## The Swedish Shareholders' Association

# Corporate Governance Policy

**– guidelines for better control and transparency for owners of companies quoted on the Swedish stockmarket**

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Swedish Shareholders Association

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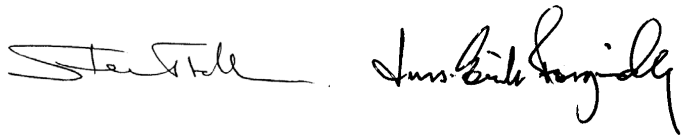
# Foreword

In October 2001 the Swedish Shareholders' Association, Aktiespararna, presented a new version of its Corporate Governance Policy. The new policy represents an augmentation and tightening up on a number of issnes compared with the Guidelines for better control and insight into companies quoted on the stockmarket that the Swedish Shareholders' Association presented in March 1993. At that time the Swedish Shareholders' Association was an early contributor to the corporate governance debate. Shortly before that, in December 1992, the important Cadbury report had been published, the recommendations of which have had a great impact, both in the UK and the rest of the world.

The Swedish Shareholders' Association's new Corporate Governance Policy will provide important support in our coverage of Shareholders' Meetings and in the assessment of various corporate deals, share issues, etc. We will also strive to promote knowledge and acceptance of this policy throughout the Swedish stockmarket.

Stockholm 26th October 2001

The Swedish Shareholders' Association
Sveriges Aktiesparares Riksförbund



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# Introduction

## Background

The aim of the Swedish Shareholders' Association in producing these guidelines is to increase the individual shareholder's confidence in the Swedish stockmarket and the Swedish stock exchange. By ensuring good control and transparency, confidence in the boards and management of companies quoted on the stockmarket will also increase.

If there is to be a positive development of Swedish trade and industry it is essential for companies to be provided with a sufficient supply of risk capital. A well-functioning stockmarket is of great importance from society's economic viewpoint. One characteristic of a well-functioning stockmarket is a good turnover in the shares of the quoted companies, coupled with a large number of individual shareholders. The individual shareholders as a group represent a great resource in terms of new risk capital and long-term ownership.

All those involved in the stockmarket, trade and industry, institutions and private owners have a common interest to work to promote a broadening of individual share ownership. An increased individual share ownership presupposes confidence in the ability of boards and management to drive and develop companies and in the way they manage the companies' assets. Transparency is a vital prerequisite if the owners are to be able to exercise significant influence.

A number of incidents have illustrated the need for common and clear norms regarding the behaviour of boards and management in relation to shareholders.

It is against this background that the Swedish Shareholders' Association has drawn up guidelines for better control and transparency for the owners of companies quoted on the stockmarket. The guidelines were published for the first time in March 1993 and are based, among other things, on the recommendations that were drawn up by a committee of the London Stock Exchange under the leadership of Sir Adrian Cadbury and published in 1992, together with its subsequent reports.

The recommendations in these reports are considerably more comprehensive and detailed than the preceding guidelines. The Swedish Shareholders' Association's guidelines highlight questions that are considered to be of special importance for Swedish companies quoted on the stockmarket.

The Swedish Shareholders' Association also shares the values expressed in the report: "OECD Principles for Corporate Governance" (OECD, Paris, 1999).



The Swedish Shareholders' Association's guidelines are directed at companies whose stocks are quoted on the stockmarket, but should also be applicable to other companies with a spread of ownership, for example in companies that have previously been quoted on the stockmarket or that are aiming at a stockmarket listing.

## International overview

Corporate governance or owner control, as the concept is referred to in Sweden, is an important international issue. The Cadbury report was the first of a number of reports from institutions and organisations in Europe within this area. The Cadbury report emphasises the importance of institutional investors showing interest in and responsibility for the company and exercising their influence. This work has since been carried further through the Greenbury report in which the issue of remuneration to the board and key executives is dealt with as well as the Blue Ribbon report concerning audit committees. 1998 saw the presentation of the Hampel report which further develops Cadbury's thoughts and also contains new ideas. Among other things Hampel recommends that larger institutional investors should have a long-term perspective in regard to investments.

With the aim of fostering effective corporate governance and an interaction between various groups of interested parties the OECD in 1999 drew up the report "OECD Principles for Corporate Governance". This document is important since regard will be paid to it in the design of regulations in the 30 member states and it contains recommendations about items that include the shareholders' rights and obligations, equal treatment of shareholders, insider trading, the duties of the board, the dissemination of information and audit. The publication of this document was also a clear indication that the OECD considers corporate governance important.

The International Corporate Governance Network, ICGN, is a network for institutional investors and individual shareholder organisations working to improve corporate governance in companies. ICGN has formulated global corporate governance principles taking as a starting point the principle that all shareholders should be treated equally in relation to invested capital and that the necessary circumstances for exercising voting rights should be improved. Further, the ICGN emphasises that institutional investors should have an obligation to exercise their voting rights.

The Brussels-based research organisation Centre for European Policy Studies, CEPS, in 1995 published a report commissioned by the EU on the topic of corporate governance in Europe that resulted in a number of recommendations. The basic goal of a corporate governance system, according to CEPS, is to achieve a consensus between the main parties involved. CEPS emphasises the importance of the shareholders, in particular the main owners, respecting the company's need of long-term growth and stability and that minority shareholders are treated fairly and equally, particularly in takeover situations.

In the USA the corporate governance question was raised at an early stage. An example of this is that US legislators as long ago as 1974 introduced ERISA, the Employee Retirement Income Security Act. The law is aimed at private pension fund managers but has increasingly begun to be seen as a norm for regulating management assignments for other types of institutional owners. ERISA lays down the fund managers' obligations, among them the obligation to act with care and loyalty and also an obligation to vote for the shares that have been entrusted to them. Also through the activities of the large US pension fund the Californian Public Employees' Retirement System (CalPERS) in the corporate governance area the question of owners' responsibility and rights have come to be very important in the USA. CalPERS has developed international corporate governance principles that mean that every company should follow the national principles that have been established in respective countries. These are designed among other things to make it possible for shareholders to monitor the board, above all through exercising voting rights.

Finally, we would also like to mention the French Vienot report, the second edition of which from 1999, as does the ICGN, recommends that boards should evaluate their work on an annual basis. It has been decided within the EU to carry out a major mapping out of the corporate governance documents that have so far been published within the EU. This work is expected to be completed by the beginning of 2002. The work within the EU has as an aim to draw up common rules in the area, not least for those countries that are aiming at membership of the Union. In the former East European states there is in a number of cases a lack of understanding for basic principles regarding minority protection and the like.

A number of international research reports show that active ownership gives increased returns. This has led to a greater interest in corporate governance issues among institutional investors.





# 1. Transparency for the shareholders and opportunities to exercise control

The importance of shareholders to the company is something that has come increasingly into focus in both national and international debate. Shareholders are necessary to a company in more ways than one. Shareholders contribute capital to the company but are also the company's ultimate representative and an important driving force in the company's development. It has been shown that with active shareholders come successful companies[1]. Share ownership therefore also implies a responsibility to exercise those voting rights that the shares confer. Ownership responsibility is both a right and an obligation.
The shareholders have a right to take part in the decision-making process and use their voting rights, and also to receive correct and clear information from the company. Larger shareholders also have an obligation to participate in shareholders' meetings and vote for their shares, as well as to make clear to other shareholders what their attitudes are to questions concerning the company.

## 1.1 The shareholders' meeting

The company's highest decision making body is the shareholders' meeting, at which the owners together decide on important issues for the company. It is the shareholders' meeting that appoints the board, which is responsible for the management of important matters concerning the company. The shareholders' best opportunity to exercise influence over the company is to use the right to ask questions, receive answers to these questions, and to vote at the shareholders' meeting on questions concerning decisions about the company's results, the election and remuneration of the board and auditors, and to examine the board's management. The company has an obligation to try to ensure that as many shareholders as possible can take part in the shareholders' meeting and are informed about the decisions that are to be made there. The shareholders' meeting is the occasion when the company's shareholders have the opportunity to meet and make decisions concerning the company.

### 1.1.1 The shareholder's voting rights

The Swedish Shareholders' Association's attitude in principle is that every

[1] California Public Employees' Retirement System, "Why Corporate Governance Today?" Steven L. Nesbitt, "Long-Term Rewards From Shareholder Activism: A Study of the "CalPERS Effect".

share in the company should be accompanied by one vote. Respect for ownership rights demands that the changeover to one and the same class of stock must always take place voluntarily. Shareholders holding shares with full voting rights have normally paid more for their shares than those who have shares with lesser voting rights.

### 1.1.2 Conduct of the shareholders' meeting

To make it easier for the shareholders to examine the company's activities, the interim report, the notice of the closing of the books and the annual report should in good time contain the dates when information will be distributed to shareholders during the coming year and the date of the shareholders' meeting.

The notice of the shareholders' meeting should contain a complete and numbered agenda and, as far as possible, proposals for decisions. In special matters, for example directed issues, the background to the proposals should also be reported in detail. The notice of the meeting should also be issued in English.

The notice of meeting should be posted on the company's website on the Internet and before that there should be information there saying when the notice of meeting will be posted.

Ahead of extraordinary shareholders' meetings it is of particular importance that notice is given in such a way that there are no suspicions that the company has tried to withhold information from the shareholders.

The shareholders' meeting is in the first place a forum for the shareholders. However, it often happens that journalists and others who are not shareholders want to attend the meeting and receive the information that is given there. It might be appropriate to allow the shareholders' meeting to decide on a guest list that has been drawn up in advance on which are listed those who are not shareholders who would like to attend the meeting. The Swedish Shareholders' Association is of the opinion that the decision to allow non-shareholders to participate in the shareholders' meeting can be made by a simple majority.

The shareholders' meeting should be held in Swedish and the material that is presented should also be in Swedish. In those cases where the presentation or questions need to be formulated in English there should be simultaneous interpretation of the meeting.

The Shareholders' Meeting should be arranged at a time that makes it possible for as many shareholders as possible to attend.

The board, management and auditors should attend the meeting and be well prepared for questions that might be asked by the shareholders at the meeting. The shareholders must be given the opportunity to ask questions and comment on the items on the agenda before the meeting moves to the decision. The MD's speech should always be timetabled before the decision concerning the adoption of the results and balance sheets.

The shareholders' meeting should be presided over by a competent Chairman for the meeting. If criticism of the board is expected it is not suitable for the Chairman of the board to assume the role of Chairman for the meeting.

### 1.1.3 Participation in the shareholders' meeting from a distance

The company should strive to make it possible for as many shareholders as possible to participate in the shareholders' meeting.

A problem for many shareholders is that the meeting is held somewhere that is far from where they live. One way of solving this problem is to broadcast the Shareholders' Meeting to several locations at the same time. The Swedish Shareholders' Association is positive to the conduct of the meeting in this manner provided that the possibility to hear, see and vote at the shareholders' meeting is so good that it is on a par with being present at the meeting in person.

Another way of giving those shareholders who cannot attend the meeting a possibility to receive the information given there and follow the debate the meeting gives rise to is to broadcast the meeting via the Internet. The Swedish Shareholders' Association does not consider the risk of non-shareholders gaining access to the proceeds of the meeting as a problem. The shareholders' meeting in companies quoted on the stockmarket should in principle be open. Information that could affect the share price that is presented at the Shareholders' Meeting must in accordance with stock exchange regulations also be given to the market in general. In this situation too, however, those shareholders present at the meeting should be given an opportunity to decide whether the meeting should be broadcast on the Internet or not. A decision of this nature should be made by a simple majority.

The Swedish Shareholders' Association is of the opinion that shareholders who take part in the shareholders' meeting at a distance should if possible be given the opportunity to vote. Voting at a distance however requires two-way communication between those taking part at a distance and the physical meeting.

# 2. The company's capital

## 2.1 New share issue

In all developing companies a need for further capital will arise sooner or later. In the case of new share issues, new shares are subscribed to in exchange for cash, or what is known as capital contributed in kind. The basic rule is that in the case of an increase in share capital the shareholders have preference to the new shares ahead of outsiders. Thus in the case of new share issues, it is the existing shareholders who should in the first instance be invited to subscribe to the new shares and this principle should only be departed from in special circumstances.

## 2.2 Authorisation to the board to carry out directed new share issues

The Swedish Shareholders' Association has noted that it has become increasingly common to propose at the shareholders' meeting that the board be given the authority to decide on new share issues, thus waiving the shareholders' preferential rights as stated in the Swedish Companies Act (Aktiebolagslagen) chapter four, paragraph 14. Authorising the board to make decisions that are normally the duty of the shareholders' meeting should only be done in exceptional circumstances. The purpose of the authorisation could be to remedy an acute liquidity crisis or to effect a corporate acquisition. Departure from the shareholders' preferential rights is an encroachment on the rights of shareholders and it is therefore necessary that the shareholders be given detailed information concerning the authorisation in the notice of the meeting. The Swedish Shareholders' Association considers that the notice should clearly state what that or those new issues the board, with the support of the authorisation, can decide on, are to be used for and who shall be allowed to subscribe, and the main subscription conditions, together with how great a dilution of the shareholders' ownership the new share issue could lead to. A greater dilution than ten percent should not be accepted.

## 2.3 Buyback / re-selling of own shares

On 10th March 2000 a possibility was opened for Swedish public limited liability companies to buy back and re-sell their own shares. The scope for this has been limited in several respects. The new provisions in the Companies' Act stipulate, among other things, that acquisition may only take place within the framework of the company's own free capital and that the aggregated holding of the company's own shares may amount to at most ten percent of all shares in the company. The company cannot exercise any voting rights for reacquired shares.

### 2.3.1 Decision processes

Any decision concerning acquisition of the company's own shares should be made by the shareholders' meeting.

The shareholders' meeting can also authorise the board to make a decision concerning the acquisition of the company's own shares. A decision by the shareholders' meeting about acquisition of the company's own shares or concerning authorisation for the board to make such a decision is only valid if it is consented to by shareholders with at least two thirds of both the shown votes and the shares represented at the shareholders' meeting.

The notice of meeting posted ahead of the shareholders meeting that is to deal with a proposal concerning the acquisition of the companies' own shares or a proposal concerning authorising the board to make a decision concerning such an acquisition should state the main contents of the proposal and the purpose of the acquisition. The proposal for the decision about the acquisition of the company's shares or the authorisation of the board to make such a decision should be made available at the company for shareholders for a period of at least two weeks before the shareholders' meeting. If the annual report is not to be dealt with at the meeting, certain documents should be included with the proposal, among them a copy of the annual report containing the latest approved balance sheets and profit and loss account statement, together with a statement from the auditors about events after yearend. The reason for this demand for information is that the shareholders must be able to judge the company's current financial position.

### 2.3.2 The view of the Swedish Shareholders' Association

The Swedish Shareholders' Association considers that the buyback of the company's own shares can be justified in three cases.

The first case is if a company really has a strong financial standing and cannot see any other interesting investment alternatives.

In the case of a reacquisition of the company's own shares the starting point must be that the balance of power within the company is not affected. The decision must, over and above the demands placed by the Companies Act, clearly state to what extent the relationship between A and B shares will be changed through the reacquisition. It is, further, important that the buyback of the company's own shares is not used to influence the outcome of already outstanding options schemes.

The second situation in which a buyback can be motivated is when the company is to finance a current or future acquisition with the help of reacquired shares.

The third situation in which an acquisition can be motivated is when the shares are to be used in a staff options scheme. A procedure such as this does not necessarily entail a dilution of the company's ownership.

The Swedish Shareholders' Association is opposed to a later sale of reacquired shares on the stock exchange or marketplace and considers that reacquired shares should be deregistered. This is to prevent the possibility for a company's management to use the company's funds to conduct unfair share speculation. This could seriously harm confidence in the Swedish stockmarket. The only acceptable alternative to deregistration of reacquired shares is to use the shares as payment currency in a company acquisition, or in staff options schemes. If the purpose is to finance an acquisition of another company, a sale of the shares on the stock exchange or market place could be motivated in certain circumstances.





## 3. The Board of Directors

The Shareholders' Meeting is the company's highest organ and decides on a number of important questions.

Management of the company's affairs is entrusted to the board by the shareholders' meeting. The board in its turn appoints the company's Managing Director who is responsible for the company's day-to-day management. The Managing Director has other key executives in the company to assist him.

### 3.1 The composition of the board

The board should be composed in a balanced way and members' competence should be of relevance to the company. The board members should be self-governed and independent in respect of the company's management. The board should normally consist of 6-9 people. No employees apart from the Managing Director should sit on the board. A Managing Director who is leaving that position should normally not be appointed as Chairman or remain on the board. It is not suitable to appoint a so-called working Chairman, nor that the board Chairman be appointed group chief executive. The board should engage a permanent secretary, preferably a corporate lawyer. It is very important that the members of the board are involved in the development of the company's stock through themselves being shareholders.

#### 3.1.1 Nomination Committee

To help ensure there is a sound selection process and to guarantee quality and openness in the nomination process leading to the election of the board, the Swedish Shareholders' Association recommends that every company quoted on the stockmarket should set up a nomination committee. A nomination committee increases openness around board members and individual shareholders are given a means whereby they can communicate their suggestions. Further, a nomination committee ensures that serious proposals that are put forward in time are considered.

The nomination committee should comprise 3-5 members and be appointed by the company's owners at the shareholders' meeting. The members of the nomination committee should reflect the company's different categories of owners. At least one member should be linked with the smaller owners. The Chairman of the board should also be on the committee. Members should not be employees of the company. The committee members should be presented in the nine-month report and in the annual report. Their costs should be covered by the company.

The notice of a general shareholders' meeting where the board is to be elected should include the names of people the committee intends to propose and information about them. Representatives of the nomination committee should always be present at the shareholders' meeting and be prepared to explain the reasons the committee's proposals are based on.

The nomination committee should also deal with the question of remuneration to the board members. The nomination committee should prepare and put forward proposals for directors' fees. The shareholders' meeting must be given a clear account of all remuneration from the company to the board of directors. The nomination committee should be obliged to explain the reasoning behind their proposals at the shareholders' meeting, if asked to do so.

### 3.2 The board's responsibility

The members of the Board should act with great thoroughness and care in the best interests of the company and all the shareholders. The members of the board should have the capacity to make independent and objective judgements of the company's operations, especially in relation to corporate leadership.

In order to be able to fulfil the responsibilities, the members of the board should have access to correct, relevant and current information. If necessary, in matters of importance for the company, individual board members should have the right, at the cost of the company, to seek information and advice from independent sources.

Board members should devote sufficient time to their board assignment. This means, among other things, that members should not sit on more than 5-6 boards. The Managing Director of a stockmarket company should not have more than two board positions in other companies.

The owners should ensure that the board takes responsibility for the shaping and development of the strategic management of the company, the business idea, goals, risk policy, budgets and business plans, as well as deciding on major investments, acquisitions, and divestitures, the appointment and, if necessary, replacement of in the first place the Managing Director. Further, the board shall be responsible for steering and control as well as compensation and reward of the company's management. The board is also responsible for ensuring that the company's internal and external accounting fulfils the highest possible requirements concerning, among other things, audit, control and risk management and for ensuring that communication with the company's owners and other interested parties is characterised by openness and correctness and that an annual evaluation of the board's and the individual board members' contribution to the board is carried out.

### 3.3 Planning and evaluation of the work of the board

The board is legally obliged to draw up a work agenda, directive to the MD and reporting directives, the contents of which should be adapted to the individual company's circumstances.

The board should annually evaluate its work and check that the work agenda, the directive to the MD and the reporting directives are being followed. The nomination committee should also be given the opportunity to check, in good time ahead of the general shareholders' meeting that the work of the board has been conducted in accordance with the established guidelines.

The nomination committee should evaluate both the work of the board as a whole and the contributions of individual board members. This will give the nomination committee a basis on which to found a proposal for a well-constituted and competent board. The nomination committee can then ahead of the shareholders' meeting give reasons for why board members should be re-elected or replaced.

### 3.4 Participation by the board in incentive schemes

The Swedish Shareholders' Association considers that as a general rule the board should not take part in incentive schemes for employees. Board members should instead be direct owners of shares. In many smaller developing companies the board members' competence and involvement in the company is a prerequisite for the company's development, while at the same time the economic resources needed to attract qualified board members are lacking. In some cases, therefore, there is a need to pay a fee to these members in the form of subscription warrants. The Swedish Shareholders' Association considers that in exceptional cases it can be permitted for even the board's existing and future members to receive subscription warrants in those cases where this happens at the suggestion of an independent nomination committee appointed by the shareholders' meeting. An incentive scheme of this nature must be designed by a valuation institute commissioned by the nomination committee so that there can be no rise to the suspicion that the board is involved in the proposal. It is, in addition, important that the programme is designed in such a way that it will not be influenced by individual events during the year.

# 4. Remuneration to management

## 4.1.1 Key executives' remuneration and benefits

The board, or the remuneration committee appointed by the board (see below), should both determine the salary and other conditions of employment for the Managing Director and the principles for salary scales and other conditions of employment for other people involved in corporate management. This process thereby increases the likelihood that these matters will receive a balanced and thorough treatment.

Information should be given in the annual report concerning the principles the company applies when it comes to periods of notice, severance pay, pensions and other benefits for the Managing Director and other key executives. Information should also be given regarding bonus payments and other similar results-based remuneration. The recommendations of the Industry and Commerce Stock Exchange Committee (Näringlivets Börskommitté) concerning benefits to key executives apply in this respect from and including 1995 for companies that are registered on the Stockholm Stock Exchange (Stockholms Fondbörs).

For those not covered by existing legislation concerning security of employment it would appear that there is generally a need for special employment contracts. These agreements should regulate among other things the conditions that apply if the company wishes to rapidly remove people from employment. Examples of other similar situations are cases when the corporate leadership has the right to terminate employment contracts on account of a changed ownership relationship. For the company's part, this means there is a latent exposure risk in regard to costs for changing the corporate leadership. These commitments can amount to considerable sums.

The shareholders and the market have a legitimate interest in knowing how much the total exposure amounts to. It is the job of the auditors to scrutinise all such contracts. The value of the total remuneration of this nature that the company/group may have to pay out for the Managing Director and corporate management should be particularised in the annual report.

In accordance with the rules of the stock exchange contract, the sum of the board members' fees and other remuneration must be stated in the annual accounts, including that which issues from subsidiaries and associated companies. The fee and any other remuneration to the Chairman of the board should be stated in a separate account.



## 4.1.2 Remuneration committee

The board should appoint a remuneration committee consisting of three representatives from the board. This committee should be responsible for ensuring that comprehensive and well thought through contracts are drawn up with the Managing Director and other key executives. The board has the ultimate responsibility for the company's remuneration policy and the total costs for this.

The remuneration committee should also be responsible for ensuring that principles for salary structures and other terms of employment are also drawn up for other people in the corporate management. This increases the likelihood that these matters will receive a balanced and thorough treatment.
It is the remuneration committee and in the last instance the board that decide on salary levels and other terms of employment for the company's key executives, in the first place the Managing.

## 4.2 Remuneration to the Managing Director

Remuneration to the Managing Director and other key executives should be sufficient to attract and keep leaders of the right competence to run the company well. Remuneration should reflect the importance of the post and the responsibility of the person concerned. Salaries for the company's key executives can well be performance-based.

If the company's board wishes to give notice to a Managing Director on account of unsatisfactory performance, serious differences of opinion, changed ownership structure or the like, the Managing Director should receive severance payment that normally does not exceed two years' basic salary including salary under notice. The severance pay should not include any bonus. There can be what is known as a settlement procedure, but this should not be used during the first twelve months after notice has been given. Severance pay should not be paid if the Managing Director resigns on his own initiative or has seriously mismanaged his assignment. The Managing Director should receive pension benefits based on salary and qualification period. Pension after 65 can be paid according to a work-related superannuation plan (Swedish ITP), a guideline being a remuneration of about 50 percent of basic salary. The corresponding rules can apply between 60 and 65 years of age, providing there is a reciprocal right for the parties to claim retirement. Other key executives can also benefit from such pension terms as applicable.

# 5. The auditors

## 5.1 Audit committee

To assure the quality of the audit and to improve contacts between the board and the company's auditors an audit committee should be set up, thereby giving the auditors' principals, the shareholders, a better guarantee that their interests are safeguarded. The board should appoint an audit committee from among board members who are not employees of the company. The committee should consist of at least three members and can co-opt further suitable persons.

The audit committee should be a sub-committee of the board and does not exempt the board from any responsibility. The audit committee's members should be presented in the annual report.

The duties of the audit committee should be:

- To, on behalf of the board and nomination committee, take part in the procurement of and furnish proposals as to the choice of auditors;
- To during the year maintain contact with the auditors on a continuous basis with the aim of among other things checking that the company's accounting, both internal and external, fulfils the demands that are placed on a company quoted on the stockmarket;
- To discuss the extent and focus of the audit work;
- To deal with any divergence of views between management and the auditors; to take responsibility to see that any important remarks made by the auditors come to the attention of the entire board. Minutes of the audit committee's meetings should be sent to all members of the board.





# 6. Incentive schemes for management and employees

The interest in various forms of incentive schemes for company management and employees has in recent years increased strongly among the Swedish companies quoted on the stockmarket. Internationally, incentive schemes are a common occurrence, especially in countries such as the USA and the UK. Investors often place great importance on the management owning options in the company. The Swedish Shareholders' Association is of the opinion that there is a great need of guidelines that balance the interest between the shareholders, management and other employees.

These guidelines are concerned primarily with the issue of warrants for new subscriptions (subscription options or warrants) or convertible bonds (convertibles) through directed new issues. With the term employees is meant, if nothing else is stated, both key executives and other employees.

In the spring of 2001 major institutional owners together drew up "Guidelines for information to the shareholders about incentive schemes in stockmarket companies". The Swedish Shareholders' Association agrees with these guidelines but has in certain cases farther-reaching viewpoints concerning the design of the schemes.

## 6.1 The view of the Swedish Shareholders' Association

The Swedish Shareholders' Association considers it is good that companies try to increase the involvement of employees by making them long-term shareholders in the company. The best way of achieving this is through offering the employees the opportunity to invest regular savings in the company's shares. Over and above this there are further ways of giving the employees an incentive to increased involvement, for example through convertibles or warrants, call options in respect of existing shares, synthetic options, profit sharing foundations or bonus programmes linked to the company's development. Through directed issues the company can issue convertibles and warrants to employees. This is a good way of increasing involvement among employees and in the long term offering them part ownership of the company. Options schemes and convertible loans that are directed at the employees are often explained as being offered because they are a cheap way for the company to motivate employees and make them loyal to the company. The schemes do not involve any direct costs for the company, the cost is instead transferred to

the shareholders who pay with the dilution that the issue brings with it. A precondition is therefore that the issue takes place in accordance with prevailing market conditions and that the scheme can generate value for the shareholders. The starting point must be that the issue in the long term can be judged to be to the advantage of both the old shareholders and the employees.

The Swedish Shareholders' Association is positive to what is known as the pilot school, which involves key executives owning shares in the company. This is desirable since it increases management's involvement and will to work in their own company. The starting point must however be that management should be allowed to share in the future growth that they themselves are party to creating. An offer should thus not represent a reward for past performance[2].To maintain the confidence of the stockmarket it is of particular importance that the terms of issues exclusively to management are strictly in line with current market conditions.

Common to all types of incentive scheme is that the terms shall be drawn up with good judgement and consideration. Since the allotment is not the same for all it must stand in reasonable proportion to the salary of the person concerned and an upper limit should be stated in the terms. It is the board's task to show in what way the scheme generates value for the shareholders. It is also the board, or where appropriate the remuneration committee, that should draw up and present proposals for incentive schemes, management should not be involved in this work.

## 6.2 Stock option plans

In the USA it is common for companies to give their employees what is known as stock options. The Swedish equivalent of these are "personaloptioner" or stock options. This is a fiscal term for a certain type of options scheme. It is normally forbidden to transfer the stock options and they can only be used after a certain qualifying period. The duration is often long. Taken together, these terms mean that stock options have a strong link to employment. The Swedish Shareholders' Association sees this link to employment as right and is therefore in principle positive to staff options on condition that the allotment and terms are reasonable and that the information about them is open and relevant.

[2] For further discussion see Ds Fi 1986:21 Directed issues of shares etc. A report from the commission for investigating certain share issues, etc.



## 6.3 Call option plans

The price and other terms for such call option plans as a main owner can issue on existing shares must be based on terms that are in accordance with the current market conditions. Call options issued by the main owner have the advantage that no dilution effect occurs. However a conflict of loyalties could arise between different owner interests. Information about the call options issued should immediately be conveyed to the market and also be summarised in the company's annual report.

## 6.4 Issues directed at related parties – the LEO law[3]

The possibility to waive the shareholders' preferential rights to the benefit of the employees is regulated by what is known as the LEO law. This law came into existence in order to prevent the rules concerning deviation from the shareholders' preferential rights being exploited in order to favour people within the company. The regulation is a very effective and important protection against inappropriate favouring of certain persons' standing in the company.

The law is applicable to directed issues to staff in stockmarket companies. Thus the law includes those incentive schemes that lead to a dilution of the share capital. Decisions about directed issues to staff and the terms of the issues must according to law be made by the shareholders' meeting. According to the law it is necessary for at least 90 percent of the attendant votes and capital to adopt the proposal. The Leo law does not allow for the shareholders' meeting to authorise the board either to decide on a directed new issue to the staff or to draw up the terms for such an issue. However, the shareholders' meeting can delegate the execution of a new issue that has been decided on to the board.

The wording of the Leo law only refers to stockmarket companies. The Swedish Shareholders' Association considers that other companies whose shares are or have been the object of market quotation should also adhere to this law.

[3] The law that came about in 1987 has a background in what is known as the Leo affair. In November 1983 the Shareholders' Meeting of Leo, a subsidiary of Sonesson AB, decided that the company would effect a new share issue directed at people who included a number of key executives in the group. During 1985 Leo was floated on the stock exchange and the market value of Leo shares was considerably higher than the price that was quoted in the directed issue. The ensuing debate lead to the appointment of a commission. The Leo law (the law concerning directed issues to staff in stockmarket companies) is a result of that investigation. In its report SOU 2001:1, the Companies' Committee (Aktiebolagskommitté) has proposed that the LEO law should be incorporated into the Companies' Act.

## 6.5 Issue terms

### 6.5.1 The size of the issue

In the case of directed issues to employees the number of new shares that can be subscribed to should not normally exceed five percent of the total number of existing shares or votes, i.e. the dilution effect should not exceed five percent. Issues that give the right to subscribe to shares with special voting rights should not occur. On determining the dilution effect, earlier issues directed at staff should also be taken into account to the extent that they are still outstanding. The dilution should be calculated on the number of shares before any proposed new issue. In exceptional circumstances it could be accepted that staff-intensive, fast-expanding companies with little equity carry out new issues that lead to a somewhat greater dilution.

### 6.5.2 Allotment

Incentive schemes should include only people actively working in the company concerned, i.e. not external board members. Board members are elected representatives and it is formally the board that draws up and puts forward proposals for incentive schemes. This suggests that it is unsuitable to allow the board to participate in such programmes (see however 3.4 above).

When the issue is directed at all employees the Swedish Shareholders' Association recommends that everyone is granted the same maximun subseription amount. A certain differentiation of subscription amount can be accepted if the subscription amount is in reasonable proportion to the salary of the person concerned. There should be the possibility to subscribe to smaller blocks of shares. When determining the maximum subscription amount it should be borne in mind that if this is set high, the employee risks big losses should the company find itself in difficulties. This is particularly applicable if the programme is combined with a loan offer.

For key executives, the subscription amount, i.e. the maximum sum for which the person entitled to subscribe may buy the underlying shares for, should stand in reasonable proportion to the salary of the person concerned. Half an annual salary could be seen as a reasonable upper limit.

If a directed new issue is not fully subscribed to, it should not be possible for the subscription rights that have not been used to be taken over by anybody else. A smaller amount of the total issue sum can however be reserved for future new recruitment, on condition that these new recruits are later offered the chance to acquire the instruments in accordance with prevailing market terms at that time.

It has become common, in order to cover the company's costs in connection with incentive schemes, to issue options over and above those that are subscribed to by the employees in order to then sell them on the market. These options further dilute the company's capital. This practice should therefore only be used in exceptional cases when the company has no possibility to stand for the costs itself. The dilution must never exceed five percent.

### 6.5.3 Duration and interest

The duration of the convertible or subscription warrant should be 4–5 years. The conversion or, respectively, subscription time should be set so that the instrument runs for some time before conversion or subscription is possible. The rate of interest on the convertible should not exceed the market interest rate.

### 6.5.4 Terms according to prevailing market conditions

The terms in the form of interest, duration, conversion or, respectively, subscription rate and issue price should be adjusted so that considered all together they mean the issue takes place in accordance with conditions prevailing on the market. The programme should not be so extensive that it is detrimental to the employee's private economy. The instrument should only give a good yield if the company develops well. This relationship must be emphasised for the employees and in those cases where the options do not turn out to the employees' advantage because the share price has not risen, the company should wait at least one year before any new options programme is designed to replace the old one.

The redemption price, i.e. the price at which the person entitled to subscribe may buy shares in connection with the options, should be set higher than the current market price at allotment to ensure that the options represent an incentive and not a reward for past performance.

### 6.5.5 Evaluation

When determining a market value for the instrument in question a generally-accepted evaluation model should be used. An independent valuation institute should be called on for this purpose.

### 6.6 Options schemes or issues of convertibles in subsidiaries

Options programmes in subsidiaries that are not quoted on the stockmarket should not occur. It is always difficult to effect a true evaluation of the subsidiary's shares. In addition, there is a risk that the employees in such cases prioritise the subsidiary ahead of the group. Finally, difficulties arise for external assessors to calculate the dilution effects on earnings per share and net worth, when issues or sales of the subsidiary's shares are made to employees.

### 6.7 Information to shareholders

Decisions concerning incentive schemes for employees should be made at the shareholders meeting. In order to be able to make a well-substantiated and informed decision it is necessary for the shareholders to receive detailed information about the programme. In order to have an opinion the shareholders must have a chance to judge the reasonability of the programme and what economic benefit the company will gain from the scheme. The economic analysis that forms the basis of the company's assessment of the advantages and disadvantages of the incentive scheme should therefore be presented to the shareholders. There should be an account of old schemes in connection with the presentation of new ones and at the shareholders' meeting there should be a summary of a follow-up conducted after one year.

#### 6.7.1 Information in the notice of meeting

A supporting principle in the Leo law is that companies should inform in detail and in good time about a directed issue. Without going into any more detail, the law states that the main terms shall be stated in the notice of the shareholders' meeting.
The Swedish Shareholders' Association recommends that the following information be included in the notice of meeting:

- the intention of the options scheme;
- information about who took part in the decision-making process in the company;
- the highest sum in the issue;
- how the price-setting of the financial instrument in the incentive scheme has come about and who has carried out the evaluation;
- the scope of the offer, to what staff categories the issue is directed and what amount respective categories are allowed to subscribe to;
- the nominal amount of the debenture, issue price, rate of interest and due date;
- the conversion period and conversion rate for subscription warrants and time and terms for new subscriptions, respectively;
- the increase in the share capital in the case of full conversion or new subscription respectively;
- the maximum dilution effect regarding capital and number of votes for the scheme in question and seen together with earlier outstanding schemes;
- the effect on important key ratios;
- the extent and the terms of options schemes, bonus schemes, profit-sharing agreements, synthetic options etc., already existing in the company since an earlier date;
- how much the operating income must increase to compensate for the dilution effect on earnings per share in the case of maximum utilisation of the scheme;
- other terms of essential significance.

The board's complete proposal for the issue should be made available for all shareholders in good time ahead of the shareholders' meeting and sent to shareholders who request it. This should be obvious in the notice of meeting. In the proposal it should be evident which evaluation model and parameters have been used. The evaluation should be made available for those shareholders who want to order it. The proposal should also make it clear which evaluation institute(s) has/have been used. Notice of and the full proposal should be available for the shareholders to read on the company's Internet site.

#### 6.7.2 The annual report

In the annual report the following information should clearly and visibly be reported:

- original nominal amount of the directed issue and the remaining nominal sum as per yearend;
- the duration, conversion or subscription time, conversion or subscription price and interest on the convertible;
- information about what class of shares the convertible / subscription warrant respectively entitle the holder to subscribe to;
- the total dilution effect in the case of full conversion / subscription respectively;
- which staff categories the issue is directed to;
- information as to whether the instrument is quoted on the market.

### 6.8 The auditor's role

The company's auditor is appointed by the shareholders and has the role of an independent examiner.

The Swedish Shareholders' Association considers that an auditor appointed by the Shareholders' Meeting ahead of a directed new issue to the staff should examine the scheme and the evaluation that forms the foundation of the terms of the issue. The auditor should also be able to present information concerning the proposed issue to shareholders at the shareholders' meeting. It is valuable if a further auditor in addition to the company's regular auditor is engaged to scrutinise the terms of the issue and the valuation.

### 6.9 The company's responsibility after a decision at the shareholders' meeting

The company's responsibility does not end after the Shareholders' Meeting has made a decision. The company should use training and information initiatives to inform the staff so that on the occasion of subscription registration the employees can make an independent and well-informed decision. The information should be detailed, and given both orally and in writing. During the implementation period there should also be the opportunity for the employees to receive information personally from a specially designated person in their own department. It is particularly important that the staff are made aware of the risks connected with the different forms of instruments. The purpose of the issue is to make the employees shareholders in the company. Therefore the company should, through the giving of information, among other things, also seek to encourage the employees to keep the instruments and the shares they receive after conversion. The company also has a responsibility to ensure that future trade in the convertible or subscription warrant takes place in an orderly fashion. The company should remind the employees in good time before the expiration of the conversion or subscription time. To make it easier for the employees to subscribe to shares in the company on the basis of options or convertibles it is suitable for the company to make available some kind of savings scheme for employees.

### 6.10 Amortisation of staff loans

If the staff are offered the opportunity to borrow to finance participation in an incentive scheme the amortisation should be effected during the duration, in order to avoid shares received at conversion being sold immediately to repay the loan.

Amortisation is also important in respect of risk-taking. Otherwise the employee may be left with the whole loan to repay if the convertible or subscription warrant should become worthless.

### 6.11 Other incentive schemes

Decisions about incentive schemes linked to the company's development or share price should in principle be made by the board or remuneration committee, as part of the setting of salaries. In certain cases however the scope or design in general of the incentive scheme might be of such a character that the decision is of particularly great importance for the company. In such cases the company should submit the decision about the incentive scheme to the shareholders' meeting.

# 7. Information to the stockmarket

For many years now there has been a carefully regulated duty to give information on the part of companies listed on the stock exchange. It is of mutual interest for the owners, the stockmarket companies, the stock exchange, stock brokerage and the general public that is interested in the stockmarket that information about companies is presented quickly and simultaneously to the market. All interested parties need information in order to form an opinion about the company's financial situation and development and thereby gain a basis for a true evaluation of the company's shares. This information must therefore be open, correct, relevant and up to date, and just and clear in its content.

The obligation to present information is above all regulated by the law concerning stock exchange and clearing operations. With the support of this law the Financial Supervisory Authority (Finansinspektionen) has issued directives concerning the content of the duty to inform (FFFS 1995:43). Further rules can be found in the stock exchange's quotation contract. Further, the Industry and Commerce Stock Exchange Committee (Näringslivets Börskommitté) has issued recommendations concerning information in certain situations. The Stockholm Stock Exchange (OM Stockholmsbörsen) has published a handbook on stockmarket information that should be used by all companies quoted on the stockmarket.

## 7.1 Investor relations, IR / Investor contacts

The Swedish Shareholders' Association recommends that every stockmarket company should institute an investor relations function. This will give the company's shareholders the opportunity to quickly obtain information and particulars concerning the company.

## 7.2 Information to the market

Laws and the listing agreement regulate the minimum demands on the content and form of the company's information to the market. Registered shareholders have a self-evident right to information from the company. Information should be sent to all shareholders who have not expressly informed the company that they do not wish to receive such information. It is not an acceptable practice that the shareholders must actively inform the company that they wish to receive information in order to be assured of receiving such. The Companies' Act refers above all to the already existing shareholders and assures them certain information. The listing agreement states that the entire market should simultaneously be given information that might affect share prices. The Swedish Shareholders' Association considers that all companies quoted on the stockmarket should adhere to the listing agreement.

## 7.3 Mass media channels / Internet

The law and the listing agreement assume that information is spread via the mass media and mail to the owners. Alongside this companies should use modern technology such as for example the Internet, which is rapidly reaching an increasing number of shareholders. The Swedish Shareholders' Association finds it imperative that the new technology, for example the Internet and e-mail, be used to a greater extent to communicate with the shareholders. All companies quoted on the stockmarket should have an Internet website. The website should be designed in Swedish and the information should in addition be available in English. The website should be easy to locate with a simple search using the company's name and should contain all the company's press communiqués, interim reports and annual reports, the company's articles, notice of shareholders meetings and minutes of the shareholders meeting, for at least three years retrospectively. Notice of shareholders meetings and minutes of shareholders meetings should be available on the website and it should be possible to transmit these via electronic or regular mail. Traditional information channels should however also be retained for the time being.

The Swedish Shareholders' Association would also welcome analyst meetings organised by the company being broadcast live via the Internet with the aim of achieving rapid and uniform dissemination of information.

## 7.4 Annual report and interim report

All stock market companies are required to post annual reports. The Stockholm Stock Exchange also requires quarterly reports from all companies quoted on its lists. Regarding the contents of these reports, the Swedish Shareholders' Association attaches particularly great importance to information about dividend policy and earnings forecasts. Information about dividend policy should be given as a concrete quantification of, for example, share of earnings or equity. A model earnings forecast contains information in figures and an explanation of how the company arrived at the forecast.

Apart from this, we refer to the Appendix: Criteria for the Magazine Aktiespararen's review of annual and interim reports.

## 7.5 Accounting of goodwill

According to law (Årsredovisningslagen ÅRL) the annual report should give a true picture of the company's results and standing. To achieve this demand the annual report must be drawn up in accordance with generally accepted accounting principles and issued recommendations. Goodwill forms what is known as an immaterial asset that is depreciated over an estimated economic lifespan. (According to ÅRL this depreciation period would amount to five years if no other longer time period can with a reasonable degree of security be established. In RR's (Swedish Financial Accounting Standards Council) recommendations there are further provisions about how this time should be estimated.) The Swedish Shareholders' Association considers that a depreciation period that stretches between five and ten years is a reasonable period of time. There are a number of different items that can be included in goodwill and thus a certain flexibility is necessary. A longer period can, however, not be motivated on account of the difficulty of carrying out reliable estimates that stretch farther into the future. The Swedish Shareholders' Association considers that goodwill must be continuously evaluated to determine whether the asset has any real value. The depreciation period must, however, always be limited to at the most ten years even in cases where some calculations would show that there was still a value existing at the end of the depreciation period.

## 7.6 Selective information

Companies must not disseminate information that has not been made public that could affect share prices to closed circles. Representatives for the media should always be invited to attend analyst meetings. Alternatively the company must be prepared to issue press communiqués to the market in connection with analyst meetings. Experience shows that the publication of earnings forecasts reduces the risk of the management of a company selectively disseminating information.

## 7.7 Prospectuses

If a public company is to make public or to a wider circle in some other way direct an offer to subscribe to shares in the company, the board must draw up a prospectus according to the regulations stated in the Companies Act. The law prescribes what information there should be in the prospectus. When registering a listed security (for example a share certificate) at the stock exchange, a prospectus should be drawn up according to the regulations in the law concerning stock exchange and clearing activities.

The prospectus should contain all the information necessary for an investor to be able to make a well-founded judgement of the issuer's business operations and financial standing and of the rights that the securities are associated with.

Over and above this the Financial Supervisory Authority has issued directives (FFFS 1995:21) concerning prospectuses. These include rules for how the prospectus should be made public along with more detailed directives concerning the content of the prospectus. Finally, the Industry and Commerce Stock Exchange Committee has issued a recommendation concerning public bids concerning share acquisition where an appendix concerning the content of prospectuses is included.

Over and above this the Swedish Shareholders' Association would like to emphasise the following important points:

- a takeover prospectus should be designed so as to give an all-round elucidation of both the target company and the parent company with the aim of giving the target company's shareholders a substantial foundation on which to base their decision;
- detailed information about the buyer should also be given in the case of a cash offer;
- the prospectus should include an earnings forecast and a sensitivity analysis;
- prospectuses drawn up in connection with a merger should illustrate the consequences of other alternatives, not least concerning development if the merger does not take place, i.e. what is known as a stand-alone alternative.

# 8. Public takeover bids

An important aspect of owner responsibility is the larger owners' solicitude for the company and its minority shareholders. Larger institutional investors are above all interested in the shares as a capital investment. This is a reason for the lack of interest there is in some cases to exercise the voting rights the shares confer.

Larger owners have a responsibility that goes beyond the duty to vote. Controlling shareholders are duty bound to heed the interests of minority shareholders before they sell their shares and leave other shareholders with a new main owner. In a number of cases a change in the controlling owner has brought with it losses for the minority. To rectify this situation many countries have introduced what is known as a mandatory bid rule.

## 8.1 The offer

When a publicly traded company makes an offer for another company, the offer should, in view of the tax consequences contain both an exchange alternative, i.e. that settlement is paid out in shares in the purchasing company or the new company, and a pure cash offer.

The Swedish Shareholders' Association considers that it is of very great importance that the shareholders receive information about who it is they are being asked to sell their shares to as well as the buyer's intentions in making the purchase. If there is no account of the buyer, the owners cannot judge whether, e.g., there are close-standing relationships involved. In the case of an offer where the main owner is participating, directly or indirectly, higher demands should be placed on an independent evaluation than what is currently stipulated. Independent statements should be sought that in a comprehensive way give the shareholders a complete basis for decision making. A statement like this should give an account of the assumptions that the statement is based on, alternatives to the deal or long-term forecasts. In addition proper information concerning the buyer's financial circumstances should also be required, particularly in the case of a cash deal. The shareholders in the target company have a responsibility for and interest in that the company is acquired by serious buyers. Higher demands are already placed when key executives buy parts of the company. When it comes to information, the same should apply for the main owner.

An explanation of the reason for the deal is particularly important when settlement is in the form of exchange shares since the shareholders in that case must be able to judge the new company's prospects.

In the case of cash offers too it is very important that the reason for the offer is made public. In this way the shareholder has the opportunity to judge the seriousness of the offer. The Swedish Shareholders' Association considers in addition that it is desirable in these situations to summon the shareholders to a Shareholders' Meeting where the board explains the background for their attitude to the offer and allow the opportunity to discuss the offer. The Swedish Shareholders' Association accepts that there can be different offers for different classes of shares on condition that these are quoted on the market and traded at different prices. The bid premium should, however, be a percentage equivalent. In those cases where a percentage bid premium is offered, the grounds on which this has been calculated should be clearly stated.

## 8.2 The mandatory bid rule

The Swedish Companies Act does not include any mandatory bid rule. Prevailing international conditions, work on EU directives and Swedish experience all argue in favour of such a rule being introduced in Sweden. The Industry and Commerce Stock Exchange Committee's recommendation concerning public tender share acquisitions now contains such a rule. The recommendation applies to owners in stockmarket companies and obliges anyone who secures 40 percent or more of the votes in a company to extend an offer to all the other shareholders. The Swedish Shareholders' Association welcomes this recommendation, but is of the opinion that the obligation should also be validated by law.

## 8.3 Compulsory acquisition

It is expedient and probably necessary for the functioning of the stockmarket that the compulsory purchase of minority shares is possible. The purchasing company has an obligation to ensure that those shareholders who for some reason have not accepted the public offer receive the opportunity to have their shares redeemed or sold at a reasonable price that does not fall below the original price offered. Within the framework of a redemption procedure however there must be guarantees for the protection of the minority whose shares could be the object of expropriation according to civil law, i.e. compulsory acquisition. The need for protection must be satisfied both financially and procedurally. The minority must be assured recompense for their shares even in the case of the parent company's bankruptcy or reduced ability to pay. This

can take place through the parent company at the start of the process always furnishing collateral for those shares they intend to redeem in return for the minority relinquishing their shares.

In a takeover situation the acquiring company, when it is established they have control of more than 90 percent of the capital and votes in the target company, must give the remaining shareholders a further opportunity to accept the proposed bid. It would also appear to be in the interests of the acquiring company that the number of minority shareholders is kept low. The shares of the company that has been taken over should remain listed for as long a period as possible to give remaining shareholders a chance to dispose of their shares. As long as the demands on liquidity placed by the stock exchange are fulfilled there should be no deregistration.

The parties' legal representatives are obliged to aim at the completion of the process in as short a time as possible. Long-drawn-out processes that in certain cases are sabotaged are unacceptable for the individual and damage trust in the stockmarket.





# 9. Summary

## Shareholders' Meeting:

- The notice of the shareholders' meeting should include a numbered agenda and a list of proposals that are to be decided upon.
- In all companies quoted on the stockmarket there should be nomination, audit and remuneration committees.

## The company's management:

- The board should comprise 6-9 independent members elected by the shareholders' meeting, with an MD as the only salaried employee.
- The board or the remuneration committee should make decisions concerning remuneration to the MD and other key executives.
- Information concerning remuneration principles and salary terms should be stated in the annual report.
- Severance pay to the MD should not normally exceed two annual salaries.
- Severance pay should not be paid if the MD has seriously mismanaged his task or resigns at his/her own request. Severance pay should not normally include bonus.

## Incentive schemes:

- The Swedish Shareholders' Association is positive to incentive schemes on condition that the terms are in accordance with prevailing market conditions and the allocation is reasonable.
- In the case of directed issues to the staff the dilution effect of the incentive scheme in all should not normally exceed five percent.
- Allocation should only be to people actively working in the company concerned, which excludes board members.
- Issues in subsidiaries which are not listed on the market should not occur.
- The shareholders should be fully informed in the notice of the Shareholders' Meeting and in the annual report.
- The auditor should scrutinise the incentive scheme and answer the shareholders questions at the shareholders' meeting.
- Other incentive schemes could also be of such a nature that decisions to implement them should be submitted to the shareholders' meeting.

### Information to the stockmarket:

- All publicly traded companies should have a person responsible for Investor Relations.
- The Internet and email should be used to a greater extent for communicating with the shareholders.
- All shareholders who have not expressly declined to receive information should be sent information from the company.
- In the case of analyst meetings media representatives should be invited to attend.
- The prospectus should include a forecast. In the case of mergers the consequences of a so-called stand-alone alternative should be explained.

### Public takeover bids

- Takeover bids should always where possible also contain a share swap alternative.
- The Swedish Shareholders' Association welcomes the initiative of the Industry and Commerce Stock Exchange Committees recommendation concerning the mandatory bid, but is working for legislation in this field.
- In the case of takeovers the target company should be listed as long as possible.
- The parties' legal representatives are obliged to aim for the compulsory acquisition procedure being completed in as short a time as possible.





## Criteria for the magazine Aktiespararen's survey of annual reports for the year 2000

### A. Company description – 14 POINTS

1. Business idea/Strategy, 2 p
The business idea [1 p]
Concrete strategies for the coming period in list form [1 p]
2. Products, 3 p
Product description (concrete account of what the company offers the market) [1 p]
Pricing policy (volumes/in the case of service companies the number and size of assignments), Patents
(description, total number, number of new ones during the year), the strategic position of the product range (price competition, differentiation, margins and degree of innovation, etc.), Trademark – History [2 p]
3. Processes, 2 p
ISO-certification, Cost structures, Operating assurance, Quality (how quality is measured, results of measurements, satisfied customer index, percentage of faulty parts, etc.), Environmental aspects, R&D, IT (e.g. total investments, existing systems), etc. – History
4. Markets (primarily product markets) per business area, 3 p
General description [1 p]
Market share or other degree of success, size (in kronor),
Growth, Trends, Customers (current and potential),
Etc. – History + Forecast [2 p]
5. Competitors per business area, 2 p
Name [1 p]
Market share, Strengths/weaknesses, Tendencies etc [1 p]
6. Employees, 2 p
Number, Type of employee, listed according to sex, age and education/training, Staff turnover, Value added per employee, Costs for competence renewal per employee, Health hazards (number of incidents, absence due to illness).

### B. Earnings and turnover per business area – 3 points

1. Turnover per business area, 1 p
2. Earnings per business area, 2 p

### C. Financial overview five years – 9 points

(Pro-forma for newly-listed companies)
1. Equity per share after full conversion and exercise of options rights, 1 p
2. Net worth per share after full conversion and exercise of options rights, 1 p
3. Earnings/share after full conversion and exercise of options rights, 1 p
4. Cash flow/share, 1 p
5. Dividend per share, 1 p
6. Market value and development, 1 p
7. Return on equity, 1 p
8. Return on capital employed (not property companies or banks), 1 p
9. Only property companies: direct yield on properties, 1 p
10. Only banks: capital coverage ratio, 1 p
11. Financial strength or debt-equity ratio, 1 p

### D. Shareholders and shares – 6 points

1. Number of shareholders, 1 p
2. The biggest shareholders, 1 p – (of the share capital and in the case of graduated voting rights also the number of votes)
3. Number of shares before and after full conversion and exercising of options rights (total sum fully calculated), 1 p
4. Various owner categories' holdings in percent (ownership by Swedish and foreign institutions, total foreign ownership, Swedish ownership in private hands), 1 p
5. Corporate governance, 2 p – Nomination, remuneration and audit committees
– names and information about members. If these are not provided: the board's reason and the decision making process for nominations and remuneration to management and board.

### E. Board, management and key employees – 3 points

1. Main occupation, other duties, Number of years on the Board, Number of years employed, Education, Shareholdings and Age (all information must be included for points to be awarded), 1 p
2. Fees and possession of options, convertibles etc, 2 p – Total fees to board members, fee to Chairman of the board, remuneration to the board over and above that decided by the Shareholders' Meeting, Salary and pension and terms of severance for MD, Incentive schemes for key employees or if there is no such programme the board's reasons for this (all information must be included to gain points)

### F. Earnings forecast, risk and sensitivity analysis and dividend policies – 9 points

1. Earnings forecast, 3 p
Figures, total and per share [2 p]
Explanation of how the company arrived at the forecast [1 p] (A purely verbal formulation about profit development gives no points)
2. Risk and sensitivity analysis, 4 p
Description of important operating and financial risk [2 p]
Description and quantification of sensitivity to operating and financial risk factors respectively [2 p]
3. Information about dividend policies, concretely quantified, e.g. as a proportion of earnings or shareholders' equity, 2 p

### Total 44 points