

clas ohlson

Corporate governance 2009/10



Extract from Annual Report 2009/10

Corporate governance

The governance of Clas Ohlson is based upon Swedish legislation, primarily the Companies Act, the listing agreement with the Nasdaq OMX Nordic Exchange Stockholm and the Swedish Code of Corporate Governance. 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.

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance is applicable to all major companies listed on the Nasdaq OMX Nordic Exchange 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. Clas Ohlson followed the Swedish Code of Corporate Governance during the financial year.

Annual General Meeting

The ultimate decision-making body within the Group is the Annual General Meeting of Shareholders, which since the initial public offering in 1999, has always been held in Insjön on a Saturday in early September. Each year, the AGM appoints the Board and Chairman of the Board for Clas Ohlson AB. It also appoints auditors for the company at four-year intervals. The AGM also decides how profits are to be appropriated. Other issues that arise are mandatory items under the Companies Act and Clas Ohlson's Articles of Association (the full text can be found at www.clasohlson.se under shareholders/press). The AGM has always been very well attended, and the latest one attracted nearly 2,000 participants, making it one of the largest in Sweden.

On 30 April 2010, the company's largest shareholders, each representing at least 10 per cent of the share capital, were Mary Haid (33.4 per cent), Helena Tidstrand (17.6 per cent) and Johan Tidstrand (14.5 per cent).

Nominating procedure

The AGM decides on the composition of the company's Nomination Committee. The Nomination Committee's task is to submit proposals for Board members or auditors and their fees as well as the Board committees to the next Annual General Meeting at which the Board or auditors are due to be elected. The Nomination Committee also proposes the Chairman of the AGM.

At the AGM on 12 September 2009, it was resolved that a nomination process will be introduced for electing the Nomination Committee. The Chairman of the Board is a member of the Nomination Committee along with the four largest registered shareholders or the representatives of otherwise known shareholders (record date 30 September). If the 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 Swedish Code of Corporate

Governance, shall not be the Chairman of the Board or other Board member. Prior to the 2010 AGM, a Nomination Committee was elected consisting of Lars Öhrstedt, Chairman (representing AFA Försäkring), Anders Moberg (Chairman of the Board of Clas Ohlson AB), Peter Haid (representing the owner family Haid), Göran Sundström (representing the owner family Tidstrand) and Johan Ståhl (representing Lannebo Fonder AB).

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

The group has worked on the nominating procedure for the Annual General Meeting of Clas Ohlson on 11 September 2010 and held ten meetings, at which the composition of the Board was considered and discussed. The focus has been on candidates having to bring the right expertise to the Clas Ohlson Board. The evaluation made of the Board's work, which was implemented by an external party, has also formed the basis for the assessments. The Nomination Committee has also worked to ensure that the directors' fees and committee fees are set at an appropriate level.

The proposals of the Nomination Committee will be presented in the second week of August in conjunction with the publication of the notice of the Annual General Meeting.

Auditors

The Annual General Meeting appoints auditors for the Parent Company at four-year intervals. The current auditors are Öhrlings PricewaterhouseCoopers (ÖPwC), who are represented by Annika Wedin (Auditor-in-Charge) and Lennart Danielsson. Both are authorised public accountants at ÖPwC. ÖPwC was elected in 2008 to serve up to the time of the 2012 Annual General Meeting. Payment for audit engagements in the Group in the past three years has totalled SEK 2.2 M, SEK 1.9 M and SEK 1.6 M, respectively. Remuneration for other consultations in the past three years has totalled SEK 0.9 M, SEK 0.6 M and SEK 0.4 M, respectively. Work in addition to auditing relates primarily to issues pertaining to IFRS accounting rules and consultation on tax issues. 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

The Board of Clas Ohlson comprises eight members, including the CEO, who are elected by the AGM. As well as these members, the Board includes two representatives and two deputies for the trade-union organisations in the company. These individuals are elected by their own organisations. The present Board of Directors is described on page 78 of the annual report.

Board meetings

Immediately following the AGM, the first Board meeting is held, at which the rules of procedure for the Board 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 six further meetings during the year: once a quarter in conjunction with the publication of the company's financial reports, once in June prior to concluding the annual report and once during the winter for strategic discussions. The strategy meeting usually takes place over two days, while other meetings are held on one day. The strategy meeting principally discusses issues of a strategic nature, such as the Group's goals and strategies, product range, establishment strategy, major investments and so on. Other meetings primarily deal with the usual Board issues, the company's reports and reporting by the Board committees. The company's auditors attend two of the Board meetings to report on what has emerged during the audit. The Board held ten Board meetings during the financial year, of which one was a strategy meeting.

How the Board operates

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. Issues addressed by the Board during the year included strategic focus, review of business plans and developments in new markets.

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 calling of meetings and secrecy.

Distribution of work between Board and CEO

The Board appoints the Chief Executive Officer (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, budget 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 administered in accordance with Board's guidelines and instructions. In addition, the CEO is responsible for budgeting and planning the company's operations so that specified goals 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.

Audit Committee

At its first meeting following the AGM, the Board established an Audit Committee comprising Urban Jansson (Chairman), Cecilia Marlow and Lottie Svedenstedt. The Board has issued instructions for the Committee work. The Audit Committee fulfils the guidelines regarding independence in the Swedish Code of Corporate Governance. The Audit Committee is responsible for quality assurance of risk management and internal control relating to the financial reporting. The members of the Audit Committee met the auditors on two occasions during the financial year to learn about the focus of the audit and discuss views on the risks faced by the company. In addition, the auditors attended the committee's other meetings. Important tasks

Composition of the Board and attendance during the financial year⁷

Member ^{9,10}	Elected	Independent ¹	Independent ²	Board meetings	Audit Committee	Remuneration Committee
Anders Moberg	2003	Yes	Yes	10/10 ⁶		3/3 ⁶
Klas Balkow	2007	No ³	Yes	10/10		
Björn Haid	1990	No ⁴	No ⁵	10/10		3/3
Cecilia Marlow	2007	Yes	Yes	10/10	7/7	
Lottie Svedenstedt	2004	Yes	Yes	10/10	7/7	
Elisabet Salander Björklund	2000	Yes	Yes	9/10		3/3
Urban Jansson	2005	Yes	Yes	10/10	7/7 ⁶	
Edgar Rosenberger ⁸	2009	Yes	Yes	5/5		2/2

¹ Independent in relation to the company and company management according to the Swedish Code of Corporate Governance.

² Independent in relation to major shareholders of the company according to the Swedish Code of Corporate Governance.

³ President and CEO.

⁴ Employed from 1965 to 2006.

⁵ Son of the single largest shareholder Mary Haid, see page 49.

⁶ Chairman.

⁷ The trade-union organisations have had two representatives on the Board.

For further information on Board members, see page 78. The work of the Board and its committees is described on pages 52-54.

⁸ Elected in conjunction with the 2009 Annual General Meeting.

⁹ For information on date of birth, work experience, assignments and shareholdings, see page 78.

¹⁰ Remuneration of Board members is stated in Note 6, see page 68.

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 seven meetings during the financial year. The attendance is shown in the table on page 53. The meetings are minuted and reported at the next Board meeting. Representatives of the company's management and the company's internal controller attended the committee's meetings as co-opted members. The meetings also addressed issues aimed at quality assuring risk management and internal control relating to the financial reporting. Issues concerning such topics as accounting and liquidity were also addressed by the Committee.

Remuneration Committee

A specific Remuneration Committee was appointed by the Board comprising the Chairman of the Board Anders Moberg and three other Board members, Elisabet Salander Björklund, Björn Haid and Edgar Rosenberger. The Board has issued instructions for the Committee's work. The Remuneration Committee fulfils the guidelines pertaining to independence as stated in the Swedish Code of Corporate Governance.

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 on page 53. The meetings were minuted and reported at the next Board meeting. Work during the year focused primarily on issues concerning variable remuneration and pensions.

Governance of subsidiaries

The four wholly owned subsidiaries Clas Ohlson AS in Norway, Clas Ohlson OY in Finland, Clas Ohlson Ltd in the UK and Clas Ohlson Ltd (Shanghai) 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 President's monthly reports on the subsidiaries. These reports also include the results of operations and financial position of the company concerned.

Remuneration

Fees paid to the Board during the financial year totalled SEK 2.6 M, in accordance with a decision of the AGM. Of the fees paid, SEK 0.6 M pertained to remuneration for work on the Board's Remuneration and Audit Committees. Of the Board's total fee, SEK 0.6 M was paid to the Chairman of the Board. No fee is paid to Board members who are employees of the company.

No remuneration is paid to members of the Nomination Committee.

The company's CEO received pay totalling SEK 5.3 M during the equivalent period, of which SEK 1.4 M was in the form of variable remuneration. In addition, variable

remuneration of SEK 0.5 M pertaining to expenses and unpaid remuneration relating to the long-term incentive programmes (LTI 2008 and LTI 2009) was calculated for the CEO. Remuneration to the other seven senior management totalled SEK 11.6 M, of which SEK 2.5 M was in the form of variable remuneration. Five of these, as well as the CEO, receive the additional benefit of a company car. The 2009 Annual General Meeting decided on guidelines for remuneration to senior management pertaining to the 2009/10 financial year.

Severance pay

Under the contract of employment with the CEO, the mutual period of notice is six months. Twelve 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.

Pensions

The members of the Board do not receive any pension benefits for their Board engagements.

The retirement age for the CEO is 65 and for other senior management varies between 65 and 67. The CEO has a defined-contribution pension into which SEK 1.4 M was paid during the year. Other members of senior management receive pension entitlements based on the applicable ITP plan, which also covers other salaried staff in Sweden. In addition to this, supplementary pension contributions have been made for four other members of senior management.

Remuneration principles

The general principles of remuneration for senior management 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 management shall consist of basic salary, variable salary in the form of a short-term incentive based on annual performance objectives, long-term incentives based on performance over several years, pension and other benefits. In addition to this, there are terms applicable on notice of termination and severance pay.

Clas Ohlson shall strive 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 total remuneration. The aim is for fixed remuneration to be in line with the median of the comparable market, while total remuneration, when Clas Ohlson AB meets or exceeds its objectives, shall be in the upper quartile of the market. For further information about remuneration, see Note 6 on pages 67-69.

Internal control pertaining to 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 regarding the financial reporting.

The 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.

The executive management is responsible for implementing guidelines for the maintenance of good internal control. Work is continuously in progress to evaluate the company's routines according to the COSO model. The executive 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

A model has been devised in the company to assess the risk of errors in financial reporting. The purpose of the model is to identify a number of items in the income statement and balance sheet and processes for drawing up financial information where the risk of errors is judged to be elevated.

The Group's income consists to 98 per cent of sales in stores where payment is principally made in cash or by credit card. 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, carriage, salaries and social security contributions, rental expenses and marketing. Budgets pertaining to income and expenses have been distributed to each store and department. The outcome is checked monthly against both the budget and the preceding year. Deviations are documented in writing through non-conformance reports, which are reviewed by the immediate superior.

Clas Ohlson's assets consist to 90 per cent of non-current assets and inventories. 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 analysed. 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.

During the financial year, work was performed on the company's overall risk management to ensure a continuous up-to-date survey of the company's risk situation, thereby determining the measures to be taken in prioritised areas. This review was conducted at Group level and represents a tool for the Board's and company management's strategic and operational control. The review enables a focus on reducing the company's exposure to risk and the consequences of any risks that have occurred.

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 posted on the company's intranet, to which all staff in the Group have access. There are both formal and informal information channels to the company 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

Company management and the Audit Committee regularly report to the Board on the basis of established procedures. The Board also 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 material areas of risk pertaining to the financial reporting and communicating material issues to the company's management, Board and auditors. An important aspect is to ensure that any viewpoints from the auditors are rectified.

Twice 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 2009/10 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 on the company's internal control. The question of whether to establish a separate internal audit function will be re-examined annually.

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