

LAGERKVIST & PARTNERS

FOUR SIDES

Modesty - Morals - Artistry - Confidentiality

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Issue 1, 2007

THE MESSAGE

East, Southeast, Southwest

The world economy is booming and will continue to do so. For the first time ever or at least since the end of 19th century the world economy is becoming almost totally transparent. There have been a lot of investments in Eastern Europe, CIS-states, India, China and even Latin America for a fairly long time now but it's still only the beginning.

Lagerkvist & Partners has been active in most parts of the world fifteen years or more now (and twenty-five in Northern Europe). We can see that present booming times means that there is *new* interest for investments and acquisitions in the upcoming economies.

We are talking of a *third wave* or even a *fourth wave* of investments and cross boarder activities.

Russia, Eastern Europe and Latin-America are interesting examples. Large investments came into Russia already in the 90's and many of them failed. The crisis in 1998 created great reluctances from external investors and Russian investors, many of them living abroad.

New investments came back and now we can see a strong boom, but competition is hard. Russian institutions, companies and private persons have more money today then they ever had.

The Baltic's is a small area but still interesting. Many thought that it was "fully invested". Here we can really see the third or the fourth wave - real-estate market, travelling industry, advanced industries like banking and insurance is booming.

Countries like Ukraine, Uzbekistan, Azerbaijan and the Balkan countries are also growing fast with a lot of incoming foreign capital. In order to be part of this development *companies has to speed up their activities*.

Lagerkvist & Partners has worked with many companies and created joint-ventures, assisting in acquisitions as well as in the implementation in these countries.

The rule is very simple; you have to do your homework, an in-depth analysis; you have to do the risk and tactical analysis; you have to make sure that you really have a good network and even more important, the *right* network.

Many of the failures are due to the fact that investors have been *ignorant* - believing that they know the markets much better than the local players. Global investment bankers and other who have been very successful elsewhere have produced poor performance in many of these markets, just due to their lack of humbleness and solid work.

Furthermore it is very strong underlying growth in countries like Ukraine, Serbia, Colombia and Brazil than the official figures reveals. In many of these markets we have done projects within real-estate and insurance where we thought is was too early to move in forcefully. We found it wasn't, contrary, if you don't move in now it will be difficult to really establish a good position later. Our perception is that the risk can be handled. At least with our assistance.

Magnus Lagerkvist
Founder and CEO
Lagerkvist & Partners

Our four sides

MODESTY

in the Company's approach to an assignment and with respect for the client's own expertise.

MORALS

in the form of loyalty to the client and strict focus on the client's long-term development and profitability.

CONFIDENTIALITY

in that all assignments are carried out in strictest confidence and remain confidential.

ARTISTRY

through efforts to provide innovative solutions, that give the client a position of leadership.

Interview

Head offices in Sweden, lower ordinary taxes, elite education can make Sweden a leader again.

Interview with Börje Ekholm, CEO of the Swedish investment company Investor AB, successful history as President of Investor Growth Capital in the US ,board member in Ericsson, Husqvarna and member of Lagerkvist & Partners Advisory Board.

Q 1: Many of traditional economists (pessimists/realists) have long warned for a down turn. “We know that it always will come” They are more silent now and the curves continue upwards. Do you think there are structural changes in the global economy that means that we can have a more positive future - long term?

A 1: I think the positive development will continue. I do not think we will see the end of this development for another 5-10 years, perhaps even more. We will have the cyclicalities like we always have had but the trend will be more upwards oriented than we have seen for a long time. I think we can compare this with the development in Sweden and Europe in the 50's. Then it was booming times for an expanding industry as women were coming into the work force. Today's problem is that we will have a big transfer of wealth from employees to capital owners and from western world to the BRIC's. This will put stress into the system.

Q 2: Do you see any threats to this development?

A 2: I think it will be a relatively stable development but it's not without significant risk. We can see now that not even the Iraq war, or the high energy prices has changed the development as it did for example in the 70's. Not even a greater war in Iran would probably shake the positive development. I think the big threat is the potential social unrest and protectionism. We will get more wealthy people - capital owners - and still have a lot of less rich working people, whether we are talking about China, India, and Russia or also in today's Europe, both east and west. Given the rural migration in China, we are likely to see real wages under pressure. The companies will do fine in this environment. The other real danger is that countries start to protect themselves through trade barriers etc. We have had it before. We have it today. We can see it in Russia. We know that also in other countries like the US there is and always has been an opinion in this direction.

Q 3: You have lived in the US more than eight years. Back “home” what do you think about our possibilities? Which are our cons and eventual pros compared with the US and others?

A 3: The big companies are doing well and will continue to do well. The problem is for the countries, and if we are talking about Europe, it can be a tough period with relatively high unemployment. We can also see the lack of flexibility in the European countries if we compare with the US. People are not prepared to move, geographically, or between jobs. There is a “cap” on the upside due to the tax system, which means it is better to avoid the downside and stay where you are. European countries are underestimating the issue with high taxation on ordinary income.

I don't mind how much my ministers
talk - as long as they do what I say.

Margaret Thatcher

Every man I meet wants to protect me. I
can't figure out what from.

Mae West

"There is always a third possibility, as long as you have the ability to find it."

Selma Lagerlöf

Nothing is so often irrevocably neglected as an opportunity of daily occurrence.

Marie von Ebner-Eschenbach

Q 4: If we talk about Sweden, except for the taxes, what problems do you see?

A 4: Perhaps one of the biggest challenges is that we do not invest in *top quality education*. We have spread out universities all over the country and we have a quantity goal that at least 50% of the population should go to the university. We have to be more focused on top quality. Competition is global so we must have global quality, at least at certain areas in the education system in order to create an interesting global cluster for well educated people and research. I also think the demographic profile of the population will be a major challenge to resolve.

Q 5: How important is it to keep the head offices in a certain country?

A 5: Sweden seems to be one of the few countries in the world where the political community and the public opinion have not fully understood the importance of keeping their head offices in the country. The head office creates an infrastructure around them and means more investments in the country long term. The location of a head office has to be based on industrial logic – not flag waving consequently, we have to invest in communications, in infrastructure and of course make a reasonable tax system so it's possible to bring foreigners to top positions in our biggest companies.

Q 6: Talking about the institutions, if you look at Sweden and Europe and the institutional structure here compared with the US, is it a difference for a prosperous business life?

A 6: Yes, I think that people have not understood how well the US constitution is structured, with the power balance between the presidential power, the legal power and the legislative power. The fact that the members of the Supreme Court are appointed for life means for example that they can always take critical decisions without the fear of losing their jobs. The president can stop a single majority decision in the congress but the congress can come back with 2/3 of majority and overrule the president. The balances of power in this system, has shown to be a fantastic platform to create a dynamic country. The founding fathers were clearly quite clever.

Q 7: You have said that Investor's unquoted holdings shall increase. If you use the expression Private Equity many have started to criticise the concept. What is your view?

A 7: I think Private Equity has many structural advantages, it includes a clear focus on the business, with limited need for continued disclosure about the companies, ability to implement compensation system only linked to value creation etc. In short, I believe Private Equity is here to stay, but they will need to improve transparency about the business model.

Private Equity has also the benefit to have a strong owner facilitating a direct link between owner, board and management. You can compensate the management with a bonus-based system if they perform. To be honest I must say that I am a little puzzled or even upset by the fact that the compensation system in listed companies is so highly criticized by funds and institutional owners on one hand, while at the same time the same institutions put a lot of their capital in PE where they indirectly accept a totally different compensation system for the management, as well as the partners of the PE fund.

Q 8: After more than a year in Sweden – how does the climate in our society feel? Will the new government mean substantial changes?

A 8: I hope that the new government will push hard for change and I think the tax issues on normal income and wealth tax are the most important. I also really hope that the government understands how important it is *to keep the head offices* of the large and small companies in the country.

Q 9: Our opinion is that increased competition and transparency have made even very successful companies more humble and have become more open to get a second opinion from advisors as Lagerkvist & Partners. Do you agree?

A 9: You should be more straightforward and call it strategic assistance. I think a management with high self-confidence should be prepared to admit, for example, their limited experience in a new market like Russia – we think we have to move in there, but we have to bring in somebody to have a look beforehand. I agree that good managers in well-managed companies normally are more open-minded to bring in professional advisors and they are not afraid to admit that they do not know everything, which indeed none of does

Interview

If you can keep your head about you when all about you are losing theirs, it's just possible you haven't grasped the situation.

Jean Kerr

The follies which a man regrets most in his life are those which he didn't commit when he had the opportunity.

Helen Rowland

Global network

The Lagerkvist & Partners global network.

The philosophy of Lagerkvist & Partners is to recruit the majority of its people at the age range of 35-50 so they have an international operational experience already when they come to our company. This is important to be sure that the analyses are realistic enough taking into account the limitations that imposes on a company that has been active for many years. This means also that we can take responsibility for and take part in the implementation. This is very important for our clients in many markets and of course especially when you move into new markets through acquisitions, joint-ventures etc. Here you can see the local leaders of our local teams.

Scandinavia

L&P Sweden - Since 1984

Magnus Lagerkvist

L&P Finland - Since 1985

Heikki Järvensivu

L&P Norway - Since 1986

Oddvar Juklestad

L&P Denmark/ECMC - Since 1990

Hans Peter Hviid

Europe

L&P Benelux - Since 1986

Michel Van der Kindere

L&P The Baltics - Since 1986

Olev-Mait Makk

L&P Germany/ECMC - Since 1989

Hendrik Lund

L&P Poland - Since 1989

Henryk Markiewicz

L&P Italy - Since 1989

Renzo Taffarello

Collinson Grant Ltd / L&P UK - Since 1994

Andrew Collinson

L&P France/ECMC - Since 1994

Florence Chamontin

L&P Greece/ECMC - Since 1994

Angela Argiana

L&P Ireland/ECMC - Since 1994

Frank O'Donoghue

L&P Ukraine - Since 1999

Ivanna Cherkasskaya

L&P Russia - Since 1998

Peter D Roisengurt

L&P Croatia & Slovenia - Since 1998

Samir Zero

L&P Hungary - Since 1998

Endre Koczkás

L&P Czech Republic - Since 2000

Jara Svoboda

L&P Romania/ Bulgaria –

Since 2007

Andrei Bojor

Middle East

L&P Dubai – Since 2007

Björn Lagerkvist

North America

L&P the US East - Since 1994

Mark M Sussman

L&P the US West & Canada - Since 1997

Richard Lundquist

Latin America

L&P Chile - Since 1990

Pablo Tupper

L&P Peru - Since 1995 Fernando Rodriguez Bueno

L&P Argentina - Since 1995

Eduardo Goldenhorn

L&P Bolivia - Since 1995

Jorge A. Iturralde M

L&P Brazil - Since 1995

Robert E Will

L&P Colombia, Bogotá - Since 1996

Santiago Madriñan de la Torre

L&P Venezuela - Since 1996

Edmond Benedetti

L&P Mexico - Since 2001

Carl-Otto Rydner

Africa, Asia & Pacific

L&P South Africa - Since 1993

Edward Horne

L&P Japan - Since 1995

Harutoshi Mayuzumi

L&P China - Since 1998

Chen Chao

L&P Australia / New Zealand - Since 2000

Geoff Hill

L&P Vietnam - Since 2003

Nguyen Dzung

L&P Hong Kong - Since 2007

Geoff Hill

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