

# State ownership policy 2005





# Preface



The state-owned companies are the common property of the citizens of Sweden. There are high and justified expectations that the state-owned companies should play a leading part in important areas. The Government therefore carries out a forward-looking ownership policy.

New steps have recently been taken in a number of areas. The composition of the boards has become broader and competence has been increased. The companies' reports are presented earlier and are more comprehensive. Terms of

remuneration for leading executives have been made more stringent. The Government's ownership policy also has an impact on the business sector as a whole. The requirement that there should be at least 40 per cent women on company boards is a strong encouragement for other companies to follow suit.

The Government's Business Confidence Commission has prepared a code of conduct for Swedish business. The principles and content of the Code comply well with the approach adopted in the Government's ownership policy. The Code is now being incorporated in the ownership control framework.

This offprint includes the parts of the Annual Report for State-owned Companies containing guidelines and policies. It is intended both for the interested general reader and for boards and managements of state-owned companies. This publication aims to clarify how state-owned companies can contribute to the changeover and development of Sweden.

Stockholm, May 2005

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke.

Thomas Östros

Minister for Industry, Employment and Communications

## Long-term active owner administration

The Swedish state is Sweden's largest company owner. The Swedish Government Offices administer 57 companies or groups, of which 43 companies are wholly owned and 14 partly owned by the state. A total of approximately 200,000 people are employed in these companies. The state is moreover the largest owner on Stockholmsbörsen, the Stockholm stock exchange. This involves a considerable responsibility and demands long-term, professional administration.

The Government's overall objective is creating value for the owners. State-owned companies can in principle be divided into two groups: companies operating under market conditions and requirements and companies that primarily have special societal interests to fulfil. The group of companies operating under market conditions also includes the

listed companies with direct state ownership. The Ministry of Industry, Employment and Communications makes the assessment that the total value of the companies managed is approximately SEK 500 billion.

The state owns companies engaged in activities that range from mining to opera and real estate to gambling. Many of the compa-

nies have a strong position in the market in important sectors, including various kinds of infrastructure. The goal of creating value entails requirements for a long-term approach, efficiency, profitability, development capacity and environmental and social responsibility, thus contributing to transition in Sweden.

In the same way as businesses owned by

Photo: Christina Ahrens/Kungliga Operan

Kungliga Operan is Sweden's national venue for opera and ballet.



**POWERS**

Company	Present ownership share, %	Authorised to change ownership to	Decision
AB Svensk Exportkredit	100	0	Bill 1995/96:141, bet.1995/96:NU26, rskr.1995/96:302
Nordea Bank AB	19.5	0	Bill 1991/92:69, bet. 1991/92:NU10, rskr. 1991/92:92
TeliaSonera AB	45.3	0	Bill 2000/01:NU11, rskr. 2000/01:272
OMX AB	6.9	0–100	
Green Cargo AB <sup>1)</sup>	100	0	Bill 2003/04:127, bet.2003/04:NU15

<sup>1)</sup>Applies to 2005 inclusive.

other owners, the state-owned companies are facing increasingly fierce competition in a rapidly changing environment. State ownership administration therefore requires a clear, open ownership policy adapted to the increased and changing demands made.

## The Government's commission

The Government's commission is to actively monitor and manage the state's assets in order to achieve the best long-term development of value and, in those cases where it is applicable – to comply with the special societal interests. Owner control and monitoring and assessment of the companies take place both by board work and dialogue with the chairman of the board and by financial and industry analyses. The companies that have special targets, besides the creation of financial value, are also to be monitored. The commission of owner management also includes developing and implementing the Government's ownership policy and the tools that are at the disposal of the owner in all state-owned companies. In addition, the Swedish Government Offices report on the administration of state-owned companies in the annual report to the Riksdag, which mainly consists of reports on the operations of state-owned policies.

### THE GOVERNMENT'S ADMINISTRATION MANDATE

The state's funds and its other assets are at the disposal of the Government in accordance with Chapter 9, section 8 of the Constitution. According to Chapter 9, section 9, the Swedish parliament, the Riksdag, shall determine the bases – to the extent required – for the administration and disposal of the state's property. This is the administration mandate the Government has for administration of state-owned companies. The Government should thus consult the Riksdag in the event

of significant changes of direction by companies, dilution of ownership, capital contributions, incorporation and the sale and purchase of shares. According to the State Budget Act (1996:1059), the Government may sell the state's shares in companies where the state has less than half of the votes for all the shares or participation rights in the company unless the Riksdag has decided otherwise. However, the Government may not reduce the state's holding of shares in companies where the state has half or more than half of the votes for all shares or participation rights. A decision by the Riksdag is not required for dividends since this is part of normal administration. Neither is a decision by the Riksdag required for acquisitions, disposals or close-downs that companies carry out within the direction of operations decided upon by the Riksdag. A summary of bills relating to particular companies is shown on page 106 of the Annual Report for State-owned Companies 2004. According to Chapter 7, section 5, of the Constitution, the Prime Minister has delegated responsibility to the Minister for Industry, Employment and Communications in matters relating to the state ownership of companies, which make demands for a uniform owner policy or which concern board nominations.

### CURRENT POWERS

The Riksdag has empowered the Government to phase out ownership of Nordea Bank AB, AB Svensk Exportkredit and TeliaSonera AB. The Riksdag has also authorised the Government to make owner changes, contribute capital and take the steps otherwise required to carry out a restructuring of Green Cargo AB. The Riksdag has also authorised the Government to sell the whole or parts of the holding or acquire additional shares in OMX AB.

### CONSISTENT AND CLEAR REPORTING

The objective for reporting by the Swedish Government Offices is to provide consistent,

clear reporting that enables the reader to evaluate how the administration of state-owned companies is being developed. The Riksdag originally passed a resolution in February 1982 that the Government should submit an annual report on state-owned companies. Since August 1999, the Swedish Government Offices have also published an annual report on state-owned companies. The annual report is targeted at the general public, the media, the trade unions and other stakeholders, but is also an appendix to the Government's official annual report to the Riksdag on state-owned companies. It includes the consolidated income statements and balance sheets since 2000, which illustrate the overall development of the state-owned companies. As from 2000, the Swedish Government Offices have published four interim reports per year. Work to ensure the quality of external reporting together with the ambition to publish the reports promptly after the end of the reporting period are priority aims. The goal is for the report on state-owned companies to be submitted to the Riksdag in time for the report to be considered during the spring parliamentary session.

## Framework and tools

Decisions concerning the companies comply with administrative practice at the Swedish Government Offices. When considering matters, the regulatory framework for public access and secrecy is applied among other things.

### THE SAME LEGISLATION FOR ALL COMPANIES

The state-owned companies are subject to the same legislation as privately-owned companies, such as the Companies Act, the legislation on competition, the accounting legislation and the Insider Act.

The companies' activities are primarily

governed by the resolutions of the Riksdag and other provisions for the activity that may exist in law or by agreement between the state and the company. Companies active in a particular sector are subject to special sector legislation, for instance, the Postal Services Act and the Electronic Communications Act.

#### EC PROVISIONS ON GOVERNMENT ASSISTANCE

There are certain provisions that are focused on capital contributions and other financial benefits from the state. The rules apply to all state assistance to companies, both state-owned and private, and are based on EC provisions for government assistance. These rules are particularly important when the state as a shareholder needs to provide a shareholders' contribution. The rules are intended to prevent a Member State distorting competition by assistance that strengthens the competitiveness of domestic industry to the disadvantage of companies in another Member State. In the case of contributions of shareholders' capital in state-owned companies operating in the competitive market, the EC Community acquis considers that the Market Economy Investor Principle is to be applied. Normally the market economy investor principle is complied with if the capital contribution is provided on conditions and terms that would also have been acceptable to a private investor. If the Member State considers at the time of the contribution, that the contribution will provide a sufficient long-term return, it is not unlawful state aid.

#### ACCOUNTING FOR GOVERNMENT FUNDS

Special rules apply to companies with a turnover per year of a particular size that receive state aid or other state benefits to allow the EC Commission to obtain an insight into financial links between the state and its companies. Open accounting is to apply to the funds provided and how they are used. The demand for separate accounting also applies for activities carried out, inter alia, by monopoly companies or other companies in a special position, when the company is also engaged in competitive activity. The rules are contained in the transparency directive, which will be incorporated in Swedish legislation in the Insight into Certain Financial Links and Related Matters Act, which comes into force on 1 August 2005 (Government Bill. 2004/05:140).

#### AN IMPROVED CAPITAL STRUCTURE IN STATE-OWNED COMPANIES

The Riksdag considered in connection with consideration of the 2003 Fiscal Bill that there were good reasons to create an arrangement that would facilitate capital restructuring in the state-owned corporate sphere by ring fencing, which means that Riksdag decides what the profits are to be used for. The state should also be able to act in the same way as a parent company that provides capital contributions to certain subsidiaries and finance this with funds from other subsidiaries. Briefly, this means that an account is set up at the National Debt Office to which additional dividend of at most SEK 5,000m can be transferred from state-owned companies with a view to being used for capital contributions in state-owned companies until the end of the 2005 fiscal year. The Riksdag decides on the size of the amount to be transferred to the account for one year at a time. The Riksdag also decides on capital contributions in each individual case. Altogether, SEK 2,355m has been transferred to and made use of from the special account in 2003 and 2004.

#### PUBLIC ACCESS AND SECRECY

Since the state-owned companies are administered by the Swedish Government Offices, which is a government agency, a document kept and considered as received or drawn up there, may be a publicly available document. On certain conditions, the contents of a public document may be kept secret. Information may be kept secret, for instance, to protect the interests of the general public or an individual. This means that the person who wishes to examine a document may make a request for access to the information, but the Swedish Government Offices must, pursuant to the Secrecy Act (1980:100), make a consideration of damage before the document can be released. The information may only be released if this can take place without damage to the state or the company that the information concerns. Certain information may be very sensitive business information. In certain cases, it could thus damage the activities of the company and the value of the company, i.e. the property of the state and the general public if the information was published.

#### INSIDER INFORMATION

Insider information is defined in the Insider

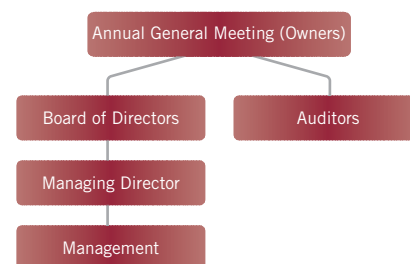
Penal Act (2000:1086) as information, which has not been published or is not generally known, which, if released, could have a significant impact on share prices. It is prohibited for everyone, not only for persons in leading positions, to trade with financial instruments on the securities market on the basis of information which is not generally known. It is also prohibited to disclose insider information. Persons who have disclosed or traded on the basis of insider information can be sentenced to a fine or to a maximum of two years' imprisonment. The Act states the notification of a shareholding or change in shareholding shall be notified to the financial supervisory authority, Finansinspektionen, within five days. Finansinspektionen keeps a register of persons in positions with access to insider information, in listed limited companies. The companies are to notify the persons that have such access. The Swedish Government Offices also notify persons with access to insider information to Finansinspektionen. All information that Finansinspektionen has is published on the insider list on Finansinspektionen's website.

#### THE COMPANIES ACT

The Companies Act (1975:1385) (ABL) provides the framework for the companies and the general direction of the company is stated in the articles of association of the company. The companies' commission and activities are primarily governed by Government decisions, regulated by law or in agreements between the company and the state. State-owned limited companies, as privately-owned companies, are subject to the Companies Act and there are no special rules in the Companies Act that apply to state-owned companies, except those that apply to insight by Riksrevisionen.

Within the framework of a performance audit, Riksrevisionen can scrutinise the

#### LIMITED COMPANY ORGANISATION – FRAMEWORK







Through Öresundskonsortiet (the Öresund Consortium), SVEDAB Öresundsbron owns and manages the Öresund bridge and operates the fixed road and train link between Malmö and Copenhagen.

activity that the state carried out in the form of a limited company. The prerequisites for the activity are regulated by law or in another statutory provision or the central government has a determining influence over the activity. Riksrevisionen can also appoint one or more auditors to take part in the annual audit.

### SWEDISH CODE FOR CORPORATE CONTROL

On 16 December 2004, the code group submitted “Swedish code for corporate control” (The Code) to the Ministry of Justice. The Code has been produced by an expert group consisting of representatives of the Swedish business community. The Code deals with the decision-making system by which the owners directly or indirectly control the company. The rules concern the organisation and forms of work of the various bodies in the company and their interaction. It also provides guidelines for corporate reports. The Code is to be applied in accordance with the principle “comply with or explain”. This means that it can be just as correct not to comply with a rule if an explanation is given. The Code will be applied by Stockholmsbörsen from 1 July 2005.

The principles applied by the Government in its owner policy largely company with the rules in the Code. The Government’s ambition is to act in a credible and predictable way in its owner administration. The Government therefore considers the Code is to be part of the Government’s framework for owner administration.

The basic principle is that the Code complements the state’s owner policy. In certain matters the Swedish Government Offices have found reason to supplement or interpret the rules in the Code. The foremost reason for this is that the Code is mainly focused on

companies with widespread ownership. The Swedish Government Offices evaluate the Government’s owner policy and its application continuously. The practical application of the Code will also be evaluated in this work.

State-owned companies are responsible for reporting on how they apply the owner policy. Small companies will be able to make this report in a more summary way than is appropriate for larger companies.

### INTERNATIONAL COLLABORATION

Sweden has actively participated in development of the OECD guidelines for state ownership. At the end of April 2005, OECD adopted the Guidelines on the Corporate Governance of State-Owned Enterprises. These guidelines, based on OECD’s Principles of Corporate Governance, are a collection of guidelines for how the OECD countries should administer their state-owned companies. The



The property company Jernhusen, which is a subsidiary in the Swedcarrier group, meets travellers’ needs for stations adapted for their purpose and train operators’ need for workshop facilities.

#### FRAMEWORK FROM MAY 2005

State ownership policy

Swedish Code for Corporate Control

Administration separate from Governance

Legislation, Companies Act, competition, etc.

Riksdag resolutions

The Governments administration mandate



**GENDER DISTRIBUTION <sup>1)</sup>**

	Women (W)	Men (M)	Total	13.05.2005		31.12.2004		31.12.2003		31.12.2002		31.12.2001		31.12.2000	
				W, %	M, %	W, %	M, %	W, %	M, %	W, %	M, %	W, %	M, %	W, %	M, %
<b>Wholly and partly-owned companies</b>															
<b>Members appointed by the Annual General Meeting</b>															
Chairman	12	43	55	22	78	20	80	16	84	13	87	13	87	7	93
Vice-chairman	5	6	11	45	55	42	58	31	69	22	78	24	76	11	89
Other ordinary members	149	184	322	44	56	43	57	45	55	43	57	43	57	36	64
Deputies	0	6	5	0	100	23	77	33	67	25	75	27	73	27	73
<b>Total members appointed by the Annual General Meeting</b>	<b>166</b>	<b>239</b>	<b>405</b>	<b>41</b>	<b>59</b>	<b>39</b>	<b>61</b>	<b>40</b>	<b>60</b>	<b>37</b>	<b>63</b>	<b>37</b>	<b>63</b>	<b>30</b>	<b>70</b>
<b>Employee representatives</b>															
Ordinary	24	60	84	24	76	n.a.	n.a.	25	75	21	79	22	78	17	83
Deputies	8	43	52	15	85	n.a.	n.a.	21	79	23	77	22	78	28	72
<b>Wholly-owned companies</b>															
<b>Members appointed by the Annual General Meeting</b>															
Chairman	8	33	41	20	80	21	79	20	80						
Vice-chairman	4	3	7	57	43	50	50	27	73						
Other ordinary members	120	136	256	46	54	45	55	46	54						
Deputies	0	4	4	0	100	27	73	33	67						
<b>Total members appointed by the Annual General Meeting</b>	<b>132</b>	<b>176</b>	<b>308</b>	<b>43</b>	<b>57</b>	<b>41</b>	<b>59</b>	<b>42</b>	<b>58</b>						

The Government aims for an even gender distribution on the boards of state-owned companies. An interim target, for instance, has been that the proportion of women should be at least 40 per cent in 2003. This target was achieved by 30 June 2003. By 13 May 2005, the proportion of women was 41 per cent and the proportion of men 59 per cent. The proportion of women was 43 per cent and the proportion of men 57 per cent in wholly state-owned companies.

<sup>1)</sup>As from 31 December 2004, information is shown in the table for all companies included in the report on state-owned companies, excluding SAKAB, where the state only owns one share. The information prior to 31 December 2004 applies to companies where the state's ownership share was over 20 per cent.

guidelines are largely based on the Swedish government's principles for owner administration. Interest is greatest in the OECD countries and in many other countries, including in East Asia and Latin America. The guidelines are available at <http://www.oecd.org/dataoecd/46/51/34803211.pdf>

## State ownership policy

In the following section, the Government presents its position on certain important principles on the administration of the state-owned companies. In consultation with other owners, the Government also intends to work for these principles to be applied in part-owned companies.

### THE ANNUAL GENERAL MEETING

The annual general meeting is primarily the supreme decision-making body for the shareholders but there is nothing to prevent the meeting being opened to the general public, if the annual general meeting allows this.

Besides the rules in the Companies Act and the Code, the following principles apply for annual general meetings in state owned companies:

Members of the Riksdag (Swedish Parliament MPs) have the right to attend the annual

general meetings of companies in which the state owns at least 50 per cent of the shares and which have more than 50 employees. The board is responsible for sending notice of the annual general meeting to the Riksdag's Office at the latest four weeks and at the earliest six weeks before the annual general meeting. MPs wishing to attend the meeting should notify the board of the company not later than two weeks in advance.

The wholly-owned state companies should arrange some form of event in connection with the general meeting where the public are given an opportunity to ask questions to the management of the company. The company management and board decide on the practical arrangements for the annual general meeting.

As a step in the Government's ambition to have swift reporting, the Government also wishes that annual general meetings in state-owned companies be held before 30 April as from 2006.

### THE NOMINATION PROCESS

The Government's aim is that the board should have a high level of competence adapted to the activities, situation and future challenges of the particular company. Members should always have the best interests of the company in mind. The Government

expects that members have a high level of integrity and to comply with the requirements for good judgment that can be expected of representatives for the state.

### The composition of the board

Every nomination to the board should be based on the competence needed in the board of the respective company. It is therefore important that the composition of the board is such that it always possesses industrial expertise or other knowledge that is directly relevant for the company also when it develops and the external situation changes. In order to be considered for a seat on the board, a high level of general competence is required within either current business activities, business development, sector knowledge, financial issues or other relevant areas. In addition, a high level of integrity and the ability to see the best interests of the company are required. Every board member should be able to make independent assessments of the company's activities. Around 40–60 new board members are appointed annually in the state-owned companies.

The composition of the board should also achieve a balance regarding competence, background, age and gender. An interim target has, for example been that the proportion of

women was to be at least 40 per cent in 2003. This target was achieved on 30 June 2003. At the turn of the year 2004/05, the proportion of women was 39 (40) per cent and the proportion of men 61 (60) per cent. As at 13 May 2005, the proportion of women was 41 per cent and the proportion of men 59 per cent. In the state-owned companies, the proportion of women was 43 per cent and the proportion of men 57 per cent.

Officials at the Swedish Government Offices are often members of the companies' boards. This representation on the board means, among other things that the state's requirement for good insight into the activity is complied with. In this respect, the state acts in the same way as the main private owner of a company. Approximately 38 officials, of which about 13 women and about 25 men, from the Swedish Government Offices are board members of state-owned companies.

In order to achieve effective boards, these should not be too large. The number of members should normally be six to eight. The intention of the Government is to only have ordinary members of the boards unless special reasons require otherwise. In 2004, the boards of state-owned companies consisted of 7.6 (7.6) members on average including deputies. The size of the boards varies from at least 4 to at most 11 members.

Board members should as a rule be appointed for one year at a time. A member should not serve on the same board for a longer period than eight years. Board members should not be older than 70. The average age of members is 50 (49) for women and 55 (56) for men. Women have worked on average for 3.2 (3.5) years on the board and men on average for 4.6 (4.5) years.

### Appointment of boards

The election committee is in the first place a body for shareholders to prepare decisions concerning appointments. In the state-owned companies, the following principles replace the rules in the Code on preparation of decisions on the appointment of board members and auditors:

Uniform and common principles are applied in the state-owned companies for a structured nomination process with the intention of ensuring an effective provision of competence to the company boards. The Minister of Industry, Employment and Communications has been delegated special responsibility for board nominations in all state-owned companies. The nomination process is driven forward and co-ordinated by the unit for state ownership at the Ministry of Industry, Employment and Communications.

A working group analyses the required competence on the basis of the composition of the respective board and the activities and situation of the company. Recruitment requirements are then established and recruitment work initiated. Members are selected from a broad recruitment base. When the process has been completed, nominations are to be published in accordance with the guidelines in the Code.

This uniform and structured method of work ensures the quality of the nomination process as a whole.

### Board fees

The board members receive remuneration for the work performed and the responsibility that rests on them. The fees of the board are determined by the annual general meeting. Fees to board members who work in specially appointed committees are also to be decided

by the annual general meeting. Fees in the state-owned companies are shown in the annual report.

### Appointment of auditors

The task of the auditors of performing an independent scrutiny of the management by the board and the managing director and of the company's annual report and accounting records is of key importance for the state as owner. The responsibility for the appointment of auditors in state-owned companies always rests with the owner. The practical work of procurement is dealt with by the company's accounting department, an audit committee or other appropriate function. However, the Government Offices administrators/executives follow all the stages of the procurement process from procurement criteria to election and assessment. The final decision is made by the owner at the annual general meeting of shareholders. Auditors are elected according to the Companies Act for a period of office of four years. In the event of re-election of auditors, the work of auditors is always assessed. Continuous assessments are made to correct any deficiencies and to clarify the owners' wishes.

### THE RESPONSIBILITY OF THE BOARD

The board and executive management are responsible for the exemplary management of the companies in which the state has an ownership interest within the frameworks provided by legislation and in accordance with the owner's long-term interests. All companies, not least state-owned companies, have a great responsibility in matters concerning financial, ecological and socially sustainable development. The boards should accordingly actively monitor and report on the measures taken by companies in these matters.

It is therefore an important part of state ownership policy for companies to have a well-conceived strategy for handling environmental considerations, social issues, equal opportunities and ethics. Accordingly, the following areas complement the rules of the Code on the task of the board in state-owned companies.

### Ethical and business confidence issues important

All boards should decide that the company should have a well-established and common ethical policy. There should be action pro-

#### SURVEY OF FEES, AUDITORS

SEK 000s	Audit income	Other consultancy income	Total	Proportion audit, %	Proportion total audit fees, %
BDO	11,000	6,000	17,000	65	7
Deloitte & Touche	6,947	5,714	12,661	55	5
Ernst & Young	33,483	46,342	79,825	42	31
KPMG	34,394	26,375	60,769	57	24
SET	3,515	0	3,515	100	1
Öhrlings PWC	58,015	23,598	81,613	71	32
Other	640	636	1,276	50	0
<b>Total excluding Riksrevisionen</b>	<b>147,994</b>	<b>108,665</b>	<b>256,659</b>	<b>58</b>	<b>100</b>
Riksrevisionen	7,220	31	7,251	100	

The summary, which covers information from 53 companies where the state's ownership share is over 20 per cent, shows that the share of the auditing fees for audit is between 42 and 100 per cent from these state-owned companies.



Vattenfall is one of the state-owned companies that have joined Global Responsibility.

grammes for how the ethical policy is to be implemented and communicated externally and internally. The external reporting is to openly declare the company's common fundamental ethical values. The state-owned companies should pursue active work in these issues both in their own companies and in their respective sector organisations.

#### **Environmental responsibility**

The board is responsible for ensuring that the company has an environmental policy and for actively monitoring the company's contribution in matters relating to ecologically sustainable development.

Environmental issues are of commercial and strategic importance. State-owned companies should therefore, as the rest of the business sector, strive towards an ecologically sustainable development and contribute to meeting the national environmental targets. Companies, which have an impact on the environ-

ment, should engage in serious environmental work and have good environmental expertise to avoid environmentally-related risks and costs. Costs can arise, partly in high costs for taking action and decontamination, and expenses due to a deterioration in reputation among suppliers, customers and the public. An environmental management system should be introduced in the companies that have an important direct or indirect impact on the environment.

#### **Global Responsibility**

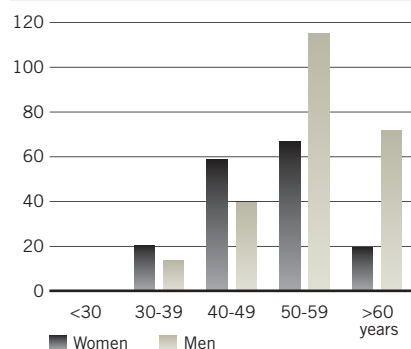
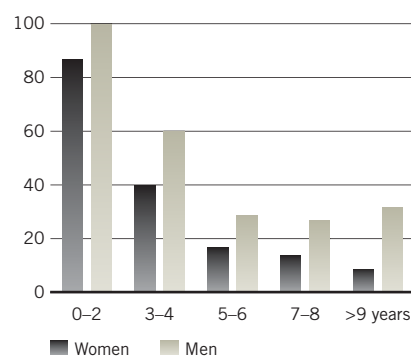
Through Global Responsibility (see [www.ud.se/ga](http://www.ud.se/ga)), the Government encourages Swedish companies to comply with basic international norms for human rights, working conditions, environmental consideration and combating corruption. These have been formulated for companies in the OECD guidelines for multinational companies and the ten principles in the UN Global Compact

and should serve as the basis for the companies' work with Corporate Social Responsibility (CSR). The guidelines therefore provide excellent support for both privately- and state-owned companies. Companies, which have activity and/or procurement in countries with deficiencies in compliance with basic international frameworks on human rights, basic working conditions, environmental consideration and combating corruption should develop their own code of conduct.

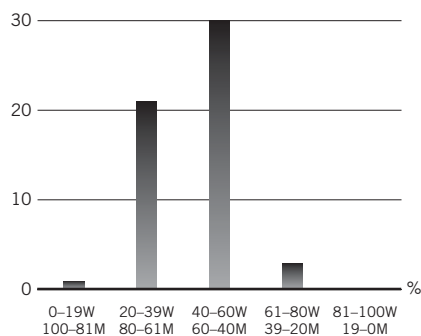
It is the ambition of the Government for more companies, not just the state-owned companies, should actively present their social and environmental commitment by joining Global Responsibility.

#### **Setting an example in gender equality work**

The executive managements and boards of the state-owned companies should set an example in gender equality work. The Gov-

AGE DISTRIBUTION BY GENDER, Number<sup>1)</sup>MEMBERS PER TIME PERIOD IN BOARD BY GENDER, Number<sup>1)</sup>

COMPANIES BY GENDER DISTRIBUTION 2004, Number



In 30 of the 55 companies, the gender distribution in the boards is 40–60 per cent women respectively men. In one company, SVEDAB, the board consists of 100 per cent men. The Government only appoints the chairman of this company. Akademiska Hus is the board with the lowest proportion of men and the highest proportion of women (29 per cent men and 71 per cent women).

<sup>1)</sup> Based on the number of appointments made by the annual general meeting. Also includes companies with less than 20 per cent state ownership.

## GENDER DISTRIBUTION MANAGING DIRECTOR AND EXECUTIVE MANAGEMENT

	Women (W)	Men (M)	Total	31.12.2004		31.12.2003	
				W, %	M, %	W, %	M, %
MD/DG	7	43	50	14	86	14	86
Executive management	71	240	311	23	77	26	74

NUMBER OF COMPANIES WITH AN ETHICAL POLICY AND AN ENVIRONMENTAL POLICY, AND WHICH PURSUE DIVERSITY WORK<sup>1)</sup>

	Yes		Prop. yes of no. of cos. 2004, %	Prop. yes of no. of cos. 2003, %	Prop. yes of total assets 2004, %	Prop. yes of total assets 2003, %
	Yes	No				
<b>No. of companies with an ethical policy</b>						
Ethical policy	34	17	67	46	95	78
The proportion of companies with an ethical policy has increased from 46 to 67 per cent.						
<b>No. of companies with an environmental policy</b>						
Environmental policy	42	9	82	73	99	95
– of which adopted by the board	24	18	57	61	68	76
Makes environmental demands on suppliers	35	16	69	68	96	96
Provides employees with environmental training	29	22	57	56	82	79
Has an environmental management system	29	22	57	42	79	77

A review of state-owned companies shows that 42 (38) companies and 99 (95) per cent of the total assets in the state-owned companies are covered by the environmental policy. The environmental policy has been revised by the board in 57 per cent of the companies.

	Yes		Prop. yes of no. of cos. 2004, %	Prop. yes of no. of cos. 2003, %	Prop. yes of total no. of employees 2004, %	Prop. yes of total no. of employees 2003, %
	Yes	No				
<b>No. of companies with diversity work</b>						
Active diversity work	36	15	71	75	98	98

## COMPLIANCE WITH GUIDELINES, TERMS OF EMPLOYMENT

	Yes		Prop. yes of no. 2004, %	Prop. yes of no. 2003, %
	Yes	No		
Compliance with guidelines from 1996*	28	0	100	–
Compliance with guidelines from 2003**	9	0	100	–
Separate report on executive management remuneration in annual report	23	6	79***	71

\* Refers to remuneration principles for managing directors (MD) in wholly-owned state companies with employed MD (excluding public enterprises and companies being wound up) employed before 9 October 2003.

\*\* Refers to remuneration principles for managing directors in wholly-owned state companies with employed MD (excluding public enterprises and companies being wound up) employed before 9 October 2003.

\*\*\* Refers to wholly-owned companies which had submitted annual reports by 15 April 2005.

SICK LEAVE<sup>2)</sup>

Sick leave %	Woman, no. of cos. 2004	Women, no. of cos. 2003	Men, no. of cos. 2004	Men, no. of cos. 2003	Total, no. of cos. 2004	Total, no. of cos. 2003
0–2.9	8	6	14	11	11	11
3.0–4.9	7	8	13	14	12	13
5.0–6.9	10	9	7	5	11	8
7.0–8.9	6	6	2	3	2	3
>9.0	7	6	2	2	4	3

23 companies have a total sick leave under 5 per cent. A number of state-owned companies report a higher sick leave for women than men. According to Statistics Sweden, the total sick leave for the fourth quarter of 2004 was 4.5 per cent. 24 companies reduced their total sick leave in 2004.

<sup>1)</sup> This assessment includes companies where the state's ownership share is greater than 20 per cent.

<sup>2)</sup> This assessment includes companies where the state's ownership share is greater than 20 per cent and which have over 10 employees.

ernment regards it as an ongoing and important task to make use of the competence and experience represented by both women and men, not least when new leading executives are appointed.

### Diversity important

The Government considers that work with diversity is important and expects state-owned companies to take this into consideration in their activities and personnel policy. Increased internationalisation makes demands on the employees for a high level of broad expertise. The overall objective of diversity work is that the competence and experience of all present and future staff are to be made use of in the activity. For instance, action plans should be drawn up as a tool to take better care of the human capital that exists and remove barriers to people's ability to contribute to growth and development.

### Healthier workplaces

All companies and workplaces have an important part to play in increasing health in working life. The Government hopes that the state-owned companies can set an example in reducing sick leave. In the Government declaration in 2002, the Government set the target of halving the number of sick days by 2008. Strategies to create workplaces where people can work, perform well and at the same time feel good are important for company managements. This issue should be taken up at board meetings in the same way as other matters of a strategic nature.

### External reporting

For state-owned companies, the requirement for an open and professional provision of information is a question of democracy since the companies are ultimately owned by the Swedish people. The Government therefore considers that these companies should be at least as transparent as listed companies.

On 21 March 2002, the Government decided on guidelines for external financial reporting.

It is the responsibility of the board to ensure that the companies, in addition to the current accounting legislation and generally accepted accounting principles, present the annual report, the interim reports and the report on operations, in appropriate parts, in accordance with the recommendations made by Stockholmsbörsen's listing agreement with

annexes. There is an explicit ambition that the state-owned companies should produce a report on operations before 31 January each year as from the 2004 accounts. From the point of view of the owner, reporting by the companies is of particular importance since it is an important control instrument in the continuous monitoring and assessment of the company. The board is to give an account in the annual report of the application of the

Government's policies and guidelines. Any discrepancies are to be explained.

The Government also takes a positive view of certain companies, such as Green Cargo, supplementing their normal external reporting in accordance with the Global Reporting Initiative (GRI).

### Audit Committee

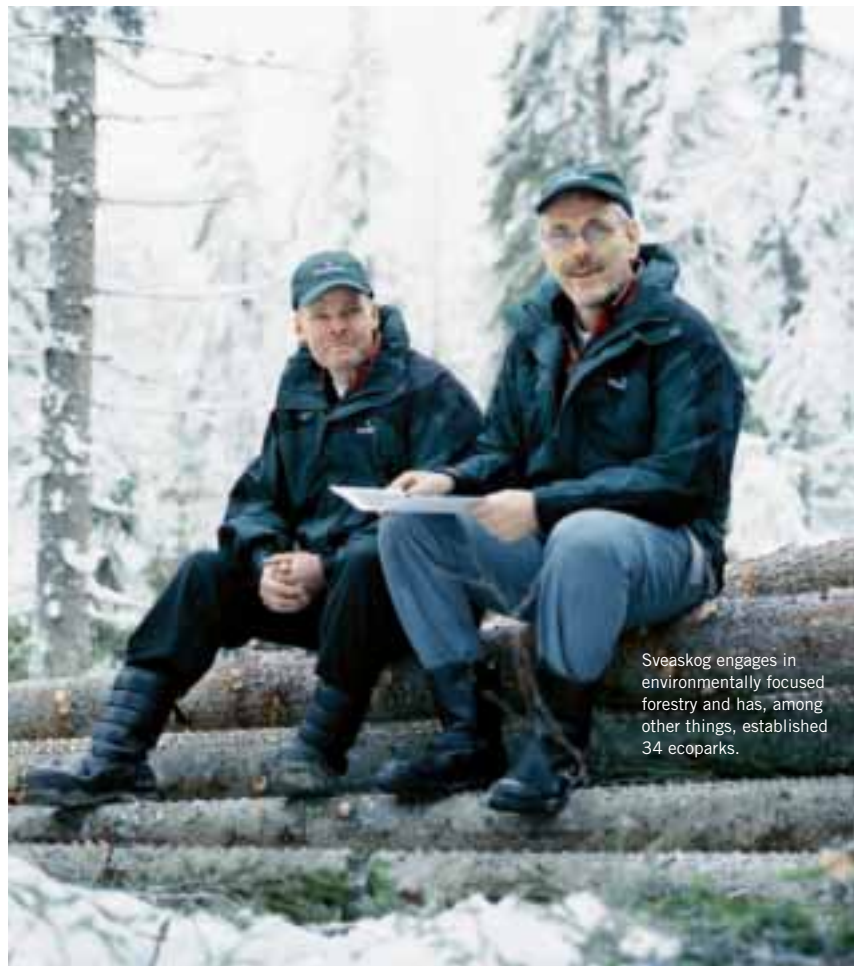
According to the Code, an audit committee

#### Companies which have joined global responsibility

Akademiska Hus OMX	Apoteket V&S Vin & Sprit	Lernia Vattenfall
-----------------------	-----------------------------	----------------------

#### Companies with open annual general meetings of shareholders, 2005

Akademiska Hus	ALMI Företagspartner	Apoteket
Lernia	LKAB	Posten
Swedish Space Corporation	Samhall	SBAB
SP, Sveriges Provnings- och forskningsinstitut	Sveaskog	Systembolaget
Teracom	Specialfastigheter	Svensk bilprovning
Vasakronan	Vasallen	Vattenfall
V&S Vin och Sprit		



Sveaskog engages in environmentally focused forestry and has, among other things, established 34 ecoparks.



is to be established. The Government considers that each board is responsible for considering the need to establish a committee of this kind. When a committee is established, the principles in the Code should guide its work.

#### CORPORATE MANAGEMENT

According to the Code, a person in the executive management of the company may be a board member.

One of the most important tasks of the board is to appoint and dismiss the managing director. In order to keep the role of the

managing director and the board distinct, the Government considers that the managing director should not be a member of the board and the Government has therefore decided not to elect newly employed managing directors to the board.

#### Remuneration to executive management

The Government decided most recently on 9 October 2003 on changed guidelines for terms of employment and incentive programmes. According to the Code, the owners shall decide via the annual general meeting of shareholders on the board's recommendations

for principles of remuneration to the executive management. A prerequisite for the state as owner to make decisions in accordance with the board's proposal is that the proposal is within the framework of the Government's guidelines. In the case of partly owned and listed companies, the state as owner will engage in a dialogue with other large owners to achieve compliance with the guidelines.

*The Government's overall approach is that:*

■ salaries and other benefits to persons in executive management and comparable positions in state-owned companies should

#### FINANCIAL REPORTS PUBLISHED ON WEBSITE <sup>1)</sup>

			% yes of number 2004	% yes of number 2003	Publication date, average number of days after end of report period, 2004	Publication date, average number of days after end of report period, 2003
	Yes	No				
Interim report January–March 2004	34	17	67	49	33	37
Interim report, January–June 2004	36	15	71	57	53	53
Interim report, January–September 2004	34	17	67	53	32	37
Report on operations, January–December 2004	27	24	53	37	39	52
Annual report 2003	44	7	86	82	n.a.	n.a.
Annual report 2004	39	12	76	n.a.	n.a.	n.a.

15 companies published their respective reports on operations in January. Between 27 and 36 companies published their interim reports within two months of the end of the report period.

<sup>1)</sup> After a review of the companies' websites, on 2 May 2005.

Lernia is Sweden's largest company in the provision of competence and is represented throughout Sweden.



be competitive but not wage-leading in relation to comparable companies,

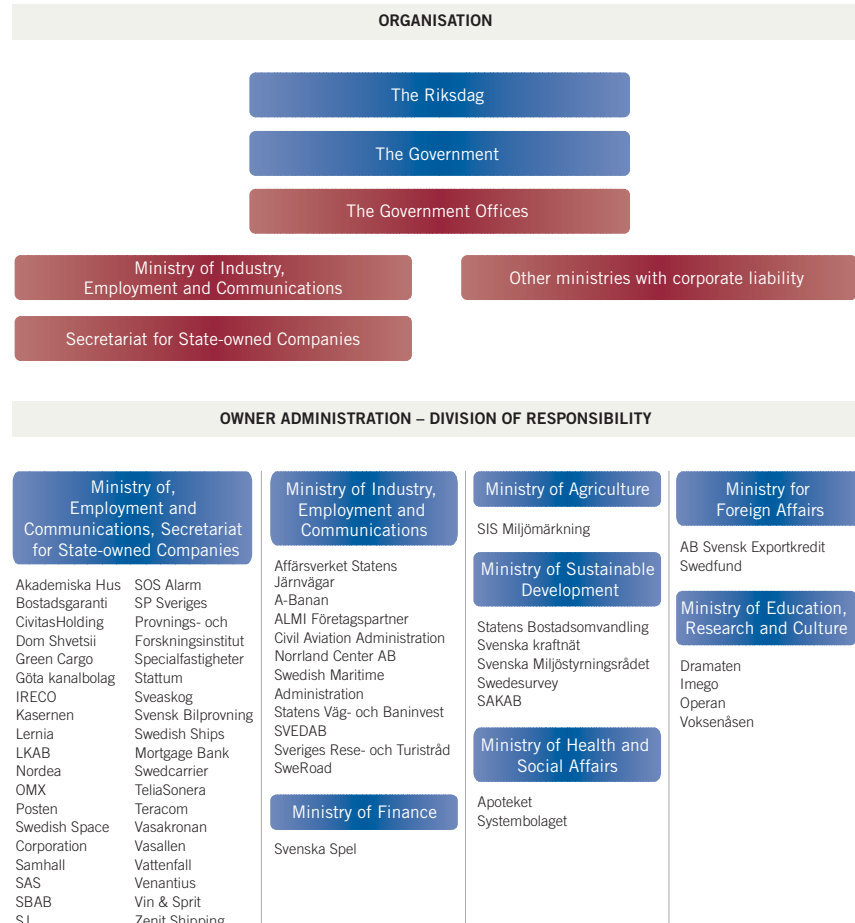
- fixed salaries and contribution-based pension solutions are recommended,
- in the special cases where incentive programmes are proposed, the programme should include all employed personnel in the company except the C.E.O./managing director and there should be a direct link between the targets on which the reward in the incentive programme is to be based and the company's overall business objectives. External factors should not affect the rewards in the design of the programme. The rewards shall be reasonable. Rewards from incentive programmes shall not be paid to the individual employee at an amount exceeding two monthly salaries. The Government considers variable salary components and bonuses as being equivalent to incentive programmes. However, this does not include customary commission-based salary. Complete guidelines will be presented in the off-print of State ownership policy 2005.

#### Remuneration Committee

According to the Code, a remuneration committee is to be established. The Government considers that it is the responsibility of every board to assess the need to establish such a committee. When a committee is established, its work is to be guided by the principles of the Code.

## Organisation

As from the turn of the year 2002/03, the Government decided to concentrate the resources and competence for administration of state ownership to a special secretariat at the Ministry of Industry, Employment and Communications. This has improved the prerequisites to pursue a uniform owner policy with clear targets and guidelines for the companies. The secretariat for state-owned companies at the Ministry of Industry, Employment and Communication is responsible for the majority of state-owned companies administered by the Government Offices. Altogether, the Ministry of Industry, Employment and Communications manages 40 companies, 2 public enterprises and 3 companies in the process of being wound up. Other ministries are responsible for 15 companies. These companies are administered by the Ministry of Finance, the Ministry of Agricul-



ture, the Ministry of Sustainable Development, the Ministry of Health and Social Affairs, the Ministry of Education, Research and Culture, and the Ministry for Foreign Affairs. The Minister for Industry and Trade is responsible for all companies administered by the Government Offices with respect to issues that require a uniform ownership policy and with respect to board appointments. Officials from the Government Offices are often board members of the companies. Direct representation on the board means, among other things, that the state's requirement for good insight into the business operation is complied with. In 2004, approximately 38 officials, of which around 13 were women and 25 men, at the Government Offices were board members of state-owned companies.

#### ADMINISTRATION EXPENSES

In 2004, the state's administrative expenses for state-owned companies totalled

SEK 31.0 (36.2) m, of which SEK 16.4 (18.8) m was for externally purchased services. Altogether, the total administration expenses corresponded to approximately 0.0006 (0.0097) per cent of the value of the state corporate sphere, which is assessed at SEK 500 billion. The estimated value varies and depends on the assumptions made for the respective company. The internal expenses for the secretariat for state ownership at the Ministry of Industry, Communications and Employment include current expenses such as salaries, travel and office supplies. Services purchased mainly include fees for financial, economic and legal advice and the production of annual and interim reports for state-owned companies. The internal administration expenses for companies administered by other ministries are not reported here since they consist mainly of wages costs that are also assignable to the other tasks of the respective ministry.

# Guidelines concerning terms of employment for persons in managerial positions

Guidelines concerning terms of employment for persons in managerial positions and for incentive schemes for employees in state-owned companies (9 October 2003).

These guidelines replace previous guidelines concerning terms of employment for persons in managerial positions in state-owned companies (5 December 1996) and guidelines for incentive schemes for employees in state-owned companies (25 November 1999). The guidelines pertain to companies that are wholly owned by the Swedish state. In companies where the Government is a shareholder, the guidelines should, in accordance with the government decision, be applied as far as possible following a dialogue with the other shareholders.

## Terms of employment for persons in managerial positions

The board of directors is jointly responsible for the employment of the managing director and is to decide on the terms of employment. The board of directors shall then take into consideration that these conditions comply with the guidelines decided upon by the Government. The board of directors and the managing director are responsible for ensuring that the Government's guidelines concerning terms of employment are also applied to other persons who hold managerial or comparable positions (see definition on page 15) in state-owned companies and their subsidiaries.

Salaries and other benefits for persons in managerial or comparable positions in state-owned companies are to be competitive but shall not generally be higher than the salary level in corresponding privately-owned companies.

When deciding upon the terms of employment, the boards of directors of the companies shall decide upon the overall level of remuneration for the manager including pension terms and other benefits. Company accommodation should not normally be included as a perquisite. If there is an incentive scheme, it should not apply to the CEO/managing director.

### PENSION TERMS

Pension terms should be regarded as an inte-

gral part of overall terms of employment.

Pension terms should be determined in relation to salary and other benefits. Decisions by the board of directors on pension terms and pension provisions for the manager are to be based on calculations of the probable and maximum cost for the company. The Government recommends contribution-based pension arrangements.

Pension terms are to be based on a retirement age in the interval between 62 and 65 years old. A lower retirement age than 65 should correspond to a lower pension level. It is most important to see to the total pension costs.

### FEE-BASED PENSIONS

The Government recommends fee-based pension arrangements. The fee is to bear a reasonable relation to the fixed basic salary. The fee should not exceed 30 per cent of the fixed salary. Pension terms should be regarded as an integral part of the overall terms.

### BENEFIT-BASED PENSIONS

In the special cases where the board of directors nevertheless agrees on a benefit-based pension, the agreement shall include a limitation rule on the size of the future pension. The old age pension on salary portions in excess of 20 income base amounts should amount at most to 32.5 per cent.

Provisions for the manager's pension should be made during the period that the manager is active in the company. The pension agreement shall include clear provisions on the period during which entitlement is earned and the amount of payment on which the final pension is to be calculated.

Benefit-based pension is normally to have been earned in accordance with the rules that apply to the applicable group pension scheme. If a different pension scheme applies, pension entitlement is earned on a linear basis from the date on which the agreement with the managing director is entered into. Pension benefit entitlements that are supplementary to a group pension scheme are also to be earned on a linear basis.

The pension is to be calculated on the average fixed salary during the last five years preceding the retirement of the manager. If there is an incentive scheme, these payments are not to be included in the basis for calculation. If a group pension scheme is applicable, these rules shall apply instead within the income levels covered by the scheme.

The pension agreement shall also contain clear provisions on co-ordination as regards other income and pensions.

The pension agreement shall also clearly regulate health insurance cover and the level of cover for survivors. The provisions of the ITP plan may appropriately be applied when setting these benefits.

### PERIOD OF NOTICE AND SEVERANCE PAY

If notice of termination is given by the company, the period of notice shall not exceed six months. If notice of termination is given on the part of the company, severance pay may be payable. This severance pay shall guarantee the manager security during a transitional period. It may correspond to at most 18 monthly salary payments excluding the period of notice. Severance pay is to be paid monthly and be based on the fixed monthly salary excluding benefits. If the manager takes up new employment or receives income from other business, the severance pay shall be reduced by an amount equivalent to the new income during the 24-month period.

No severance pay shall be paid if notice of termination is given on the part of the employee.

Furthermore, the agreement on severance pay should include provisions which make it possible – until legal proceedings have taken place or another agreement has been reached – to wholly or partly withhold severance pay, if irregularities or neglect are detected which can lead to criminal responsibility or liability to pay damages before or during the severance pay period.

### THE FEES FOR THE BOARD OF DIRECTORS

The owner appoints the board of directors and sets fees for the board of directors at the

Annual General Meeting. Fees for board members who work in specially appointed sub-committees of the board are determined by the owner by a decision at the Annual General Meeting.

Persons in managerial or comparable positions shall not receive any additional fee for board appointments in the company or in other companies in the group.

#### REPORTING – ANNUAL REPORT

The following information related to the CEO and managing director (specified by person) shall be provided in the annual report.

- a) Total remuneration, with salary, pension cost and other benefits for the respective post specified separately.
- b) The terms in the pension agreement.
- c) The terms in the agreements on severance pay.

If the company is part of a group of companies, the information submitted shall concern benefits from all companies in the group.

Fees for the chairman, vice-chairman and board members shall be submitted for the board of directors. Furthermore, a separate report is to be submitted if payment to these persons has been made in addition to that decided upon by the Annual General Meeting as a result of commissions or employment in a company or another group company.

#### THE ANNUAL GENERAL MEETING

The board of directors shall submit a report on and motivate the total remuneration to the managing director.

#### ARBITRATION CLAUSE

The company's contracts of employment with managers shall contain a clause that disputes are to be settled in accordance with the Swedish Arbitration Act (SFS 1999:416).

## Incentive schemes for employees

In the great majority of cases, state-owned companies should avoid incentive schemes. The fact that the Government has decided on guidelines for incentive programmes should thus not be interpreted such that the Government recommends that such schemes be introduced in companies partially or wholly owned by the Swedish government.

#### DEFINITIONS

**Persons in managerial or comparable positions** refers to the managing director, deputies for the managing director, and, in large companies, board members and persons with an independent position as head of a large division of the company's activity [cf section 1 of the Swedish Employment Protection Act (SFS 1982:80)].

Terms of employment regulated by SFS 2003:55, SFS 2003:56 are not covered by these guidelines.

A **benefit-determined pension** means that the size of the pension is determined as a certain percentage of the salary. Pension premiums therefore change from year to year to enable the future pension to be paid at the level decided upon. Med **avgiftsbestämd** (premiebestämd) pension avses att pensionspremien är bestämd och att man inte i förväg vet hur stor pensionen blir. Storleken avgörs bl. a. av hur stora premierna är och vilken avkastning dessa ger.

**Fee-based (premium-based) pension** means that the pension premium is determined and that the size of the pension is not known in advance. The size is determined, among other things, by the size of the premiums and the yield these produce.

An **incentive scheme** is a scheme for rewarding the contribution of employees, where the reward depends on the work carried out by the employee increasing the value in the company. In these guidelines, the Government treats the variable portion of salary and bonus with incentive schemes as equivalent. However, these should not be regarded as being equivalent to ordinary commission-based salary.

It is the duty of the board of directors of the company to ensure that the company – if an incentive scheme is introduced – complies with the Government's guidelines for incentive schemes for employees in state-owned companies. In the special cases where incentive schemes are introduced, they are to be guided by the following principles

- An incentive scheme should encompass all employees in the company except the CEO/managing director.
- No special incentive schemes exclusively for managers should be introduced.
- There shall be a direct link between the goals which form the basis for reward under the incentive scheme and the company's overall business goals. The company shall have an effective business control system that the incentive scheme can be linked to. The goals within the incentive scheme are to be objective, definable and measurable in both the short and long-term. Rewards can – depending on the company's business – be linked to both quantitative and qualitative goals.
- There shall be a clear relationship between the goals of the incentive scheme and the performance of the individual employee. When drawing up the scheme, it should be

taken into account that external factors, such as general changes in share prices, commodity and real estate prices and exchange rates must not be allowed to affect the reward. On the other hand, the reward may be affected by company-specific or individual changes.

- Rewards under the scheme are to be reasonable in relation to the company's performance. Rewards shall not be paid for years in which the company reports a loss. Rewards under the incentive scheme to individuals shall not be paid at an amount exceeding two monthly salary payments.
- It shall be made clear which rules apply to receive rewards in different forms of employment. Furthermore, provisions are to be made for the introduction of new employees into the scheme and how rewards are to be calculated in connection with the termination of employment.
- The incentive scheme shall be introduced for a limited period of time to allow scope to revise the scheme or abolish it if conditions change.
- All important details concerning the incentive scheme are to be included in the company's annual report.



# Guidelines for external financial reporting

On 21 March 2002, the Government adopted the following guidelines for external financial reporting for state-owned companies.

The guidelines pertain to companies that are wholly state-owned. In companies where the government is a shareholder, the guidelines should, in accordance with the government decision, be applied as far as possible following a dialogue with the other shareholders.

## PURPOSE

State-owned companies are ultimately owned by the citizens of Sweden and are therefore of substantial public interest. State-owned companies should therefore be at least as transparent as listed companies.

The guidelines state a minimum level of external reporting by state-owned companies and are primarily directed at wholly-owned unlisted companies. This is in view of the fact that listed companies are already under an obligation to comply with Stockholmsbörsen's Listing Agreement. The requirement for transparency and high quality in reporting can also be related to the relative size of the company and its market position. Small companies, known as 10/24 companies,\* may be exempted from these guidelines.

## RESPONSIBILITY

It is the duty of the company's board of directors to ensure that the company's quarterly reports and annual reports comply with

these guidelines at the earliest date possible but no later than 1 January 2003.

## PRINCIPLES FOR EXTERNAL REPORTING

These guidelines are to be regarded as a complement to applicable accounting legislation and generally accepted accounting principles.

Environmentally-related information should be integrated with the other information submitted.

In addition to applicable accounting legislation and generally accepted accounting principles, annual report, interim reports and reports on operations should be presented, in applicable parts, in accordance with the recommendations set out in Stockholmsbörsen's Listing Agreement with appendices.

## IN ADDITION TO THE ABOVE, COMPANIES SHOULD SUBMIT WITH THEIR ANNUAL REPORTS:

- A comprehensive external environment analysis
- An account of financial targets, business objectives and, where relevant, special societal goals and how these have been met.
- A risk and sensitivity analysis describing the company's main primary operational and financial risks.
- A description of the company's equal opportunities policy, work to promote diversity

and an account of all incentive schemes.

- A description of the board of directors and the work of the board during the year.
- An account of the company's adopted dividend policy.
- Information about the company's environmental work, including an account of environmental policy, environmental goals, the impact of production and the products/services on the environment and significant environmental key figures such as energy and raw material consumption. The company should also state whether it has implemented an environmental management system and, if so, which one.

## INTERIM REPORTS

The company shall submit quarterly reports within two months of the close of the reporting period.

## PUBLICATION OF REPORTS

The companies shall also to publish its quarterly reports, reports on operations, and annual reports on its website.

## ASSESSMENT

Compliance with these guidelines will be assessed in a government report to the Swedish parliament, the Riksdag about state-owned companies.

## LEGISLATION AND RECOMMENDATIONS THAT CAN PROVIDE GUIDANCE

### Framework legislation – accounting:

- The Annual Accounts Act
- The Act on Annual Accounts in Credit Institutions and Securities Companies
- The Act on Annual Accounts in Insurance Companies
- The Bookkeeping Act

### Other acts, ordinances and decisions:

- The Companies Act
- Ordinance on Annual Accounts and Budget Data
- Ordinance on Bookkeeping in Authorities
- Appropriation directions

### Recommendations and standards:

- Stockholmsbörsen's Listing Agreements
- Recommendations issued by the Swedish Financial Accounting Standards Council (RR)
- Swedish Accounting Standards Board (BFN)
- Recommendations issued by FAR
- Commission Recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies (2001/453/EC).
- IASC/IASB – International Accounting Standards Committee/Board
- US GAAP – US Generally Accepted Accounting Principles, issued by FASB (US Financial Accounting Standards Board)
- Recommendations issued by the Swedish Society of Financial Analysts
- The Securities Council (AMN)
- Industry and Commerce Stock Exchange Committee (NBK)
- Finansinspektionen (the Swedish financial supervisory authority)
- The Swedish National Financial Management Authority (ESV)

\* Definition 10/24 company. Commercial unlisted company in which:

- a) the number of employees has totalled at most ten in the past two financial years, and
- b) the net value of the assets according to the balance sheet adopted for the past financial year totals at most SEK 24m.



# Rules for Corporate Governance

The background of the page is a light gray color. On the right side, there is a large, abstract graphic composed of many thin, overlapping, curved lines that create a sense of depth and movement. These lines curve from the top right towards the bottom left. In the lower right portion of this graphic, there is a grid-like pattern of small, overlapping diamond or square shapes, which adds a textured, geometric element to the overall design.

# Rules for Corporate Governance<sup>1</sup>

## 1 The General Meeting of Shareholders

*Shareholders' influence in the company is exercised at the general meeting of shareholders, which is the company's highest decision-making body. To create the best conditions for active exercise of owner influence, the general meeting of shareholders should be conducted in such a manner as to enable as high a percentage as possible of the total number of shares and votes to be represented at the meeting and to facilitate active participation on the part of those shareholders present in discussing and decision-making.*

### 1.1 NOTICE OF THE GENERAL MEETING OF SHAREHOLDERS

- 1.1.1 At the latest in conjunction with the third quarterly report, and as soon as the board of directors has decided to hold an extraordinary general meeting of shareholders, the company is to announce the time and location of the meeting. The information is to be posted on the company's website at the same time that it is announced.
- 1.1.2 The company is to provide information on its website, in good time before the notice of the annual general meeting of shareholders is published, on the shareholders' right to have a matter considered at the general meeting of shareholders and by what time the request must reach the company in order to guarantee its inclusion in the notice of meeting. This shall be correspondingly applied, when possible, before an extraordinary general meeting of shareholders.
- 1.1.3 Shareholders are to be able to notify their attendance at a general meeting of shareholders in several ways, including by e-mail and on the company's website.

### 1.2 DISTANCE PARTICIPATION IN THE GENERAL MEETING OF SHAREHOLDERS

- 1.2.1 Before each general meeting of shareholders, the company is to provide shareholders with the option of following or participating in the meeting from another location in the country or abroad, with the help of modern technology, if it is warranted by the ownership structure and economically feasible.

### 1.3 BOARD, MANAGEMENT AND AUDITOR ATTENDANCE AT THE GENERAL MEETING OF SHAREHOLDERS

- 1.3.1 A quorum of the board is to be present at general meeting of shareholders. If possible, the entire board is to be present at the annual general meeting of shareholders. The chairman of the board, the managing director and, if necessary, other senior managers are to be present at the meeting. At least one of the company's auditors is to be present at the annual general meeting.
- 1.3.2 If proposals for decisions on certain matters have been prepared by a committee of the board, the chairman or another member of the committee is to be present at the meeting and

describe and give cause for the proposals on behalf of the board.

### 1.4 CONDUCTING THE GENERAL MEETING OF SHAREHOLDERS

- 1.4.1 The company's nomination committee is to propose a person to chair the general meeting of shareholders. This proposal is to be presented in the notice to the meeting and by the nomination committee at the meeting.
- 1.4.2 A shareholder or a representative of shareholders, who is neither a board member nor an employee of the company, is to be chosen to verify the minutes of the general meeting of shareholders.
- 1.4.3 The general meeting of shareholders is to be conducted in Swedish and the material presented is to be in Swedish. Before each general meeting of shareholders, the company based on the ownership structure and on what is economically feasible, is to consider whether the proceedings are to be simultaneously translated in whole or in part and whether the material presented by the company is to be translated into another language.
- 1.4.4 The chairman of the general meeting of shareholders is to ensure that the shareholders are given satisfactory opportunity to exercise their statutory right to ask questions at the general meeting of shareholders as well as comment on the proposals presented and propose amendments and additions to them within the legislative framework before the meeting makes a decision.
- 1.4.5 The minutes from the most recent annual general meeting of shareholders and any subsequent extraordinary general meeting of shareholders are to be posted on the company's website. The voting list need not be presented. If called for by the ownership structure, the minutes are also to be translated into a language other than Swedish.

## 2 Appointing the Board and Auditors

*The decisions of the general meeting of shareholders on the appointment of the board and auditors should be prepared through a structured and transparent procedure governed by the owners, which enables all shareholders to present their views and make proposals in the respective issue and which creates good conditions for well-grounded decisions.*

### 2.1 NOMINATION COMMITTEE

*The nomination committee is the general meeting of shareholders' body for preparing the meeting's decisions on matters relating to appointments with a view to creating a good basis for consideration of these issues by the meeting.*

- 2.1.1 The company is to have a nomination committee that represents the company's shareholders. The general meeting of shareholders is to appoint members of the nomination committee or to specify how they are to be appointed. The decision is to include a

<sup>1</sup> The rules of the Code are stated in normal text. The introductory section in italics to each section is intended to present the principal approach on which the following rules are based. The footnotes are intended, when necessary, to comment on or explain the content of the rule or to place it in a context that facilitates interpretation of the rule.

procedure for replacing, when necessary, a member who leaves the nomination committee before its work is completed.

If the members of the nomination committee are not appointed at the meeting, the meeting's decision is to specify the criteria according to which the chairman and members of the nomination committee are to be appointed.

- 2.1.2 The nomination committee is to have at least three members. Members of the board of directors may not form a majority of the nomination committee. The managing director or another member of the senior management may not be a member of the nomination committee. The chairman of the board or another board member may not be the chairman of the nomination committee.<sup>2</sup>
- 2.1.3 The company is to announce the names of members of the nomination committee at least six months before the annual general meeting of shareholders. If they represent a particular owner, the owner's name is to be stated. An announcement is to be made if a member of the nomination committee is replaced, providing the corresponding information about the new member. This information is to be posted on the company's website, where information is also to be available on how shareholders can make proposals to the nomination committee.

## 2.2 APPOINTMENT OF THE BOARD OF DIRECTORS

- 2.2.1 The nomination committee is to present proposals for nominations to the chairman and other members of the board of directors and the board members' fees divided between the chairman, other members and possible remuneration for committee work.
- 2.2.2 As a basis for its proposals, the nomination committee shall:
- assess the extent to which the present board fulfils the demands which will be made on the board due to the company's situation and future direction, taking into consideration the result of the assessment of the board that has been made,<sup>3</sup>
  - adopt requirement profiles for the new member or members of the board who need to be recruited according to this assessment, and
  - carry out a systematic procedure to seek candidates for the board positions to be filled, taking into consideration proposals made by shareholders.
- 2.2.3 The proposals of the nomination committee are to be presented in the notice of the general meeting of shareholders and on the company's website. In conjunction with announcing the meeting, the following information shall be provided on the website about the board members proposed for appointment or re-appointment:
- age, principal education and work experience
  - positions in the company and other important commissions,
  - his or her own or closely-related natural or legal person's holdings of shares and other financial instruments in the company,

- whether the member in the view of the nomination committee is to be considered as being independent of the company and of senior management as well as of major shareholders in the company,
- on re-election, the year that the board member was first elected to the board, and
- other information that may be important to shareholders in assessing the proposed members' competence and independence.

A report on how the nomination committee has performed its work is to be posted on the website.

- 2.2.4 The nomination committee is to present and justify its proposals at the general meeting of shareholders, giving special reasons if no new appointments are to be made to the board. The nomination committee is also to submit a report on how it has performed its work.
- 2.2.5 Persons proposed for election to the board are to be present at the meeting, if possible, so that they can introduce themselves and answer questions from shareholders.
- 2.2.6 The general meeting of shareholders is to decide on board members' fees and all other remuneration for board work, divided between the chairman, other board members and possible remuneration for committee work.
- 2.2.7 Board members are not to participate in distribution in share and share price-related incentive programmes aimed at senior management or other employees. If such a scheme is intended solely for board members, the general meeting of shareholders is to decide on the scheme. The decision is to include the highest number of instruments that may be issued, the principal conditions for distribution, the principal conditions for and principles of evaluation of instruments and the latest date by which the instruments are to have been issued or transferred to the board members.
- Even though the managing director is a member of the board, he or she may participate in incentive schemes intended for management and employees.
- ## 2.3 APPOINTMENT OF AUDITORS
- 2.3.1 Proposals for appointment of auditors are to be made by the company's nomination committee or by a nomination committee specially appointed for the appointment of auditors. The rules in section 2.1 and this section apply to a specially appointed nomination committee.
- 2.3.2 The nomination committee is to make proposals on the appointment and remuneration of auditors. This proposal is to be presented in the notice of the general meeting of shareholders and on the company's website.
- 2.3.3 In conjunction with the notice of the general meeting of shareholders being announced, information on circumstances that may be significant for the shareholders in the assessment of the

<sup>2</sup> The nomination committee should not include representatives of undertakings that engage in activity in competition with the company.

<sup>3</sup> In the light of the information that may need to be given to the members of the nomination committee, the company may have reason to consider the need for confidentiality undertakings intended to remove the risk of such information being disclosed selectively among the owners.

competence and independence of the proposed auditor is to be provided on the company's website. The information is to include the extent of the proposed auditor's services to the company during the audit in the past three years and, in the case of re-appointment, the year in which the auditor was appointed and the period of time for which the auditor has held the commission. A report on how the nomination committee has performed its work is to be published on the website.

- 2.3.4 The nomination committee is to present and justify its proposals at the general meeting of shareholders and present an account on how it has performed its work.
- 2.3.5 The proposed auditor is to be present at the meeting in order to be able to introduce himself/herself and answer questions from shareholders.

### 3 The Board of Directors

#### 3.1 TASKS

*The principal task of the board is to manage the concerns of the company in such a way as to comply in the best way with the interests of the shareholders in a long-term good return on capital.*

- 3.1.1 To perform its task for the shareholders, the board shall give special attention to:
- establishing the overall objectives for the company's activities and deciding on the company's strategy to achieve these objectives,
  - continuously assessing senior management and, when required, appointing or dismissing the managing director,
  - ensuring that effective systems exist for monitoring and controlling the company's activities and financial position in relation to the set targets,
  - ensuring that the company's external provision of information is characterised by openness and objectivity and is highly relevant for the groups it is addressed to,
  - ensuring that there is a satisfactory check of the company's compliance with laws and other regulations that apply to the company's activities, and
  - ensuring that the requisite ethical guidelines have been set for the conduct of the company.
- 3.1.2 The board is to ensure that its work is assessed annually through a systematic and structured procedure.

#### 3.2 SIZE AND COMPOSITION OF THE BOARD

*The board should have the size and composition required to provide scope for the different competencies and experience required to manage the company's concerns. The board should be renewed at the requisite pace taking into consideration the development of the company's activity and the need for continuity in the work of the board.*

- 3.2.1 With the company's operations, phase of development, and other conditions taken into consideration, the board is to have an appropriate composition, exhibiting diversity and breadth in

the board members' qualifications, experience and background. An equal gender distribution on the board is to be an aim.

- 3.2.2 The board is not to be of such a size as to prevent simple and effective forms of work being used. Deputies are not to be appointed for members of the board appointed at general meeting of shareholders.
- 3.2.3 At most one person from the senior management may be a member of the board.
- 3.2.4 The majority of the board members appointed at the general meeting of shareholders are not to have any relation to the company or its senior management. A board member is not considered to be independent if:
- the board member is managing director or has been managing director of the company or a closely-associated company in the past five years,
  - the board member is employed or has been employed in the company or a closely-associated company in the past three years;
  - he or she receives significant remuneration for advice or services in addition to board work from the company or a closely-associated company or from a person in senior management,
  - the board member has extensive business ties or other extensive financial dealings with the company or a closely-associated company in his or her capacity as customer, supplier or partner, either personally or as part of the senior management or the board or by joint ownership in another company having such a business relationship with the company, or
  - the board member has been a joint owner or employee of the present or previous auditor of the company or a closely-associated company within the past three years,
  - the board member belongs to the executive management of another undertaking if a board member of this undertaking belongs to the senior management of the company,
  - the board member has been a member of the board for more than twelve years,
  - or if the board member is closely related to a person in the senior management or any other person named in the above points, if this person's direct or indirect transactions with the company are of such an extent and importance that they justify considering the board member as not being independent.
- A closely-associated company means a company in which the company directly or indirectly owns at least ten per cent of the shares or participation rights or votes or a financial share that provides entitlement to at least ten per cent of the yield. If the company owns more than 50 per cent of the shares or votes in another company, the first-mentioned company is considered to indirectly control the latter company's holding in other companies.
- The fourth point is not intended to apply to the usual bank-customer relationship.
- 3.2.5 At least two of the board members who are independent of the company and senior management are also to be independent of the company's major shareholders. A board member who represents a major owner or is employed or a board member of an undertaking which is a major shareholder is to be considered as being dependent.



A large shareholder means an owner who directly or indirectly controls ten per cent or more of the shares or votes in the company. If a company owns more than fifty per cent of the equity or votes in another company, the first-mentioned company is considered as controlling the latter company's ownership in other companies.

3.2.6 A board member is to be appointed for a year at a time.

### 3.3 THE BOARD MEMBERS

*The board member's position in relation to the company is similar to that of a trustee. This means that the board member is obliged to devote the time and the care required to look after the interests of the company and thus of the shareholders in the best possible manner.*

3.3.1 The board member must not have such a large number of other commissions as to hinder him or her from devoting sufficient time and care to work on the board.

3.3.2 The board member is independently to assess the matters to be dealt with by the board and to put forward the requisite points of view and take the requisite positions. The board member is to request the supplementary information that he or she considers necessary to be able to make well-grounded decisions.

3.3.3 The board member is to have the knowledge of the company's operations, organisation, market and other conditions required for the task.

3.3.4 New board members are to receive the requisite introductory training and other training that the chairman of the board and the board members mutually agree is suitable.

### 3.4 THE CHAIRMAN OF THE BOARD OF DIRECTORS

*The chairman of the board has a unique position with an explicit responsibility for seeing that the work of the board is well organised and efficiently conducted and that the board discharges its duties.*

3.4.1 The chairman of the board is to be elected at the general meeting of shareholders. If the chairman relinquishes his or her duties during the mandate period, the board is to elect a chairman from among its members until the next general meeting of shareholders.

3.4.2 If the nomination committee proposes that the outgoing managing director, soon after leaving that position, become the chairman, the reasons for the proposal are to be explicitly stated.

3.4.3 If the chairman of the board is an employee or has duties assigned by the company in addition to those of the chairman, these may not involve tasks that are part of the managing director's responsibilities in the day-to-day management of the company. In such cases, the division of work between the chairman and the managing director is to be clearly stated in the formal work plan of the board of directors and in the board's instruction to the managing director.

3.4.4 The chairman is to ensure that the work of the board is pursued effectively and that the board discharges its duties. Specifically, the chairman is to:

- organise and run the board's work, encourage an open and constructive discussion in the board in which all board members participate, and create the best possible conditions for the board's work,
- make sure that the board regularly updates and improves its knowledge of the company and its operations and receives any other training required to conduct the board's work effectively,
- be receptive to the owners' views and communicate these views to the board,
- have regular contact with and function as a discussion partner and support for the company's managing director and evaluate the managing director's work,
- see that the board receives information that is satisfactory and a sufficient basis for its work,
- draw up a proposed agenda for board meetings in consultation with the managing director,
- verify that the board's decisions are carried out effectively,
- see that the board makes an annual assessment of its work and that the nomination committee is informed of the result of this assessment.

### 3.5 FORMS OF WORK

3.5.1 The board's statutory instructions in the form of its formal work plan, instruction to the managing director and reporting instruction are to be tailored to the company's circumstances and are to be so clear, detailed and functional that they can serve as guiding documents for the board's work. At least once a year, the board is to conduct a thorough review of the relevance and currency of all instructions.

3.5.2 The board may establish special committees to prepare the board's business in specific areas. The establishment of committees must not cause the board to lose its overall view and control of the company's business activities nor must the board be any less well informed. The formal work plan of the board is to specify the tasks and decision-making authority that the board has delegated to committees and the manner in which the committees are to report to the board. Committees are to keep minutes of their meetings.

3.5.3 The board is to continuously assess the work of the managing director. The board is to consider this matter at least once a year. At that time no member of the senior management shall be present.

3.5.4 The board may not make decisions on matters not included in the agenda unless the board agrees unanimously to do so.

3.5.5 The board is to be assisted by a secretary to the board who is not a member of the board.

3.5.6 The minutes of the board are to be a clear representation of the matters discussed, the supporting material available for each item and the content of the decisions taken. Once the minutes are written, they are to be sent or made available to board members as soon as possible after the board meeting.

### 3.6 FINANCIAL REPORTING

*The board is responsible for presenting financial reports being*



*prepared in accordance with the law, generally accepted accounting standards and other requirements on listed companies.*

- 3.6.1 It shall be made clear in the annual report and interim reports, which parts are formal financial reports, the regulatory framework on which these are based and which parts of the annual report or interim report have been audited or reviewed by the company's auditor.<sup>4</sup>
- 3.6.2 The board of directors and the managing director, immediately before signing the annual report, are to certify that to the best of their knowledge, the annual accounts have been prepared in accordance with generally accepted accounting principles for a stock market company and that the information presented is consistent with the actual conditions and that nothing of material value has been omitted that would affect the picture of the company presented in the annual report.
- 3.6.3 The company's half-yearly and nine-months report are to be reviewed by the company's auditor.

### 3.7 INTERNAL CONTROL AND INTERNAL AUDIT

*The board is responsible for the company's internal control, which has the overall aim of protecting the shareholders' investment and the company's assets.*

- 3.7.1 The board is to ensure that the company's internal control is good and to keep itself continuously informed about and to evaluate the performance of the company's internal control system.
- 3.7.2 Each year, the board is to submit a report on how the internal control is organised as regards the part relating to financial reporting, and how well it has functioned during the most recent financial year. The report is to be reviewed by the company's auditors.
- 3.7.3 In companies that do not have a special internal audit function, the board is to annually evaluate the need of such a function and explain the position it has taken in its internal control report.

### 3.8 WORK ON ACCOUNTING AND AUDITING

*The board is responsible for the company having a formalised and transparent system which ensures that the established principles for financing reporting and internal control are complied with and that the functional relations are maintained with the company's auditors.*

- 3.8.1 The board is to document and present information on the manner in which the board ensures the quality of the financial reports and communicates with the company's auditors.
- 3.8.2 The board is to establish an audit committee consisting of at least three board members. The majority of the members of the committee are to be independent of the company and the

senior management. At least one member of the committee is to be independent of the company's major shareholders. Board members who are part of the senior management may not be a member of the committee. In companies with small boards, the whole board can perform the tasks of the audit committee, provided that board members belonging to the senior management do not participate in this work.

- 3.8.3 The audit committee is to:
- be responsible for the preparation of the board's work to ensure the quality of the company's financial reports,<sup>5</sup>
  - meet the auditors regularly to keep informed of the aims and scope of the audit work and to discuss the coordination between external and internal audit and views on the company's risks.
  - establish guidelines on other services in addition to audit that the external auditors are allowed to provide to the company,
  - evaluate the audit work, and inform the company's nomination committee on the result of the evaluation, and
  - assist the company's nomination committee in preparing proposals on auditors and audit fees.
- 3.8.4 At least once a year, the board is to meet the auditors, without the presence of the managing director or any other company executive.

## 4 Senior Management<sup>6</sup>

### 4.1 THE MANAGING DIRECTOR'S DUTIES

*Regardless of whether the managing director is a member of the board or not, he or she has a special role in the work of the board. This includes reporting to the board on the development of the company, presenting reports and making proposals on matters prepared for consideration in senior management and providing the board with information on which to base their work.*

- 4.1.1 The managing director is to ensure that the board gets the objective, full and relevant information basis that it requires to make well-founded decisions. The managing director is to see that the board is kept informed of the progress of the company's business operations between board meetings.
- 4.1.2 The board shall approve of the managing director's significant commissions outside of the company.

### 4.2 SENIOR MANAGEMENT REMUNERATION

*The board is responsible for the company having a formalised process that is transparent for all board members to establish principles for remuneration and other conditions of employment for the senior management and to decide on remuneration to the managing director and other conditions of employment.*

<sup>4</sup> By the financial report is meant the statement of income, balance sheet, shareholders' equity, cash flow statement and report on accounting principles applied and notes in accordance with IAS 1.

<sup>5</sup> The quality assurance of the company's financial reporting normally takes place by the committee considering all critical accounting matters and the financial reports submitted by the company. It is assumed that the committee deals with issues concerning internal control, compliance with rules, material uncertainty in the amounts presented, uncorrected inaccuracies, events after the balance-sheet date, changes in estimates and assessments, any improprieties noted and other circumstances that affect the quality of the financial reports.

<sup>6</sup> By the senior management is meant the managing director and other executives in the company's top management who report directly to the managing director.

- 4.2.1 The board is to establish a remuneration committee with the task of preparing proposals on remuneration and other terms of employment for senior management. The chairman of the board is to be the chairman of this committee. The other members of the remuneration committee are to be independent of the company and the senior management. In companies with smaller boards, the whole board can perform the tasks of the remuneration committee, provided that board members who are members of senior management at the same time do not participate in this work.
- 4.2.2 At the general meeting of shareholders, the board is to present proposals for remuneration and other conditions of employment for the approval of the meeting. The proposal is to be posted on the company's website in conjunction with publication of the notice of the meeting. The principles shall include:
- fixed versus variable remuneration and the relation between performance and remuneration,
  - the principal benefits in the bonus and incentive scheme,
  - the principal conditions for non-monetary benefits, pension, notice and severance pay, and
  - the sphere of postholders covered.
- The proposal shall state whether the principles proposed deviate significantly from previous principles adopted by the board and how matters relating to remuneration to senior management are prepared and dealt with by the board.
- 4.2.3 The general meeting of shareholders is to decide on all share and share price related incentive schemes for the senior management. The decision is to specify the maximum number of financial instruments that can be issued, the principal conditions for dividend, the main conditions for and principles for evaluation of the instruments and the period in which the instrument is to be issued by at the latest or transferred to the senior management.

## 5 Information on Corporate Governance

### 5.1 CORPORATE GOVERNANCE REPORT

- 5.1.1 A special report on corporate governance is to be attached to the company's annual report. The report is to include a statement on whether or not it has been audited.<sup>7</sup>
- 5.1.2 The company shall state in the corporate governance report that the company is applying the Code and give a brief description of how the company has applied the Code in the past financial year. The company is to indicate those rules in the Code that it deviates from. The reasons for each deviation are to be clearly explained.

- 5.1.3 Information is to be provided in the corporate governance report on the way in which the board ensures the quality of the financial reporting and communicates with the company's auditors in accordance with 3.8.1.
- 5.1.4 The following information is also provided in the corporate governance report, if this information is not shown in the annual report:
- an account of how preparations for appointment of the board and auditors are organised,
  - the composition of the company's nomination committee, stating the name of the owner if any member of the committee represents a particular owner,
  - the information that is to be provided according to the list of points in 2.2.3 for each of the board members,
  - the information to be provided for auditors in accordance with the first and second sentence of 2.3.3,
  - the division of work in the board, how the work of the board has been conducted during the most recent financial year, including the number of board meetings and the respective board member's attendance at board meetings,
  - composition, responsibilities and decision-making powers of any board committees and the respective board member's attendance at the committee meetings,
  - for the managing director
    - age and principal education and work experience
    - important assignments outside the company,
    - own or closely associated natural or legal person's holding of shares and other financial instruments in the company, and
    - material shareholdings and part ownership in firms with which the company has significant business ties,
  - the most recently adopted principles by the board for the remuneration and other terms of employment for the senior management and, if they entail a substantial deviation from the previous year's principles, what these discrepancies are, and how the issue of remuneration to the senior management is dealt with by the board, and
  - outstanding share and share-price related incentive schemes for the board and the senior management.

### 5.2 STATEMENT ON INTERNAL CONTROL

- 5.2.1 The board's report on internal control and the auditor's review of this report in accordance with 3.7.2 is to be attached to the company's annual report.<sup>8</sup>

### 5.3 INFORMATION ON THE WEBSITE

- 5.3.1 The company is to have a special section on its website for corporate governance matters, in which the information included in the corporate governance report is to be updated regularly and can be retrieved together with other information required under the Code.<sup>9</sup>

<sup>7</sup> The report can be included in the printed annual report or be issued as a separate report although it is not part of the formal financial statements.

<sup>8</sup> This report can also be included in the printed annual report or be issued as a separate report although it is not part of the formal financial statements.

<sup>9</sup> Companies applying the Code are to make the information in the corporate governance report easily available to shareholders and other stakeholders by putting it all in the same place on the company's website. It is important that this information is kept reasonably updated. This means that a large part of the information required according to the corporate governance report in accordance with 5.1 is to be posted on the website before the report is published in the annual report. Information on the website should at least be updated after the annual general meeting of shareholders and in conjunction with publication of the interim reports.







