

Industrivärden is one of the Nordic region's leading industrial development companies

www.industrivarden.net

## Interim Report

January 1-September 30, 2014

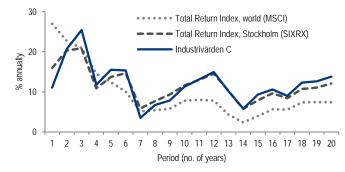
- > The total return for the first nine months of the year was 5% for the Class A shares and 7% for the Class C shares, compared with 9% for the SIXRX total return index. For longer periods of time, the shares have generated a higher total return than the total return index.
- > **Net asset value** on September 30, 2014, was SEK 152/share, which adjusted for conversions and reinvested dividend amounted to a rise of 5% year to date. Earnings per share for the first nine months of the year were SEK 7.54 (21.31).
- > SSAB's merger with Finnish Rautaruukki has been concluded, and the integration proceeds according to plan.
- > The short-term equity trading generated a strong profit of SEK 175 (83) million during the first nine months, despite relatively low volatility in the market.

#### **NET ASSET VALUE**



 $During the last twenty-year period, net asset value has increased by 7\% per year, incl.\ reinvested\ dividends\ by 11\% per year.$ 

#### AVERAGE ANNUAL TOTAL RETURN FOR EACH TIME PERIOD



For longer as well as shorter periods of time, the Class C shares have generated a higher total return than the Stockholm Stock Exchange's total return index. This performance is even stronger in comparison with a European or world index.



### CEO's message

#### Global recovery continues, though with major geographic differences

The global economy is expected to grow slightly in 2014, but there is a lack of robust growth momentum and there are major differences between geographic areas. It appears that Europe will improve somewhat going forward, although the geopolitical tensions in the region are a distinct concern. Further stabilization in Europe requires that measures be taken to address the deficiencies that remain in banking system capitalization. An efficient corporate credit market is essential to the growth of European companies. Reforms implemented in several European countries to address structural problems that came to light during the financial crisis are a positive sign. There is a distinct rebound in the U.S. economy and many indications of continued growth during 2015. American industry is developing with strong support from, among other things, cheap energy from shale gas and oil. Consumption has increased due to stabilization of the job market and increased confidence in the domestic economy. In Asia, the subdued growth seems to continue, although growth rates remain high from a European perspective. China is the region's undisputed economic engine – an engine that is now focused on developing domestic consumption, which slows down growth rates to some extent.

With portfolio companies operating in over 190 countries, Industrivärden has broad exposure to global growth. Several of our portfolio companies have established a strong position in the key growth markets that constitute an increasing proportion of their total sales. U.S. operations performs well in the wake of a stronger American economy. Half of our portfolio companies' total sales originate in Europe, and Europe therefore plays a key role in the value development of Industrivärden's equities portfolio.

# SSAB's merger with Finnish company Rautaruukki has been concluded and the integration proceeds according to plan

Finnish company Rautaruukki has been part of SSAB since late July, and intensive integration work is underway to capture synergies and create a global player within specialty steel and a leading European market player within standard strip, plate and tubular products. The merger was approved by the EU Commission contingent upon the divestment of a number of small units within the Nordic distribution operation. The new organization is in place, and the new SSAB's board of directors was appointed at an extraordinary board meeting in September. The election of directors was based on the proposal of SSAB's nominating committee, which includes the major Finnish owner, Solidium.

#### The return during the year

At the end of the third quarter, net asset value to-talled SEK 65 820 million, or SEK 152 per share, which adjusted for conversions and reinvested dividend amounted to a rise of 5% year to date. The total return was 5 percent for Class A shares and 7 percent for Class C shares, compared with 9 percent for the total return index.

#### Short-term equity trading showed strong profit

Despite the year's difficult market conditions with weak volatility, our short-term equity trading has generated a profit of SEK 175 (83) million – which more than covers our total management costs of SEK 108 million.

Anders Nyrén

### Overview

#### COMPOSITION OF NET ASSET VALUE AND TOTAL RETURN FOR THE PORTFOLIO COMPANIES

|                                    | 9/30/2014     |                     |       |                   |         | 9M: 2014  |                 |                  |
|------------------------------------|---------------|---------------------|-------|-------------------|---------|-----------|-----------------|------------------|
|                                    | _             | Ownershi<br>company | •     | Cha af            | Marke   | t value   | Total<br>return | TR for the stock |
| Portfolio companies                | No. of shares | Capital             | Votes | Share of value, % | SEK M   | SEK/share | SEK M           | %                |
| Handelsbanken A                    | 64 661 679    | 10.2                | 10.3  | 27                | 21 953  | 51        | 2 652           | 13               |
| Sandvik                            | 151 184 257   | 12.1                | 12.1  | 15                | 12 306  | 28        | -952            | -7               |
| SCA A                              | 40 500 000    | 10.0                | 29.4  | 15                | 6 978   | 28        | -1 500          | -11              |
| SCA B                              | 30 300 000    |                     |       |                   | 5 215   |           |                 |                  |
| Volvo A                            | 142 154 571   | 7.0                 | 21.2  | 15                | 11 358  | 27        | -561            | -3               |
| Volvo B                            | 6 000 000     |                     |       |                   | 471     |           |                 |                  |
| Ericsson A                         | 86 052 615    | 2.6                 | 15.2  | 9                 | 7 525   | 17        | 1 404           | 22               |
| ICA Gruppen                        | 21 125 000    | 10.5                | 10.5  | 6                 | 4 983   | 12        | 883             | 22               |
| Skanska A                          | 12 667 500    | 7.6                 | 24.4  | 6                 | 1 891   | 11        | 763             | 18               |
| Skanska B                          | 19 343 995    |                     |       |                   | 2 888   |           |                 |                  |
| SSAB A                             | 58 105 972    | 10.7                | 17.7  | 5                 | 3 600   | 8         | 744             | 26               |
| SSAB B                             | 754 985       |                     |       |                   | 41      |           |                 |                  |
| Kone                               | 3 412 500     | 0.7                 | 0.3   | 1                 | 997     | 2         | 1               | 0                |
| Other                              |               |                     |       |                   | 197     | 0         | 53              |                  |
| Equities portfolio                 |               |                     |       | 100               | 80 403  | 186       | 3 486           | 4                |
| Interest-bearing net debt          |               |                     |       |                   | -14 583 | -34       | Index:          | 9                |
| of which, convertible loan         |               |                     |       |                   | -4 766  | -11       |                 |                  |
| Net asset value                    |               |                     |       |                   | 65 820  | 152       |                 |                  |
| Net debt-equities ratio            |               |                     |       |                   |         | 18%       |                 |                  |
| Net asset value after full conver  | rsion         |                     |       |                   |         | 152       |                 |                  |
| Net debt-equities ratio after full | conversion    |                     |       |                   |         | 12%       |                 |                  |

#### DEVELOPMENT OF NET ASSET VALUE

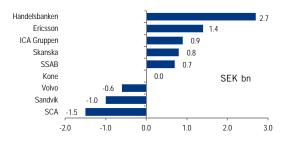
| SEK/share                                     | 9/30/2014 | 6/30/2014 | 3/31/2014 |
|---|-----------|-----------|-----------|
| Equities portfolio                            | 186       | 188       | 210       |
| Interest-bearing net debt                     | -34       | -32       | -41       |
| of which, convertible loans                   | -11       | -11       | -20       |
| Net asset value                               | 152       | 156       | 169       |
| Net debt-equities ratio                       | 18%       | 17%       | 19%       |
|   |           |           |           |
| Net asset value after full conversion         | 152       | 156       | 162       |
| Net debt-equities ratio after full conversion | 12%       | 11%       | 10%       |

### Performance

#### Net asset value

During the first nine months of the year 2014, net asset value increased by SEK 5.0 billion, of which SEK 3.9 billion is due to conversions during the year, to SEK 65.8 billion. Net asset value per share amounted to SEK 152, which adjusted for conversions and reinvested dividend amounted to a rise of 5%, compared with a 9% rise in the total return index (SIXRX). On September 30, 2014 net asset value amounted to SEK 152 per share after full conversion of the convertible loan that matures in 2017.

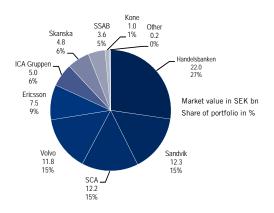
### DEVELOPMENT OF EQUITIES PORTFOLIO INCL. REINVESTED DIVIDENDS, 9M:2014



#### Equities portfolio

During the first nine months of the year 2014 the value of the equities portfolio, adjusted for purchases and sales, increased by SEK 0.5 billion to 80.4 billion. The shareholdings in SSAB, Ericsson, ICA Gruppen, Skanska and Handelsbanken generated higher returns than the total return index. The total return for the portfolio was 4%, compared with 9% for the total return index.

### SPLIT OF EQUITIES PORTFOLIO AS PER SEPTEMBER 30, 2014



#### Investment activities

During the first nine months of the year 2014, total net purchases per holding were SEK 2 537 million and total net sales per holding were SEK 704 million. The largest net purchases were in Volvo, for SEK 1 521 million, followed by Sandvik, for SEK 526 million. The largest net sale was in Skanska, for SEK 117 million.

#### Dividends

Dividends from the portfolio companies amounted to SEK 3.0 billion during the first nine months of the year 2014. Industrivärden distributed SEK 2.3 billion in dividends to the shareholders during 2014. The dividend of SEK 5.50 per share corresponded to a dividend yield of 4.5% for the Class C shares at year-end 2013. The estimated dividend yield for the Stockholm Stock Exchange was 3.7% at the same point in time.

#### Net debt

Industrivärden's interest-bearing net debt amounted to SEK 14.6 billion on September 30, 2014. The debt-equities ratio was 18%, and the equity ratio was 80% (75%). Assuming full conversion of outstanding convertible loans, totaling SEK 4.8 billion, interest-bearing net debt amounted to SEK 9.8 billion, and the debt-equities ratio was 12%.

At the end of the quarter, interest-bearing liabilities had an average capital duration of approximately 2.5 years and carried an average interest rate of approximately 2.0%.

No part of the Group's borrowings is conditional on any covenants. Industrivärden's current credit rating is A-/Stable/A-2 (S&P).

#### Convertible loans

During the first nine months of the year 2014 the convertible loan that matures in 2015 has been fully converted and a total of 46.1 million new C-shares have been issued and EUR 500 million has been added to shareholders' equity. Following the conversions the number of votes in the Company are 284 911 703.1, and the total number of registered shares in the Company are 432 341 271, of which 268 530 640 are Class A shares and 163 810 631 are Class C shares.

The conversion price for the convertible loan that matures in 2017, has been adjusted from SEK 159.91 to SEK 157.57 (corresponding to EUR 17.74/share), whereby a maximum of 31.0 million Class C shares would be added upon full conversion. The adjustment is a compensation to the convertible bondholders for the so called extraordinary dividend that has been paid out to the shareholders. Conversion is done at a fixed exchange rate of SEK 8.8803/EUR 1, entailing that at an actual exchange rate of SEK 9.11/EUR 1, it is profitable to convert when the share price exceeds SEK 162/share.

Upon conversion of the loans, the debt is converted to equity, and the number of shares outstanding increases. Conversion does not give rise to any financial dilution, since the loans are invested in the equities portfolio, and the conversion price has been set at a premium to net asset value.

#### Exchangeable bond

During the first nine months of the year 2014 an exchangeable bond of SEK 4.4 billion was issued. The bond matures in 2019 and was issued at a premium to the existing share price in ICA Gruppen of approximately 38% and bears no interest. At a potential future redemption there is a possibility to pay either with shares or with cash equivalents.

### Short-term equity trading and management costs

During the first nine months of the year 2014, Industrivarden's short-term equity trading generated a profit of SEK 175 million (83).

Management costs amounted to SEK 108 million (99). Industrivärden's management cost was 0.18% of managed assets, which is considerably lower than for most comparable investment alternatives.

#### Financial statements

INDUSTRIVÄRDEN GROUP

| SEK M  | 2014<br>July-Sept. | 2013<br>July-Sept. | 2014<br>JanSept. | 2013<br>JanSept. | 2013<br>JanDec. |
|--|--------------------|--------------------|------------------|------------------|-----------------|
| INCOME STATEMENT                                     | July Copti         | July Ocpt.         | Julii Gopti      | Jun. Oopt.       | Juni Deci       |
| Dividend income from stocks                          | 0                  | 0                  | 2 984            | 2 487            | 2 504           |
| Change in value of stocks, etc.                      | -1 504             | 3 919              | 353              | 6 257            | 10 196          |
| Other income and expenses*                           | 11                 | 35                 | 67               | -16              | 10              |
| Operating income                                     | -1 493             | 3 954              | 3 404            | 8 728            | 12 710          |
| Financial items                                      | -76                | -150               | -297             | -439             | -570            |
| Income after financial items                         | -1 569             | 3 804              | 3 107            | 8 289            | 12 140          |
| Tax  | -                  | -                  | -                | -                | -               |
| Net income for the period                            | -1 569             | 3 804              | 3 107            | 8 289            | 12 140          |
| Earnings per share, SEK                              | -3.63              | 9.71               | 7.54             | 21.31            | 31.16           |
| Earnings per share after dilution, SEK               | -3.75              | 8.91               | 6.57             | 19.49            | 27.80           |
| STATEMENT OF COMPREHENSIVE INCOME                    |                    |                    |                  |                  |                 |
| Comprehensive income for the period                  | -1 571             | 3 804              | 3 096            | 8 363            | 12 223          |
| BALANCE SHEET as per end of period                   |                    |                    |                  |                  |                 |
| Equities   |                    |                    | 80 403           | 74 338           | 77 992          |
| Non-current receivables                              |                    |                    | 367              | -                | -               |
| Total non-current assets                             |                    |                    | 80 770           | 74 338           | 77 992          |
| Cash and cash equivalents                            |                    |                    | 115              | 8                | 490             |
| Other current assets                                 |                    |                    | 529              | 675              | 74              |
| Total current assets                                 |                    |                    | 644              | 683              | 564             |
| Total assets   |                    |                    | 81 414           | 75 021           | 78 556          |
| Shareholders' equity                                 |                    |                    | 65 272           | 55 420           | 59 280          |
| Non-current interest-bearing liabilities             |                    |                    | 12 718           | 14 522           | 13 803          |
| Non-current non interest-bearing liabilities**       |                    |                    | 337              | 1 476            | 1 409           |
| Total non-current liabilities                        |                    |                    | 13 055           | 15 998           | 15 212          |
| Current interest-bearing liabilities                 |                    |                    | 2 775            | 3 317            | 3 797           |
| Other liabilities                                    |                    |                    | 312              | 286              | 267             |
| Total current liabilities                            |                    |                    | 3 087            | 3 603            | 4 064           |
| Total shareholders' equity and liabilities           |                    |                    | 81 414           | 75 021           | 78 556          |
| CASH FLOW  |                    |                    |                  |                  |                 |
| Cash flow from operating activities                  |                    |                    | 2 633            | 2 054            | 1 897           |
| Cash flow from investing activities                  |                    |                    | -1 833           | 990              | 1 415           |
| Cash flow from financing activities***               |                    |                    | -1 175           | -3 050           | -2 838          |
| Cash flow for the period                             |                    |                    | -375             | -6               | 474             |
| Exchange rate difference in cash and cash equivalent | S                  |                    | 0                | 0                | 2               |
| Cash and cash equivalents at end of period           |                    |                    | 115              | 8                | 490             |

<sup>\*</sup> Including short-term trading and management costs.

\*\* Of which, the option portion of the convertible and exhangeable loan, totaling SEK 336 M (1 413), which at the times of issue amounted to a combined total of SEK 934 M.

\*\*\* Of which, dividends of SEK 1 950 M were paid to shareholders in 2013 and 2 282 M in 2014.

|  | 2014     | 2013     | 2013    |
|--|----------|----------|---------|
| SEK M  | JanSept. | JanSept. | JanDec. |
| CHANGES IN SHAREHOLDERS' EQUITY                      |          |          |         |
| Opening shareholders' equity as per balance sheet    | 59 280   | 48 378   | 48 378  |
| Comprehensive income for the period                  | 3 096    | 8 363    | 12 223  |
| Conversion   | 5 169    | 629      | 629     |
| Dividend   | -2 282   | -1 950   | -1 950  |
| Other  | 9        | -        | -       |
| Closing shareholders' equity as per balance sheet    | 65 272   | 55 420   | 59 280  |
| KEY DATA as per end of period                        |          |          |         |
| Net asset value per share, SEK                       | 152      | 145      | 155     |
| Net asset value per share after full conversion, SEK | 152      | 140      | 150     |
| Share price (Class A), SEK                           | 133      | 125      | 131     |
| Share price (Class C), SEK                           | 126      | 118      | 122     |
| Number of shares (thousands)*                        | 432 341  | 391 770  | 391 770 |
| INTEREST-BEARING NET DEBT at end of period           |          |          |         |
| Cash and cash equivalents                            | 115      | 8        | 490     |
| Interest-bearing assets                              | 795      | 645      | 16      |
| Non-current interest-bearing liabilities**           | 12 718   | 14 522   | 13 803  |
| Current interest-bearing liabilities                 | 2 775    | 3 317    | 3 797   |
| Interest-bearing net debt                            | 14 583   | 17 186   | 17 094  |

<sup>\*</sup> Number of shares upon full conversion (thousands), 463 338.

#### INDUSTRIVÄRDEN PARENT COMPANY

|  | 2014     | 2013     | 2013    |
|--|----------|----------|---------|
| SEK M                                      | JanSept. | JanSept. | JanDec. |
| INCOME STATEMENT                           |          |          |         |
| Operating income                           | 2 543    | 2 870    | 1 660   |
| Income after financial items               | 2 359    | 2 627    | 1 325   |
| Income for the period                      | 2 359    | 2 627    | 1 325   |
| Comprehensive income for the period        | 2 348    | 2 641    | 1 348   |
| BALANCE SHEET AS PER END OF PERIOD         |          |          |         |
| Non-current assets                         | 46 628   | 48 638   | 47 063  |
| Current assets                             | 3 831    | 24       | 61      |
| Total assets                               | 50 459   | 48 662   | 47 124  |
| Shareholders' equity                       | 36 731   | 32 781   | 31 487  |
| Non-current liabilities                    | 11 555   | 12 998   | 12 212  |
| Current liabilities                        | 2 173    | 2 883    | 3 425   |
| Total shareholders' equity and liabilities | 50 459   | 48 662   | 47 124  |

<sup>\*\*</sup> Of which, convertible loans of SEK 4 766 M (8 111).

### Accounting policies and notes

#### Accounting policies

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, and the Swedish Annual Accounts Act. The Parent Company's financial statements have been prepared in accordance with RFR 2 – Accounting for Legal Entities, and the Swedish Annual Accounts Act.

Effective January 1, 2014, IFRS 10 Consolidated Financial Statements, is applied. Adjustments of comparative figures have been made with no effects on net income, earnings per share or shareholders' equity. Other new or amended IFRSs and IFRIC interpretations have not had any effect on the Group's or Parent Company's results of operations or financial position.

#### Risks and uncertainties

The dominant risk in Industrivärden's business is share price risk, i.e., the risk of a decrease in value caused by changes in share prices.

A 1% change in the share price of the holdings in the equities portfolio as per September 30, 2014, would have affected its market value by approximately  $\pm$  SEK 800 million.

### Fair value measurement of financial instruments

In accordance with IFRS 13, financial instruments are measured at fair value according to a three level hierarchy. Classification is based on input data that is used in measuring the instruments. Level 1 uses quoted prices in an active market, such as stocks listed on the Stockholm Stock Exchange. Level 2 uses other observable market data for the asset or liability than quoted prices, such as volatility. For level 3, fair value is determined according to a valuation technique that is based on assumptions that are not based on prices or observable data.

Responsibility for fair value measurement, which is based on documentation produced by the Company's risk manager, rests with management. ISDA agreements exist with the pertinent counterparties.

| 9/30/2014                     | Level 1 | Level 2 | Level 3 | Total  |
|-------------------------------|---------|---------|---------|--------|
| Assets                        |         |         |         |        |
| Equities                      | 80 254  | -       | 149     | 80 403 |
| Equity derivatives            | -       | 2       | -       | 2      |
| Other derivatives             | 23      | 5       | -       | 28     |
| Total assets                  | 80 277  | 7       | 149     | 80 433 |
|                               |         |         |         |        |
|                               | Level 1 | Level 2 | Level 3 | Total  |
| Liabilities                   |         |         |         |        |
| Other non-current liabilities |         |         |         |        |
| Option portion of convertible |         |         |         |        |
| and exchangeable loans        | -       | 336     | -       | 336    |
| Equity derivatives            | -       | 1       | -       | 1      |
| Other current liabilities     |         |         |         |        |
| Equity derivatives            | 22      | 16      | -       | 38     |
| Derivative instruments used   |         |         |         |        |
| for hedging                   | -       | 12      | -       | 12     |
| Other derivatives             | 6       | 89      | -       | 95     |
| Total liabilities             | 28      | 454     | -       | 482    |

No changes have been made between levels compared with the preceding year.

#### Related party transactions

During the first nine months of the year 2014, dividend income was received from associated companies.

### Other

#### Financial calendar

Year-end report January–December: February 6, 2015 Interim report January–March: April 8, 2015 Annual General Meeting: May 6, 2015 Interim report January–June: July 6, 2015 Interim report January–September: October 5, 2015

#### **Publication**

The information provided in this interim report is such that AB Industrivärden (publ) is obligated to publish pursuant to the Securities Market Act. Submitted for publication at 09:00 a.m. on October 6, 2014.

#### Contact persons

Anders Gustavsson, Investor Relations, tel. +46-8-666 64 41, agn@industrivarden.se; Sverker Sivall, Head of Corporate Communication; Martin Hamner, CFO; Anders Nyrén, President and CEO; Telephone +46-8-666 64 00

#### Contacts and further information

Industrivärden's complete contact information can be found on page 1. For further information, please visit Industrivärden's website: www.industrivarden.net.

Stockholm, October 6, 2014

Anders Nyrén, President and CEO

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

### Value creation

### Active ownership – business concept and strategy

Industrivarden's business concept is to contribute to growth in the value of its portfolio companies through long-term active ownership, which enhances Industrivarden's net asset value and enables a total return for the shareholders which, over time, is higher than the average for the Stockholm Stock Exchange. The business is built upon

substantial ownership influence, involvement, extensive experience, knowledgeable employees, a strong business model and a large network. Active ownership is exercised primarily through board representation and emanates from strategic issues of significance for the companies' long-term growth in value. Our portfolio companies are leaders in their respective areas and have extensive geographic coverage.

#### Our view of ICA-Gruppen – case study



With 2,300 grocery stores in five geographical markets, ICA Gruppen is one of the leading retail companies in the Nordic region. Around 50,000 people work at ICA. The core business is grocery retail. The other businesses are ICA Bank, ICA Real Estate, and a number of portfolio companies.

Within ICA Gruppen, entrepreneurship is combined with large-scale and diverse operations, and local adaptation is combined with economies of scale and efficiency. Through cooperation and development of mutually supporting operations, ICA Gruppen has succeeded in securing customer confidence, good profitability and a leading market position. At ICA Gruppen, a commitment to sustainability and strong community engagement go hand in hand with long-term profitability.

In early 2013 Industrivärden acquired an ownership position in the newly formed ICA Gruppen. Today Industrivärden is the second-largest shareholder after the Association of ICA Retailers. The original investment of SEK 2.4 billion has performed well and is today worth approximately SEK 5 billion.

# Further information on the portfolio companies

| Handelsbanken       | High customer satisfaction through local customer responsibility. | www.handelsbanken.com |
|---------------------|---|-----------------------|
| SANDVIK             | Unique know-how in customer-adapted materials technology.         | www.sandvik.com       |
| SCA<br>care of life | Innovative hygiene and forest products.                           | www.sca.com           |
| VOLVO               | Leading position in modern transport solutions.                   | www.volvogroup.com    |
| ERICSSON #          | Leadership in telecom.  | www.ericsson.com      |
| GRUPPEN             | Market-leading retail chain with local entrepreneurship.          | www.icagruppen.se     |
| SKANSKA             | International construction and project development operation.     | www.skanska.com       |
| SSAB                | Niche focus on high-strength steel.                               | www.ssab.com          |