

# Corporate governance

Good corporate governance is a prerequisite for maintaining confidence among shareholders, customers and other external stakeholders and is built on the company's strategies, targets and values permeating the entire organisation.

The governance of Clas Ohlson is based upon Swedish legislation, primarily the Companies Act, the listing agreement with Nasdaq Stockholm and the Swedish Corporate Governance Code (the Code). In addition, governance follows the Articles of Association, internal instructions and policies and recommendations issued by relevant organisations. The corporate governance report has been prepared in accordance with the Code.

## The Swedish Corporate Governance Code

The Swedish Corporate Governance Code is applicable to all companies listed on Nasdaq Stockholm. The aim is to improve corporate governance in listed companies and foster trust in companies among the general public and in the capital market. The Code is based on the "comply or explain" principle, which means that it is possible to deviate from the Code if an explanation is provided as to why the deviation has been made. During the financial year it has not been any deviations versus the code within Clas Ohlson.

## Compliance with applicable regulations for stock exchange trading

Neither the Swedish Securities Council nor the Stockholm Stock Exchange's Disciplinary Committee reported infringements of good stock exchange practices or of the application of stock exchange regulations.

## Annual General Meeting

Shareholders exercise their influence through participation in the company's Annual General Meeting (the ordinary annual general meeting). The AGM is the ultimate decision-making body and since the initial public offering in 1999, has always been held in Insjön, Sweden, on a Saturday in early Septem-

ber. The Notification, which is normally prepared about four weeks prior to the AGM, is published in Post- och Inrikes Tidningar, as well as on the company's website. All shareholders who are registered in the share register on the fifth day prior to the AGM and registered in time are entitled to participate. Registration can be made by telephone, e-mail, letter or the company's website.

Each year, the AGM appoints the Board, the Chairman of the Board and the auditors for Clas Ohlson. In addition, the AGM decides how profits are to be allocated. Other issues that arise are mandatory items under the Companies Act and Clas Ohlson's Articles of Association (available at [about.clasohlson.com](http://about.clasohlson.com)). Clas Ohlson's AGM is very well attended, the latest with about 1,800 participants, making it one of the largest in Sweden.

On 30 April 2019, the company's largest shareholders, each representing at least 10 per cent of the votes, were Helena Ek Tidstrand (16.9 per cent), Björn Haid (12.6 per cent), Johan Tidstrand (12.4 per cent), Peter Haid (11.8 per cent) and Claus-Toni Haid (11.5 per cent).

## Nomination Committee

The Nomination Committee's task is to submit proposals for Board members and auditors, as well as fees to Board members (including committee work) and to auditors, to the next AGM at which the Board and auditors are due to be elected. The Nomination Committee also proposes the Chairman of the AGM.

At Clas Ohlson, a nomination process is applied for electing the Nomination Committee. The Chairman of the Board is a member of the Nomination Committee, along with representatives for the four largest registered shareholders or otherwise known

shareholders (record date 30 September). If a shareholder does not elect a member, the next largest shareholder will be asked. The Nomination Committee elects a Chairman from within the Committee, which, according to the Code, shall not be the Chairman of the Board or another Board member.

During the year, an internal evaluation of the Board's work and Board composition was carried out. The evaluation was performed as an internal written evaluation. The results of the evaluation were presented verbally and in writing by the Board Chairman Kenneth Bengtsson. The assessment is that the Board worked well during the year. Reporting took place in order to enable the Nomination Committee to make as thorough an assessment as possible of the Board's combined expertise and experience.

The Nomination Committee fulfills the guidelines pertaining to independence as stated in the Code. The Nomination Committee represents broad experience of work in boards of directors and nominating procedures.

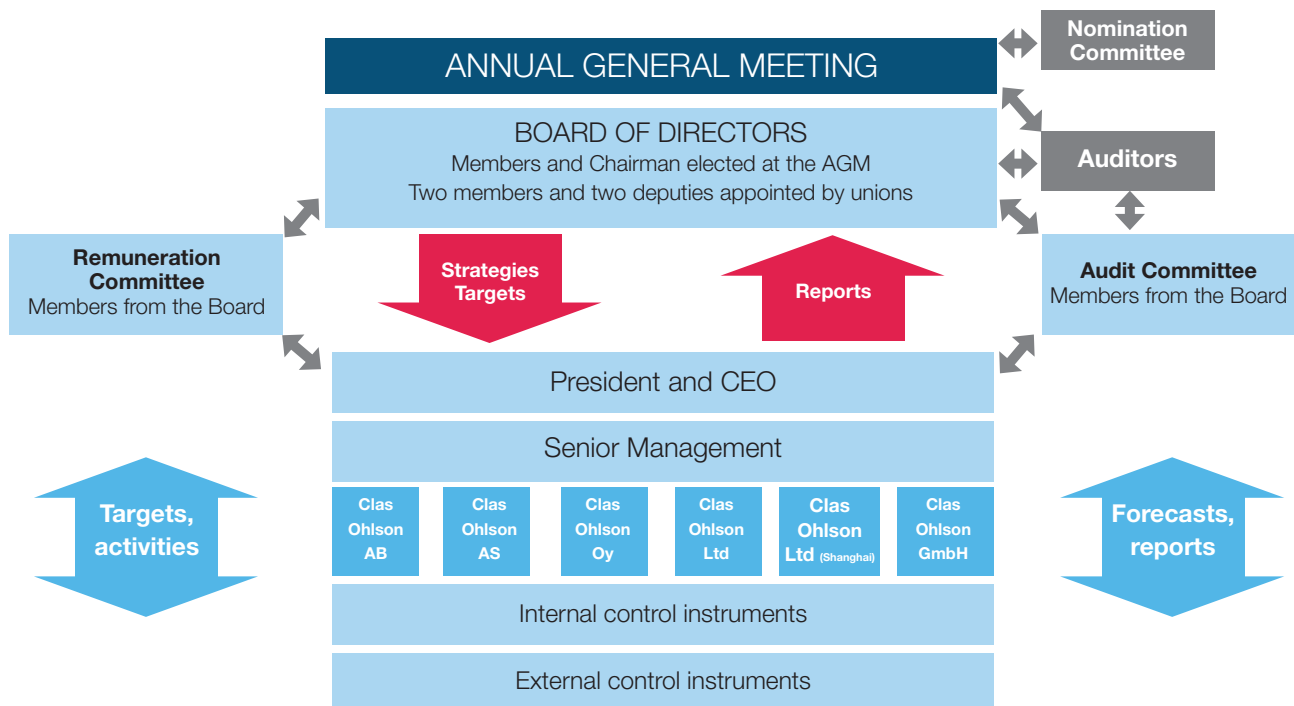
**Nomination Committee prior to the 2019 AGM**

Prior to the AGM held on 7 September 2019, a Nomination Committee was elected comprising Jonas Bergh, Chairman of the Nomination Committee representing the owner-family Haid, Göran Sundström representing the owner-family Tidstrand, Ricard Wennerklint representing If Skadeförsäkring AB, Erik Durhan representing Nordea Investment Funds and Kenneth Bengtsson, Chairman of the Board of Clas Ohlson.

The composition of the Nomination Committee is based on the owner relationship at 30 September 2018. The Nomination Committee represents slightly more than 70 per cent of the total number of company shares (votes). The above Nomination Committee will serve until a new Nomination Committee has been elected.

The basis of the Nomination Committee's work is that the Board is to have the expertise, experience and background required by the assignment. The degree of diversity in the Board was also taken into account and efforts are made to achieve an even gender balance. Factors including the company's diversity policy were considered by the Nomination Committee in its work.

CORPORATE GOVERNANCE IN CLAS OHLSON



Particular emphasis was placed on the company's strategies and targets, as well as on the demands that the company's future focus will place on the Board. The Nomination Committee also discussed the Board's long-term composition on the basis of future competency requirements, diversity and succession.

The committee worked on the nominating procedure for Clas Ohlson's AGM and held five meetings that were recorded, where the Board's composition was evaluated, considered and discussed.

The Nomination Committee's work during the mandate period included the following:

- Report on the Board's work from the Chairman of the Board
- Evaluation of the Board's work
- Nomination of the Chairman of the Board and Board members
- Position concerning the independence of Board members and candidates
- Preparation of proposals for fees to the Board and committees
- Preparation of proposals for the Chairman of the AGM
- Nomination of auditors

The Nomination Committee's complete proposals are presented 11 June 2019.

### Auditors

The AGM appoints auditors for the Parent Company each year. The AGM held on 8 September 2018 appointed Deloitte the auditors of the company, with Kent Åkerlund as Auditor in Charge. Kent Åkerlund is an Authorised Public Accountant at Deloitte. Deloitte was elected up to the 2019 AGM.

Payment for audit engagements in the Group in the past three years totalled 2.3 MSEK, 2.2 MSEK and 2.1 MSEK, respectively. Remuneration for other assignments in the past three years totalled 0.4 MSEK, 0.6 MSEK and 0.4 MSEK, respectively. Work in addition to auditing relates primarily to issues pertaining to consultation on tax issues and IFRS accounting rules.

The independent position of the auditors is ensured firstly by the internal policies of the auditing firm and secondly by the Board's guidelines indicating what engagements the auditing firm may undertake in addition to auditing.

### Board of Directors

Clas Ohlson's shareholders elect the Board of Directors annually at the AGM. The Board comprises eight members, who are

elected by the AGM. In addition to these members, the Board includes two representatives and two deputy for the trade-union organisations in the company. These individuals are elected by their own organisations.

The Board fulfils the independence requirement of the Code. All members, with the exception of Mathias Haid and Göran Sundström, are deemed independent in relation to the company, executive management and major shareholders. Clas Ohlson strives towards diversity, comprising to over time have an equal distribution of men and women in the Board. Gender distribution in the Board among the members elected by the AGM in the past financial year was five men (62.5 per cent) and three women (37.5 per cent). In the preceding year, the corresponding distribution was four men (50 per cent) and four women (50 per cent). Margareta Lehmann and Håkan Lundstedt was elected to the Board of Directors at the 2018 AGM.

### Board meetings

Immediately following the AGM, the statutory Board meeting is held, at which the rules of procedure for the Board and instructions to the company's CEO are approved. The members of the Board's Audit and Remuneration Committees and authorised signatories for the company are also appointed at this meeting. In addition to this meeting, the Board holds at least seven further meetings during the financial year. These are held quarterly in conjunction with the publication of the company's financial reports and once in June prior to concluding the Annual Report, once in connection with the AGM and once during the autumn for strategic discussions. The strategy meeting usually takes place over two days, while other meetings are held on one day. The strategy meeting mainly discusses issues relating to the Group's targets and strategies, product range, store establishment strategy, major investments and so forth. Other meetings primarily deal with the usual Board issues, the company's reports and reporting by the Board committees.

The company's auditors attend three of the Board meetings to report on what has emerged during the audit. The Board meets the auditors once annually without the presence of senior management. The Board held ten Board meetings during the financial year. The Board assesses its work annually.

### How the Board works

The rules of procedure for the Board of Directors stipulate which items on the agenda are to be fixed and which may vary. Each Board meeting is normally to be devoted to a specific topic so that the Board can gain more in-depth knowledge and

understanding of the various parts of the company's operations. There are also presentations on these topics by employees of the company.

The issues that the Board dealt with during the year included strategic direction, monitoring of the business plan, a review of risk management, significant business processes, development of current markets and expansion.

The work of the Board's committees is an important element of the Board's work. The Board has prepared instructions for the committees' work. The Remuneration Committee and Audit Committee discuss issues that fall within the committees' remit. Issues that have been addressed in the committee meetings are minuted and notified to the other Board members at the Board meetings.

The rules of procedure also state that the Board must meet with the company's auditors at least twice per year. In addition, the rules of procedure also regulate certain formal matters, such as rules for the notification of meetings and secrecy.

**Audit Committee**

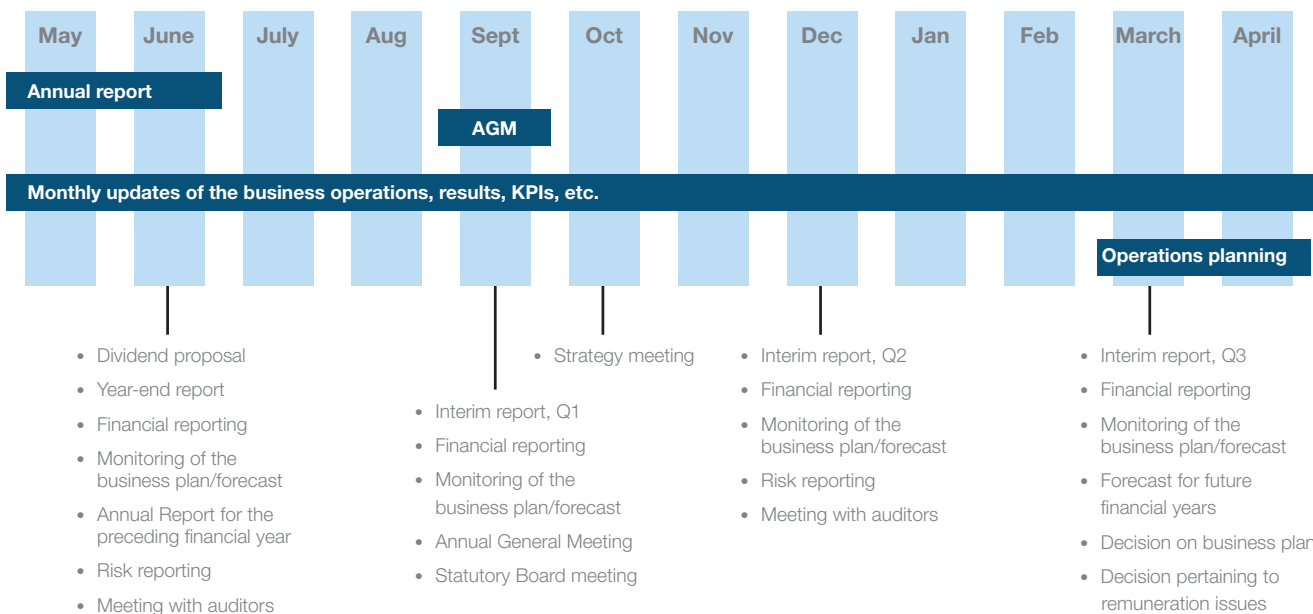
At its first meeting following the AGM, the Board established an Audit Committee comprising Göran Sundström (Chairman), Charlotte Strömberg and Håkan Lundstedt. The Board has issued instructions for the committee work.

The Audit Committee is responsible for the quality assurance of financial reporting. In addition, the Audit Committee is responsible for supervising the effectiveness of risk management and internal control of the financial reporting.

The members of the Audit Committee met the auditors on two occasions during the financial year to be informed about the focus of the audit and discuss views on the risks faced by the company. In addition, the auditors attended several of the committee's other meetings. Important tasks for the Audit Committee are to serve as a communication link, between the Board and the company's auditors and to establish what services over and beyond auditing can be procured from the company's auditors. The auditing effort is evaluated annually, after which information is passed to the Nomination Committee on the outcome.

The Audit Committee held ten meetings during the financial year. Attendance is shown in the table on page 87. The meetings are minuted and reported at the next Board meeting. Representatives of the company's management attended the committee's meetings as co-opted members. The meetings addressed issues aimed at quality assuring risk management and internal control of the financial reporting. Moreover, the Audit Committee dealt with issues regarding the company's interim reports, annual report, accounting, liquidity and other issues.

THE BOARD'S WORKING SCHEDULE



## Remuneration Committee

In accordance with the Swedish Annual Accounts Act, the AGM of a limited liability company whose shares are listed for trading on a regulated marketplace is to decide on guidelines for remuneration of senior executives. The Code also stipulates that the Board is to establish a Remuneration Committee.

The Clas Ohlson Board decided in September 2018 that the Remuneration Committee was to comprise Kenneth Bengtsson (Chairman), Göran Näsholm and Mathias Haid. The Board has issued instructions for the committee work.

The Remuneration Committee submits proposals for guidelines pertaining to basic salary and variable remuneration for senior management. The process regarding variable remuneration for all staff works in a similar way. The Committee met three times during the financial year. Attendance is shown in the table below. The meetings are minuted and reported at the next Board meeting. The Remuneration Committee addressed such issues as fixed and variable remuneration and prepared the suggestions to long-term incentive program (LTI).

## Distribution of work between the Board and CEO

The Board appoints the CEO of the company. The distribution of work between the Board and CEO is indicated in the Board's rules of procedure and in the instructions to the CEO. These state that the Board is responsible for the governance, supervision, organisation, strategies, internal control, forecasts and policies of the company. In addition, the Board decides on major

investments and matters of principle relating to the governance of subsidiaries, as well as the election of Board members and the CEO. The Board is also responsible for the quality of the financial reporting.

The CEO in turn is responsible for ensuring that the company is managed in accordance with Board's guidelines and instructions. In addition, the CEO is responsible for forecasting and planning the company's operations so that specified targets are attained. The CEO ensures that the control environment is favourable and that the Group's risk-taking at any time is compatible with the Board's guidelines. Any deviations have to be reported to the Board. The Board also receives regular information from the CEO through a monthly report.

## CEO and Senior Management

Clas Ohlson's CEO leads the senior management's work and makes decisions pertaining to the operations in consultation with others in the senior management. At the end of the financial year, senior management comprised eleven individuals and meetings were held monthly and as otherwise necessary. The meetings focus primarily on strategic and operative monitoring and development, as well as results follow-up. In addition to these meetings, there is close daily cooperation within management.

## Governance of subsidiaries

The five wholly owned subsidiaries Clas Ohlson AS in Norway, Clas Ohlson Oy in Finland, Clas Ohlson Ltd in the UK, Clas Ohlson GmbH in Germany and Clas Ohlson Ltd (Shanghai)

## Composition of the Board and attendance during the financial year<sup>1</sup>

| Member <sup>2,3</sup>   | Elected | Independent <sup>4</sup> | Independent <sup>5</sup> | Board meetings     | Audit Committee    | Remuneration Committee | Nomination <sup>9</sup> Committee |
|-------------------------|---------|--------------------------|--------------------------|--------------------|--------------------|------------------------|-----------------------------------|
| Kenneth Bengtsson       | 2013    | Ja                       | Ja                       | 10/10 <sup>6</sup> |                    | 3/3 <sup>6</sup>       | 2/2                               |
| Ros-Mari Grusén         | 2016    | Ja                       | Ja <sup>8</sup>          | 3/10 <sup>7</sup>  |                    |                        |                                   |
| Mathias Haid            | 2015    | Ja                       | Nej                      | 9/10               |                    | 2/3                    |                                   |
| Cecilia Marlow          | 2007    | Ja                       | Ja                       | 5/10 <sup>7</sup>  | 7/7                |                        |                                   |
| Göran Näsholm           | 2015    | Ja                       | Ja <sup>8</sup>          | 9/10               |                    | 2/3                    |                                   |
| Göran Sundström         | 2014    | Ja                       | Nej                      | 10/10              | 10/10 <sup>6</sup> |                        | 2/2                               |
| Anne Thorstvedt Sjöberg | 2017    | Ja                       | Ja                       | 10/10              |                    |                        |                                   |
| Charlotte Strömberg     | 2017    | Ja                       | Ja                       | 10/10              | 10/10              |                        |                                   |
| Margareta Lehmann       | 2018    | Ja                       | Ja                       | 5/10 <sup>7</sup>  |                    |                        |                                   |
| Håkan Lundstedt         | 2018    | Ja                       | Ja                       | 5/10 <sup>7</sup>  | 2/3                |                        |                                   |

<sup>1</sup> The trade-union organisations have had four representatives on the Board.

For further information on Board members, see pages 92-93. The work of the Board and its committees is described on pages 85-87

<sup>2</sup> For information on date of birth, work experience, assignments and shareholdings, see pages 92-93.

<sup>3</sup> Remuneration of Board members is stated in Note 6, see page 109-110.

<sup>4</sup> Independent in relation to the company and executive management according to the Swedish Corporate Governance Code.

<sup>5</sup> Independent in relation to major shareholders of the company according to the Swedish Corporate Governance Code.

<sup>6</sup> Chairman.

<sup>7</sup> At the 2018 Annual General Meeting, Margareta Lehmann and Håkan Lundstedt were elected to the Board as Board members. Ros-Mari Grusén and Cecilia Marlow declined re-election.

<sup>8</sup> Are, or represents, major shareholders, see page 145.

<sup>9</sup> For the Nomination Committee, only those members who are also Board members are presented.

in China are governed by their own boards in the country concerned, principally consisting of representatives of Clas Ohlson AB in Sweden. The Board in Sweden receives continuous information about the subsidiaries through the CEO's monthly reports on the subsidiaries. These reports also include the results of operations and financial position of the company concerned.

### External and internal control instruments

Clas Ohlson's governance occurs within the framework for external control instruments, such as Nasdaq Stockholm's rules and regulations, the Swedish Companies Act and the Swedish Annual Accounts Act.

Furthermore, there are internal control instruments consisting of the Articles of Association, the Board's rules of procedure, instructions for the CEO, policies, guidelines, as well as Clas Ohlson's values and corporate culture.

### Clas Ohlson's corporate culture

The Clas Ohlson spirit encapsulates how we treat each other and our customers and it has in essence been the same since the company was founded in 1918. Read more about the Clas Ohlson spirit on page 24 and page 27.

### Remuneration

Fees paid to the Board during the financial year totalled 3.4 MSEK, in accordance with the resolution by the AGM. Of the fees paid, 0.5 MSEK pertained to remuneration for work on the Board's Remuneration and Audit Committees. Of the Board's total fee, 0.8 MSEK was paid to the Chairman of the Board. No remuneration is paid to members of the Nomination Committee.

Remuneration as CEO amounted to 8.3 MSEK, of which 1.6 MSEK amounted to variable remuneration (STI). Variable remuneration pertaining to the expensed but not definite portion of the long-term incentive program (LTI 2017 and LTI 2018) was a cost reduction of 0.1 MSEK for the CEO.

Remuneration to the other ten senior executives totalled 23.7 MSEK, of which 3.1 MSEK was in the form of variable remuneration. Variable remuneration pertaining to the expensed but not definite portion of the long-term incentive programs was a cost reduction of 0.2 MSEK. (Last year the corresponding figure was a total cost of 1.9 MSEK). All eleven of senior management receive the additional benefit of a company car. The 2018 AGM decided on guidelines for remuneration to senior management pertaining to the 2018/19 financial year.



### Severance pay

Under the contract of employment with the CEO, the mutual period of notice is six months. Six months' salary is payable in the event of termination by the company. Applicable basic salary, variable remuneration and benefits are payable during the period of notice.

### Pension

The members of the Board do not receive any pension benefits for their Board engagements. The retirement age for the CEO and for other senior management is 65. The CEO has a defined-contribution pension into which 1.7 MSEK was paid during the financial year. Other members of senior management receive pension entitlements based on their applicable ITP plan, which also covers other salaried staff in Sweden.

### Remuneration principles

The general principles of remuneration for senior executives are to be based on the position held, individual performance, the Group's financial results and the remuneration being competitive in the country of employment. The combined remuneration of senior executives is to consist of basic salary, variable salary in the form of a short-term incentive based on annual performance objectives, long-term incentives based on multi-year performance, pension and other benefits. The principles also regulate the terms and conditions for termination of employment and for severance pay. Clas Ohlson strives to offer a competitive total level of remuneration, focusing on payments based on performance. This means that variable remuneration may comprise a significant portion of the total remuneration. The aim is for basic remuneration to be in line with the median of the comparable market, while total remuneration, when Clas Ohlson meets or exceeds its objectives, is to be in the upper quartile of the market.

**Risk management**

The Board has overall responsibility for the Group's risk effort. The risk situation in Clas Ohlson is updated and analysed regularly. This is done by means of a systematic process in which risks are identified, valued and assessed, managed, monitored and reported. Using an overall assessment, priority is given to those risks whose impact and probability are deemed to represent the most negative effect. A key aspect in this work is the measures undertaken to avoid (control activities), reduce or shift the risk to another party (insurance). The risks are entered in risk maps in order to clarify the overall risk exposure. Mapping is done at the Group level and represents a tool for operational and strategic governance by the Board and the company's senior management. By means of risk mapping, the focus can be aimed at reducing the company's risk exposure and reducing the consequences of any risks emerging. The Risk Committee pursues the work involved in compiling, monitoring and developing the risk management process. Reporting of the Group's overall risk status is made internally to the Audit Committee and the Board twice annually.

**Sustainability**

For Clas Ohlson, it is important to protect and assume responsibility for people and the environment impacted by our operation. Our sustainability agenda is an integrated part of Clas Ohlson's operation and is described under the respective area, on pages 38-69, as well as in the chapter on governance and responsibility on pages 26-31. For more information, see the company's sustainability report on page 126-141.

**Internal control of the financial reporting**

The Board has overall responsibility for the company's systems pertaining to internal control. The responsibility is regulated by the Swedish Companies Act, which also states that the Audit Committee has a specific responsibility for monitoring quality assurance in risk management and internal control of the financial reporting.

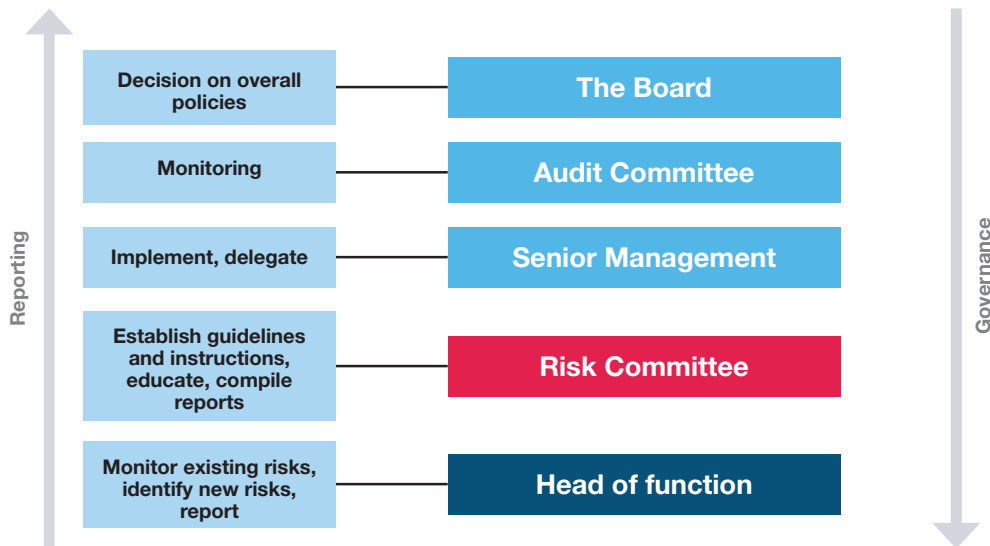
The company's work on internal control follows the framework developed by The Committee of Sponsoring Organisations of the Treadway Commission (COSO). The framework consists of five individual areas: control environment, risk assessment, control activities, information and communication and follow-up.

**Control environment**

The control environment comprises the organisational structure and the values, guidelines, policies, instructions and so on, according to which the organisation works. Effective Board work forms the basis of good internal control and the Board of Clas Ohlson has established rules of procedure and clear instructions for its work. This also includes the Board's Remuneration and Audit Committees.

Part of the Board's work involves drawing up and approving the policies that govern the Group's work on internal control. Another part involves creating the necessary conditions for an organisational structure with clear roles and responsibilities, leading to effective management of the risks in the operation.

**RISK MANAGEMENT**



The Group has regulations governing decision-making and authorisation levels that parallel the Group's organisational structure. The focus is on clarifying who has a mandate to decide on investments, activities, signing of agreements and so forth in each function and the limits in terms of the amounts involved. In the event that the amount exceeds the function's mandate, the decision is assigned to the next level in the organisation. This is done in order to maintain a good corporate governance and awareness at the various levels in the organisation. The regulations governing decision-making and authorisation constitute the basis for decision-making at Clas Ohlson.

The senior management is responsible for implementing guidelines for the maintenance of good internal control. An ongoing work is being done in developing and improving internal control. The senior management and the Audit Committee report continuously to the Board according to approved procedures.

All activity is undertaken in accordance with the ethical guidelines drawn up in the Group's Code of Conduct.

### **Risk assessment and control activities**

Inom Clas Ohlson arbetas kontinuerligt med de områden som bedöms mest prioriterade baserat på väsentlighet och risk.

The Group's income consists of sales in stores and online shopping where payment is principally made by credit card or in cash. This income is documented in its entirety in bank accounts which are reconciled daily. The risk of errors in the reporting of income is limited. Group expenses primarily comprise goods-related expenses, freights, salaries and social security contributions, rental expenses and marketing. Income and expenses are forecasted for each store and department. The outcome is checked monthly against both the forecast and the preceding year.

About 90 per cent of Clas Ohlson's assets consist of inventories and non-current assets. Accordingly, particular emphasis has been placed on preventing and detecting deficiencies in these areas when designing internal controls.

The processes and the control structure are documented in a separate financial manual, which is updated regularly. Work is continuously in progress to evaluate the most essential processes in the Group. The greatest risks in each process are documented.

An assessment is then made of whether the controls that take place are adequate. If there is a need, further compensatory controls are introduced to reduce the risk to an acceptable level. The subsidiaries have accounting managers and controllers who ensure that financial reporting is correct and complete. In addition, they ensure that legislation is observed and that financial reporting is completed within the time frames to senior management and to the Group accounting function. Moreover, there are controllers at major Group functions and on the Group finance function with equivalent working tasks.

The Group finance function has a close and well-functioning cooperation with subsidiaries as regards reporting and closing accounts. Each month, all subsidiaries report complete closing accounts, which constitute the basis for the Group's consolidated financial reporting.

### **Information and communication**

Major policies, guidelines, instructions and manuals that are of significance to internal control are regularly updated and communicated to employees concerned. General guidelines and instructions are also available on the company's intranet.

There are both formal and informal information channels to the senior management and the Board for information from staff. The Board receives regular feedback from the operations on questions that relate to internal control through the Audit Committee. For external communication, there are guidelines that support the requirement to provide the equities market with correct information.

### **Follow-up of internal control**

Senior management and the Audit Committee regularly report to the Board on the basis of established procedures. The Board receives regular information from the CEO every month through a monthly report for the Group. This monthly report also contains information on the results and financial positions of the subsidiaries.

Each interim report is analysed by the Audit Committee with regard to the correctness of the financial information. The Audit Committee also plays a key role in monitoring to ensure that there are sufficient control activities for the most essential areas of risk pertaining to the financial reporting and communicating material issues to the senior management, Board and auditors. An important aspect is to ensure that any viewpoints from the auditors are rectified.





Three times a year, the entire Board meets the company's auditors to be informed of the external audit and discuss relevant issues. On the basis of the auditors' reporting, the Board forms a picture of the internal control and the correctness of the financial information. The CEO does not take part in any issues that relate to company management.

#### **Internal audit**

Following evaluations in the financial year and preceding years, the Board has not found it necessary to date to establish an internal audit function. The company's Group-wide controller function has instead been adapted to also deal with work regarding internal control. The question of whether to establish a separate internal audit function is re-examined annually. Furthermore, the company has a Risk Committee that continuously evaluates material risks and control activities.