2009

Guidelines for Terms of Employment for Senior Executives in State-owned Companies

REGERINGSKANSLIET

INTRODUCTION

The Swedish state is an important company owner in Sweden. The state has a great responsibility to be an active and professional owner. The Government administers the state-owned companies. The Government's overarching objective is that these companies should create value and, where applicable, comply with the special societal interests. Reasonable and well-considered remuneration to the senior executives is a key part of achieving this objective. Reasonable remuneration is also important for confidence in the business sector as a whole.

The Government's administration of the state-owned companies shall be both open and transparent. The external reporting of the state-owned companies shall therefore be at least as transparent as that of listed companies. This also applies to remuneration to the senior executives.

It is important that the boards deal with issues relating to remuneration to senior executives in a deliberate, responsible and transparent way and that the boards ensure that the *total remuneration* is reasonable, characterised by moderation and well-considered, and contributes to high ethical standards and a good corporate culture.

The Government will monitor and evaluate compliance with these guidelines. This evaluation is intended to examine how companies have complied with the guidelines and lived up to the remuneration principles in the guidelines. This evaluation will be reported in the Government's annual submission to the Riksdag with the report on state-owned companies.

AREA OF APPLICATION

These guidelines replace the Government's previous Guidelines for Terms of Employment for Senior Executives in State-owned Companies (3 July 2008). The board is responsible for renegotiation of existing contracts with senior executives with variable salaries so that they accord with these guidelines. Other existing contracts with senior executives that conflict with these guidelines should be renegotiated.

The guidelines are a component of state ownership policy[1]. These guidelines apply to companies in which the state has a controlling influence through its ownership in a way corresponding to the provisions made in Chapter 1, section 11, of the Companies Act (2005:551). These companies shall further apply the guidelines in their subsidiaries. In other companies where the state is a joint owner, either directly or through a company, the Government or the company respectively should endeavour for the guidelines to be applied to the greatest possible extent in a dialogue with the other owners.

1) Included in the Report on State-owned Companies (the Government's annual report to the Riksdag with a report on state-owned companies)

THE BOARD'S AREA OF RESPONSIBILITY

In the same way as in the listed companies, the boards of the state-owned companies shall propose guidelines for remuneration to senior executives for decision by the annual general meeting. The rules for this procedure are mainly contained in Chapter 8, sections 51-54 of the Companies Act (2005:551). The guidelines proposed by the board shall be compatible with the Government's guidelines.

The guidelines proposed by the board shall state, inter alia,

- how the board ensures that remuneration complies with these guidelines, and
- that there is written documentation showing the cost for the company before any decision on individual remuneration is reached.

The remuneration of the chief executive officer is the responsibility of the *board as a whole*. The board shall also ensure that the remuneration of the chief executive officer and other senior executives is within the guidelines decided upon by the annual general meeting.

The board shall ensure that the chief executive officer ensures that the company's remuneration to other employees are based on the remuneration principles below.

The board shall report on the special reasons for deviating from the Government's guidelines in any particular case.

REMUNERATION PRINCIPLES

The total remuneration to senior executives shall be reasonable and well-considered. This remuneration shall be competitive, with a set ceiling and appropriate for its purpose, as well as contributing to high ethical standards and a good corporate culture. Remuneration shall not be salary level leading in relation to comparable companies but be characterised by moderation. This shall also provide guidance for the total amount of remuneration to other employees.

Variable salary shall not be paid to senior executives. Taking into consideration the other principles of these guidelines, it is possible to pay a variable salary to other employees.

Pension benefits shall be with a defined contribution unless they comply with an applicable group pension scheme. The defined contribution should not exceed 30 per cent of the fixed salary. In cases where the company has agreed upon a defined-benefit pension benefit, it shall accordingly comply with the applicable group pension scheme. Any extensions of the group pension scheme to salary exceeding the income levels covered by the scheme must be with a defined contribution. The company's pension cost shall be capitalised during the active period of the employee. No pension premiums for additional pension cost shall be paid by the company after the employee has retired. The pension age shall not be less than 62 and ought to be at least 65.

In the event of notice to terminate employment being given by the company, the period of notice shall not be longer than six months. In the event of notice to terminate employment being given by the company, severance pay may be paid amounting to at most eighteen monthly salaries. Severance pay shall be paid monthly and consist only of the fixed monthly salary without any supplement for benefits. In the event of new employment or income from business activity, remuneration from the company giving notice to terminate shall be reduced by an amount equivalent to the new income during the period when salary and severance pay are paid. No severance pay shall be paid in the event of notice to terminate employment being given by the employee. Severance pay is never paid after the age of 65.

REPORTING

The state-owned companies shall report remuneration to senior executives in the same way as listed companies. Accordingly, the state-owned companies shall comply with the specific rules for reporting remuneration of senior executives that apply for listed companies and public limited companies. The rules for this procedure are stipulated in the Companies Act (2005:551) and in the Annual Accounts Act (1995:1554).

Furthermore, remuneration to each individual senior executive shall be reported separately providing information about fixed salary, benefits and severance pay.

At the annual general meeting, the board shall report on whether the guidelines established have been complied with, giving reasons for any deviation. Furthermore, the company's auditor shall, for every annual general meeting, submit a written signed statement to the board stating whether the auditor considers that the guidelines applicable since the previous annual general meeting have been complied with or not.

In addition, the chairman of the board shall also provide an oral account at the annual general meeting of the remuneration of the senior executives and how this relates to the guidelines adopted by the annual general meeting.

DEFINITIONS

- *Senior executives* refers to the chief executive officer and other individuals in the executive management of the company. This group corresponds to the persons covered by Chapter 8, section 51, of the Companies Act (2005:551). It includes, for example, persons who belong to executive management groups or similar bodies and managers who report directly to the chief executive officer.
- *Remuneration* refers to all remuneration and benefits to the employee, such as salary, benefits and severance pay. Remuneration from companies in the same group shall also be included.
- *Benefits* refers to all forms of remuneration for work provided in a non-cash form, such as pensions and car, housing and other taxable benefits.
- *Variable salary* refers, for example, to incentive programmes, gratifications, payments from profit-sharing foundations, commission salary, and similar payments.
- *Defined contribution pension* (premium-defined pension) refers to the pension premium being set at a particular percentage of the current fixed salary.
- *Defined benefit pension* refers to the amount of pension being determined as a particular percentage of a defined fixed salary.
- A *subsidiary* refers to the legal entities referred to in Chapter 1, section 11, of the Companies Act (2005:551).

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The Swedish state is an important company owner in Sweden. The Swedish Government Offices administer 54 companies, of which 41 are wholly owned and 13 partly owned. Three companies are listed on the stock exchange. These companies represent substantial values and are large employers. Furthermore, they are the common property of all Swedish taxpayers. The state therefore has a great responsibility to be an active and professional owner. The Government's overall objective is for the companies to create value and, in appropriate cases, to ensure that societal interests are fulfilled.

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