Parent Company	
	1997	1996	1997	1996
Rents paid in advance	7	9	2	-
Accrued interest income	2	2	2	-
Service and maintenance charges paid in advance	12	14	-	-
Accrued service income	7	4	-	-
Other items	16	28	1	2
Total	44	57	5	2

• **Note 21**  
**Shareholders' Equity**

Group	Capital stock 1997	Restricted reserves 1997	Unrestricted shareholders' equity 1997
Amount at beginning of year	858	1,059	5,028
Dividend to shareholders	–	–	-558
Transfers between unrestricted and restricted shareholders' equity	–	-131	131
Change in translation difference	–	2	11
Net earnings for the year	–	–	2,274
Amount at end of year	858	930	6,886

Parent Company	Capital stock 1997	Statutory reserve 1997	Unrestricted shareholders' equity 1997
Amount at beginning of year	858	721	6,740
Dividend to shareholders	–	–	-558
Net earnings for the year	–	–	1,533
Amount at end of year	858	721	7,715

• **Note 22**

**Capital Stock**

The capital stock on December 31, 1997, consisted of 42,912,813 shares with a par value of SEK 20 each; of these, 31,225,147 were Class A shares and 11,687,666 Class C shares. No new shares were issued in 1997 through conversion of convertible participating notes.

• **Note 23**

**Provision for Pensions**

	Group		Parent Company	
	1997	1996	1997	1996
PRI pensions	79	135	4	4
Other pensions	47	46	19	17
Total	126	181	23	21

• **Note 24**

**Commitments to Board Members and Presidents**

The Group's provisions include SEK 57 M (57) for pensions and similar benefits to the present and former board members and presidents. The corresponding amounts for the parent company are SEK 15 M (13).

• **Note 25**

**Other Provisions**

Group	1997	1996
Guarantees	22	16
Restructuring measures decided on	12	14
Product liability	37	33
Provision for divested companies	20	–
Other items	54	54
Total	145	117

• **Note 26**

**Long-Term Interest-Bearing Liabilities**

	Group		Parent Company	
	1997	1996	1997	1996
Bond issues	1,000	200	1,000	200
Utilized lines of credit	94	56	30	20
Other interest-bearing liabilities	561	514	530	335
Total	1,655	770	1,560	555

Confirmed lines of credit amount to SEK 1,226 M (1,324) for the Group and SEK 1,050 M (1,050) for the Parent Company.

Maturity dates:	Group 1997
– 1999	630
– 2000	594
– 2001	7
– 2002	401
– 2003	1
– later	22
Total	1,655

• **Note 27**  
**Long-Term Liabilities**

Listed below is the portion of long-term liabilities that fall due for payment later than 5 years after the balance sheet date.

	Group	
	1997	1996
Long-term interest-bearing liabilities	9	—
Long-term noninterest-bearing liabilities	13	—
<b>Total</b>	<b>22</b>	<b>—</b>

• **Note 28**  
**Accrued Expenses and Deferred Income**

	Group		Parent Company	
	1997	1996	1997	1996
Accrued interest expenses	161	129	160	120
Accrued staff-related expenses	137	189	4	4
Other	72	109	6	3
<b>Total</b>	<b>370</b>	<b>427</b>	<b>170</b>	<b>127</b>

• **Note 29**  
**Current Interest-Bearing Liabilities**

	Group		Parent Company	
	1997	1996	1997	1996
Commercial paper	98	—	98	—
Bond issues	—	100	—	100
Current portion of long-term liabilities	6	27	—	—
Other interest-bearing liabilities	1,836	458	1,773	336
<b>Total</b>	<b>1,940</b>	<b>585</b>	<b>1,871</b>	<b>436</b>

• **Note 30**  
**Pledged Assets**

	Group		Parent Company	
	1997	1996	1997	1996
<b>For own liabilities and provisions</b>				
Pertaining to Provision for pensions				
Endowment insurance	6	6	6	6
Pertaining to interest-bearing liabilities				
Chattel mortgages	20	21	—	—
Property mortgages	18	23	—	—
Other	1	1	—	—
<b>Total pertaining to own liabilities and provisions</b>	<b>45</b>	<b>51</b>	<b>6</b>	<b>6</b>
<b>For overdraft facilities</b>				
Chattel mortgages	15	15	—	—
Property mortgages	6	6	—	—
Other	2	0	—	—
<b>Total pertaining to overdraft facilities</b>	<b>23</b>	<b>21</b>	<b>—</b>	<b>—</b>
<b>General bank guarantee</b>				
Chattel mortgages	16	10	—	—
Property mortgages	7	1	—	—
<b>Total pertaining to general bank guarantee</b>	<b>23</b>	<b>11</b>	<b>—</b>	<b>—</b>
<b>Other</b>				
Chattel mortgages	3	3	—	—
Property mortgages	5	5	—	—
<b>Total other</b>	<b>8</b>	<b>8</b>	<b>—</b>	<b>—</b>
Group companies sold during the year	—	186	—	—
<b>Total pledged assets</b>	<b>99</b>	<b>277</b>	<b>6</b>	<b>6</b>

• **Note 31**  
**Contingent Liabilities**

	Group		Parent Company	
	1997	1996	1997	1996
Contingent liabilities on behalf of other group companies				
Other contingent liabilities	11	14	3	3
<b>Total contingent liabilities</b>	<b>11</b>	<b>14</b>	<b>6</b>	<b>6</b>



We have audited the parent company and the consolidated financial statements, the accounts and the administration of the board of directors and the president of AB Industrivärden for the 12-month period ended December 31, 1997. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the President or whether they have in some other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the parent company and consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and, consequently we recommend

*that* the income statements and balance sheets of the parent company and the Group be adopted, and

*that* the profit of the parent company be dealt with in accordance with the proposal in the Report of the Board of Directors.

In our opinion, the board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

*that* the members of the board of directors and the President be discharged from liability for the fiscal year.

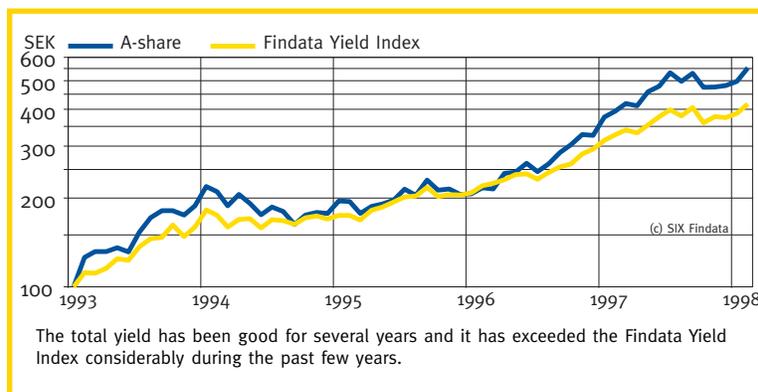
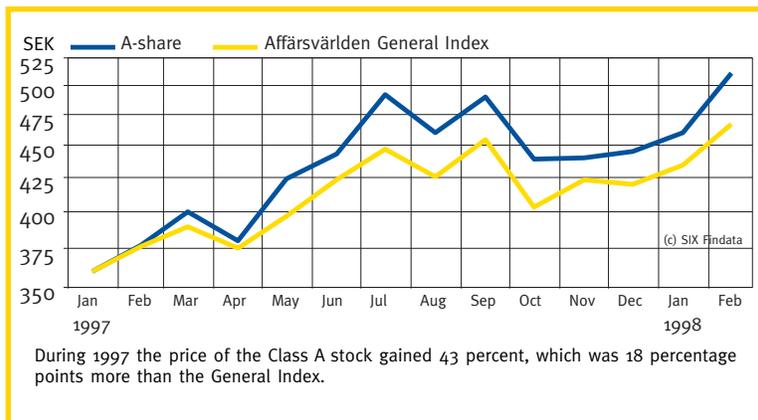
Stockholm, Sweden, March 12, 1998

Bertil Edlund  
Authorized Public Accountant

Ulf Pernvi  
Authorized Public Accountant

Industrivärden's stock is listed on the Stockholm Stock Exchange. The price of the Class A share rose 43 percent during the year. Trading volume in Industrivärden shares and CPNs amounted to SEK 7 billion. At year-end Industrivärden's market capitalization was approximately SEK 21 billion, including CPNs with a total market value of SEK 2 billion.

### Price Trend and Total Yield of Industrivärden's Stock



### Industrivärden's Stock

The number of shares and breakdown by class is shown in the table on page 74.

Each A-share carries entitlement to one vote, while each C-share carries entitlement to one-tenth of a vote. All shares carry equal entitlement to a share of the Company's assets and profits. The shares have a par value of SEK 20 each. Both classes of stock are listed on the Stockholm Stock Exchange.

Industrivärden's stock performed considerably better than the market average in 1997. The index rose 25 percent during the year, while Industrivärden's Class A shares gained 43 percent, from SEK 312 to SEK 445 per share. The total yield, including reinvested dividends, was 48 percent in 1997, compared with 28 percent for the market as a whole.

The Class A shares' beta coefficient was 1.3 in 1997. The beta coefficient indicates how much a stock's price varies in relation to the index.

Trading volume in Industrivärden stock on the Stockholm Stock Exchange during 1997 amounted to SEK 7 billion, corresponding to a turnover rate of 33 percent for the A-shares and 43 percent for the C-shares.

## Industrivärden's Capital Stock

Number of shares	Par value	Percentage share of	
	SEK M	votes	shares
31,225,147 Class A shares	624.5	96	73
11,687,666 Class C shares	233.8	4	27
42,912,813	858.3	100	100

## Capital Stock Development

No CPNs were converted to stock during the year or up until the record date on January 20, 1998. The total number of shares that carry entitlement to the dividend for 1997 is thus unchanged at 42,912,813. The growth in capital stock is shown in the table below.

SEK M	Capital stock	Number of shares
1988 Conversion	549.4	27,472,262
Exercise of warrants	552.3	27,614,803
1989 Stock dividend	692.6	34,631,057
Conversion of CPNs	701.6	35,081,607
Exercise of warrants	703.5	35,173,672
1990 Conversion of CPNs	705.0	35,250,390
Exercise of warrants	705.2	35,259,851
1991 Conversion of CPNs	710.8	35,541,101
Exercise of warrants	760.8	38,038,886
1992 Conversion of CPNs	761.0	38,051,694
1993 Conversion of CPNs	778.7	38,935,870
1994 Conversion of CPNs	858.2	42,911,222
1995 Conversion of CPNs	858.3	42,912,781
1996 Conversion of CPNs	858.3	42,912,813
1997 No change during the year	858.3	42,912,813

## Industrivärden's Convertible Participating Notes (CPNs)

In 1988 Industrivärden raised a convertible debenture loan through the issuance of convertible participating notes (CPNs). The loan matures on January 31, 2028.

Class A and C convertible participating notes are listed on the Stockholm Stock Exchange. CPNs can be converted to stock at any time.

CPN holders are invited to attend Industrivärden's Annual General Meeting but are not entitled to vote.

The yield is paid in the form of interest per CPN. This interest amounts to 115 percent of the dividend per share decided by the Annual General Meeting for the previous fiscal year. CPN interest is paid at the same time as the stock dividend.

The number of CPNs and breakdown by class is shown in the table above.

Each CPN may be converted to one share of the same class. CPNs have a par value of SEK 92 each.

Trading in Industrivärden's CPNs on the Stockholm Stock Exchange during 1997 amounted to SEK 0.1 billion, corresponding to a turnover rate of 3 percent.

### Industrivärden's CPNs

Number of CPNs	Par value, SEK M	Percentage share of number of CPNs
2,132,478 A-CPNs	196.2	44
2,756,455 C-CPNs	253.6	56
4,888,933	449.8	100

### Dividend and CPN Interest

The Board of Directors has proposed that the Annual General Meeting declare a dividend of SEK 15.00 per share (13.00). Consequently, CPN interest will thereby amount to SEK 17.25 (14.95) per CPN. The Board's proposal entails average annual dividend growth of 13.4 percent during the past five years. In 1995 the shareholders also received one purchase right per share and CPN of Industrivärden pertaining to PLM, valued at SEK 11.90. The trend in the dividend and CPN interest is shown in the table below.

SEK	1997 <sup>1</sup>	1996	1995	1994	1993
Dividend	15.00	13.00	11.00	10.00	9.00
Annual growth in dividend, %	15	18	10	11	13
CPN interest	17.25	14.95	12.65	11.50	10.35

<sup>1</sup> Proposed by the Board of Directors.

### Warrants for Class A Shares

In February 1998, Swiss Bank Corporation issued warrants for Industrivärden Class A shares. One warrant gives the holder the right to purchase 0.2 Class A shares at a price of SEK 550 a share. Holders are entitled to exercise their purchase options until June 16, 2000. The warrants are quoted on the Stockholm Stock Exchange.

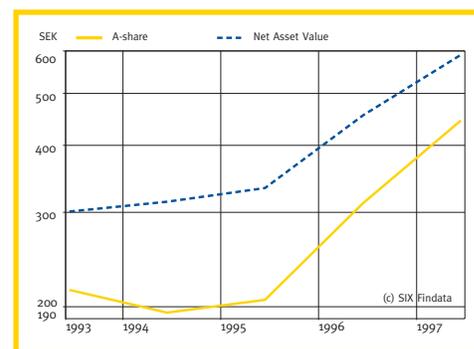
### Estimated Net Asset Value

Net asset value is a measure of the shareholders' and CPN holders' combined net wealth, which is defined as the difference between the actual or estimated market values of assets and liabilities.

Subsidiaries' market values are estimated by Industrivärden. The basis for calculating the value of the Company's net wealth is described on p. 77.

Net asset value at December 31, 1997, was calculated at SEK 28.6 billion, or SEK 598 per share and CPN. The development of net asset value during the past five years is shown in the accompanying chart and in the table on p. 76.

### Net Asset Value per Share and CPN, Share Price



### Composition and Growth of Net Asset Value

SEK/share and CPN	1997	1996	1995	1994	1993
Listed stocks	600	371	288	198	210
Industrial and trading operations	62	79	59	150	120
Real estate held for investment purposes	–	20	21	23	23
<b>Assets</b>	<b>662</b>	470	368	371	353
Other assets and liabilities	64	15	35	57	52
Shareholders' equity*	598	455	333	314	301
<b>Liabilities and shareholders' equity</b>	<b>662</b>	470	368	371	353
Net asset value	598	455	333	314	301
Market price, Class A shares, Dec. 31	445	312	206	195	215
"Holding company discount," %**	26	31	38	38	29

\* Reported shareholders' equity, CPN loans and surplus values.

\*\* The difference between the share price and net asset value, expressed as a percentage of net asset value.

### The Largest Shareholders

Industrivärden has approximately 23,000 shareholders. Taking CPN holders into account, the total number of investors in the Company's stock and CPNs is approximately 25,000. Institutional investors, such as pension foundations, insurance companies and investment companies, own approximately 83 percent of the shares.

### Ownership at December 31, 1997

	Number of shares	Percentage of	
		votes	shares
Fifth National Swedish Insurance Pension Fund	2,347,400	7.2	5.5
SCA exchangeable owners*	1,830,000	5.6	4.3
SCA*	1,768,414	5.5	4.1
Handelsbanken's Pension Fund	1,630,000	5.0	3.8
Handelsbanken's Pension Foundation	1,600,000	4.9	3.7
AMF	4,039,809	4.7	9.4
AGA	1,401,000	4.3	3.3
Wallanders & Hedelius Fund	1,250,000	3.9	2.9
Inter IKEA Finance SA	1,116,201	3.4	2.6
Swiss Bank	1,222,177	3.2	2.8
SCA Pension Fund	941,548	2.9	2.2

\*In 1997 SCA issued five-year DEM-denominated debt instruments (so called exchangeables) which can be exchanged for 1,830,000 shares in Industrivärden. During the term of the debenture SCA intends to waive its voting rights for the underlying shares.

### Ownership Statistics on December 31, 1997\*

Size class No. of shares	Number of shareholders as % of total	Total holding as % of total
1 – 500	82.7	6.7
501 – 1,000	9.6	4.0
1,001 – 2,000	4.0	3.3
2,001 – 5,000	2.2	4.0
5,001 – 10,000	0.7	2.8
10,001 –	0.8	79.2
	<b>100.0</b>	<b>100.0</b>

\* Direct and nominee shareholders.

Source: Swedish Central Securities Depository.

## CALCULATING THE MARKET VALUE OF INDUSTRIVÄRDEN'S ASSETS

### Valuation of the Portfolio of Listed Stocks

The portfolio of listed stocks has been reported at its actual market value on the accounting date. The holding of Skanska A-shares, which have strong voting power and are not listed, has been valued at the same price as the B-shares.

### Valuation of the Industrial and Trading Operations

The industrial and trading operations have been given an estimated market value by multiplying the year's earnings after net financial items – less a standard 28 percent tax rate – by a P/E multiple at the end of the respective fiscal year according to the Affärsvärlden equities indicator.

Naturally, there are more sophisticated models for determining a company's value. The advantage of Industrivärden's choice of model is its relative simplicity. However, there have been occasions when earnings for the year and/or the P/E multiple have been extremely high or low, whereby Industrivärden has decided to adjust the values to a more realistic level. Thus in calculating net asset value for 1997, a P/E multiple of 15 has been used, even though the P/E multiple in the Affärsvärlden equities indicator at the end of December 1997 was higher.

Since holding companies are exempt from capital gains taxes on sales of stocks, there has been no deduction for standard tax.

## TAX RULES FOR INDUSTRIAL HOLDING COMPANIES

For a company to be defined as an industrial holding company for tax purposes, the requirements are that a) the company is engaged exclusively or essentially exclusively in the management of securities, b) that the company's stock is spread among a large number of shareholders, and c) that the portfolio of securities is well distributed.

### Indirect Owners

Holding companies, along with securities funds, are classified for tax purposes as indirect owners or so-called intermediate owners. The principles of legislation in this area are:

- that neutrality between direct and indirect ownership requires that the intermediary shall not be subjected to taxation,
- that indirect ownership shall not be more advantageous than direct ownership,
- that intermediaries such as holding companies and securities funds shall be taxed equally,
- that taxation shall enable reinvestment of the shareholding within the intermediary.

### Current Tax Rules

The main principles concerning taxation of holding companies are:

- that interest income is taxable, while interest expenses and administrative costs are tax deductible,
- that dividends received are taxable, while dividends rendered are tax deductible,
- that capital gains on sales of stocks are tax exempt, but in return, a standard tax rate is assessed, amounting to 2 percent of the stock portfolio's market value at the beginning of the tax year.

Through these rules, so-called chain taxation is eliminated. The purpose of the standard income assumption is to even out the positive effect that arises through the fact that the intermediary can reinvest the entire capital gain while the direct owner can only reinvest the portion that remains after the tax on the capital gain is paid.

### Change in Tax Status

If a company can no longer meet the qualification criteria for a holding company, then it acquires a new tax status. The rules that apply for changes in tax status are as follows:

An amount corresponding to 40 percent of the highest value of the securities holding at the beginning of the tax year or any of the five preceding years, shall be taken up for taxation. Alternatively, the company can take up for taxation the capital gains that the holding company has generated since the end of 1990. This tax rule does not apply for liquidation.

### Proposal for New Tax Rules

In early 1998 the Corporate Tax Committee (SOU 1998:1) proposed a change in the tax rules for changes in tax status. As proposed this would take effect on January 1, 1999.

The proposed tax rules entail that 16 percent instead of 40 percent of the highest value of the securities holding during the last five years shall be taken up for taxation in connection with a change in tax status. If the change in status is due to the fact that the holding company no longer fulfills the requirement for broad ownership, then only the portion of the holding company's shares that were not traded during the year shall be taken up for taxation. However, if another holding company is the buyer or owner, then no tax shall be assessed. The alternative rule for taxation of capital gains after the end of 1990 has been eliminated in the new proposal.

In addition, it has been proposed that if a holding company changes its status, the market value at the time of the change in status shall make up the taxable acquisition value of the securities holdings.

# Board of Directors

## Bo Rydin

Chairman.  
MBA, Honorary Doctor of Economics, Honorary Doctor of Engineering, b.1932, Stockholm. Director since 1973.  
Chairman of SCA, Graninge and SAS's Assembly of Representatives.  
Vice Chairman of Svenska Handelsbanken and Skanska. Director of IBM EMEA Board and Scancem.  
Shareholding: 6,167.

## Inga-Britt Ahlenius

MBA, b. 1939, Danderyd. Director General and Head of the National Audit Bureau. Director since 1994. Director of the Industrial Council for Social and Economic Studies and the First National Swedish Insurance Pension Fund. Member of the Royal Swedish Academy of Engineering Sciences.

## Carl-Erik Feinsilber

LLB, b. 1931, Lidingö. Director since 1988.  
Director of Bonnierföretagen and SSAB.  
Shareholding: 2,500.

## Tom Hedelius

Vice Chairman.  
MBA, Honorary Doctor of Economics, b. 1939, Stockholm. Director since 1991.  
Chairman of Svenska Handelsbanken and Bergman & Beving. Vice Chairman of AGA and Ericsson. Director of SCA, SAS's Assembly of Representatives and Volvo.  
Shareholding: 1,000.

## Lennart Nilsson

M. Eng., Honorary Doctor of Economics, b. 1941, Lund. Director since 1997.  
Chairman of Celsius and the Association of Swedish Engineering Industries.  
Vice Chairman of Cardo AB and Trelleborg AB.  
Director of the Crafoord Foundation, Gorthon Lines, the Henry and Gerda Dunkers Foundation, Donation fund No. 2, and the University of Lund.

## Clas Reuterskiöld

President and Chief Executive Officer of Industrivärden. MBA, b. 1939, Stocksund. Director since 1994.  
Chairman of PLM.  
Director of AGA, Ericsson, Sandvik, Svenska Handelsbanken and SCA.  
Shareholding: 12,755.

## Björn Wolrath

M. Pol. Sc., b. 1943, Stockholm. Director since 1996.  
Chairman of the Swedish Insurance Federation and Rederi AB Gotland. Vice Chairman of Telia AB. Director of Hufvudstaden, NK City Fastigheter, the Stockholm Stock Exchange and the University of Stockholm.

## Committees

**Nominating committee** for the Board of Directors: Bo Rydin, Tom Hedelius and Björn Wolrath.

**Compensation committee**, to decide the salaries, benefits and pensions for the president and executive management: Bo Rydin and Tom Hedelius.



Bo Rydin



Inga-Britt Ahlenius



Carl-Erik Feinsilber



Tom Hedelius



Lennart Nilsson



Clas Reuterskiöld



Björn Wolrath

## Executive Management

**Clas Reuterskiöld**, b. 1939, President and Chief Executive Officer. Employed by Industrivärden since 1994. Shareholding: 12,755.

**Carl-Olof By**, b. 1945. Executive Vice President and Chief Financial Officer. Employed by Industrivärden since 1990. Shareholding: 2,200.

**Lennart Engström**, b. 1959. Strategic Planning and Analysis. Employed by Industrivärden since 1996. Shareholding: 2,000.

**Thomas Nordvaller**, b. 1944. General Counsel. Employed by Industrivärden since 1992. Shareholding: 1,000.

**Olof Wesström**, b. 1947. Responsible for managing the portfolio of listed stocks. Employed by Industrivärden since 1982. Shareholding: 2,000.

## Senior Executives

**Lars von Celsing**, b. 1946. Head of Finance. Employed by Industrivärden since 1992.

**Jan Spetz**, b. 1956. Group Controller. Employed by Industrivärden since 1990. Shareholding: 1,300.

## Subsidiary Presidents

Inductus

**Clas Reuterskiöld**, b. 1939. President since 1990. Shareholding: 12,755.

Indutrade

**Gunnar Tindberg**, b. 1938. President since 1990.

## Auditors

**Bertil Edlund**  
Authorized Public Accountant,  
Öhrlings Coopers & Lybrand AB.

**Ulf Pernvi**  
Authorized Public Accountant,  
Öhrlings Coopers & Lybrand AB.

## Deputy Auditors

**Margareta Essén**  
Authorized Public Accountant,  
Öhrlings Coopers & Lybrand AB.

**Bertil Johanson**  
Authorized Public Accountant,  
Öhrlings Coopers & Lybrand AB.



Carl-Olof By



Clas Reuterskiöld



Lennart Engström



Olof Wesström



Thomas Nordvaller

## Group Summary

SEK M	1997	1996	1995	1994	1993
<b>Income Statements</b>					
Net sales	4,275	5,547	5,893	12,700	11,879
Operating earnings	260	361	488	966	794
Dividend income from listed stocks	426	490	254	362	162
Capital gains on sales of listed stocks	273	679	86	325	498
Capital gains on sales of other stocks	1,592	8	1,195	263	–
Earnings after financial items	2,404	1,417	1,765	1,517	864
Earnings before taxes and minority interests	2,320	1,344	1,645	1,461	811
Net earnings for the year	2,274	1,286	1,615	1,250	752
<b>Balance Sheets</b>					
Fixed assets	11,978	7,562	7,613	9,436	9,145
Current assets	1,930	2,551	2,609	5,141	5,047
Total assets	13,908	10,113	10,222	14,577	14,192
Shareholders' equity	8,674	6,945	6,137	5,483	4,259
Minority interests	–	–	3	4	41
CPN loans	450	450	450	450	816
Provision for pensions	126	181	248	536	558
Interest-bearing liabilities	3,595	1,355	2,064	5,078	5,935
Noninterest-bearing liabilities	1,063	1,182	1,320	3,026	2,583
<b>Key Ratios</b>					
Visible equity	9,124	7,395	6,587	5,933	5,075
Adjusted equity	26,759	19,774	15,034	11,732	12,002
Net asset value	28,596	21,730	15,899	15,000	14,386
Visible equity ratio, %	66	73	65	41	36
Adjusted equity ratio, %	85	88	81	58	57
Capital expenditures	144	265	236	664	474
Average number of employees	3,332	4,561	4,918	9,572	10,325
of whom, outside Sweden	1,791	2,309	2,293	5,895	6,270
<b>SEK per share and CPN</b>					
Earnings per share after full tax	49.30	28.40	36.30	27.30	16.80
Visible shareholders' equity	191	154	138	124	106
Adjusted shareholders' equity	560	413	315	245	251
Net asset value	598	455	333	314	301
Stock price, December 31					
Class A shares	445	312	206	195	215
Class C shares	434	305	199	189	213
Dividend	15.00*	13.00	11.00	10.00	9.00
Dividend growth, % per year	15*	18	10	11	13
Direct yield, %	3.4*	4.2	5.3	5.1	4.2
Total yield, %	48	59	17	-5	76
CPN interest	17.25*	14.95	12.65	11.50	10.35

\* Proposed by the Board of Directors.

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## Financial Calendar 1998

Interim reports will be issued on May 5 for the period January–March, on August 17 for the period January–June, and on November 4 for the period January–September, 1998. All reports will also be available on Industrivärden's website on the Internet: [www.industrivarden.se](http://www.industrivarden.se).

This annual report is a translation of the Swedish original.



## Annual General Meeting

### Time and place

The Annual General Meeting will be held at 2 p.m. on Tuesday, May 5, 1998, at the Grand Hotel, Vinterträdgården (entrance at the corner of Stallgatan/Blasieholmsgatan), in Stockholm. Coffee will be served before the Meeting.

### Who is entitled to participate?

To be entitled to participate in the Annual General Meeting, shareholders must be listed on the printout of the shareholder register on April 24, 1998, and give notice of their intention to participate in the Meeting no later than 3 p.m. on Thursday, April 30, 1998. Owners of Convertible Participating Notes (CPNs) are welcome to attend the Meeting, provided they give prior notice.

### How to become registered in the shareholder register

Industrivärden's shareholder register is maintained by the Swedish Securities Register Center (VPC AB). Shares can be either owner-registered or trustee-registered. Owner-registered holdings are listed under the shareholders' names in the shareholder register. Shareholders whose shares are managed by a trustee, such as a bank's custody services department, may have chosen to have their shares registered in the name of their trustee. Requests to have trustee-registered shares re-registered in the shareholder's name are to be made to the trustee. To be registered in the shareholder register by April 24, 1998, and thereby be entitled to participate in the Meeting, shareholders with trustee-registered shares must request such re-registration in time before the above-mentioned date.

### Notice of attendance

Notice of intention to participate in the Meeting can be made in writing to AB Industrivärden (publ.), Box 5403, SE-114 84 Stockholm, Sweden, by phone at +46-8-666 6400, or by fax at +46-8-661 46 28, not later than 3 p.m. on Thursday, April 30, 1998.

### Dividend and split

The dividend for 1997 will be paid to shareholders who are listed in the shareholder register on the record date. The Board of Directors proposes May 8, 1998, as the record date. Provided that the Annual General Meeting approves the Board's proposal, dividend payments are expected to be made via VPC on May 15, 1998. Payment of CPN interest for 1997 will be made at the same time as the dividend payment. The stock split is scheduled to be effected on May 29, 1998.

## Analysts Who Monitor Industrivärden

### Stockbrokers

Alfred Berg Fondkommission	Magnus Behm	+46-8-723 58 00
Aragon Fondkommission	Håkan Persson	+46-8-791 35 00
AROS Securities	Christian Wierup	+46-8-458 56 21
Carnegie Fondkommission	Fredrik Grevelius	+46-8-676 88 00
Deutsche Morgan Grenfell	Hans-Olov Bornemann	+46-8-463 50 00
Enskilda Securities	Henrik Sporje	+44-171-329 37 07
Fischer Partners Fondkommission	Martin Abrahamsson	+46-8-463 85 00
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Matteus Fondkommission	Nils Sandstedt	+46-8-613 42 00
SBC Warburg	Per Afrell	+46-8-453 73 00
Swedbank Fondkommission	Karl-Mikael Syding	+46-8-585 92 527
Öhman Fondkommission	Anders Westin	+46-8-402 50 00

### Credit Rating of Commercial Paper Program

Standard & Poor's AB	Peter Nilsson	+46-8-440 59 00
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