



The Nordic Mid Market Report

August 2004



In association with

ACCURA
Advocates LLP

ARNTZEN
deBESCHE

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BORENIUS & KEMPPINEN

ERNST & YOUNG

MANNHEIMER SWARTLING

NORDIC CAPITAL

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Contents

1. Introduction and Methodology	01
2. Forewords and Executive Summary	02
3. Survey	04
a. Macroeconomic	04
b. Strategy	11
c. Changes and Developments:	
EU Accession	15
Country Specific	18
d. Structure	23
4. Contact	25

Introduction

The aim of this report is to provide an analysis of the sentiment of senior executives within the Nordic mid market corporate community: their views on the market, the factors influencing their opinions and decision-making, and an exploration of their future strategic intentions.

The region has tended to be viewed by external observers as a rather homogenous market. By exploring economic expectations at regional and national levels, this report investigates the validity of this perception. In addition, the report addresses the effects of domestic political changes in a series of country-specific questions.

The findings of this report have been scrutinised by a group of leading mid market practitioners in the Nordic region - Accura, Arntzen de Besche, Borenus & Kemppinen, Ernst & Young, Mannheimer Swartling and Nordic Capital - who have applied their considerable experience and knowledge to provide views on how mid market companies should approach and respond to recent and current developments.

Methodology

Remark, the research and publishing subsidiary of mergermarket, canvassed the opinions of 100 CEOs and CFOs of Nordic mid market companies in April 2004. Forty companies were domiciled in Sweden, and twenty in Denmark, Norway and Finland respectively. Interviews were conducted on an anonymous basis over the telephone.

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Forewords

Foreword by Nordic Capital

The difficult IPO climate during 2003 is fast becoming a distant memory. Indeed, the financial press is talking of a renaissance for Nordic private equity, profiling a string of IPO and trade-sale hopefuls. Nordic Capital sees signs to be cautiously optimistic about the second half of 2004.

Private equity is a long-term commitment for both investors and corporate management. Market sentiment has become increasingly buoyant compared to a year ago and the time is now ripe for exiting portfolio companies featuring a sound operational footing. Until recently corporate management teams devoted energy almost exclusively to cost containment and operational efficiency, now they are turning their attention to strategic issues. New priorities could therefore set the stage for an even heartier pick-up in deal flow.

Nordic private equity, though commonly seen from the outside as a single market, comprises a richly diverse clutch of markets – each evolving in tandem with and independently of its Nordic neighbours.

The Swedish private equity market has expanded significantly, with private equity firms demonstrating increased industrial and investment specialization. The vast majority of Swedish private equity investment comprises buyouts or expansion capital. Though growing, the Finnish market is characterized by fluctuating volumes and increasingly driven by fewer and larger transactions. The Norwegian market, virtually non-existent in the mid-1990s, is seeing continuously increasing activity levels. The Danish private equity market too has expanded rapidly since the mid-1990s; however, transaction sizes have been relatively small thus far.

The Nordic Mid Market Report reinforces Nordic Capital's consensus outlook for 2004. For instance, growth prospects for Nordic corporates in the Baltic rim and Poland owing to EU enlargement has opened the door to exciting expansion opportunities. A closer look at the study also reveals some key industry drivers going forward. Notably, an overwhelming majority of respondents (93%) are decisively focused on the core business, indicating a willingness to divest of non-core or otherwise under-performing assets. Further, a full two-thirds of respondents are mulling M&A activity in the coming 12 months.

Looking ahead we are confident that these and other findings presented by the authors will boost activity in the Nordic mid market.

Foreword by Ernst & Young Transaction Advisory Services

M&A activity in the Nordic region is picking up after a period of very low activity. Increasing business confidence during 2004 has created an opportunity for a further wave of corporate restructuring and consolidation in the Nordic region, which we believe mid market corporates, with the help of an increasingly active private equity community, are well placed to exploit. Successful companies have adopted strategies that focus on core business and shareholder value. We believe there will be further focus on developing and consolidating niche markets and products, where innovation, local knowledge and service excellence remain significant competitive advantages. There are many economic and political challenges, at home and globally, however we are cautiously optimistic about the prospects for business in the Nordic region.

The full implications of Sweden's rejection of the Euro are impossible to forecast. However, the Nordic region can be a net beneficiary of EU enlargement and we believe that opportunities in the Accession countries will become increasingly important to the mid market sector. Longer term we see opportunities for mid market leaders in China and India. However, in the near term, shifts in foreign direct investment and accelerating cost pressures in the manufacturing sector will test the resilience of Nordic players, and lead to further consolidation. Combined with more focus on value for money within the Nordic region's public sector authorities, this should create opportunities for new businesses based on business process outsourcing, where we perceive significant growth potential.

Innovation and new business creation, as well as consolidation and restructuring of established organisations, are vital ingredients for success. Specialist private equity firms have an important role to play as a catalyst for increasing entrepreneurial activity in the region and, over time, we expect owners and mid market corporates to view private equity as a natural source of development financing and a recognised path to an IPO. While we welcome changes to capital gains tax legislation in Sweden, more could be done across the Nordic region to promote entrepreneurial activity and to reduce the burden of tax on managers and employees.

Executive Summary

Our survey of 100 senior executives in the Nordic mid market revealed that:

- There is widespread optimism about the economic outlook for the next 12 months, on both national and regional levels. Export levels are expected to increase, and the majority of executives are positive about their company's growth prospects.
- EU Accession is not expected to impact significantly on Nordic companies' earnings or costs. Nordic investment into the Accession countries is expected to increase significantly, with particular focus upon the Baltics and Poland, but Accession should generate only a marginal decrease in FDI into the Nordic region.
- Notably, Industrials and Manufacturing are the sectors likely to both benefit and suffer from Accession: firms able to relocate operations to new EU states being beneficiaries, whilst domestic firms suffer owing to intensified competition.
- Almost half of respondents would consider making an acquisition in the next 12 months, half of whom would target a small competitor.
- The majority of respondents consider the economic outlook of their own country to be synonymous with that of the Nordic region as a whole.

Country Specific Findings

FINLAND:

- Finnish executives are confident that export levels will increase significantly over the next 12 months.
- A large majority of Finnish respondents do not expect the level of government involvement in Finnish companies to change after the recent change of government.

NORWAY:

- Respondents are particularly confident about their economic outlook within the region, expecting significant increases in M&A, private equity activity and the Norwegian economic climate within 6 months.
- The majority of Norwegian respondents are confident that Sweden's rejection of the Euro will have no effect upon the likelihood of Norway joining the EU.

DENMARK:

- There is widespread confidence about the competitiveness of Danish exports, which are expected to increase over the coming year.
- Danish respondents are divided upon the likely effects of the EU constitution referendum, upon FDI. Over a third anticipate no effect, whilst another third anticipate a positive effect if the referendum results in a 'yes' vote.

SWEDEN:

- A majority of respondents from Sweden fear that their rejection of the Euro will have negative effects upon incoming FDI.
- Tax rules introducing a participation exemption for capital gains and dividends are expected to have a positive effect upon M&A activity in Sweden, and the majority of Swedish respondents feel that taxation policy has some deterrent effect upon investment.
- There is scepticism about government moves to coordinate private equity activities, with many respondents feeling that more substantial economic and structural reform is needed.

Macroeconomic

Regional Expectations

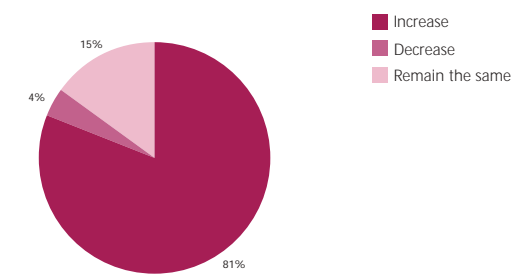
- Optimism prevails in the Nordic region, with 81% of respondents expecting the regional economic climate to improve within 12 months. One respondent noted, 'We have seen an increase in business in the first quarter, and we expect that to continue over the next 6 to 12 months'.
- Private equity should increase within a year according to 70% of respondents, one of whom stated that 'private equity activity will increase as part of the wider economic improvement'. 56% of respondents expect this increase to occur within 6 months.
- The IPO market once again elicited bullish responses, with a majority (57%) expecting an increase in 12 months.
- Fewer than half of respondents (47%) expect M&A to increase within 6 months, as one respondent explained: 'although confidence is coming back to the market, this will not necessarily generate significant changes in the short term scale of M&A'.
- There is greater confidence over 12 months, as 64% anticipate greater M&A volumes. It was commented that, after so little activity in the last year, levels must go up 'as they can't go any lower'.
- Over a third of the respondents (37%) expect M&A deal size to increase within the next 12 months, and the majority consider opportunities in EU Accession countries to be the primary driver for deal size increase.
- However a majority of 40% think that deal size will remain stable, with one respondent arguing that 'the effects of Accession upon M&A will not penetrate within 12 months'.

Nordic Capital: "The findings presented in the Nordic Mid Market Report mirror our firm's consensus outlook, and are confirmed by the upturn in deal flow being witnessed in the region."

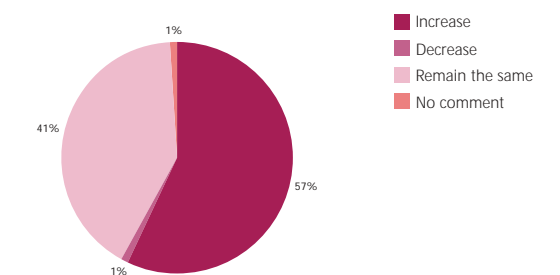
Borenius & Kempainen: "We have already noticed increased private equity activity during the first half of 2004, also in the form of venture capital financing from abroad into Finnish tech companies. We expect this positive trend to strengthen, and find it unlikely that FDI in Finland would drop significantly as a result of EU enlargement, as feared by some Finnish participants."

Ernst & Young: "M&A activity in the Nordic region is picking up but from a very low level. Strategic buyers are still cautious but we expect to see increasing buyer interest over the next 12 months."

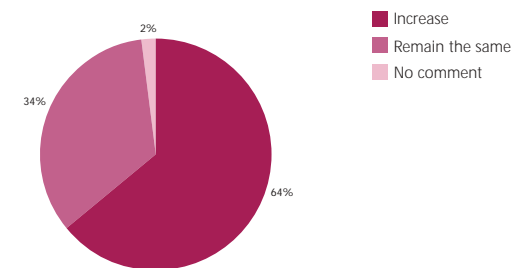
What do you expect to happen to the overall economic climate in the Nordic region in the next 12 months?



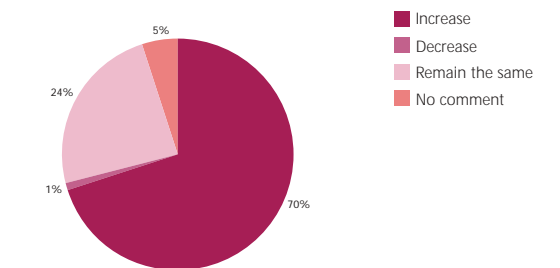
What do you expect to happen to the total number of IPOs in the Nordic region in the next 12 months?



What do you expect to happen to the total number of M&A transactions in the Nordic region in the next 12 months?



What do you expect to happen to the total number of private equity transactions in the Nordic region in the next 12 months?



Macroeconomic

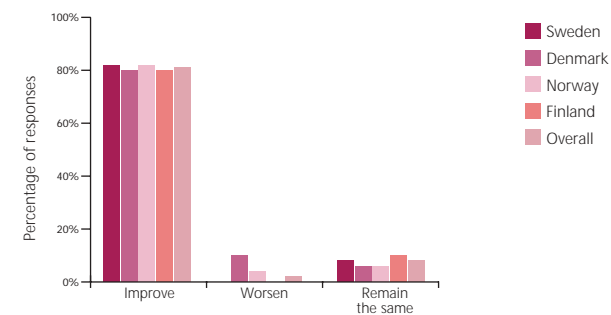
National Expectations

- Respondents are similarly positive about national economic prospects, with 83% of respondents expecting their economy to improve over 12 months.
- Norwegian respondents are particularly optimistic, with 85% expecting economic improvement in 12 months. Moreover, 90% expect improvements to occur within a shorter time frame of six months, as opposed to 64% overall.
- This confidence was also evident concerning private equity. Whilst only 59% of respondents overall expect private equity levels to increase within 6 months, 80% of Norwegian respondents expect levels to increase over both 6 months and a year.
- National responses vary significantly on the subject of IPOs. Whilst, overall, 58% expect an increase within a year, this encompasses confidence on the part of Swedish respondents (70% anticipating an increase) and caution from Danish respondents (just 35% expecting an increase).
- A Finnish respondent commented that, 'there should be more IPOs starting next autumn: around then, the IPO window should open up'.
- Echoing their optimism about the economy in general, Norwegian respondents are the most confident about domestic M&A transactions, with 60% expecting an increase within 6 months, rising to 70% within a year.
- By contrast, Finnish respondents are relatively cautious, with 70% expecting no change in 6 months. Over the year-long horizon, these respondents remain cautious, with the group equally divided between expectations that M&A will increase or remain the same.

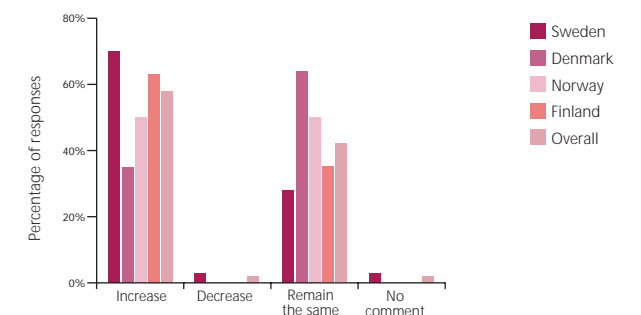
Arntzen de Besche: "The study confirms a very positive outlook for the Norwegian economy and an expected increase in mid market M&A activity. This is a trend which we already observe in our day to day work in the market, with an increase in the number and size of transactions. With high expectations for growth through acquisitions, the process of selecting and approaching targets will be demanding. Flexible and creative solutions, combined with professional and efficient processes, will be key success factors."

Borenus & Kempainen: "We remain somewhat unoptimistic regarding the revival of the Finnish IPO market in 2004, despite positive market signals in Sweden, Norway and other European countries. We are aware of certain IPOs in development, and have participated in (now postponed) projects, and there are certainly many IPO candidates in the pipeline. However the reopening of the IPO market in Finland has been delayed so many times already that, unfortunately, we maintain a rather pessimistic view for 2004. Nothing would make us happier than to be proved wrong!"

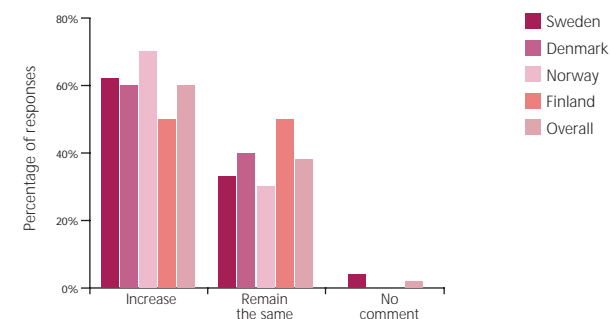
What do you expect to happen to the overall economic climate in your country in the next 12 months?



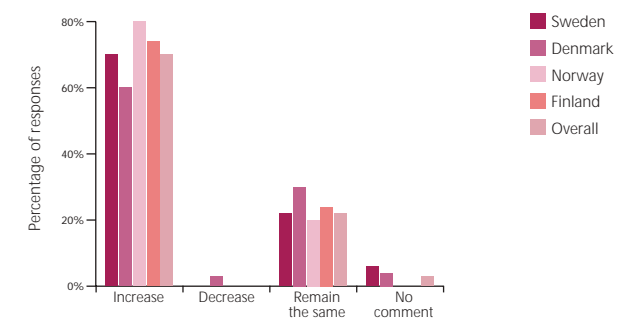
What do you expect to happen to the total number of IPOs in your country in the next 12 months?



What do you expect to happen to the total number of M&A transactions in your country in the next 12 months?



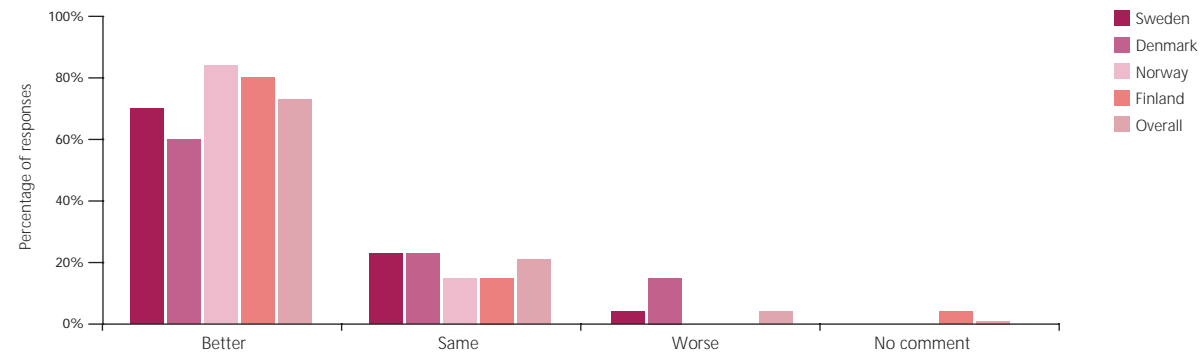
What do you expect to happen to the total number of private equity transactions in your country in the next 12 months?



Macroeconomic

Company Growth

Overall, how do you view your company's growth prospects relative to 6 months ago?

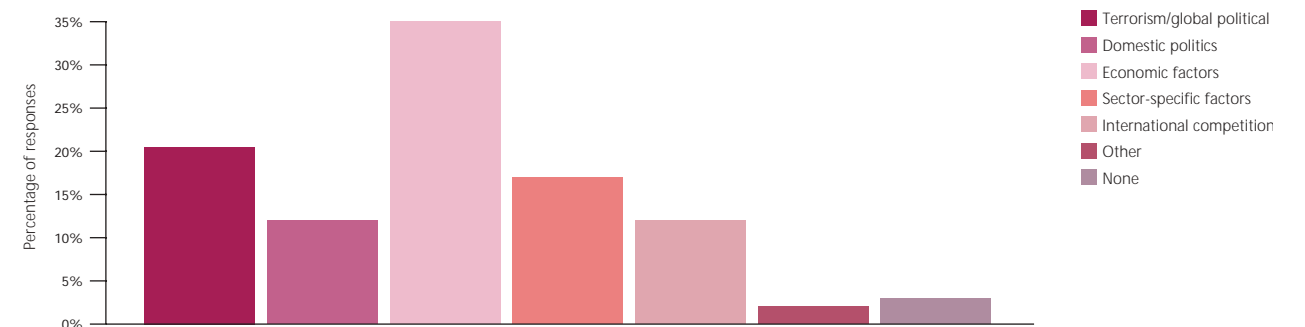


- On the subject of company outlook, an overall majority of 73% of respondents judge their firm's prospects to be better than 6 months ago.
- When asked why, 64% respondents attribute their company's economic prospects to the general economic climate, with the remaining 36% providing sector specific or internal explanations.
- 'Global market improvements' were frequently mentioned as the reason why things are looking up. As one respondent put it, 'the economy as a whole has been through saving cycle; we have now reached a level where we are ready for new investment'. Another commented that, 'thanks to a combination of market pick up and internal strength, our company has strategic possibilities to grow our market share'.
- Of those whose prospects remain the same, the majority attributed this stability to their sector, with one respondent explaining that, 'we're in a market which changes later than rest of economy: the general increase will take a while to penetrate our market sector (engineering) which is generally stable at moment'.
- Looking at national comparisons, we again find that Norwegian respondents are the most positive, with 85% enjoying an improvement in growth prospects, in contrast to the more conservative Danish respondents (60%).

Ernst & Young: "We are optimistic about the prospects for the Nordic mid market, however business confidence is still fragile and vulnerable to world events."

Risks

What do you perceive as the single greatest risk to your growth prospects?



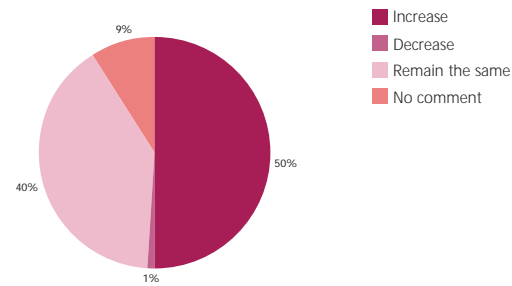
- When asked to identify the greatest risk to their growth prospects, respondents provided a wide range of responses, but the most common (35%) were economic factors: primarily interest rate increases and exchange rate fluctuations. The ongoing weakness of the dollar was mentioned by several respondents, one of whom explained that, '70% of our exports are to the US so the dollar's continued weakness would present a cost problem, and our costs would be difficult to reduce'.
- On the European front, one respondent identified a potential problem in the German economy, stating that, 'if the German economy does not pick up, if they do not 'get the wheel spinning', that will contaminate the recovery of the Nordic region and restrain European recovery'.
- 21% mentioned the threat posed by global political events such as terrorist attacks and suggested that there is a degree of fragility to the global economic recovery.
- Some respondents considered international competition as a potential hindrance, pointing to EU Accession, whilst China's economic growth, meanwhile, has mixed significance. One executive explained that, 'China is growing at extraordinary rate, generating significant new business for industries: it must maintain this growth, as if the bubble bursts, our expansion prospects would suffer'. Coming from a different perspective, another respondent commented that, 'China is absorbing greater quantities of raw materials... generating shortages and price increases in EU.'

Ernst & Young: "China will have a big influence on business in the Nordic region. The opportunities could be huge but so are the potential competitive threats and investment risks."

Macroeconomic

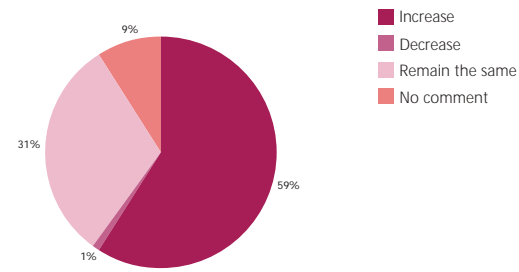
Exports

What do you expect to happen to the level of exports in the next 6 months?



- Half of respondents (50%) expect exports to increase within the next 6 months, the majority of whom attribute this increase to general economic improvement. Over 12 months, a more significant majority (59%) expect an increase to occur, with 31% still expecting no change.
- When asked to explain these opinions, several respondents mentioned the Nordic region's strength in timber, pulp and paper industries as a source of export growth, with one respondent commenting that these industries are 'in high demand when the world economy is booming, as now'.
- The strengthening dollar was also mentioned as a source for export growth, along with economic improvement in general. As one respondent put it, 'We are seeing overall economic improvement, and the economies of some of Denmark's main trading partners - Germany, other Nordic countries, USA - have started to improve which should generate increased demand for our exports'.
- Tempering that positive mood, however, increasing competition from the Far East and the enlarged EU may inhibit Nordic exports. One respondent summarized; 'the export market is shifting from the Nordic region as production moves into developing economies such as Eastern Europe and the Far East: the Nordic region's export industries will diminish accordingly, and the region will become more focused upon service industries and the outsourcing of production'.

What do you expect to happen to the level of exports in the next 12 months?

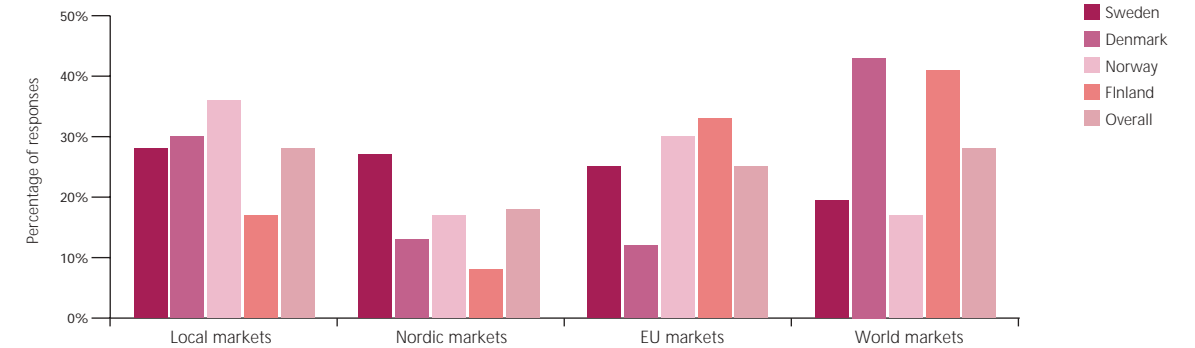


- At the national level, Danish respondents appear the most optimistic about its export prospects, with 75% of respondents anticipating growth over the next 12 months. This confidence was reflected in one respondent's assertion that, 'we have a very good situation in Denmark: despite the weak dollar, we have managed to increase overall exports and this should increase further once EU enlargement is complete'.
- Finnish respondents' expectations are also buoyant, with 60% expecting an increase within 6 months, rising to 65% over the 12 month period.
- By contrast, just 50% of Norwegian respondents expect an increase over the next year. Currency developments are considered problematic, as expressed by this executive; 'this is a difficult prediction: whilst exports in general are starting to increase, currency developments are going against Norway so this may stifle our export increases'.

Strategy

Target Markets

What markets are you targeting?



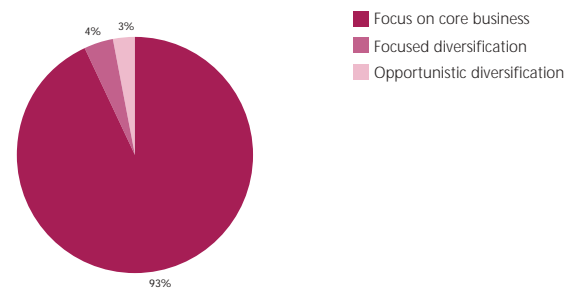
- Our respondents are evenly spread in their target markets, dividing almost equally between local markets, EU markets and world markets, whilst the Nordic region comes last with 19%.
- Analysing national groups, respondents from Denmark and Finland are significantly more focused upon world markets than Swedish and Norwegian counterparts.
- 43% of Danish respondents and 42% of Finnish respondents target world markets, against the group average of 27%. This would correspond with the findings in elsewhere on expected export levels over the next year, which found Danish and Finnish respondents to be most optimistic. As one respondent summarized, 'Denmark is an exporting country, we are highly competitive. The improved economic outlook in the US and the Far East should generate increasing exports'.
- Norwegian respondents are the most locally oriented (37%) which again corroborates their reservations elsewhere about export industry growth.

Borenus & Kemppinen: "We find it interesting, although completely believable, that Finnish companies are significantly more focused upon global markets than their Swedish and Norwegian rivals. We have experienced this fact in terms of increasing commercial contracts practice, especially in the cross border context."

Strategy

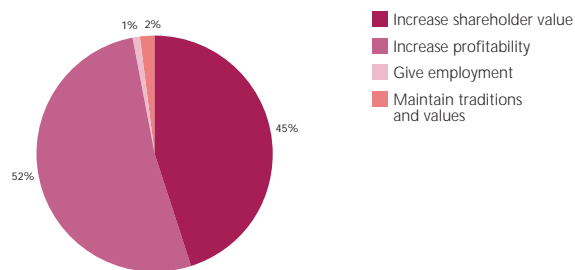
Corporate Strategy

How would you describe your corporate strategy?



- An overwhelming majority of respondents (93%) are decisively focused upon core business.
- The dominant concern is therefore to consolidate and cultivate market share, within a field of expertise.

What is the purpose behind your corporate strategy?

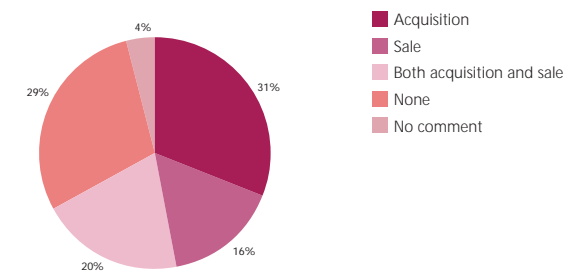


- Profitability is the primary goal for 52% of respondents, whilst 45% focus upon increasing shareholder value.
- Accompanying comments show a strong relationship between profitability and shareholder value, with many respondents agreeing that, 'increasing shareholder value and profitability go hand in hand, and increasing a company's value is the reason for its existence; you achieve this through profitability'.
- Although only 3% considered employment or the maintenance of traditions and values as primary goals, several respondents consider the four factors to be interconnected. One respondent mentioned that, 'the values and traditions of the firm are integral to its vision; the company seeks to utilize its values ... to develop good business practice and ensure that it is well regarded abroad'.
- It is clear that ownership influences business priorities; one executive commented that, 'as a publicly traded company, delivering a return to investors upon their investment, through profitability, is crucial'. This can be contrasted with another respondent's observation that, 'we are a very conservative company focused on tradition and profitability. We are not interested in shareholder value as we are a family business.'

Ernst & Young: "Innovation, local knowledge and service excellence remain significant competitive advantages and mid market corporates will continue to focus capital on areas of strength and divest activities where they are relatively weak."

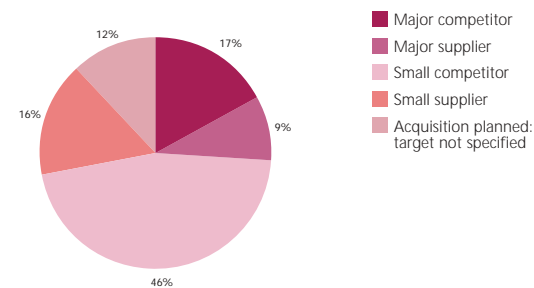
Mergers, Acquisitions and Disposals

To achieve your corporate strategy, which of the following possibilities would you consider in the next 12 months?



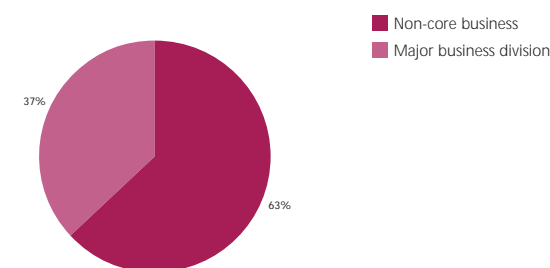
- Overall, two thirds (67%) of respondents will consider a M&A transaction over the next 12 months, with 20% considering both acquisition and sale, 31% just an acquisition and 16% just a sale of part of their business.

Acquisitions under consideration in the next 12 months



- Within these respondent groups, 46% of respondents considering acquisitions will be looking to acquire a small competitor, with the remainder reasonably evenly split between major competitors and suppliers and small suppliers.

Sales under consideration in the next 12 months

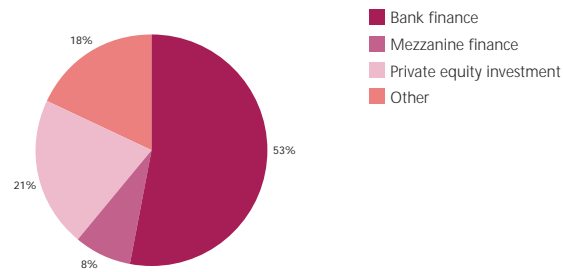


- Of those considering sales, 63% would consider selling a non-core business, which corresponds with the findings elsewhere that the vast majority of respondents are focusing upon core business.
- Among those not planning any sales, a few respondents commented that they have already sold any non-core businesses.
- There are negligible differences between national respondent groups.

Strategy

Financing

What sources of finance would you consider to support your corporate strategy?



- 21% of respondents would consider private equity to support their corporate strategy, whilst a majority of 53% would stick with bank finance.
- In terms of national differences, Swedish and Norwegian respondents are more enthusiastic about private equity, with 33% and 35% respectively considering this option, as opposed to just 15% of Finnish respondents and 10% of Danish respondents.
- Among the other options given, 5 respondents, all from Sweden, indicated that they would consider an IPO, which may correspond with findings elsewhere, where the Swedish group anticipated the greatest increase in IPOs over the next 12 months.

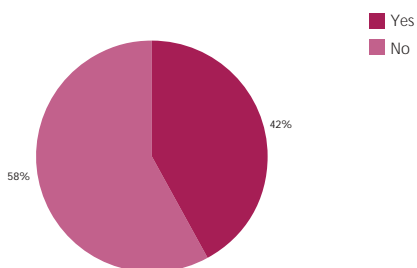
Outsourcing

- 58% of respondents have no plans to outsource business functions, although several of these respondents stated that they 'have already outsourced a lot'.
- Of the 42% who are planning to outsource, 31% plan to outsource IT systems, whilst over half plan to outsource other business support services.
- One respondent specified that they plan to outsource all three of these functions, whilst several others plan to outsource both IT systems and other business support services.
- There were negligible differences between national respondent groups.

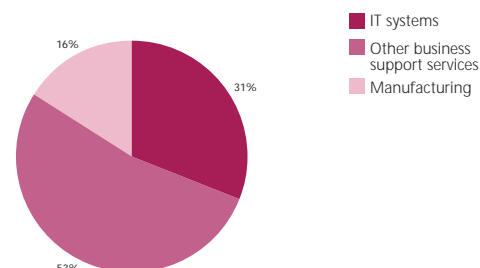
Ernst & Young: "There is a fairly well established Nordic private equity community, and the region is now receiving more attention from international firms. We expect private equity to play a significant role in financing future mid market development."

Ernst & Young: "Outsourcing is a growth industry in the Nordic region, and the winners will be companies that deliver quality services as well as low costs."

Do you plan to outsource any functions within your business?



If yes, which of the following?

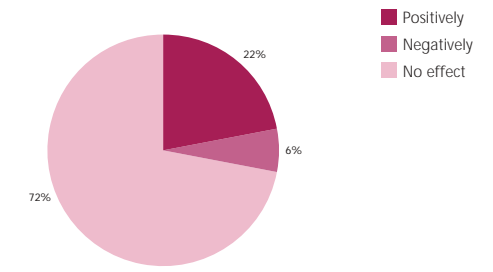


Changes and Developments - EU Accession

Company Earnings

- The vast majority of respondents see no threat from EU Accession, with 72% expecting no effect upon their company's earnings, whilst 22% looking forward to a positive impact. One respondent explained that, 'the new EU countries' economies are uncompetitive in all areas except labour costs, so many sectors should be able to take advantage of their growth potential'.
- Of the 6% anticipating negative consequences, one respondent specified that this will occur only in the longer term, once the Accession countries have established their position within the EU.
- There are negligible differences between national respondent groups.

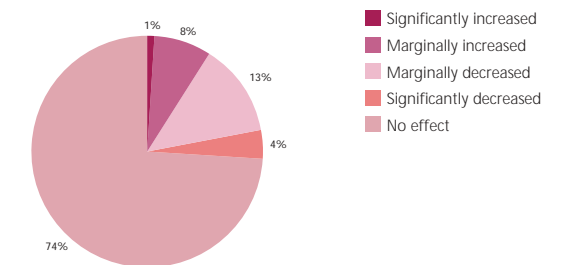
How do you expect EU Accession in May 2004 to affect your company's earnings?



Operating Costs

- EU enlargement is also unlikely to affect operating costs, according to 74% of respondents. 17% are looking forward to reduced costs, whilst 9% anticipate some cost increases.
- Once again, some respondents specified that the effects of Accession will become clear only in the longer term.
- There are negligible differences between national respondent groups.

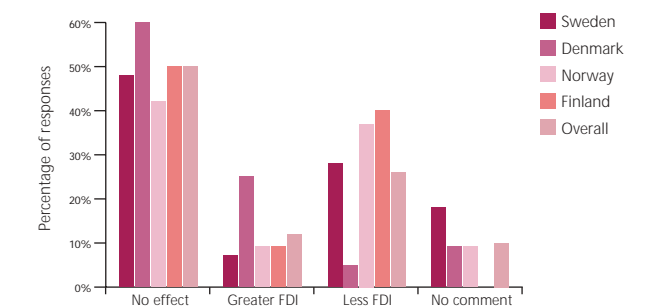
How do you think your operating costs will be affected after Accession in May 2004?



Foreign Direct Investment

- There is less confidence concerning the effects of Accession upon FDI into the region, 27% expecting less investment and 11% opting to make no comment.
- Responses were identical concerning the Nordic region and individual nations, with 50% expecting no effect upon FDI into either the region or their own country, and an optimistic 12% hoping for increased FDI.
- At the national level, Danish respondents are most optimistic, 25% hoping for greater FDI, whilst Finnish respondents show the most caution, with 40% fearing a drop in FDI as a result of EU enlargement.

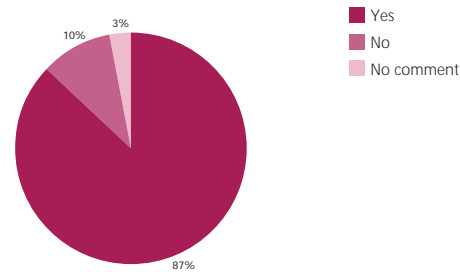
How do you think Accession will affect foreign direct investment (FDI) in the Nordic region?



Changes and Developments - EU Accession

Nordic Investment

Do you expect investment by Nordic countries to increase into EU Accession countries in the next 12 months?



- The vast majority (87%) expect Nordic investment to increase into the new EU states, with just 10% expecting no increase.
- The Baltics are the focus of attention for Nordic companies, as 33% of respondents expect funding to be directed there, with several respondents mentioning its geographic proximity as explanation.
- Poland also figured highly, garnering over a quarter of responses (27%), and many observed that the size and stability of its economy is attractive for investment.
- There was little difference between the national respondent groups in their answers, although one respondent from Denmark did elaborate that, 'we must consider that in Finland, when they look to Europe, by tradition they look to the middle much more than we do in Denmark. Their geography means that, from Helsinki, they look directly to the Baltics and Eastern Europe, whereas we in Denmark are oriented more towards Western Europe'.

Table 1

If so, into which countries in particular	% of responses
The Baltics	33
Poland	28
Czech Republic	8
Hungary	5
Slovenia	1
Slovakia	1
Overall	24

Borenius & Kempainen: "On the M&A side, the size of deals has been growing steadily for some time now and we have experienced 2004 to be much more solid in terms of deals materializing. We see no reason why this trend should not continue. EU Accession will lead to increasing M&A activity, from the Finnish point of view especially in the Baltics. Finnish companies have already been active in this region for some years, and have executed numerous M&A deals. Therefore we do not foresee any particular spike in this activity attributable to Accession, but rather a steady increase in M&A activity."

Ernst & Young: "Accession will probably have more influence on Norway's attitude to the EU than Sweden's rejection of the Euro."

Sector Expectations

- Over a quarter of respondents (26%) expect Industrials and Manufacturing to benefit from cheaper labour costs in the Accession countries, and many respondents mentioned the relocation of operations as a means of taking advantage of this opportunity.
- Services also ranks highly, as an industry with high labour costs that might benefit from the new markets and labour supplies.
- One respondent elaborated that, 'labour intensive sectors, whose operations have been inhibited by our region's high labour costs, will benefit in longer term but it will take a couple of years to impact'.
- Respondents felt less confident speculating about the effects of Accession upon business sectors and 43% chose to make no comment to this question.

Table 2

What sector(s) do you think will benefit most from Accession?	% of responses
Industrials and Manufacturing	26
Services	23
Consumer	14
Construction	11
Agriculture	9
Technology	6
Medical	5
Transport	3
Chemicals	1
Energy	1

- Remarkably, the same sectors are considered to be at risk from EU Accession: Industrials and Manufacturing being mentioned by 31% of respondents, with the specification that domestic companies will suffer.
- Accession appears to be a mixed blessing across different sectors, where size matters, as 'multinational firms can take advantage of lower labour costs'.
- One respondent summarized that, 'accession could be a double-edged sword for manufacturing, as the opportunities for cheaper operating costs, and cheaper labour if production facilities are relocated, represent real threats to domestic production'.
- 16% of respondents do not anticipate adverse effects for any sector.

Table 3

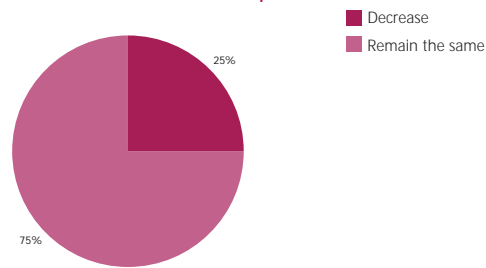
What sector(s) do you think will be adversely affected by Accession?	% of responses
Industrials and Manufacturing	31
Agriculture	13
Consumer	12
Services	10
Construction	10
Transport	3
Technology	1
Chemicals	1
None	16

Changes and Developments - Country Specific

Finland

- Three quarters of Finnish respondents see no reason why government involvement will increase, particularly after a re-statement of policy at the beginning of 2004.
- Many of those expecting government involvement to remain the same stated that this was a cautious answer: they hope it will decrease but fear this will not be the case.
- Among the 25% that think it will decrease, some made clear that this was an optimistic answer, about which they are not particularly confident.
- One respondent stated that, 'as long as the social democrats are in the government, no changes are expected'.

Given the recent change of government, what do you anticipate will happen to the level of government involvement in Finnish companies?

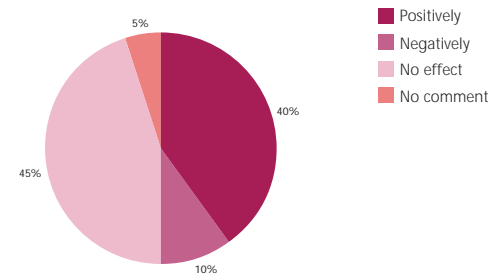


Borenius & Kempinen: "The Finnish government has recently introduced a new tax bill affecting shareholders and companies. Overall, corporate and capital gains tax rates will be lowered as such, which is clearly a positive factor in view of general competitiveness, but some other proposed changes would cause dividends to be taxed at higher rates than in the current fiscal regime. We expect the new tax bills, if passed, to create more activity in the M&A field – such as corporate structuring, change of generation transaction etc. Tax reform is likely to be the single most important factor affecting the behaviour of Finnish mid market companies and their shareholders in the near future."

Denmark

- Opinion was fairly divided among Danish respondents, with the largest group (45%) anticipating no effect upon FDI as a result of the EU constitution referendum.
- Many respondents feel that the effect of the referendum depends upon its outcome: a majority of the 40% expecting a positive effect specified that this is conditional upon a 'yes' vote, which they consider likely.
- Similarly, those anticipating a negative effect (10%) fear a 'no' vote in the referendum, which would decrease Denmark's appeal for investors.

How do you expect the required referendum on the EU constitution to affect levels of foreign direct investment (FDI)?

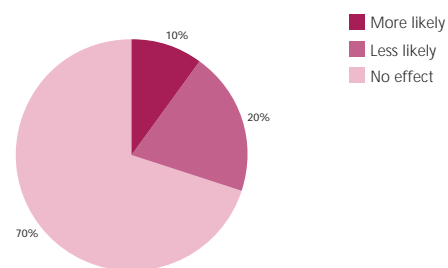


Accura Advokataktieselskab: "After a fairly slow start to 2004 continuing the trend from 2003, the M&A market has picked up quite well towards the end of Q2 2004 driven primarily by activity from the Danish and foreign private equity houses with a mix of outright sales, spin-offs, structural ownership reorganisations and public-to-private activity. In the lower end of the market the activity level continues to be moderate. However, a need to act is likely to spur further activity in the rest of 2004 and in 2005 whether driven by cash needing to be invested as in the private equity sector or the need for sector consolidation, growth or similar business motives elsewhere."

Norway

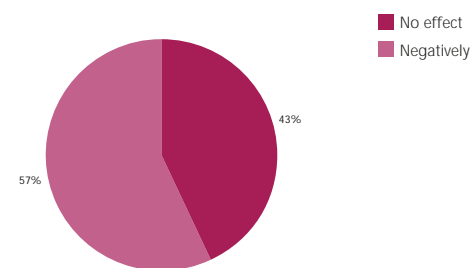
- The large majority (70%) of Norwegian respondents see no reason why Sweden's rejection of the Euro should affect their political future.
- The remainder is divided over the effect of Sweden's decision, with 10% thinking Norway more likely to join the EU, and 20% opting for less likely.
- Traditional Nordic rivalry was evident in respondents' comments to this question, with one respondent emphatically summarizing the majority opinion: 'In Norway we are a stubborn people and we do exactly what we like, we would certainly not be influenced by the Swedish'.

Does the decision by Sweden to reject the Euro make it more or less likely for Norway to join the EU?



Sweden

How do you expect the rejection of the Euro will affect foreign direct investment in Sweden?

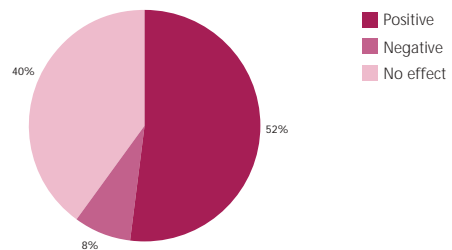


- The majority of Swedish respondents (57%) fear that their rejection of the Euro will have negative repercussions upon FDI.
- Representing this viewpoint, one executive commented that, 'potential investors are deterred by uncertainty among politicians on this matter'.
- 43%, meanwhile, think that the rejection should have no effect, with one executive commenting that, 'it has a negligible effect - Sweden is doing well'.
- Many of the 'no effect' respondents shared the view that they 'expected a negative effect at the time of vote, but this has not materialised as yet'.

Changes and Developments - Country Specific

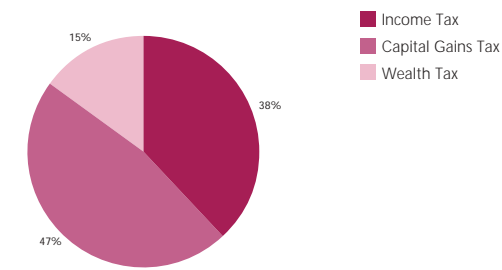
Sweden

What effect do you expect the new tax rules, introducing a participation exemption for capital gains and dividends, will have on M&A activity in Sweden?



- 52% of responses by our Swedish respondents indicate that the tax rule changes should facilitate M&A and generate an increase in activity levels. One respondent anticipates, 'a long term positive effect, as markets become more open and active'.
- However 40% are skeptical about the effects of the changes, with many respondents expressing the view that this measure is insufficient without a wider programme of economic and structural reform.
- One executive went further, suggesting that the Swedish business community is accustomed to working around traditionally heavy regulation.
- Over a third of respondents (38%) chose to make no comment to this question, with many feeling insufficiently informed on the matter.

Which of the following tax reductions would have the most beneficial impact on investment levels?



- Opinion was again divided on which type of tax reduction would positively impact investment, with almost half (47%) believing that Capital Gains Tax reduction would be most beneficial, whilst 38% chose Income Tax as the tax to reduce.
- The majority choice is particularly striking in the light of Q 18's results, concerning the new tax rules exempting capital gains and dividends, which 38% of respondents felt unable to answer or anticipated no effect.
- Several respondents expressed the difficulty of choosing between these options, stating that a reduction in any of them would have beneficial impact.

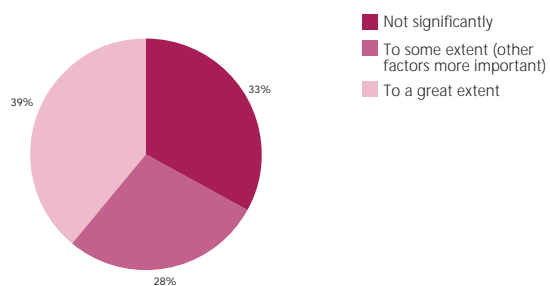
Mannheimer Swartling: "It is surprising that so many respondents didn't have any comment, apparently due to lack of information. We would have expected that the reform was widely known and much longed for by all players on the market."

Mannheimer Swartling: "This shows that it is important not only to have a favourable corporate tax regime but also to lower the tax rates for individuals and the social security charges, in order to make Sweden attractive for investments."

Ernst & Young: "We expect a small positive effect from the change in capital gains tax legislation in Sweden but taxes on employees are high and there are few tax incentives for new business."

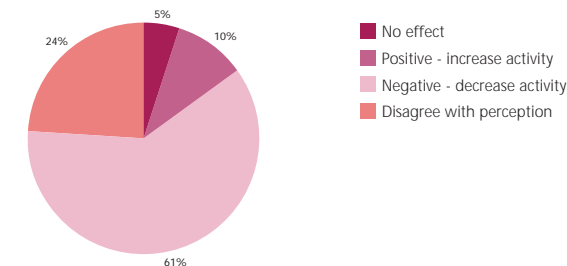
Mannheimer Swartling: "The fact that Sweden introduced a participation exemption regime on 1 July 2003 seems to be insufficiently known. Sweden's regime is particularly competitive since interest is deductible, notwithstanding that dividends and capital gains on investment are tax exempt. Although we have seen a huge increase in our foreign clients' interest to establish holding companies in Sweden, we must increase our efforts to market Sweden's regime for holding companies and Sweden as a base for inter alia private equity funds."

To what extent does taxation policy deter investment?



- Swedish respondents are evenly divided on the effect of taxation policy, with 39% thinking it has a great effect, opposing a third who think it has no significant effect. 28% consider it to be a factor, but not the most important, in investment decisions.
- Among the other factors mentioned by this group, Sweden's labour costs figured highly as a more significant deterrent, countered by its attractive low company tax.
- One executive summarized that, 'taxation policy has an effect, but Sweden has, in some ways, an attractive tax regime owing to our low company tax, so the relationship is complex'. Another suggested that it has little effect in Sweden since 'businesses are used to a high tax burden so it has little impact on domestic investment'.
- Taking a regional perspective, another respondent represented the opposing view, arguing that 'taxation deters investment to a great extent, particularly in the Nordic region where the tax burden is very high: this is a problem for the region'.

What effect do you expect the perceived lack of Swedish based capital for private equity funds will have on M&A and private equity activity in Sweden?



- Two thirds (61%) of responses indicate negative movements in M&A and private equity due to the perceived lack of Swedish based capital for private equity.
- Representing this group, one respondent confirmed that this perception has a 'major impact: Sweden has a lot of money but it is locked in banks, not equity'.
- However a significant proportion (24%) disputed that perception itself, arguing that 'many companies have increased equity'. Having made this point, one respondent conceded that, 'Sweden does lack start up capital which diminishes the possibility for commercialising new findings in science and medicine'.

Changes and Developments - Country Specific

Private equity and the Swedish Government

- Respondents were asked to consider the effect of the coordination of the Swedish government's private equity activities upon the Swedish private equity market. 43% of the Swedish respondents who responded anticipate little or marginal effect from the government's coordination efforts.
- Over half of this group attributes this marginal effect to the government's piecemeal approach to reform. There is, therefore, a significant perception that the government's commitment to economic reform, and facilitating business, is inadequate, or, as one respondent put it, 'all rhetoric and little action'. One respondent elaborated that, 'the government is not going to change the tax regime so this coordination will have little effect: it needs wholesale and more wide-ranging reform to impact'.
- Taking a more positive outlook, a third of respondents (33%) do expect a significant positive effect from the coordination initiatives, with one respondent judging that the coordination should have, 'a positive impact, allowing free flow of private equity in an open market'.

Mannheimer Swartling: "There is a risk that fewer Swedish private equity funds will be established, consequently decreasing activity on the Swedish market. However, the effects will be limited in the buy-out sector since most capital invested in buy-out is non-Swedish. The effects will be more evident in areas where non-Swedish capital is scarce, i.e. in seed financing and early stage venture capital. A decrease in the number of established venture capital funds in Sweden could also have a negative impact on the recruitment and development of competent management teams in Sweden."

Another effect is that the practices of Swedish funds will be more in line with the practices that have prevailed in Europe for many years. The increased international influence could result in the funds' investments in portfolio companies becoming more complicated and time consuming, due to Anglo-Saxon investment traditions involving more thorough due diligence and more complicated agreements."

Mannheimer Swartling: "A very important measure in order to improve the willingness to take risks and invest in small enterprises would be to abolish the rules that impose a higher tax rate on individuals on dividends and capital gains from such investments. The rules are asymmetric in the sense that gains are taxed at a higher rate while losses are not fully deductible."

Structure

Ownership

- Respondents were asked to give details of the level of ownership from the following categories in their company.
- Responses were quite evenly spread, and no clear trend can be discerned. Non-related private investors (21%), the management team (20%) and private equity (19%) lead the field.
- 5 respondents, spread between Sweden and Denmark, specified that their companies were owned by cooperatives, with each member owning one share.
- Among the 'Other' responses, 7 respondents, from Sweden and Finland, said that their companies were government-owned.

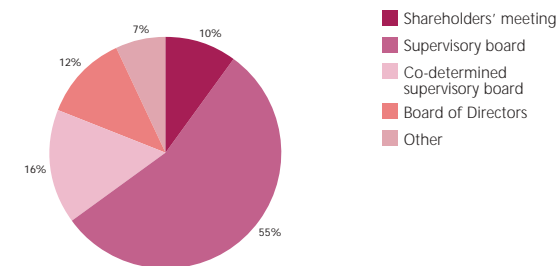
Table 4

Level of ownership in your firm	% of responses
Non related private investor	21
Management team (other than family)	20
Private equity	19
Other*	15
Family - involved in management	12
Family - not involved in management	10
Customer/Supplier	2

* Includes cooperatives and government-owned companies

Management

Who decides on the appointment of management?

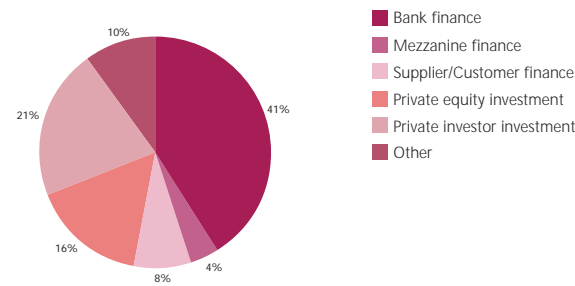


- A supervisory board is responsible for the appointment of management among 55% of respondents.
- 16% of respondents indicated that the responsibility lies with a co-determined supervisory board, and 12% selected the Board of Directors.
- 10% cited the shareholders' meeting as responsible for management appointments, and one of these respondents clarified that, 'we are part of a multinational, so whilst shareholders have nominal decision-making power, they seek local advice from supervisory board'. Other respondents indicated that decisions made by the Board of Directors or supervisory board will then be rubber-stamped by the AGM.

Structure

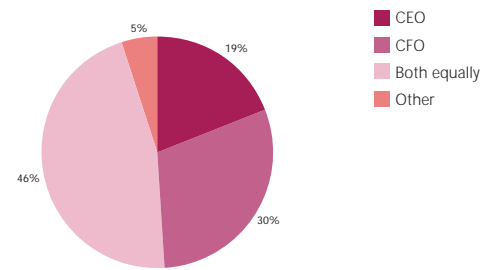
Financing

What sources of finance do you currently have?



- Some respondents have several sources of finance, but this graph represents their primary source.
- 41% of respondents primarily use bank finance, with private equity and private investor investment primarily financing 16% and 21% respectively.
- Among the 10% of respondents with other sources of finance, government funding and parent company funding were mentioned.
- There were negligible differences between national respondent groups.

Whose remit is the financing in your company?



- Financing is largely a shared job, with 46% respondents stating that the CEO and CFO share equal responsibility.
- Almost a third of the remainder (30%) indicate that the CFO is responsible.
- Several respondents commented that the CFO has daily responsibility for finances, but major decisions would be made in consultation with the CEO, and in a minority of cases, with the Board of Directors.

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