



CEO's message

CONTINUED FAVORABLE PERFORMANCE IN 2017

Industrivärden delivered a very competitive total return in 2017. Net asset value increased by SEK 13.5 billion, or by 18% including reinvested dividend, compared with 9% for the Stockholm Stock Exchange's total return index (SIXRX). The total return for the Class A and C shares was 20% and 22%, respectively, and exceeded the total return index by 11 and 13 percentage points, respectively. The fine performance from 2016 thereby continued also during 2017. During the last two-year period our Class C shares have generated an average annualized total return that is a full 12 percentage points higher than the total return index.

Growth in value on the Stockholm Stock Exchange in 2017 was good overall and especially strong for many cyclical companies. The especially strong performance for Industrivärden's equities portfolio in 2017 can be credited mainly to a very favorable total return for four of the portfolio holdings. As in the preceding year, the two largest contributors were Volvo, whose value grew by SEK 7.1 billion, or 47%, and Sandvik, which grew by SEK 5.0 billion, or 30%. It is gratifying to see how implemented measures, combined with favorable market conditions, led to significant growth in the value of these companies. The two next-largest contributors were SCA, whose value grew by SEK 2.5 billion, or 79%, and Essity, which grew by SEK 2.3 billion, or 17%. Here we can ascertain that the stock market has shared our view that Essity and SCA have favorable development potential as separate companies.

During 2017 we further reduced our debt-equities ratio by 2 percentage points, to 10%. This is an effect of the equities portfolio's positive value development and lower level of debt in absolute figures. Debt reduced mainly as a

result of conversion of approximately 9% of our convertible bond from 2011 to Class C shares, corresponding to approximately SEK 500 M, in February 2017. Moreover, we generated a positive cash flow, which also reduced debt. In connection with the maturity of the convertible bond, we arranged refinancing to achieve more flexible debt financing and to lower costs. Our average interest rate on our borrowings today is 0.1%. It is our ambition, when the opportunity arises, to further reduce debt in order to increase our financial scope to act.

CLEAR FOCUS ON OUR OPERATIONS

The strategic development project that was decided on by the Board in February 2016 has now been largely completed. During the last two-year period Industrivärden sharpened its asset management focus and strengthened its way of exercising active ownership. This work has generated tangible results in terms of effectiveness and returns. We are now working further with continuous improvement measures in order to increase our ability over time. During 2017 we strengthened the organization with the recruitment of Karl Åberg as head of our investment and analysis organization, we developed our work methods, and we concretized our action plans for the portfolio companies. We have also integrated our new sustainability analysis framework, which has increased our ability to make demands and contribute from a sustainability perspective.

As a step in our enhanced focus on asset management and active ownership in a limited number of listed portfolio companies, during the year we discontinued our derivative and trading operation. We will continue to have a market function in order to carry out equity transactions also in companies in which we do not exercise active ownership, but to a limited extent and with a clear coupling to our core business.

ACTIVE OWNERSHIP WITH FOCUS AND FLEXIBILITY

For an active owner it is of decisive importance to gain a good picture of a portfolio company's business and business environment, and to have an opinion about the company's future performance. Global companies are encountering a more competitive and rapidly changing world in many respects. In part, the macroeconomic conditions are shifting between various countries and regions, and in part, a number of rapid shifts are taking place as a result of revolutionary megatrends, including digitalization, urbanization and greater focus on sustainability. No company can foresee in detail how these factors will affect their business. However, companies can mitigate their risks and enhance their opportunities if they focus their business on what they are good at and succeed at strengthening their structural flexibility. This can be achieved through greater decentralization, increased financial scope to act, and perhaps most important of all, through continuous improvements in their own operations. As an active owner

we believe that a clear business focus, distinct customer orientation and keen ability to adapt are vital factors for being able to generate a competitive return over time.

VALUE-CREATING ACTIVITIES IN THE PORTFOLIO COMPANIES

During 2017 the pace of change remained high in a few of our portfolio companies, while others worked on steadily developing a strong base. Let me briefly say a few words about the respective companies.

Handelsbanken continues to generate profitable growth in its home markets. The bank's years-long strategy to focus on customer satisfaction remains, and during the year *Handelsbanken* increased its investment in digitalization in order to further improve the customer experience and internal efficiency.

Through a determined effort to achieve greater decentralization and efficiency improvement, *Volvo* achieved tangible improvements in both sales growth and profitability. All business segments contributed with the biggest increase in margin in *Volvo Construction Equipment*. The company's financial position strengthened during the year, and in autumn 2017 the company's financial targets were revised.

Sandvik has also worked for a couple of years on refining, simplifying and decentralizing its operations. During 2017 the company announced divestments of several businesses, including *Mining Systems*, *Process Systems* and *Hyperion*. Its internal work, paired with favorable market conditions, resulted in higher sales, good earnings and a substantially stronger financial position. Efficiency improvement work is now continuing through continuous improvements in all parts of operations.

Our new portfolio company, *Essity*, is working with sharp focus on profitable growth in selected markets and product categories. The acquired med-tech company *BSN medical* strengthens *Essity*'s product offering and future growth opportunities.

ICA Gruppen is steadily developing its strong market position by adapting to new consumption patterns, changed demographics and rapid digitalization. During the year its position in Lithuania was further strengthened through the acquisition of *IKI*.

The new *SCA* is focusing on increasing efficiency and carrying out the capacity investment in its Östrand pulp mill. The company had strong growth in value in 2017 following the distribution of the hygiene and health business, *Essity*.

During 2017 *Skanska* carried out several large divestments in commercial property development and signed a number of substantial contracts. However, the construction business still has unsatisfactory profitability. The newly

appointed CEO *Anders Danielsson* announced an increased focus and decentralization of operations.

SSAB showed continued earnings improvement, driven in part by better market conditions, but also owing to internal work carried out in recent years. Ongoing growth initiatives are developing well, and the company is steadily strengthening its financial position.

Börje Ekholm took office as CEO at *Ericsson* on January 1, 2017. After narrowing the focus of its strategy, the company is now in a phase in which it is focusing on developing the core business, cutting costs and increasing efficiency. In October 2017 the company's nominating committee proposed that *Ronnie Leten* be elected as a new board member at the Annual General Meeting in March 2018.

SATISFACTORY GROWTH PROCESSES, BUT A NUMBER OF CHALLENGES

The macroeconomic conditions in 2018 are expected to remain favorable, and as in 2017, global growth is projected to be around 4%. It can be noted that most of the major economies are now expected to show growth in 2018, although to varying degrees. In the longer term the question is when the economy will level out and at what pace this will happen.

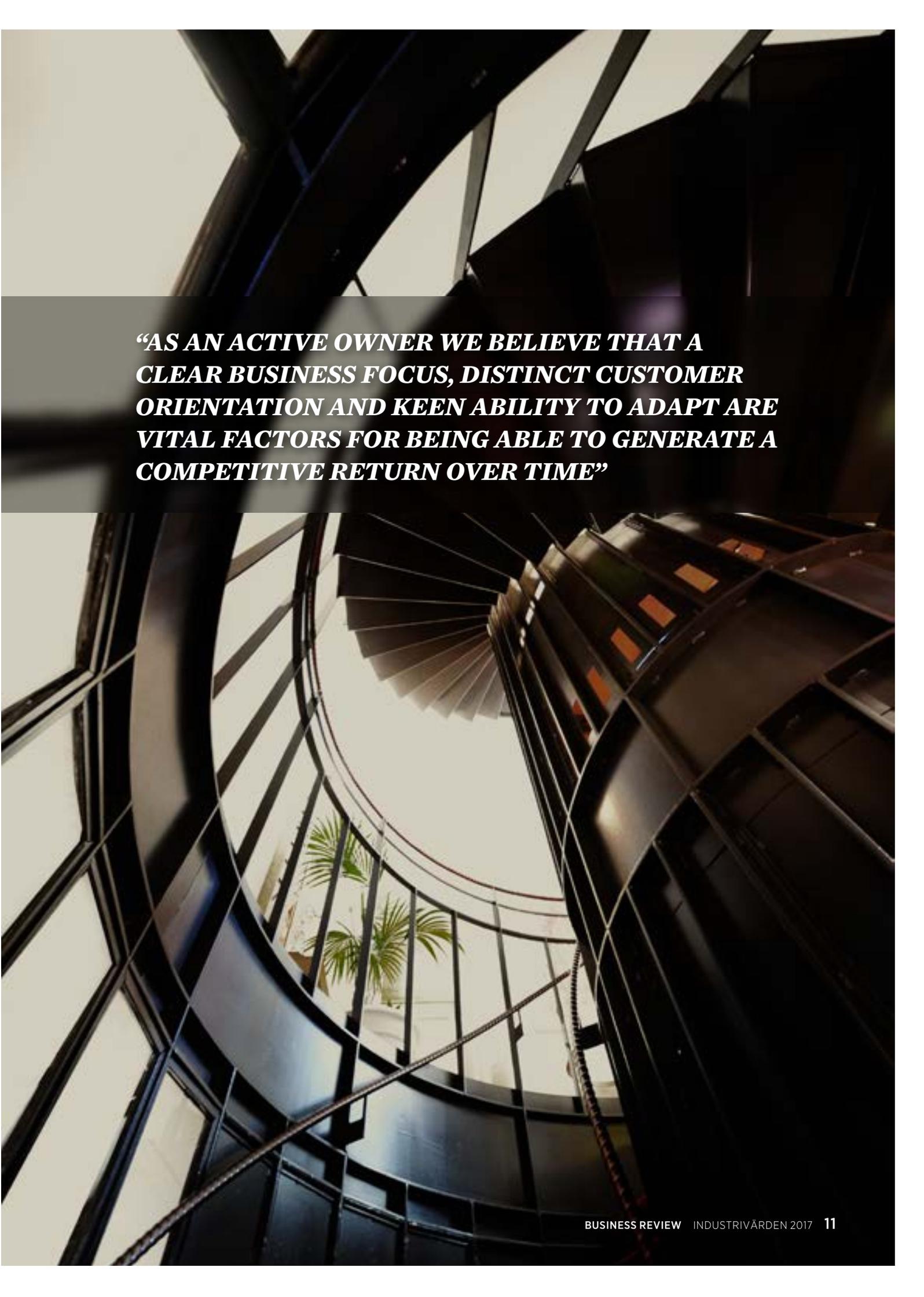
In Europe the recovery has been good, and the political risks have decreased slightly after several elections and the start of Brexit negotiations. Growth in the U.S. remains favorable. It is hard to assess the overall effects of the recent tax reform and possible infrastructure investments, but they are expected to have a positive effect on growth. In China, growth has stabilized at a relatively favorable level. Several emerging countries are benefiting from a weaker U.S. dollar, which has strengthened their competitiveness.

From a geopolitical perspective there are a number of areas of concern that are giving rise to uncertainty regionally as well as for the global economy. Despite these, a stable macro environment and strong company performance contributed to the stock market's favorable performance in 2017. The Swedish stock market continued to develop positively during the beginning of 2018, but in early February a correction occurred, and the volatility increased, due to concerns about the US stock market. Although the market has shown a clear concern about rising inflation and interest rates, the macro forecasts for 2018, earnings growth for companies and low interest rates, point to an underlying support in the stock market. However, in the future there are expectations of higher interest rates and reduced stimulus measures, which over time will impact flows between various assets classes.

Industrivärden today has a strong platform for long-term competitive value creation. With this said, I want to thank all of my colleagues for their great contributions during 2017.

Stockholm, February 2018

Helena Stjernholm
CEO



***“AS AN ACTIVE OWNER WE BELIEVE THAT A
CLEAR BUSINESS FOCUS, DISTINCT CUSTOMER
ORIENTATION AND KEEN ABILITY TO ADAPT ARE
VITAL FACTORS FOR BEING ABLE TO GENERATE A
COMPETITIVE RETURN OVER TIME”***