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The Life and Death of Adolf Lundin

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One of the world's most audacious wildcatters, Adolf Lundin embraced high-risk games and politically incorrect ventures. The Swedish legend amassed a fortune — after some staggering losses. Even as he faced the end of his life, he dreamed of one more oil strike. An Institutional Investor exclusive:

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Adolf Lundin's final interview.

In a sunlit mid-September afternoon, purebred horses graze on the hilly meadows of Adolf Lundin's 120-acre farm near the French village of Romblaz, some 15 miles west of Geneva. With his century-old farmhouse under renovation, Lundin and his wife, Eva, have moved a few hundred yards away, into a two-bedroom guesthouse normally used by visiting relatives. The day is unseasonably warm, but Lundin, 73, wears a wool sweater, drapes a blanket over his lap and sits next to crackling flames in the stone fireplace of the house's spacious living room, with a vaulted ceiling two stories high. He is racked by the chills of advanced leukemia.

Eva, a breeder of show horses, offers coffee and then excuses herself. She wants to discuss with a foreman the construction work that remains at the main house.

An avid, lean-muscled jogger until disease struck four years ago, Lundin is tired. But he is eager to recount his life story — an improbable swashbuckling tale filled with harrowing ups and downs, brilliant bets, high-stake gambles and no end of controversy that altogether earned him the admiration of normally staid Swedish investors, the enmity of the Swedish press and a personal fortune estimated at $3 billion. "Early on I learned that it takes as much time and effort to do a small project as a large one," Lundin explains, his spindly legs sticking out from beneath the blanket on his lap.

There was, seemingly, no place on earth Lundin would not go to find his fortune, nowhere he would not dig or deal. He found gold in Argentina; copper in the Congo; oil in Sudan and Malaysia; natural gas in the Middle East and Russia; nickel in Australia; and a variety of minerals in Canada, Europe and the U.S.

To finance these projects, Lundin created an unconventional business model that gave him management control, turned over technical tasks to more-experienced companies and drew capital from retail and institutional investors fired up by his vision of high risks and high returns from exotic corners of the globe. More-traditional business models depend on bank loans to finance projects, but Lundin's ventures scared away banks — or drove up lending rates.

For years the Swedish press excoriated Lundin for cutting deals with governments notorious for corruption and brutality. Singling out an especially contentious Lundin oil venture in war-torn Sudan in 2001, Sweden’s then-minister of Foreign Affairs, the late Anna Lindh, called his activities detrimental to Sweden’s image. “We expect Swedish companies to respect an ethical code in line with human rights and the environment in which they operate abroad,” she said.

But there is no denying Lundin’s business acumen. While amassing a fortune for himself and his family, he earned at least twice that much for thousands of mostly Swedish and Swiss investors with the nerve to endure the steep rises and falls of Lundin stocks. “It was wild, but if you stuck by Adolf, you made a lot of money,” recalls Rudolf Müller, 66, a retired Swiss investment banker with UBS who invested his money and that of his clients with Lundin.

Eventually, Lundin built up his own exploration and production entities, the Lundin Group of Cos., now numbering 12. Eleven of them are publicly listed, with a total market capitalization of $11.9 billion. But at times Lundin failed so miserably that he was ridiculed by financiers and once forced to sell his home and car. “I was never poor — just temporarily broke,” he says.

Today, Lundin is best known for his investments in Russian natural gas. His Vostok Nafta Investment fund is the single largest foreign portfolio investor in Gazprom (see box). It has a 1.34 percent stake in the controversial, state-controlled Russian energy giant, whose market capitalization is $250 billion.

Yet even with time running out, Lundin is consumed by ambition. Asked if he had accomplished all his goals, he replies that in fact he dreams of one more spectacular venture: “I would like to make a huge oil strike in Russia.”

Two weeks later, on September 30, Adolf Lundin is dead.

“He always had to win,” recalls Bertil Gylling, 77, a friend who knew Lundin as a boy in Sweden. Gylling, who is now the retired chairman of his family investment company, AB Gylling & Co., says that in soccer games and sailing races, Lundin displayed an American-style competitiveness that was sometimes jarring in low-key, egalitarian Sweden.

The young Lundin identified with the rough-and-ready image of American cowboys and oil barons, even though neither existed in his Stockholm suburb of Äppelviken. He spiced his English with tough-guy clichés — “No guts, no glory” and “When the going gets tough, the tough get going” — straight out of the Hollywood action movies that enthralled him as a boy. He was riveted by popular biographies of John D. Rockefeller and J. Paul Getty.

Although Lundin came from a middle-class family — his father, Harry, managed a brewery and later became a chemistry professor — he gravitated toward Swedish society. In 1957 he married Eva, the daughter of Walter Wehtje, who spent most of his career working for the married Eva, the daughter of Walter Wehtje, who spent most of his career working for the Wallenbergs, the wealthiest Swedish business dynasty, rising to CEO of Investor AB, the family's holding company. Eva's sister, Olga, married Marc Wallenberg, heir apparent to the business empire until his suicide in 1971. The Wallenberg connection gave Lundin badly needed cachet when he began to promote himself as a natural-resources entrepreneur.

Still, Lundin's career got off to a slow start. After graduating as a mining engineer from the prestigious Royal Institute of Technology in Stockholm, he drilled exploratory oil wells in Colombia for Royal Dutch Shell Group from 1957 to 1960. But his repeated failure to strike oil earned him the nickname "Saltwater Lundin" at Shell, and he left the company. With financial support from his father-in-law, he earned an MBA in 1961 from the Centre d'Etudes Industrielles in Geneva. His father-in-law then helped him land a job as head of oil exploration activities in the North Sea and later in Portugal for Nynäs Petroleum, a company controlled by the Axelson Johnson Group, a leading Swedish business conglomerate.

But Lundin, who hadn't abandoned adolescent fantasies of becoming an American-style oil tycoon, chafed at the notion of remaining a well-paid management employee. "John D. Rockefeller was long dead," he recalled in his interview with Institutional Investor. "So Armand Hammer became my idol." He thought Hammer, the maverick American chairman of Occidental Petroleum, showed real genius by operating in high-risk countries that the oil majors avoided, like Libya, Peru and the Soviet Union. Like Hammer, Lundin was convinced that one of the few advantages a smaller natural-resources company enjoys over the global giants is the ability to gamble on projects in countries that are politically suspect and not creditworthy enough.

In 1966, after five years on the job, the restless Swede resigned his oil exploration post at Nynäs and accepted an appointment as deputy director of the Centre d'Etudes Industrielles, his former graduate school, where he took charge of fundraising and student recruitment and taught courses in petroleum economics. He found time to indulge a new passion — investing for himself and his wealthy in-laws in mining and oil companies listed on stock exchanges around the world.

In 1968, while at CEI, Lundin began managing his own small fund, First Investors International Mining and Petroleum Fund. "As deputy director of CEI, he got to travel all around the world and would inspire his students with stories of new, exciting projects," recalls Bo Hjelt, a Swede who studied at CEI when Lundin was on the faculty and who became his partner in a mining company before starting his own management consultancy business. Lundin regaled students with stories of searching for oil in the Colombian jungles and exploring nickel sites in the Australian outback. "Many former students invested in Lundin's ventures and brought him other investors," says Hjelt.

Lundin would make Geneva his business headquarters for the remainder of his life. But in 1970 he left CEI to devote himself to investing and stock picking. That year he made his first substantial profit: He earned more than $300,000, more than tripling his speculative investment one year earlier in shares of Aaro Explorations, a Canadian lead and zinc mining company.

Over the next couple of decades, there would be much bigger wins — and losses — for Lundin and his investors. Lundin loyalists took it all philosophically: “With Adolf, it was often a roller coaster,” recalls Hjelt, a longtime investor in Lundin projects. “You made a lot of money, and sometimes you were wiped out.”

One loss at the outset nearly derailed the enterprise. The episode — detailed in a 2002 biography, Adolf H. Lundin, by Robert Eriksson, a Swedish journalist who later became head of investor relations for Lundin Group — was one that Lundin could blame only on his own boneheaded tactics.

A Lundin-managed fund, Austro International Investment Corp., devised a scheme in 1970 to buy up shares in Tasminex, an Australian mining company, if the fund were to receive news before the rest of the market that a large nickel deposit had been discovered. A secret contact, an employee at Tasminex, was supposed to send a coded telex to a Lundin associate that would read “BUY THE FILLY” if nickel was found, or “DO NOT BUY THE FILLY” if it was not. In fact, no nickel lode was located, but a garbled telex was misinterpreted by Lundin and his partners, and they hastily purchased a large stake in Tasminex. With no significant nickel deposits, Tasminex stock dropped, and the value of Austro’s shares plummeted more than 90 percent, from Sf1.5 million ($348,000) to only Sf100,000. (Tasminex, now known as Tasmania Mines, is still listed on the Australian Stock Exchange. Austro was liquidated in 2002.)

Asked about the episode in his last interview, Lundin conceded that it took “a lot of perseverance and some successful projects” to regain investor confidence after the big loss. For a time, even the Wallenbergs shied away from him. As for the possibility of impropriety, Lundin seemed unconcerned. “Back then, that kind of insider trading was legal in Australia,” he said. In fact, Australia didn’t pass stringent laws against insider trading until 1991.

It wasn’t long before another ethically ambiguous episode helped establish Lundin’s reputation as a significant entrepreneur and a daring, innovative deal maker. In 1972, Lundin flew to Doha, the capital of Qatar, to negotiate with the emir, Sheikh Khalifa bin-Hamad al-Thani, for a concession to explore and develop potential oil and gas fields in the Persian Gulf. The contact with the Qatar ruler had been made through an Egyptian, Ahmed el Dib, who became a 50-50 partner with Lundin in the deal.

For days Lundin stayed at the emir’s palace — taking morning walks with the ruler through the gardens, conversing for hours — and made no headway. Finally, he thought up a ruse to further his cause: Claiming to be an infallible weather forecaster, he bet the emir $1 million that Qatar, despite its desert climate, would be drenched in rain the following day. The emir readily accepted the wager. “Of course, it didn’t rain,” Lundin told his biographer. “The emir got $1 million, and I got my first oil concession.” In the interview at his farmhouse, Lundin got $1 million, and I got my first oil concession." In the interview at his farmhouse, Lundin asserted that such practices play a much diminished role in oil, gas and mineral deals nowadays. "Officials have found other ways to make money," he said. Royalties and taxes, he suggested, offer ample opportunities to siphon off funds.

The emir gave Lundin only 120 days to create a consortium with the capital and technical expertise to carry out exploration and development off the Gulf coast. Lundin put together a group of German oil companies led by Wintershall, a subsidiary of chemicals conglomerate BASF. But the price was steep. Lundin and his Egyptian partner could keep only a 5 percent stake in the consortium — in effect, a finder's fee and a commission for negotiating with the emir. The rest belonged to Wintershall and its partner companies.

But Lundin was in desperate straits, all the more so because the Wintershall consortium delayed drilling off Qatar for four years, until 1976. Returns from his other investments were disappointing. By then, Lundin and his family — wife Eva, sons Lukas and Ian, and daughters Nico and Mona — could no longer afford to live in Switzerland. But he dismissed any thought of moving back to Sweden. "I still had good business contacts in Geneva," he said. "And back then, Stockholm was not an international financial center."

The solution was to sell their large villa on the shores of Lake Geneva and move to a nonworking farm just across the border in France, where living costs were lower — and where Lundin would reside for the rest of his life. There was other belt-tightening. Eva drove the children to school in a beat-up old car, while Adolf commuted to his Geneva office by Vespa. According to friends, it was Eva's money and emotional support that helped Lundin get through that period. "He was very fortunate to have a wife like her, who believed in him even when things went so badly," says old friend Gylling. "She never complained."

By the end of 1976, Lundin's career had taken a dramatic turn for the better. The Wintershall consortium made a stunning strike: It wasn't oil, but natural gas — and in such quantities that the field turned out to be one of the largest ever. By 1980, Lundin and his Egyptian partner's 5 percent stake was worth $15 million. Lundin sold his share and began to build up his other petroleum, gas and mining ventures. One of the earliest was International Petroleum Corp. In 1980 the company negotiated an oil and gas concession in the Persian Gulf. To finance drilling, Lundin turned to the Vancouver Stock Exchange, which was known for financing mining projects, to issue C$8 million ($6.8 million) in shares representing 70 percent of International Petroleum.

It was the beginning of a business model in which a Lundin company would purchase a concession, keep 30 percent for the family and sell the rest either to another natural-resources company or to outside shareholders — or to a combination of both.

Still, the roller-coaster ride wasn't over. In 1977, Lundin established Musto Explorations, a mining and investment company. He kept 30 percent, and the remaining shares went mainly to Canadian and European investors. In 1983, Musto bought the rights to a gallium and germanium deposit in Utah and invested $13 million in the venture. But when the project finally got started after a three-year delay, the yields were barely one eighth of what had been anticipated. By the time the project was abandoned in 1988, it had cost $35 million. The Utah debacle was one of the costliest failures in the history of Lundin Group, but it was followed by one of its biggest bonanzas: a gold and copper strike at an undeveloped site, Bajo de la Alumbrera, in Argentina.

In 1992, Argentina was reeling from years of political and economic instability that had scared off foreign investors, particularly from long-term ventures like mining. Not Lundin. Through his company International Musto Exploration — Musto Exploration's successor, in which Lundin and his family once again held a 30 percent stake — Lundin purchased the rights to the undeveloped gold and copper deposits of the northwestern province of Catamarca, paying the local government a paltry $2 million in cash and agreeing to turn over 20 percent of any future net profits once mining operations got under way and the original investment had been recovered. International Musto issued $12 million in new shares, mainly to Swedish and Swiss investors, to pay for a feasibility study. It concluded that Bajo de la Alumbrera contained up to 300 tons of gold and 2.7 million tons of copper. In 1994, International Musto sold a 50 percent stake in the project to Australian mining company Mount Isa Mines for $130 million. And the following year, on Lundin's recommendation, International Musto shareholders sold the remaining 50 percent to two other mining companies — Australian North and Rio Algom, a Canadian operation — for $325 million. "This is the biggest deal of my life," Lundin told a Swedish news agency in a 1995 interview.

With Adolf Lundin's death, control of the entire Lundin portfolio of companies has been turned over to his sons Lukas, 48, and Ian, 45, who have helped manage the group for the past 12 years.

Lundin gave his sons little choice but to run his businesses. Lukas recalls a family vacation on the French Riviera in 1970 when his father took his sons to a café and informed them that it was time to decide who would eventually take over his mining ventures and who would take charge of oil and gas activities. "He then left," says Lukas. "Neither Ian nor I really knew what to do." When their father returned ten minutes later, Lukas, 12, had agreed to be the miner, while Ian, not quite ten, opted for oil and gas.

The two brothers seem comfortable with the division of labor. "We complement each other very well," says Lukas, chairman of the various Lundin mining companies and based in Vancouver. "I'm the builder and entrepreneur. And my brother is the organizer who makes sure everything works."

It's an assessment shared by Ian, based in Geneva. He points out that Lundin companies are now run in a style that suits his temperament as well as the demands of institutional investors, whose holdings have overtaken those of retail investors. Unlike earlier times, when they were just wildcatters who partnered with bigger operating firms, today almost all Lundin ventures are vertically integrated companies that carry out exploration, production and sales. "We are definitely more organized and disciplined," says Ian, who oversees most of the oil and natural-gas ventures as well as the trust that invests the Lundin family fortune. "Twenty years ago we were cowboys."

Despite the huge risks involved in his projects, Adolf Lundin was always able to raise capital among Swedish businessmen, professionals and shopkeepers with a reputation for being conservative investors. “He came along at a time when Swedes were investing mostly in rather dull engineering companies, and he showed them the possibilities that existed in

emerging markets,” says Peter Elam Håkansson, chairman of Stockholm-based East Capital, which manages $2 billion in Russian equities. “He was also a very good storyteller — utterly fascinating.”

Members of the Swedish financial community liken Lundin’s fundraising efforts with retail investors to church revival meetings. Mats Carlsson, now head of equities for Ohman Fondkomission, a Stockholm-based investment bank and brokerage, recalled his first encounter with Lundin in 1991. It was at a meeting with investors in a cramped room at the brokerage that employed Carlsson at the time. “Lundin spoke passionately about his various companies to maybe 30 or 40 investors — everybody from mom-and-pop storekeepers to some successful entrepreneurs,” says Carlsson. “At the end, I just stood at the door and took their stock orders, from a couple of thousand dollars to $200,000.”

Lundin never hid the risks involved in his ventures and always put up sizable capital of his own. Müller, the retired Swiss investment banker, urged clients to follow his own rules: Never touch your retirement savings or mortgage the house — and invest only money you can afford to lose. “But people made money and then kept reinvesting it all,” he says. “They forgot these were very speculative projects — and a lot of them got angry when their shares tumbled.”

The Swedish press also began to take aim at Lundin. It wasn’t the risk of his projects (there were in fact more winners than losers), but rather the political controversies they raised. For example, despite Sweden’s support of a global economic embargo against apartheid-era South Africa, Lundin invested in a gold project in that country in 1982. The venture, East Daggafontein Mines, was one of the least expensive gold producing sites in the world. By early 1983, Lundin and his partners — British asset manager M&G Securities and French bank BNP — owned 35 percent of the operation and took management control. Lundin’s original 1 million rand investment ($926,000) earned him 20 million rand when he sold his 10 percent stake in 1988. (By then the rand’s value had dropped against the dollar, making Lundin’s stake worth $8.8 million.)

In his last interview Lundin defended East Daggafontein. “We improved the lives of people we worked with there,” he said. He also asserted that tax revenues from projects like his gold operation created a solid economic foundation for the postapartheid era that began in 1994 under then-president Nelson Mandela. But Lundin can’t claim to have known in the mid-1980s that the brutally repressive white minority rule was nearing an end in South Africa.

The Swedish media was also blistering in its attacks on Lundin for negotiating with Zaire’s dictator, Mobutu Sese Seko, for a copper concession in 1996. Mobutu, who took power in a military coup in 1972 and remained dictator until his death in 1997, siphoned a personal fortune estimated at more than $5 billion from his poverty-stricken nation’s treasury, while executing hundreds of suspected opponents. Lundin's response to his critics came in a January 1997 interview with the Canadian national daily the Financial Post. "If you want to find the really big reserves today, whether ore bodies or oil fields," he said, "you are forced to operate in countries that are not popular with the general public."

In 2001, Lundin was denounced in the Swedish media for his oil investments in Sudan, a country shattered by civil war. Human rights groups alleged that the Sudanese armed forces were using a road built by Lundin Oil, an exploration and production company, to mount attacks against insurgents belonging to the Sudan People's Liberation Army, or SPLA, in the southern part of the country. In a November 2003 report, Human Rights Watch took Lundin Oil and Canada's Talisman Energy to task. "Oil companies operating in Sudan were aware of the killing, bombing and looting that took place in the south, all in the name of opening up the oil fields," wrote Jemera Rone, Sudan researcher for Human Rights Watch. "These facts were repeatedly brought to their attention in public and private meetings, but they continued to operate and make a profit as the devastation went on."

But Lundin rejected any blame for the atrocities. "We are bringing the Sudan out of misery," he asserted in a March 2001 interview with Swedish financial daily Dagens Industri. Later that year, however, Lundin Oil ceased all drilling because battles were raging within its concession area, and the company was sold to Talisman for $400 million. With the proceeds, Lundin created Lundin Petroleum, currently its main oil and gas exploration and production company. In June 2003, Lundin Petroleum sold its remaining interest in a Sudanese concession to Malaysia's Petronas Carigali for $142.5 million. But after the 2005 peace accord between Sudan and the SPLA rebels, Lundin Petroleum decided to return to the country; it is planning to drill three exploratory wells in southern Sudan by early 2007.

Despite the controversies, Lundin was hardly a pariah. His stature as a leading Swedish entrepreneur abroad led King Carl XVI Gustaf to name him international Swede of the year in 1998. Lundin was able to persuade some prominent Swedes — including former prime minister Carl Bildt and economist Anders Åslund, a onetime adviser to former Russian president Boris Yeltsin — to sit on the boards of his companies.

Lundin used his younger brother Bertil, a senior intelligence officer in Sweden's Defense Ministry who briefed the prime minister almost daily, to help woo Bildt after he stepped down as head of government in 1994. Bertil, who died in 2004, arranged meetings between his brother and the former prime minister in Stockholm and later in Geneva, where Bildt served as the United Nations secretary general's special envoy to the Balkans from 1999 to 2001. Bildt accepted Lundin's offer to join the board of directors of Vostok Nafta Investment in 2000 and stayed at the post until last month, when he was appointed foreign minister in the new center-right Swedish government. "He has been a very valuable board member," says Ian Lundin, alluding to Bildt's political instincts.

Political savvy has certainly been essential in Lundin's dealings with Gazprom, the Russian gas monopoly that accounts for more than 90 percent of Vostok Nafta's $3.8 billion portfolio and about one third of Lundin Group's total assets. Vostok Nafta, run by chief executive Per Brilioth, first started investing in Gazprom in the mid-1990s, when it began building up a portfolio of Russian energy companies. According to Lundin, he had initially considered buying Siberian oil fields but decided that the lawlessness and violence surrounding the privatization of oil and gas in those years just after the collapse of the Soviet Union made it too risky a venture even for him. “Since it wasn’t possible to wildcat in Siberia, I wildcatted on the Moscow stock exchange,” said Lundin during the interview at his French farmhouse.

His gamble paid off: In 2005, Vostok Nafta’s net income was $1.04 billion, compared with $336 million the year before. But now — under pressure to offer a more diversified fund — Lundin’s sons are thinking about winding down Vostok Nafta or transforming it as they continue to look for other investments in Russia. The most promising oil concession acquired by Lundin Petroleum, where Ian is chairman, is at a Caspian Sea site. It is contiguous to the area where Lukoil has already discovered an estimated 1 billion barrels. This is the promised oil strike that Adolf Lundin spoke about so excitedly in his final interview.

He was still talking about the venture on the phone to Brilioth on Thursday morning, September 28. Then pneumonia set in. With his wife and four children at his bedside, Lundin asked for a dose of morphine. He woke once and asked for another dose.

Death came on Saturday morning. In keeping with his wishes, his body was cremated and the ashes scattered over his beloved farm meadows. As his former biographer pointed out, “Like almost everything he did in life, he planned the end well.”i