

# Corporate Governance

Hemtex follows the Swedish Code of Corporate Governance.

Corporate Governance refers to the framework of rules and structure established for governing and managing operations in a limited liability company in an efficient and controlled manner. Ultimately, corporate governance is intended to satisfy the shareholders' requirements for return on investment and all stakeholders' needs for information on the company and its development. Corporate Governance in listed Swedish companies is regulated by a combination of written rules and standards. The rules and regulations comprise the Swedish Companies Act, the regulatory system of the NASDAQ OMX Nordic Exchange Stockholm and the Code (the Swedish Code of Corporate Governance).

Management and control of the Hemtex Group is distributed between the shareholders at the Annual General Meeting, the Board of Directors and the President in accordance with the Swedish Company's Act and the company's Articles of Association.

The Swedish Code of Corporate Governance states that companies that follow the Code but have chosen to deviate from the Code in certain instances must explain the reasons. Hemtex deviates in one instance and submits the following explanation:

Hemtex does not have an Audit Committee – the entire Board of Directors is responsible for the audit, ensuring, in an efficient manner, that the Group has acceptable procedures for internal control and has correct, high-quality financial reporting. At least once a year, the company's auditors report on the extent to which the company has ensured that the accounting, administration and financial control are well-functioning. After the formal report has been presented, the President and Chief Financial Officer leave the Board meeting so that the Board members can have a dialogue with the auditors without the participation of the company's senior executives.

Apart from these deviations, Hemtex applies the Code. The Board of Directors is responsible for ensuring that the Code is applied by the Board as well as executive management and the company in General. The Board conducts an annual evaluation to ensure compliance.

## Annual General Meeting and Articles of Association

The Annual General Meeting is the company's highest decision-making body. The tasks of the Annual General Meeting are regulated by the Swedish Companies Act and the company's Articles of Association. The Annual General Meeting must be held not later than six months after the end of the fiscal year. Those shareholders who are registered in the share register and who register their participation are entitled to participate in the Meeting. At the Annual General Meeting, decisions taken by the shareholders include election of the Board of Directors and auditors, determination of fees, principles for the Nomination Committee and the discharge of the Board of Directors and President from liability for the fiscal year. The Articles of Association and the minutes from preceding Annual General Meetings are available from Hemtex's website at: [www.hemtex.com](http://www.hemtex.com).

## 2008 Annual General Meeting

The most recent Annual General Meeting was held on September 3, 2008 at Pulsen Konferens in Borås. The following resolutions were passed:

### • Election of Board Members

Ingmar Charleson, Bodil Eriksson, Marita Granberg Ramprecht, Mats Olsson and Kia Orback Petterson were re-elected to the Board. Mats Holgerson was elected to the Board. Mats Olsson was elected as Chairman of the Board.

### • Principles for Nomination Committee

The Meeting resolved to adopt the principles for the appointment of members of the company's Nomination Committee and other principles for the Nomination Committee, in accordance with a motion submitted by the Nomination Committee.

### • Adoption of Income Statements, Balance Sheets and Dividend

The income statements and balance sheets were adopted and the Board of Director's motion regarding a dividend of SEK 2.65 per share was approved by the Annual General Meeting. At the same time, the Board members and the President were discharged from liability for the administration of the company during the 2007/2008 fiscal year.

### • Election of Auditor

In accordance with the Nomination Committee's proposal, the registered Auditing company KPMG Bohlins AB was elected as auditor until the conclusion of the 2012 Annual General Meeting, with the Authorized Public Accountant Jan Malm as Auditor-in-Charge.

### • Board fees

The Board of Directors shall be paid a total of SEK 1,190,000 for the period until the next Annual General Meeting with SEK 340,000 paid to the Chairman and SEK 170,000 paid to each of the other members. The Company's Remuneration Committee shall be paid a total of SEK 100,000 for the period until the next Annual General Meeting with SEK 50,000 paid to the Chairman and SEK 25,000 paid to the other members (two).

## 2009 Annual General Meeting

The Annual General Meeting for the 2008/2009 fiscal year will be held at Pulsen Konferens in Borås on Wednesday, September 2, 2009 at 4:30 p.m.

## Nomination Committee

The Nomination Committee shall consist of the Chairman of the Board of Directors and three members, each of whom shall represent one of the three largest shareholders in terms of voting rights. During the third quarter of each fiscal year, the Chairman of the Board shall contact the three largest shareholders in Hemtex in terms of voting rights and request the name of their representative on the Nomination Committee. The names of the Committee members and the shareholders they represent shall be published not later than six months prior to the next Annual General Meeting. The Nomination Committee shall present proposals for the Chairman of the Annual General Meeting, the number of members and deputy members of the Board of Directors, Board members, the Chairman of the Board of Directors, auditors (when applicable), fees to the Chairman and other Board members, auditors' fees and principles for the Nomination Committee.

The Nomination Committee comprises the Chairman of the Board of Directors, Mats Olsson, Fredrik Hägglund, Hakon Invest AB, Carl Olof By, AB Industrivärden and Per Larsson representing a consortium of owners. The Nomination Committee held five meetings during the fiscal year at which minutes were recorded.

#### Chairman of the Board

The Chairman leads the Board of Directors' work so that this is conducted in accordance with the Swedish Companies Act and other relevant legislation. In dialog with the President, the Chairman monitors operations and is responsible for providing information to other Board members that is necessary for high quality in discussions and decisions. The Chairman represents the company in terms of ownership issues.

#### Work of the Board of Directors

The Board of Directors is responsible for the Company's organization and management of the Company's business, which includes establishing the Company's strategy. The Board also has the task of appointing a President. The Board's work follows an annual agenda that is designed to secure the Board's requirement 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 will be handled by the Board in its entirety.

The Board of Directors has been evaluated from within the Board and through individual meetings. Hemtex's Nomination Committee has reviewed elements of this evaluation that are relevant to its work.

#### After the Annual General Meeting on September 3, 2008, the Board of Directors held 14 meetings at which minutes were recorded

Date	Important issues
September 2008	Statutory meeting of Board of Directors
October 2008	Profit forecast and follow-up of new communications strategy
October 2008	Board meeting regarding replacement of President
November 2008	Q2 Interim report, decision about preliminary Business plan 2009/2010
January 2009	Profit forecast, risk assessments and target figures, and presentation of the new President
March 2009	Q3 Interim report, review of capital situation and the new President assumed his position
March 2009	Discussion regarding the Company's capital
April 2009	Resolution regarding implementation of new shares issue
April 2009	Resolution regarding proposals for terms and conditions of new shares issue
April 2009	Budget 2009/2010
May 2009	Resolution regarding an advisor for the Board's position on the offer from Hakon Invest AB
May 2009	Reconciliation meeting for new shares issue and offer
May 2009	Resolution regarding the distribution of non-preferential shares issued in the new shares issue
June 2009	Year-end report 2008/2009 and strategic plan for the 2009–2012 period

	Board meetings	Remuneration Committee	Independent <sup>1</sup>	Elected	Fees, Board	Fees, Remuneration Committee	Other
Mats Olsson, Chairman	14	3	Ja	2007	340,000	50,000	165,000 <sup>2</sup>
Ingmar Charleson	14		Ja	2002	170,000		
Bodil Eriksson	13	3	Ja	2005	170,000	25,000	
Mats Holgerson	13		Nej	2008	170,000		
Kia Orback Pettersson	14	3	Ja	2007	170,000	25,000	1,000,000 <sup>3</sup>
Marita Granberg Ramprecht	14		Ja	2007	170,000		
					<b>1,190,000</b>	<b>100,000</b>	<b>1,165,000</b>

1) According to definition in the Swedish Code of Corporate Governance.

2) Remuneration for operative work in the business during the period November 2008–February 2009.

3) From November 10, 2008 to February 28, 2009 Kia Orback Pettersson was acting President. The fee was invoiced in the form of a consulting fee.

During the fiscal year, Hemtex AB was the franchiser in accordance with contracts signed with each franchise holder. The existing franchise contracts were 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.

#### Remuneration Committee

A Remuneration Committee that discusses, decides on and presents recommendations on wages, salaries, other employment terms and incentive programs for the President and Group management has been appointed from within the Board. The Remuneration Committee reports to the Board. The members of the Remuneration Com-

mittee are Mats Olsson, who is the chairman, Bodil Eriksson and Kia Orback Pettersson.

#### **Management's work**

The Board of Directors has delegated day-to-day responsibility for leading the company to the President and company management. During the 2008/2009 fiscal year, Hemtex's company management comprised the President and CEO of Hemtex AB, the Chief Financial Officer, the Store Operations Manager for Sweden, the Store Operations Manager for Finland, the Store Operations Manager for Norway, the Marketing and Sales Manager, the Head of HR, the Purchasing Manager and the Establishment Manager. In June 2009, a Sales Manager was added to the Management group. Company management holds one- to two-day management meetings once a month devoted to current issues and discussions and holds a longer strategy meeting once a year. The President leads operations within the framework established by the Board of Directors. The President prepares necessary information and supporting materials for decisions at Board meetings, serves as a presenter and presents motivated proposals for decisions. The President provides the Board with the information required to monitor the company's and the Group's position, operations and development on a monthly basis and keeps the Chairman of the Board of Directors informed about operations on a regular basis.

#### **Auditors**

Hemtex does not have an Audit Committee. The Board of Directors is responsible for the audit, ensuring, in an efficient manner, that the Group has acceptable procedures for internal control and has correct, high-quality financial reporting. An authorized accounting firm serves as auditor of Hemtex AB. The auditors are elected for a period of four years. At least once a year, the company's auditors report on the extent to which the company has ensured that the accounting, administration and financial control are well-functioning. After the formal report has been presented, the President and Chief Financial Officer leave the Board meeting so that the Board members can have a dialogue with the auditors without the participation of the company's senior executives. At the Annual General Meeting on September 3, 2008, the authorized accounting firm KPMG was elected as auditors of Hemtex AB. Authorized Public Accountant Jan Malm from KPMG's office in Gothenburg was elected as Auditor-in-Charge.

**More information on Hemtex's corporate governance is available at [www.hemtex.com](http://www.hemtex.com). Other important policies, such as the Group's Code of Conduct, environmental policy and additional information about the company can be found there.**

#### **Report on internal control**

The objective of internal control is to create an efficient decision-making process in which demands, targets and frameworks are

clearly defined. Essentially, the control aims at protecting the company's assets and thereby shareholders' investments. The Board of Directors is responsible for the company's internal control and as a step in this effort has prepared an internal control report with respect to financial reporting for the fiscal year. The report is prepared in accordance with the Code and its application regulations and is thus limited to a description of how the internal control is organized in terms of the financial reporting. Neither the report nor the statements below have been reviewed by the company's auditors.

#### *Control environment*

The control environment is the basis for the internal control with respect to the financial reporting. An important part of the internal control is that decision routes, authorization and responsibility are clearly defined and communicated between various levels of the organization and that control documents in the form of internal policies, handbooks, guidelines and manuals exist. The control environment comprises primarily ethical values, integrity, competency, management philosophy, organization structure, responsibility and authority.

At Hemtex, a clear distribution of responsibility is ensured for the efficient management of the company's risks by the Board's and Committees' rules of procedures, as well as through instructions for the President. In the operating activities, the President is responsible for the system of internal controls required to create a control environment for significant risks.

In addition to these rules of procedures and instructions for the President, there are guidelines and policies pertaining to financial control and monitoring, communication issues and business ethics. For example, frameworks for credit and currency management, financial control and monitoring are established through adopted financial, accounting and investment policies.

Hemtex also has a communications policy that is largely aimed at treating all stakeholders equally, submitting significant information in good time and also complying, in a correct manner, with applicable rules and good practice with regard to information provided by a Swedish listed company.

At Hemtex, there is also a Code of Conduct that applies for the entire Group. The Code, which is based on a series of internationally adopted conventions, is an expression of the values and guidelines that shall apply within the Group with regard to business ethics, freedom and rights.

All companies within the Group basically have the same structure and financial system, with the same accounting plan. This facilitates the development of appropriate routines and control systems, which will benefit the internal control and facilitate comparison between the various companies.

For the stores, there are detailed store instructions to control daily routines. There are also several other guidelines and manuals within the Group. These are prepared by the head office in Borås and then communicated to all regional and country offices.

The Board believes that there is adequate understanding among employees of the need for good control of the financial reporting.

In brief, Hemtex's internal control structure is based on work distribution between the company, reporting to the Board, established policies and guidelines, and that employees follow policies and guidelines in order to maintain adequate control over the financial reporting.

#### *Risk assessment and control activities*

Hemtex works continuously with risk analysis where the risks of errors within the financial reporting of essential income statement and balance sheet items are reviewed. Operational risks are also documented. Hemtex has identified certain areas with a higher inherent risk of errors, including shrinkage in inventories, cash manipulation or misappropriation of goods. Another risk area is inventory evaluation consisting of assessments pertaining to obsolescence. In order to restrict risks, there are appropriate policies and guidelines as well as processes and controls within the operations.

Policies and guidelines are particularly important for correct accounting, reporting and information and also define the control activities that are to be executed. Within Hemtex, policies and guidelines pertaining to the financial process are continuously updated. This occurs primarily within each central function and communicated to regional and country offices by e-mail and Intranet as well as at meetings. The purpose of the control activities is to detect, prevent and correct inconsistencies and deviations. The control activities include reconciliation of accounts, analytic follow-ups, comparison between income statement items and balance sheets items and controls in IT systems.

#### *Follow-up*

The Board continuously evaluates the information submitted by company management. The work comprises ensuring that measures are taken pertaining to discrepancies and suggestions for measures that may have arisen in the external audit.

#### *Information and communication*

Correct information, internally and externally, entails that all parts of the operations shall exchange and report relevant significant information about the operations, in an efficient manner. To achieve this, Hemtex has prepared policies and guidelines pertaining to information management in the financial process, which is communicated from company management to employees. For communication with external parties, there is also a policy with guidelines for how such communication should occur and when a log book should be kept, for example. The primary objective of the mentioned policies is to ensure that information obligation according to regulations and listing agreement is observed.

#### *Internal audit*

To date, Hemtex has found no reason to establish a special internal audit function, since work on the internal control has resulted in the increase in awareness in internal control in the Group and the initiation of a number of control activities. The issue regarding a special internal audit function will be revisited annually.