

Board of Directors' report

The Board of Directors and the President of Hemtex AB (publ), corporate registration number 556132-7056, hereby submit the annual report and consolidated accounts for the fiscal year from May 1, 2008 to April 30, 2009.

General information about operations

Hemtex is the leading home textile chain in the Nordic region, with a total of 223 stores as of April 30, 2009, of which 150 in Sweden, 42 in Finland, 13 in Denmark, 13 in Norway, two in Estonia and three in Poland. Of the stores, 193 are owned by the Group and 30 by franchise holders. On April 30, 2009, there were 25 franchise stores in Sweden, two in Denmark and three in Poland.

Under a common brand, Hemtex sells interior decorating products focused on home textiles. The assortment is divided into four product areas: Bedroom, Bathroom, Windows and Dining & Entertainment. All product areas are supplemented by non-textile home accessories. The chain stores have two forms of operation: proprietary stores and franchise stores. Regardless of operation form, the stores are managed in accordance with the Hemtex concept and guidelines, but with scope for local business influences.

Hemtex AB is the Group's Parent Company. The Parent Company operates Swedish stores and is responsible for concept development, marketing, business management, controlling and product supply to all stores in the chain.

In addition to the Parent Company, Hemtex AB, the Hemtex Group includes wholly-owned subsidiaries Hemtex Oy (Finland), Hemtex A/S (Denmark), Hemtex AS (Norway), Hemtex (Shanghai) Co., Ltd. and Hemtex Finans AB.

Hemtex conducts operations in Estonia through a branch office. The Group also has a representation office in Bangladesh.

The Hemtex share and ownership

On April 30, 2009, Hemtex AB's share capital amounted to SEK 73.3 M distributed among 29,337,400 shares, each with a par value of SEK 2.50. There was no change in the number of shares or share capital during the fiscal year. However, after the end of the fiscal year, the number of shares and the share capital increased through a new share issue. See the heading New share issue. Each share entitles the holder to one vote at the Annual General Meeting, and all shares carry equal rights to the company's assets and

profits. There is one class of shares and no limitations in terms of the number of votes each shareholder may cast at the Annual General Meeting. There is no regulation in Hemtex's Articles of Association limiting the right to transfer shares. Hemtex AB has not entered into any agreements that would be affected by a possible takeover bid.

Hemtex AB is a Nordic Mid-Cap company, listed on the Nasdaq OMX Stockholm exchange. The principal owners at the close of the fiscal year were Hakon Invest AB with 34.6% of the shares and AB Industrivärden with 12.3% of the shares. No other shareholder holds, directly or indirectly, more than 10% of the shares in Hemtex AB. However, Hakon Invest increased its ownership share after the end of the fiscal year and had an ownership share of 55.8% on June 30, 2009. See the heading Mandatory takeover offer from Hakon Invest AB.

The Board of Directors and any deputy Board members are appointed at the Annual General Meeting for the period until the next Annual General Meeting. There are no regulations in Hemtex's Articles of Association concerning the appointment and dismissal of Board members.

Risk factors

Hemtex's operations are associated with risks of varying character. Risks related to market conditions include the impact of business cycles, changes in fashion and trends, weather, seasonal variations and competitors. Risks related to business operations include increased production and distribution costs, supplier risks, inventory risks, cancellation of significant contracts, risks relating to acquisitions and disposals, the distribution center and information systems.

The financial risks include risks related to unfavorable capital and credit market terms and currency, interest and credit risks.

Market-related risks

Impact of business cycles

As in all retailing, demand for Hemtex's products is affected by general economic conditions.

Hemtex has operations in the Nordic countries (except Iceland), Poland and the Baltic countries. The general economic crisis that affected the global economy in the autumn of 2008 and largely still persists negatively affected all of Hemtex's markets, although to varying extent. The Baltic countries, for example, were particu-

larly affected. Continued declines in GDP and lower private consumption in Hemtex's markets may have significant negative consequences for the company's operations, profits and financial position.

Hemtex's assessment is that the home textiles segment is less cyclical than some other retail segments. The reasons are that most products are of such a nature that they are changed relatively frequently and that costs for purchasing home textiles are relatively low.

Fashion risks

Demand for home furnishings and home textiles is more influenced today than previously by fashion trends as in the clothing sector. Hemtex is therefore dependent on consumer preferences with respect to design, quality and pricing of products in Hemtex stores.

Hemtex continuously monitors trends in home textiles and related sectors. When fashion trends are beginning to attain commercial volumes, Hemtex acts quickly. Time is an important factor in choosing the right product range, and it is therefore essential that design and purchasing take place as close to the sales season as possible. On the other hand, manufacturing and delivery require lead times to be able to keep costs at a reasonable level. Central functions at the head office in Borås work to ensure that the entire value chain, from concept to sales, is managed as efficiently as possible.

Weather and seasonal variations

The weather affects sales of home textiles. A mild autumn and winter normally has a negative impact on sales, and a cold and rainy summer normally contributes to higher sales figures. Extreme weather can have major consequences for the company's sales. Sales of home textiles also have seasonal variations. During the autumn and winter, more expensive products, such as quilts and pillows for the bedroom, are sold, while summer sales comprise mostly terry towels. In general, sales are highest during the autumn and winter, with December being traditionally the best month.

Competitors

The market for Hemtex's products and services is competitive, and there are several different competitors in the local markets. Hemtex's strategy includes improving its already strong position in the market and thus preparing the company for more intense competition.

Although Hemtex has lost market share in the Swedish market over the past two years, the Group's position

remains strong. Hemtex is the market leader with 26.4% of the market during 2008. The closest competitors had 12.0% and 10.4% of the market, respectively.

Operational risks

Production and distribution costs

A large portion of the products that Hemtex sells are manufactured in countries with lower cost and wage levels than Sweden. As a consequence, Hemtex can sell its products at a lower price than would be possible if manufacturing took place in Sweden. However, trends in the countries in which manufacturing is located change rapidly in many cases, and there are no guarantees as to how long the relatively low cost levels will prevail in the countries in question.

Hemtex works with sourcing and is constantly reviewing cost levels to enable the lowest possible price to be offered to customers. Hemtex actively seeks and constantly evaluates existing suppliers and purchasing markets with respect to such factors as price, quality, compliance with the code of conduct and delivery times. By purchasing more goods directly from suppliers, Hemtex can lower purchasing prices and thus strengthen its margins. Hemtex also has greater opportunities for controlling and influencing manufacturing plants than when purchases are via intermediaries. One goal in purchasing work is to increase the proportion of goods purchased directly from the producer. The proportion of direct purchases is currently slightly more than 81%, and Hemtex's view is that it will be possible to further increase this share somewhat. For purchases from Asia, the goal is 80%, and the current proportion is 74%.

Supplier risks, etc.

Hemtex has no production of its own and instead uses a number of suppliers that produce the company's products. On-time delivery of goods is very important for Hemtex. Loss of one or more suppliers, as well as delayed or missing deliveries, could have a negative impact on the company's business. Some of the company's products are produced in developing countries where the work environment and production conditions are different from the conditions applying in the countries where Hemtex's products are sold. Hemtex has established a code of conduct that specifies the suppliers' responsibilities and regulates the relationship between Hemtex and the supplier.

Hemtex conducts systematic inspections of working conditions and environmental work among its suppliers.

The purchasing offices in Dhaka in Bangladesh and Shanghai in China function as hubs for purchasing and inspection work, which are closely linked. Hemtex performs its own inspections and also purchases inspection services from certified external companies, such as SGS and ITS.

During the 2008/2009 fiscal year, most suppliers in Asia were inspected. Action plans were developed for all suppliers that were not approved. Hemtex's code of conduct is an important parameter in the evaluation of suppliers.

Inventory risk

Hemtex has a Group-wide distribution center (central warehouse), as well as inventory in the individual stores. Inventory risk is the risk of obsolescence if inventory is not sold at a value exceeding the acquisition value.

At April 30, 2009, the value of inventory amounted to SEK 312.3 M (337.9). The reduction was the result of a strictly controlled purchasing strategy. Of total inventory, wholesale inventory amounted to SEK 84.7 M (111.3). The inventory per store within the Group averaged SEK 1.2 M (1.3) on April 30, 2009.

Cancellation of contracts

Hemtex has entered rental contracts, purchasing contracts and franchise contracts that are important for its business. Management and the Board of Directors, consider, however, that no individual contract or similar engagement associated with operations is of critical importance for the Group's operations, profits or financial position. The contracts can be terminated with a certain notice period, which is mainly nine months.

Acquisitions and disposals

Over the years, Hemtex has acquired a number of companies and operations. Growth through acquisitions constitutes a risk due to difficulties in integrating operations, employees and products.

Hemtex's acquisitions in recent years have consisted of purchases of franchise stores within the Hemtex chain, meaning that integration has not been particularly difficult.

Distribution central

Most of the goods that are sold in Hemtex stores pass through the company's distribution center in Gothenburg. If the distribution center or its equipment is damaged or

should need to be closed, this might result in problems with deliveries to stores. If such circumstances cannot be rectified quickly and efficiently, operations might suffer. There is insurance for property and production stoppages, but there are no guarantees that the amounts are sufficient or that they could be fully recovered.

Information systems

Hemtex is dependent on information systems for controlling the flow of goods from purchasing to sales in stores, as well as for compiling operative and statistical data. Every prolonged service interruption or inadequate functionality in these information systems may mean that important information is lost or that actions are delayed, particularly if problems occur during a peak season, such as Christmas.

Financial risks

Information regarding financial risks and risk policies is presented in Note 30.

Key events

Market

Home textiles are regarded as less cyclical than other retail segments, but during 2008/2009, demand was affected by a sharp decline in the economy and a weak trend in private consumption. During 2008, the Swedish market for home textiles declined by 4.5%, according to the most recent figures from the market research firm GfK. Hemtex is the market leader in the Swedish market for home textiles with a market share of 26.4% during 2008, compared with 28.4% in 2007. The nearest competitors had market shares of 12.0% and 10.4%, respectively.

In Finland, the market share amounts to 9%, according to Hemtex's calculations. In the Danish and Norwegian markets, Hemtex estimates the market share at slightly more than 2% in each country. The potential for continued growth in markets outside Sweden remains great.

New share issue

At an Extraordinary General Meeting on April 21, 2009, a previous decision by the Board of Directors regarding a new share issue was approved. On the record date of April 24, 2009, Hemtex shareholders were entitled to a subscription right for each share held, and five subscription rights entitled the holder to subscribe for two new shares at a price of SEK 14 per share. The subscription period for

the new share issue was from April 29 to May 13, 2009, and was fully covered by subscription pledges and guarantees from Hemtex's largest owners. On May 19, 2009, notification was provided regarding calculation of the outcome of Hemtex AB's new share issue. It was shown that the new share issue was oversubscribed and that the guarantees that had been issued did not need to be used. The new share issue contributed about SEK 164 M to Hemtex before issue costs. The new share issue was fully registered with the Swedish Companies Office on June 2, 2009, whereby the total number of shares in the company amounted to 41,072,360.

Mandatory takeover offer from Hakon Invest AB

On April 28, 2009, Hakon Invest AB submitted a cash tender offer to the shareholders of Hemtex AB in compliance with the Swedish rules for mandatory takeover offers. Hakon Invest offered SEK 23 in cash per share together with an add-on premium of SEK 4 per share, which will be payable if Hakon Invest reaches a shareholding exceeding 50% of the shares and votes in Hemtex AB. In a statement issued on June 11, 2009, the Board of Directors of Hemtex deemed Hakon Invest's offer of SEK 23 per share to be inadequate since the offer did not reflect the Board's perception of the company's long-term potential. On June 18, 2009, Hakon Invest raised the consideration of the offer to SEK 27 in cash per share, with no possibility to receive any additional premium, and extended the acceptance period from June 22 to July 6. On June 30, 2009, Hakon Invest's ownership share in Hemtex AB amounted to 55.8%.

Establishments and acquisitions

In total, the Group opened 14 new stores during the 2008/2009 fiscal year, of which four in Sweden, four in Finland, three in Norway, one in Denmark and two in Estonia. In Sweden, stores were opened in Skövde, Kalmar, Norrköping and Malmö. In Finland, stores were opened in Joensuu, Porgoo, Vasa and Tampere. In Norway, stores were opened in Kolbotn, Asker and Jessheim. In Denmark, a store was opened in Roskilde. In Estonia, stores were opened in Narva and Tallinn.

During the 2008/2009 fiscal year, seven franchise stores were opened, of which three in Sweden, two in Poland and two in Denmark. In Sweden, stores were opened in Sala, Eslöv and Sandviken. In Poland, stores were opened in Warsaw and Wrocław. In Denmark, stores were opened in Randers and Århus.

The Group acquired a franchise store in Östersund during the first quarter of the fiscal year. More details on the acquisitions are presented in Note 29.

During the 2008/2009 fiscal year, three stores were discontinued. The Group closed one store in Drammen in Norway and one store in Narva in Estonia. A franchise store was closed in Rumia in Poland.

Comments on the income statement

Net sales

Consolidated net sales consist of sales to consumers in Group-owned stores and wholesale sales to franchise stores in the Hemtex chain. The Group's total net sales declined during the 2008/2009 fiscal year by 13.5% (increase: 9.4) to SEK 1,390.6 M (1,608.3). Excluding

Number of stores per market

April 30	2003	2004	2005	2006	2007	2008	2009
Sweden	12	21	44	70	113	121	125
Finland	4	5	12	22	34	38	42
Denmark	4	6	6	8	8	10	11
Norway	—	—	—	1	8	11	13
Estonia	—	—	—	—	—	1	2
Total stores in the Group	20	32	62	101	163	181	193
Franchise stores in Sweden	78	75	67	52	23	24	25
Franchise stores in Poland	—	—	—	—	—	2	3
Franchise stores in Denmark	—	—	—	—	—	—	2
Total stores in chain	98	107	129	153	186	207	223

acquired units, the decline amounted to 13.9%. With unchanged exchange rates, the decline was 15.1%.

Of consolidated net sales, Finnish operations accounted for SEK 210.6 M (227.3), Danish operations for SEK 69.3 M (76.3), Norwegian operations for SEK 54.2 M (56.3) and operations in Estonia for SEK 7.9 M. Other operating revenues amounted to SEK 14.1 M (15.6) and consisted primarily of franchise fees and bonuses from suppliers and business partners.

During the 2008/2009 fiscal year, net sales at the consumer level (including franchise stores) declined in all markets by 14.5% to SEK 1,431 M (1,674).

Earnings

Consolidated gross profit (net sales less cost of goods sold) declined by 12.4% to SEK 743.4 M (848.3). The gross profit margin increased to 53.5% (52.7).

The proportion of goods purchased directly from producers is currently slightly more than 81%. For purchases from Asia, the goal is 80%, and the proportion is currently 74%.

To reduce currency risk, Hemtex hedges a significant share of the Group's contracted flows in foreign currency. Currency risks are followed up, and exchange-rate differences are calculated as the difference between the rate actually paid and the calculated rate. According to the Group's financial policy, at least 65% of contracted flows must be hedged. The total exchange-rate differences that affected earnings during the fiscal year were positive and amounted to SEK 19.9 M (48.9). The change in the value of outstanding forward contracts when applying IAS 39 had a positive effect on gross profit of SEK 1.1 M (neg: 1.0) during the fiscal year.

Operating expenses, excluding goods for resale and depreciation, amortization and impairment of tangible and intangible fixed assets, amounted to SEK 739.8 M (683.2). As a percentage of sales, these expenses amounted to 53.2% (42.5).

Of depreciation/amortization of tangible and intangible fixed assets, rental rights accounted for SEK 6.2 M (6.2), and other depreciation/amortization for SEK 40.0 M (32.8). Impairment of goodwill took place in the amount of SEK 4.0 M (0.6) during the fiscal year.

Operating expenses amounted to SEK 32.5 M (141.1), meaning that the operating margin declined to -2.3% (pos: 8.8). All markets showed an operating loss during the year. The loss before tax amounted to 45.1 M

(profit: 132.7), resulting in a negative profit margin of 3.2% (pos: 8.3). The loss for the year amounted to SEK 42.9 M (profit: 96.5), corresponding to a share of net sales of -3.1% (pos: 6.0).

During the fiscal year, the return on shareholders' equity was a negative 10.4% (pos: 20.0). Return on working capital was a negative 5.1% (pos: 24.5), while the interest coverage ratio was a negative 2.5 (pos: 15.6).

Comments on the balance sheet

Goodwill

Total goodwill in the Hemtex Group as reported in the consolidated balance sheet on April 30, 2009 amounted to SEK 283.2 M (279.2). Of consolidated goodwill, SEK 263.9 M (261.4) was attributable to Swedish operations, while the remainder was attributable to Denmark. The valuation takes into consideration accrued return values for acquired operations, as well as the Group's market shares in Sweden and Denmark, the strength of the Hemtex brand in these markets, established supplier contacts and the expertise of the Group's employees.

During the fourth quarter, all goodwill values in the Group were tested with respect to the need for impairment. The test was based on the value in use and future cash flows. An impairment of SEK 4.0 M was recognized.

Inventory

On April 30, 2009, inventory amounted to SEK 312.3 M (337.9). The reduction was a result of a strictly controlled purchasing strategy in which inventory levels at the end of the fiscal year were judged to be in good balance. Of total inventory, wholesale inventory accounted for SEK 84.7 M (111.3). The inventory per store averaged SEK 1.2 M (1.3) on April 30, 2009.

Financial position

Cash and cash equivalents amounted to SEK 25.4 M (31.5) on April 30, 2009. Net debt, meaning interest-bearing liabilities less cash and cash equivalents, increased by SEK 106.4 M during the most recent 12 months and amounted to SEK 280.4 M (174.0) on April 30, 2009. The change was mainly due to lower sales during the period. The net debt/equity ratio was 80% (37) on April 30, 2009.

The equity/asset ratio was 40%, compared with 53% on the same date in the preceding year. During the spring, Hemtex reviewed its overall financing. Discussions were conducted with banks and principal owners to find the

best solution for the company with a great proportion of long-term financing and a new share issue as a result. The proceeds from the recently completed new share issue totaling SEK 164 M were used in part to reduce the Group's interest-bearing debt by more than SEK 100 M and in part to strengthen the Group's liquidity.

The overdraft facility is recognized as a current liability.

On April 30, 2009, the Hemtex Group's total credit facilities, including limits on letters of credit and currency forward contracts, amounted to SEK 386.3 M (444.5). Of the total credit facilities, SEK 324.6 (224.6) had been utilized on the closing date.

The total value of purchase orders for which currency forward contracts were signed amounted to USD 7.9 M (15.5) on April 30, 2009. The value of these outstanding currency forward contracts was negative in an amount of SEK 2.3 (neg: 3.5) on the closing date.

Comments on the cash flow statement

Cash flow and investments

Cash flow from operating activities declined by SEK 0.2 M to SEK 24.0 M primarily as a result of inventory build-up and lower sales than planned. Cash flow after investments for the 2008/2009 fiscal year was negative in an amount of SEK 28.9 M (neg: 42.2).

The Group's net investments affecting cash flow during the 2008/2009 fiscal year amounted to SEK 52.9 M (66.4). Of these investments, SEK 8.2 M (1.7) was attributable to acquisitions of stores, SEK 33.6 M (55.0) to new establishments and SEK 11.1 M (9.7) to other investments.

Personnel

During the 2008/2009 fiscal year, the number of full-year employees was 773 (757). The personnel increase is mainly attributable to store expansion. During the year, the number of Group-owned stores increased from 180 to 193 units, corresponding to an increase of 7%. The distribution is 7% men and 93% women. Approximately 88% work in the store organization and 12% work in central functions such as purchasing, logistics, marketing and administration.

Hemtex's gender equality plan is continuously revised and shall characterize the work being carried out in many areas. Examples contained in the policy include: salary differences based on gender must not exist, working conditions shall be adapted to both women and men and educational and developmental opportunities shall be equal.

The systematic work environment effort within Hemtex is based on all employees within the Group being provided with sound, safe and pleasant workplaces and that all managers are educated within the area. Courses on working environment and safety are conducted on a continuous basis to include new employees in the organization. Within Hemtex, all store managers are required to participate in this course. Work environment inspections and subsequent action plans are implemented annually to continuously improve the environment and satisfaction in Hemtex operations.

A comprehensive crisis management plan is in place to ensure efficient crisis management. The plan highlights potential incidents that could occur and how they shall be handled. A central crisis management team and crisis support representatives in stores were appointed and trained. The crisis team meets on a regular basis to develop the crisis management work and ensure that the organization is prepared in the event of unforeseen incidents, such as the risk of injury to an individual employee or the company in its entirety.

Hemtex AB has collective agreements with the trade unions Unionen and the Union of Commercial Employees.

Work for sustainable development

Hemtex purchases all textiles and other products from suppliers around the world. Purchases from Asia continued to increase and amounted to 74% during 2008/2009. About 81% of the Group's purchases are directly from the suppliers.

Because Hemtex has no direct control over production, the Group has developed guidelines for suppliers in the form of a Code of Conduct to be able to ensure that products are manufactured under sound working conditions and in the proper manner. The Code of Conduct is based in part on the UN's Convention on the Rights of Children and conventions that the UN's agency for labor market issues, ILO, has established for working conditions and rights in working life. The Code of Conduct deals with such issues as discrimination, child labor, working hours, salaries, working conditions and the right to form and belong to trade unions. In 2008, the Code of Conduct was updated with environmental requirements.

All Hemtex suppliers have signed framework agreements regarding delivery, quality, environmental and ethical demands and also demands in terms of copyright protection. The framework agreement is connected to the purchasing conditions, Hemtex Purchasing Instructions.

Environmental requirements on manufacturing

Hemtex does not conduct any operations that are subject to permit or reporting obligations according to the Environment Code. Hemtex's operations have the greatest impact on the environment in conjunction with manufacturing and transport. Among other aspects, environmental work therefore focuses on reducing the use of harmful chemicals in manufacturing through establishing stop lists and permissible levels for certain chemicals, and making environmentally conscious choices as regards packaging materials.

In the framework agreement that is signed by suppliers, Hemtex demands that they comply with local environmental laws and have all necessary permits for their operations. The environmental requirements in Hemtex's Code of Conduct include regulations regarding purification of air and water emissions, certificates from authorities, lists and safety factsheets for all chemicals and demands concerning the handling of chemicals and waste.

Environmental requirements on transports

For logistic services, suppliers are contracted who strive to be leaders in environmentally sustainable transport and logistic solutions. For the most part, shipments to Hemtex occur by sea and to a far lesser extent by air. Procedures for when air freight may be used have been produced, and only a marginal share of Hemtex's transports are by air. Emissions from the transportation of goods have been studied, and the results will form the basis for future emissions requirements.

Systematic monitoring of suppliers

Hemtex implements systematic monitoring of work conditions and environmental practices at supplier operations. Hemtex has produced its own inspection manuals that comply with the company's Code of Conduct and build on previous experience of the established BSCI and SA8000 systems.

The purchasing offices in Dhaka, Bangladesh, and in Shanghai, China, function as hubs for both purchasing and inspection activities, which are closely connected. Hemtex carries out inspections under its own management and also contracts inspections from independent, certified companies such as SGS and ITS.

During the 2008/2009 fiscal year, most suppliers in Asia were inspected. Action plans were developed for all suppliers that were not approved. Hemtex's Code of Conduct is an important parameter in the evaluation of suppliers.

Hemtex's goal for 2008/2009 was to inspect all suppliers in Asia during the fiscal year. That the goal was not achieved depended on two factors. One was a consolidation of the Group's supplier base in which the emphasis was on important long-term suppliers and purchasing markets to become even more efficient by concentrating purchases to fewer suppliers. The other was that Hemtex performed extensive inspections of the delivery chain for down and feathers in China both through its own controls and in collaboration with other Swedish companies and Chinese industry associations. Hemtex purchases down and feather products directly from suppliers in China. In the inspections that were performed on all suppliers in this area, no hand-plucked products were detected. Hemtex also checked the delivery chains from producers of quilts and pillows to where and how the animals were slaughtered.

Increased commitment within the Better Cotton Initiative (BCI)

In an effort to positively influence conventional cotton production, Hemtex is committed as a partner member of the Better Cotton Initiative (BCI). BCI is an international organization that works to make large-scale cotton cultivation less damaging to health and the environment and more economically viable than today's conventional cultivation. Among other aspects, the goal is to reduce the use of pesticides, artificial fertilizers and water. Proposers and members of the BCI's Board are global environmental organizations and leading companies in the textile industry. BCI has attained an important role in environmental work within cotton production, which results in a broader environmental impact than merely focusing on increasing the share of ecological cotton. Hemtex will further increase its commitment to the organization in the future.

Board activities during 2008/2009

The Board of Directors is responsible for the company's organization and management of its business, which includes establishing the company's strategy. The Board of

Directors also has the task of appointing a president. The Board's work follows an annual agenda that is designed to secure the Board's requirements for information. In other respects, the Board and the President follow the special work instruction established by the Board that defines the division of work between the Board and the President.

The control issues that are the responsibility of the Board are handled by the Board in its entirety.

During the fiscal year, Hemtex AB was the Franchiser in accordance with contracts signed with each Franchise Holder. The existing franchise contract was most recently revised in the spring of 2004. The Franchise Holders are linked through an association and are represented by the Board of the Franchise Holders' Association in contacts with Hemtex AB.

An evaluation of the Board's work was conducted both within the Board as a whole and in individual talks. Hemtex's Nomination Committee has been given access to parts of the evaluation relevant to its work.

For more detailed information about the meetings held by the Board, the work of the Nomination Committee and the Remuneration Committee, refer to the Corporate Governance section on pages 59–62.

Guidelines for remuneration to senior executives

The Annual General Meeting held on September 3, 2008 adopted the following guidelines for remuneration and other employment terms for company management. The Board of Directors proposes that the same guidelines apply for the next fiscal year.

For more information about remuneration, refer to Note 4.

Remuneration Committee

The members of the Board of Directors appoint a Remuneration Committee for each fiscal year from within its own ranks. The task of the Committee is to prepare proposals concerning salary and other remuneration for the President and CEO and to decide on proposals concerning salaries and other remuneration for other senior management. During the fiscal year, the members of the Remuneration Committee were Chairman Mats Olsson, Bodil Eriksson and Kia Orback Pettersson.

Basic principles

Remuneration to senior management at Hemtex is based on principles related to performance, competitiveness and merit. To reflect these principles, a variety of remuneration components are applied in various degrees. Accordingly, a combination of several components is used to reflect these remuneration components in a balanced manner.

The total remuneration to senior management comprises fixed salary, variable components in the form of annual variable remuneration and long-term variable remuneration, pension and other benefits. Together, these components form an integrated remuneration package.

Each fiscal year, the details of the total remuneration are presented to senior management in the annual report for the current fiscal year, including previously determined long-term variable remuneration that has not yet fallen due for payment.

The relationship between fixed and variable salary and the connection between performance and remuneration

Fixed salary is determined on the basis that it must be competitive. The absolute level depends on the scope and complexity of the current position and the annual performance of senior management.

Performance is primarily reflected in the variable components with regard to both annual and long-term variable salary. Although variations may occur over time depending on the market for remuneration, the goal in terms of annual variable salary for senior management is currently 40% of fixed salary. Long-term salary is designed to comprise both warrants and employee stock options. For employee stock options, a given goal level must be attained for certain key data in order for this portion of the salary to achieve an outcome. The key data that is currently used is "Earnings per share." The outcome of employee stock options is limited through the implementation of a "ceiling" – in other words, a maximum outcome.

The relationship between fixed and variable salary shall reflect the Board's assessment of a reasonable balance between fixed and variable remuneration components and prevailing market practice for senior managers.

Variable remuneration in brief

Annual variable remuneration is cash-based and related to the direct operational goal for budgeted Group earnings before appropriations and tax. This goal was approved by the Board of Directors.

Share-based, long-term variable remuneration plans are submitted to the Annual General Meeting for approval. The outcome of the plans depends on three different variables: the individual's investment in shares, a long-term goal for earnings per share during the maturity in effect for each program and the share price trend. Prior to the Annual General Meeting to be held on September 3, 2008, no new share-based remuneration programs have been proposed.

Pension

Pension benefits shall be competitive in each native country. For members of senior management whose employment contract contains an agreement concerning pension benefits in addition to ITP, a supplementary premium is included. This premium amounts to a certain percentage based on fixed monthly salary, including bonuses for the President and CEO, and a certain percentage based on the fixed monthly salary of other members of senior management whose agreement includes this benefit. The retirement age is normally 65, but can vary in individual cases.

Other benefits

The basic rule is that other benefits, such as company cars and healthcare plans, shall be competitive in the local market.

Significant events after the close of the fiscal year*New share issue completed*

The Hemtex new share issue was oversubscribed and the owner guarantees that had been issued did not need to be used. The new issue provided Hemtex with SEK 164 M before issue costs. The Hemtex new share issue was fully registered with the Swedish Companies office on June 2, 2009, whereby the total number of shares in the company amounted to 41,072,360.

Increased offer from Hakon Invest AB

On June 19, 2009, Hakon Invest increased its offer for Hemtex to SEK 27 per share without any option for an additional premium and at the same time extended the acceptance period from June 22 to July 6. On June 30, 2009, Hakon Invest's ownership share in Hemtex AB amounted to 55.8% of the shares.

Additional information on events after the closing date is presented in Note 32.

Future development of the Hemtex Group

In August, Hemtex's new business plan, and thus its future strategy, will be completed. The Group has taken the decision to focus its efforts on obtaining a leading role in terms of its product range and to offer the market's best service. The single most important change is a reduction of Hemtex's product range by about 40%, which will make the offering to customers more distinct. This measure will also enable and drive stronger purchasing, as well as simpler distribution, warehousing and store processing. The reduction of the product range and other measures in the business plan will have the overall result that Hemtex can improve its operating margin to 13–15% within a three-year period.