

CORPORATE  
GOVERNANCE  
REPORT 2010

# GOVERNANCE OF HAKON INVEST

During 2010 the Board of Directors of Hakon Invest focused in particular on matters related to ICA, above all the development of ICA Norway's operations. Other matters examined included the financial situation in Hemtex and the resultant planned new issue. Further strengthened corporate governance has been a consistent prioritized issue for the Board during the year.

Hakon Invest is a public company with its registered office in Stockholm, Sweden, which has shares listed on Nasdaq OMX Stockholm. The Swedish Companies Act, Nasdaq OMX Stockholm's rules for issuers and the Swedish Code of Corporate Governance (the Code) provide the basis for governance of the company. In addition, Hakon Invest has a number of internal rules and control tools.

## DEVIATIONS FROM THE CODE

In 20120, Hakon Invest has deviated from the part of the Code's rule 7.3 which stipulates that the Audit Committee shall comprise three members. Today, the Audit Committee consists of two members. In view of the fact that ICA AB constitutes the main holding in Hakon Invest and ICA AB has an Audit Committee in which Hakon Invest has one representative, the company has decided that two members is a suitable size for Hakon Invest's Audit Committee.

## GOVERNANCE FOR VALUE CREATION

Corporate governance is about how companies, that are not managed by their owners, should be operated so that owners' interests are safeguarded. The overall goal is to create shareholder value and in this way meet the requirements owners have on their invested capital.

The internal framework for Hakon Invest's corporate governance comprises the Articles of Association adopted by the General Meeting, the Board's formal work plan, instructions for the Board's three working committees, the instructions to the President and guiding policies adopted by the Board. In addition, there are guidelines linked to the policies that guide Hakon Invest's employees in their work.

The Articles of Association do not regulate how changes to the Articles of Association should be made. The Articles of Association and extracts from the policies are available on Hakon Invest's website ([www.hakoninvest.se](http://www.hakoninvest.se)).

Hakon Invest's President, Claes-Göran Sylvén, is responsible for ensuring that day-to-day administration of the company is carried out in accordance with the Board's guidelines and in-

structions. The President also compiles, in dialog with the Chairman and Deputy Chairman of the Board, an agenda for Board meetings and is responsible for providing information and basis for decision for the meetings. The President also ensures that Board members receive information about Hakon Invest's development so that they can reach well-founded decisions.

## SHAREHOLDERS

Hakon Invest has a share structure with two classes of shares, common shares and C shares. C shares, which comprise 51% of the total number of shares, are unlisted and do not carry entitlement to cash dividends. The remaining 49% are listed common shares with dividend entitlement.

All C shares and 16.4% of the common shares, i.e. a total of 67.4%, are owned by ICA-handlarnas Förbund, which is currently Hakon Invest's largest shareholder.

The other common shares are owned by approximately 14,500 shareholders. None of these shareholders own, directly or indirectly, more than 10% of the shares in the company.

In voting at general meetings each share carries entitlement to one vote and each person entitled to vote may vote for the full number of shares represented by him.

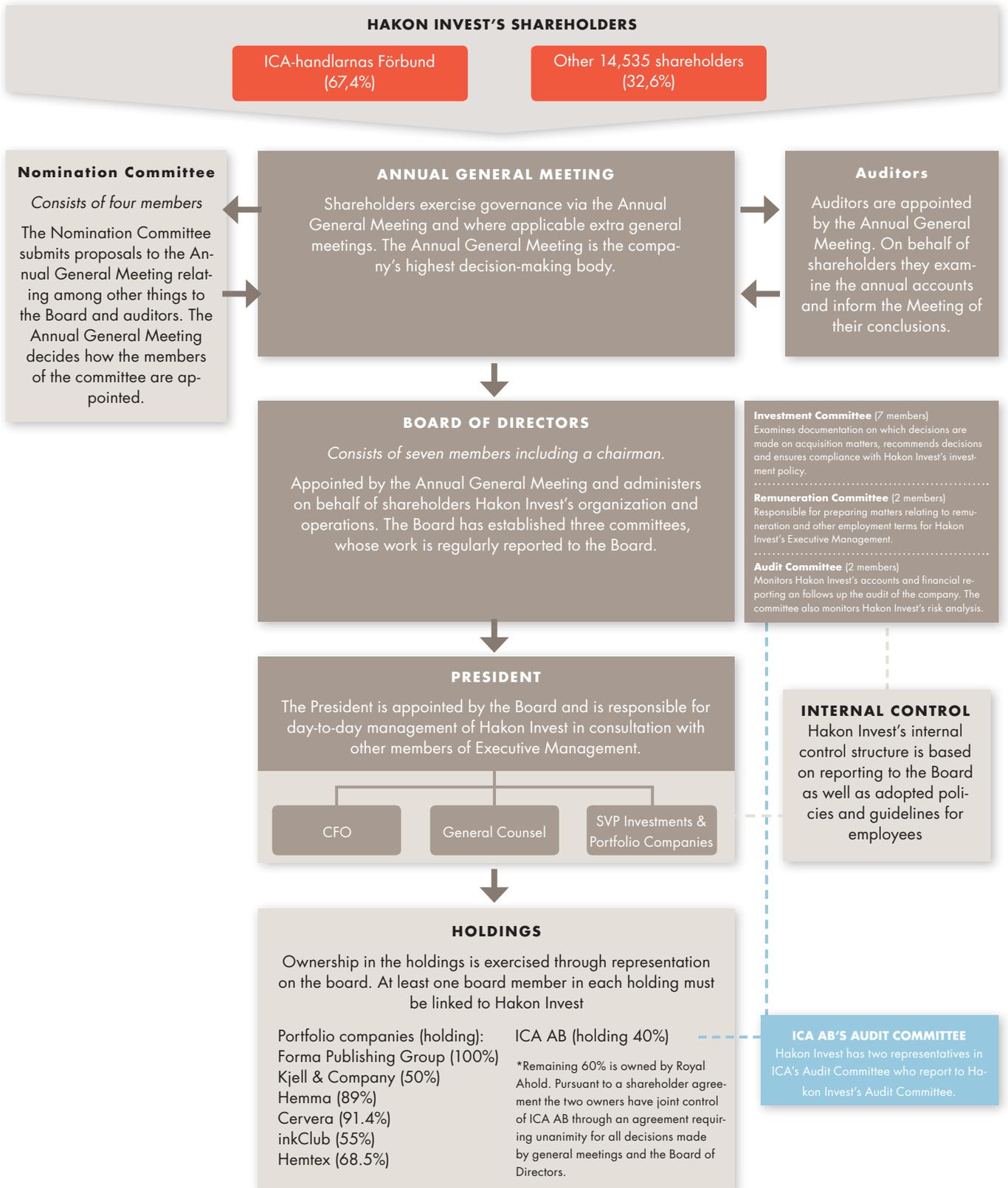
On December 9, 2010, ICA-handlarnas Förbund announced that they have decided to convert their holding of non-dividend paying C shares in Hakon Invest to dividend-paying common shares. On January 1, 2011, ICA-handlarnas Förbund therefore lodged a request with the Board of Hakon Invest for conversion of all C shares to common shares. The share structure in Hakon Invest will therefore with effect from January 1, 2016, only comprise common shares that carry dividend entitlement. The number of shares after conversion will be unchanged at 160,917,436.

More information about Hakon Invest's shares and ownership structure is provided on pages 62-63 of this annual report.

## ANNUAL GENERAL MEETING

The 2010 Annual General Meeting was held at Grand Hôtel in Stockholm on April 14, 2010. In addition to shareholders, the

## HAKON INVEST'S GOVERNANCE STRUCTURE



meeting was attended by Hakon Invest's Board, Hakon Invest's Executive Management, employees, media representatives and a number of invited guests. The Meeting resolved, among other things:

- to re-elect Lars Otterbeck as Chairman of the Board, and Cecilia Daun Wennborg, Anders Fredriksson, Magnus Moberg, Thomas Strindeborn and Jan Olofsson as members of the Board.
- to elect Andrea Gisle Joosen as a new member of the Board
- a dividend for 2009 of SEK 6 per common share should be paid.

The 2011 Annual General Meeting will be held on Thursday, April 14 at Näringslivets Hus, Stockholm. Shareholders who are registered in the share register as at April 8, 2011, and who have notified their attendance are entitled to attend the Annual General Meeting in person or through a proxy. In order to have a matter considered by the Annual General Meeting, shareholders in accordance with instructions on Hakon Invest's website must submit a request no later than February 25, 2011.

#### SHARES AND TREASURY SHARES

Hakon Invest owns 264,920 treasury common shares corresponding to 0.2% of capital and votes. The number of outstanding shares has thus been reduced to 160,652,516 of which the number of C shares amounts to 82,067,892 and the number of common shares 78,584,624. The total number of votes thus

amounts to 160,652,516. There are no outstanding mandates from the general meeting to the Board to issue new shares or acquire additional shares.

#### NOMINATION COMMITTEE

The rules for Hakon Invest's Nomination Committee were adopted at the 2010 Annual General Meeting. The Nomination Committee is to consist of four members who represent the company's shareholders. Two of the members are appointed by the majority shareholder ICA-handlarnas Förbund and two members are appointed by the next largest owners, which at September 10, 2010, were SEB Fonder and Handelsbanken Fonder. The composition of the Nomination Committee was announced on October 7, 2010. ICA-handlarnas Förbund is represented by Claes Ottosson and Håkan Olofsson. SEB Fonder is represented by Hans Ek and Handelsbanken Fonder is represented by Frank Larsson.

#### THE WORK OF THE NOMINATION COMMITTEE

The Nomination Committee held two physical meetings ahead of the 2011 Annual General Meeting. All members were present at these meetings. Hakon Invest's General Counsel, Fredrik Hägglund, has been co-opted to the Nomination Committee's meetings as secretary. No fees were paid to the members of the Nomination Committee for their work.

At its initial meeting the Nomination Committee met the Chairman of the Board, Lars Otterbeck, and the President,

## BOARD MEMBERS ELECTED AT THE 2010 ANNUAL GENERAL MEETING

Name	Elected	Function in Board	Attendance Board meetings	Committee work	Attendance committee meetings	Remuneration for styrelse-/utskottsarbete committee work (SEK 000s)
Lars Otterbeck	2005	Chairman	11 of 13	Investment Committee (Chairman) Remuneration Committee (Chairman)	7 av 9 2 av 2	550/25/25
Anders Fredriksson	1997	Deputy Chairman	13 of 13	Investment Committee Remuneration Committee	9 av 9 2 av 2	330/25/25
Cecilia Daun Wennborg	2005	Member	13 of 13	Audit Committee (Chairman) Investment Committee	6 av 6 9 av 9	220/75/25
Jan Olofsson	2005	Member	13 of 13	Investment Committee	9 av 9	220/25
Magnus Moberg	2008	Member	13 of 13	Audit Committee Investment Committee	6 av 6 9 av 9	220/25/25
Thomas Strindeborn	2006	Member	12 of 13	Investment Committee	8 av 9	220/25
Andrea Gisle Joosen <sup>2)</sup>	2010	Member	8 of 9	Investment Committee	8 av 9	220/25

1) Remuneration decided at AGM April 14, 2010.

2) Elected at AGM April 14, 2010.

Claes-Göran Sylvén, each separately in order to be informed about Hakon Invest's operations, Board work and future focus areas. The Chairman of the Board also presented the 2010 evaluation of the Board. In addition, Cecilia Daun Wennborg, chairman of the Audit Committee, and CFO Göran Blomborg, gave an account of audit work and Hakon Invest's finance function.

The Nomination Committee's evaluation of the work of the Board has confirmed that cooperation in the Board functions very well. With this in mind, the Nomination Committee is agreed on the need for continuity among members. Apart from Thomas Strindeborn, who has declined re-election, the Nomination Committee considers that sitting Board members shall be proposed for re-election. Since the retiring Board member Thomas Strindeborn is an ICA retailer as well as chairman of the principal owner ICA-handlarnas Förbund, the Nomination Committee is of the opinion that it is positive for Hakon Invest over time and corporate governance in particular of ICA AB that the proposed chairman of ICA-handlarnas Förbund, Peter Berlin, is also a member of Hakon Invest's Board. Peter Berlin will contribute with his broad retail expertise and in-depth knowledge of ICA's operations.

The Nomination Committee has agreed on proposals to the Annual General Meeting and written a report on their work. The Nomination Committee's report, which describes this work in more detail, is available on Hakon Invest's website. The Nomination Committee's proposals ahead of the 2011 Annual General Meeting are specified in the notice of the meeting and on the website.

#### **BOARD OF DIRECTORS**

The Board is responsible for administration of Hakon Invest's affairs in the interests of the company and all shareholders. The duties of the Board include establishing operating goals and strategies, appointing, evaluating and where necessary dismissing the president, ensuring that systems for follow-up and control of operations are effective, ensuring that there is satisfactory control of compliance with applicable laws and regulations, ensuring that ethical rules for employee conduct are adopted and approving significant assignments held by the president outside the company. The Board shall also ensure that the provision of information is correct, relevant, reliable and transparent. According to the Articles of Association, Hakon Invest's Board shall consist of between five and nine members. Otherwise there is no regulation in the Articles of Association regarding appointment or dismissal of Board members. The present Board consists of seven members. At the 2010 Annual General Meeting, Lars Otterbeck was elected as the Chairman of the Board and at the statutory Board meeting, Anders Fredriksson was elected as Deputy Chairman. The President makes presentations at Board meetings and the General Counsel is the secretary to the Board.

#### **BOARD'S INDEPENDENCE CRITERIA**

Four members of the Board: Lars Otterbeck, Cecilia Daun Wennborg, Jan Olofsson and Andrea Gisle Joosen, are independent in relation to both Hakon Invest and its management and the company's major shareholders. Together they have many years of experience from management and board work in various listed companies. The other three Board members: Anders Fredriksson, Thomas Strindeborn and Magnus Moberg, are ICA retailers. Anders Fredriksson is a member of the board of ICA AB. Thomas Strindeborn and Magnus Moberg are also members of the Board of ICA-handlarnas Förbund.

ICA-handlarnas Förbund is a non-profit association for Sweden's ICA retailers. According to Nasdaq OMX Stockholm's rules for issuers and the Code's rules on independence criteria for board members, these three members are independent in relation to Hakon Invest and the company's management but not in relation to the principal owner ICA-handlarnas Förbund.

#### **THE WORK OF THE BOARD**

The work of the Board is led by a chairman and regulated by the formal work plan adopted by the Board as well as applicable laws and regulations. The Board has also prepared working instructions for the President and for its three committees, as well as other policy documents as guidelines for Hakon Invest's employees.

Each year the Board reviews the adopted formal work plans. The present formal work plans and instructions were examined and formally adopted at the Board meeting on September 9–10, 2010.

In addition to a statutory Board meeting in conjunction with the Annual General Meeting, the Board, in accordance with the Articles of Association, shall hold at least five meetings a year that are announced in advance. During 2010 a total of 13 Board meetings were held, of which five were telephone meetings.

Nine of the Board meetings were held by the present Board elected on April 14, 2010.

Auditor in charge, Erik Åström, attended one Board meeting to present Ernst & Young's audit process in Hakon Invest and to give Board members an opportunity to ask questions without management being present.

Significant issues handled during the year included:

The financial situation in Hemtex and the resultant planned new issue

ICA AB's operations with a special focus on the development of ICA Norway's operations

A review and in-depth examination of processes for corporate governance.

#### **BOARD COMMITTEES**

Hakon Invest's Board has set up three working committees: the Audit Committee, the Remuneration Committee and the Investment Committee. Since the investment process has been a

vital process for the company during the year, the Board decided that all members of the Board should be members of the Investment Committee in order to be able to prepare and quality assure the investment process and its decisions to an even greater extent. The work of the committees is reported to the Board on a regular basis.

The Audit Committee's key task is to supervise the accounts and financial reporting and obtain information about the auditing of Hakon Invest. The Audit Committee also monitors compliance with the company's financial and investment policy. The Audit Committee also identifies and manages risks in operations and follows up internal control. The Audit Committee shall hold at least five meetings per year.

The Remuneration Committee is responsible for the preparation of issues regarding remuneration and other terms of employment for Hakon Invest's Executive Management. The Remuneration Committee must hold at least two meetings per year, one of which must be held in December.

The Investment Committee's main tasks are to examine the decision-making basis with regard to acquisition matters, recommend decisions and ensure compliance with Hakon Invest's investment policy. The number of meetings shall be at least one a year at which, among other things, the investment policy is examined. Additional meetings are called by the committee chairman when required.

The Audit Committee held six meetings during 2010. Four of the meetings were held after the 2010 Annual General Meeting. The company's external auditors were present at all meetings. The Remuneration Committee held two meetings during the year.

#### **EVALUATION OF THE BOARD**

An evaluation of the Board is carried out every year in order to develop the work of the Board and provide a basis for the Nomination Committee's evaluation of the composition of the Board. Evaluation of the Board took the form of each member having a private conversation with the Board Chairman who then summarized all points in a discussion at the Board meeting. This was a new evaluation method which in the opinion of the Board functioned well.

The evaluation of the Board showed that the work of the Board functioned well and that the Board is a group with a good composition and great commitment.

Each one of the members has broad expertise and many years of experience from different sectors, particularly from operations within the ICA Group, which is the largest holding in Hakon Invest's portfolio, from investment operations and operating leadership work.

#### **PRESIDENT AND EXECUTIVE MANAGEMENT**

Hakon Invest's President, Claes-Göran Sylvén, is responsible for the day-to-day administration of the company. The

Board has approved President Claes-Göran Sylvén's significant assignments and financial involvement outside the company, for example in ICA-handlarnas Förbund. An assessment of him has also been carried out without management being present. The Board's formal work plan and work instructions for the President govern in particular the handling of and decisions on matters related to agreements and other dealings between Hakon Invest and ICA-handlarnas Förbund.

In addition to the President, Claes-Göran Sylvén, Hakon Invest's Executive Management comprises Stein Petter Ski, SVP Investments and Portfolio Companies, CFO Göran Blomberg and General Counsel Fredrik Häggglund. Executive Management meets regularly to discuss the development of Hakon Invest and make decisions about matters of importance to the business.

Organizationally the company is divided into Investment, Finance, which is also responsible for Communication, and Legal Affairs.

The investment organization comprises one investment manager and three controllers headed by Stein Petter Ski who is also responsible for the portfolio companies. The investment function works actively with both existing holdings and potential future investments. Taken overall the investment organization possesses broad retail-oriented and financial expertise.

The Finance and Treasury function, which also includes IR/communication, comprises four people headed by the CFO Göran Blomberg, and is responsible for the Group's financial statements as well as handling management of Hakon Invest's financial assets. The CFO is also responsible for the Group's external and internal communication. The Investor Relations Manager is responsible for investor relations and related issues.

Legal Affairs is headed by the General Counsel. The General Counsel is responsible for legal issues, both internal and external, for example in conjunction with company acquisitions. The unit assists closely related companies when required with legal services on market terms.

Further information about Hakon Invest's President and Executive Management is provided on page 73 of this annual report.

#### **WORK ON AUDITING AND ACCOUNTING**

The Board has drawn up formal working routines to ensure that work with auditing and accounting issues functions smoothly. The Board has also adopted formal work procedures and instructions for the President and Audit Committee in order to maintain good internal control of Hakon Invest and the holdings as well as appropriate relations with the company's auditors.

#### **AUDITORS**

According to the Articles of Association, the Annual General

Meeting shall appoint a minimum of one and a maximum of two auditors or one or two registered public accounting firms. At the 2010 Annual General Meeting Ernst & Young AB was appointed as auditor for a mandate period of four years until the 2014 Annual General Meeting. Authorized public accountant Erik Åström was appointed as auditor in charge.

#### **BOARD'S DESCRIPTION OF INTERNAL CONTROL**

The Board is responsible for ensuring that Hakon Invest has good internal control and routines which guarantee compliance with adopted principles for financial reporting and internal control. The Board is also responsible for ensuring that financial reporting conforms with the Swedish Companies Act, applicable accounting standards and other requirements on a listed company.

Internal control and risk management are part of the Board's and management's governance and follow-up of operations and are designed to ensure that the operations are conducted appropriately and effectively.

#### **CONTROL ENVIRONMENT**

A good control environment provides the basis for the effectiveness of a company's internal control system. It is based on an organization with clear decision-making paths and where authority and responsibility have been allocated through guidelines and a corporate culture with shared values. The control environment is also affected by the individual employee's awareness of his or her role in the maintenance of good internal control. The Board has adopted a number of basic guidelines of significance for financial reporting in order to ensure an effective control environment.

The Board's formal work plan and instructions for the President ensure a clear division of roles and responsibilities designed for effective management of operational risks. The Board has also adopted a number of basic guidelines and policies of significance for internal control, such as the financial and investment policy, sustainability policy and communications policy.

#### **RISK ASSESSMENT AND CONTROL ACTIVITIES**

Hakon Invest works continuously with risk analyses and control activities in order to identify potential sources of error in the financial reporting. The Audit Committee within the Board is responsible for ensuring identification and management of significant financial risks and risks of error in financial reporting.

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

Hakon Invest's internal control structure is based on reporting to the Board, adopted policies and guidelines and that employees comply with policies and guidelines so that a good control of financial reporting can be maintained.

Risk assessment can result in control activities. Hakon Invest places particular emphasis on checks designed to prevent, iden-

tify and correct inadequacies in the income statement and balance sheet items that might be associated with increased risk. Normal control activities include account reconciliation and support checks.

#### **INFORMATION AND COMMUNICATION**

Efficient and correct dissemination of information, both internally and externally, is important in order to safeguard financial control within Hakon Invest. Policies, routines, handbooks and other items of significance for financial reporting are updated and communicated to the employees involved on an ongoing basis.

Hakon Invest's employees provide relevant information to Executive Management and the Board through both formal and informal information channels. The communications policy and associated guidelines ensure that external communication is correct and meets the requirements placed on companies that are listed on Nasdaq OMX Stockholm.

Financial information is provided regularly through annual reports, interim reports, press releases and notices on the website.

Hakon Invest's press conferences can be accessed via webcasts.

#### **FOLLOW-UP**

The Board continually assesses the information submitted by Executive Management and the Audit Committee. The Audit Committee's work in monitoring the efficiency of Executive Management's internal control is of particular importance.

This follow-up includes ensuring that action is taken to deal with any shortcomings and that proposed measures arising from internal and external audits in are taken into account.

#### **INTERNAL AUDIT**

Hakon Invest has no internal audit function, in view of the limited size of its own operations. ICA AB, which is Hakon Invest's largest holding, has on the other hand an extensive internal audit which continually reports its findings to the Audit Committee within ICA AB's Board. Hakon Invest is represented with two people on ICA AB's Board, one of whom is a member of ICA AB's Audit Committee. Hakon Invest's representative on ICA AB's Audit Committee reports in turn to Hakon Invest's Audit Committee. The Board has decided that these follow-up routines are sufficient.

#### **INTERNAL CONTROL IN THE HOLDINGS**

Hakon Invest works actively with internal control in its holding companies.

Ownership is exercised in the holdings through representation on the boards and under the motto "Active ownership every day". This includes close contacts with the holdings and continuous work with strategic and operational matters. At least one board member in each holding must be connected with Hakon

Invest and the company normally seeks to be entrusted with the chairmanship. Representation on the boards ensures that reporting and internal control are managed in a satisfactory manner and in compliance with applicable laws and regulations.

It is important that board members and managements in the holdings have adequate competence for their assignment. During the year all the presidents of the holdings met Hakon Invest's Board to present their company's operations.

Hakon Invest's finance function has an ongoing dialog with those responsible for finance in all the holding companies and issues instructions and advice for the preparation of each monthly, quarterly, and full-year accounts. This provides Hakon Invest with a basis for its financial reports according to current principles and accounting standards.

An assessment is made of internal control in each individual holding. The assessment is made both ahead of an acquisition and during the ownership period.

Ahead of an acquisition due diligence of the company is carried out where the accounting, legal and operational consequences are analyzed.

In addition, a general survey of the company's position regarding environment, supply chain control, HR issues, business ethics and other non-financial aspects is carried out. Hakon Invest's information and communication channels are designed to promote complete and accurate financial reporting. The extent of control within the holding is then decided separately for each company according to need.

During the year an extended internal project was initiated in the portfolio companies. The purpose of this project is to evaluate and improve the companies' internal control and risk management. The areas evaluated are control environment, risk management, control activities, and information and communication. This evaluation has resulted in identification of a number of improvement measures and work to implement these has started.

Where risks relating to internal control are identified these are managed by Hakon Invest's finance function and in each holding's board in consultation with the auditors. In addition, the CFO and Hakon Invest's board member in each holding keep Hakon Invest's Executive Management continuously informed. Hakon Invest's CFO reports in turn to the Audit Committee and the Board.

This Corporate Governance report has been examined by the company's auditors.

Stockholm, March 7, 2011

Lars Otterbeck                      Cecilia Daun Wennborg

Anders Fredriksson              Thomas Strindeborn

Magnus Moberg                  Jan Olofsson

Andrea Gisle Joosen              Claes-Göran Sylvén

#### AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE REPORT

To the Annual Meeting of Shareholders in Hakon Invest AB, reg. no. 556048-2837

It is the Board of Directors which is responsible for the corporate governance report for the year 2010 and that it has been prepared in accordance with the Swedish Annual Accounts Act.

As a basis for our opinion that the corporate governance report has been prepared and is consistent with the annual accounts and consolidated accounts, we have read the corporate governance report and assessed its statutory content based on our knowledge of the company.

In our opinion, the corporate governance report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, March 7, 2011

Ernst & Young AB

Erik Åström  
Authorized Public Accountant