

Swedish Case Study

The first European government
to actively manage
its public assets.



Economic crisis in the 1990's

Swedish model crumbled

- Open unemployment reached 8-10 %
- Negative growth 1991-93
- Banking crisis erupted in 1992
- Outsized public expenditures
- Poor industrial competitiveness
- Vital sectors in need of restructuring
- Inefficiently regulated markets

A fundamental break with the post-war economic model

Challenges with public ownership

Financial and Accounting

- Manage commercial risk
- Cash budget vs investments
- Assign accountability
- Efficient capital allocation
- Capital structure

Political Economy

- Vested interests protecting status quo
- Ownership vs regulation
- Ownership fragmentation
- Political vs economic interests

Resulting in mismanagement and waste

The elephant in the room

State capitalism in crisis

- The country's largest owner
- 1/4 of the business sector
- Some of largest companies
- Largest employer in the country
- Massive real estate portfolio

Disrupted business models

- Globalization
- Deregulation
- EU market liberalization
- New technologies e.g. internet, and mobile telephony

Privatisation was the obvious remedy, globally

Private sector discipline

As if listed holding company



Source: Financial Times

..and privately owned

Transparency

- 'As if listed portfolio'

Value maximization

- Outsourcing policy obligations

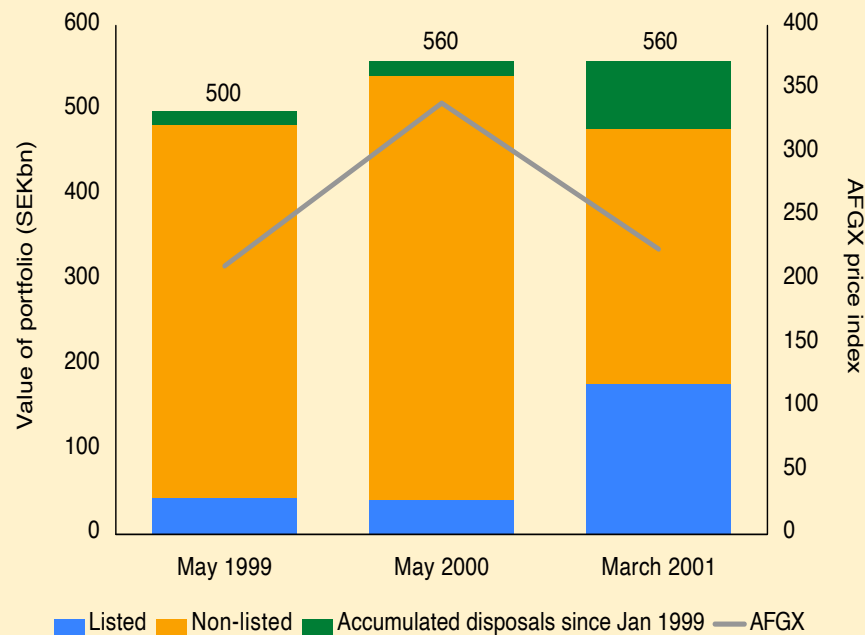
Commercial capital structure

- Dividend policy

Professionalizing boards

- Recruiting new NEDs (85%)
- CEOs (75%) and CFOs (50%)

Introduced equity culture



Outperformed stock market

- 60+ companies
- Improved returns and dividends
- Intensified market competition
- Increased productivity
- Boosted growth in the economy

Value growth 2 x the local stock market

Source: Swedish Government and UBS

HoldCo – bridge to the private sector

Private sector discipline



Meeting on equal terms

Accounting:

- As-if listed company



- IFRS gives shared language and ability to hold board accountable

Political insulation:

- Arms-length from short-term political influence



- Commercial objective a foundation to attract talent

Clear objective:

- Maximize value



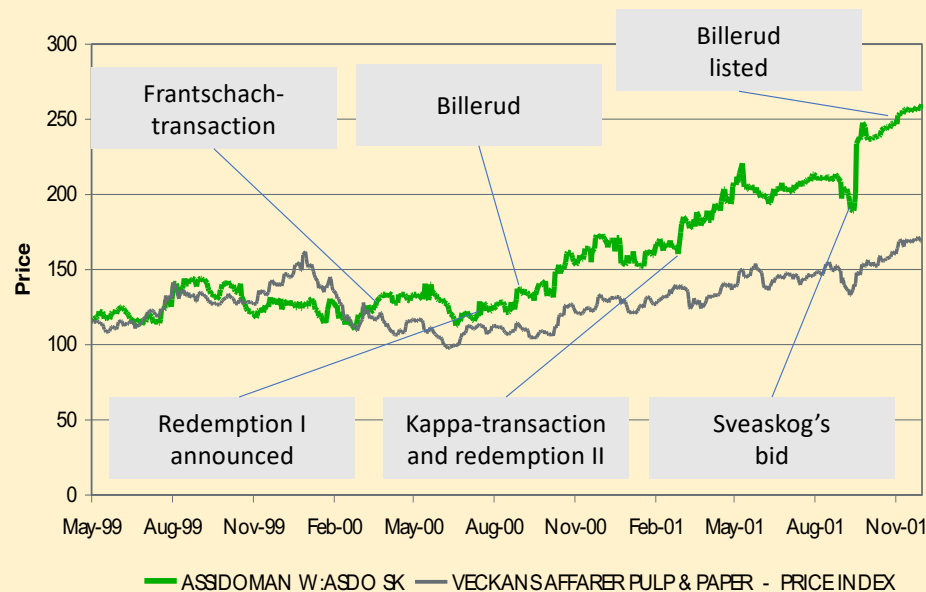
- Clarity help prevent waste, mismanagement and corruption

Avoiding an undue transfer of public wealth to the private sector

Assi - the forestry giant



Lossmaking conglomerate



Turn-around in 3 years

- Controlling 14% of Swedish forest
- One of the largest in Europe
- Loss making for years
- Divested/demerged all paper divisions
- Ultimate IRR, almost 16%

Best performing stock of the year

Source: Carnegie Investment Banking

Postal transformation

Posten AB

Productivity Has Been Delivered but the Cheque is Still in the Mail

Outdated service offering

- Sweden early to deregulate
- Mail core business under threat
- Costly retail network
- Outdated payment system
- Urgent call for capital injection

Streamlined and slimmed

- Focus on mail and parcels
- Divested all non-core businesses
- Capitalised pension fund ahead of early retirements
- Outsourced retail network

Unprecedented turn-around

Telia merger and IPO



Mobile pioneer lost in space

- Unwieldy structure and costs
- Fast changing technology
- Rapidly increasing competition
- Mobile telephony growing
- Economies of scale required
- Broadband in its infancy

Ready for lift-off

- Failed merger with Telenor
- Non-core assets sold bulk to PE
- IPO at the height of tech bubble
- Outperformed telecom-index
- Merged with Sonera, in first ever telecom cross-border transaction

Financial success – but not political

Source: UBS Warburg

Overdue three-way merger



Stuck in post-war structure

- SAS brand – 3 government owners/corporates
- Triple listings
- Triple complexity and costs
- Higher cost-of capital
- Far behind low-cost carriers

One share, still overweight

- Single listing on STO
- Head Office in Stockholm
- Hub in Copenhagen
- Positive impact on share price
- Facilitated capital raising

Political success – commercial laggard

Provincial cash-calf



Incoherent local giant

- Dominant incumbent in early deregulation
- Strong earnings and excessive equity
- Incoherent international expansion
- Unprepared for increased competition in Sweden

EU expansion at a cost

- Commercialise capital structure and dividend policy
- Divested international assets in LatAm and SE Asia
- Geographic focus on the Baltic
- Soon one of the larger power utilities in the EU
- Not without political debate

In great need of financial discipline

Gordian Railway



Opening Pandoras Box

- Incorporation from agency
- Three-way demerger;
 - Passengers – 'SJ'
 - Cargo – 'Green Cargo'
 - Non-core - 'Swedcarrier'

Jernhusen

- focused real estate co.

Finally Profitable

- Prepared for a deregulated market
- Support services under neutral third-party ownership
- EBIT more than doubled; from SEK 10 to 21m for the group between 1998–2001

Investment backlog leads to public backlash

Developing infrastructure



Former railway properties

- Wholly owned by the state
- Demerged from the railway
- \$2 bn real estate portfolio
 - incl. stations, freight terminals and office buildings

Funding major infrastructure

- Doubled national rail capacity
- Projects with impact on economy
- More than 400 jobs created
- 2 thousand housing units built
- ROE averaging 12%

Potential role model

Peace dividend for defence

Post USSR – defence cuts

- Domestic concentration across Europe
- Swedish SAAB required divestitures prior to merger

Creating a Swedish champion

- Bofors sold to United Defence in the US (Carlyle)
- Kockum sold to German HDW
- SAAB Group subsequently acquired Celsius in a public bid
- Shareholder return for stock ultimately positive

Political mistake to sell submarines

Agency turned PWF

Vasakronan

USD 15 bn portfolio

- Former State Property Agency
- Redevelopment projects
- 178 properties
- Total area 2.4mio sqm
- ROE 19%, (last 5 years)

New homes and offices

- Central Stockholm 240% increase in space
- 7 thousand new homes
- Uppsala Science Park with 500 workplaces
- Pioneering incentive system

Private sector equal

Source: annual reports

FINANCIAL TIMES

FRIDAY NOVEMBER 12 1999

INSIDE TRACK

MANAGEMENT PUBLIC SECTOR:

Welcome to the ways of the market

Sweden is learning private sector ways, but resisting wholesale privatisation, says **Christopher Brown-Humes**

On a bright November morning in central Stockholm, 100 analysts and journalists trooped through the city's streets to attend the capital markets day of Vasakronan, a Swedish real estate company.

There would be nothing unusual in this if Vasakronan were a quoted company sharing its ideas on strategy, markets and prospects with its investors. But Vasakronan is 100 per cent state-owned and yesterday's capital markets day was just the sort of market-friendly behaviour the Swedish government wants to encourage. The aim is to promote transparency and comparisons with listed companies in its sector, and help make the company itself more efficient.

"Any marginal improvement in the performance of state-owned companies will have an effect on the whole Swedish economy," says Dag Dettner, an investment banker-turned-civil servant who is leading the efficiency drive within the ministry of industry.

For years, state ownership and Swedish politics were mixed up and there was little attempt to manage companies professionally. Today the emphasis is firmly on active management.

Private sector disciplines are being brought to bear on state-owned companies, irrespective of whether they

are eventually privatised. Sweden has fully or partially privatised some state-owned companies, such as Nordbanken, the banking group, and AssiDomän, the forestry group, and is likely to continue the process, but its approach is pragmatic and it has ruled out privatising companies with natural monopolies.

According to a senior official in the UK Treasury,

countries such as the UK and Italy are also seeking to manage their state assets more professionally, and the issue is receiving close attention from the Organisation for Economic Co-operation and Development.

What differentiates Sweden is the scale and diversity of its holdings, and the cohesive approach it is trying to bring to the 60 companies it owns or part

owns. They range from Telia, the former telecoms monopoly being merged with Telia of Norway and Vattenfall, the country's biggest utility, to the Royal Opera and Royal Dramatic Theatre. The companies have a combined turnover of SKr298bn (Pounds 21.2bn) and are worth about SKr500bn, about a quarter of the whole of Swedish-owned industry.



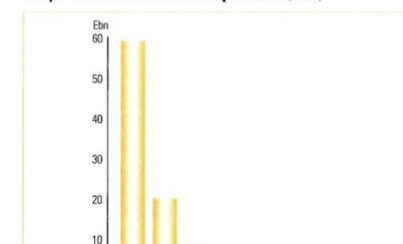
Nordic regional focus

www.privatisationonline.com Privatisation International December 2000

Sweden: bold, novel approach

The first attempt by a European government to address systematically the ownership and management of government enterprises has rapidly yielded significant returns and benefits. By **James Sassoon** and **Martin Pellbäck**, UBS Warburg.

Graph 1: estimated value of portfolio (Ebn)



Three cases illustrate the Swedish Government's bold and novel approach, which is likely to be followed by many others as the pressures on

Desk Note
21 June 2001

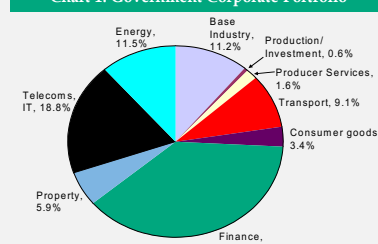
Juli Collins-Thompson



Sweden: Blazing the Reform Trail

- Current reforms taking place in the Swedish public sector can be considered "revolutionary" in the context of economic reforms taking place across Europe.
- After having tackled its fiscal imbalances, the Government is now in the process of restructuring the public corporate sector. This is crucial, given that it is the largest industrial owner in Sweden.
- These public sector reforms have key implications for the economy, including intensifying competitive pressures, boosting productivity, bringing down prices and freeing up public resources.

Chart 1: Government Corporate Portfolio*



Source: Ministry of Industry, Employment and Communication, * By sector and shareholder equity, as of December '00

Chart 2: Utilities' Prices - CPI

