

I N D U

S T R I

INDUSTRIVÄRDEN ANNUAL REPORT 2005



V Ä R D

E N 0 5

# Contents

## 1 Highlights 2005

## 2 CEO's Message

### Presenting Industrivärden

- 4 Industrivärden at a Glance
- 5 Goals and Goal Achievement
- 6 Net Asset Value
- 8 Industrivärden Share Data
- 11 Business Model
- 14 Corporate Governance Report
- 18 Organization and Employees

### Equities Portfolio

- 20 Composition and Performance of the Equities Portfolio
- 24 A Portfolio of Industry-Leading Companies
- 26 Handelsbanken
- 28 Ericsson
- 30 Sandvik
- 32 SCA
- 34 SSAB
- 36 Skanska
- 38 Indutrade
- 40 Munters
- 42 Isaberg Rapid

### Financial Statements

- 45 Board of Directors' Report
- 47 Proposed Distribution of Earnings
- 48 Consolidated Income Statement
- 50 Consolidated Balance Sheet
- 52 Parent Company Income Statement
- 53 Parent Company Balance Sheet
- 54 Group and Parent Company, Shareholders' Equity
- 55 Group and Parent Company, Statements of Cash Flows
- 58 Accounting Principles
- 63 Financial Instruments and Risk Management
- 66 Notes
- 79 Audit Report
- 80 **Tax Rules for Holding Companies**
- 81 **Nominating Committee's Recommendation for Election of Directors**
- 82 **Industrivärden in Summary – SEK and Euros**
- 84 **Board of Directors, Executive Management and Auditors**
- 86 **Market Communication**
- 87 **Glossary and Definitions**
- 88 **Industrivärden's History**
- 89 **2006 Annual General Meeting**

---

### Financial Calendar 2006

Interim reports will be released

- on May 8 for the period January–March,
- on August 3 for the period January–June
- and on October 31 for the period January–September 2006.

All reports will also be published on Industrivärden's website: [www.industrivarden.net](http://www.industrivarden.net).

See also the Market Communication section, page 86.

This Annual Report will be distributed to shareholders who have notified the Company that they would like to receive it in printed form. Information on the 2006 Annual General Meeting and a notification card to attend the AGM can be found on the inside of the back cover.

*This Annual Report is a translation of the Swedish original.*



## Highlights 2005

### Net Asset Value

Net asset value at year-end was SEK 250 (189) per share, an increase of 32% (22%) for the year. Including reinvested dividends, net asset value rose 37% (25%).

### Total Return

The total return was 33% for Industrivärden Class A shares and 36% for Industrivärden Class C shares, compared with 36% for the return index. During the last ten-year period, Industrivärden's stock has delivered an average annual total return of 20%, outperforming the return index by 6 percentage points per year.

### Purchases of Stocks

- During the year Industrivärden purchased stock in SCA for a net of SEK 1,329 M and in Höganäs for SEK 471 M.
- Total purchases of stocks amounted to SEK 3,023 M (5,203).

### Sales of Stocks

- The wholly owned technology trading company Indutrade was introduced on the stock market through an IPO in which Industrivärden sold 62.5% of its shareholding for SEK 1,585 M. Industrivärden's net asset value pertaining to Indutrade, including dividends received, increased during the year by SEK 1,197 M, or SEK 6 per share.
- The shareholding in Ossur was sold for SEK 1,008 M. Industrivärden's net asset value pertaining to Ossur increased by SEK 225 M during the year.
- Through a share redemption program, shares in Sandvik were sold for SEK 436 M.
- Total sales of stocks amounted to SEK 3,964 M (2,956).

### Short-Term Trading

- The result of short-term trading in derivatives and equities was SEK 122 M (106).

### Proposed Dividend

The Board of Directors proposes a dividend of SEK 7.00 (6.00) per share, an increase of 17%.

# CEO's Message

## Continued Strong World Economy in 2005



The global economy performed well in 2005, and the rate of growth was broadly higher than expected with China and India as the engines of growth. Once again, it was countries in the euro area that lagged behind. Despite low interest rates, weak consumption has put a damper on economic growth in the euro region. However, today there are signs that domestic consumption is beginning to pick up steam in some countries, including Germany and France. An adjustment of the record-low short-term interest rates to more normal levels has been initiated in several major economies. At the same time, inflationary tendencies in the world economy remain weak. Rising wages are the main cause of inflation. With more than 1.8 billion able workers in India and China who are willing to work for considerably lower wages than workers in the West, sharp pay increases appear unlikely. At the same time growth will remain high. The major surplus of cheap labor is a good illustration of today's global economy. A reasonable conclusion is that long-term rates will remain low, even if they may notch upwards from today's record-low levels.

### **Favorable Trend for Portfolio Companies and Industrivärden's Stock**

In pace with the positive trend in the world economy, our port-

folio performed well during the year. Most of Industrivärden's portfolio companies have first-rate global market positions and are leaders in their respective industries. These positions are a result of a long-term industrial mindset and stance with respect to research and development, internal efficiency, succession planning and strategic acquisitions. Sandvik and Ericsson are prime examples. Another is SSAB, which has succeeded in carving out a world-leading position in the very profitable niches of high-strength and quenched steel.

Industrivärden's stock also performed well in 2005. The total return for our Class A and C shares was 33% and 36%, respectively, compared with 36% for the return index. Our stock thus did well despite the fact that two of our major holdings, SCA and Handelsbanken, performed worse than the market index during the year.

SCA had a tough year, as did its competitors. A surplus in the market, price pressure and fierce competition contributed to falling profitability. The structural measures that have been taken at a cost of slightly more than SEK 6 billion, which was charged against earnings in 2004 and 2005, lay a solid foundation for restoring profitability and cash flow. SCA is a company with strong market positions, well-developed industrial systems and great future opportunities. As a long-term investor, Industrivärden saw an investment opportunity in spring 2005 when SCA's stock was trading on a par with visible shareholders' equity. We therefore bought additional shares in SCA for a total of SEK 1.3 billion at an average price of SEK 255 per share.

Like the rest of the banking sector, Handelsbanken did not measure up to the total return index during the year. However, its underlying earnings performance and growth remain favorable. The decision to proceed with the demutualization of SPP and the limited impact it had on the company's capital structure prompted Handelsbanken to resume its buyback program.

From a long-term perspective, both SCA and Handelsbanken have been good investments that have performed well in comparison with their industry peers and the total return index.

### **Industrivärden's Stock – A Competitive Savings Form**

In 2005 we did not quite reach up to our benchmark – the total return index (which takes into account reinvested dividends). Despite this, Industrivärden's stock remains a first-rate investment. Our average total return has outperformed the index by 11 percentage points per year from a two-year perspective, by 2 percentage points per year from a five-year perspective, and by 6 percentage points per year from a ten-year perspective. Our stock

has even outperformed the return index from a 61-year perspective – since the foundation of Industrivärden. Industrivärden's management cost for the year was SEK 78 M, or 0.2% of the value of our equities portfolio. We earned SEK 122 M on our short-term trading and thereby amply covered our management cost for the third year in a row. Apart from sweetening our return, this activity provides us with valuable market information.

### **Profitable Supplemental Investments**

At Industrivärden we credit our success to the fact that we have been effective in our ownership role and that our investment decisions are based on high quality analysis. Our challenge is to invest in companies that have the potential to deliver long-term favorable growth in value. In our continuing evaluation and rankings of the some 800 listed companies in the Nordic markets, the companies in our portfolio measure up very well. That is why in 2004 and 2005 we increased our ownership by a combined total of SEK 4.9 billion in Sandvik, Handelsbanken and SCA. To date the value appreciation of these investments excluding dividends and redemption offers has amounted to SEK 2.0 billion. We now have more than 10% of the capital in each of these companies and a balanced portfolio in which no holding accounts for more than 25% of the portfolio value. Today these three holdings, together with Ericsson, account for slightly more than 75% of our total portfolio value.

In 2005, two of the companies in our portfolio carried out redemption programs in order to adapt their capital structures. Sandvik canceled 10 million shares for a total of SEK 4.0 billion. Industrivärden accepted the offer, which gave us SEK 436 M while keeping our share of the votes and capital unchanged. With respect to SSAB, we chose to sell our redemption rights for SEK 54 M, which increased our share of the capital and votes by 1.6 and 2.1 percentage points, respectively. Our decisions in each of these cases, which were based on our view of the price development of the respective stocks, proved to be correct. At year-end 2005 Sandvik's share price was slightly lower than the redemption price, while SSAB's share price was clearly higher than the redemption price.

### **Successful Stock Market Introduction for Indutrade and Exit from Ossur**

Another important event in 2005 was Indutrade's stock market debut. On October 5, Indutrade was introduced on the Stockholm Stock Exchange O-List through the first initial public offering in Sweden in 17 months. With an introduction price of SEK 65 per share, the IPO was a success and was oversubscribed 12 times. On the year's last day of trading, Indutrade's stock was trading at SEK 89 – a price rise of 37% since the introduction. We continue to hold great confidence in Indutrade and its future growth opportunities,

and we are staying on as a major shareholder with roughly 35% of the capital and votes. Counting the dividend of SEK 300 M we received from Indutrade and the SEK 350 M growth in the value of our remaining shareholding, the Indutrade IPO increased our net asset value by SEK 1.2 billion, or SEK 6 per share. The IPO also lowered our net debt by SEK 1.9 billion.

In October we sold our entire shareholding in the Icelandic med-tech company Ossur. Shortly before the sale we participated in a new issue carried out by Ossur to finance an acquisition in the U.S. The sale decreased our net debt by SEK 850 M and generated a gain of SEK 398 M, or approximately 90% on our investment excluding the new issue. In view of Ossur's valuation and the low liquidity of its stock, we felt the timing was right to exit from the holding. We took our position in Ossur in May 2002 and, through board representation and other initiatives, have actively contributed to Ossur's fine growth and development.

As a result of the refinement of Industrivärden's equities portfolio in recent years, today we have a virtually transparent portfolio in which 99% of the managed value consists of listed equities. At year-end 2005 our net debt was SEK 4.0 billion, and our total assets were worth SEK 52.3 billion. The net debt-equity ratio was 7%. If we were to lower our debt with the stocks that do not make up our active portfolio holdings, our net debt-equity ratio would be 3.5%. Industrivärden is well poised to make new investments when the right opportunity comes along.

### **Proposed Dividend 2005**

The Board's proposed dividend increase of 17% to SEK 7.00 per share entails that we have once again achieved our goal of paying a dividend that exceeds the average for the Stockholm Stock Exchange. It is especially gratifying to note that we have achieved a balance in our operating cash flow. We can now pay out a total of SEK 1.4 billion without experiencing a deficit in our continuing cash flow. The conditions are good that we will also be able to maintain this cash flow balance, which is so important for us.

Industrivärden has had a year of continued strong performance, and our favorable financial position – together with the quality of the companies in our portfolio – makes us well poised for the future. On this note I want to thank Industrivärden's employees for a job well done in 2005. With a fresh grasp we can now approach 2006 with confidence.

Stockholm, Sweden, February 2006



Anders Nyrén  
President and CEO

## INDUSTRIVÄRDEN AT A GLANCE

# One of the Nordic Region's Leading Holding Companies

## BUSINESS MISSION

To create shareholder value through a professional investment operation and active ownership

### GOAL

To generate high growth in net asset value over time. From this vantage point the aim is to enable a total return to Industrivärden's shareholders which, over the long term, is higher than the average for the Stockholm Stock Exchange.

### STRATEGY

Value creation will be achieved through a professional investment operation and active ownership. Investment activities are built upon a structured process of continuous analysis of existing and potential holdings. Active ownership is based on Industrivärden's model for value creation in its portfolio companies (see page 11).

### INVESTMENT CRITERIA

- Investments in midcap and large listed Nordic companies
- Ownership stakes that enable significant influence
- Strong potential for growth in value through active ownership
- Concentration on a limited number of shareholdings

### Composition of Net Asset Value<sup>1</sup>

	SEK billion		SEK per share <sup>2</sup>	
	12/31/2005	12/31/2004	12/31/2005	12/21/2004
Equities portfolio	52.3	41.7	271	216
Net debt	-4.0	-5.1	-21	-27
<b>Net asset value</b>	<b>48.3</b>	<b>36.6</b>	<b>250</b>	<b>189</b>

1) Net asset value indicates the shareholders' total net worth in the Company, defined as the market value of the Parent Company's equities portfolio less net debt.

2) Total number of shares: 193,135,612.

### Equities Portfolio as per December 31, 2005

	SEK billion	Ownership, %
Handelsbanken	13.2	25
Ericsson	10.4	20
Sandvik	9.6	18
SCA	7.0	13
SSAB	4.1	8
Skanska	3.9	8
Indutrade	1.3	3
Munters	0.8	1
Other holdings	2.0	4
<b>Total</b>	<b>52.3</b>	<b>100</b>



## GOALS AND GOAL ACHIEVEMENT

## Higher Total Return than Index

Industrivärden's goal is to generate high growth in net asset value over time and to enable a total return to Industrivärden's shareholders which, over the long term, is higher than the average for the Stockholm Stock Exchange. Industrivärden has historically demonstrated a superior ability to create shareholder value.

Industrivärden works according to a well established model for structured investment activities and active value creation in its portfolio companies. Using this as a base and with a long-term approach, Industrivärden has generated favorable growth in net asset value in both the short- and long-term perspectives. This favorable growth, combined with the Company's policy of paying

a dividend yield that is higher than the average for the Stockholm Stock Exchange, has contributed to a favorable and competitive total return for Industrivärden's shareholders. Over the last two-, five- and ten-year periods, Industrivärden's stock has delivered a higher total return than the average for the Stockholm Stock Exchange.

### Average Growth in Net Asset Value

	2005	Five years (2001–2005) <sup>1</sup>	Ten years (1996–2005) <sup>1</sup>
Net asset value, %	32	-2	12
Net asset value including reinvested dividends, % <sup>2</sup>	37	4	18

1) Average per year.

2) Taking into account reinvested dividends, a measure of total value growth is obtained, i.e., how net asset value would have developed if dividends had remained in the Company and grown in pace with the equities portfolio.

### Annual Excess Return<sup>3</sup> for Industrivärden's Stock Compared with Return Index (SIXRX)

Annual total return	Industrivärden		Return index, %	Excess return (% points)	
	Class A, %	Class C, %		Class A	Class C
61 years (since the foundation)	15	- <sup>4</sup>	13	2	- <sup>4</sup>
20 years	16	- <sup>4</sup>	15	1	- <sup>4</sup>
15 years	16	17	15	1	2
10 years	20	20	14	6	6
5 years	6	8	4	2	4
2 years	40	41	29	11	12

3) Growth in value including reinvested dividends.

4) The Class C shares became listed in 1988.

## NET ASSET VALUE

## Net Asset Value Increased by 37% Including Dividends

Net asset value rose 37% in 2005, or by SEK 68 per Industrivärden share, assuming reinvestment of the dividend paid of SEK 6.00 per share.

Net asset value indicates the shareholders' total net worth in the Company, defined as the market value of the Parent Company's equities portfolio less net debt. At year-end net asset value amounted to SEK 48.3 billion (36.6).

### Measuring the Market Value of Industrivärden's Equities Portfolio

To show the composition of net asset value, the Parent Company's holdings of listed equities have been valued at stock market value as per the accounting date. Skanska's Class A shares, which have strong voting power and are unlisted, have been valued at the same price as its Class B shares. The value of unlisted shareholdings, including subsidiaries, has been taken up at shareholders' equity. Since holding companies are exempt from capital gains tax on sales of stocks, the calculations have not been charged with any standard tax assumption. The tax rules for Swedish holding companies are described on page 80.

### Net Debt

Net debt in the calculation of net asset value includes the Parent

Company's interest-bearing net debt as well as the net book value of other assets and liabilities.

### Borrowings and Risk

In addition to the change in value of stocks, net asset value is also affected by borrowings on the equities portfolio and its level of risk. Industrivärden's rule is that the net debt-equity ratio may amount to a maximum of 20% of the market value of the equities portfolio. During the five-year period 2001–2005, the net debt-equity ratio varied from a low of 5% to a high of 17%.

The most significant risk in Industrivärden's business entails fluctuations in the value of the equities portfolio. This risk and other financial risks that affect Industrivärden are described in detail on pages 63–65.

During the ten-year period 1996–2005 the standard deviation in the total return for Industrivärden's listed portfolio was 24.0%, compared with 21.7% for the return index (SIXRX). The total variation in the return for Industrivärden's listed portfolio is thus higher than a broad market index, which is logical considering the relative concentration of the listed portfolio. During the same ten-

year period, net asset value including reinvested dividends rose by 18% per year, compared with 14% for the return index (SIXRX). The increase in net asset value was thus higher than the index at the same time that the portfolio's risk was higher than the risk in the index.

### Change in Net Asset Value per Shareholding

An illustration of the major shareholdings' impact on net asset value in 2005 is shown in a chart on page 23.



With its 455 branches, **Handelsbanken** has a strong position in the Swedish market. The bank has an additional 108 branches in the other Nordic countries and 20 in the UK.



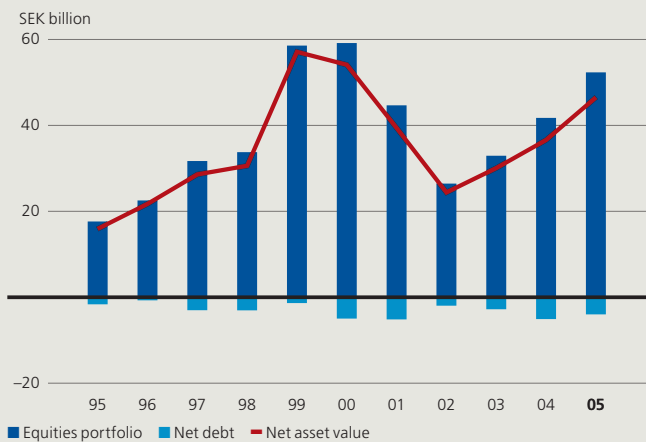
## Composition and Development of Net Asset Value

SEK/share as per Dec. 31	2005	2004	2003	2002	2001
<b>Equities portfolio</b>	<b>271</b>	216	170	136	231
<b>Net debt</b>					
Interest-bearing net debt	-19	-25	-12	-9	-26
Other assets and liabilities	-2	-2	-2	-1	-1
<b>Net asset value</b>	<b>250</b>	189	156	126	204
Change in net asset value, %	<b>32</b>	22	24	-38	-27
Market price of Class A shares	<b>217</b>	170	121	100	165
Market price of Class C shares	<b>200</b>	154	109	91	152
Discount to net asset value, A shares, %	<b>13</b>	10	22	21	19
Discount to net asset value, C shares, %	<b>20</b>	19	30	28	25
Net debt-equity ratio, %	<b>7</b>	12	7	7	11

**Comment:** Net asset value indicates the shareholders' total net worth in the Company, defined as the market value of the Parent Company's equities portfolio less net debt. Industrivärden's rule is that the net debt-equity ratio should not exceed 20% of the market value of the equities portfolio. During the five-year period 2001–2005 the net debt-equity ratio varied between 5% and 17%.

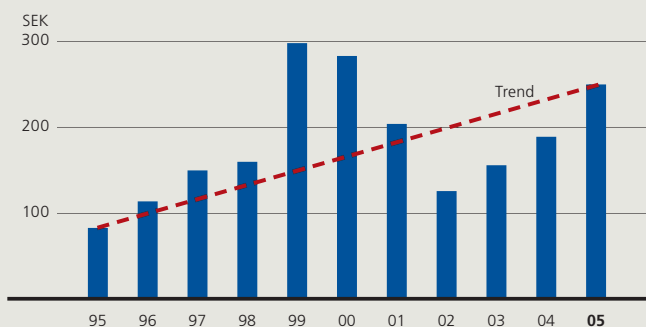
During the period 2001–2005, the discount to net asset value for Industrivärden's Class A shares, i.e., the difference between net asset value and the stock price measured in relation to net asset value, was as high as 28% in September 2002 and as low as 9% in December 2005.

## Development of Net Asset Value

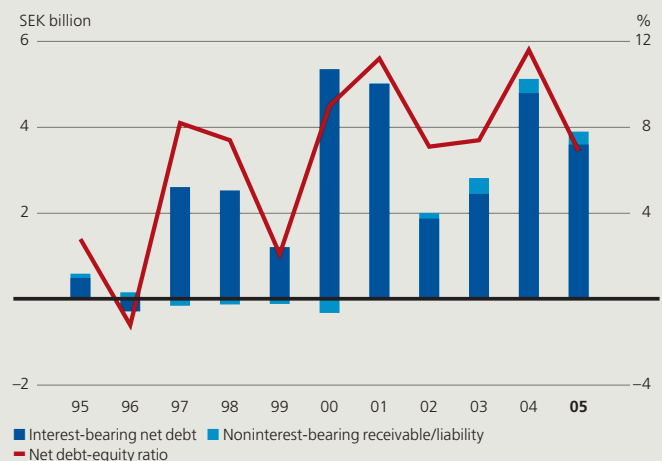


**Comment:** Net asset value increased by more than 250% during the years 1995–1999. Net asset value was more than halved from year-end 1999 until year-end 2002 as a result of a sharp drop in stock prices. During the last three years, 2003–2005, net asset value has risen by 98%. During the entire ten-year period from year-end 1995 to year-end 2005, net asset value increased by an average of 12% per year.

## Net Asset Value per Share



## Net Debt-Equity Ratio



## INDUSTRIVÄRDEN SHARE DATA

## Total Return of 33% for Class A Shares and 36% for Class C Shares

Industrivärden's Class A shares rose 28% during the year, and the Class C shares rose 30%. Trading volume was SEK 6 billion. At year-end Industrivärden's market capitalization was SEK 41 billion. The total return was 33% for the Class A shares and 36% for the Class C shares, compared with 36% for the stock market as a whole.

### Performance of Industrivärden's Stock in 2005

Industrivärden's stock performed slightly below the market average in 2005. The General Index rose 33% during the year, while Industrivärden's Class A shares rose 28%, from SEK 170 to SEK 217. The Class C shares rose from SEK 154 per share to SEK 200, or by 30%. The highest price paid was SEK 229 for Industrivärden's Class A shares and SEK 209 for the Class C shares. The lowest price paid was SEK 152 for the Class A shares and SEK 138 for the Class C shares. The total return in 2005 (including reinvested dividends) was 33% for the Class A shares and 36% for the Class C shares, compared with 36% for the market as a whole.

Trading volume of Industrivärden's stock on the Stockholm Stock Exchange in 2005 was SEK 6 billion, corresponding to a turnover rate of 10% for the Class A shares and 33% for the Class C shares. Average daily trading volume was 56,800 Class A shares, for a value of SEK 10 M, and 76,400 Class C shares, for a value of SEK 13 M.

### Industrivärden's Stock

Industrivärden's stock is quoted on the Stockholm Stock Exchange's list of most actively traded shares. Each A share carries entitlement to one vote, and 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. A round lot consists of 200 shares. Both classes of stock are registered on the Stockholm Stock Exchange.

### Dividend

Industrivärden's dividend policy is to offer the shareholders a dividend yield that is higher than the average for the Stockholm Stock Exchange. This goal has been achieved every year during the past ten-year period. The dividend should be well-balanced with respect to the goals, scope and risk of operations.

The Board of Directors has proposed that the 2006 Annual General Meeting declare a dividend of SEK 7.00 (6.00) per share,



**SSAB** is a leading producer of high-strength sheet and quenched steels, which are used in excavators, among other things, to maximize product life, loading capacities and operating reliability. The scoop is made of SSAB's Hardox steel.

an increase of 17%. This would correspond to a dividend yield of 3.2% (3.5%), for the Class A shares, which is higher than the average dividend yield of 2.8% (2.9%) for the Stockholm Stock Exchange. If the Annual General Meeting votes in favor of the Board's proposal, average annual dividend growth during the past ten years will amount to 10%.

### Largest Shareholders

Industrivärden has approximately 37,900 (36,600) shareholders. Institutional investors, such as pension foundations, insurance companies and mutual funds, own approximately 82% of the shares (82%). Foreign ownership in the Company is approximately 9% (7%). Industrivärden's ownership structure is shown in the tables on page 9. Free float in Industrivärden's stock was 36% (35%).

### Employee Ownership

Information on holdings of stock and options by Company directors, members of the executive management and senior executives is provided on pages 84–85. Industrivärden's employees are included in an employee stock option program that was set up in 2002 for all employees of AB Industrivärden. More detailed terms of the option program are described in Note 7 on page 70.

**Industrivärden's Stock as per December 31, 2005**

	Capital stock SEK, M	Percentage of	
		votes	shares
Number of shares			
134,273,702 Class A shares	671.4	96	70
58,861,910 Class C shares	294.3	4	30
193,135,612 shares	965.7	100	100

**Capital Stock Development**

SEK M	Capital stock	Number of shares
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	858.6	171,711,952
2000 Conversion of CPNs	858.9	171,776,320
2001 Conversion of CPNs	870.5	174,097,031
2002 Cancellation of CPN loan <sup>1</sup>	965.7	193,135,612
2003 No change during the year	965.7	193,135,612
2004 No change during the year	965.7	193,135,612
2005 No change during the year	965.7	193,135,612

1) In 1988 Industrivärden floated a convertible debenture through the issuance of convertible participating notes (CPNs). CPNs could be converted to stock at any time. In accordance with the terms of the loan, an Extraordinary General Meeting resolved in 2001 to prematurely cancel the CPN loan. In accordance with the terms of the loan, CPN owners received one and one-tenth (1.1) shares per CPN held. As a result of the cancellation of the CPN loan, the total number of shares outstanding increased by 12.4%, to 193,135,612.

**Total Return, Industrivärden's Stock**

	2005	2004	2003	2002	2001
Total return for Class A shares, %	33	46	28	-36	-16
Index (base: Dec. 31, 2000)	134	101	69	54	84
Return index (SIXRX), %	36	21	34	-36	-15
Index (base: Dec. 31, 2000)	120	88	73	54	85
Beta coefficient <sup>1</sup>	1.10	1.07	1.00	1.00	1.10

If a stock has a beta coefficient that is higher than one, it indicates that the stock is more sensitive to market fluctuations than an average stock, and if it has a beta that is lower than one, it indicates that the stock is less sensitive than the average stock.

1) Compared with market index (OMXSPI). Source: Bloomberg.

**Codes Assigned to Industrivärden's Stock**

Class A shares	
ISIN code	SE0000190126
Reuters	INDUa.ST
Bloomberg	INDUASS
Ecovision	INDU A

**Dividend**

SEK	2005	2004	2003	2002	2001
Ordinary dividend	7.00 <sup>1</sup>	6.00	5.50	5.00	5.00
Bonus dividend	-	-	-	0.80	3.35
Total dividend	7.00	6.00	5.50	5.80	8.35
Annual growth in dividend, % <sup>2</sup>	17	9	-5	-31	-1
Dividend yield, Class A shares, %	3.2	3.5	4.5	5.8	5.1
Dividend yield, Class C shares, %	3.5	3.9	5.0	6.4	5.5
Dividend yield for Stockholm Stock Exchange, % <sup>3</sup>	2.8	2.9	2.5	2.8	2.0

1) Proposed by the Board of Directors.

2) Average annual dividend growth during the past five years was 7% for the ordinary dividend.

3) Source: SIX Findata. Preliminary figures for 2005.

**Ownership Structure at December 31, 2005<sup>1</sup>**

Owners	Number of shares	Percentage of	
		votes	shares
L E Lundbergföretagen	20,250,000	14.5	10.5
Handelsbanken Pension Foundation	12,900,000	9.2	6.7
Handelsbanken Pension Fund	12,800,000	9.1	6.6
Jan Wallander & Tom Hedelius Foundation	11,400,000	8.1	5.9
SCA Pension Foundation	8,925,540	6.4	4.6
AMF Pension	22,759,000	4.6	11.8
Oktogonen	6,500,000	4.6	3.4
SCA Vorsorge-Treuhand	4,307,315	3.1	2.2
SCA Group Holding	3,840,549	2.7	2.0
SCA Pension Foundation for salaried employees and foremen	3,411,692	2.4	1.8
Handelsbanken	3,365,450	2.2	1.7
Fredrik Lundberg and family	2,160,000	1.5	1.1

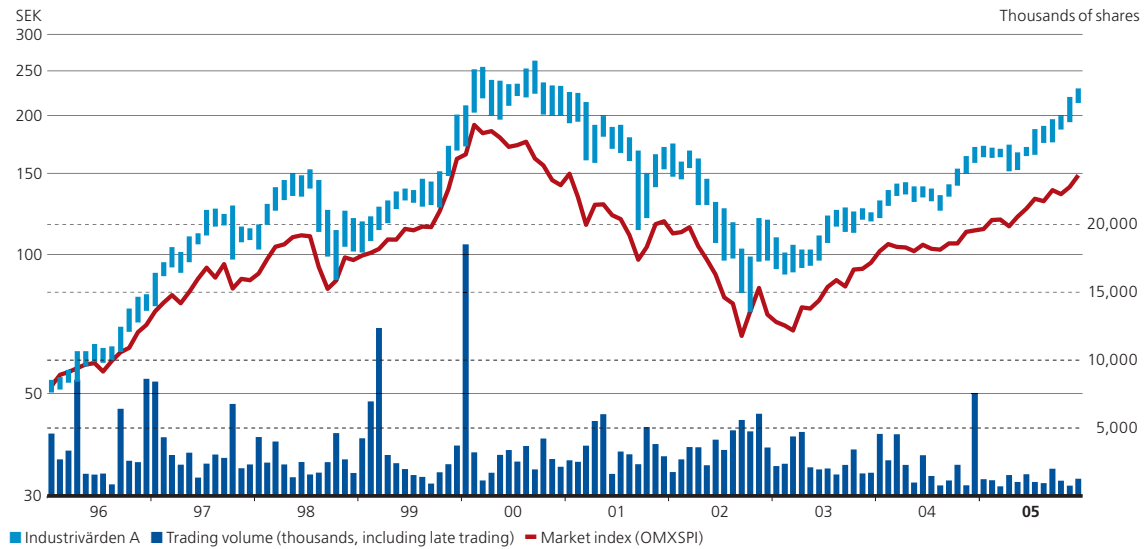
1) Source: SIS Ägarservice.

**Ownership Structure at December 31, 2005<sup>1</sup>**

Size class, no. of shares	Number of shareholders as % of total	Total holding as % of capital
1-500	67.5	2.3
501-1,000	15.0	2.4
1,001-10,000	15.8	8.6
10,001-	1.7	86.7
	100.0	100.0

1) Source: VPC.

### Price Trend, Industrivärden's Stock



**Comment:** During the ten-year period from year-end 1995 to year-end 2005, Industrivärden's stock rose by an average of 15% per year, compared with an average of 12% for the market index.

### Total Return for Industrivärden's Stock



**Comment:** During the ten-year period from year-end 1995 to year-end 2005, the total return for Industrivärden's stock averaged 20% per year, which was 6 percentage points higher than the return index.

**BUSINESS MODEL**

# Value Creation Through Structured Processes

Industrivärden's business involves three main processes: New Investments, Active Ownership and Exit Evaluation. Most of Industrivärden's work is focused on creating value through active ownership in its portfolio companies.

Industrivärden's core business is to invest in listed Nordic companies with good potential for value appreciation, and to create value through active ownership and realize gains in connection with an exit. By virtue of this active ownership role, operations are long-term in their nature, which requires that Industrivärden can exert significant influence. Work is conducted in a structured manner and revolves around three main processes: new investments, active ownership and exit evaluation. In addition, purchases and sales of equities and equity derivatives with a short time horizon are conducted to a limited extent. The aim of these activities is to support Industrivärden's main processes with market information and to generate excess returns. Most of Industrivärden's resources are concentrated in the active ownership process.

**Solid Foundation for Value Creation**

Through a concerted effort, Industrivärden has built up a competitive platform for long-term value creation. This is based primarily on:

- Good financial resources and a long-term investment perspective

- A professional investment organization
- First-rate work methods and information systems
- A highly refined model for identifying and evaluating new investments
- An established process for exercising active ownership
- Experienced directors with ties to Industrivärden on the boards of the portfolio companies
- A valuable contact network with Nordic ties
- A strong brand

During the last ten-year period Industrivärden has demonstrated a superior ability to create value, as evidenced by the high growth in its net asset value. As a result of this performance, Industrivärden's total return has been higher than the average for the Stockholm Stock Exchange over both the last five- and ten-year periods.

**Investment Criteria**

Based on the business mission of creating shareholder value

**Industrivärden's Main Processes**

Industrivärden's business is steered by three main processes in which work is performed according to uniform methods. The aim is to achieve a high degree of efficiency and high standards of quality.

Industrivärden's market operations support the other processes by providing market information and use their knowledge of the markets to generate excess returns.

Industrivärden has a cost-effective organization that is characterized by flexibility and short decision-making channels. Apart from its own organization and the Board of Directors, Industrivärden's network is an important source of information and support in the investment and ownership processes.



through active ownership and a professional investment operation, Industrivärden conducts its work according to the following investment criteria:

- Investments primarily in midcap and large listed Nordic companies
- Ownership stakes that enable significant ownership influence
- Major potential for value growth through active ownership
- Concentration in a limited number of holdings

Every new investment is analyzed with respect to the potential for value appreciation in relation to the required rate of return. Target values are evaluated on a continuous basis, as are possible forms of future exit. In principle, investments are not dependent on any particular sector and are evaluated on a regular basis with a 3–8 year time horizon.

### New Investments

The new-investment process is aimed at providing a current picture of attractive investment candidates in the aim of quickly being able to act when business opportunities arise. Through a systematic work process, well-grounded decisions can be made with a high degree of efficiency and low cost.

Through this method of analysis and continuous contacts, Industrivärden has a good picture of the some 800 companies that are listed in the Nordic stock markets. The 100 or so most interesting listed companies are continuously monitored more closely. Following information gathering, external contacts, analysis and prioritization, presentations of the most interesting companies are made regularly to Industrivärden's investment committee, which is made up of the executive management team and representatives of the investment operation. Any decisions are made thereafter on whether to proceed with a more in-depth analysis and to form an investment team for further consideration. One of the duties of this team is to prepare a preliminary action plan outlining how Industrivärden would be able to actively contribute to value creation in the company. Central matters for consideration are the company's board and management as well as, among other things, value potential, market potential, strategic positioning, capital efficiency and operational improvements. Such a plan also covers goals and forms of future exit. Following this in-depth analysis, if the investment candidate is still judged to be interesting, the forms of stock purchases are established – following a decision by the Board – and an ownership position is gradually built up in the company.

### Market Operations

Industrivärden has a separate function that conducts various market operations in the aim of supporting its investment activities. This function executes investment decisions and provides market infor-

mation. In an effort to generate excess returns, short-term trading is also conducted in the form of derivative transactions based on the holdings in the equities portfolio and by equity trading by the subsidiary Nordinvest. Risk is limited by strict risk mandates and by the fact that transactions are conducted only in stocks that Industrivärden has knowledge about within the framework of its overall strategy.

### Active Ownership

Industrivärden's influence in its portfolio companies is grounded in significant ownership stakes and a strong position of trust. From this platform, an active ownership role is exercised through interaction with other major owners in the aim of finding ways to build value in the shareholdings. Active ownership is exercised by the directors on the boards of the portfolio companies who have ties to Industrivärden, through participation on the respective companies' nominating committees, and through a direct dialog between Industrivärden's investment organization and leading representatives of the portfolio companies. Normally Industrivärden seeks to have at least one director on the boards of its portfolio companies, preferably as chairman.

Once Industrivärden has taken an active ownership role in a new portfolio company, the previously drafted action plan for value creation takes on a more concrete design. From having been a decision-making document in the investment process, it now forms the base of the design and evaluation of Industrivärden's active ownership. The aim is primarily to identify and describe opportunities for value appreciation and strategic measures for creating this value. The team that is responsible for a particular holding monitors and updates the action plan on a regular basis. This work is conducted according to a structured work method and consists of continuous, fundamental company analysis of the portfolio company and its competitors. Information is obtained with the help of suitable system support, through company visits and through an ongoing dialog with the management of the respective companies. Industrivärden also makes use of an extensive network.

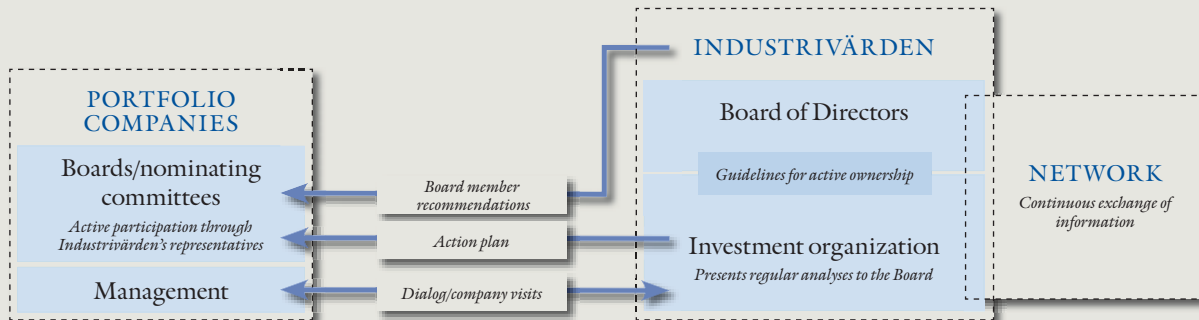
Company-specific action plans are based on Industrivärden's general guidelines for active ownership and cover strategic matters such as:

- Strategy and business development
- Structure
- Goals
- Financial matters
- Corporate governance and management issues
- Organizational, management and compensation structures
- Reporting and control systems, etc.

Each investment team presents its action plan to the director or directors with ties to Industrivärden serving on the board of the



## Industrivärden's Active Ownership



When Industrivärden takes an active role in a new portfolio company, the action plan for value creation takes on a more concrete design. From having been a decision-making document in the investment process, the action plan now makes up the basis for the form, implementation and evaluation of Industrivärden's active ownership.

Board members of portfolio companies with ties to Industrivärden

**Handelsbanken** Arne Mårtensson (Chairman), Anders Nyrén (Vice Chairman), Fredrik Lundberg and Sverker Martin-Löf.  
**Ericsson** Arne Mårtensson (Vice Chairman) and Sverker Martin-Löf.  
**Sandvik** Arne Mårtensson and Anders Nyrén.  
**SCA** Sverker Martin-Löf (Chairman), Tom Hedelius and Anders Nyrén.

**SSAB** Sverker Martin-Löf (Chairman) and Anders Nyrén.  
**Skanska** Sverker Martin-Löf (Chairman), Finn Johnsson, Arne Mårtensson and Anders Nyrén.  
**Indutrade** Bengt Kjell (Chairman), Curt Källströmer and Anders Nyrén.  
**Munters** Bengt Kjell.

portfolio company. In this way, Industrivärden's representatives are provided with a current picture of the opportunities and measures that have been identified. The information is presented to the director or committee member based on material produced by Industrivärden's investment organization.

### Exit Evaluation

Exit evaluation aims to optimize the realization of built-up value. The action plan prepared during the new-investment process includes, among other things, goals and options for a future exit. It is important at an early stage to evaluate the goals for value growth and the forms of a conceivable future exit side-by-side the practice of active ownership. Through close interaction between the three main processes, plans and ways of working can be quickly adapted to new knowledge or changed conditions in the business environment.

### Industrivärden's Role in Society

#### Corporate Social Responsibility

A fundamental tenet held by Industrivärden is that creation of shareholder value should be pursued hand-in-hand with social responsibility. Industrivärden aspires to be a good corporate citizen by accepting the responsibility that is inherent in an active ownership role. Only in harmony with society in general can long-term growth in value be created.

Key aspects of corporate social responsibility include sound business ethics, respect for the individual, and the company's commitment to the environment, health, equal opportunity and

community involvement. Industrivärden strives on a continuing basis to ensure that it lives up to its social responsibility – internally within the Group as well as in its active holdings. Industrivärden puts particular emphasis on the following principles in its active ownership of its portfolio companies:

- Compliance with national legislation in the countries in which it works
- Compliance with the UN human rights declaration and the OECD guidelines for multinational companies
- Conducting all business activities with high standards of integrity and ethics
- Availability and an open channel for dialog with the parties affected by its operations
- The Company's social responsibility shall be evaluated on a continuous basis

#### Environmental Responsibility

In its role as active owner, Industrivärden strives to ensure that the companies in which it is an active owner adopt environmental policies – based on their respective business conditions – that put special emphasis on their markets, environmental impact, legislation and environmental management.

The companies shall be responsive to customers' preferences and to the market's environmental demands. They shall also be aware of their environmental impact and work actively to reduce this impact and their use of resources. Legal regulations shall be viewed as a minimum requirement. Targets must be quantifiable and followed up on a regular basis.

## CORPORATE GOVERNANCE REPORT

## General Meeting is Supreme Governing Body

Industrivärden's governing bodies are general shareholders' meetings, the Board of Directors, the President and CEO, and the auditors. The Board and auditors are elected by the shareholders at a general meeting. The Board has ultimate responsibility for Industrivärden's organization and administration. The Board has a compensation committee and an audit committee. The Chairman of the Board and representatives of the shareholders form a Nominating Committee for election of board members and auditors.

Industrivärden's governing bodies consist of general shareholders' meetings, the Board of Directors, the President and CEO, and the auditors. Industrivärden also has two executive vice presidents. The Board is elected by the shareholders at a general meeting. The Board appoints the Company's President and CEO and executive vice presidents. The auditors are responsible, under assignment of the Annual General Meeting, for reviewing the accounts as well as the Board's and the President's administration during the fiscal year.

### Articles of Association

The Articles of Association stipulate that Industrivärden is a public company whose business is to own and manage real estate and chattel. The Company's shares are divided among Class A and Class C shares. In votes at general meetings of shareholders, the Class A shares carry entitlement to one vote and the Class C shares one-tenth of a vote.

The Board shall consist of at least three and not more than nine members, who are to be appointed yearly at the Annual General Meeting. Notices of the Annual General Meeting shall be issued not earlier than six weeks and not later than four weeks prior to the meeting. Notices of extraordinary general meetings in which the agenda does not concern amendments to the Articles of Association shall be issued not earlier than six weeks and not later than two weeks prior to the extraordinary general meeting in question. Notice shall be made through advertisements in the Official Swedish Gazette (Post- och Inrikes Tidningar) and in Dagens Nyheter and Svenska Dagbladet.

### General Shareholders' Meetings

General shareholders' meetings are Industrivärden's supreme governing body. At the Annual General Meeting (AGM), which is held within six months after the end of the fiscal year, the income statement and balance sheet are adopted, the dividend is decided on, the Board of Directors and auditors (where applicable) are elected, their fees are determined, other items of legally ordained business are conducted, and decisions are made on proposals submitted by the Board and shareholders.

All shareholders who are registered in the shareholder register

on a specified record date and who have notified the Company in due time of their intent to participate at a general meeting have the right to attend the meeting and vote for the total number of shares they have. Shareholders can be represented by proxy. More detailed information on the 2006 Annual General Meeting is provided on the inside back cover of this annual report.

The notice of the Annual General Meeting on May 8, 2006, is expected to be published in Swedish daily newspapers and on Industrivärden's website on April 6, 2006. This notice will present a detailed agenda, including proposals for the dividend, the election of directors and auditors, directors' fees (broken down by the Chairman, Vice Chairman and other board members), and auditors' fees.

### 2005 Annual General Meeting

At the Annual General Meeting on April 20, 2005, attorney Sven Unger presided as chairman.

At the Meeting, the annual report and audit report were presented. In connection with this, Chairman of the Board Tom Hedelius presented information on the Board's work, and reported on the principles for compensation of the members of the executive management and on the work of the Audit Committee. In addition, CEO Anders Nyren gave an address on Industrivärden's activities in 2004.

The auditors reported to the Annual General Meeting on their review in a separate audit report and, in connection with this, reported on their work during the 2004 fiscal year.

The 2005 AGM resolved:

- to set the dividend at SEK 6.00 per share;
- to elect as directors Boel Flodgren, Tom Hedelius, Finn Johnson, Fredrik Lundberg, Sverker Martin-Löf, Arne Mårtensson, Lennart Nilsson and Anders Nyren;
- to appoint Tom Hedelius as Chairman of the Board;
- to authorize the Chairman of the Board to appoint at least four members from among the major shareholders, who are not directors on Industrivärden's board, to form with the Chairman a nomi-

nating committee for the next election of directors; and

- that the composition of the Nominating Committee shall be made public not later than six months before the 2006 Annual General Meeting.

At the statutory board meeting that followed the Annual General Meeting, Sverker Martin-Löf was appointed Vice Chairman of the Board.

### Board of Directors

Industrivärden's board of directors, which is elected by the Annual General Meeting, currently consists of eight members, including the CEO. Industrivärden has not set any specific age limit for board members, nor any term limit for how long a director can serve on the Board.

At the 2004 AGM Fredrik Lundberg was elected as a director. Clas Reuterskiöld had declined reelection. All of the board members were reelected at the 2005 Annual General Meeting.

Industrivärden's chairman, Tom Hedelius, is a former CEO and chairman of Handelsbanken. Vice Chairman Sverker Martin-Löf is a former CEO of SCA. Boel Flodgren is a professor of commercial law and a former president of Lund University. Finn Johnsson is a former CEO of Mölnlycke Health Care, United Distillers and Euroc and is currently Chairman of Volvo. Fredrik Lundberg is President and CEO of LE Lundbergföretagen. Arne Mårtensson is a former CEO of Handelsbanken and is currently Chairman of Handelsbanken. Lennart Nilsson is a former CEO of Cardo.

A presentation of the current assignment for the members of the Board can be found on page 84. Where necessary, other executives participate at board meetings by presenting reports.

All directors except for Tom Hedelius and Anders Nyren are independent in relation to Industrivärden. Of the directors, Boel Flodgren, Finn Johnsson and Sverker Martin-Löf are independent from Industrivärden's major shareholders. Only one director has an operative function in the company, namely, CEO Anders Nyren.

### The Work of the Board of Directors

The Board has ultimate responsibility for the Company's organization and administration, and is also responsible for making decisions on strategic matters.

The Board's work is conducted according to a yearly plan. Each meeting follows an agenda, which together with the underlying documentation is distributed to the directors well in advance of each board meeting.

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

- setting the Board's work plan, including instructions of the CEO. These instructions cover, among other things, investment rules

for stocks and derivative instruments which indicate the amount limits for the CEO's right between board meetings to decide on purchases and sales of stocks and derivative instruments

- strategic plans and business and profitability targets
- acquisitions and sales of companies or businesses
- major purchases and sales of listed stocks

In addition to the statutory board meeting, which is held directly after the Annual General Meeting, the Board normally meets four times a year (regular meetings). Extra meetings are called when necessary.

The statutory meeting involves election of the Vice Chairman, adoption of the Board's work plan, and decisions on the Company's signatories and persons to check the minutes of board meetings.

In connection with the board meeting that deals with the annual financial statements, the Board of Directors' report, the proposed distribution of earnings and the year-end report, the Company's Chief Auditor reports on the auditors' observations and remarks from their audit. A similar report is also presented in connection with the nine-month interim report.

At regular meetings later in the year, the Board approves and releases the Company's interim reports, or delegates this task to the CEO.

The regular meetings cover a number of set agenda items. These include, among other things, a report on the current financial result of operations and on the development of net asset value and the performance of the equities portfolio, including detailed information on stock transactions that have been carried out. The report also includes a description of the share price and earnings trends. In addition, a special review is normally conducted of one or more of the portfolio companies and of potential new investments. As a rule, each year a meeting is held at one of the major portfolio companies, with a company visit in conjunction therewith.

Committees appointed by the Board are delegated the task of preparing matters ahead of board decisions. No compensation is paid for committee work.

The Board evaluates on an annual basis the financial reporting that it receives from the Company and makes demands on its content and structure in order to ensure the quality of financial reporting.

The Board's work is evaluated annually under the direction of the Chairman of the Board.

Board decisions are made following an open discussion which is led by the Chairman. The Company Secretary is attorney Sven Unger, from the law firm Mannheimer Swartling.

### The Chairman's Role

In addition to directing the work of the Board and its committees, the Chairman of the Board monitors the Group's continuing perfor-

mance through regular contacts with the CEO on strategic matters, and represents the Company in shareholder matters.

### **Compensation Committee**

The Board has appointed a compensation committee to submit for the Board's approval a proposal for the salary and remuneration of the President & CEO. The Committee also sets the principles for compensation of other members of the executive management and drafts proposals for any incentive programs. The Compensation Committee includes Tom Hedelius (Chairman of the Board) and Sverker Martin-Löf (Vice Chairman).

### **Audit Committee**

The Board has also appointed an audit committee, which includes all the Company directors except for the CEO. The Audit Committee is delegated with the task of examining the routines surrounding the Company's risk management, business management and control, and financial reporting. The Committee maintains regular contact with the Company's auditors in an effort to ensure that internal and external reporting meet the established requirements and to discuss the scope and focus of audit work. The auditors normally report their observations to the Audit Committee in connection with their examination of the nine-month interim report and in connection with their yearly audit.

### **Important Matters for the Board During the 2005 Fiscal Year**

In 2005 the Board had a total of four meetings in addition to the statutory meeting. The most important task of the Board concerns matters related to the active holdings in the equities portfolio. In addition to strategic planning, the most important single matters in 2005 involved the sale of the majority shareholding in the wholly owned subsidiary Indutrade in connection with the stock market introduction of that company, and sales and purchases of stocks in listed and unlisted companies. See further the Board of Directors' Report on page 45.

### **Nominating Committee**

The 2005 Annual General Meeting resolved to authorize the Chairman of the Board to appoint at least four members from among the major shareholders, who are not directors on Industrivärden's board, to form with the Chairman a nominating committee for the next election of directors. The composition of the Nominating Committee, which is based on known shareholdings at the end of the third quarter, was announced in October 2005, more than six months before the Annual General Meeting. The members of the Nominating Committee are: Tom Hedelius (Chairman of the Board), Christer Elmechagen (AMF Pension), Curt Källströmer

(Handelsbanken) Committee Chairman, Ulf Lundahl (L E Lundbergföretagen), and Anders Nyberg (SCA).

The Nominating Committee had two meetings, at which it evaluated the Board's work during the past year and recommended the reelection of Tom Hedelius, Boel Flodgren, Finn Johnsson, Fredrik Lundberg, Sverker Martin-Löf, Lennart Nilsson and Anders Nyrén, and new election of Lars O. Grönstedt, President and Group Chief Executive of Handelsbanken. Arne Mårtensson had declined reelection. For a more detailed presentation of Lars O. Grönstedt, see page 81.

The Nominating Committee also does drafting work for the appointment of the Company's auditors. Öhrlings PricewaterhouseCoopers AB was appointed by the 2002 Annual General Meeting to serve as auditor through the end of the 2006 Annual General Meeting.

### **Attendance at Board and Committee Meetings**

Due to illness, one board member was absent from the February meeting and the related meeting of the Audit Committee. Apart from that occasion, all board members were present at all board and committee meetings.

### **Operative Activities**

The CEO is responsible for Industrivärden's day-to-day management, which is administrated by the Company's executive management team. The CEO's authorization to decide on investments and on purchases and sales of listed stocks – and concerning financing matters – is subject to rules established by the Board of Directors.

### **The President and Executive Vice Presidents**

Industrivärden's President and CEO, Anders Nyrén, joined the Company in 2001. From 1997 to 2001 he was employed by Skanska as Executive Vice President and CFO. From 1996 to 1997 he served as an executive vice president and member of the executive management of Nordbanken. He was Executive Vice President and CFO of Securum from 1992 to 1996, and from 1987 to 1992 he served as CEO of OM International.

Anders Nyrén is vice chairman of Handelsbanken, and a director on the boards of Sandvik, SCA, Skanska, SSAB, Indutrade, and the wholly owned subsidiary Isaberg Rapid. Anders Nyrén owns 26,575 shares of Industrivärden stock and 50,000 employee stock options.

Bengt Kjell, Executive Vice President in charge of the investment operations, joined Industrivärden in 2002. He serves as chairman of Indutrade, Kungsleden and Isaberg Rapid and is a director on the boards of Munters and Pandox. Bengt Kjell owns 10,000 shares of Industrivärden stock and 35,000 employee stock options.

Carl-Olof By, Executive Vice President and Chief Financial Officer with responsibility also for Corporate Communications and



IT, joined Industrivärden in 1990 and is a director on the board of Handelsbanken Region Stockholm City, Isaberg Rapid and OMX Exchanges. Carl-Olof By owns 15,000 shares of Industrivärden stock and 35,000 employee stock options.

### **Compensation of Directors and Members of Executive Management**

The members of the executive management receive a fixed salary and standard employment benefits, to which is added pension benefits and incentive programs that include employee stock options issued in 2002 and a variable salary component. Compensation to the Board and members of the executive management in 2005, as well as a description of the incentive programs, are described in Note 7 on pages 69–70.

At the 2006 AGM the Board will report on the principles it uses for compensation of members of the executive management. According to the Swedish Companies Act, the Board is responsible for appointing the CEO and setting compensation levels. The Board feels that this practice, which has long been standard, should continue to apply and will therefore not refer the matter to the 2006 AGM. Thus responsibility for the Company's CEO and other members of the executive management will continue to rest entirely upon the Board and will not in any respect be delegated to the AGM.

### **Active Ownership**

Industrivärden's Chairman, CEO, four board members and Executive Vice President in charge of the investment operations are each directors of one or more of the companies in which Industrivärden serves as an active owner. These exercise Industrivärden's active ownership role in accordance with the principles described earlier in this Annual Report under the Business Model section on pages 11–13.

Participation on the portfolio companies' nominating committees is a vital aspect of Industrivärden's active ownership. Industrivärden's chairman chairs the nominating committee of Handelsbanken, and Industrivärden's CFO chairs the nominating committees of Sandvik, SCA, Skanska, SSAB, Munters and Indutrade, and is a member of the nominating committee of Höganäs.

### **Auditors**

At the 2002 Annual General Meeting, Öhrlings PricewaterhouseCoopers AB was elected as the Company's auditor for a term through the 2006 Annual General Meeting.

The auditors are in regular contact with the Chairman of the Board, the Audit Committee and executive management. See also page 16.

Anders Lundin, Authorized Public Accountant, has been Chief Auditor since August 2005, following the retirement of Ingvar Pramhäll, Authorized Public Accountant. In 2005 Anders Lundin was also Chief Auditor for the listed companies AarhusKarlshamn,

ASSA ABLOY, Axis, Bong Ljungdal and SÄKI, among others.

In 2005 Öhrlings PricewaterhouseCoopers had a total of 90 auditing assignments for companies listed on the Stockholm Stock Exchange, of which six were in cooperation with other auditing firms. Auditors' fees are disclosed in Note 8 on page 71.

### **Internal Control**

In reference to a statement issued on December 15, 2005, by the Council for Swedish Corporate Governance, the Board's report on internal control has been limited to a description of how the Company's internal control is organized.

Internal control is ensured by having a good control environment at Industrivärden. The control environment consist of the Company's business processes, currently applicable rules, and control and follow-up routines. Industrivärden has a lean organizational structure with a clear delegation of roles. Decision-making channels, authority and responsibility are defined by internal instructions, rules and policies adopted by the Board of Directors. Most of the Company's central business processes are conducted according to well structured routines. New investments, sales of stocks and reallocations within the equities portfolio are tested on a regular basis by a special Investment Committee, whose members include the executive management and representatives from the investment operations.

Systematic control activities are conducted to ensure that the organization works according to established rules. Examples include approval of all business transactions, follow-up to ensure that equity transactions are in agreement with decisions made by the Investment Committee, and checks to make sure that the value of purchases and sales of stocks and of underlying stocks in derivative transactions are within the scope of the executive management's mandate. All control activities are conducted by other employees than those who execute the transactions.

### **Quarterly Auditors' Review**

At each quarterly book-closing, the external auditors review the business transactions that have been carried out with respect to accounting and reporting. The auditors' review reports are published in the quarterly interim reports.

### **Ethical Guidelines**

Industrivärden strives to ensure that its business activities are conducted according to high standards of integrity and ethics within Industrivärden itself as well as in the companies that make up Industrivärden's portfolio of active holdings. See also the section Industrivärden's Role in Society, on page 13.

### **Review of the Corporate Governance Report**

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

**ORGANIZATION AND EMPLOYEES**

# Efficient Organization with Short Decision-Making Channels

Industrivärden works with a lean and efficient organization characterized by flexibility and short decision-making channels. Coupled to this is a large network with ties to Industrivärden.

Industrivärden’s organization is characterized by flexibility and short decision-making channels. Work is project-oriented and involves employees from both the Investment unit and staff functions. Active ownership as well as ownership activities are based on analyses conducted from both company-specific and stock market perspectives. Industrivärden has the necessary resources at its disposal to conduct professional investment activities and high-quality active ownership. Active ownership in the portfolio companies is exercised by board members with ties to Industrivärden, through participation on nominating committees, and through direct dialog between

Industrivärden’s investment organization and leading representatives of the portfolio companies. Coupled to this is a large network with ties to Industrivärden.

Together Industrivärden and Nordinvest have 24 employees.

### Recruiting Principles

New recruitment of employees to Industrivärden is based on the individual’s competence, experience and personal qualities irrespective of gender or ethnic origin.

*President and CEO Anders Nyrén*

### Executive Management

Industrivärden’s executive management is made up of the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer (also responsible for information and IT), the Executive Vice President and Chief Investment Officer, and the Head of Market Operations.

*Executive Vice President Bengt Kjell*

### Investment Operations (11 persons)

The employees in the Investment unit participate on investment teams and assist Industrivärden’s board and management with company analyses and decision-making documentation on the portfolio companies. Each investment team is headed by an investment manager supported by a project leader. The work on continuously contributing to the development of the portfolio companies and thus to value creation is at the heart of active ownership. In addition to the work with the existing holdings, new investments and exit strategies are evaluated on a continuous basis. See also pages 11–13.

### Support (2 persons)

*Executive Vice President Carl-Olof By*

### Accounting, Finance, Information and IT (8 persons)

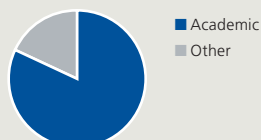
The Accounting and Finance unit is responsible for the Group’s financial control systems and for monitoring day-to-day business activities. The Information unit is responsible for investor relations and coordination of information. The IT unit is responsible for operation of the Parent Company’s IT systems.

*Fredric Calles*

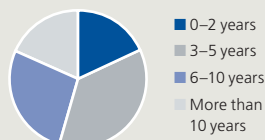
### Market Operations (2 persons)

Industrivärden’s market operations are responsible for executing investment decisions, providing market information and generating excess returns. Nordinvest has two employees, who carry out equity transactions and short-term derivative trading. Within the framework of Industrivärden’s market operations, Nordinvest is also engaged in short-term equity trading.

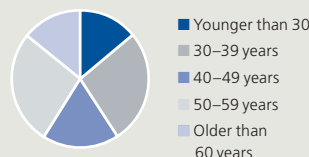
### Education



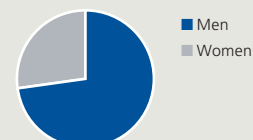
### Years of Service



### Age Breakdown



### Gender Breakdown







## EQUITIES PORTFOLIO

Industrivärden's equities portfolio consists mainly of major shareholdings in Handelsbanken, Ericsson, Sandvik, SCA, SSAB, Skanska, Indutrade and Munters, all of in which Industrivärden acts as a long-term active owner.

## COMPOSITION AND PERFORMANCE OF THE EQUITIES PORTFOLIO

## Portfolio growth of SEK 11.5 billion

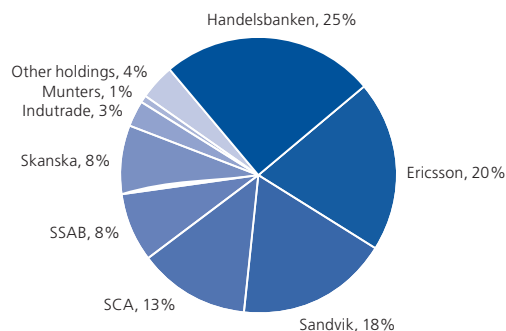
Industrivärden's equities portfolio consists mainly of major shareholdings in Handelsbanken, Ericsson, Sandvik, SCA, SSAB, Skanska, Indutrade and Munters, all of in which Industrivärden acts as a long-term active owner.

The equities portfolio was worth SEK 52.3 billion (41.7) on December 31, 2005, corresponding to SEK 271 (216) per Industrivärden share. The listed holdings are stated at their year-end market value. Unlisted holdings are valued based on shareholders' equity. The composition of the net asset value is shown on page 4.

### Composition of the Equities Portfolio

The total value of shareholdings in companies in which Industrivärden acts as a long-term owner, which are shown in the chart at right, was SEK 50.3 billion (40.1) on December 31, 2005, corresponding to 96% (96%) of Industrivärden's equities portfolio. Other shareholdings had a value of SEK 2.0 billion (1.6).

### Composition of Equities Portfolio



### Stock Market 2005

The upturn in the world's stock markets that began in spring 2003 continued in 2005. Measured in U.S. dollars, the leading bourses in Europe (Eurotop 300) rose by 10%. The Stockholm Stock Exchange rose by 33%, measured in Swedish kronor, but only by 14% in U.S. dollars as a result of the weaker Swedish krona during the year. The high for the year was noted in December, at which time the Stockholm Stock Exchange index (OMXSPI) was up 34%. The New York Stock Exchange (S&P 500) rose 3% in 2005, as the U.S. Federal Reserve Bank raised its short-term Federal Funds rate by 2.0 percentage points during the year, to 4.25%. As a result of the weak stock market in the U.S., the world index (MSCI) – which is measured in dollars – rose by only 9% for the year.

Economic growth remained strong in the U.S., Japan, India and China, while it softened in Europe. Corporate profits continued to rise. The stock market's performance in 2005 should also be viewed in light of rising raw material prices and historically low interest rates. Swedish short-term interest rates were cut to 1.5% and thereby reached a record low.

### Investment Activities in 2005

The combined value of stock purchases was SEK 3.0 billion (5.2), and the combined value of sales was SEK 4.0 billion (3.0). Together, total purchases and sales corresponded to 15% (22%) of the average portfolio value during the year. The turnover rate for the equities portfolio since 1996 is shown in the chart on page 23.

The largest net stock purchases were for SEK 1,329 M in SCA B, SEK 471 M in Höganäs B, and SEK 137 M in Ericsson B. The purchases of stock in SCA, Höganäs and Ericsson represented investments in companies with good development potential.

The wholly owned subsidiary Indutrade became listed on the Stockholm Stock Exchange's O-List on October 5, 2005. An initial public offering was made to institutional investors and the general public for 62.5% of the shares. The offering was oversubscribed more than twelve times.

Proceeds from the sale less selling costs totaled SEK 1,585 M.



Skanska was responsible for the land purchase, planning, design, construction and sale of the Botanica residential district in Prague.

## Equities Portfolio as per December 31, 2005

	No. of shares	Breakdown of market value		Share of portfolio value, %	Share of capital in company, %	Share of votes in company, %
		SEK M	SEK/share			
Handelsbanken	67,000,000	13,199	68	25	10.0	10.3
Ericsson	377,000,000	10,367	54	20	2.3	13.3
Sandvik	26,000,000	9,620	50	18	11.0	11.0
SCA	23,600,000	7,009	36	13	10.0	28.8
SSAB	14,200,000	4,104	21	8	15.6	20.4
Skanska <sup>1</sup>	32,300,000	3,908	20	8	7.7	26.9
Indutrade <sup>2</sup>	14,857,800	1,322	7	3	37.1	37.1
Volvo	2,400,000	880	5	2	0.6	1.2
Munters	3,400,000	745	4	1	13.6	13.6
Höganäs	3,400,000	585	3	1	9.7	7.7
Isaberg Rapid		205	1	0	100.0	100.0
Other		321	2	1		
<b>Total</b>		<b>52,265</b>	<b>271</b>	<b>100</b>		

1) 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.

2) Indutrade became a listed company on October 5, 2005.

Net Purchases and Sales of Listed Stocks<sup>1</sup>

Net purchases	000s SEK M	Net sales	000s SEK M
SCA B	5,218 1,329	Indutrade	25,142 1,596
Höganäs B	2,610 471	Ossur hf <sup>2</sup>	65,118 762
Ericsson B	5,000 137	Sandvik	954 375
Handelsbanken A	636 119	Nokia <sup>2</sup>	1,588 179
Other	161	Pfizer Inc. <sup>2</sup>	1,000 170
<b>Total</b>	<b>2,217</b>	SSAB redemption rights <sup>2</sup>	14,095 54
		Other	22
		<b>Total</b>	<b>3,158</b>

1) Gross purchases and sales are shown on page 45.

2) Entire holding.

Change in Value of Major Holdings, 2005<sup>1</sup>

SEK M	Value at Dec. 31, 2005	Value at Dec. 31, 2004	Purchase(-)/sale 2005	Change in value, 2005
Handelsbanken	13,199	11,481	-119	1,599
Ericsson	10,367	8,072	-137	2,158
Sandvik	9,620	7,224	375	2,771
SCA	7,009	5,254	-1,329	426
SSAB	4,104	2,258	35	1,881
Skanska	3,908	2,576	0	1,332
Indutrade <sup>2</sup>	1,322	2,022	1,596	896
Volvo	880	579	-43	258
Munters	745	644	-32	69
Höganäs	585	141	-471	-27
Isaberg Rapid <sup>3</sup>	205	290	-	-85
Ossur hf	-	537	762	225
Other	321	613	304	12
<b>Total</b>	<b>52,265</b>	<b>41,691</b>	<b>941</b>	<b>11,515</b>

1) Pertains to change in value of net asset value.

2) Including dividends received, etc., totaling SEK 301 M, Indutrade's total change in value was SEK 1,197 M.

3) The value of Isaberg Rapid is based on shareholders' equity. A P/E model was used in the preceding year.

## Price Trend for Holdings in the Equities Portfolio, 2005

	Price change, %	Total return, %	Total return <sup>1</sup>	
			5 years, %	10 years, %
Handelsbanken	14	18	8	19
Ericsson	27	28	-18	10
Sandvik	38	46	15	17
SCA	4	8	12	15
SSAB	81	92	33	21
Skanska	52	59	9	15
Indutrade <sup>2</sup>	37	37	-	-
Volvo	44	49	14	15
Munters	10	12	7	-
<b>Total</b>	<b>28</b>	<b>32</b>		

1) Average annual total return.

2) Indutrade became a listed company on October 5, 2005.

Performance of Equities Portfolio<sup>1</sup>

	2005	2004	2003	2002	2001
Price trend for portfolio, %	<b>28</b>	21	24	-31	-22
Index (2000 as base)	<b>103</b>	81	67	54	78
Market index (OMXSPI), %	<b>33</b>	18	30	-37	-17
Index (2000 as base)	<b>107</b>	80	68	52	83

1) Excluding reinvested dividends.

Following the stock market introduction, senior executives of Indutrade purchased stock and stock options from Industrivärden corresponding to approximately 1% of the total number of shares in Indutrade.

The largest other net sales of stocks included the entire holding of Ossur hf, totaling SEK 762 M (which exceeded cost by SEK 398 M), Sandvik, totaling SEK 375 M (including a share redemption totaling SEK 436 M), the entire holding in Nokia, totaling SEK 179 M, and the entire holding in Pfizer Inc., totaling SEK 170 M. All redemption rights, totaling SEK 54 M, were sold in a redemption offer by SSAB.

### Short-Term Trading

Short-term derivative transactions are conducted on a regular basis to enhance the return of the equities portfolio. The profit from these activities amounted to SEK 89 M (72). In addition, short-term equity trading by the subsidiary Nordinvest made an additional earnings contribution of SEK 33 M (34). The total result of Industrivärden's short-term derivative transactions and equity trading thus amounted to SEK 122 M (106).

### Indutrade IPO

In 2001, Industrivärden initiated a process of change aimed at defining its role in an increasingly global financial market. On the basis of its relative strengths, Industrivärden chose to adapt its strategy to focus on active ownership in a concentrated equity portfolio of holdings in large and midcap listed Nordic companies. As a result, Industrivärden announced in its 2001 Annual Report that it intended to sell off its entire holdings in wholly owned subsidiaries, or parts thereof. After evaluating possible alternatives, Industrivärden's board of directors decided in April 2005 to apply for stock market listing of Indutrade's shares.

Industrivärden judged that a listing of Indutrade's shares was suitable in view of the company's size and character. Industrivärden assessed that Indutrade had potential for future growth and improved earnings and that the timing for an initial public offering of Indutrade was ideal. The company had shown strong financial development, had implemented a generation change in its management and has continued to implement value-generating acquisitions.

Following the stock market introduction of Indutrade and the sale of stock and stock options to senior executives in the Indutrade Group, Industrivärden intends to remain an active owner with an ownership stake of approximately 35%.



In 2005, **SCA** launched a number of new hygiene products. SCA sells hygiene products, packaging solutions and printing paper on all continents of the world.

### Performance of the Equities Portfolio in 2005

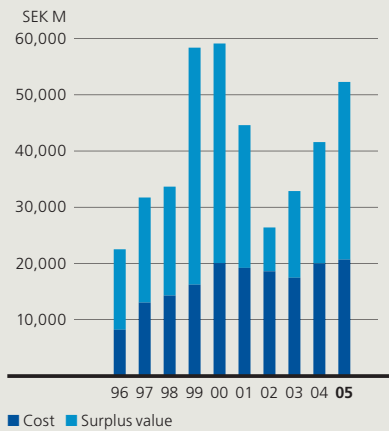
At year-end 2005 the value of the holdings was SEK 52,265 M (41,691), which exceeded cost by SEK 31,592 M (21,660). The value of the equities portfolio, taking into account purchases and sales, rose 28% during the year, which was lower than the Stockholm Stock Exchange Market Index (OMXSPI), which rose 33%. The price trend for the major shareholdings is shown in a table on page 21.

Dividends received during the year totaled SEK 1,325 M (1,032). The total return of the portfolio, i.e., growth in value plus reinvested dividends, was 32% (24%), compared with 36% (21%) for the return index (SIXRX).

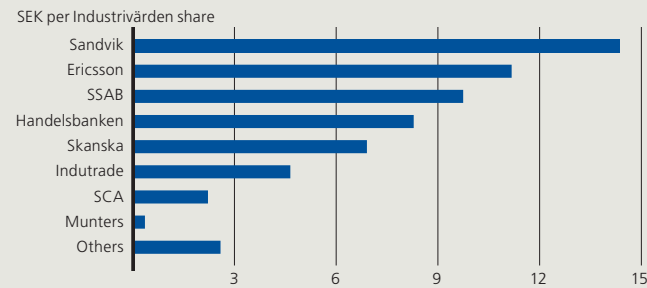
The total return for the major portfolio companies and their contribution to the performance of the total portfolio are shown in a table on page 21.

From year-end 2005 through February 28, 2006, the value of the equities portfolio, taking into account purchases and sales, increased by 8%, compared with an increase of 5% for stock market index (OMXSPI) during the same period.

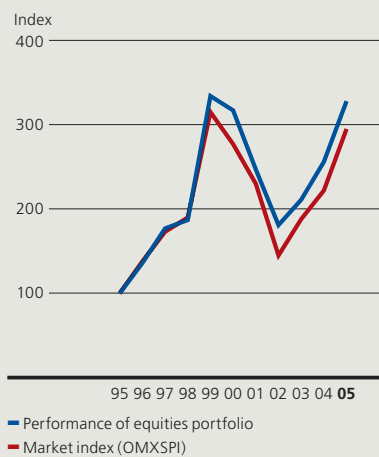
### Market Value of Equities Portfolio



### Change in Net Asset Value per Shareholding, 2005



### Performance of Equities Portfolio



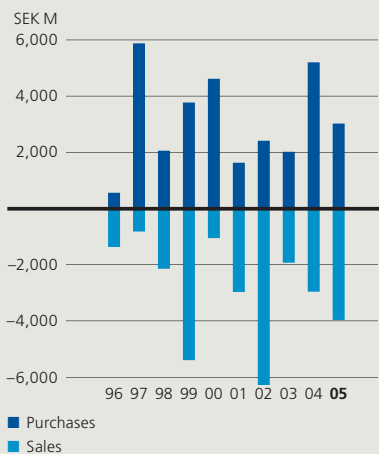
### Index Trend



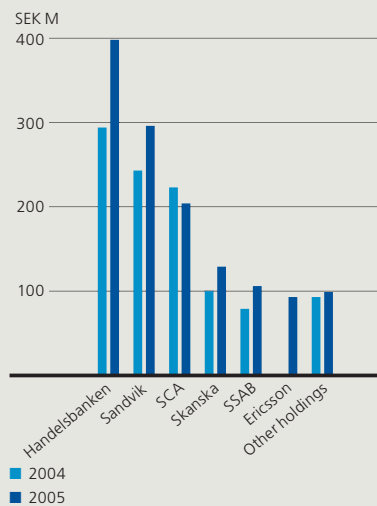
### Equities Portfolio – Turnover



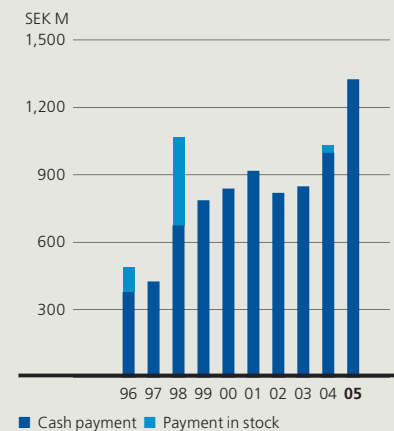
### Gross Investments in Equities Portfolio



### Dividends Received Per Shareholding



### Dividend Income



**Comment:** Extra dividend income in the form of stock was received in 1996, totaling SEK 111 M (Näckebo and Swedish Match), in 1998 totaling SEK 392 M (Baldler and Drott), and in 2004 totaling SEK 33 M (Ainax). The Sandvik holding was purchased in 1998. Ericsson did not pay any dividends for the years 2001–2003.

## A Portfolio of Industry-Leading Companies

Share of portfolio, %	Share of Holding	Industri-värden's share of capital, %	Industri-värden's share of votes, %	Total return 2005, %	Yearly total return, % 1996–2005
	<b>Handelsbanken</b> Handelsbanken is a successful Nordic universal bank	10.0	10.3	18	19
	<b>ERICSSON</b>  Ericsson is the world's largest supplier of systems for mobile telecommunications	2.3	13.3	28	10
	<b>SANDVIK</b>  Sandvik is a high-tech company with unique expertise in materials technology	11.0	11.0	46	17
	 SCA SCA sells hygiene products, packaging solutions and printing paper on all continents of the world	10.0	28.8	8	15
	<b>SSAB</b>  SSAB is a world leading producer of high-strength sheet steel and quenched steel	15.6	20.4	92	21
	<b>SKANSKA</b> Skanska is a leader in construction-related services in selected home markets	7.7	26.9	59	15
	 Indutrade is a technology trading company that offers components, systems and services to industries in northern Europe	37.1	37.1	37	— <sup>3</sup>
	 Munters is a world leader in moisture control	13.6	13.6	12	— <sup>3</sup>

1) Market cap as per December 31, 2005. 2) Figures for Handelsbanken pertain to operating income and operating profit. 3) Indutrade was listed in 2005 and Munters in 1997.



Company's market cap, SEK M <sup>1</sup>	Industrivärden's holding, SEK M <sup>1</sup>	Net sales, SEK M	Earnings after net financial items, SEK M	Change in earnings 2005, %	Directors with ties to Industrivärden	Industrivärden's nominating committee representative
131,910	13,199	26,338 <sup>2</sup>	15,665 <sup>2</sup>	16	Arne Mårtensson (Chairman), Anders Nyrén (Vice Chairman), Fredrik Lundberg and Sverker Martin-Löf	Tom Hedelius (Chairman)
440,672	10,367	151,821	33,335	27	Arne Mårtensson (Vice Chairman) and Sverker Martin-Löf	Curt Källströmer
87,785	9,620	63,370	8,819	28	Arne Mårtensson and Anders Nyrén	Carl-Olof By (Chairman)
69,806	7,009	96,385	433	-93	Sverker Martin-Löf (Chairman), Tom Hedelius and Anders Nyrén	Carl-Olof By (Chairman)
25,805	4,104	27,804	5,671	49	Sverker Martin-Löf (Chairman) and Anders Nyrén	Carl-Olof By (Chairman)
50,645	3,908	124,667	5,120	18	Sverker Martin-Löf (Chairman), Finn Johnsson, Arne Mårtensson and Anders Nyrén	Carl-Olof By (Chairman)
3,560	1,322	3,822	309	27	Bengt Kjell (Chairman), Curt Källströmer and Anders Nyrén	Carl-Olof By (Chairman)
5,475	745	5,130	391	23	Bengt Kjell	Carl-Olof By (Chairman)

## Handelsbanken

Handelsbanken is a Nordic universal bank focusing on accessibility and service via 455 Swedish branches and 108 other Nordic branches. Its experience in running a profitable universal banking operation in the Nordic region can also be applied to other markets, which is now being done in the U.K., where Handelsbanken has 20 branches.

## Local Customer Responsibility – A Success Factor

Handelsbanken is a Nordic universal bank with a highly decentralized organization. The core concept is that the organization and work methods should be based on the branches' responsibility for individual customers. Total responsibility for individual customers – individual or corporate – rests with the customer's local branch. The branches coordinate the central and regional resources needed to give customers the best possible service. The bank has no central marketing department, nor does it control the branches' marketing activities at the central level by giving priority to certain customer categories or product areas. Handelsbanken has consistently and successfully applied and developed this basic concept over many years.

Handelsbanken provides services in the entire banking area, including traditional corporate business, investment banking and trading, retail banking, and life insurance.

Handelsbanken's business units consist of the Branch Office Operations (including finance company services such as leasing and factoring), Markets (including Capital Markets, which conducts trading in the money and foreign exchange markets, corporate finance and equity trading, and Markets International, which conducts trade financing and banking outside the Nordic region and the U.K.), Asset Management, and Pension and Insurance.

Handelsbanken runs a comprehensive universal banking operation in the Nordic region and the U.K. The branch activities are conducted via eleven regional banks – seven in Sweden and one each in Norway, Finland, Denmark and the U.K. All of these markets are considered as home markets. Handelsbanken has a strong position in the Swedish market, with 455 branches. In the other Nordic countries the bank has 108 branches, plus 20 branches in the U.K. Handelsbanken also has banking and representative offices in another 15 or so countries, including the U.S., Russia, China, Hong Kong and Singapore.

Handelsbanken's overall financial goal is to have a higher return on shareholders' equity than a weighted average for comparable listed Nordic and British banks. The bank seeks to achieve this goal

by having the most satisfied customers in the Nordic region while keeping its cost effectiveness higher than comparable banks. If this target is met, a third of the surplus profit can be allocated to the Oktogonen Foundation, Handelsbanken's employee profit-sharing system. The allocation can amount to a maximum of 15% of the bank's dividend. A significant portion of the foundation's assets are invested in Handelsbanken stock.

Profitability is always more important than volume. In the bank's lending activities this means that credit quality may never be neglected in favor of higher lending volumes.

Handelsbanken's dividend policy is that the dividend should increase faster than the average for the other listed Nordic banks.

### Highlights 2005

- Operating profit improved to SEK 15.7 billion (13.6) as a result of higher business volumes in the banking operation and higher revenues in the insurance operation. Net commission income improved as a result of higher volumes and a positive trend in the stock market. Loan losses were lower than recoveries.
- For the thirty-fourth year in a row, Handelsbanken reported a better return on equity than a weighted average for comparable listed commercial banks.
- Handelsbanken Liv performed well and improved its result to SEK 580 M (227). The life insurance company SPP was demutualized with effect on January 1, 2006.
- Share repurchases were resumed during the fourth quarter.
- In September it was announced that Arne Mårtensson will be resigning as Chairman of the Board at the 2006 Annual General Meeting. Handelsbanken's nominating committee has proposed CEO Lars O. Grönstedt as the new chairman. The Board's intention is, in connection with this, to appoint Pär Boman, Executive Vice President and former Head of Handelsbanken Markets, as the company's new Group Chief Executive.

### Industrivärden's Holding in Handelsbanken as per December 31, 2005



Share of equities portfolio: 25%.

#### Holding:

Shares: 67,000,000 Class A shares. Market value: SEK 13,199 M. Share of votes: 10.3%<sup>1</sup>. Share of capital: 10.0%<sup>1</sup>.

**Board members with ties to Industrivärden:** Fredrik Lundberg, Sverker Martin-Löf, Arne Mårtensson and Anders Nyrén.

**Industrivärden's nominating committee representative:** Tom Hedelius.

**Assessment of the company from an ownership perspective:** Handelsbanken has consistently developed its business concept with a focus on customer satisfaction and cost effectiveness, which has resulted in higher profitability than the average for the industry for many years running. The bank has extended its geographic reach through ventures in the other Nordic countries and the U.K. Industrivärden expects continued favorable development for Handelsbanken.

<sup>1</sup>) Handelsbanken reduced its capital stock in 2005 by 3.4% through the cancellation of 23.7 million previously repurchased Class B shares, whereby Industrivärden's share of the votes and capital increased marginally.

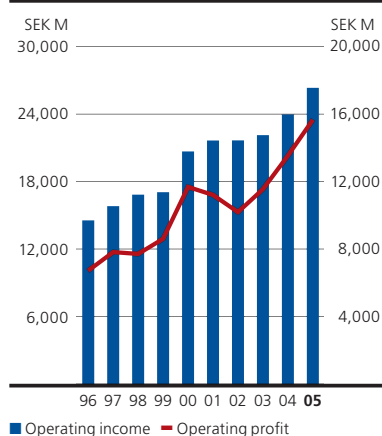


Handelsbanken's advisory services are aimed at offering personalized customer solutions for various financial services.

## Handelsbanken at a Glance

**Chairman:** Arne Mårtensson. **CEO:** Lars O. Grönstedt. **Stock:** Handelsbanken's stock is listed on the Stockholm Stock Exchange. The share price rose by 14% in 2005, and trading volume was SEK 114 billion. For more information on Handelsbanken, visit [www.handelsbanken.com](http://www.handelsbanken.com).

### Operating Income and Operating Profit

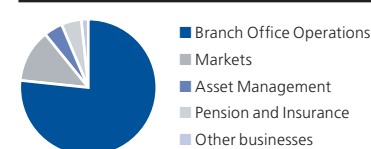


### Handelsbanken's Stock



**Comment:** During the past ten years, Handelsbanken's stock has outperformed the return index by a wide margin.

### Income per Business Unit



### Key Data

	2005	2004 <sup>2</sup>
Operating income, SEK M	26,338	23,963
Operating profit, SEK M	15,665	13,553
Earnings per share, SEK	17.00	14.55
Dividend per share, SEK	7.00 <sup>1</sup>	6.00
Shareholders' equity per share, SEK	100.07	92.30
Average number of employees	9,395	9,150
Market capitalization as per December 31, SEK M	131,910	123,586

### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes	% of capital
Industrivärden	10.3	10.0
Oktogonen Foundation	10.2	9.9
Alecta	5.0	4.8
FöreningsSparbanken mutual funds	3.4	3.3
AMF Pension	2.5	2.5
Share of foreign ownership	24.2	23.8

1) Proposed by the board of directors.

2) Comparison figures for 2004 have been recalculated according to IFRS.

3) Source: SIS Ågarservice.



Ericsson is the world's largest supplier of mobile telecommunications systems and offers end-to-end solutions for both mobile and fixed line communications. Approximately 40% of all GSM traffic around the world is conducted in systems supplied by Ericsson.

## The Most Global Player in the Telecom Industry

Ericsson is a world-leading supplier of equipment for mobile and fixed line telecommunications networks with accompanying products and services, such as products for such special applications as radar, cables and technology platforms for mobile telephony. Ericsson's wide offering of telecom and datacom equipment includes end-to-end solutions, systems and services that enable mobile and fixed line networks to transmit voice, data and multimedia effectively, fast and securely. Ericsson is one of the few companies that can offer complete solutions for all major mobile communication standards.

Ericsson's goal is to be the preferred choice for its customers, particularly the world's leading telecommunications operators.

Ericsson has a long tradition of developing innovative communication technologies, including technologies that help to establish industry-wide wireless technology standards, such as GSM, GPRS, EDGE, WCDMA, HSDPA and Bluetooth.

With operations in 140 countries, Ericsson is a leading global player in the telecom industry. This major international presence and core expertise in mobile and fixed communication is being leveraged to expand in growth areas such as service applications and network operations.

Operations are organized under three segments: systems, telephones and other businesses. In mobile networks, which is the entirely dominant sub-segment within systems, Ericsson is at least twice as large as each of its competitors. Ericsson's mobile phone business is conducted through half-owned Sony Ericsson Mobile Communications, in which Ericsson has contributed its leading mobile phone technology and Sony its know-how in consumer electronics. Other businesses include, among others, Ericsson Mobile Platforms, which is a supplier to six of the world's largest mobile phone manufacturers and is estimated to have a market share of approximately 30% in the WCDMA standard.

The most important markets in 2005 were, ranked by size, the

U.S., China, Italy, Spain, Brazil, Sweden, Mexico, the U.K., Russia and Turkey.

The market for mobile and fixed line infrastructure has undergone a number of significant changes in recent years. From the mid-1990s until 2000 the market experienced outstanding growth through the buildup of mobile infrastructure based on strong growth in the number of subscribers, along with a simultaneous expansion of existing fixed line networks for handling the rapid growth of Internet traffic. This culminated in 2000, and in the three years that followed, 2001–2003, the market for network equipment contracted considerably. Telecom companies were forced to cut costs drastically in order to adapt to weak demand. The market stabilized in 2004, and the world market grew again in 2005.

### Highlights 2005

- Earnings after net financial items rose 27% to SEK 33,335 M (26,166) as a result of good volume growth and small increases in overheads. Half-owned Sony Ericsson reported a record profit.
- Cash flow before financing activities and excluding pension trust funding was SEK 19,625 M (17,691), entailing a further strengthening of the company's financial position. At year-end, the net of financial assets and liabilities, i.e., net liquid assets, was SEK 53 billion (43).
- In 2004 Ericsson increased its market share in mobile infrastructure equipment, and in 2005 Ericsson continued to grow faster than the overall market. In the area of professional services, Ericsson was awarded several major strategic orders during the year.
- In October 2005 Ericsson acquired the majority of Marconi's telecommunications business. The acquisition strengthens Ericsson's position in fixed line networks and broadband communication, and adds sales of approximately SEK 14 billion.

### Industrivärden's Holding in Ericsson as per December 31, 2005



Share of equities portfolio: 20%.

#### Holding:

Shares: 372,000,000 Class A shares and 5,000,000 Class B shares. Market value: SEK 10,367 M.  
Share of votes: 13.3%. Share of capital: 2.3%.

#### Board members with ties to Industrivärden:

Sverker Martin-Löf and Arne Mårtensson.

Industrivärden's nominating committee representative: Curt Källströmer.

**Assessment of the company from an ownership perspective:** Ericsson achieved dramatic earnings improvements in 2004 and 2005 as an effect of volume growth and the completion of efficiency improvement measures. Industrivärden considers Ericsson to be a good long-term investment. Important success factors for Ericsson are its market-leading position, its high level of research and development, and its wide offering of products and services.

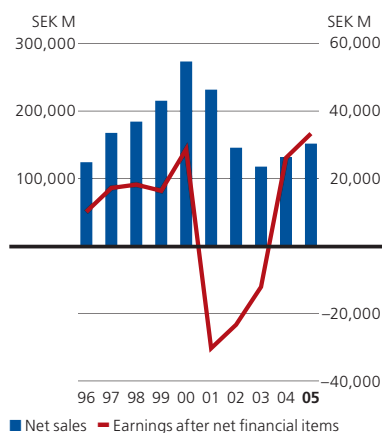


Through technological leadership, Ericsson is creating communication solutions of the future for mobile Internet and broadband applications. Seen here are fixed line and mobile telephony at work in everyday life.

## Ericsson at a Glance

**Chairman:** Michael Treschow. **CEO:** Carl-Henric Svanberg. **Stock:** Ericsson's stock is listed on the Stockholm Stock Exchange, the London Stock Exchange and on Nasdaq in New York. Ericsson's Class A shares rose by 27% in 2005, and its Class B shares rose by 29%. Trading volume on the Stockholm Stock Exchange was SEK 743 billion. For more information on Ericsson, visit [www.ericsson.com](http://www.ericsson.com).

### Net Sales and Earnings

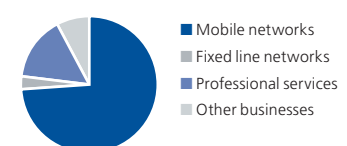


### Ericsson's Stock



**Comment:** During the past ten-year period Ericsson's stock has performed slightly below the return index.

### Net Sales per Business Unit



### Key Data

	2005	2004 <sup>3</sup>
Net sales, SEK M	<b>151,821</b>	131,972
Earnings after net financial items, SEK M	<b>33,335</b>	26,166
Earnings per share, SEK	<b>1.53</b>	1.11
Dividend per share, SEK	<b>0.45<sup>1</sup></b>	0.25
Cash flow per share, SEK	<b>1.15<sup>2</sup></b>	1.12
Shareholders' equity per share, SEK	<b>6.54</b>	5.15
Average number of employees	<b>56,055</b>	50,534
Market capitalization as per December 31, SEK M	<b>440,672</b>	342,611

### Largest Owners as per December 31, 2005<sup>4</sup>

	% of votes	% of capital
Investor	19.5	5.0
Industrivärden	13.3	2.3
Handelsbanken <sup>5</sup>	6.8	1.4
Fidelity mutual funds	2.9	5.1
Skandia Liv	2.4	0.9
Share of foreign ownership	27.3	27.1

1) Proposed by the board of directors.

2) Before pension trust funding of SEK 8.3 billion.

3) Comparison figures for 2004 have been recalculated according to IFRS.

4) Source: SIS Ågarservice.

5) Including pension foundations and employee foundations.





Sandvik is a high technology engineering group with advanced products and unique know-how in materials technology. The company has a world-leading position in several areas and conducts business in 130 countries.

## Focus on Customers' Productivity and Profitability

Sandvik is a high-technology engineering group represented in 130 countries. The Group works in three business areas in which Sandvik is a world leader. Tooling specializes in cemented carbide and high-speed steel tools for metal cutting. Mining & Construction specializes in equipment, tools and service for the mining and construction industries. Materials Technology manufactures highly refined steel products made of advanced rust-free materials. The Sandvik Group also includes the partly owned, listed company Seco Tools (60% equity stake), which is active in metalworking.

Sandvik's business mission is to enhance its customers' productivity and profitability. The aim is that customers will perceive Sandvik as their natural productivity partner. Sandvik's strategy is based on five strength factors: global leadership, goal-oriented R&D, niche focus, partnership with customers and a strong brand.

Sandvik has a strong local presence, its own sales organization and close cooperation with customers, selected agents and distributors. Products are manufactured mainly in Group facilities to ensure the highest possible quality, flexibility and cost-efficiency. The Group's global presence provides economies of scale in production and distribution. It also creates synergies within R&D, administration and logistics. Sandvik is a global company that serves as a local partner.

Sandvik focuses on market segments in which the company is or can become world-leading. Many of these areas have above-average growth or growth potential. The focus on organic growth and company acquisitions in selected key areas makes Sandvik less sensitive to variations in the business climate. Approximately two-thirds of sales are attributable to products for industrial consumption including service, and about one-third to capital investment goods.

For many years running, Sandvik's expenditures on R&D and quality assurance have corresponded to roughly 4% of sales on average for the business areas, which is more than its competitors. These investments create conditions for the Group to retain its leading technological and commercial positions.

One of Sandvik's financial targets is to achieve average annual organic sales growth of 6%, which is higher than the underlying average annual growth rate for the market of 3%–4%. This higher rate of growth will be achieved through increased market shares and new products and applications. The aim is to generate an average annual return on capital employed of 20%. This target is slightly higher for the Tooling business area and slightly lower for the Materials Technology business area. The net debt-equity ratio should be between 0.5 and 0.7, with a target value of 0.5 over time.

The dividend should amount to at least 50% of earnings per share over a business cycle. The total return target for Sandvik's stock is to exceed the industry average.

### Highlights 2005

- Earnings after net financial items amounted to a record SEK 8,819 M (6,877). The 28% earnings improvement can be credited to higher sales volumes, higher capacity utilization and the effects of completed efficiency improvement measures. Volumes increased in all market segments and business areas.
- Operating profit for the Tooling unit improved by 14% to SEK 4,420 M (3,864). The Materials Technology unit improved its operating profit by 28%, to SEK 1,729 M (1,354), and the Mining and Construction unit grew its operating profit by 45%, to SEK 2,654 M (1,829).
- A total of SEK 3,964 M was distributed to the shareholders through a share redemption offer in order to streamline the capital structure.<sup>1</sup>
- A total of 16.5 million shares that were repurchased from 2001–2004 were canceled through a reduction of the company's capital stock. The total number of shares outstanding decreased by 10% through redemption and cancellation.<sup>1</sup>

### Industrivärden's Holding in Sandvik as per December 31, 2005



Share of equities portfolio: 18%.

#### Holding:

Shares: 26,000,000 shares. Market value: SEK 9,620 M.  
Share of votes and capital: 11.0%<sup>1</sup>.

#### Board members with ties to Industrivärden:

Arne Mårtensson and Anders Nyrén.

Industrivärden's nominating committee representative: Carl-Olof By.

**Assessment of the company from an ownership perspective:** Industrivärden has a positive view of Sandvik's opportunities to develop and advance its world-leading positions in high-tech engineering niches. Strong technological and market positions, coupled with leading R&D activities, create favorable opportunities for sustained high profitability.

<sup>1</sup> Sandvik carried out a share redemption program in 2005, entailing the redemption of one in every 25 shares. Industrivärden utilized its redemption rights. In addition, Sandvik canceled 16.5 million previously repurchased shares by reducing the capital stock. Industrivärden's share of votes and capital increased through this measure to 11.0% (10.2%).



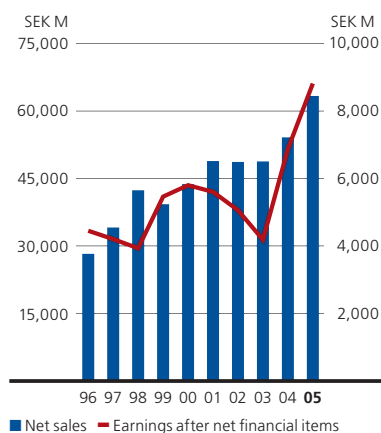


Pressing of cemented carbide tools for metalcutting applications at Sandvik's plant in Gimo, Sweden.

## Sandvik at a Glance

**Chairman:** Clas Åke Hedström. **CEO:** Lars Petterson. **Stock:** Sandvik's stock is listed on the Stockholm Stock Exchange and is also traded in the U.S. through an American Depositary Receipt program. The share price rose by 38% in 2005, and trading volume on the Stockholm Stock Exchange was SEK 125 billion. For more information on Sandvik, visit [www.sandvik.com](http://www.sandvik.com).

### Net Sales and Earnings

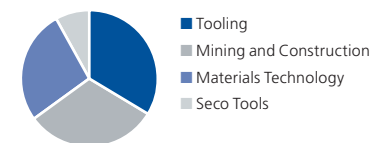


### Sandvik's Stock



**Comment:** During the past ten years Sandvik's stock has outperformed the return index.

### Net Sales per Business Area



### Key Data

	2005	2004 <sup>2</sup>
Net sales, SEK M	<b>63,370</b>	54,610
Earnings after net financial items, SEK M	<b>8,819</b>	6,877
Earnings per share, SEK	<b>24.70</b>	19.25
Dividend per share, SEK	<b>13.50<sup>1</sup></b>	11.00
Cash flow per share, SEK	<b>14.33</b>	10.96
Shareholders' equity per share, SEK	<b>99.00</b>	91.40
Average number of employees	<b>39,613</b>	38,421
Market capitalization as per December 31, SEK M	<b>87,785</b>	70,636

### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes and capital
Industrivärden	11.0
Handelsbanken <sup>4</sup>	8.2
Capital Group mutual funds	7.9
AMF Pension	3.8
FöreningsSparbanken mutual funds	2.6
Share of foreign ownership	39.0

1) Proposed by the board of directors. The board also proposed a 5:1 stock split.

2) Comparison figures for 2004 have been recalculated according to IFRS.

3) Source: SIS Ågarservice.

4) Including pension foundations, employee foundations and mutual funds.



SCA sells hygiene products, packaging solutions and publication paper on all continents of the world. Europe and North American are the main markets, while expansion is also taking place in Latin America and Asia.

## Continuous Product Development and Continued Efficiency Improvements

SCA is a global consumer products and paper company that develops, markets and produces personal hygiene products (20% of sales), tissue paper (30% of sales), packaging solutions (35% of sales) and forest products (15% of sales). Based on customer needs, new products are developed continuously for consumers, institutions, industry and the retail trade. SCA offers a wide range of products, services and solutions that improve the quality of everyday life for people around the world. The offering consists of consumer products such as toilet paper, paper towels, tissue, incontinence products, feminine hygiene products and diapers, as well as packaging solutions, publication paper, and solid wood products.

SCA strives to increase the share of high value-added products in order to achieve a sustained level of high profitability. The traditional forest industry is highly cyclical. Previously, sharp fluctuations between strong profitability in prosperous times and weak profitability during economic downturns created uncertainty surrounding the development of SCA's future cash flows. Consequently, to increase the stability of its operations, SCA has increased its exposure to less cyclical businesses.

Europe is SCA's main market, with a concentration in Germany, the UK, France and Sweden. More than 90% of sales are outside Sweden.

The Group also has strong positions in certain product segments in North America. Expansion is being pursued primarily through organic growth, however, the long-term ambition is to also grow through acquisitions. Due to high priority on internal improvement measures, few company acquisitions were carried out in 2005.

SCA's overall objective is to provide its shareholders with good growth in value and a rising dividend. This is accomplished based on the principle that a company's value is determined by its future cash flows and the level of risk in the business. During the ten-year period 1995–2004, the dividend increased by an average of 11% per year.

Future cash flows, in turn, are a function of profitability and

growth. SCA's cash flow target at the start of 2005 was SEK 8.7 billion, taking into account the strategic investments made in 2004.

SCA's long-term financial target is that roughly 40% of the Group's capital should be financed through loans, corresponding to a debt-equity ratio of 0.7. SCA's dividend policy is that approximately a third of operating cash flow should be used for the dividend.

SCA is working continuously to improve the profitability of its existing businesses. This work has been intensified in recent years, and programs have been initiated for all business areas in the aim of lowering costs and building a platform for profitable expansion.

### Highlights 2005

- Earnings after financial items (before items affecting comparability) amounted to SEK 5,798 M (7,185). Earnings fell, mainly as a result of price pressure in Europe during the first half of the year, while they improved during the second half. After items affecting comparability, consisting of rationalization costs of SEK 3,013 M (600) and write-downs in connection with efficiency improvement programs, totaling SEK 2,352 M (–), earnings amounted to SEK 433 M (6,585).
- The previously established efficiency improvement measures, which are estimated to yield cost savings of slightly more than SEK 1 billion starting in 2006, were complemented with an extensive program of further efficiency improvement measures. This program, which covers all business areas, is expected to lead to annual savings in excess of SEK 1.5 billion. The programs lowered costs in 2005 by SEK 700 M.
- Operating profit before items affecting comparability was SEK 2,474 M (2,429) for personal hygiene products, SEK 1,577 M (2,026) for tissue, SEK 1,775 M (2,604) for packaging, and SEK 1,886 M (1,777) for forest products.
- Operating cash flow, i.e., cash flow before strategic investments and dividend, was SEK 4,362 M (5,688).

### Industrivärden's Holding in SCA as per December 31, 2005



Share of equities portfolio: 13%.

#### Holding:

Shares: 16,000,000 Class A shares<sup>1</sup> and 7,600,000 Class B shares. Market value: SEK 7,009 M.

Share of votes: 28.8%<sup>1</sup>. Share of capital: 10.0%.

**Board members with ties to Industrivärden:** Tom Hedelius, Sverker Martin-Löf and Anders Nyrén.

**Industrivärden's nominating committee representative:** Carl-Olof By.

**Assessment of the company from an ownership perspective:** SCA is the leading European producer of hygiene products and packaging, and also has a strong foothold in the North American market. However, the earnings trend in recent years has been a disappointment. The work on gradually increasing the share of high value-added products and ongoing structural programs are creating conditions for favorable earnings growth over the long term.

<sup>1</sup> In 2005 Industrivärden called for the conversion of 982,000 Class A shares to a corresponding number of Class B shares. This conversion lowered Industrivärden's share of votes in SCA from 29.5% to 28.5%.

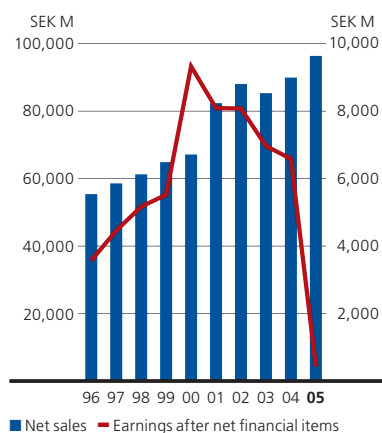


Edet brand absorbent towels are sold in the Nordic countries and the Netherlands. SCA is Europe's leading producer of tissue paper.

## SCA at a Glance

**Chairman:** Sverker Martin-Löf. **CEO:** Jan Åström. **Stock:** SCA's stock is listed on the Stockholm Stock Exchange and London Stock Exchange. The stock is also traded in the U.S. through an American Depositary Receipt program. The share price rose by 4% in 2005, and trading volume on the Stockholm Stock Exchange was SEK 81 billion. For more information on SCA, visit [www.sca.com](http://www.sca.com).

### Net Sales and Earnings

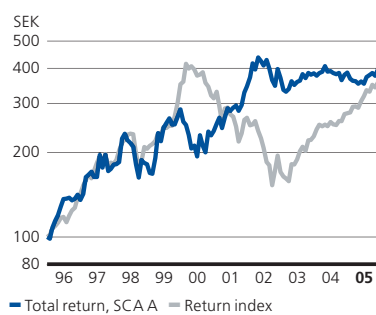


2005 earnings were affected by efficiency improvement costs and write-downs totaling SEK 5,365 M.

### Key Data

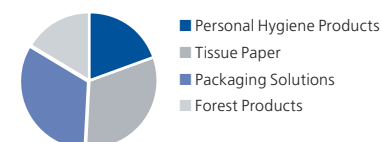
	2005	2004 <sup>2</sup>
Net sales, SEK M	96,385	89,967
Earnings after net financial items, SEK M	433	6,585
Earnings per share, SEK	1.84	22.12
Dividend per share, SEK	11.00 <sup>1</sup>	10.50
Operating cash flow per share, SEK	18.67	24.35
Shareholders' equity per share, SEK	243	234
Average number of employees	50,408	51,718
Market capitalization as per December 31, SEK M	69,806	66,734

### SCA's Stock



**Comment:** During the past ten years SCA's stock has been level with the return index.

### Net Sales per Business Unit



### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes	% of capital
Industrivärden <sup>4</sup>	28.8	10.0
Handelsbanken <sup>5</sup>	13.0	6.0
SEB mutual funds	5.7	2.3
Fourth Swedish National Pension Fund	2.7	1.2
Skandia Liv	2.6	1.5
Share of foreign ownership	16.5	38.0

1) Proposed by the board of directors.

2) Comparison figures for 2004 have been recalculated in accordance with IFRS.

3) Source: SIS Ågarservice.

4) In 2005 Industrivärden purchased a net total of 5.2 million shares in SCA, corresponding to 2.2% of the capital stock, and thereby strengthened its position as SCA's largest shareholder.

5) Including pension foundations, employee foundations and mutual funds.



SSAB is a world leading producer of high-strength sheet steel and quenched steel.

## Strong Market Position in Highly Profitable Segments

SSAB is one of the medium-sized steel companies in Western Europe. Its steel operations have been successfully developed as the result of a distinct niche strategy aimed at consolidating the company's position as one of the leading producers of high-strength sheet and quenched steel. In these selected product segments, SSAB has achieved a strong market position and high profitability.

Growth in the high-strength sheet and quenched steel segments has been higher than for the steel market in general, and deliveries of these products, which account for 52% of total deliveries by the steel operations in 2005, have increased strongly during the past five years. The investments made in the steel operations in recent years are enabling continued strong growth in SSAB's niche markets. The use of quenched steels and high-strength sheet enables customers to improve their products and thus their profitability. The value-added created by this benefits customers as well as SSAB, ensuring good profitability for the SSAB Group.

In the sheet segment, SSAB specializes in extra and ultra high-strength sheet, where it is the largest manufacturer in the Nordic region and one of the leading suppliers in Europe. The steel sheet product line includes hot-rolled, cold-rolled, metal-coated and organic-coated sheet. High-strength steel sheet is used in the automotive industry and by crane manufacturers, among others.

In the plate segment, SSAB is a world-leading producer of quenched steels, i.e., abrasion-resistant steel and high-strength construction steel. Quenched steels are used in construction machinery, mining equipment and cranes, among other things. Ordinary plate is used in shipbuilding, engineering and in wind power plants.

In addition to the steel operations, which are conducted by the subsidiaries SSAB Tunnplåt and SSAB Oxelösund, the SSAB Group includes the subsidiaries Tibnor (85% stake) and Plannja.

Tibnor is the leading commercial steel company in Sweden with a range of commercial steels, special steels, pipes, and stainless steels. Metals and building-related products complement the product range.

Plannja is one of Europe's leading building sheet companies. Plannja processes sheet into products such as roofing tiles and rainwater runoff products.

SSAB's financial targets are to have an average return on equity over a business cycle that is at least 6 percentage points higher than the ten-year government bond rate, a net debt-equity ratio of 30% and an equity ratio in the range of 50%.

SSAB's dividend policy is that the dividend should be adjusted to the average profit level over a business cycle and constitute roughly 50% of profit after tax. It should also be possible to use the dividend to adjust the capital structure.

### Highlights 2005

- Earnings after net financial items, which reached an all-time high for SSAB, increased by 49% to SEK 5,671 M (3,806). The improvement is mainly attributable to the price increases carried out in 2004 and early 2005, which more than amply covered sharply higher raw material costs. Global steel consumption rose to a new record level in 2005, with growth concentrated primarily in China.
- Deliveries of the Group's special products, quenched steel and ultra high-strength sheet, rose 10%.
- Cash flow, excluding the proceeds from the sale of SSAB HardTech, totaling SEK 1,425 M, increased to SEK 4,230 M (1,992) as a result of the strong earnings improvement.
- A total of SEK 2,093 M was distributed to the shareholders through a redemption offer carried out to adjust the company's capital structure.<sup>1</sup>
- Olof Faxander was named as new CEO as from the Annual General Meeting in April 2006.
- The board has proposed an additional share redemption offer worth approximately SEK 2.2 billion in order to adjust the capital structure after the strong cash flow in 2005.

### Industrivärden's Holding in SSAB as per December 31, 2005



Share of equities portfolio: 8%.

#### Holding:

Shares: 14,200,000 Class A shares. Market value: SEK 4,104 M. Share of votes: 20.4%.<sup>1</sup> Share of capital: 15.6%.<sup>1</sup>

**Board members with ties to Industrivärden:** Sverker Martin-Löf and Anders Nyren.

**Industrivärden's nominating committee representative:** Carl-Olof By.

**Assessment of the company from an ownership perspective:** SSAB is one of the most profitable companies in the steel industry. Through active expansion in high-strength niche products, the company has steadily improved its profitability and is performing well in the hardening competition. The business is generating good cash flows, although 2004 and 2005 were exceptionally good years. Industrivärden is optimistic about SSAB's development opportunities.

<sup>1</sup>) SSAB carried out a share redemption in 2005, entailing the redemption of one in every ten shares. Industrivärden sold all its redemption rights whereby the share of the votes increased to 20.3% (18.3%) and the share of the capital to 15.6% (14.0%).

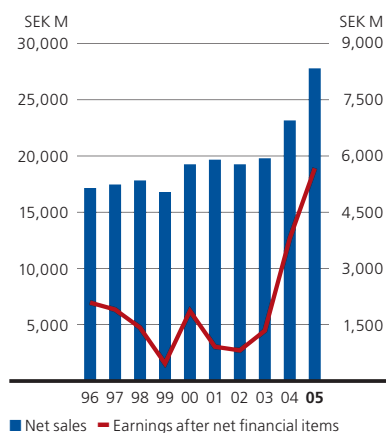


SSAB Oxelösund has several world-leading brands, including Hardox and Weldox. Each sheet is unique and is marked with an individual number. Virtually all sheets are ordered before they are manufactured.

## SSAB at a Glance

**Chairman:** Sverker Martin-Löf. **CEO:** Anders Ullberg. **Stock:** SSAB's stock is listed on the Stockholm Stock Exchange. The share price rose by 81% in 2005, and trading volume was SEK 26 billion. For more information on SSAB, visit [www.ssab.com](http://www.ssab.com).

### Net Sales and Earnings

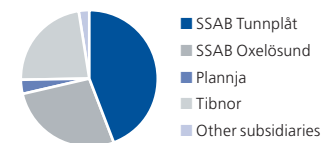


### SSAB's Stock



**Comment:** During the past ten years SSAB's stock has outperformed the return index by a wide margin.

### Net Sales per Business Segment



Niche products such as high-strength sheet and quenched steel accounted for 52% (50%) of the steel operation's deliveries in 2005.

### Key Data

	2005	2004 <sup>2</sup>
Net sales, SEK M	<b>27,804</b>	23,712
Earnings after net financial items, SEK M	<b>5,671</b>	3,806
Earnings per share, SEK	<b>42.21</b>	35.61
Dividend per share, SEK	<b>9.00<sup>1</sup></b>	7.50
Cash flow per share, SEK	<b>41.92</b>	19.74
Shareholders' equity per share, SEK	<b>155.99</b>	128.89
Average number of employees	<b>8,832</b>	8,866
Market capitalization as per December 31, SEK M	<b>25,805</b>	16,052

### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes	% of capital
Industrivärden	20.4	15.6
AMF Pension <sup>4</sup>	6.3	5.0
LKAB	6.2	4.8
FöreningsSparbanken mutual funds	2.4	4.2
SEB mutual funds	2.3	1.7
Share of foreign ownership	22.8	22.6

1) Proposed by the board of directors. The board has also proposed a stock redemption worth approximately SEK 2.2 billion and a 3:1 stock split.

2) Comparison figures for 2004 have been recalculated according to IFRS. SSAB HardTech, which was sold in 2004, is excluded from the comparison figures.

3) Source: SIS Ågarservice.

4) Including funds.





Skanska offers competitive solutions in the development, construction and maintenance of physical environments for living, traveling and working. The company is active in a number of selected home markets. Its vision is to be a leader in construction-related services and project development in these markets.

## Leading Player in Complex Construction Projects

Skanska is one of the world's leading companies in construction-related services and project development. Its mission is to develop, build and maintain the physical environment for living, traveling and working. Its goal is to be number 1 or 2 in terms of size and profitability in all the home markets of its business units. Skanska's goal is also to be the leading project developer in residential, office, retail and selected types of projects in public-private partnerships.

Skanska's capabilities are best utilized in large, complex projects where quality, comprehensive solutions and life-cycle costs are as important as price. Skanska offers customers its collective knowledge and services throughout the value chain – from concept and design to construction and services.

Skanska is a global name in construction, with operations in nine "home markets". The largest are the U.S., Sweden, the Czech Republic, Norway, the U.K. and Finland. The share of foreign revenues has risen from about 10% at the end of the 1980s to approximately 80% today. The U.S. is Skanska's largest market, accounting for 32% of sales in 2005.

Operations are conducted in four business streams: Construction, Residential Project Development, Commercial Project Development and Infrastructure Development.

Construction handles the construction of non-residential and residential buildings as well as civil construction projects and is Skanska's largest business stream. Civil construction consists mainly of infrastructure projects such as rail systems, bridges, tunnels, roads and power plants. Residential Project Development develops residential projects for immediate sale. Its homes are tailored for selected customer categories. Commercial Project Development initiates, develops, leases and divests commercial real estate projects, with a focus on office space and shopping centers. Infrastructure Development develops and invests in privately financed infrastructure projects, such as roads, hospitals and power generation plants. Activities in this stream are focused

on creating new project opportunities in the markets in which Skanska is active.

Skanska's financial targets are to have an operating margin of 3.3% for the Construction business stream. The Group's average annual return on shareholders' equity after tax should be 18%. Based on current operations, it is the Board's judgment that shareholders' equity should be approximately SEK 15 billion.

Skanska's dividend policy is based on the goal that future profits will cover development of the Group's business as well as growth in the regular dividend. The dividend is expected to amount to at least 50% of profit after tax.

Skanska's strategy for achieving its operative and financial targets is to focus on the core business carried out by its four business streams. The company seeks to maintain an international presence with local businesses, take advantage of the collective resources and strengths of the Group, foresee and manage risks in its construction business with the help of well-functioning risk management systems, and be an industry leader in technology as well as safety, ethics and the environment.

### Highlights 2005

- Earnings after net financial items amounted to SEK 5,120 M (4,327), including project development gains of SEK 1,626 M (1,494) on sales of commercial properties.
- Operating income for Construction, the largest business stream, amounted to SEK 2,871 M (1,512). Earnings were favorable in most markets, but remained weak in the U.S.
- The Infrastructure Development business stream performed well, with several interesting new investments.
- Cash flow from operating activities before changes in interest-bearing receivables and liabilities was SEK 4,122 M (6,866). At year-end Skanska had a net cash position, i.e., greater financial assets than interest-bearing net debt, of SEK 11,111 M (7,229).

### Industrivärden's Holding in Skanska as per December 31, 2005



Share of equities portfolio: 8%.

#### Holding:

Shares: 15,000,000 Class A shares and 17,300,000 Class B shares. Market value: SEK 3,908 M.  
Share of votes: 26.9%<sup>1</sup>. Share of capital: 7.7%.

**Board members with ties to Industrivärden:** Sverker Martin-Löf, Finn Johnsson, Arne Mårtensson and Anders Nyrén.

**Industrivärden's nominating committee representative:** Carl-Olof By.

**Assessment of the company from an ownership perspective:** Following a strong phase of expansion, Skanska is carrying out a consolidation and strategic concentration of its operations. Improved coordination of the company's strength factors is creating further competitive advantages. The company's financial targets give priority to profitability over growth. Industrivärden is optimistic about Skanska's opportunities to further develop its operations and achieve long-term favorable earnings growth.

<sup>1</sup> In 2005 Industrivärden called for the conversion of 2,302,756 Class A shares to a corresponding number of Class B shares. Through the conversion, Industrivärden's share of votes in Skanska decreased from 29.3% to 26.9%.



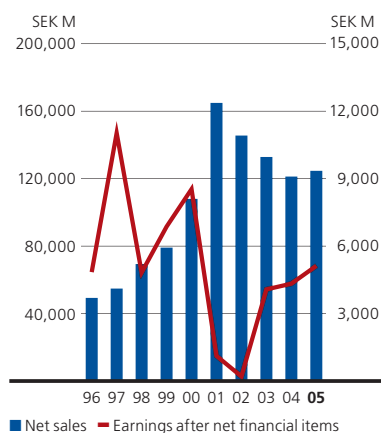


Construction of North America's longest cable stay span, the Cooper River Bridge, which connects the city of Charleston and the town of Mount Pleasant, South Carolina, was completed in spring 2005. Skanska completed the project a year ahead of schedule.

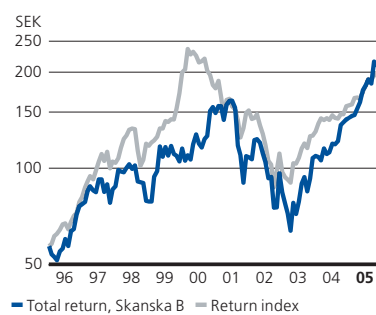
## Skanska at a Glance

**Chairman:** Sverker Martin-Löf. **CEO:** Stuart Graham. **Stock:** Skanska's stock is listed on the Stockholm Stock Exchange. The share price rose by 52% in 2005, and trading volume was SEK 47 billion. For more information on Skanska, visit [www.skanska.com](http://www.skanska.com).

### Net Sales and Earnings

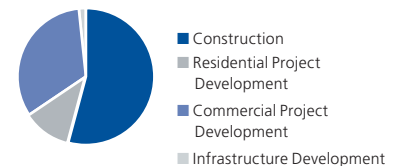


### Skanska's Stock



**Comment:** During the past ten years Skanska's stock performed level with the return index.

### Net Sales per Business Unit



**Comment:** Market valuations as per December 31, 2005, show a surplus value of SEK 1.9 billion in Commercial Project Development and SEK 2.7 billion in Infrastructure Development.

### Key Data

	2005	2004 <sup>2</sup>
Net sales, SEK M	<b>124,667</b>	121,263
Earnings after net financial items, SEK M	<b>5,120</b>	4,327
Earnings per share, SEK	<b>9.27</b>	7.58
Dividend per share, SEK	<b>6.50<sup>1</sup></b>	4.00
Cash flow per share, SEK	<b>17.60</b>	22.05
Shareholders' equity per share, SEK	<b>44.40</b>	39.10
Average number of employees	<b>53,806</b>	53,803
Market capitalization as per December 31, SEK M	<b>50,645</b>	33,219

### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes	% of capital
Industrivärden	26.9	7.7
Handelsbanken <sup>4</sup>	8.6	5.1
AMF Pension	4.3	6.3
Inter Ikea Investment	3.4	0.6
FöreningsSparbanken mutual funds	2.3	3.5
Share of foreign ownership	18.3	26.9

1) Proposed by the Board of Directors, of which SEK 2.00 consists of an extra dividend.

2) Comparison figures for 2004 have been recalculated according to IFRS.

3) Source: SIS Ågarservice.

4) Including pension foundations and mutual funds.



Indutrade is a technology trading company active in the northern European market for components, systems and services for industry customers with a recurring need. The company's customers consist primarily of industrial companies in northern Europe and Benelux.

## Successful Stock Market Introduction

Indutrade is a technology trading company that markets and sells components, systems and services with a high-tech content to industrial customers in selected niches. The Group creates value for its customers by structuring the value chain and increasing the efficiency of its customers' use of technological components and systems. For Indutrade's suppliers, value is created through the offering of an efficient sales organization with high technical expertise and solidly developed customer relations.

Indutrade's main products include flow products, valves, filters and process technology, industrial equipment, transmissions, cutting tools and fasteners. Coordination and control of the Group is conducted through four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products.

The customers of the Indutrade companies consist of manufacturers and end-users that have a recurring need for technical components. They represent a cross-section of industry, with a concentration in the pulp & paper industry and engineering industry. The pharmaceutical, food, petrochemical and auto industries are other key customer groups.

Indutrade's suppliers consist of international corporations with brand-name products and major development resources as well as smaller niche manufacturers. Most of the products are leaders in their respective segments. Suppliers are situated mainly in Germany, the UK, Japan and Italy. As a rule, Indutrade's companies have exclusive agency agreements in their respective geographic markets. Indutrade's principal markets are Sweden, Finland, Benelux/Germany and Denmark. The company is also active in Norway, the Baltic countries and Russia.

Indutrade's expansion has taken place through organic growth as well as through yearly acquisitions of small and medium-sized technology sales companies, often privately held. Average annual sales growth has been 12% since 1995, of which 4% can be credited to organic growth.

Indutrade's financial targets include an average of 10% annual sales growth over a business cycle, an average operating margin in excess of 8% annually over a business cycle, a return on operating capital in excess of 25%, and a net debt-equity ratio that normally does not exceed 100%. The dividend over time shall amount to at least 50% of net profit.

### Highlights 2005

- Invoiced sales amounted to SEK 3,822 M (3,486), an increase of 4% for comparable units and adjusted for currency effects. Engineering & Equipment was the business area that performed best.
- Operating income before amortization of intangible fixed assets amounted to SEK 133 M (102) for Engineering & Equipment, SEK 67 M (53) for Flow Technology, to SEK 50 M (49) for Industrial Components, and to SEK 108 M (91) for Special Products. The operating margin was 8.7% (7.6%).
- Earnings after net financial items increased by 27% to SEK 309 M (243). The return on operating capital was 32% (26%). Cash flow from operating activities was to SEK 322 M (267).
- Indutrade carried out four company acquisitions during the year. The largest acquisition involved the Dutch technology group Hanwel, which had sales of SEK 170 M in 2005, with good profitability.

### Indutrade IPO

Indutrade was introduced on the Stockholm Stock Exchange on October 5, 2005, through an initial public offering in which Industrivärden sold 62.5% of its shareholding to the general public and institutional investors. The offering price was SEK 65 per share. The offering was oversubscribed more than 12 times. Following the stock market introduction, Industrivärden sold additional shares and call stock options to a number of senior executives of Indutrade, corresponding to approximately 1% of the total number of shares in Indutrade. The share price at year-end was SEK 89. See also the section Composition and Performance of the Equities Portfolio, page 20.

### Industrivärden's Holding in Indutrade as per December 31, 2005



Share of equities portfolio: 3%.

#### Holding:

Shares: 14,857,800. Market value: SEK 1,322 M.  
Share of votes and capital: 37.1%.

**Board members with ties to Industrivärden:** Bengt Kjell, Curt Källströmer and Anders Nyrén.

**Industrivärden's nominating committee representative:** Carl-Olof By.

**Assessment of the company from an ownership perspective:** During the five-year period 2001–2005, Indutrade has delivered an average return on operating capital of 27%, with a strong cash flow. Through a conscious effort Indutrade has built up and refined a model for acquiring and integrating technology trading companies. In view of Indutrade's proven ability to run an expansive group of technology trading companies with good profitability, Industrivärden expects to see a continued favorable trend in profitability for Indutrade.

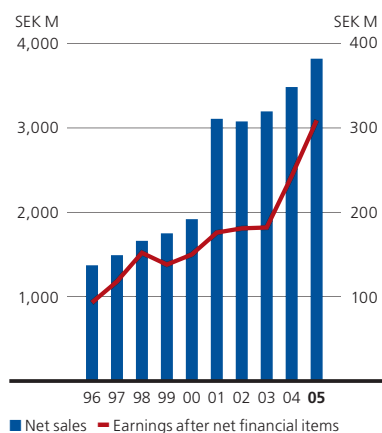


Service staff from Indutrade measure the cleanliness of filters used in the hydraulic and lubrication oil system at a paper mill.

## Indutrade at a Glance

**Chairman:** Bengt Kjell. **CEO:** Johnny Alvarsson. **Stock:** Indutrade's stock is listed on the Stockholm Stock Exchange O-List. Following the stock market introduction on October 5, 2005, the share price rose 37% for the year, and trading volume was SEK 1.6 billion. For more information on Indutrade, visit [www.indutrade.com](http://www.indutrade.com).

### Net Sales and Earnings

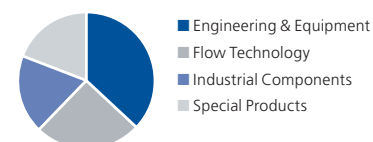


### Indutrade's Stock



**Comment:** Indutrade was introduced on the Stockholm Stock Exchange on October 5, 2005. The offering price was SEK 65 per share.

### Net Sales per Business Area



### Key Data

	2005	2004 <sup>2</sup>
Net sales, SEK M	<b>3,822</b>	3,486
Earnings after net financial items, SEK M	<b>309</b>	243
Earnings per share, SEK	<b>5.55</b>	4.20
Dividend per share, SEK	<b>2.75<sup>1</sup></b>	–
Cash flow per share, SEK	<b>8.05</b>	6.68
Shareholder's equity per share, SEK	<b>17.85</b>	17.70
Average number of employees	<b>1,510</b>	1,415
Market capitalization as per December 31, SEK M	<b>3,560</b>	2,022 <sup>3</sup>

### Largest Owners as per December 31, 2005<sup>4</sup>

	% of votes and capital
Industrivärden	37.1
L E Lundbergföretagen	10.0
Handelsbanken Pension Foundation	4.1
Nordea mutual funds	4.1
AFA Insurance	3.5
Share of foreign ownership	11.3

1) Proposed by the board of directors.

2) Comparison figures for 2004 have been recalculated according to IFRS.

3) Estimated market value based on a P/E multiple of 13, based on 2004 earnings before recalculation according to IFRS.

4) Source: SIS Ägarservice.



Munters is a world leader in humidity control, with products and services for water damage restoration and dehumidification, humidification and cooling of air.

## Strong Global Position in Humidity Control

Munters is a world leader in humidity control, with services and products for water and fire damage restoration and dehumidification, humidification and cooling of air. Munters' business concept is to be a global service and application-oriented niche company for air conditioning from a base in dehumidification and humidification. Munters conducts own operations in 30 countries and is a leading global player with market positions of approximately 50% in several segments. Growth is primarily created through a broad service offering and by selling products with several functions. The largest customers are in the insurance, food and pharmaceutical industries.

Munters' operations are divided into three product divisions: Moisture Control Services (MCS), Dehumidification and HumiCool.

MCS offers services for water and fire damage restoration and for temporary climate control. The MCS service concept is based on drying instead of rebuilding following water or fire damage. Munters' services in this area cover a wide range of applications, from limiting water damage in homes to the renting of dehumidifiers for industrial applications. Insurance companies can save time and money by resorting to drying and renovation instead of rebuilding after fire and water damage.

The Dehumidification division offers products and total solutions for controlling humidity and indoor climates. By maintaining a constant, low level of air humidity, rust, mold, frost and bacteria growth can be prevented. Customers' manufacturing and storage processes become more effective, and product life, quality and hygiene are improved. Dehumidification combined with air cooling creates ideal indoor climates. Customers are offered a controlled indoor climate, regardless of whether their plant is in a warm and humid or cold and dry climate. Priority market segments for the Dehumidification division are the food and pharmaceutical industries.

HumiCool offers products and systems that create a controlled indoor climate. Evaporative cooling is in demand in countries with a warm climate, while in countries with cold, dry climates, humidification is used to improve indoor environments. Munters' technology is used in a variety of different applications. For example, Munters' systems make it possible to grow vegetables and flowers indoors or raise chickens in an ideal artificial climate. A stable and controlled indoor climate contributes to higher productivity in customers' business operations.

Munters' strategy, in brief, is to focus on customers with underlying growth and moderate sensitivity to business cycles, to increase distribution to end customers through forward integration, to repeat successful installations, to increase service sales, and to open new geographic markets.

The financial targets include annual sales growth of 10% over a business cycle, an operating margin of 10%, and a capital turnover rate of 3.

Munters' dividend policy is that the dividend should correspond to roughly half of average net earnings, measured over a several-year period.

### Highlights 2005

- Earnings after financial items amounted to SEK 391 M (318). The earnings improvement can be credited primarily to high demand during the second half of the year in the HumiCool and Dehumidification divisions.
- Order intake during the second half of the year was strong, leading to a record-high order backlog at year-end.
- A product-oriented organization was implemented during the year.

### Industrivärden's Holding in Munters as per December 31, 2005



Share of equities portfolio: 1%.

#### Holding:

Shares: 3,400,000 shares. Market value: SEK 745 M.  
Share of votes and capital: 13.6%.

**Board member with ties to Industrivärden:** Bengt Kjell.

**Industrivärden's nominating committee representative:** Carl-Olof By.

**Assessment of the company from an ownership perspective:** Munters has a very strong market position in humidity control. Following a period of setbacks, Munters showed good growth in volume and earnings in 2005. Industrivärden believes that Munters has good future opportunities in interesting and growing product and service segments.

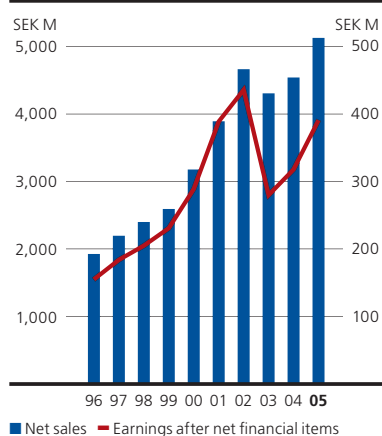


Packaging of a dehumidifier following test inspection at Munters' plant in Tobo, Sweden.

## Munters at a Glance

**Chairman:** Berthold Lindqvist. **CEO:** Lennart Evrell. **Stock:** Munters' stock is listed on the Stockholm Stock Exchange. The share price rose by 10% in 2005, and trading volume was SEK 2.7 billion. For more information on Munters, visit [www.munters.com](http://www.munters.com).

### Net Sales and Earnings

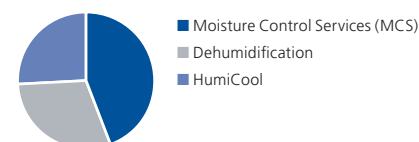


### Munters' Stock



**Comment:** Since its stock market introduction in 1997, Munters' stock has outperformed the return index by a wide margin.

### Net Sales per Product Division



### Key Data

	2005	2004 <sup>2</sup>
Net Sales, SEK M	5,130	4,543
Earnings after net financial items, SEK M	391	318
Earnings per share, SEK	10.17	8.21
Dividend per share, SEK	5.50 <sup>1</sup>	4.00
Cash flow per share, SEK	5.74	3.32
Shareholders' equity per share, SEK	58.75	45.90
Average number of employees	3,303	3,207
Market capitalization as per December 31, SEK M	5,475	5,000

### Largest Owners as per December 31, 2005<sup>3</sup>

	% of votes and capital
Industrivärden	13.6
Latour	13.4
AFA Insurance	6.4
FöreningsSparbanken mutual funds	5.4
Nordea mutual funds	5.2
Share of foreign ownership	16.6

1) Proposed by the board of directors.

2) Comparison figures for 2004 have been recalculated according to IFRS.

3) Source: SIS Ägarservice.





Isaberg Rapid is Europe's leading company in stapling for the office and tool markets. Its products are sold in more than 100 countries, with Europe and North America representing the most important markets.

## A Leader in Stapling

Isaberg Rapid is a global company in stapling with a focus on the office and tool markets. The company's products are marketed under the Rapid brand. The product line covers both manual and electric staplers. Desktop staplers and stapling pliers are used in offices for stapling paper, while electric tackers and hammer tackers are used by professional craftsmen as well as by private persons in the "do-it-yourself" segment and for hobby activities. Isaberg Rapid also develops staplers that are built into photocopiers for the OEM market.

Isaberg Rapid is Europe's leading company in stapling. Its products are sold in more than 100 countries, and more than 90% of sales are outside Sweden. Europe and North America are the most important markets. Isaberg Rapid'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. Rapid products are sold in three main markets: office staplers, stapling tools and OEM.

By establishing and acquiring own sales companies in Denmark, France, Italy, the Netherlands, Spain, the U.K. and Germany, Isaberg Rapid has created potential in recent years for greater market shares and thus higher production volumes. A large percentage of sales are made through local distributors, which are also responsible for service, however, future growth is being sought by establishing direct contact with end customers. International chains, which have been a driving force behind the changing distribution pattern, are key end customers. Isaberg Rapid has been designated as a preferred supplier of staplers and staples by most

of the major chains. A line of low- and medium-price products made by a subsidiary in China is enabling penetration of new market segments.

Product development is a cornerstone of Isaberg Rapid's strategy of enabling volume growth. One such product innovation is a specially engineered electric stapler with a patented staple cassette for incorporation into office photocopiers.

Isaberg Rapid has five manufacturing units, of which two are in Sweden, two are in France, and one is in China.

In connection with the successful introduction of photocopier staplers in the mid-1990s, Isaberg Rapid's profitability rose sharply. This has subsequently fallen as a result of lower delivery volumes of photocopier staplers, increasing price competition brought by globalization in both the office stapler and tools markets, and insufficient manufacturing efficiency. An extensive restructuring program was initiated in 2004 in the aim of improving operating efficiency and restoring profitability. This was complemented in 2005 with additional rationalization measures. Actions are being focused on cost-cutting, a leaner product line, and manufacturing and distribution efficiency.

### Highlights 2005

- Net sales amounted to SEK 891 M (861).
- After costs for ongoing action programs, earnings after net financial items totaled SEK 5 M (1). The return on capital employed before action program provisions was 8% (7%).
- The decision was made to close a manufacturing unit in Sweden in 2006.

### Industrivärden's Holding in Isaberg Rapid as per December 31, 2005



Share of equities portfolio: <1%.

#### Holding:

Estimated market value: SEK 205 M<sup>1</sup>.  
Share of votes and capital: 100%.

**Board members with ties to Industrivärden:** Bengt Kjell (Chairman), Carl-Olof By and Anders Nyrén.

**CEO:** Ingemar Broström.

**Assessment of the company from an ownership perspective:** As a result of the concentration on major customers in recent years, Isaberg Rapid is being forced to adapt its product supply to meet the customers' needs for efficient manufacture and competitive prices. An expanded action program is in progress aimed at creating cost efficiencies, a leaner product line, and manufacturing and distribution efficiency.

For more information on Isaberg Rapid, visit [www.isaberg-rapid.com](http://www.isaberg-rapid.com).

<sup>1</sup>) Unlisted holdings are valued based on equity.





## FINANCIAL STATEMENTS

The Board of Directors and President of AB Industrivärden (publ) herewith submit their annual report and consolidated financial statements for the 2005 fiscal year.



## Board of Directors' Report

Registered number SE 556043-4200

The Board of Directors and President of AB Industrivärden (publ) herewith submit their annual report and consolidated financial statements for the 2005 fiscal year.

### Composition and Work of the Board of Directors

The Board of Directors consisted of eight members in 2005. A presentation of the Board can be found on page 84.

In 2005 the Board held five meetings, including the statutory meeting. Aside from strategic planning, the most important individual matters of business pertained to the sale of the majority shareholding in the wholly owned subsidiary Indutrade in connection with the initial public offering of that company, and purchases and sales of stocks in listed and unlisted companies. For a more detailed account of the Board's duties, regular items of business, committees, and so on, see the Corporate Governance Report on pages 14–17.

### Net Asset Value

During the year, net asset value increased from SEK 36.6 billion, or SEK 189 per share, to SEK 48.3 billion, or SEK 250 per share, an increase of 32%. The components making up net asset value are shown below:

	SEK billion		SEK per share	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004
Parent Company				
Equities portfolio	52.3	41.7	271	216
Net debt	-4.0	-5.1	-21	-27
<b>Net asset value</b>	<b>48.3</b>	<b>36.6</b>	<b>250</b>	<b>189</b>

### Equities Portfolio

The market value of the equities portfolio at year-end was SEK 52,265 M (41,691), an increase of 25% (27%). The market value exceeded cost by SEK 31,592 M (21,660). Purchases of stocks during the year totaled SEK 3,023 M (5,203), and sales totaled SEK 3,964 M (2,956). Thus stocks were sold for a net amount of SEK 941 M (net purchase of 2,247).

Taking into account purchases and sales, the value of the portfolio increased by 28% (21%) during the year. The stock market index (OMXSPI) rose by 33% (18%) during the same period. The total return for the equities portfolio was 32% (24%), compared with 36% (21%) for the return index (SIXRX).

The wholly owned subsidiary Indutrade was introduced on the stock market on October 5, 2005, after Industrivärden sold 62.5% of its shareholding to the general public and institutional investors

for SEK 1,585 M. The initial public offering was oversubscribed more than twelve times. Following the stock market introduction, additional shares and stock options were sold to a number of senior executives of Indutrade, corresponding to 1% of the total number of shares in Indutrade. Industrivärden intends to remain an active owner, with approximately 35% of the shares.

During the year, Sandvik and SSAB announced share redemption offers. In connection with these, Industrivärden redeemed all of its redeemable shares in Sandvik, but sold all of its redemption rights in SSAB.

Also during the year, 982,000 Class A shares in SCA were converted to Class B shares, which decreased Industrivärden's share of votes from 29.5% to 28.5%. After other shareholders had also converted Class A shares in SCA to Class B shares, Industrivärden's share of votes amounted to 28.8% at year-end. In addition, 2,302,756 Class A shares in Skanska were converted to Class B shares, which decreased Industrivärden's share of votes from 29.3% to 26.9%.

### Equity Transactions During the Year

	No. of shares	SEK M
<b>Purchases</b>		
SCA B	6,485,440	1,664
Höganäs B	2,610,307	471
Ossur hf <sup>1</sup>	24,699,286	247
Sandvik	505,660	193
Ericsson B	5,000,000	137
Handelsbanken A	635,900	119
Other		192
<b>Total</b>		<b>3,023</b>

### Sales

Indutrade	25,142,200	1,596
Ossur hf <sup>2</sup>	89,817,286	1,008
Sandvik <sup>3</sup>	1,459,160	569
SCA B	1,267,400	335
Nokia <sup>2</sup>	1,588,000	179
Pfizer Inc. <sup>2</sup>	1,000,000	170
Other		107
<b>Total</b>		<b>3,964</b>

1) Of which, 15,473,167 shares were subscribed in a new issue.

2) The entire shareholding.

3) Of which, 1,077,100 shares were sold through redemption for SEK 436 M.

### Short-Term Derivative Transactions and Equity Trading

Nordinvest AB conducts short-term equity trading. During the year purchases of listed stocks totaled SEK 1,291 M (1,350) and sales totaled SEK 1,444 M (1,168). Stocks were thus sold for a net total of SEK 153 M (net purchase of 182). Earnings after net financial items were SEK 33 M (34). Including earnings from the Parent Company's short-term

derivative transactions, totaling SEK 89 M (72), total earnings from short-term derivative transactions and equity trading amounted to SEK 122 M (106), which more than amply covered the Parent Company's management costs of SEK 78 M (80).

#### *Net Debt*

The Parent Company's cash and cash equivalents amounted to SEK 1,257 M (453), and interest-bearing receivables amounted to SEK 89 M (358). Interest-bearing liabilities decreased by SEK 532 M to SEK 5,220 M (5,752), including SEK 51 M (46) in pension provisions. Of total interest-bearing liabilities, SEK 3,819 M (4,056) consisted of long-term loans. Interest-bearing net debt decreased from SEK 4,798 M to SEK 3,672 M. Together with noninterest-bearing net debt, totaling SEK 341 M (330), total net debt amounted to SEK 4,013 M (5,128). The net debt-equity ratio was 7.0% (11.5%), as shown in the specification on page 57.

#### **Group**

Consolidated earnings from portfolio management amounted to SEK 14,334 M (7,557), including SEK 1,275 M (1,032) in dividend income, SEK 12,937 M (6,427) in change in value of stocks, SEK 122 M (106) from short-term derivative transactions and equity trading, and SEK 0 M (–8) in other income and expenses. Earnings from other operations, which pertain mainly to the wholly owned subsidiary Isaberg Rapid, totaled SEK 22 M (10). After SEK –78 M (–80) in management costs and SEK –231 M (–188) in net financial items, earnings after financial items were SEK 14,047 M (7,299). After tax of SEK –7 M (–9) and earnings after tax from discontinued operations, totaling SEK 162 M (168) (pertaining to the previously wholly owned subsidiary Indutrade), net earnings for the year were SEK 14,202 M (7,458).

The Group's capital expenditures in tangible fixed assets amounted to SEK 50 M (20), and scheduled depreciation totaled SEK 37 M (42).

The Group's interest-bearing net debt decreased by SEK 1,422 M, to SEK 3,970 M.

#### **Parent Company**

The Parent Company's earnings after financial items totaled SEK 10,367 M (9,318), including SEK 1,275 M (1,032) in external dividends received, SEK 50 M (–) in internal dividends received, SEK 9,081 M (8,426) in change in the value of stocks, SEK 89 M (72) from short-term derivative transactions, and SEK 167 M (47) in other income and expenses. Earnings also included SEK –78 M (–80) in management costs and SEK –217 M (–179) in net financial items.

#### **Employees**

The average number of employees in the Group was 1,177 (2,632), of whom 763 (1,592) were outside Sweden. The average number of

employees in the Parent Company was 22 (22). 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, is provided in Notes 6 and 7. A description of Industrivärden's organization and employee structure is provided on page 18.

#### **Proposed Dividend**

The Board of Directors proposes a dividend of SEK 7.00 (6.00) per share. The proposed dividend corresponds to 4% of the Parent Company's shareholders' equity and 3% of the Group's shareholders' equity. Of shareholders' equity, 58%, or SEK 22.1 billion in the Parent Company, and 66%, or SEK 31.6 billion in the Group, is attributable to the fair valuation of assets and liabilities. Industrivärden's dividend policy is to offer the shareholders a dividend yield that is higher than the average for the Stockholm Stock Exchange. In the Board's judgment, the proposed dividend is well balanced in view of the objectives, scope and risk of operations, as well as with respect to the Company's opportunity to meet its future obligations. According to the proposal, the total dividend payout amounts to SEK 1,352 M, entailing that the Group equity ratio as per December 31, 2005, all else unchanged, would decrease by 2 percentage points. Industrivärden has substantial liquidity scope in the form of market-listed equities.

#### **Environmental Impact**

AB Industrivärden does not conduct any operations requiring a permit according to the environmental code. A discussion of Industrivärden's environmental and corporate responsibility initiatives is provided on page 13.

#### **Financial Risks**

For a description of financial instruments and risk management, see pages 63–65.

#### **Implementation of International Financial Reporting Standards**

On January 1, 2005, the new International Financial Reporting Standards (IFRS) took effect, which all Swedish listed companies are required to apply in their consolidated accounting.

The transition to IFRS affects the Company's accounting as well as its financial reporting. The Industrivärden Group began reporting according to IFRS starting with the first quarter interim report in 2005, with adjusted comparison figures for the corresponding period in 2004. In addition, more lengthy discussions of the effects of implementation of IFRS have been provided in the 2004 Year-End Report, the 2004 Annual Report, and the Interim Report for the first quarter of 2005.

A detailed discussion of the effects for the Group of the transition to IFRS is provided on pages 58–60.

## Proposed Distribution of Earnings

According to the Consolidated Balance Sheet, retained earnings for the year amount to SEK 46,212 M, of which SEK 14,202 M pertains to net earnings for the year.

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

Retained earnings according to decision by 2005 AGM	SEK 10,961 M
Adjustment due to adaptation to IFRS	SEK 14,900 M
Retained earnings after adaptation to IFRS	SEK 25,861 M
Net earnings for the year	SEK 10,367 M
	SEK 36,228 M

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

To shareholders, a dividend of SEK 7.00 per share totaling	SEK 1,352 M
To be carried forward	SEK 34,876 M
	SEK 36,228 M

The Board of Directors and President herewith certify that, to the best of our knowledge, the Annual Report has been prepared in accordance with generally accepted accounting principles for listed companies in Sweden, that disclosures herein provide a true and fair view of the state of affairs of the Company, and that nothing of material importance has been excluded that could affect the representation presented by the Annual Report.

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

Stockholm, February 16, 2006

Tom Hedelius  
*Chairman*

Sverker Martin-Löf  
*Vice Chairman*

Boel Flodgren

Finn Johnsson

Fredrik Lundberg

Arne Mårtensson

Lennart Nilsson

Anders Nyren  
*President and CEO*

Our Audit Report was submitted on February 23, 2006

Öhrlings PricewaterhouseCoopers AB

Anders Lundin  
*Authorized Public Accountant*

# Consolidated Income Statement

SEK M	Note	2005	2004
<b>PORTFOLIO MANAGEMENT</b>			
Dividend income from stocks	1	1,275	1,032
Change in value of stocks	2	12,937	6,427
Short-term derivative transactions and equity trading	3	122	106
Other income and expenses	4	0	-8
<b>Earnings from portfolio management</b>		<b>14,334</b>	<b>7,557</b>
<b>OTHER OPERATIONS</b>			
Net sales	5	894	862
Cost of goods sold		-583	-566
Development costs		-25	-31
Selling costs		-184	-164
Administrative costs		-80	-94
Other operating income and expenses		0	3
<b>Earnings from other operations</b>		<b>22</b>	<b>10</b>
<b>Management costs</b>	6-10	<b>-78</b>	<b>-80</b>
<b>Operating earnings</b>		<b>14,278</b>	<b>7,487</b>
Interest income		13	7
Interest expenses		-230	-195
Other financial income	11	1	2
Other financial expenses	12	-15	-2
<b>Earnings after financial items</b>		<b>14,047</b>	<b>7,299</b>
<b>Tax</b>	13	<b>-7</b>	<b>-9</b>
<b>Earnings for the year for continuing operations</b>		<b>14,040</b>	<b>7,290</b>
<b>Earnings for the year from discontinued operations</b>	14	<b>162</b>	<b>168</b>
<b>Net earnings for the year*</b>		<b>14,202</b>	<b>7,458</b>
<b>Depreciation included in operating earnings</b>	9	<b>42</b>	<b>48</b>
<b>Earnings per share, SEK<sup>1</sup></b>		<b>73.54</b>	<b>38.62</b>
<b>BREAKDOWN BY BUSINESS UNITS</b>			
<b>Earnings after financial items</b>	5		
<b>Portfolio management</b>		<b>14,038</b>	<b>7,298</b>
<b>Other operations</b>		<b>9</b>	<b>1</b>
		<b>14,047</b>	<b>7,299</b>
<b>Discontinued operations</b>		<b>225</b>	<b>243</b>
<b>Group</b>		<b>14,272</b>	<b>7,542</b>
<b>*) Effect of introduction of IFRS on net earnings for the year</b>			
Reported net earnings according to previous accounting principles			1,557
Effect of introduction of IFRS:			
Change in value of stocks (IAS 39)			6,066
Market valuation of equity derivatives (IAS 39)			3
Reversal of goodwill amortization (IFRS 3)			37
Impairment of goodwill (IAS 36)			-2
Discontinuation of associate accounting (IAS 28)			-203
<b>Total IFRS effects</b>			<b>5,901</b>
<b>Net earnings for the year according to IFRS</b>			<b>7,458</b>

1) Net earnings for the year divided by 193,135,612 shares. There is no dilutive effect.



## Comments on the Consolidated Income Statement

### *Portfolio Management*

Dividend income from stocks totaled SEK 1,275 M (1,032), an increase of 24%. Handelsbanken, Sandvik, Skanska, SSAB and Munters raised their dividends. Ericsson paid a dividend for the first time since 2001. The redemption of shares in Sandvik generated additional cash proceeds of SEK 436 M. In SSAB's redemption program, all redemption rights were sold for SEK 54 M.

The change in the value of stocks, which includes the change in value since the start of the year of stocks held for the entire year as well as stocks purchased or sold during the year, amounted to SEK 12,937 M (6,427). The largest changes in value pertained to Sandvik, by SEK 2,771 M (522), Indutrade, by SEK 2,253 M (–), Ericsson, by SEK 2,158 M (2,936), SSAB, by SEK 1,881 M (445), Handelsbanken, by SEK 1,599 M (1,747), and Skanska, by SEK 1,332 M (536).

Short-term derivative transactions by the Parent Company amounted to SEK 89 M (72), and short-term equity trading by Nordinvest amounted to SEK 33 M (34), for a combined total of SEK 122 M (106), which covered the Company's management costs of SEK 78 M (80).

Earnings from portfolio management, including SEK 0 M (–8) in other income and expenses, thus totaled SEK 14,334 M (7,557).

### *Other Operations*

Other operations, with earnings of SEK 22 M (10), pertained primarily to the wholly owned subsidiary Isaberg Rapid. The cost of goods sold, totaling SEK 583 M (566), consists of SEK 298 M (287) in raw materials and consumables, SEK 153 M (149) in employee benefits, SEK –3 M (–23) in change in the inventory of finished products and goods for resale in process, SEK 28 M (33) in depreciation, and SEK 107 M (120) in other costs. Development costs, totaling SEK 25 M (31), selling costs, totaling SEK 184 M (164), and administrative costs, totaling SEK 80 M (94), pertain primarily to personnel-related costs.

Indutrade, which was a wholly owned subsidiary up until its introduction on the stock market in early October, when 62.5% of the shares were sold, is presented on pages 38–39. Indutrade's earnings after tax up until its stock market introduction in early October are shown under the heading Earnings for the year from discontinued operations.

### *Management Costs*

Management costs totaled SEK –78 M (–80), corresponding to 0.15% (0.19%) of the market value of the equities portfolio. Management pertains to investment activities as well as active ownership. Management costs pertain to personnel costs, totaling SEK 50 M (48) and other costs totaling SEK 28 M (32), mainly consulting fees, costs for production of the Annual Report and interim reports, and costs for computer and system support.

### *Net Financial Items and Tax*

Net financial items amounted to SEK –231 M (–188) as a result of a higher average level of debt than in 2004 and SEK 23 M (–) in costs for the premature redemption of loans, which was partly offset by a lower average interest rate during the year. Interest-bearing net debt decreased by SEK 1,422 M, to SEK 3,970 M, mainly as a result of net sales of stocks, totaling SEK 941 M (2004: purchase of 2,247). Stocks were sold for a net total of SEK 2,120 M during the fourth quarter.

Earnings after financial items totaled SEK 14,047 M (7,299).

The Group's tax was SEK –7 M (–9), and was entirely attributable to subsidiaries. As in the preceding year, no tax is paid on the Parent Company's earnings for the year. Dividends rendered are deductible for holding companies. After deducting the proposed dividend of SEK 7.00 (6.00) per share, a tax loss of SEK 8 M arose in the Parent Company. The accumulated tax loss carryforward thereby amounts to SEK 256 M.

Net earnings for the year, including SEK 162 M (168) in earnings from discontinued operations, thereby amounted to SEK 14,202 M (7,458).

## Consolidated Balance Sheet

SEK M	Note	Dec. 31, 2005	Dec. 31, 2004 <sup>1</sup>
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible fixed assets</b>			
Goodwill	15	68	222
Intangible rights	15	15	34
<b>Total intangible fixed assets</b>		<b>83</b>	256
<b>Tangible fixed assets</b>			
Land and buildings	16	117	291
Plant	16, 17	92	128
Equipment	16, 17	10	100
Construction in progress	16	9	2
<b>Total tangible fixed assets</b>		<b>228</b>	521
<b>Financial fixed assets</b>			
Equities	18, 21	51,910	39,190
Long-term receivables	13, 21	12	18
<b>Total financial fixed assets</b>		<b>51,922</b>	39,208
<b>Total fixed assets</b>		<b>52,233</b>	39,985
<b>Current assets</b>			
<b>Inventories</b>			
	22	197	747
<b>Current receivables</b>			
Accounts receivable, trade		239	667
Other receivables		35	217
Prepaid expenses and accrued income	23	14	40
<b>Total current receivables</b>		<b>288</b>	924
<b>Short-term equity investments</b>			
	24	136	252
Short-term investments	24	1,229	401
Cash and bank balances		78	224
<b>Total cash and cash equivalents</b>		<b>1,307</b>	625
<b>Total current assets</b>		<b>1,928</b>	2,548
<b>TOTAL ASSETS</b>		<b>54,161</b>	42,533

1) Including Indutrade, which was introduced on the stock market in 2005 (discontinued operations).

SEK M	Note	Dec. 31, 2005	Dec. 31, 2004 <sup>1</sup>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b> (see page 54)			
Capital stock		966	966
Other capital contribution		1,062	1,062
Reserves		-13	-22
Retained earnings		32,010	25,711
Net earnings for the year		14,202	7,458
<b>Total shareholders' equity</b>		<b>48,227</b>	35,175
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities	17, 25-27	4,037	4,493
Long-term noninterest-bearing liabilities	28	43	53
<b>Total long-term liabilities</b>		<b>4,080</b>	4,546
<b>Current liabilities</b>			
Accounts payable, trade		103	345
Accrued expenses and deferred income	29	280	385
Other noninterest-bearing liabilities		225	382
<b>Total current noninterest-bearing liabilities</b>		<b>608</b>	1,112
<b>Current interest-bearing liabilities</b>			
	17, 30	1,246	1,700
<b>Total current liabilities</b>		<b>1,854</b>	2,812
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>54,161</b>	42,533
Pledged assets	31	1	17
Contingent liabilities	32	1	6

### Comments on the Consolidated Balance Sheet

Financial fixed assets pertain primarily to the market value of the Group's holdings of listed stocks, totaling SEK 51,858 M (39,147), and other stocks, totaling SEK 52 M (43). The market value exceeded cost by SEK 31,592 M (20,233). Stocks were sold for a net total of SEK 941 M (net purchase of 2,247). Stock purchases totaled SEK 3,023 M (5,203), of which SCA accounted for SEK 1,664 M and Höganäs for SEK 471 M. Sales of stocks totaled SEK 3,964 M (2,956), of which Indutrade accounted for SEK 1,596 M, Ossur for SEK 1,008 M (the entire holding), and Sandvik for SEK 569 M, including SEK 436 M for the redemption of shares. In addition, the entire holdings of Nokia and Pfizer were sold for a combined total of SEK 349 M.

The market value of the equities portfolio, taking purchases and sales into account, increased by 28% (21%), compared with 33% (18%) for the market index.

Shareholders' equity increased by SEK 13,052 M, to SEK 48,227 M (35,175), and thereby amounted to SEK 250 per share, which corresponds to net asset value. The change pertains primarily to net earnings for the year, totaling SEK 14,202 M (7,458) and the dividend payment for 2004, totaling SEK -1,159 M, corresponding to SEK 6.00 per share.

Interest-bearing liabilities, including interest-bearing pension provisions, decreased by SEK 910 M, to SEK 5,283 M (6,193). Cash and cash equivalents amounted to SEK 1,307 M (625), and interest-bearing receivables totaled SEK 6 M (176), for a total of SEK 1,313 M (801). Interest-bearing net debt was thus SEK 3,970 M (5,392).

## Parent Company Income Statement

SEK M	Note	2005	2004
<b>PORTFOLIO MANAGEMENT</b>			
Dividend income from stocks	1	1,325	1,032
Change in value of stocks	2	9,081	8,426
Short-term derivative transactions	3	89	72
Other income and expenses	4	167	47
<b>Earnings from portfolio management</b>		<b>10,662</b>	<b>9,577</b>
<b>Management costs</b>	6–8	<b>–78</b>	<b>–80</b>
<b>Operating earnings</b>		<b>10,584</b>	<b>9,497</b>
Interest income			
Subsidiaries		2	2
Other		11	5
Interest expenses			
Subsidiaries		–3	–2
Other		–219	–183
Other financial income	11	0	0
Other financial expenses	12	–8	–1
<b>Earnings after financial items</b>		<b>10,367</b>	<b>9,318</b>
<b>Tax</b>	13	<b>–</b>	<b>–</b>
<b>Net earnings for the year</b>		<b>10,367</b>	<b>9,318</b>

## Parent Company Balance Sheet

SEK M	Note	Dec. 31, 2005	Dec. 31, 2004
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Financial fixed assets</b>			
Equities	18, 21	35,515	30,780
Shares in associated companies	19, 21	6,731	3,031
Shares in subsidiaries	20, 21	230	507
<b>Total financial fixed assets</b>		<b>42,476</b>	34,318
<b>Total fixed assets</b>		<b>42,476</b>	34,318
<b>Current assets</b>			
<b>Current receivables</b>			
Receivables from subsidiaries		83	184
Other receivables		12	172
Prepaid expenses and accrued income	23	5	11
<b>Total current receivables</b>		<b>100</b>	367
Short-term investments	24	1,229	400
Cash and bank balances		28	53
<b>Total cash and cash equivalents</b>		<b>1,257</b>	453
<b>Total current assets</b>		<b>1,357</b>	820
<b>TOTAL ASSETS</b>		<b>43,833</b>	35,138

SEK M	Note	Dec. 31, 2005	Dec. 31, 2004
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity (see page 54)</b>			
<b>Restricted shareholders' equity</b>			
Capital stock		966	966
Statutory reserve		1,062	1,062
		<b>2,028</b>	2,028
<b>Unrestricted shareholders' equity</b>			
Retained earnings		25,861	17,702
Net earnings for the year		10,367	9,318
		<b>36,228</b>	27,020
<b>Total shareholders' equity</b>		<b>38,256</b>	29,048
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities	25–27	3,870	4,102
<b>Total long-term liabilities</b>		<b>3,870</b>	4,102
<b>Current liabilities</b>			
Liabilities to subsidiaries		1	1
Tax liability		165	165
Accrued expenses and deferred income	29	177	166
Other noninterest-bearing liabilities		14	6
<b>Total current noninterest-bearing liabilities</b>		<b>357</b>	338
Liabilities to subsidiaries		240	148
Other interest-bearing liabilities	30	1,110	1,502
<b>Total current interest-bearing liabilities</b>		<b>1,350</b>	1,650
<b>Total current liabilities</b>		<b>1,707</b>	1,988
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>43,833</b>	35,138
Pledged assets	31	1	15
Contingent liabilities	32	4	4

## Group and Parent Company, Shareholders' Equity

Changes in shareholders' equity, SEK M

Group	Capital stock <sup>1</sup>	Other capital contribution <sup>2</sup>	Reserves <sup>3</sup>	Retained earnings	Net earnings for the year	Total shareholders' equity
Shareholders' equity as per adopted balance sheet at December 31, 2003	966	1,062	-14	15,266	-867	16,413
Effect of new accounting principles (IFRS):						
Market valuation of equities (IAS 39)	-	-	-	14,165	-	14,165
Market valuation of other financial instruments (IAS 39)	-	-	-	3	-	3
Effect of discontinuation of associate accounting (IAS 28)	-	-	-	-1,777	-	-1,777
Effect of introduction of pension reporting (IAS 19)	-	-	-	-17	-	-17
Opening shareholders' equity according to adjusted balance sheet	966	1,062	-14	27,640	-867	28,787
Dividend to shareholders	-	-	-	-1,062	-	-1,062
Transfer of previous year's net earnings	-	-	-	-867	867	-
Translation differences	-	-	-8	-	-	-8
Net earnings for the year	-	-	-	-	7,458	7,458
Amount as per December 31, 2004	966	1,062	-22	25,711	7,458	35,175
Dividend to shareholders	-	-	-	-1,159	-	-1,159
Transfer of previous year's net earnings	-	-	-	7,458	-7,458	-
Translation differences	-	-	9	-	-	9
Net earnings for the year	-	-	-	-	14,202	14,202
<b>Amount as per December 31, 2005</b>	<b>966</b>	<b>1,062</b>	<b>-13</b>	<b>32,010</b>	<b>14,202</b>	<b>48,227</b>

Parent Company	Capital stock <sup>1</sup>	Share premium reserve <sup>2</sup>	Statutory reserve <sup>2</sup>	Unrestricted shareholders' equity	Total shareholders' equity
Shareholders' equity as per adopted balance sheet at December 31, 2003	966	342	720	11,902	13,930
Transfer from share premium reserve to statutory reserve, in accordance with new legislation	-	-342	342	-	-
Effect of new accounting principles (IFRS):					
Market valuation of equities in other companies than associated companies (IAS 39)	-	-	-	6,862	6,862
Opening shareholders' equity according to adjusted balance sheet	966	-	1,062	18,764	20,792
Dividend to shareholders	-	-	-	-1,062	-1,062
Net earnings for the year	-	-	-	9,318	9,318
Amount as per December 31, 2004	966	-	1,062	27,020	29,048
Dividend to shareholders	-	-	-	-1,159	-1,159
Net earnings for the year	-	-	-	10,367	10,367
<b>Amount as per December 31, 2005</b>	<b>966</b>	<b>-</b>	<b>1,062</b>	<b>36,228</b>	<b>38,256</b>

1) The capital stock as per December 31, 2004, and December 31, 2005, consisted of 193,135,612 shares, of which 134,273,702 were Class A shares and 58,861,910 were Class C shares. See also the section Industrivärden Share Data, pages 8-10.

2) Refers to conversion of convertible participating notes at a premium rate.

3) The accumulated translation difference in shareholders' equity is SEK -13 M (-22). The change is attributable to currency movements in the foreign subsidiaries.



## Group and Parent Company, Statements of Cash Flows

SEK M	Group		Parent Company	
	2005	2004 <sup>1</sup>	2005	2004
<b>OPERATING ACTIVITIES</b>				
<b>Portfolio management</b>				
Dividend income from stocks	1,275	999	1,325	999
Cash flow from short-term equity trading	144	-182	-	-
Cash flow from derivative transactions	108	76	108	76
Other items affecting cash flow	-17	-23	3	4
<b>Operating cash flow from portfolio management</b>	<b>1,510</b>	<b>870</b>	<b>1,436</b>	<b>1,079</b>
<b>Other operations</b>				
Earnings from other operations	22	231		
Adjustment for non-cash items:				
Depreciation	42	132		
Other non-cash items	10	25		
Tax paid	-26	-77		
Cash flow from changes in working capital	-22	-16		
<b>Operating cash flow from other operations</b>	<b>26</b>	<b>295</b>		
Management costs paid	-79	-76	-79	-76
Interest received	11	13	12	7
Interest paid	-235	-181	-227	-154
Other financial items	-11	-11	-9	-9
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1,222</b>	<b>910</b>	<b>1,133</b>	<b>847</b>
<b>INVESTING ACTIVITIES</b>				
<b>Portfolio management</b>				
Purchase of listed stocks	-3,023	-5,203	-3,023	-5,203
Sale of listed stocks	2,379	2,956	2,379	2,956
Net purchase/sale of subsidiaries	1,585	-30	1,585	-30
<b>Cash flow from investments in portfolio management</b>	<b>941</b>	<b>-2,277</b>	<b>941</b>	<b>-2,277</b>
<b>Other operations</b>				
Net purchase/sale of sub-subsidiaries	-	-14		
Net purchase/sale of other fixed assets	-49	-61		
<b>Cash flow from investments in other operations</b>	<b>-49</b>	<b>-75</b>		
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>892</b>	<b>-2,352</b>	<b>941</b>	<b>-2,277</b>
<b>FINANCING ACTIVITIES</b>				
Loans raised and amortization of debt	-478	2,447	-465	2,594
Change in financing of subsidiaries	-	-	187	-109
Dividends paid	-1,159	-1,062	-1,159	-1,062
Payment of shareholder contribution	-	-	167	50
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-1,637</b>	<b>1,385</b>	<b>-1,270</b>	<b>1,473</b>
<b>CASH FLOW FROM DISCONTINUED OPERATIONS</b>	<b>283</b>	<b>-</b>		
<b>NET CASH FLOW FOR THE YEAR</b>	<b>760</b>	<b>-57</b>	<b>804</b>	<b>43</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>625</b>	<b>683</b>	<b>453</b>	<b>410</b>
<b>Less: Cash and cash equivalents in discontinued operations</b>	<b>-83</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Exchange rate difference in cash and cash equivalents</b>	<b>5</b>	<b>-1</b>	<b>-</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>1,307</b>	<b>625</b>	<b>1,257</b>	<b>453</b>

1) Including Indutrade, which was introduced on the stock market in 2005 (discontinued operations).

### Comments on the Statements of Cash Flows

Reported cash flow pertains only to transactions that entail incoming or outgoing payment flows. Cash and cash equivalents include, in addition to cash and bank balances, short-term financial investments with remaining terms of less than three months.

The statement of cash flows is broken down into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

### Group

#### *Operating Activities*

Operating cash flow from portfolio management pertains primarily to dividends received, totaling SEK 1,275 M (999), in addition to cash flow from short-term equity trading by Nordinvest, derivative transactions conducted by the Parent Company and other items affecting cash flow, together totaling SEK 235 M (-129). Operating cash flow from portfolio management was thus SEK 1,510 M (870).

Operating cash flow from other operations (previous year including discontinued operations) is based on operating earnings of SEK 22 M (231), which are adjusted for non-cash items, such as depreciation, totaling SEK 42 M (132) and other, totaling SEK 10 M (25). It also takes into account tax paid, totaling SEK -26 M (-77) and cash flow from changes in working capital – mainly inventories, accounts receivable and accounts payable – totaling SEK -22 M (-16).

Added to cash flow from portfolio management computed in this manner, totaling SEK 1,510 M (870), and from other operations, totaling SEK 26 M (295), are management costs paid out, totaling SEK -79 M (-76), interest received, totaling SEK 11 M (13), interest paid out, totaling SEK -235 M (-181), and payment of other financial items, totaling SEK -11 M (-11). After factoring in these figures, total cash flow from operating activities is obtained, which amounted to SEK 1,222 M (910).

#### *Investing Activities*

Cash flow from investments in portfolio management pertains to purchases of listed stocks by the Parent Company, totaling SEK -3,023 M (-5,203), sales of listed stocks, totaling SEK 2,379 M (2,956), and sales of stocks in subsidiaries, totaling SEK 1,585 M (-30). Cash flow from other operations includes the net amount of purchases and sales of sub-subsidiaries, totaling SEK -M (-14), and of other fixed assets, mainly plant and equipment, totaling SEK -49 M (-61). Total cash flow from investing activities was thus SEK 892 M (-2,352).

#### *Financing Activities*

Financing activities pertain to change in receivables, totaling SEK 170 M (-106), loans raised, totaling SEK 1,124 M (3,231) and amortization of debt, totaling SEK -1,772 M (-678), for a net total of SEK -478 M (2,447), and dividends paid, totaling SEK -1,159 M (-1,062).

#### *Discontinued Operations*

Cash flow from discontinued operations, which pertains to Indutrade, which was introduced on the stock market in 2005, was SEK -18 M. Adjusted to paid dividends, Group contributions and repayment of shareholders' contribution, totaling SEK 301 M, cash flow was SEK 283 M. This is broken down into SEK 147 M in cash flow from operating activities, SEK -184 M from investing activities and SEK 320 M from financing activities.

#### *Cash Flow, Cash and Cash Equivalents*

The net of the various cash flow items was SEK 760 M (-57). Cash and cash equivalents were also affected by cash and cash equivalents in discontinued operations, totaling SEK -83 M (-) and by an exchange rate difference of SEK 5 M (-1), and thus cash increased during the year by SEK 682 M to SEK 1,307 M (625).

### Parent Company

#### *Operating Activities*

Operating cash flow from portfolio management pertains primarily to dividends received, totaling SEK 1,325 M (999), and also includes other items affecting cash flow totaling SEK 111 M (80). Operating cash flow from portfolio management was thus SEK 1,436 M (1,079).

Added to cash flow from portfolio management are management costs paid out, totaling SEK -79 M (-76), interest received, totaling SEK 12 M (7), interest paid out, totaling SEK -227 M (-154), and payment of other financial items, totaling SEK -9 M (-9). After factoring in these figures, total cash flow from operating activities is obtained, which amounted to SEK 1,133 M (847).

#### *Investing Activities*

Cash flow from investments in portfolio management pertains to purchases of listed stocks, totaling SEK -3,023 M (-5,203), sales of listed stocks, totaling SEK 2,379 M (2,956), and sales of stocks in subsidiaries, totaling SEK 1,585 M (-30). Cash flow from investing activities was thus SEK 941 M (-2,277).

#### *Financing Activities*

Financing activities pertain to a change in receivables, totaling SEK 170 M (-101); an increase in raised loans, totaling SEK 1,100 M (3,200); and amortization of debt, totaling SEK -1,735 M (-505), amounting to a net total of SEK -465 M (2,594), and dividends paid, totaling SEK -1,159 M (-1,062). In addition, financing activities include financing of subsidiaries, etc., totaling SEK 354 M (-59). Cash flow from financing activities was thus SEK -1,270 M (1,473).

#### *Cash Flow, Cash and Cash Equivalents*

The net of the various cash flow items was SEK 804 M (43). Cash thereby increased during the year to SEK 1,257 M (453).

### Change in Group's Interest-Bearing Net Debt

SEK M	Dec. 31, 2005	Cash flow	Change in borrowings	Other changes <sup>1</sup>	Dec. 31, 2004
Cash and cash equivalents	1,307	760	–	–78	625
Current interest-bearing receivables	6	–	–170	–	176
Long-term interest-bearing liabilities	4,037	–	–306	–150	4,493
Current interest-bearing liabilities	1,246	–	–342	–112	1,700
<b>Interest-bearing net debt</b>	<b>3,970</b>	<b>–760</b>	<b>–478</b>	<b>–184</b>	<b>5,392</b>

1) Of which, SEK 187 M pertaining to Indutrade, which was introduced on the stock market in October 2005 (discontinued operations).

### Value of Acquired/Divested Assets and Liabilities in Purchased/Sold Subsidiaries

SEK M	2005	2004	2004
	Portfolio management	Portfolio management	Other operations
Fixed assets	621	–	–6
Current assets	1,353	–	–4
Long-term liabilities	–450	–	1
Current liabilities	–861	–	2
Capital gains	1,170	–	–
Consolidated value of remaining portion of sold subsidiary	–248	–	–
<b>Total purchase price</b>	<b>1,585</b>	<b>–</b>	<b>–7</b>
Settlement of liability pertaining to purchased/sold subsidiaries in previous years	–	–30	–7
Cash and cash equivalents in affected companies	–83	–	–
<b>Cash flow pertaining to purchase/sale of subsidiaries</b>	<b>1,502</b>	<b>–30</b>	<b>–14</b>

### Change in Parent Company's Interest-Bearing Net Debt

SEK M	Dec. 31, 2005	Cash flow	Change in borrowings	Other changes	Dec. 31, 2004
Cash and cash equivalents	1,257	804	–	–	453
Current interest-bearing receivables	89	–	–259	–10	358
Long-term interest-bearing liabilities	3,870	–	–237	5	4,102
Current interest-bearing liabilities	1,350	–	–300	–	1,650
	<b>3,874</b>	<b>–804</b>	<b>–278</b>	<b>15</b>	<b>4,941</b>
Less: liabilities to subsidiaries	–202	–	–59	–	–143
<b>Interest-bearing net debt</b>	<b>3,672</b>	<b>–804</b>	<b>–337</b>	<b>15</b>	<b>4,798</b>
Market value of equities portfolio	52,265				41,691
<b>Net debt-equity ratio, %</b>	<b>7.0</b>				<b>11.5</b>

## Accounting Principles

The consolidated financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the Swedish Annual Accounts Act. However, the Annual Accounts Act requires certain complementary disclosures regarding the consolidated financial statements which are regulated by Swedish Financial Accounting Standards Council (SFASC) recommendation RR 30 Supplementary Accounting Regulations for Groups.

The Annual Report for the Parent Company, AB Industrivärden, has been prepared in conformity with the Swedish Annual Accounts Act and takes into account the pronouncements issued by the Emerging Issues Task Force of the SFASC and conforms with SFASC recommendation RR 32 Accounting for Legal Entities. This means that as a main rule, International Financial Reporting Standards (IFRS/IAS – see below) are used for the Parent Company as far as possible, but that certain exceptions are made which stem from the Annual Accounts Act.

### Transition to reporting in accordance with IFRS

#### *Principles of consolidation*

The new IFRSs took effect on January 1, 2005. Listed Swedish companies are required to apply these new standards in their consolidated accounting.

Industrivärden began reporting according to IFRS in its first quarter interim report for 2005, with adjusted comparison figures for the corresponding period in 2004 in order to achieve full comparability between accounting periods, which has entailed application of IAS 39 since January 1, 2004. The initial effect that arises from the transition to IFRS as per January 1, 2004, is reported as an adjustment directly against shareholders' equity. The transition to IFRS is treated in accordance with IFRS 1.

The new reporting standards that have the greatest impact on Industrivärden's accounting are IAS 39, pertaining to the market (fair) valuation of financial instruments, and IAS 28, pertaining to the reporting of holdings in associated companies. These standards govern the valuation principles for the equities portfolio and liabilities. IAS 19 Employee Benefits and IFRS 3, which concerns reporting of goodwill, among other things, also have a certain impact on the accounting. The sale of the majority shareholding in Indutrade has entailed application of IFRS 5. Other new IFRS/IAS recommendations have no or only a marginal impact on the Industrivärden Group's earnings and financial position. The accounting principles that have been adopted as from January 1, 2006, are expected to have no impact on the Group's earnings and financial position.

#### *Valuation of financial instruments*

IAS 39 Financial Instruments: Recognition and Measurement stipulates – among other things – that in the consolidated financial statements, most financial instruments are to be measured at fair value as per the balance sheet date. Listed equities are carried at their current share price as per the balance sheet date, and equity derivatives are stated at their current market value.

At the Group level, Industrivärden has reported changes in the market value of all listed shareholdings and equity derivatives over the income statement. In accordance with IAS 28 point 1, holdings in listed associated companies are also reported in the same way. Consequently, associated companies are not reported in accordance with the equity method, but in a manner that is more fair for a holding company.

In accordance with IAS 39, shares in subsidiaries are not measured at fair value. As previously, subsidiaries are consolidated in the consolidated financial statements according to the purchase method.

Reporting of changes in the market value of listed equities over the income statement entails that compatibility is achieved in large part in the financial statements with continuing changes in net asset value at the same time that shareholders' equity in the consolidated financial statements is largely in agreement with total reported net asset value.

#### *Reporting of employee benefits*

IAS 19 governs, among other things, reporting of pensions. Industrivärden has elected to utilize the so-called corridor in reporting actuarial gains and losses in pension calculations. See also Note 25, pages 76–77.

#### *Reporting of goodwill*

According to IFRS 3, goodwill may no longer be amortized. Instead, the need for any impairment shall be tested at least once a year. Impairment shall be recognized if the reported value is higher than the recoverable value. In connection with the introduction of IFRS, Industrivärden conducted impairment tests on January 1, 2004, and on December 31, 2004. Under the previous accounting principles, goodwill was amortized over an estimated useful life. As a consequence of IFRS 3, the goodwill amortization that was done in 2004 is to be reversed in the income statement when preparing the IFRS year-end accounts for 2004. However, goodwill amortization prior to January 1, 2004, is not to be reversed.

### 2004 financial statements restated according to IFRS

To show the effects of the transition to IFRS, the consolidated income statement and balance sheet for 2004 are presented below, with columns showing them according to the 2004 Annual Report, with adjustment items according to IFRS, and restated according to IFRS. The table also shows an adjustment of opening shareholders' equity as per January 1, 2004, according to IFRS.

### Parent Company

Special rules for market (fair) valuation apply for the Parent Company, AB Industrivärden, since the Annual Accounts Act does not allow market valuation of associated companies and subsidiaries. This means that only listed holdings that are not associated companies will be measured at market value, and that their change in value will be reported on a continuing basis over the income statement. Listed associated companies and subsidiaries will thus be carried at historical cost as previously.

SEK M		According to 2004 Annual Report	IFRS adjustment	According to IFRS 2004
<b>Consolidated Income Statement</b>				
Dividend income from stocks		1,036	-4	1,032
Earnings from equity transactions	a	395	-395	-
Change in value of stocks	b	-	6,427	6,427
Short-term derivative transactions and equity trading	c	69	37	106
Other income and expenses		-12	4	-8
<b>Earnings from portfolio management</b>		<b>1,488</b>	<b>6,069</b>	<b>7,557</b>
<b>Earnings from other operations</b>	d, e	<b>231</b>	<b>-221</b>	<b>10</b>
<b>Management costs</b>		<b>-80</b>	<b>-</b>	<b>-80</b>
<b>Operating earnings</b>		<b>1,639</b>	<b>5,848</b>	<b>7,487</b>
<b>Financial income and expenses</b>	e	<b>-201</b>	<b>13</b>	<b>-188</b>
<b>Earnings after financial items</b>		<b>1,438</b>	<b>5,861</b>	<b>7,299</b>
<b>Result of associate accounting</b>	f	<b>203</b>	<b>-203</b>	<b>-</b>
<b>Earnings for the year from discontinued operations</b>	e	<b>-</b>	<b>168</b>	<b>168</b>
<b>Tax</b>	e	<b>-84</b>	<b>75</b>	<b>-9</b>
<b>Net earnings for the year</b>		<b>1,557</b>	<b>5,901</b>	<b>7,458</b>

	Note	According to Annual Report 12/31/2004	IFRS adjustment	According to IFRS 12/31/2004
<b>Consolidated Balance Sheet</b>				
Equities	g	14,989	24,201	39,190
Shares in associated companies	f	5,777	-5,777	-
Other fixed assets	d, h	730	65	795
<b>Total fixed assets</b>		<b>21,496</b>	<b>18,489</b>	<b>39,985</b>
<b>Current assets</b>	i	<b>2,478</b>	<b>70</b>	<b>2,548</b>
<b>Total assets</b>		<b>23,974</b>	<b>18,559</b>	<b>42,533</b>
<b>Shareholders' equity</b>	f, j	<b>16,713</b>	<b>18,462</b>	<b>35,175</b>
<b>Liabilities</b>	c, h, i	<b>7,261</b>	<b>97</b>	<b>7,358</b>
<b>Total shareholders' equity and liabilities</b>		<b>23,974</b>	<b>18,559</b>	<b>42,533</b>

### Adjustment of opening shareholders' equity as per January 1, 2004

SEK M	Note	According to 2003 Annual Report	IFRS adjustment	According to IFRS 1/1/2004
<b>Consolidated Balance Sheet</b>				
Equities	g	10,403	20,109	30,512
Shares in associated companies	f	7,720	-7,720	-
Other fixed assets	h, i	804	115	919
<b>Total fixed assets</b>		<b>18,927</b>	<b>12,504</b>	<b>31,431</b>
<b>Current assets</b>		<b>2,148</b>	<b>-</b>	<b>2,148</b>
<b>Total assets</b>		<b>21,075</b>	<b>12,504</b>	<b>33,579</b>
<b>Shareholders' equity</b>	f, j	<b>16,413</b>	<b>12,374</b>	<b>28,787</b>
<b>Liabilities</b>	c, h, i	<b>4,662</b>	<b>130</b>	<b>4,792</b>
<b>Total shareholders' equity and liabilities</b>		<b>21,075</b>	<b>12,504</b>	<b>33,579</b>

- Note a.** According to the previous reporting rules, earnings from equity transactions were calculated as the difference between the sales price and the historical cost of the shares. According to IAS 39, the gain or loss from a sold listed stock is considered to correspond to the change in market value from the most recent accounting period until the date of sale. The change in the income statement is reported under the heading “Change in value of stocks”, which means that no distinction is made between the change in the value of sold listed stocks and the change in value of the remaining portfolio of listed stocks (see note b below).
- Note b.** The change in the market value of listed stocks is reported together with the change in the value of sold stocks as a separate item in the income statement.
- Note c.** According to IAS 39, equity derivatives are to be measured at market value.
- Note d.** According to IFRS 3, goodwill is to be tested at least annually for impairment. Any goodwill impairment recognized is charged against earnings (according to IAS 36). Otherwise, goodwill remains unchanged. Reversed goodwill amortization amounted to SEK 37 M. An impairment charge of SEK –2 M was recognized.
- Note e.** According to IFRS 5, discontinued operations (which pertains to the initial public offering for Indutrade) are reported separately, which also includes income statement comparison figures for 2004.
- Note f.** In reference to IAS 28 point 1, starting in 2004 accounting for investments in associates does not need to be prepared; this was required under the previous rules.
- Note g.** The item “Equities” includes listed stocks which, according to IAS 39, are to be measured at market value. According to previous rules, listed stocks which were not associated companies were reported collectively as a portfolio at the lower of cost or market.
- Note h.** According to IAS 17, all leasing contracts that are classified as finance leases are to be reported as such. Previously, finance leases of minor value were classified as operating leases.
- Note i.** According to IAS 39, in certain cases, derivatives used to control exposure in the debt portfolio are to be measured at market value (currency and interest-rate swaps).
- Note j.** Reported shareholders’ equity under IFRS is affected mainly by the market valuation of all listed stocks, while shares in subsidiaries may not be measured at fair value. This means that total shareholders’ equity for 2004 does not balance entirely with net asset value.

Change in shareholders’ equity	12/31/2004	1/1/2004
<b>Opening shareholders’ equity as per Jan. 1, 2004 and Dec. 31, 2003, respectively</b>	28,787	16,413
Initial adjustment – market valuation of equities (IAS 39)		14,165
Initial adjustment – market valuation of other financial instruments (IAS 39)		3
Adjustment for ending of associate accounting (IAS 28)		–1,777
Adjusted 2004 net earnings for the year according to IFRS (see 2004 Income Statement above)	7,458	
Effect of introduction of pension accounting (IAS 19)		–17
Translation differences	–8	
Dividend paid out in 2004	–1,062	
<b>Closing adjusted shareholders’ equity according to IFRS</b>	<b>35,175</b>	<b>28,787</b>

### Basis of preparation of reports

The consolidated financial statements apply to the Parent Company and all companies in which the Parent Company directly or indirectly has a controlling influence. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and taking into account SFASC recommendation RR 30.

Valuation of assets and liabilities is based on market values and is not dependent on the estimations of company management.

Final adoption of the Annual Report will take place at the Annual General Meeting on May 8, 2006.

### Principles of consolidation

The consolidated balance sheet has been prepared according to the purchase method. This entails that the Parent Company’s cost of shares in subsidiaries – by which is meant companies in which Industrivärden owns more than 50% of the votes – 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 fair valuation of assets and liabilities at the time of acquisition. In cases where the cost of stock in subsidiaries exceeds the acquired shareholders’



equity in accordance with the above, the difference is reported as goodwill in the balance sheet. Goodwill values are tested yearly.

Subsidiaries that have been sold during the year are included in the consolidated financial statements up until the date of sale and are reported in accordance with IFRS 5. Companies that have been acquired during the year are included in the consolidated financial statements starting on the date of acquisition.

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.

#### *Translation of foreign subsidiaries' financial statements*

Foreign subsidiaries have been classified as independent, and thus their assets and liabilities are translated to Swedish kronor (SEK) at year-end exchange rates. Income statements of foreign subsidiaries are translated at average exchange rates for the year. Translation differences are transferred directly to the heading Reserves in shareholders' equity and do not affect earnings for the year.

#### *Translation of receivables and liabilities in foreign currency*

Receivables and liabilities in foreign currency are valued at year-end exchange rates.

#### *Recognition of income*

Dividend income from stocks is recognized when it is received.

For stocks held at both the start and end of the year, the change in value consists of the difference in the market value between these dates. For stocks acquired during the year, the change in value consists of the difference between cost and the market value at the end of the year. For stocks sold during the year, the change in value consists of the difference between the sales price received and the value of the stocks at the start of the year. All changes in value are reported under the heading Change in value of stocks.

Sales of goods and services are recognized upon delivery to the customer, excluding value-added tax and discounts. Intra-Group sales are eliminated.

Interest income is recognized taking into account accrued interest on the balance sheet date.

#### *Associate accounting*

Associated companies are companies in which Industrivärden has a significant but not controlling influence, which as a rule concerns shareholdings in which the number of votes amounts to between 20% and 50%. Industrivärden's share of votes exceeds 20% in Indutrade (from October 2005), SCA, Skanska and SSAB (from June 2005). In the Group, shares in associated companies are valued at market and in the Parent Company at cost. The capital gain or loss generated upon the sale of shares in associated companies is calculated accordingly.

#### *Depreciation*

Depreciation of the historical cost of machinery and equipment is done on a linear basis according to a 5–10 year plan. The depreciation rates are based on estimated useful life. As a rule, fixed asset properties are depreciated by the highest amount allowed by tax rules. The estimated useful life for fixed asset properties is in agreement with the stipulations of the tax laws, normally 33–50 years.

#### *Employee stock options*

A description of Industrivärden's employee stock option program is provided in Note 7 on page 70. This description shows that expenses and income stemming from the employee stock option program affect earnings on a continuing basis.

#### *Income taxes*

Reported income taxes include taxes for the current year, adjustments of previous years' taxes and changes in deferred taxes. Valuation of all tax liabilities and tax assets is done at nominal amounts in accordance with the applicable tax rules. Deferred tax is calculated on all temporary differences that arise between reported and tax values of assets and liabilities. Deferred tax assets pertaining to tax-loss carryforwards are reported to the extent that it is likely that the deduction can be offset against surpluses in future taxation.

#### *Valuation of goodwill*

The need for any goodwill impairment is tested yearly, whereby a recoverable value is determined for the acquired net assets. An impairment charge is recognized if the reported value exceeds the recoverable value.

#### *Valuation of equities*

Purchases and sales of stocks are reported as per the trade date.

Listed stocks are carried in the consolidated financial statements at market value as from 2004. By market value for listed stocks is meant the current market price.

Listed stocks held by the Parent Company are carried at market value, except for shares in associated companies, which are valued at cost in accordance with the stipulations of the Swedish Annual Accounts Act (see Associate accounting above).

Other stocks are reported in the Group at estimated value, and in the Parent Company at cost for the respective companies. Any write-down to fair value is made item by item to the extent it is believed that impairment has taken place.

#### *Valuation of stock options issued*

Industrivärden issues, on a regular basis, call and put options on the shares in its equities portfolio. Option premiums received are

booked as a debt and deducted from premiums paid upon repurchase. If an issued option expires without being exercised, the premium is recognized as income. Upon exercise of an issued option, the premium increases the exercise price upon the sale of the shares or reduces the exercise price upon the purchase of shares. On the balance sheet date, the market value of issued options is determined, and the difference between it and provisioned premiums is taken up in the income statement.

#### *Measurement of fair value of financial instruments*

The fair value of Industrivärden's financial instruments is normally based on the market price on the balance sheet date of financial instruments with a quoted market price. For other financial instruments, various methods are used to measure fair value, such as the most recently available sales prices for similar financial instruments or corresponding values.

#### *Inventories*

The Group's inventories are valued at the lower of their cost or sales value, according to the first-in first-out (FIFO) method.

#### *Trade accounts receivable*

Trade accounts receivable are valued individually at the amount in which they are expected to be received.

#### *Leases*

Finance leases are reported as tangible fixed assets and as current and long-term interest-bearing liabilities. Operating leases are expensed in their entirety.

#### *Borrowings*

Borrowings are valued initially at fair value and thereafter at amortized cost.

#### *Pensions*

Pension liability refers to Industrivärden's defined benefit pension obligations – both FPG/PRI obligations and individual pension obligations – all calculated for the Group in accordance with IAS 19 with the assistance of external actuaries. With respect to defined benefit pension plans insured with Alecta, these are reported as defined contribution plans since Alecta has not been able to provide necessary information. The pension cost for Industrivärden, including defined benefit as well as defined contribution pension plans, has been charged against earnings in the amount of SEK 22 M for 2005. Industrivärden has elected at the Group level to utilize the so called corridor in reporting actuarial gains and losses. The Parent Company conforms to the rules of the Pension obligations vesting act ("Lagen (1967:531) om tryggande av pensionsutfästelse"), which

reflect FAR recommendation no. 4, Reporting of pension liabilities and pension costs. The main difference compared with IAS 19 is that Swedish practice disregards future increases in salaries and pensions when calculating the present value of pension obligations. See also Note 25, Pensions, on pages 76–77.

#### *Related party transactions*

No transactions between AB Industrivärden and the wholly owned subsidiary Isaberg Rapid have taken place. Some transactions have been conducted with other wholly owned subsidiaries, such as rents for premises at going rates in the market.

Compensation has been paid to Industrivärden's board and senior executives at going rate terms in the market, as shown in Note 7 on page 70.

No transactions with listed associated companies have been conducted, with the exception of Indutrade, which rents premises at going-rate terms in the market from a property company that is wholly owned by Industrivärden. President Anders Nyrén and Executive Vice President Bengt Kjell have received directors' fees from listed associated companies; these sums have been paid to Industrivärden.

#### *Segment reporting*

Segment reporting is limited to the primary segments of portfolio management and other operations. Since portfolio management is the overwhelmingly dominant business following the sale of the majority shareholding in Indutrade and accounts for 99% of the equity portfolio's market value, a secondary breakdown into geographic segments would not provide any significant supplementary information.

## Financial Instruments and Risk Management

### Organizational considerations

The Parent Company's financing and management of financial risks are conducted in accordance with guidelines set by the Board of Directors. The Parent Company's central finance function works primarily with financing and investment of surplus liquidity. The wholly owned operating subsidiary Isaberg Rapid has its own finance function and is independently responsible for the management of its financial risks within the limits set by the Parent Company's board.

### Financing

The Parent Company's financing is arranged through both short- and long-term borrowing. Short-term borrowing consists of confirmed (committed) and unconfirmed credit lines with banks, commercial paper programs, and a Euro Commercial Paper (ECP) program. Long-term borrowing consists primarily of a Medium-Term Note (MTN) program and a five-year syndicated loan with a term extending through August 2010.

At the end of 2005 AB Industrivärden had confirmed credits corresponding to SEK 4.6 billion (5.1), of which 0.0 (0.9) were utilized, and unconfirmed credits and market programs totaling SEK 16.3 billion (13.3), of which SEK 4.9 billion (4.6) were utilized. Borrowing decreased in 2005 as a result of net sales of stocks totaling SEK 0.9 billion.

At the same point in time, the Industrivärden Group had total confirmed credits of SEK 4.9 billion (5.5) and unconfirmed credits and market programs totaling SEK 16.3 billion (13.3).

A specification of long-term and short-term interest-bearing liabilities is shown in Notes 26 and 30 on page 78.

### Compilation of confirmed and unconfirmed credits and market programs

SEK billion	Group		Parent Company	
	12/31/05	12/31/04	12/31/05	12/31/04
Bank overdraft facilities	<b>2.8</b>	2.8	<b>2.7</b>	2.6
Syndicated loan (in euros) <sup>1</sup>	<b>1.9</b>	2.5	<b>1.9</b>	2.5
Other confirmed credits	<b>0.2</b>	0.2	–	–
<b>Total confirmed credits</b>	<b>4.9</b>	5.5	<b>4.6</b>	5.1
<b>Unconfirmed credits</b>	<b>1.6</b>	1.8	<b>1.6</b>	1.8
ECP program (EUR 500 M)	<b>4.7</b>	4.5	<b>4.7</b>	4.5
Commercial paper programs	<b>2.0</b>	2.0	<b>2.0</b>	2.0
MTN program	<b>8.0</b>	5.0	<b>8.0</b>	5.0
<b>Total market programs</b>	<b>14.7</b>	11.5	<b>14.7</b>	11.5
<b>Total credits</b>	<b>21.2</b>	18.8	<b>20.9</b>	18.4

1) A five-year EUR 200 M international syndicated loan with a term extending through August 2010, which in 2005 replaced a EUR 275 M syndicated loan and original term through November 2008 that was prematurely canceled.

These credit lines give Industrivärden the ability to act on short notice when attractive investment opportunities arise.

### Average interest rate

The average interest rate for AB Industrivärden's debt portfolio as per December 31, 2005, was 3.3% (4.0%).

### Ratings

Industrivärden has been assigned international corporate credit ratings of A+/Stable/A–1 by Standard & Poor's. Industrivärden's commercial paper programs have been assigned the highest credit ratings by the same agency, K1 and A–1, respectively.

### Financial risk management – general

The types of financial risks that the Industrivärden Group encounters in its business consist primarily of equities risk and – to a limited extent – other financial risks in the form of currency risk, interest rate risk and liquidity risk.

Industrivärden's operational risk is minimized by the use of highly refined internal routines for effective risk management that are designed to enable Industrivärden to conduct its operations with limited and controlled risk.

### Equities risk

Equities risk pertains to share price risk, liquidity risk and counterparty risk. By share price risk is meant the risk of a decline in value caused by changes in prices in the stock market. This is the most significant risk in Industrivärden's business.

Active ownership has a central role in Industrivärden's business concept and is aimed at working in concert with other owners to identify value-enhancing measures in the portfolio companies. Industrivärden's portfolio companies generally show a historically good growth in value, which has entailed – among other things – that Industrivärden's total return has been higher than the average for the Stockholm Stock Exchange for long periods of time. Industrivärden's contribution to value creation should reduce the relative equities risk in the portfolio companies and thereby also in Industrivärden's portfolio. Moreover, the active ownership role provides a good understanding of the portfolio companies' operations, operating environment and continuing development.

By having a well balanced composition of different holdings in the equities portfolio, exposure to industry- or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Industri-

värden's equity investments are made within the parameters of the investment rules set by the Board of Directors. New investments, sales and reallocations are tested on a regular basis by a separate investment committee that includes the executive management and representatives from the investment organization.

In addition to investments in listed stocks, Industrivärden also conducts transactions in standardized and non-standardized stock options. Derivative transactions are conducted in accordance with applicable investment rules for equities and equity-related instruments. In order to limit counterparty risk, derivative transactions may only be made with counterparties that are approved by Industrivärden.

The subsidiary Nordinvest conducts short-term equity trading within the framework of Industrivärden's strategy. The equities risk in this respect is minimized by a special set of investment rules with strict risk mandates and stop-loss rules.

Share price risk can be illustrated as such that a 1% change in the price of all listed shareholdings in Industrivärden's equities portfolio as per December 31, 2005, would have impacted net asset value by SEK +/-500 M.

Industrivärden's strategy of investing in large and midcap listed Nordic companies can involve holdings of foreign equities, which are affected by currency movements (currency risk). Hedges are taken out for investments in foreign, listed equities. As per December 31, 2005, investments in foreign, listed equities totaled SEK 18 M, which were hedged.

Equities risk also includes liquidity risk, which can arise, for example, for a stock that is difficult to sell. Industrivärden's equities portfolio consists mainly of listed stocks with good liquidity, and thus the liquidity risk is limited.

For additional information on Industrivärden's equities risk, see the section Borrowings and risk, on page 6.

### Currency risk

Currency risk is the risk that the value of a financial instrument will vary due to changes in exchange rates.

In addition to the currency risk that arises in connection with ownership of equities denominated in foreign currency (see above), the Industrivärden Group – primarily its operating subsidiary Isaberg Rapid – is affected by currency movements. Currency risk can be broken down into transaction exposure and translation exposure.

Transaction exposure arises in operating subsidiaries commercial flows. Currency flows are monitored and hedged on commercial terms by the subsidiary's finance department. According to the Group's finance policy, hedges may be taken for a maximum of 12 months forward. The effects of currency fluctuations are also limited with the help of customer agreements containing currency clauses

and price adjustment mechanisms. Currency effects on the subsidiary Isaberg Rapid's earnings for 2005 amounted to SEK -4 M, including SEK -7 M for forward exchange contracts.

In order to reduce translation exposure in the Isaberg Rapid Group, loans have been taken in foreign currency corresponding to approximately SEK 125 M. The effect on equity of foreign subsidiaries, which has not been hedged in the corresponding way, amounts to SEK 9 M.

Industrivärden's currency risk and its effect on earnings is judged on the whole to be low.

### Book-closing exchange rates

	Year-end rate		Average rate	
	2005	2004	2005	2004
EUR	9.42	9.00	9.31	9.13
GBP	13.73	12.70	13.66	13.46
USD	7.96	6.61	7.57	7.35

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will vary due to changes in market interest rates.

The financial instruments that are exposed to interest rate risk consist of loans with variable interest rates and any swap agreements with variable rates. Swap agreements may be used to limit interest expenses and to adjust maturities, under the condition that the risk in the instrument can be calculated in monetary terms. At year-end 2005 there were no interest rate swap agreements in effect.

Assuming a hypothetical one percentage point increase in market interest rates, the effect – based on AB Industrivärden's debt portfolio as per December 31, 2005 – would be that the average interest rate in the debt portfolio would increase from approximately 3.3% to approximately 3.5%, entailing an annual cost increase of roughly SEK 10 M. The reason why a one percentage point increase would not have a full impact on Industrivärden's interest expense is that most of the loans carry fixed rates of interest. At year-end 2005, approximately 80% of Industrivärden's loans carried fixed rates of interest.

According to the Group's finance policy, the average term of fixed interest rates for Industrivärden's net borrowings shall be 18 months, with permissible deviations upwards of 12 months and downwards of 6 months. At year-end the average term of fixed interest was 20 months. Industrivärden had no financial instruments with maturities in excess of five years as per December 31, 2005.

Industrivärden's interest rate risk and its effect on earnings is judged to be low.

### Liquidity risk and refinancing risk

Liquidity risk is the risk of encountering difficulties in accessing

liquid assets in order to meet obligations associated with financial instruments.

Industrivärden's liquidity risk is limited, since its assets consist mainly of liquid, listed equities. Moreover, in accordance with Industrivärden's finance policy, at any given time the Group has a minimum of SEK 3 billion in confirmed credit facilities at its disposal.

Refinancing risk is the risk that a company cannot obtain financing or that financing can only be obtained at a considerable cost.

In the aim of minimizing refinancing risk, the loans' maturities are distributed evenly over time to lower the likelihood of a large portion of loans being refinanced at the same date. The average term of maturity in the loan portfolio at December 31, 2005, was 26 (25) months. A breakdown of maturities per year is shown in Note 26 on page 78.

Industrivärden's liquidity risk and refinancing risk are judged to be low. With an equity ratio of 89% (83%), Industrivärden has major financial flexibility.

### Counterparty risk

Counterparty risk is the risk of a party in a transaction with a financial instrument not being able to meet its commitments and thereby causing loss to the other party.

The Industrivärden Group is exposed to counterparty risks through financial commitments in the form of investments, derivative transactions, etc., and through customer credits in its operating subsidiary. Counterparty risk in financial commitments is limited by Industrivärden's finance policy, which prescribes that surplus liquidity is to be invested with counterparties with a very high creditworthiness based on Standard & Poor's rating, with limits on amount as well as maturity.

Industrivärden's financial agreements concerning transactions in equities, equity-related derivatives and other derivatives are evaluated quarterly and are made with several different creditworthy and

specially selected financial institutions with which Industrivärden has wide-ranging and long-term cooperation arrangements. The credit institutions shall have high ratings.

Credit risks also exist in outstanding trade accounts receivable in Isaberg Rapid, which amounted to SEK 239 M as per December 31, 2005. Combined bad debt losses for the 2005 fiscal year amounted to SEK 1 M. The receivable reserve amounted to SEK 3 M.

Routines set by Industrivärden ensure high creditworthiness of counterparties with respect to investments, derivative transactions, etc., which is why counterparty risk is considered to be low. The risk for sizable bad debts is limited, since accounts receivable are spread out among a large number of customers.

### Operational risks

Operational risk is the risk of incurring a loss due to deficiencies in internal routines and systems. AB Industrivärden's risk management rests on a foundation of investment rules, the finance policy, authorization instructions and other instructions. Legal reviews of contracts and commitments are performed on a regular basis. In addition, controls that govern and ensure responsibility and authorization in the day-to-day operations are performed on a regular basis. The subsidiaries have their own instructions that are based on the rules that apply for the Parent Company.

To strengthen internal control, Industrivärden's external auditors perform a limited review of all three interim reports.

The Group's insurance risks are managed in accordance with estimated insurance needs. The respective companies have insurance for various types of liability and property risks.

Matters pertaining to confidentiality and information security are of major importance for Industrivärden and are regulated by internal guidelines. An information policy issued by Industrivärden governs actions related to information matters and ensures compliance with applicable rules. With respect to IT security, systems and routines are under continuous development.



## Notes

(Amounts in SEK M unless stated otherwise)

### Note 1 Dividend income from stocks

	2005	2004
Ericsson	93	–
Handelsbanken	398	294
Höganäs	6	–
Indutrade	50	–
Munters	13	11
Sandvik	296	243
SCA	204	223
Scania	–	18
Skanska	129	100
SSAB	106	77
Volvo	29	51 <sup>1</sup>
Other	1	15
<b>Parent Company</b>	<b>1,325</b>	<b>1,032</b>
Elimination: Indutrade <sup>2</sup>	–50	–
<b>Group</b>	<b>1,275</b>	<b>1,032</b>

1) Of which, SEK 33 M pertains to a dividend in the form of Ainox shares.

2) Indutrade was a wholly owned subsidiary when the dividend was received.

### Note 2 Change in value of stocks

	Group <sup>1</sup>		Parent Company <sup>2</sup>	
	2005	2004	2005	2004
Ericsson	2,158	2,936	2,158	5,040
Handelsbanken	1,599	1,747	1,599	1,747
Höganäs	–27	–	–27	–
Indutrade	2,253	–	1,417	–
Munters	69	82	69	82
Ossur hf	225	219	398	45
Sandvik	2,771	522	2,771	522
SCA	426	–169	49	338
Skanska	1,332	536	–	12
SSAB	1,881	445	350	445
Volvo	258	80	258	80
Other	5	29	52	115
	<b>12,950</b>	<b>6,427</b>	<b>9,094</b>	<b>8,426</b>
Long-term derivative transactions <sup>3</sup>	–13	–	–13	–
<b>Total</b>	<b>12,937</b>	<b>6,427</b>	<b>9,081</b>	<b>8,426</b>

1) For stocks held at both the start and end of the year, the change in value consists of the difference in the market value between these dates. For stocks acquired during the year, the change in value consists of the difference between the price paid and the market value at the end of the year. For stocks sold during the year, the change in value consists of the difference between the sales price received and the value of the stocks at the start of the year.

2) The Swedish Annual Accounts Act applies for the Parent Company, which entails that associated companies are stated at cost. Capital gains/losses on sales of shares in associated companies are reported accordingly.

3) Incentive programs pertaining to call options issued to members of the executive management of Indutrade and SSAB, with terms of up to five years.

### Note 3 Short-term derivative transactions and equity trading

	Group		Parent Company	
	2005	2004	2005	2004
Short-term equity derivative transactions	89	72	89	72
Short-term equity trading by Nordinvest	33	34	–	–
<b>Total</b>	<b>122</b>	<b>106</b>	<b>89</b>	<b>72</b>

Short-term equity derivative transactions pertain to issued call and put options based on the active holdings. The term is six months at the most.

### Note 4 Other income and expenses

	Group		Parent Company	
	2005	2004	2005	2004
Repayment of shareholders' contribution	–	–	167	50
Costs pertaining to Indus Innovation	0	–5	–	–
Other	–	–3	–	–3
<b>Total</b>	<b>0</b>	<b>–8</b>	<b>167</b>	<b>47</b>



## Note 5 Segment reporting

### Primary segments – business units

	2005				2004 (IFRS-adjusted)			
	Portfolio management	Other operations	Group adjustments	Total Group	Portfolio management	Other operations	Group adjustments	Total Group
<b>INCOME STATEMENTS</b>								
Dividend income from stocks	1,275	–	–	1,275	1,032	–	–	1,032
Change in value of stocks	12,937	–	–	12,937	6,427	–	–	6,427
Short-term derivative transactions and equity trading	122	–	–	122	106	–	–	106
Other income and expenses	0	–	–	0	–8	–	–	–8
<b>Earnings from portfolio management</b>	<b>14,334</b>	<b>–</b>	<b>–</b>	<b>14,334</b>	<b>7,557</b>	<b>–</b>	<b>–</b>	<b>7,557</b>
Net sales	–	894	0	894	–	862	0	862
Cost of goods sold	–	–583	0	–583	–	–566	0	–566
Business overheads, etc.	–	–289	–	–289	–	–286	–	–286
<b>Earnings from other operations</b>	<b>–</b>	<b>22</b>	<b>0</b>	<b>22</b>	<b>–</b>	<b>10</b>	<b>0</b>	<b>10</b>
<b>Management costs</b>	<b>–78</b>	<b>–</b>	<b>–</b>	<b>–78</b>	<b>–80</b>	<b>–</b>	<b>–</b>	<b>–80</b>
<b>Operating earnings</b>	<b>14,256</b>	<b>22</b>	<b>0</b>	<b>14,278</b>	<b>7,477</b>	<b>10</b>	<b>0</b>	<b>7,487</b>
<b>Financial income and expenses</b>	<b>–218</b>	<b>–13</b>	<b>0</b>	<b>–231</b>	<b>–179</b>	<b>–9</b>	<b>0</b>	<b>–188</b>
<b>Earnings after financial items</b>	<b>14,038</b>	<b>9</b>	<b>0</b>	<b>14,047</b>	<b>7,298</b>	<b>1</b>	<b>0</b>	<b>7,299</b>
Tax	–	–7	–	–7	–6	–3	–	–9
<b>Earnings for the year from discontinued operations</b>	<b>–</b>	<b>162</b>	<b>–</b>	<b>162</b>	<b>–</b>	<b>168</b>	<b>–</b>	<b>168</b>
<b>Net earnings for the year</b>	<b>14,038</b>	<b>164</b>	<b>0</b>	<b>14,202</b>	<b>7,292</b>	<b>166</b>	<b>0</b>	<b>7,458</b>
<b>BALANCE SHEETS</b>								
<b>Assets</b>								
Equities	51,910	0	–	51,910	39,188	2	–	39,190
Other fixed assets	–	299	24	323	–	744	51	795
<b>Total fixed assets</b>	<b>51,910</b>	<b>299</b>	<b>24</b>	<b>52,233</b>	<b>39,188</b>	<b>746</b>	<b>51</b>	<b>39,985</b>
<b>Current assets</b>	<b>1,539</b>	<b>767</b>	<b>–378</b>	<b>1,928</b>	<b>945</b>	<b>1,841</b>	<b>–238</b>	<b>2,548</b>
<b>Total assets</b>	<b>53,499</b>	<b>1,066</b>	<b>–354</b>	<b>54,161</b>	<b>40,133</b>	<b>2,587</b>	<b>–187</b>	<b>42,533</b>
<b>Shareholders' equity and liabilities</b>								
<b>Shareholders' equity</b>	<b>47,761</b>	<b>463</b>	<b>3</b>	<b>48,227</b>	<b>33,992</b>	<b>1,146</b>	<b>37</b>	<b>35,175</b>
<b>Long-term liabilities</b>	<b>3,870</b>	<b>189</b>	<b>21</b>	<b>4,080</b>	<b>4,102</b>	<b>430</b>	<b>14</b>	<b>4,546</b>
<b>Current liabilities</b>	<b>1,818</b>	<b>414</b>	<b>–378</b>	<b>1,854</b>	<b>2,039</b>	<b>1,011</b>	<b>–238</b>	<b>2,812</b>
<b>Total shareholders' equity and liabilities</b>	<b>53,499</b>	<b>1,066</b>	<b>–354</b>	<b>54,161</b>	<b>40,133</b>	<b>2,587</b>	<b>–187</b>	<b>42,533</b>
<b>Capital expenditure for the year<sup>1</sup></b>	<b>0</b>	<b>52</b>	<b>–</b>	<b>52</b>	<b>0</b>	<b>43</b>	<b>–</b>	<b>43</b>
<b>Depreciation for the year included in operating earnings</b>	<b>0</b>	<b>42</b>	<b>0</b>	<b>42</b>	<b>0</b>	<b>48</b>	<b>0</b>	<b>48</b>
<b>Operating cash flow<sup>2</sup></b>	<b>2,143</b>	<b>–29</b>	<b>–</b>	<b>2,114</b>	<b>–1,641</b>	<b>199</b>	<b>–</b>	<b>–1,442</b>

1) Investments in intangible and tangible fixed assets.

2) Cash flow from operating activities and investing activities.

**Note 6 Average number of employees**

	2005		2004	
	Number of employees	Of whom, women	Number of employees	Of whom, women
<b>Parent Company</b>	<b>22</b>	<b>6</b>	22	7
<b>Subsidiaries in Sweden</b>	<b>392</b>	<b>168</b>	1,018	318
Total, Sweden	<b>414</b>	<b>174</b>	1,040	325
<b>Subsidiaries outside Sweden</b>				
Baltic countries	–	–	79	19
China	<b>400</b>	<b>239</b>	404	255
Denmark	<b>6</b>	<b>1</b>	122	15
Finland	–	–	435	90
France	<b>296</b>	<b>156</b>	307	154
Germany	<b>29</b>	<b>11</b>	103	36
Netherlands	<b>11</b>	<b>2</b>	89	24
Other	<b>21</b>	<b>9</b>	53	13
Total	<b>763</b>	<b>418</b>	1,592	606
<b>Total, Group</b>	<b>1,177</b>	<b>592</b>	2,632	931

**Reporting of sickness-related absence**

Combined sickness-related absence in the Parent Company during the year was 119 hours out of a total of 40,492 hours, i.e., 0.3% (1.3%) of total working hours. Of the total sickness-related absence rate, no part pertained to long-term absence, i.e., uninterrupted absence of more than 60 days, and 0.3 percentage points to short-term absence.

**Reporting of gender distribution in boards and company management**

The gender distribution in the Parent Company's board and executive management is stated in the specification on page 70. The wholly owned subsidiary Isaberg Rapid has one woman on its board. All other persons on the subsidiaries' boards and management are men.

**Note 7 Wages, salaries and other remuneration; social security costs**

	2005			2004		
	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<sup>1</sup></b>	<b>28</b>	<b>21</b>	<b>12</b>	27	17	8
<b>Subsidiaries in Sweden</b>	<b>110</b>	<b>51</b>	<b>7</b>	336	166	46
Total, Sweden	<b>138</b>	<b>72</b>	<b>19</b>	363	183	54
<b>Subsidiaries outside Sweden</b>						
Baltic countries	–	–	–	10	3	0
China	<b>7</b>	<b>2</b>	<b>0</b>	6	4	0
Denmark	<b>3</b>	<b>0</b>	<b>0</b>	63	4	4
Finland	–	–	–	156	38	30
France	<b>73</b>	<b>27</b>	<b>1</b>	70	25	0
Germany	<b>12</b>	<b>2</b>	–	42	7	0
Netherlands	<b>4</b>	<b>2</b>	<b>1</b>	35	10	6
Other	<b>8</b>	<b>2</b>	<b>1</b>	19	5	2
Total	<b>107</b>	<b>35</b>	<b>3</b>	401	96	42
<b>Total, Group</b>	<b>245</b>	<b>107</b>	<b>22</b>	764	279	96

Of the Parent Company's pension cost, SEK 9 M (5) pertains to the Board of Directors and the CEO. The corresponding amount for the Group was SEK 11 M (20).

**Wages, salaries and other remuneration, broken down by country and between board members, presidents, vice presidents and other employees**

	2005			2004		
	Board of directors and presidents	Of which, bonuses and similar	Other employees	Board of directors and presidents	Of which, bonuses and similar	Other employees
<b>Parent Company<sup>1</sup></b>	<b>15</b>	<b>2</b>	<b>13</b>	13	1	14
<b>Subsidiaries in Sweden</b>	<b>4</b>	<b>0</b>	<b>106</b>	27	2	309
Total, Sweden	<b>19</b>	<b>2</b>	<b>119</b>	40	3	323
<b>Subsidiaries outside Sweden</b>						
Baltic countries	–	–	–	2	0	8
China	<b>0</b>	–	<b>7</b>	0	–	6
Denmark	<b>1</b>	–	<b>2</b>	5	0	58
Finland	–	–	–	12	1	144
France	–	–	<b>73</b>	1	–	69
Germany	–	–	<b>12</b>	2	1	40
Netherlands	<b>1</b>	–	<b>3</b>	2	0	33
Other	<b>2</b>	–	<b>6</b>	4	–	15
Total	<b>4</b>	–	<b>103</b>	28	2	373
<b>Total, Group</b>	<b>23</b>	<b>2</b>	<b>222</b>	68	5	696

**1) Specification of Note 7: Wages, salaries and other remuneration; social security costs**

The following principles form the basis of compensation of the Board and executive management:

- The Nominating Committee, which has been appointed in the manner decided by the Annual General Meeting, submits recommendations on directors' fees to the Annual General Meeting. Fees were paid to the Chairman of the Board, the Vice Chairman and other directors in accordance with a resolution of the Annual General Meeting.
- Compensation of the CEO is prepared for a decision by the Board by a compensation committee, whose members are listed on page 85. Compensation of the other three members of the executive management –

of whom one is an employee of Nordinvest – is set by the Compensation Committee. Base salary and standard employment benefits are paid to members of the executive management. Added to this are pension benefits and incentive programs, as described below.

Disclosure of holdings of stock and employee stock options in Industrivärden by directors and members of executive management is provided on pages 84 and 85.

The Board was paid a fee of SEK 3.0 M (2.5) in 2005, in accordance with a resolution by the Annual General Meeting. Of this amount, the Chairman received SEK 0.9 M (0.75) and the Vice Chairman SEK 0.6 M (0.5). Other directors, except for the CEO, each received SEK 0.3 M (0.25). No fee is paid for committee work. Of the Board's members, seven are men and one is a woman.

**Note 7 Wages, salaries and other remuneration; social security costs, cont.**

The CEO received a fixed salary and standard employment benefits valued at a total of SEK 5.4 M (5.0). Added to this is a variable salary portion of SEK 0.5 M (0.3) for the 2005 fiscal year, which will be paid out in 2006. The principles for determining the variable salary portion are described in the second from last paragraph below. The fees from directorships paid to the CEO that have been directly linked to his position have been paid to the Company. The CEO is entitled to pension benefits between 60 and 65 years of age equivalent to 70% of his average base salary during the three years prior to retirement, and to life-time retirement pension benefits after 65 years of age equivalent to 50% of his average base salary during the three years prior to retirement, indexed from the date of retirement in the same manner that would apply for a pension from Alecta. Pension benefits are earned in a linear manner up until the age of retirement and are a vested pension obligation, i.e., they are not conditional on future employment. The cost of defined benefit pension obligations in 2005 was SEK 4.0 M (2.8). In addition, the CEO is entitled to disability pension equivalent to 50% of his base salary the year before such pension occasion, and his survivors are entitled to survivorship benefits equivalent to 35% of his base salary plus a supplement for children under the age of 20. The Company must give two years' notice if it cancels the CEO's employment contract.

The other three members of the executive management together received fixed salary and standard employment benefits worth SEK 7.0 M (6.3). Added to this is a variable salary portion for the 2005 fiscal year totaling SEK 2.0 M (1.3), which will be paid out in 2006. The fees from directorships paid to the other members of the executive management, that have been directly linked to their positions, have been paid to the company. One of these executives is entitled to pension benefits equivalent to 70% of his base salary between 60 and 65 years of age, which is essentially earned in a linear manner. Since his employment did not end at 60 years of age, the pension obligation has been deferred until retirement, after which it will apply for five years. All three of these executives are covered from 65 years of age by defined contribution pension plans, whereby the amount of the pension benefits is dependent on the performance of their contracted pension plans. The total cost of the pension obligation in 2005 for these three executives was SEK 1.7 M (1.8). In the event the Company serves notice, all three executives are entitled to two years' notice. Reserved provisions (see Note 25) for the defined benefit pensions pertaining to the CEO and other senior executives as above are invested in the Parent Company's equities portfolio along with the returns it generates. All four members of the executive management are men.

In 2002 an incentive program was established for the employees of the Parent Company, including employee stock options and a variable salary portion. The employee stock option program has a term until February 28, 2007, and gives the holder the right to purchase one share of Industrivärden Class A stock from a financial institution at the exercise price of SEK 177 per share or, alternatively, to receive cash payment for the difference between the exercise price and the market price of the underlying share. One-third of the options may be exercised after March 1, 2005, and the rest after March 1, 2006. The stock options can only be exercised if the employee remains employed with the Company or after retirement. Industrivärden has entered into a swap agreement with a financial

institution which, through a loan-financed purchase of Industrivärden shares, has ensured that the employee stock option obligation (incl. social security charges) is hedged in the event of a price rise. The financial institution originally purchased 248,700 shares, which are intended to cover outstanding options and social security charges. In 2005, 8,831 shares were sold to cover 6,667 employee options that have been exercised, along with the associated social security charges. Thus after this sale, 239,869 shares remain, which shall fully cover 181,167 outstanding employee options and their associated social security charges. Of the outstanding employee options that have been granted to 15 persons, the CEO has received 50,000 options, an increase of 20,000 options, which was done within the framework of the existing employee stock option program. The other senior executives have received a total of 70,000 employee options, an increase of 30,000 options, which was also done within the framework of the existing program. The employee stock option program does not entail any dilution of the number of shares. In the event of a price decline, Industrivärden bears the risk. In 2004, the remaining SEK 8 M (2003: SEK 5 M) of a reserve provision of SEK 13 M made in 2002 for the employee stock option obligation was taken to earnings. This pertained to the price decline that took place in 2002, when the price of the Class A shares was SEK 100 as per December 31, 2002. The price of Industrivärden's Class A shares was SEK 154 at the time of the option program's start on February 15, 2002, and SEK 217 at year-end 2005 (SEK 169.50 at year-end 2004). The exercise price of SEK 177 is calculated as 115% of the price of SEK 154 at the start of the program. Under the terms of the swap agreement, the difference between the price of SEK 154 at the start of the option program and the exercise price of SEK 177 accrues to Industrivärden in the event of a price rise, but not higher than a share price of SEK 177. At year-end 2005, the share price was SEK 217, and thus earnings were credited with SEK 5.7 M. The interest expense of SEK 1.0 M pertaining to loans from the financial institution has been expensed but was covered by the dividend of SEK 1.5 M from Industrivärden shares under the terms of the swap agreement, which has been taken to earnings. At the time of issue, as per February 15, 2002, the options had a theoretical value of SEK 35 per option. As per December 31, 2005, the theoretical value was SEK 41.60 per option (14.70). The valuations, which were performed by an independent financial institution, do not take into account the fact that the options cannot be transferred before the start of the exercise periods stated above.

Employees of the Parent Company are entitled to a variable salary portion which for 2005 could normally amount to a maximum of 25% of their fixed salary, provided that they had achieved certain individually set targets. In addition, a joint target has been set regarding an increase in net asset value, with unchanged net asset value as a minimum, which entails that the variable salary portion will be reduced by 10 percentage points if net asset value decreases during the year. A provision of SEK 4.0 M (3.1) has been reserved for the accrued cost of the variable salary portion for the 2005 fiscal year. Variable salary portions will be paid out in 2006.

Compensation consisting of the variable salary portion and exercise of stock options is not pensionable.

**Compilation of executive management's compensation and pension costs for 2005 and employee stock options**

	Fixed salary	Variable salary portion <sup>1</sup>	Other benefits	Total compensation	Pension cost	No. employee stock options 2002/2007 <sup>2</sup>
CEO	5.3	0.5	0.1	5.9	4.0	50.000
Other members of executive management (3 persons) <sup>3</sup>	6.7	2.0	0.3	9.0	1.7	70.000
<b>Total</b>	<b>12.0</b>	<b>2.5</b>	<b>0.4</b>	<b>14.9</b>	<b>5.7</b>	<b>120.000</b>

1) Pertains to the 2005 fiscal year and will be paid out in 2006.

2) After year-end 2005, the CEO was granted an additional 20,000 employee stock options within the framework of the existing employee stock option program, increasing his holding of stock options to 50,000. Similarly, the two executive vice presidents were granted an additional total of 30,000 employee stock options, after which the total holdings of options for these individuals was 70,000. The theoretical value per option at the time of their grant was SEK 41.60.

3) Including one employee of Nordinvest.

**Note 8 Auditors' fees**

	Group		Parent Company <sup>1</sup>	
	2005	2004	2005	2004
<b>Auditing fees</b>				
Öhrlings PricewaterhouseCoopers	2.6	8.5	1.2	1.2
Other auditing firms	0.2	0.3	–	–
<b>Total auditing fees</b>	<b>2.8</b>	<b>8.8</b>	<b>1.2</b>	<b>1.2</b>
<b>Consulting fees</b>				
Öhrlings PricewaterhouseCoopers	0.9	2.8	0.6	1.4
Other auditing firms	0.2	0.7	–	–
<b>Total consulting fees</b>	<b>1.1</b>	<b>3.5</b>	<b>0.6</b>	<b>1.4</b>
<b>Total</b>	<b>3.9</b>	<b>12.3</b>	<b>1.8</b>	<b>2.6</b>

1) Including value added tax, since holding companies are not subject to value added tax.

**Note 9 Depreciation/amortization**

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

	Group	
	2005	2004
Cost of goods sold	28	33
Development costs	2	4
Selling costs	3	3
Administrative costs	9	8
<b>Total</b>	<b>42</b>	<b>48</b>

**Note 10 Operating leases**

	Group	
	2005	2004
<b>Leasing fees paid during the year</b>	<b>2</b>	<b>53</b>
Future, contracted leasing fees:		
Expiration in 1 year	1	48
Expiration in 2 years	1	29
Expiration in 3 years	0	16
Expiration in 4 years	–	6
Expiration in 5 years	–	4
Expiration after 5 years	–	–
<b>Total future leasing fees</b>	<b>2</b>	<b>103</b>

Operating leases pertain primarily to premises and machinery.

**Note 11 Other financial income**

	Group		Parent Company	
	2005	2004	2005	2004
Exchange rate differences	1	2	0	0
Other	0	0	0	0
<b>Total</b>	<b>1</b>	<b>2</b>	<b>0</b>	<b>0</b>

**Note 12 Other financial expenses**

	Group		Parent Company	
	2005	2004	2005	2004
Exchange rate differences	–7	–1	–	0
Bank charges <sup>1,2</sup>	–15	–11	–15	–10
Other <sup>3</sup>	7	10	7	9
<b>Total</b>	<b>–15</b>	<b>–2</b>	<b>–8</b>	<b>–1</b>

1) Of which, continuing fees for credit limits and market programs

2) Of which, arrangement fee for a new syndicated loan

3) Of which, effect of swap agreement pertaining to employee stock option obligation (see Note 7)

**Note 13 Tax and specification of deferred tax assets and deferred tax liabilities**

	Group		Parent Company	
	2005	2004	2005	2004
Current tax	–8	–12	–	–
Deferred tax	1	3	–	–
<b>Total tax</b>	<b>–7</b>	<b>–9</b>	<b>–</b>	<b>–</b>
<b>Tax attributable to discontinued operations</b>	<b>–63</b>	<b>–75</b>	<b>–</b>	<b>–</b>

The tax loss-carryforward of the Parent Company amounted to SEK 248 M for the 2005 tax year. After deducting SEK 8 M for an estimated loss-carryforward for the 2005 fiscal year, the accumulated loss-carryforward amounts to SEK 256 M. Industrivärden cannot determine at present if the loss-carryforwards can be utilized, which is why no deferred tax asset has been reported.

In a ruling in 2002 the County Administrative Court raised Industrivärden's taxation for the fiscal years 1997–2000 with respect to the standard income reported for shares in subsidiaries. In total this ruling entails additional tax of SEK 71 M, including charges and interest, plus an additional SEK 9 M for fiscal 2001 in accordance with the decision by the tax authority. Industrivärden has followed the instructions issued by the National Tax Board for valuation of holding company shares in subsidiaries and has therefore appealed the ruling by the County Administrative Court as well as the tax authority's decision. No tax liability has been booked. The Administrative Court of Appeal has not issued a ruling on the appeal.

In a ruling handed down in January 2004, the Administrative Court of Appeal upheld the tax authority's request to apply the Tax Evasion act with respect to the questioned right to deduction for interest paid during the fiscal years 1995–1998 in holding companies owned by and subsequently merged with AB Industrivärden. The ruling entails that deduction was not granted for interest expenses that reduced the tax in the holding companies by a total of SEK 165 M. The County Administrative Court had previously turned down the tax authority's request in a ruling in 2002. Industrivärden filed an appeal of the Administrative Court of Appeal's ruling with the Supreme Administrative Court in 2004. A tax liability of SEK 165 M along with back interest of SEK 54 M has been booked.

**Note 13 Tax and specification of deferred tax assets and deferred tax liabilities, cont.****Specification of the Group's tax rate**

Special tax rules apply for holding companies. The most important of these rules are exemption from capital gains taxes on sales of stocks and the right to deduct dividends rendered, however, with the addition of a standard-calculated income based on the market value of the stocks. For a more detailed discussion of the tax rules for holding companies, see page 80.

As a result of the dividend paid by the Parent Company in 2005, no tax charge was incurred.

	Group	
	2005	2004
Earnings after financial items	14,047	7,299
Less: Non-taxable effects of introduction of IFRS	–	–6,077
	14,047	1,222
Tax according to Swedish tax rate of 28%	–3,933	–342
Difference in tax rates in various operating countries	–2	–8
Difference between Change in value of stocks in Parent Company and Group	1,080	–
Effect on Group's tax rate of the Parent Company's non-payment of tax	2,856	344
Other, net	–8	–3
<b>Total tax</b>	<b>–7</b>	<b>–9</b>

The deduction right for dividends rendered enables the Parent Company to not pay any tax, which is why deferred tax assets and deferred tax liabilities are only specified for the Group, at right.

**Note 14 Discontinued operations**

The wholly owned subsidiary Indutrade was introduced on the stock market on October 5, 2005, after Industrivärden had sold 62.5% of its shareholding in an initial public offering to the general public and institutions. Indutrade's earnings after tax are reported among discontinued operations, in accordance with IFRS 5.

Indutrade	Nine months 2005	2004
Net sales	2,763	3,486
Expenses	–2,538	–3,243
Earnings after financial items	225	243
Tax	–63	–75
<b>Earnings for the year from discontinued operations</b>	<b>162</b>	<b>168</b>
Corresponds to earnings per share of, SEK	<b>0.84</b>	0.87

	Group	
	2005	2004
<b>Specification of deferred tax assets</b>		
Internal profit and provision for obsolescence in inventories	2	7
Reserve for doubtful debts	–	1
Provision for product liability	6	6
Provision for pensions	5	10
Other deductible temporary differences	7	6
<b>Total deferred tax assets</b>	<b>20</b>	<b>30</b>
<b>Specification of deferred tax liabilities</b>		
Real estate, machinery and equipment	16	42
Untaxed reserves	6	11
Other taxable temporary differences	–	1
<b>Total deferred tax liabilities</b>	<b>22</b>	<b>54</b>
<b>Total deferred tax assets/liabilities, net</b>	<b>–2</b>	<b>–24</b>
Of which, deferred tax assets as per balance sheet	8	9
Of which, deferred tax liabilities as per balance sheet	–10	–33



**Note 15 Intangible fixed assets**

	Group		
	Goodwill	Intangible rights	Total intangible fixed assets
Opening cost	222	88	310
Investments during the year	–	2	2
Sales and disposals	–	0	0
Company sales	–156	–60	–216
Translation differences	2	0	2
Closing accumulated cost	68	30	98
Opening amortization		–54	–54
Amortization for the year		–5	–5
Sales and disposals		0	0
Company sales		44	44
Translation differences		0	0
Closing accumulated amortization		–15	–15
<b>Planned residual value, 12/31/2005</b>	<b>68<sup>3</sup></b>	<b>15<sup>1,2</sup></b>	<b>83</b>
Planned residual value, 12/31/2004	222 <sup>4</sup>	34	256
1) Of which, SEK 3 M (4) in expenses carried forward for research and development, SEK 12 M (29) for patents and licenses, and SEK – M (1) for leaseholds.			
2) Of which, SEK 12 M (30) in acquired intangible rights.			
3) Of which Isaberg Rapid SEK 67 M.			
4) Planned residual value according to previous accounting principles	187		
Effect of goodwill no longer being amortized (IFRS 3)	37		
Goodwill impairment (IAS 36)	–2		
Planned residual value as per 12/31/2004 according to IFRS	222		

**Note 16 Tangible fixed assets**

	Group				Total tangible fixed assets
	Land and buildings	Plant	Equipment	Construction in progress	
Opening cost	487	495	361	2	1,345
Investments during the year	9	30	4	7	50
Internal transfers	8	–6	–2	–	–
Sales and disposals	–1	–18	–5	–	–24
Company sales	–266	–91	–323	–	–680
Translation differences	3	9	2	–	14
Closing accumulated cost	240	419	37	9	705
Opening depreciation	–196	–367	–261	–	–824
Depreciation for the year	–5	–28	–4	–	–37
Sales and disposals	0	17	5	–	22
Company sales	80	57	234	–	371
Translation differences	–2	–6	–1	–	–9
Closing accumulated depreciation	–123	–327	–27	–	–477
<b>Planned residual value 12/31/2005</b>	<b>117<sup>1</sup></b>	<b>92</b>	<b>10</b>	<b>9</b>	<b>228</b>
Planned residual value 12/31/2004	291 <sup>1</sup>	128	100 <sup>2</sup>	2	521

The tax assessment value of Swedish real estate was SEK 101 M (165).

1) Of which, land SEK 11 M (36).

2) Planned residual value according to previous accounting principles

Reclassification of leasing vehicles to finance leases

Planned residual value as per 12/31/2004

70

30

100

**Note 17 Finance leases**

	Group	
	2005	2004
Cost	25	64
Accumulated planned depreciation	-17	-25
<b>Remaining liability</b>	<b>8</b>	<b>39</b>
Of which, current liability (year 1)	5	6
Of which, long-term liability (years 2–5)	3	33

Finance leases pertain to machinery and vehicles.  
The present value corresponds to the remaining liability.

**Note 18 Equities**

	Number of shares	Share of capital, % <sup>1</sup>	Share of votes, % <sup>1</sup>	Cost	Market value
Ericsson A	372,000,000	2.3	13.3	3,125	10,230
Ericsson B	5,000,000			137	137
Handelsbanken A	67,000,000	10.0	10.3	4,524	13,199
Hemtex	800,000	2.9	2.9	49	62
Höganäs B	3,400,000	9.7	7.7	609	585
Indutrade <sup>2</sup>	14,857,800	37.1	37.1	248	1,322
Munters	3,400,000	13.6	13.6	614	745
Readsoft B	1,345,000	4.1	3.0	64	39
Sandvik	26,000,000	11.0	11.0	5,365	9,620
SCA A	16,000,000	10.0	28.8	781	4,752
SCA B	7,600,000			1,685	2,257
Skanska A	15,000,000	7.7	26.9	708	1,815
Skanska B	17,300,000			871	2,093
SSAB A <sup>3-5</sup>	14,200,000	15.6	20.4	915	4,104
Tandberg Television A/S	169,600	0.2	0.2	18	18
Volvo A	1,900,000	0.6	1.2	433	693
Volvo B	500,000			120	187
Other equities <sup>6</sup>				52	52
<b>Group's holdings of equities<sup>7</sup></b>				<b>20,318</b>	<b>51,910</b>
<b>Less: Other equities</b>					<b>-52</b>
<b>Adjustment pertaining to associated companies:<sup>8</sup></b>					
Indutrade					-1,322
SCA					-7,009
Skanska					-3,908
SSAB					-4,104
<b>Parent Company's holdings of equities<sup>7</sup></b>					<b>35,515</b>

1) Excluding outstanding derivatives.

2) In December 2005 Indutrade issued a total of 268,800 call options to senior executives of Indutrade. Each option entitles the bearer to purchase one share of Indutrade stock for SEK 107.30 during the period May 1–June 30, 2010. The total cost of the underlying shares is SEK 1,863,000. The total value of the exercise price and expensed premium is SEK 30,455,000.

3) In 2001 Indutrade issued a total of 57,306 call options to members of SSAB's executive management. Each option entitles the bearer to purchase one share of SSAB Class A stock for SEK 137.30 during the period May 25, 2001–May 31, 2006. The total cost of the underlying shares is SEK 3,585,000. The total value of the exercise price and expensed premium is SEK 8,524,000.

4) In 2002 Indutrade issued a total of 33,568 call options to members of SSAB's executive management. Each option entitles the bearer to purchase one share of SSAB Class A stock for SEK 170.40 during the period May 25, 2002–May 31, 2007. The total cost of the underlying shares is SEK 2,100,000. The total value of the exercise price and expensed premium is SEK 6,218,000.

5) In 2003 Indutrade issued a total of 26,539 call options to members of SSAB's executive management. Each option entitles the bearer to purchase one share of SSAB Class A stock for SEK 165.50 during the period May 28, 2003–May 31, 2008. The total cost of the underlying shares is SEK 1,660,000. The total value of the exercise price and expensed premium is SEK 4,671,000.

6) Of which, SEK 52 M pertains to investments made by Indus Innovation.

7) At year-end 2005, no stocks were out on loan.

8) Associated companies are carried in the Parent Company at the value that applied when the company became an associated company. See Note 19.

**Note 19 Shares in associated companies**

	Reg. no.	Domicile	Shareholders' equity	Earnings after tax	Share of capital, %	Share of votes, %	No. shares, 000s	Parent Company Book value
Indutrade	556017-9367	Stockholm	714	222	37.1	37.1	14,858	104
SCA	556012-6293	Stockholm	57,110	454	10.0	28.8	23,600	2,466
Skanska	556000-4615	Stockholm	18,587	3,890	7.7	26.9	32,300	1,579
SSAB	556016-3429	Stockholm	14,364	4,068	15.6	20.4	14,200	2,582
<b>Total</b>								<b>6,731</b>

**Note 20 Shares in subsidiaries**

	Reg. no.	Domicile	Share of capital, %	No. shares	Shareholders' equity	Parent Company Book value
Handus AB	556384-5428	Stockholm	100	10,000	264	0
Indus Innovation AB	556364-7758	Stockholm	100	100,000	22	1
Industrivärden Service AB	556289-9160	Stockholm	100	10,000	10	1
Isaberg Rapid AB	556035-6684	Hestra	100	400,000	205	133
Nordinvest AB	556287-8826	Stockholm	100	42	100	94
Other			100			1
<b>Total</b>						<b>230</b>

**Note 21 Financial fixed assets**

	Group		Parent Company			
	Equities		Equities		Shares in subsidiaries	
	2005	2004	2005	2004	2005	2004
Opening value according to previous accounting principles		18,123		10,348		507
Effect of transition to IFRS		12,389		6,862		–
Opening value	<b>39,190</b>	30,512	<b>30,780</b>	17,210	<b>507</b>	507
Sales at sales value	<b>–3,964</b>	–2,956	<b>–1,014</b>	–1,772	<b>–1,585</b>	–
Purchases	<b>3,023</b>	5,203	<b>1,084</b>	4,650	–	–
Transfer to shares in associated companies	–	–	<b>–2,563</b>	–364	<b>–104</b>	–
Transfer from shares in associated companies	–	–	–	3,126	–	–
Change in value	<b>12,950</b>	6,427	<b>7,228</b>	7,930	<b>1,407</b>	–
Other	<b>711<sup>1</sup></b>	4	–	–	<b>5</b>	–
<b>Closing value</b>	<b>51,910</b>	39,190	<b>35,515</b>	30,780	<b>230</b>	507

1) Of which, consolidated value of SEK 668 M for Indutrade at the time of the IPO.

	Parent Company Shares in associated companies	
	2005	2004
Opening value	<b>3,031</b>	5,944
Sales at sales value	<b>–1,365</b>	–1,184
Purchases	<b>1,939</b>	553
Transfer from equities	<b>2,563</b>	364
Transfer to equities	–	–3,126
Transfer from shares in subsidiaries	<b>104</b>	–
Change in value	<b>459</b>	496
Other	–	–16
<b>Closing value</b>	<b>6,731</b>	3,031

**Note 21 Financial fixed assets, cont.**

	Long-term receivables			
	Group <sup>1</sup>		Parent Company	
	2005	2004	2005	2004
Opening value	18	13	–	3
Purchases	–	–	–	–
Sales	–10	–	–	–
Increases for the year	4	13	–	–
Decreases for the year	0	–8	–	–3
Translation differences	0	0	–	–
<b>Closing value</b>	<b>12</b>	<b>18</b>	<b>–</b>	<b>–</b>

1) Long-term receivables in the Group include SEK 8 M (9) in deferred tax assets. See Note 13.

**Note 22 Inventories**

	Group	
	2005	2004
Raw materials and supplies	57	98
Goods in process	16	46
Finished products and goods for resale	124	602
Work in process on behalf of others	0	1
Advances to suppliers	–	0
<b>Total</b>	<b>197</b>	<b>747</b>
Total accumulated write-downs	–10	–64
Percentage of inventory that is expected to be turned over within 12 months, %	95	99

**Note 23 Prepaid expenses and accrued income**

	Group		Parent Company	
	2005	2004	2005	2004
Prepaid rents	1	4	1	1
Accrued interest income	1	0	1	0
Prepaid service and maintenance charges	3	10	1	1
Other items	9	26	2	9
<b>Total</b>	<b>14</b>	<b>40</b>	<b>5</b>	<b>11</b>

**Note 24 Short-term investments**

	Group		Parent Company	
	2005	2004	2005	2004
Short-term equity investments <sup>1</sup>	136	252	–	–
<b>Total</b>	<b>136</b>	<b>252</b>	<b>–</b>	<b>–</b>
Other short-term investments <sup>2</sup>	1,229	401	1,229	400
<b>Total</b>	<b>1,229</b>	<b>401</b>	<b>1,229</b>	<b>400</b>

1) Pertains to equity investments in Nordinvest with an investment horizon of six months.

2) Pertains to financial investments with durations of less than three months.

**Note 25 Pensions**

Industrivärden applies IAS 19 Employee Benefits. This standard is complemented with rules according to RR 30 Supplementary Accounting Regulations for Groups, and for the Parent Company, with RR 32 Accounting for Legal Entities. In accordance with IAS 19, actuaries working under assignment from Industrivärden have calculated the Group's pension liability and the amounts that are to be regularly reserved as pension provisions for the Group's employees. These actuarial computations are done at least on an annual basis. The initial effect of the transition to RR 29 as per January 1, 2004, is SEK –17 M for the Industrivärden Group. No adjustment of comparison figures for previous years has been made. Calculation of Industrivärden's pension liability takes into account such actuarial assumptions as the anticipated discount rate, employees' future salary increases, anticipated inflation, etc., as shown in the table on page 77.

The pension plans in the Industrivärden Group are both defined benefit and defined contribution plans.

**Defined benefit plans**

Industrivärden's defined benefit plans involve retirement pensions, disability pensions and family pensions, and ordinarily entail an obligation to pay lifetime benefits. Earning of pension entitlement is based on the number of years in service and increases the employee's pension entitlement each year. The obligation is reported on a continuing basis in the income statement and as a pension provision in the balance sheet.

**Defined contribution plans**

The defined contribution plans involve retirement pensions, disability pensions and family pensions and entail that premiums are paid on a regular basis during the year to independent legal entities. The size of the pension premium is based on the employee's salary, and the cost for the premiums is reported on a continuing basis in the income statement.

The Industrivärden Group's pensions for its Swedish operations pertain primarily to traditional ITP insurance with Alecta or "high earner" solutions (for employees earning over ten times the Base Amount), or pensions provided for in the FPG/PRI system. According to a pronouncement from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, the obligation secured through insurance with Alecta pertaining to retirement pension and family pension benefits for employees in Sweden is classified as a multi-employer defined benefit plan. For the 2004 and 2005 fiscal years, Industrivärden has not had access to such information that would make it possible to report this plan as a defined benefit plan, and thus the plan is reported as a defined contribution plan. The year's pension contributions to Alecta amounted to SEK 2 M (16). Alecta's surplus is distributed among the policyholders and/or the insureds. Alecta's collective funding ratio was 128.5% at year-end 2005 (2004: 128.0%).

**Note 25 Pensions, cont.**

In addition, AB Industrivärden's and Isaberg Rapid's Swedish operations have individually designed defined benefit pension plans. Isaberg Rapid's subsidiary in France has defined contribution and defined benefit pension plans, while the operations in other countries almost exclusively have defined contribution plans.

The pension liability amounted to SEK 110 M (180) for the Group and SEK 51 M (46) for the Parent Company as per December 31, 2005. The value of the plan assets was SEK 4 M (123) for the Group, of which SEK 4 M (4) pertained to the Parent Company. The Group's combined plan assets consist primarily of investments with insurance companies.

Actuarial gains and losses are recognized in the income statement as revenue or booked as an expense if the net amount of accumulated, unrealized actuarial gains and losses exceeds the higher of 10% of the present value of the defined benefit pension obligation or 10% of the fair value of the plan assets. For 2005, the total actuarial loss was SEK 5 M for the Group, of which SEK 5 M pertained to the Parent Company, which corresponds to approximately 4% of the present value of the Group's pension obligations. The actuarial loss is due to, among other things, a reduction in the discount rate, which has resulted in a higher pension liability.

The Group's total reported pension cost amounted to SEK 22 M (96), of which SEK 12 M (8) pertained to the Parent Company. Interest on pension obligations and the return on plan assets are reported in the income statement as financial items. Other costs for subsidiaries' pensions are reported in the income statement as cost of goods sold, administrative costs or selling costs, while the Parent Company's pension cost is reported as management costs.

The Parent Company's reserved provisions for defined benefit pensions have been continuously invested in the Parent Company's equities portfolio, with the return generated by the equities portfolio.

	Group		Parent Company	
	2005	2004	2005	2004
<b>Pension liability</b>				
Pensions	110	180	51	46
<b>Total</b>	<b>110</b>	<b>180</b>	<b>51</b>	<b>46</b>

<b>Actuarial assumptions</b>	Group	
	2005	2004
Discount rate, %	3.9–4.0	4.5–5.0
Anticipated return on plan assets, %	5.5	5.5
Future salary increases, %	2.0–3.0	2.0–3.0
Anticipated inflation, %	1.75	2.0

<b>Obligations pertaining to compensation to employees, defined benefit plans</b>	Group		Parent Company	
	2005	2004	2005	2004
Present value of funded obligations	4	154	4	4
Fair value of funded plan assets	-4	-123	-4	-4
<b>Total funded obligations</b>	<b>0</b>	<b>31</b>	<b>0</b>	<b>0</b>
<b>Present value of unfunded obligations</b>	<b>115</b>	<b>169</b>	<b>56</b>	<b>47</b>
<b>Total</b>	<b>115</b>	<b>200</b>	<b>56</b>	<b>47</b>
Unrecognized actuarial gains/losses	-5	-20	-5	-1
<b>Net liability on balance sheet</b>	<b>110</b>	<b>180</b>	<b>51</b>	<b>46</b>

<b>Reconciliation of pension liability</b>	Group		Parent Company	
	2005	2004	2005	2004
Net liability according to balance sheet at start of year	180	165	46	49
Change in accounting principles	-	17	-	-3
Net cost recognized in income statement	12	19	8	5
Pension payments	-6	-8	-3	-3
Transferred net liability upon sale of subsidiary	-76	-	-	-
Contribution from employer	0	-11	0	0
Settlements	-	-2	-	-2
Exchange rate differences in foreign plans	0	0	-	-
<b>Net liability according to balance sheet at December 31</b>	<b>110</b>	<b>180</b>	<b>51</b>	<b>46</b>

	Group					
	Defined benefit pension plans		Defined contribution pension plans		Total	
	2005	2004	2005	2004	2005	2004
<b>Pension cost</b>						
Current service cost	5	11	10	77	15	88
Interest on obligation	5	14	-	-	5	14
Anticipated return on plan assets	0	-6	-	-	0	-6
Actuarial gains and losses, net, during the period	0	0	-	-	0	0
Past service cost	2	0	-	-	2	0
<b>Net cost in income statement</b>	<b>12</b>	<b>19</b>	<b>10</b>	<b>77</b>	<b>22</b>	<b>96</b>
-of which, included in management costs	6	3	4	3	10	6
-of which, included in cost of goods sold	0	0	2	0	2	0
-of which, included in selling costs	0	3	3	51	3	54
-of which, included in administrative costs	1	5	1	23	2	28
-of which, included in financial items	5	8	-	-	5	8

**Note 26 Long-term interest-bearing liabilities**

	Group		Parent Company	
	2005	2004	2005	2004
Bond issues	3,819	4,056	3,819	4,056
Pensions (see Note 25)	110	180	51	46
Other interest-bearing liabilities <sup>1</sup>	108	257	–	–
<b>Total</b>	<b>4,037</b>	<b>4,493</b>	<b>3,870</b>	<b>4,102</b>

1) Includes reclassification in 2004 of leasing vehicles to finance leases. The corresponding long-term liability amounts to SEK 30 M.

Maturity dates	Group		Parent Company	
	2005	2004	2005	2004
–2006	–	1,258	–	1,100
–2007	1,894	1,840	1,800	1,800
–2008	734	915	720	856
–2009	700	300	700	300
–2010 or later <sup>1</sup>	709	180	650	46
<b>Total</b>	<b>4,037</b>	<b>4,493</b>	<b>3,870</b>	<b>4,102</b>

1) Of which, pension provisions

Market valuation of current and long-term interest-bearing liabilities as per 12/31/2005 would increase the interest-bearing liabilities by SEK 28 M (73).

**Note 27 Obligations to company directors and CEOs**

The Group's long-term interest-bearing liabilities include SEK 48 M (51) for pension obligations and similar benefits for current and former company directors and CEOs. The corresponding amount for the Parent Company is SEK 37 M (32), as shown in Pensions in Notes 25 and 26.

**Note 28 Long-term noninterest-bearing liabilities**

	Group		Parent Company	
	2005	2004	2005	2004
Deferred taxes (see Note 13)	10	33	–	–
Product liability	23	20	–	–
Other	10	–	–	–
<b>Total</b>	<b>43</b>	<b>53</b>	<b>–</b>	<b>–</b>

**Note 29 Accrued expenses and deferred income**

	Group		Parent Company	
	2005	2004	2005	2004
Accrued interest expenses	128	133	128	133
Accrued staff-related expenses	63	167	20	20
Other <sup>1</sup>	89	85	29	13
<b>Total</b>	<b>280</b>	<b>385</b>	<b>177</b>	<b>166</b>

1) Of which, equity derivatives

**Note 30 Current interest-bearing liabilities**

	Group		Parent Company	
	2005	2004	2005	2004
Utilized bank overdraft facility	62	93	–	–
Bond issues	1,100	300	1,100	300
Current portion of long-term liabilities	2	1	–	–
Other interest-bearing liabilities	82	1,306	10	1,202
<b>Total</b>	<b>1,246</b>	<b>1,700</b>	<b>1,110</b>	<b>1,502</b>

The amount of the bank overdraft facility granted is SEK 2,798 M (2,827) for the Group and SEK 2,672 M (2,629) for the Parent Company.

**Note 31 Pledged assets**

	Group		Parent Company	
	2005	2004	2005	2004
<b>General bank guarantee</b>				
Chattel mortgages	–	1	–	–
<b>Total pertaining to general bank guarantee</b>	<b>–</b>	<b>1</b>	<b>–</b>	<b>–</b>
<b>Other</b>				
Cash and cash equivalents	1	15	1	15
Chattel mortgages	–	1	–	–
<b>Total other</b>	<b>1</b>	<b>16</b>	<b>1</b>	<b>15</b>
<b>Total pledged assets</b>	<b>1</b>	<b>17</b>	<b>1</b>	<b>15</b>

**Note 32 Contingent liabilities**

	Group		Parent Company	
	2005	2004	2005	2004
Contingent liabilities on behalf of other Group companies	–	–	4	4
Other contingent liabilities	1	6	0	0
<b>Total</b>	<b>1</b>	<b>6</b>	<b>4</b>	<b>4</b>

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.



# Audit Report

To the Annual General Meeting of the shareholders of AB Industrivärden (publ)

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of AB Industrivärden (publ) for the year 2005. The board of directors and the president are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and application of International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president and significant estimates made by the board of directors and the president when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we

examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit for 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 financial year.

Stockholm, Sweden, February 23, 2006

Öhrlings PricewaterhouseCoopers AB

Anders Lundin  
*Authorized Public Accountant*

## Tax Rules for Holding Companies

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

### Intermediaries

Holding companies, along with mutual funds, are usually classified as intermediaries. The principles of legislation in this area are:

- that neutrality between direct and indirect ownership requires that the intermediary shall not be subject to taxation,
- that indirect ownership shall not be more advantageous than direct ownership, and
- that taxation shall enable reinvestment of the shareholding by the intermediary.

### Tax Rules

The main principles concerning taxation of holding companies are:

- that interest income is taxable, while interest expenses and management 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-calculated level of income, which amounts to 1.5% of the market value of the equities portfolio at the start of the fiscal year, is taxed. The basis for calculating the standard level of income does not include business-related shares, by which is meant unlisted shares as well as listed shares in which the holding corresponds to at least 10% of the number of votes. In order for listed business-related shares to be excluded from the standard income calculation, they must have been held for at least one year.

### Tax Deficits

Tax-loss carryforwards are deductible and can be accumulated in order to be deducted from future taxable surpluses. See also Note 13 on pages 71–72.

### Industrivärden's Equities Portfolio from a Tax Perspective

At year-end 2004, business-related shares accounted for 97% of the equities portfolio. Of the business-related shares, shareholdings corresponding to 47% of the equities portfolio had been held for less than a year. Added to these are nonbusiness-related shares, which amounted to 3% of the equities portfolio. This means that the calculation of the standard level of income for 2005 is based on 50% of the market value of the equities portfolio at year-end 2004.

At the end of 2005, business-related shares accounted for 97% of the equities portfolio, of which shareholdings corresponding to 5% of the equities portfolio had been held for less than a year. Added to these are nonbusiness-related shares, which amounted to 3% of the equities portfolio. This means that the calculation of the standard level of income for 2006 is based on 8% of the market value of the equities portfolio at year-end 2005.

## Nominating Committee's Recommendation for Election of Directors

### Nominating Committee's Recommendation to the Board

The 2005 Annual General Meeting resolved to authorize the Chairman of the Board to appoint at least four members from among the major shareholders, who are not directors on Industrivärden's board, to form with the Chairman a nominating committee for the next election of directors. Accordingly, the following persons were appointed as members of the Nominating Committee: Tom Hedelius (Chairman of the Board of Industrivärden), Christer Elmehagen (AMF Pension), Curt Källströmer (Svenska Handelsbanken), Committee Chairman, Ulf Lundahl (L E Lundbergföretagen), and Anders Nyberg (SCA).

The Nominating Committee recommends that the 2006 AGM reelect the following directors: Boel Flodgren, Tom Hedelius, Finn Johnsson, Fredrik Lundberg, Sverker Martin-Löf, Lennart Nilsson and Anders Nyrén. Arne Mårtensson declined reelection. As a new director, the Committee recommends Lars O. Grönstedt, born 1954, President and Group Chief Executive of Svenska Handelsbanken. In addition, the Nominating Committee recommends that Tom Hedelius be elected as Chairman of the Board at the Annual General Meeting. Shareholders together representing approximately 70% of the total number of votes in the Company intend to support the Nominating Committee's recommendation.

### Lars O. Grönstedt, B.A., MBA

Born 1954, Stockholm.

President and Group Chief Executive, Handelsbanken.

Director of Handelsbanken, Swedish Bankers' Association and the Stockholm Chamber of Commerce.

Background:

- 2001 – President and Group Chief Executive, Handelsbanken.
- 1997–2000 Executive Vice President, head of Central Development Department and Data Department, Handelsbanken
- 1992–1997 Head of Equities unit, Handelsbanken
- 1983–1992 Service at Handelsbanken's head offices and at Stockholm City Regional Branch

Shareholding: 0.



# Industrivärden in Summary

## SEK

	2005	2004 IFRS-adjusted	According to previous accounting principles <sup>1</sup>			
			2004	2003	2002	2001
<b>Key ratios, SEK per share</b>						
Net asset value	250	189	189	156	126	204
Shareholders' equity	250	182	87	85	97	71
Earnings per share	73.54	38.62	8.06	-4.49	20.20	7.17
Cash flow per share	3.94	-0.30	-0.30	-7.46	5.67	2.84
Stock price, December 31						
Class A shares	217	170	170	121	100	165
Class C shares	200	154	154	109	91	152
Dividend	7.00 <sup>2</sup>	6.00	6.00	5.50	5.80	8.35
Dividend growth, % per year	17	9	9	-5	-31	-1
Dividend yield, Class A shares, %	3.2	3.5	3.5	4.5	5.8	5.1
Total return, Class A shares, %	33	46	46	28	-36	-16
<b>Key ratios, SEK M</b>						
Net asset value	48,252	36,563	36,563	30,070	24,415	39,413
Change in net asset value, %	32	22	22	24	-38	-27
Equity ratio, %	89	83	70	78	77	62
Net debt-equity ratio, %	7	12	12	7	7	11
<b>Income statements, SEK M</b>						
Dividend income from stocks	1,275	1,032	1,036	850	820	918
Earnings from equity and derivative transactions <sup>3</sup>	13,059	6,533	464	-1,385	3,750	644
Earnings from portfolio management	14,334	7,557	1,488	-538	4,497	1,549
Earnings from other operations	22	10	231	244	300	485
Operating earnings	14,278	7,487	1,639	-374	4,712	1,919
Earnings after financial items	14,047	7,299	1,438	-623	4,476	1,510
Net earnings for the year	14,202	7,458	1,557	-867	3,901	1,223
<b>Balance sheets, SEK M</b>						
Equities	51,910	39,190	20,766	18,123	19,865	17,328
Other fixed assets	323	795	730	804	817	1,405
Current assets	1,928	2,548	2,478	2,148	3,583	3,375
Total assets	54,161	42,533	23,974	21,075	24,265	22,108
Shareholders' equity	48,227	35,175	16,713	16,413	18,730	13,355
CPN loan	-	-	-	-	-	398
Interest-bearing liabilities incl. pensions	5,283	6,193	6,093	3,525	4,504	6,770
Noninterest-bearing liabilities	651	1,165	1,168	1,137	1,031	1,585

1) The consolidated financial statements for the years 2002–2004 are prepared in accordance with the equity method. The cost method was used in 2001.

2) Proposed by the Board of Directors.

3) Pertains to change in value of stocks and short-term derivative transactions and equity trading according to IFRS for 2004 and 2005.

**Euros<sup>1</sup>**

	2005	2004	According to previous accounting principles <sup>2</sup>			
		IFRS-adjusted	2004	2003	2002	2001
<b>Key ratios, EUR per share</b>						
Net asset value	<b>26.54</b>	21.00	21.00	17.15	13.80	21.77
Shareholders' equity	<b>26.54</b>	20.22	9.67	9.36	10.59	7.58
Earnings per share	<b>7.81</b>	4.29	0.90	-0.49	2.21	0.77
Cash flow per share	<b>0.42</b>	-0.03	-0.03	-0.82	0.62	0.30
Stock price, December 31						
Class A shares	<b>23.04</b>	18.89	18.89	13.32	10.92	17.61
Class C shares	<b>21.23</b>	17.11	17.11	12.00	9.93	16.22
Dividend	<b>0.74<sup>3</sup></b>	0.67	0.67	0.61	0.63	0.89
Dividend growth, % per year	<b>17</b>	9	9	-5	-31	-1
Dividend yield, Class A shares, %	<b>3.2</b>	3.5	3.5	4.5	5.8	5.1
Total return, Class A shares, %	<b>33</b>	46	46	28	-36	-16
<b>Key ratios, EUR M</b>						
Net asset value	<b>5,122</b>	4,063	4,063	3,312	2,665	4,206
Change in net asset value, %	<b>32</b>	22	22	24	-38	-27
Equity ratio, %	<b>89</b>	83	70	78	77	62
Net debt-equity ratio, %	<b>7</b>	12	12	7	7	11
<b>Income statements, EUR M</b>						
Dividend income from stocks	<b>135</b>	115	115	94	90	98
Earnings from equity and derivative transactions <sup>4</sup>	<b>1,387</b>	726	52	-153	410	69
Earnings from portfolio management	<b>1,522</b>	840	165	-59	491	165
Earnings from other operations	<b>2</b>	1	26	27	33	52
Operating earnings	<b>1,516</b>	832	182	-41	514	205
Earnings after financial items	<b>1,491</b>	811	160	-69	489	161
Net earnings for the year	<b>1,508</b>	829	173	-95	426	131
<b>Balance sheets, EUR M</b>						
Equities	<b>5,511</b>	4,354	2,308	1,996	2,169	1,849
Other fixed assets	<b>34</b>	90	81	88	89	150
Current assets	<b>205</b>	283	275	237	391	360
Total assets	<b>5,750</b>	4,727	2,664	2,321	2,649	2,359
Shareholders' equity	<b>5,120</b>	3,907	1,857	1,808	2,045	1,425
CPN loan	-	-	-	-	-	42
Interest-bearing liabilities incl. pensions	<b>561</b>	690	677	387	491	723
Noninterest-bearing liabilities	<b>69</b>	130	130	126	113	169

1) For 2001 a year-end rate of 9.37 has been used, for 2002 a year-end rate of 9.16 has been used, for 2003 a year-end rate of SEK 9.08 has been used, for 2004 a year-end rate of 9.00 has been used, and for 2005 a year-end rate of SEK 9.42 has been used.

2) The consolidated financial statements for the years 2002–2004 are prepared in accordance with the equity method. The cost method was used in 2001.

3) Proposed by the Board of Directors.

4) Pertains to change in value of stocks and short-term derivative transactions and equity trading according to IFRS for 2004 and 2005.

## Board of Directors



**Tom Hedelius**, MBA, Honorary Doctor of Economics. Born 1939, Stockholm. Chairman of the Board since 2002. Director since 1991. Chairman of Bergman & Beving and Anders Sandrews Foundation. Vice Chairman of Addtech, Lagercrantz Group and the Jan Wallander and Tom Hedelius Foundation. Director of L E Lundbergföretagen, SCA and Volvo, among other companies. Honorary Chairman of Svenska Handelsbanken. Shareholding: 10,000.

**Lennart Nilsson**, M. Sc., Eng., Honorary Doctor of Economics. Born 1941, Lund. Director since 1997. President of the Crafoord Foundation. Chairman of the Erik Philip Sörensen Foundation, the University of Kalmar and Malmöhus Invest. Vice Chairman of Cardo. Director of AFA, AMF Pension, and the Albert Pålsson Foundation for Research and Charity. Shareholding: 3,000.

**Fredrik Lundberg**, M.Sc. Eng., MBA, Honorary Doctor of Economics, Honorary Doctor of Engineering. Born 1951, Djursholm. Director since 2004. President and CEO of L E Lundbergföretagen. Chairman of Cardo, Holmen and Hufvudstaden. Director of Svenska Handelsbanken, L E Lundbergföretagen and NCC. Shareholding: 2,160,000.

**Sverker Martin-Löf**, Doctor of Technology, Honorary Ph.D. Born 1943, Stockholm. Vice Chairman of the Board since 2002. Director since 2002. Chairman of SCA, Skanska and SSAB. Director of Ericsson and Svenska Handelsbanken. Shareholding: 7,000.

**Finn Johnsson**, MBA. Born 1946, Gothenburg. Director since 2000. Chairman of Volvo, KappAhl, City Airline, Thomas Concrete Group, Unomedical A/S and Outokumpo Copper Products Oy. Director of Skanska. Shareholding: 2,000.



**Anders Nyren**, MBA, U.S. MBA. Born 1954, Bromma. President and Chief Executive Officer of Industrivärden. Director since 2001. Vice Chairman of Svenska Handelsbanken. Director of Sandvik, SCA, Skanska, SSAB, Indutrade, Isaberg Rapid, Ernströmgruppen and SNS (the Center for Business and Policy Studies). Chairman of the Association of Exchange-Listed Companies and the Association for Generally Accepted Principles in the Securities Market. Shareholding: 26,575. Employee stock options: 50,000.

**Arne Mårtensson**, MBA, Honorary Doctor of Economics. Born 1951, Djursholm. Director since 2002. Chairman of Svenska Handelsbanken. Vice Chairman of Ericsson. Director of Holmen, Sandvik, Skanska, Vin & Sprit, Swedish ICC and the International Business Council of the World Economic Forum. Chairman of the Stockholm School of Economics Advisory Board. Shareholding: 0.

**Boel Flodgren**, LL.D. Honorary Doctor of Economics. Professor. Born 1942, Lund. Director since 2002. Chairman of the Research Council of E.ON Sweden. Director of Brinova, the University of Oslo, the University of Copenhagen, and Volvo's research foundations. Shareholding: 200.



## Executive Management



Fredric Calles, Bengt Kjell, Anders Nyrén and Carl-Olof By.

**Fredric Calles** MBA, born 1966. Head of Market Operations. Industrivärden employee since 2003. Shareholding: 1,000.

**Bengt Kjell** MBA, born 1954. Executive Vice President and Chief Investment Officer. Industrivärden employee since 2002. Shareholding: 10,000. Employee stock options: 35,000. Chairman of Indutrade, Isaberg Rapid and Kungsleden. Director of Munters and Pandox.

**Anders Nyrén** MBA, U.S. MBA, born 1954. President and Chief Executive Officer. Industrivärden employee since 2001. Shareholding: 26,575. Employee stock options: 50,000. Directorships: see page 84.

**Carl-Olof By** B.A., M. Pol. Sc., born 1945. Executive Vice President and Chief Financial Officer. Industrivärden employee since 1990. Shareholding: 15,000. Employee stock options: 35,000. Director of Svenska Handelsbanken (Stockholm City Region), Isaberg Rapid and OMX Exchanges.

### Committees

Compensation Committee to make recommendations to the Board on the CEO's compensation and to set the salaries, benefits and pensions for the other members of the Executive Management: Tom Hedelius and Sverker Martin-Löf.

Audit Committee for oversight of the Company's risk management, business management and control, and financial reporting: Industrivärden's Board of Directors excluding CEO Anders Nyrén.

Nominating Committee for election of the Board of Directors: Tom Hedelius (Chairman of the Board), Christer Elmehagen (AMF Pension), Curt Källströmer (Handelsbanken – Committee Chairman), Ulf Lundahl (LE Lundbergföretagen), and Anders Nyberg (SCA).

A presentation of the committees' work can be found in the Corporate Governance Report on pages 14–17.

### Senior Executives

**Claes-Göran Pettersson**, MBA, born 1956, Head of Group Accounting, Control and Finance. Industrivärden employee since 2000. Employee stock options: 10,000.

**Jacob Röjdmarm**, MBA, born 1965. Investment Manager. Industrivärden employee since 1996. Shareholding: 3,000. Employee stock options: 10,000.

**Erik Röjvall**, MBA, born 1973, Investment Manager. Industrivärden employee since 2000. Shareholding: 17,500. Employee stock options: 8,000.

**Sverker Sivall**, MBA, born 1970. Head of Investor Relations. Industrivärden employee since 1997. Employee stock options: 5,000.

*Industrivärden's organizational structure is presented on page 18.*

### Auditors

Öhrlings PricewaterhouseCoopers AB.

Chief Auditor: **Anders Lundin**, Authorized Public Accountant, born 1956, Stockholm. In 2005 Anders Lundin was Chief Auditor of among others the listed companies Industrivärden, Aarhus-Karlshamn, ASSA ABLOY, Axis, Bong Ljungdahl and SÄKI.

In 2005 Öhrlings PricewaterhouseCoopers had a total of 90 auditing assignments for companies listed on the Stockholm Stock Exchange, of which six were in cooperation with other auditing firms.

### Directors' independence

*All of the board members, except for Tom Hedelius, who has been a director for more than 12 years, and CEO Anders Nyrén, are independent in relation to the Company and the Company management. In addition, Boel Flodgren, Finn Johnsson and Sverker Martin-Löf are independent in relation to Industrivärden's major shareholders.*

## Market Communication

Industrivärden has high aspirations regarding the demands on communication with its shareholders and the stock market in general. Information to the market will maintain a high standard of quality and be made quickly available to anyone interested. Through a close dialog with market participants, Industrivärden strives to continuously develop and improve its communication. Following is a sampling of independent evaluations of some of our information channels:

- *Swedish Shareholders' Association's assessment of annual reports of listed Swedish companies in 2005 (2004)*: Ranked 1 (1) of 18 (20) holding companies.
- *Dagens Industri's competition of the best information practices of listed companies in 2005 (2004)*: Ranked 2 (1) of 14 (14) holding companies.
- *Webranking's evaluation of listed companies' websites in 2005 (2004)*: Ranked 4 (7) of 132 (152) participating Swedish companies.

### Reporting Dates 2006

Interim reports will be published on the following dates

- May 8 for the period January–March
- August 3 for the period January–June
- October 31 for the period January–September

2006 Annual General Meeting

- Monday, May 8 in Stockholm (see page 89)

### Information Channels

*Publications*

Interim reports, year-end reports, annual reports and press releases can be ordered using any of the following alternatives:

- by post from AB Industrivärden (publ),  
Box 5403, SE-114 84 Stockholm, Sweden
- by phone, at +46-8-666 64 00
- by fax, at +46-8-661 46 28
- by e-mail at: [info@industrivarden.se](mailto:info@industrivarden.se)

*Industrivärden Online*

Industrivärden's website, [www.industrivarden.net](http://www.industrivarden.net), is a central communication channel for contact with parties interested in the company. It presents current information about the Company and the major shareholdings, including the latest stock prices, press releases, and a database of current press clippings about Industrivärden. In addition, press releases, interim reports and year-end reports are available in their entirety in connection with their publication.

Visitors to the website can use interactive analysis tools to help them conduct their own analyses of Industrivärden's stock and of Industrivärden's active shareholdings. The website also includes an extensive description of Industrivärden as a company and equity investment. An elaborate Corporate Governance section was introduced on the site in 2005.

*Press Releases and Reports "Direct"*

Anyone with Internet access can subscribe to Industrivärden's press releases and interim reports simply by registering their e-mail address at [www.industrivarden.net](http://www.industrivarden.net) or [www.waymaker.se](http://www.waymaker.se). In connection with the publication of press releases and interim reports, subscribers will be sent an e-mail containing the press release or report in question.

### Investor Contact

Head of Investors Relations: Sverker Sivall, tel. +46-8-666 64 19, e-mail: [info@industrivarden.se](mailto:info@industrivarden.se)

### Investor Activities

Industrivärden participates regularly in various investor meetings and also conducts exclusive presentations of the Company and its stock. Requests for company presentations are always welcome.

### Financial Analysts Who Monitor Industrivärden

ABG Sundal Collier	Jacob Wall	+46-8-56 62 86 00
Alfred Berg Fondkommission	Rickard Henze	+46-8-723 58 00
C A I Cheuvreux Nordic	David Halldén	+46-8-723 51 00
Carnegie Fondkommission	Björn Enarsson	+46-8-676 88 00
Cazenove Equities	Christopher Brown	+44-20-7588 2828
Danske Equities	Fasial Kalim Ahmad	+45-33-44 04 26
SEB Enskilda	Andreas Joelsson	+46-8-52 22 95 00
Evli Bank	Anders Berg	+46-8-407 80 00
Hagströmer & Qviberg Fondkommission	Peter Tideström	+46-8-696 18 00
Handelsbanken Markets	Magnus Dalhammar	+46-8-701 10 00
Kaupthing Bank	Håkan Persson	+46-8-791 35 00
Standard & Poor's Equity Research	Joakim Ström	+46-8-440 59 00
Swedbank Fondkommission	Nicklas Höglund	+46-8-58 59 20 00
UBS Limited	Fredrik Liljewall	+44-20-7567 5364
Öhman Fondkommission	Katarina Åselius	+46-8-402 50 00

### International Corporate Credit Rating

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

## Glossary and Definitions

*Capital expenditures in tangible fixed assets* Investments in buildings, land, plant and equipment.

*Change in value of stocks* For stocks held at both the start and end of the year, the change in market value consists of the difference in value between these two dates. For stocks sold during the year, the change in market value consists of the difference between the sales price of the shares and their value at the start of the year. For stocks acquired during the year, the change in market value consists of the difference between the cost of the shares and their value at the end of the year.

*Discount to net asset value* The difference between net asset value per share and the stock price, measured in relation to net asset value.

*Dividend yield* Dividend per share in relation to the share price on December 31.

*Earnings per share* Earnings after tax divided by the total number of shares after full dilution. The tax cost is charged to the Group's earnings after financial items, adjusted for tax-exempt capital gains on sales of stocks, tax-deductible dividends paid, and the taxable standard earnings that apply at any given time in accordance with the tax rules for holding companies. Full tax is equal to reported tax. See also page 61.

*Goodwill* If the historical cost of shares in a subsidiary exceeds the value of the acquired shareholders' equity, the difference is reported as goodwill in the consolidated balance sheet. Goodwill is to be tested for impairment annually.

*Interest-bearing net debt* Interest-bearing liabilities and pensions less cash and cash equivalents and interest-bearing receivables, and for the Parent Company, also less liabilities to subsidiaries.

*Market value of equities portfolio* The market value of the equities portfolio is defined as the market value of the listed portfolio and shareholders' equity in other shareholdings.

*Net asset value* The market value of the Parent Company's equities portfolio less net debt.

*Net asset value including reinvested dividends* To calculate the development of net asset value before dividends rendered, the dividends paid out by the Company after tax are reversed and recalculated in view of the trend for the listed portfolio. This gives rise to a measure of how net asset value would have developed if Industrivärden had not paid any dividends and thereby had taxable income, since dividends rendered are tax-deductible.

*Net debt* The Parent Company's interest-bearing and noninterest-bearing net debt.

*Net debt-equity ratio* The Parent Company's interest-bearing net debt in relation to the market value of the Parent Company's equities portfolio.

*Return on capital employed* Operating earnings and interest income, in relation to average interest-bearing liabilities and provisions, and shareholders' equity.

*Short-term derivative transactions and equity trading* Short-term equity derivative transactions in the Parent Company and short-term equity trading in the subsidiary Nordinvest.

*Surplus value* The difference between the market value and cost of listed stocks.

*Total return* Change in the share price plus reinvested dividends. The total return is compared against the return index (SIXRX), which indicates the price trend including reinvested dividends for stocks listed on the Stockholm Stock Exchange.

## Industrivärden's History – Sixty Years in Brief



Industrivärden was established in 1944 after Handelsbanken took over majority equity stakes in several Swedish industrial companies to protect its credits in connection with financial crises during the 1920s and '30s.

### 1944: Industrivärden established

During the financial crises of the 1920s and '30s, Handelsbanken took over majority equity stakes in several Swedish industrial companies to protect its credits in connection with various financial crises. A holding company was formed in 1944, to which the shareholdings were transferred. This company was given the name Industrivärden ("Industrial value") to symbolize its stewardship of this industrial value. Industrivärden was sold to Handelsbanken's owners in 1945 and has been a publicly listed company ever since.

### 1950s and '60s:

#### Equity stakes acquired in leading listed companies

Ericsson has been included in Industrivärden's equities portfolio since the start. During the 1950s Industrivärden acquired major shareholdings in AGA, SCA and Handelsbanken. During the 1960s major investments were made in the construction and real estate sectors. These holdings were sold in the 1980s, among others to Skanska, which paid with own stock.

### 1980s: Concentration of listed portfolio

The listed portfolio was concentrated during the 1980s, bringing the total number of holdings to around ten by the start of the 1990s.

### 1990s: An industrial operation is acquired and divested

Through the acquisition of PLM and the investment companies Dacke and Bahco around 1990, Industrivärden created a substantial wholly owned operation which was subsequently divested in stages, generating favorable capital gains. Today Isaberg Rapid is the only remaining wholly owned subsidiary.

### Major transactions during the last ten years

During the past ten years Sandvik and SSAB became new, major shareholdings, while Industrivärden's stakes in AGA and PLM, as well as its subsidiaries Besam and Thorsman, were sold.

### 2000s: Shifts as result of adapted strategy

As part of its strategy of investing in listed Nordic companies in which it can take an active ownership role, Industrivärden sold its shareholding in the pharmaceutical company Lundbeck in 2002, in Skandia in 2003 and in Scania in 2004. A new promising holding is the moisture control company Munters, which was acquired in 2003. Stock in the Icelandic med-tech company Ossur was purchased in 2002 and sold in 2005 at a good profit. Sizable complementary purchases of stock were made in Handelsbanken and Sandvik in 2004, and in SCA in 2005. A majority shareholding in the wholly owned technology trading company Indutrade was divested in 2005 in connection with an IPO of that company.

### Industrivärden today

Today operations are focused on a concentrated portfolio of long-term holdings in listed Nordic companies with good potential for value growth in which Industrivärden can take an active ownership role and add value.

At year-end 2005 Industrivärden's equities portfolio consisted of eight listed companies in which Industrivärden controls at least 10% of the votes, plus a few smaller holdings in which Industrivärden does not have an active ownership position.

# 2006 Annual General Meeting

## Time and place

The Annual General Meeting will be held at 2 p.m. on Monday, May 8, 2006, at the Grand Hotel, Vinterträdgården room (entrance at the corner of Stallgatan/Blasieholmsgatan), in Stockholm, Sweden. The doors will open at 1 p.m., and registration will take place until 2 p.m., at which time the doors will be closed. 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 shareholder register printed out by VPC (Swedish Depository and Clearing House) on May 2, 2006, and give notice of their intention to participate in the Meeting no later than 3 p.m. on Tuesday, May 2, 2006.

## How to become registered in the shareholder register

Shares are registered in the shareholder register maintained by VPC in the name of either the owner or the owner's nominee. Shareholders who have not arranged to have their shares registered in the nominee's name are registered in their own names. Shareholders whose shares are managed by a third party may have chosen to have their shares registered in the nominee's name. In order to be able to participate in the Meeting, such shareholders who own nominee-registered shares must request in advance that their shares be temporarily registered in their own names as per May 2, 2006. Shareholders are advised to contact their nominee well in advance before May 2, 2006.

## Notice of attendance

Notice of intention to participate in the Meeting can be made using one of the following alternatives:

- by post to AB Industrivärden (publ), Box 5403, SE-114 84 Stockholm, Sweden (see attached notification form)
- by phone at +46-8-666 64 00
- by fax at +46-8-661 46 28 (see attached notification form)
- by e-mail at [agm@industrivarden.se](mailto:agm@industrivarden.se), which requires the Company's confirmation by e-mail (within 24 hours) that notification has been registered
- by filling in the form on Industrivärden's website

## Upon notification, shareholders

### should always indicate their:

- name
- national ID number (or corporate registration number)
- address and phone number

Notice of attendance must be received by the Company not later than 3 p.m. on Tuesday, May 2, 2006.

## Proxies

Shareholders may exercise their entitlement to participate in the Meeting by proxy. Please use the proxy statement provided on the notification form. For representation of legal persons by proxy, the proxy must be signed by an authorized signatory of the company/organization, and a copy of the registration certificate, which indicates the company's/organization's authorized signatories, must be attached.

## Dividend

The dividend for 2005 will be paid to shareholders who are recorded in the shareholder register on the record date. The Board of Directors proposes May 11, 2006, 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 16, 2006.

INDUSTRI  VÄRDEN

AB INDUSTRIVÄRDEN (PUBL) • REG.NO. 556043-4200, BOX 5403 • SE-114 84 STOCKHOLM, SWEDEN  
PHONE +46-8-666 64 00 • FAX +46-8-661 46 28 • WWW.INDUSTRIVARDEN.NET • INFO@INDUSTRIVARDEN.SE