

PRELIMINARY REPORT ON THE OPERATIONS OF AB CUSTOS DURING 1998

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- **The total return on Custos' shares during 1998 was –1.5 percent for Series A shares and 0.4 percent for Series B shares**
 - **Custos' Board of Directors proposed giving shareholders the right to redeem every fifth Custos share for a payment of SEK 210 per share plus the dividend**
 - **A dividend of SEK 11.50 (7.25) per share, up 59 percent, is proposed**
 - **Custos divested its holdings in Skanska, Drott and Hufvudstaden**
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CEO's comments

"1998 was largely dominated by a number of sizable divestments of inherited holdings. The sale of our holdings in Skanska/Drott and the phase-out of ownership in Hufvudstaden represented the final steps in a deliberate process aimed at changing the composition of Custos' portfolio in one essential respect. Having accounted for nearly 60 percent of the portfolio in 1996, Custos' exposure to the construction and real estate sector has been eliminated. Custos now has a purely industrial portfolio.

With respect to return, 1998 was a weak year. One measure of market confidence in an investment company and in its strategy and management is the discount to net asset value in its share price. Custos' discount moved in the right direction, improving during the year relative to other comparable investment companies. The discount is still too high, however. The proposed share redemption in the amount of SEK 1.7 billion is an important signal that the task of reducing the discount has priority. It will ensure that shareholders receive the full net asset value for a substantial proportion of their holdings.

Even after implementing the redemption, Custos will have good financial capacity. Its own investment capacity is sizable - SEK 1.5 billion - and this promises an exciting investment year in 1999".

Total return

Total return on Custos' shares including share price appreciation, dividend paid and redemption of shares was –1.5 percent for Series A shares and 0.4 percent for Series B shares. Return was thus about 9 percent below the cost of shareholders' equity, Custos' primary measure of financial return. The cost of shareholders' equity amounted to 8.3 percent during the year. The Findata Yield Index increased by 13.0 percent during the same period.

Return in 1998

	Custos Series A	Custos Series B
Change in net asset value	-7.4%	-7.4%
Change in discount to net asset value	1.0%	2.7%
Redemption of shares (reinvested)	1.7%	1.8%
Dividend (reinvested)	3.2%	3.3%
Total	-1.5%	0.4%

Cost of shareholders' equity ¹⁾	8.3%
Findata Yield Index	13.0%

¹⁾ Measured as the average Swedish twelve (12) month treasury bill rate plus a risk premium of 4 percent.

The total return on Custos' largest shareholdings is shown below. The return on its holding in Skanska/Drott was satisfactory, amounting to 18 percent until the divestment in September 1998. SCA rose by 2 percent, which was less than expected. Svedala was adversely affected by sizeable sell-offs by foreign shareholders. ASG, too, showed a negative return during 1998 but has performed well on the whole since Custos' investment in August 1997. At –47 percent, the share price trend for Perstorp, finally, was a disappointment and is obviously not satisfactory.

Return in 1998

Portfolio holdings	%
Skanska/Drott ¹⁾	17.9
SCA	2.1
Svedala	-7.2
ASG	-11.7
Perstorp	-46.6

¹⁾ December 31, 1997 - September 25, 1998

Net asset value

Total net asset value on December 31, 1998 was MSEK 7,617 (8,951), which is equivalent to SEK 192 per share (Dec. 31, 1997: 207). During the year, MSEK 313 was distributed to Custos' shareholders in the form of a dividend, and 24,576,524 shares in Hufvudstaden with a market value of MSEK 813¹⁾ were distributed (see "Custos share data" below). Net asset value on January 25, 1999 was SEK 187 per share, or a total of MSEK 7,416. In calculating net asset value, the same principles as those stated in the 1997 Annual Report have been used.

¹⁾ Market Value per April 15, 1998.

On December 31, 1998, Custos' discount to net asset value was nearly 17 percent for both Series A and Series B shares. This was somewhat lower than the preceding year (Dec. 31, 1997: 17 percent and 19 percent, respectively).

Change in net asset value, MSEK		1998
Net asset value on January 1		8,951
Dividends received	296	
Administrative expenses	-38	
Items affecting comparability	-8	
Financial income and expenses	17	267
Change in value of securities portfolio		
ASG	-73	
Hufvudstaden ¹⁾	84	
Perstorp	-637	
SCA	-15	
Skanska, Drott	326	
Svedala	-92	
Other listed companies	-41	
Other holdings	-27	-475
Change in net asset value before dividend and redemption		-208
Dividend paid		-313
Redemption		-813 ¹⁾
Change in net asset value		-1,334
Net asset value, December 31		7,617

¹⁾ The Hufvudstaden shares that comprised payment in Custos' 1998 redemption procedure have been distributed at their April 15, 1998 market value.

Net asset value on December 31, 1998, MSEK			
Shareholders' equity			5,482
Surplus value in securities portfolio ¹⁾			
Market value of Parent Company's portfolio of listed shares	5,025		
Market value of other securities	216		
	5,241		
Book value	-3,086		2,155
Options issued			
Market value	-10		
Book value	10		0
			7,637
Anticipated dividends from Group companies			-20
Net asset value			7,617

¹⁾ Excluding treasury bills.

Net asset value on Dec. 31, 1998 allocated by assets and liabilities

Shares	Number	Market value	SEK per
Listed companies		MSEK	Custos share
SCA	15,203,591	2,706	68
ASG	4,686,021	719	18
Perstorp	9,481,037	708	18
Svedala	5,967,700	704	18
Others		192	5
Total, portfolio of listed shares¹⁾		5,029	127
Options issued		-10	0
		5,019	127
Other net assets and liabilities ²⁾		2,598	65
Net asset value		7,617	192

1) The portfolio of listed shares comprises Custos' direct and indirect shareholdings in companies listed on stock exchanges.

2) Including Swedish treasury bills and liquid funds in the amount of MSEK 2,681.

Active ownership - events during 1998

Examples of important events during 1998 in Custos and in portfolio companies:

- | | |
|-----------------------|--|
| Custos | <ul style="list-style-type: none"> – Redemption with payment in Hufvudstaden shares – Divestment of the entire holdings in Skanska and Drott – Real estate exposure eliminated – Proposal for redemption of every fifth share in Custos – Stock-related bonus program for senior executives |
| SCA | <ul style="list-style-type: none"> – Further acquisitions in the Hygiene and Packaging business areas, including the UK-based packaging company Rexam – Convertible loan to all employees |
| Skanska ¹⁾ | <ul style="list-style-type: none"> – Decision to divest non-core assets – Spin-off of Drott – Sale of remaining shares in Sandvik – Sale of forest-related assets |
| Perstorp | <ul style="list-style-type: none"> – Sale of Plastic Systems – Continued efficiency improvements within framework of approved action programs – Flooring made into separate division – Option program for senior executives |

¹⁾ Events until Custos divested its holding in September 1998

- | | |
|---------|--|
| ASG | <ul style="list-style-type: none"> – Transfer of SEK 1.2 billion to shareholders through redemption program – Continued efficiency improvements within framework of approved action programs – Acquisition of ASG Hong Kong – Formation of joint company with CityMail for home distribution of parcels – Creation of ASG Road Transport business area by merging Domestic & Parcel and European Road Transport – Further option program for senior executives |
| Svedala | <ul style="list-style-type: none"> – Continued acquisitions in priority areas – Options issued by Custos to senior executives – Convertible loans to all employees |

Portfolio of listed shares

The market value of the portfolio of listed shares on December 31, 1998 was MSEK 5,029 (9,441). Adjusted for net changes, the market value of this portfolio declined by MSEK 448, or –4.7 percent. Net sales of shares during 1998 totaled MSEK 3,151 (purchases MSEK 672, sales MSEK 3,823, of which the ASG redemption accounted for MSEK 380). In addition, the Hufvudstaden shares in the portfolio of listed shares which comprised payment in Custos' redemption procedure during 1998 were distributed to the shareholders as of April 15, 1998 at a market value totaling MSEK 813.

Custos implemented the following major changes in the portfolio of listed shares:

As a result of net purchases, the portfolio increased by:

ASG B	619,500
Aspo	226,950
Svedala	2,099,400

After these purchases, Custos owns 37.3 percent of the share capital and 49.3 percent of the voting power in ASG, 12.4 percent of capital and votes in Svedala and 5.2% of capital and votes in Aspo.

As a result of redemption procedures, the portfolio decreased by:

ASG A	242,250
ASG B	1,113,256
Hufvudstaden A	20,804,846
Hufvudstaden C	3,771,678

Custos received a total of MSEK 380 for the redemption shares in ASG, or SEK 280 per share.

The shares in Hufvudstaden comprised payment in the redemption procedure that Custos implemented during 1998.

As a result of net sales, the portfolio decreased by:

Diligentia	2,028,584
Drott A	4,684,278
Drott B	2,282,556
Hufvudstaden A	12,180,939
Hufvudstaden C	1,561,632
Perstorp B	810,600
Skanska A	4,657,493
Skanska B	2,372,556

The largest single change in the composition of the portfolio during 1998 was Custos' divestment of its entire holding in Skanska to Industrivärden and Inter IKEA. Payment amounted to MSEK 1,986. Before this, by means of a distribution from Skanska, Custos had received 6,966,834 shares in Drott AB. This entire holding was sold to Näckebro for a payment totaling MSEK 609. These two transactions provided Custos with a total of MSEK 2,595 in additional liquidity.

Moreover, Custos phased out its entire holding in Hufvudstaden by selling Hufvudstaden shares and by means of the Custos share redemption procedure, with payment in Hufvudstaden shares. This marked the completion of the phase-out process that began in 1997 with the recapitalization of Hufvudstaden, the spin-off of Hufvudstaden International and the subsequent public offer from Diligentia.

By divesting its holdings in Skanska and Drott and successively phasing out its holding in Hufvudstaden, Custos took the final steps in effecting a major change in its portfolio. Having had a portfolio in which 58 percent consisted of shares in the construction and real estate sector in 1996, Custos now has a purely industrial portfolio.

The Parent Company

Securities portfolio, earnings and financial position

The market value of the Parent Company's total securities portfolio on December 31, 1998 was MSEK 5,241 (9,531), excluding Swedish treasury bills and liquid funds in the amount of MSEK 2,681. At year-end, the book value of the portfolio was MSEK 3,086 (4,970). The difference between its market value and book value, the so-called surplus value, thus amounted to MSEK 2,155 (4,561). The value of unlisted companies totaled MSEK 216 (731). One reason behind the decline was that in late 1998, Custos sold all its shares in Sandblom & Stohne Intressenter AB at a small capital gain. Another was that AB Transportförvaltning, an unlisted Custos Group company with ASG shares as its main asset, merged during 1998 with AB Custos. In all, Custos invested MSEK 742 in shares, of which MSEK 6 comprised acquisitions of Group companies. It sold MSEK 3,825 worth of shares. Custos also received MSEK 10 as a repayment of shareholder contributions from Group companies and option premiums with a net value of MSEK 13. Altogether this means a total net sale of MSEK 3,106.

The Parent Company's income before taxes amounted to MSEK 1,896 (1,267). Dividends received totaled MSEK 296 (207) and tax-exempt capital gains MSEK 1,644 (1,130). Administrative expenses were MSEK 38 (30). Net interest income was MSEK 17. This represented an improvement compared to the preceding year (-34), among other things due to a reduction in average indebtedness.

The adjusted equity/assets ratio on December 31, 1998 was 96 percent (92). Net liquid funds (interest-bearing assets minus interest-bearing liabilities) increased, mainly due to the divestment of shares, and totaled MSEK 2,414 (Dec. 31, 1997: net borrowing 539).

Proposed allocation of income

Net income for the year plus retained earnings amount to MSEK 4,228 (3,048). The Board of Directors and the Chief Executive Officer propose a dividend to the shareholders of SEK 11.50 (7.25) per share, or a total of MSEK 456 (313). MSEK 3,772 (2,735) is to be carried forward.

Group

Custos is a pure investment company, best analyzed on the basis of the Parent Company's accounts, in which the investment portfolio is valued at market value. The consolidated accounts for this kind of investment company only serve as a complement to the Parent Company accounts.

Custos share data

Custos' 1999 redemption program

As announced earlier, the Board of Directors of Custos will recommend that the Annual General Meeting approves the redemption of every fifth share, with a payment of SEK 210 per redeemed share. Shares registered for redemption are also entitled to a regular Custos dividend for the 1998 financial year (see proposed allocation of income).

If all shareholders accept this offer, 7,937,817 shares will be redeemed in exchange for payment of MSEK 1,667.

The reason for the redemption proposal is that the Board of Directors and the Executive Management of Custos believe that the discount to net asset value in Custos is unacceptably high. This redemption procedure gives shareholders an opportunity to receive more than the full net asset value for a part of their shareholding.

An Extra General Meeting earlier today approved the redemption in principle. Before this Extra General Meeting, Custos' shareholders received information material describing the redemption proposal in detail and instructions on how they can participate in the offer. This information material can also be ordered from the Company.

Custos' 1998 redemption program

In keeping with the decision in principle by the Extra General Meeting held on March 2, 1998, the Annual General Meeting on April 15, 1998 approved a reduction in Custos' share capital by MSEK 88 to MSEK 992. This occurred by redeeming 3,510,932 shares in Custos. The purpose of the reduction in share capital was to effect a repayment to the shareholders using assets consisting of shares in Hufvudstaden, with a total book value of MSEK 491 (market value on April 15, 1998: MSEK 813). To provide a redemption payment in addition to the reduction in share capital, Custos withdrew MSEK 403 from its unrestricted shareholders' equity. The city court decision to approve this reduction in share capital gained legal force on August 7, 1998.

Changes in share capital, 1997-1998

Year	Number of Series A shares (1 vote)	Number of – Series B shares (1/10 vote)	Share capital, MSEK
Dec. 31, 1996	35,593,931	11,820,690	1,185
1997 redemption	-3,212,219	-1,002,378	-105
1998 redemption	-2,648,819	- 862,113	-88
Dec. 31, 1998	29,732,893	9,956,199	992

Annual General Meeting of Shareholders

The Annual General Meeting will be held on Wednesday, April 14, 1999 in the Auditorium of the Modern Museum (Museum of Modern Art) in Stockholm, Sweden. Shareholders who wish to participate in the meeting must be recorded by April 1, 1999 in the share register maintained by Värdepapperscentralen VPC AB (the Swedish Securities Register Center).

The Board of Directors proposes to the Annual General Meeting that the dividend for 1998 be SEK 11.50 per share. The dividend approved by the meeting will be paid via VPC to shareholders who are entered in Custos' share register on the record date. The dividend is expected to be sent from VPC on April 26, 1999, provided that the Annual General Meeting approves the Board's proposal that April 19, 1999 be the record date.

Parent Company income statement (Amounts in MSEK)	1998	1997
Income from securities management		
Dividends ¹⁾	296	207
Other income from participations in		
unlisted Group companies	-	184
listed Group companies ²⁾	152	334
associated companies	1,308	421
other listed securities	184	191
Items affecting comparability ³⁾	-15	-
Total income from securities management	1,925	1,337
Administrative expenses	-38	-30
Items affecting comparability ⁴⁾	-8	-6
Operating income	1,879	1,301
Financial income and expenses		
Other interest income and similar income/loss items	33	1
Interest expenses and similar income/loss items	-16	-35
Income before taxes	1,896	1,267
Taxes	-	-
Net income for the year	1,896	1,267

¹⁾ Of which, MSEK 51 (7) from Group companies and MSEK 185 (158) from associated companies.

²⁾ Hufvudstaden.

³⁾ Loss on merger with AB Transportförvaltning.

⁴⁾ Mainly costs for Custos' redemptions.

Parent Company balance sheet in brief (Amounts in MSEK)	Dec. 31, 1998	Dec. 31, 1997
Fixed assets		
Tangible fixed assets	1	1
Financial fixed assets		
Participations in unlisted Group companies	87	411
Participations in listed Group companies	-	776
Participations in associated companies ¹⁾	1,363	2,495
Receivables from associated companies (of which, interest-bearing assets)	-	30 (30)
Other long-term holdings of securities	1,636	1,288
Current assets (of which, interest-bearing assets)	2,743 (2,711)	179 (177)
Total assets	5,830	5,180
Shareholders' equity	5,482	4,390
Provisions	32	30
Current liabilities (of which, interest-bearing liabilities)	316 (297)	760 (746)
Total shareholders' equity and liabilities	5,830	5,180

¹⁾ SCA, ASG, Firefly

Parent Company statement of changes in financial position, in brief (Amounts in MSEK)	1998	1997
Current operations		
Dividends received	296	207
Other operating income	1,583	1,094
Operating income	1,879	1,301
Adjustments for items not included in cash flow	-1,629	-1,129
	250	172
Financial income and expenses	17	-34
Taxes	-	-
Funds from current operations before changes in working capital	267	138
Changes in working capital		
Increase (-)/decrease (+) in current receivables	102	30
Increase (+)/decrease (-) in current liabilities	-456	262
Increase (+)/decrease (-) in provisions	2	-2
Funds from current operations	-85	428
Investment operations		
Acquisition of participations	-742	-2,095
Sale of participations	3,825	2,700
Merger	-72	-
Other investment operations	23	-1
Funds from investment operations	3,034	604
Financing operations		
Amounts disbursed to shareholders for redemptions	-	-824
Dividend paid	-313	-273
Lending to associated companies	-	-30
Funds from financing operations	-313	-1.127
Increase (+)/decrease (-) in liquid funds	2,636	-95
Liquid funds, January 1	45	140
Liquid funds, December 31	2,681	45

Information schedule

- The Annual Report is scheduled for distribution in late March.
- Annual General Meeting of Shareholders.....April 14, 1999
- Interim Report, January 1-March 31April 29, 1999
- Interim Report, January 1-June 30 July 30, 1999
- Interim Report, January 1-September 30..... October 29, 1999

Stockholm, January 26, 1999

AKTIEBOLAGET CUSTOS (publ)

Christer Gardell
Chief Executive Officer

This report is published in Swedish and English. In the event of any difference between the English version and the Swedish original, the Swedish version shall govern.

Appendix

PRELIMINARY REPORT ON THE OPERATIONS OF THE CUSTOS GROUP DURING 1998

Group

Income

The consolidated operating income of the Custos Group amounted to MSEK 2,369 (1,974). Comparisons with 1997 should take into account that 1997 figures included Hufvudstaden.

After estimated tax and minority interest, consolidated income amounted to MSEK 2,241 (1,337). This was equivalent to earnings per share of SEK 56.46 (33.70)¹⁾.

¹⁾ Adjusted for redemptions.

Group companies

Dooba During 1998 Dooba Fastighetsutveckling was divested at a small loss. Income after net financial items amounted to MSEK 0 (-16). The remaining assets are one property and short-term promissory notes totaling MSEK 128. They have been transferred to the Group company Custos Securities.

International Invest Income after net financial items amounted to MSEK 17 (11). The year-end book value of the company's securities portfolio was MSEK 4 (96).

Värdefinans Income after financial items for the portfolio management company Värdefinans was MSEK 1 (16). The year-end book value of its securities portfolio was MSEK 17 (5).

Custos Securities Income after net financial items was MSEK -3 (6).

Associated companies

According to the new Swedish Annual Accounts Act, the equity method is to be applied to associated companies. A long-term holding with voting power of at least 20 percent comprises an associated company. Custos mainly reports its share of earnings in associated companies with a delay of one quarter. In cases where the acquisition value of an associated company exceeds Custos' portion of its shareholders' equity, Custos classifies the surplus value as goodwill and depreciates it over five years.

Those Custos Group holdings classified as associated companies are:

Company	Dec. 31, 1998		Dec. 31, 1997	
	% of capital	% of votes	% of capital	% of votes
ASG	37.3	49.3	32.5	48.6
FASAB Fastighetssystem	-	-	39.2	39.2
Firefly	44.9	44.9	44.9	44.9
Sandblom & Stohne Intressenter	-	-	40.0	25.6
SCA	7.7	20.1	7.7	20.1
Skanska	-	-	5.9	24.8
Vasaterminalen	-	-	33.3	33.3

Consolidated income statement in brief

(Amounts in MSEK)

1998

1997¹⁾

Income from securities management

Share of associated company earnings	683	849
Capital gains on sale of associated companies	1,316	529
Income from other securities management	422	324
	2,421	1,702

Income from other operations

Costs from other operations

46 727

-48 -391

-2 336

Gross income

2,419 2,038

Administrative expenses -42 -71

Items affecting comparability -8 7

Operating income

2,369 1,974

Financial income and expense

19 -155

Income after financial items

2,388 1,819

Taxes -147 - 351

Minority interest in income for the year - - 131

Net income for the year

2,241 1,337

¹⁾ Incl. Hufvudstaden

Consolidated balance sheet in brief

(Amounts in MSEK)

Dec. 31, 1998 Dec. 31, 1997¹⁾

ASSETS

Fixed assets

Tangible fixed assets

Properties	-	4,717
Other tangible fixed assets	2	14

Financial fixed assets

Participations in associated companies	2,927	4,354
Other long-term holdings of securities	1,650	1,403
Other financial fixed assets	39	86

Current assets	2,869	572
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Total assets	7,487	11,146
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SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity	7,151	5,419
Minority interest	-	1,186
Provisions	32	85
Long-term liabilities	-	501
Current liabilities	304	3,955

Total shareholders' equity and liabilities	7,487	11,146
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¹⁾ Incl. Hufvudstaden

Consolidated statement of changes in financial position, in brief	1998	1997¹⁾
(Amounts in MSEK)		
Current operations		
Operating income	2,369	1,974
Adjustments for items not included in cash flow	-2,149	-1,479
	220	495
Financial income and expenses	19	-155
Taxes	-	-80
Funds from current operations before changes in working capital	239	260
Changes in working capital		
Increase (-)/decrease (+) in inventories etc.	90	536
Increase (-)/decrease (+) in current receivables	33	-149
Increase (+)/decrease (-) in current liabilities	-578	342
Increase (+)/decrease (-) in provisions	2	0
Funds from current operations	-214	989
Investment operations		
Sales/acquisitions of participations, net	3,131	-52
Sales/distributions of tangible fixed assets, net	-	113
Net options etc.	13	-
Funds from investment operations	3,144	61
Financing operations		
Amount redeemable paid to shareholders	-	-824
Dividend paid	-313	-273
Change in lending	-29	-64
Change in long-term liabilities	-	-186
Funds from financing operations	-342	-1,347
Increase (+)/decrease (-) in liquid funds	2,588	-297
Liquid funds, January 1	105	402
Liquid funds, December 31	2,693	105

¹⁾ Including Hufvudstaden