AGM 2016 – CEO Speech

Dear shareholders, dear guests,

I would also like to welcome all of you to Investor's Annual General Meeting 2016. It is great seeing so many of you here, especially as we celebrate our 100th anniversary. Investor is a fantastic company and I have had the opportunity to work here for more than 20 years. Given that, it is a great honor getting to lead Investor, particularly during our anniversary year. Our celebration consists of a number of activities throughout the year. We will promote the companies, innovations and people that have contributed to shape Investor as we know it today.

Before I talk about Investor more specifically, a few words about the world around us. 2015 was characterized by continued macroeconomic and geopolitical uncertainty, and there is certainly no lack of challenges near-term. However, there are quite big differences between various industries and regions. Many companies exposed to, for example, the oil sector and the mining industry have been forced to adapt to even lower demand, while many consumer and healthcare oriented segments fared better. Several of the so called BRIC countries have a tough time. China has slowed down, the situation in Russia is difficult and Brazil is experiencing a very tough time. At the same time, things are looking a bit better elsewhere,for example in Europe, where several companies experience a gradual recovery, although far from enough.

It is really important that we get the economy going. To succeed with that we have to restore faith in the future and dare to invest more, for example in education, infrastructure and energy. We also need to be better att promoting innovation. I am aware that it takes time for initiatives like these to take effect, but once they do, they are considerably more long-lasting and positive, both economically and socially, compared to even more monetary stimulus. We already have negative interest rates in many places, which is concerning. In my view, there has to be a cost of capital. If there isn't, something is wrong and the cosequences may prove costly.

To conclude, we are living in a tough world, but the picture is not entirely dark. We must also remember that tough times often offer attractive opportunities, both for Investor and our companies, and we are ready to act if they turn up.

Our strategy is quite simple. We shall grow our net asset value over time, run the operations efficiently and pay a steadily rising dividend. The most important when it comes to growing the net asset value is to ensure that we are a strong, successful owner. Of our companies perform well, Investor will perform well. We also have to allocate our capital wisely, in other words making sure that we invest in the right companies.

Let me start with our role as an owner. We focus on the industrial value creation in our companies and drive the intiatives that we believe will create the most value over time, even if profitability might be negatively impacted short-term. Our companies should always be able to focus on executing clearly defined strategies, well anchored in the boards of directors. Let me emphasize that a long-term perspective must never be an excuse for not constantly improving efficiency. To be efficient is also critical given the increasingly tough competition from the growth countries.

During 2015, we developed our value creation plans for all our companies. It is important that the companies have strong balance sheets that allow them to capture profitable growth opportunities and run their operations efficiently. But in order to grow and outperform competition, the companies also need to dare to take risk. Risktaking is a natural part of doing business, but it has to be about taking calculated risk, and prioritize those areas where the opportunity to be a long-term winner is the greatest. If an investment or a project does not turn out as expected, one needs to quickly make the best out of the situation, learn from the mistakes and move on.

Sustainability, in other words that companies act in a socially, economically and environmentally responsible way, is becoming increasingly important, and this is a question we are working actively with, both within Investor and our companies. We strive to have companies that are best-in-class, i.e. that they outperform competition. This goes for sustainabilty as well. A company that is to be successful, not only next year but in 10, 20 or 50 years, has to act as a good citizen. We see customers becoming increasingly demanding when it comes to our companies and their products. In the same way, we notice that the younger generation prefer to work for companies that make them proud, companies that take sustainabilty seriously. The consequences of this are quite obvious. Companies that cannot recruit the best employees or offer the products or services that customers demand, will have a very tough time outperforming competition. It will even be tough to survive. Sustainabilty can never be regarded as an obstacle for long-term growth. On the contrary, it is a prerequisite. This is a never-ending work, and we still have a lot to do, but we have at least started the journey.

Another area we work hard to better understand is the rapid technology shifts that ar going on and that can affect many companies quickly. There is talk about the "fourth industrial revolution", or "Industry 4.0". We talk about "Internet of things", "digitalization" and "cloud". In A bit simplified, it is all about the new technology clearly impacting the way we live our lives and how we do business. The development is fast and therefore it is important that our companies identify how they might be affected. There are many examples of well-established companies who have experienced this before. Kodak and Facit are of course two very well-known examples. More recently, companies like AirBnB have affected the hotel business substantially, Netflix is challenging the way we watch TV and the traditional car makers are keeping close tabs on what Tesla is up to. The development imposes threats, but also offers major opportunities. Investor's companies have market leading positions, they have the customer contact, the application knowledge and have renewed themselves for decades throuh innovation. As owers we do everything we can to ensure that are companies manage this change successfully. It is all about challenging, asking questions, exchanging experience and last but not least supporting our companies' initiatives in this field.

To manage the opportunities and challenges facing our companies, they need to have world-class boards of directors. A well-functioning board must have a relevant mix of industrial and financial experience. The board members must have integrity and business acumen and really understand the conditions under which the company operates. They need to live with the company and spend a lot of time and engagement on his or her assignment, making sure to constantly challenge, but also suppport, the management. We strive to have well-diversified boards in terms of gender, age, background and expertise, as these are more dynamic and cover more aspects. The past six months we have been working hard with the nomination processes and I am very pleased that we have identified and nominated a number of strong individuals who will add additional important competence within a number of areas in several of our boards.

Now, let me talk a bit more specifically about our companies and start with Listed Core Investments. As I said, the current business climate is tough. Several of our companies have had to act resolutely to adapt to a lower demand. For example, Wärtsilä has acted swiftly when it comes to reducing costs due to weak demand within the marine segment. Atlas Copco has reduced costs in its mining business and ABB has initiated a major cost savings program. At the same time, many of our companies have taken important steps forward. Saab received major orders driven by the Gripen aircraft system, the A26 submarine and radar systems. Today, the order book is record strong. Atlas Copco continued to invest within the attractive vacuum area and Ericsson entered into a strategic partnership with Cisco. Sobi launched Elocta for hemophilia and AstraZenca strengthened its pipeline. These are just a few examples of initiatives taken in order to build stronger platforms for the future. During the year, we invested approximately SEK 6 bn. in our listed core investments, but I will come back to that.

EQT had a very active year. For example, the new fund EQT VII, EQT's largest to date, was launched. We have committed to investing some SEK 3 bn. in the fund. During 2015, the value change of our investments in EQT amounted to a full 32 percent in constant currency, and the net cash flow to Investor was SEK 4.5. bn. That can be compared to the 10-year average ofr some SEK 1.5 bn. per year. Given the attractive return potential, we will continue to invest in EQT's funds.

Then over to Patricia Industries, which essentially started its operations a year ago. Activities are now up and running both in Stockholm and in the U.S. The main focus is to further develop and increase the value of our existing wholly-owned companies, but also to find new ones, both in the Nordics and in the U.S. When it comes to new investments we look for companies with strong corporate cultures and strong market positions in industries we know well. Patricia Industries has a cash position of approximately SEK 14 bn. and strong cash flow from the wholly-owned companies. Furthermore, the financial investments are gradually being divested in order to free up additional resources to invest in new wholly-owned companies. This is in line with our strategy of being a long-term owner, focsing on "buy-to-build", not "buy-to-sell".

During 2015 our wholly-owned companies made good progress. Mölnlycke Health Care reported sales growth of 5 percent in constant currency. The profit margin remained at a high level and the company delivered strong cash flow. Given the attractive profitability, continued growth is the key priority and the growth opportunities are viewed as very strong. Recently Mölnlycke acquired U.S. Sundance Solutions, focusing on treatment and prevention of pressure ulcers, one of many exciting growth areas.

Permobil started the year with lower sales activity as many customers postponed their orders in anticipation of a new wheelchair series. Both growth and profitabilty improved successively during the year as the new series came to the market. For the full year, organic growth amounted to eight percent.

Aleris reported good griwth and stable profitability. Especially the Norwegian operations contributed to growth. We continue to see improvement potential in Aleris and keep working on developing the company as a high-quality provider of care and healthcare services.

In October, Patricia Industries made its first new investment through the SEK 2.8 bn. acquisition of U.S. BraunAbility. The company has strong market positions within wheelchair accessible vehicles and wheelchair lifts, mainly on the U.S. market, but we see good opportunities for international expansion. Just like Permobil, BraunAbility has a very strong corporate culture.

Investor has a strong financial position with significant resources for investments. An important part of our strategy is therefore to allocate our capital wisely. During 2015 we made a number of attractive investments in line with our strategy. Within Listed Core Investments, we invested SEK 5.8 bn., of which SEK 5.6 bn. in ABB and SEK 0.2 bn. in Wärtsilä. ABB has strong market positions within both automation and power technology, two markets with attractive growth opportunities. We also see room for additional efficiency improvement within the company. Wärtsilä also has strong market positions and an attractive exposure to growth markets and service.

As mentioned previously, we commited to invest in EQT's new fund and Patricia Industries invested approximately SEK 4 bn., of which the major part in BraunAbility. The EQT commitment aside, we invested a total of SEK 10 bn.We also paid dividends of approximately SEK 7 bn. the capital outflow summarizes to SEK 17 bn. At the same time, our cash inflow was very strong at SEK 22 bn. Wtihin Listed Core Investments we received SEK 9 bn. in dividends and redemptions. EQT generated SEK 4.5 bn. and Patricia Industries SEK 8 bn., of which half came from Mölnlycke. In total, this means that despite substantial investments, we managed to reduce our net debt by almost SEK 5 bn., which lowered our leverage to a low 5 percent. Now, we shall not expect cash flow to be this strong each year. 2015 was extremely strong, but I do think this illustrates the strength of the platform we have built.

The second cornerstone of our strategy is to operate efficiently, to always make sure that we do the right things. In 2015, our operating costs amounted to SEK 483 m., below the SEK 500 m. we had communicated as a good level. For us as an active, engaged owner, it is important to set a good example and keep our own costs under control, as we demand the same from our companies. At the same time, of course it is as important for us as it is for them that we constantly develop our operations and invest for the future, for example in our network and in knowlegdge buiild-up.

The third cornerstone of our strategy is to pay a steadily rising dividend over time. For 2015, we propose a dividend per share of SEK 10, an 11 percent increase over last year. Investor's dividend is largely based on the dividends we receive from our listed core investments. in that context, we expect dividends to be received during 2016 to increase by about 6 percent compared to 2015. The goal of providing a steadily rising dividend over time is intact.

So, let me summarize 2015 for Investor. Our net asset value increased. Our total shareholder return was 13 percent, exceeding the general stock market. We maintained our costs at a good level and propose a significant dividend increase. It was a good year for us. I do want to point out that one year is far too short a measuring period. Just look at the swings in the stock market in 2015 and the tough start we have had in 2016. Goal fulfillment should rather be measured over a ten-year period.

Having said that, I am pleased that we have taken a number of steps that are important for our long-term development. We have implemented a new organization that allows for increased focus both on our listed and unlisted companies. We strengthened our ownership in ABB significantly and acquired our first wholly-owned subsidiary in the U.S. Despite these investments, we have entered this year with an even stronger balance sheet.

Dear shareholders, we will continue to work with the strategy I have just described. We will use our financial strength to expand our wholly-owned companies, continue to invest in EQT and strengthen our ownership in selected listed core investments when we find it financially attractive.

Yes, Investor is celeberating its 100th anniversary this year, and our model of long-term, active ownership, has served us well for a century. Thanks to a strong, long-term owner, our fantastic companies, a clear strategy and all our dedicated employees, I am convinced that we, despite a tough world, have good opportunities to continue to create long-term value for you, dear shareholders, over the next 100 years as well.

Thank you!