



The state's ownership policy and guidelines for state-owned enterprises 2017



The state's ownership policy and guidelines for state-owned enterprises
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The state's ownership policy 2017

The Swedish Government adopted the following ownership policy for state-owned enterprises on 22 December 2016. The policy applies from 1 January 2017 and supersedes the previous ownership policy adopted in 2015. The Government's guidelines for external reporting and guidelines for remuneration and other terms of employment for senior executives are included in the state's ownership policy.

1. Introduction

The state-owned enterprises, which are ultimately owned by the Swedish people, constitute a significant portion of Swedish enterprise.

The Government has a mandate from the Riksdag (the Swedish Parliament) to actively manage state-owned enterprises in order to ensure optimal long-term value performance and, where applicable, that specifically adopted public policy assignments are duly performed. The Government considers it to be of the utmost importance that state-owned enterprises are actively and professionally managed with long-term value generation as an overriding objective.

This implies that state-owned enterprises should take a long-term approach, be efficient and profitable, while being given the capacity to develop. To promote long-term sustainable value growth in state-owned enterprises, sustainable business is integrated into corporate governance. State-owned enterprises should thus serve as role models in the area of sustainable business and otherwise act in a manner that generates public confidence.

The application of good corporate governance by the state is a prerequisite for state-owned enterprises to contribute to economic efficiency and competitiveness throughout the country. The Swedish Government's management principles are mainly compliant with the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which provide a predictable framework for both the state as owner and the state-owned enterprises, while ensuring that the ownership role of the state is clearly separated from its other roles.

State ownership of enterprises in Sweden has come about at various points in time and for various reasons. Many started out as public enterprises under government agencies, as state enterprises (*affärsverk*), or as state monopolies. Today, most of the companies operate in fully competitive markets. Increased globalisation, technological progress and greater exposure to competition has changed conditions for most state-owned enterprises. Consequently, the portfolio of state-owned enterprises has changed considerably over time. Evaluating the rationale for continued state ownership and considering the assignments and objectives of the state-owned enterprises are aspects of the state's role as an active and professional owner. The state's continuation as a significant company owner may be justified in the light of the objective of many of the companies' operations and public policy assignments.

In this ownership policy, the Government presents its mandates and objectives, applicable frameworks and positions on key fundamental issues relating to the governance of the state-owned enterprises.

The state's ownership policy must be applied in all companies where the state is a majority owner. In respect of other companies in which the state is a part owner, the state engages in a dialogue with the other owners in an effort to ensure that the ownership policy is applied. Companies administered by public

authorities other than the Government Offices must apply the state's ownership policy correspondingly.

The Government submits an annual report on state-owned enterprises to the Riksdag. The report is intended to describe the state's ownership and the value of state-owned enterprises and to provide an account of how the management of state ownership has developed during the year. Furthermore, the annual report includes target achievement by the companies and compliance with the state's ownership policy.

2. The state as a company owner

2.1 The Government's management mandate

According to Chapter 9, Section 8, of the Swedish Instrument of Government (IG), state assets are at the disposal of and to be managed by the Government, subject to certain exceptions. According to Chapter 9, Section 9 of IG, the Riksdag decides on the principles of management and disposal of state assets. The provisions on acquisition and transfer of property, including shares and participation rights in companies, are contained in the Swedish Budget Act (2011:203). According to Chapter 8, Section 3 of the Swedish Budget Act, the Government may not acquire shares or participation rights or in any other way increase the state's share of the voting power or ownership in a company without a mandate from the Riksdag. Nor may the Government provide capital to a company without a mandate from the Riksdag. According to Chapter 8, Section 4, second paragraph of the Swedish Budget Act, the Government may not, by sale or other means, reduce the state's share of ownership in companies in which the state holds half or more than half of the votes for all shares without first obtaining a mandate from the Riksdag. In addition to these provisions, a mandate from the Riksdag is required for material changes in the objects of the business of the state-owned companies. A Riksdag decision is, however, not required for the payment of dividends, for example, since these form part of ongoing administration.

2.2 Management of state-owned enterprises

2.2.1 Management of state-owned enterprises by the Government Offices of Sweden

State-owned enterprises are managed by the Government Offices or other state agencies. Most of the companies under the management of the Government Offices are managed by a special investment organisation for state-owned enterprises within the Ministry of Enterprise and Innovation. By virtue of Chapter 7, Section 5 of IG, the prime minister may assign to a minister, other than the particular head of the ministry managing a particular state-owned company, responsibility for issues concerning the ownership of state-owned enterprises which require a unified ownership policy. The Government's principles of active management and governance of state-owned enterprises thus cover all state-owned enterprises.

The work within the Government Offices is allocated so that responsibility for sector-specific legislation typically resides with divisions other than those involved in management of state-owned enterprises. This maintains the separation of the roles of the state as owner and regulator. To achieve active and professional management and governance, the Government Offices have developed a number of tools and processes for their work. The Government Offices manages the state-owned companies by e.g. nominating directors, setting targets and monitoring and evaluating the companies' operations.

Similar to privately owned companies, state-owned enterprises are governed by the Swedish Companies Act (2005:551) as the general framework and by the general meeting as the highest governing body of the company. The board of directors of each company is responsible for the company's organisation and for managing its affairs. This includes regularly assessing the company's financial situation and ensuring satisfactory internal control. Company's management is responsible for day-to-day operations.

2.2.2 Board nomination process

Uniform and common principles are applied in a structured board nomination process for state-owned enterprises in order to ensure effective provision of expertise to company boards of directors.

The board nomination process is coordinated by the Ministry of Enterprise and Innovation at the Government Offices. For each company, an analysis of required expertise is performed on the basis of the company's operations, situation and future challenges, board composition and completed board evaluations. The Government Offices' involvement in the board nomination process also includes a separate and ongoing evaluation of the boards of all state-owned enterprises. Any recruitment requirement is then determined, and the recruitment process initiated.

2.2.3 Board composition

To ensure efficiency, the boards of directors should be composed of six to eight directors. The Government's intention is to have only regular directors without alternates. The chairman of the board is elected by the general meeting. When necessary, a vice chairman may be elected by the general meeting. With consideration given to the company's operations, stage of development and other circumstances, the composition of the board must be appropriate, diverse and wide-ranging as regards the competences, experience and background of the directors elected by the general meeting. Aspects of diversity, including ethnic and cultural background, should also be considered in the composition of the boards. As the Government considers it important that the roles of the board and the CEO are separated, the CEO must not serve as a director.

The starting point for any nomination of a director must be the need for expertise relevant to the board. It is important that the board's composition be such that the board always possesses industry knowledge or other expertise directly relevant to the company, including when the company is undergoing development and its business environment is changing. Sustainable business is an important issue for the state as owner and it is essential that the board has the capacity to work strategically in this area.

To be considered for a directorship, the candidate must possess a high level of expertise relevant to the company's

business operations, business development, industry expertise, financial matters, sustainable business or other relevant areas. In addition, the candidate must have the time and commitment required for the assignment, as well as the utmost integrity and the ability to safeguard the best interests of the company. All directors must be capable of independently assessing the company's operations.

The Government seeks to achieve gender balance in individual company boards as well as at the portfolio level. The target for the portfolio of state-owned enterprises (wholly and partially owned) is a minimum of 40 per cent board representation for both women and men. The following shall apply to all boards of directors. If the board of directors has:

- up to three directors elected by the general meeting, these must include persons of each gender
- four or five directors elected by the general meeting, these must include at least two persons of each gender
- six to eight directors elected by the general meeting, these must include at least three persons of each gender
- nine directors elected by the general meeting, these must include at least four persons of each gender
- more than nine directors elected by the general meeting, these must include at least 40 per cent of each gender.

Directors are selected from a broad recruitment base in order to utilise the expertise of women and men, as well as individuals of various backgrounds and experiences. Discrimination based on gender, transgender identity or expression, ethnic affiliation, religion or other belief, disability, sexual preference or age is prohibited.

2.2.4 Directors' fees

Directors are compensated for their effort and for the responsibility that the board assignment entails. Fees paid to the board chairman, vice chairman, if any, and other directors must be resolved by the general meeting. Fees paid to directors who serve on specially appointed board committees must also be resolved by the general meeting. For fees to be payable for service on a committee, the work involved must be of a significant extent. Fees paid for committee work may be adjusted in periods of high work load for a limited period. As a rule, employees of the Government Offices who are directors of state-owned enterprises are not paid directors' fees or committee fees by those companies. In exceptional cases, however, a fee may be paid to an employee of the Government Offices following a decision by the general meeting. Fees shall normally not be paid to employee representatives on the board.

If the fee for board or committee service is billed by a director under a business activity approved for Swedish corporate tax (F-tax) in a sole proprietorship or a limited company, statutory social security contributions may be paid to the director's sole proprietorship or limited company, in addition to the approved fee. Any agreement with a director's sole proprietorship or limited company regarding invoicing of directors' or committee fees must be cost-neutral for the company paying those fees.

In preparation for the general meeting's decision on directors' fees, the Government Offices perform an analysis in which the fee levels are compared with the fees paid by comparable companies. The fees must be competitive, but not market-leading.

3. Targets and assignments for state-owned enterprises

3.1 Articles of association

The owner establishes the object of the company's operations and certain other principles in the articles of association. In state-owned enterprises, the objectives of operations are based on the assignment resolved by the Riksdag. The articles of association for state-owned enterprises are based on the rules for companies whose shares are admitted to trading on a regulated market set out in the Swedish Companies Act the Swedish Corporate Governance Code and this ownership policy.

3.2 Owner instructions

The owner instructs the company's board of directors through owner instructions. In state-owned enterprises, owner instructions are primarily applied when a company has specifically adopted public policy assignments, receives government subsidies, is in the process of restructuring or in the event of deregulations or other material changes. The contents of owner instructions should be relevant, specific and clear and be formalised through a resolution by the general meeting. Where an assignment is conveyed through owner instructions, the instructions must clearly state how the assignment is financed, reported and monitored.

3.3 Financial targets

Financial targets are important instruments in the governance of state-owned enterprises. The owner's purpose in setting financial targets is to safeguard the creation of value by ensuring that the board and management work towards long-term, ambitious and realistic goals:

- achieve capital efficiency by clarifying the cost of equity
- keep the companies' financial risk at a reasonable level
- ensure dividend yield for the owner through sustainable and predictable dividends that take the company's future capital requirements and financial position into account, and
- in a structured way to measure, track and evaluate profitability, efficiency and risk level.

The financial targets are defined primarily according to the following categories:

- Profitability targets
- Capital structure targets
- Dividend targets

The owner's cost of equity is an important basis for setting financial targets because this figure ultimately determines whether the state, in its capacity as owner, receives reasonable compensation at market level for the risk-taking involved in company ownership. The cost of equity serves as a floor for the profitability target, since a return that is systematically below the cost of capital entails the destruction of value for the state as owner. The cost of equity also affects the optimal capital structure since it depends on the relationship between the cost of equity and borrowed capital at various levels of debt.

Other key data used in determining targets include analyses of risks and opportunities within sustainable business, of the market in which the company operates, comparisons with other companies and analyses of the company's business plan and history. Finally, stress tests are conducted to assess the targets' sensitivity in terms of various external and internal factors.

The financial targets are resolved by the general meeting and documented in the minutes of the meeting. The financial targets adopted apply until new or changed targets are adopted by a general meeting.

3.4 Sustainable business

3.4.1 Introduction

The fundamental premise of sustainable business is that companies should operate in a manner that promotes sustainable development; that is, development that meets current needs without compromising the ability of future generations to meet their own needs. This must be accomplished by balancing and integrating economically, socially and environmentally sustainable development.

Sustainable business involves acting responsibly and minimising the risk of negative impacts, but also taking advantage of opportunities for sustainable value creation and novel, innovative business models. State-owned enterprises should act as role models within the area of sustainable business and should otherwise behave in a manner that promote public confidence. Exemplary conduct includes working strategically and transparently with a focus on cooperation. These efforts are guided by international guidelines, Agenda 2030 and global goals for sustainable development. For the state in its capacity as owner, it is particularly important that state-owned enterprises work towards the following.

- A sound and healthy work environment, respect for human rights and good and decent working conditions. The enterprises should be role models in the efforts to achieve gender equality and work actively with gender equality in operations, especially in connection with managerial appointments. The enterprises should also take aspects of diversity into account and foster an inclusive culture.
- Reduced climate and environmental impact through sustainable and toxic-free use of resources, so as to achieve the generational goal adopted by the Riksdag, the adopted environmental quality objectives and the so-called Paris Agreement.
- High standards of business ethics and active prevention of corruption. One way of acting as a role model within the areas of anti-corruption and business ethics is to comply with the Code regarding gifts, rewards and other benefits in business established by the Swedish Anti-Corruption Institute.
- To otherwise ensure that there is no abuse of the special status that being a state-owned enterprise may entail, by means including applying reasonable terms in relation to customers and suppliers with regard, for example, to payment terms.
- Responsible conduct in relation to taxes.

Sustainable business efforts must include policy decisions at the board level, processes for identifying, managing and monitoring relevant areas and transparent reporting with focus on materiality.

3.4.2 International guidelines

State-owned enterprises must act responsibly and work actively to comply with international guidelines regarding environmental consideration, human rights, working conditions, anti-corruption and business ethics. The Government has identified the following international principles and guidelines as essential for state-owned enterprises to follow:

- The Ten Principles of the UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises.

These principles and guidelines are based on international conventions and agreements and have been formulated collaboratively by states, businesses, labour organisations and other stakeholders with the purpose of providing the business sector guidance in managing risks and business opportunities in the area of sustainable business. Based on the sectors and markets within which they operate, it is important that state-owned enterprises identify and manage risks and business opportunities in the area of sustainable business.

3.4.3 Agenda 2030 and global sustainability targets

The countries of the world have agreed a common agenda for sustainable development, including 17 new global goals that apply up to 2030 – Agenda 2030. All societal actors are important in the effort to implement the agenda, and business plays a key role. Within the scope of their operations, state-owned enterprises should analyse the global sustainability goals of Agenda 2030 to identify the goals which each company has an impact on and contributes to through its operations. The enterprises are also expected to identify business opportunities that facilitate attainment of global sustainability goals.

3.4.4 Working strategically

Based on the sectors and markets within which they operate, it is important that state-owned enterprises identify and manage risks and business opportunities so that the business is operated sustainably from the economic, social and environmental perspectives. The board of directors has a duty to integrate sustainable business in the company's business strategy and business development and to set strategic targets for sustainable business. The targets should be few in number, comprehensive, value-creating, relevant to the company's business operations and sustainability challenges and, where applicable, relevant to the company's specifically adopted public policy assignment. The targets should also be long term, challenging and trackable, while being distinct and easy to communicate.

3.4.5 Transparency

By maintaining an open and constructive dialogue with their major stakeholders, state-owned enterprises act transparently with regard to risks and opportunities in the area of sustainable business and with regard to how the companies are working to manage these. Furthermore, state-owned enterprises are required to communicate their efforts on sustainable business, both externally and internally.

3.4.6 Cooperation

State-owned enterprises are expected to work actively, both in their own operations and in cooperation with business partners, customers, suppliers and other stakeholders, to promote exchange of knowledge and innovative collaboration in the area of sustainable business.

3.5 Specifically adopted public policy assignments

Certain state-owned enterprises have specifically adopted public policy assignments. When the Riksdag commissions a company to conduct operations serving to generate effects other than a financial return for the owner, this constitutes a specifically adopted public policy assignment. In certain cases, operations within the framework of a specifically adopted public policy

assignment are financed partly through appropriations in the state budget.

3.6 Public policy targets for companies with specifically adopted public policy assignments

Public policy targets are set where relevant in order to assess and track the performance of specifically adopted public policy assignments. The purpose of setting public policy targets for the companies is to:

- ensure that the specifically adopted public policy assignments are duly performed,
- clarify the cost of performing the specifically adopted public policy assignments
- enable monitoring and reporting to the Riksdag and other stakeholders, and to
- clarify the conditions for the financial targets.

When determining public policy targets, items to consider include objects of the company and the purpose of the company's operations; that is, the desired effects of the company's operations.

As a company's prerequisites to perform a specifically adopted public policy assignment and to generate financial return may be mutually dependent, public policy targets and financial targets are normally prepared as an integrated project. In an integrated project, the level of ambition regarding the public policy targets can be weighed against the cost in terms of the effects on risk and financial return implied by a certain level for a public policy target. Public policy targets are resolved by the general meeting through an owner instruction to the company.

3.7 Monitoring of targets

Monitoring of public policy targets and financial targets are accomplished by means of an owner dialogue between representatives of the owner and the chairman of the board, whereby outcomes in relation to the targets are discussed, along with any measures planned for achieving the targets. The strategic targets set by the board in the area of sustainable business are also tracked within the owner dialogue. The targets may be revised if there is a material change in circumstances.

4. Corporate governance in state-owned enterprises

4.1 Framework

4.1.1 Legislation

State-owned enterprises are governed by the same laws as those applying to privately owned companies, including the Swedish Companies Act, the Swedish Annual Accounts Act, the Swedish Competition Act, the Swedish Bookkeeping Act and legislation related to securities trading and insider trading.¹ In addition to Swedish law, state-owned enterprises may also be subject to directly applicable EU regulations, such as the Market Abuse Regulation (MAR)² and the General Data Protection Regulation.³

Like privately owned companies, state-owned enterprises that operate in a particular sector may also be subject to sector-specific legislation.

EU regulations concerning state aid apply to all subsidies granted by the state to both state-owned enterprises and privately owned companies. The purpose of the rules is to ensure that no member state can distort competition through subsidies

that strengthen the competitiveness of domestic industry at the expense of companies in another member state. According to EU regulations, the MEIP (Market Economy Investor Principle) or MEO (Market Economy Operator) applies, among other things, to capital infusions in state-owned enterprises. The MEIP is usually met if capital infusions are provided subject to conditions and terms that would have been accepted by a private investor.

4.1.2 Application of the Swedish Corporate Governance Code

In companies whose shares are admitted to trading on a regulated market in Sweden, the Swedish Corporate Governance Code (the "Code") must be applied in its entirety. In companies where the state owns a controlling interest but whose shares are not admitted for trade on a regulated market, the Code must be applied except for the rules on nomination committees and the rules on the election of directors and auditors. Nor are such companies required to establish a remuneration committee in accordance with the rules set out in the Code, but may choose to do so. In respect of companies in which the state owns a minority interest and whose shares are not admitted to trading on a regulated market, the state engages in dialogue with other owners to promote compliance with the Code in a corresponding manner. The Code is applied in accordance with the principle of 'comply or explain'.

The principles that must be applied instead of the rules under the Code when electing directors and auditors in state-owned enterprises whose shares are not admitted to trading on a regulated market are set out in sections 4.3 and 4.4.

4.2 General meeting

The general meeting is the company's highest decisionmaking body and the forum in which the shareholders formally exercise their influence. In preparation for a general meeting in state-owned enterprises whose shares are not admitted to trading on a regulated market, the owner nominates the chairman of the meeting, or, if the owner has not submitted a proposal, the board of directors does so. The nomination of the chairman must be included in the notice to attend the general meeting.

State-owned enterprises must apply the rules set out in the Swedish Companies Act for public limited liability companies with regard to the general meeting. In addition to the provisions of the Swedish Companies Act and the Code, the following principles apply to the general meetings of state-owned enterprises.

Members of the Riksdag are entitled to attend the general meetings of companies in which the state owns at least 50 per cent of the shares, provided that the company or an operating subsidiary has more than 50 employees. It is the responsibility of the board to ensure that a notice of the time and location of the general meeting is sent to the central office of the Riksdag in conjunction with the issuance to shareholders of the official notice to attend the meeting. Members of the Riksdag who wish to attend the general meeting must pre-register their intent with the board and this pre-registration should be received by the board not later than one week prior to the general meeting.

The general public should be invited to attend the general meetings of state-owned enterprises. Advance notice of attendance must be received at least one week prior to the meeting.

State-owned enterprises should organise some form of arrangement in conjunction with their AGM Annual General Meeting in which members of the public may ask questions to the board of directors and management.

The annual general meeting of state-owned enterprises must take place before 30 April and any dividend resolved must be distributed no later than two weeks after the annual general meeting.

4.3 Board of directors

4.3.1 Directors

The Government's aim is for boards of directors of state-owned companies to possess a high level of expertise that is well matched to the operations, situation and future challenges of their companies. Directors are expected to be persons of high integrity and good judgement. Directors must also have the time and commitment required to perform the assignment and a high capacity to safeguard the best interests of the company. In the light of this, directors must inform the chairman of the board of any additional assignments they may receive.

In respect of state-owned enterprises whose shares are not admitted to trading on a regulated market, the Government Offices prepare a proposal for the election of directors and for the directors' fees. When the Government Offices' nomination process is complete, the adopted proposal must be published on the company's website and be included in the notice to attend the general meeting, in accordance with the rules set out in the Code. In addition, the information about the proposed directors specified in the Code, except for information about independence, must be published on the company's website. In companies where the state holds a significant ownership interest and whose shares are admitted to trading on a regulated market, the state appoints or nominates one member of the company's nomination committee.

4.3.2 Responsibilities of the board of directors

The board is responsible for ensuring that companies in which the state has an ownership interest are managed in an exemplary manner within the framework provided by legislation, the company's articles of association, owner instructions, if any, and the state's ownership policy. The board of directors is responsible for the organisation of the company and for managing its affairs. This includes assuring effective internal control, risk management and regulatory compliance. According to the Code, the board of directors must annually assess whether internal audit is necessary. The board must ensure that the company attains set targets and practices good stewardship of all resources in the business. The board is responsible for establishing business targets and strategies.

Work aimed at ensuring public confidence in the operations includes establishing relevant policy documents for the business, as well as an annual assessment of relevant policy documents and associated monitoring and compliance processes.

4.3.3 Directors' independence

Directors of state-owned enterprises must possess a high level of integrity and are not permitted to be dependent upon the company or its management to such an extent that may question their independence. One deviation from the Code in terms of the independence of company directors is that directors'

independence in relation to the state as a major shareholder and in relation to the company and its management is not reported in state-owned enterprises whose shares are not admitted to trading on a regulated market. The reason for this deviation is that the requirements of the Code are primarily aimed at companies with diverse ownership and are mainly intended to protect minority shareholders. In respect of state-owned enterprises whose shares are not admitted to trading on a regulated market, there is thus no reason to report this form of independence.

Situations should be avoided in which directors or alternate directors are engaged as consultants to the company and thereby receive consultancy fees in addition to directors' fees. If this nevertheless occurs, the assignment must be considered by the board in every individual case, be clearly differentiated from ordinary work on the board, apply for a limited time and be governed through a written agreement between the company and the director. Principles for such consultancy fees are to be subject to the annual general meeting's approval of the board's proposed guidelines for remuneration of senior executives.

4.3.4 Chairman of the board

The special role of the chairman of the board is governed by in the Code and the Swedish Companies Act. The particular duties of the chairman of the board are regulated in the formal board procedures.

In state-owned enterprises, 'coordination responsibility' is one such particular duty. Whenever the company is faced with particularly important decisions, the board of directors must, through the chairman, coordinate in writing its view with that of the representatives of the owner. It is incumbent upon the board to decide the cases in which such coordination via the chairman is required ahead of a particular board decision.

4.3.5 Board procedures

It is the responsibility of every board to assess the need to appoint special committees. Should a committee be appointed, its activities are to be guided by the principles of the Code and written instructions must be prepared that define the allocation of duties between the board and the committee. Other aspects of the board procedures are also to be guided by the principles of the Code. Boards of directors of state-owned enterprises must annually adopt written procedures for their work. In state-owned enterprises, the right to sign on behalf of the company should be exercised exclusively by two or more persons jointly, of whom at least one person must be a director or the CEO.

4.3.6 Decisions concerning the CEO

A chief executive officer must be appointed for all state-owned enterprises. One of the principal tasks of the board is to appoint, evaluate and, when necessary, dismiss the CEO. The board must also adopt a written instructions for the CEO that defines the allocation of duties between the board and the CEO.

4.3.7 Evaluation of the board

The chairman of the board must ensure that board performance is evaluated annually. In enterprises wholly-owned by the state, the Government Offices must be informed of the results of the evaluation.

4.4 The auditor

The auditor's assignment to independently examine the management of the company by the board of directors and the CEO, as well as the company's annual accounts and accounting records, is of principal interest of the state as owner. The owner is always responsible for appointing auditors and auditors are elected at the annual general meeting. A proposal concerning appointment of auditors and auditors' fees in state-owned enterprises must be submitted by the board and prepared by the company by applying the rules concerning procurement and appointment of auditors that apply to companies whose shares are admitted to trading on a regulated market, in accordance with the EU Audit Regulation.⁴ In companies that do not have an audit committee, the board of directors must assume the responsibilities and undertake the measures for procurement of auditors assigned to the audit committee under the Audit Regulation.

Proposals for the appointment of auditors must be published on the company's website, including information on the recommendation by the board of directors or the audit committee upon which the proposal is based, and must be included in the notice to attend the general meeting, in accordance with the rules set out in the Code.

Auditors elected by the annual general meeting must be appointed for a term of one year. In state-owned enterprises, the rules of the Audit Regulation concerning rotation of audit firms must also be applied, which means that an audit firm may not be reappointed for a period of more than 20 years, and that a complete procurement of audit services must be made at least every ten years.

In addition to an auditor appointed by the general meeting, the Swedish National Audit Office is entitled to appoint auditors for the companies in which the state has a controlling influence and for whose which operations are subject to statutory regulation.⁵

¹ The Swedish Companies Act (2005:551), the Swedish Annual Accounts Act (1995:1554), the Swedish Competition Act (2008:579), the Swedish Bookkeeping Act (1999:1078) and the Swedish securities and insider-related legislation, including the Swedish Securities Market Act (2007:528), the Swedish Financial Instruments Trading Act (1991:980), the Swedish Act (2000:1087) concerning Reporting Obligations for Certain Holdings of Financial Instruments and the Swedish Act (2005:377) on Penalties for Market Abuse involving Trade with Financial Instruments.

² Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

³ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), which applies from 25 May 2018.

⁴ Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

⁵ See section 2, paragraph 4 of the Swedish Act on Audit of State Activities, etc. (2002:1022).

Guidelines for external reporting in state-owned enterprises

The Swedish Government adopted the following guidelines for external reporting by state-owned enterprises on 22 December 2016. The guidelines supersede the previous guidelines adopted in 2007 and must be applied to financial reports issued for the financial year commencing on or after 1 January 2017. The guidelines are incorporated in the state's ownership policy.

1. Introduction

The state-owned enterprises, which are ultimately owned by the Swedish people, constitute a significant portion of Swedish enterprise. This entails high standards for transparent and professional communication of information by state-owned enterprises.

The Government monitors compliance with these guidelines and its observations are included in the submission communication to the Riksdag with the report annual on state-owned enterprises.

2. Scope of application

These guidelines must be applied in state-owned enterprises where the state is a majority owner. These guidelines complement current reporting legislation and generally accepted accounting principles. In respect of other companies in which the state is a part owner, the state engages in a dialogue with the other owners in an effort to ensure that the guidelines are applied. The boards of state-owned enterprises are responsible for ensuring that the companies' accounting and reporting comply with applicable regulations and these guidelines.

The guidelines must be applied according to the 'comply or explain' principle, which means that a company may deviate from the guidelines if a clear explanation and justification of the deviation is provided in the company's annual report. The board is also required to describe in the annual report how the guidelines were applied during the foregoing financial year.

3. Disclosure of information

3.1 Regulations

State-owned enterprises are subject to the same laws as privately owned companies, including the Swedish Companies Act (2005:551), the Swedish Bookkeeping Act (1999:1078) and the Swedish Annual Accounts Act (1995:1554). In addition to applicable accounting law and generally accepted accounting principles state-owned enterprises must also, in applicable parts, prepare their annual reports, interim reports, year-end reports and corporate governance statements in accordance with Nasdaq Stockholm's rule book for issuers. This also means that state-owned enterprises must report in accordance with the Swedish Corporate Governance Code and the rules set out in, among other, the Swedish Annual Accounts Act and the Swedish Securities Market Act (2007:528) that apply to companies whose shares are admitted to trading on a regulated market.

Special rules on reporting of financial links pursuant to the Swedish Act on Insight into Certain Financial Arrangements and Related Matters (the Transparency Act; 2005:590) apply to companies that reach a certain level of net sales per year and companies which receive funds or other benefits from the state. State-owned enterprises that are covered by the Transparency Act

must transparently report funds provided to the company and how the funds were used.

Additional reporting rules applicable to, for example, companies that conduct operations in certain sectors are found in the Reporting of Payments to Authorities Act (2015:812). Operations of monopoly companies and other companies with similar special status are also subject to a requirement for separate reporting in cases where such companies also conduct operations that are exposed to competition.

The reporting rules that must be applied by state-owned enterprises are regularly revised and updated. State-owned enterprises are expected to monitor developments and changes in legislation, standards and recommendations as these occur. The board must keep itself informed of developments and promptly decide on relevant measures resulting from these changes.

3.2 Transparency and sustainability

The Government's overriding objective for the management of state-owned enterprises is to ensure optimal long-term value performance and, where applicable, due performance of specifically adopted public policy assignments. External reporting by state-owned enterprises, which includes the annual report, interim reports, the corporate governance statement and the sustainability report, must be as transparent as the reporting of listed companies. This reporting must provide a comprehensive description of the operations, opportunities and challenges of the state-owned enterprises, and constitute basic data for continuous monitoring and evaluation of the companies' operations and established goals.

The Government's stance on the work of state-owned enterprises with sustainable business is highly ambitious, as evident in the state's ownership policy. The Government establishes its requirements for reporting and accounting in this area through these guidelines. Efforts within sustainable business must be communicated both internally and externally. Sustainability reporting is a tool for driving sustainable development activities by working systematically with clear reporting and monitoring, with a focus on transparency. The boards of the state-owned enterprises are responsible for ensuring that the companies present sustainability reports which, together with other financial reports, form an integrated basis for assessment and monitoring.

4. Principles for external reporting

4.1 Annual report

In their annual reports, state-owned enterprises must provide a fair presentation of the development of the company's operations, financial position and results in accordance with applicable law, standards, recommendations and generally accepted accounting principles.

State-owned enterprises must prepare annual reports and interim reports based on applicable International Financial Reporting Standards (IFRS) as required for companies whose shares are admitted to trading on a regulated market in Sweden. Segment reporting pursuant to IFRS is, however, not required for state-owned enterprises whose shares or other transferable securities are not admitted to trading on a regulated market.

State-owned enterprises must present financial reports in compliance with legislation, the Swedish Corporate Governance Code and IFRS, with the same transparency and clarity as required of companies whose shares are admitted to trading on a regulated market in Sweden. This includes the following areas.

- The most significant external factors that affect the company's operations.
- Business model, strategy, business activities, market, customers, competitors and organisation. If the company has adopted strategic priorities, these must also be presented with a report on the outcomes of the strategic priorities for the preceding year, as well as any changes in strategic priorities in the forthcoming years.
- Risks and risk management, opportunities and threats, sensitivity analysis that describes the main financial risks of the company.
- A description of the company's material risks and significant uncertainty factors that may affect the company's financial results, position and future prospects.

The annual reports of state-owned enterprises must also include reports on the following.

- Adopted financial and non-financial targets, dividend policy, operational targets and attainment of these targets.
- The company's work with sustainability issues including principles and guidelines, how these are put into action, target attainment and effects on the strategic objectives for sustainable business in the forthcoming years.
- The company's work to apply the state's ownership policy, which includes these guidelines for external reporting and guidelines for remuneration and other terms of employment for senior executives in state-owned enterprises.
- The company's public policy targets, if any, and attainment of these targets.

4.2 Sustainability reporting

A sustainability report must be prepared in accordance with Global Reporting Initiative Standards (GRI) or another international framework for sustainability reporting, and published on the company's website in conjunction with the publication of the company's annual report. The sustainability report may either be a separate report or an integrated part of the annual report.

The sustainability report must be quality assured through independent review and assurance by the auditor appointed by the general meeting as the company's statutory auditor.

When preparing sustainability reports, state-owned enterprises must comply with the rules on sustainability reports in the Swedish Annual Accounts Act that apply to large companies. This means, for example, that the sustainability report must contain the information necessary to understand the company's development, position and results, as well as the consequences of its operations.

In particular, the sustainability report must provide information on matters related to the environment, labour and social conditions, respect for human rights and prevention of corruption where these are judged material to the company or its stakeholders.

A sustainability report should include the following.

- A materiality analysis including a discussion of the sustainability issues that are most material to the company's operations, in the company's value chain and to the company's stakeholders.
- Disclosure of how the company's operations are managed with regard to these issues, which includes but is not limited to key policies, strategic priorities and short-term and long-term targets.
- Clear information about implemented stakeholder analyses and stakeholder dialogues.
- Clear information about activities performed during the year with regard to the material sustainability issues and what has been done to enhance positive impacts and minimise negative impacts.
- Disclosure of relevant quantitative and qualitative performance indicators linked to adopted priorities and targets.

4.3 Interim reports

State-owned enterprises must publish quarterly interim reports prepared in accordance with the requirements that apply to companies whose shares are admitted to trading on a regulated market in Sweden. Segment reporting pursuant to IFRS is, however, not required for state-owned enterprises whose shares or other transferable securities are not admitted to trading on a regulated market.

4.4 Format and dates for disclosure of financial reports

State-owned enterprises whose shares are not admitted to trading on a regulated market must publish interim reports, year-end reports, annual reports and a sustainability report, including a corporate governance report, as PDFs, on the company's website on the dates specified below. The annual report should also be available to the public in printed form at the company's annual general meeting.

- The year-end report (Q₄) must be published by 15 February.
- The annual report and sustainability report must be published by 31 March.
- The corporate governance report must be published by 31 March.
- Where applicable, a report of financial arrangements in accordance with the Transparency Act must be published by 31 March.
- The interim report for January–March (Q₁) must be published by 30 April.
- Where applicable, a report on payments to authorities must be published by 30 June.
- The half-yearly report (Q₂) must be published by 15 August.
- The interim report for January–September (Q₃) must be published by 31 October.

Where applicable, reports on financial arrangements pursuant to the Transparency Act and/or reports on payments to authorities must be published as PDFs on the company's website.

All reporting documents, including audit reports, must be available on the company's website for at least ten years.

Guidelines for remuneration and other terms of employment for senior executives in state-owned enterprises

The Swedish Government adopted the following guidelines for remuneration and other terms of employment for senior executives in state-owned enterprises on 22 December 2016. The guidelines supersede the previous guidelines adopted in 2009 and must be applied by each state-owned enterprise as of the 2017 annual general meeting. The guidelines are incorporated in the state's ownership policy.

1. Introduction

The boards of directors of state-owned enterprises must address issues pertaining to remuneration to senior executives in a sober, responsible and transparent manner. They must furthermore ascertain that total remuneration is reasonable, moderate, carefully considered and fosters good ethics and corporate culture.

The Government monitors compliance with these guidelines and its observations are included in the submission to the Riksdag with the annual report on state-owned enterprises.

2. Scope of application

These guidelines must be applied in state-owned enterprises where the state is a majority owner. These enterprises must also ensure that the guidelines are applied by their subsidiaries. In respect of other companies in which the state is a part owner, the state engages in a dialogue with the other owners in an effort to ensure that the guidelines are applied. Existing agreements with senior executives that materially conflict with these guidelines should be renegotiated.

3. The board's area of responsibility

The boards of directors of state-owned enterprises must apply the rules on guidelines for remuneration to senior executives set out in the Swedish Companies Act (2005:551) in the same manner as companies whose shares are admitted to trading on a regulated market in Sweden. The board's proposal to the annual general meeting on guidelines for remuneration and other terms of employment for senior executives must be compliant with these Government guidelines. If the rules on remuneration to senior executives in the Swedish Corporate Governance Code differ from the Government's guidelines, the latter shall apply. The board of director's proposed guidelines must state, among else:

- how the board will ensure that the remuneration is consistent with the guidelines adopted by the company, and
- that there is written documentation showing the cost for the company before any decision on individual remuneration is taken.

The board of directors as a whole is responsible for determining remuneration to the CEO. The board must also ensure that the remuneration to the CEO and other senior executives is within

the guidelines resolved by the annual general meeting. The board must also make sure that the CEO ensures that remuneration paid by the company to other employees is based on the remuneration principles laid out in the guidelines adopted by the general meeting.

If there are special reasons to deviate from the Government's remuneration guidelines in an individual case, the board of directors must disclose the reasons. The option to deviate from the guidelines must be applied restrictively, and circumstances that were known or foreseeable when the company's guidelines were adopted should normally not be considered an acceptable reason for deviation.

4. Remuneration principles

The total remuneration payable to senior executives should be reasonable and well considered. It should also be competitive, capped and appropriate, while fostering high ethical standards and a good corporate culture. The remuneration paid should be moderate and not be market-leading in relation to comparable companies. This should also be a guiding principle for total remuneration to other employees. Variable remuneration is not to be paid to senior executives. Taking the other principles of these guidelines into consideration, it is permissible to pay variable remuneration to other employees.

Premiums for old age and survivors' pensions must be defined contributions that do not exceed 30 per cent of fixed salary, as long as these benefits are not provided through a group pension plan applied to a company. In such case, the contributions are determined by the terms and conditions of the pension plan. Any expansion of a group pension plan above the pay level covered by the plan must be on a defined contribution basis where the maximum contribution is 30 per cent of the portion of salary above the ceiling. The minimum age of retirement stipulated in employment contracts made after these guidelines came into effect is 65 years.

Compensation in connection with incapacity to work due to illness must comply with the terms and conditions for sick pay and disability pension set forth in applicable collective agreements or, if the company is not party to a collective agreement, correspond to levels in effect according to collective agreements applied in the sector. Any expansion of group health insurance

above the pay level covered by collective agreement must correspond to customary practices in the market.

If a salary swap scheme is offered to increase pension benefits, such a solution must be cost-neutral to the company.

Should notice to terminate employment be served by the company, the period of notice is not to exceed six months. Severance pay stipulated in employment contracts made after these guidelines came into effect must be limited to a maximum of twelve months' salary. Severance pay is to be paid monthly and consist only of the fixed monthly salary with no supplement for benefits. If the former employee takes new employment or earns income from business activity, remuneration from the terminating company must be reduced by an amount equivalent to the new income during the period when salary for the notice period and severance pay are paid. No severance pay is to be paid if the employee resigns. Severance pay will be paid until no later than the agreed age of retirement and never past the age of 65 years.

5. Reporting

State-owned enterprises must report remuneration to senior executives in accordance with the requirements for companies whose shares are admitted to trading on a regulated market in Sweden. Accordingly, state-owned enterprises are required to comply with the specific rules for reporting remuneration of senior executives that apply to such companies. The applicable rules are found mainly in the Swedish Companies Act and the Swedish Annual Accounts Act (1995:1554). Furthermore, remuneration of each individual senior executive must be reported separately as regards fixed salary, benefits and severance pay.

With application of the rules in the Swedish Companies Act and the Swedish Corporate Governance Code, the board of directors must, prior to the annual general meeting, report and evaluate the company's compliance with the guidelines adopted by the preceding annual general meeting. Furthermore, with application of the rules in the Swedish Companies Act, the company's auditor must, prior to every annual general meeting, issue an opinion concerning compliance with the guidelines in effect since the preceding annual general meeting. The auditor's opinion must also be published on the company's website.

In addition, the chairman of the board is to 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.

6. Definitions

- *Benefits*: all forms of remuneration for work provided in a non-cash form, such as pensions and car, housing and other taxable benefits.
- *Defined contribution pension*: (premium-defined pension) means that the pension premium is set at a particular percentage of the current fixed salary.
- *Group pension plan*: A defined-benefit or defined-contribution plan based on a collective agreement (or, if the company is not party to a collective agreement, a company-specific pension plan) that is applied generally to employees of the company. Policies applied by the company concerning alternative ITP, or equivalent policies for collectively agreed plans other than ITP, are also considered group pension plans, provided that the contributions under this policy do not exceed the company's contributions to the traditional plan.
- *ITP*: The Swedish supplemental occupational pension for industry and trade.
- *Premiums and contributions*: Insurance premiums or other allocations that finance a pension benefit.
- *Remuneration*: all remuneration and benefits payable to the employee, such as salary, benefits and severance pay. Remuneration from companies in the same group is also to be included.
- *Senior executives*: the CEO and other individuals in the executive management of the company. This group corresponds to the persons covered by Chapter 8, section 51, of the Swedish Companies Act. It includes, for example, persons who belong to executive management groups or similar bodies and managers who report directly to the CEO.
- *Subsidiaries*: the legal entities referred to in Chapter 1, Section 11, of the Swedish Companies Act.
- *Variable remuneration*, e.g., incentive programmes, bonuses, payments from profit-sharing foundations, commission salary and comparable payments.

This publication is available at:
www.government.se/government-policy/state-owned-enterprises

