

# Interim report

January 1–September 30, 2012

- Net asset value on September 30, 2012, was SEK 121 per share, an increase of 21% since the start of the year including reinvested dividends.
- The value of the equities portfolio increased by SEK 6.8 billion to SEK 63.4 billion, or by 12%, during the first nine months of the year. The Stockholm Stock Exchange gained 8%.
- The total return during the first nine months of the year was 18% for the Class A shares and 20% for the Class C shares, compared with 12% for the return index.
- Income for the period for first nine months of the year, including unrealized changes in value, totaled SEK 8,2 billion (-20.2), corresponding to SEK 21.30 in earnings per share (-52.33).

Net asset value	Sept. 30, 2012	June 30, 2012	Dec. 31, 2011
Equities portfolio, SEK billion	<b>63.4</b>	59.8	56.9
Interest-bearing net debt, SEK billion	<b>-16.6</b>	-16.1	-16.8
of which, convertible loans	<b>-8.2</b>	-8.5	-8.6
Net asset value, SEK billion	<b>46.8</b>	43.7	40.1
Net asset value per share, SEK	<b>121</b>	113	104
Net asset value per share after full conversion, SEK	<b>119</b>	113	106

Total return	9 mos.	1 yr.	5 yrs.	10 yrs.	15 yrs.	20 yrs.
Class A shares (yearly average)	18%	34%	-3%	13%	7%	15%
Class C shares (yearly average)	20%	35%	-3%	14%	8%	16%
Benchmark index (SIXRX)	12%	22%	1%	13%	7%	14%
Excess return for Class C shares, percentage points	8%	13%	-4%	1%	1%	2%

► **Long-term industrial developer of listed Nordic companies**

Industrivärden is one of the Nordic region's largest active holding companies, with ownership in a concentrated selection of listed Nordic companies with good development potential. The goal is to generate high growth in net asset value over time.



## CEO's message

Just over four years have passed to this day since the global financial crisis started with the Lehman Brothers bankruptcy in the U.S. In large parts of the world, the crisis has passed, with functioning financial markets and ensuing economic growth. This has taken place with the help of extensive stimulus packages and record-low interest rates thanks to the intervention of central banks, led by the U.S. Federal Reserve Bank. In the U.S. growth is below the trend curve, with unusually high unemployment as a result. Added to this, we now have the euro crisis – a financial crisis that is due to the same problem that caused the Lehman Brothers crash: an excess of debt-financed real estate speculation. Also the institutional framework for the euro has been too weak, with far too large imbalances as a result. When debt bubbles burst, the banking systems cannot handle the resulting loan losses, which forces governments to step in and rescue the banks. This is what happened in the U.S. where the government purchased troubled assets from financial institutions to strengthen its financial sector (TARP), and the same sort of measures have now been taken in Europe.

During the third quarter we noted two trends that are affecting the situation in Europe. On the positive side, we see that the euro crisis has stabilized as a result of the European Central Bank's decision – with certain conditions attached – to provide liquidity by buying bonds, by the decisions of EU member states to adopt new budgetary rules, and by the German Constitutional Court's acceptance of the European Stability Mechanism. Together these measures have resulted in lower CDS spreads for key monetary union countries like Spain and Italy, allowing them to refinance their sovereign debt at high but more acceptable levels. On the negative side, in Sweden and the rest of Europe we are seeing an economic downturn. Growth has also slowed in China. There are thus signs that the concerns that have long lingered in the stock market with respect to the real economy are proving to be justified. It is commonly said that the stock market is six months ahead of developments in the real economy.

Let's hope that this is also the case this time around, and that the bright spots we are now seeing in the stock market indicate an imminent turnaround in the real economy. Since the ECB announced its stimulus package, followed by the Fed's injection of an extra quantity of money in the economy (QE3) and other stimulus measures in places like Japan, the Stockholm Stock Exchange has gained 4%. During the third quarter, the Stockholm Stock Exchange rose 5%, compared with net asset value growth in our portfolio of 7%.

I have previously expressed my concerns about the effects of the detailed regulation of corporate governance that is currently taking place in the EU. Of course, the fundamental ambition to reduce short-term risk-taking is good, but more regulation does not encourage actors to take more responsibility; moreover, there is a risk that, for long-term owners who want to take an active involvement, it will narrow their room to maneuver. Unfortunately, finding a detail-oriented, patent solution for a large number of countries with widely differing ownership structures and corporate governance models is a utopian undertaking. If Europe is to lift itself from the current crisis and strengthen its competitiveness, it will need solutions that promote flexibility as well as encourage companies to take responsibility and long-term ownership involvement. It is therefore my hope that the EU will take heed of the debate that is currently being held in many European countries – that their corporate governance models differ from one another, and that this must be taken into account. The goal must be to establish a framework that works throughout the whole EU and encourages European investors to take long-term ownership responsibility.

Naturally, our portfolio companies are feeling the effects of an economic downturn, even though they have performed relatively well to date. For SSAB, a sharp drop in demand, primarily for steel sheet, is clearly having an impact on earnings. Even though the immediate future will entail a number of challenges, through its completed

investment program in the high strength steel niche SSAB has established a very strong position which should generate good earnings growth once demand turns up again. Handelsbanken has had strong development with good profitability, as reflected in its share price development. If anything, this confirms that the bank's strategy of low risk coupled with controlled organic growth is paying off well over time. In the third quarter SCA completed the last structural measures in its transformation to a focus on hygiene products, which now account for about 80% of sales. As a result, Morgan Stanley has reclassified SCA from a paper company to a consumer products company in its index structure. Our portfolio companies are all well positioned in their respective businesses, with global coverage and growing exposure to emerging markets. This provides stability in a down market and creates favorable conditions for sustainable growth over time.

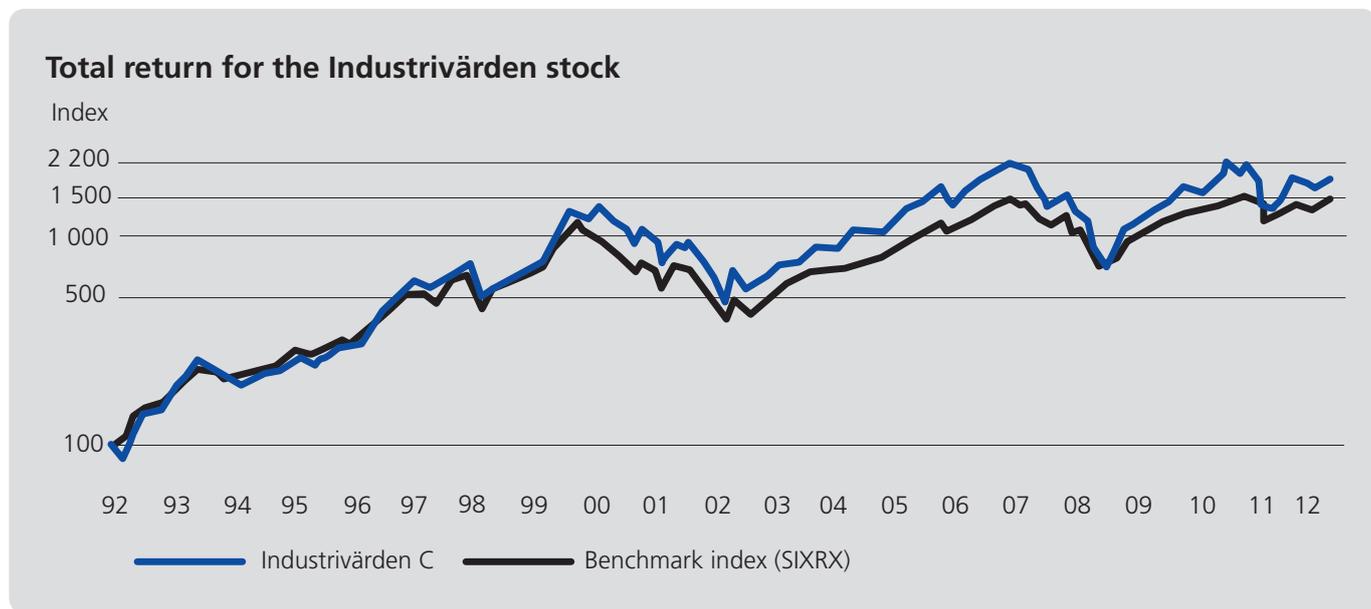
Industrivärden's net asset value has grown during the year and amounted to SEK 46.8 billion at the end of September. This represents an increase of SEK 6.7 billion, or 21% including reinvested dividends. The return index rose 12% during the same period.

Industrivärden's total return was 18% for the Class A shares and 20% for the Class C shares, compared with 12% for the total return index. The average excess return compared with the Stockholm Stock Exchange for longer periods of time is two percentage points per year.

To date in 2012 our short-term trading has generated a profit of SEK 86 M, with limited risk, which is in line with our management costs.

It is now due to the weaker euro profitable for holders of Industrivärden's convertible loan of EUR 500 M, which matures in 2015, to convert at a share price of SEK 95/share (the corresponding price for the loan that matures in 2017 is SEK 155/share).

*Anders Nyrén*



Measured from October 5, 1992.

## Net asset value

Net asset value on September 30, 2012, was SEK 46.8 billion, an increase of SEK 6.7 billion to date in 2012. Net asset value per share increased by SEK 17 to SEK 121, or by 21% including reinvested dividends. During the same period, the total return index (SIXRX) increased by 12%.

### Equities portfolio

During the first nine months of 2012, the value of the equities portfolio – adjusted for purchases and sales – increased by SEK 6.8 billion to SEK 63.4 billion. The total return for the portfolio during the same period was 16%, compared with 12% for the total return index (SIXRX).

Portfolio companies	September 30, 2012						December 31, 2011	
	No. of shares	Ownership in company		Share of portfolio value. %	Market value		Market value	
		Capital. %	Votes. %		SEK M	SEK/share	SEK M	SEK/share
Handelsbanken A	64,251,679	10.2	10.3	25	15,812	41	12,274	32
Sandvik	145,167,557	11.6	11.6	20	12,942	34	12,210	32
Volvo A	121,506,918	5.7	15.1	18	11,209	29	9,323	24
SCA A	43,100,000	10.0	29.3	14	8,655	22	7,174	19
SCA B	27,700,000							
Ericsson A	80,708,520	2.4	14.3	7	4,741	12	5,613	14
Skanska A	12,667,500	7.8	24.5	5	3,495	9	3,234	8
Skanska B	20,210,795							
Indutrade	14,727,800	36.8	36.8	5	2,872	7	2,695	7
SSAB A	57,105,972	17.9	23.0	4	2,696	7	3,443	9
SSAB B	754,985							
Höganäs B	4,408,046	12.6	10.0	2	1,007	3	937	2
<b>Equities portfolio</b>				<b>100</b>	<b>63,429</b>	<b>164</b>	<b>56,903</b>	<b>147</b>
<b>Interest-bearing net debt</b>					<b>-16,583</b>	<b>-43</b>	<b>-16,780</b>	<b>-43</b>
of which, convertible loans					-8,197	-21	-8,555	-22
of which, other interest-bearing loans					-8,386	-22	-8,225	-21
<b>Net asset value</b>					<b>46,846</b>	<b>121</b>	<b>40,123</b>	<b>104</b>
Debt-equities ratio						26%		29%
<b>Net asset value after full conversion</b>						<b>119</b>		<b>106</b>
Debt-equities ratio after full conversion						13%		14%

Market value pertains to Industrivärden's share of the respective portfolio companies' total market capitalization.

### Net debt

Interest-bearing net debt amounted to SEK 16.6 billion on September 30, 2012. The debt-equities ratio was 26%, and the equity ratio was 71%. After full conversion of outstanding convertible loans, corresponding to SEK 8.2 billion, the debt-equities ratio was 13%.

The convertible loans are hedged, entailing that translation effects have no bearing on net asset value.

For the convertible loan that matures in 2015, the conversion price is SEK 112.87/share (corresponding to EUR 11.04/share), whereby a maximum of 45.3 million Class C shares would be added upon full conversion. Conversion is done at a fixed exchange rate of SEK 10.2258/EUR, entailing that at an actual exchange rate of SEK 8.62/EUR, it is profitable to convert when the share price exceeds SEK 95/share.

For the convertible loan that matures in 2017, the conversion price is SEK 159.91/share (corresponding to EUR 18.01/share), whereby a maximum of 30.5 million Class C shares would be added upon full conversion. Conversion is done at a fixed exchange rate of SEK 8.8803/EUR, entailing that at an actual exchange rate of SEK 8.62/EUR, it is profitable to convert when the share price exceeds SEK 155/share.

At the end of the quarter, interest-bearing liabilities had an average interest and capital duration of about 3 years and carried an average interest rate of 3.5%.

None of the Group's borrowings are conditional on a certain credit rating or actual debt-equities ratio.

## Total return

Industrivärden's ownership has contributed to favorable growth in value for the portfolio companies, and Industrivärden's stock has been a good long-term investment with a higher total return than the return index.

During the first nine months of 2012, the shareholdings in Handelsbanken, SCA and Volvo generated better returns than the return index. On the whole, the total return for the equities portfolio was 16%, compared with 12% for the return index.

During the last five-year period Höganäs, Handelsbanken, Indutrade, SCA and Skanska generated higher returns than the return index.

For the ten-year period, Volvo, Skanska, Ericsson, Handelsbanken and Sandvik delivered total returns that are higher than or level with the return index.

The total return for Industrivärden's stock for various time periods is shown in a table on the first page.

Portfolio companies	Total return Jan.–Sept. 2012		Average annual total return, %	
	SEK billion	%	Five years, Sept.'07–Sept.'12	Ten years, Sept.'02–Sept.'12
Handelsbanken	5.0	42	10	13
SCA	1.8	26	4	6
Volvo	2.4	25	-1	19
Höganäs	0.1	12	12	-
Indutrade	0.3	10	9	-
Sandvik	1.1	9	-5	12
Skanska	-0.1	-2	3	15
Ericsson	-0.7	-12	-12	14
SSAB	-0.7	-21	-26	10
<b>Equities portfolio</b>	<b>9.2</b>	<b>16</b>		
<b>Index (SIXRX)</b>		<b>12</b>	<b>1</b>	<b>13</b>
<b>Industrivärden C</b>		<b>20</b>	<b>-3</b>	<b>14</b>

The total return in SEK billion pertains to the change in value including dividend income for the respective portfolio companies.

Höganäs became a portfolio company in 2004, and Indutrade became a listed company in October 2005.

## Equity transactions

During the first nine months of 2012, shares were purchased for SEK 1,101 M and sold for SEK 1,373 M as a result of short-term derivative transactions with a favorable outcome. The largest sale was made in Handelsbanken, for SEK 748 M, and the largest purchase was made in Skanska, for SEK 488 M.

### **Short-term trading and management costs**

During the first nine months of 2012, Industrivärden's short-term trading generated a profit of SEK 86 M (98). Management costs amounted to SEK 88 M (76). Industrivärden's management cost was 0.18% of managed assets, which is considerably lower than for most comparable investment alternatives.

## Active ownership

With more than 60 years of experience in active ownership, Industrivärden has a unique position in creating long-term value in listed Nordic companies. The ambition is to work in a structured manner and actively contribute to growth in value of the portfolio companies. Operations rest on a foundation of significant owner influence, extensive experience, knowledgeable employees, a strong business model and a large network. Our portfolio companies are leaders in their respective segments and generally have strong global positions.

Through Industrivärden, they have a professional and active owner, to the benefit of their as well as Industrivärden's long-term growth in value. Current overarching ownership matters include ensuring that the companies strengthen their respective positions in emerging markets, having preparedness for a possible drop in demand, and monitoring the companies' capital structures.

Following is a brief description of Industrivärden's overall investment cases along with strategic activities.

### Handelsbanken

***A well developed universal banking operation and decentralized branch network with local customer responsibility contribute to high customer satisfaction and good profitability.***

[www.handelsbanken.com](http://www.handelsbanken.com)

- Consistently applied business model
- Organic growth in priority markets in the Nordic countries and UK
- Favorable financial position and strengthened market position
- Strong capitalization with sizable liquidity buffer



***Through a niche focus and strong R&D profile, Sandvik has established a world-leading position in materials technology with products primarily for the manufacturing, mining and construction industries.***

[www.sandvik.com](http://www.sandvik.com)

- New executive management team, strategic focus and new organization
- Acquisition of Seco Tools and sale of Medtech
- Important contracts in emerging markets in Asia, Latin America and Australia, among others

### VOLVO

***Through innovative, customer-adapted product development and high quality, Volvo has a world-leading position in commercial transport solutions.***

[www.volvogroup.com](http://www.volvogroup.com)

- New executive management team, strategic focus and new organization
- Volvo Aero divested for SEK 6.9 billion as part of the strategic focus
- Launch of world's most modern heavy trucks through new FH series
- Strong position in Asia and other emerging markets



***SCA is a global hygiene products and paper company with a rapidly growing offering of personal care products. Europe's largest private forest owner.***

[www.sca.com](http://www.sca.com)

- Divestment of packaging business to DS Smith
- Acquisition of Georgia-Pacific's European tissue business
- Strengthened exposure in hygiene segment in Brazil, Chile, Russia and Turkey
- Acquisition of Asian hygiene products company strengthens position in China and Southeast Asia

***The market's largest and most profitable supplier of mobile telecom infrastructure, with a leading position in telecom development.***

[www.ericsson.com](http://www.ericsson.com)

- Market leader in telecom systems
- North America's leading supplier of network systems, with major upgrading and development contracts
- Acquisition of U.S. company Telcordia strengthens offering of operational support for telecom operators
- Interest in Sony Ericsson sold to Sony

***Unique turnkey know-how in construction combined with a process focus has created a leading construction services company with world-class value-creating project development.***

[www.skanska.com](http://www.skanska.com)

- Efficient construction operations generate good cash flows
- Successful model for value-creating project development
- Construction and operation of New Karolinska in Stockholm
- Start of first U.S. infrastructure project and sale of first commercial real estate development project in the U.S.

***The combination of sales of high-tech industrial consumables, good organic growth and a highly refined model for acquisition-based growth has resulted in strong profitability growth.***

[www.indutrade.com](http://www.indutrade.com)

- Continued growth through acquisitions
- Flexibility through decentralized business model

***World-leading niche position in high strength steel sheet creates solid foundation for growth and sustained high profitability.***

[www.ssab.com](http://www.ssab.com)

- Stronger focus on highly profitable specialty products
- Strategic investment program carried out to increase capacity in quenched steels and strengthen presence in China
- New finishing line in China put in operation

***Market leader in growing niche of metal powders, used primarily for component manufacturing within the automotive industry.***

[www.hoganas.com](http://www.hoganas.com)

- Increased activity in emerging markets, such as Asia and Brazil
- Focus on collaboration with customers on development of new components

## Other information

### **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. New or revised IFRS as well as 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, 2012, would have affected their market value by approximately +/- SEK 650 M.

### **Related party transactions**

During the first nine months of 2012, dividend income was received from associated companies.

### **New senior executives**

Pär Östberg has assumed the position as Executive Vice President and Chief Investment Officer, and Anders Nyberg has assumed the position as Executive Vice President and Company Secretary in charge of corporate governance and legal affairs. Starting on January 1, 2013, Executive Vice President Carl-Olof By (born 1945) will move into a role as senior advisor to Industrivärden.

Pär Östberg (born 1962), MBA, has a career spanning many years in senior positions with the Volvo Group, where he was a member of the Group Executive Team from 2005 to 2012. He served most recently as Executive Vice President Truck Joint Ventures.

Anders Nyberg (born 1951), LLB, has served in various legal positions for SCA since 1988. During the period 2000–2012 he served as SCA's General Counsel, Secretary to the Board of Directors and member of the Corporate Senior Management Team.

Further information about the new executives can be found on Industrivärden's website.

Stockholm, October 5, 2012

Anders Nyrén, President and CEO

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

**Further information**

For further information, please visit Industrivärden's website: [www.industrivarden.net](http://www.industrivarden.net).

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Industrivärden's complete contact information can be found on page 12.

**Ticker codes**

INDUC SS in Bloomberg  
INDUc.ST in Reuters

**Publication**

The information provided in this interim report is such that AB Industrivärden (publ) is obligated to publish pursuant to the Securities Market Act and/or the Financial Instruments Trading Act. Submitted for publication at 10 a.m. on October 5, 2012.

**Financial calendar and 2013 AGM**

Year-end report 2012: February 6  
Interim report January–March 2013: April 5  
2013 Annual General Meeting: May 7, in Stockholm  
Interim report January–June 2013: July 5  
Interim report January–September 2013: October 7

## Industrivärden Group

SEK M	2012 July–Sept.	2011 July–Sept.	2012 Jan.–Sept.	2011 Jan.–Sept.	2011 Jan.–Dec.
<b>Income statement</b>					
Dividend income from stocks	0	0	2,391	2,403	2,403
Change in value of stocks, etc.	3,307	-15,723	6,269	-22,198	-17,504
Other income and expenses*	8	-20	1	21	47
Operating income	3,315	-15,743	8,661	-19,774	-15,054
Financial items	-141	-152	-435	-439	-593
Income after financial items	3,174	-15,895	8,226	-20,213	-15,647
Tax	–	–	–	–	–
Net income for the period	3,174	-15,895	8,226	-20,213	-15,647
Earnings per share, SEK	8.22	-41,15	21.30	-52.33	-40.51
Earnings per share after dilution, SEK	7.24	-41,15	18.99	-52.33	-40.51
<b>Statement of comprehensive income</b>					
Income for the period	3,174	-15,895	8,226	-20,213	-15,647
Change in hedging reserve	7	-34	27	-5	5
Comprehensive income for the period	3,181	-15,929	8,253	-20,218	-15,642
<b>Balance sheet</b> as per end of period					
Equities			63,429	52,249	56,903
Other non-current assets			75	47	52
Total non-current assets			63,504	52,296	56,955
Short-term equity investments			237	149	0
Cash and cash equivalents			85	0	57
Other current assets			52	161	104
Total current assets			374	310	161
Total assets			63,878	52,606	57,116
Shareholders' equity			45,655	34,564	39,140
Non-current interest-bearing liabilities			12,201	14,647	13,947
Non-current noninterest-bearing liabilities**			993	400	527
Total non-current liabilities			13,194	15,047	14,474
Current interest-bearing liabilities			4,467	2,574	2,923
Other liabilities			562	421	579
Total current liabilities			5,029	2,995	3,502
Total shareholders' equity and liabilities			63,878	52,606	57,116
<b>Cash flow</b>					
Cash flow from operating activities			1,943	2,093	2,072
Cash flow from investing activities			272	-4,718	-4,461
Cash flow from financing activities***			-2,186	2,614	2,433
Cash flow for the period			29	-11	44
Exchange rate difference in cash and cash equivalents			-1	11	13
Cash and cash equivalents at end of period			85	0	57

\* Including short-term trading and management costs.

\*\* Of which, the option portion of convertible loans, totaling SEK 790 M (814), which at the times of issue amounted to a combined total of SEK 982 M (383).

\*\*\* Of which, dividends of SEK 1,738 M paid to the shareholders in 2012 and SEK 1,545 M in 2011.

SEK M	2012 Jan.–Sept.	2011 Jan.–Sept.	2011 Jan.–Dec.
<b>Changes in shareholders' equity</b>			
Opening shareholders' equity as per balance sheet	39,140	56,327	56,327
Comprehensive income for the period	8,253	-20,218	-15,642
Dividend	-1,738	-1,545	-1,545
Closing shareholders' equity as per balance sheet	45,655	34,564	39,140
<b>Key data as per end of period</b>			
Net asset value per share, SEK	121	91	104
Net asset value per share after full conversion, SEK	119	95	106
Share price (Class A), SEK	98	77	87
Share price (Class C), SEK	94	73	82
Number of shares (thousands)*	386,271*	386,271	386,271
<b>Interest-bearing net debt at end of period</b>			
Cash and cash equivalents	85	0	57
Interest-bearing assets	0	0	33
Non-current interest-bearing liabilities**	12,201	14,647	13,947
Current interest-bearing liabilities	4,467	2,574	2,923
Interest-bearing net debt	16,583	17,221	16,780

\* Number of shares upon full conversion (thousands), 462,113.

\*\* Of which, convertible loans SEK 8,197 M (8,656).

## Industrivärden – Parent Company

SEK M	2012 Jan.–Sept.	2011 Jan.–Sept.	2011 Jan.–Dec.
<b>Income statement</b>			
Operating income	1,626	-15,536	-12,695
Income after financial items	1,412	-15,747	-12,959
Income for the period	1,412	-15,747	-12,959
<b>Statement of comprehensive income</b>			
Income for the period	1,412	-15,747	-12,959
Change in hedging reserve	-3	–	-4
Comprehensive income for the period	1,409	-15,747	-12,963
<b>Balance sheet as per end of period</b>			
Non-current assets	41,027	37,943	39,705
Current assets	1,740	1,825	1,914
Total assets	42,767	39,768	41,619
Shareholders' equity	29,082	26,627	29,411
Non-current liabilities	10,381	9,901	9,763
Current liabilities	3,304	3,240	2,445
Total shareholders' equity and liabilities	42,767	39,768	41,619



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developer of listed  
Nordic companies

[www.industrivarden.net](http://www.industrivarden.net)

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