

## CEO COMMENTS

# GOOD TIMES NEVER LAST FOREVER



Dan Sten Olsson, MD Stena AB,  
at the baptism of *Stena Estrid* 2019

Looking back on our results and activities for 2019 we were reasonably happy with our mixed results. Some of our businesses made extraordinary results; others were less fortunate. To be resilient in bad times is the reason, why we are so diversified.

### Positive and negative events and ambitions affecting our business in 2019

#### STENA LINE

Unrest in the political arena has influenced Stena's ferry activities and investments in non-marine activities, primarily in Europe. Despite a diminishing share of the global economy, Europe and, most of all, Eastern Europe, to where we have ferry lines from Sweden and Germany, showed growth. Eastern Europe's growth has benefited the rest of Europe. Brexit will have a negative impact on our ferry lines around Great Britain, but probably not before 2021, due to the transition rules. Transporting in many cases between 70 per cent to 90 per cent of the value of goods to and from UK and Sweden, ferry activities will continue to play an important role for the European infrastructure. In- and outcoming tourism by car is more or less 100 per cent carried by ferries for Great Britain and more than 50 per cent for Sweden.

For Stena Line the digital transformation played a very significant role for these activities. 140 employees have continuously been working, on a cross-functional basis, on more than 40 projects within five prioritized areas. Stena Line was also named as number three within sophisticated marketing among all Swedish companies in 2019. Other areas of prioritized interest to Stena Line are projects, often in

the form of Artificial intelligence, that help to reduce fuel consumption, and lead to greater accuracy and security in both vessels and Stena Line's ports and terminals.

#### INVESTMENT IN NEW FERRIES AND SHIPPING ACTIVITIES

In order to grow our Stena Line activities, we have five new ferries from the CMI Jinling Weihai yard in China under construction. Stena RoRo has ordered an additional four ships for their clients, based on ten-year charters to ferry companies similar to Stena Line. All ships will be financed on reasonable terms with long amortization profiles. Thanks to Stena Teknik, the first newbuilding, *Stena Estrid* delivered at the end of the year, consumes 25 per cent less bunker fuel than our parallel vessel, *Stena Adventurer*, on the Dublin-Holyhead route.

We are finally enjoying a significant turn-around for our tanker activities. After years of surplus tanker capacity, the market turned into balance and continues to be so, much to the shipowners' advantage.

Thanks to Northern Marine, our activities continue to enjoy a first-class reputation among our customers in this industry. Since significant new legislation to save the environment and our climate will be adopted in the future, our involvement in various industrial fora, together with Stena Teknik, is important. To influence and develop the introduction of relevant new rules in practice is a demanding task. We have spent about MUSD 30 annually in Northern Marine and Stena Line on training of our seafaring personnel

Even though they in principle achieved "best in-class performance", combined with "best-in class economy", Stena Drilling's financial results have been very poor. Even though we managed to keep all of our units employed. The rates have been depressed and employment has not always been on a continuous basis. The oil drilling volume has been increasing, and the excess supply of drilling vessels was slowly diminishing.

#### NON-MARINE ACTIVITIES

Fortunately, Stena AB also includes non-maritime activities. Today, they account for 52 per cent of Stena AB's total assets. Thirty-eight years ago, we began to invest in properties prioritising the residential sector.

Today, the value of our property portfolio totals MSEK 40,000 and we have the land

and sites for more than 10,000 apartments at basically zero cost in our books. With more than 25,400 flats under management, our plan is to continue building in the range of 1,000 flats per year, and to renovate and upgrade close to 900 flats per year. All this is done thanks to our very low-cost base and will immediately generate positive results.

Despite our ongoing expansion, we plan to reduce Stena Property's climate impact by 25 per cent up to 2023, and by 50 per cent up to 2030. To assist with repair and maintenance, and other facility-management tasks, we employed 300 young people during the summer season last year. Most of these young people live in our apartments. Stena Property has not only taken responsibility for the physical conditions in our property areas, but also for safety and social conditions. We therefore intend to continue investing in relationship management and social structures. Our most recent investments are in a school and a city district center. With unemployment now hitting the young generation and many of our tenants our social activities give us a lead in developing useful programs with governmental support for our areas.

Stena Adactum began its activities eighteen years ago. Our wholly-owned companies, comprising the kitchen manufacturer Ballingslov, the garden center retailer Blomsterlandet and the automatic waste handling system producer Envac, have had combined annual revenues of approximately MSEK 7,300 for 2019.

We have invested more than MSEK 2,100 in partly-owned listed companies in which we are the largest shareholder. Our total holdings in Adactum's companies were at year end valued at approximately MSEK 9,300.

#### A RESPONSIBLE OPERATOR

As a local operator, Stena has a very great responsibility for ensuring that our ethical code and environmental responsibility are sustainable in the relatively small environments in which we operate.

In these environments, our activities can be monitored by everyone, down to the smallest detail. We have therefore at an early stage sought to live up to these strict transparency requirements. In the early 1980s, we initiated "the Cleaner Kattegatt" activity. Since then, our environmental commitment has been developed in several dimensions.



Thanks to Stena Teknik, the first newbuilding, *Stena Estrid*, consumes 30 per cent less bunker fuel than our parallel vessel.



**Thanks to Northern Marine, our activities continue to enjoy a first-class reputation among our customers in this industry.**

In ethical terms, when a company expands it is important that everyone is treated equally. Our White Book is a guide that was created more than 30 years ago and 2019 the ninth edition was published. Every year's edition has featured small, but significant, improvements. The definition and explanation of the term "care" is the best and most important thing we have developed. When we are guided by care for our fellow human beings (be they customers, colleagues or suppliers), financial results, society and details, we will usually be acting correct. Both the company and the world around us are developing constantly, so that we have created sustainability policies that are and must be adhered to.

Past year we have continued to work on hundreds of environmental projects. Our methanol initiative makes it possible to use bio-methanol directly in our ferry operations. With wind turbines that have a "breakeven" level of 0.4 SEK per KWH, and solar panels with even lower "breakeven" levels, we are very optimistic about the role of electricity in the future and are continuing to focus on our wind farms. We believe the energy bearer can be the electron battery, or electrons in water or ammonia.

#### **COVID-19 HAS CHANGED THE WORLD FAST**

Diversification creates resilience for as long as we have the capacity to be a leader in what we do. *Small enough to care and big enough to cope*, is our motto.

Tough times normally create a vast number of mergers. We are of course prepared to be active, if chances will occur. At the same time we are proud of the quality and effectiveness of our services creating performance to our clients. Normally we have a sort of first refusal even though we are rarely paid better than the market. This is the fifth slump in economic activity happening during my active time in business. Despite cost awareness there are always unnecessary costs creeping into a business in reasonable times.

Stena Line has already taken 950 people out of their operation and there are probably more to follow. Many will not be reemployed, when times get better. Transporting freight and fewer passengers with reduced sailing frequency is our present state of affairs.

In South Korea they managed to turn the pandemic around in roughly two months.

We reckon with correspondingly three to four months for Sweden. It may take longer. In such a case it will probably show up in a slower pace of recovery.

Stena Line will be OK, when freight flows and passengers start moving again. We will have phased out our oldest tonnage and we will have a more efficient organisation and lower operating cost. Our investments into logistics should give us higher utilisation and earnings over time.

Our real estate business is only to a limited degree affected by its commercial tenants and will not be affected unless the downturn will be very extended. Capacity for more residential housing will continue for a long time in Sweden. The Adactum portfolio of companies have adjusted themselves to run at 70% capacity and can do so for a long time.

How our shipping activities will be affected is difficult to judge. Stena Bulk is at present experiencing a boom. The number of ships owned by Stena RoRo has been decreased and we have only very few and small valued ships open for charter.

Our lasting problem is of course the future employment of our drilling fleet. With price of oil where it is activities will be reduced instead of being expanded for a while. Depletion goes on and consumption of oil was on an increase till present circumstances occurred. Hopefully this only means a delay of one year in activities.

Present low interest environment and the supportive actions taken on by governments will, in my opinion, stimulate our economies fast. Many people fear inflation. For as long as there is a good supply of goods, I do not see that happening. Distribution including transportation will hence be very crucial.

In these demanding times we must do everything we can to achieve, cost effective, accurate and developing operations. I would like to thank all our employees, including those, who will not work with us any longer, our customers and everyone, who partners with us in any way with the ambition to create greater value to our services.

Göteborg, April 2020

**Dan Sten Olsson**