



RIKSREVISIONEN  
*The Swedish National Audit Office*

RiR 2009:9 Summary

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The Government's sale of V&S Vin och Sprit AB

# Summary

*Riksrevisionen* (the Swedish National Audit Office, SNAO) has audited the Government's sale of the limited company V&S Vin & Sprit AB (publ). The SNAO has commissioned the services of experts with experience and qualifications in the fields of business and law to ensure the quality of the analyses on which the conclusions of the audit are based.

The sale of Vin & Sprit was performed in two separate sale processes. Vin & Sprit except Vin & Sprit's shares in Beam was sold through an auction process. The Beam shares were sold through a special procedure.

The SNAO's overall conclusion is that the auction-based sales process was well implemented and that the sale of Vin & Sprit excluding the Beam shares yielded a good financial outcome. The sale of the shares in Beam represented a significantly smaller value than the sale of Vin & Sprit but the amount involved was still considerable. The SNAO's conclusion regarding that sale is that it resulted in a loss.

## Background

On December 14 2006 the Government announced its intention to reduce central-government ownership of companies, including Vin & Sprit. Following an auction process, the central government decided on March 2008 to sell V&S Vin & Sprit AB ('Vin & Sprit') to Pernod Ricard S.A. ('Pernod') for SEK 55 billion. The sale was completed on July 24, on which day the central government also decided to transfer the shares in Beam Global Spirits & Wine, Inc. ('Beam') that Vin & Sprit owned to the State. In the transfer the shares were valued to SEK 4,9 billion. These shares were subsequently sold to Fortune Brands, Inc. ('Fortune') for SEK 2.8 billion, an amount set by an independent third party appraiser appointed by the two parties (USD 455 million).

In 2001 Vin & Sprit acquired 10 per cent of the shares in Beam from Fortune for USD 375 million. An additional investment of USD 153 million was made in 2006 in order to retain the ownership of 10 per cent of the shares. The acquisition was made in order to strengthen its control over the distribution of Vin & Sprit's products in the United States. As a result of that purchase Vin & Sprit was given a seat on the board of Beam. The parties entered into a shareholders' agreement which governed, among other things, the sale and repurchase of the Beam shares in the event that Vin & Sprit were to change owners.

In the budget bill for 2009, the Government submitted information to the Riksdag (Swedish parliament) about the purpose of selling Vin & Sprit, the implementation of the sale, the sale of the Beam shareholding, the outcome of the sale and the costs of advisory services.

## Scope of the audit

The audit answers the following overall questions:

- Did the central government carry out the sale of Vin & Sprit and of the Beam shareholding in accordance with the applicable legislation, relevant Riksdag decisions and best practices for such sales processes?
- Was the information about the sale presented by the Government in the budget bill for 2009 based on adequate documentation?

## Conclusions

### *Sale of Vin & Sprit exclusive of the Beam shares*

The SNAO finds that the sale of Vin & Sprit exclusive of the Beam shares was a well-implemented sale yielding a good financial outcome. This good sales outcome was achieved even though the Government imposed tough requirements, e.g. that the buyer should take on the most material risks in relation to the completion of the transaction, such as the risk that the buyer would not be approved by competition authorities. This reduced the risk that the central government would fail to obtain the agreed amount from the buyer.

The audit also shows that all relevant aspects of the auction-based sale were planned and carried out in accordance with best practices. The Government's planning and implementation of the sale made it possible to exploit the favourable market conditions obtaining at the time of the sale.

### *Sale of the Beam shares*

The SNAO finds that the administrative handling of the separation of the Beam shares from Vin & Sprit was efficient. A negotiated settlement regarding the selling price was not achieved. The selling price was determined by an independent appraiser in accordance with the 2001 shareholders' agreement. The sale of the Beam shareholding generated a capital loss of approximately SEK 2.1 billion relative to the book value. The book value was in fact the amount at which the shares were valued in conjunction with the transfer of the shares from Vin & Sprit to the direct ownership of the Government and thus the amount accepted by the central government as the value of the shares.

It is not possible afterwards to determine to what extent a negotiated settlement would have led to a higher selling price than the actual one. If such a settlement had been reached, there would obviously not have been an independent valuation with which to compare the selling price. However, the SNAO's audit has found certain aspects of the preparatory work carried out at the Government Offices (ministries collectively) prior to the negotiations that may have affected the opportunities to conduct a negotiated settlement in a successful manner. There were no adequate mandates, no instructions as to

minimum price and no analyses of the risks associated with various options at the time when the negotiations started.

The shareholders' agreement and the associated circumstances were significant in the sale of the Beam shares. In-depth knowledge about that agreement and its ramifications was lacking at the Government Offices. When it became clear that the Beam shares would be sold, the Government Offices obtained such knowledge gradually with the help of its advisers. This shows that the Government's day-to-day management of the enterprises wholly owned by the central government needs to improve ahead of potential future sales, including through documentation of management operations. In the course of day-to-day management, measures may be taken that are justified from the perspective of the enterprise concerned but will restrict the central government's ownership rights in different ways. In such cases, the Government must be well-informed about any restrictions to the central government's ownership rights and any ramifications that they may have.

The SNAO finds that the information included in the description of the sale of Vin & Sprit and Beam provided by the Government Offices in the budget bill is correct. However, the presentation is incomplete in two respects. The sale of Beam generated a capital loss to the central government of SEK 2.1 billion, which was not reported to the Riksdag. Given that the Government has explicitly stated its intention to use the proceeds from the sale to pay off the central-government debt, it would also have been relevant to report on how the sale would affect the central-government debt.

#### *Comparison with the sale of 8 per cent of the shares in TeliaSonera*

The SNAO considers that the Government's sale of Vin & Sprit exclusive of the Beam shares was better in several respects than its previous sale of 8 per cent of the shares in TeliaSonera. These respects are the following:

- The objectives of the sale of Vin & Sprit were clearly stated and relevant and had high priority, which contributed to the achievement of those objectives by the Government Offices;
- Advisory services were commissioned in accordance with best practices;
- The internal skills of the Government Offices have been strengthened as regards practical experience of the planning and implementation of sales;
- The seller was perceived by the advisers as well-prepared, reliable and tactical, and was also felt to be capable of taking well-balanced risks in relation to the sale;
- The file established by the Government Offices has a better structure and is more comprehensive than the file relating to the Government's sale of 8 per cent of the shares in TeliaSonera;
- The Government's reporting to the Riksdag on the sale of Vin & Sprit was more objective than its reporting on the sale of 8 per cent of the shares of TeliaSonera.

## **Recommendations**

The SNAO emphasises that it is important that the Government and the Government Offices continue to learn from sales that may be carried out in the future. For this reason, the SNAO recommends that best practices for the relevant type of planned transaction should be established and in future sales. Such best practices should build on others' experience of successful sales as well as the Government's and the Government Offices' own experience of previous sales.

The SNAO's observations and conclusions relating to the sale of the Beam shares cause it to make the following recommendations:

- In its work relating to sales, the Government should be ready to act at short notice to exploit favourable market conditions by planning and carrying out commercial negotiations. A crucial prerequisite for such a readiness to act is the further development of the skills and working methods of the Government Offices;
- The Government should ensure that the Government Offices clearly document any conditions and restrictions affecting the management of an enterprise owned by the central government that may influence the future sale of the company;
- The Government should report to the Riksdag on any sales in a comprehensive and relevant manner.