

State Ownership in Sweden 2019

An introduction

Ministry of Enterprise and Innovation
Division for State Owned Enterprises
Lars Erik Fredriksson



SOE Ownership in Sweden

History and rationale



History of and rationale for state ownership

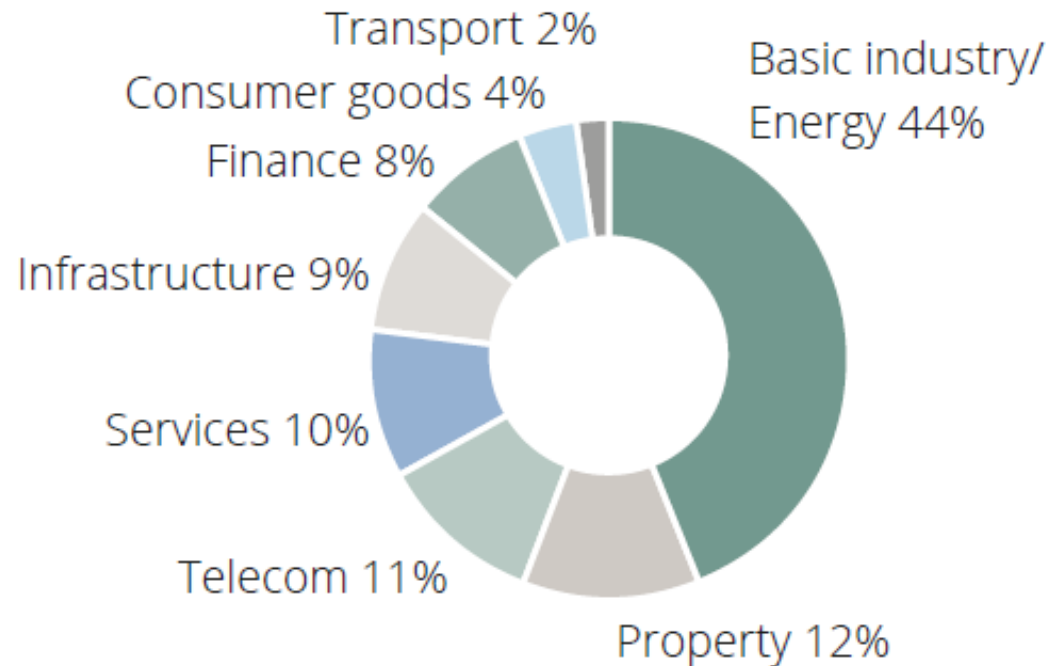
- LKAB, the iron ore mining company, became first Swedish SOE (in the modern sense) in 1907, when the state acquired 50 %
- Increased state ownership over time, particularly in the 1970's in competitive industries due to structural crises (nationalizations)
- Ministry of Industry established in 1969, responsible for most SOEs
- In the 1990's privatization of several SOEs, corporatization of several state enterprises (railways, postal services, telecom, real estate, energy)
- Division for State-Owned Enterprises established within Ministry of Enterprise in 1998, responsible for most SOEs (ownership entity)
- 2007-14 further privatizations (ca €20 billion) and corporatizations (road and rail maintenance and consultancy services, airports, land surveying)
- Rationale for state ownership is not explicitly communicated



Portfolio composition (value per 2018)

Portfolio value

Per sector



Currently (September 2019) 46 holdings managed by the Government Offices

- 40 unlisted JSCs
- 2 listed JSCs
- 4 other business entities

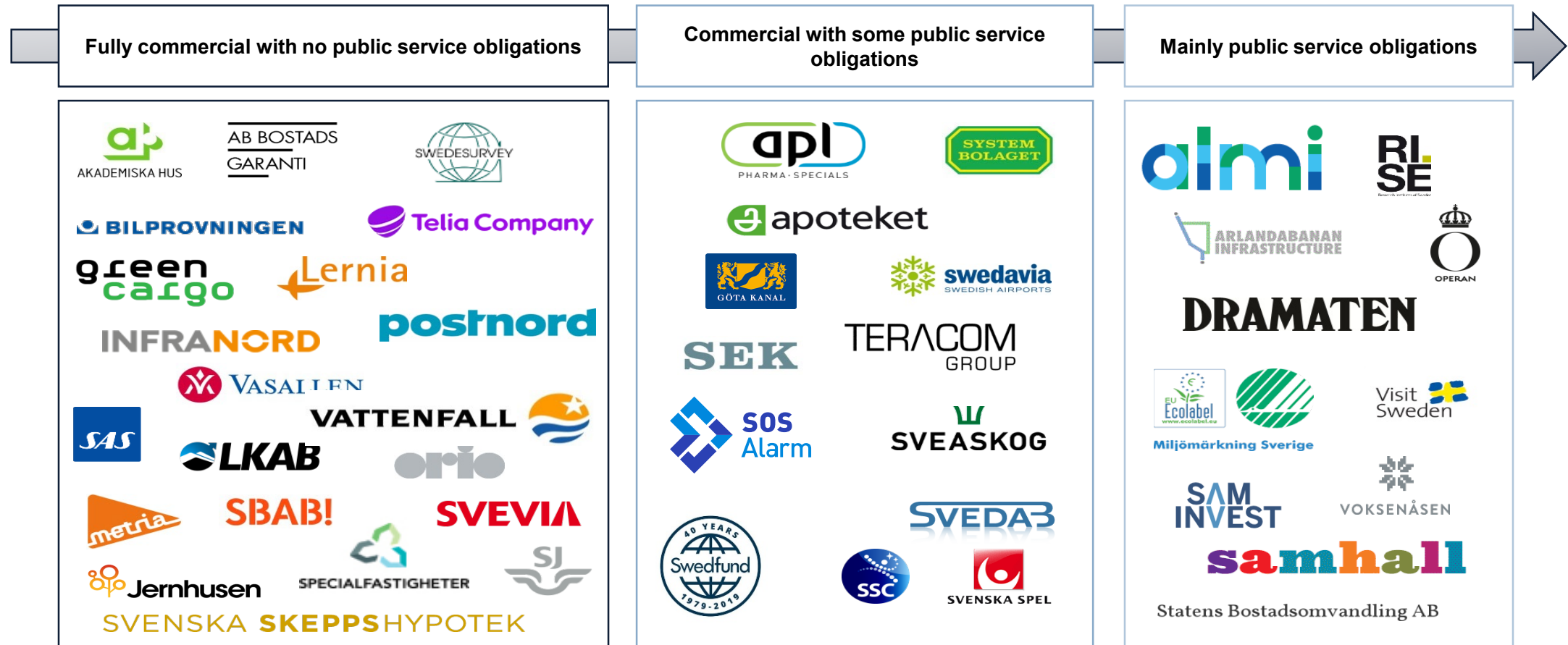
Plus small holding companies (JSCs) managed by state universities and colleges

Plus small number of small companies (JSCs) managed by state infrastructure authorities (e.g. Nord Pool A/S owned by Swedish Grid).

Not included Swedish Grid, LFV and Swedish Maritime Administration.



About half of the companies have public policy assignments



SEK bn	2018	2017	2016	2015	2014	2013
Net sales (including appropriation, if any)	354,2	324,3	321,1	323,2	350,0	357,8
Net sales including associates (including appropriation, if any)	386,1	354,7	353,1	356,0	389,0	405,4
Profit/loss before changes in value	44,1	47,9	20,8	11,3	23,0	24,9
Changes in value	5,4	5,8	5,6	5,2	5,1	2,1
Operating profit/loss (EBIT)	49,5	53,8	26,4	16,5	28,1	27,0
EBIT margin (%)	14,0	16,6	8,2	5,1	8,0	7,5
Profit before tax	45,0	47,8	20,1	10,7	20,6	17,3
Profit/loss after tax	38,9	38,4	-4,7	-1,6	16,5	14,3
Gross investments	42,5	42,4	43,5	50,9	47,9	52,8
Cash flow from operating activities (excluding SEK and SBAB)	65,3	51,3	46,5	61,7	65,2	65,0
Total equity	361,9	342,3	312,9	339,2	363,8	358,7
Total assets	1 636,9	1 497,1	1 469,0	1 488,9	1 540,3	1 489,0
Number of employees excluding associates (thousands)	109	109	111	120	124	129
Number of employees including associates (thousands)	131	130	137	146	163	169
Dividend	19,9	20,2	13,6	15,4	26,3	17,7
Estimated value	630	570	510	430	460	500
Return on equity (%)	11,1	12,0	-1,6	0,4	4,9	4,0
Equity/assets ratio (%)	22,1	22,9	21,3	22,8	23,6	24,1
Dividend yield (%)	3,2	3,6	2,8	3,6	5,5	3,3



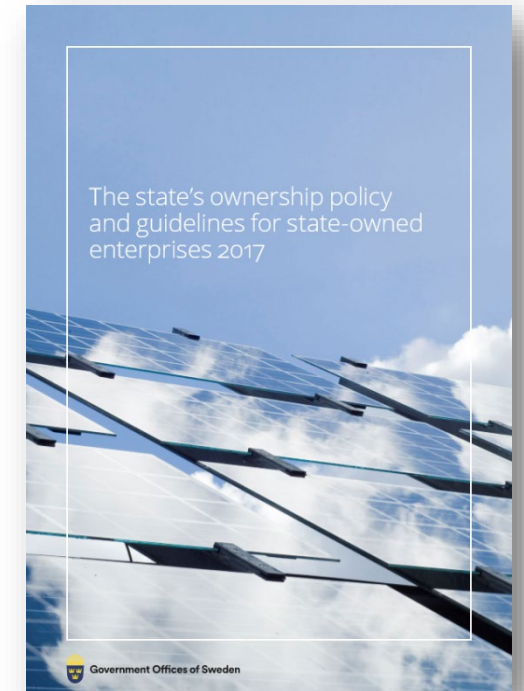
Legal Framework for SOEs in Sweden



Objectives and Expectations

”The Government has a mandate from Parliament to actively manage state-owned enterprises in order to ensure optimal long-term value performance and, where applicable, that specifically adopted public policy assignments are duly performed.”

”To promote long-term sustainable value growth in state-owned enterprises, sustainable business is integrated into corporate governance. State-owned enterprises should thus serve as role models in the area of sustainable business and otherwise act in a manner that generates public confidence.”



The Government's Management Mandate

Requires a Mandate from Parliament:

- Material changes in the business purpose of a company
- State acquiring shares in a company
- Providing capital to a company
- Sale of shares in a company or change of the state's share of ownership

The Government's Management Mandate:

- Set financial targets
- Set public policy targets = in companies with specifically adopted public policy assignments
- Appoint Board of Directors
- Resolve on dividends
- Issue ownership policy and other guidelines



The State's Ownership Policy

- Government's Management Mandate
- Framework for the State's Ownership Function
- Corporate Governance
- Principles for Targets and Follow-up
- Guidelines for
 - External reporting
 - Remuneration and other terms of employment for senior executives
- Swedish Corporate Governance Code

Adopted by the
AGM in fully-
owned holdings



Regulations

- SOEs are governed by the same laws as privately owned companies, including the Swedish Companies Act, the Swedish Bookkeeping Act and the Swedish Annual accounts act (or respective laws in other countries)
- SOEs must also prepare annual reports, interim reports etc in accordance with the Swedish Code and Nasdaq Stockholm's rule book for issuers



Organisation of the Ownership Entity



Location of the Ownership Entity

Political Executive



Minister for Enterprise
Ibrahim Baylan

Political Secretariat

State Secretary
Stina Billinger



Civil Service

Secretariat of the Director-General for Administrative Affairs

Office for Management and Coordination

Legal Secretariat

Secretariat for EU and International Affairs

Enterprise

State-Owned Enterprises

Agriculture, rural affairs



Civil Service Organisation (ca 32 FTE)

Division for State-Owned Enterprises
Head of Division: Anna Magnusson

Deputy Head of Division:
Jenny Lahrin

Investment Directors

Deputy Head of Division:
Per Lundkvist

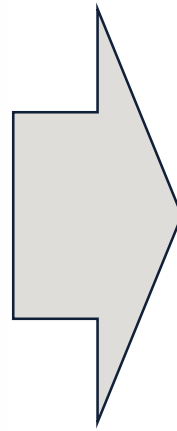
Corporate Analysis

Deputy Head of Division:
Christine Leandersson

Corporate Governance

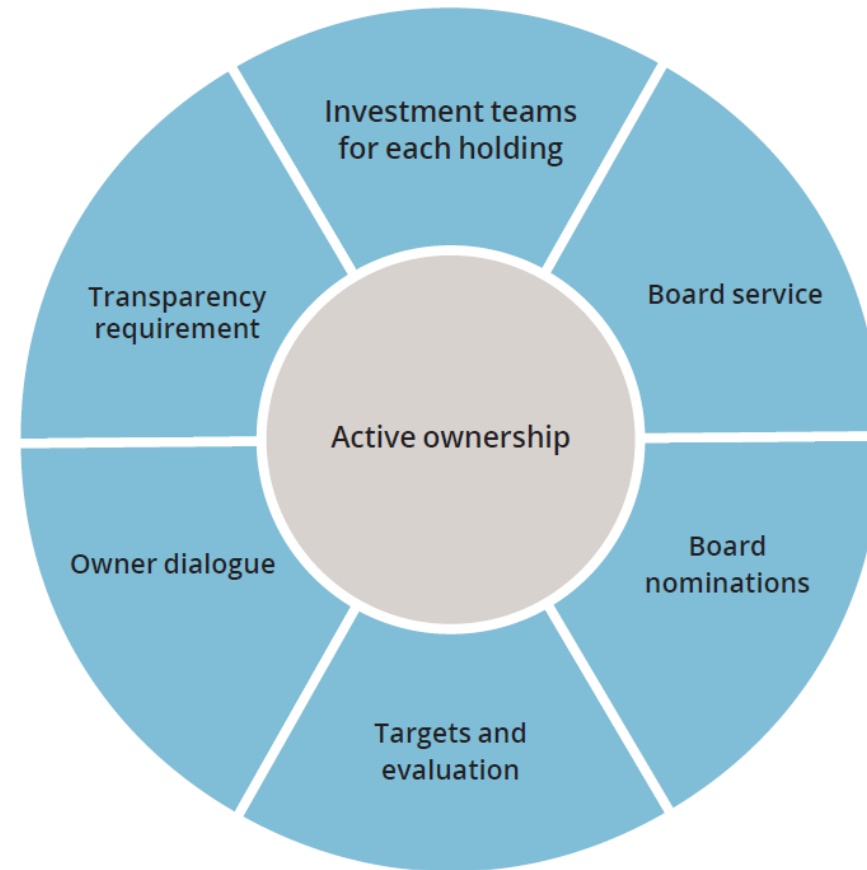


Active and Professional Owner



Active ownership

Active ownership within the framework of the state's ownership policy



Investment Teams



Investment team

Investment director

**Expert in board
recruitment**

**Expert in
commercial law**

**Expert in sustainable
business**

**Expert in company
analysis**



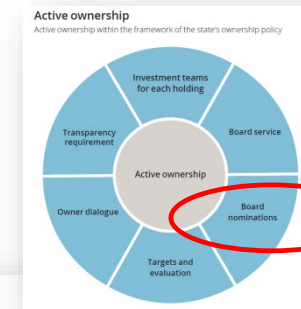
Role of the Investment Director



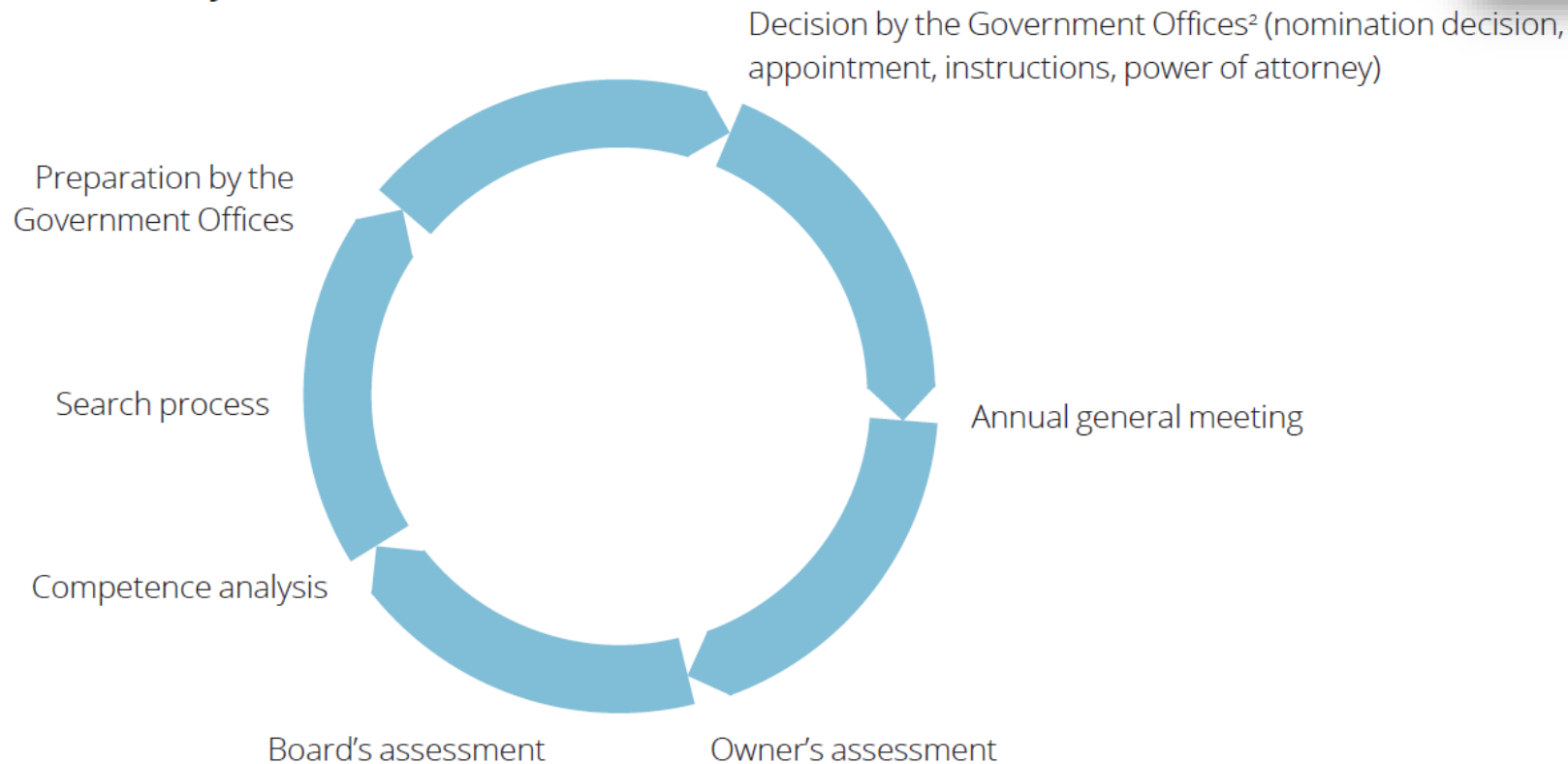
- A civil servant who serves on the board of each company with state ownership
- Investment directors contribute expertise in matters of corporate governance and the state's ownership policy as well as the various processes at the Government Offices
- Investment directors lead the ongoing work of the organisation related to the holdings, organised in investment teams
- The in-depth, company-specific expertise of investment directors enhances the knowledge of the investment teams
- Serves as the contact person for each holding



Board Nominations



Board nomination process - annual cycle



2) Decision by minister as authorised by the Government.



Targets and evaluation

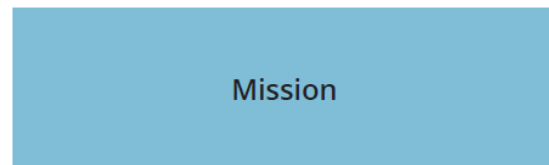
Corporate governance – targets and tracking

Based on the Riksdag's decision, the owner, through the Government, determines the business objectives of the enterprises in the articles of association that are adopted by the annual general meeting.

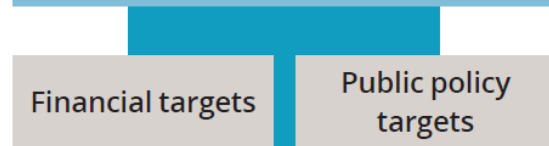
Responsibility

The Riksdag

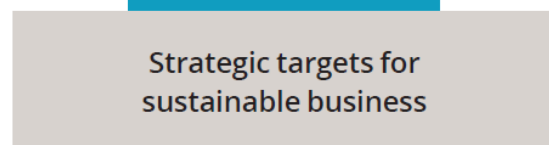
Decision mandate



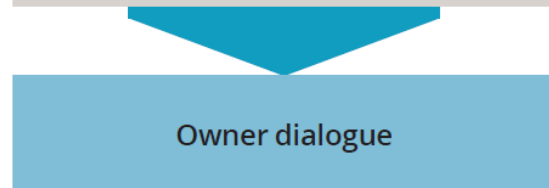
The owner through the Government



Company board



Owner +
Board and management



Description

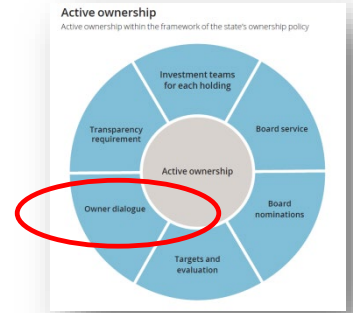
The Riksdag decides the overall mission of each company.

Financial targets, public policy targets and strategic targets for sustainable business are aimed at clarifying the company's mission, ensuring the business is run efficiently and sustainably and facilitating tracking. Ensuring that these targets are complementary and harmonised is taken into consideration when the various types of targets are set.

In the owner dialogue, the state in its capacity as owner monitors that companies are adhering to the mission and the established targets. The Government reports through an annual written communication to the Riksdag, to which the annual report for state-owned enterprises is appended.



Owner Dialogue



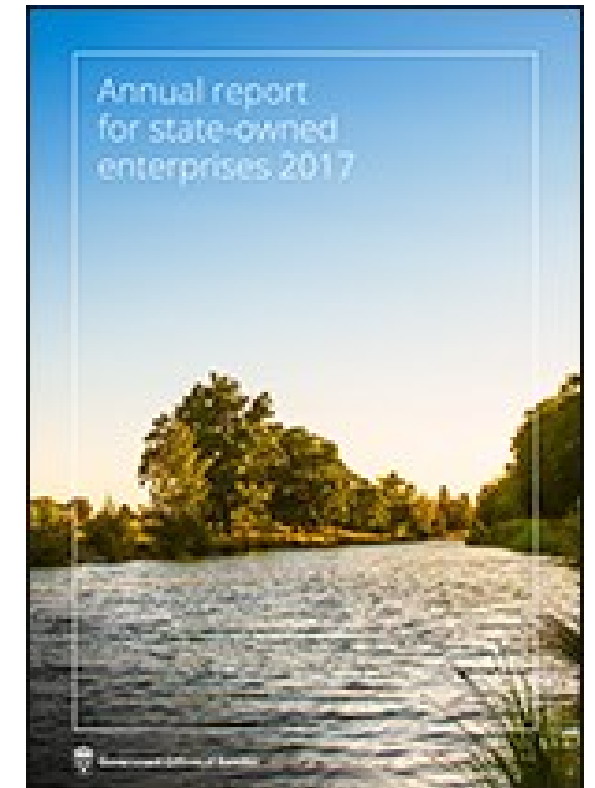
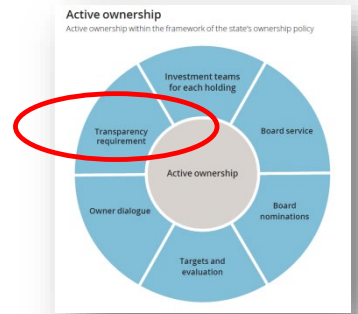
The political executive (responsible ministers and state secretaries) meet with the chairmen and management of state-owned enterprises on a regular basis to engage in “owner dialogues”

- Outcome compared to targets is discussed, as well as any actions needed to meet the targets
 - financial targets and public policy targets as set by the owner
 - strategic targets in the area of sustainable business as set by the board
- Current issues
- The chairman should inform the rest of the board of the outcome of the owner dialogue



Transparency

- **Guidelines for reporting**
 - Transparency and professionalism overarching principles
 - Sustainability reporting
 - Foundation for continuous monitoring and evaluation of the companies' operations and target achievement
- **Annual report state-owned enterprises**
 - The Government submits an annual report to Parliament
 - Provides an account of the development in the past year of the state-owned enterprises managed by the Government Offices
 - Includes a valuation of the portfolio
 - Provides an account of targets and target achievement per holding



Role of line (other) ministries in Sweden



Separation of the state's ownership function and role as regulator

In order to avoid conflicts of interest and to achieve an efficient investment management, responsibilities for sector-specific legislation typically reside with divisions other than those involved in the management of state-owned enterprises.

Examples

Apoteket	Ministry of Health and Social Affairs	Ministry of Enterprise
Vattenfall	Ministry of Infrastructure	
Samhall	Ministry of Employment	



7 SOEs managed by other ministries

- **Ministry of health and social affairs**
 - Systembolaget (monopoly)
 - APL (pharmaceutical company with public service obligation)
- **Ministry of culture**
 - Operan (royal opera)
 - Dramaten (royal theatre)
 - Voksenåsen (course and conference centre in Oslo)
- **Ministry of finance**
 - Miljömärkning Sverige (administers ecolabels)



Thank You!

<https://www.government.se/government-policy/state-owned-enterprises/>

