

INTERIM REPORT ON PARENT COMPANY OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1998

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- **The total return to Custos' shareholders for the period was 26 percent for both the Class A and Class B shares**
 - **The discount to net asset value decreased and was 14 percent at June 30, 1998, for the Class A shares and 16 percent for the Class B shares**
 - **The return on the new investments in ASG and Svedala exceeded 40 percent. The holding in Svedala was increased to 12.2 percent of the votes and capital**
 - **The holding in Hufvudstaden has been divested following sales and the ongoing redemption procedure in Custos**
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CEO's comments

Custos' stock performed strongly in the beginning of the period, but lagged somewhat toward the close. For the first half as a whole, Custos generated a return that is on par with the Yield Index and considerably above the cost of shareholders' equity.

The main contributors to Custos' return have been our new investments – Svedala and ASG. Through concrete measures these two companies have continued to gain the market's confidence, resulting in returns in excess of 40 percent for both companies. It is gratifying to see the result of the organizations' ambitions to create shareholder value.

Perstorp and Skanska continue to lag behind. This is of course not satisfactory, since they together make up a significant portion of Custos' portfolio. The top priority now is to work without preconceived notions at solving the value creation problems. In view of the significant potential that exists in both Perstorp and Skanska, we are convinced that these problems will be solved.

In summary, the first half of 1998 was characterized by continued high activity in all our portfolio companies. The introduction of broad incentive programs is just one example of actions taken by several companies. These programs give all employees an opportunity to monitor and participate as shareholders in the value creation at their respective companies.

Total return

The total return on Custos' shares, that is the return including share price appreciation, dividend paid and the redemption of shares, was 26.2 percent for the Class A shares and 26.1 percent for the Class B shares. The return was thus higher than the cost of shareholders' equity, which was 4.2 percent during the first half of the year. The Findata Yield Index rose by 27.9 percent during the same period.

Total return, January 1–June 30, 1998

	Custos Class A	Custos Class B
Change in net asset value	15.7%	15.7%
Change in discount to net asset value	4.3%	4.0%
Redemption of shares (reinvested)	2.1%	2.3%
Dividend (reinvested)	4.1%	4.1%
Total	26.2%	26.1%
Cost of shareholders' equity ¹⁾	4.2%	
Findata Yield Index	27.9%	

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. The new investments Custos made in 1997, Svedala and ASG, have continued to perform well. The holdings in Svedala and ASG showed returns in excess of 40 percent during the period, while the return on the holding in Perstorp was only 6.9 percent.

Total return, January 1–June 30, 1998

Portfolio companies	
Svedala	45.5%
ASG	41.0%
SCA	19.6%
Skanska	13.3%
Perstorp	6.9%

Net asset value

Net asset value rose by 15.7 percent, from SEK 207 per share on December 31, 1997, to SEK 240 per share on June 30, 1998. Total net asset value on June 30, 1998, was MSEK 9,515 (8,951). During the period MSEK 313 was distributed to Custos' shareholders and 24,576,524 shares in Hufvudstaden were distributed with a market value of MSEK 796 on June 30, 1998 (market value on December 31, 1997: MSEK 750). These shares represent payment in Custos' ongoing redemption procedure (see "The Custos share" below). Net asset value on July 29, 1998, was SEK 232 per share, or MSEK 9,188 in total. In calculating net asset value, the same principles as those stated in the 1997 Annual Report have been used.

On June 30, 1998, the discount to net asset value was 14 percent for Custos' Class A shares and 16 percent for Custos' Class B shares.

Net asset value at June 30, 1998, after distribution of Hufvudstaden shares, MSEK

Shareholders' equity after distribution of Hufvudstaden shares		
Reported shareholders' equity in the Parent Company	4,821	
Shareholders' equity in distribution of Hufvudstaden shares	-491	4,330
Surplus value in securities portfolio		
Market value of listed portfolio	9,444	
Market value of other securities	251	
Book value (4,985-491 ¹⁾)	-4,494	5,201
Options issued ²⁾		
Market value	-25	
Book value	9	-16
Net asset value		9,515

¹⁾ Book value of Hufvudstaden shares prior to distribution.

²⁾ To senior executives of the portfolio companies.

Net asset value on June 30, 1998, distributed among assets and liabilities after distribution of Hufvudstaden shares

Shares		Market value	SEK per
Listed companies	Number	MSEK	Custos share
SCA	15,173,591	3,164	80
Skanska	6,963,634	2,493	63
Perstorp	9,637,737	1,441	36
Svedala	5,843,200	1,081	27
ASG	4,101,021	1,005	25
Other		260	7
Total, listed portfolio		9,444	238
Options issued ¹⁾		-25	-1
		9,419	237
Other assets		336	9
Total assets		9,755	246
Liabilities		-240	-6
Net asset value ²⁾		9,515	240

¹⁾ To senior executives of the portfolio companies.

²⁾ In connection with Custos' ongoing redemption procedure, the number of shares has been reduced by 3,510,932 to 39,689,092.

Active ownership – developments during the first half of 1998

Custos	<ul style="list-style-type: none">– Redemption with payment in Hufvudstaden shares– Stock-related bonus program for senior executives
SCA	<ul style="list-style-type: none">– Further acquisitions in Hygiene and Packaging business areas– Convertible loan to all employees
Skanska	<ul style="list-style-type: none">– Decision to divest noncore assets– Decision to spin off Drott– Sale of remaining shares in Sandvik– Sale of forestry assets
Perstorp	<ul style="list-style-type: none">– Sale of Plastic Systems– Continued efficiency improvements within framework of action program– Flooring made into separate division– Option program for senior executives
ASG	<ul style="list-style-type: none">– Transfer of SEK 1.2 billion to shareholders through redemption program– Continued efficiency improvements within framework of action program– Profit-sharing plan for all employees
Svedala	<ul style="list-style-type: none">– Continued acquisitions in priority areas– Options issued by Custos to senior executives– Convertible loan to all employees

Stock portfolio

The market value of Custos' listed portfolio on June 30, 1998, was MSEK 9,444 (9,441). Adjusted for net changes the listed portfolio increased by MSEK 1,479, or 15.7 percent. During the period, shares were sold net for MSEK 663 (purchases: MSEK 549, sales: MSEK 1,212, including MSEK 380 for ASG redemption). In addition, the Hufvudstaden shares in the listed portfolio that make up payment for Custos' redemption program were distributed as per April 15, 1998, at a market value of MSEK 813.

The following significant changes were made in the portfolio:

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

Svedala	1,974,900
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Following these purchases, Custos owns 12.2 percent of the votes and capital in Svedala.

In connection with 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

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

The largest single change in the composition of the portfolio during the first half of 1998 was Custos' distribution of Hufvudstaden shares through the redemption of Custos shares. On April 15, 1998, the Annual General Meeting decided to reduce the share capital through a redemption of 3,510,932 shares in Custos, with payment consisting of 24,576,524 Hufvudstaden shares.

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

Diligentia	2,028,584
Hufvudstaden A	11,880,939
Hufvudstaden C	1,561,632
Perstorp B	650,000

Custos' entire holding in Diligentia has thereby been divested. The sales of Hufvudstaden entail that, together with Custos' ongoing redemption procedure with payment in Hufvudstaden shares, Custos is no longer exposed to Hufvudstaden's stock price. The divestment process begun in 1997 through the recapitalization of Hufvudstaden, the spin-off of Hufvudstaden International, and the subsequent bid by Diligentia, has thus been concluded.

Parent Company

Stock portfolio, earnings and financial position

The market value of the Parent Company's total stock portfolio (including unlisted group and associated companies) was MSEK 9,695 (9,531) on June 30, 1998. The book value of the portfolio on the closing date was MSEK 4,494 (4,970). The difference between the market and book values, i.e., the surplus value, was thus MSEK 5,201 (4,561). The Parent Company's investments in shares totaled MSEK 615. Sales of shares amounted to MSEK 1,168, and thus shares were sold for a net total of MSEK 553.

The Parent Company's income before taxes totaled MSEK 744 (420). Dividends received amounted to MSEK 276 (202) and tax-exempt capital gains to MSEK 519 (257). The unlisted group company AB Transportförvaltning, with ASG shares as the main asset, was merged during the period with Custos. Management expenses totaled MSEK 21 (17). Net interest expense, totaling MSEK 9, improved compared with the preceding year (17) due to a reduction of average debt and lower interest rates. No tax charge is anticipated for 1998.

The adjusted equity/assets ratio on June 30, 1998, was 98 percent, an increase of 6 percentage points compared with the start of the year (92 percent). Net borrowing (interest-bearing liabilities less interest-bearing assets) decreased to MSEK 113 (Dec. 31, 1997: MSEK 539), mainly due to sales of shares.

Parent Company Income Statement

(Amounts in MSEK)

	Jan.–June 1998	Jan.–June 1997	Jan.–Dec. 1997
Income from securities management			
Dividends ¹⁾	276	202	207
Other income from participations in			
unlisted Group companies	-	-	184
listed Group companies ²⁾	152	4	334
associated companies	189	129	421
other listed securities	178	124	191
Items affecting comparability ³⁾	-15	-	-
Total income from securities management	780	459	1,337
Management expenses	-21	-17	-30
Items affecting comparability ⁴⁾	-6	-5	-6
Operating income	753	437	1,301
Financial income and expense			
Other interest income and similar income/loss items	3	0	1
Interest expense and similar income/loss items	-12	-17	-35
Income before taxes	744	420	1,267
Taxes	-	-	0
Net income for the period	744	420	1,267

¹⁾ Of which, MSEK 31 from Group companies and MSEK 185 from associated companies.²⁾ Hufvudstaden.³⁾ Loss on merger with AB Transportförvaltning.⁴⁾ Mainly costs for Custos' redemptions.**Parent Company Condensed Balance Sheet**

(Amounts in MSEK)

	June 30, 1998	Dec. 31, 1997
Fixed assets		
Tangible fixed assets	1	1
Financial fixed assets		
Participations in unlisted Group companies	80	411
Participations in listed Group companies ¹⁾	498	776
Participations in associated companies ²⁾	2,777	2,495
Receivables from associated companies	30	30
Other long-term securities holdings	1,630	1,288
Current assets	54	179
Total assets	5,070	5,180
Shareholders' equity ³⁾	4,821	4,390
Provisions	31	30
Current liabilities (of which, interest-bearing liabilities)	218 (195)	760 (746)
Total shareholders' equity and liabilities	5,070	5,180

¹⁾ Of which, Hufvudstaden shares for distribution²⁾ SCA, Skanska, ASG, Sandblom & Stohne Intressenter and Firefly³⁾ Of which, shareholders' equity that will be utilized in connection with Custos' redemption

The Custos share

Redemption

In accordance with the decision in principle made at an Extra General Meeting on March 2, 1998, the Annual General Meeting decided on April 15, 1998, to reduce the share capital by MSEK 88 to MSEK 992. This is taking place through the redemption of 3,510,932 shares in Custos. The objective of the share capital reduction is to repay the shareholders with payment consisting of 24,576,524 shares in Hufvudstaden, whose total book value amounts to MSEK 491. In addition to the share capital reduction, MSEK 403 in unrestricted shareholders' equity will be used for the redemption payment. The district court's approval of the share capital reduction is expected to be received in early August 1998, after which payment for the redemption will be made in the form of Hufvudstaden shares.

After the concluded redemption procedure, Custos' share capital will amount to MSEK 992, represented by 29,732,893 Class A shares and 9,956,199 Class B shares, or 39,689,092 shares in total.

Development of share capital 1997–1998

Year	No. of A-shares (1 vote)	No. of 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 ¹⁾	-2,648,819	- 862,113	-88
June 30, 1998	29,732,893	9,956,199	992

¹⁾ Redemption in progress.

Quotation on A-List

Custos' Board decided on January 29, 1998, to request a de-registration from the Stockholm Stock Exchange's O-list and to once again register on the A-list. In 1997 Custos moved from the A-list to the O-list due to the more favorable wealth tax situation offered by the O-list for individuals at the time. Custos has been quoted on the A-list since February 11, 1998. Starting at the half-year mark, Custos is also included among the Stockholm Stock Exchange's list of most actively traded shares.

Decisions made at Annual General Meeting

At Custos' Annual General Meeting on April 15, 1998, Per-Olof Eriksson, Christer Gardell, Leif Gustafsson, Sven Hagströmer, Sten K. Johnson, Mats Lederhausen and Mats Qviberg were re-elected to Custos' board, and Björn Savén was elected for a first term. At the following statutory board meeting, Sven Hagströmer was elected Chairman of the Board.

In accordance with Custos' Articles of Association, the question of Custos' liquidation was taken up for consideration. The Annual General Meeting decided that Custos should not be liquidated.

The dividend for the 1997 financial year was set at SEK 7.25 (5.75) per share.

In addition, the decision was made to redeem 3,510,932 shares in Custos, with payment in Hufvudstaden shares (see "The Custos share" above).

Other

The Board of Directors of Custos has decided to introduce a bonus program for senior executives, which is linked to the growth in Custos' stock price. A condition for the payment of bonuses under this program is that Custos' shares generate a return that exceeds the Findata Yield Index as well as Custos' capital cost. In other words, bonus will be paid only if Custos provides a return to the shareholders in excess of both the Yield Index and the cost of capital. The bonus program was started on January 1, 1998.

Financial calendar

Interim report, Group August 12, 1998
Preliminary report on the Parent Company's operations January 26, 1999
Preliminary report on the Group's operations February 18, 1999

Stockholm, July 30, 1998

AKTIEBOLAGET CUSTOS (publ)

Christer Gardell
Chief Executive Officer

This interim report has not been subject to special examination by the company's auditors.

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.