



Strong performance despite challenging global conditions

At the beginning of 2023, economic expectations were subdued due to strict monetary policy, rapidly rising interest rates and high inflation, the energy crisis in Europe and geopolitical uncertainty with the continued impact of the war in Ukraine. Given these conditions, it is not surprising that economic growth was weak in Europe in 2023. The US economy performed somewhat better on the back of more expansionary fiscal policy and surprisingly robust domestic private consumption. China's growth was lower than expected, with consumption failing to pick up and investment remaining weak. Although the geopolitical situation presented many challenges, with low growth in several of the developed economies, the global economy held up relatively well. In the second half of the year, underlying inflation decreased markedly, and market interest rates fell.

As we move into 2024, markets anticipate continued subdued global inflation and lower interest rates, but this is expected to happen gradually over a longer period. This was evident, among other things, from the IMF's global outlook, published in the beginning of 2024, which forecast unchanged global growth of 3.1 percent in 2024, but with continued weak growth in several developed economies. Significant geopolitical uncertainty is expected to persist.

The stock market performed well in 2023 overall, and especially in the fourth quarter, when interest rates appeared to peak, and a soft landing increasingly emerged as the most likely scenario. However, there were considerable differences in share price performance between different geographies and sectors.

Despite the challenging geopolitical outlook, Industrivärden's portfolio companies performed strongly, with several achieving record results in 2023. The strong performance of the portfolio companies was reflected in their share prices, which resulted in good value growth for Industrivärden. At the end of 2023, our net asset value amounted to SEK 150 billion, an increase of 19 percent. This in turn enabled a total return for Industrivärden's Class A and Class C shares in 2023 of 33 percent, compared to the Stockholm Stock Exchange's total return of 19 percent.

Industrivärden's business model and historical achievements clearly show that shareholder value can be created with large shareholdings in a small number of companies over an

extended period of time. Our strategy is to invest in and actively develop quality companies that perform well and have strong cash flow generation. Viewed longer-term, in the past five years, our portfolio companies have achieved higher earnings growth and dividend yield by capital-weighted portfolio than the average for the Stockholm Stock Exchange's Large Cap companies. At the same time, using the same calculation method, this has been achieved with relatively lower net debt in relation to operating profit before depreciation and amortization. This clearly shows that stable and well-managed companies enable good value growth.

Our portfolio companies have leading market positions and proven business models within their respective industries. Maintaining and continuously strengthening these positions is necessary for long-term value creation. Portfolio companies therefore need to be able to adapt to rapid change, while streamlining and improving their existing operations over the long term. In parallel to this, the companies must take advantage of new opportunities in digitalization and artificial intelligence and automation and electrification, for example. Although each company should operate in the context of its own conditions, Industrivärden has a number of basic principles for long-term value creation. These are the right leadership, strategic focus, decentralization, operational flexibility and efficiency, financial strength, and a sustainable approach. As a long-term active owner, we are convinced that these are key capacities that benefited the portfolio companies in 2023 and that build strong positions going forward.

A sustainable approach goes hand-in-hand with long-term value creation because it reduces risk and increases long-term opportunities. Industrivärden therefore attaches great importance to analyzing, understanding, and, when necessary, influencing the portfolio companies in material sustainability issues. Like all companies, Industrivärden's portfolio companies face various sustainability-related challenges, and for us as owners it is crucial that sustainability work is fully integrated into operations. Only then will sustainability become a powerful tool to contribute to value growth in our portfolio companies over time.

From a foundation of significant influence, industrial expertise and financial strength, we engage in the portfolio companies' corporate governance and strategic development.

We take responsibility, set demands, evaluate, and function as a long-term supportive owner.

A successful business requires well-adapted boards and strong management teams with the ability to realize company strategies, build good corporate cultures, and adapt operations to changing conditions. The importance of competent and well-adjusted leadership cannot be overestimated. In this context, as owners, we attach considerable importance to being involved in nominating committee work and to building networks with suitable individuals for key roles in our portfolio companies. With this in mind, I would like to provide some illustrative examples of important measures and development steps that were taken in the companies in 2023.

Volvo has a leading position in sustainable transport solutions and performed strongly in 2023. Underlying business activity improved significantly, despite cost inflation, continued supply disruption, and a pronounced slowdown in certain geographies and segments. *Volvo* continued its transformation journey during the year with the expansion of electric truck production, which now takes place at four of the company's manufacturing plants. In addition, several steps were taken to strengthen its future position, for example with the acquisition of battery assets from *Proterra*. Restructuring measures were initiated with the aim of strengthening operations in the bus segment. *Volvo's* outstanding operational performance in 2023 resulted in strong growth, profitability and cash flow.

In 2023, *Sandvik* continued to deliver on its strategy for increased growth. Today, the company has a leading position in battery-powered electric equipment and automation solutions for the mining industry. In the tooling segment, the company continues to strengthen its offering with, for example, a clear focus on product development and software solutions for increased efficiency and automation. *Sandvik's* products improve customers' productivity, profitability and sustainability. *Sandvik* received several large orders and showed growth, while strengthening operating profit and improving operational cash flow generation.

Handelsbanken took further steps in focusing its operations, including by divesting parts of its banking operations in Finland. Investments were also made to increase efficiency. Michael Green was appointed CEO, effective January 1, 2024. *Handelsbanken* reported strong income for 2023 with good profitability, largely driven by net interest growth and low credit losses. Credit quality remained strong, and the bank has a robust financial position.

Essity conducted a strategic review of certain tissue assets, including its holding in Hong Kong-based *Vinda*. As part of this process, *Essity* announced that it backs the conditional public offering in *Vinda* submitted by Asia-based *RGE*. The move aims to reduce *Essity's* exposure in the tissue segment and enable increased focus on investment and growth in higher yielding categories. The company also continued to conduct activities to structurally strengthen profitability, including restructuring of the Professional Hygiene segment. After a couple of challenging years, it can be noted that *Essity's* financial performance improved in 2023, with a strengthened profit margin and continued good organic growth.

SCA continued its ongoing expansion of existing facilities, including ramping up its new paper machine for kraftliner at its *Obbola* plant. The company is continuously strengthening its forest-based assets and increased harvesting of its own forests in 2023. Additional investments were made in the Renewable

Energy business area, with, for example, further development of its wind power business. *SCA* reported strong financial results, despite a more challenging market environment, driven by a high degree of self-sufficiency and a strong operational performance.

Due to a commercial focus and prioritization of profitability over volume, *Skanska* continued to report strong operational performance in its construction business, despite challenging market conditions. The company continued to invest in the project development businesses and in building up its own property portfolio within Investment Properties. The full year 2023 was characterized by a good operating margin in the Construction business, solid order intake and a strong financial position, but with write-downs in the project development businesses.

Ericsson continued to execute on its strategy of strengthened leadership in mobile networks, a growing enterprise operation, and a culture transformation. Several important deals were concluded, and partnerships formed, for example a co-operation agreement with *AT&T* regarding the expansion of open radio access network (RAN) solutions in the US. Within enterprise operations, several important agreements were also reached, although a substantial write-down was also made. In mobile networks, large volumes were delivered to the Indian market. Considerable focus was also placed on operational efficiency and the implementation of a previously announced cost savings program as a response to the challenging conditions in the mobile network market.

During its first full year of operation as an independent listed company, *Alleima* strengthened its positions in prioritized customer segments. Based on its leading niche market positions, the company developed selected businesses and conducted a number of strategic deals for increased value creation. Overall, several important steps were taken that will strengthen the company's financial performance measures over time. Net sales increased, profitability improved, and *Alleima* delivered strong operational cash flow growth resulting in a strong financial position. The stock market welcomed the company's achievements and the *Alleima* share performed extremely strongly in 2023.

A key aspect of *Industrivärden's* strategy is to continuously invest in its portfolio companies to increase financial returns from active ownership. It is therefore absolutely vital that we own financially stable and quality companies with strong cash flow generation that enable the payment of good dividends to shareholders. In this way, *Industrivärden* generates stable dividend surpluses that can be reinvested in portfolio companies. This interest on interest effect further increases shareholder value over time. In 2023, we invested SEK 2.9 billion in the portfolio companies and during the past five-years we have invested SEK 17 billion.

In conclusion, we can say that 2023 was a very good year for *Industrivärden*. The portfolio companies strengthened their respective positions and performed strongly, thereby enabling *Industrivärden* to generate good total returns for its shareholders. I would like to take this opportunity to thank my colleagues and our portfolio companies for their excellent efforts throughout the year.

Stockholm, February 2024
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