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REGERINGSKANSLIET

**Ministry of Industry, Employment and
Communications**

Division for State Enterprises

Guidelines for external reporting by government-owned companies

Introduction

A company's external reporting constitutes the most important source of information for assessing its capacity for creating value, i.e. future cash flow, earning capacity and capital structure and also with regard to the degree to which it has met its specific objectives. Company reporting has a broad readership: for example, investors, creditors, Management and Board of Directors, employees and unions, competitors, clients and suppliers, legislators, researchers and the media.

Government-owned listed companies should maintain high standards with regard to their reporting, and should provide great transparency.

It is for this reason that the Ministry of Industry, Employment and Communications has set up these guidelines regarding external reporting in government-owned listed companies. The purpose of the guidelines is to determine a minimum level of external reporting in government-owned companies. With regard to those companies in which the department holds a minority share, the department will work via the boards towards achieving minimum compliance with these guidelines.

The Ministry of Industry, Employment and Communications would like these companies' reporting to be more detailed than required by the guidelines.

The required transparency and high quality of reporting may also be placed in relation to the companies' relative sizes and market positions. Large companies and companies which are the sole market operators in their respective fields should strive to achieve

greater transparency and a higher degree of quality in their reporting than the minimum stipulated by these guidelines.

The guidelines explain how financial information and other information such as environment-related information must be reported. Environmental information is included as a separate item. Indeed, the environmental information given in a company's annual report should be considered to be as essential as other information. For this reason, it should be incorporated into the reporting as much as possible. Companies with specific objectives should treat reporting on the meeting of those objectives with the same importance as the reporting of other information.

The guidelines are to be considered as a complement to the current legislation on accounting and generally accepted accounting principles. In this context, the development of accounting principles achieved through the work carried out by IASC (the International Accounting Standards Committee), should be taken into consideration.

If there is a group relationship, the guidelines apply to the group's reporting.

The Ministry of Industry, Employment and Communications expects that the guidelines regarding annual reports will be complied with in the year 2001 at the latest, and that the requirements regarding quarterly reports will be met from the first quarter 2000 onwards.

Requirements

Periodic reporting must be understandable, relevant, reliable, enable comparisons and present a true and fair view. The reporting must take the principle of competitive neutrality into consideration, which in some cases may influence the degree of detail reported.

In accordance with the Annual Accounts Act (1995:1554), information must be provided regarding the company's expected future development. (See also the Swedish Accounting Standards Board's statement BNF U 96:6, which is available in Swedish only.) The basis for the reporting is constituted by the financial and quantifiable information. However, these information categories must be amended by descriptive information, in order that guidance be provided for the interpreting of the company's development and of its value-creating factors. If the company in question has any specific objectives, the reporting is to be amended with information regarding the extent to which the objectives have been met.

The companies are expected to comply with the recommendations *Nyckeltal för rörelsedrivande företag* (key figures for operating companies), *Informationskrav för separat värdering av rörelsen* (information requirements for the purpose of a separate evaluation of the business) and *Informationskrav om effekten av ändrade valutakurser* (information requirements regarding the effect of exchange-rate changes) published in the collection of recommendations *Finansanalytikernas rekommendationer 2000* (available in Swedish only), and also to comply with the recommendations indicated later in this text. Any deviation from the recommendations mentioned in these guidelines must be stated in both quarterly reports and in the annual report. The annual report shall also contain a motivation for the deviation.

1. The Management's analysis of financial and non-financial data

In the annual report, the Managing Director or the Board of Directors must state the financial objectives and key figures – including environmental key figures – according to which the organisation operates, and the extent to which they have been met. The MD/Board shall comment on the outcome and any differences compared to earlier periods. The description must be accompanied by an analysis consisting of the MD's/Board's explanation of how and why the objectives were or were not met. This includes commenting on how the company's environmental policy has been complied with. The comment must be accompanied by a sensitivity analysis regarding essential value-driving factors, provided that these are easy to quantify. The analysis must also comprise the company's business segments.

Any general (social, demographic, technological, political or macro-economic) trends which the MD/Board believe have influenced the sector and/or company must be referred to.

Furthermore, the recommendation *Ledningens kommentarer till utvecklingen* (the Management's comments on business developments) contained in the collection of recommendations *Finansanalytikernas rekommendationer 2000* must be considered.

2. Future-oriented information

In accordance with the Annual Accounts Act (chapter 6, section 1), information regarding the company's expected future development must be provided. (See also the Swedish

Accounting Standards Board's statement BNF U 96:6, which is available in Swedish only.) In the annual report, the MD/Board must describe the company's business concept and strategy, essential quantitative and non-quantitative objectives of its operations, and factors of importance for meeting the objectives. The MD/Board must also strive to present a competition analysis – in which the company itself must be included – and a business environment analysis focusing on changes that specifically influence the company in question. The environmental analysis must also deal with environmental issues of importance to the company's future prospects. The analysis must also comprise the company's business segments.

The annual report shall also provide a balanced description of any opportunities or threats which are of importance to the assessment of the company's future ability to create value. As a rule, this applies to changes to products and/or demand, commitments to different parties, business-sector trends (such as concentration), and other events which might be expected to influence the company's earnings and cash flow. The MD/Board shall also describe any strategic plans and projects which may be expected to influence the company's value, and – if applicable – also describe the company's chances of meeting its specific objectives.

3. Reporting on equal opportunities issues

The annual report must also account for the ratio of men to women in the company's management and in different position categories within the company. Equal opportunities projects, if any, must also be described. The individual-based statistics that form part of the annual report must be divided into gender, unless there are any specific reasons why this should not be done.

4. Reporting on environmental issues

Government-owned companies should describe their environmental policies with regard to sustainable development. A brief outline of the efforts made by the company in question to comply with and work on its environmental policy should be contained in the annual report.

According to the Annual Accounts Act (chapter 6, section 1), companies subject to reporting or permit requirements must in their management reports describe the effects their

operations have on the environment. (See also the Swedish Accounting Standards Board's statement BNF U 98:2, available in Swedish only.)

If a company has an environmental management system, this should be stated explicitly.

Furthermore, government-owned companies should comply with the collection of recommendations *Finansanalytikernas rekommendationer 2000* with regard to environment-related information. In addition to the types of information already mentioned, the following aspects are of particular interest:

- Measures - either taken or planned - with the purpose of limiting the environmental effects of the company's products and operations and, if possible, the results of such measures.
- Significant future costs for repairing environmental damage, such as rehabilitation of soil or waters.
- Statutory obligations or own commitments to take back and/or recycle used products manufactured by the company.
- How the company's energy consumption has developed, as well as its consumption of input goods, if such consumption is essential to the company's economy and to the environment.
- How the company's discharge into water, air or soil has developed, as well as that of other residue.
- If possible, the data should be compared with corresponding data from the company's competitors.

However, the reporting should focus on environmental aspects of essential impact on the company's economy and the environment. It should also be placed in relation to the relative size of the company.

5. Reporting on financial issues

a) Publications

A report on the company's operations must be submitted quarterly, not later than two months from the expiry of the quarter. This report – in this text termed quarterly report – shall, as a minimum, comprise the data required by law to be contained in an interim report, and must also contain the information specified in these guidelines.

A press release should be made available no later than two months after the expiry of the financial year. This

press release must also present the quarterly report regarding the fourth quarter. Information regarding earnings and financial position as accounted for in the quarterly reports must be presented in the annual report.

The annual report must be available no later than three months after the expiry of the financial year.

All reports shall not only comply with the Annual Accounts Act's requirements on how information must be made public, but shall also – as a minimum – be made available on the company's web page. Decisions on further publications are for the company to make.

b. Summaries of key figures and central figures

Key figures required for inclusion in quarterly reports are in principle the same as those required by OM Stockholm Exchange AB in their listing agreement, i.e. turnover, earnings before appropriations and taxes, assets, liabilities, shareholders' equity, cash flow before investments, net investments, turnover and/or earnings per line of business if such figures have been presented in the annual report, plus commentaries on developments. The figures must refer to the period under consideration, the corresponding period of the preceding year and to accumulated figures for the current year. In order to ensure that quarterly accounts may be compared to the annual accounts, 12-month rolling figures should be stated. Furthermore, information regarding items influencing comparability, changes to accounting principles or changed estimates and forecasts should be included. (See also the Swedish Financial Accounting Standards Council's publications RR 4 and RR 5. These publications are available in Swedish only, but their contents correspond to parts of IAS 8.)

Key figures that should always be included in the press release are: turnover, grants (if any), operating earnings before depreciation, earnings after financial items, earnings after financial items less non-operating items, net profit, adjusted equity, net indebtedness, net external indebtedness rate, return on equity and operating capital, added value, cash flow before investments, net investments and proposed dividends.

The key figures must be calculated in the same way over the years.

Should any significant changes in the company's operations occur, either through acquisitions, disposals, winding-ups or restructuring, then the two previous years' reporting shall – if possible – be amended by pro forma reporting both in the quarterly reports and in the annual report. Should it prove difficult to assess financial revenues and expenses in the pro forma reporting, and provided that these items are of no considerable importance to the total picture of the company, the reporting may account for earnings before net financial income.

Companies with specific objectives should – in consultation with their respective owners – work out relevant key figures to enable an evaluation of how they meet their objectives.

c. Reporting per line of business

The annual report shall contain turnover, margins, earnings, cash flow, operating capital, R&D and any other relevant key figures per line of business. The companies should strive to present this information in the quarterly reports as well.

The annual report shall - in addition to the above-mentioned information per line of business - contain a splitting-up of assets and liabilities contained in the operating capital.

(See also IAS 14.)

6. Information regarding the Management, the Board of Directors and incentive programmes

The annual reporting should list the company's chief officials and any group-internal or external board memberships they may hold, the number of years they have worked for the company and their respective ages. Their salaries, fees and other compensations, as well as termination payments, shall be stated in accordance with the Industry and Commerce Stock Exchange

Committee's recommendations regarding remuneration to top managers. This is required in order that their payments may be compared to the government's guidelines regarding conditions of employment for top managers in government-owned companies (adopted on December 12, 1996).

The annual report should describe the Board of Directors and information regarding any other board memberships its members may hold, the number of years they have served on the Board and their ages. If shares and options are owned by board members, these should also be stated.

The annual report shall contain a description of the work carried out by the Board of Directors during the past year. This description shall indicate the dates on which the Board of Directors met and the character and contents of the board meetings. It shall also describe the recurring items on the agenda of these meetings, as well as issues delegated by the Board of Directors to the MD. It shall furthermore contain information regarding whether or not there are any principles governing what persons, apart from the MD, attend the board meetings on a regular basis.

If the company has any incentive programmes as defined by the government's guidelines for incentive programmes for employees in government-owned companies (adopted on November 11, 1999), its annual report shall contain information regarding such programmes.

7. Background and recent history

The annual report shall contain a very brief description of the company's development during the past five years. The description shall focus on the ways in which strategies have changed and objectives been complied with in various fields (including environment) over those years.

8. Audit

It is recommended that companies quoted on the stock exchange let a review of their quarterly reports to be made by their auditors. In other companies, it is up to the Board of Directors to decide whether to have a

review undertaken. An owner with a majority interest can – under particular circumstances - order a review to be carried out, either by an external auditor or by the Swedish National Audit Office.