

Clas Reuterskiöld's Address to AB Industrivärden's Annual General Meeting on April 29, 1997

Honored shareholders and holders of convertible participating notes in Industrivärden,
Ladies and Gentlemen,

Nineteen ninety-six was a year of great fortune for Sweden's shareholders. The Stockholm Stock Exchange was uniformly strong and the General Index gained a full 38 percent. The trend was strong not only in absolute terms. Relatively speaking, also, the Stockholm Stock Exchange's growth in value was exceptional. Shareholders in New York and Frankfurt certainly had no reason for dissatisfaction, as growth in those markets measured 26 and 23 percent, respectively. But it was considerably lower than in Stockholm. The London Stock Exchange gained only 5 percent, while the stock exchange in Tokyo was down 7 percent for the year.

For Industrivärden's shareholders the trend was even more favorable. Granted, Industrivärden's stock performed weakly during the first half of the '90s, but in 1996 Industrivärden's shareholders could take pleasure in a price rise measuring a full 51 percent. Moreover, the dividend/direct yield on Industrivärden's stock was higher than the market average. The total yield of a share in Industrivärden was thus 59 percent compared with the yield index, which was also very favorable at 43 percent.

Industrivärden's Business Concept

Industrivärden's business concept is – like other holding companies – to invest available capital in a diversified portfolio of listed and/or unlisted securities. For future growth in value, the choice of stocks is of utmost importance. However, added to this is the holding company's opportunity and ability to influence the performance of its investments through active ownership.

In rather simple terms, Industrivärden's investments can be broken down into three categories, namely, listed stocks with a long investment horizon – the so-called portfolio of core holdings – the medium-term portfolio with an investment horizon of two to three years, and unlisted companies in which investments are made over the long term.

Regardless of the category, our decisions to invest are based on analysis. Analysis is also an essential element in our day-to-day management, where deliberations over whether to hold or sell a post impact our growth in value just as much as decisions to buy a new stock. Against this background it is worth noting that in 1996 we significantly strengthened our internal analysis resources.

Active Ownership

The bulk of Industrivärden's portfolio of listed stocks belongs to the core holdings category. The companies included here are AGA, Ericsson, Handelsbanken, PLM, SCA, Skanska, SSAB and now, also Sandvik.

One objective of the core portfolio is to create growth in value through active ownership. This active ownership is exercised primarily through participation in the core companies' boards. To be able to contribute to growth in value, the board members representing Industrivärden must have solid industrial and financial competence. It goes without saying that they continuously and closely monitor the companies' and their competitors' business, at the same time that one of their chief tasks is to make high and clear demands on the companies' development and profitability.

Another expression of active ownership – as was the case just a year ago with Ericsson – is that we must always be prepared to assist with new capital when warranted in view of the portfolio companies' investment- and future plans and to further contribute to their growth in value.

It is just as important, on the other hand, to make sure that "our" companies do not tie up more capital than necessary for their operations. That is the reason why we worked actively in Skanska's board for Skanska to return SEK 8–10 billion to its shareholders.

Active ownership is a guiding principle with respect to the core portfolio's growth in value. Active ownership requires resources. This limits the number of possible holdings. Following the purchase of Sandvik, the core portfolio consists of eight companies. Therefore, today the scope for additional investments is limited unless an existing core holding is sold at the same time.

Core Holdings can be Reconsidered

I stated earlier that the investment horizon for the core holdings is long-term. This is necessary, not least in order to be able to demand a seat on the board and to actively be able to influence developments within the company. In most of our companies we have been owners for a relatively long period. I want to stress, however, that this does not mean we will remain forever married to our investments. Naturally, we are prepared to sell a post if we judge that this would provide us with value added and thereby accelerate our own growth in value. Such a situation, for instance, would be a takeover in connection with an industrial restructuring. A prerequisite for selling, however, is that we, as sellers, would receive some of the restructuring gains that arise in the purchase price.

Another motive for selling would be that our continuous analysis of a company shows that the opportunity for acceptable future growth in value is lacking. But I have a hard time finding any reason to divest a core holding just for the sake of divestment.

The management philosophy for the core portfolio has a long tradition at Industrivärden. As a proof that this work approach creates value and is in the best interests of the shareholders, I can mention the fact that several holding companies have recently changed their investment policies and notified the market that in the future they intend to work in a manner that resembles Industrivärden's, i.e. to give priority to long-termism and active ownership.

For the medium-term portfolio, which today is worth nearly SEK one and a half billion, we have no demands for active ownership. Analysis is of utmost importance for the investment decisions. The goal is a high growth in value for stocks that at the same time have good liquidity. Thus it must be possible to quickly and without decline in value convert our medium-term investments to liquid funds when an alternative investment opportunity beckons. The investment horizon is two or three years, which is not a hindrance to a sale earlier or later if so indicated by our analysis. As a matter of form, however, I would like to stress that we do not engage in speculative, short-term trading.

Biggest Investment Decision

Just over two weeks ago Industrivärden's board made by far its biggest single investment decision in the Company's history, namely, the acquisition of 22 million shares in Sandvik for SEK 4.1 billion. The acquisition price was SEK 185 per share, which – after adjusting for the dividend and interest to the date of possession – translates to a figure just under the market price. Sandvik thereby becomes our second-largest equity asset. With 17 percent of the portfolio's value, the holding is slightly less than Ericsson but somewhat larger than each of AGA, SCA and Handelsbanken.

Since PLM's stock market introduction we have been searching intensively for new and interesting investment opportunities. A large number of ideas have been studied, only to be rejected after initial analysis. Others have been studied in more depth but were ruled out after the final analysis did not meet our high demands or after deals could not be closed at terms we found acceptable.

We have been analyzing Sandvik ever since Skanska gave hint about its intention to divest its holding. Our analysis showed that Sandvik, at its current market cap, would be an attractive investment. When it became clear to us that Skanska was on its way toward concretizing its plans, we contacted Skanska's executive management and expressed our interest in acquiring approximately SEK 4 billion worth of shares.

Finest Engineering Company

Sandvik is one of Sweden's largest export companies and is active around the world with representation in 130 countries. The group has approximately 30,000 employees and annual sales in the range of SEK 28 billion. More than 90 percent of sales are outside Sweden's borders.

Since its establishment in 1862 Sandvik has evolved from a central-Swedish steel mill to a materials-focused international engineering company. Two factors that have contributed to this development are a determined marketing

effort in close contact with customers around the globe and continuous product renewal with a focus on advanced technology. Every year roughly SEK one billion is invested in research and development of new products and production methods.

It would not be an exaggeration to characterize Sandvik as Sweden's finest engineering company. During the last ten years its stock has performed better than both the engineering and general indexes. Clearly the stock is highly valued. Despite this, we at Industrivärden – based on our analysis – are of the opinion that the market's valuation of Sandvik's stock does not fully reflect the company's future prospects. The reasons for this are as follows:

- Sandvik has adopted a partially new strategy, with a greater emphasis on growth and optimization of the capital structure, including a generous dividend policy;
- Despite its leading position in its core businesses, Sandvik has favorable growth opportunities both in Europe and elsewhere in the world;
- Sandvik has been launching promising products with major potential for a long time; and
- It is judged that Sandvik will benefit to a high degree from the gradually strengthening industrial business cycle that is expected in the coming years.

Increased Debt

Financing of the Sandvik acquisition will be made – at least initially – through borrowing. This may sound adventurous, but you must keep in mind that before the acquisition we were essentially debt-free. From an historical perspective, our level of debt – measured on the parent company level as net indebtedness in relation to gross investments – has been in the range of 15 percent, and with the Sandvik acquisition we will return to that level. Since we believe that the total yield of the Sandvik shares will exceed the borrowing interest by a satisfactory margin, Industrivärden and its shareholders will acquire value added through the borrowing, which will amply compensate for the rise in financial risk.

Sandvik's stock was trading yesterday at SEK 193, compared with SEK 192 at the time of the acquisition. I want to stress that, based on this, it cannot be determined whether the investment was right or wrong. As I often point out, investing in stocks is a long-term form of savings. We will therefore have to be patient and let some time pass before we can judge the investment's return and outcome. Personally I view the future with great confidence.

Since its start more than fifty years ago Industrivärden has operated as an industrial holding company. Investments have been made in listed stocks as well as in stocks in wholly owned subsidiaries. We entered the 1990s with a situation in which nearly 50 percent of our assets consisted of stocks in subsidiaries. Today, after the sale of PLM and six companies in the Inductus group, the corresponding share is 16 percent.

Highly Developed Control System

Just as in the core portfolio, active ownership is the guiding principle regarding the management of our subsidiaries, even though this work is conducted in a different manner in view of our overall ownership responsibility.

Over the years we have created a finely tuned management model based on delegated responsibility and extensive decentralization. This does not mean that we in Industrivärden's management have capitulated to our subsidiaries. On the contrary – the subsidiaries are monitored by their boards, with a chairman plus an additional one or two directors from Industrivärden, and with qualified outside directors representing both specialist and generalist competencies. Added to this is a highly developed reporting system which keeps Industrivärden's management continuously informed about developments in the subsidiaries, but even more so, helps the subsidiaries monitor their own operations.

This model has been shown to stimulate the subsidiaries' management groups and is clearly one of the main contributing factors behind the companies' good earnings and high return on capital employed. Thus most of our subsidiaries have a return on capital employed of more than 20 percent which, compared with other companies as well as the required rate of return that can arise in today's low-inflation climate, must be viewed as more than satisfactory.

See the Printing on the Money

In the net worth valuation included in the quarterly report we released today, the value of our wholly owned subsidiaries was SEK 3.6 billion. This value is computed according to the standard method described in the Annual Report and which has been applied consistently for many years. Despite this, as a shareholder it is natural to not always be content with the

values reported according to this method. From time to time there is even an urge to "see the printing on the money," even though in past divestitures we have been able to reconcile the price paid against our valuation formula, which has proved to be reasonably reliable.

A holding company's objectives include acquiring, improving and subsequently realizing achieved growth in value. The most recent major example of this is PLM, which we divested through a stock market listing two years ago.

No other imminent stock market introduction has been decided on. Many factors must be right for an introduction to be successful – the general economic trend, access to venture capital, the company's development and future prospects, and so on. A decision on a listing therefore should be made just prior to the execution of the offering. Nonetheless, we are keeping the matter current at all times, and the most likely company at the moment is Thorsman.

Thorsman – which was traded on the Stockholm Stock Exchange from 1984 to 1990 – has performed very well in recent years. Growth in volume has been stable, not least due to its high pace of product development. Return on capital employed is a solid 23–24 percent. Based on the aggregate of these factors, the company meets the requirements that should be placed on listed companies.

Continued Growth in Stock Price

Honored shareholders, I had the pleasure of being able to open my address today with the claim that the return on a share in Industrivärden was good in 1996. What is even more gratifying is that this trend has continued in 1997: this year, too, our stock has outperformed the index. I see this as a sign that our efforts to inform the market about our way of working, the quality of our investments, our internal yield achievements, and the irrationality in our previous valuation, have borne fruit.

At Industrivärden we will continue in our efforts. We will not tire in our work on generating the largest possible return on our assets. And of course, we will continue striving for a reasonable valuation of our shares in the stock market. All for the purpose of generating a satisfactory, long-term return for you shareholders.

Decisions at Industrivärden's Annual General Meeting

Industrivärden's Annual General Meeting was held at the Grand Hôtel, in Stockholm, Sweden, on April 29, and was presided by Bo Rydin, Chairman of the Board.

- The Meeting adopted the Parent Company and Consolidated Income Statements and Balance Sheets, which can be found in Industrivärden's 1996 Annual Report.
- The Meeting approved the proposal to raise the dividend by SEK 2 to SEK 13 per share. CPN interest was thus SEK 14.95 per CPN. The record date for payment of dividends was set for May 5, and thus the dividend and CPN interest are expected to be paid out by VPC AB on May 13.
- Directors reelected to the Company's Board were Bo Rydin (Chairman), Inga-Britt Ahlenius, Carl-Erik Feinsilber, Tom Hedelius (Vice Chairman), Clas Reuterskiöld (President and CEO) and Björn Wolrath. Lennart Nilsson, President and CEO of Cardo AB, was elected to his first term as a director on the Board.
- Bertil Edlund and Ulf Pernvi were reelected as auditors, and Margareta Essén and Bertil Johanson were reelected as deputy auditors. All of the above are with Öhrlings Coopers & Lybrand AB.