

# Clas Reuterskiölds Address to AB Industrivärdens Annual General Meeting on May 6, 1996

## Ladies and gentlemen, shareholders and CPN-owners in Industrivärdens:

One of the main focuses at last year's Annual Meeting concerned the sale of PLM to the Company's stockholders. The Board was interested in a stock market listing for PLM for many reasons. One of the main reasons was that it is a holding company's duty to acquire and improve businesses, and - at a suitable point in time - to realize the achieved growth in value.

From the time of its acquisition in 1988, PLM's value grew from approximately SEK 2,500 M to an estimated stock market value of approximately SEK 4,000 M, which we sought to highlight through the market listing. As a result of this growth in value, PLM still accounted for a relatively large portion of Industrivärdens's total assets in spring 1995.

## EXTRA DIVIDEND

The market listing was implemented in autumn 1995 through the sale of 55 per cent of PLM's shares to Industrivärdens's stockholders. The market eventually valued PLM at slightly more than SEK 4,000 M, which thus met our own estimations. As the price for Industrivärdens's stockholders was intentionally set at a low level, the stockholders received a preferential discount - or, in other words, an extra dividend - of approximately SEK 12 per share.

PLM's stock market introduction deviated from our plans in one respect: The original intention was that about 20 per cent of the stock would be placed in foreign markets. However, the price trend for stock in international packaging companies was weak during the autumn of 1995. As a result, the international sell-off was postponed. I want to stress that we are steadfast in our determination to reduce our holding in PLM to 20-25 per cent. Naturally, sparing any unforeseen events in the market, my estimation is that we soon will have placed the volume in question - in orderly fashion and with due respect for PLM's share price - preferably with international investors.

As PLM is now a listed company, I am pleased to say that our internal calculations of PLM's value have been confirmed and concretized by the market, that our stockholders have received an extra dividend, and that PLM now has direct access to the capital markets for its continued development and expansion. Our goals in connection with the listing have been achieved; at the same time, Industrivärdens is still a major owner in Europe's third largest producer of beverage packaging with what I see as continued good development opportunities.

Industrivärdens's objective is to offer its stockholders a total long-term return that is at least on a par with the yield index of the stock market as a whole.

Industrivärdens's investment policy is characterized by concentration on a limited number of investments in internationally active Swedish companies. An important vehicle for achieving favorable growth in value and dividends for Industrivärdens's stockholder is to actively participate in the development of the companies in which Industrivärdens owns shares.

## TOTAL ASSETS IN EXCESS OF SEK 18 BILLION

As the quarterly report released today shows Industrivärdens's investments as per May 3, 1996, had a market value of SEK 18.7 billion. Of this amount, SEK 15.2 billion were invested in listed stocks and SEK 3.5 billion in stocks of wholly owned subsidiaries.

Industrivärdens has been a mixed industrial holding company for many years. The degree of "mix" has varied, however. Throughout most of the Nineties about 40 per cent of the Company's assets consisted of stock in operating subsidiaries. Following the sell-off of PLM, the corresponding share is 20 per cent. This means that Industrivärdens today is one of the least mixed holding companies on the Stockholm Stock Exchange.

The portfolio of subsidiaries today comprises the three companies Inductus, Indutrade and Fundament. During the last three years the operations of these companies have been distinguished by high profitability. The annual return on capital employed within Inductus and Indutrade has been slightly more than 20 per cent, at the same time that both companies - like Fundament - have had a strong cash flow.

As can be seen in the quarterly report issued today, like many other engineering companies in Sweden, our subsidiaries - primarily the companies of the Inductus Group - have felt the effects of the current economic slowdown and weak demand in Europe. Measures have already been implemented, primarily on the cost side, and several others are planned. Therefore, I am convinced that our subsidiaries will continue to contribute to a long-term favorable return to Industrivärdens stockholders.

Activity in the subsidiary portfolio has been high during the Nineties. Following the acquisition of AB Nils Dacke in 1990 and Investment AB Bahco in 1992, five companies - in addition to PLM - have been divested in recent years. It can be expected that additional market listings or divestitures may be carried out in the coming years. In doing so, we tangibilize value creation for the market at the same time that we release capital for alternative investments.

#### LONG-TERM CORE HOLDINGS

As I pointed out earlier, SEK 15.2 billion, or 80 percent of our assets, are invested in listed stocks. What we refer to as our longterm core holdings accounts for SEK 14.5 billion of this total, while the remaining SEK 700 million are invested in shares in a medium-term portfolio.

The overall criteria for the core holdings are:

- that** the stock's return and growth in value is judged as positive over the long term;
- that** Industrivärden is one of the largest stockholders; and
- that** Industrivärden participates in the company's development and management through active board participation.

The fact that Industrivärden classifies a holding as a long-term investment does not mean that the holding will never be sold. If it is judged that value added can be created, such as in connection with structural changes, then Industrivärden is in principle prepared to carry out a sale. One condition for this to happen is that the transaction can be carried out at a price at which Industrivärden's stockholder would receive a share of the structural and coordination gains that arise through the transaction. On the other hand, we should refrain from selling core holdings if values in excess of the market value do not arise. Thus we see no point in divesting a core holding only for the sake of divestment. Another very likely possibility I see is that - in an advantageous market situation - we will effect marginal changes in our core holdings.

#### PORTFOLIO TO BE COMPLEMENTED

Industrivärden's goal is to influence the growth in value of its investments through active ownership. This is being done primarily through or role as a major owner, where we are given the opportunity to actively contribute to companies' board activities. It is also important that we are prepared, when needed, to contribute new capital in connection with a company's continued expansion.

The core portfolio today includes stock in AGA, Ericsson, Handelsbanken, PLM, SCA, Skanska and SSAB - all well known, well managed companies with favorable future prospects. Our ambition is to complement the core portfolio with an additional one or more holdings in which the set criteria can be met.

Until the time that opportunities for investment in new core holdings arise, a medium-term portfolio is being built up. Such investments are being restricted to a limited number of well known Swedish companies with international operations, which are expected to show favorable development in two to three years' time. Such stock should also be characterized by high liquidity. This means it should be possible to quickly sell such holdings should we wish to pursue an alternative investment. To avoid misunderstanding, I want to stress that it is not our intention to become engaged in short-term trading.

#### COVARIANCE IN HOLDING COMPANY DISCOUNT

An important issue for holding companies in 1995 has been the problems surrounding the holding company discount. All holding companies on the Stockholm Stock Exchange are traded with a large discount, even though the discount appears to vary widely from company to company. A closer analysis shows, however, that a large part of the difference in discounts is related to how they are calculated, and that the holding companies use different methods in calculating their net worth.

At Industrivärden we have engaged the assistance of external experts to carefully analyze this valuation problem. Among other things, we have commissioned the calculation of the various companies' discounts according to uniform calculation principles. One conclusion of this analysis is that the holding companies have a surprisingly large covariance in their discount patterns.

Let me stress that this gives neither my colleagues nor myself reason to refrain from trying to impact this discount. Thus we will continue to direct investors' attention to the opportunity to purchase stock in a holding company like Industrivärden as all alternative to other investments, such as stock funds. We can offer essentially the same spread of risk - with lower management costs.

#### GROWING FOREIGN INTEREST

One condition in particular that we have noted in our analysis of the reasons behind the discount is foreign investors' lack of interest in Swedish Holding companies. This lack of interest puts a limitation on the market for holding company stocks and is without a doubt reflected in their price trend, thus contributing to the large discount.

Naturally, one way of stimulating international interest in Industrivärden would be to increase foreign investors' knowledge about the Company as an investment alternative. For instance, they could be illuminated on the fact that, by buying stock in Industrivärden, they would acquire a distributed-risk investment at the same time that they would indirectly become a part-owner in some of the most prominent companies on the Stockholm Stock Exchange.

Investors should thus be able to expect that the price of Industrivärden's stock would follow the trend in the underlying holdings. Moreover, stockholders in Industrivärden receive a higher direct yield than they would receive had they directly owned the underlying holdings. For foreign investors, often with limited knowledge about the Swedish stock market, Industrivärden should thus appear as an attractive investment alternative.

We have already conducted several presentations for foreign investors, and we intend to increase these information activities.

A year ago about three percent of Industrivärden's stock was held by interests outside Sweden. The corresponding figure today is seven percent. At the same time, I receive proof on a daily basis that interest in Industrivärden from abroad is rising.

Our stock has performed considerably better than the Stockholm Stock Exchange's General Index since year-end 1995. Of course I cannot reasonably claim that the favorable price trend is a direct result of the greater foreign interest. However, I do see this trend as a positive sign for Industrivärden and its stockholders for the future.

### **Decisions Made at Industrivärden's Annual General Meeting**

Industrivärden's Annual General meeting was held at Norra Latin in Stockholm on May 6, presided by Board Chairman Bo Rydin.

- The Meeting approved the parent company and consolidated income statements and balance sheets, which are presented in Industrivärden's 1995 Annual Report.
- The Meeting decided to increase the dividend by SEK 1.00 to SEK 11.00 per share. CPN interest is thus SEK 12.65. The record date for payment of dividends was set at May 9. Dividends and CPN interest are thus expected to be paid out via the Securities Register Center (VPC AB) on May 17.
- Directors reelected to the Board were Bo Rydin (Chairman), Inga-Britt Ahlenius, Carl-Erik Feinsilber, Tom Hedelius (Deputy Chairman), Stig Ramel and Clas Reuterskiöld (President and CEO).

New directors elected to the Board were former deputy director Sverker Martin-Löf and Björn Wolrath (President and CEO of Skandia Insurance Company Ltd. (publ.).

Auditors reelected by the AGM were Bertil Edlund and Ulf Pernvi, while deputy auditors reelected by the AGM were Margareta Essén and Bertil Johanson, all of Öhrlings Coopers & Lybrand AB.

- The Meeting decided, pursuant to the new rule in Article 3, Section 1 of the Swedish Companies Act, to adopt a new regulation in the Articles of Association pertaining to preferential rights for new share in cash issues and stock dividends. The regulation is essentially in agreement with that which most listed companies with different classes of stock are expected to adopt at their annual meeting this year.