

# TRACTION

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ANNUAL REPORT 2017

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## SHAREHOLDER INFORMATION

8 May 2018	Interim Report for the period January - March
8 May 2018	Annual General Meeting
13 July 2018	Interim Report for the period January - June
17 October 2018	Interim Report for the period January - September
15 February 2018	Year-end Report January - December

Subscription to financial information via e-mail can be requested at [traction.se](mailto:traction.se), where also financial information is available, or by sending an e-mail to [post@traction.se](mailto:post@traction.se).

The following annual report is a translation of the Swedish version. In case of any discrepancy between the Swedish or English translation, the Swedish version shall prevail.

## Statement of CEO

Dear shareholders,

For 2017 Traction shows a profit of MSEK 304, equivalent to a 12 percent increase in net asset value adjusted for dividend paid. This means that the Traction share performed better and rose during the year by more than 20 percent, which means that the net asset value discount shrank to 6 percent from a previously higher level.

Active listed holdings, which at year-end accounted for 36 percent of net asset value, generated an increase in value of 29 percent. Drillcon's contribution was the largest at MSEK 78 (82%), but Softronic with MSEK 63 (71%) and Duroc with MSEK 32 (54%) made substantial contributions, as did the holding in Waterman, MSEK 40 (93%) which was sold in connection with a tender offer during the second quarter from the Japanese consultancy CTI Engineering Co Ltd. Traction had been a major owner of Waterman since 2013 and was the company's largest shareholder owning 17 percent of the shares outstanding.

Duroc grew substantially during the year in connection with an acquisition in kind of International Fibres Group (IFG) with revenue of approximately SEK 1.8 billion. In connection with this transaction Traction acquired a smaller shareholding, after which Traction owns just short of 10 percent of the shares outstanding.

Traction's financial investments performed reasonably well, contributing just over MSEK 70. Our listed holdings also performed somewhat better than the Stockholm stock exchange as a whole. The return on Traction's cash and cash equivalents was very modest during the year as a consequence of current negative interest rates. A portion of the interest-bearing investments are in corporate bonds, which with their higher level of risk contributed to Traction's return. It should be noted that several of these investments in times of increasing financial unrest may become temporarily illiquid. For this reason we strive for a well-distributed portfolio with relatively short maturity, which also limits the price risk. Some of our investments also generate a return of about ten percent, which means that they should be regarded as an alternative to equity investments, but with a somewhat lower level of risk and limited upside.

The unlisted partially owned holdings contributed MSEK 29 to profit. This effect is primarily due to the sale of our holding in Banking Automation and revaluation of Eitech Holding, which was unconditionally sold in the beginning of 2018. Traction has been a part owner of Banking Automation since 1986, which means that the entire consideration should be regarded as profit. Traction's ownership in Eitech was of shorter duration than expected, but was still a good investment made in early 2016.

Despite these positive earnings effects, Traction's unlisted holdings as a group showed a negative result of MSEK 33, which is due mainly to revaluations of Ankarsrum Motors in the light of a progressively weaker development. A new chief executive took office in December 2017 and it is evident that changes and new initiatives going forward to reverse the trend will be needed.

In the beginning of 2018 it was announced that Traction will become a major owner (49%) in Mönsterås Metall, at the same time as Mönsterås acquires Ankarsrum Diecasting. The transaction means that a slightly larger foundry group was formed with better prerequisites and flexibility to take bigger business.



The new group has about 120 employees and is expected to generate revenue of approximately MSEK 160 in 2018.

Adjusted for the sale of Eitech in the beginning of 2018, Traction's remaining active unlisted holdings, including loan receivables related thereto, account for just over MSEK 100, corresponding to just short of 4 percent of Traction's net asset value.

The value of Traction's remaining unlisted holdings is thus less than the net asset value discount implicated by the market price of the Traction share at year-end 2017.

Sales of active holdings during 2017, including the payment expected for Eitech in the beginning of 2018, give rise to additional liquidity in the amount of just over MSEK 210. The aforementioned sales of active holdings, and only a minor supplementary investment in Duroc, and current returns, mean that Traction's share of financial investments has grown from an already high proportion of total assets. In the prevailing global climate, the focus is still on developing existing holdings and taking advantage of opportunities that are discovered. The ambition with respect to all of Traction's holdings is that they should grow under profitability, organically as well as by wise and not overly leveraged acquisitions.

New investments will most likely be mainly in other listed companies, both in the form of large holdings in small and medium-sized companies, as well as in major corporations. As before, a certain portion will also be invested in interest-bearing assets to create some return in an otherwise negative interest rate environment.

In conclusion, we are opportunists and always interested in discussing business opportunities when time is short and the need for quick decision-making and a pragmatic approach is crucial.

Stockholm in March 2018

Petter Stillström

## SUMMARY OF 2017

- Profit after taxes amounted to MSEK 304 (401).
- Net asset value per share increased by 12 (19) percent adjusted for dividend paid.
- Traction's net asset value amounted to MSEK 2,751 (2,478), equivalent to SEK 186 (168) per share.
- The return on active holdings was 29 percent.
- Unlisted active holdings were a drag on earnings in the amount of MSEK –33.
- The return on other listed shares was 13 percent.
- Interest-bearing investments, cash and cash equivalents amount to just short of SEK 1.2 billion.
- Duroc acquired International Fibres Group with payment in Duroc shares. In connection with this transaction Traction acquired additional shares in Duroc for MSEK 27. Traction's ownership now amounts to just short of 10 percent.
- The holding in Waterman Group was sold for almost MSEK 85 in connection with a public tender offer.
- Shares in Nilorn were sold for MSEK 67. The current holding is 24 percent of capital and 57 percent of the votes.
- The holding in Banking Automation Ltd was sold.
- Agreement to sell the holding in Eitech.

## EVENTS IN THE BEGINNING OF 2018

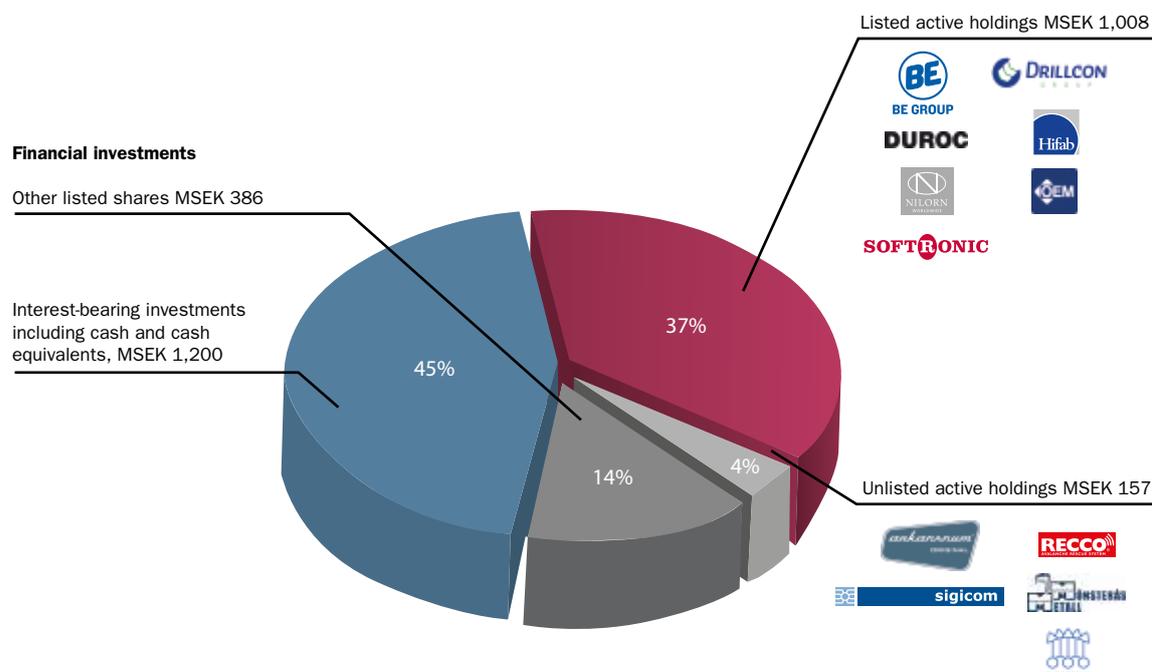
- The Board of Directors proposes a dividend of SEK 2.75 (2.15) per share, equivalent to MSEK 40.7 (31.8).
- The change in value of the listed holdings since December 31 amounts to MSEK 46 as of March 9.
- The holding in Eitech was sold on January 8, 2018 after approval by the competition authority in Sweden.
- New major owner (49%) in Mönsterås Metall in connection with acquisition of Ankarsrum Die Casting.

KEY FINANCIAL INDICATORS	2017	2016	2015	2014	2013
Profit for the year, MSEK <sup>1</sup>	304	401	174	122	268
Net asset value, MSEK <sup>1</sup>	2,751	2,478	2,115	1,979	1,901
Net asset value per share, SEK	186	168	134	133	127
Earnings per share, SEK <sup>1</sup>	21	27	12	8	17
Market price of share at end of period, SEK	175	146	115	99	90
Net asset value change per share, %	12	19	9	7	17
Dividend per share, SEK <sup>2</sup>	2.75	2.15	2.55	2.00	2.2
Dividend yield, % <sup>2</sup>	1.6	1.5	2.2	2.0	2.7

<sup>1</sup> According to Investment Entity accounting. The period 2013 is shown pro forma. For further information, refer to page 20.

<sup>2</sup> Dividend for 2017 as proposed by the Board of Directors.

### DISTRIBUTION OF TRACTION'S NET ASSET VALUE



# Traction develops and improves businesses

Traction is a listed investment company with active ownership interests in listed and unlisted smaller and medium-sized companies. Traction also conducts investment activities for the purpose of obtaining a good return on the Company's capital by making financial investments mainly in other listed companies and interest-bearing assets.

Traction's role as owner is based on active and long-term engagement in close co-operation with other active owners, entrepreneurs and corporate managements. Traction has no particular focus on specific industries. Traction instead conducts development and transformation work which is applicable to all companies intending to give priority to professionalism, sustainability and in sound business principles.

## **BUSINESS CONCEPT**

To conduct development and transformation work for the purpose of achieving a high return and appreciation through active ownership. In addition, the Company conducts Investment operations for the purpose of a good return on the Company's capital.

## **BUSINESS PHILOSOPHY**

- We have a long-term approach.
- We are not seeking to build a corporate group. We work instead with a number of independent companies, the appreciation of which will be realized in the longer term.
- Our sphere of activity lies within the transformation and Development of companies in general. The requisite technical and industry expertise must be present in the company.

## **GOALS**

- To sustainably generate an increase in Traction's net asset value per share, including dividends that substantially exceeds the overall performance of the Stockholm Stock Exchange.
- To create profitable growth in our wholly and partially owned companies.

## **STRATEGY**

To achieve Traction's goals, the following is necessary:

- The ability to identify interesting business projects and situations.
- The ability to choose the right partners; especially executives/entrepreneurs, but also other active owners.
- Project managers who can provide corporate executives the complementary expertise they need.
- Co-operation partners who can act as project manager, director, CEO and/or part owner.
- Sufficient financial resources to take on interesting projects and to support the development of existing holdings.

## **EXIT STRATEGY**

It is important to Traction that our companies display long-term growth and earning power. Traction has no strategic holdings or other motives for its ownership than the strictly commercial ones. As a matter of principle, our holdings are always for sale at the right price and to a suitable owner. In companies where we have owner companions, the exit strategy varies depending on which development phase the companies are in, and specific prerequisites, especially the intentions of other owners.

# Traction's universe

## TRACTION WORKS WITH SEVERAL TARGET GROUPS

### Entrepreneurs who:

- Possess the right characteristics, i.e. people who are extremely industrious and resilient, who can get things done, who are simultaneously thrifty, and ensures that the customer pays, is satisfied, and buys again.
- Are willing to abandon strategic plans in favour of what their external universe (the customer) is willing to pay for, and are always willing to review their business concept and adapt it on an ongoing basis.
- Run companies with the right prerequisites for expansion.
- Have a long-term objective for their engagement.

### Active partners who in co-operation with Traction:

- Are able to work operatively as project managers, directors or as chief executive officer.
- Function as active part owners.
- Want to finance a buy-out, a new issue or participate in refinancing a business.

### Company managements, company CEO, owners who:

- Lack an active joint owner.
- Need help in conjunction with a management buy-out, spin-off, or sale, acquisition of a business or a change of generations.
- Otherwise need a financially strong owner and engaged owner in conjunction with a major transaction.

### Financiers, owners, reconstruction specialists who:

- Need support in specific situations when urgent operational measures are needed in critical phases of reconstruction of operations.
- Are looking for a partner with the ability to provide a reconstruction loan to save a business from financial collapse.
- Need a partner with the financial resources needed to enter into a major project.
- Need a guarantor/underwriter in connection with raising capital.



Nilorn

## Business organisation

Traction's venture managers are responsible for developing the existing portfolio companies and are also charged with responsibility for identifying new business opportunities. Traction's corporate legal counsel also lends support to Traction's venture managers as well as chief executives and members of senior management.

Traction's central business organisation also includes a network of co-operation partners who participate actively, or have participated in the development of Traction's portfolio companies such as external directors, entrepreneurs, owners, members of senior management and financiers.



**Petter Stillström**

CEO and Venture Manager, M. Sc. (Business Administration). Active in Traction since 1999, CEO since 2001. Previously active in corporate finance.



**Carl Östring**

General Counsel and Venture Manager, Master of Laws. Active in Traction since 2011. Previously attorney and part owner of law firm in Stockholm and Moscow.



**Fredric Herlitz**

CFO, M. Sc. (Business Administration). Active in Traction since 2016. Previously active as auditor.



**David Tunberger**

Venture Manager, MBA. Active in Traction since 2016. Previously active in different positions in Swedish and international business.



**Joakim Skoglund**

Asset manager and analyst, B. Sc. (Business Administration). Active in Traction since 2015. Previously portfolio manager and equity strategist with fund company and bank.

# Board of Directors

**Bengt Stillström**, born 1943, M. Sc. (Eng.) and Master of Management. Chairman of the Board. Founded Traction in 1974. CEO during the period 1974-2001. Director of, among other, Profilgruppen and Ringvägen Venture. Director since 1974. Shareholding, including wife's holding: 330,000 class A shares, 5,451,450 class B shares.

**Anders Eriksson**, born 1956. Founder of Softronic, CEO and principal owner since 1984. Director of, among other, Softronic and Nordic Ground Support. Director since 2011. Shareholding: 26,755 class B shares.

**Maria Linde**, born 1966, M. Sc. (Eng.) and Executive MBA. Management consultant and CEO of FlowMotion AB. Director since 2009. Shareholding: 1,250 class B shares.

**Peter Malmqvist**, born 1957, B. Sc. (Business Administration). Chief Analyst at Remium, Chairman of The Swedish Society of Financial Analysts, writer for several finance magazines and teacher at the Stockholm School of Economics. Director since 2014. Shareholding: 0 shares.

**Petter Stillström**, M. Sc. (Business Administration), born 1972, CEO since 2001 and director since 1997. Chairman of BE Group, Nilorn, OEM International and Softronic. Director since 1997. Shareholding, via wholly owned company and closely related parties: 1,095,000 class A shares, 1,677,150 class B shares and part owner of Niveau Holding AB.

## Auditor

Mazars SET Revisionsbyrå, Chief Auditor Anders Bergman, Authorised Public Accountant. Traction's auditor since 2015.



**Bengt Stillström**



**Anders Eriksson**



**Maria Linde**



**Peter Malmqvist**



**Petter Stillström**

# Ownership policy for listed holdings

*Below is a summary of Traction's ownership policy for listed holdings.*

- A company shall always be run on behalf of its owners and to afford the maximum possible return to those owners.
- Major shareholders should be represented on the Board of Directors.
- A principal owner has the ultimate responsibility for to initiate changes to operations, the company's management, the composition of its Board of Directors, major transactions and acquisitions.
- A principal owner should consult with other major owners and explain the owners' intentions to the Board of Directors and corporate management, and ensure that suggestions for new board members are presented.
- The Board of Directors and management shall also gather and embrace the intentions of the owner and work in line with the specified orientation.
- Takeover bids, mergers and major acquisitions should in the first instance be handled by the principal owner.
- The Chairman of the Board of Directors, or the principal owner, must obtain support for major structural changes from the largest owners.
- A principal owner may not grant favours to himself or herself at the expense of the company, but shall be entitled to reasonable compensation for his or her participation in the management of the company.
- In the absence of a principal owner, or a group of major owners who assume responsibility, it shall be incumbent upon the Chairman, with the aid of the Board of Directors, to compensate for such lack of to the best of his or her ability.
- In the absence of a principal owner, the major shareholders should consult and formulate a form of corporate governance to compensate for the lack of a principal owner.
- The Board of Directors should be composed of persons with personal shareholdings and other persons who can contribute to the development, and who have time to be actively involved.
- The composition of the Board of Directors should be such that it includes numerous different skills, fields of experience and contact interfaces.
- Traction wants to see a business-like and active Board of Directors that knows its company and its business environment well, and who can complement and support the CEO.
- The Board of Directors shall make decisions regarding the company's strategies, orientation, major transactions and other significant changes.
- The Board of Directors shall exercise effective control over the company's finances, risks and opportunities.
- The Board of Directors works on behalf of the owners.
- As a major owner, Traction always wants to participate in the nomination committee work.
- The nomination committee should be composed of representatives of the owners. If ownership ceases, the representative in question should immediately resign from the nomination committee.
- Traction wishes at all times to be granted the opportunity to appoint at least one director in companies in which Traction has a major shareholding.
- Option programmes for employees should only be offered if the employee invests a market equity contribution.
- Private placements with new, major owners may be suitable in the case of smaller companies, which thereby can avoid negative effects on the market price of the share and also get a better ownership structure.

## Active listed holdings

Traction is an active major owner in a number of smaller and medium-sized listed companies. We invest in companies where we see a significant re-evaluation potential and where the risks are manageable. Other involvement in listed companies can be in the form of underwriting equity offerings in companies in need of new capital and where we see a potential for good returns. Traction has been an owner in some of the companies listed below before they became publicly listed and we participated actively in their respective processes of going public.



**BE Group** is a trading and service company in the steel and metals industry. The company's approximately 10,000 customers are primarily found in the engineering and construction industries in Sweden, Finland and the Baltic States, where BE Group is one of the market's leading suppliers. With solid competence and effective processes in purchasing, logistics and simple production, BE Group offers sales from inventory, production services and direct delivery based on their specific needs for steel and metals products. BE Group has just over 700 employees and sales of MSEK 4.3 billion in 2017. The head office is located in Malmö. The underlying operating profit improved during 2017 from MSEK 33 to MSEK 82. Traction has been engaged in the company's board of directors since 2012 and since 2015 Traction's CEO is also Chairman of the Board. BE Group is listed on NASDAQ Stockholm since 2006.

Additional information is available at [begroup.com](http://begroup.com)

**Investment year:** 2011  
**Traction's share of capital and votes:** 20%  
**2017 revenue:** MSEK 4,348  
**2017 operating profit:** MSEK 82 (underlying)  
**Other owners:** Catella Fonder: 10%, Swedbank Robur fonder: 7%  
**CEO:** Anders Martinsson

**Drillcon** is Europe's largest company in diamond core boring and a major raise boring contractor. The company's market consists of customers in the European mining and construction industries. The main business is currently run via subsidiaries in Sweden, Portugal, Spain and Norway. In 2016 Drillcon started operations in South America by establishing subsidiary in Chile. These subsidiaries perform services for customers in several countries. In Sweden Drillcon delivers drilling services to Boliden, LKAB, Lundin Mining and others. Core boring is used to take samples in rock formations and can also be used for concrete reinforcement, while raise boring is a method for drilling shafts in rock for ventilation purposes and for mining lifts and such. The entire offer is available in all markets. Drillcon has been in the business since 1963 and its head office is located in Nora. In recent years Drillcon has invested heavily to meet growing demand in both core boring and raise boring. Traction is a part owner of Drillcon since the autumn of 2008 and after a mandatory offer in 2013, ownership was increased substantially to today's 54 percent. Drillcon is listed on NASDAQ Stockholm, First North.

Additional information is available at [drillcon.se](http://drillcon.se)



**Investment year:** 2008  
**Traction's share of capital and votes:** 54%  
**2017 revenue:** MSEK 350  
**2017 operating profit:** MSEK 34  
**CEO:** Patrik Rylander

**Duroc** is an industrial group that owns industrial and industrial-trading businesses in a number of different market segments. Duroc has undergone major restructuring in recent years and in the beginning of 2017 Duroc grew substantially through an offer in kind for International Fibres Group AB ("IFG"), which also meant that Duroc got a new principal owner in the form of Peter Gyllenhammar AB. IFG produces more than 100,000 tonnes of synthetic fibre and yarn at its plants in USA, Great Britain, Austria and Belgium. Synthetic fibre is used in applications such as plant protection and soil-separation matting, but also in passenger cars for carpeting and as reinforcement and insulation material in fenders and other sheet metal parts. IFG's revenue amounts to approximately MSEK 1.8 billion. Other significant companies in the group are Duroc Machine Tool, a seller of machine tools on the Nordic and Baltic markets, and Duroc Rail that maintains and resurfaces railway wheels. Duroc has approximately 770 employees and revenue of approximately SEK 2.3 billion. The company is listed on NASDAQ Stockholm.



Additional information is available at [duroc.se](http://duroc.se)

**Investment year:** 1993/2017

**Traction's share of capital and votes:** 10%

**2017 revenue:** MSEK 2,255 (pro forma)

**2017 operating profit:** MSEK 121 (pro forma)

**Other owners:** Peter Gyllenhammar AB 80%



**Hifab Group** is one of Sweden's leading groups in community project management. Hifab supports its principals through all phases of construction projects, from the early strategic issues until completion and property management. Depending on the specific situation in the project, Hifab offers consultants who assume full project responsibility, or specialists who manage specific subprojects. The ambition has been the same since 1947 – to realize the customers' ideas.

Hifab delivers its services all over Sweden and contributes to a sustainable societal development in several market segments, such as property management, infrastructure, industry, environment, energy and process technology. Via several subsidiaries Hifab manages aid-funded development projects in the areas of infrastructure, water supply, energy efficiency improvement, and rural development in more than 20 countries worldwide.

Hifab has approximately 350 employees and 2017 revenue of MSEK 445, approximately 75 percent in Sweden and 25 percent in international assignments. Hifab is listed on NASDAQ OMX First North.

Additional information is available at [hifab.se](http://hifab.se)

**Investment year:** 2004

**Traction's share of capital and votes:** 54%, and 55%, respectively

**2017 revenue:** MSEK 446

**2017 operating profit:** MSEK 18

**Other owners:** Niras AB 9% and 7%, respectively, and Niveau Holding AB 7% and 13%, respectively

**CEO:** Patrik Schelin



**Nilorn** is an international group, founded in 1977, that adds value to trademarks through branding and design in the form of labels, packaging and accessories for customers, primarily in the fashion and garment industries. Slightly simplified, the customers can be categorized as trademark owners and chain companies. Nilorn strives to enhance its customers' competitive edge by offering services covering all design resources, plus a logistics system that ensures reliable and short delivery times.

Nilorn is one of Europe's leading players with revenue of MSEK 680. Nilorn supplies more than 1,5 billion labels per year of different sizes and types. Nilorn is represented by subsidiaries in twelve countries: Sweden, Denmark, Germany, Belgium, Great Britain, Portugal, Hong Kong, India, Turkey, Bangladesh, Pakistan and China. Approximately 80 percent of sales are outside the Nordic countries. Nilorn is also active in Switzerland, Austria, Italy and Spain. Nilorn has established logistics centres at important locations such as Hong Kong, Turkey, India, Bangladesh, China and Pakistan. The group has its own production of printed labels in Great Britain, Turkey, India and Hong Kong, and production of woven and printed labels in Portugal. Since Traction took Nilorn private in 2009, the company has showed a strong development and is currently operating with good profitability. In June 2015 Nilorn was listed on NASDAQ First North in Stockholm and is expected to be listed on NASDAQ Stockholm.

*Additional information is available at [nilorn.com](http://nilorn.com)*

**Investment year:** 2005

**Traction's share of capital and votes:** 24%, and 57%, respectively

**2017 revenue:** MSEK 680

**2017 operating profit:** MSEK 86

**Other owners:** Mawer Investment Management 8% and 5%, respectively, Nordea Fonder 5%, and 3%, respectively

**CEO:** Claes af Wetterstedt



**OEM International** is one of Europe's leading technology trading groups in industrial components and systems. The group sells to more than 25,000 customers in selected markets in northern, central and eastern Europe. OEM offers a broad and deep range of goods, entailing more than 50,000 different products, from some 300 leading and specialized suppliers of electrical components, flow technology products, motors and transmissions, ball bearings and seals, apparatus components and lighting. Thanks to a well-developed marketing organization and effective logistics, OEM is a better alternative for many suppliers than to have their own sales companies. OEM contributes a high degree of expertise and service and markets the products based on the specific requirements of each individual market. The product range offered is also adapted to each respective market and the local organization is assigned the task of continuously searching for new products in an effort to further developing the competitive edge in OEM's offer to its customers. Traction has been an owner of in OEM since the end of 2009 and is represented on the Board of Directors since the spring of 2010. OEM International is listed on NASDAQ Stockholm.

Additional information is available at [oem.se](http://oem.se)

**Investment year:** 2009

**Traction's share of capital and votes:** 4% and 10%, respectively

**2017 revenue:** MSEK 2,739

**2017 operating profit:** MSEK 282

**Other owners:** Orvaus AB 19% and 29%, respectively, Lannebo Fonder 14% and 5%, respectively, Hans Franzén 11% and 21%, respectively.

**CEO:** Jörgen Zahlin

**Softronic** is a consultancy company in IT and management, the services of which span the spectrum from consulting and new development to management and operation. Softronic has a holistic approach to change, which means that the company can support its customers in everything from strategy to structure, including organisation, processes and IT. Most customers are medium-sized and large companies, and organisations in Sweden. Customer relationships are distinguished by a long-term approach and the company's co-operation agreements often go back 10-20 years.

One example of Softronic's offer is the anti-money-laundering service CM1, with which more than 100 customers such as The Swedish Financial Supervisory Authority, Swedbank and Skandiabanken are assisted in monitoring and identifying transactions that may be associated with criminal activities and terrorism. Softronic was founded in 1984 by Anders Eriksson, who still is the company's chief executive officer and largest owner in terms of votes. Most of Softronic's employees are located in Stockholm. The company is also active in Göteborg, Malmö, Sundsvall, Arjeplog and Överkalix.

Softronic is listed on NASDAQ Stockholm.

Additional information is available at [softronic.se](http://softronic.se)



**Investment year:** 2001

**Traction's share of capital and votes:** 22% and 20%, respectively

**2017 revenue:** MSEK 657

**2017 operating profit:** MSEK 66

**Other owners:** Anders Eriksson 21% and 34%, respectively, Stig Martin 8% and 15%, respectively

**CEO:** Anders Eriksson

## Active unlisted holdings

*Traction's active unlisted holdings consist of wholly- and majority-owned companies as well as minority-owned companies. In the minority-owned companies we co-operate with entrepreneurs and other active part owners. The business concept is to develop successful companies as an active partner. The majority-owned companies are usually turn-around projects, reconstructions, management buy-outs or similar situations. Over the years Traction has participated in bringing several unlisted companies public.*



**Ankarsrum Motors** develops and manufactures electric motors and associated components and products in which an electric motor is a part. Most of Ankarsrum Motor's customers are industrial companies in the United States and Europe. Operations are divided into DC motors, universal motors and kitchen appliances.

In the field of DC motors, and the welding wire segment, Ankarsrum Motors is today one of the leading independent producers in the world with a large number of customers. Other buyers of DC motors are found in the health care sector, agricultural machinery and other industry. For universal motors Ankarsrum Motors has a highly automated production line with significant capacity. Over the years the company has delivered millions of motors, mainly to the kitchen appliance industry, with high demands on quality and longevity.

The company often assumes integrated development responsibility for products in close co-operation with the customer. Ankarsrum Motors has highly automated production and the company in co-operation with its customers in adapting to quieter, more reliable and vibration-free motors.

Ankarsrum Motors also manufactures the classic Swedish food processor Assistent Original™, which has been in production since 1940.

*Additional information is available at [ankarsrum.com/motors](http://ankarsrum.com/motors)*

**Investment year:** 2001  
**Traction's share of capital and votes:** 100%  
**2017 revenue:** MSEK 124  
**CEO:** Lars Westerlund

**Ankarsrum Kitchen** is a company that markets and sells the classic household appliance Assistent Original™ from Ankarsrum. Assistent Original is a Swedish classic from 1940. It has been updated many times since then. The machine is manufactured and assembled by Ankarsrum Motors. Since 2014 the company owns the trade mark Assistent Original™. The company has strongly established sales on the Swedish home market, but most of the production is today exported via distributors. Aside from in the Nordic countries, Assistent Original is sold to Germany, England, USA and several countries in Asia. The number of distributors increases year by year. In Sweden almost half of the kitchen appliances are sold online.

*Additional information is available at [assistent-original.se](http://assistent-original.se)*

**Investment year:** 2009  
**Traction's share of capital and votes:** 100%  
**2017 revenue:** MSEK 54  
**CEO:** Marcus Grimerö



**AB Mönsterås Metall** delivers aluminium castings to customers with high technical requirements.

In February 2018 Mönsterås Metall acquired Ankarsrum Die Casting from Traction. In connection herewith Traction became the largest owner of Mönsterås Metall. The company produces high volumes of die-castings and specialised products in the form of case-hardened and sand castings for customers in several industrial segments.

On the die-casting side the Mönsterås Metall Group manufactures and sells high quality die cast castings aluminium to, among other, the European vehicle industry. The company specialises on manufacturing requiring high precision, a high degree of purity and which is virtually non-porous. The components are often included in advanced systems. The Mönsterås Metall group has 15 casting machines with clamping power of between 160 and 190 tonnes at two facilities in Mönsterås and Ankarsrum.

The Mönsterås Metall Group also manufactures aluminium castings in smaller series and with advanced geometry employing sand and chill casting. Post-processing takes place in efficient automated processing and washing cells. The Mönsterås Metall Group has obtained the following certifications: ISO9001, ISO/TS16949 and ISO14001.

Both Mönsterås Metall and Ankarsrum Die Casting have gone through a transition period in recent years. Thanks to active sales work and streamlining of production both volumes and earnings are expected to increase during 2018.

*Additional information is available at [monsterasmetall.se](http://monsterasmetall.se)*

**Investment year:** 2017  
**Traction's share of capital and votes:** 49%  
**2017 revenue:** pro forma MSEK 136  
**CEO:** Michael Arvidsson  
**Other owners:** Tegnemo family 45%

**Recco Holding** is via a subsidiary the owner of the RECCO rescue system which is used by more than 700 rescue organisations, mountain rescue services and helicopter companies all over the world to locate avalanche victims. The system is comprised of two parts and consists of RECCO detectors used by organized rescue missions and RECCO reflectors built in to skiing equipment, such as clothing, helmets and boots. RECCO is based on a radar technology, which allows for rapid and precise locating of avalanche victims carrying a RECCO reflector. The reflectors are entirely passive and require neither battery nor knowledge about how to use them. The RECCO system is intended for organized rescue missions and is not an alternative to but a complement to the use of transceivers allowing companion rescue. Since the RECCO system enables much faster organized searching, skiers and snow-boarders who have been overcome by an avalanche have one more chance of being saved in time. The RECCO system is established at all skiing resorts of distinction in the world.

After several years of development work there is now a helicopter-carried detector that can be used all year to locate rapidly carriers of RECCO reflectors also in other emergency situations than avalanche accidents. RECCO reflectors are therefore launched by several leading brands for their summer collections in 2019. This will lead to a considerable expansion of the market for RECCO going forward, opening opportunities for considerable growth.

*Additional information is available at [recco.com](http://recco.com)*



**Investment year:** 1988  
**Traction's share of capital and votes:** 49.9%  
**2017 revenue:** MSEK 30  
**2017 financial net assets:** MSEK 45  
**Other owners:** Magnus Granhed 50.1%  
**CEO:** Magnus Granhed

**Sigicom** is the leading Nordic supplier of field measuring systems for unmanned monitoring of vibrations, noise and other environmental disturbances (such as particles in air). Field measuring systems monitor construction sites, mines, quarries, and road and rail traffic. Sigicom sells its measuring systems and services on a global market. Exports account for most of the company's revenue. USA, England and the Nordic countries are large markets for Sigicom.

The company has developed the market's most innovative field measuring system, from sensor to web presentation and report. For Sigicom's customers this means simple installation, automated measurements and cost-effective surveillance. The sensors constantly measure what is going on and can be triggered by a certain disturbance and will the register detailed signal sequences and trigger alarms to selected users. The measuring instruments are ruggedly construed and are highly accurate and reliable.

Aside from web-based application programs, Sigicom also offers support service and regularly scheduled calibration.

Sigicom has an ambitious growth agenda based on product leadership and internationalization. Sigicom has invested heavily in development of a new instrument platform launched during 2017. Sigicom is in the midst of an intense phase of internationalization and during 2017 a subsidiary was established in England.

*Additional information is available at [sigicom.se](http://sigicom.se)*



**Investment year:** 1997  
**Traction's share of capital and votes:** 23%  
**2017 revenue:** MSEK 74  
**Other owners:** Christer Svensson 45% and staff  
**CEO:** Torbjörn Rehnström

# Financial investments

Traction's investments that are not categorized as active holdings are classified as financial investments, for instance in the form of equities, corporate bonds or CDs. The composition of different classes of assets is largely dependent on prevailing market conditions.

The purpose of the financial investments, as opposed to the active holdings, is not to create value through active ownership. The goal is rather to generate a current return through more traditional management, also on the portion of Traction's capital not engaged in active holdings. The magnitude of the financial investments thus depends on how large a portion of the net asset value is invested in active holdings from time to time. The financial investments are evaluated on an ongoing basis and on average have a shorter investment horizon than active holdings.

An equity investment that is initially classified as a financial investment can, over time, develop into an active listed holding. By following companies as a minor owner, we have better opportunities to evaluate business models as well as corporate managements.

A major portion of the financial investments consist of liquid holdings that can be sold on short notice. This is important in order to retain the flexibility to be able to support on short notice existing active holdings, to invest in new holdings, and to participate in underwriting consortia for new issues and other refinancing situations.

The sentiment on global financial markets continued to be positive during 2017 and Traction's financial investments fared well during the year.

## UNDERWRITING

Traction has a long history as an underwriter of public issues. This has occurred in a number of different situations, such as in connection with widening ownership through private placements, initial public offerings, financing acquisitions and expansion, refinancing maturing debt, saving the company from insolvency, or simply strengthening the balance sheet in general.



BE Group

- Traction has issued guarantees for companies where we already are part owners, or merely to safeguard the Issue itself. On occasion we have been the sole underwriter and sometimes we are part of an underwriting consortium.
- Traction has also been engaged in ancillary services, such as being a lender until the company has completed the issue.
- Related services include subscribing for securities in private placements, without pre-emptive rights, and to purchase a major shareholder's lot of shares.
- Traction views this as a financial service, but is also prepared to become a long-term owner.

Over the years Traction has participated in more than 30 underwriting consortia.

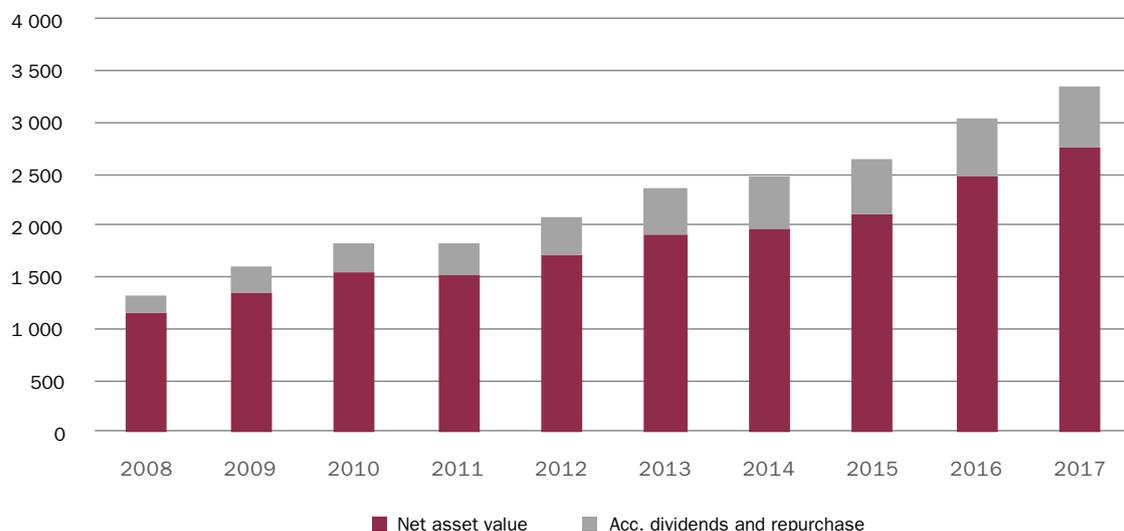
# Traction from an investor perspective

The table below shows Traction's net asset value divided into active listed holdings, active unlisted holdings, financial investments, cash and cash equivalents, and other assets as of December 31, 2017.

	Number of shares, thousands	Price per share	Proportion of		Market value, MSEK	Proportion of total	SEK/share
			capital	votes			
<b>Listed active holdings</b>							
BE Group	2,586	50.00	20%	20%	129	5%	9
Drillcon	24,000	6.95	54%	54%	167	6%	11
Duroc	3,885	23.90	10%	10%	93	3%	6
Hifab Group	32,744	3.03	54%	55%	99	4%	7
Nilorn	2,790	77.25	24%	57%	216	8%	15
OEM International	886	177.00	4%	10%	157	5%	10
Softronic	11,539	12.75	22%	20%	147	5%	10
<b>Total</b>					<b>1,008</b>	<b>36%</b>	<b>68</b>
<b>Unlisted active holdings</b>							
Unlisted holdings					114	4%	8
Due from active holdings					43	2%	3
<b>Total</b>					<b>157</b>	<b>6%</b>	<b>11</b>
<b>Total active holdings</b>					<b>1,165</b>	<b>42%</b>	<b>79</b>
<b>Financial investments, cash and cash equivalents</b>							
Other listed shares					386	14%	26
Interest-bearing investments <sup>1</sup>					988	36%	67
Cash and cash equivalents					212	8%	14
<b>Total</b>					<b>1,586</b>	<b>58%</b>	<b>107</b>
<b>TOTAL</b>					<b>2,751</b>	<b>100%</b>	<b>186</b>

<sup>1</sup> Including interest-bearing investments with a maturity of less than one year in the amount of MSEK 436 and other net assets/liabilities in the amount of MSEK 6.

#### DEVELOPMENT OF NET ASSET VALUE MSEK



Starting in 2014 Traction applies Investment Entity Accounting, which means that all holdings are valued at fair value rather than being consolidated in the Traction Group. On the other hand, Central Traction companies are consolidated. Market valuations are based on assumptions of future cash flow, comparable key financial indicators, etc. For more detailed explanations reference is made to Traction's formal Annual Report. Before switching to Investment Entity Accounting, listed and unlisted minority-owned holdings were valued at fair value, while subsidiaries with >50 percent ownership were valued at equity.

The ten-year survey below contains a pro forma version of Traction's historical results recalculated in accordance with the changed accounting method, where previously estimated economic surplus values in the subsidiaries have been distributed over the 2008-2013 period.

## Ten-year survey

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Profit for the year <sup>1</sup> , MSEK	-171	273	246	12	255	277	122	174	401	304
Net asset value <sup>1</sup> , MSEK	1,147	1,350	1,548	1,522	1,719	1,901	1,979	1,115	2,478	2,751
Net asset value per share, SEK <sup>1</sup>	70	85	99	98	112	127	133	143	168	186
Increase in net asset value per share, including dividends, % <sup>1</sup>	-13	25	18	1	17	17	7	9	19	12
Earnings per share, SEK <sup>1</sup>	-10	17	16	1	17	18	8	12	27	21
Dividend per share, SEK <sup>2</sup>	2.50	1.85	1.85	2.35	3.10	2.45	2.00	2.55	2.15	2.75
Dividend yield, % <sup>2</sup>	4.6	2.7	2.5	3.5	3.7	2.7	2.0	2.2	1.5	1.6
Market price at year-end, SEK	54	68	73	68	84	90	99	115	146	175
NAV discount, %	23	20	26	30	25	29	25	20	13	6
Number of shares outstanding at year-end in thousands (not including repurchased shares)	16,367	15,830	15,689	15,609	15,364	14,940	14,865	14,790	14,790	14,790

<sup>1</sup> Years 2008-2016 in accordance with Investment Entity Accounting, of which years 2008-2013 reported on a pro forma basis.

<sup>2</sup> Dividend for 2017 per proposal of the Board of Directors.

# Traction's return

## Return on net asset value per share (pro forma)

	Annual return	Year
2017	12%	2017
Best year	19%	2016
Worst year	7%	2014
Five-year average	13%	2013-2017

## DEFINITIONS

### Net asset value

The net of assets and liabilities at market value. After the transition to Investment Entity accounting starting 1 January 2014 this is equivalent to the Traction Group's equity.

### Earnings per share

Profit for the year divided by the number of shares outstanding.

### Net asset value per share

Net asset value at year-end, divided by the number of shares outstanding at year-end.

### Return on net asset value per share

Change in net asset value per share adjusted for dividend.

### Dividend yield

Dividend in percent of market price per share at year-end.

# Sustainability

Traction is an investment company with ownership interest in several companies in different industries, in varying phases of development and geographic focus. Traction's ability to influence the development of the holdings varies depending on ownership stake and the willingness of other shareholders to adhere to Traction's approach. However, Traction's employees, as well as the boards of directors of the project companies, are always expected to ensure that project company management groups attach great importance to the ongoing sustainability efforts that must be adapted to each respective company's situation and local conditions.

Traction's development model is based on the assumption that each respective management group and board of directors follow prevailing laws and regulations and always act ethically and in a commercially sound manner. This means that Traction expects zero tolerance of human rights violations, extortion, corruption, child labour, forced labour, discrimination, etc. Traction also expects risks to be analysed and goals to be formulated and that each company has appropriate processes in place to manage and monitor sustainability-related risks.

Virtually every human activity and enterprise has some sort of impact on the environment. According to Traction, sustainable operations ensure that the environmental impact is minimized and that the environmental impact is offset by the utility provided.

Traction avoids getting engaged in companies that are not deemed to add value for its customers or society at large, instead contributing to tragedies occurring in the form of dependence, poverty, deaths and other unnecessary suffering.

Examples hereof are companies involved with drugs, tobacco, armaments, casino operations and gaming companies, whose purpose is to entice their customer to become addicted to gambling, thereby squandering their savings. Nor do certain credit-granting companies, whose existence depends on their customers' desperate need for liquidity, fit in with Traction's investment criteria.

# The Traction share

Traction's class B share is listed since 24 May 2000 on the NASDAQ Stockholm, Ticker: TRAC-B. Previously, since July 1997, the share was traded on NGM's share list. During 2017 Traction's share price rose by 20 percent. At year-end 2017 the latest paid price was SEK 175.00 per share. The market price of the share peaked at SEK 232.00 during the year; the lowest price was SEK 147.50. There are no convertible debentures, options or other instruments that may cause a rise in the number of shares outstanding. As of 31 December 2017, the number of shareholders was 3,100 (1,724).

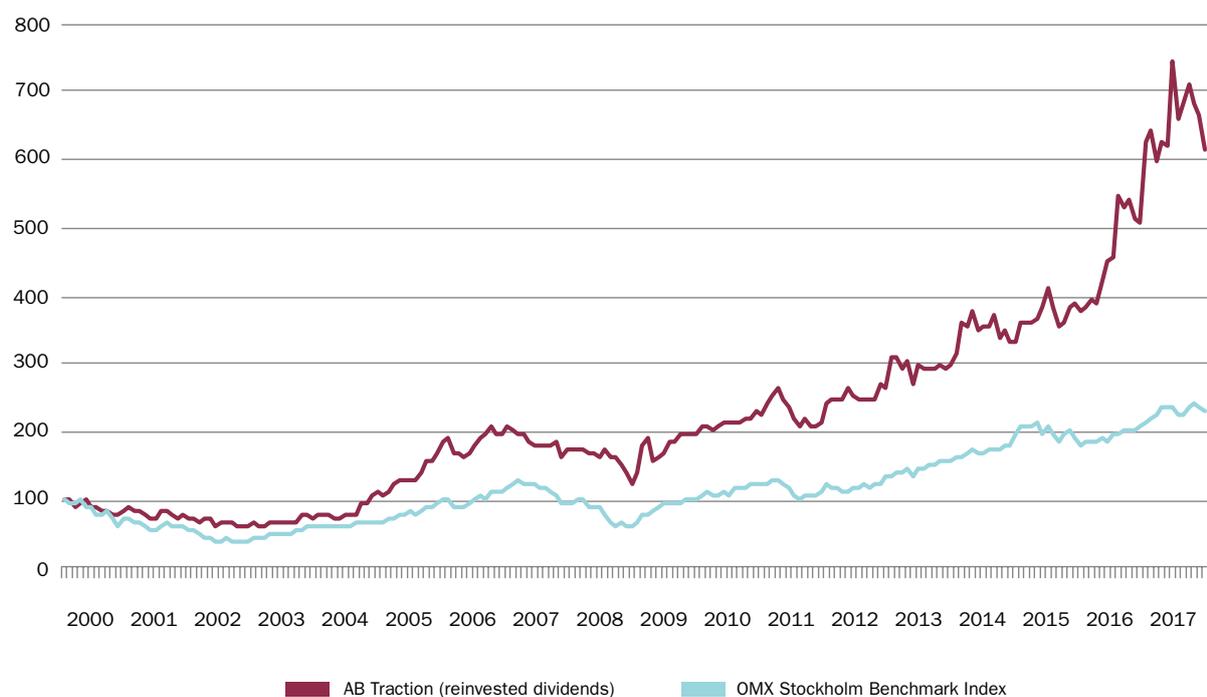
## SHAREHOLDERS<sup>1</sup>

	Class A shares	Class B shares	Totalt	Andel kapital, %	Andel röster, %
Ann Stillström	165,000	2,727,000	2,892,000	19.6%	14.1%
Bengt Stillström	165,000	2,724,450	2,889,450	19.5%	14.1%
Petter Stillström including company	1 095,000	1,677,150	2,772,150	18.7%	40.7%
Niveau Holding AB including susidiary <sup>2</sup>	375,000	1,225,000	1,600,000	10.8%	16.1%
Hanna Kusterer		1,583,100	1,583,100	10.7%	5.1%
David Stillström		1,556,700	1,556,700	10.5%	5.0%
N.G.L Förvaltnings AB		102,900	102,900	0.7%	0.3%
Esilentio AB		100,000	100,000	0.7%	0.3%
Holst, Gull-May		59,600	59,600	0.4%	0.2%
Handelsbanken Fonder AB		56,542	56,542	0.5%	0.2%
Other		1,177,205	1,177,205	7.8%	3.8%
<b>Total</b>	<b>1,800,000</b>	<b>12,989,847</b>	<b>14,789,847</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Shareholders as of 31 December 2017, not including repurchased shares.

<sup>2</sup> Owned by members of the Stillström family.

## TOTAL RETURN ON TRACTION'S CLASS B SHARE



Source: Bloomberg

### Dividend and distribution policy

Traction's basic policy is that dividends and other transfers of assets to the shareholders shall be effected in a tax-efficient manner. For the purposes of Swedish tax legislation, Traction is an investment company, which means, inter alia, that dividends are deductible against interest income and the standard income, which comprises 1.5 percent of the Company's net asset value as of the beginning of the year. Under current tax regulations, the dividend is adapted to the Parent Company's revenue in such a way that no tax expense arises in the Parent Company. Under current regulations, there is no standard income on unlisted holdings and listed holdings where the percentage of votes exceeded 10 percent at the end of the financial year. Buyback of the Company's own shares occurs when it is deemed attractive for the shareholders.

#### REPURCHASE OF OWN SHARES

Year	Number	Amount, SEK
2000	163,050	6,471,150
2001	80,400	2,921,200
2002	221,550	6,616,500
2003	-	-
2004	-	-
2005	-	-
2006	-	-
2007	177,600	11,810,400
2008	-	-
2009	537,400	28,462,000
2010	141,000	10,081,500
2011	80,000	5,420,000
2012	245,000	18,500,000
2013	424,305	38,188,000
2014	74,695	7,731,000
2015	75,153	8,342,000
2016	-	-
2017	-	-
Total	2,220,153	144,543,750
Cancellation 2010	-610,000	
Cancellation 2014	-400,000	
<b>Repurchased shares</b>	<b>1,210,153</b>	<b>7.6%</b>

#### SIZE CLASSES OF CLASS B SHARES

Holding	Number of owners	Number of class B shares	Capital stake, %
1-500	2,711	185,134	1.2
501-1 000	188	138,637	0.9
1 001-5 000	153	319,698	2.0
5 001-10 000	17	127,415	0.8
10 001-15 000	6	74,103	0.5
15 001-20 000	8	143,165	0.9
20 001-	17	13,211,848	93.8
<b>Total</b>	<b>3,100</b>	<b>100.0</b>	

#### EVOLUTION OF SHARE CAPITAL

Year	Transaction	Increase in number of shares	Increase of share capital, SEK	Total share capital, SEK	Number of shares	Quotient value of share, SEK
1994	Bonus issue	20	10,000	460,000	920	500
1994	Split	459,080	0	460,000	460,000	1
1995	Bonus issue	0	4,140,000	4,600,000	460,000	10
1997	Split	4,140,000	0	4,600,000	4,600,000	1
1997	New issue	700,000	700,000	5,300,000	5,300,000	1
1997	New issue	370,000	370,000	5,670,000	5,670,000	1
2006	Split	11,340,000	0	5,670,000	17,010,000	0.33
2010	Cancellation	-610,000	-203,333	5,466,667	16,400,000	0.33
2014	Cancellation	-400,000	-133,333	5,333,334	16,000,000	0.33

The share capital in Traction totals SEK 5,333,334, divided into 16,000,000 shares, 1,800,000 of which are class A shares and 14,200,000 of which are class B shares. All shares entitle their holder to equal rights to the Company's assets and profit. Class A shares entitle their holder to 10 votes and class B shares entitle their holder to one vote at annual and extra general meetings. Every person is entitled to vote at annual and extra general meetings for the full number of shares owned and represented, without limitation.

# Transactions over the past ten years

## 2017

In the beginning of 2017 Duroc acquired International Fibres Group with payment in newly issued shares in Duroc. The holding in Waterman Group was sold following a public tender offer. For Traction this meant a total bid value of MSEK 85 and an earnings effect of just short of MSEK 40. Shares in Nilorn were sold for MSEK 67, whereby ownership was reduced to 24 percent of capital and 57 percent of the votes. The holding in Banking Automation Ltd was sold, with a positive effect on earnings. Traction has been a part owner of Banking Automation Ltd since 1986. The change in value of active listed holdings was 29 percent. The holdings in Drillcon (82 percent) and Softronic (71 percent) out-performed. A weak development in the Ankarsrum companies burdened the result by a total of MSEK 60 during 2017. A strong financial position with just short of 1.2 billion SEK in the form of cash and cash equivalents and interest-bearing investments. The holding in Eitech was sold in the beginning of January after approval by the competition authority in Sweden. Traction also became a new major shareholder in Mönsterås Metall, who acquired Ankarsrum Die Casting in February 2018.

## 2016

Traction reported its best result ever in the amount of MSEK 401, equivalent to a return of 19 percent. MSEK 30 was invested in Eitech Holding AB in the form of shares and loans, equivalent to 10 percent of the capital and 4 percent of the votes. New chief executives were appointed in Duroc and in Drillcon. All shares in Nordic Camping & Resort were sold after a tender offer from Norwegian venture capital firm Norvestor Equity AS. Gradually increased ownership in Waterman Group during the year bringing our stake from 11 percent to about 16 percent. Shares in Nilorn were sold for MSEK 79, reducing ownership to 31 percent of capital and 61 percent of the votes. Acquired 8 percent of the capital 4 percent of the votes in Poolia and became the company's second largest owner, also gaining representation on the company's election committee. Strong share price performance in Nilorn (99 percent), BE Group (40 percent) and Hifab Group (36 percent) contributed positively to results. Nilorn and OEM International recorded record results. Ankarsrum Motors was revalued by MSEK -25 due to weaker performance. The return on other shareholdings amounted to 45 percent. Negative deposit interest rates prompted us to invest most of Traction's liquid funds in short-term interest-bearing investments with a marginally positive return. Strong financial position with more than SEK one billion in the form of cash and cash equivalents and interest-bearing investments.

## 2015

The holding in PartnerTech was sold for just over MSEK 100 in connection with a bid from industry colleague Scanfil. Nordic Camping & Resort, which continued its



Nilorn

positive development, floated a new issue to strengthen the balance sheet and broaden the shareholder base. BE Group floated a rights issue, which to a considerable extent was underwritten by Traction. A new CEO was appointed in the BE Group and Traction assumed the role of Chairman of the Board. Nilorn was listed in June on First North at the same time as Traction sold shares for just over MSEK 180, equivalent to half of the holding. This constituted a major contribution to the year's profit. In late autumn Traction acquired all outstanding class A shares in Nilorn, whereby Traction's ownership increased to 66 percent of the votes. Nilorn's share price showed a weak development, whereas the company's operations again delivered record earnings. Hifab Group suffered an unexpected legal loss which compelled the company to float a new issue, which also was underwritten by Traction. New CEOs were recruited for Drillcon and Hifab Group. Both take office in 2016. Banking Automation had a record year. Shares in OEM International, Softronic and Waterman showed a strong development, while BE Group and Hifab Group were a drag on earnings. A major holding in staffing company Proffice was revalued following a public offer from an international player. The holding in Modular Streams was sold. Significant sales of active holdings and a sceptical view of the stock market's valuation levels had the effect that Traction's cash and cash equivalents rose to more than MSEK 900.

## 2014

Traction turned 40. Traction switched to Investment Entity Accounting, which means that the subsidiaries in Ankarsrum and Nilorn are valued at market rather than being consolidated in the Traction Group. Sold 50 percent of the holding in OEM International after a rising price trend for a long period. As a company, OEM has shown a very positive development since Traction became a part owner in 2009, as has its share price. BE Group floated a new issue, largely underwritten by Traction. The issue was oversubscribed and Traction sold parts of its holding during the year, reducing the stake to 17 percent. BE Group's development was very weak, which weighed on Traction's profit. The holding in Catella was sold. Participated in the underwriting of real estate company Amasten in connection with a preferred share issue. A new chief executive was appointed in Duroc. An action program was initiated immediately. Ownership in Drillcon and Hifab passed the 50-percent-mark for capital and votes. Ownership in PartnerTech increased to just over 23 percent. Nordic Camping & Resort grew and the share price advanced by 59 percent. Nilorn recorded a revenue increase of 20 percent and delivered all-time-high earnings. In addition to net sales of active holdings and other listed shares, dividends from unlisted holdings contributed an increase in Traction's cash and cash equivalents, and interest-bearing investments to approximately MSEK 600.



OEM International

## 2013

Increased ownership in BE Group to 21.7 percent and in Catella to 11.6 percent by acquiring major blocks of shares in the beginning of the year. Fastpartner acquired Bricad's holding in Vallentuna Centrum after several years of active refinement of its real estate holdings. We became represented on the Board of Directors of Catella, which also appointed a new chief executive who took office in January 2014. Made a mandatory offer for Drillcon, thereby increasing our stake to just short of 50 percent. The real estate project in Djursholms Ösby was virtually completed and all units were sold during the year. The share price of PA Resources fell. This burdened our earnings performance when the company made another rights issue without Traction's participation. Generally strong market performance, where the holdings in OEM, Hifab, SCA and Swedbank made the greatest contributions to our earnings, at the same time as the holding in BE Group weighed on our result. The holdings in G5 Entertainment and Alphahelix were sold with good results. Ankarsrum Motors posted all-time high earnings thanks to greater capacity utilisation on its universal motor line. Nilorn also recorded continued stable earnings, with particularly positive results in England and Germany. Zitiz and internet news site Sourze were phased out after several years of development without achieving commercial success. The holdings in Signtrace and Saguru were wound up. Acquired a just over 10 percent stake in the English consultancy Waterman Group plc. JRS Securities agreed to sell the business to Remium, who took possession in January 2014.

## 2012

Increased our holding in BE Group (to 16.3 percent), Catella (to 7.9 percent) and PartnerTech (to 18.6 percent). We became represented on the board of directors of BE Group and a new chief executive was also appointed. Hifab recorded a strong improvement in earnings and the market price of its shares advanced by 63 percent. Strong stock market performance by SCA (+37 percent) and Swedbank (+39 percent) contributed to Traction's stable result despite the fact that parts of the capital was invested in low-yield assets. Ankarsrum Motors, which again in 2012 recorded stable earnings, began the development of a new DC motor. Construction began on Traction's partially-owned real estate project at Djursholms Ösby, with planned occupancy in the autumn of 2013. Sold the holding in Traction Fonder, which was originally planned for 2011. The holding in Ewa-Lie was sold. Participated in the underwriting consortia for Formpipe, Nordic Mines, Cybercom and Crown Energy. PA Resources was reconstructed when the holders of convertible debentures (among them Traction) converted their debentures to shares and the company floated a large rights issue, for which Traction was an underwriter. The issue was completed in the beginning of 2013.

## 2011

Became a major owner of game development company G5 Entertainment with 7 percent of the shares by participating in a private placement. Ownership in Drillcon was increased from 13 percent to 30 percent, making Traction the company's largest shareholder.

Gradually bought, especially during the third quarter, a large number of shares in BE Group and by the end of the year Traction was the company's largest shareholder with about 12.7 percent of the shares outstanding. Participated in a start-up, JRS Securities, a securities broker focusing on institutional customers. Became engaged in Saguru. Bought just over 5 percent of the shares in Catella, making Traction the company's second largest shareholder by year's end. Good profitability in subsidiaries Nilorn and Ankarsrum Motors. Nilorn declared a large dividend. Weak stock market overall as well as in some of Traction's larger holdings. The holding in Sigicom was revalued after a very positive development during 2011.

## 2010

Started mutual fund operations by acquiring Thenberg Fonder, which in the beginning of 2010 changed its name to Traction Fonder. Participated as the largest underwriter of a new issue in Rörvik Timber in an amount of MSEK 100 in connection with a reconstruction of the company. Traction's expectation was to become a major owner in Rörvik, but that did not happen since the issue was fully subscribed. Also participated in underwritings for Switchcore, PA Resources and Alm Brand. The issue in Switchcore was 88 percent subscribed, which meant that Traction's ownership increased to 28 percent of the capital and 22 percent of the votes. Increased ownership in OEM International and gained representation on the company's Board of Directors. Participated in the financing of a real estate development project in the Stockholm suburb of Djursholm. Successful implementation of change programs meant that Nilorn and Ankarsrum Motors recorded strong earnings increases. Associated company Softronic expanded by acquiring industry colleague Modul 1. We became engaged in two newly started entrepreneur-driven companies: Modular Streams and SignTrace. Acquired 36 percent of the shares in Thalamus IT Consulting, which is run by an entrepreneur, with whom Traction has previously co-operated with in the staffing company Arvako (sold to Randstad in 2004).



Drillcon

## 2009

After a weak 2008 there was a significant turnaround and Traction recorded a return on equity of 25 percent. Participated in the underwriting consortium for PA Resources and ended up subscribing for convertibles in an amount of MSEK 47. The change in value on securities was MSEK 267, of which the holding in Swedbank accounted for MSEK +54. Bilia for MSEK +38, PA Resources for MSEK +29 and SCA for MSEK +20. Realised successful investments in large companies as well as medium-sized companies, which rose sharply after they were purchased during 2008, including Bilia, Billerud and Duni. Sold the last shares in Haldex after the share had doubled in value during the year. Wholly owned subsidiary Ankarsrum Assistent (now Ankarsrum Kitchen) took over the rights to the Assistent Original kitchen appliance and launched a newly designed version on the market. Completed a cash offer to the shareholders of Nilorn, which became a subsidiary during the year and was delisted from the Stockholm Stock Exchange. Ownership in Nilorn stood at 65 percent of the capital and 57 percent of the votes at year-end 2009. Underwriting of issues in Eniro, Nordic Camping & Resort, SRAB Shipping and Endomines. Gnosjöplast filed for bankruptcy following a failed reconstruction attempt. Sold Gnosjöplast Fastighets AB, which owned Gnosjöplast's 15,000 square metre production facility. Became a major owner in SRAB Shipping (11.7 percent) and became represented on the company's Board of Directors. Increased the ownership stake in Nordic Camping & Resort to just short of 33 percent of the capital. Board of Directors representation in Drillcon. Increased ownership in PartnerTech (13.7 percent) and became represented on the company's Board of Directors. Acquired a large holding of Class A shares in technology trading company OEM International.

## 2008

The return on equity was -13 percent in a year when the Stockholm market dropped by some 40 percent. The loss relates to negative changes in the value of long-term listed holdings and other equity investments, with only a small number of losses realised during the year. Re-evaluation of the unlisted holdings in Banking Automation, Bricad Holding and Recco by a total of MSEK -32. Net investments in listed companies amounted to MSEK 238. Purchase and sale of a large block of shares in Teleca (8.5 percent). Purchase of major blocks of shares in Bilia (3.6 percent), Drillcon (11.3 percent) and PartnerTech (9.7 percent). Increased ownership in Switchcore to 17.9 percent. Increased the stake in Softronic from just over 10 percent to 20.9 percent of the votes. Thalamus Networks acquired Hifab with payment in own shares and cash. Zitiz acquired the internet newspaper Sourze. The Group's subsidiaries repaid bank loans totalling MSEK 48 during the year.



## Traction's history

Traction was started in 1974 by entrepreneur Bengt Stillström as a one-man consultancy with a capital of a few thousand kronor. Today Traction is a stock exchange-listed investment company with equity of SEK 2.75 billion, while approximately MSEK 630 has been distributed to the shareholders since the listing in 1997.

Traction's service has always been to participate in the development of companies. We have worked with the companies' unusual events. By that we mean everything but the day-to-day work in the companies, where the initiative and the competence of the entrepreneur or other part owners already exists. It has often been a matter of how to exploit new ideas and how to give new direction to operations that are not functioning well. In support of such action we have devised a business philosophy which experience tells us really works. That philosophy is our instrument and serves as our guide. One could also say that the philosophy has become Traction's product. In addition to adaptation, new sales, development and start-up of new products, these unusual events have often been a matter of purchases and sales of businesses, reconstructions, reorganisations, recruitment, financing, co-operation efforts and international expansion. We have assisted entrepreneurs and chief executive officers and complemented them in such a way as to make us strong together. At Traction we have had personnel with varying backgrounds: in sales, technology, law, finance, etc. to manage this broad approach. In many cases we have been forced to step in as temporary chief executive and negotiator. We call this service Venture Management.

During the first ten years Traction was a one-man company. Then in the beginning of the 1980s a central organization was created and it grew to about ten persons. We also work with independent individuals in specific projects together with us

and it is not unusual that the managers in our project companies are engaged as directors in other companies where Traction is a major owner. Bengt Stillström was CEO from the start in 1974 until 2001, and today serves as Chairman of the Board of Directors of Traction. Petter Stillström became a director in 1997 and is Traction's CEO since 2001.

From the outset our customer base was business owners and entrepreneurs. Later, major companies and banks came into the picture, primarily in connection with projects to save businesses that had faltered. As a positive effect of profitable business ventures, our capital has grown allowing investment in larger and more mature companies and since the beginning of the 1990s Traction has functioned as an active owner in several listed companies, where we work based on an active board-of-directors/owner role. In parallel with active corporate development, portions of the capital has also been invested in other listed shares, which over time has contributed to Traction's capital growth.

The business model began as a consultancy, based on compensation for time spent, and developed into becoming a partnership with the entrepreneurs – becoming part owner, getting performance-related compensation for work done and eventually also investing equity, granting loans and issuing guarantees. In recent years the main thrust of our business has become active and long-term ownership of small and medium-sized companies at the same time as capital has been invested in other listed equities and bonds in the interest of creating a return on the capital.

Traction's capital has been built over a long period of time, without debt in the parent company, and with low or no leverage in the project companies. We have a business model that is of a long-term nature and which we believe is sustainable. Traction is helpful in creating sound companies.

**SELECTIONS OF HISTORICAL PROJECTS THAT HAVE BEEN LARGE, PROFITABLE, LONG-TERM AND/OR SIGNIFICANT:**

- AcadeMedia, interactive education and later focus on charter schools.
- Allgon, antennas and system components for mobile telephones and base stations.
- Arvako, staffing and recruitment.
- Banking Automation Ltd, deposit machines, bill payment machines and cash exchange machines for banks and others.
- Bricad, real estate development and management.
- Centrum Invest, consultancy and development company for shopping centres.
- CMA Computer Marketing, rental of mainframe computers and sales of computers.
- Eitech respective EIAB, electrical installations and works/mounting.
- EasyT, internet travel agency and software.
- Eska Komponenter, an attempt to structure the Swedish foundry market.
- Gnosjö Plast, injection moulding of plastic articles.
- Haldex, automotive components.
- Inter Innovation, development and exploitation of a mechanism for feeding paper currency in banking machines.
- Jarl 20, construction and sale of freehold appartments.
- JC, clothing chain.
- JP Bank, monetary broker, banking operations.
- Kjessler & Mannerstråle, technology consultancy.
- KnowIT, IT consultancy.
- Maxitech, thick film hybrids.
- Mutter Media/Metronome, TV production company.
- Nordic Camping, a national camping chain.
- PartnerTech, contract manufacturing.
- Standard Radio, communication radio.
- Svecia, silk-screen printing machines.
- Svenska Järnvägsverkstäderna, ASJ, a foundry specialized in the production of brake pads for rail vehicles.
- Sweden Table Tennis, table tennis equipment under the brand name of Stiga.
- Swedish Tool, machinery trade with focus on machine tools, acquired by Duroc 2007, was founded by Bricad.
- Thalamus Networks, control technology, broadband networks.
- Tolerans, rotary stapling machines for tabloids.
- Waterman, technology consulting company with headquarters in London.

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