

PRELIMINARY REPORT ON PARENT COMPANY OPERATIONS DURING THE 1997 FISCAL YEAR

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- **Total return to Custos' shareholders for the period was 24.3 percent for the Series A share and 22.6 percent for the Series B share**
 - **The net asset value as of January 28, 1998 was SEK 213 per share, or a total of MSEK 9,222**
 - **Decision by Custos' Board of Directors to propose the right to redeem each twelfth share in Custos for payment in Hufvudstaden shares**
 - **Dividend of SEK 7.25 (5.75) proposed, an increase of 26 percent**
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Total return

The total return on Custos' shares, that is the return including share price appreciation, dividend paid and redemption of shares, was 24.3 percent for the Series A share and 22.6 percent for the Series B share. The return was thereby approximately 15 percent higher than the cost of shareholders' equity, Custos' primary return measure. The cost of shareholders' equity during the year amounted to 8.5 percent. The Findata Yield Index increased by 27.8 percent during the same period.

Total return 1997

	Custos Series A	Custos Series B
Change in net asset value	16.7%	16.7%
Change in discount to net asset value	1.3%	-0.8%
Redemption of shares (reinvested)	2.2%	2.5%
Dividend (reinvested)	4.1%	4.2%
Total	24.3%	22.6%
Cost of shareholders' equity ¹⁾	8.5%	
Findata Yield Index	27.8%	

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

The total return (share price appreciation plus reinvested dividend and cash redemption) for the largest shareholdings is shown below. ASG's return was 43.4 percent in the period August 8 – December 31, 1997, while Hufvudstaden's return was only 4.5 percent.

Total return¹⁾ 1997

Portfolio company	
ASG ²⁾	43.4%
SCA	33.5%
Svedala	16.6%
Skanska	13.8%
Perstorp	4.8%
Hufvudstaden ³⁾	4.5%

¹⁾ Findata Yield Index adjusted for redemption

²⁾ August 8, 1997 – December 31, 1997

³⁾ Return adjusted for cash redemption (reinvested) and the value of Diligentia shares received in Diligentia's acquisition of Hufvudstaden International

Net asset value

Custos' net asset value increased by 16.7 percent during 1997 and amounted to SEK 207 per share on December 31, 1997 (December 31, 1996: 178). Total net asset value on December 31, 1997 was MSEK 8,951 (8,420). In order to achieve comparability between years for total net asset value, an amount of MSEK 822 paid out during 1997 to Custos' shareholders in the form of redemption should be added to the net asset value as of December 31, 1997. The estimated current net asset value at January 28, 1998 is SEK 213 per share, or a total of MSEK 9,222. The principles used when calculating the net asset value are the same as those stated in Custos' 1996 Annual Report.

On December 31, 1997, the discount to net asset value was 17 percent on Custos' Series A share and 19 percent on the Series B share.

Net asset value, December 31, 1997, MSEK

Shareholders' equity		4,390
Surplus value in securities portfolio		
market value	9,531	
book value	-4,970	4,561
Total net asset value		8,951

Net asset value at December 31, 1997, distributed among assets and liabilities

Shares	Number	Market value	SEK/share
Listed companies		MSEK	
(directly and indirectly owned)			
SCA	15,173,591	2,716	63
Skanska	7,030,049	2,288	53
Perstorp	10,279,837	1,461	34
Hufvudstaden	38,319,095	1,169	27
ASG	5,422,027	1,065	25
Svedala	3,868,300	507	12
Diligentia	2,028,584	215	5
Sandblom & Stohne	2,200,560	143	3
Other listed companies		20	-
Total listed companies		9,584	222
Other assets and liabilities, net		-633	-15
Net asset value		8,951	207

Active ownership - developments in 1997

Examples of important events during the year in Custos and in the portfolio companies:

<i>Custos</i>	- Two redemption programs - Liquidation clause
<i>SCA</i>	- Acquisition of shares outstanding in PWA - Acquisitions in priority areas - Increased focus on hygiene products
<i>Skanska</i>	- New CEO - Sale of Sandvik shares - Redemption
<i>Perstorp</i>	- New CEO - Divestments of Analytical and Components - Cost reduction program
<i>Hufvudstaden</i>	- New CEO - Demerger - Recapitalization - Cost reduction program
<i>Hufvudstaden International</i>	- Acquired by Diligentia
<i>ASG</i>	- New CEO - Divestment of Frigoscandia - Cost reduction program
<i>Svedala</i>	- Continued acquisitions - Divestment of Componenta Industrier
<i>Fabege</i>	- Acquired by Närkebro
<i>Sandblom & Stohne</i>	- Spin-off of Firefly - Buy-out by Stohne Intressenter

Stock portfolio

The market value of Custos' portfolio at December 31, 1997 was MSEK 9,584 (8,484). The stock portfolio comprises Custos' directly or indirectly owned holdings of listed shares. Adjusted for net changes, the market value of the portfolio increased by MSEK 1,480, or 17.4 percent, during the year.

The following significant changes were made in the stock portfolio:

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

969,000	ASG A
4,453,027	ASG B
313,800	Perstorp A
985,503	Perstorp B
39,647	Skanska A
352,612	Skanska B
2,971,300	Svedala

The portfolio increased by 3,136,084 Diligentia shares as a result of a share exchange.

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

1,107,500	Diligentia
4,226,309	Fabege B
5,050,000	Hufvudstaden A
1,105,481	Piren
272,031	Sandblom & Stohne B

As a result of redemption, the portfolio was reduced by 1,006,746 Skanska Series B shares.

The largest single change in the composition of the portfolio during 1997 was Custos' acquisition of ASG shares, through the unlisted company AB Transportförvaltning and other means. Custos now owns 969,000 ASG Series A shares and 4,453,027 Series B shares, which represent 48.6 percent of the votes and 32.5 percent of the capital in ASG.

During 1997, Hufvudstaden was demerged into one Swedish and one international real estate company. The demerger was implemented through the spin-off of Hufvudstaden International. Diligentia then acquired Hufvudstaden International with payment in Diligentia shares.

Custos' entire holding of shares in Sandblom & Stohne was sold to Stohne Intressenter AB in which Custos and the 6th AP-Fund each hold a 40-percent interest and the Gun & Bertil Stohne's Foundation holds 20 percent. On November 10, 1997, Stohne Intressenter made a public offer to shareholders in Sandblom & Stohne of SEK 65 per share in cash.

In addition, Custos has divested its entire holdings in Partek, Fabege and Piren.

Parent Company

Stock portfolio, earnings and financial position

The market value of the Parent Company's stock portfolio on December 31, 1997 was MSEK 9,531 (8,645). At year-end, the book value of the portfolio was MSEK 4,970 (4,445). Accordingly, the difference between the market value and book value, the so called surplus value, rose to MSEK 4,561 (4,200). A total of MSEK 2,095 was invested in the stock portfolio. Sales of shares amounted to MSEK 2,699. Accordingly, net sales totaled MSEK 604.

Income of the Parent Company, before taxes, amounted to MSEK 1,267 (763). Dividends received amounted to MSEK 207 (335) and tax-exempt capital gains to MSEK 1,130 (581). Management expenses were MSEK 30 (27). Net interest expense, MSEK 34, was lower than in the preceding year (93), due to a reduction of average debt and lower interest rates.

The adjusted equity/assets ratio on December 31, 1997 was 94 percent (97). Net borrowing increased to MSEK 539 (255), due primarily to Custos' redemption program.

Proposed distribution of earnings

Net income for the year plus retained earnings amount to MSEK 3,048 (2,773). The Board of Directors and the Chief Executive Officer propose a dividend to the shareholders of SEK 7.25 (5.75) per share, or a total of MSEK 313 (273). MSEK 2,735 (2,500) is to be carried forward.

Compiled in accordance with the Annual Accounts Act 1995:1554

Parent Company income statement

(Amounts in MSEK)

	1997	1996
Income from securities management		
Dividends ¹⁾	207	335
Other income from participations in: unlisted subsidiaries	184	-29
listed subsidiaries ²⁾	334	-
listed associated companies ³⁾	421	9
other listed securities	191	601
Total income from securities management	1,337	916
Operating expenses	-30	-27
Items affecting comparability	-6	-33
Operating income	1,301	856
Income from financial investments		
Other interest income and similar income/loss items	1	6
Interest expense and similar income/loss items	-35	-99
Income before taxes	1,267	763
Taxes	-	-
Net income for the year	1,267	763

1) of which, MSEK 7 (56) from subsidiaries, MSEK 158 (109) from associated companies and MSEK 0 (109) in dividend on Diligentia shares

2) Hufvudstaden and Hufvudstaden International

3) Sandblom & Stohne, SCA and Skanska

Compiled in accordance with the Annual Accounts Act 1995:1554

Parent Company condensed balance sheet

(Amounts in MSEK)

	December 31, 1997	December 31, 1996
Fixed assets		
Tangible fixed assets	1	2
Financial fixed assets		
Shares and participations in unlisted subsidiaries	411	91
Shares and participations in listed subsidiaries ¹⁾	776	1,392
Shares and participations in associated companies ²⁾	2,495	2,159
Claims on associated companies	30	-
Other long-term holdings of securities ³⁾	1,288	803
Current assets	179	303
Total assets	5,180	4,750
Shareholders' equity	4,390	4,221
Allocations	30	31
Current liabilities (of which interest-bearing liabilities)	760 (746)	498 (455)
Total shareholders' equity and liabilities	5,180	4,750

1) Hufvudstaden

2) ASG, Firefly, Stohne Intressenter, SCA and Skanska

3) Diligentia, Perstorp and Svedala

Redemption with payment in Hufvudstaden shares

As announced earlier, the Custos Board of Directors will recommend that the 1998 Annual General Meeting makes a decision regarding the right to redeem each 12th share held in Custos with payment comprising shares in Hufvudstaden. The proposed redemption amount corresponds to seven (7) Hufvudstaden Series A shares for each Custos share redeemed. At January 28, 1998, this corresponds to SEK 230 per Custos share redeemed, compared with Custos' net asset value per share of SEK 213. As an alternative to seven (7) Hufvudstaden Series A shares, owners of Custos Series A shares will be offered five (5) Hufvudstaden Series A and two (2) Hufvudstaden Series C shares. The shares tendered for redemption will be entitled to the ordinary dividend in Custos for the 1997 fiscal year (see proposed distribution of earnings).

If all shareholders accept the offer, 3,600,002 Custos shares will be redeemed in return for payment of 25,200,014 shares in Hufvudstaden, corresponding to a market value totaling MSEK 827 on January 28, 1998.

The background to the redemption proposal is that Custos' Board and management regard the net asset value discount in Custos to be higher than is acceptable. The redemption procedure gives shareholders the opportunity to receive the full net asset value for a part of their shareholding. Custos' net asset value discount at January 28, 1998 amounted to 16 percent for the Series A share and 17 percent for the Series B share.

The reason for offering payment comprising Hufvudstaden shares is that Custos' management and Board view the distribution of Custos' shares in Hufvudstaden to Custos' shareholders to benefit both Custos and Hufvudstaden. The need for active ownership on behalf of Custos has diminished after the changes Hufvudstaden has carried out in 1997. Custos is of the opinion that Hufvudstaden will benefit from a wider ownership, which will result in a significant improvement in the liquidity of the share, and that Hufvudstaden's access to capital for offensive measures will increase.

An Extra General Meeting will be held on March 2, 1998 with the objective of making a decision in principle on the redemption. All shareholders will be sent information material prior to this Extra Meeting. The information will contain a detailed description of the background to the redemption proposal, a time schedule and instructions on how shareholders can participate in the redemption procedure.

The Custos share

At the Annual General Meeting on April 29, 1997, shareholders approved the redemption of 4,214,597 shares at a price of SEK 195 per share, amounting to a total of MSEK 822. On December 31, 1997, Custos' share capital amounted to MSEK 1,080 represented by 32,381,712 Series A shares and 10,818,312 Series B shares, or a total of 43,200,024 shares.

The Annual General Meeting also approved to add a liquidation clause to the Company's Articles of Association.

Shareholders, December 31, 1997, and known subsequent changes

	Percentage of votes	Percentage of capital
Öresund	36.1	28.0
Swedbank's mutual funds	13.6	10.6
S-E-Banken's mutual funds	9.7	7.7
Franklin Mutual Series Fund	6.9	10.2
SPP	1.8	3.4
SB-stiftelsen	1.5	1.2
Trygg-Hansa Försäkring	1.3	1.0
Others	29.1	37.9
Total	100.0	100.0

Source: "Owners and Power 1997" and information from the companies

Developments in 1998

During 1998, Custos has acquired additional shares in Svedala Industrier AB. Following the acquisition, Custos owns shares corresponding to 10 percent of the share capital and votes of Svedala.

Information schedule

The preliminary report on the Group's operations will be published on February 19, 1998

The Extra General Meeting will be held in Stockholm on March 2, 1998

The Annual Report is scheduled to be distributed to shareholders at the end of March, 1998

The Annual General Meeting will be held in Stockholm on April 15, 1998

Stockholm, January 29, 1998

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.