1. TRADING OF FINANCIAL INSTRUMENTS

The trading of financial instruments, i.e., inter alia, shares in limited liability companies and equivalent participation rights in other types of undertakings, bonds, depository receipts, fund units, money market instruments, financial derivative instruments or other such securities, except instruments for payment, which are negotiable on the capital market, mainly takes place in an organized manner on at an execution venue. Trading is carried out by banks and investment firms with authorisation to provide investment services, hereinafter referred to as securities institutions, which participate in the trade on the execution venue. As a client, you normally have to contact such a securities institution in order to buy and sell financial instruments.

1.1 Execution venues

"Execution venues" means regulated markets, multilateral trading facilities (MTF) and systematic internalisers (SI), as well as where trading takes place within securities institutions.

Various types of financial instruments are traded on a regulated market. In relation to shares, only shares of publicly listed companies can be listed and traded on a regulated market and there are stringent requirements for such companies, inter alia, regarding the company's size, operational history, the spread of ownership and public reporting of the company's finances and operations.

A multilateral trading facility (MTF) can be described as a trading system that is organised and provided by an exchange or a securities institution. Typically, less stringent requirements, such as the provision of information and operational history, apply for financial instruments traded on a multilateral trading facility compared to financial instruments traded on a regulated market.

An organized trading facility (OTF) is in many ways similar to a MTF. However, only financial instruments which are not shares or equity related instruments may be traded on an OTF such as bonds, notes and derivatives. In addition, the OTF may have less strict rules and regulations for its trading including order matching, compared to regulated markets and MTFs.

A systematic internaliser is a securities institution which, in an organised, frequent and systematic manner, trades on its own behalf by executing client orders outside a regulated market or a multilateral trading facility. A systematic internaliser is obligated to publish buy and/or sales bids on prices that correspond to the market price for liquid shares which are traded on a regulated market and for which the systematic internaliser carries out systematic internal trading.

Trading can also take place through a securities institution without it being a systematic internaliser, by executing a client's order against the institution's own account or against orders from other clients of the institution.

There are currently two regulated markets in Sweden, Nasdaq Stockholm (hereinafter referred to as the "Stockholm Stock Exchange") and Nordic Growth Market NGM AB (hereinafter referred to as "NGM"). In addition, organised trading takes place on other execution venues, e.g. First North and Nordic MTF (both multilateral trading facilities).

Trading on regulated markets, multilateral trading facilities and other execution venues constitutes a secondary market for financial instruments which are not newly issued. Where the secondary market functions well, i.e. it is easy to find buyers and seller and there is continuous notation of bid and ask prices from buyers and sellers, as well as closing rates (transaction prices) for completed transactions, the companies are also at an advantage because it is easier, when required, to issue new instruments and thereby obtain more capital for the company's operations. The primary market, is the market on which the purchase of/subscription of new issues takes place.

1.2 Trading/quoting lists

In relation to shares, the execution venues usually divide the shares into different lists which are published, e.g. on the execution venues' website, in daily newspapers and other forms of media. A deciding factor in relation to the list on which the company's shares are traded may be the company's market value. The shares with the highest turnover may also be on a special list. Certain securities institutions publish their own lists of financial instruments which are traded through the institute, prices at which the instruments are traded, etc., e.g. via the institution's website. Shares quoted on lists with stringent requirements and high turnover are generally deemed to involve a lower risk than shares on other lists.

Information regarding prices, etc. regarding shares as well as other types of financial instruments, for example fund units, options and bonds, are also published regularly on, e.g. the execution venues' websites, in daily newspapers and other forms of media.

2. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS AND TRADING OF FINANCIAL INSTRUMENTS

2.1 Generally regarding risks

Financial instruments can provide a return in the form of dividends (shares and funds) or interest (fixed income instruments). In addition, the price of the instrument may increase or decrease compared to the price when the investment was made. In the description below, the word investment also means any negative positions (negative holdings) in the instrument, compare with e.g. that which is stated in section 7 below regarding short selling. The total return is the sum of the dividends/interest and price change for the instrument.

Naturally, the investor seeks a total return that is positive, i.e. yields a profit, preferably as high as possible. However, there is also a risk that the total return will be negative, i.e. that there will be a loss on the investment. The risk of loss varies between different instruments. Normally, the chance of a profit on an investment in a financial instrument is linked to the risk of a loss. The longer the time for which the investment is held, the greater the chance is of a profit or the risk of a loss. In an investment context, the word "risk" is used to express both the risk of loss and the chance of profit. However, in the description below the word "risk" is used solely to designate the risk of loss. There are various ways to invest which may reduce the risk. It is normally regarded as preferable not to invest in a single or only a few financial instruments but, instead, to invest in several different financial instruments. These instruments should then offer a spreading of the risks and do not concentrate risks that can be triggered simultaneously. Normally, a spreading of the investments to include foreign markets also reduces the risk of the total portfolio, even if, when trading in foreign financial instruments, there is also a currency risk.

Investments in financial instruments are associated with economic risks¸ which will be described in some greater detail in this information. The client is personally liable for the risk and must therefore take part of and keep himself informed about the terms, such as general terms and conditions, fact sheets, prospectuses and similar documents which apply to the trade of such instruments and the characteristics of the instruments and the risks associated therewith. The client may obtain such information from his securities institution or asset managing company. The client must also regularly monitor his investments in such instruments. This is the case even if the client has received personal advice in conjunction with the investment. The client should, in his own interests, be prepared to take measures promptly where such prove necessary, for example through selling investments that have performed negatively or by providing additional collateral in conjunction with investments financed through loans and where the collateral value has fallen.

It is also important to consider the risks involved in trading with financial instruments on an execution venue other than a regulated market, where the requirements imposed are generally less stringent.

2.2. Different types of risk concepts, etc.

In conjunction with the risk assessment which you should carry out when you as a client make an investment in a financial instrument, and also regularly during the holding period, there are many different risk concepts and other factors to consider and weigh-up. A short description of some of the most common risk concepts are set out below.

Market risk
The risk that the market as a whole, or a particular part thereof in which you as a client have your investment, e.g. the Swedish equities market, falls.

Credit risk
The risk of e.g. an issuer or a counterparty having an insufficient ability to make payment[1].

Price volatility risk
The risk of large swings in the price of a financial instrument negatively affecting the investment.

Price risk
The risk of the price of a financial instrument falling.

Tax risk
The risk that the tax rules and/or tax rates are unclear or may be changed.

Currency risk
The risk that a foreign currency to which a holding is related (e.g. fund units in a fund which invests in US securities listed in USD) are weakened.

Risk of leveraged effect
The construction of a derivative instrument which means that there is a risk that the price of the underlying asset has a greater negative effect on the price of the derivative instrument.

Legal risk
The risk that relevant legislation and rules are unclear or may be changed.

Company-specific risk
The risk that a certain company performs worse than expected or is affected by a negative event and the financial instruments related to the company may thereby fall in value.

Sector-specific risk
The risk that a certain sector performs worse than expected or is affected by a negative event and the financial instruments related to the company within the sector may thereby fall in value.

Liquidity risk
The risk that you are unable to sell or purchase a financial instrument at a certain chosen time.

Interest risk
The risk that the financial instrument in which you have invested decreases in value due to changes in the market interest rate.

1 Insufficient ability for an issuer or counterparty may lead to bankruptcy or company reorganization combined with public composition (claim reduction). Securities institutions (as defined above) may instead be subject to resolution. This will mean that the government may take the control of the institution, and its issued equity and debt instruments may be depreciated or debt instrument holders may have their claims converted into shares (debt depreciation or bail-in).

3. SHARES AND SHARE-RELATED INSTRUMENTS

3.1 Generally regarding shares

3.1.1 Shares and limited liability companies
Shares in limited liability companies entitle the owner to a portion of the company's share capital. Where the company makes a profit, the company usually distributes dividends on the shares. Shares also entitle the holder to voting rights at the general meeting of the company, which is the highest-ranking decision-making body in the company. The more shares the holder owns, the greater the portion of the capital, dividends and votes that inure to him. Voting rights may vary depending on the class of shares concerned.

There are two types of companies, public and private. Only public companies may cause their shares to be traded on an execution venue.

3.1.2 The share price
The price of a share is affected mainly by the supply and demand for the relevant share which in turn, at least in the long term, is affected by the company's future prospects. A share is valued upwards or downwards depending primarily on the investors' analysis and assessment of the company's possibilities to make future profits. Future external developments regarding the global economy, technology, legislation, competition, etc. determine the demand for the company's products or services and, consequently are of fundamental significance regarding changes in the price of the company's shares.

Current interest rate levels also play a large role in the pricing. Where the market interest rates increase, fixed interest financial instruments that are issued at the same time (newly issued) provide a better return. In such cases, the prices of shares which are regularly traded normally fall, as well as those already traded fixed interest instruments. The reason is that the increased return on the newly issued fixed income instruments become, relatively speaking, better than the return on shares, as well as on already traded fixed income instruments. In addition, share prices are negatively affected by the fact that the interest payments on the company's debts increase when market interest rates increase, a factor which reduces the scope for profits in the company.

Also, other factors directly related to the company, e.g. changes in the company's management and organisation, disruptions in production, etc. may strongly affect the company's future ability to create profits, both in the long and short-term. In the worst case, a limited liability company may perform so poorly that it must be declared bankrupt. The share capital, i.e. the capital invested by the shareholders, is the capital that is used first in order to pay the company's debts. This often results in the shares of the company becoming worthless.

Even prices on major foreign regulated markets or execution venues affect the prices in Sweden, inter alia, since many Swedish limited liability companies are also listed on foreign execution venues and price equalisation (arbitrage) takes place between different execution venues. Prices in shares in companies that belong to the same industrial sector are often affected by changes in the prices of shares of other companies within the same sector. This effect can also apply with respect to companies in other countries.

Investors on the market have different needs for investing cash (liquid funds) or obtaining liquid funds. In addition, they often have different opinions as to how the price will develop. These factors, which also include the way in which the company is valued, contribute to there being both buyers and sellers. On the other hand, if the investors have the same opinions regarding price trends, they will either wish to buy and thereby creating buying pressure from many buyers, or they will wish to sell and thereby creating selling pressure from many sellers. The prices increase in the event of buying pressure and fall in the event of selling pressure.

Turnover, i.e. the quantity of a certain share which is purchased and sold, in turn affects the share price. In the event of high turnover the difference is reduced between the price the buyer is prepared to pay (bid price) and the price the seller demands (ask price). (The difference between bid and ask prices are often referred to as the spread.) A share with a high turnover, where large amounts can be traded without affecting the price, enjoys good liquidity and is therefore easy to buy or sell. Companies on the regulated markets' lists (e.g. the Stockholm Stock Exchange's Nordic list and NGM's NGM Equity) more often have high liquidity. During the day or during longer periods, different shares can exhibit different degrees of price stability (volatility), i.e. increases and declines, as well as in size of the price changes.

The prices at which shares are traded (transaction prices), such as highest/lowest/most recently paid during the day, as well as the last quoted bid/ask prices and further information regarding traded volume in kronor is published, inter alia, in most major daily newspapers, on text-TV and on various websites maintained by execution venues, securities institutions and media companies. How current such price information is can vary depending on the manner in which it is published.

3.1.3 Various classes of shares
There are various classes of shares, commonly class A and B shares which normally refer to voting rights. Class A shares normally entitle the holder to one vote while class B shares entitle the holder to a more restricted voting right, often one-tenth of the vote. The differences in voting rights are due to, inter alia, the fact that in conjunction with diversification of ownership the original founders or owners of the company wish to maintain their influence in the company by being given stronger voting rights. Therefore, newly issued shares are accorded a lower voting value than the original class A shares and are designated with the letters B, C or D, etc.

3.1.4 Quotient value, split and consolidation of shares
A share's quotient value is the equal portion of the company's share capital that each share represents. The quotient value is obtained by dividing the share capital with the total amount of shares. Occasionally, companies wish to change the quotient value, e.g. because the price, i.e. the market price of the share, has risen significantly. By dividing up the share into two or several shares through a so-called split, the quotient value is reduced and at the same time the price per share is reduced. However, after a split the owner's capital remains unchanged but this is divided into a greater number of shares which have a lower quotient value and a lower price per share.

Conversely, a consolidation of shares (reverse split) can be carried out where the price has fallen dramatically. In such case, two or several shares are merged into one share. Following a consolidation of shares, shareholders retain the same capital; however this is divided into fewer shares with a higher quotient value and a higher share price.

3.1.5 Market introduction, privatisation and take-overs
Market introduction (in English often referred to as Initial Public Offering, IPO) means that the shares in a company are introduced on to the equities market, i.e. are approved for trading on a regulated market or a multilateral trading facility (MTF). The public is then invited to subscribe for (purchase) shares of the company. Most often, this is related to an existing company which has not previously been traded on a regulated market or other execution venue, where the owners have decided to expand the number of shareholders and facilitate trading of the company's shares. Where a state-owned company is introduced on the market, this is called privatisation.

A take-over (company acquisition) normally involves one or more investors making an offer to the shareholders of a company, on certain terms and conditions, to sell their shares. Where the buyer obtains 90% or more of the number of shares in the acquired company, the buyer can request compulsory purchase of the remaining shares from the shareholders who have not accepted the company acquisition offer. These shareholders are then obliged to sell their shares to the buyer for payment which is determined through an arbitration proceeding.

3.1.6 Share issues
Where a company wishes to expand its operations, additional share capital is often required. The company raises additional capital by issuing new shares through a new issue. The existing shareholders often receive subscription rights entailing a pre-emptive right to subscribe for shares in a new issue. The number of shares that may be subscribed for is normally established in relation to the number of shares previously held by the shareholders. The subscriber must pay a certain price (issue price) which is often lower than the market price, for the newly issued shares. Immediately after the subscription rights (which normally have a certain market value) are detached from the shares, the price of the shares normally declines but, at the same time, shareholders who have subscribed have a larger number of shares. During the subscription period, which often lasts for several weeks, those shareholders who do not subscribe may sell the subscription rights on the marketplace on which the shares are traded. Upon the expiry of the subscription period, the subscription rights lapse and thus become useless and worthless.

A limited liability company can also carry out a directed rights issue (a kind of private placement) which is carried out as a new issue but directed solely to a limited group of investors. The limited liability company can also carry out non-cash issues of new shares in order to acquire other companies, business operations, or assets other than cash. In conjunction with both directed issues (private placement) and non-cash issues, dilution takes place of an existing shareholder's portion of the voting capital and share capital in the company, but the number of the shares held and the market value of the invested capital is normally not affected.

If the assets or the reserve funds in a limited liability company have greatly increased in value, the company can transfer part of the value to its share capital through what is commonly referred to as a bonus issue. In conjunction with bonus issues, consideration is given to the number of shares already held by each shareholder. The number of new shares that inure through the bonus issue is established in proportion to the number of shares previously held. Through the bonus issue, the shareholder receives more shares but the owner's portion of the company's increased share capital remains unchanged. The price of the shares declines in conjunction with a bonus issue but, through the increase in the number of shares, the shareholder retains an unchanged market value for his or her invested capital. Another method of carrying out a bonus issue is for the company to redenominate the quotient value of the shares. Following a redenomination, the shareholders have an unchanged number of shares and market value for their invested capital.

3.2 Generally regarding share-related instruments
Some instruments often closely connected to shares are share index bonds, depositary receipts, convertible debentures, shares and share index options, share and share index futures, warrants and leverage certificates.

3.2.1 Index bonds/Share index bonds
Index bonds/share index bonds are bonds where the yield, instead of interest, depends on, e.g. a share index. Where the index develops positively so does the return. In the event of a decline in the index, there may be no return. However, the nominal value of the bond is always repaid on the maturity date and therefore has a limited risk of loss compared to e.g. shares and fund units. The risk with an investment in a share index bond can, except for fees and any paid premium, be defined as the alternative interest income, i.e. the interest the investor would have received on the invested amount with an alternative investment. Index bonds can have different names, such as share index bonds, share bonds, credit basket bonds, interest basket bonds, currency basket bonds, etc. depending on the underlying type of asset that determines the bond's return. When talking about index bonds, these are also often termed as capital-protected products. These concepts are meant to describe, as stated above, that irrespective of whether or not the product yields a profit or not, the nominal amount is repaid, i.e. normally the same as the amount invested less any paid premium. It should be noted that the capital protection does not apply in case the issuer of the instrument would go bankrupt, become subject to company reorganization with public composition (debt depreciation) or - in case of a securities institution - resolution.

3.2.2 Depositary receipts
Swedish Depositary receipts are receipts regarding the right to foreign shares which the issuer of the receipt holds on behalf of the holder. Depositary receipts are traded just as shares on a regulated market or execution venue and the price normally

follows the price on the foreign execution venues on which the share is traded. In addition to the general risks associated with trading of shares or other types of participating interests, currency risks should be considered.

3.2.3 Convertible Instruments

Convertibles (convertibles or convertible instruments) are fixed income securities (loans to the issuer of the convertible) which may be exchanged for shares within a certain period of time. The return on the convertible, i.e. the coupon interest, is normally higher than the dividend of the shares received in exchange. The price of the convertibles is expressed as a percentage of the nominal value of the convertible.

3.2.4 Reverse convertibles

Reverse convertibles are a cross between an interest and a share investment. The reverse convertible is connected to one or several underlying shares or indexes. This investment yields an interest, i.e. a fixed, guaranteed return. Where the underlying shares or indexes perform well, the invested amount is repaid plus the fixed return. However, where the underlying shares or indexes fall, there is a risk that the investor instead of the invested amount receives one or several shares included in the reverse convertible or an equivalent amount in cash.

3.2.5 Share options and share index options

There are various types of share options. Acquired call options entitle the holder to purchase already issued shares at a predetermined price within a specific period of time. Conversely, put options entitle the holder to sell shares at a predetermined price within a specific period of time. There is an issued option corresponding to each acquired option. The risk for the person who acquires an option is, unless measures are undertaken to limit the risks, that it will decrease in value or become worthless on the expiry date. In the latter case, the premium paid upon purchase of the option is consumed in its entirety. The issuer of the option runs the risk which in certain cases, unless measures are undertaken to limit the risks, may be unlimited in scope. The price of the options normally follows the price of the underlying share or indexes, but with greater price impact and volatility.

The most extensive trading in share options takes place on regulated markets. Trading also takes place in share index options. These index options yield a profit or loss directly in cash (cash settlement) related to the changes in an underlying index. Also, see Section 5 Derivatives Instruments.

3.2.6 Share forwards, share index forwards and futures

A forward means that parties enter into a mutually enforceable agreement regarding the purchase and sale of the underlying asset at a predetermined price and with delivery or other completion event, e.g. cash settlement, of the agreement at an agreed time (closing date). No premium is paid as the parties have corresponding obligations under to the agreement.

A future differs from the forward with respect to the settlement mechanism, i.e. regarding point of time for making or receiving payment depending on whether the position on a daily basis has moved to loss or profit. For a future daily cash settlement is required, demanding regular payoffs between buyer and seller depending on the daily change in price of the underlying asset. For a forward the payoff will be fulfilled only once from one of the parties to the other following the closing date.

3.2.7 Warrants

Warrants are longer-dated options that entitle their holder prior to the expiry date to buy (call warrants) or sell (put warrants) underlying securities, baskets of shares or equity indexes at a predetermined price called the exercise price. If, on expiration, the underlying share price does not exceed the exercise price of the call warrant, or is not below the exercise price of a put warrant, the holder loses the amount paid for the warrant.

Small price changes in the underlying share can result in significant changes in the value of a warrant. This leverage could lead to the proportional profit or loss on the capital invested being larger than if the investment was made directly in the underlying share. Moreover, the price of a warrant generally decreases faster nearer the expiry date since the time value diminishes. The investor should thus particularly take note of the warrant's remaining term. Given the leverage and time value, the holder should continuously consider a suitable time for selling their warrant .

It is not recommended to invest all the capital that is available in the warrant since there is the risk of losing the whole invested amount; it is better to invest a smaller amount in warrants and the remainder in safer placements.

Before you start trading in warrants it is extremely important that you understand how warrants work and how various factors affect the warrant's value performance. You should also be well acquainted with each specific warrant's terms and conditions such as multipliers, term, exercise price, last day of trading and so on.

3.2.8 Leverage certificate

A leverage certificate, which is often just called a certificate, is often a combination of e.g. a call and put option and is dependent on an underlying asset, for example a share, an index or a commodity. A certificate has no nominal amount. A leverage certificate should not be confused with e.g. a commercial paper, which is a type of debt instrument which can be issued by companies in conjunction with the company borrowing money on the capital market, which latter instrument often are referred to in Swedish as certifikat.

A significant characteristic of a leverage certificate is that relatively small changes in the price of the underlying assets can result in significant changes in the value of the holder's investment. These changes in value may be to the investor's advantage, but may also be to the investor's disadvantage. The investor should be particularly aware that the leverage certificate may fall in value and also completely lose its value resulting in all or parts of the invested amount being lost. The same reasoning may also apply to options and warrants.

4. FIXED INCOME INSTRUMENTS

A fixed income financial instrument is a claim against the issuer of a loan. The return is normally paid in the form of interest. There are various types of fixed income instruments depending on the issuer that has issued the instrument, the collateral provided for the loan by the issuer, the term until the maturity date and the type of payment of interest. The interest (the coupon) is normally paid annually.

Another form of interest rate financing is to sell the instrument at a discount (discount paper). Upon sale, the price of the instrument is calculated by discounting the loan amount including calculated interest to current value. The current value or the price is lower than the amount received upon maturity (the nominal amount). Certificates of deposit and treasury bills are examples of discount papers, as well as bonds with so-called zero coupon construction.

A third form of fixed income bond is the state's premium bonds, where the interest on the bond is distributed by lottery among the holders of premium bonds. There are also fixed income instruments and other types of savings where the interest is protected against inflation and the investment thus yields a fixed real interest.

The risk associated with a fixed income instrument is based on the fact that price changes (price risk) may occur during the term of the instrument due to changes in market interest rates, and that the issuer might be unable to repay the loan (credit risk). Therefore, bonds for which satisfactory collateral has been provided for redemption are typically less risky than fixed income instruments without collateral. However, in purely general terms, it can be stated that the risk of loss associated with fixed income instruments may be deemed lower than for shares. A fixed income instrument issued by an issuer with high creditworthiness may therefore be a good alternative for someone who wishes to minimise the risk that the capital saved decreases in value and may be preferable for short-term savings. Also for long-term savings where the capital is not to be jeopardised, e.g. for pension commitments, fixed income-related investments are commonly included. The disadvantage of a fixed income investment is that, as a rule, it yields a low increase in value. Examples of fixed income investments are savings accounts, private bonds and interest funds.

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The prices are determined each day both for instruments with short terms until maturity (less than one year), e.g. treasury bills, and for instruments with longer terms until maturity, e.g. bonds. This takes place on the money market and bond market. The market interest rates are affected by analysis and assessments which are conducted by the Central Bank of Sweden and other major institutional market players regarding short-term and long-term trends with respect to a number of economic factors such as inflation, the state of the global economy, and interest rate changes in Sweden and other countries. The Central Bank of Sweden also conducts monetary policy operations in order to control changes in market interest rates to ensure that the inflation will be kept within determined goals. The financial instruments traded on the money market and bond market (e.g. treasury bills, treasury bonds and bonds issued by home loan institutions) are often traded in large quantities (multi-million amounts).

Where market interest rates increase, the price of already issued fixed income financial instruments will fall if they provide fixed interest, since new bonds are issued bearing rates of interest that follow current market rates of interest and thereby provide a higher rate of interest than the already issued instruments. Conversely, the price of already issued instruments increases when market interest rates decline.

Loans issued by the state and municipalities are deemed to be risk-free with respect to redemption, which thereby applies to treasury bonds and municipal bonds. Issuers other than the state and municipalities may occasionally, in conjunction with the issuance of bonds, provide collateral in the form of other financial instruments or other assets (collateral in the form of property).

Also there are other fixed income instruments associated with a higher risk than bonds if and when the issuer encounters difficulties to repay the loan, e.g. subordinated debentures. A type of fixed income-related instrument is covered bonds. These are associated with a specific priority right according to specific legislation. The regulations concerning covered bonds aims at ensuring that an investor will receive full payment according to the agreed terms even where the issuer of the bond was to be placed in insolvent liquidation/declared bankrupt, provided that the assets which secures the bond has a sufficient value.

5. DERIVATIVE INSTRUMENTS

Derivative instruments, such as options, futures, etc. exist with various types of underlying assets, e.g. shares, bonds, commodities, and currencies. Derivative instruments may be utilised in order to reduce the risks associated with an investment.

The changes in price of the underlying asset have an effect on the price of the derivative instrument. This price effect is often stronger than the change in value of the underlying asset. The price effect is therefore called the leverage effect and may result in a larger profit on the invested capital than where the investment had been made directly in the underlying asset. Conversely, the leverage effect may just as well result in a larger loss on the derivative instrument compared to the change in value of the underlying asset where the price of the underlying asset becomes different than expected. The leverage effect, varies depending on the derivative instrument's construction and manner of use. Stringent requirements are therefore imposed on the monitoring of prices of derivative instruments and the underlying assets. In their own interest, investors should be prepared to act quickly, often during the day, in case the investment in the derivative instrument performs in a negative way. It is also important to consider when the investor makes its risk assessment that the ability to dispose of a holding can be more difficult where the price decreases.

For further information regarding derivative instruments see INFORMATION REGARDING TRADING IN OPTIONS, FUTURES AND OTHER DERIVATIVE INSTRUMENTS.

6. FUNDS AND FUND UNITS

A fund is a "portfolio" of various types of financial instruments, e.g. shares and bonds. The fund is owned jointly by all the investors in the fund, unit holders, and is managed by a fund management company. There are various types of funds with various investment focuses. Investment focus means the type of financial instruments in which the fund invests. A brief summary is set out below of some of the most common types of funds. For further information see the Swedish Investment Fund Association's website, www.fondbolagen.se.

An equity fund invests all or most of the capital paid in by the unit holders in shares. There are also mixed funds that invest in both equities and fixed income instruments, and only interest funds where the capital is mainly invested in fixed income instruments. There are also, for example, index funds which are not actively managed by a fund manager, instead investments are made in financial instruments which copy and follow the performance of a certain specified index.

One of the ideas underlying an equity fund is that it invests in several different shares and other share-related financial instruments, which means that the risk for the unit holders is reduced compared with the risk faced by shareholders who invest in only one or a few different shares. In addition, the fund's unit holders do not have to deal with choosing, buying, selling and monitoring the shares and other management work associated with their holdings.

The idea of interest funds is the same as for equity funds; investments are made in different fixed income-related instruments in order to obtain a spreading of risk in the fund and management of the fund is carried out based on analysis of future interest beliefs.

A fund-of-fund is a fund which invests in other funds. A fund-of-fund can be seen as an alternative to investing in several different funds yourself. Therefore, you may obtain the spreading of risk which a well-considered personal fund portfolio could have. There are fund-of-funds with various investment focuses and risk levels.

Another type of fund is a hedge fund. Hedge means to protect. Even though hedging is meant to protect against unexpected changes in the market, a hedge fund can be a fund with high risk as such funds are often heavily leveraged. However, the differences between hedge funds are great. There are also hedge funds with low risk. Hedge funds try to yield a return regardless of whether the share or interest market goes up or down. A hedge fund has greater freedom in its choice of investments than traditional UCITS funds. The investment focus can be anything from shares, currencies and fixed income instruments to different types of arbitrage strategies (speculation on the changes of e.g. interest rates and/or currencies). Hedge funds use derivatives more often than traditional funds in order to increase or decrease the fund's risk. Short selling (see below) is also often common.

Funds can be divided into UCITS (Undertakings for Collective Investments In Transferable Securities) and alternative investment funds. Swedish special funds belong to the latter category and are regulated by the alternative Investment Fund Managers Act. UCITS are funds which meet the so-called UCITS Directive's requirements (EU directive), mainly in relation to the investment rules and spreading of risk. They are regulated by the Swedish Investment Funds Act (for UCITS only). Swedish and foreign UCITS (which have received licences in their home country within the EEA), may be sold and marketed freely in all the EEA countries. Special funds (for example hedge funds) are funds which in some manner deviate from the rules in the UCITS Directive and it is therefore particularly important for you as a client to find out which investment rules that apply for a special fund in which you intend to invest. This will be stated in the fund's prospectus and fact sheet.

Each management company is obliged to provide each potential investor with a fact sheet regarding the fund. Special funds may not be marketed and sold freely outside of Sweden. A currency risk is also associated with funds which invest in foreign financial instruments (see section 2.2 above).

Unit holders receive the number of units in the fund which correspond to the share of invested capital in relation to the fund's total capital. The units can be subscribed for and redeemed through securities institutions which market units in funds or directly with the management company. However, it is important to note that certain funds have a predetermined period when the fund is "open" for subscription and redemption, resulting in regular trade not always being possible. The unit's current value is regularly calculated by the management company and is based on the prices of the financial instruments held by the fund. The capital invested in a fund can increase and decrease in value and it is therefore the investor can not be sure to receive the entire invested capital when selling.

7. SHORT SELLING

Short selling means that the party who has borrowed financial instruments, and simultaneously undertaken to return the same type of instruments to the lender at a later date, sells the borrowed instruments. In making the sale, the borrower counts on being able, on the date for return of the instruments, to acquire instruments on the market at a lower price than the price at which the borrowed instruments were sold. Where, instead, the price has increased, a loss is incurred, which can be substantial if the price has increased significantly.

8. LOAN FINANCING

In many cases, financial instruments may be purchased for partly borrowed capital. Due to the fact that your own capital as well as the borrowed capital affects the yield, you as a client can through loan financing, obtain a higher profit where the investment performs well compared to an investment financed only with your own capital. The debt which is connected to the borrowed capital is not affected if the price of the purchased instrument increases or decreases, which is an advantage in the case of an increase of the prices. Where the price of the purchased instrument decreases, an equivalent disadvantage arises as the debt remains at 100 per cent which means that the decrease, krona for krona, drains your own capital. Therefore, upon a fall in price, your own capital may wholly or in part be lost while the debt must be paid in whole or in part by the income from the sale of the financial instruments which have fallen in value. The debt must be paid even where the income from the sale does not cover the entire debt.

9. MISCELLANEOUS

Information regarding various types of financial instruments and trading in financial instruments as well as suggestions of other literature within this area may also be found, e.g. on the Swedish Consumers' Bank and Finance Bureau's website, www.konsumentbankbyran.se, and on SwedSec's website, www.swedsec.se.

Information regarding financial instruments and their respective issuers could be found in the relevant prospectus available inter alia in the prospectus register at www.fi.se.

As a client, you must fully understand, inter alia, the following:

- **that the investments made or other positions taken in financial instruments are at your own risk**
- **that you as a client must yourself carefully study the securities institution's general terms and conditions for trading in financial instruments and, where applicable, information in the prospectus and other information regarding the relevant financial instrument, its characteristics and risks**
- **that in conjunction with trading in financial instruments, it is important to scrutinise the contract notes and other reports regarding your investments and immediately submit complaints of any errors**
- **that it is important to regularly monitor changes in the value of holdings of, and positions in, financial instruments**
- **that you as a client must initiate the measures which are required in order to reduce the risk of losses on your investments or other positions.**