

The Swedish Experience

The first European government
to actively manage its assets.



1990's Economic Crisis

Outsized public sector helped sink the 'Swedish Model'

- Negative growth 1991-93
- Open unemployment reached 8-10 %
- Banking crisis erupted in 1992
- 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

Finance and Accounting

- Commercial/ fiscal risk
- Cash budget vs investments
- Responsibility/ accountability
- Efficient capital allocation
- Capital structure/ dividend policy

Political Economy

- Ownership vs regulatory role
- Ownership fragmentation
- Capacity building
- Political vs fiscal interests
- Vested interests

Mismanagement and capital destruction

State capitalism in crisis

New business model required

- End of Cold War
- Globalization
- Digital revolution
- EU market liberalisation
- Privatisations
- Capital market development

The elephant in the room

- Sweden's largest business owner
 - 60 companies
 - 1/4 of the business sector
 - Largest employer
 - Some of biggest corporates
- Dominant property owner
 - More than half the real estate market

Globally - privatisation was seen as the only remedy

Response: private sector discipline

As if 'listed holding company'



...and 'privately owned'

- Value maximization as objective
- Outsourcing public service obligations
- Commercial capital structure
- Competitive dividend policy
- New professional NEDs (85%)
- New CEOs (75%), CFOs (50%)

HoldCo – bridge to the private sector

Private sector discipline

Clear objective:

- Maximize value

Political insulation:

- From short-term political influence

Accounting:

- As-if listed company

Meeting on equal terms



Level playing field



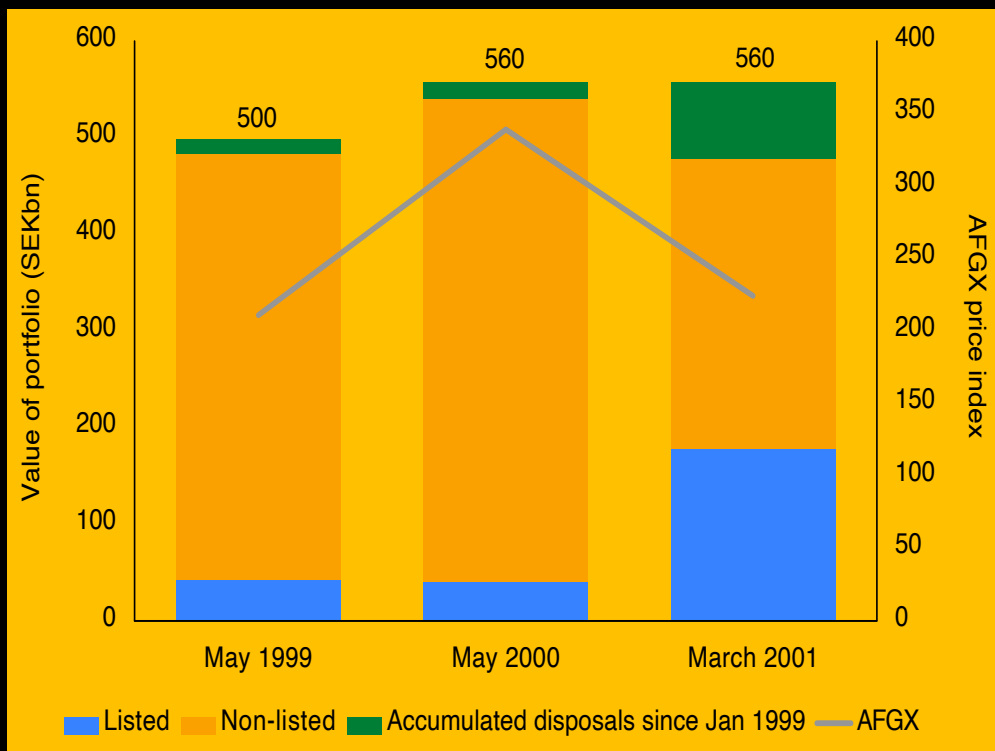
Foundation to attract talent and build capacity



Shared language and ability to hold board accountable

Avoiding an undue transfer of public wealth to the private sector

Equity culture paid off

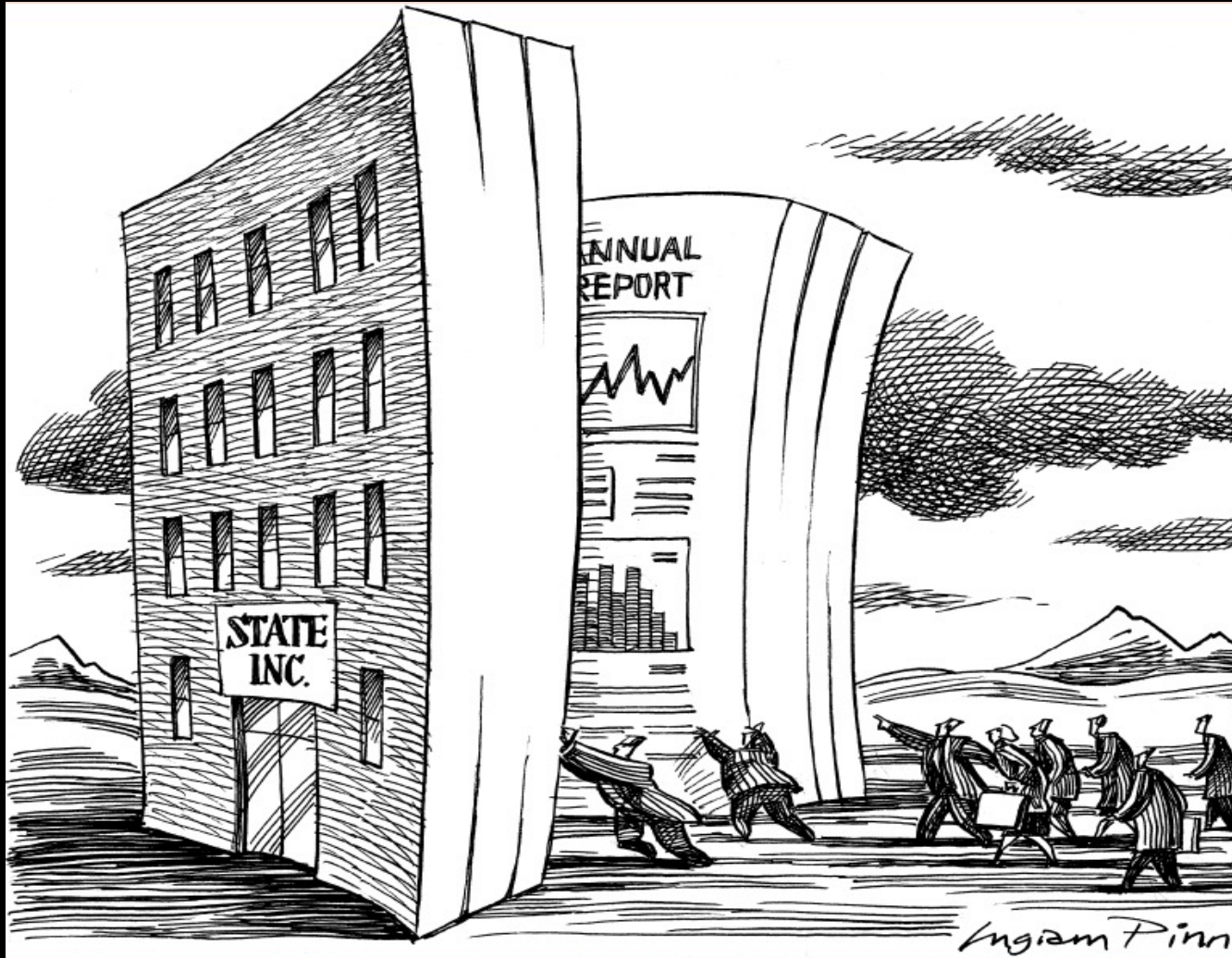


Outperformed local stock market

- Restructured 60 companies
- Increased productivity
- Boosted economic growth
- Improved returns and dividends
- Created fiscal space
- Reduced corruption

Value growth 2 x the local stock market

Corporate turn-arounds



Completed in 3 years

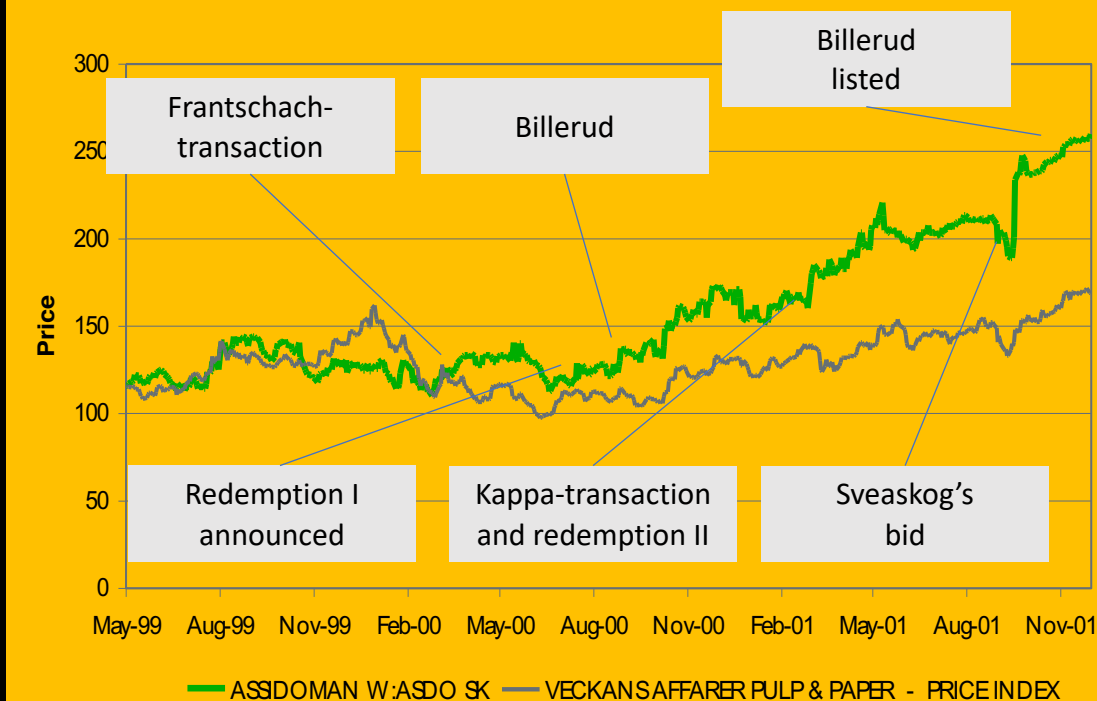
- New Board/management
- Focused on core business
- Divested 1/3 of assets
- Operational improvements
- Optimised capital structure
- One-off dividends
- Uncovered hidden real estate

Tangible improvements for society

Assi - bleeding forestry giant



Lossmaking conglomerate



Turn-around in three years

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

Best performing stock of the year

Rapid postal transformation



Outdated service offering

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

Focused on core business

- Focus on mail and parcels
- Divested all non-core businesses and real estate
- Capitalised pension fund ahead of early retirements
- Outsourced retail network
- No capital injection required

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

Three-way airline merger



Stuck in post-war structure

- One brand - three government owners/ HoldCo's
- Triple complexity and costs
- Far behind low-cost carriers
- Three illiquid listings
- Higher cost-of capital

One-share merger, a first step

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

Political success – but still commercial laggard

Electric cash generator



Incoherent local giant

- Dominant incumbent
- Excessive equity
- Incoherent international expansion
- Unprepared for increased competition in Sweden

EU expansion at a cost

- Divested non-EU assets
- Focus on Baltic region
- One of the larger providers in the EU through acquisitions
- Commercial dividend policy stuttering

Desperate need of financial discipline

Breaking up the railway



Opening Pandoras Box

- Incorporation of state agency
- Independent corporations
 - Passenger —————→ 'SJ'
 - Cargo —————→ 'Green Cargo'
 - Non-core —————→ 'Swedcarrier'
 - Real estate —————→ 'Jernhusen'

Profitable - at last

- Divested non-core assets
- Support services under neutral third-party ownership
- Prepared for competition
- EBIT more than doubled between 1998–2001

Laid bare decades of investment backlog

Investing without taxes Jernhusen

Former railway properties

- Independent real estate company
- Demerged from the railway
- \$2 bn real estate portfolio
- Development potential above and around major stations

Funding major infrastructure

- Doubled national rail capacity
- Innovation hub in Stockholm
- Created hundreds of jobs
- Thousands of housing units and office spaces
- ROE averaging 12%

Government owns half of the real estate sector

Swedish defence champion



Post-Soviet era

- End of cold war led to substantial defence cuts
- Corporate consolidations across Europe
- SAAB required divestitures prior to merger

Restructuring a conglomerate

- Bofors sold to United Defence (US)
- Kockum sold to HDW (Germany)
- SAAB acquired core in public bid
- Positive shareholder return

Political mistake to sell submarines later corrected

Prime real estate

Vasakronan

USD 15 bn portfolio

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

Growth and improved yield

- Doubled floor space in Stockholm
- Built 7 thousand new homes
- Innovation hub in Uppsala
- Pioneering incentive system

Performance among the best in the private sector

FINANCIAL TIMES

FRIDAY NOVEMBER 12 1999

INSIDE TRACK

MANAGEMENT PUBLIC SECTOR:

Welcome to the ways the market

Sweden is learning private sector ways, but resisting what
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 and strategy with investors. But it is not. It is 100 per cent owned by the Swedish state.

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 Sweden and Italy are also managing their more professional issue is recruitment from the for Economic and Development. What Sweden is doing is diversifying the colour of the company.

Desk Note
21 June 2001

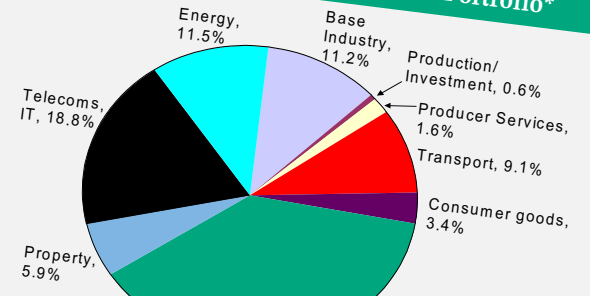
Juli Collins-Thompson



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...

Chart 1: Government Corporate Portfolio*



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 Sasso** and **Martin Pellbäck**, UBS Warburg.

Graph 1: estimated value of portfolio (Ebn)

