

# Corporate Governance Principles

Nordea Funds Ltd with branches





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# Corporate governance principles

Nordea Funds Ltd (the Management Company) has adopted the following corporate governance principles with respect to Nordic companies listed on Nordic stock exchanges. The principles also apply, where applicable, to other companies listed on Nordic stock exchanges. For investments in companies listed on trading venues outside of the Nordics, the Management Company applies separate international guidelines<sup>1</sup>.

The guidelines apply to all funds managed by Nordea Funds Ltd and its branches.

## 1. General principles

Corporate governance deals with the relationship between shareholders and the boards and executive management of companies.

Where all funds managed by Nordea Funds Ltd. (henceforth called Nordea's funds) are concerned, corporate governance shall be exercised on the basis of the shareholders' common interest in good returns.

The Management Company generally consider that exercising sound corporate governance is crucial to creating value in the companies. As a significant owner in several listed companies, Nordea's funds play a key role in promoting the companies' progress towards better results by being an active owner. This is achieved by participation in nomination committees, participation in shareholders' meetings and through regular dialogue with the companies concerning key ownership issues. Cooperation with other owners is an important part of the possibility of exerting influence where necessary.

Nordea's funds are generally in favour of equal voting rights for all shares.

## 2. Board of Directors, audit and nomination procedure

### 2.1 Board of Directors' responsibility

The Board of Directors, pursuant to the Companies Act, is responsible for the company's organisation and for managing the company's affairs. The board of directors has a duty of responsibility to all shareholders. Board members shall pay particular attention to their responsibility when conflicting interests between shareholders could perceptibly exist.

As representatives of the shareholders, the Board of Directors is responsible for supervising the executive management. In order not to impede the Board of Directors' ability to exercise control, the board's chairperson shall not concurrently be responsible for the executive management.

Efficient board work is a prerequisite when creating value for shareholders, and therefore a well-composed board and well-organised board work is important. To promote this in the long term and to provide a basis for the nomination of the members, the work and performance of the board of directors should be reviewed annually. The review should be conducted in a structured way and aim to evaluate the board's collective performance as well as the contribution and commitment of individual board members.

Nordea's funds believe that the members of the board should be shareholders in the company concerned.

1) International Corporate Governance Principles, see page 9

### 2.2 Nomination procedure

Corporate governance is exercised through participation in board composition. Each board of directors is composed on the basis of the company's specific situation. The number of board members, the members' expertise, experience, age, gender, nationality and independence are factors to be considered on the basis of each company's situation. Each member must be able to devote sufficient time and commitment to the assignment.

Nomination of the board members and auditors should take place within the framework of a nomination committee comprising representatives of the largest owners and of the company's board. The nomination procedure shall be conducted in a way that is clear and well-communicated to all shareholders.

### 2.3 Audit

The company's auditors are elected by the annual general shareholders' meeting and shall act in the interest of the shareholders. To ensure this, the auditors' independence is of the highest importance.

Using efficient procedures and acting independently of the company's executive management, the company's board of directors shall:

- Annually evaluate the audit and the relationship between the auditors and the executive management as well as the relationship between the auditors and the board of directors. This evaluation shall be reported to the nomination committee ahead of the election of auditors.
- Make sure that the procurement of the audit service and other consulting services from the company's auditors does not compromise the independence of the auditors.

### 3. Remuneration to the board of directors

The board of directors' overall remuneration and benefits shall be decided by the annual general shareholders' meeting. Considerations related to the company's size and complexity, the members' expertise and the amount of time committed as well as the possibility of recruiting suitable members shall be considered when evaluating the level of board fees. However, Nordea's funds are generally negative to board members receiving options issued by the company.



## 4. Remuneration to executive management and incentive programmes

### 4.1 Fundamental principles

Each board of directors should establish and clearly communicate a long-term policy for the company's remuneration and benefits system for executive management and key employees. In this policy, stances on the following four components and justification thereof shall be described and holistically addressed:

- fixed salary
- variable remuneration
- pensions
- other remuneration

Each board of directors is responsible for ensuring that overall remuneration to executive management is appropriate and reasonable, and that it promotes a sound performance for the company in the long term. The board of directors should particularly report on how it has taken account of any risks related to the remuneration structure. The remuneration shall be drawn up in such a way that the executive management's interests are aligned with those of shareholders to the greatest possible extent.

Nordea's funds are fundamentally positive to variable remuneration, in the form of cash salary or other form such as long-term remuneration programmes, as a component in a remuneration system.

Properly devised remuneration systems shall, in an uncomplicated, clear and transparent manner, aim to achieve a better performance and increase value for shareholders. Governing factors shall be clearly formulated in advance, measurable and possible to influence for the employee, and the system shall be easy to understand. The outcome should depend on the fulfilment of business-related performance requirements which shall be transparent and robust over time. Furthermore, a variable remuneration system should be structured in such a way that costs to the company are lower in the event of poor results.

Long-term remuneration programmes should be devised in such a way that management and employees are exposed to both upturns and downturns in the share's value and should also aim to achieve long-term ownership of shares. Nordea's funds take a positive view to the participation of management and employees with their own contributions in long-term remuneration programmes.

Proposals that involve long-term remuneration programmes being based on shares or share-related instruments in unlisted subsidiaries shall be avoided in order for the interests of management and employees to be aligned as far as possible with those of the shareholders.

Pension benefits should be based on a defined contribution plan, and all pension expenses shall be recorded during the active term of the employee.

The overall remuneration should have a predetermined cap on maximum outcome and a possibility for the board of directors to regulate the outcome by, for instance, a clause in the event of the outcome appearing unreasonable or a claw back clause.

The matters submitted to the shareholders' meeting shall always include, not only such matters which by law shall be dealt with by the meeting, but also other decisions concerning incentive programmes that can be considered to be of material significance to the shareholders.

The board of directors should in particular conduct an annual evaluation of how the existing remuneration system corresponds to its specific purposes and how it contributes to better performance and added value. This evaluation should be communicated to the shareholders.

### 4.2 Preparing decisions

The board of directors' proposals for decisions should be prepared in such a way that the participants in the programme do not have any dominant influence on how the programme is devised. Before decisions at the annual general meeting

(AGM), the board of directors should in particular describe how the matter has been prepared. In the event of participants in the programme acquiring not insignificant influence over decisions at the AGM ensuing from their own share ownership, this state of affairs should be reported before the meeting.

#### **4.3 Disclosure**

The company have, together with other Swedish institutional investors, issued guidelines for disclosure regarding incentive programmes. These are included in the present guidelines for corporate governance and presented in Appendix A.

### **5. Matters related to capital structure**

Nordea's funds believe that companies shall actively work to attain a well-balanced capital structure. In decisions on changes to the capital structure, the owners of shares with the same economic rights shall be treated equally.

#### **5.1 Distribution of capital**

Capital exceeding the company's needs in relation to established strategies shall be distributed to shareholders. Nordea's funds are in favour of dividends or redemption as capital repatriation methods. If there are special reasons to why the company should acquire outstanding shares, this shall be done cost-efficiently and without changes to the ownership structure.

In cases where the companies have acquired outstanding treasury shares and intend to sell them for cash at a later date, the existing shareholders should then have pre-emptive rights.

#### **5.2 Private placements without preferential rights**

Nordea's funds believe that existing shareholders generally should have preferential rights to subscribe for new shares. Directed new share issues for cash, without preferential rights for existing shareholders, should be avoided.

#### **5.3 Authorisation for the board to decide on the issue of shares**

In cases where it is proposed that the board of directors be authorised to make decisions on share issues without preferential rights for current shareholders, such authorisation should only apply to non-cash issues. Authorisation comprising more than ten percent of the company's capital should be avoided unless otherwise specifically justified by the company's specific situation and needs for the duration of the authorisation period.

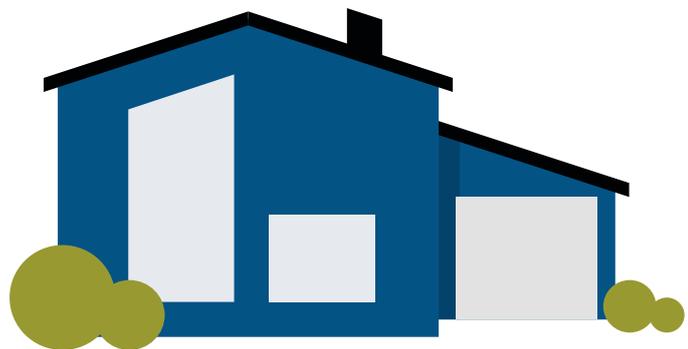
### **6. Public offers**

#### **6.1 Equal price in public offers to acquire shares**

Nordea's funds believe that shares carrying equal rights to the company's assets and profits shall be treated equally in public offers to acquire shares. The fundamental principle shall be that the same price is offered for shares with the same economic rights.

#### **6.2 Shares shall be freely transferable**

The same classes of shares shall, without restrictions by clauses in the articles of association, be freely transferable.



## 7. Corporate social responsibility (CSR) aspects

Nordea's funds' overall starting point is that the companies' responsibility with respect to CSR aspects is fundamental to them achieving sustainable good returns.

Nordea's funds have endorsed the UN's Principles for Responsible Investments (PRI)<sup>2</sup> because it is the opinion that the management of relevant CSR aspects can affect the return of the funds. Nordea's funds aims to actively ensure compliance with these principles in companies.

The Management of Nordea's funds apply the Nordea Asset Management Policy for Responsible Investment.

### 7.1 Board of Directors' responsibility

Each board of directors shall adopt a responsible approach and work actively with CSR aspects that are relevant to the company. These include aspects relating to impact on the environment and climate, working conditions for employees, matters of business ethics, equality and diversity, as well as working conditions and impact on climate in supplier channels.

2) PRI – Principles for Responsible Investments, is an open global initiative for investors launched in 2006. For more information, go to [www.unpri.org](http://www.unpri.org)

The board of directors shall ensure compliance with a code of conduct and policies throughout the company by establishing governance and management systems and relevant monitoring and control systems. The board of directors shall regularly evaluate the company's work.

The board of directors shall furthermore ensure that a true picture is conveyed to the shareholders of the company's risks, standpoints and active work concerning existing relevant environmental, social and ethical aspects which are directly affected by the company's operations. This should take place through external communication such as annual reports and websites, where the code of conduct, policy documents and profit and loss accounting should also be available.



# International corporate governance principles

The following principles are based on those adopted by the International Corporate Governance Network<sup>3</sup>, which in turn bases its principles on the OECD's Principles of Corporate Governance. These principles shall be seen as overall guidelines for corporate governance to be applied by Nordea's funds on a pragmatic basis, as they may, in individual cases, have to be adapted to local laws and regulations. The Management Company form part of the Nordea group, a financial services group in the Nordic and Baltic regions.

## Corporate governance principles

Nordea's funds believe that sound corporate governance contributes to shareholder value and adds value to equity investments. Corporate governance is essential for a transparent relationship between companies and shareholders, in which shareholders play a vital role in improving the performance of a company.

### 1. Objective of the company – shareholder returns

The overriding objective of the company shall be to optimise returns for its shareholders over time.

### 2. Disclosure and transparency

Companies shall disclose relevant and material information concerning the company on a timely basis. Besides financial and operating results, company objectives, risk factors, stakeholder issues and governance structures, the information shall include a description of the relationship of the company with other group companies, data on major shareholders and other parties that control or may control the company, including information on special voting rights, shareholder agreements, the beneficial owner of controlling interest or of large blocks of shares, significant cross-shareholding relationships and cross-guarantees, as well as information on differential voting rights and related party transactions.

### 3. Audit

Annual audits of the financial statements performed on behalf of shareholders shall be required for all companies. The audit shall be carried out by independent, external auditors who shall be proposed by or with the assistance of the audit committee of the board for approval by the shareholders. The company's interaction with the external auditor shall be overseen by the audit committee on behalf of the shareholders. To limit the risk of potential conflicts of interest, non-audit services and fees paid to auditors for non-audit services shall be both approved in advance by the audit committee and disclosed in the annual report. The annual audit shall provide an external and objective opinion on the financial statements' fair presentation of the financial position and performance of the company in all material respects, give a true and fair presentation of the affairs of the company and duly comply with current law and regulations.

The scope of the audit shall be as stipulated by current legislation, and shareholders with the right to expand the scope of the audit should do so if deemed necessary.

The board of directors and, where required, appropriate representatives of the company shall, on a regular basis, confirm the accuracy of the company's financial statements or financial accounts, as appropriate, and the adequacy of its internal controls.

<sup>3</sup>) The International Corporate Governance Network is a group representing the interests of major institutional investors, companies, financial intermediaries and other parties interested in the development of global corporate governance practices.



#### **4. Shareholders' ownership, responsibilities and voting rights and remedies**

The exercise of ownership rights by all shareholders shall be facilitated, including giving shareholders reasonable notice of all matters with respect to which shareholders are required to or may take action in the exercise of voting rights.

Boards shall treat all the company's shareholders equitably and shall ensure that the rights of all investors, including minority and foreign shareholders, are protected.

*Unequal voting.* Companies' ordinary shares shall feature one vote for each share. Companies shall act to ensure the owners' rights to vote. Divergence from a 'one-share, one-vote' standard that provides certain shareholders with power that is disproportionate to their equity ownership shall be both disclosed and justified.

*Access to the vote.* The right and opportunity to vote at shareholders' meetings hinges in part on the adequacy of the voting system. Companies shall explore initiatives to expand voting options to include the secure use of telecommunication and other electronic channels.

*Shareholder participation in governance.* Shareholders shall have the right to participate in key corporate governance decisions, including the right to nominate, appoint and dismiss directors and the external auditor, and the right to approve major decisions.

Companies incorporated in jurisdictions that do not have laws enabling the appointment and

dismissal of a director or an external auditor by shareholders holding a majority of votes shall nevertheless endeavour to provide such rights for shareholders.

*Shareholders' right to convene a meeting of shareholders.* Each company shall provide holders of a specific proportion of the outstanding shares of a company, no greater than ten percent (10%), with the right to convene a meeting of shareholders for the purpose of transacting the legitimate business of the company.

*Shareholder questions.* Shareholders shall be given the right to ask the board, management and external auditor questions at shareholder meetings.

*Major decisions.* Major changes to the core businesses of a company and other major changes in the company which may, in substance or effect, materially dilute the equity or erode the economic interests or share ownership rights of existing shareholders, including major acquisitions, disposals and closures of businesses, shall not be made without prior shareholder approval of the proposed change.

The equity component of remuneration programmes for board members and employees shall be subject to shareholder approval. However, Nordea's funds are generally negative to board members receiving options issued by the company. Furthermore, companies shall not implement shareholder rights plans or so-called "poison pills" without shareholder approval. In addition, changes to the articles of association or other rules governing the company shall

not be made without prior shareholder approval. Shareholders shall be given sufficient information about any such changes in the company, sufficiently in advance to allow them to make an informed judgment and exercise their voting rights.

*Disclosing voting results.* Equal effect shall be given to votes whether cast in person or in absentia, and meeting procedures shall ensure that votes are properly counted and recorded. Companies shall make a timely announcement of the outcome of a vote.

*Securities lending.* The company shall strive to vote for as large proportion of its holding as possible. However, if it is in the best interest of our unitholders that securities remain in a securities lending program – Nordea’s funds are not obliged to remove them from the lending program.

## 5. Boards of companies

These principles do not advocate any particular board structure and the term “board” as used herein is intended to embrace the different national models of board structures. In the typical two-tier system, “board” as used in the principles refers to the “supervisory board” while “key executives” refers to the “management board”. Although not totally appropriate terminology for a supervisory board in the context of a two-tier board, the term “director” is interchangeable with the term “board member”.

### *Duties of the board*

Duties of the board. The board’s duties and responsibilities and key functions, for which they are accountable, include those set out below:

1. Reviewing, approving and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
2. Monitoring the effectiveness of the company’s governance practices and making changes as needed to ensure the alignment of the company’s governance system with current best practices.
3. Selecting, compensating, monitoring and, when necessary, replacing key executives and overseeing succession planning.
4. Aligning key executive and board remuneration with the longer-term interests of the company and its shareholders.
5. Ensuring a formal and transparent board nomination and election process.
6. Monitoring and managing potential conflicts of interest of management, board members, shareholders, external advisors and other service providers, including misuse of corporate assets and abuse in related party transactions.
7. Ensuring the integrity of the company’s accounting and financial reporting systems, including the independent audit, and that appropriate control systems are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

8. Overseeing the process of disclosure and communications.

**Director competencies.** It shall be ensured that the board comprises directors with the requisite range of skills, knowledge and experience to enable it to discharge its duties and responsibilities.

**Directors are Fiduciaries.** Members of the boards of directors or supervisory boards are fiduciaries who must act in the best interests of all of the shareholders or in the best interests of the company, and are accountable to the shareholder body as a whole. As fiduciaries, directors have a duty of loyalty to the company and must exercise reasonable care in relation to their duties as directors.

**Independent directors.** One of the principal features of a well-governed company is the exercise by its board of directors of independent judgment. Independent judgment means judgment in the best interests of the company free of any external influence that may attempt to be, may be or may appear to be exerted on any individual director or the board as a whole. Each board shall include a strong presence of independent non-executive directors.

**Information on board members.** Companies shall disclose upon nomination or appointment to the board, and thereafter in each annual report or proxy statement, information on the identities, core competencies, professional or other backgrounds, recent and current board and management mandates at any other companies, factors affecting independence, board and committee meeting attendance and overall qualifications of board members and nominees so as to enable

investors to assess the value they add to the company. Information on the appointment procedure shall also be disclosed annually.

**Board chairs.** The chairman of the board shall not be the CEO. The company shall explain the reasons if this is the case, and in such event shall adopt an appropriate alternative structure to ensure that the board responsibilities can be effectively discharged in all circumstances.

**Board committees.** Where committees of the board are established, their remit, composition, accountability and working procedures shall be well-defined and disclosed by the board. At least a majority and, preferably all, members of the audit committee shall be independent.

**Related party transactions.** Every company shall have a process for reviewing and monitoring any related party transactions. The company shall disclose details of all material related party transactions in the company's annual report.

**Conflicts of interest among directors.** Companies shall have a process for identifying and managing conflicts of interest directors may have.

**Board evaluation.** Every board of directors shall evaluate its performance and the performance of individual directors on a regular basis and shall consider engaging an external consultant to assist in the process. Each company shall disclose the process for such evaluation.

**Non-executive director meetings.** Non-executive directors shall meet in the absence of executives

of the company as often as is required and on a regular basis.

*Share ownership.* Each company shall disclose a policy concerning ownership of shares of the company by senior managers and directors.

## **6. Corporate citizenship, stakeholder relations and ethical business conduct**

*Board responsibilities and duties in relation to stakeholders.* The board is accountable to shareholders and responsible for managing successful and productive relationships with the company's stakeholders. Companies shall adhere to all applicable laws of the jurisdictions in which they operate.

*Corporate social responsibility.* Companies shall adopt and effectively implement a code of ethics and shall conduct their activities in an economically, socially and environmentally responsible manner. The board is responsible for applying relevant control systems and following up on the implementation of the codes of ethics.

*Insider information.* The company generally strives not to be made an insider. In the specific cases where this cannot be avoided and/or it is in the best interest of our unitholders that the company is made an insider – there are policies and structures to make sure that the information is handled in a controlled and proper way.

## **7. International remuneration policies**

*Remuneration for company management and incentive programmes.* Nordea's funds deem that each board of directors shall establish and

clearly communicate a long-term policy for the company's remuneration and benefits system.

Nordea's funds are amenable to incentive programmes, which align to a high degree the interests of the management and the employees with the interests of shareholders. Appropriately devised incentive programmes constitute useful instruments for the creation of added value for shareholders. Participants in the incentive programme shall hence be exposed to both appreciation and depreciation of the share value. Incentive programmes shall be clearly linked to performance at both individual and company level, and shall also aim at long-term share ownership. Provided that clearly operations-related goals or explicit and relevant reference measurements are achieved, the incentive programme may result in shares or options for management and staff. Nordea's funds recommend that shares normally constitute an essential component in the incentive programme.

The matters submitted to the shareholders' meeting shall always include, not only such matters which by law shall be dealt with by the meeting, but also other decisions concerning the incentive programme that can be considered to be of material significance to the shareholders."

The board of directors' decision proposal shall be prepared such that participants in the programme have no predominant influence over the formulation of the programme. Prior to the decision at the shareholders' meeting the board of directors shall in particular report on how the matter has been handled.

# Appendix A: Guidelines for information to shareholders regarding incentive programmes in listed companies in Sweden

## 1. Introduction

Incentive programmes for senior executives and other employees have become very common at Swedish listed companies in recent years. More than half of the companies have one or more programmes based on shares, convertibles, warrants, call options, employee options or synthetic options. The proportion is even higher for the largest companies.

The growing number of incentive programmes and growing complexity of the programmes bring about increased difficulties for the companies' owners to assess whether proposed and existing programmes are reasonably devised from the point of view of the owners. These difficulties are amplified by the programmes often being proposed at short notice and with sparse information.

With a view to improving the possibilities of shareholders to assess the incentive programmes of companies in a well-founded manner, the undersigned major shareholders<sup>4</sup> have agreed that the following guidelines should be complied with by Swedish listed companies with regard to incentive programmes of the types mentioned above.

## 2. Material for decision-making ahead of the AGM

### 2.1 Address at the AGM

Matters referred to the meeting for address shall not only be those that are statutorily incumbent upon it; other decisions about incentive programmes that are of importance to shareholders should always be referred to the meeting too.

### 2.2 Detailed material for shareholders in ample time ahead of the meeting

We do not oppose as a matter of principle incentive

programme proposals being presented for decisions at EGMs, but we believe that the board of directors ought to endeavour to convene the meeting in the same way and with the same amount of notice as ahead of an ordinary meeting, i.e. no later than four weeks before the meeting.

The notice of the meeting shall, according to the Companies Act, state the main content of the proposals to be submitted to the meeting for a decision. If the meeting shall decide on an issue of shares, convertible debt instruments or debt instruments with the option to subscribe for new or transfer treasury shares, the notice shall also state who is entitled to subscribe. In line with what the Swedish Securities Council has described as sound practice on the equity market, we believe that the notice should also include information about e.g. the issue amount, scope of conversion rights or warrants, issue price, conversion or subscription price, term, current share price and the dilution effect on share capital and the number of votes. Equivalent information should where applicable be given in the notice when transferring treasury shares and for call option programmes. Other terms of material importance should also be stated, e.g. if the instruments in question shall not be freely transferable.

Ahead of an issue or transfer, the board of directors' complete proposals for decisions shall statutorily be made available to shareholders for at least one week before the meeting. There is no precise time frame of the latter type in cases where a call option programme is to be submitted to the meeting for approval. We find it crucial that the board of directors, for all types of incentive programmes to be addressed at the shareholders'

4) These guidelines were issued by Alecta, AMF Pension, The Fourth Swedish National Pension Fund, Handelsbanken Fonder, Nordea's funds, Robur, SEB Fonder and Skandia.

meeting – irrespective of whether such address is based on statutory requirements or not – should make the board's complete proposals available to shareholders in ample time ahead of the meeting, although no later than two weeks prior to the meeting. The notice of the meeting should state that the complete proposal will be sent free of charge to shareholders wishing to receive it. In line with the recommendation of the Swedish Securities Council, we also find it appropriate for the company to automatically send the proposal to all shareholders who have registered for the meeting. Also, the proposal should always be kept available on the company's website, which should be specified in the notice. In the following, we state requirements that should be met by information in the notice or in the board's complete proposal for decision.

### ***2.3 Reasons for the company's incentive programme and how the proposal was formulated***

An incentive programme is an important part of a company's remuneration system and should therefore be devised with care. In this context, the board has an important role. The board is responsible for the company's organisation and should endeavour to develop a long-term policy for the remuneration system.

When proposals for incentive programmes are presented, it should be described how the programme fits in with the company's overall remuneration system. It is particularly important that the proposal states which incentive programmes are already in place, the scope of such programmes, remaining, term, etc. If there is an intention for the proposed programme to be repeated in coming years, or if the company has concrete

plans for other future programmes, these too must be stated. If the programme is based on anything other than shares in the parent company, this shall be specifically motivated. In its capacity of proposer to the AGM, the board of directors guarantees that the terms of the programme are reasonable and that any subsidies are openly reported. It is therefore important that the proposal states who has taken part in the internal decision-making process at the company.

In this context, the owners have a legitimate interest in knowing whether any of the executives covered by the programme have had or could be perceived to have had the possibility of influencing the decision-making process. It should be reported whether the programme has been discussed by the board, when this occurred and which board members participated in the meeting. Furthermore, it should be stated whether a separate committee within the board prepared the matter, and if the CEO or other senior executives took part in devising it.

### ***2.4 Participants in the programme and allotment thereto***

The proposal should make clear which executives or categories of executives shall participate in the programme. When specifying categories, the lowest and highest number of executives in each category that may be invited to participate in the programme should also be stated. If there is a proposal from the board to perform a category breakdown in terms of allotment size, this should be stated in the proposal.

If there is no such categorisation, the proposal should state who shall decide on allotment, the

principles according to which this shall be done, and which upper limits apply to allotment size. If the CEO is invited to participate in the programme, this should always be reported separately, specifying the size of the allotment that shall be offered to him/her.

If the executives in question are already covered by ongoing incentive programmes of the company, this should be stated in the proposal.

If guarantees shall be given regarding a certain level of allotment, the proposal should also contain information about that with respect to each category or person entitled to allotment.

If the proposal entails the ability of persons other than employees of the company to participate in incentive programmes based on shares, convertibles or call options, the proposal should clearly describe the reasons for such participation, the allotment size to be offered to each individual and how the board prepared the matter.

In order to facilitate comparison between different types of incentive programmes, calculations about allotment size should normally be based on underlying securities, i.e. the subscription price and redemption price for the shares to which the warrants or call options give entitlement, and nominal amounts for conversion loans.

### *2.5 Pricing of instruments*

Pricing of financial instruments in incentive programmes shall be based on a market-aligned assessment. The theoretical value of the instrument shall be established using generally accep-

ted valuation models, most commonly Black & Scholes, in which relevant variables are assigned values that can be considered realistic. There may however be reason to adjust the theoretically calculated value, e.g. due to limited liquidity of the instruments in question. The proposal shall describe how the theoretical value was calculated, stating the values assigned to relevant variables. If an adjustment was made, the considerations made in that process shall be carefully described. The complete valuation shall be made available to interested shareholders.

The requirement for a market-aligned valuation with any adjustments does not rule out a company facilitating participation in an incentive programme of the executives in question by contributing financially. If the company provides such a benefit, this shall be openly described in the proposal. If, for example, options are provided free of charge, the value represented by these options shall hence be stated.

In decisions about incentive programmes based on shares in unlisted subsidiaries, the valuation of the subsidiary that forms the basis for pricing the instrument shall be performed with the involvement of at least two independent valuation institutions, selected so as to ensure a thorough valuation. In the proposal, the board should disclose which institution(s) performed the valuation and make known the board's overall view of whether it can be considered that the valuation was performed on a commercial basis. The values assigned to relevant variables should be disclosed.



### 2.6 Dilution and expenses

An important question in connection with each incentive programme based on shares, convertibles or warrants is the dilution effect on capital and votes that shareholders may sustain. The proposal shall clearly describe how high the dilution will be or may be at a maximum as a consequence of the proposed programme, and the effects of the programme on key ratios. If the company already has incentive programmes in place that are based on convertibles or warrants, and if these programmes were launched after the company was listed, the proposal shall describe the dilution impact and the effects on key ratios that may arise from all the programmes combined.

The dilution effect should be calculated according to the recommendations of the Swedish Society of Financial Analysts or other generally accepted method. The board should clearly describe the calculation method used.

If the company has repurchased treasury shares, the dilution effect should be calculated partly on the total number of shares in the company, and partly on the total number of shares less shares held by the company at the time of the proposal. The board should also describe if any measures, and if so which measures, were taken or planned to hedge the incentive programme.

The proposal should contain information about the calculated costs for hedging the programme or for social security contributions during the term of the programme stating the circumstances of the calculations.

### 2.7 The board's overall assessment of the proposal

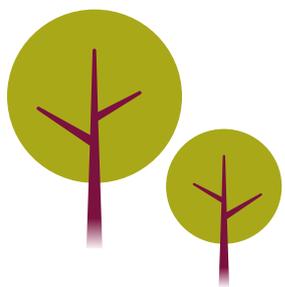
The Swedish Securities Council has emphasised that, in planning and implementing incentive programmes, it is vital that the responsible bodies at the company perform an overall assessment of an envisaged programme.

The group of individuals entitled to subscribe, terms, allotment size, presence of other share-related incentive programmes and other factors should appear reasonable on the whole. Experience shows that cases in which such reasonableness can be wholly or partially called into question can harm the company, the individuals concerned and public confidence in the stock market, according to the Swedish Securities Council.

In our view, the board, in its proposal to the AGM, shall provide its overall opinion of the proposal in light of the statement of the Swedish Securities Council.

## 3. Regular information in the companies' annual reports

The scope of employee incentive programmes and the costs borne by shareholders thereof are key factors for shareholders. Share price performance and the introduction of new programmes involve shareholders requiring regular information about how the incentive programmes are unfolding. The provision of information from the companies is very often insufficient today and not designed to enable comparisons between different companies or for the same company over time.



In annual reports, companies should describe events and outcomes in the past financial year with respect to new and old incentive programmes, and provide an overall presentation of all current programmes. Such descriptions shall, where appropriate, address the elements described above in decision-making materials.

The following exemplifies the factors to be highlighted for all current incentive programmes in question based on shares, convertibles, warrants, call options, employee options or synthetic options. The exemplification is not exhaustive.

- Dilution effects and effects on key ratios including such materials that are necessary for calculating or understanding the depiction.
- An information overview of the parties that hold the instruments linked to the programmes; more detailed information should be provided regarding the holdings of the CEO, certain senior executives and, where appropriate, board members.
- Allotment during the year.
- The cumulative expenses and provisions for the year for hedging, social security contributions and revaluations, and other relevant expenses stating the amount in which they affected earnings or equity during the year and in previous years.
- Estimated market value of current options issued to employees.

The presentation should also contain a summary of relevant variables for all current programmes. The guidelines are applicable irrespective of the information provided in this context in income statements, balance sheets and notes thereto.

It is however naturally advantageous if the required information can be coordinated with that submitted in the accounting material.

#### **Stockholm, March 2001**

Alecta, AMF Pension, The Fourth Swedish National Pension Fund, Handelsbanken Fonder, Nordea's funds, Robur, SEB Fonder and Skandia.



Nordea Funds Ltd with branches

