The Swedish Experience

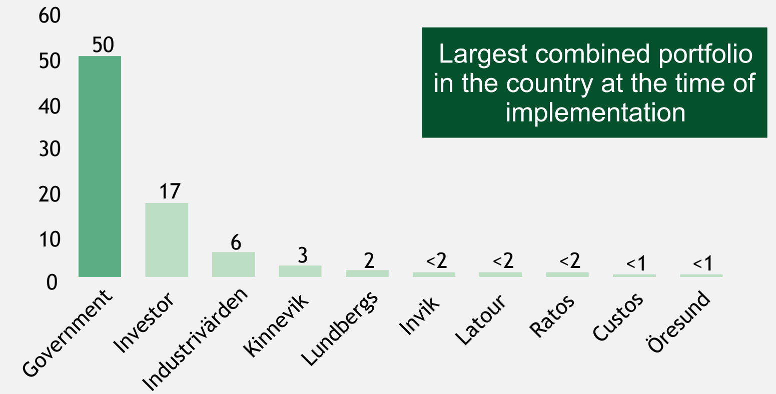
Introducing Active Ownership

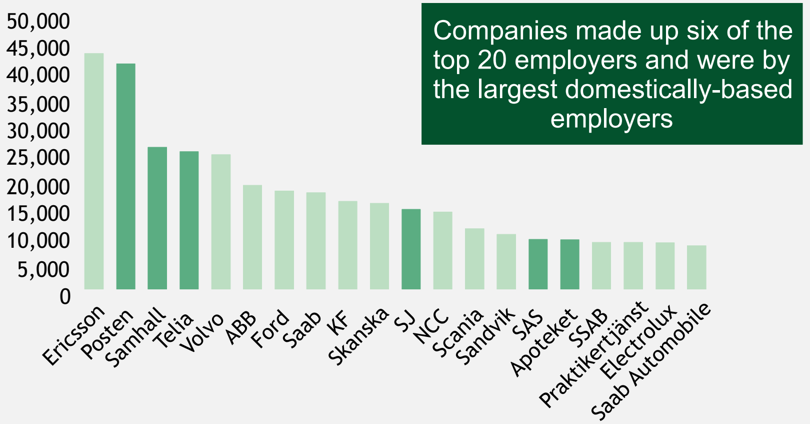
'The elephant in the room'

Context:
- Government was the country's largest owner of enterprises
  - Representing a quarter of Swedish business sector
  - Including some of country's largest companies, in both value terms and number of employees
  - Business and sector strategy disrupted by
    - Globalization
    - Market liberalization
    - Technology (internet, mobile telephony etc.)

Key policy: active ownership
- Professionalize governance, while avoiding wholesale privatization
- Introduce equity culture and act as a professional owner

Portfolio size created strong political dynamics





Both workers and business community had a vested interest

Focus on the Core Business

Non-core assets;
- **distract management**
- **capital intensive**

- Fragmentation generates low returns
- Focus on core assets leads to profitable growth, and facilitates capitalization
- But each situation is unique

Three-ways of separating non-core assets?

- Individual divestitures
- Internal Asset Management Company (AMC)
- De-merger

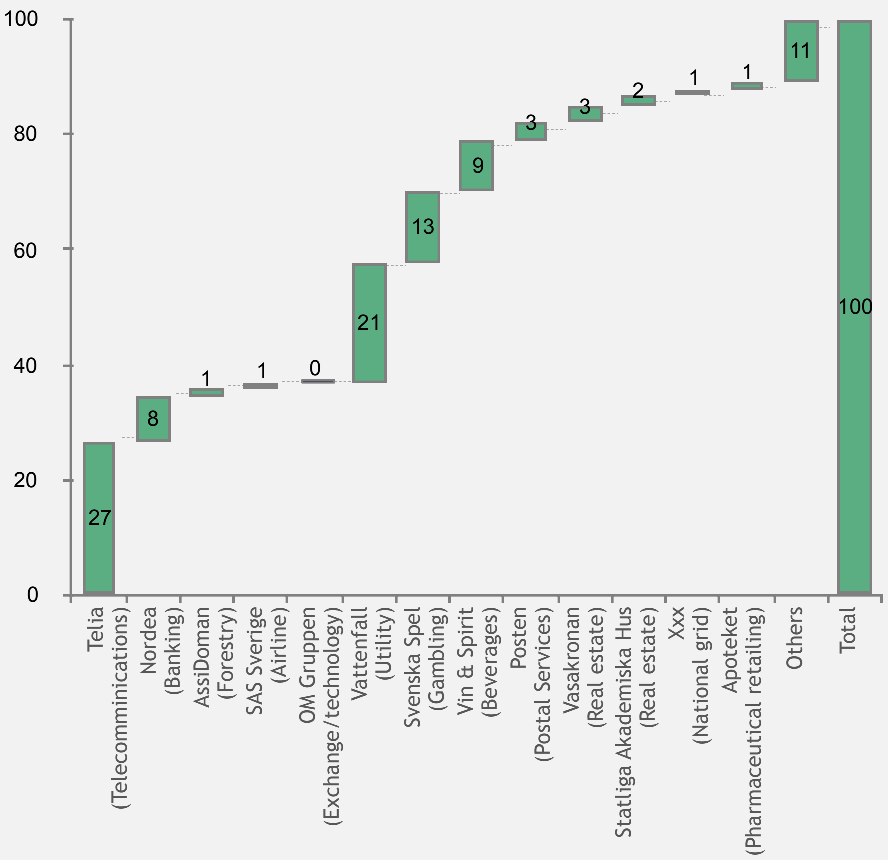
Benefits of clear separation between of core and non-core assets

- Core asset management can focus solely on developing the core business
- Separation gives up a piece of the upside to gain protection from downside
- Non-core management has a wider range of skill sets, and a culture of urgency/proactivity

Introducing an Equity Culture

'The elephant in the room'

63 holdings and more than seven considerable transformations/ turn-arounds



Introducing equity culture

- **Consolidate governance** of all assets
- **Transparency** of the portfolio as a whole and for each holding, as if listed portfolio
- **Value maximization** as the single objective
  - Outsourcing all policy objectives and 'universal service obligations'
- **Commercial capital structure** including
  - Commercial dividend policy
  - Incentive systems for all employees
- **Professionalizing boards and delegate responsibility**, recruiting new
  - Non-Executive Directors—85 per cent
  - CEOs—75 per cent
  - CFOs—50 per cent

SJ—Swedish State Railways monopoly

- from conglomerate to focused corporate businesses in competitive market

Background

Context:

- Swedish railway monopoly

Initial challenge:

- Wide variety of non-core businesses, including restaurants, casinos, hotels, ferries, buses etc.
- Sweden was the first European country to deregulate the railway market
- Adapt to a nationally competitive market with increased competition from a more efficient private sector
- Required to divest support services to neutral third-party to support a competitive market, such as maintenance, cleaning, IT, real estate etc.

Actions taken

- Demerger of group into three separate wholly-owned companies, each at arms-length's distance, including
  - Passengers (SJ),
  - Cargo (Green Cargo)
  - Non-core operations (Swedcarrier)
- Allowing passenger and cargo services to remain focused on its core activity and prepare to face competition
- Swedcarrier—set up as a holding company to develop and divest all non-core activities and eventually only focus on the real estate
- Jernhusen, a subsidiary of Swedcarrier, concentrated the real estate portfolio and developed it into a separate government-owned company

Results

- The transformation prepared both Passenger and Cargo for a deregulated railway market
- Jernhusen could focus on developing the real estate portfolio to the benefit of both owner and society as a whole
- Support companies were better developed under neutral third-party ownership
- EBIT more than doubled; from SEK 10 to 21m for the group between 1998–2001

Sources: The Public Wealth of Nations

AssiDomän—Forestry/Paper and Pulp Producer

- one of the best performing stocks, in less than 3 years

Background

Context:

- One of the largest listed forestry companies in Europe, as well as a major pulp and paper producer active across Europe
- Controlled 14% of the Swedish forests

Initial challenge:

- Underperforming stock lost the confidence of investors
- Consecutive years of annual losses, lack of strategic focus, and insufficient market share in several segments
- Dual focus on both forestry holdings and paper production had negative impact on capital structure and performance

AssiDomän

Actions taken

- New board of directors and new CEO appointed (1999)
- Demerging operations into—forestry and industrial operations
- Industrial operations, restructured and non-core assets divested
- Core merged with a private sector competitor to create Billerud, subsequently listed separately on the stock market
- The forestry assets were acquired by the Swedish government in a public auction process

Results

- AssiDomän became one of the best performing shares on the stock market in 2001
- Government's internal rate of return on investment in AssiDomän over 15%
- Government remains the largest owner of Swedish forests with over 3 million hectares of timberland

Sources: The Public Wealth of Nations, Sveaskog website

Telia—the innovative Nordic telecom operator

- restructuring, IPO, and the first cross-border merger in Europe

Background

Context:

- Incumbent telecom operator cooperating closely with equipment manufacturer Ericsson creating European standard for mobile telephony

Initial challenge:

- Unwieldy company structure and unsustainable cost structure in a rapidly changing market and with increasing competition
- Economies of scale within the fast growing mobile business was seen as key

Actions taken

- After a failed merger with Telenor of Norway, unable to agree on valuation and certain social issues
- Telia de-merged its non-core business into separate AMC-Telefos acquired by private equity interest led by Industrikapital
- A few years earlier Telia sold terrestrial broadcasting business (now Teracom) and listed/eventually sold its directories business (Eniro)
- IPO gave Telia a fair market value for merger valuation; nearly 10% of Sweden populace bought Telia shares raising SEK 77bn, still the largest IPO to date in Sweden
- Two years later the Swedish government agreed to the merger with Finnish Sonera; first cross-border merger of two telecom incumbents; Telia sold its cable TV business (now Com Hem)

Results

- Telia outperformed Euro STOXX Telecom Index by 12% through end of 2001
- IPO was a financial success for government and taxpayers, coming at height of tech bubble
- IPO and divestiture yielded lean organization, able to focus on core assets & improve operational efficiency
- The Swedish Government currently owns 37.3% of Telia

Sources: The Public Wealth of Nations, Financial Times, Wall Street Journal

Posten—the post and mail
- the unprecedented metamorphosis of a utility in record time

Background

Context:
- Traditional postal service provider
- Integrated vertically, as well as horizontally to include a payment clearing system, logistic services

Initial challenge:
- The Swedish postal market was one of the first to open to competition in 1993
- Email and internet caused volumes to drop significantly
- Costly attempts to move into B2B logistic
- Extensive retail network burden on operations
- Technology shift made payment system questioned
- Board made urgent call for capital injection

postnord

Actions taken

- New board appointed as well as new management
- Divested non-core assets, including payment service and a large portfolio of real estate to prop up balance sheet and employee pension fund
- Replaced its retail outlets with franchised "service points" in supermarkets, grocery stores, gas stations

Results

- Posten returned to profit and a healthy balance sheet
- Concentrated on core activity of delivering mail and parcels
- Merged with Post Danmark (Danish Post) to form PostNord in 2009 owned 60/40% by the Swedish and Danish Governments

Sources: The Public Wealth of Nations

Vattenfall—integrated electricity provider
- from local behemoth to European also-ran

Background

Context:
- Integrated electricity provider with dominant market position
- Progressive deregulation between1996–99
- Balance sheet with excessive equity
- Irrational and incoherent international expansion

Initial challenge:
- Introduce equity culture
- Commercialize capital structure and dividend policy
- Dismantle international portfolio
- Prepare for increased competition in Sweden

VATTENFALL

Actions taken

- New board and management was appointed
- Immediate divestitures of non-core assets including, Latin America and Southeast Asia
- International strategy focus strictly around the Baltic Sea

Results

- Expanded internationally to become one of the larger European power utilities
- However, some acquisitions required to take on lignite coal mines and assets away from core which gave rise to an intense political debate
- Still 100% state owned

Sources: The Public Wealth of Nations

Celsius—the defense conglomerate supporting neutrality

- post-cold war disarmament required industry consolidation

Background

Context:
- Listed defense conglomerate
- Created as a guarantee for domestic supply of defense materials
- Restrictive defense export policy limiting market potential
- Defense spending reduced substantially since the fall of the Soviet Union

Initial challenge:
- Increased domestic concentration across Europe
- SAAB, the natural Swedish partner placed strict conditions for a potential merger, including considerable divestitures

Celsius corporation

Actions taken

- Bofors Weapon Systems (heavy weapons and missiles) sold to the US competitor United Defence (owned by Carlyle)
- Kockums (leading conventional submarine manufacturer) sold to German HDW
- SAAB Group subsequently acquired Celsius in a public bid

Results

- Shareholder return for stock ultimately positive
- Strategic assets kept in line with national defense policies at that time
- Changing political climate made the government force SAAB to acquired Kockums in 2014 creating a comprehensive domestic supplier of both land, sea and air capabilities

Sources: The Public Wealth of Nations

Restructuring of Sweden's portfolio of assets

SAS: three-way merger resolving a complex public listing

Background

Context:

- Flag carrier of the three Scandinavian countries, Sweden, Norway and Denmark
- Set up as a partnership between three separate airlines, with three separate companies and listings in each respective country

Initial challenge:

- Pressure from low-cost carriers to cut costs and shed non-core assets
- Partnership created a triple layer of complexities and costs
- Arbitrage between three separate listings/shares increased cost of capital, as well as access to capital

Actions taken

- Three-way merger, to reduce complexity, operational cost and cost of capital
- One single share with main listing in Stockholm and hub in Copenhagen

Results

- Positive impact on share price
- Significant improvements in operational efficiency
- Paved the way to enable several future capital injections that proved to be needed to remain afloat
- Governments of Denmark, Norway and Sweden currently owns 42% of outstanding shares

Sources: The Public Wealth of Nations, SAS annual report

Active ownership helped portfolio outperform the market

Results and impact

Metamorphosis of the public portfolio boosted growth in the economy over the period

- Improved returns from public corporations
- Intensified market competition
- Increased productivity and promoted disinflation

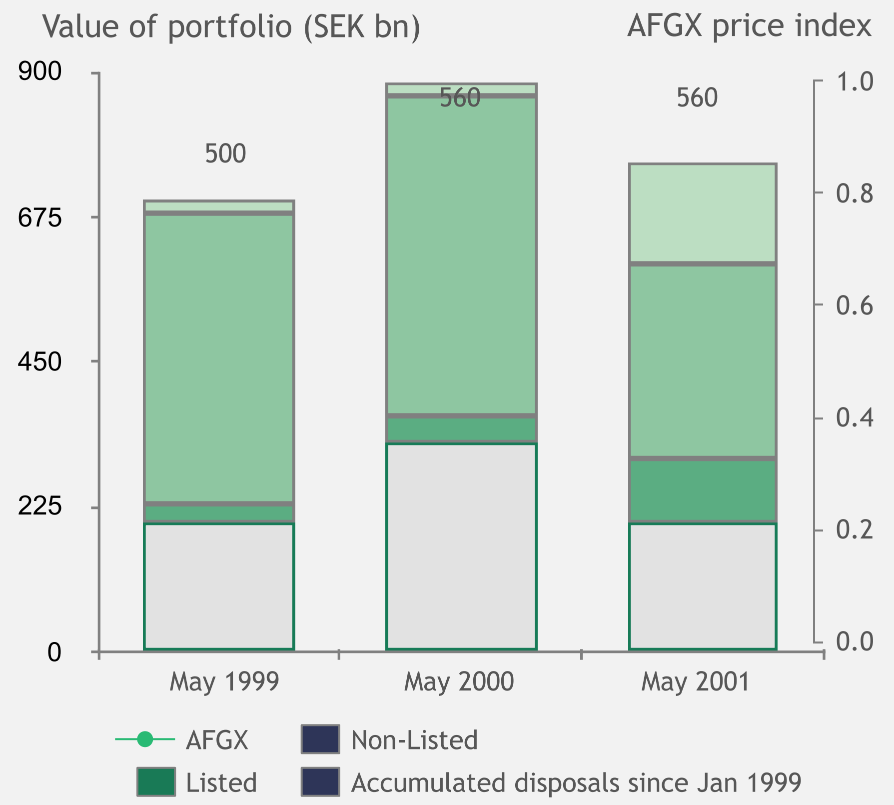
Divested assets worth more than SEK 150 billion

- 5x more than earlier privatization focused government

Deregulation led to significant fall in prices in these sectors from the late 1990s into the early 2000s

Total value of portfolio grew significantly under the period of active ownership management, 1998-2001

The Swedish portfolio increased twice as much as the stock market during the period



Portfolio grew in value & outperformed the market while divesting non-core assets

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