

Industrivärden's Portfolio of Listed Stocks

**ERICSSON** 

**SANDVIK** 

**Handelsbanken**

**AGA**

 **SCA**

 **SKANSKA**

 **Skandia**

**SSAB** 

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## Financial Calendar 1999

Interim reports will be issued on May 4 for the period January–March, on August 18 for the period January–June, and on November 4 for the period January–September, 1999. 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 Wednesday, April 21, 1999, at the Grand Hotel, Vinterträdgården (entrance at the corner of the streets 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 9, 1999, and give notice of their intention to participate in the Meeting no later than 3 p.m. on Monday, April 19, 1999. 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 9, 1999, 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 64 00, or by fax at +46-8-661 46 28, not later than 3 p.m. on Monday, April 19, 1999.

### Dividend

The dividend for 1998 will be paid to shareholders who are listed in the shareholder register on the record date. The Board of Directors proposes April 26, 1999, 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 3, 1999.

Payment of CPN interest for 1998 will be made at the same time as the dividend payment.

## Analysts Who Monitor Industrivärden

### Stockbrokers

Alfred Berg Fondkommission	Magnus Behm	+46-8-723 58 00
Aragon Fondkommission	Håkan Persson	+46-8-791 35 00
Carlsson Investment Management	Henrik Asplund	+46-8-700 63 69
Carnegie Fondkommission	Fredrik Grevelius	+46-8-676 88 00
Deutsche Bank	Hans-Olov Bornemann	+46-8-463 55 00
Dresdner Kleinworth Benson	Mikael Petersson	+44-171 475 23 91
Enskilda Securities	Oskar Herdland	+46-8-52 22 98 88
Erik Penser Fondkommission	Per Althin	+46-8-463 80 28
Fischer Partners Fondkommission	Henrik Moberg	+46-8-463 85 23
Handelsbanken Markets	Christer Beckard	+46-8-701 24 36
James Capel & Co	Viking Kjellström	+46-8-454 55 21
Matteus Fondkommission	Hans Jedemark	+46-8-456 43 13
Swedbank Fondkommission	Karl-Mikael Syding	+46-8-585 92 527
Warburg Dillon Read	Per Afrell	+46-8-453 73 00
Öhman Fondkommission	Anders Westin	+1-212-829 42 00

### Credit Rating of Commercial Paper Program

Standard & Poor's AB	Peter Nilsson	+46-8-440 59 00
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# ● Highlights 1998

- The value of the portfolio of listed stocks on December 31, 1998, was SEK 30,043 M (28,682). Adjusted for purchases and sales, the portfolio's value rose 5 percent from the beginning of the year. The general index rose by 10 percent. The total return for the portfolio was 7 percent.
- Net asset value at year-end was SEK 160 (150) per share and CPN<sup>1</sup>, an increase of 7 percent from the beginning of the year.
- The shareholding in PLM, corresponding to 23 percent of the capital, was sold for SEK 1,180 M, generating a capital gain of SEK 712 M.
- Following a net purchase of stock in Skanska, totaling SEK 1,190 M, Industrivärden became the largest shareholder in terms of votes. The net involvement increased by SEK 816 M after the sale of all shares in Drott.
- Consolidated earnings after financial items were SEK 2,148 M (2,404). Of this total, gains on sales of stocks accounted for SEK 1,003 M (1,865), dividends from listed stocks for SEK 1,067 M (426), and other earnings for SEK 78 M (113).
- The Board of Directors proposes that the dividend be raised by 20 percent to SEK 4.50 per share. Interest per CPN would thus be SEK 5.18.

<sup>1</sup>All values per share and CPN are calculated after the 1998 stock split, whereby four new shares or CPNs were received for each existing share or CPN held, respectively.

Industrivärden's core holdings are represented here by a gas cylinder from AGA, Handelsbanken's Internet banking service, toilet paper from SCA, and blueprint material from Skanska.



## ● To Our Shareholders

The average investor in the Swedish stock market received a total return of 13 percent in 1998, which quite amply met the required rate of return. Despite this, 1998 would have to be characterized as a turbulent year that took a dramatic course. The stock market rose sharply during the first half of the year, reaching a high point in July with a gain of more than 30 percent. The trend then reversed, with stock prices falling nearly 40 percent until the next turning point, in October. Prices thereafter began rising again. The recovery of more than 35 percent by year-end entailed a 10 percent rise for the General Index for the entire year, corresponding to the above-mentioned total return of 13 percent.

The market's turbulence during the year was also apparent in other respects. The spread in the returns generated by various sectors and individual stocks on the Stockholm Stock Exchange was large. Growth stocks like telecoms and IT did best. Stocks in the financial sector also did well, while forestry and engineering cyclicals lost value. Of the five heaviest stocks in terms of market value – Ericsson, Astra, H&M, Volvo and Handelsbanken – only Volvo failed to outperform the index. Thus it is interesting to note that in 1998 the Stockholm Stock Exchange lost 10 percent in value from the standpoint of an unweighted index, while a weighted general index showed an equally large gain.

The value of our own portfolio of listed stocks varied during the year in parallel with the Stockholm Stock Exchange. Through October there was a close correlation between the change in value in our portfolio and the General Index. In November and December we noted poorer performance, however. On the whole, the year entailed a lag of five percentage points.

The weak performance during the final two months of the year is hardly cause for concern about the future. Our portfolio contains stocks in stable companies with strong market positions in their respective industries. An overwhelming number of market analysts have issued "buy" recommendations for the stocks in our portfolio. The deviation from the index in 1998 is primarily due to the price trend for Sandvik and SSAB, but also Skanska.

Sandvik and SSAB are characteristically cyclical companies, which in the current economic climate has played a role in their performance. The trend was intensified by the crises in Asia and Brazil, which had a direct and indirect impact on both companies' orderbooks and earnings. Prophesying for 1999 might seem foolhardy, but there is reason to assume that pressure on demand and prices will linger during the new year.

One of the largest deals conducted in 1998 was the purchase of an additional 4 million shares in Skanska. Through this move Industrivärden became Skanska's major owner, which is in line with the strategy of creating value added for Industrivärden's shareholders through active ownership.

Skanska is currently refining its operations by focusing on construction. Nearly half of its real estate holdings were divested during the year in connection with the distribution of the subsidiary Drott to its shareholders, and further refocusing measures have been announced. Acquisitions of market-leading construction companies in Switzerland and Argentina are being carried out. In addition, we can see that the problems related to the holding in Scancem are on their way to being resolved. An agreement has been reached with the other main owner, Aker, to jointly sell the company. Skanska's stock price has fallen since our acquisition in the autumn. Nevertheless, ongoing and planned measures make me optimistic about the future performance of Skanska's stock.

Another major business event was the sale of our holding in PLM, which was carried out at a price that was 40 percent higher than the stock's market price. One of Industrivärden's requirements in connection with the sale was that other shareholders, through a public offering, would be offered the opportunity to sell their shares with the same terms. The payment price received should be seen in relation to our expectations of PLM's stock price in the coming years, where the situation in the European market for glass packaging and the status of the Russian can market are damping factors.

Industrivärden was a principal owner of PLM for many years. The sale can be seen as proof that our holdings are not everlasting. If it is judged that the companies in which we have ownership stakes will not provide a satisfactory return and/or can develop better with another owner, then we are always prepared to consider a divestment. In the latter case, we also require – as in the sale of PLM – that we receive a share of the buyer's coordination gains.

Through our portfolio of listed stocks in various industries, we offer a spread of risk to our shareholders. We have no explicit ambition to have the same sector allocation as the stock exchange's General Index. Although our choice of stocks is based on analysis, it is also steered by portfolio objectives. In this respect we have stated that, historically, we have had low exposure to the pharmaceutical industry, which is currently in a phase of rapid growth. We have therefore decided to increase the portion of stocks from this sector in our portfolio. In view of the limited choice of pharmaceutical stocks on the Stockholm Stock Exchange, we have conducted an in-depth analysis of foreign pharmaceutical companies. It is against this background that our acquisition of approximately SEK 400 M in Pfizer stock should be seen. The return on this investment has been good, and we continue to have a positive view of the pharmaceutical industry. Therefore, our ambition is to further increase our exposure to this industry.

Finally, it can be said that the trend for Industrivärden's wholly owned operations remains positive. Inductus grew its earnings by 15 percent and Indutrade by 30 percent. Both companies are showing strong cash flows and high returns on capital employed. They are thereby making a satisfactory contribution to the financing of our dividend as well as to the continued growth in Industrivärden's net asset value.

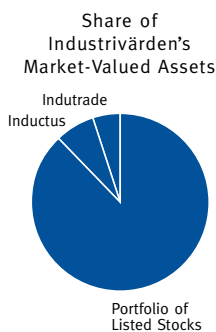


Clas Reuterskiöld  
President and CEO

Clas Reuterskiöld has  
been President and  
CEO of Industrivärden  
since 1994.



# Industrivärden – An Overview



AB Industrivärden is a listed industrial holding company engaged primarily in the management of a portfolio of listed stocks, but also 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 based on the stocks' market values. The tax rules for holding companies are described in more detail on page 81.

## Business Mission and Strategies

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, but concentrated, portfolio of stocks in listed Swedish companies. In addition, a small portion of assets are invested in wholly owned subsidiaries, unlisted companies and listed foreign stocks.

The strategy for Industrivärden's equity investments is to invest in a limited number of stocks that are judged to have high return potential. The choice of stocks is based on thorough research. Parity with the industrial composition of the General Index is not a goal in itself. In addition, Industrivärden has a fundamental strategy not to conduct short-term equity trading.

The portfolio of listed stocks today consists almost exclusively 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. This active ownership is exercised through participation in the board work of the companies that are core holdings. The directors nominated by Industrivärden have a high level of financial and industrial expertise. Based on this experience and knowledge, active ownership is exercised in the form of a long-term approach with a focus on strategic matters such as profitability, efficiency, business development, and so on. In support of their work, the directors with ties to Industrivärden receive continuous information from Industrivärden's analysts.

An important role for Industrivärden as an active owner is to contribute to efficient resource allocation, which entails being able to inject 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 transfer of capital to the shareholders would be called for.

## Portfolio of Listed Stocks 89%<sup>1</sup>

### Core Holdings

AGA  
Ericsson  
Handelsbanken  
Sandvik  
SCA  
Skanska  
SSAB

### Medium-Term Holdings

Astra<sup>2</sup>  
Pfizer  
Skandia  
Volvo  
Other (€SEK 200 M per holding)

### Inductus 6%<sup>1</sup>

Besam  
Hydrauto  
Isaberg Rapid  
Maskin AB Rapid

### Indutrade 5%<sup>1</sup>

Total approx.  
30 trading companies

<sup>1</sup>Share of total assets.

<sup>2</sup>Sold in January 1999.

The holdings in the listed portfolio are subject to continuous review. Fundamental research is a crucial 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 solid potential for value appreciation and a positive cash flow.

### Financial Objectives and Dividend Policy

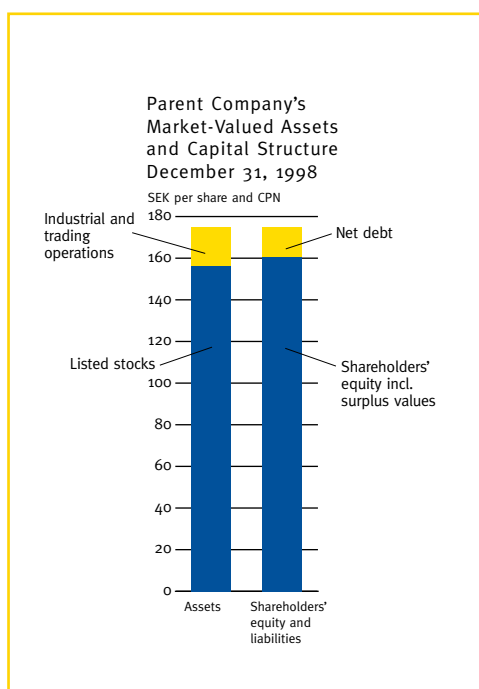
Industrivärden's financial objective is to achieve a higher total return over the long term than the average for the Stockholm Stock Exchange, with a level of debt in the Parent Company that is lower than 20 percent of the market-valued assets. In addition, Industrivärden strives to pay a dividend that gives the shareholders a 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 seven core holdings – companies in which Industrivärden is the largest or one of the largest shareholders. These are AGA, Ericsson, Handelsbanken, Sandvik, SCA, Skanska and SSAB. The combined market value of the core holdings on December 31, 1998, was SEK 26,727 M.

In addition to the core holdings, the portfolio 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 research-based management. At year-end 1998 the medium-term portfolio had a market value of SEK 3,316 M.

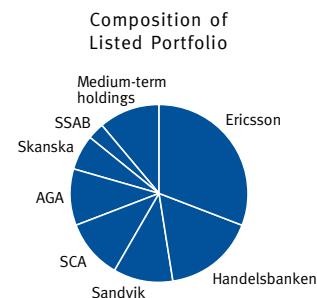
The total market value of the portfolio of listed stocks on December 31, 1998, was SEK 30,043 M, corresponding to 89 percent of the calculated value of Industrivärden's total assets.



### 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. For several of the core holdings, Industrivärden has been a shareholder for a long time. However, Industrivärden is always prepared to divest a core holding if such a move would generate value added and enhance Industrivärden's own growth in value over time.

One motive for divesting a core holding would be that Industrivärden's ongoing research shows a low likelihood for satisfactory future growth in value. The sale of a core holding can also be considered in connection with an industrial restructuring, provided that Industrivärden as a seller would receive a share in any restructuring gains and that it is judged that a better, alternative return could be received.



For the medium-term portfolio, an active ownership role is not sought after. Instead, Industrivärden's assessment of the return development 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 1998, 11 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.

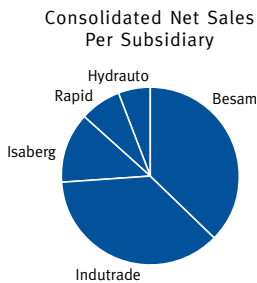
The subsidiaries are active in engineering and trading, with a substantial degree of international activity.

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

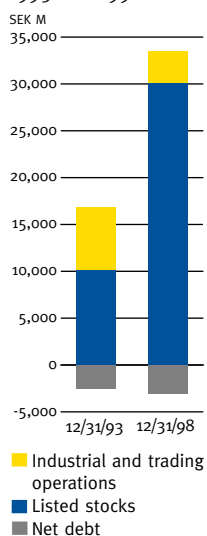
The subsidiary operations are strongly decentralized, with delegated responsibility for earnings and capital budgeting. Business control is handled through a well developed planning and reporting system. Board work in the subsidiaries is conducted with the participation of outside directors.

### Industrivärden's Strategy in Brief

	Core holdings	Medium-term portfolio	Unlisted companies
Number of holdings	Limited	5–10	Limited
Share of equities portfolio	Approx. 80%	Approx. 10%	Approx. 10%
Investment horizon	Long-term	2–3 years	Long-term
Board representation	Yes	No	Yes
Objective	Growth in value through active ownership	Growth in value in liquid holdings	Growth in value and profitability



Net Asset Value, December 31, 1993 and 1998



### Net Asset Value

The stock market ordinarily values holding companies on the basis of 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 using a P/E-multiple model. For a more detailed description, see "Calculating the Market Value of Industrivärden's Assets" on page 80.

Industrivärden's net asset value rose from SEK 14.4 billion at year-end 1993 to SEK 30.6 billion at year-end 1998, or by 113 percent. Including reinvested dividends, net asset value has risen by 165 percent since the beginning of 1994, which was level with the Findata total return index during the same period.

The chart at left shows the size and composition of net asset value at the end of 1993 and 1998, respectively.



## Major Deals During the 1990s

Following are some of the major deals that have taken place 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 Inductus subsidiaries was reduced from twelve in 1992 to four in 1998, through divestitures.
- The shareholding in Euroc, now part of Scancem, 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, whereby 55 percent of the shares were sold. Another 22 percent of the shares were sold in 1996. The total capital gain was SEK 1.7 billion. In addition, Industrivärden's shareholders received purchase rights in PLM valued at SEK 0.6 billion.
- A medium-term stock portfolio has been built up since 1995, with holdings in Skandia, Pfizer and Volvo, among other companies. The portfolio was worth SEK 3.3 billion at the end of 1998.
- A new core holding was added in 1997 through the purchase of SEK 4.1 billion in stock in Sandvik.
- The Inductus company Thorsman and the real estate company Fundament were sold in 1997 for a combined capital gain of SEK 1.6 billion.
- The shareholdings in the property companies Drott and Närkebro were sold in 1998 for SEK 0.5 billion, generating a capital gain of SEK 0.2 billion.
- The shareholding in Skanska was doubled in 1998 through the purchase of SEK 1.2 billion in stock. Industrivärden thereby became Skanska's largest shareholder.
- The remaining shareholding in PLM, corresponding to 23 percent of the capital stock, was sold in 1998 for SEK 1.2 billion generating a capital gain of SEK 0.7 billion.

# Portfolio of Listed Stocks

Industrivärden's principal activity is to create value through active ownership. The majority of Industrivärden's assets consist of listed stocks. Together these make up a portfolio which at the end of 1998 had a market value of SEK 30 billion, or 89 percent of all assets. Industrivärden's investments in the portfolio of listed stocks are made in accordance with well prepared principles. This entails, among other things, that the investments are evaluated on a continuous basis. The return that Industrivärden can provide to its shareholders is dependent on how successful the investment orientation is.

## Investment Orientation: Active Ownership

Industrivärden invests in listed stocks with a view to generating a return over time that is better than the market average without allowing the risk in the portfolio to deviate too much from the market average. To achieve this objective, Industrivärden invests in a limited number of stocks and serves as an active owner in the companies to enhance their returns. This active ownership requires broad knowledge about the companies and their operating environments. Active ownership entails clearly formulating the demands that Industrivärden makes as an owner and involvement in the formulation and realization of the portfolio companies' strategies. Active ownership is thus based on exhaustive research and ardent participation in the companies' board work.

## Composition of the Portfolio

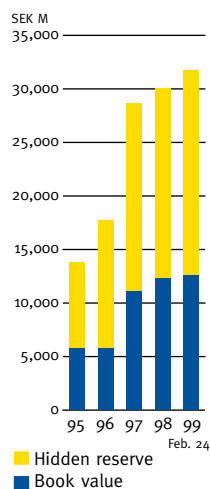
The continuous research and involvement in the portfolio companies' strategic development produce the best results when the number of companies is limited. To have an influence in the companies as an active owner, Industrivärden must be the largest – or one of the largest – shareholders. Similarly, the requirement on the size of the holdings also dictates a limitation of the number of companies in the portfolio.

Most of the portfolio's value is in holdings in which Industrivärden is an active owner – the portfolio's core holdings. At year-end 1998 these consisted of seven companies: Ericsson, Handelsbanken, Sandvik, SCA, AGA, Skanska and SSAB. The combined market value of the core holdings at this date was SEK 27 billion, corresponding to approximately 90 percent of the portfolio's total value.

Active ownership entails an ambition to participate in the development of the companies and bring about change in them when their profitability outlook so requires. Selling the shares is thus not a first course of action. From this orientation it follows that investments in the core holdings are made long-term. This does not rule out significant changes to the portfolio over time. In 1998 the holding in Skanska was increased considerably and Industrivärden became the company's largest owner in terms of votes. The entire holding in PLM, another core holding in the portfolio, was sold. Transactions such as these entail considerable changes even for the portfolio companies and are based on strategic considerations and thorough, fundamental research. In addition to such changes in the core holdings, investment decisions are also made which entail increases or decreases in core holdings due to anticipated returns in the medium term. A few of the core holdings consist entirely or in large part of less liquid, voting-strong shares. Changes in core holdings over the medium-term are made in stock classes that can be easily bought and sold on the stock market.

Active ownership in the core holdings is also complemented with medium-term investments in other companies. In these companies Industrivärden does not take an active ownership role, and the investments are made in highly liquid stocks with a good potential for value appreciation. The purpose of the medium-term investments is to further enhance the core portfolio's risk

Market Value of Listed Portfolio and Hidden Reserve



and reward profile. These investments serve as a liquidity reserve which can be utilized in connection with major deals. Investments with this orientation can be developed into core holdings over time. At year-end 1998, in addition to the core holdings, Industrivärden had eight medium-term investments in other companies, the largest of which were Skandia, Pfizer, Astra and Volvo. Altogether the medium-term holdings had a market value of SEK 3 billion, corresponding to approximately 10 percent of the total portfolio.

Industrivärden's investments in listed stocks are almost exclusively in Swedish companies. When the choices in the Swedish stock market are limited, such as for investments in pharmaceutical stocks, one alternative is to look abroad. This was done during the past year with the purchase of stock in the American pharmaceutical company Pfizer.

Industrivärden's investment orientation with respect to core holdings as well as medium-term investments involves choosing sectors and individual companies that are expected to meet the return target. Being represented in a specific industry or reflecting a certain index is never in itself an investment objective. When composing the portfolio, consideration is given to the relationship between risk and reward in the individual investments in order to create a favorable composition for the portfolio as a whole.

The composition of the portfolio of listed stocks at year-end 1998 is shown in the table on page 13.

### **Research-Driven Active Ownership**

As an active owner, Industrivärden puts clear demands on the companies and their managements. Industrivärden monitors profitability, efficiency and cash flow, ensures that the capital structure is well-balanced, and that adjustments are made to business cycles and to structural changes in the industry. Industrivärden also sees to it that the business is oriented toward the areas that are judged to have the best future prospects and in which the company can be given the conditions for success. The portfolio's core holdings include many examples of how Industrivärden exercises corporate governance in collaboration with other owners, as well as of independent and strong company managements: the reduced cross-ownership in SCA and the focus on hygiene products; the refinement of AGA's operations and investments in its core business; SSAB's stock redemption; the focusing of Skanska's operations through the spin-off of businesses and stock redemption; and the capacity adaptation currently taking place at AGA, Ericsson and Sandvik.

Active ownership is built upon a process focusing on analysis of a company and its operating environment. The research data consists of information about the company and the industry, which is gained through contacts with outside financial analysts, consultants and investment banks as well as from work with other core holdings and Industrivärden's wholly owned, operating subsidiaries. This research phase involves strategic overviews, international benchmarking, and valuation in absolute terms through the discounting of future cash flows as well as in comparison with similar companies. Each of the portfolio's core holdings is monitored by at least one analyst at Industrivärden who specializes in the company and the industry. Industrivärden's analysts are required to form an independent opinion about the company and its stock. The research process provides a continuous flow of documentation for investment decisions as well as for the board work of the companies in which Industrivärden is an active owner.

## The Stock Market in 1998

Growth in value on the Stockholm Stock Exchange was 10 percent in 1998. However, price fluctuations during the year were unusually large. At its peak the market was up by more than 30 percent through mid-July. It hit a low point in early October, when it was down nearly 20 percent from the start of the year. The decline from the highest to the lowest quotation during the year was thus nearly 40 percent and represents one of the sharpest market drops in a long time. The recovery from early October to year-end was also nearly as dramatic.

The decisive influence on the Stockholm Stock Exchange and the world's other bourses during the year came from three crisis waves that washed over the world's financial markets: renewed concerns about the economic situation in Asia, which emerged as a crisis factor back in the summer of 1997; the repercussions of Russia's financial collapse at the end of the summer; and the effects of the breakdown for speculative funds in the early autumn.

The crisis deepened when interest rates for everything but the most secure and liquid government securities rose sharply. The U.S. Federal Reserve Bank shifted its monetary policy and cut interest rates on three occasions during the autumn. This, together with subsequent cuts in Japan and Europe, brought the crisis to a halt. The world's leading stock markets turned upward starting in early October, and the recovery of prices was in many cases just as dramatic as the preceding downturn. Interest rate spreads stabilized at higher levels.

Since 1995, earnings for Sweden's listed companies have remained at an essentially unchanged high level. By the end of 1998, stock prices had more than doubled on average. The more than double-as-high earnings valuations were driven and maintained by market rates of interest during the period, which had been cut by more than half.

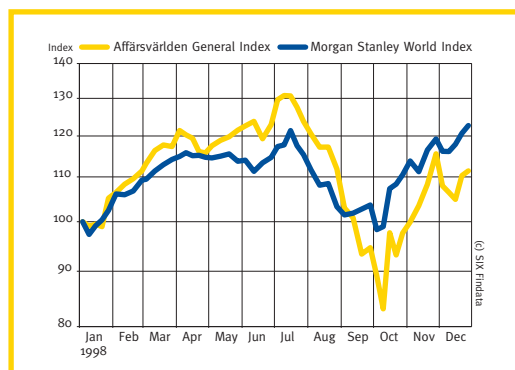
The stock market decline in 1998 was mainly an indication that the market had put a considerably higher price on the risk associated with equity investments – among other things – but also a reaction to lowered corporate earnings forecasts. The lowered forecasts in themselves gave rise to mounting uncertainty, which led to higher risk premiums. Even after the recovery for the market as a whole towards the end of the year, many stocks appear to be valued with high risk premiums, i.e., valued low in relation to fundamental factors.

The total return for the Stockholm Stock Exchange in 1998 was 13 percent. This result probably exceeded investors' required rate of return from the start of the year by a small margin. However, in relation to the total return for other, comparable stock markets, the return was low.

The spread was very large in the returns generated by various sectors and individual stocks

on the Stockholm Stock Exchange during the past year. Growth stocks like telecom and IT companies did best, and cyclicals did worst. A handful of heavy stocks buoyed the index significantly. Of the five heaviest stocks in terms of market value, four outperformed the index in 1998: Ericsson, Astra, H&M and Handelsbanken. An unweighted index for the Stockholm Stock Exchange fell by 10 percent in value in 1998, compared with a gain of 10 percent for the weighted index. Many of the world's bourses were characterized by superior performance for the companies with the largest market caps.

The unusually large swings in stock prices in 1998 entail that the risk associated with the returns offered by



Stockholm Stock Exchange vs. Morgan Stanley World Index, both measured in USD.

stocks and the index was the highest in many years for the Stockholm Stock Exchange. Measured in this manner, risk on the Stockholm Stock Exchange exceeded the average for the world's stock markets in 1998, even though returns were lower for Swedish stocks.

Trading volume on the Stockholm Stock Exchange hit a new record in 1998, SEK 1,830 billion, and exceeded the value of Sweden's gross national product for the first time ever.

### Investment Activities in 1998

The past year entailed a number of deals involving very large amounts and which had major significance on the composition and continued development of the portfolio. In 1998 the combined value of stock purchases was approximately 2 billion kronor, while the combined value of stock sales was also about 2 billion kronor. Together this corresponded to 14 percent of the average portfolio value during the year. The turnover rate for the listed portfolio during the past five years is shown in the diagram at lower right.

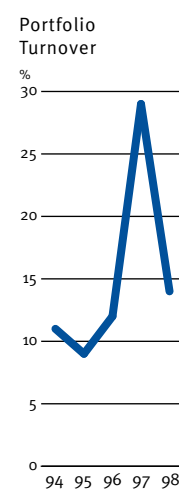
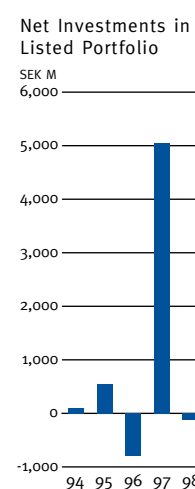
The largest deals during the past year involved the portfolio's core holdings. Industrivärden's investment in Skanska was changed in two steps. First, Industrivärden sold its shares in Drott for SEK 374 M. These were received as a dividend from the holding in Skanska in connection with the streamlining and change of the capital structure. Thereafter a block of shares was acquired in Skanska for SEK 1,190 M. The net investment in Skanska during the year thus amounted to SEK 816 M and made Industrivärden the company's largest owner in terms of votes. The expanded investment in Skanska is interesting in view of the structural changes that are taking place in the company and the current situation in the construction industry. Key factors are also the current level of interest rates and Skanska's limited exposure to global regions with acute financial problems.

The entire holding in PLM was sold in November to the British company Rexam PLC. In connection with this sale, Rexam announced it was making an offer to the other shareholders to acquire PLM. Industrivärden received SEK 1,180 M for its sale, earning a capital gain of SEK 712 M. Under the terms of the agreement, Industrivärden gained the right to receive additional payment should the public offer be raised or if the buyer, within a certain time frame, was to sell the shares for a higher price than that received by Industrivärden. The decision to sell the holding in PLM was based on strategic considerations concerning both PLM and Industrivärden, as well as on an analysis of the PLM group's profitability outlook as an independent, listed company. The sale was part of Industrivärden's strategy of taking an active ownership stance to continuously evaluate the portfolio companies' continued development opportunities and returns on alternative investments.

The medium-term investments were expanded during the year through the purchase of stock in the American pharmaceutical company Pfizer, for a total of SEK 376 M. At year-end Pfizer was the portfolio's largest holding in the pharmaceuticals/health care sector. In addition, stock in the property company Balder, with a market value of SEK 132 M at year-end, was added to the portfolio. The Balder stock was received as an extra dividend from the Handelsbanken holding.

Two medium-term investments were sold in 1998. The holding in Närkebro was sold for SEK 154 M, and the holding in Gambro was sold for SEK 135 M. The Närkebro holding was divested to reduce exposure to real estate. Gambro was sold as part of a reallocation within the pharmaceuticals sector.

In association with the portfolio holdings, put and call options were exercised during the past year. At year-end there were 1,500,000 put options outstanding for Skandia, issued by Industrivärden, with expiration between January and March 1999. In addition, the portfolio



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

included call options, issued by Industrivärden, for all of Industrivärden's 1,430,000 shares in Astra, with expiration in January 1999. The Astra call options were exercised in their entirety by the expiration date in January. The issuance of options fulfills two alternative purposes: it either increases revenues in the portfolio or facilitates purchases and sales of stocks at attractive prices.

One further activity to enhance returns consists of stock-lending from the portfolio. At year-end stocks with a combined market value of SEK 110 M in seven companies were out on loan. Stock lending is conducted against adequate security.

### Price Trend of Portfolio of Listed Stocks

	Change in value 1998, %	Total return, %	Share of port- folio value, %
Ericsson	33	34	31
Handelsbanken	25	29	17
Sandvik	-38	-36	11
SCA	-2	2	11
AGA	-2	1	10
Skandia	66	66	7
Skanska	-32	-11	6
SSAB	-40	-36	3
Pfizer	67	68	1
Volvo	-14	-12	1
Astra	24	26	1
Other stocks (<SEK 200 M)			1
Total	5	7	100

### Portfolio Performance 1998

At year-end 1998 the market value of the listed portfolio was SEK 30,043 M, which exceeded the book value by SEK 17,749 M. Adjusted for purchases and sales, the portfolio appreciated by 5 percent during the year. The index increased by 10 percent. A total of SEK 1,067 M in dividends was received during the year. In addition to cash dividends of SEK 675 M, this amount included SEK 278 M in Drott stock and SEK 114 M in Balder stock. Also, redemption rights were received in SSAB and call options in ABB – in connection with the redemption of Gambro stock – which were sold for SEK 76 M during the year. The total return of the portfolio, i.e., growth in value plus dividends and similar, was 7 percent, compared with 13 percent for the Findata total return index.

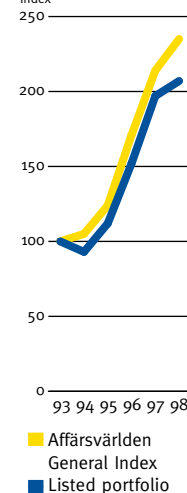
The total returns for the portfolio holdings are shown in the table above. Some of the portfolio's largest holdings performed below the index, which explains why the total return for the portfolio was lower than the corresponding return for the index. Ericsson, Handelsbanken and Skandia generated a better return than the index, however.

From year-end 1998 through February 24, 1999, the adjusted portfolio value as well as the index had increased by 5 percent.

## Price Trend for Listed Portfolio, 1994–98

	1998	1997	1996	1995	1994
Price trend of portfolio, %	5	30	36	20	-7
Index (1993 as base)	207	197	152	112	93
Affärsvärlden General Index, %	10	25	38	18	5
Index (1993 as base)	235	214	171	124	105

Price Trend for Listed Portfolio Index



## Portfolio of Listed Stocks, December 31, 1998

	Number	Market value, SEK M	SEK per share and CPN	Share of portfolio value, %
Ericsson	44,660,000	9,343	49	31
Handelsbanken	14,650,000	5,010	27	17
Sandvik	23,000,000	3,243	17	11
SCA	18,382,000	3,217	17	11
AGA	28,615,000	3,076	16	10
Skandia	17,200,000	2,133	11	7
Skanska <sup>1</sup>	8,463,577	1,904	10	6
SSAB	12,046,600	934	5	3
Pfizer	437,900	448	2	1
Volvo	1,400,000	254	1	1
Astra <sup>2</sup>	1,430,000	236	1	1
Other stocks (<SEK 200 M)		245	1	1
<b>Total</b>		<b>30,043</b>	<b>157</b>	<b>100</b>

<sup>1</sup> 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.

<sup>2</sup> The entire holding in Astra was sold in January, 1999.

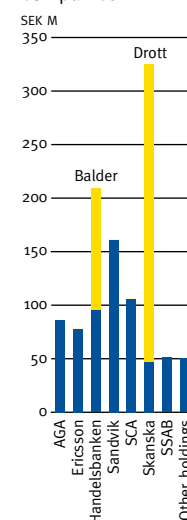
## Core Holdings in the Portfolio of Listed Stocks

The following pages contain a description of the seven companies that make up the core holdings in Industrivärden's portfolio of listed stocks, namely: AGA, Ericsson, Handelsbanken, Sandvik, SCA, Skanska and SSAB.

The total market value of the core holdings on December 31, 1998, was SEK 27 billion, accounting for 89 percent of Industrivärden's portfolio of listed stocks. The combined market capitalization of these seven companies at that same date was SEK 592 billion, accounting for 25 percent of the total value of the Stockholm Stock Exchange.

The chart at right shows the dividends received from the portfolio of listed stocks, which totaled SEK 1,067 M in 1998.

Dividends Received from Listed Companies



The dividend from Skanska includes SEK 278 M in Drott stock; similarly, the dividend from Handelsbanken includes SEK 114 M in Balder stock.

# AGA

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

Holding: 28,615,000 A-shares

Market value on Dec. 31, 1998:  
SEK 3,076 M



← Share of portfolio value: 10%.

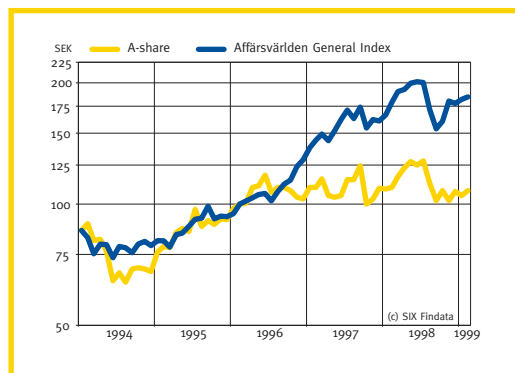
SEK M	1998	1997
Net sales	15,088	14,408
Earnings after financial items	556	1,641
Earnings per share, SEK	1.52	4.51
Dividend per share, SEK	3.00 <sup>1</sup>	3.00

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

Largest owners as per Dec. 31, 1998:	% of votes
BZ Group, Switzerland	27.9 <sup>2</sup>
Industrivärden	20.2
Swedish National Pension Insurance Fund, Fourth Fund Board	9.1
Swedish National Pension Insurance Fund, Fifth Fund Board	5.2
Handelsbanken Pension Foundation	5.1

<sup>2</sup>Of which, Gas Vision 25.6%.

Board members with ties to Industrivärden:  
Tom Hedelius and Clas Reuterskiöld



AGA's stock has performed worse than the General Index during the past five-year period. This is due, among other things, to the dividend of Frigoscandia shares in 1994, which were worth SEK 25 each at the time of the dividend, and lagging profitability from 1996 to 1998. However, in 1998 the stock performed better than for most of AGA's competitors in the international gas market.





AGA is one of the world's leading gas companies. 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 and process industries, and in the health care sector. AGA's primary objective is to offer the market gases and gas mixtures of the right quality in an efficient and secure manner, to work actively to optimize the use of gas, and to develop new applications for the gases.

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

The gas industry is fundamentally stable. This is because a substantial amount of capital would be needed to establish a competitive operation and because customer relationships are often based on long-term contracts. The eight largest companies account for roughly 80 percent of the world's gas sales.

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. The gas market largely follows the trend in industrial production and manufacturing. Market growth has been roughly 1.5 times GNP growth for a number of consecutive years.

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.

### Highlights 1998

- Income after financial items totaled SEK 556 M (1,641). Income for the year was charged with SEK 720 M in structural costs – mainly of a one-time nature – and SEK 255 M for the write-down of assets in Eastern Europe and South America.
- An efficiency-improvement program is expected to have a gradual impact on income during the coming years. In 1998 the decision was made to reduce the number of employees by 1,700. Including the 1,300 employees who have left AGA since mid-1997, the work force reduction is estimated at a total of 3,000, or 25 percent.
- The extensive investment program begun in 1995 is now in its final stages. Capital expenditures decreased to SEK 2,002 M (2,859).
- The Board of Directors proposes a redemption of capital by about SEK 3,000 M.

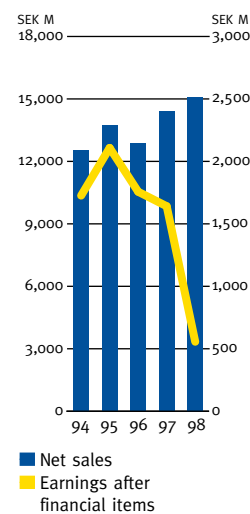
### Assessment of the Company

AGA has had a weak earnings trend in recent years. Profitability is expected to improve as a result of the efficiency-improvement program initiated in 1997 and expanded in 1998.

### AGA's Stock

AGA's stock is listed on the Stockholm Stock Exchange, as well as in London and Switzerland. AGA's Class A shares fell by 2 percent in 1998, and trading volume on the Stockholm Stock Exchange was approximately SEK 13 billion. AGA's market capitalization was SEK 26 billion at year-end 1998.

AGA 1994–98



# Ericsson

Share of votes: 26.4%  
Share of capital: 2.3%

Holding: 43,860,000 A-shares and  
800,000 B-shares<sup>1</sup>

Market value on Dec. 31, 1998:  
SEK 9,343 M



← Share of portfolio value: 31%.

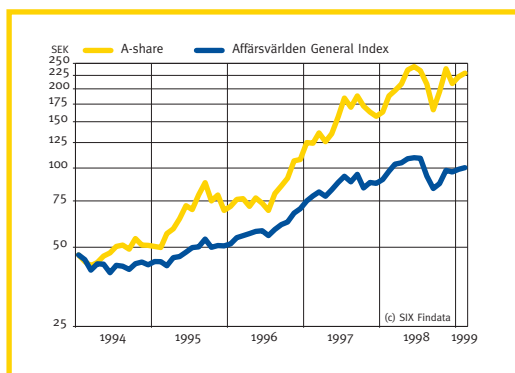
<sup>1</sup>The number of shares was doubled in 1998 as a result of a 1:1 stock dividend. Earnings and dividend per share for 1997 have been adjusted to take into account the stock dividend.

SEK M	1998	1997
Net sales	<b>184,438</b>	167,740
Earnings after financial items, excl. minority interests	<b>18,210</b>	17,218
Earnings per share, SEK	<b>6.66</b>	6.08
Dividend per share, SEK	<b>2.00<sup>2</sup></b>	1.75

<sup>2</sup>Proposed by the Board of Directors.

Largest owners as per Dec. 31, 1998	% of votes
Industrivärden	26.4
Investor	22.2
Wallenberg foundations	16.5
Handelsbanken Pension Foundation	5.6
Skandia Life Insurance Company Ltd.	5.0

Board members with ties to Industrivärden:  
Tom Hedelius and Clas Reuterskiöld



During the past five-year period, Ericsson's stock has outperformed the index and thereby made a significant contribution to the portfolio's return.



Ericsson is a world-leading supplier in telecommunications. The company produces advanced systems and products for wired and mobile telecom systems in private and public networks. Compared with most of its major competitors, Ericsson has the highest percentage of international sales.

The fastest-growing product area is mobile telecommunications, where Ericsson is a world leader with a global market share of nearly 40 percent. Ericsson has experienced very strong growth in volume and earnings during the past five 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.

*Mobile Systems* is undergoing rapid technical development. Moreover, the ongoing development of broadband technology is enabling the use of mobile networks for advanced multimedia services via the Internet.

*Mobile Phones and Terminals* is Ericsson's fastest-growing unit. Of the nearly 300 million mobile telephone subscribers in the world today, about 210 million call in digital networks connected to Ericsson systems. It is estimated that there will be 800 million subscribers in the world within five years.

In *Infocom Systems*, the successful AXE exchange is the world's most widely used telephone system, with installations in 130 countries.

In January 1999 these units were replaced by three business segments focusing on different customer categories. *Network Operators* comprises mobile and wired solutions for tele- and datacommunications in public networks. *Consumer Products* forms the framework for the mobile phone operations. *Business Solutions* is focused on turnkey solutions for communication needs in internal telecommunications networks. Ericsson's strategy is to benefit from the growing demand for wireless communication and Internet-based technology in order to position itself as the global leader in both telecommunications and datacommunications. The long-term target is to grow faster than the industry, or by at least 20 percent a year.

The most important markets ranked by size are China, the U.S., the U.K., Brazil, Italy and Sweden.

### Highlights 1998

- Income after net financial items rose 6 percent to SEK 18,210 M.
- In light of softening global demand in the traditional telecom sector, the decision was made to carry out an extensive cost-reduction program.
- Ericsson has played a central role in the development of the WCDMA standard, which has gained acceptance as the future global standard for mobile multimedia communications.
- A matrix organization, with operations divided into three business segments and four geographic regions, took effect on January 1, 1999. Starting in 1999 Ericsson is being managed from four new corporate offices in addition to its Swedish headquarters. Parts of corporate management, such as the treasury and marketing functions, have been relocated to London.

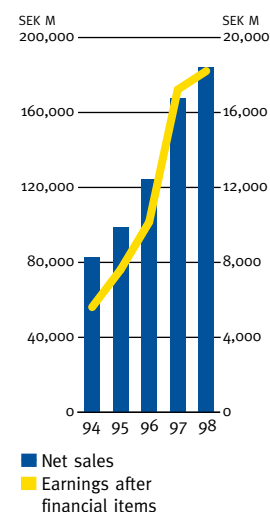
### Assessment of the Company

Ericsson is a world leader in telecommunications and has had high profitability for many consecutive years. Industrivärden believes in continued good development for Ericsson as a result of the company's investments in product development in growth areas, at the same time that a rationalization program is being implemented.

### Ericsson's Stock

Ericsson's stock is listed on the Stockholm Stock Exchange and seven other bourses in Europe and the U.S. Ericsson's Class A shares gained 33 percent in 1998, and trading volume totaled approximately SEK 421 billion on the Stockholm Stock Exchange. Ericsson's market capitalization at year-end 1998 was SEK 379 billion.

Ericsson 1994–98



# Handelsbanken

Share of votes: 6.6%  
Share of capital: 5.6%

Holding: 14,650,000 A-shares

Market value on Dec. 31, 1998:  
SEK 5,010 M



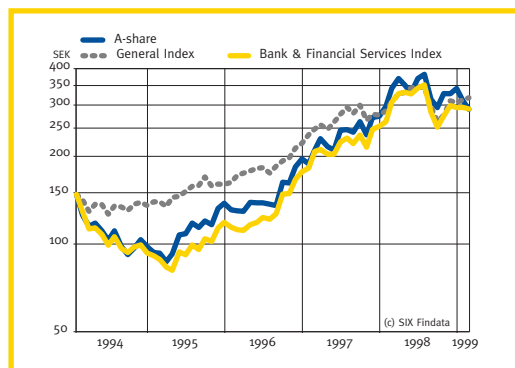
← Share of portfolio value: 17%.

SEK M	1998	1997
Operating income	<b>16,837</b>	15,815
Operating profit	<b>7,711</b>	7,820
Earnings per share, SEK	<b>25.22</b>	25.15
Dividend per share, SEK	<b>8.00<sup>1</sup></b>	6.50

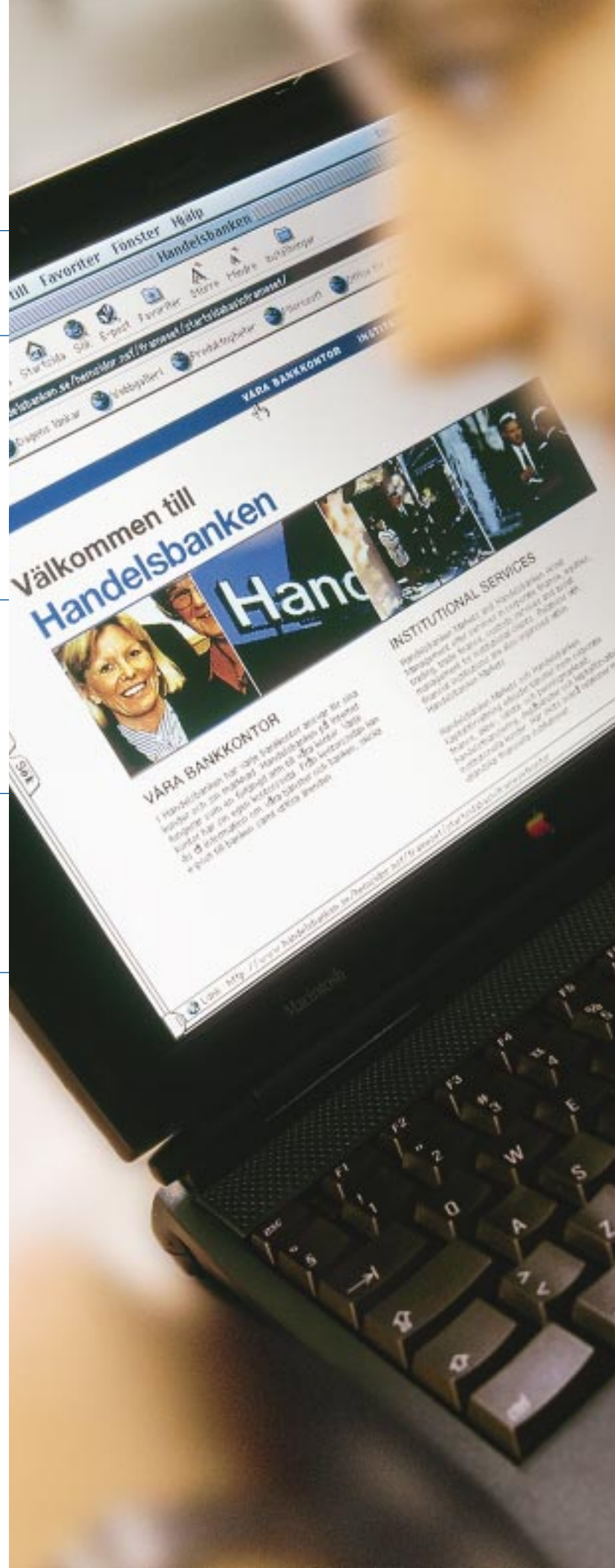
<sup>1</sup>Proposed by the Board of Directors.

Largest owners as per Dec. 31, 1998	% of votes
Oktogonen Foundation	10.0
Industrivärden	6.6
Föreningssparbanken mutual funds	5.7
Swedish National Pension Insurance Fund, Fourth Fund Board	4.3
SPP	4.2

Board members with ties to Industrivärden:  
Bo Rydin, Tom Hedelius and Clas Reuterskiöld



Handelsbanken was the bank that fared best in Sweden's financial crisis in the early 1990s. During the past five-year period Handelsbanken's stock has outperformed the General Index as well as the bank index.



Handelsbanken is a leading commercial bank in the Nordic countries. Operations are strongly decentralized. The main idea is that the organization and work methods should be based on the branches' responsibility for individual customers and not on central units' responsibility for product areas or market segments. The branches are responsible for ensuring that customers receive coordinated, expert services from all units in the Handelsbanken Group. This decentralized approach has made Handelsbanken an industry leader with respect to cost-effectiveness and lending quality.

Handelsbanken is a universal bank covering all forms of banking services, including traditional corporate transactions, investment banking and trading, as well as personal banking and life insurance. The acquisition of Stadshypotek in 1997 substantially strengthened Handelsbanken's position in the Swedish home mortgage market while at the same time enabling the bank to offer its new customers complementary lending and other banking services. Handelsbanken's market shares rose in 1998 in both the personal and commercial banking segments.

The Nordic countries are Handelsbanken's home market. With 480 offices in Sweden, 15 in Norway, 15 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 some 20 units outside Sweden.

Handelsbanken's overall objective is to have higher profitability than the weighted average of other listed Swedish, Norwegian and Finnish banks. Priority shall always be given to profitability before volume.

Handelsbanken has low sensitivity to market disruptions due to minor exposure in emerging markets, little sensitivity to fluctuations in the stock market, and a low level of sensitivity to interest-rate movements, since most of its bond portfolio and real estate holdings have been divested.

### Highlights 1998

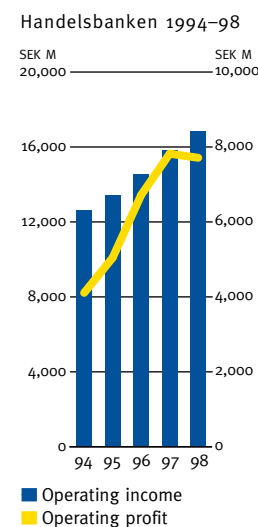
- Net interest income in the office operations rose 7 percent. The increase is mainly attributable to growth in volume of mortgage loans following the acquisition of Stadshypotek in early 1997, and to a 21 percent rise in the average volume of bank lending. Loan losses were low.
- A one-time dividend was made of Fastighets AB Balder (formerly Stadshypotek Fastigheter), which had a market value of SEK 2 billion at the time of the dividend. Prior to the separation Balder acquired most of Handelsbanken's office properties.
- For the twenty-seventh year in a row Handelsbanken reported a better return on equity than the weighted average of Sweden's other listed commercial banks.

### Assessment of the Company

Handelsbanken has consistently developed its business concept of decentralized responsibility for customers, which has given the bank the industry's best average profitability for several years. Industrivärden expects continued favorable development for Handelsbanken.

### Handelsbanken's Stock

Handelsbanken's stock is listed on the Stockholm Stock Exchange. The share price rose 25 percent in 1998, and trading volume totaled approximately SEK 33 billion. Handelsbanken's market capitalization was approximately SEK 81 billion at year-end 1998.



# Sandvik

Share of votes: 11.7%  
Share of capital: 8.9%

Holding: 23,000,000 A-shares

Market value on Dec. 31, 1998:  
SEK 3,243 M



← Share of portfolio value: 11%.

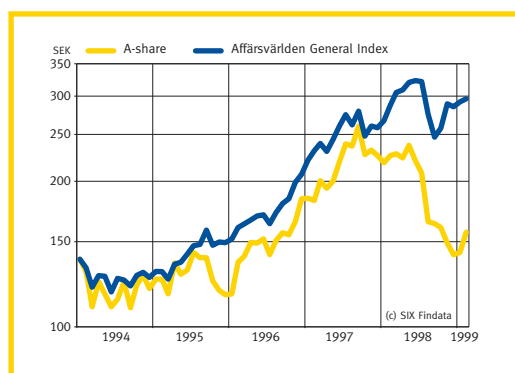
SEK M	1998	1997
Net sales	<b>42,400</b>	34,119
Earnings after financial items	<b>3,935</b>	4,205
Earnings per share, SEK	<b>8.10</b>	10.15
Dividend per share, SEK	<b>7.00<sup>1</sup></b>	7.00

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

Largest owners as per Dec. 31, 1998: % of votes

Föreningssparbanken mutual funds	15.2
Industrivärden	11.7
Swedish National Pension Insurance Fund, Fourth Fund Board	9.8
Handelsbanken Pension Foundation	5.5
SPP	4.5

Industrivärden's board representative:  
Clas Reuterskiöld



Industrivärden acquired the Sandvik holding in April 1997. Since the time of the acquisition, the stock has performed below the index mainly due to falling demand in 1998 from markets in Asia and eastern Europe.



Sandvik is an international materials technology engineering company and a global leader in metal-working, rock-drilling tools and cemented carbide blanks. The company is a leading supplier of stainless steel tube, strip, wire and bar, specialty metals, and resistance heating materials. Sandvik is also a leading manufacturer of saws and other hand tools as well as conveyor and process systems. Industrial consumables account for about two-thirds of Sandvik's product portfolio, with capital goods accounting for the remaining third. Sandvik is one of Sweden's largest export companies, with operations around the globe. Proximity to customers is a key element in Sandvik's philosophy. This is achieved through 300 subsidiaries and representation in 130 countries.

Operations are conducted through six separate business units – Tooling, Mining and Construction, Specialty Steels, Hard Materials, Saws and Tools, and Process Systems – and through the partly owned subsidiary Seco Tools (61 percent). Each business unit 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 aimed at improving productivity and quality, creating time savings, and reducing costs for customers and the Group's own operations in the areas of materials and surface-coating technology, product and application solutions, production and process technology, and information and logistics systems. Sandvik invests more than 1.5 billion kronor a year on R&D.

Continued business growth is an important objective for Sandvik. This will be achieved mainly through a combination of organic growth and acquisitions in existing business areas.

Sandvik's principal financial goal is to generate an attractive capital return and value growth for the shareholders. The dividend shall amount to at least half of earnings per share over a business cycle.

### Highlights 1998

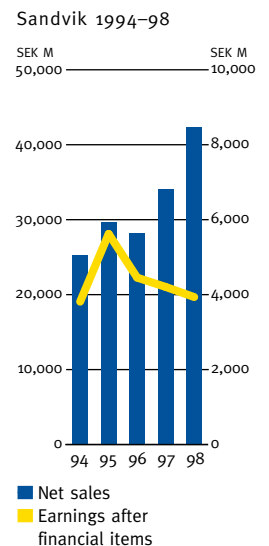
- Invoiced sales rose 1 percent for comparable units, calculated at constant exchange rates. Invoiced sales in Asia and Australia fell 12 percent due to weak economic development in those regions.
- Earnings after financial items fell 6 percent to SEK 3,935 M (4,205). Net financial items fell by SEK 500 M due to an increase in debt in 1997, totaling SEK 6 billion, to finance company acquisitions and the stock redemption program. A charge of SEK 400 M was taken against earnings for lower steel prices and an adjustment in the value of the nickel inventory. The financial crises in Russia, South America and Asia had a negative earnings impact of approximately SEK 300 M.
- The number of employees will be reduced by about 2,300, or 6 percent, before year-end 1999. Restructuring charges in 1998 amounted to SEK 400 million.

### Assessment of the Company

The Sandvik holding was acquired in spring 1997, adding one of Sweden's most successful engineering companies to the listed portfolio. The earnings drop in 1998 is mainly attributable to falling demand in Sandvik's important markets. Rationalization measures that have been taken should lead to an earnings improvement.

### Sandvik's Stock

Sandvik's stock is listed on the Stockholm Stock Exchange. The share price fell 38 percent in 1998, and trading volume totaled approximately SEK 37 billion. Sandvik's market capitalization was SEK 36 billion at year-end 1998.



# SCA

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

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

Market value on Dec. 31, 1998:  
SEK 3,217 M



← Share of portfolio value: 11%.

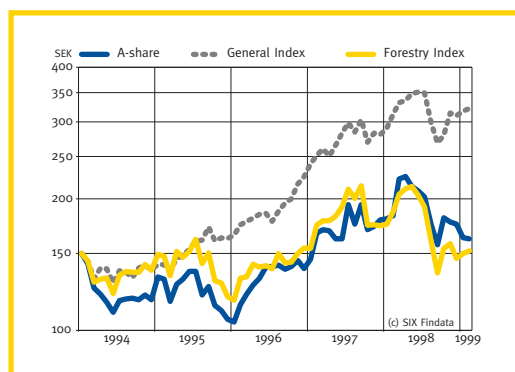
SEK M	1998	1997
Net sales	<b>61,273</b>	58,595
Earnings after financial items	<b>5,169</b>	4,457
Earnings per share, SEK	<b>17.07</b>	13.98
Dividend per share, SEK	<b>6.50<sup>1</sup></b>	5.75

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

Largest owners as per Dec. 31, 1998	% of votes
Industrivärden	24.1
Custos	20.1
Handelsbanken <sup>2</sup>	9.9
Swedish National Pension Insurance Fund, Fourth Fund Board	5.9
Skandinaviska Enskilda Banken <sup>2</sup>	5.0

<sup>2</sup>Pension foundations, employee foundations and funds.

Board members with ties to Industrivärden:  
Bo Rydén, Tom Hedelius and Clas Reuterskiöld



During the past five years SCA's stock has performed below the index, but better than the forestry index.





SCA is an integrated paper company that manufactures hygiene products, packaging and graphic paper. Refined products for individual consumers, institutions, and industry and trading are developed to meet the customers' specific needs.

Containerboard, corrugated board, and hygiene products – such as tissue paper, incontinence products, feminine hygiene products and diapers – account for roughly 70 percent of sales.

SCA's business concept involves achieving profitability from a base of high value-added products, with a strong focus on minimizing consumption of natural resources. More than 90 percent of the company's products are made of renewable and recyclable material. SCA uses equal quantities of recycled fibers and fresh wood fiber in its production.

SCA's strategy is to increase its range of high value-added products and to actively pursue product development and customer adaptation to further strengthen its leading market position. This strategy lays the foundation for satisfactory, sustained profitability.

SCA's financial target is that net debt over a business cycle should amount to 0.7 times reported shareholders' equity. In addition, the cash flow should amount to 35 percent of net debt. Both of these are measured over a business cycle and should be allowed to vary – among other things, in connection with major acquisitions. This variation should be within the range of 0.7-1.0 times the applicable debt-equity ratio and 30-35 percent with respect to cash earnings relative to net debt. With the target debt-equity ratio, in 1999 the required return is 11 percent on book shareholders' equity and 12 percent on capital employed. The aim is to exceed these levels.

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

### Highlights 1998

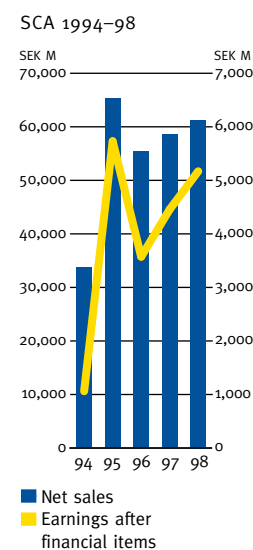
- In the packaging segment, SCA acquired the corrugated board division of the British company Rexam for SEK 2.6 billion. The acquisition is in line with SCA's strategic objective of increasing its share of the European corrugated board packaging market to at least 20 percent. The acquired operations complement SCA's current business, geographically as well as in terms of market segments.
- In the area of hygiene paper, SCA continued its global expansion through company acquisitions in Europe, Asia and Southeast Asia.
- Earnings after financial items improved by 16 percent to SEK 5,169 M. A strong earnings improvement was noted for the Graphic Paper business unit as a result of higher prices and greater volumes.

### Assessment of the Company

SCA's strategy of gradually increasing the share of high value-added products has led to a positive and stable earnings trend in recent years. Industrivärden foresees continued favorable opportunities for earnings improvement.

### SCA's Stock

SCA's stock is listed on the Stockholm Stock Exchange and the London Stock Exchange. The stock is also available to U.S. investors through an American Depositary Receipt program. The share price fell 2 percent in 1998, and the trading volume totaled approximately SEK 20 billion, of which SEK 14 billion was on the Stockholm Stock Exchange. SCA's market capitalization was SEK 35 billion at year-end 1998.



# Skanska

- Share of votes: 29.9%
- Share of capital: 7.4%

- Holding: 5,575,689 A-shares and 2,887,888 B-shares

Market value on Dec. 31, 1998:  
SEK 1,904 M



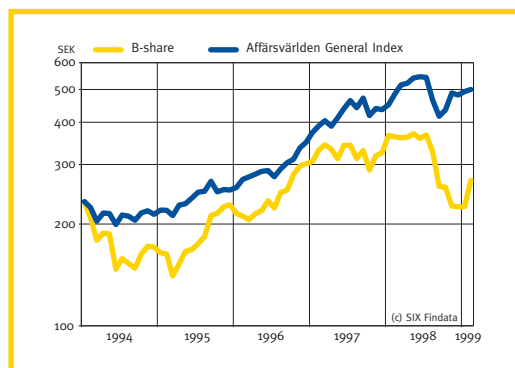
← Share of portfolio value: 6%.

SEK M	1998	1997
Net sales	<b>63,935</b>	54,847
Earnings after financial items	<b>4,825</b>	11,025
Earnings per share, SEK	<b>24.43</b>	62.60
Dividend per share, SEK	<b>12.00<sup>1</sup></b>	11.00

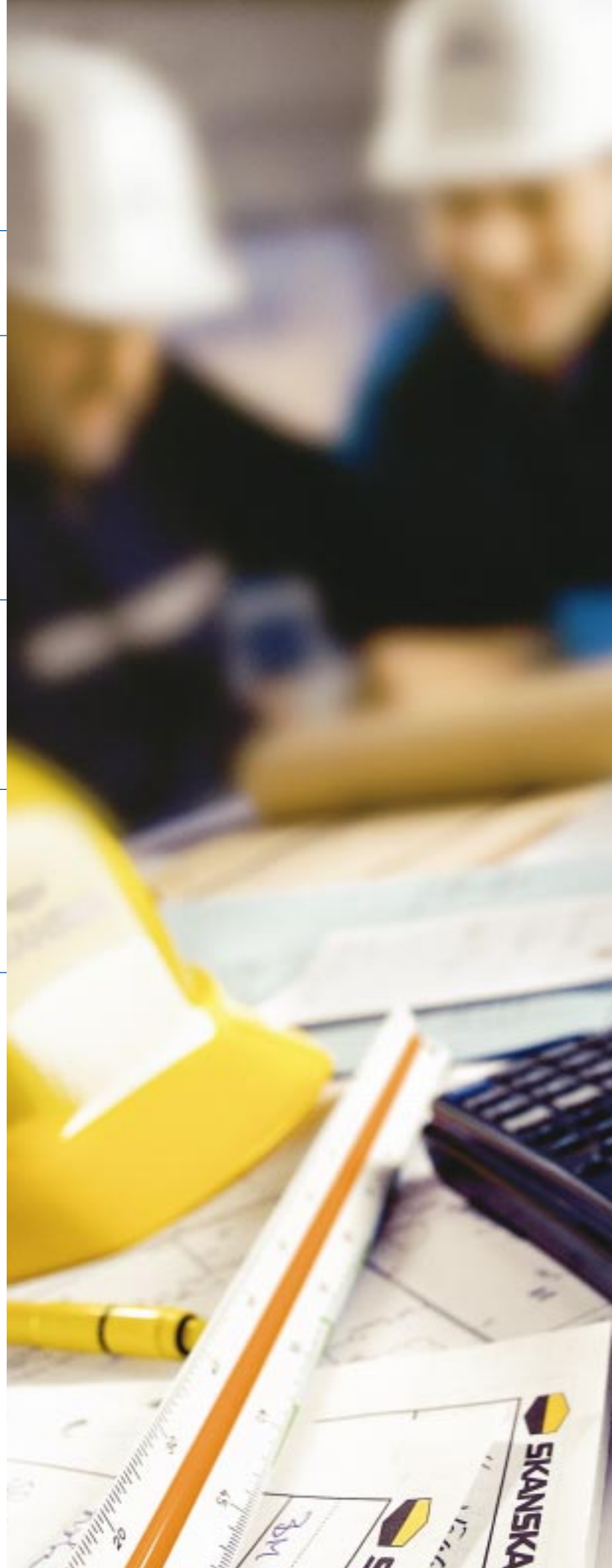
<sup>1</sup>Proposed by the Board of Directors.

Largest owners as per Dec. 31, 1998:	% of votes
Industrivärden	29.9
Inter IKEA	10.1
Föreningssparbanken mutual funds	7.8
Handelsbanken Pension Foundation	4.6
Swedish National Pension Insurance Fund, Fourth Fund Board	4.3

- Board members representing Industrivärden:  
Bo Rydén and Clas Reuterskiöld



Skanska's stock has performed below the index during the past five years, partly due to a one-time dividend of Drott shares, which were worth SEK 65 each at the time of the dividend in September 1998.



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.

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 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 about 70 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 are conducted in four business areas: Skanska Sweden, Skanska Europe, Skanska USA and Skanska Project Development and Real Estate. The three geographic business areas are responsible for the Group's building construction and civil engineering services in their respective markets. The fourth business area, Skanska Project Development and Real Estate, is responsible for identifying and developing real estate and infrastructure projects, which generate new construction assignments for Skanska. The combined competence as construction company, real estate manager and project developer represents value-added. Skanska owns stock in SKF and Scancem with a combined market value of SEK 7.2 billion at year-end 1998.

Skanska's goal is to be one of the leading players in its principal markets in construction-related services and development of projects and real estate.

Skanska's strategy is to continue its successful internationalization, mainly through continued growth in the U.S. and expansion in the European markets. In 1998 and early 1999 Skanska acquired construction companies in the U.S., Switzerland and Argentina.

### Highlights 1998

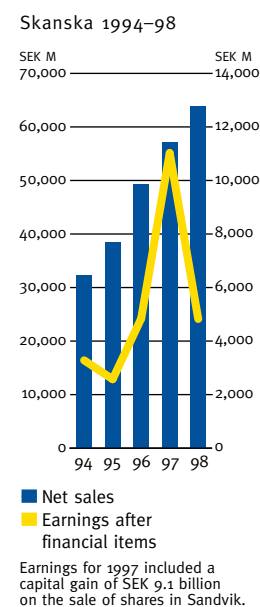
- Custos sold its entire shareholding to Industrivärden and Inter IKEA. Industrivärden is now Skanska's largest shareholder.
- All shares in the property company Drott were distributed to Skanska's shareholders. Shareholders' equity in Skanska decreased considerably as a result of the SEK 5 billion stock redemption in 1997 and the extra dividend of Drott in 1998 with real property at an estimated market value of approximately SEK 10 billion.
- Following the acquisition of the Tidewater group from Hanson PLC, Skanska is one of the five largest construction companies in the U.S.
- Skanska received its largest single order ever, for a light rail system at New York's JFK Airport. The order is worth SEK 4.8 billion.
- Earnings after net financial items, excluding the result of sales of shares and other items affecting comparability, increased by 63 percent to SEK 3,146 M for comparable units.
- In a settlement proposal with the European Commission, Skanska has undertaken to dispose of its holding in Scancem and encourage Scancem to dispose of its cement operations in Finland.

### Assessment of the Company

Skanska's overcapitalization has decreased in recent years through a stock redemption and the dividend of a property company. Several of Skanska's major listed shareholdings are slated for divestment. Profitability will be improved by focusing on the core construction and project development business.

### Skanska's Stock

Skanska's stock is listed on the Stockholm Stock Exchange. The share price fell 32 percent in 1998 and trading volume totaled approximately SEK 16 billion. Skanska's market capitalization was approximately SEK 26 billion at year-end 1998.



# SSAB

- Share of votes: 13.5%  
Share of capital: 10.7%

- Holding: 11,400,000 A-shares and 646,600 B-shares

Market value on Dec. 31, 1998:  
SEK 934 M



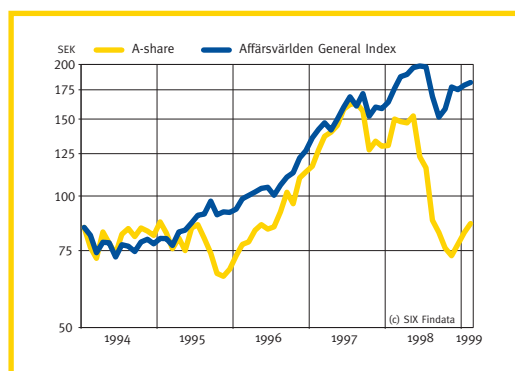
← Share of portfolio value: 3%.

SEK M	1998	1997
Net sales	<b>17,835</b>	17,474
Earnings after financial items	<b>1,424</b>	1,906
Earnings per share, SEK	<b>8.20</b>	10.40
Dividend per share, SEK	<b>4.50<sup>1</sup></b>	4.50

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

Largest owners as per Dec. 31, 1998	% of votes
Industrivärden	13.5
Föreningssparbanken mutual funds	11.1
Swedish National Pension Insurance Fund, Fourth Fund Board	7.5
LKAB	5.7
Skandia	4.4

- Industrivärden's board representative:  
Carl-Erik Feinsilber



SSAB's business is characteristically cyclical. From the time Industrivärden acquired this stock in 1994, it has performed below the index, mainly due to the sharp decline during the second half of 1998, which was caused by lower demand and falling prices.



SSAB is one of the most efficient and profitable steel companies in Europe. For several years the company has been working according to a determined niche strategy aimed at making the group a leading manufacturer of certain, selected steel types. The product program in the steel operations is concentrated on steel sheet and plate. The steel sheet product line includes hot-rolled and cold-rolled sheet, as well as metal- and organic-coated sheet. The plate product line includes ordinary commercial steel as well as high-strength steel and abrasion-resistant steel. The share of high-strength steel in both the sheet steel and plate product programs has increased gradually.

SSAB specializes in high-strength products in the sheet steel segment and on quenched steels in the plate segment, where it has a world-leading position.

Sheet steel is used primarily in the engineering and construction industries. Plate is used for construction machinery, mining equipment and bridges, among other things.

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

Plannja manufactures profiled steel and aluminum building sheet. SSAB Hardtech manufactures press-hardened safety components for the automotive industry. Dickson pre-finishes sheet steel. Tibnor accounts for a large share of steel sales in the Swedish market.

Sales outside Sweden amount to approximately 50 percent of total.

### Highlights 1998

- Earnings after financial items decreased by 25 percent to SEK 1,424 M.
- Steel consumption leveled out in western Europe and the U.S., and declined in Asia, which led to falling prices and sagging profitability during the second half of the year.
- The decision was made to invest SEK 850 M in the concentration of steel production in Luleå to one blast furnace, entailing a substantial rationalization.
- Redemption of one-eighth of the company's shares for SEK 3,305 M.

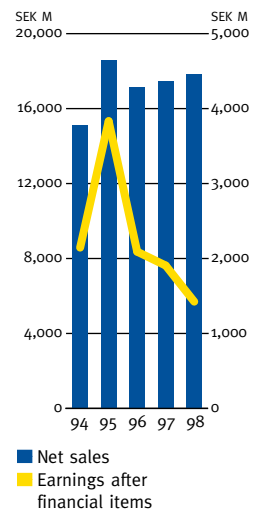
### Assessment of the Company

The trend in the international steel industry turned sharply downward in 1998, leading to deteriorating profitability in the industry. Due to SSAB's successful specialization on certain types of steel, the earnings decline was relatively limited.

### SSAB's Stock

SSAB's stock is listed on the Stockholm Stock Exchange. The share price fell 40 percent in 1998 and trading volume totaled approximately SEK 8 billion. SSAB's market capitalization was approximately SEK 9 billion at year-end 1998.

SSAB 1994-98



As a holding company Industrivärden must make demands on the environmental efforts of its wholly owned subsidiaries as well as 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 – from the standpoint of their respective operating conditions – that take the following areas into account:

- **The market** The companies shall be responsive to customers' preferences and 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 all have their own detailed environmental plans. Follow-up of the achievement of set targets is 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 subsidiaries' ongoing environmental work and current environmental issues, an environmental inventory was taken in 1997. The result of this inventory formed the basis of the subsidiaries' daily work on environmental matters, where the emphasis has been placed on formulating environmental policies and targets. All the subsidiaries have formulated their own environmental policies and set up environmental targets. Work on obtaining environmental certification according to ISO 14001 is currently under way at Maskin AB Rapid and Isaberg Rapid.

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

Through board representation Industrivärden acts to ensure that the listed companies that make up the core portfolio adopt environmental policies that actively decrease the impact on the natural environment.

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.

AGA's corporate environmental policy is based on the International Chamber of Commerce's Business Charter for Sustainable Development. During 1998 a review was finalized of the subsidiaries' safety and environmental management based on an international system that AGA has further developed internally. One of AGA's environmental objectives is for the company to introduce an environmental management system that meets the requirements of the ISO 14001 international standard in all western European countries before the year 2000. This will allow the iden-



tification of environmental impact and adoption of environmental targets so that systematic improvements can be implemented.

AGA's greatest effort on behalf of the environment takes place at its customers through their use of the possibilities of gas technology. Eighty percent of the Process Industry business unit's gas applications reduce environmental impact for the users. In the manufacture of paper pulp, oxygen and ozone bleaching are now established processes. Oxygen can clean rivers, and ozone can quickly remove harmful, ill-smelling and poisonous substances. Carbon dioxide improves drinking water and cleans wastewater.

**Ericsson** requires general environmental certification according to ISO 14001 by the year 2000 at the latest. This applies to all units that run operations which, to a discernible degree, can influence the environment.

Information technology, with its low consumption of energy and low general effects on the environment, might well replace or make more effective the activities in society that are totally dependent on fossil fuels. It is against this background that Ericsson has established the environmental goal of saving energy at every step of its operations.

Along with several other major suppliers, Ericsson has carried out pilot projects for collecting and scrapping outmoded mobile telephones in Sweden and Great Britain.

The company has developed instructions for the use of chemically problematical substances that have been classified as banned matter and are not acceptable in Ericsson's products, and substances that should be phased out in due time.

**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. Environmental demands are raised when negotiating purchases of equipment and subcontracting.

Handelsbanken's environmental policy states that, when granting loans to companies whose operations may entail environmental risks or in any other way be affected by environmental considerations, it is important that the bank analyze the borrower's risk situation. An opinion on the borrower's focus on environmental matters can be gained by investigating whether it has certified its operations in accordance with any generally accepted standard.

**Sandvik's** environmental philosophy is a natural part of the Group's overall business activities. Decisions related to business activities that affect the environment are bound by considerations of what is ecologically justified, technically possible and economically reasonable. Sandvik's goal is to minimize consumption of energy and scarce resources and the use of materials that are harmful to humans and the environment.

A minimum requirement is that Sandvik shall comply with applicable laws and agreements with respect to the exterior environment and the work environment, and follow good industrial practice in the countries where it operates. Sandvik is working to get common environmental requirements and standards established internationally.

**SCA's** environmental policy is based on the principles that SCA assumes responsibility for the environment, that all decisions must include environmental considerations, that environmental responsibility shall be 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. Moreover, SCA's customers shall receive the best foundation on which to be able to market their operations and products as environment-friendly.

SCA's aim is to reduce the use of nonrenewable and nonrecyclable resources in the company's production and distribution, both in terms of material and energy. EMAS (the EU's Eco Management and Audit Scheme) and ISO 14001 have been introduced at several plants and will be introduced at all pulp and paper mills by year-end 2000 at the latest. SCA's forestry operations are certified according to ISO 14001 and FSC (the Forest Stewardship Council). In addition, SCA has adopted its own system for monitoring resource utilization in all business areas, with a special emphasis on transports.

**Skanska's** environmental policy emphasizes the importance that everyone in the Group be environmentally-minded in their jobs. Skanska's level of ambition is higher than mere compliance with existing laws. Improving its environmental know-how can generate new business opportunities.

No later than the end of 1999, all operations in the Skanska Group are required to have established environmental management systems for identifying possible environmental problems, following them up and integrating environmental work in business development.

All operations are to be environmentally certified no later than year-end 2000.

**SSAB's** goal is to maintain a leading position in the steel industry in the environmental compatibility of its products and processes. The company carries out active environmental work with the aim of developing and securing the operations in order to reduce as much as possible the impact on the surrounding environment. This work is carried out by integrating environmental work in the other operations and by training employees and suppliers.

With the significantly decreased emissions from the manufacturing processes, environmental work is being focused more and more on rendering existing processes and environmental facilities more efficient and in improving the environmental quality of products.

SSAB applies many significant portions of EMAS and ISO 14001. The current environmental guidelines system will be supplemented in order to meet the requirements for EMAS registration in the year 2000.



The Inductus group includes four companies comprising a total of some 25 subsidiaries in Sweden and abroad. The average number of employees at year-end 1998 was approximately 2,600, of whom 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.

## Organization

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 organization 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. Thoroughly implemented, decentralized management is especially important for enabling decisions to be made as near to the market as possible.

Corporate management focuses on strategic planning, business management and control using a highly developed planning and reporting system. Board work in the subsidiaries is directed by a chairman from Industrivärden and involves the active participation of outside directors.

## Internationalization

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

## Market Position

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

## Sales and Earnings

Invoiced sales amounted to SEK 2,869 M (2,776), an increase of 5 percent for comparable units. Measured at constant exchange rates, invoiced sales rose 3 percent.

Earnings after financial items totaled SEK 182 M (157). The return on capital employed was 21 percent (19).

Besam increased invoiced sales in most major markets. Earnings, which were charged with structural costs for capacity reduction in France, Germany and Sweden, were level with the preceding year. Hydrauto increased invoiced sales and improved its earnings, although profitability was unsatisfactory. Isaberg Rapid had continued strong volume growth, especially for copying machine staplers, and posted an earnings gain of SEK 20 M. Isaberg Rapid's profitability is very satisfactory. Maskin AB Rapid increased invoiced sales but noted an earnings decline.



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

Of the Inductus group's invoiced sales, 13 percent pertained to Sweden, 4 percent to the other Nordic countries, 52 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. Two of the four subsidiaries exceeded this target in 1998. For the group as a whole, the return on capital employed was 21 percent (19).

### Inductus in Summary

SEK M	1998	1997 <sup>1</sup>	1996	1995	1994
Net sales	2,869	2,776	4,064	4,466	4,033
Of which, outside Sweden, %	87	87	76	71	73
Operating earnings	207	176	268	319	346
Earnings after financial items	182	157	257	295	327
Return on capital employed, %	21	19	18	21	22
Capital expenditures	105	107	210	175	138
Visible equity ratio, %	34	32	34	47	48
Average number of employees	2,595	2,600	3,840	4,279	3,967
Of whom, outside Sweden	1,368	1,406	1,950	1,943	1,842

<sup>1</sup>Thorsman was divested in 1997.

### Inductus Companies Worldwide

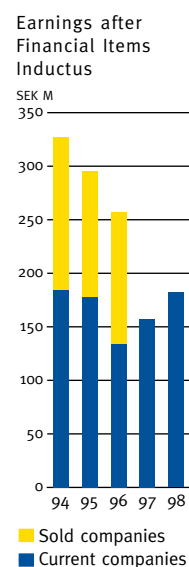
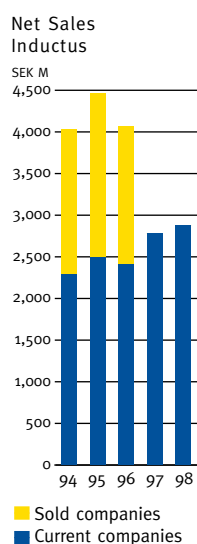
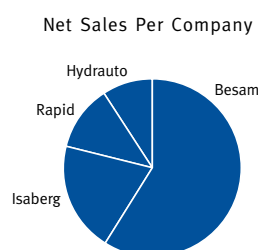
<b>Besam</b>	<b>Hydrauto</b>
Sweden 🏭	Sweden 🏭
Austria	
Belgium	<b>Isaberg Rapid</b>
Czech Republic	Sweden 🏭
Denmark	China <sup>1</sup> 🏭
Finland	France 🏭
France	Germany
Germany 🏭	Netherlands
Hungary	U.K.
Italy	
Netherlands	<b>Maskin AB Rapid</b>
Poland	Sweden 🏭
Portugal	France
Russia	Germany
Singapore	USA 🏭
Spain	
U.K.	
USA 🏭	

<sup>1</sup>A joint venture was established in 1998 with an ownership share of 51%.

🏭 Production.

## The Inductus Companies

SEK M	1998	1997	1996	1995	1994
<b>Besam</b>					
Net sales	<b>1,692</b>	1,707	1,525	1,590	1,505
Operating earnings	<b>112</b>	111	90	119	111
Earnings after financial items	<b>101</b>	103	82	112	105
Average number of employees	<b>1,437</b>	1,520	1,497	1,434	1,327
<b>Hydrauto</b>					
Net sales	<b>263</b>	259	205	246	197
Operating earnings	<b>-2</b>	-15	-11	16	11
Earnings after financial items	<b>-6</b>	-18	-15	14	9
Average number of employees	<b>238</b>	238	238	246	212
<b>Isaberg Rapid</b>					
Net sales	<b>574</b>	479	388	381	368
Operating earnings	<b>81</b>	59	36	27	43
Earnings after financial items	<b>76</b>	56	34	24	38
Average number of employees	<b>658</b>	581	547	553	551
<b>Maskin AB Rapid</b>					
Net sales	<b>340</b>	331	295	272	220
Operating earnings	<b>18</b>	26	30	28	33
Earnings after financial items	<b>14</b>	22	27	26	32
Average number of employees	<b>262</b>	261	242	239	201





Peter Aru, President, Besam

• **Besam**

**Products**

Besam is active in door automation, which encompasses automated swinging and sliding doors with impulse sensors, and revolving doors. The product line also includes special products, such as folding doors and balance doors. Aftermarket sales – i.e., service and maintenance of installed systems – account for a growing share of business.

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 banks, administration buildings, hotels, nursing homes and other public areas. In some countries they are also used widely by individual shop owners.

**Markets**

The use of door automation has risen steadily for many years. The market for door automation is expected to continue expanding geographically as well as in terms of application areas. However, the previous rapid growth has slowed during the 1990s, and today door automation is a mature market. Growth is mainly in the areas of service and maintenance.

As the world’s largest supplier of door automation, Besam is penetrating all major markets in the Western world and is the market leader in Sweden, the U.S., the U.K. and the Benelux countries. 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 92 percent of sales and 79 percent of the work force in 1998.

**Competitors**

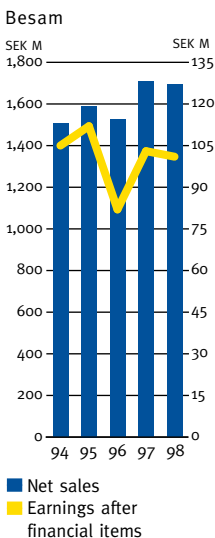
The chief competitors are in the U.S. (Stanley, Door-O-Matic, Horton and Gyro-Tech), Germany (Dorma and Geze) and Switzerland (Tormax and Record). Japan also has a number of manufacturers, although their products are sold primarily in Asia. A common characteristic of most of the major competitors is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

**The Besam Concept**

The Besam concept is built on four cornerstones:

- centralized product development
- all component manufacture is handled by subcontractors
- centralized marketing strategy
- product sales and service through 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.



## Production

Besam has assembly plants in Sweden, Germany and the U.S. Components are manufactured by subcontractors.

## Expansion Track

Besam's strategy is to augment organic growth with strategic acquisitions. Door openers are viewed increasingly as a mature product, while the aftermarket is the most expansive part of the business. Continued expansion of the service organization is thus essential for sustained earnings growth.

## Business Trend 1998

Invoiced sales rose 2 percent for comparable units. Measured at constant exchange rates, the increase was 1 percent. The increase is attributable primarily to service of installed systems.

Earnings after financial items totaled SEK 101 M (103) and were charged with a total of SEK 24 M in costs for capacity reduction in France, Germany and Sweden, and for the sale of the subsidiary in Switzerland. The return on capital employed met the profitability requirement of 20 percent.



The entrance doors at Stockholm's Museum of Modern Art, which was inaugurated in 1998, are opened by door automation delivered by Besam.

A logging crane with hydraulics from Hydraulto.



## • Hydraulto

### Products

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

### Competitors and Markets

Hydraulto is one of Europe's leading suppliers of OEM cylinders and is a market leader in the mobile hydraulics segment.

The main competitors in Sweden for cylinders are Voac and Dacke Hydraulik, while for valves the chief competitors are Parker, Nordhydraulik and Olsberg. Competitors outside Sweden include the German companies Pacoma, Montan and Hengstler, the British companies Cascade and Edbro, and the French companies Case and LeDuc.

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

### Development Potential

In an effort to strengthen its international profile, Hydraulto is investing in a new product area, construction cylinders. 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 Hydraulto access to Kayaba's design and production technology, which meets high quality standards.

In 1998 Hydraulto signed a contract for the supply of construction cylinders to Fiat Hitachi. Hydraulto thereby supplies the three largest manufacturers of construction machinery in Europe.

### Production

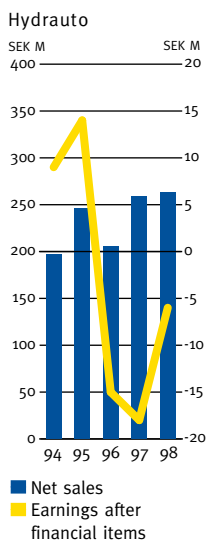
Manufacturing takes place at the Hydraulto's plant in Skellefteå, Sweden.

### Business Trend 1998

Hydraulto's sales rose 2 percent. An extended production stoppage at a major customer in connection with an extensive production changeover and inventory reduction caused a break in Hydraulto's deliveries. Earnings after financial items improved by SEK 12 M to SEK -6 M (-18).



Olov Larsson, President, Hydraulto



## • Isaberg Rapid

### Products

Isaberg Rapid's products consist of staplers and staples for the office and tool markets, and are marketed under the Rapid brand. 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 Rapid develops staplers that are built into copying machines, among other things.

### Markets

Isaberg Rapid 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. Europe and North America are the most important markets. 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. The company's Rapid brand is well known and has the broadest market coverage in the world in its product area.

### Competitors

The industry consists of a handful of global, brand-name producers with strong positions in their home markets, like Arrow, Bostitch, Max, Rexel, and Swingline. A number of markets are also served by local manufacturers.

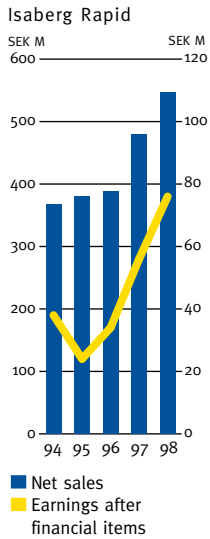
### Development Potential

By establishing own sales companies in France, Germany, the U.K. and the Netherlands, Isaberg Rapid has created a potential in recent years for greater market shares and thus higher production volume. Although most sales are made through local distributors, which are also responsible for service, additional growth in the future is being sought by establishing direct contact with end-customers. An example can be seen in pan-European office-supply chains, which are a driving force behind the changing distribution pattern. Isaberg Rapid has been designated as a preferred supplier of office staplers by several pan-European customers.

Pelle Holm, President, Isaberg Rapid



Manufacturing of staple cassettes for copying machine staplers.



Karl-Valter Fornell, President, Maskin AB Rapid



Product development is a cornerstone in Isaberg Rapid’s strategy of enabling volume growth. Isaberg Rapid has developed a specially designed electric stapler with a patented staple cassette for incorporation into office copying machines. Deliveries of these copying machine staplers have risen sharply in recent years, along with aftermarket sales of staple cassettes. Continued favorable growth is anticipated for both copying machine staplers and staple cassettes.

Isaberg Rapid has good opportunities to achieve continued volume and earnings growth through the development of new products and distribution forms. A joint venture started in China during the year adds a line of low- and medium-priced products, which will enable penetration of new market segments.

**Production**

Isaberg Rapid’s staplers are manufactured in Hestra and Östra Frölunda, Sweden, while staples are manufactured in Lutzelbourg, France.

**Joint Venture in China**

In 1998 Isaberg Rapid signed a joint venture agreement with one of China’s largest manufacturers of staplers and staples in Shanghai. The objective is to penetrate the Far East market and add a low-price line of products to Isaberg’s existing product program. Isaberg Rapid has a 51 percent stake in the company.

The joint venture is strictly a production company. Sales in China are conducted through the Chinese part-owner, while exports to other markets are handled by Isaberg Rapid. The joint venture took over operations from the Chinese manufacturer on October 1, 1998.

**Business Trend 1998**

Sales rose 20 percent, mainly for copying machine staplers. Measured at constant exchange rates, sales rose 19 percent.

Earnings after net financial items improved by SEK 20 M to SEK 76 M (56). The return on capital employed exceeded the profitability requirement of 20 percent by a wide margin. The earnings improvement is mainly attributable to higher volumes.

• **Maskin AB Rapid**

**Products**

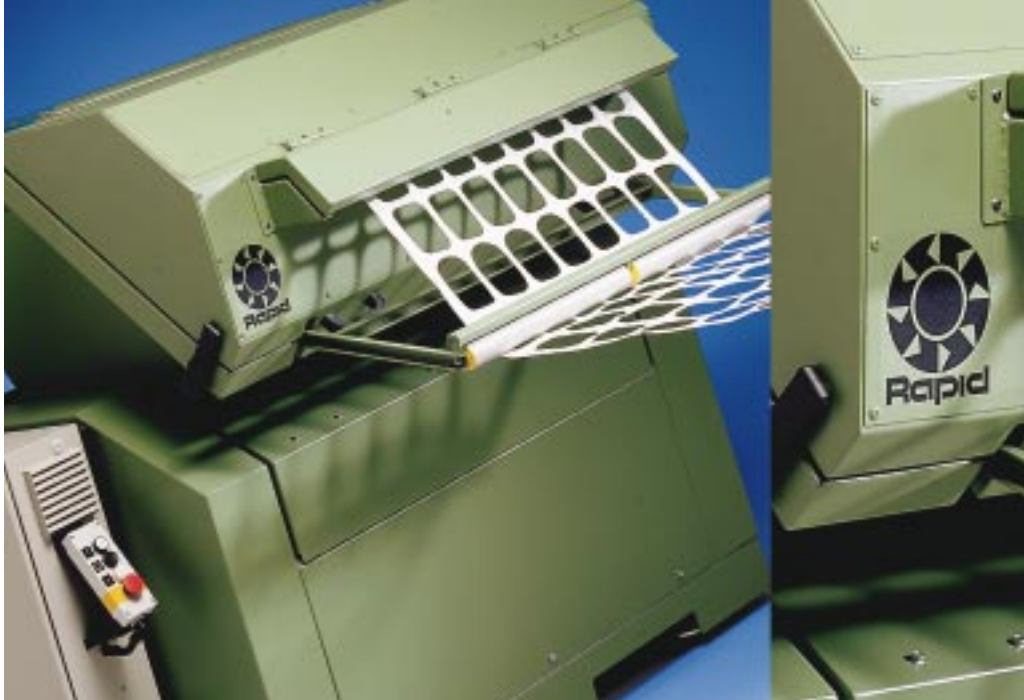
Maskin AB Rapid’s products consist of small and medium-sized thermoplastic granulating mills, which are used to grind production waste from molds and rejected plastic products. The milled plastic is returned directly to the manufacturing process, thereby eliminating waste.

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 efficient recycling of residual and scrapped plastic.

**Markets**

Maskin AB Rapid is the European market leader and one of the leaders in the U.S. In addition to the parent company in Sweden, Maskin AB Rapid has subsidiaries in Germany, France, and the U.S., and a sales office in Singapore.





Maskin AB Rapid's granulating mills are used to recycle production waste in the plastics industry. Pictured here is residual plastic from the pressing of lids for margarine packages.

### Competitors

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

### Development Potential

Maskin AB 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. Maskin AB Rapid is working to further strengthen its market positions by successively adding larger mills to the product line.

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

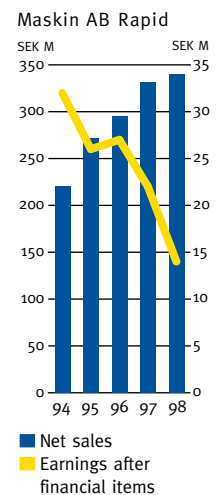
### Production

Maskin AB Rapid's mills are manufactured in Sweden at plants in Bredaryd and Värnamo. The company has two assembly plants in the U.S., in Illinois and in South Carolina.

### Business Trend 1998

Invoiced sales rose 3 percent during the year, despite a weak market trend in Asia. Earnings after financial items amounted to SEK 14 M (22). During the past five years the average return on capital employed has exceeded the 20 percent profitability requirement by a solid margin.

Earnings were charged with higher costs, mainly for the upgrading of computer systems and new product development. Actions are being taken to reduce costs.





Indutrade is a trading company whose business concept is to provide imported components to industrial companies with a repetitive need, and in connection with this, to 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 and the Benelux countries. The company is also active in Norway, the Baltic countries and Russia.

## Structural Changes 1998

In Sweden Indutrade acquired Teamtrade Processteknik AB, which conducts trading in pressure and flow control valves and instruments. In Finland Indutrade acquired Vipmek and Kiinnike-Kolmio, both of which conduct agency activities for fasteners for the construction industry and which together have sales of approximately SEK 45 M.

In Belgium, Indutrade sold CCMP – with agencies for silicones and adhesives – for a capital gain of SEK 9 M.

## Organization and Management Philosophy

Indutrade's management philosophy is to delegate earnings responsibility to the companies or units that generate the business. The group's large companies are organized in product-oriented divisions with full profit responsibility. Indutrade can thus be said to comprise some 40 units, each with sales of between SEK 10 M and 120 M, and employing between 5 and 70 people.

One of Indutrade's objectives is that the group's return on capital employed should amount to at least 20 percent over a business cycle. The return in 1998 was 31 percent (25).

A further 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 agencies. New companies and agencies must fit into Indutrade's business concept.

## Products and Markets

Indutrade's business involves the import and sale of technical components to industrial companies in the Nordic countries and the Benelux countries with a repetitive need. The products are targeted at local industry, and the offering of consumer and capital goods is negligible. Business is conducted in the following nine product areas:

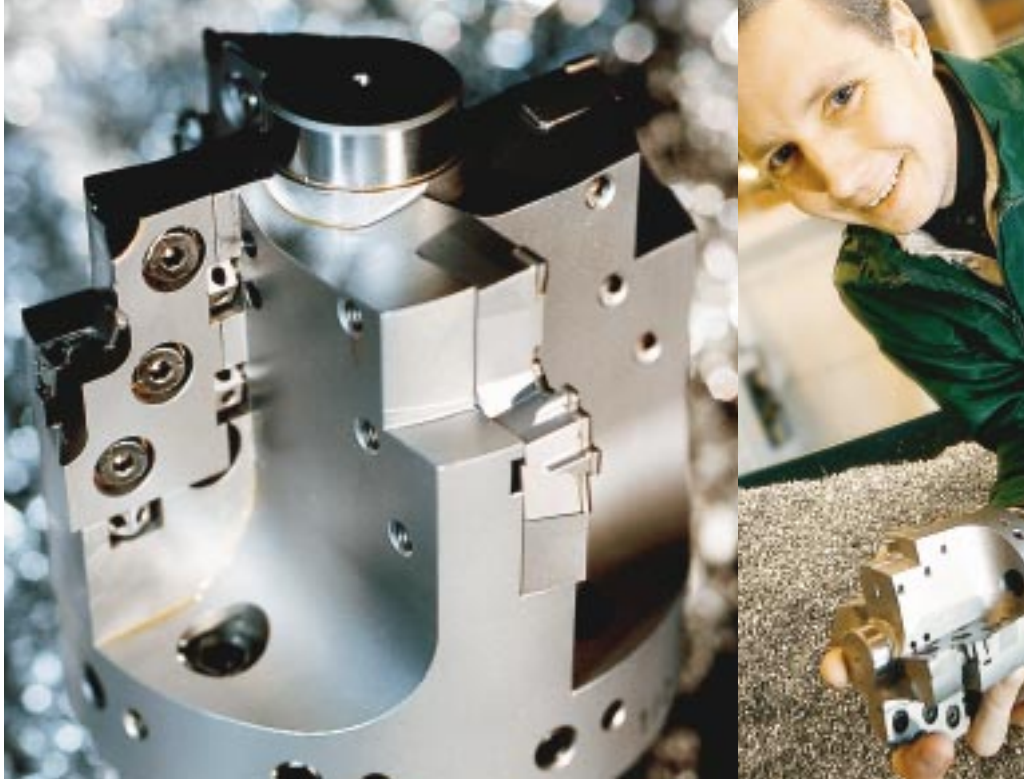
- filtration and process/water technology
- adhesives, sealants, lubricants and silicones
- fasteners and assembly technology
- tools and machine shop technology
- structural plastics
- compressed air, pneumatics and control technology
- transmissions and materials handling
- electrical components.
- 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

Board of Directors:  
 Clas Reuterskiöld (Chairman), Carl-Olof By, Jan Carlborg, Eva Färnstrand, Anders Jonsson, Eva Mauritzsson, Börje Nordenö and Gunnar Tindberg (President)



Gunnar Tindberg, President



Diamond tools delivered by Colly for high-speed milling of aluminum gearbox parts.

group's companies also have efficient workshops where customers can receive technical service and product improvement assistance, mainly in plastics.

The suppliers are mainly 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.

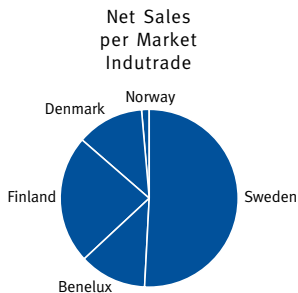
The customers of the Indutrade companies represent a cross-section of industry, with a concentration in the engineering and process industries. The pharmaceutical and food industries are growing customer groups.

### **Sales and Earnings**

Business was strong in Finland and Sweden. Denmark showed slight growth, while demand in the Benelux countries was roughly unchanged. In Finland and Sweden, favorable order bookings were generated primarily by the forestry, telecom and pharmaceutical industries.

In total, invoiced sales in 1998 amounted to SEK 1,662 M, an increase of 11 percent. New agencies, and acquired and sold companies accounted for 3 percent, net, of this amount, and thus the increase for comparable units was 8 percent. Price increases were negligible.

Indutrade's earnings after financial items totaled SEK 152 M (118). The Finnish companies benefited from a strong business trend. The Swedish companies also had favorable earnings development.



## Sweden

The Swedish operations accounted for 52 percent (48) of Indutrade's sales and are thus the largest single market. Business is conducted in all product areas except compressed air, pneumatics, control technology, and glass and packaging technologies.

The good economy for the export industry led to a rise in sales for the Swedish operations, from SEK 738 M to SEK 864 M, a 9 percent increase over 1997 for comparable units.

Earnings after financial items improved by SEK 10 M to SEK 95 M.

## Denmark

Compressed air, pneumatics and control technology, and structural plastics make up the bulk of operations in Denmark. Business is also conducted in the areas of filter and process technology, adhesives, sealants and silicones, fasteners technology, and tools and machine shop technology. Indutrade's invoiced sales in Denmark amounted to SEK 209 M, compared with SEK 202 M in 1997. Earnings after financial items rose from SEK 7 M to SEK 12 M.

## Finland and the Baltic Countries

In Finland, Indutrade operates in all of its business areas except for electrical components and glass and packaging technology. 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 strong throughout the year. Invoiced sales totaled SEK 358 M, an increase of 19 percent compared with 1997. For comparable units the increase was 8 percent. Earnings after financial items improved from SEK 32 M in 1997 to SEK 41 M.

In recent years Indutrade has established subsidiaries in Estonia, Latvia, Lithuania, and St. Petersburg, Russia. These are mainly active in water technology. Total invoiced sales from these companies amounted to SEK 30 M (13).

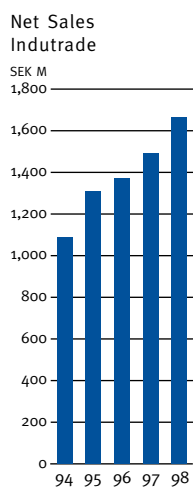
## Benelux

In the Netherlands Indutrade is represented by the Hitma group. Hitma's companies are active in filtration and process technology, and glass and packaging technology.

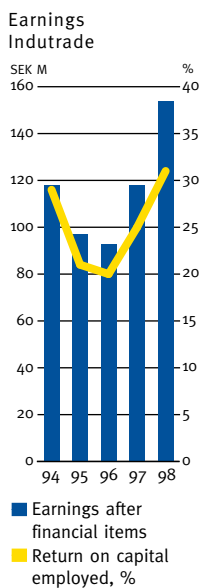
Demand in the Dutch market remained steady. Total invoiced sales in the Benelux region amounted to SEK 201 M (246), and earnings after financial items were SEK 17 M (16). For comparable units, earnings increased by SEK 2 M.

## Indutrade in Summary

SEK M	1998	1997	1996	1995	1994
Net sales	<b>1,662</b>	1,492	1,372	1,311	1,087
Of which, outside Sweden, %	<b>54</b>	55	49	59	62
Operating earnings	<b>151</b>	122	99	105	127
Earnings after financial items	<b>152</b>	118	93	97	118
Return on capital employed, %	<b>31</b>	25	20	21	29
Capital expenditures	<b>39</b>	22	30	41	27
Visible equity ratio, %	<b>37</b>	35	35	30	31
Average number of employees	<b>766</b>	713	694	617	563



Net sales rose by an average of 11 percent per year during the period 1994-98.



Earnings for 1994 included SEK 30 M in capital gains.

## **Indutrade in Sweden**

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### **Filtration and process technology**

Alnab  
GPA  
Euronord  
Ventim  
Colly Filtreringsteknik

### **Adhesives, sealants, lubrication and silicones**

G A Lindberg

### **Fasteners and assembly technology**

Colly Components  
Mandorf

### **Tools and machine shop technology**

Colly Company  
Edeco Tool  
ETP  
G A Lindberg  
Mandorf

### **Structural plastics**

Carlsson & Möller  
Colly Components

### **Transmissions and materials handling**

Bengtssons  
ETP

### **Electrical components**

Novum

## **Indutrade in Denmark**

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### **Filtration and process technology**

Colly Company  
Granzow

### **Adhesives, sealants, lubrication and silicones**

Diatom

### **Fasteners and assembly technology**

Diatom

### **Tools and machine shop technology**

Diatom

### **Structural plastics**

Linatex

### **Compressed air, pneumatics and control technology**

Granzow

## **Indutrade in Finland**

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### **Filtration and process technology**

Colly Company  
Lining  
YTM

### **Adhesives, sealants, lubrication and silicones**

Colly Company  
YTM

### **Fasteners and assembly technology**

Colly Company  
Vipmek  
Kiinnike-Kolmio

### **Tools and machine shop technology**

Maanterä  
Novatool

### **Structural plastics**

Colly Company

### **Transmissions and materials handling**

Lining

## **Indutrade in Norway**

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### **Filtration and process technology**

GPA

## **Indutrade in the Netherlands**

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### **Filtration and process technology**

Hitma

### **Glass and packaging technology**

Aluglas

## **Indutrade in the Baltic countries**

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### **Filtration and process technology**

Industek, Estonia  
Indutek, Latvia  
Indutek, Lithuania

### **Tools and machine shop technology**

Industek, Estonia

## **Indutrade in Russia**

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### **Filtration and process technology**

Indutek

### **Transmissions and materials handling**

Indutek

The Board of Directors and President of AB Industrivärden (publ.) herewith submit their annual report and consolidated accounts for the 1998 fiscal year.

## Changes in Group Composition

Indutrade acquired Teamtrade Processteknik AB, which conducts trading in flow pressure control valves, and the Finnish companies Vipmek and Kiinnike-Kolmio, both of which conduct agency operations for fasteners. During the year the Belgian company CCMP was sold, with agencies for silicones and adhesives. Within Inductus Besam sold its subsidiary in Switzerland.

## Net Sales and Earnings

Consolidated net sales amounted to SEK 4,580 M (4,275), an increase of 7 percent compared with the preceding year. Sales outside Sweden accounted for 75 percent (76) of total.

Earnings before financial items totaled SEK 2,346 M (2,551). This includes capital gains on sales of listed stocks, totaling SEK 974 M (273), and gains of SEK 29 M (1,592) on sales of other stocks. Earnings a year earlier included capital gains of SEK 1,374 M and SEK 224 M on the sales of the subsidiaries Thorsman and Fundament, respectively.

Dividends from the portfolio of listed stocks increased by SEK 641 M to SEK 1,067 M (426). Extra dividend income, totaling SEK 392 M, was received from Handelsbanken and Skanska, and pertained to stock in Balder, worth SEK 114 M, and in Drott, worth SEK 278 M, respectively. In addition, the first dividend was received from Sandvik, totaling SEK 161 M.

Net financial items amounted to SEK -198 M (-147). Earnings after financial items totaled SEK 2,148 M (2,404).

The interest expense for CPN loans was SEK 101 M (84). After taxes of SEK -129 M (-46), reported net earnings for the year were SEK 1,918 M (2,274).

A breakdown of the Group's net sales and earnings after financial items by business unit is provided in a table along with the Income Statement.

## Capital Expenditures

Capital expenditures during the year in tangible fixed assets amounted to SEK 157 M (144), and scheduled depreciation totaled SEK 122 M (125).

## Financing and Equity Ratio

The Group's liquid assets amounted to SEK 1,200 M (291). Interest-bearing liabilities and provisions rose by SEK 829 M to SEK 4,550 M (3,721), including SEK 132 M (126) in provisions for pensions. Of total interest-bearing liabilities, SEK 1,709 M (1,655) consisted of long-term loans, including SEK 55 M (94) in utilized credit lines. Net borrowing decreased by SEK 80 M to SEK 3,350 M.

The visible equity ratio was 64 percent (66), while the adjusted equity ratio, which includes surplus values of listed stocks, was 83 percent (85).

## Employees

The average number of employees in the Group was 3,428 (3,332), of whom 1,797 (1,791) were outside Sweden. A breakdown of the number of employees, and information on wages, salaries, remuneration and social security costs for the Board, the President, and other employees, are provided in notes 2 and 3.

## Portfolio of Listed Stocks

The value of the portfolio of listed stocks at year-end was SEK 30,043 M (28,682). The hidden reserve was SEK 17,749 M (17,635). Purchases of listed stocks during the year totaled SEK 2,027 M (5,872) and sales totaled SEK 2,147 M (821). Stocks were thus sold for a net amount of SEK 120 M (1997: net purchase of SEK 5,051 M). Sales from the portfolio of listed stocks resulted in a capital gain of SEK 974 M (273).

Adjusted for purchases and sales, the value of the portfolio grew by 5 percent during the year (30). The Affärsvärlden General Index gained 10 percent during the same period (25).

Dividend income amounted to SEK 1,067 M (426) and included extra dividends in the form of stock in Balder, worth SEK 114 M, and in Drott, worth SEK 278 M. Dividend income also included SEK 161 M from Sandvik, the first dividend to be received from that shareholding, which was acquired in 1997.

Major purchases consisted of 2,801,324 Skanska A, 1,362,888 Skanska B, 1,000,000 Sandvik A, 437,900 Pfizer and 400,000 Volvo A. Major sales consisted of 10,000,000 PLM, 4,299,385 Drott A, 1,240,500 Närkebro and 1,500,000 Gambro A. Industrivärden sold its entire holding in each of these companies. In addition, Industrivärden sold 550,000 shares of Volvo B stock, 200,000 shares of Handelsbanken A stock and all 11,290,000 redemption rights in SSAB.

## Inductus

Inductus' net sales amounted to SEK 2,869 M (2,776), an increase of 5 percent for comparable units. Measured at constant exchange rates, the increase was 3 percent for comparable units. Earnings after financial items totaled SEK 182 M (157).

The return on capital employed was 21 percent (19).

*Besam's* net sales increased by 2 percent for comparable units. Earnings were largely unchanged despite structural costs for capacity reduction in France, Germany and Sweden.

*Isaberg Rapid* had continued good volume growth, mainly for newly developed products. Earnings were considerably better than a year earlier.

*Maskin AB Rapid* showed increased net sales but a drop in earnings compared with the preceding year. A cost-reduction program has been initiated.

*Hydrauto* showed a rise in net sales and posted improved earnings. However, profitability remained unsatisfactory.

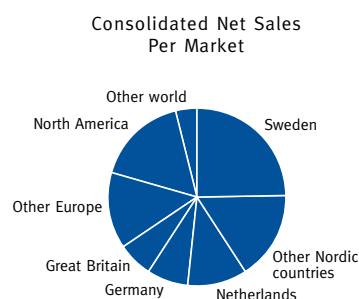
Inductus' capital expenditures in tangible assets amounted to SEK 105 M (107), and scheduled depreciation totaled SEK 86 M (83).

## Indutrade

Indutrade's net sales amounted to SEK 1,662 M (1,492), an increase of 11 percent. The trend was particularly favorable in Sweden and Finland.

Earnings after financial items totaled SEK 152 M (118). The earnings increase is attributable primarily to the Swedish and Finnish subsidiaries. The return on capital employed was 31 percent (25).

Indutrade's capital expenditures in tangible assets amounted to SEK 39 M (22). Scheduled depreciation totaled SEK 25 M (24).



## 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 1,067 M (426). Including income of SEK 981 M (1,254) from sales of stocks, and administrative costs of SEK 67 M (52), earnings amounted to SEK 1,981 M (1,628).

After net financial items of SEK -117 M (-11), earnings totaled SEK 1,864 M (1,617). After costs for CPN interest, totaling SEK 101 M (84), and taxes of SEK 57 M (0), a net profit of SEK 1,706 M (1,533) is reported for the year.

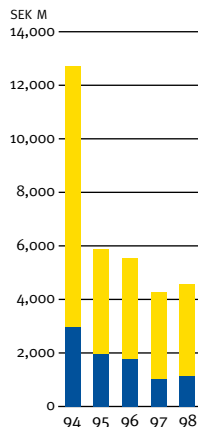
## Status of Computer Systems Ahead of the Millennium Shift

At the beginning of 1999 the Industrivärden Group conducted an audit of its computer systems' status in order to prevent defective handling of date-related information in connection with the coming millennium shift. The audit showed that the computer systems have a high standard of quality. Conceivable problems that could arise in connection with the changeover from 1999 to 2000 are intended to be remediated before mid-year 1999.

Possible problems among the Group's suppliers in this respect are both difficult to assess and influence. However, after a review nothing has come to Industrivärden's attention which indicates that any serious problems will arise.

In summary, no adverse consequences pertaining to the Group's products, production, administration or sales are expected to arise as a result of the millennium shift.

Consolidated Net Sales

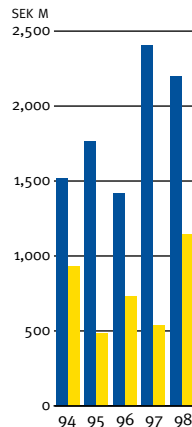


■ Outside Sweden  
■ Sweden

The following structural changes took place during the period:

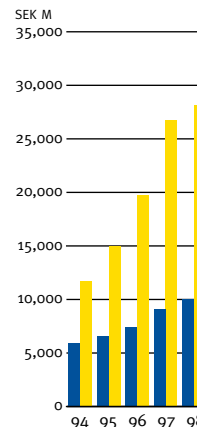
**1995:** Sale of PLM  
**1996:** Sale of Elit Fönster  
**1997:** Sale of Thorsman and Fundament

Consolidated Earnings



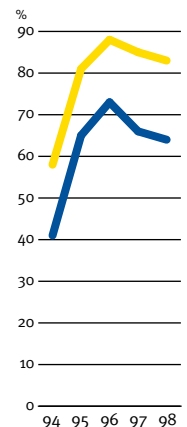
■ Earnings after financial items  
■ Earnings excl. sale of stocks

Group Shareholders' Equity



■ Adjusted shareholders' equity  
■ Visible shareholders' 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 8,177 M, of which SEK 1,918 M represents net earnings for the year. Appropriations of SEK 1 M (0) to restricted reserves are proposed.

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

Retained earnings	SEK 5,845 M
Net earnings for the year	<u>SEK 1,706 M</u>
	SEK 7,551 M

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

To shareholders, a dividend of SEK 4.50 per share, totaling	SEK 773 M
To be carried forward	<u>SEK 6,778 M</u>
	SEK 7,551 M

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, February 26, 1999

Bo Rydin  
*Chairman*

Inga-Britt Ahlenius

Carl-Erik Feinsilber

Tom Hedelius  
*Vice Chairman*

Lennart Nilsson

Björn Wolrath

Clas Reuterskiöld  
*President and CEO*

Our Auditors' Report was submitted on March 1, 1999.

Bertil Edlund  
*Authorized Public Accountant*

Ulf Pernvi  
*Authorized Public Accountant*

## ● Consolidated Income Statement

SEK M	Note	1998	1997
Net sales	1	4,580	4,275
Cost of goods sold		-3,057	-2,858
<b>Gross earnings</b>		<b>1,523</b>	1,417
Development costs		-83	-73
Selling costs		-741	-726
Administrative costs		-431	-373
Other operating income and expenses		8	15
<b>Operating earnings</b>	1-4, 6	<b>276</b>	260
Dividend income from listed stocks	17	1,067	426
Capital gains on sales of listed stocks	7	974	273
Capital gains on sales of other stocks	5, 8	29	1,592
<b>Earnings before financial items</b>		<b>2,346</b>	2,551
Interest income		17	68
Interest expense (excl. CPN interest)		-232	-195
Other financial income	9	23	4
Other financial expenses	10	-6	-24
<b>Earnings after financial items</b>		<b>2,148</b>	2,404
CPN interest	11	-101	-84
<b>Earnings before taxes</b>		<b>2,047</b>	2,320
Tax on earnings for the year	12	-129	-46
<b>Net earnings for the year</b>		<b>1,918</b>	2,274

### Breakdown by Business Unit

SEK M	Net sales		Earnings after financial items	
	1998	1997	1998	1997
Inductus	2,869	2,776	182	157
Indutrade	1,662	1,492	152	118
Dividends from listed stocks	—	—	1,067	426
Other, net	49	7	-256	-162
	<b>4,580</b>	4,275	<b>1,145</b>	539
Capital gains on sales of listed stocks	—	—	974	273
Capital gains on sales of other stocks	—	—	29	1,592
	<b>4,580</b>	4,275	<b>2,148</b>	2,404

### Comments on the Consolidated Income Statement

Consolidated net sales rose 7 percent. Measured according to the preceding year's exchange rates, the increase was 5 percent.

Operating earnings include SEK 144 M (144) in depreciation.

Dividend income from listed stocks rose by SEK 641 M to SEK 1,067 M (426). Of the year's dividend income, a total of SEK 392 M consisted of one-time dividends in the form of stock in the property companies Balder and Drott. Dividend income also included SEK 161 M from Sandvik, the first dividend to be received from that shareholding, which was acquired in 1997.

Capital gains on sales of listed stocks increased from SEK 273 M to SEK 974 M. The single-largest capital gain was SEK 712 M on the sale of stock in PLM, for SEK 1,180 M.

Capital gains on sales of other stocks than listed stocks totaled SEK 29 M (1,592). The figure for the preceding year included total gains of SEK 1,598 M on sales of subsidiaries, including SEK 1,374 M for Thorsman and SEK 224 M for Fundament.

Net financial items for the Group amounted to SEK -198 M (-147). Average indebtedness was slightly higher than in 1997, while the average level of interest paid on borrowings was slightly lower.

Earnings after financial items decreased from SEK 2,404 M to SEK 2,148 M, mainly due to the fact that total capital gains on sales of stocks were SEK 862 M lower than in the preceding year. Excluding sales of stocks, earnings after net financial items totaled SEK 1,145 M (539), as shown in a separate table. Inductus' earnings after financial items improved from SEK 157 M to SEK 182 M, while Indutrade's earnings improved from SEK 118 M to SEK 152 M.

The tax charge for the year was SEK -129 M (-46). Of this total, company taxes accounted for SEK -143 M (-56) and deferred taxes for SEK 14 M (10). Of company taxes, SEK -88 M (-4) pertained to Swedish taxes and SEK -55 M (-52) to foreign taxes.

## ● Consolidated Balance Sheet

SEK M	Note	12/31/98	12/31/97	SEK M	Note	12/31/98	12/31/97
<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	94	91	Capital stock	22	859	858
Intangible rights	13	7	7	Restricted reserves		938	930
<b>Total intangible fixed assets</b>		<b>101</b>	98			<b>1,797</b>	1,788
<b>Tangible fixed assets</b>				<b>Unrestricted shareholders' equity</b>			
Land and buildings	14,15	350	351	Unrestricted reserves		6,259	4,612
Machinery	14	162	139	Net earnings for the year		1,918	2,274
Equipment	14,15	185	224			<b>8,177</b>	6,886
Construction in progress	14	9	2	<b>Total shareholders' equity</b>		<b>9,974</b>	8,674
<b>Total tangible fixed assets</b>		<b>706</b>	716	<b>Convertible participating debenture loan</b>			
<b>Financial fixed assets</b>					11	448	450
Shares in listed companies	16,17	12,294	11,047	<b>Provisions</b>			
Shares and participations in other companies	16,17	88	55	Provision for pensions	23	132	126
Other long-term receivables		71	62	Provision for taxes		27	47
<b>Total financial fixed assets</b>	18	<b>12,453</b>	11,164	Other provisions	25	164	145
<b>Total fixed assets</b>		<b>13,260</b>	11,978	<b>Total provisions</b>	24	<b>323</b>	318
<b>Current assets</b>				<b>Long-term liabilities</b>			
Inventories	19	718	701	Long-term liabilities, interest-bearing	15,26	1,709	1,655
<b>Current receivables</b>				Long-term liabilities, noninterest-bearing		—	18
Accounts receivable, trade		878	848	<b>Total long-term liabilities</b>	27	<b>1,709</b>	1,673
Other receivables		80	46	<b>Current liabilities</b>			
Prepaid expenses and accrued income	20	37	44	Accounts payable, trade		320	325
<b>Total current receivables</b>		<b>995</b>	938	Accrued expenses and deferred income	28	459	370
<b>Short-term investments</b>				Other liabilities, noninterest-bearing		231	158
Cash and bank balances		267	233	<b>Total current noninterest-bearing liabilities</b>		<b>1,010</b>	853
<b>Total current assets</b>		<b>2,913</b>	1,930	Current interest-bearing liabilities	15,29	2,709	1,940
<b>TOTAL ASSETS</b>		<b>16,173</b>	13,908	<b>Total current liabilities</b>		<b>3,719</b>	2,793
				<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
						<b>16,173</b>	13,908
				Pledged assets	30	78	99
				Contingent liabilities	31	7	11

### Comments on the Consolidated Balance Sheet

Tangible fixed assets were roughly unchanged at SEK 706 M (716). Capital expenditures for the year amounted to SEK 157 M (144), while scheduled depreciation totaled SEK 122 M (125).

Financial fixed assets pertain mainly to the book value of the Group's holdings of listed stocks. Net sales of listed stocks amounted to SEK 120 M, of which the purchase of Skanska accounted for SEK 1,190 M and the sale of PLM for SEK 1,180 M (1997: net purchases of SEK 5,051 M, of which Sandvik accounted for SEK 4,082 M). The market value of the portfolio of listed stocks, adjusted for purchases and sales, increased by 5 percent, while the General Index rose 10 percent.

Accounts receivable, trade, and inventories totaled SEK 1,596 M (SEK 1,549 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 decreased from 20 to 19 percent.

Shareholders' equity rose by SEK 1,300 M to SEK 9,974 M. The change is attributable to net earnings for the year, totaling SEK 1,918 M, less the dividend payout of SEK 644 M for 1997.

Interest-bearing liabilities – mainly current – rose by SEK 823 M as a result of the acquisition of shares in Skanska for SEK 1,190 M. Payment of SEK 1,180 M for the sale of all shares in PLM, which was received in early December, increased the value of short-term investments.

On the whole, net borrowing decreased by SEK 80 M to SEK 3,350 M, as a net effect of purchases and sales of listed stocks.

The visible equity ratio was relatively unchanged at 64 per cent (66), while the adjusted equity ratio, whose calculation is based on the market value of the listed stocks, was 83 percent (85).

## ● Parent Company Income Statement

SEK M	Note	1998	1997
Dividend income from listed stocks		<b>1,067</b>	426
Capital gains on sales of listed stocks	7	<b>974</b>	273
Capital gains on sales of other stocks	8	<b>7</b>	981
Administrative costs		<b>-67</b>	-52
<b>Operating earnings</b>	2, 3	<b>1,981</b>	1,628
<i>Interest income</i>			
Subsidiaries		<b>83</b>	117
Others		<b>11</b>	<u>63</u>
<i>Interest expenses</i>			
Subsidiaries		<b>-15</b>	-12
Others		<b>-214</b>	<u>-179</u>
Other financial income	9	<b>18</b>	2
Other financial expense	10	<b>-</b>	-2
<b>Earnings after financial items</b>		<b>1,864</b>	1,617
CPN interest	11	<b>-101</b>	-84
<b>Earnings before taxes</b>		<b>1,763</b>	1,533
Tax on earnings for the year	12	<b>-57</b>	-
<b>Net earnings for the year</b>		<b>1,706</b>	1,533

## ● Parent Company Balance Sheet

SEK M	Note	12/31/98	12/31/97	SEK M	Note	12/31/98	12/31/97
<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	534	321	Capital stock	22	859	858
Shares in listed companies	16	12,207	10,960	Conversion premium reserve		1	–
Shares and participations in other companies	16	77	53	Statutory reserve		720	721
Long-term receivables from subsidiaries		–	1,519			1,580	1,579
Other long-term receivables		6	6	<b>Unrestricted shareholders' equity</b>			
<b>Total financial fixed assets</b>	18	<b>12,824</b>	12,859	Retained earnings		5,845	6,182
<b>Total fixed assets</b>		<b>12,824</b>	12,859	Net earnings for the year		1,706	1,533
						7,551	7,715
				<b>Total shareholders' equity</b>		<b>9,131</b>	9,294
				<b>Convertible participating debenture loan</b>	11	<b>448</b>	450
				<b>Provisions</b>			
				Provision for pensions	23,24	27	23
				<b>Total provisions</b>		<b>27</b>	23
				<b>Long-term liabilities</b>			
<b>Current assets</b>				Long-term liabilities to subsidiaries, noninterest-bearing		1	1
<b>Current receivables</b>				Other long-term liabilities, interest-bearing	26	1,591	1,560
Receivables from subsidiaries		602	645	<b>Total long-term liabilities</b>		<b>1,592</b>	1,561
Other receivables		–	13	<b>Current liabilities</b>			
Prepaid expenses and accrued income	20	7	5	Liabilities to subsidiaries		6	14
<b>Total current receivables</b>		<b>609</b>	663	Accrued expenses and deferred income	28	222	170
				Other liabilities		59	10
Short-term investments		931	52	<b>Total current noninterest-bearing liabilities</b>		<b>287</b>	194
Cash and bank balances		114	84	Liabilities to subsidiaries		337	265
<b>Total current assets</b>		<b>1,654</b>	799	Other liabilities	29	2,656	1,871
<b>TOTAL ASSETS</b>		<b>14,478</b>	13,658	<b>Total current interest-bearing liabilities</b>		<b>2,993</b>	2,136
				<b>Total current liabilities</b>		<b>3,280</b>	2,330
				<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>14,478</b>	13,658
				Pledged assets	30	6	6
				Contingent liabilities	31	7	6

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

SEK M	Group		Parent Company	
	1998	1997	1998	1997
<b>Earnings and dividends</b>				
Earnings after financial items	2,148	2,404	1,864	1,617
Reversal of result of sales of stock	-1,003	-1,865	-981	-1,254
Depreciation charged to these earnings	144	144	-	-
Dividends and CPN interest paid	-745	-642	-745	-642
Taxes	-129	-46	-57	-
<b>Total earnings and dividends</b>	<b>415</b>	<b>-5</b>	<b>81</b>	<b>-279</b>
<b>Change in working capital</b>				
Change in trade accounts receivable (+ decrease)	-30	-104	-	-
Change in inventories (+ decrease)	-17	-86	-	-
Change in current receivables (+ decrease)	-27	17	54	344
Change in noninterest-bearing operating liabilities (+ increase)	157	170	93	32
Opening balances in sold companies <sup>1</sup>	-	320	-	-
<b>Total change in working capital</b>	<b>83</b>	<b>317</b>	<b>147</b>	<b>376</b>
<b>Change in fixed assets</b>				
Net purchases/sales of listed stocks	-272 <sup>2</sup>	-5,051	-272 <sup>2</sup>	-5,051
Net purchases/sales of other stocks	-4	1,592	-1,456 <sup>3</sup>	1,303
Capital expenditures	-157	-144	-	-
Long-term receivables (+ decrease)	-9	-12	1,519	1,073
Exchange rate differences, disposals, etc.	43	-3	-2	-
Opening balances in sold companies <sup>1</sup>	-	936	-	-
<b>Total change in fixed assets</b>	<b>-399</b>	<b>-2,682</b>	<b>-211</b>	<b>-2,675</b>
<b>Change in other provisions and noninterest-bearing liabilities (+ increase)</b>				
	-19	-2	-	-6
<b>Total change in net borrowing debt (+ decrease)</b>	<b>80</b>	<b>-2,372</b>	<b>17</b>	<b>-2,584</b>
<b>Financing of change in net borrowing debt</b>				
Liquid assets (+ decrease)	-909	119	-909	115
Current interest-bearing liabilities (+ increase)	769	1,398	857	1,462
Long-term interest-bearing liabilities (+ increase)	54	1,048	31	1,005
Provision for pensions (+ increase)	6	5	4	2
Opening net debt in sold companies <sup>1</sup>	-	-198	-	-
<b>Total financing of change in net borrowing debt (+ increase)</b>	<b>-80</b>	<b>2,372</b>	<b>-17</b>	<b>2,584</b>

<sup>1</sup>Pertains to Thorsman and Fundament, which were sold in 1997.

<sup>2</sup>Including dividends received in the form of stock in Balder and Drott, totaling SEK 392 M.

<sup>3</sup>Including SEK 1,226 M for merger of subsidiaries.



SEK M	Besam	Hydrauto	Isaberg Rapid	Maskin AB Rapid	Indutrade
<b>INCOME STATEMENTS</b>					
Net sales	1,692	263	574	340	1,662
Cost of goods sold	-1,132	-238	-359	-232	-1,086
Gross earnings	560	25	215	108	576
Selling and administrative costs	-448	-27	-134	-90	-425
Operating earnings	112	-2	81	18	151
Financial income and expenses	-11	-4	-5	-4	1
<b>Earnings after financial items</b>	<b>101</b>	<b>-6</b>	<b>76</b>	<b>14</b>	<b>152</b>
Appropriations	-	0	-	-	-
Taxes	-52	-	-21	-3	-52
<b>Net earnings for the year</b>	<b>49</b>	<b>-6</b>	<b>55</b>	<b>11</b>	<b>100</b>
<b>BALANCE SHEETS</b>					
<b>Assets</b>					
Land and buildings	85	14	27	28	61
Machinery and equipment	74	39	100	34	68
Other	56	11	27	9	78
<b>Total fixed assets</b>	<b>215</b>	<b>64</b>	<b>154</b>	<b>71</b>	<b>207</b>
Inventories	193	47	77	67	319
Receivables	504	55	145	81	340
Liquid assets	54	0	10	4	73
<b>Total current assets</b>	<b>751</b>	<b>102</b>	<b>232</b>	<b>152</b>	<b>732</b>
<b>Total assets</b>	<b>966</b>	<b>166</b>	<b>386</b>	<b>223</b>	<b>939</b>
<b>Shareholders' equity and liabilities</b>					
Shareholders' equity	345	30	103	67	345
Untaxed reserves	-	23	-	-	-
Provisions	107	0	37	9	80
<b>Long-term interest-bearing liabilities</b>	<b>58</b>	<b>3</b>	<b>15</b>	<b>38</b>	<b>165</b>
Short-term noninterest-bearing liabilities	352	33	155	68	347
Short-term interest-bearing liabilities	104	77	76	41	2
<b>Total current liabilities</b>	<b>456</b>	<b>110</b>	<b>231</b>	<b>109</b>	<b>349</b>
<b>Total shareholders' equity and liabilities</b>	<b>966</b>	<b>166</b>	<b>386</b>	<b>223</b>	<b>939</b>

## Accounting Principles

The annual report and consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act. The recommendations of the Swedish Financial Accounting Standards Council have been followed. The accounting principles are unchanged compared with the preceding year.

## Group Accounting

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.

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 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 another amortization period cannot be justified. Goodwill items arising prior to 1997 are amortized over a ten-year period, according to their originally estimated economic lives. Subsidiaries that 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 Accounting

Industrivärden has ownership stakes that 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 prepared until all the associated companies' year-end financial statements have been published, Industrivärden has chosen to provide information on earnings and financial 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. This information is provided to the market on a regular basis via interim reports and year-end reports.

## 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 through forward contracts and/or 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 stated 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 Contracts

Leasing contracts of limited value (such as for office machinery), which are classified as financial leasing contracts, are reported as operational leasing contracts. In other respects the Swedish Financial Accounting Standards Council's recommendation for financial leasing is followed for leases contracted in 1997 and later.

### 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:** Operating earnings 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 return:** Return on 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. Prior to 1997, also including hidden reserves in real estate held for investment purposes.
- **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. Prior to 1997, also including hidden reserves in real estate held for investment purposes.
- **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 is conducted through a SEK 1.5 billion domestic commercial paper program and through bank borrowing. Medium-term borrowing consists of a SEK 1 billion Medium-Term Note program and a USD 175 M Revolving Multicurrency Facility. 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 total confirmed credit limit of SEK 3.4 billion, SEK 1 billion was utilized at year-end (year-end 1997: SEK 0.8 billion). Additionally, a total of SEK 6.6 billion is available through unconfirmed credit lines.

### Flows in 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 net sales, 25 percent are derived from Sweden, 39 percent from the EMU countries, 16 percent from the rest of Europe, and 20 percent from the rest of the world.

Exports from Sweden in 1998 amounted to SEK 1,302 M. Sixty-nine 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 621 M in 1998. Ninety-six 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 currency flows to and from Sweden are 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. The hedges are made for a period not exceeding the coming five quarters. The most important calculated net currency flows to and from Sweden in 1999, and the Parent Company's outstanding forward contracts at the end of 1998, are described in the table on the next page.

Reported shareholders' equity in foreign subsidiaries is mainly 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, 1998

The net currency flows, currency hedges and outstanding currency risk at year-end 1998 for currencies whose net flow exceeds SEK 15 M are shown in the following table, which is expressed in millions in local currency.

Currency	Estimated net flow 1999 (local currency) (+ inflow) (- outflow)	Hedged through forward contracts Dec. 31, 1998 (local currency)	Forward rate	Outstanding currency risk (local currency) (+ inflow) (- outflow)	Share of outstanding currency risk of net flows 1999 %
USD	29.2	19.1	7.8910	10.1	35
NLG	15.3	6.3	4.2537	9.0	59
FRF	21.4	0.0	-	21.4	100
ATS	25.0	0.0	-	25.0	100
SGD	3.7	3.5	4.6248	0.2	7
ESP	367.7	202.0	0.0536	165.7	45
JPY	-254.9	0.0	-	-254.9	100
DKK	-14.3	0.0	-	-14.3	100
DEM	-12.2	0.0	-	-12.2	100

## Industrivärden and the Euro

European Economic and Monetary Union (EMU) went into effect on January 1, 1999. At the same time a new currency, the euro, was introduced, which replaces the local currencies in the 11 countries participating in EMU (the "euro-zone countries"). Sweden did not join EMU from the start.

The Industrivärden Group is affected by the introduction of the euro even though Sweden is staying outside of EMU. The European subsidiaries in euro-zone countries will gradually be changing over to invoicing in euros, and their accounting will be done in euros. Invoiced sales in the euro-zone countries amounted to approximately 40 percent of the Group's total sales in 1998.

Industrivärden cannot for the time being introduce the euro in the Swedish Group companies' accounting. A possible development is that a number of Industrivärden's major holdings will be listed in euros, which could lead to the adoption of euro accounting by Industrivärden once Swedish legislation allows.

A Group Summary expressed in euros for the period 1994-98 is presented on the next page.

## Year-End Exchange Rates

	Year-end rate		Average rate	
	1998	1997	1998	1997
GBP	<b>13.49</b>	13.09	<b>13.17</b>	12.50
USD	<b>8.05</b>	7.86	<b>7.95</b>	7.61
DEM	<b>4.81</b>	4.38	<b>4.52</b>	4.42
FRF	<b>1.44</b>	1.31	<b>1.35</b>	1.31
NLG	<b>4.27</b>	3.89	<b>4.01</b>	3.92
DKK	<b>1.26</b>	1.15	<b>1.19</b>	1.16
NOK	<b>1.07</b>	1.07	<b>1.05</b>	1.09
FIM	<b>1.58</b>	1.45	<b>1.49</b>	1.47
ECU	<b>9.49</b>	8.72	<b>8.93</b>	8.64

The ECU index changed from 118 to 128 between December 31, 1997, and December 31, 1998. Had Industrivärden's consolidated income statement for 1998 been consolidated at average exchange rates for 1997, invoiced sales would have been approximately SEK 80 M lower. Earnings after financial items would not have been significantly affected.

Millions of euros <sup>1</sup>	1998	1997	1996	1995	1994
<b>Income Statements</b>					
Net sales	483	450	585	621	1,338
Operating earnings	29	27	38	51	102
Dividend income from sales of listed stocks	112	45	52	27	38
Capital gains on sales of listed stocks	103	29	72	9	34
Capital gains on sales of other stocks	3	168	1	126	28
Earnings after financial items	226	253	149	186	160
Earnings before taxes and minority interests	216	244	142	173	154
Net earnings for the year	202	240	136	170	132
<b>Balance Sheets</b>					
Fixed assets	1,397	1,262	797	802	994
Current assets	307	203	269	275	542
Total assets	1,704	1,466	1,066	1,077	1,536
Shareholders' equity	1,051	914	732	647	578
CPN loans	47	47	47	47	47
Provision for pensions	14	13	19	26	56
Interest-bearing liabilities	466	379	143	217	535
Noninterest-bearing liabilities	127	112	125	139	319
<b>Key Ratios</b>					
Visible shareholders' equity	1,098	961	779	694	625
Adjusted shareholders' equity	2,968	2,820	2,084	1,584	1,236
Net asset value	3,224	3,013	2,290	1,675	1,581
Visible equity ratio, %	64	66	73	65	41
Adjusted equity ratio, %	83	85	88	81	58
Capital expenditures	17	15	28	25	70
Average number of employees	3,428	3,332	4,561	4,918	9,572
of whom, outside Sweden	1,797	1,791	2,309	2,293	5,895
<i>Euros per Share and CPN<sup>2</sup></i>					
Earnings per share after full tax	1.11	1.30	0.75	0.96	0.72
Visible shareholders' equity	5.80	5.06	4.11	3.69	3.27
Adjusted shareholders' equity	15.49	14.75	10.85	8.32	6.43
Net asset value	16.86	15.81	12.01	8.75	8.32
Stock price, December 31					
Class A shares	11.49	11.70	8.22	5.48	5.16
Class C shares	10.75	11.49	8.01	5.27	4.95
Dividend	0.47	0.40	0.34	0.29	0.26
Dividend growth, % per year	20 <sup>3</sup>	15	18	10	11
Direct yield, %	4.1 <sup>3</sup>	3.4	4.2	5.3	5.1
Total return, %	1	48	59	17	-5
CPN interest	0.55 <sup>3</sup>	0.45	0.39	0.33	0.30

<sup>1</sup>All values recalculated from kronor to euro using the year-end exchange rate of 9.49 as per December 31, 1998.

<sup>2</sup>All data per share and CPN are recalculated to take into account the 4:1 stock split in 1998.

<sup>3</sup>Proposed by the Board of Directors.

(Amounts in SEK M unless stated otherwise)

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

Geographic breakdown of net sales by market:

Group	Net sales	
	1998	1997
Sweden	1,144	1,039
Other Nordic countries	735	634
Europe, excl. Nordic countries	1,765	1,747
North America	762	667
Other markets	174	188
<b>Total, Group</b>	<b>4,580</b>	<b>4,275</b>

Breakdown of net sales and operating earnings by operating unit:

Group	Net sales		Operating earnings	
	1998	1997	1998	1997
Besam	1,692	1,707	112	111
Isaberg Rapid	574	479	81	59
Maskin AB Rapid	340	331	18	26
Hydrauto	263	259	-2	-15
Other, net	-	-	-2	-5
<b>Total Inductus</b>	<b>2,869</b>	<b>2,776</b>	<b>207</b>	<b>176</b>
<b>Indutrade</b>	<b>1,662</b>	<b>1,492</b>	<b>151</b>	<b>122</b>
<b>Other, net</b>	<b>49</b>	<b>7</b>	<b>-82</b>	<b>-38</b>
<b>Total, Group</b>	<b>4,580</b>	<b>4,275</b>	<b>276</b>	<b>260</b>

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

	1998		1997	
	Number of employees	Of whom, women	Number of employees	Of whom, women
<b>Parent Company</b>				
Sweden	21	7	19	6
<b>Subsidiaries in Sweden</b>	<b>1,610</b>	<b>385</b>	<b>1,522</b>	<b>349</b>
<b>Subsidiaries outside Sweden</b>				
Austria	58	11	59	12
Belgium	41	7	50	15
Denmark	170	29	166	33
Finland	154	33	132	28
France	203	84	231	90
Germany	236	49	244	50
Italy	27	13	27	10
Netherlands	249	62	235	59
Singapore	33	10	36	11
Spain	34	9	33	9
Switzerland	11	2	20	3
U.K.	145	26	148	23
USA	360	63	356	64
Other	76	17	54	14
<b>Total</b>	<b>1,797</b>	<b>415</b>	<b>1,791</b>	<b>421</b>
<b>Total, Group</b>	<b>3,428</b>	<b>807</b>	<b>3,332</b>	<b>776</b>

<sup>1</sup> **Specification of note 3, page 62**

In accordance with the decision of the Annual General Meeting in 1998, 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 3,890,647. 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. In addition, the President is entitled to pension from 63–75 years of age with 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 1998 = SEK 36,400) 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 members of the executive management, two are entitled to pension from 60 years of age and severance pay equivalent to two years’ salary.

The Board has decided to offer a bonus program to the employees of the Parent Company, AB Industrivärden, starting in 1998. The program is based on a comparison of the total return of Industrivärden’s stock with the Findata total return index during a two-year period. The bonus can amount to a maximum of 25 percent of the employee’s salary, of which a part must be used to buy stock or options in Industrivärden.

The Swedish National Pension Insurance Fund, Fifth Fund Board, has offered stock options for Industrivärden shares to all employees of the parent company AB Industrivärden. The options give the bearer the right to purchase Industrivärden Class A stock during the exercise period, March 15, 1999 – March 15, 2004. The option premium was SEK 13.60 and the exercise price is SEK 145 per share. Options may be transferred without restriction throughout the exercise period. A total of 303,000 stock options were subscribed for.

• Note 3

**Wages, Salaries and Other Remuneration; Social Security Costs**

	1998			1997		
	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>	17	10	5	15	9	4
<b>Subsidiaries in Sweden</b>	406	186	44	374	170	44
Total, Sweden	413	196	49	389	179	48
<b>Subsidiaries outside Sweden</b>						
Austria	19	5	3	18	5	2
Belgium	10	4	–	13	5	–
Denmark	70	3	2	67	2	1
Finland	45	11	8	37	10	6
France	49	22	5	54	25	2
Germany	84	15	6	81	16	6
Italy	8	3	–	7	3	–
Netherlands	63	13	5	62	11	5
Singapore	5	1	1	6	1	1
Spain	8	2	2	7	2	2
Switzerland	6	1	–	7	1	–
U.K.	44	7	3	43	6	3
USA	135	25	9	124	21	8
Others	9	3	1	7	2	2
Total	555	115	45	533	110	38
<b>Total, Group</b>	978	311	94	922	289	86

Of the Parent Company's pension cost, SEK 3 M (2) pertains to the Board of Directors and President. The corresponding amount for the Group was SEK 16 M (15).

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

	1998			1997		
	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<sup>1</sup></b>	6	–	11	6	–	9
<b>Subsidiaries in Sweden</b>	23	2	383	23	2	351
<b>Subsidiaries outside Sweden</b>						
Austria	1	–	18	1	–	17
Belgium	–	–	10	–	–	13
Denmark	5	–	65	4	–	63
Finland	5	1	40	4	1	33
France	3	1	46	1	–	53
Germany	2	–	82	1	–	80
Italy	2	–	6	1	–	6
Netherlands	3	–	60	3	–	59
Singapore	1	–	4	1	–	5
Spain	1	–	7	1	–	6
Switzerland	1	–	5	1	–	6
U.K.	3	–	41	2	–	41
USA	5	–	130	4	1	120
Other	2	–	7	2	1	5
Total	34	2	521	26	3	507
<b>Total, Group</b>	63	4	915	55	5	867

<sup>1</sup>See page 61.



• **Note 4**  
**Depreciation**

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

Group	1998	1997
Cost of goods sold	85	81
Development costs	3	3
Selling costs	27	31
Administrative costs	29	29
<b>Total depreciation</b>	<b>144</b>	<b>144</b>

• **Note 5**  
**Write-Downs and Reversals of Write-Downs of Financial Fixed Assets**

Reversals of write-downs of financial fixed assets amounted to SEK 13 M (-15) for the Group. These amounts are included in the item "Capital gains on sales of other stocks" and pertain to former write-downs of stocks.

• **Note 6**  
**Operational Leasing Contracts**

Group	1998	1997
Leasing fees paid during the period	47	46
<i>Future, contracted leasing fees</i>		
Expiration in 1 year	42	45
Expiration in 2 years	26	24
Expiration in 3 years	14	15
Expiration in 4 years	9	9
Expiration in 5 years	7	8
Expiration in 6 years+	34	37
<b>Total future leasing fees</b>	<b>132</b>	<b>138</b>

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

Sale of:	Group and Parent Company	
	1998	1997
PLM	712	-
Drott A	97	-
SSAB (redemption rights)	62	-
Custos A	-	148
AGA B	-	87
Other	103	38
<b>Total</b>	<b>974</b>	<b>273</b>

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

	Group		Parent Company	
	1998	1997	1998	1997
Capital gains on sales of subsidiaries	19	1,598	10	981
Capital gains on sales of other companies	-3	9	-3	-
Reversal of write-down of stocks	13	-	-	-
Write-downs of other stocks	-	-15	-	-
<b>Total</b>	<b>29</b>	<b>1,592</b>	<b>7</b>	<b>981</b>

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

	Group		Parent Company	
	1998	1997	1998	1997
Exchange rate differences	12	1	9	-
Dividends	11	3	9	2
<b>Total</b>	<b>23</b>	<b>4</b>	<b>18</b>	<b>2</b>

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

	Group		Parent Company	
	1998	1997	1998	1997
Exchange rate differences	-4	-23	-	-2
Other	-2	-1	-	-
<b>Total</b>	<b>-6</b>	<b>-24</b>	<b>-</b>	<b>-2</b>

• **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 23, 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). 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 19,495,732 CPNs. Earnings are charged with the calculated CPN interest based on the year's proposed dividend.

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

	Group		Parent Company	
	1998	1997	1998	1997
Company tax	-143	-56	-57	-
Deferred tax	14	10	-	-
<b>Total</b>	<b>-129</b>	<b>-46</b>	<b>-57</b>	<b>-</b>

• **Note 13**

**Intangible Fixed Assets**

<b>Group</b>	<b>Goodwill</b>	<b>Intangible rights</b>	<b>Total intangible fixed assets</b>
Opening acquisition value	161	19	180
Investments during the year	17	4	21
Company acquisitions	7	–	7
Sales and disposals	-1	-3	-4
Translation differences	2	1	3
<b>Closing accumulated acquisition value</b>	<b>186</b>	<b>21</b>	<b>207</b>
Opening depreciation	70	12	82
Depreciation for the year	20	2	22
Sales and disposals	–	-1	-1
Translation differences	2	1	3
<b>Closing accumulated depreciation</b>	<b>92</b>	<b>14</b>	<b>106</b>
<b>Planned residual value, Dec. 31, 1997</b>	<b>91</b>	<b>7</b>	<b>98</b>
<b>Planned residual value, Dec. 31, 1998</b>	<b>94</b>	<b>7</b>	<b>101</b>

• **Note 14**

**Tangible Fixed Assets**

<b>Group</b>	<b>Land and buildings</b>	<b>Machinery</b>	<b>Equipment</b>	<b>Construction in progress</b>	<b>Total tangible fixed assets</b>
Opening acquisition value	479	391	612	2	1,484
Investments during the year	15	55	78	9	157
Company acquisitions	–	–	5	–	5
Company divestitures	-11	–	-15	–	-26
Sales and disposals	–	-5	-165	-1	-171
Transferred from construction in progress	–	6	–	-6	–
Reclassifications	–	7	-12	5	–
Translation differences	5	5	17	–	27
<b>Closing accumulated acquisition value</b>	<b>488</b>	<b>459</b>	<b>520</b>	<b>9</b>	<b>1,476</b>
Opening depreciation	128	252	388	–	768
Depreciation for the year	14	38	70	–	122
Company acquisitions	–	–	2	–	2
Company divestitures	-6	–	-13	–	-19
Sales and disposals	–	-3	-116	–	-119
Reclassifications	–	8	-8	–	–
Translation differences	2	2	12	–	16
<b>Closing accumulated depreciation</b>	<b>138</b>	<b>297</b>	<b>335</b>	<b>–</b>	<b>770</b>
<b>Planned residual value, Dec. 31, 1997</b>	<b>351</b>	<b>139</b>	<b>224</b>	<b>2</b>	<b>716</b>
<b>Planned residual value, Dec. 31, 1998</b>	<b>350</b>	<b>162</b>	<b>185</b>	<b>9</b>	<b>706</b>

The tax assessment value of Swedish real estate was SEK 230 M (219).

• **Note 15**  
**Financial Leasing Contracts**

	Land and buildings	Equipment	Total
Acquisition value	15	5	20
Accumulated planned depreciation	-2	-2	-4
Current liability (1 year)	0	-2	-2
<b>Long-term liabilities</b>			
Expiration in 2 years	0	-1	-1
Expiration in 3 years	-1	-	-1
Expiration in 4 years	-1	-	-1
Expiration in 5 years	-1	-	-1
Expiration in 6 years+	-10	-	-10
Total long-term liabilities	-13	-1	-14

• **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
Besam AB	556084-1768	Landskrona	100	5,000,000	196,192
Gedevo AB	556032-3593	Stockholm	100	1,000	16,905
Hydrauto AB	556067-0332	Skellefteå	100	150,000	30,749
Inductus AB	556088-4644	Stockholm	100	1,000	2,042
Industrivården 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
Isaberg Rapid AB	556035-6684	Hestra	100	400,000	33,200
Maskin AB Rapid	556082-8674	Bredaryd	100	100,000	59,600
Timelox AB	556214-7735	Landskrona	100	15,000	17,039
Others					1,045
					533,782

**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	556008-8550	Stockholm	5.0	29.8	8,998	3,491
DHJ Media AB	556526-2515	Stockholm	11.5	11.5	1,390	26,042
Ericsson Project Finance AB	556058-5936	Stockholm	4.7	25.4	220,000	26,395
						76,634

### Parent Company holdings of shares in listed companies<sup>1</sup>

SEK 000s	Number of shares	Share of capital, %	Share of votes, %	Market value	Book value
AGA A	28,615,000	11.8	20.2	3,076,113	704,422
Astra B	1,430,000	0.1	0.0	235,950	143,616
Ericsson A	43,860,000	2.3	26.4	9,188,670	1,191,896
Ericsson B	800,000			154,400	141,294
Fastighets AB Balder	1,465,000	6.1	6.1	131,850	114,270
Handelsbanken, common A	14,650,000	5.6	6.6	5,010,300	1,042,358
Industrivärden CPN A	194,148			22,521	23,716
Industrivärden CPN C	309,954			35,025	36,284
Karo Bio	100,000	1.1	1.1	8,750	9,538
OM-gruppen	228,162	0.3	0.3	23,273	1,943
Pfizer	437,900	0.0	0.0	448,410	375,604
Sandvik A	23,000,000	8.9	11.7	3,243,000	4,309,517
SAS Sverige	300,000	0.4	0.4	22,350	34,500
SCA A	18,232,000	9.3	24.1	3,190,600	788,163
SCA B <sup>2</sup>	150,000			26,550	16,991
Skandia	17,200,000	3.4	3.4	2,132,800	768,150
Skanska A	5,575,689	7.4	29.9	1,254,530	1,052,676
Skanska B	2,887,888			649,775	548,810
SSAB A	11,400,000	10.7	13.5	883,500	548,804
SSAB B	646,600			50,112	57,763
Volvo A	1,400,000	0.3	0.8	254,100	297,024
Parent Company holdings of shares in listed companies <sup>3</sup>				30,042,579	12,207,339
Group adjustment					86,571
Group holdings of shares in listed companies					12,293,910

### Group 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	556008-8550	Stockholm	5.0	29.8	8,998	3,491
Bemuro AB	556361-4923	Östersund	16.0	16.0	800	670
DHJ Media AB	556526-2515	Stockholm	11.5	11.5	1,390	26,042
Ericsson Project Finance AB	556058-5936	Stockholm	4.7	25.4	220,000	26,395
Milltronic Ltd		Canada	0.3	0.3	12,000	523
Sci Rue de Canal		France	50.0	50.0	100	1,242
Shanghai Rapid Yuan Chang Stationary Company Ltd		China	51.0	51.0		8,271
Other shares and participations <sup>4</sup>						1,009
						88,349

<sup>1</sup>Industrivärden's entire holding of stock in PLM was sold in November 1998 to Rexam PLC. In connection with this sale, Rexam announced an acquisition offering to PLM's other shareholders. Industrivärden had previously issued a total of 110,500 call options for PLM shares to senior executives of PLM, who in connection with Rexam's acquisition offering were offered to sell their options for PLM stock back to Industrivärden at a reduced price.

<sup>2</sup>Industrivärden – together with Custos, Skandia and the Handelsbanken Pension Foundation – 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 the repurchase 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 during the period of October 1, 1997 to September 30, 1999. 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.

<sup>3</sup>Including stock loans which at the end of 1998 consisted of 21,000 shares of Astra B, 28,000 AGA A, 415,100 Ericsson B, 18,200 Handelsbanken A, 62,000 Sandvik A, 65,900 Skandia and 1,000 SAS Sverige.

<sup>4</sup>Holdings with a 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
AGA	556009-1331	Lidingö	12,216	370	11.8	20.2	28,615,000	704
Ericsson	556016-0680	Stockholm	63,112	13,041	2.3	26.4	44,660,000	1,333
SCA	556012-6293	Stockholm	28,404	3,379	9.3	24.4	18,382,000	892
Skanska	556000-4615	Malmö/Sthlm	13,519	2,782	7.4	29.9	8,463,577	1,601
AB Biodisk	556115-6844	Stockholm	73	24	37.1	22.2	63,064	21
								4,551

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

Group	1998	1997
Net earnings according to the income statement	1,918	2,274
Less: dividend income from listed companies	-270	-249
capital gains on sales of listed stocks	-712	-
other financial income	-6	-
Plus: share in associated companies' earnings after tax	658	749
capital gains on sales of associated companies	494	-
Net earnings when applying the equity method	2,082	2,774

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

	Balance as per balance sheet 12/31/98	Change using equity method	Balance sheet using equity method 12/31/98	Balance sheet using equity method 12/31/97
Shares in listed companies	12,294	-4,530	7,764	7,651
Shares and participations in other companies	88	-21	67	34
Participations in associated companies	-	7,241	7,241	5,667
		2,690		
Equity reserve	-	2,690	2,690	2,250
Unrestricted reserves	6,259	-164	6,095	4,112
Net earnings for the year	1,918	164	2,082	2,774
		2,690		

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

	Shares and participations in subsidiaries		Shares in listed companies			
	Parent Company		Group		Parent Company	
	1998	1997	1998	1997	1998	1997
Opening acquisition value	321	645	11,047	5,723	10,960	5,636
Sales	-91	-335	-1,172	-548	-1,172	-548
Purchases	312	-	2,027	5,872	2,027	5,872
Dividends in the form of stock	-	-	392	-	392	-
Shareholder contribution	-8	11	-	-	-	-
Closing accumulated acquisition value	534	321	12,294	11,047	12,207	10,960

Note 18 continued

	Shares and participations in other companies			
	Group		Parent Company	
	1998	1997	1998	1997
Opening acquisition value	55	55	53	51
Sales	-2	-1	-2	-10
Purchases	22	16	26	12
Reversal of write-downs	13	-	-	-
Write-downs	-	-15	-	-
Closing accumulated acquisition value	88	55	77	53

	Long-term receivables from subsidiaries		Other long-term receivables <sup>1</sup>			
	Parent Company		Group		Parent Company	
	1998	1997	1998	1997	1998	1997
Opening acquisition value	1,519	2,592	62	52	6	6
Company divestitures	-	-	-	-3	-	-
Increase for the year	-	40	10	11	-	-
Shareholder contribution	-	-113	-	-	-	-
Amortization	-1,519	-1,000	-2	-2	-	-
Reclassifications, etc.	-	-	-	1	-	-
Translation differences	-	-	1	3	-	-
Closing accumulated acquisition value	-	1,519	71	62	6	6

<sup>1</sup>Other long-term receivables of the Group include SEK 47 M (44) in deferred taxes recoverable.

• **Note 19**  
**Inventories**

Inventories are broken down into the following items:

Group	1998	1997
Raw materials and supplies	209	213
Goods in process	67	50
Finished products and goods for resale	392	395
Work in process on behalf of others	50	42
Advance payments to suppliers	-	1
Total	718	701

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

	Group		Parent Company	
	1998	1997	1998	1997
Rents paid in advance	8	7	3	2
Accrued interest income	2	2	2	2
Service and maintenance charges paid in advance	12	12	-	-
Accrued service income	-	7	-	-
Other items	15	16	2	1
Total	37	44	7	5

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

Group	Capital stock 1998	Restricted reserves 1998	Unrestricted shareholders' equity 1998
Amount at beginning of year	858	930	6,886
Dividend to shareholders	–	–	-644
Conversion of CPNs	1	1	–
Transfers between unrestricted and restricted shareholders' equity	–	-3	3
Change in translation differences	–	10	14
Net earnings for the year	–	–	1,918
Amount at end of year	859	938	8,177

Parent Company	Capital stock 1998	Conversion premium reserve 1998	Statutory reserve 1998	Unrestricted shareholders' equity 1998
Amount at beginning of year	858	–	721	7,715
Conversion of CPNs	1	1	–	–
Merger loss	–	–	–	-1,226
Dividend to shareholders	–	–	–	-644
Other changes	–	–	-1	–
Net earnings for the year	–	–	–	1,706
Amount at end of year	859	1	720	7,551

• **Note 22**  
**Capital Stock**

The capital stock on December 31, 1998, consisted of 171,711,252 shares with a par value of SEK 5 each. Of these, 124,960,588 were Class A shares and 46,750,664 Class C shares. In 1998, 60,000 convertible participating notes were converted to stock.

• **Note 23**  
**Provision for Pensions**

	Group		Parent Company	
	1998	1997	1998	1997
PRI-pensions	85	79	5	4
Other pensions	47	47	22	19
Total	132	126	27	23

• **Note 24**  
**Commitments to Board Members and Presidents**

The Group's provisions include SEK 64 M (58) for pensions and similar benefits to the President and former board members and presidents. The corresponding amount for the Parent Company is SEK 18 M (15).

• **Note 25**  
**Other Provisions**

Group	1998	1997
Guarantees	39	22
Restructuring measures decided on	6	12
Product liability	34	37
Additional purchase price paid	19	–
Provision for divested companies	–	20
Other items	66	54
Total	164	145

• **Note 26**  
**Long-Term Interest-Bearing Liabilities**

	Group		Parent Company	
	1998	1997	1998	1997
Bond issues	800	1,000	800	1,000
Utilized lines of credit	55	94	–	30
Other interest-bearing liabilities	854	561	791	530
Total	1,709	1,655	1,591	1,560

Confirmed lines of credit amount to SEK 1,264 M (1,226) for the Group and SEK 1,050 M (1,050) for the Parent Company.

Maturity dates:	Group 1998
–2000	846
–2001	224
–2002	405
–2003	200
–2004	0
–later	34
Total	1,709

• **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	1998	1997
Long-term interest-bearing liabilities	34	9
Long-term noninterest-bearing liabilities	–	13
Total	34	22

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

	Group		Parent Company	
	1998	1997	1998	1997
Accrued interest expenses	177	161	176	160
Accrued staff-related expenses	162	137	5	4
Other	120	72	41	6
Total	459	370	222	170

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

	Group		Parent Company	
	1998	1997	1998	1997
Commercial paper	756	98	756	98
Bond issues	200	–	200	–
Current portion of long-term liabilities	7	6	–	–
Other interest-bearing liabilities	1,746	1,836	1,700	1,773
Total	2,709	1,940	2,656	1,871

• **Note 30**  
**Pledged Assets**

	Group		Parent Company	
	1998	1997	1998	1997
<b>For own liabilities and provisions</b>				
Pertaining to provision for pensions				
Endowment insurance	9	6	6	6
Pertaining to interest-bearing liabilities				
Chattel mortgages	20	20	–	–
Property mortgages	18	18	–	–
Other	1	1	–	–

Total pertaining to own liabilities and provisions 48 45 6 6

**For overdraft facilities**

Chattel mortgages	11	15	–	–
Property mortgages	–	6	–	–
Other	–	2	–	–

Total pertaining to own overdraft facilities 11 23 – –

**General bank guarantee**

Chattel mortgages	12	16	–	–
Property mortgages	1	7	–	–

Total pertaining to general bank guarantee 13 23 – –

**Other**

Chattel mortgages	1	3	–	–
Property mortgages	5	5	–	–

Total other 6 8 – –

Total pledged assets 78 99 6 6

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

	Group		Parent Company	
	1998	1997	1998	1997
Contingent liabilities on behalf of other				
Group companies	–	–	4	3
Other contingent liabilities	7	11	3	3
Total contingent liabilities	7	11	7	6

The Parent Company has a contingent liability on behalf of a subsidiary regarding product liability for a sold operation. Provisions considered necessary for this contingent liability have been made in the balance sheets of the subsidiary and the Group.



We have audited the parent company and consolidated financial statements, the accounts and the administration of the Board of Directors and the President of AB Industrivärden (publ.) for the 12-month period ended December 31, 1998. 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 whether the Board of Directors or the President 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 gives a true and fair view of the result and the financial position of the Group.

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 Administration Report and
- that* the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, Sweden, March 1, 1999

Bertil Edlund  
*Authorized Public Accountant*

Ulf Pernvi  
*Authorized Public Accountant*

# Organization and Management

On January 1, 1999, extensive changes to the Swedish Companies Act went into effect. The changes pertain primarily to the stipulations regarding boards of directors, annual meetings and audits. The new regulations more precisely define the rules regarding the competence and obligations of companies' governing bodies.

Industrivärden's governing bodies consist of the Annual General Meeting, the Board of Directors, the President and CEO, and the auditors. At the Annual Meeting the shareholders elect a board, which appoints the President and CEO. The auditors are responsible, under assignment of the Annual Meeting, for reviewing the accounts as well as the Board's and President's administration during the fiscal year. The auditors present a report to the Annual Meeting on their review in a special auditors' report, presented here on page 71.

## Annual General Meeting

The Annual General Meeting is Industrivärden's highest governing body. At the Annual Meeting, which is held in April or May, the Annual Report is adopted, the dividend is decided on, the Board of Directors and auditors are elected, their fees are determined, and other items of legally ordained business are conducted.

In addition, at Industrivärden's Annual Meeting on April 21, 1999, proposed changes in the Articles of Association will be set forth in order to adapt them to the changes in the Swedish Companies Act. One such change concerns the date on which invitations to attend the Annual Meeting must be sent out.

The invitation to attend the 1999 Annual General Meeting is expected to be published in Swedish daily newspapers and business newspapers, as well as on Industrivärden's website, around March 25. The invitation will contain a detailed agenda, including proposals for the election of board members and auditors and their fees.

According to the Swedish Companies Act, shareholders have the right to have a matter taken up for consideration by the Annual Meeting if a request for such is submitted to the Board of Directors in time. In addition, shareholders have the right to ask questions at the Annual Meeting.

Minutes from the Annual Meeting will be available within two weeks from the Annual Meeting on the Company's website. Shareholders who so desire can also request a copy of the minutes by mail.

## Board of Directors

Industrivärden's board of directors currently consists of seven members who are elected by the Annual Meeting. Among these directors are persons with ties to Industrivärden's major shareholders as well as persons independent of the shareholders. The President and CEO is also a member of the Board. The members of the Board are presented on page 82. Other executives of the Company participate in board meetings by submitting reports or as secretaries.

## Duties of the Board

Aside from responsibility for the Company's organization and management, the Board's most important duty is to act on strategic matters based on an analysis of the operating environment.

In general, the Board acts on matters of material importance for the Group, such as:

- strategic plans, and business and profitability targets
- acquisitions and sales of companies or operations
- major purchases and sales of listed stocks
- purchases and sales of other significant assets
- establishment of a finance policy.

## Board Meetings

In addition to the statutory Board meeting, which is held directly after the Annual Meeting, the Board meets normally five times a year (regular meetings). Extra meetings are held if required by special circumstances.

### Regular Items of Business at Board Meetings

At the statutory meeting the Chairman and Vice Chairman are elected, the Board's work plan is adopted, and decisions are made on the Company's signatories, persons to check the minutes of Board meetings, and allocation of directors' fees.

At regular meetings at the beginning of the year, the Board deals with the year-end accounts, the administration report, the proposed distribution of earnings and the year-end report. In connection with this, the Company's Chief Auditor presents a report of the auditors' observations and remarks.

At regular meetings later in the year, the Board approves and releases the Company's interim reports. At the last meeting of the year, the budget for the coming year is presented.

At every regular meeting a report is presented on the current financial result of operations and the performance of the stock portfolio. In addition, ordinarily a special review is conducted of one or more of the core holdings or of one of the subsidiaries. As a rule, each year a meeting is held at a subsidiary or core holding company, with a company visit in conjunction therewith.

### Important Matters During the 1998 Fiscal Year

In 1998 the Board held eight meetings, in addition to the statutory meeting, of which five were regular meetings and three extra meetings. Aside from strategic planning, the largest single items of business in 1998 concerned the purchase of a large block of shares in Skanska and the sale of all shares in PLM.

Other significant items of business during the year included the decision on the proposed stock split submitted to Industrivärden's Annual Meeting and the decision on the proposal to Skanska's annual meeting to distribute its Drott stock.

## Committees

The Board has set up a nominating committee for election of directors to the Board and a compensation committee to set the salary and remuneration of the President and executive management. Committee members are listed on p. 82.

The nominating committee is working on proposing directors in close cooperation with the major shareholders. Suggestions by individual shareholders can be submitted to the committee by mail or phone.

## The Chairman's Role

In addition to directing the Board's work, the Chairman monitors the Group's performance through continuous contacts with the President on strategic matters, and represents the Company in matters concerning its ownership structure. The Chairman serves as a discussion partner for the President between Board meetings.

### The President

The President is responsible for the Company's day-to-day management, which includes all matters not reserved for the Board. The President's authorization to decide on investments and purchases and sales of listed stocks – and concerning financing matters – is subject to rules established by the Board of Directors. The President consults with the Chairman and keeps him informed between Board meetings.

The Chairman, the President and other board members are each directors of one or more of the companies in which Industrivärden is a major owner and has a significant influence. In consultation with other board members, the directors nominated by Industrivärden act on various matters in accordance with the principles of active ownership. See also the section "Industrivärden – an Overview," page 4.

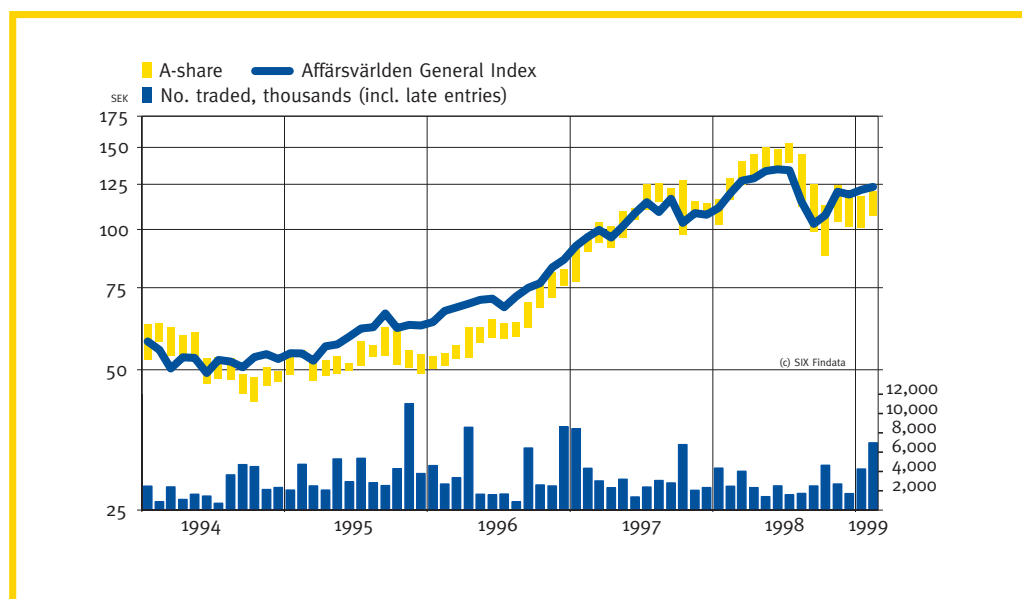
In addition Industrivärden's President and Executive Vice President serve as chairmen of the wholly owned subsidiaries.

Industrivärden's board met eight times in 1998.



Industrivärden's stock is quoted on the Stockholm Stock Exchange's list of most actively traded issues. The price of Class A shares fell by 2 percent during the year. The total return amounted to 1 percent. Trading volume in Industrivärden's stock and CPNs amounted to SEK 6 billion. At year-end Industrivärden's market capitalization was approximately SEK 21 billion, including CPNs worth SEK 2 billion.

## Price Trend of Industrivärden's Stock



During the period January 1994 – February 1999, Industrivärden's class A stock performed on a par with the General Index.

## Listing Currency

Starting January 4, 1999, companies listed on the Stockholm Stock Exchange can choose to be listed in kronor and/or euros. To date only a few companies have requested euro listings. Industrivärden has opted to list its stock in kronor.

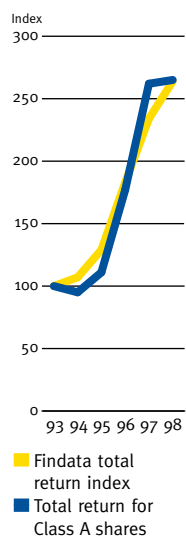
## Industrivärden's Stock

A stock split was carried out in 1998, whereby four new shares were received for each existing share held. The number of shares and breakdown by class is shown in the table below.

### Industrivärden's Capital Stock

Number of shares	Par value SEK M	Percentage of	
		votes	shares
124,960,588 Class A shares	624.8	96	73
46,750,664 Class C shares	233.8	4	27
171,711,252	858.6	100	100

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 5 each. Both classes of stock are registered on the Stockholm Stock Exchange.

Total Return of  
Industrivärden Stock

Industrivärden's stock performed below the market average in 1998. The index rose 10 percent during the year, while Industrivärden's Class A shares decreased by 2 percent, from SEK 111 to SEK 109 per share. The total effective return, including reinvested dividends, was 1 percent in 1998, compared with 13 percent for the market as a whole.

A comparison of Industrivärden's total return with the Findata total return index during the period 1994–98 is shown in the table below.

### Total Return, Industrivärden 1994–98

	1998	1997	1996	1995	1994
Total return for Class A shares, %	1	48	59	17	-5
Index (base: Dec. 31, 1993)	265	262	177	111	95
Findata total return index, %	13	28	41	21	7
Index (base: Dec. 31, 1993)	264	234	183	129	107

The Class A shares' beta coefficient was 1.2 in 1998. If a stock has a beta that is greater than one, this suggests that the stock is more sensitive to market swings than the average issue, and if it has a beta that is less than one, it suggests that the stock is less sensitive than the average issue.

Trading volume in Industrivärden stock on the Stockholm Stock Exchange during 1998 amounted to SEK 6 billion, corresponding to a turnover rate of 25 percent for the A-shares and 42 percent for the C-shares.

### Capital Stock Development

In 1998, 60,000 CPNs were converted to stock. As per the record date, January 20, 1999, an additional 700 CPNs were converted to stock. The total number of shares that carry entitlement to the dividend for 1998 is thus 171,711,952. The growth in capital stock during the last ten years is shown in the table below.

### Capital Stock Development

SEK M	Capital stock	Number of shares
1989 Stock dividend 1:4	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
1998 Stock split 4:1	858.3	171,651,252
Conversion of CPNs	858.6	171,711,252
1999 Conversion of CPNs (January 1-20)	858.6	171,711,952

## Industrivärden's Convertible Participating Notes (CPNs)

In 1988 Industrivärden raised a convertible debenture loan through the issuance of convertible participating notes (CPNs). Additional CPNs were issued in 1989. The loan matures on January 31, 2028. A split was carried out in 1998 whereby four new CPNs were received for each existing CPN held.

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

CPNs do not carry any voting rights at Industrivärden's Annual General Meeting, however, CPN holders are given the opportunity to attend the Meeting.

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 dividend.

Each CPN may be converted to one share of the same class. CPNs have a par value of SEK 23 each.

Trading in Industrivärden's CPNs on the Stockholm Stock Exchange during 1998 amounted to SEK 0.1 billion, corresponding to a turnover rate of 3 percent.

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

### Industrivärden's CPNs

Number of CPNs	Par value, SEK M	Percentage of number of CPNs
8,469,912 A-CPNs	194.8	43
11,025,820 C-CPNs	253.6	57
19,495,732	448.4	100

## Dividends and CPN Interest

Industrivärden's dividend policy is to give shareholders a yield that is higher than the average for the Stockholm Stock Exchange. This target has been met every year during the past five-year period.

The Board of Directors has proposed that the Annual General Meeting declare a dividend of SEK 4.50 per share (3.75). Consequently, CPN interest will thereby amount to SEK 5.18 (4.31) per CPN. The Board's proposal entails average annual dividend growth of 14.9 percent during the past five years. In addition, in 1995 shareholders received one purchase right per share and CPN of Industrivärden pertaining to PLM, valued at SEK 2.98. The trend in the dividend and CPN interest is shown in a table below.

### Dividends and CPN Interest<sup>1</sup>

SEK	1998	1997	1996	1995	1994
Dividend	4.50 <sup>2</sup>	3.75	3.25	2.75	2.50
Annual growth in dividend, % <sup>3</sup>	20	15	18	10	11
CPN interest	5.18 <sup>2</sup>	4.31	3.74	3.16	2.88

<sup>1</sup>All figures recalculated to take into account the 1998 stock split (4:1).

<sup>2</sup>Proposed by the Board of Directors.

<sup>3</sup>Average dividend growth during the past five years was 14.9 percent.

### Warrants for Class A Shares

In early 1998 Warburg Dillon Read 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 137.50 per share. Holders are entitled to exercise their options until June 16, 2000. The warrants are quoted on the Stockholm Stock Exchange.

### Stock Investment Program

In an effort to stimulate investment in Industrivärden's stock, cooperation was initiated during the year with Stadshypotek Bank in connection with the launch of Industrivärden's new website. Stadshypotek Bank offers a competitive package of services to individual investors. For example, they can elect to have their dividends reinvested without extra cost.

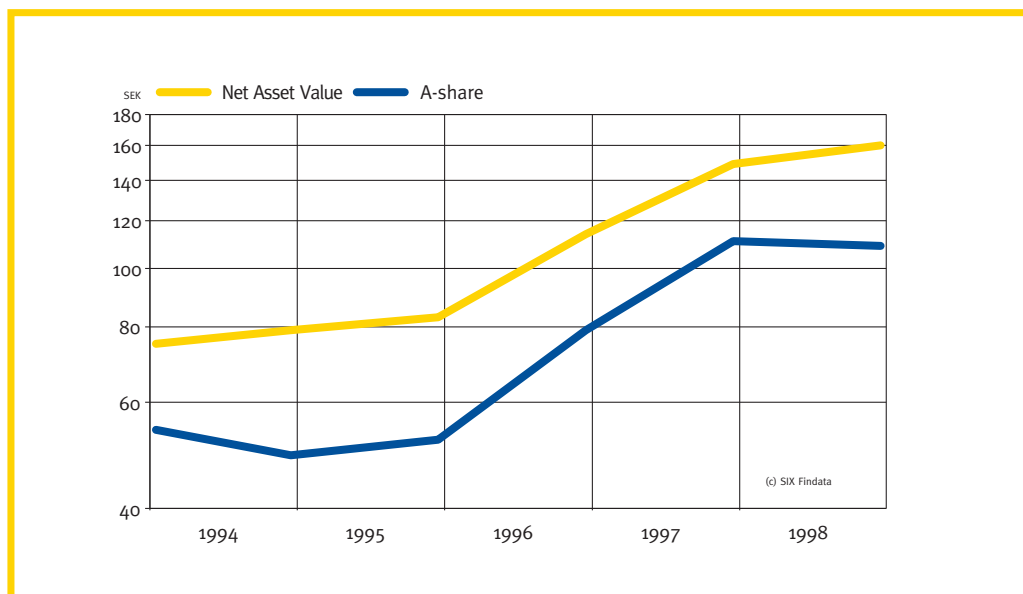
To trade stock or for further information, visit Industrivärden's website, [www.industrivarden.se](http://www.industrivarden.se), or call Stadshypotek Bank's telebank, tel. 020-77 88 99 (national). Industrivärden's website also provides links to a number of similar services in the Swedish market.

### Calculated Net Asset Value

Net asset value is a measure of the shareholders' and CPN holders' combined underlying net wealth, which is defined as assets' actual or calculated market values less liabilities. The principles that form the basis of calculating the Company's net wealth are presented in a box on page 80.

Net asset value at December 31, 1998, was calculated at SEK 30.6 billion, or SEK 160 per share and CPN. The development of net asset value during the past five years is shown in the table on the next page.

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





## Composition and Growth of Net Asset Value

(SEK/share and CPN)	1998	1997	1996	1995	1994
<b>Assets</b>					
Listed stocks	157	150	93	72	49
Industrial and trading operations	19	16	20	15	38
Real estate held for investment purposes	–	–	5	5	6
	<b>176</b>	<b>166</b>	<b>118</b>	<b>92</b>	<b>93</b>
<b>Liabilities and shareholders' equity</b>					
Net indebtedness	16	16	4	9	14
Shareholders' equity <sup>1</sup>	160	150	114	83	79
	<b>176</b>	<b>166</b>	<b>118</b>	<b>92</b>	<b>93</b>
Net asset value	160	150	114	83	79
Market price, Dec. 31, Class A shares	109	111	78	52	49
Discount to net asset value, % <sup>2</sup>	32	26	31	38	38

<sup>1</sup>Reported shareholders' equity, CPN loans and surplus values.

<sup>2</sup>The difference between net asset value and the share price, expressed as a percentage of net asset value.

## Largest Shareholders

Industrivärden has approximately 27,000 shareholders. Taking CPN holders also into account, the total number of investors in the Company's stock and CPNs is approximately 29,000. Institutional investors, such as pension foundations, insurance companies and investment companies, own approximately 83 percent of the shares. Foreign ownership in the Company amounts to approximately 6 percent.

## Ownership at December 31, 1998

	Number of shares	Percentage of	
		votes	shares
Swedish National Pension Insurance Fund,			
Fifth Fund Board	9,200,000	7.1	5.4
SCA convertible holders <sup>1</sup>	7,320,000	5.6	4.3
SCA <sup>1</sup>	7,073,656	5.5	4.1
Handelsbanken Pension Foundation	6,520,000	5.0	3.8
Handelsbanken Pension Fund	6,400,000	4.9	3.7
AMF	16,906,000	4.8	9.8
AGA	5,600,000	4.3	3.3
Wallander & Hedelius Foundation	5,000,000	3.9	2.9
Inter IKEA Finance SA	4,498,734	3.3	2.6
SCA Pension Foundation	3,750,192	2.9	2.2
Swedish Skandia Life	4,320,736	2.3	2.5
UBS Switzerland	4,529,374	2.3	2.6

<sup>1</sup>In 1997 SCA issued five-year DEM-denominated debt instruments (so-called exchangeables), which can be exchanged for 7,320,000 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, 1998<sup>1</sup>

Size class (No. of shares)	Number of shareholders as % of total	Total holding as % of capital
1 – 500	53.9	1.8
501 – 1,000	18.5	2.2
1,001 – 2,000	13.0	3.2
2,001 – 5,000	9.2	4.8
5,001 – 10,000	2.8	3.2
10,001 –	2.6	84.8
	<b>100.0</b>	<b>100.0</b>

<sup>1</sup>Direct and nominee shareholders.

Source: Swedish Central Securities Depository.

### CALCULATING THE MARKET VALUE OF INDUSTRIVÄRDEN'S ASSETS

In the Parent Company's balance sheet, the book values of listed stocks and stock in subsidiaries have been replaced by the corresponding actual or estimated market values. Net asset value has thereafter been calculated as the difference between the market values of assets and liabilities in the balance sheet. An alternative approach would be to start with the Group's adjusted shareholders' equity as reported in the consolidated balance sheet and add the calculated hidden reserves (the difference between the calculated market values and the book values reported by the Group).

In this way, an estimate can be obtained of what the Group's shareholders' equity would amount to if the assets were divested on a particular date. Since holding companies are exempt from capital gains taxes on sales of stocks, the calculations do not include any standard tax assumption.

### 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 1998, 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 1998 was higher.

## **TAX RULES FOR 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, and
- that taxation shall enable reinvestment of the shareholding within the intermediary.

### **Current Tax Rules**

The main points 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, and
- 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 applied for changes in tax status at year-end 1998 were:

An amount corresponding to 40 percent of the highest value of the securities holding at the end 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 1990. This tax rule does not apply for liquidation.

### **New Tax Rules from 1999**

According to new legislation that took effect on January 1, 1999, the tax rules for changes in tax status have changed. The new 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, for example, 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 portfolio value that corresponds to 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, Skanska, Graninge and SAS's Assembly of Representatives. Vice Chairman of Svenska Handelsbanken. Shareholding: 30,000.

## **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 Swedish National Pension Insurance Fund, First Fund Board. Member of the Royal Swedish Academy of Engineering Sciences.

## **Carl-Erik Feinsilber**

LLB, b. 1931, Lidingö. Director since 1988. Vice Chairman of SSAB. Director of Bonnier AB among other companies. Shareholding: 10,000.

## **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, among other companies. Shareholding: 10,000.

## **Lennart Nilsson**

M. Eng., Honorary Doctor of Economics, b. 1941, Lund. Director since 1997. Chairman of Celsius, Lund University and the Association of Swedish Engineering Industries. Vice Chairman of Cardo and Trelleborg. Director of the Crafoordska Foundation, Gorthon Lines, the Henry and Gerda Dunkers Foundation, and Donation fund No. 2. Shareholding: 3,000.

## **Clas Reuterskiöld**

President and Chief Executive Officer of Industrivärden. MBA, b. 1939, Stocksund. Director since 1994. Director of AGA, Ericsson, Sandvik, Skanska, Svenska Handelsbanken and SCA, among other companies. Shareholding: 51,020. Stock options: 50,000.

Top, from left: Clas Reuterskiöld, Björn Wolrath and Inga-Britt Ahlenius. Center: Bo Rydin. Bottom, from left: Lennart Nilsson, Tom Hedelius and Carl-Erik Feinsilber.

## **Björn Wolrath**

M. Pol. Sc., b. 1943, Stockholm. Director since 1996. Chairman of Rederi AB Gotland, AB Svensk Exportkredit and the Swedish Academy of Directors. Vice Chairman of Telia. Director of Nordiska Holding AB and the University of Stockholm. Bursar, Swedish Royal Academy of Sciences. Shareholding: 2,000.

## **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.

## Executive Management

**Clas Reuterskiöld**, b. 1939.  
President and Chief Executive Officer.  
Employed by Industrivärden since 1994. Shareholding: 51,020.  
Stock options: 50,000.

**Carl-Olof By**, b. 1945.  
Executive Vice President and Chief Financial Officer. Employed by Industrivärden since 1990.  
Shareholding: 10,000.  
Stock options: 50,000.

**Lennart Engström**, b. 1959.  
Head of Equity Investment. Employed by Industrivärden since 1996.  
Shareholding: 8,000.  
Stock options: 50,000.

**Thomas Nordvaller**, b. 1944.  
General Counsel. Employed by Industrivärden since 1992.  
Shareholding: 4,000.  
Stock options: 17,000.

## Senior Executives

**Lars von Celsing**, b. 1946.  
Head of Finance. Employed by Industrivärden since 1992.  
Stock options: 1,000.

**Jacob Röjdmärk**, b. 1965.  
Head of Research. Employed by Industrivärden since 1996.  
Stock options: 33,000.

**Jan Spetz**, b. 1956.  
Group Controller. Employed by Industrivärden since 1990.  
Shareholding: 5,200.  
Stock options: 25,000.

## Auditors

**Bertil Edlund**  
Authorized Public Accountant,  
Öhrlings PricewaterhouseCoopers.

**Ulf Pernvi**  
Authorized Public Accountant,  
Öhrlings PricewaterhouseCoopers.

## Deputy Auditors

**Margareta Essén**  
Authorized Public Accountant,  
Öhrlings PricewaterhouseCoopers.

**Ingvar Pranhäll**  
Authorized Public Accountant,  
Öhrlings PricewaterhouseCoopers.



From left: Clas Reuterskiöld,  
Lennart Engström, Carl-Olof By  
and Thomas Nordvaller.

# Group Summary

## Group Summary<sup>1</sup>

SEK M	1998	1997	1996	1995	1994
<b>Income Statements</b>					
Net sales	4,580	4,275	5,547	5,893	12,700
Operating earnings	276	260	361	488	966
Dividends from listed stocks	1,067	426	490	254	362
Capital gains on sales of listed stocks	974	273	679	86	325
Capital gains on sales of other stocks	29	1,592	8	1,195	263
Earnings after financial items	2,148	2,404	1,417	1,765	1,517
Earnings before taxes and minority interests	2,047	2,320	1,344	1,645	1,461
Net earnings for the year	1,918	2,274	1,286	1,615	1,250
<b>Balance Sheets</b>					
Fixed assets	13,260	11,978	7,562	7,613	9,436
Current assets	2,913	1,930	2,551	2,609	5,141
Total assets	16,173	13,908	10,113	10,222	14,577
Shareholders' equity	9,974	8,674	6,945	6,137	5,483
CPN loans	448	450	450	450	450
Provision for pensions	132	126	181	248	536
Interest-bearing liabilities	4,418	3,595	1,355	2,064	5,078
Noninterest-bearing liabilities	1,201	1,063	1,182	1,320	3,026
<b>Key Ratios</b>					
Visible shareholders' equity	10,422	9,124	7,395	6,587	5,933
Adjusted shareholders' equity	28,171	26,759	19,774	15,034	11,732
Net asset value	30,597	28,596	21,730	15,899	15,000
Visible equity ratio, %	64	66	73	65	41
Adjusted equity ratio, %	83	85	88	81	58
Capital expenditures	157	144	265	236	664
Average number of employees	3,428	3,332	4,561	4,918	9,572
of whom, outside Sweden	1,797	1,791	2,309	2,293	5,895
<i>SEK per share and CPN<sup>2</sup></i>					
Earnings per share after full tax	10.56	12.33	7.10	9.08	6.83
Visible shareholders' equity	55	48	39	35	31
Adjusted shareholders' equity	147	140	103	79	61
Net asset value	160	150	114	83	79
Stock price, December 31					
Class A shares	109	111	78	52	49
Class C shares	102	109	76	50	47
Dividend	4.50 <sup>3</sup>	3.75	3.25	2.75	2.50
Dividend growth, % per year	20	15	18	10	11
Direct yield, %	4.1 <sup>3</sup>	3.4	4.2	5.3	5.1
Total return, %	1	48	59	17	-5
CPN interest	5.18 <sup>3</sup>	4.31	3.74	3.16	2.88

<sup>1</sup>A Group Summary expressed in euros is presented on page 60.

<sup>2</sup>All data per share and CPN recalculated to take into account the 4:1 stock split in 1998.

<sup>3</sup>Proposed by the Board of Directors.

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