IDENTIFYING, RANKING, ANALYSING ALL LARGEST EUROPEAN EMPLOYEE OWNERSHIP COMPANIES

THE EUROPEAN EMPLOYEE OWNERSHIP TOP 100

LE TOP 100 ACTIONNARIAT SALARIÉ EUROPE

LE CLASSEMENT DES GRANDES ENTREPRISES EUROPEENNES D'ACTIONNARIAT SALARIE

Report of the Sixth European Meeting of Employee Ownership

Brussels 14-15 December 2006

EUROPEAN FEDERATION OF EMPLOYEE SHARE OWNERSHIP

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Sixth European Meeting of Employee Ownership 150 participants from 28 countries

The Sixth European Meeting of Employee Ownership was held on the same location as the fifth one in 2005, the Auditorium of the National Bank of Belgium in Brussels. During the two days of the conference participants were informed on recent analysis and developments on financial participation in Europe. Several workshops and many speakers elaborated on the role of employee ownership in companies, cooperatives and multinationals and the various obstacles formed by national tax-legislation for multinational owner-schemes. Others highlighted testimonies and examples of good-practices. The conference was visited by 150 participants from 28 different countries.

EFES presented the first European Employee Ownership Top 100 - ranking; a new tool for employee ownership development across Europe. Employee ownership is expanding in Europe. Many European groups have made significant steps towards further development of employee share ownership since the late nineties. During the conference, many representatives congratulated EFES-Secretary General Marc Mathieu, Director of the Top 100, on what they called, "an excellent job on the Top-100".

In his words of welcome Mr. Cees Vos, President of EFES, called ‘corporate governance at cross roads!’ an important issue at the conference.

He explained this by two scenarios, both developed by professors in economics: a ‘co-ownership-scenario’ versus a ‘winner takes all- scenario.’

Mr. Cees Vos: two scenario's

1. The co-ownership scenario

Mr. Vos: "In recent years wage-increase is based on the profits of new investments, the increase of labor productivity, which means that about 50% of new investment results could be translated into wage increase. Wage moderation would mean that shareholders/capital providers will get most of the revenues from higher productivity. The risk is that there is no optimal use of investments, especially if one takes into account that the time-span of private equity banking is five to six years maximum. If the results are translated into Employee Share Ownership there will be a considerable longer time span for investments, because employees are with the same company for about twenty years. So: a time span of twenty instead of five years! This makes companies less dependent on foreign capital, investments and more long-term oriented. Furthermore it is a stimulus for innovation."'

2.The winner-takes-all scenario

,,An American style management, value-based management as it exists in many expansive companies. As far as ESOP's do exist here they mainly function as to make self enrichment of top management more accepted. These are the kind of companies where contractors sometimes outnumber permanent staff and are more likely to get long service awards.

Nowadays 1/3 of takeovers is by private equity funds which implies a market orientation instead of a company orientation. Employees are not expected to stay in the company for a longer period of time. They function as suppliers of knowledge. No regular wages but performance pay based upon periodical performance assessment for instance in options, in exchange for short time results. They function like a football trainer: hiring and firing according to their contribution to short term company targets.''

Mr. Vos: "In my opinion both scenarios do exist. The first scenario is far more favourable for companies as well as employees."

Yesterday is history, tomorrow is a mystery, today is a gift and that's why it's called the present. I hope that this present will be a present to all of you."

Official farewell Henk Kool

The Sixth European Meeting was also the moment Mr. Henk Kool parted officially as member of the EFES-Board of Directors. EFES Secretary-General Marc Mathieu and Mr. Jean-Michel Content, Secretary General of the International Association of Financial Participation presented Mr. Kool, the first IAFP-achievement - award.

Kool, former Director of the Netherlands Participation Institute (NPI), has been board-member of EFES for seven years.

"He has been outstandingly promoting financial participation," said Mr. Content.

Mr. Kool, who said to be overwhelmed, thanked Mr. Content for "the opportunity to have been able to meet so many interesting people in the field of financial participation. I enjoyed it very much."

Kool, who is now Deputy-Mayor of the City of The Hague, said to be looking forward to be able to host future EFES / IAFP - conferences in The Hague.

In his still enthusiastic and humoristic way, Henk Kool waves good bye the audience after a 6 years presence as an EFES Board member

Presentation of the European Employee Ownership Top 100

Marc Mathieu, EFES Secretary general, presented the first European Employee Ownership Top 100. This Top 100 will be updated every year and enables European benchmarking of the evolution of employee ownership.

"We strived to show for the very first time the ranking of big companies that incorporate employee share ownership. This ranking can pave the way for further development."

The list shows many large European companies involved in employee share-ownership – in fact 89% of them.

Mathieu: "alas, many companies however don't find it necessary, or important enough to publish these figures on financial participation of their employees in their annual reports".

The EFES - Top100 proves that employee ownership is not only important where matters of succession are relevant but also proves it to be very popular with large companies. However, the latter are not so keen to inform the public on this issue.

There are two rankings:

The EUROCAP100 involves the 100 largest European companies regarding their share capitalization held by employees.

The second, EUROEMP100, focuses on the majority employee-owned companies.

EUROCAP100 ranking

In 2006, the 100 ranked European companies represent € 105 billion held by employees, meaning a 3.02% average of companies' capitalization; 8.401.799 employees and € 12.496 held by employee in average.

Most companies (32) are of French origin. The UK follows with 26 British companies, followed by Germany (10) and Italy (8 companies). Furthermore there are 5 Swiss, 3 Dutch, 3 Irish, 3 Spanish, 2 Austrian, 2 Finnish, 2 Belgian, 2 Swedish, 1 Polish, and 1 company from Luxembourg in the EUROCAP-ranking.

The top-10 companies are UBS, Total, Novartis, Mondragon, Deutsche Bank, Société Générale, BNP Paribas, Crédit Agricole, AXA, Bouygues.

EUROEMP100 ranking

Most European companies in the EUROEMP100 are medium-sized, mainly as cooperatives, or companies bought through employee buy-outs (EBO). Some large companies however, have 75.000, 65.000 and 20.000 employees.

EUROEMP100 gathers around 340.000 employees in a growing sector as the difference between 2005 to 2006 outlines 7.4% growth in term of employment from one year to another.

The European Employee Ownership Top 100 rankings are indeed just the tip of the iceberg.

The 1.000 widest European groups

The 1.000 widest listed and non-listed European groups employ 30 million people. Mathieu: we can conclude that 89.9% of all biggest European companies have employee share ownership. Employee share ownership is significant in 61% of all largest companies in Ireland, 55% in UK, 53% in Finland and 51% in France. Within the 25-35% range, just below the average rate, we find a set of countries like Norway, Germany, Switzerland, Austria and Denmark. Belgium follows with only 18%, close to Italy (20%), The Czech republic (17%) and Spain (15%.)

Obstacles

As far as the development of employee share ownership is concerned there is still a number of obstacles, Mr. Mathieu said. The main obstacles are lack of information; sometimes misinformation, ignorance and skepticism.

For many people employee ownership is a new phenomenon. And of course there is always a certain risk involved. The risk of a shareholder is not the same at the risk for an employee.

Earlier reports of the European Commission mentioned the different tax-systems and different legal cultures in the European countries and the lack of coordination. It's the ambition of EFES to help tackle these problems. "As for the coordination we suggest to establish an organization with representatives from different European countries and companies around the table as a mutual recognition system."

In our research on the Top-100 we implemented a corporate lobby-group. We had several meetings with companies which we pointed out some obstacles. The general reaction was that things haven't changed much, but some progress has been made.

What still exists is that companies that put up a transnational plant are immediately confronted with a jungle of different legal systems and national tax systems. There is too much bureaucracy, they say. Things should be made more simple. We can reach that goal through enhanced cooperation, Mr. Mathieu concluded.

The French Employee Ownership Index
Euronext FAS IAS

(Nelly Voyeux, Directrice de l'Indice de l'Actionnariat Salarié)

Mrs. Nelly Voyeux congratulated EFES with the Top 100. The figures are important for legislators, companies and employees, she said. This database should be annually updated, she suggested. This is necessary because of the continuous changes in legislation in the different countries an of the vast numbers of mergers and other developments, she said.

Mrs. Voyeux is Director of the Euronext FAS Index of French Employee Share Ownership (Indice de l'Actionnariat Salarié IAS). This index of employee share ownership has recently undergone an interesting development and was recently relaunched by Euronext and the French Federation of Employee Ownership Associations.

The Index was initially launched in 1999. Since recent relaunching, it is now valued by Euronext in real time, with the same methodology as all Euronext indexes.

250 listed French companies in the database, of which 38 for the last three months belong to the IAS index – all those whose more than 3% of the capital is held by more than 25 percent of their employees.

The shares of these companies are all performing very well. Often significantly better than non-employee share ownership - companies. That's why employee-owned companies are very interesting, she said. The index is updated periodically.

Among the 38 companies are Air France, Renault, BNP Parisbas, Dexia, Thales, Total, France Telecom, Bonduelle, Crédit Agricole and Societe Générale.

Case studies

At the conference five case-studies were presented by John Lewis Partnership, Eircom, Société Générale, Voestalpine and British Telecom.

John Lewis Partnership is a major employee-owned company in the UK with 75.000 employees. The company presented a movie "Share the responsibility" which depicts the ongoing in the company and the satisfaction of the workers with the financial participation system. The partnership contributes day to day to a better running of the business.

Eircom's employee ownership had some crucial new developments in 2006, said Maoiliosa O'Culachain, Eircom ESOP Trustee.

ESOP today holds 35% stake (valued at €338m), preference shares (valued at €218m), 36m Vodafone shares (valued at €62m), cash in bank of €10m. With outstanding loan of €27m, net asset value is €601m (165% of initial investment). When added to €514m already distributed, the total value is €1,115m, said Mr. O'Culachain.

Denis Auxenfans, Directeur de l'Epargne Salariale – Actionnariat Salarié of Société Générale in France, elaborated on the bank's Global Employee Share Ownership Program for SG employees.

Since its privatisation in 1987, Société Générale offers once a year to its employees to become SG-shareholders under preferential conditions. SG has three major stakes: share with all employees our collective success; develop the feeling of belonging to SG Group and develop the employee knowledge of SG Group, Auxenfans said. France has a very attractive taxation for employers. There are no employer charges on the participation, the "intéressement" and the employer's matching contribution. There are social withholdings on the participation, the "intéressement" and the employer's matching contribution.

Max Stelzer, Director of Voestalpine in Austia highlighted his employee ownership scheme called ‘Mitarbeiterbeteiligung’.

Stelzer said that the concept of ‘strategic possession’ in a successful company was totally new in Austria when they started in Voestalpine.

Employees hold more than 10% of Voestalpine's share capital. This guarantees a stabile company structure, Mr. Stelzer said.

Alan Scott is BT Group Director of Corporate Governance of British Telecom. He elaborated on the All-Employee Share Plans of BT.

British Telecom serves around twenty million customers in 170 countries around the world with a market capitalization of around 23 billion Pounds and around 1.4 million shareholders.

The Employee Share Plans were introduced in 1984. Things are going very well since then, Mr. Scott said.

BT has Executive share plans and All-employee share plans.

The All-employee share plans vary. There is a Allshare plan (free shares – Share Investment Plan); a Saveshare Plan (savings-related share option plan); a Directshare Plan (partnership shares – share investment plan) and a Employee Stock Purchase Plan (a monthly savings plan).

Networking during the conference and gala dinner at the gorgeous Euronext Brussel's location 14th December EFES evening happening with TOP100 celebration.

EFES Gala dinner at Euronext - The TOP 100 celebration


euronext

Social partners involvement and key role in negotiating and implementing fair and efficient employee share ownership plans

Discussion with Marc Mathieu (EFES), Cees Vos (EFES), Norbert Kluge (European Trade Union Confederation), Francois Vincent, Laura Pretterebner (Gewerkshaft Metall-Textil-Nahrung, Austria) and Bernard Daly (ICC Bank ESOP-Trustee Ltd, Ireland).

This debate showed that the social partners have an open eye for employee share ownership although not of primary interest.

About Ireland, Mr. Daly said that the different social partners have indicated their support for the promotion of employee share ownership. This commitment is part of national agreements. Employee share ownership is no primary consideration for trade unions however, except in cases of privatization.

According to Mrs. Pretterebner employee share ownership is "not of primary interest" to her trade union. She pointed out that things can turn out badly for employees with a small income. She is however willing to look into the matter in a positive way.

She said she likes the idea of employee share ownership as a strategic weapon against hostile take-overs.

Mr. Daly agreed on that.

Employee buyouts and insolvency report

Mr. Geoff Cox presented a new report, "Insolvency, Employee Rights & Employee Buyouts; a Strategy for Restructuring" by Anthony Jensen. The report was published yesterday at the British Parliament and it is presented today in Brussels. It is the result of a co-operation between the Employee Buyout Foundation in London and EFES. It was firstly based on our work to promote the Spanish *sociedades laborales* model which we met in Spain during our Fourth European Meeting of Employee Ownership in Bilbao and Mondragon.

Globalization and the moving of labor-forces to China, is of great concern as it may lead to more closures, Mr. Cox said.

The main objective of the study is to save companies that can be saved. Key points of the study:

1. The International Association of Insolvency Practitioners sees the position of employees in insolvency as intractable and unjust.

2. Insolvent businesses that could be saved are closing unnecessarily.

3. The Employee Buyout is seen as a breakthrough in dealing with both the issue of employee entitlements, and, when appropriately used, is a successful strategy for corporate rescue, with a lower failure rate than management buyouts.

4. The EBO can also address a key problem of globalization, by helping to anchor capital and jobs locally and preserve communities and skills.

5. However, there is a lack of knowledge and information about employee buyouts and their potential in business rescue, and employees are unable to act quickly to purchase a company due to the lack of access to appropriate finance and support.

6. A specialist investment fund needs to be established. A leading insolvency practitioner in the Association of Business Recovery Professionals, R3, in partnership with a thoughtful venture capitalist, have proposed an Employee Buyout Foundation with a starting capital of £50million to fund employee buyouts.

7. Many businesses are not being sold as going concerns due to the Transfer of Undertakings Protection of Employment Regulations (TUPE), and as a result the employees, using the employee buyout, are in a strong position to become the preferred bidders for the business if the lack of information and finance can be overcome.

8. In the majority of corporate distress cases (77%), by the time the insolvency practitioner is called in the business is beyond saving. A corporate distress early warning system is required.

9. Many business failures (almost 50%) are due to management problems. The key people who can rescue the business - the employees - are not included in creditors' meetings or other negotiations. Legislative change is required to give the employees and their representatives a voice.

10. Developing employee buyouts as part of a cluster of employee-owned companies networked with trade unions has proven to be the best method of maximizing company survival, as demonstrated in Italy.

The American experience with employee ownership stock indexes

John Hoffmire and Kenneth Winslow presented an experience quite alike the French *Indice de l'Actionnariat Salarié* driven-on by Nelly Voyeux.

However, the American experience finally failed despite the performance of the Employee Ownership Stock Index.

The experience started in 1992 consisting in an attempt to start an employee ownership private equity fund linked to performance through a specific stock index. Despite the track record were extremely positive, investors feared being diluted by employee holding in an ESOP equity fund.

However comparison of the past performance of various investment alternatives indicated possible good future performance by an employee ownership mutual fund. And the concept proved itself!

Key variable in creating the ESOF were: type of investments; seize of companies; an investment process i.e. - screening for other variables - spreading risk across industries.

The investment process yielded a portfolio ranging between 80-150 companies traded on US stock exchanges. The group was highly diversified along industry lines and, in terms of industry diversification, resembled an S&P distribution.

Despite the 11 September historically harsh conditions, the benefit Capital SouthWest / Capstone ESOF outperformed the S&P 500 by 4.81%..

However the ESOF closed in October 2002 due to 11 September fears; general declines in the overall market; resistance from the brokerage community and lack of ESOP community's support. "This will probably be the key-point, also for you in Europe", Ken Winslow said as a conclusion.

Round table of political representatives

With Heinrich Beyer (Arbeitsgemeinschaft Partnerschaft in der Wirtschaft, Germany), Nicolas Dupont-Aignan (Deputy, France), Jacek Lipinski (former Vice-Secretary of State, Poland) and Jean-Michel Content (Fondact, France).

Some European countries are preparing new legislation for employee ownership.

France has just voted a a new law on the subject and in Germany and the UK changes seems in the air.

A new wave for European employee ownership?

French Deputy Nicolas Dupont-Aignan elaborated on the recent legislation in France for which he voted in favour. He made some remarks on the political possibilities for further progression of financial participation in Europe. This Gaullist Deputy is both representative and Mayor.

"Even with the recent law there is at the moment legislative pause. We were a little disappointed with the new legislation itself, because it doesn't go as far as we were hoping. Especially now everyone in France agrees on the negative aspects of globalisation. Therefore it's useful to explain that participation of the workers is one way to make people responsible in a liberal economy. We want to associate the workers to the world economy to combine social and economic progress. As politicians we have the duty to explain to managements and trade-unions that employee ownership is a mutual interest.

France has made employee ownership compulsory because of traditional fights between trade unions and management. But moreover, Gaullists regard employee ownership as a way to stabilize the capital.

It can fend off aggressive actions from investment funds and it can avoid hostile take-overs. This enables companies to make mid-term strategies.

All French companies – depending on the size of the enterprise – should reserve in a period of five to ten years five to fifteen percent of the capital for their workers. Within five or ten years 15 percent of the capital of mid-size and large companies in France would then be owned by employees. This requires balance in the compulsory and the free-willing system. With employees working in different countries it's practically impossible for a company to have a fixed rule on financial participation. Therefore we should work on a voluntary basis combined with strong fiscal incentives. Governments should try to think of necessary incentives to make companies think along this line. There can be different ways to participate: the employee-shareholder can participate in his own company or can be shareholder in other companies also, via an investment-fund with a diversified portfolio of shares. This guarantees a high degree of safety for the worker who by doing so is not putting all his eggs in one basket.''

Dupont-Aignan: "Five measures should be taken in the near future, namely: tax deductions and tax advantages for companies that grant shares to their employees; tax on companies depending on the level of employee ownership in the company and a reduction of succession rights when a close-down of a companies occurs. Dupont-Aignan would like 40 percent reduction on succession-rights when managers retire. A short-term loss for the government can prove to be a long term gain, he said. Furthermore he wants voting-rights in companies for the associations of employee-shareholders and reinforced cooperation. "Europe can't go on with managers who earn 1000 times more than their employees", said Mr. Dupont-Aignan.

Mr. Content said that he has not seen many innovation in the new France legislation. "It doesn't change much. An innovation could have been profit-sharing on the basis of the achievement of the project, as in building-projects." In reaction Mr. Mathieu said that the question is one of a political nature. "France and Great Britain are leading states in the field of legislation. The other large countries don't go the same direction however, The gap grows even wider, in my opinion", said Mr. Mathieu. "There must be a means of mutual recognition in tax-laws on employee-ownership. All attempts to harmonize taxes always meet the same obstacle: every country thinks it's own system is the best."

Some participants remarked that the French system cannot be spread worldwide because of it's. That compulsory nature and not the culture is regarded as the main obstacle. The tax-system, so it was said, should be applied at the same moment. Other said the problem is bigger. Generally French and British multinationals have their headquarters abroad. A solution is to find a new tax-system applicable in all member-states. It is impossible to duplicate the complex examples of French or Italian legislation, participants said. "Start with simple tax-harmonisations that can be applied from East to West." A German representative proposed for EFES to set up a network of experts for the benefit of the EFES-members. "Germany is still learning a lot from the other countries."

Cees Vos: "A well done job" - Conclusion

EFES-President Mr. Cees Vos said in his closing speech that the conference focussed on transnational companies and how they deal with opportunities and obstacles. "The conference started with many interesting and striking new EFES-figures. A job well done and very useful for future activities and a database for further information.

There is a unbalanced distribution between countries. In the first ranking the capitalization held by employees, we see in the top-ten six French companies, two Swiss companies, one from Spain and one from Germany. The second ranking, by majority employee-owned shows mainly cooperatives: five from Italy, one from Spain, three from the UK and one from The Netherlands.

Second point that struck me is that it has to do with large numbers. Not only there's big money involved, but also a high percentage of European companies have a form of employee-ownership and with a large number of workers involved.

The EFES Top 10 is a valuable tool to convince our governments and politicians at home of the importance of this phenomenon of employee-ownership. It can present an additional argument not only to the national governments but also to the European Commission to show what kind of companies are leading on employee share ownership. It also turned out there are many federations of small and medium-sized enterprises companies. So also very interesting for SMEs.

Furthermore it was mentioned we still are in a jungle of different national rules and lawyers still have a lot to do. This situation is of course even more complicated with 27 countries involved.

This EFES-meeting further showed more evidence, as proved by Euronext, that employee ownership companies perform better.
Important suggestion was we should try to enhance cooperation between countries which are willing to take the forefront and not to wait for countries which are hesitant to financial participation.''

Mr. Vos elaborated on several interesting presentations and workshops. Vos: ,,one interesting topic was strategic ownership. There is a tendency to resist hostile take-overs. Companies are trying to build a voting block of employee-shareholders, This is a new weapon but also a new aspect of developments in industrial relations. The discussion afterwards about the role of the funds and the role of worker representative in those funds as a new form and maybe a growing form of workers participation.'' It is according to Mr. Vos interesting to observe the development of the relationship of these new institutions with traditional institutions as workers councils and trade unions. He stood still at ,,the interesting topic on insolvency and employee- buyouts by Jeff Cox. Motto was: companies that can be saved should be saved. There has been too much unnecessary insolvency in the UK.'' Commenting on the 'five measures' mentioned by Mr. Dupont-Aignan, Vos said ",four of them we have for a long time on our shopping list. One of them was his wish for more cooperation in the European Context. I was happy to hear that Germany is going to deliver."

Vos: "The conference showed us interesting options for future consideration. We can present convincing data to show our counterparts at home; there is a growing cooperation between employee ownership countries in Europe; strategic ownership can be used as an innovation in industrial relations; insolvency and employee-buyouts are regarded as a possible issue for another conference and last but not least the succession-topic." Vos: "In my point of view the problem is not the non-availability of money but the lack of good plans to continue the company."

"These 2 days proved ESO is not outdated and is not only a financial instrument. The question of strategic ownership points in other directions. It is an actual aspect in the context of globalisation and a response to hostile take-overs and outsourcing. Now we can go on with greater confidence. A relatively small organization like EFES will continue to do the work. We have to realize that the Titanic was built by professionals but the Arc by amateurs."

Workshops and sponsors presence

Monidée Finance providing a live demo of their outstanding option and share plan management tool "tOption"

More information on www.monideefinance.com
and restricted demo on http://www.oursolution.nl/demo/index.asp?subnav=1&id=66

Royal bank of Canada / Abacus joined the conference with a set of 4 experts to meet the audience.

And with RBC expertise clings with charm!

Please visit their site at www.abacusglobal.com and www.rbcprivatebanking.com

Last but not least, Françoise Platteborse from ING DEFI provided us with a presentation : "Talent management and creative salary package"

Please visit www.ing.be

LawIncontext
Euronext
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and the European Commission

also gave support to the conference

Colophon

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