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Financial Participation of Employees in Europe

Introduction

The VAA, the Chemicals Executives Union (full German name: Bundesverband der Führungs- und Führungsnachwuchskräfte in der Chemie und in angrenzenden Bereichen) , conducted a conference on employee financial participation in Europe on 14 and 15 September 2006 in Berlin.

The VAA represents 28,000 German managers from the chemical industry. Half of the members belong to executive staff, the remaining members are exempt from collectively agreed terms. The VAA is a recognized Social Partner in Germany. For decades, it has been concluding a blanket collective agreement with the employer association of the chemical industry, Bundesarbeitgeberverband Chemie (BAVC), and annual salary scale agreements for university graduates holding natural science and technical positions in the chemical industry in Germany.

The VAA belongs to the German Managers' Confederation (full German designation: Deutscher Führungskräfte Verband (ULA)) and through it also to the European Confederation of Managerial Staff (CEC), which takes part in the general social dialog at European level.

Furthermore, the VAA is a member of the European Federation of Managers in the Chemical and Allied Industries (F.E.C.C.I.A.), the European umbrella organization for the national European associations of managers in the chemical industry. In this capacity, the F.E.C.C.I.A. represents more than 100,000 managers in the chemical industry in Europe. It is a member of the CEC and participates in the general social dialog through that organization. The F.E.C.C.I.A. is also in constant dialog with European Chemical Employers Group (ECEG) and the European Mine, Chemical and Energy Workers' Federation (EMCEF).

The F.E.C.C.I.A. has been an important source of support for the conference.

In its Pepper Reports, the European Commission recognized the advantages of employee financial participation and supported approaches that would increase this practice in Europe.

This stance can be traced back to a recommendation of the Council of Ministers of the European Union of 27 July 1992. In it, the member states were called upon to recognize the advantages of employee financial participation and to make certain that the existing legal structures enabled the implementation of the systems of participation cited in the recommendation. The member states were also asked to examine further possibilities for granting special treatment under tax law or in other forms as an incentive for introducing certain participation systems.

In its Communication on a framework for the promotion of employee financial participation of 5 July 2002, the European Commission reiterated that employee financial participation could make an important contribution to realizing the objectives set down in the Lisbon strategy. To advance financial participation of employees in profit and enterprise results in Europe, the Commission urged a broad exchange of information and the promotion of constant dialog at European level to intensify the exchange of information and experience and increase the public's awareness of the issue.

This was the reason for staging the conference in Berlin on 14 and 15 September 2006.

The purpose and objective of the conference was to determine how wide-spread employee financial participation was in Europe in 2006.

Another thrust of the conference was to discuss ways of enabling employees to financially participate in their companies in Europe. European and national employer and employee organizations took part in the conference, as did representatives of the scientific community and from the political sphere. Various models of financial participation currently practiced in Europe were presented at the conference. Various aspects of financial participation were also discussed. The discussion on employee financial participation revolved in particular around the varying perspectives of employers and employees.

A large number of companies conduct business throughout Europe and have employees all over Europe. The conference organizers were therefore intent on finding models that could yield as close to the same benefits as possible for all workers employed in Europe. In this context, the participants also discussed obstacles to the introduction of financial participation models, for example in tax law or in law in general, or cultural difficulties and special characteristics in Europe.

The chapters below provide an overview of what was covered at this conference.

I. Types of Financial Participation

The conference showed that employee financial participation can take on several different forms. It can manifest itself as employees' shares, sleeping partner's interests or special dividend rights, as loans, shares in a private limited company (GmbH) and shares in a cooperative society or indirect interests.¹ All these types of participation constitute equity participation and thus interests in the company. In other words, the possibilities of participation extend to enterprises of all legal forms. The discussion on this matter has resumed again in Germany. There is a broad political movement under the banner "investment pay" that is pushing political initiatives in both the major parties, the Union and the SPD, and in the trade unions. For instance, the head of the IG BCE (Mining, Chemical and Energy Industrial Union), Hubertus Schmoldt, said in April 2006: "The Government should have picked up on the Federal President's initiative long ago. I don't understand why it hasn't." By

¹ Slide 9 *Beteiligung der Arbeitnehmer*, Ottheinrich von Weitershausen, 15.9.2006

way of explanation, German President Horst Köhler said in a New Year's interview that employee financial participation could help to narrow the gap between the rich and the poor. The Federal President's support of this practice has long been on the Union's political agenda. Karl-Josef Laumann, Labour Minister in the German state of North Rhine-Westphalia (NRW), has chaired a Union working group devoted to exploring various models of participation since March 2006. The discussion about "investment pay" could well have raised an issue that should be addressed by a future congress of the FECCIA or one of its member organizations. Cross-border problems will also play a major role in this context.

The conference focused on the various forms of profit sharing and equity participation in corporations.

Essentially, there are two basic models of financial participation for employees:

- Profit sharing (and a related practice called gain sharing) and
- Equity participation.

The aim of financial participation is to allow employees to take part in the profit and success of their company. What all forms of participation have in common and what characterizes them is that their aim is to have employees participate in enterprise profit. The systems of financial participation can involve different forms of participation and can extend either to all employees or only to certain groups of employees, primarily managers.

In **profit sharing**, the profit is divided between shareholders and employees. Besides their fixed work pay, the employees receive payments directly linked to the company's profits or participate in some other way in the operating result.

Gain sharing is an approach related to profit sharing. Gain sharing models are not linked to the company's earnings but rather to other criteria, e.g. increases in output, cost reductions or specific quality objectives. In general, this approach therefore has more to do with a performance-based pay system than with financial participation per se. However, it can serve the same function as financial participation in cases where common forms of financial participation cannot be applied, e.g. in the public sector or the non-profit sector.

Profit sharing and gain sharing both involve bonus payments to all employees or to a part of the employees at a company. These payments are usually based on a previously defined calculation formula that has to be negotiated with the employees' representatives. The bonus payments can consist of cash payments or securities (fixed-interest-bearing dividend instruments) that become freely available either immediately or after a minimum blocking period. Profit sharing is particularly well developed in France. Five million employees there benefit from it under a "*participation*" arrangement (obligatory share in profit at companies with more than 50 employees) or an "*intéressement*" arrangement (voluntary profit sharing subject to the approval of employees or employees' representatives). The practice is also widespread in the United Kingdom mostly because of tax incentives (originally as part of the "Approved Profit Sharing Plan" and now under the "Share Incentive Plan"). In Germany, participation comes about as part of the collective agreements.

In **equity participation** arrangements, employees participate indirectly in profit. Profit is shared on a stock basis, either by distributing dividends or by having the employee sell shares and obtain the proceeds or a combination of both.

Employee equity participation is accomplished in one of three ways:

Version 1: The employee acquires shares in the company where he works, generally at preferential terms (a price reduced from market value). The shares are subject to a minimum blocking (holding) period. Share acquisition plans that enable employees to profit from the appreciation of the stock price of their listed company are often used by companies with branches in several countries that want to offer employees throughout the group a common share plan at advantageous conditions. This version immediately dilutes equity for old shareholders. An advantage of this approach is that the extent of equity dilution is precisely known, whereas in share options (Version 3) it depends on the price trend. If employees are additionally required to buy shares (even at a relatively reduced price), they have a real stake in the company's business success. A disadvantage from the employees' perspective is that the cash advantage from shares distributed for free (Version 2) or shares acquired at a cheaper price is subject to direct taxation. Moreover, the purchase of shares in an employer is an investment decision in which the employment risk is closely linked to the capital risk.

Version 2: The company issues free shares to its employees. Plans for free employee participation are widespread in the United Kingdom and Ireland.

Version 3: Stock option plans give a company's employees or part of those employees the right to subscribe to company stock during a defined period at a fixed preferential price ("subscription right"). This arrangement is profitable if the stock price rises during the option period. Stock option plans are sometimes linked to savings agreements ("Save As You Earn" savings plans in the United Kingdom) and are frequently utilized at the start-up of New Economy companies. They also became a generally common form of remuneration and bonus payment for managers of major listed companies with branches in several countries inside and outside the European Union.

Employee stock options are customary mostly at larger companies. There are several reasons for their greater prevalence at these companies. Most small and medium-sized enterprises (SMEs) are simply too small for participation models of this kind. These SMEs have a hard time coping with the overhead and administrative costs incurred by such programs. SMEs are also frequently partnerships, whose owners shy away from the monitoring and reporting duties associated with stock option plans. Even larger SMEs are often not candidates for stock subscription rights because they are not listed companies.

Nonetheless, there are definitely cases in which employee stock options are also useful for SMEs. These models have been successfully applied especially by medium-sized companies that are following a clear growth course. You often find such companies in industries where human resources play an instrumental part and where management activities are difficult to control/monitor from the outside, because the management decision-making processes are highly unstructured and complex.

Employee stock options incur costs for equity holders. If an employee exercises his subscription right, stock has to be sold, which cuts into company profits, or new shares have to be issued, which lowers the value of the previous shares. Profit is divided among a larger group of equity holders and the old shareholders watch their influence decline in relative terms, e.g. at the general meeting.

The equity holders pay their managers in the way described only if the stock price increases (otherwise the employees would not exercise their options). Critics of this model say that it is excessively expensive for shareholders. They argue that this model is part of the corporate governance problem, not a solution to it. Managers exploit their own positions of power to obtain more compensation through stock options than they could ever earn from other types of remuneration.

Stock option plans naturally have to be well-thought-out to resolve or mitigate the principal/agent problem. A poorly defined equity holder/manager relationship can result in unsuitable option plans that allow a management driven by self-interest to extort privileges out of the equity holders. The risk of managers obtaining excessive unearned benefits in the form of stock options can frequently be mitigated by precisely defining the terms for exercising the subscription rights to take into account a company's relative market value compared to the rest of the market and/or to its chief competitors.

This form of compensation only deserves special criticism to the extent that the special characteristics of stock option plans aggravate the corporate governance problem. Various points have to be kept in mind. For one thing, employee stock options are not commensurately reflected in a company's income statement because of their special characteristics. This shortcoming can be eliminated by making it mandatory for these companies to include precise and comprehensive information on the plans in their annual financial statements and notes. The problem could also be rendered less severe if, at the decision to launch a stock option plan, shareholders were candidly told what values the options could be expected to have in different price trend scenarios. Another criticism of employee stock options is that they encourage risky decisions by the management because executive staff (usually) receives the subscription rights free of charge and thus participates only if the price trend is favorable. This argument does not hold up entirely. Assuming that an option is an asset, it would be illogical to expect a (non-venturesome) manager to gamble away this asset by making irresponsible decisions. It would be more logical to expect stock options to encourage short-sighted behaviour by tempting managers to seek primarily quick financial gains. This problem can be mitigated by putting a long blocking period in place for options.

The most important criticism is that employee stock options are too costly, i.e. they are more valuable for shareholders (who can diversify their portfolio) than for employees. This raises the question of whether there are better instruments available, such as bonus payments. However, the types of bonus payments to which the above argument does not apply have the disadvantage of negatively impacting liquidity.

Employee stock options (and similar models) help to increase employees' dedication to the company, their interest in its market value and in company profitability, and their performance. They also aid in improving the flow of information and in encouraging entrepreneurial thinking. Experience shows that companies that practice some kind of participation model are on average more successful than those that do not. There are many indications that companies with option plans achieve higher productivity and growth rates for a broad section of their workforce.

The prevailing economic wisdom is that employees who participate in their company's success are better motivated than those that draw a fixed salary. The question is: How great is this motivational effect? After all, the staff has only limited ways of influencing a company's financial success (e.g. the stock price) because success in this case largely depends on incalculable and uncontrollable factors such as the general state of the economy, the development of new technologies, etc.

There is the general problem of price increases and losses attributable solely to external factors, but it can be mitigated using relative performance indicators. A second problem is that individual employees have little influence on the economic success of the company and may be tempted to freeload. This argument can be countered by the fact that financial participation tends to strengthen (informal) horizontal control. In general, the introduction of stock subscription rights is also aimed at changing the corporate culture. It can affect the way employees view work tasks and promote teamwork and entrepreneurial thinking.

Employee stock options help to strengthen ties with employees, because normally they cannot be exercised for several years and often become void if an employee leaves a company of his own volition. If the price develops favourably, most beneficiaries will not want to forgo their option right. Even if options do not become void immediately on an employee's leaving the company but have to be exercised shortly thereafter, they can become "golden handcuffs" if allocated staggered in time (e. g. in annual tranches).

The loyalty effect stock options have is particularly significant at young, dynamically growing companies. In many cases, the organization and culture of these companies is determined by the individual employees and the composition of the staff. Particularly at companies that heavily rely on creativity, the success of the entire endeavour may often depend on keeping everybody on board. In a situation like this, subscription rights could make it easier to hold a team together.

Engendering company loyalty in skilled staff that is hard to replace is not the only purpose of stock options. They also protect a company's investment in human capital. Moreover, companies tend to offer these kinds of incentives especially to highly qualified and (internationally) mobile skilled workers that they want to win over. Nowadays, highly coveted specialists and top managers expect to be offered stock options as a variable part of the compensation package. Any company that does not do so is at a disadvantage in recruiting personnel.

Staff loyalty based on stock options naturally requires that the stock price develops positively over the long term. Even if the price falls under the exercise price, the options do not totally lose their effect. After all, they are long-term financial investments and their value is not wiped out by a temporary price decline. The only time options lose their loyalty effect completely is if there is no hope of the stock price ever recovering. Repricing the subscription price is a way of getting around the problem. Although this approach may be advantageous for staff loyalty, the prospect of a subsequent correction reduces the motivational effect of stock options.

Critics harp on repricing as proof that the primary purpose of options is to obtain privileges for a specific group. In principle, the problem is more fundamental and, in fact, common to all incentive systems. Barring a complete changeover of management, the question arises as to whether it might not be better to lower the hurdle rather than stick to a particular performance target (stock price) that is no longer attainable. But incentives are often needed even with less ambitious targets. In other words, the problem is not in repricing per se but rather in taking the right approach to it. When the subscription price is reset, you have to consider the new situation, i.e. the lower stock price and the slimmer prospects of future price appreciation. However, you cannot go to the other extreme, either, and let the managers be rewarded without rendering a reasonable counter-performance.

Employee stock options enable a company to compensate employees without immediately putting a heavy burden on liquidity. This is especially true if the shares supplied on exercise of options are the result of a capital increase. Even if companies have to acquire their own shares on the market, the liquidity outflow is at least postponed in comparison to cash outlays. It also opens up the possibility of exploiting price fluctuations and buying the shares at an especially favourable time.

Liquidity is a crucially significant issue for young companies. These companies often depend on the knowledge of certain skilled employees but are unable to pay them the usual market compensation immediately. Employee stock options are ideal instruments for up-and-coming companies that need highly qualified and mobile personnel.

When exercised, stock options trigger an inflow of capital that is less than if the stock had been sold on the open market. On the one side is the profit obtained by employees, on the other, the opportunity costs for the company. These costs cause no outflow of cash, however. The opportunity costs of taxable profit may be deductible depending on applicable accounting regulations and could even reduce the company's tax burden.

Stock options are offered to an employee as compensation for his work and are thus a form of pay. However, on accepting an offer of this kind, the employee decides to save a certain portion of his income (as the option cannot be exercised right away) and makes a special investment decision. As a rule, subscription rights (and most other participation models) have the disadvantage that a positive correlation arises between employment risk and the risk of financial loss. Before an employee takes on these risks, he has to answer the question of whether the options are just extra pay for him or a substantial part of his normal compensation.

If the options are granted in addition to a normal salary (as extra pay), the investment actually entails no risk. No direct costs are incurred, as the options are generally given out free of charge. There are also no opportunity costs, as the employee involved can scarcely expect to receive a cash payment if he turns down the offer. This situation is typically faced by employees at companies that have just introduced participation models. In these cases, the options are often not merely compensation but also a way of obtaining equity, namely, for employees with relatively small incomes and few assets, whose portfolios are usually less ambitious. Besides being risk-free, options may have the additional appeal of receiving preferential treatment under tax law or being granted at preferential conditions that only apply to employees.

If options constitute a substantial portion of work pay (as is the case with top managers) or affect employees in certain industries; other reasons dictate the acceptance of stock options. Even with highly concentrated risk, the investment decision can be a sensible one, because the employee can expect a higher return than with other possible investments. This assumption would not be true of many people working at large companies. It tends to apply instead to employees of small and medium-sized companies striving for high growth rates. In addition, workers at SMEs tend to feel that their personal contribution makes a difference in the company's success.

In addition to forging a tie with top performers, small companies also use this instrument to promote cooperation between certain employees. For instance, a scientist wants to ensure that he can rely on the work done by other colleagues whose specialized knowledge he needs for his own work. He will presumably accept a stock option plan, because it ensures that everyone involved is integrated in a common project.

II. Trends and Actors

Financial participation began to become established at large European companies in the 1990s. The European Commission soon became a strong advocate for the spread of financial participation, while the Social Partners' enthusiasm was rather moderate.

1. Discussion about Financial Participation at EU Level

At the end of the 1980s, the European Commission took the initiative and promoted employee financial participation.

The EU Commission's Policy on Employee Financial Participation

In 1991 the European Commission issued the PEPPER I Report on "Promotion of employee participation in profits and enterprise results." The report summed up the situation of financial participation in Europe at the time. Based on this report, the Council passed a recommendation on 27 July 1992 that underscored the advantages of financial participation and the significance of national legal regulations as well as the Social Partners' responsibility in this regard. In its recommendation, the Council also called for a new report to analyze member states' measures to promote financial participation and define principles to spread this practice in its different forms.

The PEPPER II Report, passed in January 1997, assessed the application of the Council recommendation. The report again stressed the productivity increase associated with financial participation. It concluded that the member states had quite different traditions in dealing with and disseminating financial participation and that few changes had occurred in basic attitudes in the member states. For instance, countries like France, Great Britain, Finland, the Netherlands and Ireland had active campaigns to promote financial participation, while other countries did little to promote its spread.

In a decision in January 1998, the European Parliament rated the report positively yet urged the Commission in particular to promote information exchange and the use of proven methods. It recommended that the member states create tax incentives for employee financial participation and called on the Social Partners to conduct information campaigns at national and European level.

In its Communication on a framework for the promotion of employee financial participation issued in July 2002, the Commission elaborated on the general principles of financial participation, the transnational obstacles to it, and actions to be taken to encourage the spread of financial participation.

Tax and legal issues and their transnational dimension posed the biggest obstacle to the spread of these systems. A group of experts formed in June 2003 issued its report on employee financial participation at transnational companies in December 2003. In this report, the group analyzed the obstacles to a spread of the practice to other European countries and to other regions.

The PEPPER III Report was released in June 2006 and dealt with the prevalence of financial participation in the new member states and in countries that were EU accession candidates. It is mentioned here only for the sake of completeness. It did not cover issues discussed at the conference.

2. Basic Attitudes of the Social Partners

Representatives of the Social Partners voiced their opinions at the conference. Their presentations will be covered in a later chapter. As a foretaste, this section will present the Social Partners' general attitudes toward this subject.

A. Employers

Flexible pay is one aspect of financial participation that companies like. Their basic attitude is more reserved on the whole. They are afraid financial participation will be linked to the co-determination structures in the company and to other participative forms of company management. Studies have shown that companies that allow employee financial participation have developed deliberation and co-determination structures in all areas of company management that are more pronounced. Another aspect employers reject is the integration of financial participation in collective agreements. Employer federations say that financial participation has to be solely the company's responsibility.

The lack of incentives in the tax system and in social security and the complexity of securities law were also criticized, along with the problem of diverging regulations and restrictions in labour law.

In the European and international context, the different legal frameworks for promoting financial participation hinder multinational companies from spreading financial participation programs. The lack of tax incentives and the complexity of the systems make a spread of this practice seem costly.

The introduction of financial participation entails high costs and more administrative work, both of which pose special problems for SMEs. This aspect was also illuminated at the conference.

B. Trade Unions

The attitude of trade unions towards financial participation ranges from reserved to pragmatic. The unions demand a clear-cut separation between remuneration for work and profit-based allocations and reject profit-based wage payments. Otherwise, financial participation is merely seen as a way of making employees share the burden of the business risk. It forces them to bear a double risk. For this reason, the discussion about financial participation should be separate from wage issues. It is extra income.

Trade unions will only support equity building plans and savings plans for building up equity under the following conditions:

The particulars of financial participation must be defined in negotiations with trade unions and the framework conditions in collective wage agreements and other collective agreements.

Funds must be run jointly by employees and the management. Furthermore, steps must be taken to form insolvency reserves.

From the trade union perspective, financial participation only makes sense if it is integrated in an overall system of employee participation and covers everyone working at the enterprise.

The discussion about financial participation has turned negative in the trade unions because of the prevailing economic crisis, Enron and other mega-scandals in the corporate world, and all the talk about greedy managers. The "New Accounting Standards" discussion is an attempt to mitigate the risks and the associated uncertainty.

III. Spread and Features of Financial Participation in the Member States

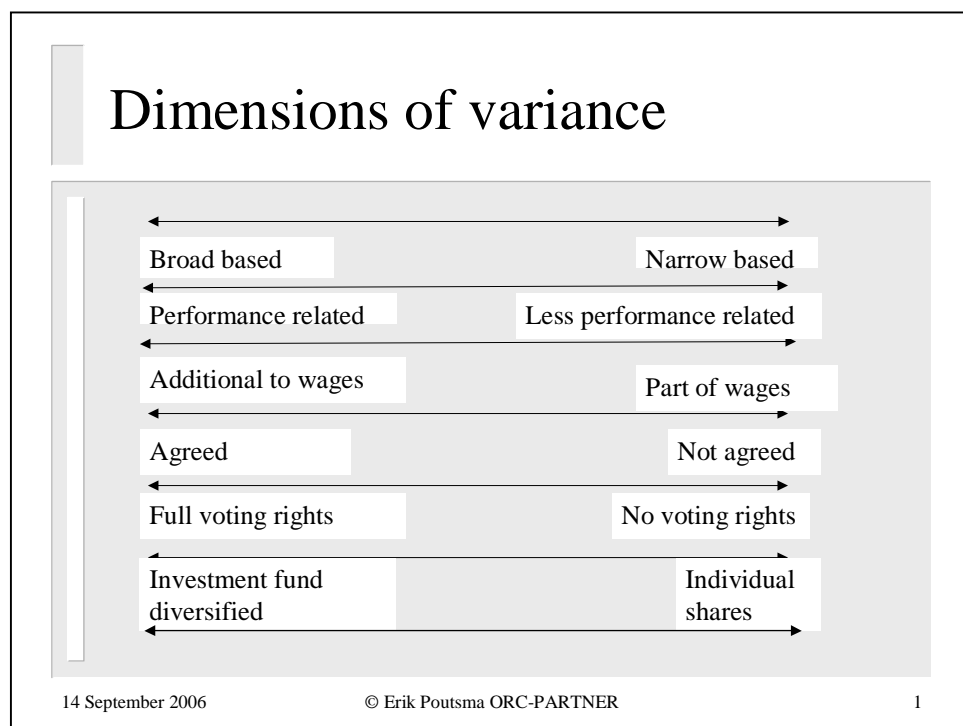
Viewed globally, employee financial participation is practiced on quite a limited scale. About one in nine employees in Europe participates financially in his enterprise. Profit sharing is more widely spread in Europe; equity participation has barely taken off.

Moreover, financial participation has developed differently in the various member states. Several countries like France and Great Britain have a long tradition of financial participation and the practice is well established and widespread. In other countries, where financial participation is only used to a limited extent, the issue is rarely raised in the political arena. It is clear that the member states' policy on and

favourable attitude towards financial participation are instrumental in the prevalence and acceptance of this practice.

The discussions in this section of the report focus mainly on the paper presented by Dr. Erik Poutsma (Erik Poutsma (1951) is Associate Professor Labour Relations in the Department of Business Administration of Nijmegen School of Management, University of Nijmegen).

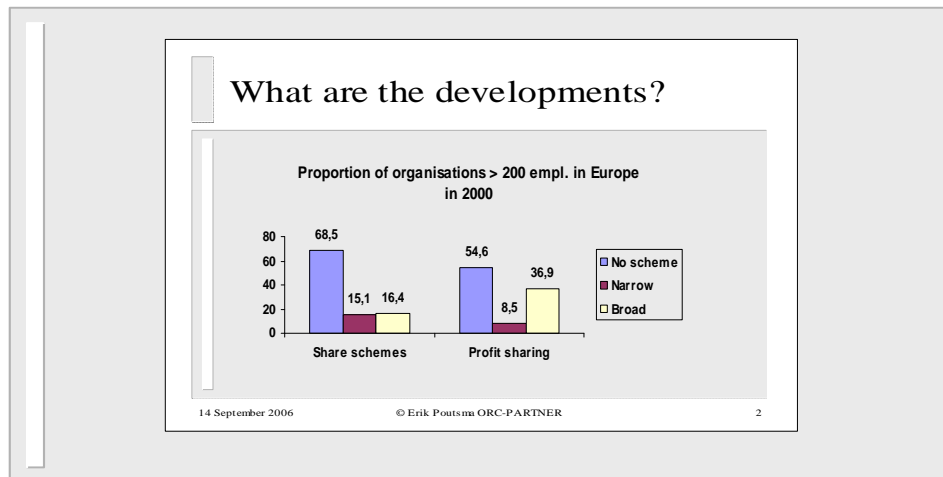
The essential basic models were introduced in the first part of the conference report. The actual features of a financial participation scheme result not only from the distinction between the two main models, **profit sharing** and **equity participation**; but also from a number of other factors. Erik Poutsma presented these factors quite vividly in his paper.



- The first criterion refers to the type of participation involved in financial participation. A distinction is made between selective systems, e.g. those open only to management, versus systems set up for all employees.
- Financial participation can be strongly performance-based or less so.
- It can be paid as a supplement to a salary or as part of the salary.
- The conditions of financial participation can be heavily subject to employee influence at enterprise level or less so.
- The final question is this: What exactly are employees financially participating in and what risk are they assuming when they do so. You have to distinguish whether financial participation involves access to funds that are relatively diversified or to certain stocks or strictly to company stock.

Based on these various features, Erik Poutsma arrived at the following conclusions in his study:

What are the developments?



14 September 2006

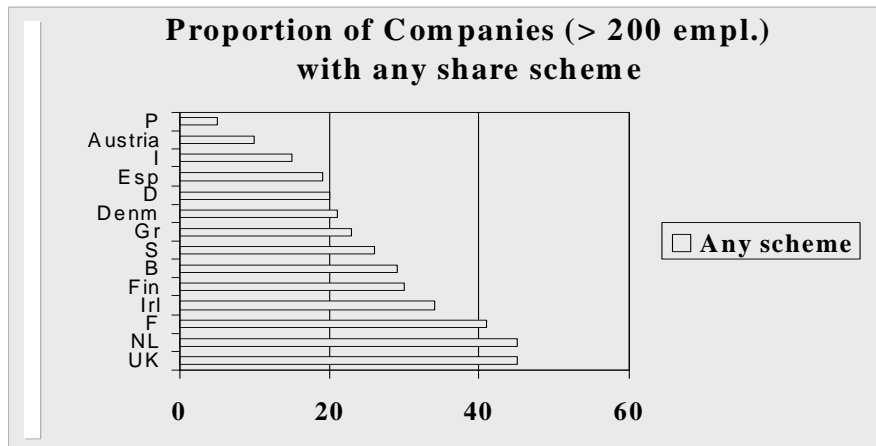
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Profit sharing is practiced by a larger number of companies (with more than 200 employees) than equity participation. The profit sharing schemes are more broad-based, i.e. they cover the majority of the employees of an enterprise. Equity participation, for its part, has a narrower base and is more selective than profit sharing. Primarily managers are involved in this scheme.

In his next diagram, Erik Poutsma showed the geographic prevalence of financial participation in Europe, regardless of method or of the distinction equity participation versus profit sharing. The leaders are Great Britain, the Netherlands, France and Ireland. Financial participation is least common in Portugal, Austria, Italy and Spain. German ranks in the middle in this overview.

What are the developments?(2)



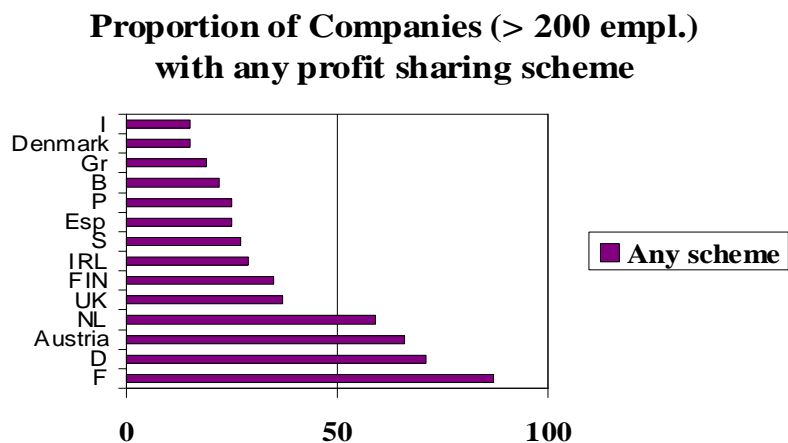
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On considering the prevalence of profit sharing only, Erik Poutsma noted that the following picture emerges: France, Germany, Austria and the Netherlands are the frontrunners; Great Britain is high up in the middle of the field, followed by Finland, Ireland and Sweden.

What are the developments? (3)



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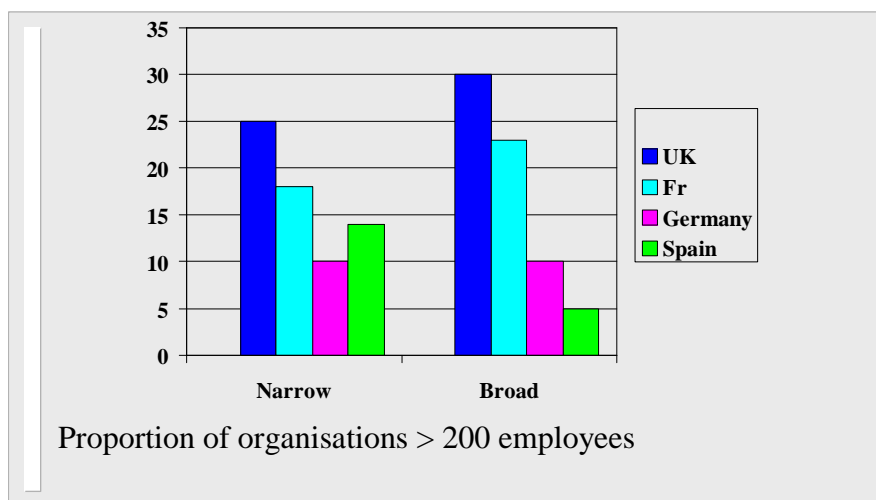
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On viewing the distribution of broad-based (accessible to all) versus narrow-based (selective) systems in four countries, namely Great Britain, France, Germany and Spain, Erik Poutsma drew the following conclusion:

- Great Britain and France have a much greater share of broad-based systems,
- in Germany the two types are about equally prevalent,
- in Spain the selective (narrow-based) approach prevails.

Broad and Narrow based share schemes



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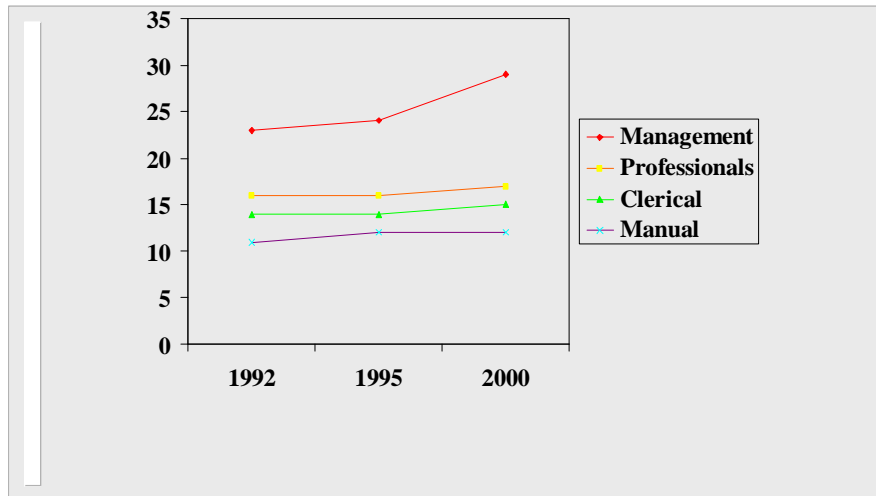
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In terms of occupational groups between 1992 and 2000, Erik Poutsma showed that financial participation was much more common among management and that the trend was stagnant for the lower income brackets.

Participation in a substantial percentage of the systems is open only to members of the management.

What are the developments? (4)



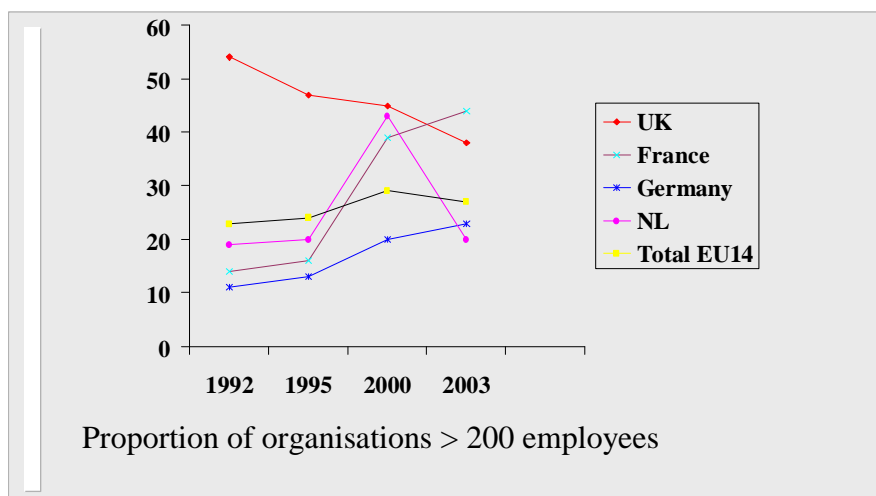
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Erik Poutsma has documented that the prevalence of management schemes, i.e. financial participation schemes in which only management can participate, has increased sharply especially in France and is declining sharply in the Netherlands while tending to decrease in Great Britain and to rise in Germany. These trends also apply to middle management (professionals).

Development of Schemes for Management

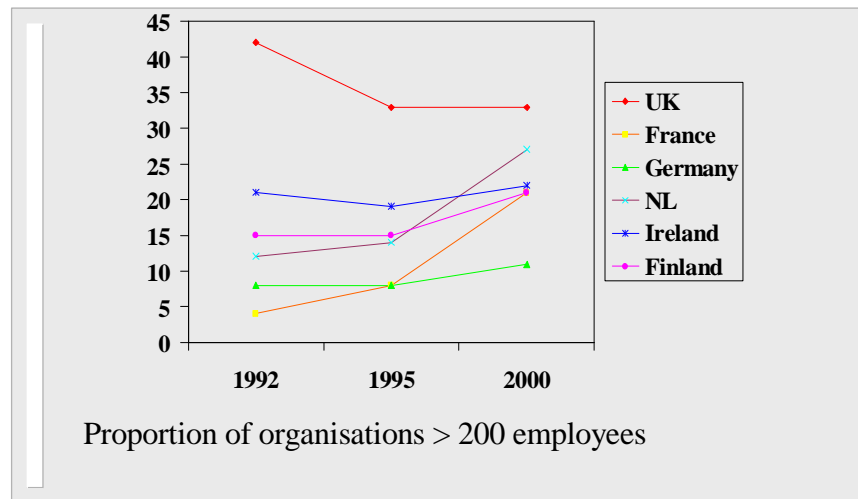


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What are the developments? (5)



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Geographic differences are also clear in viewing developments over time from 1992 to 2000. In Great Britain, Erik Poutsma observed a downturn of sorts in financial participation between 1992 and 1995. In the period from 1995 to 2000, financial participation stayed at about the same level. In France and the Netherlands, the prevalence of financial participation has risen sharply since 1995. Finland also recorded a relatively sizeable increase. In Germany, a steady increase is apparent from 1995 onward. In his presentation, Erik Poutsma noted that Belgium also showed strong growth in financial participation and that Greece and Sweden recorded strong growth in the management systems, i.e. in selective financial participation, participation involving management. The remaining countries in the EU have seen steady growth.

Finally, Erik Poutsma posed the question: What kinds of companies engage in employee financial participation? His conclusion was that it is primarily larger multinationals, especially in the financial and chemical industries. These companies have structures more conducive to participation and they have personnel policies that are more ambitious. They invest heavily in continuing education and training and have a high percentage of well-qualified employees overall. The prevalence of financial participation continues to depend on political support and on stock market trends.

IV. Obstacles to Employee Financial Participation in Europe

1. Information Problems

One big obstacle to employee financial participation in Europe is that many of the pertinent employees are not informed. In other words, many employees are not aware of the financial participation options open to them. The information given out is also often incorrect.

The information problem is connected to ignorance of the issue on the part of many employees and great scepticism about financial participation and the models associated with it.

2. Social and Cultural Hindrances

The prevalence of employee financial participation varies throughout Europe. France was a pioneer in this regard. Efforts were being made there early in the de Gaulle era to push employee financial participation. As a result, employee financial participation is quite widespread in France and firmly anchored in the culture.

Other countries like Germany do not have a long tradition of employee financial participation. The associated risks tend to be emphasized instead of the benefits.

This attitude is reinforced in many countries by the major reservations expressed by trade unions. Unions argue that employees are already threatened with a loss of employment if their employer gets into economic difficulties. If employees also have a financial stake in their employer's company, they are threatened with the loss not only of their job but also of their financial participation in the event that the company becomes insolvent. Many unions are opposed to this dual risk.

3. Time Factor

Financial participation models should have a long-range horizon to obtain the greatest possible profit for employees. However, this approach is not possible or not prevalent in several countries. In Germany in 1998/2000, for example, a sizeable 60 percent of the companies offering financial participation had models with only a two-year horizon.

4. Institutional Framework

A. Legal Framework

The legal framework and tax regulations applying to various types of financial participation models vary widely throughout Europe. Several European countries massively subsidize certain types of profit sharing and/or equity participation programs in their tax regulations. Another difference pertains to the degree of regulation. Some European countries are heavily regulated. This approach can promote the practice but can also be restrictively complicated or inflexible. On the other hand, a lack of regulation creates legal uncertainty about the introduction of financial participation programs.

Major differences also exist throughout Europe with regard to the legal requirements employees have to meet to take part in financial participation programs when they are introduced. The same is true of the legal definition of enterprises or groups of enterprises, the scope of validity for financial participation programs and the scale of these programs. There is wide divergence as well in the criteria for calculating the total profit or the share capital to be allocated to employees by way of financial participation and in the basis of calculation applied to the distribution of this profit among employees. Regulations on eligibility requirements also vary throughout Europe, e.g. company affiliation and active employees versus retired employees.

Differences likewise exist in the rules and instruments for financial investments and the management of the funds involved. These aspects depend on how the program is set up and how the resources are given to the employees. In some cases, only collective investment participations are given preferential treatment. In isolated cases, the regulations favour specific types of investment models.

B. Taxation and Matters Related to Social Security

The widely diverging tax treatment of financial advantages in the individual member states poses major problems for the introduction of financial participation models at European level. So, too, does the lack of coordination in the taxation of income from employee participation.

The obstacles relate, among other things, to the scope and timing of taxation. Moreover, there are different taxation systems for dividend and stock sales.

In some cases, the tax codes have no specific provisions, which, in turn, gives rise to legal uncertainty about legal tax issues.

Major differences also exist in the obligation to pay social security contributions on income from financial participation models. Some systems grant tax privileges for employers, some for employees and some for both. Employers must consider the differences in the obligation of their payroll departments to withhold wage tax and social security contributions.

Given the diverging taxation systems in the EU, an employee might be taxed for the same income in more than one sovereign territory if he works in more than one member state or officially resides in a member state other than the one or ones in which he works. On the other hand, the different tax systems could result in an employee not being taxed at all in any sovereign territory.

C. Securities Law

Each member state has its own securities law. The diverging stock exchange regulations make it difficult for companies to offer stock to all employees in Europe on the same terms. Owing to the different prospectus regulations, participation plans can in some cases be extremely expensive to implement. The additional administrative costs and red tape involved pose obstacles to the introduction of financial participation models as part of stock programs, especially for smaller corporations.

Unequal treatment of employees in Europe also arises because of the varying blocking periods or holding/accumulation periods that are set.

D. Basic Conditions under Labour Law

The motivation for employees to take part in financial participation models can also be variously affected by the different labour law provisions that countries in Europe have regarding termination of employment or taxation of severance payments.

V. Case Studies

Case Study 1: Total

Speaker: François Vincent, Total

Total

Total is the world's fourth largest oil and natural gas company. It has 95,000 employees, nearly 70 percent of whom work in Europe. Total is represented in more than 130 countries. It produces gas and oil in 41 countries. The company had sales totaling € 143.2 trillion in 2005.

Its shareholders are mostly from Europe in general (75 percent) and from France (33 percent), Great Britain, Germany, Switzerland and Belgium, specifically. It also has a large number of shareholders in North America. Corporate investors hold 87 percent of the shares; employees, 4 percent; and other individual investors, 9 percent.

As an international company, Total pursues a pay policy that incorporates local components shaped by economic developments, the labour market and labour law provisions. Total continues to be a company intent on motivating its employees with performance-oriented pay.

Total has a well-developed social dialogue within its operations. Europe is home to 70 percent of the people employed at Total. In 2004 a European Social Dialogue Forum was established. The forum can negotiate European wide agreements.

Total is making increasing use of performance-based bonus payments, variable additional salaries, and stock in addition to the normal salary. In 2005, some 7,300 employees subscribed to shares.

In 2004, some 74 percent of Total employees received performance-based pay. A total of 81 percent took part in an additional bonus system. Several years ago, Total developed a stock subscription program in which a large part of the employees has invested. In 2004, a total of 78 percent of the employees took part in a stock savings plan. The majority of participants came from France (66.9 percent) and the rest of Europe (9.7 percent), while 13.6 percent were from North America, 4.6 percent from Asia, 4.4 percent from Africa and 0.8 percent from South America.

Total S.A. (Société anonyme, France) has 5,564 employees, 3,939 of whom are managers (as of the end of 2005) with an average annual salary of € 78,511. The picture emerging of the company on closer examination is that profit sharing averaged a total of € 5,178, with Total contributing € 3,832 of that sum. This last figure is composed of a given amount the employee pays into a fund and a maximum limit. This maximum limit is reset every three years in collective negotiations with the trade unions.

In April 2003, a total of 70,000 investors in the French fund elected 15 employee representatives to the Supervisory Board for three-year terms, giving them the majority of seats on that board. In a similar move at international level, a majority of

the employee representatives were elected to the Supervisory Board of the international stock fund for three-year terms. The members of the Supervisory Board were able to exercise their voting rights in May 2005 at the annual meeting of shareholders.

A stock program geared especially for employees was launched in the spring of 2004 in all countries in which Total is domiciled and in which the legal situation allows for this. A total of 453 companies in 93 countries took part. Overall, 46,751 employees (39.5 percent of employees) and 5,281 retirees participated in the program. In December 2004, the workforce held 3.72 percent of Total's equity.

Nearly 80,000 employees at Total continued at the end of December 2005 to hold 3.35 percent of Total's stock. At the end of March 2006, the employees held 3.75 percent of the Total stock. In other words, employees financial participation at Total has seen strong growth in recent years.



Total : a global multi-energy provider

- ◆ World's fourth-largest integrated listed oil and gas company
- ◆ Largest market capitalization on the Paris Bourse and in the eurozone: €130.5 billion at December 31, 2004
- ◆ 95,000 employees (*since Arkema's spin off*)
- ◆ Operations in more than 130 countries
- ◆ Exploration and production operations in 41 countries
- ◆ Producer in 29 countries
- ◆ More than 500,000 shareholders
- ◆ 2005 sales: €143.2 billion

Total: shareholder base (31 12 2005)

- ◆ Predominantly European (75%), held in particular by investors from France (33%), the United Kingdom, Germany, Switzerland and Belgium.
Strong shareholder base in North America.
- ◆ Institutional shareholders (87%), employees (4%) and other individual shareholders (9%).
- ◆ Total S.A. is a French société anonyme (limited company) created in March 1924.
- ◆ Total is listed on the CAC 40, Dow Jones Stoxx 50, Dow Jones Euro Stoxx 50 and Dow Jones Global Titans 50 indices and the FTSE4Good, DJSI World, DJ STOXX SI, FTSE ISS CGI and ASPI Sustainable Development and Governance indices.

compensation policies

- ◆ For most employees, **compensation policies integrate local parameters**, such as the economic environment, the employment market, and labor legislation. While consistently tailoring salaries to local conditions, however, Total is also committed to paying fair compensation based on a diversified range of attractive, incentive-building packages.

Employee dialogue

- ◆ At Total, dialogue with employees and their representatives is a cornerstone of a human resources strategy based on progress, diversity and accountability.
- ◆ In 2005, 88.7% of the 101 subsidiaries surveyed in the Worldwide Human Resources Survey had some type of formal employee representation. A total of 191 collective agreements were signed, 140 in Europe, 23 in Africa, eight in North America, four in South America and 16 in Asia.
- ◆ In Europe, home to nearly 70% of our workforce, the European employee relations forum created in 2004 with the main unions in the region allowed us to negotiate and sign Europe-wide agreements

performance-based incentives

- ◆ **Increasingly, the base salary is supplemented by performance-based incentives** such as bonuses, variable compensation and stock options that reflect individual performance.
- ◆ In 2005, stock without consideration and stock options were granted to 7,300 employees worldwide.

employee profit-sharing

- ◆ In addition, where local legislation permits, Total is expanding **employee profit-sharing** based on the earnings and performance of the host units.
- ◆ In 2004, 74% of the employees at the 104 Total companies covered by the Worldwide Human Resources Report were eligible for a company performance incentive, such as profit sharing or a company bonus, while 81% had a bonus system.

employee savings plans

- ◆ Several years ago, Total introduced employee stock ownership plans in which a large majority of employees have invested.
- ◆ In 2004, 78% of the 83,000 employees covered by the Worldwide Human Resources Report were eligible to participate in employee savings plans in 18 countries. The breakdown was 9.7% in European countries excluding France, 66.9% in France, 13.6% in North America, 4.6% in Asia, 4.4% in Africa and 0.8% in South America.

Example : TOTAL S.A.

- ◆ Employees (31/12/2005): 5,564
 - Included managerial staff : 3,939
- ◆ Average annual remuneration : 78,511 euros
- ◆ Average profit-sharing/employee (2004): 5,178 euros
- ◆ Amount completed by Total (2004): 3,832,442 euros
 - This sum is proportionally to the amount put by the employee in a mutual fund, with a formula and a maximum. The collective agreement is negotiated with the unions every three years.

Mutual funds

- ◆ In France, Total completes the amount that employees put in the mutual fund or for their retirement.
- ◆ Governance structures : when the terms of the officers of the supervisory boards of the Total Actionnariat France and Total Actionnariat International mutual funds were renewed in 2003, the election of a majority of employee representatives was encouraged.

employee representatives voting rights

- ◆ On April 2003, 70,000 investors in the French fund elected 15 employee representatives for three-year terms, giving them a majority on the supervisory board.
- ◆ In a similar process, 30,000 investors in the international fund in the 89 countries where the fund has employee shareholders elected employee representatives the supervisory board of the fund. A two-stage process resulted in the appointment, on October 2003, of 14 employee representatives for a three-year term. Employees account for the majority, with 14 nationalities from around the world represented.
- ◆ At the May 2005 Annual Shareholders' Meeting, the supervisory boards of the Total Actionnariat France and Total Actionnariat International mutual funds exercised the voting rights attached to Total shares held through the employee savings plans.

capital increase reserved for employees

- ◆ A capital increase programme reserved for employees was offered in spring 2004 in all the host countries where the Group is present, local tax and legal requirements permitting. A total of 453 companies in 93 countries took part with 46,751 employees (39.5% of the workforce) and 5,281 retirees. Employees held 3.72% of Total's capital at December 31, 2004.
- ◆ Subsequent to employee share issues and purchases of Total stock for participants in our employee savings plans, nearly 80,000 employees held an aggregate 3.35% of Total's share capital on December 31, 2005.

September 14, 2006

Berlin VAA-FECCIA

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Growing Employee Stock Ownership

- ◆ 2006 employee share issue. Carried out in February 2006, it was open to all employees of Total S.A. and of French and foreign subsidiaries owned at least 50% by Total, provided that they were members of an Employee Stock Ownership Plan (ESOP). The shares were issued simultaneously in all host countries whose legal and administrative requirements allowed this type of transaction.
 - 60,500 employees (44%) included 25,000 (38%) out of France (50% in France), 100 countries, 500 companies
 - €464 million collected, 2.8 million shares (0.44%)
- ◆ At March 31, 2006, employees held 3.75% of the TOTAL share capital.

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Corporate Governance

- ◆ Total actively examines corporate governance matters. In particular, the Group maintains a policy of transparency regarding the compensation of and the allocation of stock options and restricted stock grants to its corporate officers.
- ◆ Furthermore, the Shareholders' Meeting held on May 14, 2004, appointed a Director representing employee shareholders.
- ◆ This Director is the President of the mutual fund « Total Actionnariat France » and CFE-CGC member.

Insurance

- ◆ Total's goal is to provide every employee with an insurance policy with death benefits equal to at least 200% of their annual gross salary. At end-2005, 73% of employees had such coverage, against 70% at end-2004.
- ◆ To help us meet our target for death benefits coverage quickly and offer as many employees as possible the best financial terms and conditions, Total selected three international insurance groups.

Supplementary Retirement and Early Retirement

- ◆ Outside France, Total offers supplementary retirement plans, generally based on defined contributions. This secures satisfactory resources for employees even though local pension coverage may prove inadequate.
- ◆ In France, the national retirement reform introduced in 2004 is implemented. special benefits were developed for employees aged 55 to 60 who decide to buy back quarterly contributions so that they can retire at 60. They have access to interest-free loans for that purpose, matched by a supplementary retirement benefit

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Employee Satisfaction Survey

- ◆ Input from more than 43,000 employees in 38 Countries
- ◆ Introduced in 2000, the employee satisfaction survey became an annual event in 2003. In November 2005, 43,219 employees were surveyed at 136 facilities in 38 countries. The response rate was stable at 50%.
- ◆ The survey findings indicate that 75% of the respondents are very satisfied or fairly satisfied with their job. They especially like its content (80%), their working conditions (79%), benefits (70%) and their work/life balance (68%).
- ◆ Participants also expressed their wish to enhance their skills and to benefit from career management resources tailored to their individual circumstances.

(Source: Ipsos)

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Case Study 2: Sanofi-Aventis

Speaker: Dr. Joachim Betz, Aventis GmbH

Sanofi-Aventis is a leading international pharmaceuticals company. It is the largest pharmaceuticals group in Europe and the third largest in the world. The company conducts business in 80 countries and posted sales of € 27.311 billion in 2005 with 97,000 employees (9,782 of whom are in Germany).

Spending on research and development amounts to 14.8 percent of sales (€ 4.044 billion). The company is outstanding in 7 areas of therapy:

Cardio-vascular diseases

Thrombosis

Diseases of the central nervous system

Metabolic diseases

Inoculation

Oncology

Internal medicine.

The former Hoechst AG (later Hoechst-Marion-Roussel - HMR -) merged with the pharmaceuticals unit of the French based Rhône-Poulenc group in 2000 to create Aventis SA with registered office in Strasbourg. In 2004 Aventis was taken over by Sanofi SA. The new enterprise is called Sanofi-Aventis SA.

The company offered the staff stock for subscription up to an amount of about 4 percent of annual income when it was still known as Hoechst AG. Staff could subscribe to these shares with and without a blocking period, with different price discounts applying (40 percent less for blocked shares/20 percent less for non-blocked shares). Tax allowances (modest in scope) could be applied to the price advantage. For employees not covered by the collective agreements, additional models were put in place. They allowed shares up to a maximum of 1 percent of annual income to be subscribed to, with a price discount of 40 percent.

HMR introduced yet another possibility for employee participation. Staff was able to receive a value-appreciation bonus of 10 percent of the individual bonus as a cash bonus. An employee who invested this cash bonus in Hoechst AG stock received an additional 5 percent as a cash bonus.

The employee stock program at Sanofi-Aventis allows staff to subscribe to shares in their company up to a maximum of 25 percent of their annual income. Payment can be rendered as instalments over 12 months. The price advantage is 20 percent. These shares are subject to an in-house blocking period of five years. The price advantage (in Germany) is € 130 a year tax-free. Through the Employee Savings Plan, the employees hold 16.9 million shares (as of December 2005), which represents 1.24 percent of the share capital and 1.48 percent of the voting rights. The employee shares are in an FCPE (*fond commun de placement d'entreprise*) called "Sanofi-Aventis-Shares". This arrangement is customary in France for a collective portfolio for the Sanofi-Aventis shares available to group employees. Units of the FCPE are issued and correspond to the respective company shares. One unit has the same value as one share. Employees incur no costs in the process. Holders of the units are entitled to receive a dividend and the employees have individual voting rights for their shares. The FCPE is monitored by a supervisory board composed of representatives of the employee shareholders. When the blocking

period ends, the shares can be sold immediately or held (initially or permanently) and sold at any time. The block does not apply to sales prompted by
Marriage
Birth of a third child
Divorce
Permanent occupational disability
Retirement from the workforce and
Death.

On formation, Aventis created a combined model composed of classic employees' shares and an option model with a lever effect called "HORIZON". The company had a set of 30 slides on the model, which indicates how much consulting the model involves. For this reason, the model was difficult to communicate to the general staff. The lever was quite appealing, of course, and the number of shares made available was therefore subject to an allotment proviso. In 2000, employees were able to acquire at most 60 shares from the lever model; in the two following programs for 2002 and 2003, a total of 80 shares. There are three possible scenarios:

1. The price drops below the discount price and the employee loses money.
2. If the price is between the discount price and the base price at the time of purchase, the employee is only given back the share he acquired and can pocket part of the price advantage or all of it as a modest gain.
3. The bonus shares are not distributed until the price rises above the base price and this distribution depends on various factors.

On taking over Aventis, Sanofi sold off the lever and did not reintroduce a comparable model.

Members of the management boards and top executive staff have been able to avail themselves of stock options or stock appreciation rights (SAR) since the Hoechst AG period, i.e. also during the Aventis period and down to the present at Sanofi-Aventis. With classic employees' shares, the employees have to provide their own financing and bear the risk themselves; in value-appreciation models, SARs and options they do not. Stock options are known as LTIs (long-term incentives) and are clearly an invention from the Anglo-Saxon markets. The option has a term of 10 years and an underlying base price. The object is for the option to exceed that base price. There are not, and never were, any additional obstacles of the kind found at other German enterprises. A three-year blocking period on the exercise of the option is followed by a seven-year period in which the employee can potentially exercise the option. The option usually does not involve buying and holding the shares but rather a direct sale and realization of the price gain between the base price and the current price. In the interim, the issuing of stock options has been extended in individual cases beyond executive staff to include employees exempt from collectively agreed terms.

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Employee Financial Participation in Europe

Examples of change at companies:

Hoechst AG/HMR	Employee shares 1970s to 1990s
Aventis	Horizon 2000-2003
Sanofi – Aventis	Action 2005

Folie 1

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sanofi-aventis: worldwide market leader dedicated to health

- **The largest pharmaceutical Group in Europe**
- **The 3rd largest pharmaceutical Group in the world**
- **Operations in 80 countries**
- **27,311 million euros sales**
- **More than 97,000 employees worldwide**
- **9,782 employees in Germany (on Dec 31, 2005)**
- **R&D expenditures : 4,044 million euros (14.8% of sales)**
- **Excellence in 7 major therapeutic areas**
 - **Cardiovascular**
 - **Central Nervous System**
 - **Metabolic illnesses**
 - **Vaccinations**
 - **Thrombosis**
 - **Oncology**
 - **Internal Medicine**

Folie 2

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Types of employee ownership:

1. Classic employee share program
2. Value-appreciation models/cash models
3. Leverage models with free shares or combination models
4. Stock appreciation rights und phantom stocks
5. Stock options
- ~~6. MBO models~~

Folie 3

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1. Classic employee share programs e.g. Hoechst AG

- Subscription of shares in own company for about 4% of annual income (AI)
- Installment payment option: 3, later 6 months
- Differentiated price discounts for blocked/free shares, approx. 40%/20%
- Different blocking periods (legal/in-house)
- Use of tax limits for price advantage; first DM 500, later DM 300 (1980s/1990s at Hoechst AG)
- Additional models for staff outside collective agreements for 1% of AI with 40% price advantage

Folie 4

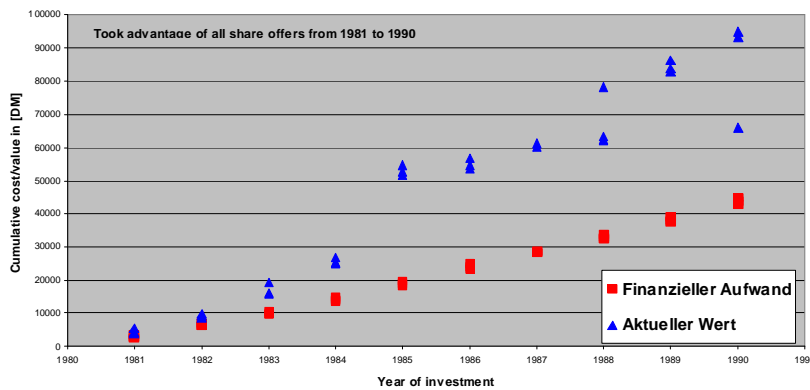
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1. Classic employee share program of Hoechst AG



Folie 5

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1. Classic employee stock program, e.g. Sanofi-Aventis

- Subscription of shares in own company for **25%** of annual income (AI)
- Installments payable over 12 month period
- Price advantage of 20%
- Blocking period/set in-house at 5 years
- Use of tax limit for the price advantage of €130 a year

Folie 6

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Employee stock ownership at sanofi-aventis

Employees hold **16.9 million shares** through the Employee Savings Plan (as of Dec 31, 2005).

- **1.24 % of share capital**
- **1.48 % of the voting rights**

End of 2005, sanofi-aventis launched **Action 2005**: the first worldwide stock purchase plan for its employees

Folie 7

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Holding the shares

The **shares are held in an FCPE** named “sanofi-aventis shares”. A FCPE is a collective portfolio of sanofi-aventis shares open to Group employees.

The subscribers receive **units of the FCPE**. The value of one unit is equal to the value of one share.

They pay **neither subscription fees nor management fees**.

They are entitled to **dividends**.

They have **individual voting rights** on their shares.

The **FCPE is controlled by a Supervisory Board** comprised of employee shareholder representatives.

They receive **regular statements on their investment**.

Folie 8

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Availability of the shares

In exchange for the advantages of the plan, the shares are **locked-up for 5 years**.

After the lock-up period, the shareholders have two options:

- keep their shares and sell them later at any time
- sell their shares immediately

Some events qualify for **early withdrawal**:

- Marriage
- 3rd child
- Permanent disability contract
- Divorce
- Death
- Termination of work contract

Folie 9

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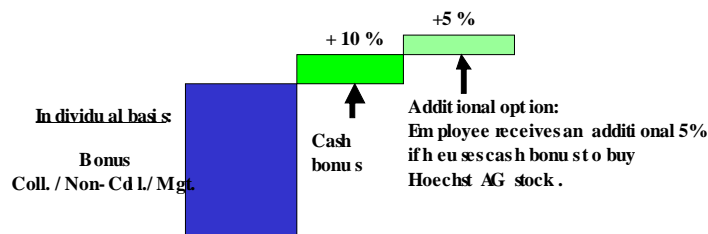
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2. Value-appreciation bonus of HMR

hurdle for exercising bonus

- The price of Hoechst AG stock has to increase by at least 10% on average over a calendar year **or**
- The price of Hoechst AG stock has to increase by at least 25% on average over the calendar year or from current CY to CY -3
- Value-appreciation bonus of 10% of individual bonus payment



Folie 10

sanofi aventis

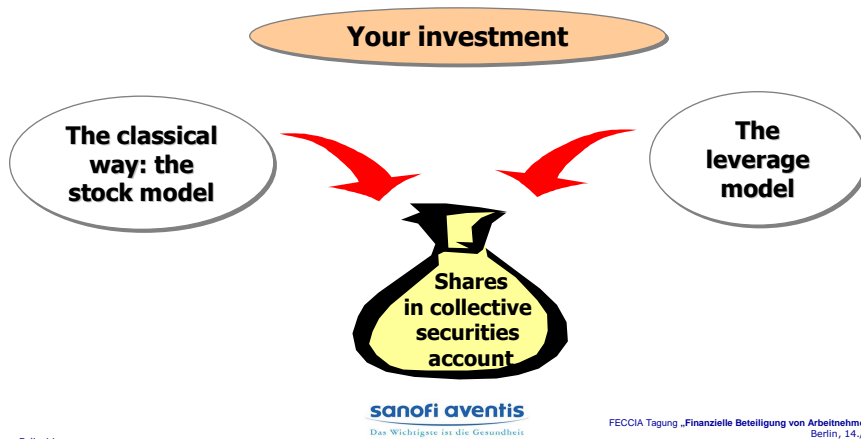
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3. Leverage model with free shares

How an employee becomes a shareholder – General overview



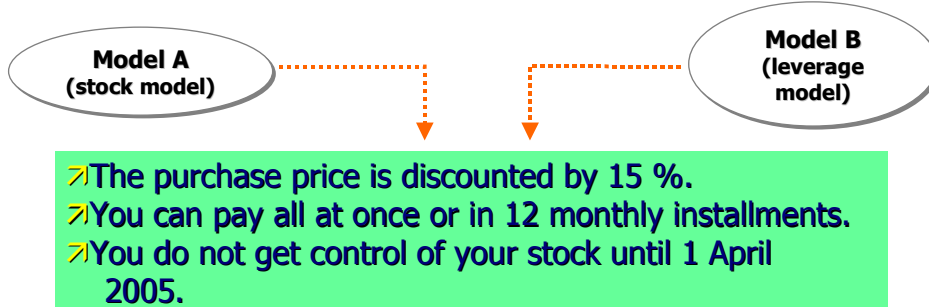
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3. Leverage model with free shares

You choose...

What do the two models have in common?



How does model A differ from model B ?



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Folie 12

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3. Leverage model with free shares

Basic package or model A – the stock model:

The first 12 shares purchased in Model A in September 2000 are blocked for 6 years (until 1 January 2006).

Employees are not required to pay tax on the discount off these 12 shares (tax allowance of up to DM 300).

Reasons for withdrawal that incur no tax penalty under §19a Income Tax Act (ESTG):

- Marriage
- Disability
- Unemployment
- Death

The price discount for all further shares is subject to tax on the purchase of the stock.

Wage tax, solidarity contribution and church tax, where applicable

Social security contributions may be due on price discount depending on personal income, e.g. contributions to pension, unemployment, health and nursing insurance.

The in-house blocking period for this stock runs until 1 April 2005.

Folie 13

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3. Leverage model with free shares

Model B

The leverage model – Example assuming the stock price doubles by 1 April 2005

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You purchase 5 shares
The price per share is €80,
but you pay just €68/share.

You pay €340
or €28.33 a month for 12 months

After 5 years
If the stock price has doubled,
i.e. is now €160 per share,

You own your 5 shares
worth 800 €.

+

You receive an
additional 8.75 shares
worth €1,400.

In all, you have
13.75 shares
worth €2,200.

Your gross profit is €1,860.

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Folie 14

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3. Leverage model with free shares

Model B

Model B (leverage model) – How many shares could you own after 5 years?

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- Principle: The number of shares that you have depends on the stock's value on 1 April 2005.

For each share you acquired in 2000 with your money...

You would have the following if the value by 1 April 2005 will have changed as indicated	plus the additional shares on April 1	i.e. all together
< €68 (loss)	0 shares	1 share
€68 (discounted price)	0 shares	1 share
€80 (set price)	0 shares	1 share
€104 (+30%)	+ 0.8 shares	1.8 shares
€120 (+50%)	+ 1.2 shares	2.2 shares
€160 (+100%)	+ 1.75 shares	2.75 shares
€240 (+200%)	+ 2.3 shares	3.3 shares

These figures are examples only. We cannot give you the final table until September.

Folie 15

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3. Leverage model with free shares

HORIZON and stock options

Year	2000	2001	2002	2003
Stock options: Exercise price	83.94	83.81	60.27	47.52
Horizon : Purchase price Mod. A & B	69.71	-	64.35	38.8
Horizon : Base price [BP] Mod. B	82.01	-	75.7	45.64
Lever (leverage model) Mod. B	3,60	-	3,75	4,00

Calculation of total number for Mod. B1 + leverage factor * (1 - BP/EP)

EP = share price after 5 years

Folie 16

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4. Stock options/stock appreciation rights (SAR)

Option to purchase company stock at a base price.

- Can be exercised within or after a certain period or at a certain time and after meeting certain criteria
- Minimum period for price level
- After presentation of the annual report or an interim report (to avoid insider trading)

Stock options can be additional pay or an integral part of variable pay and can involve or not involve participation.

Distinctions:

- Value appreciation models
- Employee stock models
- American ESOP's (employee stock ownership plans, 401k-plans)

Folie 17

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4. Stock options/stock appreciation rights (SAR)

Why do companies institute stock option plans?

- Incentives for top talents
 - To recruit them
 - To keep them at the company
 - To motivate them
- Reward for top management and key employees
- Competitive requirement in competition with Anglo-Saxon companies, internationalization
- Additional performance incentive involving shareholder value
- To maintain long-term company success
- So employees will identify more closely with the company and also with shareholders if the stock appreciates in value.

Folie 18

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4. Stock options/stock appreciation rights (SAR)

Advantage for employees:

- Granted free until exercised. That means value appreciation is realized without employing (long-term) capital. (Option is exercised and then stock is sold immediately.)
- Further pillar for private retirement security
- Minimal risk if additive and realizable in cash

Advantage for employers:

- No own costs for performance-based compensation
- Financed from conditional capital (self-financing model)
- (High costs for stock repurchasing but no dilution)

Folie 19

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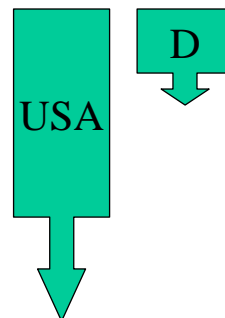
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4. Stock options/stock appreciation rights (SAR)

Entitled groups

- TOP management
- Upper level management
- All senior staff
- All employees exempt from collective terms
- All employees (?)



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4. Stock options/Stock appreciation rights (SAR)

Problem areas:

- Solely own stock price (risk of losing sight of competition)
- Solely index linked (DAX, STOXX), money for swimming with the current
- "Help yourself mentality", regular information required, monitoring by Supervisory Board
- Reference date principle (risk of manipulation), insider rules
- Dilution of capital (disadvantage for investors), limited to 10% (usually much less)
- Gap widens between management and employee interests, endangers social consensus

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4. Stock options/stock appreciation rights (SAR)

Solutions:

- Combine several hurdles, e.g. own price in conjunction with comparable stock prices, comparable indexes.
- Introduce longer black-out periods.
- Limit the creation of conditional capital; no dilution in the case of phantom stocks or SAR programs.
- Allow employees to participate in the company's value appreciation in the same way or a similar way.
- Make the company's goals the employees' goals.
- Create ownership (promote stock ownership).
- Make interests of management and employees identical.
- Promote entrepreneurs in the company.

Folie 22

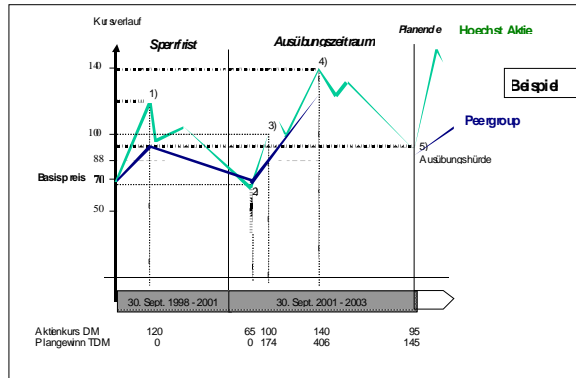
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Hypothetical example for several scenarios



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Employee Financial Participation in Europe

Summary of key findings:

- Financial participation schemes are prevalent right now only at corporations.
- Overall, employees have only a modest stake in the value of a company.
- The models discussed vary substantially in thrust and method of financing.
- Acceptance in the staff can be created through
 - long-term and constantly recurring programs,
 - attractive terms,
 - simplicity or choices.
- Relative security of the investment must be ensured if capital is to be committed long-term to provide financial security in retirement.
- Steps should be taken to prevent capitalization at the earliest possible date.
- Appeal can be enhanced with tax incentives.

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Case Study 3: Sick AG

Speaker: Rudolf Kast, Sick AG

Introduction of Sick AG

Sick AG is a leading international manufacturer of sensors and sensor solutions for industrial applications. With over 4,000 employees worldwide and more than 40 subsidiaries and holdings, the company posted consolidated sales in excess of € 590 million in fiscal year 2005. Sick AG produces factory automation systems with sensors monitoring the proper operation of the production chain, logistics automation systems used for tasks such as toll collection, and process automation for ensuring the correct running of fabrication processes.

One third of the employees at Sick AG are domestic; the other two thirds are foreign. Sick AG received a special award in 2006 for its promotion of older employees and life-long learning and has been given the "Great place to work" award several times.

Pay System at Sick AG

The pay system is divided into three levels: employees subject to collective terms, employees exempt from collective terms, executive staff. Employees subject to collective terms have thus far had variable remuneration to a certain extent, the applicable rules being agreed in the staff council. The goal is to extend variable remuneration to everyone.

Employees exempt from collective terms have individual rules today governing goal agreements. Here, too, the objective is to expand this practice. These employees receive additional benefits such as a self-financed retirement scheme and in some cases company cards and insurance benefits. A results and performance-based pay system has been in place for all these employees since 1 January 2007. Executive staff receive a remuneration as variable pay and further benefits such as retirement scheme, company car, insurance benefits, etc.

The new remuneration scheme for employees exempt from collectively agreed terms is composed of three components: Total pay is determined according to the Sick grading system and the pay range. Total pay is divided into a fixed basic salary with a variable bonus of at least € 3,000. The objective is to have the variable component be 10 to 20 percent of total pay. A further bonus is paid out when individually set group goals are attained. Increases in total pay also depend on the total net profit/loss of Sick AG.

Performance-based pay for employees subject to collectively agreed terms is determined in particular in an evaluation of three main criteria: work time flexibility, creativity/self-reliance/initiative and cost awareness.

The measures are accompanied by an individual performance dialogue between the employee and his superior in which the employee's performance is assessed. Performance and competency are evaluated on the basis of a standard competency model:

Skills in own field

- Theoretical and practical knowledge
- Application of specialized knowledge
- Inter-positional expertise

Methodological skills

- Powers of analysis
- Conceptualizing skills
- Work organization
- Results oriented
- Networked thinking

Social skills

- Ability to work well in a team
- Conflict resolution skills
- Persuasiveness
- Intercultural attitudes

Personal skills

- Reliability
- Customer orientation
- Willingness to learn and change
- High achiever
- Responsible
- Innovative
- Hard working

For managers only:

Leadership/management skills

- Process management/OE
- Goal-based leadership/delegation
- Demanding and supportive
- Ability to get things done
- Approach to change
- Strategic skills

1. Profit sharing and special distributions

Profit sharing is based on the consolidated net profit according to IFRS. The payment is rendered in May. Employees are allowed to opt for a salary conversion instead of profit sharing. In the coming year, profit sharing is calculated proportional to the previous year's net profit figure. Profit sharing is not allowed to increase by more than 15 percent. If the consolidated net profit of the Sick Group according to IFRS is less than 50 percent of the consolidated net profit of 2000, there is no profit sharing for employees.

All employees who had been with the company for at least two years at the end of 2005 were eligible. Apprentices and managers were not eligible.

2. Employees' Stock of Sick AG

The purpose of the stock is to help employees build up equity over the long term. It allows employees to participate in enterprise profits and introduces a further performance-based component in the pay system. This stock is an additional opportunity for employees to obtain extra income if they take advantage of preferential tax treatment.

In the first stock issue in 1999, all employees who had not been given notice at the time were eligible to subscribe, including apprentices and employees still in their probationary period. The employees who wanted to accept the purchase offer had to acquire at least 81 Sick shares at a per share price of DM 12.40. The total minimum purchase thus came to € 5,000. Each employee received the maximum tax-free allowance in Germany of € 135 to acquire the shares (§ 19 a Income Tax Act (EstG)). Employees eligible for subscription were able to acquire shares up to a total value of 8 percent of their computed annual gross pay in 1999.

After distributing the information brochure, along with an enclosed purchase agreement for the acquisition of shares, the company financed the stock purchase by withholding a portion of the June pay corresponding to the minimum subscription. Additional shares could be bought with a cheque and an additional purchase agreement. To transfer the shares to the employees, an individual securities account had to be set up. When the subscription period ended on 10 June 1999, it became clear that 70 percent of the employees entitled to subscribe had acquired shares.

3. Employee Participation at Sick AG Subsidiaries Abroad

It was very important to the company to accord German and foreign workers largely equal treatment in this regard. It was decided to implement the employees' stock model of Sick AG at all 22 subsidiaries abroad. Forty percent of all foreign employees availed themselves of the offer. As a result, employees group-wide hold about four percent of the share capital of Sick AG. The Sick family is the major shareholder, owning about 92 percent of the stock.

The SICK logo is displayed in a blue, sans-serif font within a light blue rectangular header area.

3. Profit sharing and special distribution

3.1 Basis of profit sharing



1. Profit sharing is based on the consolidated net profit of 2004 according to IFRS of T€ 29,443.
2. Profit sharing for 2004 amounted to € 958.934.17 for all entitled parties. The company also agreed to the following employer's share in profit sharing:
3. The payment is rendered in May.
4. Employees are allowed to opt for a salary conversion instead of profit sharing.

3.2 Terms for profit sharing in 2005



1. The amount of profit to be shared in 2005 is calculated from the ratio of the profit in 2005 according to IFRS to the annual profit for 2004, and can be at most 15% higher than the maximum profit shared in 2004 (plus employer's share to social security).
2. If the consolidated net profit of the Sick Group according to IFRS is less than 50 percent of the consolidated net profit of 2000, the company dispenses with profit sharing for employees.

3.3 Breakdown



- ↪ All employees with the company for at least two years on 31 December 2005 were eligible
- ↪ **Parental leave/military service:** The payment here is calculated proportionally for the months of active service at the company.
- ↪ **Pay spread:** Pay December 97 * 13.3 or 14.3 (AT13) plus shift bonus for shift workers and sales bonus for sales staff
- ↪ **Trainees:** receive no profit distribution
- ↪ Employment contracts > **35 hours** are calculated on the basis of 35 hours.
- ↪ **Part-time staff:** Pay spread is calculated by actual part-time pay.
- ↪ **Illness** does not reduce the amount.
- ↪ **Executive staff** do not participate.

3.4 Pay spread



Pay spread in EUR	Amount 2005 in EUR	Amount 2006 in EUR	Amount - real- 2005 in EUR	Amount -real- 2006 in EUR
less than 23,000	510	520	56,695	57,807
23,001 to 33,000	560	570	201,833	205,438
33,001 to 43,000	610	620	166,428	169,157
43,001 to 53,000	660	670	210,100	213,283
More than 53,000	710	720	308,850	313,200
Total			943,907	958,884

4. Employee Stock of SICK AG

4.1 Goals

- to help employees build up equity over the long term
- to allow employees to participate in enterprise profits
- to introduce a further performance-based component in the pay system
- to give employees an opportunity to obtain extra income
- to utilize all tax advantages for the company

4.2 Eligibility



In the first stock issue in 1999, all employees (full and part-time) who had not been given notice at the time were eligible to subscribe.

This applied for example to:

- Trainees
- Employees on parental leave
- Employees doing military service or civil service in lieu thereof
- Employees still in their probationary period

4.3 Stock costs



The purchase price for one share with a calculated nominal value of €1.00 amounts to DM 12.40.

The share price has no relation to its nominal value. Instead the purchase price results from the ratio of the SICK Group's value to the number of shares issued (currently 25,000,000 shares).

4.4 SICK AG's offer



The employees who wanted to accept the purchase offer had to acquire at least 81 Sick shares at a price of DM 12.40 per share. The total minimum purchase thus came to €500.

Each employee received the maximum tax-free allowance in Germany of €135 to acquire the shares (§ 19 a Income Tax Act (EstG)).

4.5 Maximum limit on stock acquisition



Employees eligible for subscription were able to acquire shares up to a total value of 8 percent of their computed annual gross pay in 1999.

4.6 Stock acquisition procedure



The information brochure was distributed to all employees along with a purchase agreement for the acquisition of shares.

The company financed the stock purchase

- by withholding a portion of DM 704.40 of the (net) June pay corresponding to the minimum subscription (81 shares).
- Additional shares were able to be bought with a check (including a *Euroscheck*) at the execution of the purchase agreement. The subscription period lasted 4 weeks.

4.7 Stock financing by means of payment affecting assets



This method was allowed under the rules of the 5th Equity Participation Act (*Vermögensbeteiligungsgesetz*). If taxable income does not exceed DM 35,000 for a single person or DM 70,000 for a married person and certain additional requirements are met, a special savings bonus of 20 % can be applied for.

The allowances under § 19 a the Income Tax Act (EstG) and the costs of insolvency insurance for shares offered under the 5th Equity Participation Act (*Verm. BG*) are tax-deductible as personal expenses.

4.8 Employees' securities accounts



The employees needed a securities account to transact the sale and transfer the employee stock. They set it up at their own bank. SICK AG granted each shareholder a lump-sum bonus of DM 20.00, which was handled by payroll.

After the purchase agreement was processed and the purchase price paid, SICK AG ordered the shares to be automatically transferred and booked in the employee's securities account.

4.9 How many employees took part?



When the subscription period ended on 10 June 1999, it became clear that 70 percent of the employees entitled to subscribe had acquired shares. It was especially encouraging to see that 70% of the entitled trainees also subscribed to shares.

4.10 Employee Participation at Sick AG Subsidiaries Abroad



It was very important to the company to accord German and foreign workers largely equal treatment in this regard from the very outset. After carefully reviewing a wide variety of plans and in spite of difficult conditions, it was decided to implement the employees' stock model of Sick AG at all 22 subsidiaries abroad, from Australia and Brazil to the Czech Republic and Hungary. The subscription period for our foreign employees expired on 15 December 1999.

4.10 Employee Participation at Sick AG Subsidiaries Abroad



A contact person for the plan was named at each subsidiary. He or she received the purchase price payments in the national currency and forwarded them to Investor Relations at SICK AG.

The conversion rate was calculated on the basis of the average rate issued monthly by Treasury.

Forty percent of all foreign employees availed themselves of the offer. As a result, employees group-wide hold about four percent of the share capital of Sick AG.

The Sick family is the majority shareholder, owning about 92 percent of the stock.

Case Study 4: Daimler Chrysler

Speaker: Elmar Fahrbach, Daimler Chrysler

With its 383,000 employees and subsidiaries in more than 200 countries, Daimler Chrysler has a long tradition in the issuing of employees' stock. The company first introduced employees' stock in Germany in 1973. From 1973 to 1995, the employees were allowed to acquire one Daimler-Benz share per year. Following a transition, the system was updated in 1999 and revised again in 2001. Foreign companies first participated in 2000.

The aim of financial participation is to make employees also shareholders of the company, all of them if possible. Daimler Chrysler is pursuing various personnel objectives with this policy. Financial participation encourages employees to pay closer attention to the economic development of the company and to track its stock prices. As a result, employees will identify more strongly with the company, especially as regards the internationalization of personnel. Financial participation increases employee motivation. Daimler Chrysler wishes to continue increasing its appeal as an employer.

Today's employees' stock system at Daimler Chrysler in Germany works as follows: Employees can acquire 30 company shares each three times a year during two-week purchase periods in March, June and October. That means they can acquire a maximum of 90 shares a year. On acquiring five shares, the employee receives a tax-free allowance of € 67.50 (§19a Income Tax Act (EStG)). If he acquires ten shares, the allowance increases to €135. If an employee acquires at least fifteen shares, he receives a free bonus share. These privileges are granted only once a year. The purchase price per share is the price of the DCX stock at the start of the given subscription period. If the price on the day of handover is lower, that price applies. In terms of wage tax, the price of the DCX stock on the handover date applies. In other words, cash advantages arise if the purchase price calculation is based on the lower price at the beginning of the process. All shares acquired in this way are blocked until the end of the year following the year of acquisition. Employees incur no additional acquisition costs in the process. The shares are kept in a central location, with the employer covering the custody costs. Shares are acquired over the intranet or through a call centre. Internal studies show a rise in the number of average shares subscribed to between 1996 and 2005. Daimler Chrysler has decided to expand its employees' stock model successively to other countries. Six additional countries, namely Austria, France, Portugal, Spain, Switzerland and Japan, have been taking part since 2000. Great Britain, Italy and the Netherlands have participated since 2001 and the Czech Republic since 2004. There are plans to include Belgium and Luxembourg in the program in 2007.






The German process had to be adjusted to national conditions and laws. In *Austria*, employees' stock is acquired in connection with special annual remuneration. Special features of Austrian tax law continue to be used. For instance, there are tax advantages if the employer pays for the stock using a special payment. At present, an amount up to € 1,460 is exempt from tax and social security contributions.

In *Italy* employees' stock is acquired in connection with the payment of the Christmas bonus. Employees in Italy can acquire a maximum of 30 shares in sets of 5. They receive a certain percentage allowance that amounts to 25 percent for the first ten shares and then declines to 10 percent. The maximum allowance is € 300. Italian law requires that the shares be blocked for three years from the date of their handover: The employer covers the securities account costs during this period.

Great Britain practices what is called a trust model. A set amount determined by the employee is withheld monthly from gross pay. The amounts accumulate until enough money is available to cover the price of a share. To avoid having to pay income tax and health insurance contributions on the money, employees have to bear in mind the maximum limit and hold the shares for at least five years. If the employee sells the shares after three to five years, he receives part of the advantages. If he does so before three years are up, he forfeits the advantages. If the employee leaves the company on his own initiation within three years of acquiring the shares, he also forfeits the advantages.

The stock purchase price is set as the stock price on the fourth workday of each month. The amount used for the purchase can change monthly. The company covers the transaction and securities account fees. The employee receives dividends and the trust purchases the shares if they are sold by the employee.

On a whole, the employees' stock has been especially well received in Spain, France, Great Britain and the Netherlands.

	DAIMLERCHRYSLER
Handling and Administration of National and International Employee Stock Actions at DaimlerChrysler AG	
	
	
	
<small>DaimlerChrysler AG PAP/ASR, Hr. Fahrbach</small>	1

- 383,000 employees worldwide
- Subsidiaries in more than 200 countries
- 182,000 employees in Germany
- Employees' stock in Germany since 1973
- Current model in place since 1999, modified in 2001
- Foreign companies first participated in 2000

Personnel Objectives of Employees' Stock

- To continue value-based management. The aim of financial participation is to make employees also shareholders of the company, all of them if possible.
- To have employees pay closer attention to the economic development of the company by constantly tracking its stock price.
- To have employees identify more closely with the company.
- To increase the company's appeal as an employer.
- To increase employee motivation.

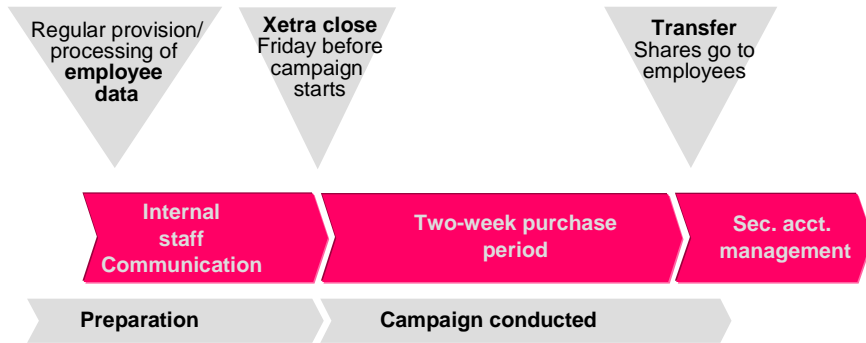
DaimlerChrysler Employees' Stock in Germany

- Employees can acquire 30 company shares each three times a year during two-week purchase periods in March, June and October. That means a maximum of 90 shares a year.
- On acquiring five shares, the employee receives a tax-free allowance of €67.50 (§19a Income Tax Act (EStG)). If he acquires ten shares, the allowance increases to €135.
- If an employee acquires at least fifteen shares, he receives a free bonus share.
- These privileges are granted only once a year.
- The purchase price per share is the price of the DCX stock at the start of the given subscription period. If the price on the day of handover is lower, that price applies.

DaimlerChrysler Employees' Stock in Germany

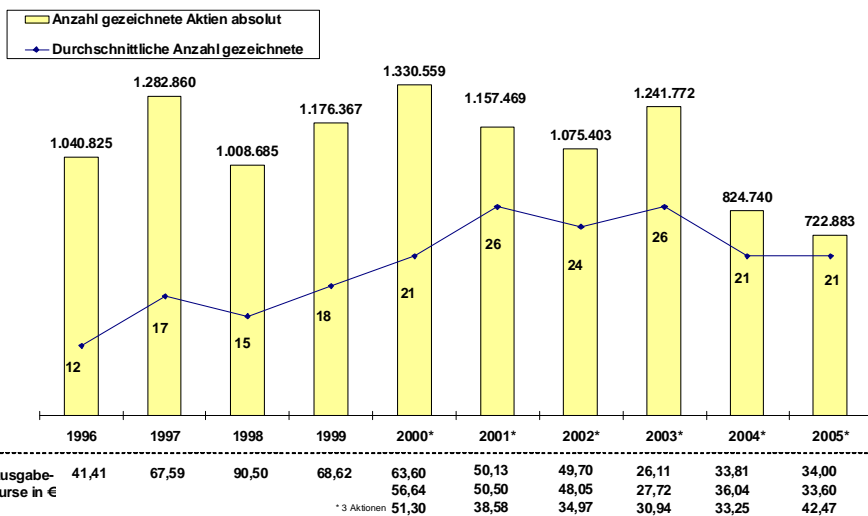
- In terms of wage tax, the price of the DCX stock on the handover date applies. In other words, cash advantages arise if the purchase price calculation is based on the lower price at the beginning of the process.
- All shares acquired in this way are blocked until the end of the year following the year of acquisition.
- Employees incur no additional acquisition costs in the process.
- The shares are kept in a central location, with the employer covering the custody costs.
- Shares are acquired over the intranet or through a call center.

DaimlerChrysler Employees' Stock in Germany



Price guarantee: DC assures employees whichever of the following is lower: the Xetra closing price on the Friday before the campaign starts or the lowest price on the day of the transfer (price guarantee).

Employees' Stock 1996 to 2005 (Germany)



Results of Employees' Stock Campaigns from 2001 to 2005 – Germany

	2001	2002	2003	2004	2005
Total number of participants	44.561	45.330	48.843	38.421	34.776
% of entitled employees who participated	23	24	25	21	19
Number of buy orders	63.545	62.970	65.738	50.466	44.679
Number of shares acquired	1.157.469	1.075.403	1.241.772	824.740	722.883
Average number of acquired shares	26	24	25	21	21

DaimlerChrysler AG
PAP/ASR, Hr. Fahrbach

8

Successive Expansion of the DaimlerChrysler Employees' Stock Model

2000	2001	2004	2007
Participating Countries		Participation Planned	
Austria	United Kingdom	Czech Republic	Belgium/Luxemburg
France	Italy		
Germany	Netherlands		
Portugal			
Spain			
Switzerland			
Japan			

DaimlerChrysler AG
PAP/ASR, Hr. Fahrbach

9

Austria

- Employees' stock is acquired in connection with special annual remuneration.
- The plan takes advantage of special features of Austrian tax law:

There are tax advantages if the employer pays for the stock in the form of a special payment. Everything up to a certain maximum amount (currently €1,460) is exempt from tax and social security contributions.
- Conventional settlement procedure

Italy

- Subscription period; purchase price paid in connection with the Christmas bonus
- maximum of 30 shares (in sets of 5)

Allowance system:

- for 5 or 10 shares:	25 %
- for 15 or 20 shares:	25 % for the first 10 shares, 20 % for all further shares
- for 25 or 30 shares:	25 % for the first 10 shares, 20 % for the next 20 and 10 % for the next 30 shares.

The max. allowance is €300.
- The shares are blocked for three years from the date of their handover (required by law).
- The employer covers the securities account costs (for a max. of 3 years).
- Conventional settlement procedure

Trust Model

- A set amount determined by the employee is withheld monthly from gross pay. The amounts accumulate until enough money is available to cover the price of a share.
- If employees bear in mind the maximum limit, they pay no income tax and health insurance contributions on the money.
 - These tax and health insurance advantages persist if they hold the shares for 5 years or longer.
 - If the employee sells the shares after 3 to 5 years, he receives part of the advantages.
 - If he does so before 3 years are up, he forfeits the advantages.
 - If he leaves the company at his own initiative within 3 years of acquiring the shares, he also forfeits the advantages.



- The stock purchase price is set as the stock price on the fourth workday of each month.
- The contribution can be changed monthly.
- The company covers the transaction and securities account fees.
- The employees receive dividends.
- The trust purchases the shares if they are sold by the employee.
- Conventional settlement procedure.



**Overview of the Employees' Stock Campaigns in
2005
- Abroad -**

	Austria	France	United Kingdom	Italy	Netherlands	Portugal	Spain	Switzer-land
Total number of participants	51	221	126	33	118	55	400	59
% of entitled employees who participated	32	7	9	3	14	15	7	12
Number of shares acquired	1.891	4.005	4.016	750	3.399	835	7.130	1.364
Average number of shares acquired	37	18	32	23	29	15	18	23

Case Study 5: Syngenta AG
Speaker: John Williams, Syngenta

Why should a company offer its employees financial participation? To allow employees to own a part of the company, to motivate them and to create a tie between them and the company? In practical terms, financial participation cannot result in giving the employees influence over the company's decisions.

Zeneca is an example that shows that when up to 250 employees hold stock in the company, their percentage in shares (0.6 percent) gives them no means of influencing the company. Even 10,000 to 50,000 shareholders would increase this percentage to just 1.0 percent. Why is employee financial participation so advantageous for companies? For one thing, it has become part of companies' pay policy. It is subject to preferential tax treatment. It is an interesting investment for the company and the employees. Two other positive effects are that the employee is encouraged to save and he feels a stronger tie to the company.

Three main types of financial participation are practiced in Great Britain:

- SAYE: Savings related share option plan
- SIP: Share incentive plan
Syngenta
- EBT: Employee benefit trusts

Companies have to be listed on the FTSE to take part in SAYE's, savings related share option plans. The employee must save over a period of 3, 5 or 7 years to acquire company shares at a fixed price. Saving for shares entails tax advantages and the savings plan is protected under investment law.

In actual practice, that means the company determines a favourable share price, the employee decides whether to save for 3, 5 or 7 years and each year he invests a set amount that he himself determines up to a maximum limit that is tax privileged.

Syngenta uses the SIP, the share incentive plan. The employees receive financial support to acquire shares, which are then managed for them in a trust. Employees can also acquire shares independent of this program. The employer normally adds shares in a ratio of one to every three shares acquired. This method is highly favourable tax-wise. With an investment of £1,500, the employee purchases shares at market prices with a tax advantage. If three shares are acquired, the company throws in a partnership share for free. The shares have to remain in the trust for three years and can then be sold tax-free. Right now, the profit, including tax concession and company contribution of partnership shares, is about 66 percent.

The purpose of the EBT, employee benefit trust, is to enable a performance-based payment for employees even for non-listed companies. A trust handles the management. This approach legally cuts the link between employee ownership and company development.

Final Remarks

There are about seven different participation programs in Great Britain. International companies favour and prefer share savings plans. Many participation programs are available only to managers. SMEs are especially likely to offer managers shares as a form of financial participation. Shares are viewed as part of the total compensation package.

UK Employee Share Option Schemes

John Williams Syngenta AG

UK Share Option Schemes -FECCIA
Berlin Sept 06

1

Why Introduce a Share Scheme

- To allow employees to own part of the Company?
- However, Employee share holders can't influence the decisions of the Company

UK Share Option Schemes -FECCIA
Berlin Sept 06

2

AstraZeneca Example

Share holder numbers	Percentage holding
1-250	0.6%
251-500	0.7%
501-1000	1.0%
1001-5000	1.4%
5001-10000	0.2%
10001-50000	1.0%
50001-1,000,000	11.9%
1,000,001 plus	83.2%

Source AstraZeneca Annual Report 2005
At 31 December 2005, AstraZeneca PLC had 148,243 registered holders of 1,580,902,000 Ordinary Shares.

UK Share Option Schemes -FECCIA
Berlin Sept 06

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So Why A Scheme?

- Part of an employee remuneration package
- Attracts Tax free monies either in the initial investment or on sale of shares.
- To encourage employees to save
- Can make a substantial profit for employees and as a result has employee retention.

UK Share Option Schemes -FECCIA
Berlin Sept 06

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Types of Schemes

- Savings Related Share Option Plan (SAYE)
- Share Incentive Plan (SIP)
- Employee Benefit Trusts (EBT)

- <http://www.rm2.co.uk/help%20on%20EMI%20SIP%20CSOP%20EBT%20SAYE.htm>

UK Share Option Schemes -FECCIA
Berlin Sept 06

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Savings Related Share Option Plan (SAYE)

- Companies who are quoted on the FTSE
- Employees save over 3, 5 or 7 years to acquire shares in the company at a price fixed at the outset.
- The savings attract tax free bonuses.
- Scheme protected by Trust Law.

UK Share Option Schemes -FECCIA
Berlin Sept 06

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Example of SAYE

- Company determines share price with x% discount. (say a price of £5)
- Employee decides a 3, 5 or 7 year Option
- Invest a maximum of £3000 pa, for say 3 year option. (Therefore £9000 plus interest tax free)
- Option for 4500 shares
- **Share price after 3 years £10.**
- **Profit of £4500 plus initial investment**

UK Share Option Schemes -FECCIA
Berlin Sept 06

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Share Incentive Plan (SIP) Syngenta

- Employees receive allocations of shares which are held for them in trust.
- Employees can also purchase shares,
- Employers generally provide additional free shares. (in a ratio of 3:1)
- The tax treatment is very favorable

UK Share Option Schemes -FECCIA
Berlin Sept 06

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Example of SIP

- Investment up to £1500 pa with tax relief.
- Buy Shares at the “Open Market Price”
- When “3 Shares” have been bought. The Company gives an additional “Partnership” share at the “Open Market Price”.
- Shares to be retained in trust for 3 years, then all shares become available for sale - tax free!
- Currently the return with tax relief and partnership shares about 66%!

Employee Benefit Trusts (EBT)

- Trusts are an important feature of many approved and unapproved schemes.
- They provide separate legal ownership for employee benefits.
- Facilitate "internal markets" in the shares of unquoted companies

Conclusion

- There are about 7 Schemes in UK
- Global Companies Encourage Shares Options
- Favourable Options offered to Senior managers and Directors as part of re-numeration
- Small Companies – offer share options schemes to certain level of management.
- Employees participate as a part of the Benefits Package being offered.

VI. Attitudes of the Social Partners

It was encouraging that views were voiced at the conference on this issue by both the employers' side (represented by Ottheinrich von Weitershausen, executive director of BDA) and by the EMCEF (European Mine, Chemical and Energy Worker's Federation, represented by Secretary General Reinhard Reibsch).

1. Statement of the EMCEF

In his statement at the conference, Secretary General Reinhard Reibsch of the EMCEF (European Mine, Chemical and Energy Worker's Federation) said that employee financial participation is not a high priority issue in Europe at the moment but noted that it was being debated at national level in various countries. In the section "Types of Financial Participation", a reference was made to the current discussion in Germany. The response to the German president's initiative at the beginning of 2006 was particularly positive in the chemical, mining and energy sectors according to the chairman of IG BCE, who is also president of the EMCEF. The VAA expressed hope that it may have given fresh impetus to discussion with this conference and noted that the FECCIA had played an instrumental role. The discussion on "investment pay" had to be conducted.

The trade unions also acknowledged the motivating effect of employee participation in enterprise profit but voiced scepticism about the Commission's possible approach of replacing work participation with shareholder democracy. Worker participation was also viewed as a component for achieving the Lisbon objectives. To achieve these goals, the EU has to have a larger number of highly motivated and well-qualified employees willing to perform at all levels. The secretary general of EMCEF said that financial participation can make a contribution in this regard. He went on to note that qualifications, lifelong learning, information and consulting are all further essential elements to achieving these goals, as is participation in company decisions. Major deficits exist in these areas. Financial participation cannot be a substitute for any of them.

The majority of trade unions in the ETUC (European Trade Union Confederation) favour negotiated solutions/models. A major aspect from the trade union perspective is that participation be open to all company employees. Companies that conduct business throughout Europe face a special problem due to the different national legal systems, especially the different ways the tax codes treat the financial participation of employees in their companies.

A big problem for the trade unions is the risk inherent in employee financial participation by way of company shares, the same risk that every financial investment in shares poses. Employee shareholders enter into a double risk when they agree to financial participation: the risk of losing their job and the investment risk. The unions would like to see this risk mitigated. A fund might be a possible solution but the features and terms involved are not yet clear. A fund solution is favoured because it would diversify risks. The shares would in any case have to be protected.

At national (German) level, the EMCEF secretary general rejected the conversion of existing earnings into financial participations. He noted that financial participation have to remain a supplemental payment and must not be allowed to reduce existing

claims to compensation. Employees should not be obliged to participate in a model of this kind. Participation has to be voluntary. Employees at SMEs must also have the chance to partake in financial participation; this practice should not be restricted to corporations. The demand for insolvency protection at national level was also touched upon.

2. Statement of the BDA

Employers and trade unions agree on one issue at national level, namely, that participation must be voluntary.

The BDA expressly demands that no obligation be introduced to enable financial participation, either by law or through collective agreements. The voluntary nature of the system must go in both directions. That means that even if models are in place, the employees must be free to decide themselves whether to participate.

Moreover, the BDA believes that employees' equity is also venture capital and should therefore not be subject to a general obligation to cover loss and asset risks. The BDA explicitly rejects the formation of inter-company participation funds. Financial participation is redeemed by the company and thus the connection between the employee shareholder and the actual company situation is lost. The objectives pursued with employee financial participation cannot be achieved. It is also important that employee equity participation not be intermingled in any way with company retirement schemes.

Lastly, steps have to be taken to see that taxation is downstream of the investment, i.e. that taxes do not fall due until the participation is sold (after the holding period expires).

VII. Conclusions and Demands

“There is strong evidence suggesting that the benefits of financial participation are greatest when such schemes are introduced through a partnership approach and when they are embedded in an overall approach of participative management.” This sentence taken from the Commission Communication of 5 July 2002 on a framework for the promotion of employee financial participation is one that the VAA and the FECCIA can both agree with. It illustrates the positive effect on labour relations and the associated loyalty effect on company employees. These are two good reasons for the VAA and the FECCIA to advocate the spread of financial participation at European level.

The conference showed that effective and successful systems of financial participation contain three characteristics:

- The great significance of information accessible to all employees and its transparency,
- The importance of involving main players in system development, implementation and monitoring, and
- The further development of the relations between the participants.

The conference also showed that the main value of financial participation is difficult to put in economic terms. Financial participation is an acknowledgement of the value of the employees at the company. Above all, it helps employees identify more closely with the company. The economic data alone cannot yet prove that financial participation is profitable. Its aim is to get employees more involved so as to have a positive and lasting impact on company results, for example, as a result of greater motivation and less staff turnover.

Conference participants emphasized, too, that successful participation systems must be devised in cooperation with the employees and their representatives. These systems also allow employees to influence and control the management of the systems even at a later time through the representatives they elect. Successful systems provide employees' representatives with selection and monitoring rights. The plans should be assessed in-house and adjusted and altered if necessary.

All participants stress that voluntary participation in these models for employers and employees was especially important for increasing the credibility of financial participation; particularly when the employee makes his own contribution. A balanced participation model ideally has an employer contribution and an employee contribution.

Systems should be simple and calculable, i.e. understandable, and performances regular. These features will help to increase staff trust in the model and to ensure that positive effects actually do occur instead of falling short of the goal because of avoidable doubts.

It was also emphasized that financial participation is more successful if accessible to the entire staff rather than being offered only to a select group. The motivation for employees to identify with the company, as mentioned earlier, is many times greater if the system is broad based.

All speakers noted that financial participation is a supplementary income alongside the regular salary and must not be allowed to exceed a firmly defined proportion thereof. That means the variable component should be relatively lower for small incomes than for high incomes. The employee already bears the risk of job loss, and the financial participation should not expose him additionally to business risk to an incommensurate degree.

Finally, and this is an important conclusion, it was discovered that successful systems define maximum amounts and should not increase the income differences to a disproportionate extent.

The conference likewise showed that employee financial participation only works in conjunction with a broad-based communication policy. It is still important that further forms of dialogue be developed so that employees can identify more strongly with the company over the long term and the positive effects of financial participation can be utilized economically as well.

It was stressed that participation schemes should not be allowed to hamper worker mobility despite creating a stronger tie to the company. For this reason, these models have to integrate new employees and allow parting employees to go without financial loss and without risk.

The role of the state is very important for the spread of financial participation. The state must promote and give preferential treatment to financial participation so this practice can become more prevalent. The Social Partners can only advance the spread of financial participation if the appropriate basic legal conditions and especially tax treatment are in place. The Social Partners should be trained in this area and employees themselves should have a chance to receive further training in financial participation.

Finally, the conference showed that the spread of financial participation must not be allowed to detract from company retirement schemes. It has a completely different goal and is not suitable for guaranteeing a secure income in old age due to the high risks involved.

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VIII. Appendix

Slides from Marc Mathieu, secretary-general EFES-European Federation of Employee Ownership

EFES

European Federation of Employee Share Ownership

- 1998, young organisation, open organisation
- employee shareholders, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee ownership in Europe
- general information, lobbying European institutions (Commission, Parliament, etc) and governments



European Business Representative Organisation

Committee for Enterprise Policy
(European Commission – DG Enterprise)

Represents

117,255 enterprises, 6,674,048 employees
(European Union)



1998



**Financial and Legal Barriers
For Financial Participation
In Europe**



Barriers & Obstacles



OBSTACLE No. 1

LACK OF INFORMATION

MISINFORMATION

IGNORANCE

SCEPTICISM



**Guy Verhofstadt – Belgium
Viktor Orban - Hungary**

**Poland – Big companies
Belgium – SME's**



OBSTACLE No.2

NEWNESS

IDEOLOGIES



**IMPACT OF EMPLOYEE OWNERSHIP
ON CORPORATE PERFORMANCE**

**+2% annual growth
(average)**



EMPLOYEE OWNERSHIP

ACTIONNARIAT SALARIE

EMPLOYEE SHARE OWNERSHIP

ENTREPRENEURIAT SALARIE

EMPLOYEE ENTREPRENEURSHIP

ENTREPRENEURSHIP

(co-entrepreneur)



**OWNERSHIP
+
PARTICIPATION**



OBSTACLE No.3

**RISK
HIGHER RISK

PROTECTION
UNION TRADITION**



**Belgium
Blockage
30 years
Grand coalition – 2001
Blockage again**

**Ireland
Eircom
Take over
21% to 35%**



OBSTACLE No 4

TIME

- long implementation
- deeper, longer

**60% companies Germany-wide
1998/2000
2 years effectiveness**



OBSTACLE No.5

**EDUCATION
MATURATION**



EMPLOYEE
OWNERSHIP
LEARNING AND
EDUCATION

EUROPEAN EOLE PROGRAMME



OBSTACLE No. 6

TRANSNATIONAL OBSTACLES



EUROPEAN COMMISSION

5 July 2002

COMMUNICATION OF THE COMMISSION

**on a framework for the promotion of employee financial
participation**



EUROPEAN COMMISSION

18 December 2003

Report of the High Level Group of independent experts, on cross-border obstacles to financial participation of employees for companies having a transnational dimension



COMMUNICATION OF THE COMMISSION

- The lack of co-ordination of taxation policies and the different treatment by the Member States of the financial benefits from the various schemes;
- A lack of legal clarity on the payments of social security contributions on any income from membership of financial participation arrangements;
- The legal differences between the Member States in, for example, securities laws (in relation to share ownership plans) and employment legislation (in relation to termination of contracts and severance pay);
- The cultural differences, national traditions and the attitudes of employees towards financial participation schemes;
- The general lack of information about existing schemes or policies towards financial participation.



High Level Group

- The diversity of legal, fiscal and social frameworks in the Member States;
- The variety of rules laid down by stock exchange authorities;
- The number of ways labour legislation considers financial participation, in particular around the provision of information and the consultation of trade unions and other employee organisations;
- The different approaches to corporate governance, in particular the different roles of the general assembly of shareholders in relation to the introduction of financial participation schemes;
- The different traditions, cultures and practice of industrial relations in the Member States;
- The costs of implementing participation plans, especially for SMEs



High Level Group

- Improving the dialogue between Member States on financial participation issues.
- A greater role for the social partners in educating their members and disseminating information on financial participation.
- Introduce a 'convention' on the taxation of share options, which would suggest consistent rules on taxation and social security contributions that are clear and easy to apply for employees who change residence;
- For other forms of financial participation, introduce a procedure for the mutual recognition between Member States.



COORDINATION

COORDINATION BODY

Permanent working group, committee, institute,
European agency... (European Parliament 1998)...

Summer 2006: Stock Options in Italy,
French socialists...



COORDINATION

DON'T LEGISLATE ALONE

Be simple, avoid originality or national sophistication
= Obstacles for your own companies abroad

Summer 2006: Good French example



COORDINATION

MUTUAL RECOGNITION

Schemes, legal bodies, ...



The European Employee Ownership TOP 100

Sixth European Meeting of Employee Ownership
Brussels, 14-15 December 2006



Draft 2005

6.4 million employees

75.777 millions Euro equity

12,000 Euro per employee in average



LISTED COMPANIES WHOSE SHARE CAPITALIZATION > 230 Million EUR						
	ENTERPRISES	USING	HAVING	HAVING EO	%EO HELD	%EO HELD
	(numbers)	OPTIONS	EO	(numbers)	when having	(total)
DE	190	60%	51%	97	1,32%	1,04%
FR	243	73%	72%	174	4,37%	4,11%
DA	27	78%	78%	21	0,96%	0,59%



LISTED COMPANIES WHOSE SHARE CAPITALIZATION > 230 Million EUR					
	%EO HELD (total)	CAPITALIZATION (million EUR)	EMPLOYEES (numbers)	EMPLOYEES when having	%
DE	1,04%	1.076.904 €	4.718.866	3.833.459	81%
FR	4,11%	1.520.575 €	6.764.000	6.281.000	93%
DA	0,59%	124.439 €	292.616	147.401	50%



LISTED COMPANIES WHOSE SHARE CAPITALIZATION > 230 Million EUR					
	ENTERPRISES HAVING EO (numbers)	%EO HELD (when having)	EMPLOYEES when having	CAPITAL GLOBAL (million EUR)	CAPITAL INDIVIDUAL (EUR)
DE	97	1,32%	3.833.459	11.238 €	2.932 €
FR	174	4,37%	6.281.000	67.597 €	10.762 €
DA	21	0,96%	147.401	729 €	4.942 €



EMPLOYEE OWNED CAPITAL (AVERAGE BY EMPLOYEE)		
	IN LISTED COMPANIES WHOSE SHARE CAPITALIZATION	
	> 230 Million EUR (EUR)	> 1.000 Million EUR (EUR)
DE	2.932 €	3.090 €
FR	10.762 €	18.456 €
DA	4.942 €	4.027 €
BE		7.229 €



www.efesonline.org

the European employee ownership website



Thank you for your attention

For more information

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