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New Code Rules on Executive Pay

The Swedish Corporate Governance Board is to introduce more comprehensive rules in the Swedish Code of Corporate Governance on the subject of remuneration of executives in Swedish listed companies. At the same time, the Code will be adjusted to accommodate new legislation and stock exchange regulations. A proposal of a new set of Code rules is being circulated for consultation today.

The proposals on rules for executive pay are based on EU recommendation 2009/3177/EG regarding remuneration of directors in listed companies.

"There is good reason to use the Code to set standards which satisfy the aims of the EU recommendation but which are founded on Swedish conditions and what constitutes good practice in Swedish listed companies," says Hans Dalborg, Chair of the Swedish Corporate Governance Board. "We prefer a solution through the Code, based on the comply or explain principle, rather than detailed legislation."

In brief, the proposed new rules on executive pay are:

- Remuneration and other terms of employment are to be designed so that the board of directors ensures that the company has access to executives with the competence the company needs at a cost appropriate to the company, and that the conditions have the intended effects for the company's operations. Variable remuneration is to be linked to predetermined and measurable performance criteria and be aimed at promoting the company's long term value creation.
- Variable remuneration paid in cash is to be subject to predetermined limits for the maximum amount to be paid, and the board is to consider whether payment of a certain proportion of the remuneration is to be dependent on whether the performance on which compensation is based is sustainable over time. The company is to ensure that it is able to reclaim variable components of remuneration that have been paid on the basis of information which proved to be manifestly misstated.
- Share and share-price related incentive programmes are to be designed with the aim of achieving increased alignment between the interests of the participating executive and the company's shareholders. Accumulation of a personal holding of shares in the company is to be promoted. The vesting period or the date for final acquisition of shares, share options or other share related instruments in a programme is to be no less than three years. Remuneration of non-executive board members is not to include share options.
- In accordance with the common practice that has developed on the Swedish market, termination packages, including salary during a period of notice, are not to exceed the individual's fixed remuneration for two years.
- The remuneration committee is to evaluate programmes for variable remuneration and the application of the guidelines for such remuneration approved by the shareholders' meeting. Appropriate knowledge and experience of executive remuneration issues has to exist among the members of the committee.
- Companies are to describe on their web sites all variable remuneration schemes for executives, not only share and share price related incentive programmes, as is the case today.

As previously stated, the Code is also being adjusted as legislation has superseded certain Code rules, which are therefore now being removed. This applies, for instance, to rules concerning audit committees, financial reporting and internal controls.

The Code's rules on board member independence are being changed as a result of the removal of the equivalent rules from Nasdaq OMX Stockholm's Rule Book for Issuers. In the main, the previous Code rules are being reintroduced, but with an explanation that the issue of independence must be assessed as a whole and the removal of the previous "12 years rule".

The proposed text of the revised Code can be found at <http://www.corporategovernanceboard.se>. Any comments on the text can be submitted to info@bolagsstyrningskollegiet.se and must be received no later than 20 November 2009.

The Board will then produce the final text of the revised Code. The aim is for all changes to come into force on 1 January 2010 or as soon as possible thereafter.

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