

# Corporate governance report 2005

## **CORPORATE GOVERNANCE AT HAKON INVEST**

Hakon Invest is a public company that has been listed on the O-List of the Stockholm Stock Exchange (Stockholmsbörsen) since December 8, 2005. Governance of the Company and its subsidiary Forma Publishing Group AB is based on the Articles of Association, the Swedish Companies Act (2005:551), the listing agreement with the Stockholm Stock Exchange, including appendices and other applicable Swedish legislation and regulations. The Annual General Meeting, Board of Directors and President are jointly and individually responsible for corporate governance pursuant to that stated in the Articles of Association and applicable legislation and regulations.

Hakon Invest applies the Swedish Code for Corporate Governance ("the Code"), since this has been part of the listing agreement with the Stockholm Stock Exchange since July 1, 2005 for companies with a capitalization exceeding SEK 3,000 M. This corporate governance report has not been reviewed by the Company's auditors.

## **DEVIATIONS FROM THE CODE**

Hakon Invest has deviated from the following rules in the Code: 2.1.3 (announcement of names of members of the Nomination Committee), 3.8.2 (number of members on the Audit Committee), 3.7.2 (internal control of financial reporting) and 3.8.4 (Board's meetings with the company's auditors).

- Hakon Invest was listed at the end of the calendar year. To ensure that the new shareholder structure would be reflected in the composition of the Nomination Committee the Annual General meeting in 2005 decided that the names of the members would be announced three months ahead of the Annual General Meeting instead of six months ahead. This is in line with the instructions adopted for the Nomination Committee. In the future, Hakon Invest intends to follow the rule of announcing the composition of the Nomination Committee not later than six months prior to the Annual General Meeting.
- According to the working instructions for the Company's Audit Committee, the number of members shall be the number the Board deems appropriate but not fewer than two members. The Audit Committee currently consists of Cecilia Daun Wennborg (Chairwoman) and Stig Lundström. The rule of the Code is that the audit committee shall comprise three members. Against the background of the fact that ICA AB represents the primary holding in Hakon Invest and ICA AB has an Audit Committee in which Hakon Invest has three representatives, the Company has decided that two members are sufficient for its committee.
- No comprehensive report regarding internal control of financial reporting will be provided. This rule has been departed from with reference to the statement by the Swedish Corporate Governance Board in a press release dated December 15, 2005. This means that the report on internal control of financial reporting is limited to a description of how the internal controls are organized. The report is an integral part of the Company's corporate governance report under the heading "Internal control of financial reporting" below.
- During 2005, the Company's auditors did not participate in any scheduled Board meeting. The reason for this was that during the year the Company pursued continual active cooperation with the auditors in preparations ahead of Hakon Invest's stock exchange listing, at the same time as the Company's Audit Committee has had a number of formal as well as informal meetings with the auditors. The auditors' reviews to the Audit Committee have also been communicated to the Board.

## **ARTICLES OF ASSOCIATION**

At the 2005 Annual General Meeting, Hakon Invest adopted new Articles of Association that were conditional on the fulfilment of all conditions for a listing on the O-List of the Stockholm Stock Exchange. Since all conditions for a listing of the share were fulfilled, the conditional Articles of Association were registered, which included the removal of the pre-emption clause before trading in the common shares commenced.

The Company has two types of shares: common shares and C shares. Both types of shares carry the same voting rights, but differ in their entitlement to dividends. While the common shares have unrestricted dividend rights, the C shares grant no entitlement to cash dividends. Such rights may be granted to C shares not earlier than 2016. However, the C shares carry rights to distribution in kind.

The Board will present proposals for new Articles of Association for the approval of the 2006 Annual General Meeting as a result of the new Swedish Companies Act (2005:551) that came into force as of 2006.

The registered Articles of Association are available in their entirety at the Company's website [www.hakoninvest.se](http://www.hakoninvest.se), under the section "Corporate governance."

## **INFORMATION ON THE ANNUAL GENERAL MEETING**

Shareholders are entitled to have matters addressed at the Annual General Meeting. The Company's website explains how a matter can be presented for discussion, refer to [www.hakoninvest.se](http://www.hakoninvest.se) under the section "Corporate governance."

### **Annual General Meeting, 2006**

The next Annual General Meeting will be held on Wednesday May 10, 2006 in Hagamagasinet in Solna, outside Stockholm. In line with the Articles of Association and the Code, the notice of the meeting will be by advertisements in the Swedish Official Gazette (Post- och Inrikes Tidningar), Svenska Dagbladet and Dagens Industri and by an announcement on the Company's website. Notification of attendance at the Annual General Meeting may be made via fax, telephone, post, e-mail or via the Company's website.

### **Annual General Meeting 2005**

The previous Annual General Meeting was held in Västerås on May 11, 2005. Among other decisions, the Meeting approved the decision to change the name of the Company from ICA Förbundet Invest AB (publ) to Hakon Invest AB (publ) as well as the change in the Company's share capital structure conducted in conjunction with the stock exchange listing and broadening of ownership in the Company (refer above). Also, the Meeting approved that the Board should consist of seven members. The Meeting re-elected Anders Fredriksson, Stig Lundström and Olle Nyberg and elected Lars Otterbeck, Cecilia Daun Wennborg, Jan Olofsson and Jan-Olle Folkesson as new members. Instead of Klas Alm, Authorized Public Accountant, the Meeting elected Erik Åström, Authorized Public Accountant, Ernst & Young Revisionsbyrå AB, for the period through the end of the 2007 Annual General Meeting. The Meeting decided that the dividend for 2004 would be paid in an amount of SEK 8.20 per Series B preference share, of which SEK 4.20 represents the ordinary dividend and SEK 4 an extraordinary dividend.

## **NOMINATION COMMITTEE**

### **Background**

The 2005 Annual General Meeting adopted instructions for the Company's Nomination Committee. The aim is to give shareholders the opportunity to express their viewpoints and submit proposals regarding issues to be handled by the Nomination Committee and to create a favourable basis for the treatment of these matters at the Meeting. The Nomination Committee is to consist of four members who represent the Company's shareholders. Two of the members shall be nominated by the majority shareholder, ICA-handlarnas Förbund and two members shall be nominated by the subsequently largest shareholders.

### **Composition of the Nomination Committee**

The Nomination Committee consists of four members. The Company's majority shareholder, ICA-handlarnas Förbund, has nominated two of the members and the subsequently two largest shareholders as of December 31, 2005, which were Nordea Funds and SEB Funds, nominated each of the two other members. At that date, these three shareholders represented about 70% of the share capital and voting rights in Hakon Invest.

ICA-handlarnas Förbund appointed Lennart Boström, ICA-retailer in Lilla Edet, and Håkan Olofsson, ICA-retailer in Boden, as their members in the Nomination Committee. Nordea Funds appointed the Chairman of the Board of Nordea Fonder AB, John Dahlfors, as its member. SEB Funds appointed Stefan Roos, SEB Asset Management. The Nomination Committee's composition was announced on February 10, 2006. In addition to being presented in the notice to the 2006 Annual General Meeting, the Nomination Committee's proposals will be presented on the Company's website. Shareholders were provided the opportunity to submit proposals and viewpoints regarding the Nomination Committee's work through March 17, 2006.

### **Nomination Committee's work**

The Nomination Committee's tasks include evaluating the Board and its work as well as submitting proposals regarding the Chairman and other Board members, Board fees and, when appropriate, proposals for the election of auditors as well as auditing fees. As a basis for proposals concerning the Board's composition, the Nomination Committee must assess the degree to which the current Board meets the requirements that will be imposed on the Board as a result of the company's situation and future direction by, among other actions, studying the results of the evaluation of the Board, setting a requirement profile for the new member or members who, according to the evaluation, need to be recruited and conduct a systematic procedure when seeking candidates for the Board positions to be filled, with due consideration of the proposals submitted by shareholders.

During 2006, the Nomination Committee held three meetings, one of which was a telephone meeting. All members were present at these meetings. Hakon Invest's General Counsel, Fredrik Häggglund, was co-opted to all the Nomination Committee's meetings as secretary. The Chairman of the Board, Lars Otterbeck, and

President Claes-Göran Sylvén participated at the initial meeting in order to provide information on the Company's operations and Board work. At the second meeting, the Nomination Committee met the Audit Committee in order to become acquainted with the evaluation of the audit work, and the Board Chairman in order to review the evaluation of the Board's performance for 2005, and the President in order to gain his view of the Board's working procedures and functions. A more detailed description of how the Nomination Committee has conducted its work is available on the Company's website. No remuneration was paid to members of the Nomination Committee for their work.

## **BOARD OF DIRECTORS**

### **Background**

The Board underwent major changes as part of preparations ahead of Hakon Invest's stock exchange listing. Until the Annual General Meeting on May 11, 2005, Hakon Invest's Board consisted of 19 members, all of them ICA retailers. At that meeting, seven members were elected: Lars Otterbeck, Anders Fredriksson, Cecilia Daun Wennborg, Jan-Olle Folkesson, Stig Lundström, Olle Nyberg and Jan Olofsson. The composition of the Board is based on the requirements imposed by the Stockholm Stock Exchange and the Code in terms of the requisite skills and background for the Board of a listed company.

As a result of the major changes in the composition of the Board, the account in this report pertains solely to the Board that was appointed on May 11, 2005.

According to the Articles of Association, the Board is to consist of at least five and no more than nine members. As noted above, the current Board consists of seven members. At the Annual General Meeting, Lars Otterbeck was elected as the Board's Chairman and at the statutory Board meeting, Anders Fredriksson was elected as Deputy Chairman. Employees in Hakon Invest may be co-opted to Board meetings whenever a need is deemed to exist. The President submits reports at Board meetings and the General Counsel is the Board's secretary. Four of Board's members, Lars Otterbeck, Cecilia Daun Wennborg, Jan-Olle Folkesson and Jan Olofsson, are independent in relation to the Company and its executive management as well as to the Company's major shareholders. They share many years of experience from executive and Board work in various listed companies. The remaining three members, Anders Fredriksson, Stig Lundström and Olle Nyberg are ICA retailers and also members of the Board of ICA-handlarnas Förbund. ICA-handlarnas Förbund is a non-profit organization. In accordance with wording of the rules of the Stockholm Stock Exchange and the Code governing the independence of Board members, these members may be viewed as independent in relation to the Company and its executive management but not in relation to the majority shareholder, ICA-handlarnas Förbund.

### **Board members**

All Board members are presented on the Company's website, under the section

### **The Board's work procedures**

The Board's work is governed by the working procedures adapted by the Board, the work instructions for the President and other policy documents and governing laws and regulations. Each year, the Board reviews its established working procedures. The current work procedures were adopted by the Board on August 31, 2005, including the work procedures for the Board, work instructions for the President and work instructions for the committees set up (Audit, Remuneration, and Investment Committee). At the same time, the three committees were established. According to the work procedures, the Board is to make decisions that do not relate to ongoing administration or are of major importance, such as significant financial undertakings and agreements as well as significant changes in the organization. Also, in addition to a statutory Board meeting in conjunction with the Annual General Meeting, the Board shall hold at least five Board meetings that are announced ahead. The current Board held nine meetings during 2005 at which members were physically present. All members attended all the Board meetings except Jan-Olle Folkesson who encountered impediments that prevented him from attending one meeting. Significant issues that were dealt with during the year included, for example, Hakon Invest's stock exchange listing, the Board's and the committees' working methods, investment operations and acquisition targets, owner control in subsidiaries and in associated companies, etc.

## **BOARD COMMITTEES**

The Board has internally established three working committees that will supplement the work of the Board. The committees are subordinate to the Board and do not discharge Board members from their duties and responsibilities.

### **Audit Committee**

The Audit Committee consists of two members: Cecilia Daun Wennborg (Chairwoman) and Stig Lundström. The primary tasks of the committee are to supervise auditing and financial reporting, on behalf of the Board, as well as providing information on the Company audit. Also, the committee is to supervise risk analysis in the

Company. The Audit Committee is to hold at least three meetings annually. The committee held four meetings up until year-end. Both members were present at all meetings. Erik Åström (the Company's auditor) participated in two of these meetings and Ire Lindstrand (who is also the Company's auditor) attended one meeting. The Audit Committee also pursued active and continual dialogue with the auditors in conjunction with preparations ahead of Hakon Invest's stock exchange listing.

#### **Remuneration Committee**

The Remuneration Committee consists of two members: Lars Otterbeck (Chairman) and Anders Fredriksson. The committee's tasks are to assume responsibility for the preparation of issues regarding remuneration and other terms of employment for Hakon Invest's management group. In consultation with other members, the Chairman is to set the number of meetings for the committee and the times for these meetings. However, the number of meetings must not be less than two each year, one of which is to be in December. The committee has met on three occasions, most recently in December 2005. Both members were present at all meetings.

#### **Investment Committee**

The Investment Committee consists of seven members, all of whom are members of the Board. Lars Otterbeck is chairman of the committee. The committee's primary tasks are to examine the decision-making basis in acquisition issues, recommend decisions and monitor observance of the Company's investment policy. The Chairman convenes meetings. However, the number of meetings shall be at least one each year, as the work instructions and investment policy are to be revised. The Investment Committee had three meetings up to year-end. At one of these, all members were present, and at the other two meetings five members participated. Anders Fredriksson, Stig Lundström, Olle Nyberg and Jan-Olle Folkesson were each present at two of the meetings.

#### **THE COMPANY'S AUDITORS**

According to the Articles of Association, the Annual General Meeting is to approve at least one and no more than two auditors or one or two authorized auditing companies. The Annual General Meeting in 2003 re-elected Ire Lindstrand (from SET revisionsbyrå AB) as auditor until the Annual General Meeting in 2007. Ire Lindstrand has been the elected auditor in Hakon Invest since 1985. Erik Åström (from Ernst & Young AB) was elected as auditor at the 2005 Annual General Meeting up until the 2007 Annual General Meeting. The accounting firms meet the requirements of Hakon Invest as regards the requisite skills. Erik Åström is also auditor in Hennes & Mauritz (H&M), Kinnevik, Modern Times Group (MTG) and Onetwocom. Ire Lindstrand is also auditor in Duka AB, Svenska Tryckcentralen AB, Svenska Journalens Läkarmission Foundation, Swedish Pharmaceutical Industry Association and companies, as well as a number of subsidiaries of foreign corporate groups and small companies. The independent positions of the auditors are ensured by the accounting companies' internal guidelines, as well as by the Swedish Supervisory Board of Public Accountants' guidelines for which assignments, other than auditing, that an accounting firm is permitted to assume.

#### **WORK INVOLVING AUDITING AND ACCOUNTING ISSUES**

The Board has prepared a formal and transparent system that ensures smoothly functioning work with auditing and accounting issues. The Board has established an Audit Committee and has adopted work procedures and instructions for the President, Board of Directors and committees to maintain good control and appropriate relations with the Company's auditors. The work involving audit and accounting issues is described in greater detail above.

#### **INTERNAL CONTROL OF FINANCIAL REPORTING**

##### **Control environment**

The Board's work procedures and instructions for the President and the Board's committees ensure a distinct distribution of roles and responsibilities to promote effective management of operational risks. The Board has also set a number of significant basic guidelines for work involving internal control in which the work procedures for the Investment Committee, investment policy and finance policy are among the most important. The management group reports regularly to the Board in line with fixed routines. In addition, there are also reports from the Audit Committee's work. The management group is responsible for the system of internal controls required to handle significant risks in ongoing operations. These include guidelines for the authority of various executives so that they are aware of and realize the importance of their particular roles in maintaining good internal control.

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

The Company has prepared a model for assessing the risk of errors in financial reporting, which identifies a number of items in the income statement and balance sheet in which the risk of significant errors is heightened.

Particular emphasis is placed on designing controls to prevent and identify shortcomings in these areas. The model has been commissioned and will be fully implemented in 2006.

### **Information and communication**

Policies, routines and manuals, etc. that are significant for financial reporting are updated and communicated continually to the parties involved. Formal as well as informal information channels are available to employees for reporting important information to the management group and Board. For external communication, there is a communication policy as well as guidelines, which ensure that the Company meets the requirements imposed regarding accurate and appropriate information to the market.

### **Follow-up**

The Board continually assesses the information submitted by the management group and Audit Committee. The Audit Committee's work in monitoring the efficiency of the management group's performance is of particular importance in this area. Among other features, this work involves securing that actions are taken to deal with shortcomings and proposed measures arising from internal reviews in associated companies and the external audit.

### **Internal audit**

The Group has no internal audit function, considering the scope of operations. ICA AB has extensive internal auditing which continually reports its findings to the Audit Committee of ICA AB's Board, within which Hakon Invest is represented in the form of three members. The Board has decided that this following up activity is sufficient.

## **SENIOR EXECUTIVES**

### **President and CEO**

The President and CEO are responsible for the day-to-day administration of the Company in line with the Board's guidelines and instructions. In consultation with the Board's Chairman and Deputy Chairman, the President shall draw up an agenda for the Board's meetings and prepare the requisite basis for information and decision-making at Board meetings. In addition, the President must ensure that the Board's members continually receive information on the Company's progress in order to be able to make decisions on a reliable basis. The Board of Hakon Invest has approved President Claes-Göran Sylvén's significant assignments and financial involvement outside the Company. The Board's work procedure and work instructions for the President govern in particular the handling of and decisions in issues involving agreements and other dealings between Hakon Invest and ICA-handlarnas Förbund.

### **Other senior executives**

The President has other senior executives at his disposal as support in his management of the Company. In addition to the President, the senior executives are Göran Hesseborn, Chief Financial Officer; Fredrik Hägglund, General Counsel; and Anders Hallgren, Senior Vice President Communication. The management group meets regularly to discuss jointly the Company's development and make decisions in key issues affecting operations. A more detailed presentation of the management group is available on the Company's website, under the section "[xx]".

## **PRINCIPLES UNDERLYING REMUNERATION, ETC.**

### **Background**

The Board's Chairman and members receive remuneration in line with the decision of the Annual General Meeting. The remuneration paid to President and other senior executives consists of a fixed basic salary, other benefits and remuneration as well as a pension. Other senior executives refer to those persons who, together with the President and CEO, make up the management group; Göran Hesseborn (appointed CFO as of April 1, 2005 when Ulf Nyström retired on pension as of March 31, 2005), Fredrik Hägglund (General Counsel) and Anders Hallgren (SVP Communication).

### **Principles underlying remuneration paid to the President and CEO, as of 2005**

#### *Remuneration*

The agreement with the President covers a gross salary framework of SEK 4.5 M for 2005. The framework includes vacation, social security contributions, pension costs and other costs in the form of company car, etc. No variable remuneration has been paid for the President in 2005. The President is at liberty to utilize the framework in a cost-neutral manner for the Company.

#### *Period of notice and severance pay*

In the case of the President, both the Company and President are subject to a period of notice of six months, during which time the aforementioned gross salary framework may be disposed of in the amount of 1/12 per month. The President is not entitled to any severance pay.

#### *Pension provision*

The Company and President are both entitled to request that the President retires on pension at the age of 65. The President decides on the size of the pension provision within the aforementioned gross salary framework.

### **Principles underlying remuneration paid to other senior executives**

#### *Remuneration*

The other three senior executives are paid a fixed salary in accordance with the table below. In addition, there are expenses for benefits such as pension costs and other remuneration. No variable remuneration was paid in 2005.

#### *Period of notice and severance pay*

A mutual period of notice of six months applies to the Company and other senior executives in the Hakon Invest Group. In addition, in the event of dismissal by the Company, the other senior executives are entitled to severance pay of 18 months salary. The severance amount is free of deductions. In the event of resignation, the other senior executives are, under certain circumstances, entitled to remuneration covering a period of six months after the termination of employment during which the executive may not engage in competing operations. Remuneration is a maximum 60% of the fixed cash salary and is paid only during the period during which involvement in competing operations is prohibited.

#### *Pension provisions*

The other senior executives have a premium-determined pension plan according to which the Company pays 35% of the pension-entitled salary, but in a maximum amount of 10 base amounts annually. The pension-entitled salary is calculated according to the rules of the Swedish ITP pension plan. In addition, the other senior executives are entitled to retire on pension from the age of 62. In conjunction with retirement from the age of 62, a defined-benefit pension of 75% of the senior executive's salary immediately prior to retirement is paid during the period up to the normal retirement age. The pension for the period after the normal pension age is paid in the same amount as if senior executives had worked up until the age of 65. Pension benefits are vested, that is, they are not conditional on future employment.

<b>Remunerations, 2005, SEK 000s<sup>1</sup></b>	<b>Fixed annual salary/ Board fee</b>	<b>Benefits<sup>1</sup></b>	<b>Pension cost</b>	<b>Other remunerations<sup>2</sup></b>	<b>Total</b>
Chairman of the Board	250				250
Other Board members (total) <sup>3</sup>	1,732				1,732
President <sup>4</sup>	1,243	97	2,831	8	4,179
Other senior executives <sup>5</sup>	5,250	358	4,887	25	10,520
<b>Total</b>	<b>8,475</b>	<b>455</b>	<b>7,718</b>	<b>33</b>	<b>16,681</b>

<sup>1</sup> Remuneration excluding social security contributions.

<sup>2</sup> Refers to reimbursement for parking and expense account items.

<sup>3</sup> To and including the Annual General Meeting 2005, the Board comprised 19 members. Subsequently, the Board comprise six members, in addition to the Chairman. Of the Board members, six are men (86%) and one a woman (14%).

<sup>4</sup> The gross salary framework of SEK 4.5 M includes vacation pay, social security contributions, pension costs and other costs in the form of company car, etc.

<sup>5</sup> In 2005, other senior executives amounted to three individuals, all of which are men.

### **The Board's preparations regarding issues involving remuneration paid to the management group**

The Remuneration Committee met in December 2005 to discuss the 2006 salaries for senior executives and the President. The discussion and proposals for approval were presented to the subsequent Board meeting and the Board decided in line with the proposals.

### **INCENTIVE PROGRAM**

In conjunction with the stock exchange listing of Hakon Invest in December 2005, ICA-handlarnas Förbund initiated an incentive program aimed at all employees in Hakon Invest and its sister company, ICA-handlarnas Medlemsservice AB, with an offer to acquire call options in Hakon Invest. Since ICA-handlarnas Förbund,

conducted the incentive program, the program has a neutral effect on earnings for Hakon Invest. The exercise price for the options was fixed at SEK 97.50, which corresponds to 110% of the average price for the Hakon Invest share during the period December 15–21, 2005. A total of 407,000 options were acquired (of which 338,500 by employees in Hakon Invest), corresponding to 0.2% of the total number of shares outstanding in the Company. The options extend through December 31, 2008. Application to exercise the options may be made during the period July 1– December 31, 2008.