

SUMMARY OF ARBITRATION RULING

Introduction

In view of a dispute that arose between Skandia Insurance Company Ltd. and the company's former CEO, Lars-Eric Petersson, the parties have agreed that the dispute shall be settled by an arbitration board. Initially the arbitration dispute pertained to claims for damages made by Skandia regarding certain involvement by Lars-Eric Petersson in the Wealthbuilder incentive program, and certain circumstances involving renovations, etc., of certain apartments in properties owned by Skandia. In addition, Skandia made demands regarding the conversion of Lars-Eric Petersson's outcome of another bonus program (Sharetracker) to pension contributions. Lars-Eric Petersson, for his part, made demands for salary and pension premiums, claiming that Skandia lacked grounds to terminate him.

Subsequently, the parties agreed to limit the arbitration dispute after the initial preliminary investigation against Lars-Eric Petersson regarding criminal acts surrounding the apartments was dropped, and thereafter the district court turned down charges regarding the conversion of bonuses from Sharetracker. What remains of the dispute now are only the issues of whether Lars-Eric Petersson, through his involvement in Wealthbuilder, drew upon himself a liability to pay damages and whether Skandia had the right to terminate him.

The parties' pleas

Skandia has now demanded that Lars-Eric Petersson shall be ordered to pay damages to the company in the amount of SEK 172,880,340 plus interest. As a basis for its claim, Skandia has asserted that Lars-Eric Petersson committed a criminal act by changing the Plan Rules for the Wealthbuilder bonus program, without the approval of Skandia's

board or its compensation committee, and thereby allowed the bonus outcome to be set at a higher amount than what applied for the program's ceiling amount for the period 1998-1999. Alternatively, Skandia has claimed that Lars-Eric Petersson has incurred a liability to pay damages pursuant to the Swedish Insurance Business Act, in that he – through intentional or careless acts or omissions – caused Skandia to pay out bonuses in an amount that exceeded the bonus program's ceiling amount for the period 1998-1999.

Lars-Eric Petersson has contested Skandia's claims and for his own part has demanded that Skandia be ordered to pay him SEK 10,916,663 plus interest, and also to pay premiums for an insurance plan in an amount totaling SEK 10,810,933 plus interest. As a basis for his demand, Lars-Eric Petersson has asserted that Skandia did not have the right to terminate him or revoke the agreement that was reached in connection with him prior to that being terminated from his employment with the company.

Opinion of the arbitration board

It has been ascertained that there was a ceiling amount of SEK 300 million for the Wealthbuilder bonus program when it was introduced in 1998. In January 2000, the board decided to extend the program on "mutatis mutandis unchanged terms" until May 15, 2000. At the time of the decision, the cap of SEK 300 million had already been reached.

The arbitration board has found it ascertained that it was urgent for Skandia's board in January 2000 to make a decision which entailed that senior executives of Skandia's international AFS organization be compensated due to a delay in adopting another bonus program ("the stock option program"), which was to apply from January 2000 with some retroactive effect.

As early as at a meeting of the executive management on January 25, 2000, it was

recorded that the decision to extend the program entailed that there was no cap for the program. Early on, several persons, including board members, were of the resolute impression that the board decision in practice entailed the removal of the ceiling amount in its entirety. It was in this manner that the decision also came to be perceived and applied within the company. Countless people worked during 2000 to limit the bonus outcome for both Sharetracker and Wealthbuilder, among other things by trying to find lock-in opportunities, etc. However, no one seems to have had the impression that there was any way to apply a ceiling amount on the outcome. The auditors, too, have applied the decision as if there was no cap, even though they requested more documentation.

The expensing and other accounting of Wealthbuilder took place as if there was no cap, and the outcome was discussed at several meetings in the company under the same conditions. If the board or any of its members were of the impression that a cap was to be applied, they had several occasions – and strong reasons – to express such an impression. This did not happen. What has now been said cannot be perceived in any other way than – despite the lack of any express decision by Skandia's board that was documented in minutes – that in all actuality, a decision was made by the board or by the compensation committee which in reality entailed that no cap should or did become applied by Skandia in the manner indicated in the arbitration matter.

Against the background of the aforementioned, the arbitration board has found that when Lars-Eric Petersson signed Appendix 3 in December 2000, which constituted an amendment to the stipulations of Wealthbuilder, there was no ceiling amount – no cap – as indicated by Skandia that applied for Wealthbuilder. Skandia has thus not shown that Lars-Eric Petersson allowed the setting of a bonus outcome that exceeded any ceiling amount or which in any other respect caused Skandia – contrary to any cap or other limitation – to pay bonuses in such an amount. Skandia's plea shall therefore be dismissed on the grounds initially cited by Lars-Eric Petersson.

However, the arbitration board has also taken up the issue of whether Lars-Eric Petersson would be liable for damages in the event that, despite all, a cap would have applied for the bonus program. With respect to Lars-Eric Petersson's actions, it has not been shown that he took any active involvement in the bonus issue prior to signing Appendix 3. The investigation in the arbitration dispute does not lend support to the claim that he intentionally acted contrary to what he perceived was a decision by the company or otherwise acted in conflict with Skandia's interests. Further, the arbitration board has found that even if the ceiling amount had been in place when Lars-Eric Petersson signed Appendix 3, he did not commit such an act that he, through carelessness, would have incurred a liability to pay damages to Skandia; any carelessness on his part was negligible compared with the defects that can be ascertained with respect to Skandia's handling of the matter.

With respect to Lars-Eric Petersson's demands, the arbitration board asserts that, in view of what has been brought to light, he has not in any respect acted fraudulently or in breach of trust against Skandia by signing Appendix 3 or through his aforementioned involvement in general in Wealthbuilder; at most he can be considered to be guilty of a slight carelessness, if the cap had remained. Under such circumstances, Skandia cannot use Lars-Eric Petersson's actions as a basis for revocation or termination. Skandia shall therefore be ordered to pay the amounts and pay the pension premiums pursuant to the termination agreement with Lars-Eric Petersson.

Ruling

The arbitration board has thus dismissed Skandia's claim for damages and, in support of Lars-Eric Petersson's claim, orders Skandia to pay to Lars-Eric Petersson the salary and to pay the insurance premiums that follow from the company's termination agreement with Lars-Eric Petersson.