Ratos

Annual Report

98

ANNUAL GENERAL MEETING

The Annual General Meeting will be held in Berwaldhallen, Strandvägen 69, Stockholm on Wednesday 24 March 1999 at 5.30pm.

NOTIFICATION

Shareholders who wish to attend the AGM must be registered by 12 March 1999 in the Register of Shareholders maintained by the Swedish Securities Register Centre (Värdepapperscentralen VPC AB) and notify the Board of Directors of their intention not later than 4pm on 19 March either in writing to
Förvaltnings AB Ratos (publ),
Drottninggatan 2, Box 1661, SE -111 96 Stockholm,
or by telephoning Int +46 8-700 1700,
or via Ratos' homepage www.ratos.se under the heading shareholder service.

To exercise their voting rights at the AGM, shareholders whose shares are nominee-registered must arrange for their shares to be registered in their own names by 12 March 1999.

DIVIDEND

The Board of Directors proposes to the AGM that the dividend for 1998 be SEK 3.50 per share. 29 March 1999 has been proposed as the record day and, as a result, dividends should be paid via VPC on 7 April 1999.

INFORMATION

Ratos has set the following regular dates for publishing information to its shareholders in 1999:

Parent Company and Consolidated Preliminary Accounts Report, 18 February

Annual Report, around 2 March

Annual General Meeting, 24 March

Interim Report January – March, 30 April

Interim Report January – June, 23 August

Interim Report January – September, 1 November

The financial information is normally sent to shareholders who have requested it.

It can also be requested from
Förvaltnings AB Ratos (publ),
Drottninggatan 2, P.O. Box 1661,
SE-111 96 Stockholm, Sweden
or by telephoning Int +46 8-700 1700
or by email: ratos@ratos.se

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CONTENTS

The Annual Report is also available on Ratos' home page on the Internet: www.ratos.se

1998 Highlights

- Changed strategic orientation.
- Total yield of the Ratos share -12 per cent (30). The Findata yield index 13 per cent (28).
- Net asset value increased to SEK 87 per share, equivalent to 7 per cent (18) adjusted for dividend paid and redemption.
- Proposed dividend SEK 3.50 per share (3.00).
- Arne Karlsson appointed President from 1 January 1999. Olof Stenhammar elected Chairman.
- Redemption of SEK 869M carried out and redemption program terminated.
- Divestment of Inter Forward completed.

Key figures

	1998	1997
Total yield of the Ratos share	-12%	30%
Market price	SEK 57	SEK 71
Price development	-20%	23%
Dividend (paid)	SEK 3.50 [1]	SEK 3.00
Net asset value	SEK 87	SEK 85
Net asset value development [2]	7%	18%
Net asset value discount	34%	17%
Total net asset value	SEK 7,073M	SEK 7,685M
Liquid assets (net) [3]	SEK -811M	SEK 33M

[1] Proposed
[2] Including dividend paid and redemption
[3] In central companies

Ratos

Net asset value SEK 7.1 billion at 31 December 1998

Active holdings

	Dahl	Esselte	PriFast	Scandic Hotels	ACE	Capona	Telelogic	Telia Overseas	TV8
Sector	H&P/ W&S	Office products	Real estate	Hotels	Air forwarding	Hotel properties	Telecom-munication	Telecom-munication	TV-channel
Ownership	28%	13% (20%)	47%	23%	100%	47%	27%	9%	80%
Share of Ratos' net asset value	6%	7%	7%	19%	1%	3%	1%	1%	1%

Asset management

Share of Ratos' net asset value 54%

Developed strategy and new President appointed

Following several successful years, in connection with the financial crisis at the beginning of the 1990s, Ratos suffered problems with unprofitable subsidiaries and a deteriorated financial position. The focusing and the work of streamlining the Company led to the fact that in recent years Ratos' shareholders have been able to share in a not insignificant development in value in excess of index.

I am therefore taking the opportunity of thanking Ratos' former President, Urban Jansson, for his significant contribution and commitment during this period.

Ratos' work as an active owner continued during 1998. The divestment of Inter Forward was completed. Remaining within Ratos is the air forwarding company, Air Cargo Express, which is now included among Active holdings as is the hotel real estate company, Capona. Following PriFast's distribution of Capona to its shareholders, Ratos is now the principal owner in the company.

During the autumn, Ratos' operations and strategy have been further developed. Ratos is gradually expanding its investments in Active holdings. The proportion of unlisted holdings will increase and the proportion of Asset management reduce. By being an active principal owner, Ratos will be involved with the three value added stages: acquisition, development and sale of companies. In our opinion this is the best way to create the highest possible yield and at the same time establish a unique alternative on the stockmarket. Only by owning Ratos shares will the market gain access to these very holdings. The change towards an increased share of unlisted holdings means that Ratos' redemption program can no longer be applied with the current construction and the Board of Directors has therefore decided to terminate it.

Arne Karlsson has been appointed President from 1 January 1999 with the task of realising the next step in Ratos' development and I would like to offer him a warm welcome to the Company.

Olof Stenhammar
Chairman

A professional owner company

The new strategic direction that the Ratos Board of Directors adopted in mid-December aims to make the Ratos share a more interesting investment alternative for the players on the market. By developing from being an investment company with mainly listed holdings to becoming a professional owner company with a significant proportion of unlisted companies, we wish to create opportunities for a higher yield. In other words, improve Ratos' opportunities to create shareholder value still further.

ANALYSIS WORK

During autumn 1998, we have, within Ratos, been analysing the criteria for running a listed investment company in Sweden. We have attempted to analyse issues like "Why is there an investment company discount?", "How do you achieve a sufficiently high yield in a company of our type?", "How can we create an operation which is so attractive and unique that it attracts the players on the stockmarket?" and "Does Ratos really serve a useful purpose?". To address the last question first: Yes, we unquestionably believe that Ratos serves a useful purpose. However, further development of the strategy and operations will be required to enable the Company to take advantage of the opportunities which it has at the present time.

We have summarised the result of our work during the autumn in what we internally call the "Black box analysis". This analysis, and some of its consequences, is described in more detail in a separate section in the Annual Report, on pages 13-15. Below is a brief summary.

For a company which bases its operations on owning holdings in other companies to be successful, it is important to ensure that:

- The return on the holdings must consistently be higher than the investors' yield requirement on the owner company. The costs of the owner company must be covered.
- The owner company must be able to create its own added values. Otherwise it is better for the shareholders of the owner company to own the shares direct.

On Ratos' part we have drawn the conclusions that:

- Our portfolio must mainly consist of unlisted, unique holdings.
- We must have an active acquisition and exit strategy.

- We must, in the true sense of the word, be an active owner.

It may be worth noting that this analysis is applicable not only to investment companies but to all companies which form an interim stage in a major structure such as parent companies of industrial conglomerates.

To regard an investment company as just any other company has been a guiding star in our work. We have endeavoured to analyse ourselves and build up a strategic plan, fully in line with the way in which we want the managements in "our" companies to act.

Ratos will invest in sectors with sufficiently high yield opportunities and in holdings which are unique to us. The players on the stockmarket will only be able to profit from these holdings through an investment in the Ratos share. In order to achieve this situation, we have adopted the following strategic cornerstones:

- Ratos will be an owner company, i.e. a company which specialises in exercising a professional, active and responsible ownership in a number of selected companies.
- In the long term, the portfolio will only contain investments which are in some sense unique to Ratos. The effect that the majority of the companies will be unlisted; the listed holdings must refer to very specific situations in which Ratos is clearly able to justify its unique role.
- In the portfolio companies, Ratos will normally be the largest individual owner. In the instances where Ratos is number two (or, exceptionally, number three), Ratos will be assured of a clear place in the driving seat through shareholder agreements. The ownership will be tailored from case to case but frequently be in the range of 20-50 per cent; exceptionally, however, subsidiary status or whole ownership could be of interest.
- In the long term, the portfolio will contain 10-20 companies of varying size; the average holding will thus be approximately SEK 500M.
- Ratos will be a modern investment company with a stable ownership picture.
- On the basis of a competitor and sector analysis, Ratos will create its own profile which means that the competition for the objects in Ratos' niche will be limited and that other players of Ratos' type will rather be potential co-investors.
- Ratos will continue to work with a shareholder-oriented approach in all decisions and activities. This means, for example, that measures which can contribute to create added values for the shareholders – such as right of preference on stockmarket introductions, repurchase of shares when this becomes possible, etc – will continue to be implemented in the future if this should be considered appropriate.

CHANGES

The new strategy obviously has many bridges to the operations which have so far been carried out in Ratos. However, in some respects shift or changes will take place. Among these can be mentioned:

- Ratos will not be an investment company with mostly quoted holdings – however, the operations will be carried out in a way which ensures that the fiscal status as investment company is maintained.

- Ratos will continue to be an interesting savings alternative but with a different profile to that of a traditional unit trust.
- Ratos' redemption program is cancelled. The change towards an increased proportion of unlisted holdings means that the program can no longer be applied due to its technical construction. In addition, a certain size of our capital is required to enable us to position ourselves strategically in the selected niche.
- Focusing on Active holdings.
- Asset management will change to be primarily a liquidity reserve.

We estimate that this work will take two to four years. However, in this connection there is good reason to point out that:

- Initially, we have a portfolio in which approximately 50 per cent consists of Active holdings. In other words, we are not starting from scratch but will gradually transfer the remaining portion of the assets from Asset management to new Active holdings.
- We will not carry out all new investments in one go but our owners and the stockmarket in general will have plenty of time to gradually "tick off" the acquisitions we are making and decide if they wish to take part in the continued journey.
- The shareholders will not need to wait two to four years for the result in the development of the share price. History shows that in a case like this the journey is a profitable one. When the target has been achieved, the stockmarket has for a time already discounted the development and the share price often stagnated. Before we reach where we are currently aiming at, we will set new targets.

Ratos has so far been a company which has been easy to analyse to the extent that in principle all assets have been listed. It has therefore been easy to monitor the Company's value development. The new Ratos will not be as easy to analyse since our portfolio will be dominated by holdings which are not listed and are consequently not market valued.

However, this obviously does not mean that Ratos will become impossible to value. An unlisted company is basically valued with the same valuation models as a listed company. What differs is the access to information. In Ratos, we are very aware of precisely the latter and we therefore intend to assist the market in any way to provide the information which is required to make it possible to evaluate our different holdings. We will do this by describing in great detail our holdings and their development on a continuous basis.

In addition, it is a reasonable assessment that in the future, with approximately 15 holdings in the portfolio, we will have 5-6 holdings which account for perhaps more than 50 per cent of the total portfolio value. A large proportion of the valuation of Ratos can therefore be based on this relatively limited number of companies.

POSITIVE CRITERIA

Will we then be able to find a sufficient number of investment opportunities to enable us to achieve our targets, or is competition for the objects too keen?

Whether we shall succeed or not is of course a question which is impossible, the reality is far too complex to enable us to give any guarantees for this. However, what we can say is that the criteria are very positive. There are many exciting new business opportunities – as there have always been – and in addition, the exit strategies of the venture capital companies have the effect that there will gradually be a "recovery" of businesses. We have a long list of potential candidates for acquisition and we are already working on a number of projects which we consider to be interesting. In some cases we do so together with other players in our sector which shows that in the future we will be able to co-invest rather more than to compete with other companies of our type.

During 1999, we have an intensive but exciting year's work to look forward to. We will implement our new strategy and inform all the various players on the stockmarket of our new direction. We will be involved with a large number of operations to enable us to carry out some new acquisitions and at the same time we shall work with and develop our existing holdings. I am therefore very pleased to be able to establish that Ratos' organisation is well adapted for the type of operations which we will now carry out.

Arne Karlsson
President

Ratos' operations

BUSINESS CONCEPT

Ratos is an owner company whose business concept, over a period of time, is to create the highest possible yield for its shareholders through professional, active and responsible exercising of the ownership role in a number of selected companies and investment situations in which Ratos creates a unique investment opportunity for the players on the stockmarket. Added values will be created in connection with acquisitions, development and sale of companies.

OBJECTIVE

The objective is that the total yield of the Ratos share should be higher than the average for the companies on the Stockholm Stock Exchange. The dividend policy will be aggressive. Ratos should be perceived as one of Sweden's best owner companies.

STRATEGY

Ratos' holdings will consist of 10-20 companies of varying size with an increased proportion of unlisted holdings. Ratos should normally be the largest owner with a 20-50 per cent ownership.

Operations will be focused on Active holdings with sound market and development potential in which Ratos as an owner will be able to contribute to added value. Listed shares, which are not included among active holdings, are regarded as a liquidity reserve.

1998 Development

TOTAL YIELD

During 1998, the market price of the Ratos B share fell by 20 per cent, from SEK 71 to SEK 57 per share. The Affärsvärlden General Index rose by 10 per cent.

Total yield was -12 per cent in 1998. The Findata Yield Index, which includes dividends and is therefore comparable with total yield of the Ratos share from a definition viewpoint, rose by 13 per cent. The discrepancy between the values occurred during the fourth quarter and consists mainly of increased net asset value discount. Of the total yield of -12 per cent, 3 per cent is explained by the increase in the net asset value (excluding dividend and redemption at a premium), -23 per cent by increased net asset value discount, 3 per cent by dividend paid and 5 per cent by detached redemption right.

Among Ratos' major holdings, particularly Stora, Gambro and Dahl had a less positive price development than the stockmarket as a whole. Companies which developed better than index include Skandia, Scandic Hotels and Astra.

During the year, in principle the whole of Inter Forward was divested. The total capital gain amounted to SEK 201M, which meant an increase in Ratos' net asset value of SEK 2 per share. Remaining within Ratos is the air forwarding company, Air Cargo Express.

Seen over the latest five-year period, i.e. from the 1993/94 turn of year to the 1998/99 turn of year, the total yield of the Ratos share amounted to 261 per cent. During the same period, the Findata Yield Index rose by 166 per cent.

NET ASSET VALUE

During 1998, Ratos' net asset value increased to SEK 87 per share, equivalent to 7 per cent, adjusted for dividend paid and redemption. Total net asset value amounted to SEK 7,073M. Redemption of shares was made at a value of SEK 869M and dividend paid amounted to SEK 271M.

Active holdings accounted for 46 per cent of Ratos' net asset value and Asset management for 54 per cent. Liquid assets, net, in the central companies and the Parent Company's property amounted to SEK -811M. At the year-end, 91 per cent of Ratos' net asset value is market value. The hidden reserve in the shareholdings fell by SEK 42M and amounted to SEK 3,498M at year-end.

NEW PRESIDENT AND CHAIRMAN

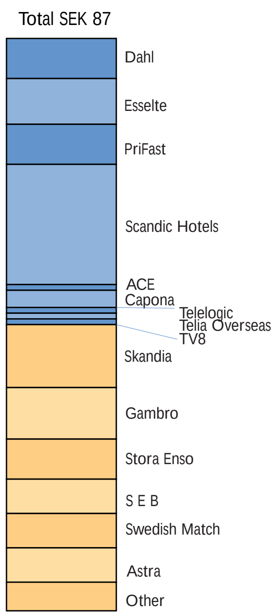
In late spring, Urban Jansson resigned the Presidency of Ratos and Olof Stenhammar replaced Sven Söderberg as Chairman. Thomas Mossberg was appointed Acting President and Olle Isberg, Executive

Price development of major holdings 1998

Active holdings	
Dahl	-32%
Esselte	-14%
PriFast/Capona	9%
Scandic Hotels	54%
Asset management	
Skandia	66%
Gambro	-38%
Stora [1]	-24%
S E B	-15%
Astra	20%
Swedish Match	11%
Svedala	-10%

[1] Until 17 December 1998

Net asset value SEK/share, 31 December 1998



Vice President. During autumn, Arne Karlsson was appointed new President from 1 January 1999.

ACTIVE HOLDINGS

Ratos' Active holdings consist of shares in Dahl, Esselte, PriFast, Scandic Hotels, ACE, Capona, Telelogic, Telia Overseas and TV8. The majority of Inter Forward was divested during the year. In Active holdings, SEK 317M net was invested during the year, of which SEK 196M in PriFast, SEK 3M in Scandic Hotels, SEK 50M in TV8, SEK 30M in Telelogic and SEK 41M in Telia Overseas. Scandic warrants for SEK 3M were sold.

On 11 February 1999 Ratos and EQT, through the jointly-owned company, Dahl Intressenter AB, made a cash bid for all the shares in Dahl. The offer involves a total bid value of SEK 2,496M which is equivalent to SEK 120 in cash per share in Dahl. Dahl Intressenter will be 49 per cent-owned by Ratos and 51 per cent-owned by EQT. The bid means a premium of 47 per cent in relation to Dahl's average price paid over the latest 30 trading days before dealings in Dahl were temporarily suspended on the Stockholm Stock Exchange.

Ratos' net asset value

	31 Dec. 98 SEK M	31 Dec. 98 SEK/share	31 Dec. 97 SEK/share	Share of change in net asset value 98, SEK/share
Active holdings				
Dahl	466	6	7	-2.04
Esselte	574	7	7	-0.71
PriFast	504	6	6	0.49[1]
Scandic Hotels	1,458	18	11	5.35
ACE	100[2]	1	3	1.98
Capona	247	3	–	–
Telelogic	30[2]	1	–	–
Telia Overseas	99[2]	1	1	–
TV8	103[2]	1	0	–
Total	3,581	44	35	5.07
Asset management				
Skandia	843	10	8	4.11
Gambro	660	8	12	-3.70
Stora Enso	456	6	6	0.33
S E B	442	5	5	-0.78
Swedish Match	389	5	4	0.65
Astra	379	5	4	0.7
Svedala	283	3	2	-0.16
Scania	213	3	3	-0.45
Pandox	87	1	0	0.07
Haldex	51	1	–	-0.22
Oxigene	13	0	–	0.01
"Emerging markets"	3	0	1	-0.36
Shares held for dealing purposes	27	0	0	0.07
Unlisted growth shares	182[2]	2	2	–
Industri Kapital (partly-unlisted)	214[2]	3	2	0,41
Other (unlisted)	1	0	0	0,25
Total	4,243	52	49	0.93
The Parent Company's property and other assets (unlisted)		60	1	1
Liquid assets/debts (net) in central companies	-811	-10	0	
Effect of redemption of shares				-1
Dividend paid				-3
Net asset value	7,073	87	85	2
Market price		57	71	
Market price in relation to net asset value, %		66	83	
Net asset value discount, %		34	17	

1) The PriFast share including Capona.
2) Unlisted. Not market valued (see page 53)

DAHL

In 1998, Dahl's sales rose by 11 per cent to SEK 10,431M and earnings increased from SEK 192M to SEK 262M. The result improvement took place mainly in Sweden. Additional acquisitions were made in Poland, Denmark and Estonia. Despite the result improvement, the market price was negatively affected by uncertainty regarding the market development in Norway and Denmark combined with the turbulence on the stockmarket during the autumn. The Dahl share fell by 32 per cent during 1998.

ESSELTE

1998 sales of the Esselte Group amounted to SEK 13,721M, an increase of just over 3 per cent adjusted for currency effects. Earnings were SEK 1,147M (413), of which SEK 491M is represented by a capital gain on the divestment of Nielsen & Bainbridge. At the present time, Esselte consists of two independent business areas: Esselte Office Products and Meto. Within Esselte Office Products, an agreement was signed during 1998 for the acquisition of the largest office products manufacturer in Germany, Leitz. A Board proposal regarding the demerger of Meto will be put to the AGM in April 1999. Esselte's market price fell by 14 per cent during the year.

PRIFAST

Ratos' ownership in PriFast increased from 35 per cent to 47 per cent during the year. PriFast's rental income rose by 16 per cent to SEK 463M in 1998. Earnings were SEK 108M, equivalent to an increase of 24 per cent. PriFast divested properties for SEK 275M during the year. During autumn, PriFast acquired Diligentia's share in the previously co-owned hotel and real estate company, Capona. In December, Capona was distributed to PriFast's shareholders. This affected the PriFast share which fell by 27 per cent in 1998. In total, the PriFast share including Capona rose by 9 per cent.

SCANDIC HOTELS

Both sales and earnings of Scandic Hotels increased during the year, sales by 35 per cent to SEK 5,004M and earnings by 60 per cent to SEK 274M. During spring, Scandic acquired the Finnish hotel chain, Arctia. At the start of 1998, Scandic gathered its hotel properties in a subsidiary, Hotellus. Hotellus has increased its holding from 5 to 14 properties. In this connection, Scandic reduced its ownership to below 50 per cent. The market price for Scandic share rose by 54 per cent during the year.

AIR CARGO EXPRESS

The air forwarding company, Air Cargo Express (ACE), was previously included in Inter Forward. The air freight market has enjoyed expansive development in recent years but declined in 1998. ACE's sales including the companies in Asia fell by 20 per cent during 1998 and amounted to SEK 610M. Earnings were SEK 4M (24).

CAPONA

Ratos is the principal owner in Capona after PriFast distributed the company to its owners in December. It is intended that the Capona share will be officially listed on the Stockholm Stock Exchange during March 1999. In 1998, Capona's rental income amounted to SEK 220M and the result to SEK 24M.

TELELOGIC

Telelogic is a world leader in graphic development tools for real time applications – computer programs which are used for improvement of mobile telephones and telephone switches. Sales increased by 69 per cent during the year and amounted to SEK 178M. Earnings were SEK 1M. During March, a new share issue will be carried out and the shares are intended to be quoted on the O list of the Stockholm Stock Exchange.

TELIA OVERSEAS

Telia Overseas is an internationally-oriented telecommunications company with operations outside Europe. The company enters as a stakeholder together with local partners and offers a high level of technical expertise.

TV8

The digital channel, TV8, started broadcasting in October 1997. The program supply is oriented towards financial news, documentaries and community programs. The channel's income consists of advertising and subscription income and the programs are distributed via satellite and cable. During the year, substantial investments were carried out in connection with the build-up of the channel's marketing and distribution activities. 1998 sales amounted to SEK 9M and result was SEK -53M.

ASSET MANAGEMENT

Asset management's stock portfolio had a market value of SEK 4,243M (4,324) at the 1998/99 turn of year. During the year, shares were sold for SEK 80M net and net capital gains amounted to SEK 301M (109). Acquisitions were made mainly in S E B, Svedala, Haldex and in unlisted growth companies. Large sales were made in Skandia, Stora and ABB.

The unlisted growth shares: C-Technologies, Epani, Eurona, Micronic, Netch, PyroSequencing, TeleTrade and Teligent were sold for SEK 189M on 17 February 1999 which generated a capital gain of SEK 26M.

MANAGEMENT COSTS

Ratos' expenses amounted to SEK 65M in 1998. This includes costs for synthetic options of SEK 1M and transaction-related costs of SEK 1M. Excluding these costs, Ratos' management costs in 1998 constituted approximately 0.9 per cent of the net asset value at the 1998/99 turn of year.

CONSOLIDATED RESULT

Ratos' 1998 consolidated result after tax amounted to SEK 518M (164). The result includes capital gains of SEK 502M (109), dividends of SEK 168M (136), central financial net including exchange rate differences of SEK -19M (53), results of former Inter Forward companies of SEK -13M and TV8's result of SEK -56M including Groupwise goodwill amortisation and central overheads of SEK -65M (-72).

The consolidated result above does not include shares in results of the Parent Company's associated companies. Net result for the year in accordance with the equity method is shown in Note 1.

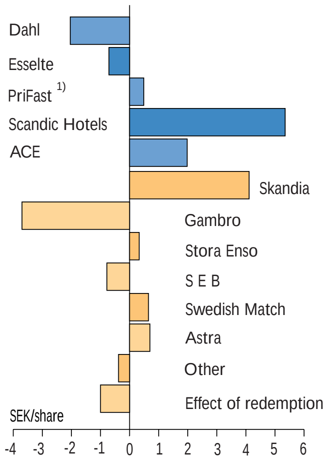
LIQUIDITY AND CASH FLOW

The Group's cash flow was SEK 156M (-773) and was affected by dividend income, net purchases of sales and sale of the majority of Inter Forward. Liquid assets (net) amounted to SEK -811M (33) at the turn of the year and were affected by redemption of SEK -869M.

REDEMPTION OF RATOS SHARES

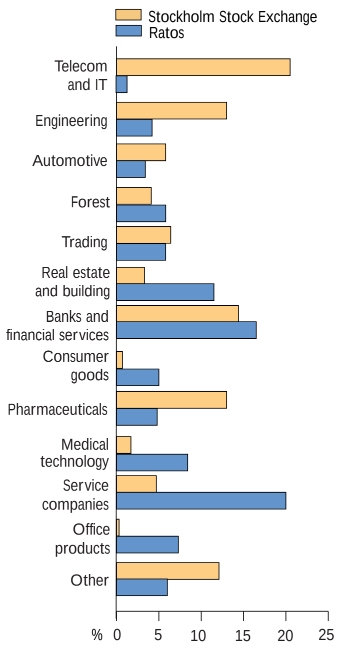
Following the second redemption procedure, SEK 869M was paid to shareholders in December 1998. Ratos' orientation towards an increased proportion of unlisted holdings means that the redemption program can no longer be applied with the current technical construction. In December, the Board of Directors therefore decided to terminate the redemption program with immediate effect.

Contribution to increase in net asset value 1998



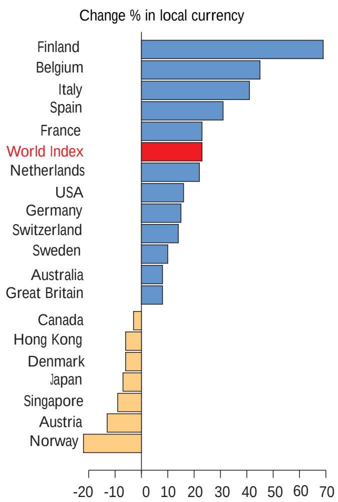
1) PriFast including Capona

Distribution by sector

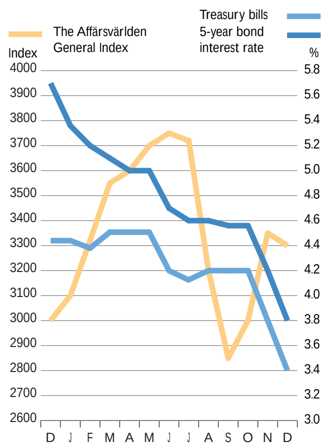


Stockmarket and economy – increased volatility and stockmarket boom

The world's stockmarkets 1998



General index and long-term and short-term interest rates in Sweden, 1998



1998 was an exciting year on the financial markets. The end result for 1998 was positive. The share index for the world as a whole (Morgan Stanley) rose by 23 per cent, Dow Jones in the USA by 17 per cent and the Stockholm stockmarket by 10 per cent according to the Affärsvärlden General Index. The past year therefore continued the stockmarket boom which started in 1992, albeit at a more modest pace than in the previous year.

LOWER INTEREST RATES AND REDUCED GROWTH

The stockmarket's optimism was largely due to developments on the interest market. Long-term interest rates on Government securities in Sweden fell from 6 per cent at the beginning of the year to close to 4 per cent. These have fallen below 4 per cent at the start of 1999. Not since the mid-1950s has the interest level been so low. Short-term interest rates have fallen in step with the lowering of the rate by the Swedish Central Bank from 4.35 per cent at the beginning of the year to 3.40 per cent, only 40 points above the interest rate in the Euro area.

Profit expectations, on the other hand, were lowered during the year in step with a reduction in the forecasts for growth.

INCREASED TURBULENCE ON THE FINANCIAL MARKETS

The comparison between the beginning and end of the year hides a considerable drama on the world's financial markets. According to some analysts, 1998 was a year that was close to "global financial collapse", a new 1930s.

Share prices on the various markets had a radically different development. Some markets in Europe experienced continued large rises in prices: Finland 69 per cent, Belgium 45 per cent, Italy 41 per cent, and Spain 31 per cent. These apply especially in those countries in which the introduction of the new currency, the Euro, was expected to create continued stability in previously economically and politically unstable economies. Other markets experienced a significantly weaker trend: Norway -22 per cent, Austria -13 per cent and Japan -7 per cent.

The crisis applied particularly to markets which are generally called emerging markets. Since the crisis began in mid-1997 (compare below), the value on these markets has halved on average. Some stockmarkets have been virtually obliterated. The Russian stockmarket fell by 96 per cent in 1998. In Indonesia, the stockmarket has fallen by 90 per cent since the crisis began, in Malaysia by 73 per cent. The drama is also seen in the developments during the year. Analysts expected 1998 to be a year with only modest rises in share prices, both in Sweden and the USA. In reality, prices rose steeply during spring. The American stockmarket rose by 18 per cent, the Stockholm stockmarket by 32 per cent. In mid-July, the world's stockmarkets turned down abruptly in step with rapidly widespread financial turbulence around the world. The falls accelerated in August and when the bottom was reached in early October, Dow Jones had fallen by 20 per cent and the General Index in Stockholm by 39 per cent. Thereafter followed a rapid upturn which nearly brought the Dow Jones back to its peak value, whereas Stockholm recaptured approximately half the amounts lost.

BACKGROUND TO THE CRISIS: SOUTH-EAST ASIA

The crisis started as early as in July 1997 when Thailand was forced to devalue its currency. Over the next few months, neighbouring economies were hit by waves of speculation which broke the currencies one by one. In autumn 1997, the crisis was seen as localised to a number of countries in South-East Asia. The cause was considered to be the countries' too-rapid growth which led to high imports and as a result a deficit in their foreign trade, a trend which was reinforced by the countries' fixed USD rate. The 50 per cent rise of the USD against the JPY between mid-1995 and 1997 was seen as the triggering factor in the crises. In order to restore confidence, the most exposed countries were allowed to borrow record amounts from the International Monetary Fund, IMF. As a result, the crisis was deemed to be solved and its effects on the world economy limited. With that, the foundation was laid for the strong stockmarket rise which started at the beginning of 1998.

In reality, the crisis had only just started. The large devaluations led to significantly reduced domestic demand and falls in the GDP in the exposed countries which was reinforced by IMF's (by many criticised) demands for government finance austerities in countries which before the crisis had a surplus in their budgets. With the austerity measures followed protests and political crises in several countries, especially in Indonesia where the long-serving President Suharto was forced to resign. The GDP fell between 5 and 15 per cent in the area during 1998.

During spring, it was also discovered that the financial crises in South-East Asia were much deeper than had previously been known. As the foreign debts were essentially private rather than public, their extent and structure were not known. The vendors were essentially banks in the Western World. In the three most exposed countries, the loan volume was several times larger than the country's foreign exchange reserve; in addition, a large proportion of the maturity of the loans was less than one year. The problems for the countries to "roll" the loans were reinforced by the fact that several international banks tried to get out of their positions.

CHAOS IN RUSSIA

During spring 1998, the situation in Russia became increasingly difficult. Falling oil prices undermined Russia's most important export income which made the necessary imports of food more difficult. As a result, the need increased for an inflow of capital to an already highly indebted economy. On the domestic side, the budget deficit started to grow again. In order to attract foreign investments in short-term government securities in roubles, the interest rate on these was radically increased to more than 100 per cent. The main effect was instead to aggravate the budget situation still further. The political situation led to the fall of two governments during spring.

In August, the situation became chaotic. The outflows of USD were so large that Russia was no longer able to cope with them. In practice, Russia had suspended payments.

INCREASED FOCUS ON CREDIT RISK

With Russia's foreign exchange problems, the finance crisis took a new turn. Attention was concentrated particularly on the fact that the premium for credit risk had been abnormally low which was the reason why so many doubtful borrowers had been able to borrow large amounts. The crisis therefore led to a rapid transfer to safer investments.

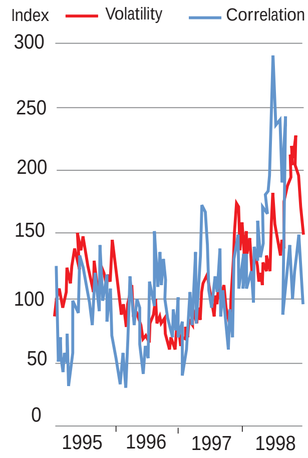
In September, the next unexpected event occurred which aggravated the financial turbulence still further. A large US hedge-fund was close to suspending payments before the US Federal Reserve took action. It turned out that the fund, with a capital of only a few billion dollars and positions of more than USD 1,000 billion with an exposure (credit risk) of nearly USD 100 billion, was responsible for 5 per cent of total interest and currency swaps in the world.

The diagram on the right shows the background to the losses which were made by this hedge-fund and other speculative investors on the market. On the one hand, volatility (standard departure in prices) increased on the financial markets; on the other hand, and more importantly, these were increasingly interlinked; the correlation between them rose. The focusing on credit risk had the effect that markets which normally do not move together suddenly co-varied. As a result, the risk in the portfolio became completely different to what the calculations that had been based on historic co-variations had shown.

STABILISATION AND RECOVERY IN LATE AUTUMN

The intervention of the Federal Reserve together with the lowering of interest rates which the "Fed" carried out in the autumn contributed to stabilising the situation during the last few months of the year. Rapidly increasing concern that a devaluation in Brazil would trigger a new wave of crises temporarily abated. The fact that the real markets in the world (unemployment, growth, productivity) were stable also contributed to the reduced concern. Normally, financial and real crises go hand in hand. What is remarkable about the 1997-98 financial crisis is that the real economies were affected to such a small extent. According to OECD's calculations, the financial turbulence slowed down the growth rate in the industrial world by some percentage points. A great deal of this slow-down was necessary, nor least in the USA where the too-rapid growth rate threatened to lead to an unacceptable acceleration in prices and wages with austerities in the monetary policy as a consequence. Instead, the slight slow-down in growth, combined with a radically lower rate of inflation, led to an opportunity to cut interest rates which was reinforced by the need to provide increased stability on the financial markets with lower interest rates.

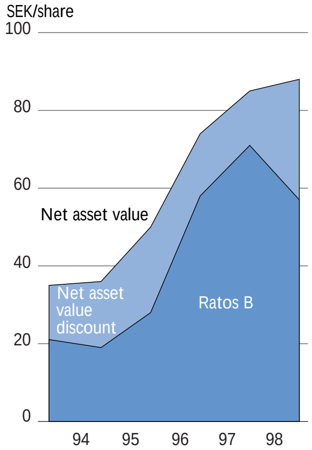
Volatility and correlation index



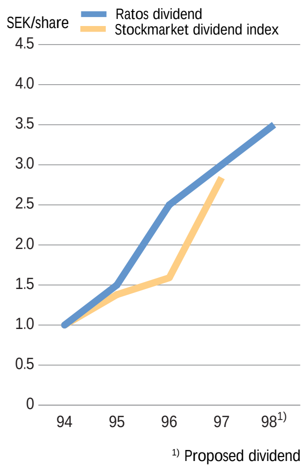
Source: J P Morgan

Proposed dividend, SEK 3.50

Net asset value



Dividend paid



On 31 December 1998, Ratos' total stockmarket value amounted to nearly SEK 5 billion.

TRADING

During 1998, Ratos B shares fell by 20 per cent from SEK 71 to SEK 57. The Affärsvärlden General Index rose by 10 per cent. The year's highest price of the B share, SEK 88.50, was quoted in May and the lowest, SEK 55, in December.

A total of 21 million shares were traded at a value of nearly SEK 1.6 billion. The corresponding values for 1997 were more than 19 million shares and approximately SEK 1.3 billion, respectively. The B share was traded on every stockmarket day during 1998.

The trading rate of the Ratos B share was 30 per cent in 1998 compared with 26 per cent in 1997. The trading rate on the Stockholm Stock Exchange rose from 66 per cent in 1997 to 77 per cent in 1998.

BETA VALUE

The Beta value is a measurement of risk which shows a share's price fluctuation (volatility) compared with the stockmarket as a whole. If the value is larger than 1, the share fluctuates more than the stockmarket.

At the 1998/99 turn of year, the Beta value for the Ratos B share amounted to 0.87 (1.14) over the past five-year period in accordance with SIX's measurements. The share thus fluctuated 13 per cent less than the stockmarket as a whole. The explanation value at the turn of the year was 0.6, i.e. 60 per cent of the price fluctuations in the Ratos share is explained by the general market trend.

NET ASSET VALUE

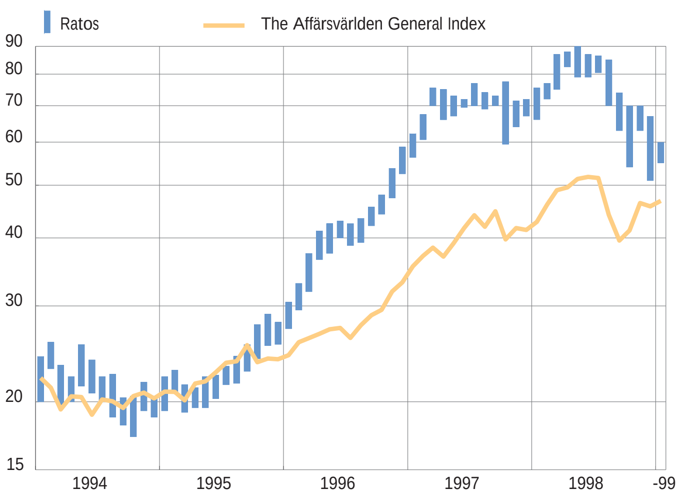
Ratos' net asset value increased from SEK 85 to SEK 87 per share during 1998. The net asset value discount increased from 17 per cent to 34 per cent.

DIVIDEND

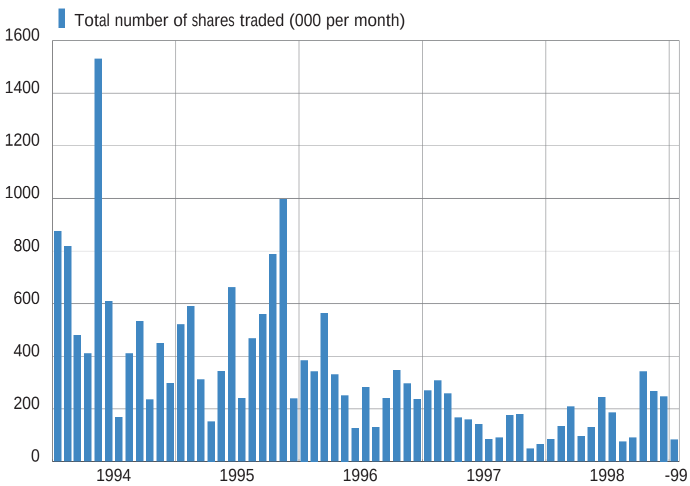
Ratos' dividend policy means that at least 3 per cent of the net asset value will be distributed.

For 1998, the Board of Directors of Ratos proposes a dividend of SEK 3.50 (3.00) for A and B shares, equivalent to 4 per cent of the net asset value on 31 December 1998.

Ratos' market price



Trading in the Ratos share



(c) SIX Findata

SHAREHOLDERS

At the 1998 year-end, Ratos had 14,765 shareholders, an increase of nearly 17 per cent during the year. The ten largest owners account for 81 per cent of the votes and 67 per cent of the capital. 69 per cent of the share capital is owned by institutional investors and 31 per cent by private individuals. 96 per cent of the Ratos shareholders own 5,000 shares or less and together account for 10 per cent of the share capital.

Foreign ownership reduced by 3 percentage points and amounts to 21 per cent of the capital. The largest foreign owners are Mutual Beacon, Qualified and Discovery Funds.

REDEMPTION OF RATOS SHARES

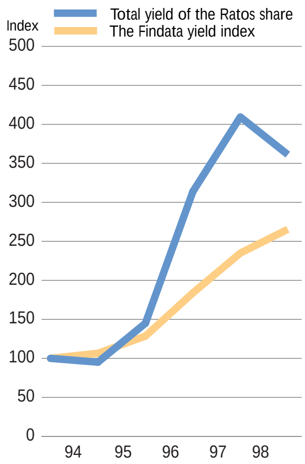
On 1 October an Extraordinary General Meeting of Ratos passed a resolution to offer the shareholders redemption of every tenth share for SEK 97 per share. In December, 85,933 A shares and 8,871,245 B shares were redeemed.

ISSUE OF C SHARES

With the aim of being able to bring forward payment of redemption amounts, the Extraordinary General Meeting in October resolved to issue 9,027,760 C shares to be subscribed for by the National Pension Insurance Fund, Sixth Fund Board. At the same time, a resolution was passed to redeem these shares which will take place following permission from the City Court. The C share, which carries one tenth of a vote, is not entitled to dividend and the share of the Company's capital is limited to the nominal amount of the share adjusted upward with a rate of interest.

Total yield

Growth in value of SEK 100 invested on 31 December 1993



Share data at 31 December 1998

Share capital	SEK 1,129,352,325
Number of shares	90,348,186
Nominal value per share	12.50 kr
A shares (1 vote)	21,641,127
B shares (one-tenth of a vote)	59,679,299
C shares (one-tenth of a vote)	9,027,760 [1]

Share issues/split since 1980

1983 Bonus issue 1:4, split 2:1
1985 Bonus issue 2:5
1988 Bonus issue 1:1
1997 Split 4:1

Data per share

Data per share is shown in the five-year review on page 52.

Ratos' shareholders

31 Dec 1998, excluding C shares [1]	Share of votes, %	Share of capital, %
The Söderberg Family	39.3	17.2
Ragnar Söderberg's Foundation	13.3	7.2
Torsten Söderberg's Foundation	11.7	7.4
The Montgomery Family	5.5	1.9
Mutual Beacon Fund, Mutual Qualified Fund, Mutual Discovery Fund, Mutual Discovery Secs Fund	4.2	14.3
AMF	2.8	9.3
Skandia	1.7	5.6
SPP	1.0	3.4
Handelshögskoleföreningen	0.6	0.2
Handelsbanken funds	0.5	0.3
Other	19.4	33.2
Total	100.0	100.0

[1] An Extraordinary General Meeting on 1 October 1998 resolved that newly-issued C shares will be redeemed following approval from the City Court. This is expected to take place during spring 1999.

Range

Range	Number of shareholders	Number of shares, %
1 – 500	9,552	1.9
501 – 1,000	2,289	2.0
1,001 – 2,000	1,346	2.3
2,001 – 5,000	960	3.5
5,001 – 10,000	316	2.5
10,001 – 20,000	122	1.9
20,001 – 50,000	90	3.4
50,001 – 100,000	34	2.7
100,001 –	56	79.8
	14,765	100.0

Ratos information

Ratos' ambition is that the shareholders should have easy access to up-to-date information about Ratos' operations. On a continuous basis, Ratos posts information such as Interim Reports, Annual Report and newsletters.

A source of more extensive information, up-to-date as well as historical, is Ratos' home page on the Internet, www.ratos.se. On the Internet there is information about the Company, its shares and holdings, etc.

Here, there is also the opportunity to read the most recent press articles about Ratos. Interim Reports and the Annual Report can also be downloaded via the Net.

Ratos participates on a continuous basis in financial fairs and investor meetings around Sweden.

The investment company's raison d'être

The number of investment companies in Sweden has fallen dramatically since the beginning of the 1980s. In 1982, 30 investment companies and industrial holding companies were listed on the Stockholm Stock Exchange. Today only seven remain.

In addition, the market has virtually throughout valued the companies' assets – net asset value – at a discount. Buy-out or dissolving companies has generally been the best way to free values. Does this then mean that it is not at all possible to successfully run a listed investment company in Sweden?

The answer to this question requires knowledge about the fundamental reasons for the phenomenon, the investment company discount – or the net asset value discount which it should really be called – as, over the years, it has also hit sectors other than the investment companies. At the time of writing, examples can be gathered from forest, real estate and building companies, shipping companies, asset management companies and conglomerates.

FACTORS BEHIND THE NET ASSET VALUE DISCOUNT

Over the years, many different explanations have been presented for the net asset value discount. However, no model or variable – taxes, trading rate in the portfolio, ownership structure, power issues, number of holdings – has proved to be sufficient to explain the phenomenon consistently over a period of time. At the same time, the net asset value discount is now, as far as Swedish investment companies are concerned, in its late middle age. It means that there must be a rational explanation to the problem. The market cannot be wrong for so many years.

In order to find a solution, the issue must be viewed from a very general perspective. A "toolbox" must be created which explains the phenomenon at a general level. In this toolbox there are many tools – taxes, ownership structure, number of holdings, etc – which with a varying degree of success and different combinations can explain the individual case.

An investor who owns shares in "Black Box AB" (BBAB – see illustration 1) is willing to value SEK 100 in net asset value in the company at exactly SEK 100 if BBAB's net asset value consistently returns the investor's yield requirement. This applies regardless of what BBAB contains – gold, a company, a portfolio of wholly-owned companies, listed shares, bingo tickets, real estate or cargo vessels. However, the key word is consistently. BBAB must be able to produce this yield year after year which means that a concentration on, for example, exclusively bingo tickets would hardly be a successful strategy.

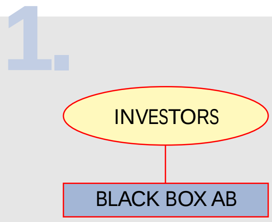
If the investor instead owns shares in "Extra Box AB" (EBAB – see illustration 2), which in turn is the owner of BBAB, this will have a number of consequences. The two most important are:

- Operations in BBAB must now return more than the investor's yield requirement. If that is not the case, the investor – after the expenses which are linked with running EBAB (payroll, premises, taxes, etc) – will not have obtained his yield requirement.
- Even if the operations in EBAB produce sufficient yield to avoid the discount problem *per se*, EBAB must nevertheless create its own added value. If that is not the case, the investor could just as well own the contents of BBAB himself, and as a result obtain a higher yield.

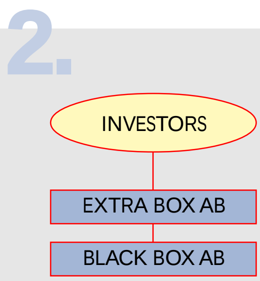
This simple model, which is a strong concentrate of the explanation model that Ratos worked with in connection with the strategy analysis during 1998, will have a number of consequences for the criteria for running a company like EBAB – which can for example be an investment company, a holding company or the parent company of an industrial conglomerate. The most important conclusions drawn were:

Ratos' portfolio must consist mainly of unlisted companies.

To create an investment in a listed company that is unique for the shareholders is difficult, to do it in a portfolio of listed companies is even more difficult. The players on the market are always able to "copy" an investment company's portfolio and as a result obtain the same yield as the company with-



- If BBAB yields 10% on NAV on a sustained basis….
- … and the investor's yield requirement is 10%….
- … BBAB will be valued at 100% of NAV….
- … regardless of portfolio content



Consequences of EBAB

- … BBAB must yield more than 10%
- … EBAB must create added value

out the costs linked to running a company. In addition to this it can be noted that most listed portfolios of a reasonable size develop approximately like the Index over a period of time. This means that the yield after management costs does not meet the investor's yield requirement from a definition viewpoint. However, this does not exclude that unique, albeit often more short-lived opportunities, may arise in listed companies, nor that one creates an unlisted company through buying-out a listed company.

Ratos must have an active acquisition as well as exit strategy.

Obviously it is impossible for EBAB to create a surplus yield in a *static* BBAB consistently over the years. For this reason, the "line" (see illustration 2) between EBAB and BBAB becomes decisive for EBAB's opportunities for success. Active work on both acquisitions and sales of companies, combined with exercising active and operating ownership on a daily basis, creates three value-added stages in the operations. It should then be noted that an active acquisition and exit strategy involves considerably more than trying to achieve the lowest and highest possible price in the transaction, respectively. It also concerns trying to find and create own acquisition and exit opportunities in order to achieve even more advantageous negotiation situations and a higher added value for its owners.

Discount-on-discount effect

Market's yield requirement = 10%

Share of profit distributed as dividend	Market price in relation to net asset value – If the company's yield = 12%	8%	6%
100%	120%	80%	60%
75%	129%	75%	53%
50%	150%	67%	43%
25%	300%	50%	27%

The tables show the potential that exists for a company in Ratos' situation. Comparatively modest improvements combined with an aggressive dividend policy are required in order to make it possible for the valuation situation to be improved radically.

Ratos must be an active owner in the true sense of the word.

Exercising ownership power in the portfolio company requires active work in order to implement the objectives which were adopted in connection with the acquisition and during later courses of events. In that way, the value can be optimised on an exit while the active ownership will at the same time lead to an increased added value for the benefit of the company's owners.

EFFECT OF TOO LOW YIELD

The effect of not achieving the requirements of uniqueness and sufficiently high yield is dramatic. For example, a relative yield of 80 per cent (i.e. a return of 8 per cent when the market's yield requirement is 10 per cent) combined with a dividend of 25 per cent of net income for the year will thus, as one could intuitively be led to believe, not lead to a 20 per cent but a 50 per cent discount!

The explanation to this is something that is called the "discount-on-discount effect". If an investment company returns 8 per cent when the market's yield requirement is 10 per cent, this – everything else being equal – will lead to a 20 per cent discount if the company pays an annual dividend of 100 per cent of the profit. If that is not the case and the dividend portion is, for example 25 per cent, then 75 per cent of the profit of the investment company is annually reinvested and immediately downvalued with a discount (a form of implicit new issue). In the example which is used here, a balance does thus not arise in the system until the discount is 50 per cent as, of a profit of SEK 8, SEK 2 is then paid in dividend and is worth just SEK 2, whereas SEK 6 is reinvested and immediately downvalued to SEK 3. SEK 3+2=5 becomes the actual yield and, as the investor has paid SEK 50, he has thus received a yield of 10 per cent. Some examples of the discount-on-discount effect are found in the table on the left.

It can be worth noting that these simplified tables illustrate clearly the dynamics which exist in the valuation of investment companies and the dramatic effects which arise if the company does not meet the market's yield requirements.

It is against this background that Ratos' strategy is concentrated on finding unique, sufficiently profitable investments while we will at the same time pursue a continued aggressive dividend policy. Inversely, it can be noted that the tables also show the potential that exists for a company in Ratos' situation. Only comparatively modest improvements are needed for the evaluation situation to improve radically.

CONCLUSIONS

From this, Ratos has drawn the following conclusions:

- Ratos must work as a flexible target by gradually making exits for its owners and produce in full the values which exist in the company's investments. The result will then be higher for its owners than in a case where an external party buys the company and carries out exits and itself takes a large proportion of the profit, something that has happened in many investment companies since the beginning of the 1980s.
- Ratos must make unique investments which means that Ratos will mainly work on the market for unlisted companies.
- Ratos must work with three value-added stages – acquisition, development and divestment of companies – which provides opportunities for creating added values in more ways than one.
- Ratos must achieve a surplus yield on the investments which will at least cover its own management costs.

An issue which then arises immediately is whether it is at all possible to achieve a surplus yield in relation to the market's yield requirement. Should this not be impossible?

As has already been noted, Ratos makes the evaluation that it is difficult, maybe impossible, to achieve over a period of time a surplus yield on a large portfolio which contains exclusively listed shares. However, several reasons have the effect that the opportunity for achieving a surplus yield is significantly higher among the unlisted companies and with the orientation that Ratos has now chosen. The market for unlisted companies contains imperfections and distortions from which Ratos can benefit.

CHANGED BUSINESS CONCEPT

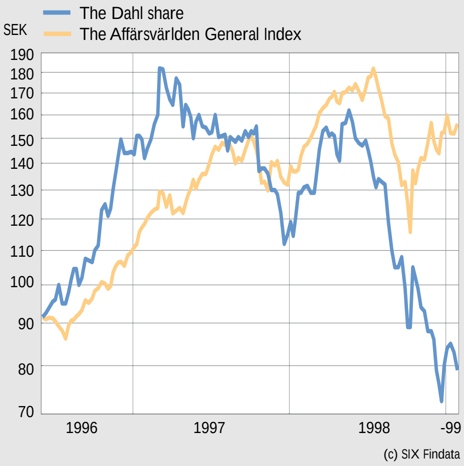
This work has led Ratos to formulate the following business concept:

"Ratos is an owner company whose business concept, over a period of time, is to create the highest possible yield for its own shareholders through a professional, active and responsible exercising of the ownership role in a number of selected companies and investment situations in which Ratos creates a unique investment opportunity for the players on the stockmarket. Added values will be created in connection with acquisition, development and sale of companies."

Within the framework of the business concept, objectives and strategic cornerstones have been formulated. These, as well as consequences for the previous strategy, are described in Comments by the President under the section Ratos' operations on pages 2-5.

Dahl

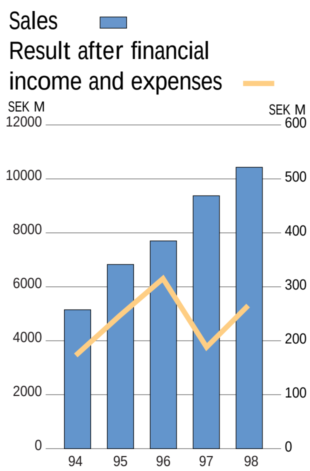
	31 December 1998
Ratos' ownership	28%
Share of Ratos' net asset value	6%
Price development, 1998	-32%



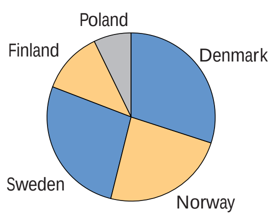
Ratos' comment

Following the fall in earnings in 1997 caused by problems in Sweden, a result recovery took place during 1998. Earnings improved in Sweden, Finland, Poland and Norway and fell in Denmark. Despite a positive market trend in Sweden, Finland and Poland, the price development of the Dahl share was characterised by concern for the future market development in Norway and Denmark. The turbulence on the stockmarket during autumn also contributed. The Dahl share fell by 32 per cent in 1998.

Dahl has a well-focused business concept with a streamlined structure. The market position is very strong and the growth potential positive. Profitability in the majority of its operations is favourable and cost efficiency is high. The geographic spread of the operations has a stabilising effect on its profit development. Ratos has a continued positive view of Dahl as a share investment.



Distribution of sales by market



Dahl is the leading wholesaler and trading company in the Nordic countries in the market for plumbing & heating and water & sewerage products as well as pipe products for the industry. The Group is represented in more than 240 locations and holds a leading position in Denmark, Norway, Sweden and Poland and a strong position on the Finnish market.

BUSINESS CONCEPT, STRATEGY AND OBJECTIVE

Dahl is to be the leading distribution and trading company on its markets and will supply the market's requirements for plumbing & heating and water & sewerage products as well as pipe products to the industry. The Group will offer the most cost-efficient solution for every customer and every supplier. Dahl is to be characterised by high accessibility, sound reliability and broad expertise.

A nationwide organisation combined with local marketing forms the foundation for necessary customer adaptation while Dahl as the market leader at the same time is able to utilise large-scale operating benefits in purchasing, logistics and administration.

In Sweden, Norway and Denmark the objective is to increase efficiency and profitability and to complement the basic operations in related segments. In Finland, work concentrates on securing its position as the country's second largest wholesaler. In Poland, Dahl intends to build a nationwide network.

Dahl's yield requirement is linked to the risk-free interest rate in each respective country. The yield requirement in Scandinavia is approximately 10 per cent after tax whereas it is significantly higher in Poland. Dahl's objective is to pay at least 30 per cent of profit after tax in dividend to its shareholders, taking into account long-term growth and profit development as well as financial position.

HEATING & PLUMBING AND WATER & SEWERAGE MARKET

The product market in the Nordic countries is estimated at SEK 35 billion and to that are added Poland and the Baltic States which together are estimated at SEK 15 billion. Two-thirds of trading is via wholesalers. The development in the sector is mainly dependent on construction and the economic situation. The current focus on the environment and energy sector contributes to positive growth.

EVENTS DURING THE YEAR

In Denmark, Dahl expanded towards industry and the tool market through new acquisitions. During

Stewen Quigley

As the market leader, Dahl's ambition is also to satisfy the wishes of customers and suppliers regarding data communication which makes the business process more efficient.

the year, sales increased whereas operating income fell slightly, mainly due to increased competition and price squeeze.

The newly-constructed central warehouse outside Oslo became operational in June. In Norway, sales increased 1998 whereas earnings were negatively affected by investments referring to the central warehouse and a new IT system. However, the uncertainty regarding the country's economic development had a negative effect on the construction trend towards the end of the year.

The Swedish market developed positively. Implemented co-ordination of the Swedish units, closure of the distribution warehouse and other productivity improvements had a positive effect on earnings.

In Finland, growth was strong and the development of Dahl's sales and earnings remained positive. The central warehouse outside Helsinki is fully operational. Dahl's Finnish companies, which are responsible for the operations in Estonia, acquired the Estonian plumbing & heating wholesaler, Vennad, during the year. Dahl's sales in Poland increased strongly. Since August, the Polish operations have been wholly-owned. Acquisitions on the Polish market continued during the year and at the start of 1999 Dahl is represented in 30 locations.

CONSOLIDATED RESULT

The Dahl Group's sales increased by 11 per cent to SEK 10,431M. Result after financial income and expenses amounted to SEK 262M (192). The improvement is mainly explained by a growth in earnings in the Swedish operations. Return on shareholders' equity was 13 per cent (6).

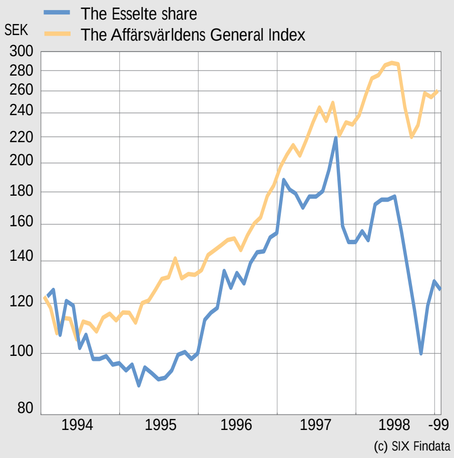
PROSPECTS FOR 1999

Continued positive market development is anticipated in Sweden and Finland. The Danish market is expected to be weaker during 1999. In Norway, a significant decline is anticipated on the market. The Polish market is expected to develop weakly in the short term.

Continued earnings improvement is anticipated in Sweden whereas earnings in Norway will be affected by the decline on the market.

Esselte

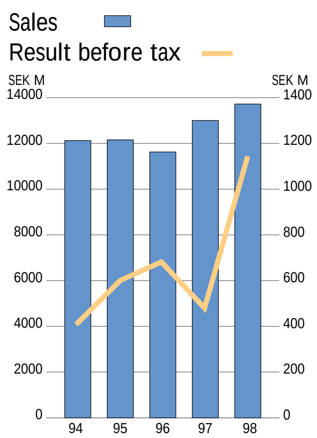
	31 December 1998
Ratos' ownership capital/votes	13%/20%
Share of Ratos' net asset value	7%
Price development, 1998	-14%



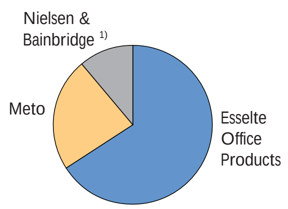
Ratos' comment

The streamlining of Esselte developed very favourably during 1998. The sale of Nielsen & Bainbridge was completed in January 1999. The largest business area, Esselte Office Products, has a very strong position in Europe following its acquisition of Leitz. The announced demerger of business area Meto ought to improve still further the opportunities for achieving operating efficiency and a true and fair value of the two business areas. The Esselte share fell by 14 per cent during the year.

Esselte's positive cash flows and strong balance sheet provide the company with considerable opportunities for aggressive value-increasing structural measures. The mature and fragmented office product market will probably continue to be consolidated during 1999.



Distribution of sales by market



[1)] Sold January 1999

The Esselte Group consists of two independent business areas, Esselte Office Products and Meto, each of which holds leading positions on the world market within its segments: office products and labelling systems, respectively. The task of the Parent Company is to create added values through active ownership and structural streamlining. The divestment of the former business area, Nielsen & Bainbridge, was completed in January 1999.

ESSELTE OFFICE PRODUCTS

Esselte Office Products is a leading supplier of products which increase the efficiency of office work. Examples of well-known brandnames are Pendaflex, Leitz, Curtis, Dymo and Letraset. The world market for office products – excluding computers, data systems and office furniture – amounts to approximately USD 35 billion. The segment of the market in which Esselte mainly works amounts to USD 13 billion and is under consolidation with a number of mergers during 1998. Esselte was responsible for the largest merger with its acquisition of Leitz, Germany's largest office products manufacturers and one of the strongest brands in the segment.

The objective of Esselte Office Products is to be the world's leading supplier of office products and to increase its share of the world market. In 2001, sales growth will be at least 10 per cent, operating margin 8 per cent and return on capital employed 20 per cent.

In 1998, sales amounted to SEK 9,110M (8,715), cleared of foreign exchange effects, an increase of just over 3 per cent. Operating income rose to SEK 422M (242). Operating margin amounted to just under 5 per cent. Return on capital employed was nearly 13 per cent. The rationalisation program, which was adopted in 1997, is being implemented according to plan and generated cost reductions during the second half of the year.

METO

Meto is a leading supplier of advanced labelling systems which support customers' sales and handling. The range includes products for manual price-marking, barcode systems and anti-theft protection systems. The market development differs in Meto's respective segments. Manual price-marking is falling by 6-7 per cent per annum, however the introduction of the Euro is providing positive effects. Within

Victor Brott

In Esselte Office Products' plant in Sint-Niklaas in Belgium, among other things, storage files and marking systems are produced.

barcode systems, demand for hardware is increasing by more than 10 per cent per annum. The retail trade continues to invest in anti-theft protection systems and the European market is growing by nearly 10 per cent per annum.

Meto's objective is to become the world's leading supplier of labelling systems for various applications in the retail trade and its delivery systems, and as a result increase its market shares. The target, to generate 20 per cent return on capital employed, has been achieved and new targets are being set.

In 1998, sales amounted to SEK 3,142M (2,956), adjusted for currency effects, an increase of 5 per cent. Operating income was SEK 226M (177), a rise of 30 per cent. Operating margin was 7 per cent and return on capital employed 24 per cent.

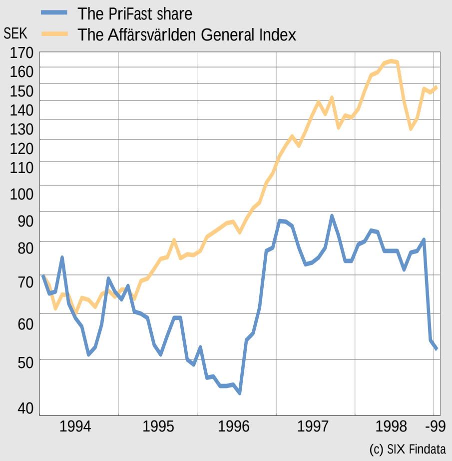
A proposal by the Board of Directors to demerge Meto will be put to the Annual General Meeting of Esselte in April 1999.

CONSOLIDATED RESULT

The Esselte Group's sales in 1998 amounted to SEK 13,721M (13,001). Cleared of currency effects, sales increased by more than 3 per cent. Result before taxes was SEK 1,147M (413), of which SEK 491M represents a capital gain on the divestment of Nielsen & Bainbridge.

PriFast

31 December 1998	
Ratos' ownership	47%
Share of Ratos' net asset value	7%
Price development, 1998	-27%



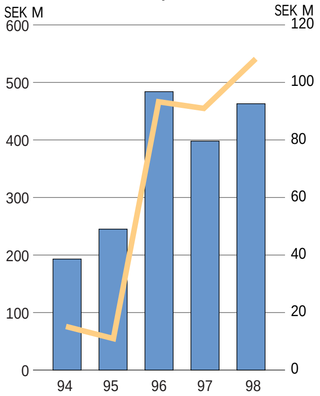
Ratos' comment

PriFast's focusing on commercial properties along the ring-roads around Stockholm was almost completed during 1998. Properties outside Sweden were sold and the hotel real estate company, Capona, distributed to the shareholders. The distribution of Capona in December affected the price of the PriFast share which fell by 27 per cent during the year. In total, the PriFast share including Capona rose by 9 per cent.

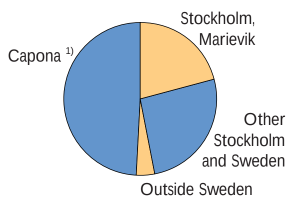
PriFast's financial position remains strong which gives the company an opportunity to continue the promising exploitation of the Marievik area, and to create a more value optimal capital structure via capital transfers to the shareholders. External real estate valuers place a significantly higher market value on the company's property portfolio than that reflected in the market price of the PriFast share.

PriFast was quoted excluding Capona in December 1998.

Rental income
Result after financial income and expenses



Distribution of rental income by market



1) Distributed December 1998

PriFast is a real estate company which concentrates on management and development of commercial properties along the ring-roads in Stockholm.

BUSINESS CONCEPT, STRATEGY AND OBJECTIVE

PriFast's business concept is to manage actively and provide commercial premises in the manner and with the level of service that the customer demands as well as to acquire, develop and sell properties within the framework of the adopted orientation.

The Group's main strategy is to concentrate its operations to offices located along the ring-roads round Stockholm and which provide tenants with good accessibility with regard to communications and IT.

PriFast's overall objective is that the shareholders' long-term yield, in the form of dividend and increase in the value of the shareholding will be higher than for alternatives with the same operating orientation and risk level. Over a period of time, the dividend to shareholders should amount to 50 per cent of income after tax excluding capital gains. In the case of substantial capital gains, an additional bonus may be paid to shareholders.

CONTINUED CONCENTRATION OF OPERATIONS

At the 1998 year-end, PriFast real estate holding, excluding Capona, comprised 25 properties with an estimated market value of nearly SEK 3.3 billion.

In accordance with PriFast's strategy to concentrate its operations, properties for SEK 275M were sold during the year, including all properties in the Netherlands, the last property in Gothenburg and a site in Denmark. At 1998 year-end, 90 per cent of the total market value was found in Sweden, mainly along ring-roads around Stockholm.

During autumn, PriFast acquired Diligentia's holding in the previously co-owned hotel property company, Capona. An Extraordinary General Meeting in November passed a resolution to distribute Capona to PriFast's shareholders. Capona's redemption share was quoted on the Stockholm Stock Exchange in December and the Capona share is intended to be officially quoted on the O list in March 1999.

POSITIVE MARKET DEVELOPMENT

During the year, the real estate market in Stockholm developed positively as an effect of rising rental levels and reduced yield requirements. From a value viewpoint, PriFast's real estate holding was positively affected by this development, +14 per cent for comparative holdings.

A fall in vacancy ratio together with a shortage of new construction projects have led to an increased requirement of functional premises along ring-roads in Stockholm. On PriFast's part, this has meant clearly increased demand for office premises in both Marievik and Hornsberg, and at rising rental levels.

Conny Dornnauer

DEVELOPMENT OF MARIEVIK

The first phase in the further development of PriFast's largest interconnected management area, Marievik, started during the year with the start-up of the refurbishment and extension of 17,000 square metres in Urhuset. The property, which will be completed in spring/summer 1999 was approximately 75 per cent let at the turn of year. In December, PriFast obtained building permission for its next major project in the area, Milleniumhuset. The building will comprise 23,000 square metres of office premises and is expected to be completed during the later part of the year 2000. Signing of lease contracts is underway.

Other major investments during 1998 refer to refurbishment and extension of a distribution property in Bromma and completion of Europe House in Brussels.

CONTINUED SATISFACTORY RESULT LEVEL AND STRONG FINANCES

PriFast's rental income for 1998 amounted to SEK 463M (398), of which the rental income from hotel properties of the subsidiary, Capona, accounted for SEK 220M. For a comparable real estate holding, rental income increased by approximately SEK 22M. New lettings were satisfactory during the year and PriFast's letting ratio, excluding Capona, was 96 per cent (92) at the turn of year.

Result after financial income and expenses amounted to SEK 108M (87), of which SEK 21M (35) refers to profits on sales of properties. The earnings improvement for current operations, excluding divestment profits, is 70 per cent and is mainly explained by Capona's earnings contribution and improved financial net. PriFast's pro forma income, excluding Capona, amounted to SEK 44M. Return on shareholders' equity amounted to 8 per cent (7), or 6 per cent excluding Capona.

Following the distribution of Capona, the visible equity ratio was 35 per cent at the turn of the year, the adjusted equity ratio amounted to 63 per cent.

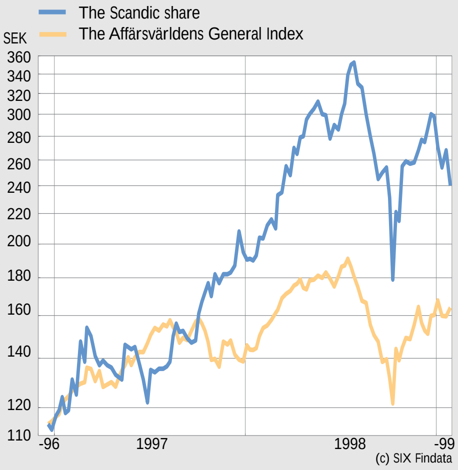
PROSPECTS FOR 1999

The result of the current operations is expected to be significantly higher than the pro forma result excluding capital gains, SEK 24M, which was reported for 1998. In addition there will be the preliminarily calculated capital gain in connection with the distribution of Capona of SEK 165M. Profits on sales of real estate during the year may also be added.

PriFast's Marievik has become a knowledge centre for companies involved within IT, service and fashion. Companies located here include Ericsson, Telenordia, Citco, Sesambanken, ISS and Stockholm Modecenter.

Scandic Hotels

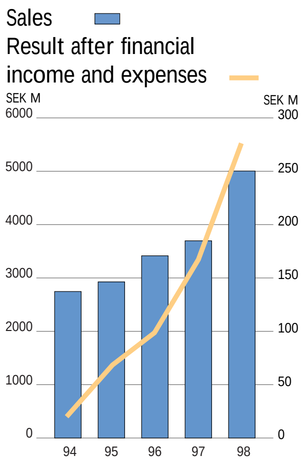
31 December 1998	
Ratos' ownership	23%
Share of Ratos' net asset value	19%
Price development, 1998	54%



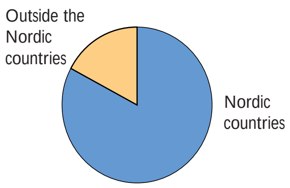
Ratos' comment

Scandic's operations and results developed very positively during 1998 which is also reflected in a price rise of 54 per cent.

The hotel market is expected to grow faster than the GDP in the long term. Scandic has a well-developed concept with a strong brandname and excellent market positions. With the acquisition of the Arctia chain in Finland, Scandic has a strong market position in all the four major Nordic countries. Continued growth opportunities are favourable and the financial position is very good. Ratos is confident of a continued positive profitability and growth development for Scandic as well as in the Scandic share as a sound future share investment.



Distribution of sales by market



Scandic Hotels is the largest hotel operator in the Nordic countries with more than 120 hotels in nine countries. 16 of the hotels are located outside the Nordic area and are operated under the Holiday Inn brandname.

BUSINESS CONCEPT, STRATEGY AND OBJECTIVE

Scandic's business concept is to provide a large number of people with the best value-for-money hotel accommodation for business and leisure. Operations are focused on the Nordic markets.

Scandic's strategy is to be a streamlined hotel operator and the objective is to develop the strong brandname positioning and increase the market coverage in the Nordic countries with growth in central areas in major growth locations. Profitability is based on active marketing and sales as well as high cost efficiency.

The financial targets are to achieve an operating margin after depreciation of 6 per cent and return on shareholders' equity of at least 20 per cent calculated over one business cycle. The dividend to shareholders will amount to at least 30 per cent of the year's result after tax, taking into account long-term growth, earnings development and financial position.

POSITIVE MARKET DEVELOPMENT

On the Swedish market, demand increased during the year while, at the same time, added capacity in the form of new hotel rooms was very limited. In Norway, the demand trend remained satisfactory in the major cities. However, occupancy fell slightly due to some expansion of capacity. In Denmark, growth was weak on a stable market whereas capacity reduced slightly. On the Finnish market, growth remains satisfactory.

In the cities in Germany and the Benelux countries in which Scandic is established, demand rose and the price trend was positive. In Great Britain and Austria, demand levelled out but room prices continued to rise.

Scandic's occupancy ratio in the Nordic countries increased from 59.2 per cent to 61.8 per cent. The average room price rose by 3.4 per cent. In operations outside the Nordic countries, occupancy was 63.7 per cent, a rise of 0.3 percentage points, and the room price increased by 2.6 per cent.

In 1998, Scandic's room capacity increased by 20 per cent. Operations were expanded by 21 hotels with the acquisition of the Finnish hotel chain, Arctia, which took place formally on 1 April. In December, Scandic signed an agreement to divest the majority of the independent restaurants which were included

Scandic has increased its supply in central Copenhagen with its take-over of Webers Hotel in Vesterbrogade.

in the acquisition of Arctia. During the autumn, capacity in Finland was expanded by an additional 167 rooms when Scandic took over the running of Hotel Rovaniemi.

Scandic and Stena Line have began collaboration from 1 January 1999. The collaboration means that Scandic takes over the running of Stena Line's three Danish hotel operations in Fredrikshavn and Grenå, comprising 389 rooms in total, and marketing and sales collaboration between the two companies. At the beginning of January 1999, Scandic will take over the running of the Webers Hotel in central Copenhagen. The hotel will change its name to Scandic Hotel Webers and, following modernisation, will have 160 rooms.

At the 1998/99 turn of year, Scandic ceased as operator at Victoria Hotel in London and at the hotel in Edinburgh.

HOTELLUS

At the start of 1998, Scandic gathered its hotel properties in a subsidiary, Hotellus. During the year, Hotellus increased its real estate holding from five properties with a book value of SEK 0.4 billion to 14 hotel properties equivalent to a book value of SEK 1.7 billion. Scandic is the operator in all the properties. On the real estate acquisitions, the previous property owners entered as shareholders in Hotellus. In addition, other shareholders were added as a result of which Scandic's ownership fell to below 50 per cent. Scandic intends to continue to reduce its ownership.

CONTINUED RESULT IMPROVEMENT

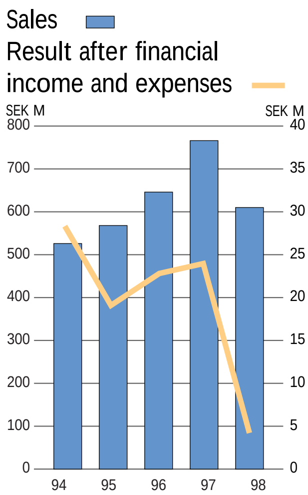
Sales by the Scandic group increased by 35 per cent to SEK 5,004M in 1998. The newly-acquired Finnish hotels account for SEK 1,047M. For comparable units, sales increased by 8 per cent. Operating margin was 6.2 per cent (5.2). Result after financial income and expenses amounted to SEK 274M, equivalent to an increase of 60 per cent. Return on shareholders' equity was 19 per cent (24).

Air Cargo Express

31 December 1998	
Ratos' ownership	100%
Share of Ratos' net asset value	1%

Ratos' comment

The economic decline in Asia brought about lower business volumes and a reduced profit level for ACE during 1998. However, the market for air freight is trendwise increasing faster than the GDP. Together with ACE's leading position on the Swedish industrial airfreight forwarding market, this contributes to Ratos taking a positive view on ACE's prospects for the future.



Air Cargo Express (ACE) is one of the three largest air forwarding companies in Sweden. The Group, which employs nearly 190 people, has operations in Sweden, Denmark and Finland as well as in Asia.

BUSINESS CONCEPT

ACE's business concept is to provide air freight and rapid transport solutions as well as comprehensive forwarding services aimed at contributing to its customers' competitiveness.

OPERATIONS

ACE offers air and sea transport. Operations comprise:

- exports, goods which are despatched from Swedish customers to destinations all over the world
- imports, acceptance and delivery of incoming goods
- customs service
- express truck traffic in the Nordic countries and Great Britain
- courier and express operations

Goods which are carried by airfreight have normally high value-added or are fragile, for example electronics, medicines, spares, fashion products and perishable goods.

ACE is represented in Singapore, Hong Kong, China and Taiwan. The collaboration partner in Japan and the USA is Kintetsu World Express (KWE). In India, collaboration has been established with Balmer Lawrie. Another partner is the German company, M&M Air Cargo Service, which covers a total of 21 countries, especially in the former Eastern bloc.

ACE has made substantial investments within information-handling. This is of great importance in order to guarantee a high level of service, quality and reliability in every phase of the transport. ACE is quality-certified in accordance with ISO 9002.

MARKET DEVELOPMENT

ACE's development is extensively affected by exports and demand for airfreight by Swedish industry which in turn is connected with the general economic trend. The development for Swedish air freight exports has been very extensive over the past ten years. For the immediate future, the assessment is that the development will be slower, partly because of a fall in exports to countries in Asia. On the other hand, the weakening of the currencies in these countries provides criteria for increased imports from Asia.

Competition on the air freight market has hardened in recent years as several large global forwarding companies have established operations in Scandinavia.

THE PAST YEAR

During the year, the export market for air transport weakened as a result of developments in South-East Asia.

Investments in quality, IT and personnel development had continued high priority.

RESULT

Sales amounted to SEK 610M (766) and result after financial income and expenses to SEK 4M (24), of which the companies in Asia SEK -3M (-3).

Capona

Ratos' comment

When Capona was formed, a new player and an interesting investment alternative were created in the hotel sector. The hotel market is expected to have a continued strong development. Capona's turnover-based rental agreements together with company's special expertise in hotel property management create sound growth opportunities. The ownership of hotel properties is very diverse in the Nordic countries which creates good opportunities for profitable acquisitions for a specialised player. Capona's sound cash flows, strong tenant portfolio, broad hotel portfolio and generous dividend policy make the company an interesting investment alternative with low risk combined with good growth potential.

	31 December 1998
Ratos' ownership	47%
Share of Ratos' net asset value	3%

Capona, which was formed at the end of 1997, is one of the largest hotel real estate companies in the Nordic countries.

BUSINESS CONCEPT, OBJECTIVE AND STRATEGY

Capona's business concept is to own and actively manage hotel properties on the Nordic hotel market. The objective is to be the leading hotel real estate company in the Nordic countries. The yield to shareholders is to be higher than the yield on other comparable investment alternatives seen over one business cycle. The target is that the dividend will amount to at least 60 per cent of income after tax, taking into account economic situation, result and financial position as well as investment opportunities. In the long term, the equity ratio will amount to 40 per cent, based on the current real estate holding and interest situation.

Important features in Capona's strategy are:

- a close and long-term relationship with professional hotel operators linked to strong brand names
- sales-based rental contracts
- concentration on hotels with at least 75 rooms in the medium to high-class segment in large city regions as well as county capitals and university towns in the Nordic countries
- to maintain high sector knowledge and to participate in the restructuring of the sector

REAL ESTATE HOLDING

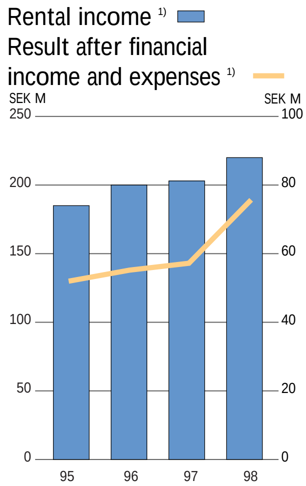
Capona includes a total of 37 hotel properties, of which 29 are located in Sweden, 5 in Norway and 3 in Denmark. The number of rooms amounts to approximately 5,700. The properties are mainly located in the centre of major cities or on strategic approach roads to the cities with good communications to the city centre and other communications such as air and rail. The hotels are located in, among other places, the large city regions: Stockholm, Oslo, Copenhagen, Gothenburg, Malmö and Helsingborg and a number of county capitals and university cities such as Bergen, Uppsala and Växjö. Scandic Hotels is the largest hotel operator with more than half of rental income, others are SAS International Hotels, First Hospitality, Revhaken Hotels and Provobis. Three of the hotels are operated under Capona's management. The book value of the real estate holding amounted to approximately SEK 1.9 billion at the 1998/99 turn of year.

NEW OWNERS

Capona was established on the formation relating to the hotel properties which were previously included in PriFast's and Diligentia's real estate holdings. In October, the company became a wholly-owned subsidiary of PriFast while, at the same time, a decision was made to spread the ownership and list the company on the stockmarket. Through a redemption procedure, Capona was distributed to Prifast's shareholders. Ratos is thereafter the largest owner with 46.6 per cent of capital and votes. The shares will be quoted on the O list of the Stockholm Stock Exchange which is expected to take place in March 1999.

RENTAL INCOME AND RESULT

Rental income amounted to SEK 220M in 1998 compared with SEK 203M pro forma in 1997. Result after financial income and expenses was SEK 24M. The pro forma result in 1998 was SEK 74M compared with SEK 58M pro forma in 1997. The pro forma results are based on the actual development of the respective hotel with its previous owner and that the company was fully capitalised during 1998.



[1)] Pro forma

Telelogic

	31 December 1998
Ratos' ownership	27%
Share of Ratos' net asset value	1%

Ratos' comment

Telelogic holds a leading position in a rapidly growing market segment.The company's products and expertise make possible a significant efficiency- and quality improvement for developers of software within the telecom and computer industries.

Telelogic is a world leader in graphic development tools for real time applications, i.e. systems which simplify and improve computer programming.

OPERATIONS

Telelogic's product family, Telelogic Tau, is an aid for software development which can be used, for example, for improvement of mobile telephones or telephone switches.

The company has more than 200 employees. Marketing is carried out via own subsidiaries in seven countries as well as distributors and direct sales in an additional 20 countries. Customers include large telecommunication suppliers such as Alcatel, Ericsson, Fujitsu, Lucent, Motorola, NEC, Nokia, Northern Telekom and Siemens.

Approximatley half of sales and number of employees are located outside Sweden.

EXPANSION

During 1998, Telelogic's operations more than doubled. The number of employees increased from 120 to 200. Sales rose by 69 per cent and amounted to SEK 178M. Result was SEK 1M.

SPREADING OF OWNERSHIP

In order to finance Telelogic's continued international expansion, a new share issue will be carried out during March. The shares are intended to be quoted on the O list of the Stockholm Stock Exchange.

Telia Overseas

	31 December 1998
Ratos' ownership	9%
Share of Ratos' net asset value	1%

Ratos' comment

Telia Overseas' business concept together with the company's high level of expertise and excellent name means significant growth opportunities on the rapidly growing telecom market. At the same time, the nature of the operations involves taking risks.

Telia Overseas is an internationally-oriented telecommunications company. The company is 65 per cent-owned by Telia.

BUSINESS CONCEPT

Telia Oversea's business concept is to acquire telecommunication licenses, primarily mobile, and build up communication networks in developing countries. The company enters as a stakeholder together with local partners.

Associated companies are found all over the world, including India, Sri Lanka, China, Hong Kong, the Philippines, Namibia, Uganda and Brazil. At the present time, the companies' license rights cover a total population of more than 200 million.

EVENTS DURING THE YEAR

In March, the Brazilian associated company obtained a mobile telephone license in the federal state, São Paulo, which covers 17 million inhabitants. The network became operational in December and at the turn of the year, agreements had been signed with 30,000 customers. The associated company in Uganda obtained license rights for mobile telephony as well as domestic and international wireline telephony for the country's 22 million inhabitants.

The number of customers of the associated companies increased by approximately 80 per cent during the year and amounted to more than 500,000 at the turn of the year.

TV8

	31 December 1998
Ratos' ownership	80%
Share of Ratos' net asset value	1%

Ratos' comment

The digital TV channel, TV8 is in a phase of establishment. The build-up of the operations and the development of the result are in line with adopted plans. Ratos has a positive view on the continued work to establish TV8 as an appreciated and profitable, niche-oriented TV channel.

TV8 produces and distributes live broadcast TV programs to Scandinavian households with an emphasis on financial new and documentaries within the technology, science, nature, culture and travel segments.

OPERATIONS

TV8, which started broadcasting in October 1997, is one of some ten advertising-financed channels in Sweden. The programs, which are distributed via satellite and cable, can be seen by approximately 2.4 million viewers. TV8 has premises in Stockholm and some 30 employees.

THE YEAR IN BRIEF

During 1998, which was TV8's first full financial year, the company grew rapidly on the distribution side. Growth is expected to continue during 1999. The company is favourably received in the marketplace. During spring, the news program "Ekonominytt" was chosen the best financial business news program in Sweden by more than 200 stockmarket analysts. Program rights were purchased for SEK 18M.

1998 sales amounted to SEK 9M and the result was SEK -53M. SEK 50M was contributed to the company via new share issues during the year.

Asset management

The market value of Asset management's total portfolio was SEK 4,243M (4,324) at the 1998/99 turn of year, which is equivalent to 54 per cent of Ratos' net asset value.

The year's capital gains amounted to SEK 301M net (109). Dividends received during the year amounted to SEK 96M (77).

The largest holdings in Asset management are Skandia, Gambro, Stora Enso and S E B.

At the turn of year, Ratos owned unlisted growth shares at a book value of SEK 182M. The majority of the holdings were acquired during 1997 and 1998. Unlisted growth shares consist of minor investments in small, relatively newly-established unlisted companies in growth sectors such as IT, telecommunications, media and pharmaceuticals.

PURCHASES AND SALES

During the year, shares were sold for SEK 80M net. Shares were bought for SEK 808M and sold for SEK 888M.

Large purchases were made in S E B, Svedala and Haldex as well as in unlisted growth shares. New investments were also made in the biotechnology company PyroSequencing and in the IT companies Epani and C-Technologies. Additional shares were acquired in Micronic.

Large sales were made especially in Skandia, Stora and ABB.

The unlisted growth shares C-Technologies, Epani, Eurona, Micronic, Netch, PyroSequencing, Tele-Trade and Teligent were sold for SEK 189M on 17 February 1999 which generated a capital gain of SEK 26M.

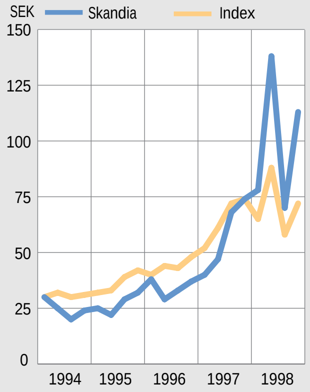
Holdings

	SEK M
Skandia	843
Gambro	660
Stora Enso	456
S E B	442
Swedish Match	389
Astra	379
Svedala	283
Scania	213
Pandox	87
Haldex	51
Oxigene	13
Unlisted growth shares	182
”Emerging markets”	3
Industri Kapital	214
Stock portfolio, current assets, and other	28
Total	4,243

Purchases and sales

SEK M	Purchases	Sales
ABB	55	72
ABB warrants		31
Astra A	120	
Astra B		116
Enator	24	28
Haldex	77	4
Oxigene	12	
Pandox	24	
S E B	104	
Skandia		246
Stora A		108
Svedala	96	
Swedish Match	22	40
Swedish Match redemption rights		1
”Emerging markets”	86	135
Industri Kapital	49	31
Unlisted growth shares	65	0
Stock portfolio, current assets	74	71
Other shares		5
Total	808	888

SKANDIA

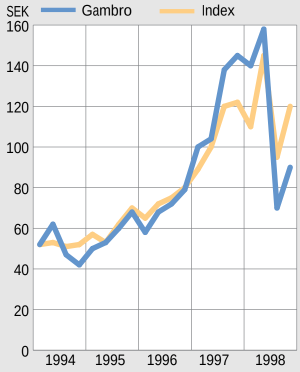


Skandia is the largest property and liability insurance company in the Scandinavian countries. Operations related to long-term savings are growing rapidly and Skandia is now one of the world's three leading companies in unit-link funds. The large markets are the USA, Great Britain and Sweden.

During the year, Skandia acquired shares in the Finnish company, Pohjola. The acquisition is subject to approval by the EU.

Long-term savings continue to grow. Skandia has an expertise within unit-link which should be able to lay the foundation for a market-leading position globally.

GAMBRO

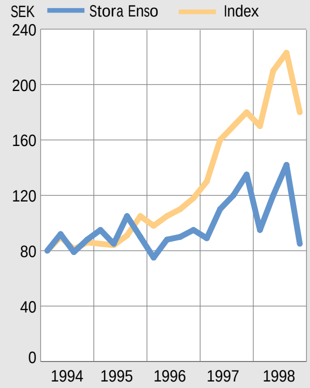


Gambro is active in the renal care segment (renal care products and renal care in own clinics), cardiac care products and blood component technology. Currently, more than 39,000 patients are treated in 465 own clinics all over the world.

During 1998, Incentive's streamlining into one company within medical technology was completed. Incentive changed its name to Gambro with Mikael Lilius as President. ABB shares were sold at a discount of SEK 14 to Gambro's shareholders.

Gambro continues to take an active part in the global consolidation process which is underway among the world's dialysis clinic owners. Gambro's assessment is that in the year 2000, approximately 60,000 patients will be treated in Gambro's clinics. The dialysis sector is expected to grow by approximately 10 per cent per annum. The need for dialysis care increases every year with man's increasing length of life and in step with the development of the world's economies.

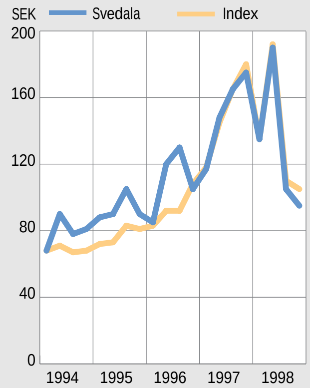
STORA ENSO



Stora Enso was formed at the end of 1998 through a merger between the Swedish company, Stora and the Finnish company, Enso. The Group, which from a production capacity viewpoint, is the largest forest industry group in the world, has sales of nearly SEK 100 billion with customers in more than 60 countries and approximately 40,000 employees all over the world. The core operation is production and sales of printing paper, liquid packaging board, and fine paper.

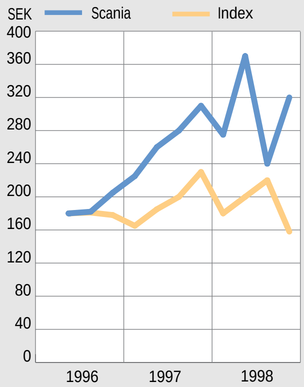
The Stora shares were replaced with Stora Enso shares which are traded on the stock exchanges in Stockholm and Helsinki. The objective of the new company is to increase efficiency and to raise productivity with the aim of creating opportunities for profitable growth as a result.

SVEDALA



Svedala manufactures and markets equipment for the mineral-based processing and construction industries. The Group is benefiting from investments in infrastructure and therefore has a "late cycle" character. Sales amount to approximately SEK 14 billion and the company has a strong market position and very good geographic coverage.

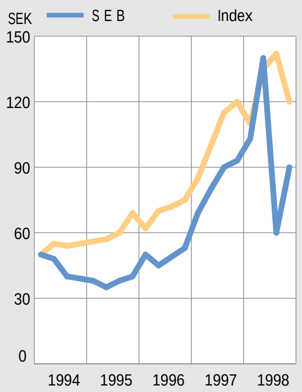
SCANIA



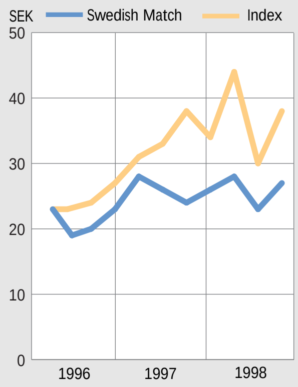
Scania is one of the world's leading producers of heavy trucks and buses with sales of approximately SEK 45 billion. The Group's market position in Europe and South America is very strong. Scania also owns 50 per cent of Svenska Volkswagen which represents brandnames such as Volkswagen, Audi, Seat, Skoda and Porsche in Sweden. These have a market share on the car market in Sweden of approximately 20 per cent.

During 1998, market development was weak and the change of model to the new 4-series has not yet had full impact. The margins have had difficulties in recovering. The continued price pressure on the truck market in Europe as well as the financial problems in Brazil have had a negative effect on Scania.

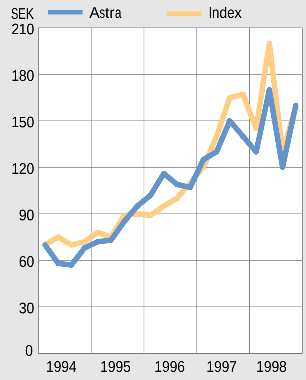
S E B



SWEDISH MATCH



ASTRA



The new group, S E B, which was formed by Skandinaviska Enskilda Banken and Trygg Hansa, has now operated for more than one year. S E B is the leading bank for corporate customers in the Scandinavian countries. Total household savings in the S E B Group exceed SEK 300 billion. The capital which S E B manages on behalf of customers exceeds SEK 400 billion.

The S E B Group converted the investment bank Enskilda and S E B Kort into independent subsidiaries.

S E B acquired one-third of the shares in three leading Baltic banks with the aim of maintaining and developing its position in Northern Europe. Investments in the Internet have led to large customer use, both on the private client and the corporate side.

Demand for savings products in the form of funds and insurance is growing. Here, S E B has a sound market position. Within investment banking, competition increased, particularly from international companies. S E B's large share of the domestic market is then an advantage.

Swedish Match's operations consist of manufacturing various tobacco products such as cigarettes, cigars, snuff and chewing tobacco as well as matches and lighters. Cigarette and cigar sales account for approximately one-third of total sales.

Swedish Match owns a number of strong brandnames. Sweden is the main market but sales are also substantial in other European markets and in North America. Cash flow is strong.

The best-seller of the Astra pharmaceutical company, Losec, continues to be the leading treatment within gastrointestinal diseases. Astra also has successful products in the respiratory, cardiovascular and pain control segments.

During the year, Astra's joint venture with the American company Merck, which had continued since 1992, was terminated. With that, an opening was created for strategic business solutions with other partners. In December, a proposal was submitted for a merger with the British company Zeneca.

AstraZeneca would get a world-leading position in the therapy segments: gastrointestinal, cardiovascular, respiratory, cancer and pain control. The company anticipates annual cost savings of USD 1.1 billion within three years.

UNLISTED GROWTH SHARES

Over the past two years, Ratos has built a portfolio consisting of minor investments in unlisted companies which operate in the growth segments: IT, telecom and health-care. The investments refer to minority holdings in C-Technologies, Epani, Eurona, HealthCap, Micronic, Netch, PyroSequencing, TeleTrade and Teligent.

INDUSTRI KAPITAL

Ratos is a stakeholder in Industri Kapital's three buyout funds/consortia “1989”, “1994” and “1997”. The total market value was SEK 214M.

SHORT-TERM STOCK PORTFOLIO

Ratos' Asset management also comprises short-term share trading which is carried out in the subsidiary, Johnson & Borsell. The objective of the operation is to generate a high yield and also to maintain the good contact network among Swedish and international broker firms during periods of low activity in the main portfolio.

Shareholdings

31 December 1998		Number	Change 1998 number	Nominal value, SEK M	Book value SEK M	Market value, SEK M	Share of capital, %	Share of votes, %
SHAREHOLDINGS								
Trading	Dahl B	5,824,000		58.2	93.6	465.9	28.0	28.0
Office products	Esselte A	4,450,780		55.6	438.7	573.7	13.0	20.1
Real estate	PriFast [1]	9,334,452	2,235,800	46.7	607.6	504.0	46.6	46.6
	Capona redemption shares	9,334,452	9,334,452	0.0	0.0	247.4		
Service companies	Scandic Hotels	4,943,000	13,000	29.7	89.6	1.457.7	23.2	23.2
Transport	Air Cargo Express (subsidiary)	150,000	150,000	15.0	100.0	100.0	100.0	100.0
Telecom	Telelogic [2]	1,612,000	1,612,000	0.2	30.0	30.0	26.9	26.9
	Telia Overseas A	989,057	411,377	98.9	98.9	98.9	8.8	12.0
Media	TV8 (subsidiary) [3]	200,000	5,000	0.2	103.2	103.2	80.8	80.1
	(Inter Forward)		-2,400,000					
Total Active holdings					1,561.6	3,580.8		
Total Active holdings, excluding subsidiaries					1,358.4	3,377.6		
ASSET MANAGEMENT								
Insurance	Skandia A [4,5]	6,797,000	4,937,600	6.8	198.3	842.8	1.3	1.3
Medical technology	Gambro A [4,6]	7,500,000	6,000,000	15.0	282.5	660.0	2.2	2.9
	Oxigene	159,900	159,900	0.0	12.2	13.1	0.2	0.2
Forest	Stora Enso A [4,7,8]	2,261,214		22.6	79.4	158.3		
	Stora Enso R [4,7,8]	4,195,674	1,121,218	42.0	147.3	298.0	1.5	1.7
Banking	S E B, A	5,170,000	900,000	51.7	361.3	442.0	0.9	0.9
Consumer products	Swedish Match [4]	13,288,870	-246,130 [9]	29.2	342.8	388.9	3.1	3.1
Pharmaceutical	Astra A	2,289,000	800,000	2.9	299.8	378.8	0.1	0.2
	(Astra B)		-800,000					
Engineering	Svedala [4]	2,400,000	761,150	12.0	251.4	283.2	5.0	5.0
	Haldex	620,280	620,280	3.1	72.7	50.9	2.8	2.8
Automotive	Scania A	822,180		8.2	144.4	122.5		
	Scania B	568,800		5.7	106.8	85.3	0.7	0.8
	Scania WT	2,540,000		–	28.5	4.8		
Real estate	Pandox	1,499,500	550,500	22.5	79.1	87.0	10.0	10.0
	(Pandox TR)		-949,000					
					2,406.5	3,815.6		
Unlisted growth shares [10]		spec page 31			162.2	162.2		
"Emerging markets"		spec page 31			25.6	3.5		
Industri Kapital (partly unlisted)		spec page 31			122.4	214.0		
Other		spec page 31			1.1	1.1		
Subtotal					2,717.8	4,196.4		
Stock portfolio, current assets [10]					46.7	46.7		
Total Asset management					2,764.5	4,243.1		
TOTAL STOCK PORTFOLIO, Group					4,326.1	7,823.9		

1) In the Group, the holding in PriFast is booked at a value which is SEK 138.7M lower than in the Parent Company.
2) Purchase of 1,612, split 1,000:1.
3) New share issue.
4) Of which utilised for the share loans: Gambro 1,000,000, Skandia 1,000,000, Stora Enso A 254,145, Stora Enso R 471,565, Svedala 400,000, Swedish Match 200,000.
5) Split 5:1.
6) Formerly Incentive, split 5:1.
7) In the Group, the holding in Stora Enso is booked at a value which is SEK 12.4M higher than in the Parent Company.
8) Merger Stora Enso, 887,000 Stora were sold.
9) Of which new share issue 318,100.
10) Shares held for dealing purposes include HealthCap with SEK 20M which is an unlisted growth share.

31 December 1998		Number	Change 1998, number	Nominal value, SEK M	Book value, SEK M	Market value, SEK M	Share of capital, %	Share of votes, %
Unlisted growth shares								
Telecom	Teligent	2,853,552	-10,000	0.3	33.9	33.9		
	(Teligent TO)		-219.000				23.2	23.2
	Teligent TO2	97,900	97,900		0.0	0.0		
IT	C-Technologies	369,231	369,231	0.1	12.0	12.0	11.5	11.5
	Micronic Laser Systems	1,121,438	321,438	1.1	46.5	46.5	8.0	8.0
	Netch Technologies	333		0.0	7.5	7.5	25.0	25.0
	Epani Systems	3,650	3,650	0.4	20.0	20.0	25.9	25.9
Medical technology	Eurona Medical	35,000		0.0	17.5	17.5	6.0	6.0
	Eurona Medical TO	35			0	0		
	PyroSequencing	180,000	180,000	0.2	16.7	16.7	5.1	5.1
Financial services	TeleTrade [1]	1,418,575	1,318,575	1.4	8.1	8.1	14.2	14.2
Total unlisted growth shares				162.2		162.2		
"Emerging markets"								
	Brunswick Russian Emerging Equities Trust	206,186			15.5	1.2		
	SBC Perles, Russia, 000525	1,400	1,400		10.1	2.3		
	(Carlson Fund Pacific)		-8,248,106					
	(SBC Malaysian Perles 0.01 Call 980630)		-4.101					
	(SBC Thailand Set 50IDX Perles 990331)		-1,096,000					
Total "Emerging markets"					25.6	3.5		
Industri Kapital								
Industri Kapital 1989	Brunkebergstorgs Glassintressenter AB	3		0.0	0.0	0.0	6.0	9.6
	Crisplant Holding Sv AB	33		0.0	0.0	0.0	6.6	11.6
	Crisplant Industries AS	152,488		DKK 1.5	4.3	50.3	3.2	3.2
	Guldfynd AB	3,454		0.0	3.5	7.1	6.3	7.6
	Nyge Aero Norden AB	8,704			0.9	2.4	6.2	7.7
	(Idesta Holding AB)		-4,581	0.1				
Industri Kapital 1994	Addtek, International Oy, A	12,469	12,469	FIM 1.2	1.8	2.0		
	Addtek, International Oy, B	9,133		FIM 0.9	1.3	1.5	1.7	1.9
	Addtek, International Oy, IL	53,820	30,950	FIM 5.4	7.8	8.5		
	(Addum)		-134,664					
	Amas BV, pref	2,220		NLG 0.2	1.0	2.0		
	Amas BV, stam	180		NLG 0.0	0.0	0.2	2.4	2.5
	Amas Copex AB	20		0.0	0.0	0.0	2.0	4.7
	Amas Copex AB konv	20		NLG 0.0	0.0	0.0		
	Brunkebergstorgs Invest AB	24		0.0	0.0	0.0	4.8	3.5
	Viking Sewing Machines [2]	110,208		0.1	11.0	11.0	4.4	4.7
	Metsa Specialty Chemicals OY	95,513		FIM 2.9	14.0	30.8	3.2	3.3
	Nobia AB	141,350		0.1	14.1	21.9	4.5	4.8
	Addum Intressenter	52,597	52,597	0.3	5.3	18.5	3.1	4.6
	Pandalus	21,821	21,821	BEF 21.8	4.7	5.1	4.4	4.7
					69.7	161.3		
Industri Kapital 1997					52.7	52,7		
Total Industri Kapital					122.4	214.0		
Other								
	Sudimer	1,000			1.1	1.1		
	(SvD)		-9,000					
	(Stockholms Fondbörs)		-3,858					
Total other					1.1	1.1		

1) Danielsson & Partners merged with Venture Capital, change of name to TeleTrade. Purchase of 58,500 Danielsson & Partners.
2) Formerly Husqvarna.

Directors' Report

The Board of Directors and the President of Förvaltningsaktiebolaget Ratos (publ) hereby submit their report for 1998.

The Parent Company's result after tax amounted to SEK 643M (244). The result includes capital gains of SEK 572M (123), financial income and expenses of SEK -31M (42) and management costs of SEK -62M (-56). The Parent Company's dividend income amounted to SEK 168M (135).

PRESIDENT AND CHAIRMAN

In late spring, Urban Jansson resigned at his own request as President of Ratos and Olof Stenhammar replaced Sven Söderberg as Chairman. Thomas Mossberg was appointed Acting President and Olle Isberg Executive Vice President. During the autumn, Arne Karlsson was appointed new President from 1 January 1999.

CHANGED STRATEGIC ORIENTATION

In December 1998, the Board of Directors decided on a further development of Ratos' strategy. Ratos will gradually increase its investment in Active holdings. The proportion of listed holdings will increase and the proportion of Asset management reduce. By being an active owner, Ratos will work with the three value-added stages: acquisition, development and sale of companies. The Board of Directors is of the opinion that this is the best way of creating the highest possible yield and at the same time establishing a unique alternative on the stockmarket.

The change towards an increased proportion of unlisted holdings means that Ratos' redemption program can no longer be applied with its present construction and in December 1998, the Board decided to terminate it.

YIELD

During 1998, the market price of the Ratos share fell by 20 per cent from SEK 71 to SEK 57 per share. The Affärsvärlden General Index rose by 10 per cent.

Total yield was -12 per cent in 1998. Of the total yield of -12 per cent, 3 per cent is explained by an increase in net asset value (excluding dividends and effect of redemption), -23 per cent by increased net asset value discount, 3 per cent by dividend paid and 5 per cent by detached redemption right. The Findata Yield Index, which includes dividends and is therefore comparable with the total yield of the Ratos share from a definition viewpoint, rose by 13 per cent.

NET ASSET VALUE

During 1998, Ratos' net asset value increased to SEK 87 per share, equivalent to 7 per cent, adjusted for dividend paid and redemption. Total net asset value amounted to SEK 7,073M. Redemption of shares took place at a total value of SEK 869M, and dividend paid amounted to SEK 271M.

ACTIVE HOLDINGS

Ratos' Active holdings consist of shares in Dahl, Esselte, PriFast, Scandic Hotels, ACE, Capona, Telelogic, Telia Overseas and TV8. During the year, in principle the whole of the Inter Forward Group was divested. Remaining within Ratos is the air forwarding company, ACE. In Active holdings, SEK 317M net was invested during the year. Investments were made for SEK 196M in PriFast shares, SEK 3M in Scandic Hotels, SEK 50M in TV8, SEK 30M in Telelogic and SEK 41M in Telia Overseas. The holding in TV8 is equivalent to 80 per cent of shares and votes. Scandic warrants for SEK 3M were sold.

On 11 February 1999 Ratos and EQT, through the jointly-owned company Dahl Intressenter AB, made a cash bid for all the shares in Dahl. The offer involves a total bid value of SEK 2,496M, which is equivalent to SEK 120 in cash per share in Dahl. Dahl Intressenter will be 49 per cent-owned by Ratos and 51 per cent-owned by EQT.

ASSET MANAGEMENT

Shares were bought for SEK 808M and sold for SEK 888M. At the year-end, the stock portfolio of Asset management had a market value of SEK 4,243M (4,324). The hidden reserve amounted to SEK 1,478M. Capital gains in Asset management's portfolio amounted to SEK 301M.

Acquisitions were mainly made in S E B, Svedala, Haldex and in unlisted growth shares. In addition, investments were made in PyroSequencing, Epani, C-Technologies and other companies.

The unlisted growth shares, C-Technologies, Epani, Eurona, Micronic, Netch, PyroSequencing, TeleTrade and Teligent were sold for SEK 189M on 17 February 1999 which generated a capital gain of SEK 26M.

MANAGEMENT COSTS

Ratos' expenses amounted to SEK 65M (72) in 1998. This includes costs for synthetic options of SEK 1M (6) and transaction-related costs of SEK 1M (17). Excluding these costs, Ratos' management costs in 1998 constituted 0.9 per cent (0.6) of the net asset value at the 1998/99 turn of year.

REDEMPTION OF SHARES

Within the framework of Ratos' redemption program, reconciliation between net asset value per share and market price for the Ratos B share was carried out on four occasions. The reconciliation in August resulted in the start of a redemption procedure. On 1 October, an Extraordinary General Meeting decided to offer the shareholders redemption of every tenth share at SEK 97 per share. This resulted in redemption of 85,933 A shares and 8,871,245 B shares in Ratos. Payment of the redemption amount, SEK 869M, to the shareholders was made on 2 December 1998.

The EGM on 1 October passed a resolution regarding a new issue of 9,027,760 C shares directed at the National Pension Insurance Fund, 6th Fund Board. A resolution was also passed to reduce the share capital through redemption of these shares.

FINANCIAL POSITION

Liquid assets in central companies fell to SEK -811M (33) and were affected by redemption and carried-out share investments. At the period end, liquid funds in the Group were SEK 36M (522).

THE YEAR 2000

In connection with the turn of the Millennium, IT problems may arise. In the Parent Company and the subsidiaries, a problem inventory was carried out and a plan drawn up for necessary action. The plan means that necessary measures will have been implemented in good time before the turn of the Millennium.

FUTURE DEVELOPMENT

With Ratos' strategy as an owner company, the yield to the shareholders will in the future primarily be dependent on Ratos' ability to acquire, develop and divest Active holdings and implement other shareholder value-creating measures. The general economic trend and the stockmarket trend are also important.

REPORT OF THE WORK OF THE BOARD OF DIRECTORS

During the year, Ratos' Board of Directors consisted of nine Members – eight following the resignation of the former President in May – elected by the Annual General Meeting. The President took part in the Board Meetings. Other senior executives attended when required.

During the 1998 financial year, the Board held thirteen minuted meetings. Current issues are handled in accordance with a plan. Other issues which are discussed during the Meetings are governed by the current business situation.

The Board of Directors has appointed a Committee which deals with remuneration of the President and executives who report to the President as well as remuneration issues of a principal nature.

OTHER INFORMATION

The Group's non-restricted funds amounted to SEK 1,969M. Of these, it is proposed that SEK 0M be transferred to restricted shareholders' equity.

PROPOSED DISTRIBUTION OF PROFIT

The following amounts are at the disposal of the AGM:	SEK M
Profit brought forward	1,642
Net result for the year	643
	2,285

The Board of Directors and the President recommend the following distribution of profit:

Dividend to holders of A and B shares SEK 3.50 per share	285
To be carried forward	2,000

Stockholm, 18 February 1999

Olof Stenhammar
Chairman

Lars Bern | Peggy Bruzelius | Harry Faulkner | Göran Grosskopf

Mikael Lilius | Lars Söderberg | Sven Söderberg | Arne Karlsson
President

Consolidated Statement of Income

SEK M	Note 1	1998	1997
Active holdings			
Results of subsidiaries	Note 2, 3	-69	-61
Dividends, other	Note 4	72	59
Capital gains, other	Note 5	201	0
Result of Active holdings		204	-2
Asset management			
Dividends	Note 4	96	77
Capital gains	Note 5	301	109
Result of Asset management		397	186
Central income and expenses			
Management costs	Note 6	-65	-72
Financial items	Note 7	-19	53
Group overheads		-84	-19
Consolidated earnings before taxes		517	165
Taxes	Note 8	1	-1
Net result for the year		518	164

Consolidated Statement of Changes in Financial Position

SEK M	Note 19	1998	1997
CASH FLOW			
Active holdings			
Subsidiaries		305	-19
Acquisitions and sales of shares, net		-317	1
Dividends		72	59
Active holdings		60	41
Asset management			
Acquisitions and sales, net		80	-850
Dividends		96	77
Asset management		176	-773
Central cash flow		-80	-41
Group cash flow after investments/divestments		156	-773
FINANCING			
Change in liquid funds		43	-31
Change in short-term investments		443	1,770
Change in other interest-bearing liabilities and receivables		385	49
Redemption of shares		-869	-754
New share issue [1]		113	–
Dividend paid		-271	-251
Exchange rate differences on foreign loans		–	-10
Total financing		-156	773

[1] C shares

Consolidated Balance Sheet

SEK M		31 Dec 1998		31 Dec 1997	
ASSETS					
Fixed assets					
Intangible					
Active holdings					
- Goodwill	Note 9	48	48	87	87
Tangible					
Active holdings					
- Buildings and land	Note 10	–		96	
- Equipment	Note 11	17		85	
Central operations					
- Buildings and land	Note 10, 23	12		13	
- Equipment	Note 11	3	32	2	196
Financial					
Active holdings					
- Long-term receivables, non-interest-bearing		–		4	
- Long-term receivables, interest-bearing		–		9	
- Shares	Note 12	1,358		1,092	
- Other shares and participations	Note 12	13		26	
Asset management					
- Shares and participations	Note 12	2,718		2,537	
Central operations					
- Long-term receivables		16		33	
- Shares and participations	Note 12	3	4,108	2	3,703
Total fixed assets			4,188		3,986
Current asset					
Inventories					
Active holdings		17	17	14	14
Current receivables					
Active holdings					
- Trade debtors		65		620	
- Other current receivables		3		46	
- Prepaid expenses and accrued income		9		35	
Asset management					
- Other current receivables		17		–	
Central					
- Other current receivables		46		1	
- Prepaid expenses and accrued income		3	143	16	718
Short-term investments					
Asset management					
- Shares and participations	Note 13	47		38	
Central operations					
- Bonds and other securities	Note 14	–	47	443	481
Cash and bank	Note 14	36	36	79	79
Total current assets			243		1,292
Total assets			4,431		5,278

SEK M			31 Dec 1998		31 Dec 1997
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	Note 15				
Share capital		1,129		1,128	
Restricted reserves		451		390	
Non-restricted reserves		1,451		2,375	
Net result for the year		518	3,549	164	4,057
Minority interest		–	–	1	1
Provisions	Note 16				
Provisions for pensions		15		79	
Provisions for taxes		53		82	
Other provisions		20	88	50	211
Long-term liabilities					
Non-interest-bearing liabilities					
Other long-term liabilities		–	–	1	1
Interest-bearing liabilities	Note 17				
Bank overdraft facilities		46		86	
Bank loans and promissory note loans		50	96	55	141
Current liabilities					
Non-interest-bearing liabilities					
Trade creditors		56		432	
Accrued expenses and prepaid income		73		226	
Other current liabilities		50	179	171	829
Interest-bearing liabilities					
Bank loans and promissory note loans		519	519	38	38
Total shareholders' equity and liabilities			4,431		5,278
Pledged assets					
For own liabilities			None		
Real estate mortgages					55
Floating charges					33
Trade debtors					192
Contingent liabilities	Note 18				
Guarantees and contingent liabilities			51		161

Statement of Income

SEK M		Note 22	1998		1997	
Operating income						
Dividend on shares	from subsidiaries		–		–	
	from others		168	168	135	135
Capital gain on securities				572		123
Interest	from subsidiaries		3		34	
	from others		11		35	
	to subsidiaries		-11		-9	
	to others		-18	-15	-18	42
Other financial income and expenses				-16		–
Operating expenses						
Administrative costs						
- External costs				-34		-35
- Personnel costs				-30		-22
- Depreciation				-1		-1
Other operating income and expenses				3		2
Result before taxes				647		244
Taxes				-4		0
Net result for the year				643		244

Statement of Changes in Financial Position

SEK M		1998	1997
Current operations			
Result before taxes, capital gains and shareholder contributions		71	121
Change in working capital		-28	306
Funds used in current operations		43	427
Change in stock portfolio			
Shares in subsidiaries:	sale of subsidiaries	723	199
	acquisition of subsidiaries	-150	-50
	transferred to/from listed stocks	–	-3
Listed stocks:	investment	-602	-1,757
	transferred from/to shares in subsidiaries	–	3
	sale	449	363
Other shares:	investment	-179	-145
	sale	31	121
Other:	investment	0	-3
Net change in stock portfolio		272	-1,272
Cash flow		315	-845
Financing			
Change in short-term investments		443	-443
Change in interest-bearing receivables and liabilities		269	2,293
Redemption of ordinary shares		-869	-754
New share issue [1]		113	–
Dividend paid		-271	-251
Total change in financing		-315	845

[1] C shares

Balance Sheet

SEK M		31 Dec 1998		31 Dec 1997	
ASSETS					
Fixed assets					
Tangible					
Buildings and land	Note 23	12		13	
Equipment	Note 24	3	15	2	15
Financial					
Shares in subsidiaries	Note 25	209		359	
Shares, non-subsidiaries, see page 30	Note 26	4,202		3,752	
Other shares and participations	Note 26	2		2	
Receivables from subsidiaries					
- interest-bearing		22		–	
Other long-term receivables		17	4,452	33	4,146
Current assets					
Current receivables					
Receivables from subsidiaries					
- interest-bearing		10		4	
Other current receivables		2		1	
Prepaid expenses and accrued income		3	15	16	21
Short-term investments	Note 14		–		443
Cash and bank			0		0
Total assets			4,482		4,625
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Restricted equity					
Share capital	Note 27	1,129		1,128	
Statutory reserve		251	1,380	251	1,379
Non-restricted equity					
Profit brought forward		1,642		2,425	
Net result for the year		643	2,285	244	2,669
Provisions					
Provisions for pensions		15		16	
Provisions for taxes		14	29	29	45
Long-term liabilities					
Interest-bearing liabilities	Note 28				
Bank overdraft facilities		46		35	
Bank loans and promissory note loans		50		55	
Liabilities to subsidiaries		61	157	164	254
Current liabilities					
Non-interest-bearing liabilities					
Issued options in accordance with option program	Note 29	–		11	
Trade creditors		2		2	
Liabilities to subsidiaries		5		5	
Other current liabilities		16		11	
Accrued expenses and prepaid income		29	52	64	93
Interest-bearing liabilities					
Liabilities to subsidiaries		60		147	
Other current liabilities		519	579	38	185
Total shareholders' equity and liabilities			4,482		4,625
Pledged assets			None		None
Contingent liabilities					
Guarantees on behalf of subsidiaries			46		159
Other contingent liabilities			2		2

Notes to the Financial Statements

Ratos is an investment company with, at the present time, mainly listed holdings. The effect of this status is that associated company accounting in respect of the Parent Company's directly-owned associated companies is deemed to show the result of the position of the operations less accurately. Against this background, the Statements of Income and Balance Sheets are reported both without and with equity method (Note 1).

The accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations.

PRINCIPLES OF CONSOLIDATION

Consolidation

The Consolidated Financial Statements comprise Förvaltningsaktiebolaget Ratos (publ) and companies in which Ratos directly or indirectly owns more than 50 per cent of the voting rights at year-end.

The Consolidated Accounts have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation regarding consolidated accounting and with application of acquisition accounting.

Accounts of associated companies (NOTE 1)

The Group applies accounting of associated companies in accordance with the equity method for associated companies in which the Group has not less than 20 per cent and not more than 50 per cent of the voting rights. The equity method means that the book value in the Group of the shares in the associated companies corresponds with the Group's shares in shareholders' equity in the associated companies as well as any residual values on Groupwise over- and under-values. In the Consolidated Statement of Income, the Group's shares in the results of the associated companies after financial income and expenses adjusted for depreciation of acquired surplus values are reported as "Share in results of associated companies". The Group's shares in net taxes of the associated companies are included in the Group's tax expenses. Profit shares which have been worked up after the acquisitions of the associated companies and which have not yet been realised through dividend are accounted in the equity reserve. The equity reserve constitutes a part of the Group's restricted equity.

Shares in results of associated companies owned directly by the Parent Company are reported with one quarter's delay due to the fact that more recent information from the associated company is not consistently available.

Untaxed reserves

The equity portion of untaxed reserves is reported as restricted equity and is included in restricted reserves. The taxed portion of untaxed reserves is shown as deferred tax and is classified as provision. Losses carried forward are given a value to the extent that it is possible to utilise them and, in addition, can be settled against existing deferred tax liability.

Translation of foreign subsidiaries

Ratos follows the proposed recommendation issued by the Swedish Institute of Authorised Public Accountants (FAR). The foreign subsidiaries are translated into SEK through translation of all balance sheet items at closing day rate and all items in the statement of income at the average annual rate. Translation differences, which arise in application of this translation method, are reported direct in the consolidated equity.

Acquisition and sale of companies

Companies sold during the year are included in the Consolidated Statement of Income with income and expenses during the period of holding. On acquisition of companies, the company's result is included in the consolidated result from date of acquisition.

OTHER ACCOUNTING PRINCIPLES

Receivables and liabilities in foreign currency

Ratos follows the Swedish Accounting Board's recommendation number 7. This means that receivables and liabilities in foreign currency are valued at closing day rate. The difference between previous book value and closing day value is taken up as income. Unrealised exchange gains on long-term receivables and liabilities in foreign currency are allocated to a foreign exchange reserve in the individual company. The foreign exchange reserve is shown as an appropriation in the Statement of Income and as an untaxed reserve in the Balance Sheet.

Assignments in progress

In the forwarding operations, income recognition is made when the assignment has been completed.

Film rights, TV8

The acquisition cost for film rights is capitalised as inventories. Film rights are written-off on the basis of actual transmission time.

Shares

Shares, current and fixed assets, respectively, are regarded as portfolios and valued collectively on an individual basis. If book values of certain classes of shares exceed the market value, no write-down is made of these as long as total book value is less than market value.

Pension obligations

Pension obligations which are not settled with insurance premiums or payments to foundations are reported as a provision in the Balance Sheet.

Depreciation according to plan

Depreciation according to plan is determined on the basis of the acquisition values of the assets and their estimated economic life. Machinery and equipment are depreciated by 10-20 per cent, computer programs by 33 per cent. Buildings are depreciated by 1-4 per cent. Depreciation of goodwill is made by 7-20 per cent, in accordance with individual examination. Goodwill which has arisen on acquisition with anticipated sustained financial result and cash flow and which has provided a significant market position is depreciated over 15 years.

Income and expenses affecting comparability in Ratos

In accordance with the Swedish Accounting Standards Council' s recommendation number 4, income and expenses affecting comparability are reported in operating results before depreciation.

Income and expenses affecting comparability are reported separately with the basic aim of being able to report the current results in the Ratos Group in other respects and to increase comparability between the years.

For operating companies, the following items affecting comparability are identified:

- Sale of real estate
- Sale of shares
- Insurance compensation on loss of fixed assets
- Write-down of fixed assets (which is not reported as restructuring cost)
- Restructuring income/expense

In order for the items to be reported separately, they must be tangible amounts for the Ratos Group.

Restructuring costs refer to structural changes in operating companies which, in relation to the activities in the operating companies, are significant and temporary and may refer to sale of operations, closure of (the whole or part of) the operation, write-down of fixed assets (if it is linked to structural change).

Exchange differences on hedging loans and forward cover

Realised and unrealised exchange gains/losses on hedging loans and forward contracts, excluding hedging loans on portfolio of listed stock, are reported direct to shareholders' equity to the extent that they are equivalent to a translation difference on translation of foreign subsidiaries. Any remaining exchange gains/exchange losses are reported in the Statement of Income.

NOTE 1

Consolidated Statement of Income by application of the equity method

Statement of Income, SEK M	1998	1997
Net sales	903	4,833
Other operating income	11	17
Other external expenses	-909	-4,313
Personnel costs	-126	-618
Depreciation	-21	-60
Shares in results of associated companies	351	222
Operating result after depreciation	209	81
Result from other securities and receivables which are fixed assets	605	186
Other interest income and similar income items	20	86
Interest expenses and similar expense items	-41	-31
Result before allocations and taxes	793	322
Tax on the year's result	1	-2
Tax from associated companies on net result of the year	-73	-56
Other taxes	–	3
Net result for the year	721	267

Balance Sheet, SEK M	1998	1997
ASSETS		
Fixed assets		
Intangible fixed assets	48	87
Tangible fixed assets	32	196
Financial fixed assets	4,644	4,034
Total fixed assets	4,724	4,317
Current assets		
Inventories, etc	17	14
Current receivables	143	718
Short-term investments	47	481
Cash and bank	36	79
Total current assets	243	1,292
Total assets	4,967	5,609
SHAREHOLDERS' EQUITY AND LIABILITIES		
Restricted equity, Note 15	2,116	1,849
Non-restricted equity, Note 15	1,969	2,539
Shareholders' equity	4,085	4,388
Minority interest	–	1
Provisions	88	211
Long-term liabilities	96	91
Current liabilities	698	918
Total shareholders' equity and liabilities	4,967	5,609

Participations in associated companies, Parent Company

Consolidated values, SEK M	1998
Accumulated acquisition values	
On 1 January	1,075
Investments	249
Issued option premiums	-3
	1,321
Accumulated shares in results, etc	
On 1 January	331
The year's shares in results after tax	275
Less dividend from associated companies	-72
The year's translation difference	2
	536
Groupwise value	1,857

NOTE 1 cont.

Specification of the Company's holding of shares and participations in associated companies in the Parent Company

Associated company, corp id no, reg off	Number	Share, %	Share of capital, SEK M
Dahl, 556256-0085, Stockholm	5,824,000	28	368
Esselte, 556011-4554, Stockholm	4,450,780	13	405
PriFast, 556006-4973, Stockholm	9,334,452	47	662
Scandic Hotels, 556299-1009, Stockholm	4,943,000	23	349
Netch Technologies, 556505-1801, Lund	333	25	3
Telelogic, 556049-9690, Malmö	1,612	27	25
Teligent, 556398-7154, Nynäshamn	2,863,552	23	27
Epani, 556482-3853, Halmstad	3,650	26	18
			1,857

Nestron (London), Drumheid (Stockholm) and Scandinavian Aircraft Leasing (Stockholm) are associated companies in centrally-placed subsidiaries with insignificant proportions of equity.

NOTE 2

Results of subsidiaries

SEK M	1998	1997
Net sales	849	4,833
Other operating income	5	12
Other external expenses	-822	-4,240
Personnel costs	-85	-586
Depreciation	-19	-59
Items affecting comparability	–	-31
Shares in results of associated companies	3	7
Operating result after depreciation	-69	-64
Other interest income and similar income items	3	16
Interest expenses and similar expense items	-3	-13
Result before allocations and taxes	-69	-61

During 1998, Inter Forward was gradually sold..

Participations in associated companies outside the Parent company

SEK M	1998
Accumulated acquisition values	
On 1 January	12
Investments	2
Divestments	-8
	6
Accumulated share in results	
On 1 January	14
The year's shares in results	2
Divestments	-3
Valued as per balance sheet	13

Specification of holdings of shares and participations in associated companies owned by subsidiaries

Associated company, corp id no, reg off	Share, %	Share of capital, SEK M
Cargo Link AB, 556187-6880, Sigtuna	45	4
Malmö Flygfraktterminal AB, 556061-7051, Malmö	22	3
Cargo Center Sweden KB, 556030-8374, Sigtuna	20	2
Sweden Air Cargo Terminals AB, 556148-2869, Sigtuna	50	4
		13

The value of the shares of equity corresponds with the ownership proportion of shareholders' equity for the respective associated company.

NOTE 3

Depreciation according to plan

SEK M	Active holdings 1998	Active holdings 1997	Other 1998	Other 1997
Goodwill	10	19	0	0
Buildings	–	8	0	0
Equipment	10	33	1	0
	20	60	1	0

NOTE 4

Dividends

SEK M	Active holdings	Asset management	Total
Associated companies	72	–	72
Financial fixed assets	–	95	95
Financial current assets	–	1	1
Total	72	96	168

NOTE 5

Capital gains

SEK M	Active holdings	Asset management	Total
Financial fixed assets	201	295	496
Financial current assets	–	6	6
Total	201	301	502

NOTE 6

Management costs

SEK M	1998	1997
External costs	-32	-39
Personnel costs	-32	-32
Depreciation	-1	-1
Total	-65	-72

The personnel costs include the costs for synthetic options at SEK 1M (6).

NOTE 7

Financial result items, central operations

SEK M	1998	1997
Financial fixed assets	0	1
Financial current assets	29	52
Financial short-term liabilities	-48	–
Total	-19	53

NOTE 8

The Group's taxes

SEK M	1998	1997
Paid tax	2	-2
Deferred tax	0	3
Shares in taxes of associated companies (not Parent Company)	-1	-2
	1	-1
Shares in taxes of associated company (Parent Company)	-73	-54
	-72	-55

NOTE 9

Goodwill

SEK M	1998
Accumulated acquisition values	
On 1 January	180
Divestment	-79
	101
Accumulated amortisation according to plan	
On 1 January	-93
The year's amortisation	-10
Divestment	50
	-53
Values as per the Consolidated Balance Sheet	48
Of which Active holdings	48

NOTE 10

Buildings and land

SEK M	1998
Accumulated acquisition values	
On 1 January	176
Divestment	-159
	17
Accumulated depreciation according to plan	
On 1 January	-67
The year's depreciation	0
Divestment	62
	-5
Value as per the Consolidated Balance Sheet	12
Of which Other	12
Tax assessment value in Sweden	48

Paid rents during the financial year relating to real estate at future rents for contracts entered into amount to:

	1998	1999	2000	2001	2002	2003
Rents	6	6	5	4	1	–

NOTE 11

Equipment

SEK M	1998
Accumulated acquisition values	
On 1 January	237
Investments	6
Divestments	-199
	44
Accumulated depreciation according to plan	
On 1 January	-150
The year's depreciation	-11
Divestments	137
	-24
Value as per the Consolidated Balance Sheet	20
Of which Active holdings	17
Other	3

Paid leasing charges during the financial year relating to equipment and future charges for contracts entered into to amount to:

1998	1999	2000	2001	2002	2003
1	1	1	1	–	–

NOTE 12

Shares and participations

SEK M	Number	Nominal value	Book value
Active holdings, shares, (see page 30)			1,358
Asset management, shares and participations (see page 30)			2,718
Shares and participations owned by subsidiaries (see Note 2)			13
Central operations			
Anglo Scandinavian Aircraft Leasing KB	205	19.5	0.0
Drumheid AB	410	0.0	0.0
Brf Gråberget			2.5
Nestron Ltd	2,249.500	GBP M 2.2	0.0
			2.5

Nestron Ltd

Ratos Fastighets AB owns 45 per cent of the British real estate company, Nestron Ltd, which at year-end owned seven industrial properties located primarily in Central and South-East England.The majority of the company's real estate holding was divested during the year. The book value of the properties on 31 December 1998 is GBP 4.1M. The company's shareholders' equity is GBP -1.2M (-0.5).

NOTE 13

Asset management

Shares and participations, current assets

SEK M	Number	Nominal value	Book value	Market value
CashCap	2,193	0.0	0.0	0.0
HealthCap	10,000,000	10.0	10.0	10.0
HealthCap CoInvest	10,000,000	10.0	10.0	10.0
Hotellus International AB	183,000	18.3	18.3	18.3
ASTRA A	10,000	1.7	1.7	1.7
City Mail	10,000	0.0	0.6	0.6
Haldex	11,800	1.0	1.0	1.0
Know IT	8,000	1.1	1.1	1.1
Ericsson	10,000	1.9	1.9	1.9
OM Gruppen	5,000	0.5	0.5	0.5
Avalon Oil	190,000	GBP M 0.0	0.0	0.0
Rurik Ord	300,000	0.0	1.0	1.0
SCD Danisco	10,000	DKK M 0.2	0.6	0.6
Total shares and options			46.7	46.7

NOTE 14

Bonds and other securities

SEK M	1998	1997
Government bonds	–	80
Treasury bills	–	260
Commercial paper	–	103
Other	–	–
	–	443

Cash

In accordance with the Swedish Customs Act, separate funds of SEK 2.6M (26) are included.

NOTE 15

Shareholders' equity

Share capital	SEK M
Balance on 31 December 1997	1,128.5
Redemption of shares	-111.9
Issue of shares	112.8
Balance on 31 December 1998	1,129.4
Restricted reserves	
Balance on 31 December 1997	389.6
Transfer non-restricted/restricted	60.6
Balance on 31 December 1998	450.2
Retained earnings	
Balance on 31 December 1997	2,374.6
Net results for 1997	164.3
Transfer restricted/non-restricted	-60.6
Translation difference	0.3
Redemption of shares	-756.9
Dividend paid	-270.8
Balance on 31 December 1998	1,450.9

With application of the equity method for the Parent Company' s associated companies, the Group's shareholders' equity increases by SEK 536.2M (331.1) and the result by SEK 203.3M (103).The Group equity reserve amounted to SEK 593.7M (344.1) on closing date.

NOTE 16

Provisions

Deferred tax is included in allocation for taxes by SEK 0M.

The decrease in Other provisions is connected with phasing-out of options linked to Nestron properties.

NOTE 17

Liabilities to credit institutions

SEK M	31 December 1998
Maturity, between 1 and 5 years after closing date	64
Maturity, later than 5 years from closing date	32
	96

NOTE 18

Contingent liabilities

Refers mainly to contingent liabilities for partly-owned companies.

NOTE 19

Statement of changes in financial position

Change in net receivable	SEK M
Balance on 31 December 1997	277
Cash flow	156
Redemption of shares	-869
Dividend paid	-271
Issue	113
Balance on 31 December 1998	-594

NOTE 20

Average number of employees

Group	1998 Total	1998 of whom men, %	1997 Total	1997 of whom men, %
Total	242	55	1,795	61
Of whom, in				
Sweden	182	51	1,040	58
Finland	7	71	36	44
Denmark	14	79	18	72
Other countries	39	67	701	64

NOTE 21

Salaries, other remunerations and payroll overheads

PARENT COMPANY

Salaries and other remunerations

SEK M	1998	1997
Board of Directors and President, Executive Vice President (Sweden)	8.7	7.3
(of which bonus)	(1.1)	(1.1)
Other employees (Sweden)	9.3	7.8
Total	18.0	15.1
Payroll overheads	12.8	9.6
(of which pension costs)	(6.1)	(2.9)

Of the Parent Company's pension costs, SEK 5.7M (2.3) refers to the Board of Directors and President. The Company's outstanding pension obligations to these amount to SEK 14.5M (16.4).

Until May 1997, the Parent Company's personnel were employed in a centrally-placed subsidiary and thereafter in the Parent Company. Information regarding "Salaries and other remunerations", "Payroll overheads" and

NOTE 21 cont.

"Pension costs" refer to the combined cost for 1998 and 1997, respectively.

GROUP

Salaries and other remunerations

	Board of Directors, President and Executive Vice President		Other	
SEK M	1998	1997	1998	1997
Total	18.1	38.4	64.3	410.3
(of which bonus)	(1.1)	(3.4)	(–)	(–)
of which				
Sweden	15.8	19.2	52.8	239.4
(of which bonus)	(1.1)	(2.1)	(–)	(–)
Other countries	2.3	19.2	11.5	170.9
(of which bonus)	(–)	(1.3)	(–)	(–)

	Total 1998	Total 1997
Payroll overheads	35.7	157.1
(of which pensions costs)	(10.5)	(29.2)

Of the Group's pension costs, SEK 6.7M (5.2) refers to the Board of Directors and President. The Company's outstanding pension obligations amount to SEK 14.5M (22.9).

Remuneration to Senior Executives and Board Members
During 1998, as decided by the AGM, SEK 1,325K was paid to the Board of Directors, of which SEK 275K to the Chairman.

Salary and other remuneration, including salary during the period of notice, for the President amounted to SEK 6,043K in 1998, of which SEK 780K in bonus.

From 1 January 1999, the President will receive annual remuneration of SEK 2,500K excluding bonus. Pension premiums amount to 20 per cent of the salary. Mutual period of notice is 6 months. Severance pay is equivalent to 2 years' salary and cannot be triggered by the President. Remuneration from a third party is deducted. On change of principal owner, severance pay equivalent to 2 years' salary can be triggered by the President.

For other Senior Executives in the Ratos Group there are no agreements relating to severance pay which amount to more than 2 years' salary. Pension is paid from the age of 65, with a few exceptions. An individual executive cannot trigger severance pay except in one instance, on change of principal owner.

PARENT COMPANY

NOTE 22

Income from operations

SEK M	Dividends received	Capital gain	Interest
Subsidiaries	–	303	-8
Associated companies	72	–	–
Other financial fixed assets	96	269	–
Financial current assets	–	–	11
Liabilities, external	–	–	-18
Total	168	572	-15

Management costs
Personnel costs include costs for synthetic options at SEK 0.5M (5.6M).

Other income and expenses
Other income and expenses include the result from the Parent Company's property at SEK 0.8M (2.1), of which depreciation of building, SEK 0.3M (0.3) and costs of repairs, SEK 0.3M (1.0).

Taxes
The Parent Company is taxed in accordance with the regulations for investment companies. The effect of these is that capital gains are not taxable. In return, the investment companies must enter a standard income of 2 per cent of the market value of the shares held on 1 January in their tax return. This standard income amounted to SEK 149M in 1999. Dividends received are taxable. Dividend paid is deductible as long as it does not give rise to a combined tax-assessed deficit. Interest income and expenses are deductible.

NOTE 23

Buildings and land

SEK M	1998	1997
Accumulated acquisition values		
On 1 January	17.0	17.0
Investments	–	–
	17,0	17.0
Accumulated depreciation according to plan		
On 1 January	-4.5	-4.2
The year's depreciation	-0,3	-0,3
	-4.8	-4.5
Value as per Balance Sheet	12.2	12.5
Tax assessment value		
Buildings	48.0	46.8
Land	–	–

NOTE 24

Equipment

SEK M	1998	1997
Accumulated acquisition values		
On 1 January	5.2	0.1
Investments	1.6	5.5
Divestments	-1.1	-0.4
	5.7	5.2
Accumulated depreciation according to plan		
On 1 January	-3.1	-0.1
Investment	–	-3.1
Divestment	0.9	0.4
The year's depreciation	-0.8	-0.3
	-3.0	-3.1
Value as per Balance Sheet	2,7	2,1

NOTE 25

Shares in subsidiaries

SEK M	1998	1997
Book values		
On 1 January	359.5	476.4
Investments	150.0	53.2
Divestments	-300.0	-170.1
	209.5	359.5

Specification of the Parent Company's holdings of shares in subsidiaries

Subsidiaries, corp id no, reg off	Change Number	Number	Share, %	Book value SEK M
Ratos Fastighets AB, 556308-3863, Stockholm		50,000	100	6,2
Fastighets AB Strömparterren, 556309-8481, Stockholm		10,000	100	0,1
TV8, 556507-2401, Stockholm	5,000	200,000	80	103,2
Air Cargo Express 556238-6044, Sigtuna	150,000	150,000	100	100
				209,5

A complete list of the Group's companies is available from Ratos on request.

NOTE 26

Shares, non-subsidiaries

SEK M	31 December 1998
Associated companies	1,460
Other financial fixed assets	2,742
Total	4,202

Other shares and participations

SEK M	31 December 1998
Associated companies	–
Other financial fixed assets	2
Total	2

Associated companies

Accumulated acquisition values	
On 1 January	1,214
Investments	249
Premiums for issued options	-3
Total	1,460

Specification	Shareholders' equity share	Share of result after tax
Dahl	368	33
Esselte	396	26
PriFast	564	34
Scandic	352	194
Netch	0	-3
Teligent	10	-2
Telelogic	2	-5
Epani	4	-2
	1,696	275

NOTE 27

Share capital

		SEK M
Ordinary A	(21,641,127 à 12.50)	270.5
Ordinary B	(59,679.299 à 12.50)	746.0
Ordinary C	(9,027,760 à 12.50)	112.8
	90.348.186	1,129.3

Class A shares entitle their holder to one vote each and class B and C shares to one-tenth of a vote each. During the year, redemption was carried out of 85,933 A shares and 8,871,245 B shares. A resolution has been passed for redemption of C shares during spring 1999.

NOTE 28

Long-term liabilities

Credit institutions, SEK M	31 December 1998
Maturity, between 1 and 5 years after balance sheet date	64
Maturity, later than 5 years from balance sheet date	32
	96

Liabilities to subsidiaries mature between 1 and 5 years after balance sheet date.

NOTE 29

Issued options as per option program

In November 1993, the Board of Directors of Ratos introduced an option program comprising synthetic options for Senior Executives in the Group.

At 1998 year-end, there are no outstanding options. The change in value during 1998 was charged to earnings at SEK 0.5M.

Audit Report

To the Annual General Meeting of Förvaltningsaktiebolaget Ratos (publ)
Corporate identity number 556008-3585

We have audited the Parent Company and the Consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Förvaltningsaktiebolaget Ratos for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board Member or the Presidents or whether they have in some other way acted in contravention of the Company's Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our option set out below.

In our opinion, the Parent Company and the Consolidated financial statements have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's results and position, and, consequently we recommend

that the Statement of Income and the Balance Sheet of the Parent Company and the Group be adopted, and

that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report.

In our opinion, the Board Members and the Presidents have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

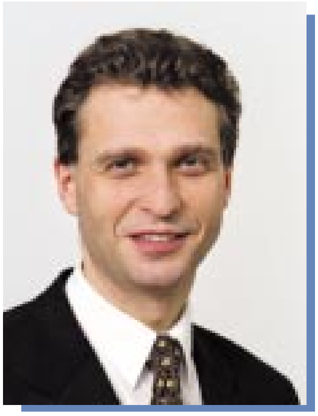
that the Members of the Board of Directors and the Presidents be discharged from liability for the financial year.

Stockholm, 18 February 1999

Hans Karlsson
Authorised Public Accountant

Gunnar Widhagen
Authorised Public Accountant

Senior executives and staff



ARNE KARLSSON

President since 1 January 1999.
Born 1958.

Shareholding in Ratos: 0

THOMAS MOSSBERG

Executive Vice President and
Deputy President since 1988.
Born 1946.

Chairman of ACE
Board Member of Dahl and TV8.

Shareholding in Ratos: 37,375

HANS EKELUND

Controller. Born 1948.
Board Member of Air Cargo
Express and TV8.

Shareholding in Ratos: 10,218

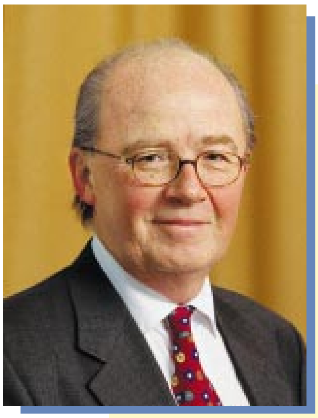
Board of Directors, President and Auditors

OLOF STENHAMMAR

Honorary Doctor of Economics. Born 1941.

Chairman. Board Member since 1994. Chairman of OM Gruppen, Hela Programmet, Stiftelsen Mentor Sverige, Rikta Kommunikation and Plenia Sweden. Board Member of LjungbergGruppen and Svenska Sjöräddningssällskapet. Senior Partner of Ledstiernan Partners.

Shareholding in Ratos: 114,000



LARS BERN

Doctor of Engineering. Born 1942.

Board Member since 1989. Chairman of Bern & Partners, Rättvisemärkningen, TNA and Tuben, and Board Member of various companies and organisations.

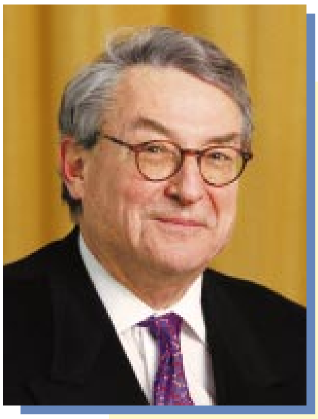
Shareholding in Ratos: 15,480

PEGGY BRUZELIUS

Born 1949.

Board Member since 1998. Chairwoman of Grand Hôtel Holding. Board Member of Axel Johnson, Electrolux, Scania, Swedish Trade Council, Näringslivets Börskommitté, and other companies.

Shareholding in Ratos: 2,000



HARRY FAULKNER

Born 1931.

Board Member since 1986. Former President and CEO of Alfa-Laval. Chairman of Arcona, B&N Nordsjöfrakt, EQT Denmark BV and SEB Fondförvaltning. Board Member of Ahlström (Finland), Astra, Perlos Oy (Finland), Sabrœ (Denmark), Scandinavian Equity Partners I, Stockholms Auktionsverk, Tetra Laval, and other companies.

Shareholding in Ratos: 10,000

GÖRAN GROSSKOPF

Professor, Doctor of Law. Born 1945.

Board Member since 1996. Chairman of Tetra Laval Group and Herenco. Board Member of Axel och Margret Ax:son Johnssons Stiftelse and other companies.

Shareholding in Ratos: 40,000

MIKAEL LILIUS

Born 1949.

Board Member since 1997. President of Gambro. Board Member of Huhtamäki Oy, Instrumentarium Oy and Perlos Oy.

Shareholding in Ratos: 1,500

SVEN SÖDERBERG

Consul-General, born 1928.

Chairman 1993-1998. Board Member since 1971. President of Ratos 1974-1992. Chairman of Skandia.

Shareholding in Ratos: 2,370,025

President

ARNE KARLSSON

Born 1958.

President of Ratos from 1 January 1999.

Chairman of reCulture. Board Member of Bulten, HL Display, Th Jacobsen & Co and other companies.

Shareholding in Ratos: 0

LARS SÖDERBERG

Born 1960.

Board Member since 1998.

Board Member and President of Affärsutveckling of OMNIBROKER.COM.

Shareholding in Ratos: 1,290,522

Auditors

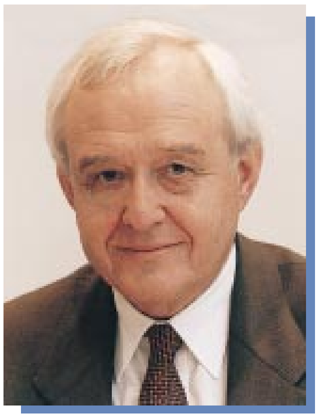
HANS KARLSSON
Authorised Public Accountant,
KPMG

GUNNAR WIDHAGEN
Authorised Public Accountant,
Ernst & Young

Deputy Auditors

ROLAND NILSSON
Authorised Public Accountant,
KPMG

TORBJÖRN HANSON
Authorised Public Accountant,
Ernst & Young



Five-year review

SEK PER SHARE	1994	1995	1996	1997	1998
Total yield, %	-5	52	116	30	-12
Net asset value	36	50	74	85	87
Market price	19	28	58	71	57
Net asset value discount, %	47	45	23	17	34
Dividend paid	1.00	1.50	2.50	3.00	3.50 [1]
Yield, %	5.3	5.5	4.3	4.2	6.1
Shareholders' equity	29	32	49	45	44
Result (after net tax)	1.45	3.55	20.53	1.82	6.37

KEY FIGURES, GROUP					
Return on shareholders' equity, %	5	12	51	4	14
Return on capital employed, %	8	12	44	6	13
Cash flow after investments/divestments, SEK M	250	302	4,218	-773	156
Equity ratio, %	35	40	81	77	80
Equity ratio including hidden reserve, %	37	46	86	86	89
Average number of employees	9,675	9,753	2,044	1,795	242
Market value of stock portfolio, SEK M	2,974	3,159	5,578	7,592	7,824

GROUP, SEK M					
STATEMENT OF INCOME					
Active holdings					
Result of subsidiaries	59	194	1.209	-61	-69
Dividends, other	11	102	31	59	72
Capital gains, other	–	–	876	–	201
Result of Active holdings	70	296	2,116	-2	204
Asset management					
Dividend	19	35	59	77	96
Capital gains	197	265	86	109	301
Result of Asset management	216	300	145	186	397
Central income and expenses	- 83	- 161	- 149	-19	-84
Consolidated result before taxes	203	435	2,112	165	517
Taxes	- 56	- 77	- 58	-1	1
Consolidated result after tax	147	358	2,054	164	518

PARENT COMPANY, SEK M					
Summarised Statement of Income					
Dividend income	30	133	83	135	168
Interest income and expenses	-59	-44	16	42	-15
Other income and expenses, net	161	339	2,232	67	490
Net result for the year	132	428	2,331	244	643
Summarised Balance Sheet					
Total assets	3,302	3,172	4,962	4,625	4,482
Shares in subsidiaries (book value)	1,020	1,009	476	359	209
Shares in other companies (book value)	2,032	1,840	2,244	3,752	4,202
Other assets	250	323	2,242	514	71
Provisions and liabilities	996	538	152	577	817
Shareholders' equity	2,306	2,634	4,810	4,048	3,665

[1] Dividend proposed by the Board of Directors

Definitions of key ratios

Total yield of the Ratos share
Price development of the Ratos B share including reinvested dividend and redemption rights.

Net asset value
The net asset value is calculated on the basis of a Parent Company perspective in which assets and liabilities are valued at market. Liquid assets (net) in central companies are added. Other central companies are treated as if they were a part of the Parent Company. The items whose market value differs from the book value in the Parent Company are the shareholdings and the Parent Company's property. Market values refer to official market prices for listed holdings. For unlisted holdings book values are applied and, with regard to holdings in Industri Kapital, internal valuations carried out by Industri Kapital. Deferred tax on hidden reserve in listed shares has not been taken into account as the Parent Company as an investment company is exempt from capital gains tax.

Equity ratio
Net shareholders' equity as a percentage of total assets. Shareholders' equity includes minority interest.

Equity ratio including hidden reserve
Net shareholders' equity plus 100 per cent of hidden reserve in listed shares and real estate as a percentage of total assets including hidden reserves. Shareholders' equity includes minority interest.

Capital employed
Total assets less interest-free liabilities and cash and, for subsidiaries, financial Group receivables.

Return on shareholders' equity.
Net result for the year as a percentage of average shareholders' equity. For the subsidiaries, 30 per cent standard tax is applied and appropriations are excluded.

Return on capital employed
Result before interest expenses, tax and, for subsidiaries, interest income on financial Group receivables as a percentage of average capital employed.

Cash flow
By "Cash flow after investments/divestments" is meant all in and out payments of operations. It also includes investments and divestments but excludes all interest-bearing financing. In that way – from a definition viewpoint – cash flow corresponds with a change in net interest-bearing income and expenses before the exchange rate fluctuations on foreign loans and any contributions from and dividend to the shareholders. Net interest-bearing income and expenses refer to interest-bearing loans less cash.

Ratos

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