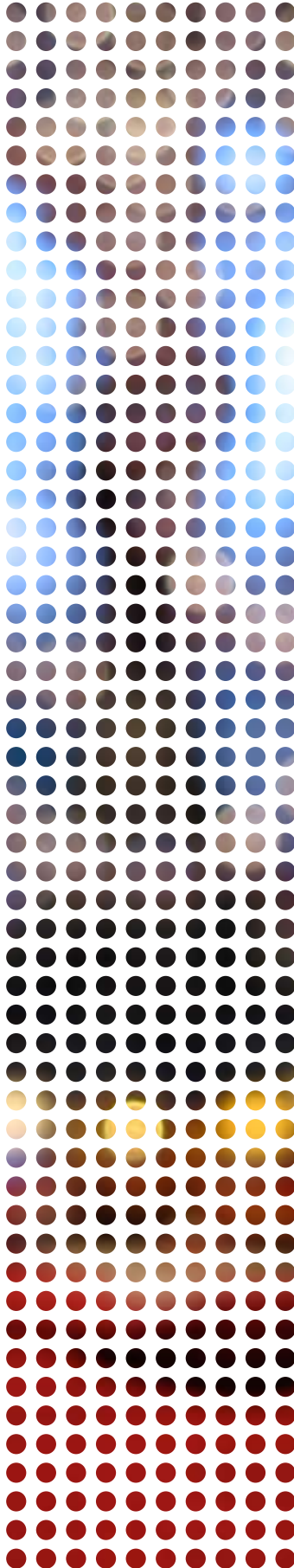


C O R P O R A T E G O V E R N A N C E R E P O R T 2 0 0 6



Corporate Governance Report 2006

Corporate governance and value creation within Hakon Invest

Hakon Invest is a public company with its registered office in Stockholm, Sweden. Governance of the company is based, among other things, on the Articles of Association, the Swedish Companies Act (2005:551), the listing agreement with the Stockholm Stock Exchange, including the Swedish Code of Corporate Governance (the Code) and other applicable Swedish legislation and regulations. The Annual General Meeting, Board of Directors and President (CEO) are jointly and individually responsible for the company's management in accordance with the stipulations of the Articles of Association and pertinent laws and regulations.

Hakon Invest's financial assets are to be used for investments, primarily in unlisted companies within the Nordic retail sector. Hakon Invest has extensive skills, experience and access to comprehensive networks within trading and activities closely associated with trading. The company has an investment organization that works actively with existing holdings and evaluations of interesting, new investment objects. On the basis of a significant and active ownership, Hakon Invest will assist its holdings to obtain the conditions and resources to develop and grow with profitability.

As a part-owner of ICA AB, Hakon Invest also works to develop and strengthen the ICA concept, which means that merchants own and operate food retail stores with access to economies of scale and intellectual property rights through the ICA AB Group.

Added value will be created for shareholders through value growth in the investments and a good dividend yield, which will be achieved through active and responsible ownership.

Hakon Invest's registered Articles of Association and policies are presented on the company's homepage, www.hakoninvest.se, under the Corporate Governance tab.

Swedish Code of Corporate Governance

Hakon Invest has complied with the Code since July 1, 2005 as part of its listing agreement with the Stockholm Stock Exchange. Hakon Invest considers the Code one of several important governance regulations for internal and external reporting and communications.

The Corporate Governance Report has not been reviewed by the company's auditor. Neither did the auditor examine the Board's report on internal control with regard to the

financial reporting included in the Corporate Governance Report.

Deviations from the Code

Hakon Invest has deviated from the part of the Code's rule 3.8.2, 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 three representatives, the company has decided that two members is satisfactory.

Shares in Hakon Invest

There are 160,917,436 shares in Hakon Invest, of which 78,849,544 are common shares and 82,067,892 are series C-shares. Both classes of shares have the same voting rights, but different entitlement to dividends. While the common shares have unrestricted dividend entitlements, the series C-shares carry no entitlement to cash dividends. Series C-shares will not be eligible for such entitlement before year 2016. However, series C-shares are entitled to profit distributions through distributions-in-kind in the form of shares or other participations in ICA AB, or in present or future subsidiaries, or holding companies in ICA AB, or in companies that may acquire the operations or be operated within ICA AB.

The common shares were introduced on the stock exchange on December 8, 2005 and have been traded on the Large Cap list of the Nordic Exchange since January 2, 2007. The main objective of the stock market listing was to secure a long-term, favorable ownership structure and access to the capital market. In conjunction with the listing, Hakon Invest's principal owner, ICA-handlarnas Förbund completed the sale of a portion of its shareholding to the general public in Sweden and institutional investors in Sweden and abroad. A total of 13,000,000 shares were sold, corresponding to about 8 percent of the capital and votes in Hakon Invest. The sale price was established through a bidding procedure at SEK 77 per share.

Hakon Invest had approximately 12,300 shareholders at year-end 2006, of which 7,695 shareholders, or 62.4 percent of the total number of shareholders, owned 500 shares or fewer. ICA-handlarnas Förbund is the company's largest shareholder with slightly more than 67 percent (divided as 51 percent series C-shares and 16 percent common shares) of shares and votes.

The 10 largest shareholders

Shareholder ¹⁾	Number of shares	Capital and votes, %
ICA-handlarnas Förbund	108,385,227 ²⁾	67.35
SEB funds ³⁾	2,834,400	1.76
Handelsbanken funds ⁴⁾	1,982,083	1.23
Swedbank Robur ⁵⁾	1,390,065	0.86
Fjärde AP-fonden	1,041,800	0.65
Jönsson, Leif	748,000	0.46
Samuelsson, Tomas	628,400	0.39
Andra AP-fonden	517,060	0.32
Ottosson, David	500,432	0.31
Håkan Olofssons Förvalning	480,000	0.30
The 10 largest shareholders	118,507,467	73.60
Other shareholders	42,409,969	26.40
Summa	160 917 436	100.00

1) Incl. related funds.

2) The holding is divided as 82,067,892 series C shares and 26,317,335 common shares.

3) Incl. SEB Gamla Trygg Liv.

4) Incl. Handelsbankens pension funds.

5) Incl. Svenska Kyrkan/Church of Sweden.

Ownership distribution by size of shareholding¹⁾

Holding, number of shares	No. of owners	Percentage of owners, %	Capital and votes, %
1-500	7,695	62.4	1.0
501-1 000	1 431	11.6	0.7
1 001-5 000	1,795	14.6	2.8
5 001-10 000	543	4.4	2.5
10 001-20 000	360	2.9	3.2
20 001-	500	4.1	89.8
Total	12,324	100.0	100.0

1) According to VPC share register.

Dividend

One of the goals established by the Board of Hakon Invest is that dividends should normally amount to not less than 50 percent of the Parent Company's profit after tax. Only common shares are entitled to cash dividends, which means the entire sum distributed as dividends is distributed among 49 percent of the shares. Series C shares are not entitled to cash dividends.

Owners of series C shares will be entitled to request conversion of their series C shares to common shares beginning in 2011. Such conversion will not be made until five years after conversion applications are submitted, or not earlier than January 2016.

For fiscal year 2006, the Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.50 be paid on each common share, or a total of SEK 434 M. This corresponds to a payout ratio of 129.5 percent. For fiscal year 2005, a dividend of SEK 4.50 per common share was paid, corresponding to a payout ratio of 80 percent.

Share data

Share data ¹⁾	2005	2006
Earnings per common share, SEK	5.31	6.55
Earnings per C share, SEK	5.31	6.55
Cash flow per share, SEK	0.31	-1.28
Shareholders' equity per share, SEK	49.25	53.75
Dividend per common share, SEK	4.50	5.50 ²⁾
Payout ratio, %	80	129.5
Share price at year-end, SEK	93.50	157.0
Yield, %	4.8	3.50
P/E, times	17.6	24.0
Price/Shareholders' equity, times	1.9	2.9
Number of common shares at year-end	78,849,544	78,849,544
Number of C shares at year-end	82,067,892	82,067,892
Total number of shares at year-end	160,917,436	160,917,436
Average number of shares	160,917,436	160,917,436

1) For definitions, see page 26 in the company's Annual Report for 2006.

2) Proposed dividend.

Annual General Meeting

The Annual General Meeting, which is held within six months of fiscal year-end, addresses questions such as elections of Board members and, when applicable, elections of auditors, dividends, adoption of income statement and balance sheet, and the discharge from liability for the Board members and the Presidnet. Shareholders are also entitled to have questions addressed by the Annual General Meeting if such requests are properly submitted to the company within the allotted time.

The Annual General Meeting is the forum that allows Hakon Invest's shareholders to exercise their ownership influence. Shareholders who are listed in the share register on the record day, and notified the company of their intention to participate, are entitled to participate in the Meeting.

The 2006 Annual General Meeting was held in Solna on May 10, 2006.

The Annual General Meeting resolved to:

- re-elect Lars Otterbeck, Cecilia Daun Wennborg, Anders Fredriksson, Olle Nyberg, Jan-Olle Folkesson and Jan Olofsson as Board members,
- elect Thomas Strindeborn as a new member
- elect Ernst & Young AB as auditors for a mandate period of four years until the Annual General Meeting in 2010,
- approve a dividend for 2005 of 4.50 SEK per common share,
- establish an options program and authorize the Board of Directors during the period up to the 2007 Annual General Meeting to re-purchase on one or several occasions common shares in the company in accordance with Board's proposed options program,

- approve the proposed Articles of Association for Hakon Invest, which represent an adaptation to the new Swedish Companies Act.

The Annual General Meeting for 2007 will be held on April 26, 2007 in the Stockholm Conference Room, Grand Hotel, S. Blasieholmshamnen 8, in Stockholm. The announcement will be published in Post och Inrikes Tidningar/the Swedish Official Gazette, which is accessible at www.bolagsverket.se/ poit, Svenska Dagbladet and Dagens Industri and at Hakon Invest's website. Notification of intention to attend the Annual General can be made via fax, telephone, mail, e-mail or via the company's website.

Shareholders who are listed in the share register as per Friday, April 20, 2007, and have notified the company of their intention to participate, are entitled to participate personally in the meeting, or through representation. To have issues addressed at the Annual General Meeting for 2007, shareholders must submit their requests in accordance with the instructions provided at the website not later than Friday, March 9, 2007.

Information on the Nomination Committee

The 2006 Annual General Meeting adopted the rules governing the Nomination Committee. The objective of the Nomination Committee is to provide opportunities for the shareholders to present their opinions and submit proposals concerning questions to be addressed by the Nomination Committee and to create a good foundation for the Annual General Meeting's handling of these questions.

The tasks of the Nomination Committee include evaluations of the Board and its work and, prior to the Annual General Meeting, 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 background information for proposals concerning the composition of the Board, the Nomination Committee shall evaluate the extent to which the incumbent Board of Directors meets the requirements that will be placed on the Board as a result of the company's current position and future direction, including reviews of company earnings and evaluations of the Board that have been prepared, establish requirement profiles for the new Board member or members that, in accordance with this evaluation, will need to be recruited and implement a systematic procedure to seek candidates for the Board positions to be filled, including due consideration for proposals submitted by shareholders.

Composition of the Nomination Committee

According to the rules adopted at the 2006 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 15, 2006, were Handelsbanken Fonder and SEB Fonder. On that date, these three shareholders represented approximately 70% of the share capital and voting rights in Hakon Invest. The composition of the Nomination Committee was announced on October 5, 2006.

In accordance with adopted rules

- ICA-handlarnas Förbund appointed Lennart Boström, ICA retailer in Lilla Edet, and Håkan Olofsson, ICA retailer in Boden, as their Nomination Committee members,
- Handelsbanken Funds appointed Kjell Norling, Head of Institutional Asset Management, as its member and
- SEB Funds appointed Stefan Roos, SEB Asset Management, as its member of the Nomination Committee.

Lennart Boström (Chairman of the Nomination Committee), Håkan Olofsson, and Stefan Roos were also members of the Nomination Committee ahead of the previous Annual General Meeting of Hakon Invest, while Kjell Norling through Handelsbanken Funds is a new representative.

Work by the Nomination Committee

The Nomination Committee had three meetings ahead of the Annual General Meeting: one in December 2006 and two in 2007. All members were present at these meetings. Hakon Invest's General Counsel, Fredrik Häggglund, has been co-opted to all the Nomination Committee's meetings as secretary.

No fees were paid to the members of the Nomination Committee for their work.

At the initial meeting, the Nomination Committee met the following persons individually to gather information about the Company's business activities and the Board's work agenda: Board Chairman Lars Otterbeck, President and CEO Claes-Göran Sylvén, CFO Göran Hesseborn and Cecilia Daun Wennborg, Chairperson of the Audit Committee. The Chairman of the Board reviewed the 2006 evaluation of the Board and described its work. The President presented his views on the Board's work methods and functions. CFO Göran Hesseborn presented information about the audit work and the company's finance and accounting operations. Cecilia Daun Wennborg, Chairperson of the Audit Committee, presented an account of the Committee's evalua-

tion of the audit work. At the following meetings, the Nomination Committee completed its evaluation of the Board, agreed on proposals for Annual General Meeting and prepared the report on the Nomination Committee's work.

In addition to the notice of the 2007 Annual General Meeting, the Nomination Committee's proposals are presented on Hakon Invest's website. According to instructions on the website, shareholders were offered an opportunity to submit proposals and views to the Nomination Committee through March 2, 2007.

A more detailed account of the Nomination Committee's report, including a description of how the work has been conducted, is presented on Hakon Invest's website.

Board of Directors

The work of the Board is regulated by a formal work plan adopted by the Board, and by applicable laws and regulations. The Board has also adopted work instructions for the President as well as other policy documents. The Board reviews adopted work plans annually and adopted their present formulation at a meeting on August 14, 2006, including the Board's work plan, work instructions for the President and work instructions for its committees (audit, remuneration and investment committee).

The overall task of the Board is, on behalf of the owners, to manage the affairs of the company in such a way that the owners' interests in a long-term good capital return are met in the best possible manner. The Board can make decisions on matters of major significance to the company such as significant financial commitments and agreements as well as significant changes to the organization. In addition to a statutory Board meeting in conjunction with the Annual General Meeting, the Board shall hold at least five meetings a year that are announced in advance.

An evaluation of the Board is conducted every year. Each of the Board members is asked to complete a comprehensive questionnaire that contains various questions about the Board's work. The evaluation is used to develop the Board's work agenda and to provide background information for the Nomination Committee's evaluation of the Board's composition.

Composition of the Board

According to the Articles of Association for Hakon Invest, the Board shall consist of a minimum of five and maximum of nine members. The present Board consists of seven members. At the Annual General Meeting, Lars Otterbeck was elected as the Chairman of the Board and, at the statutory meeting of the Board, Anders Fredriksson was elected as Deputy

Chairman. The President makes presentations at Board meetings and the General Counsel is the secretary to the Board.

Four members of the Board, Lars Otterbeck, Cecilia Daun Wennborg, Jan-Olle Folkesson and Jan Olofsson, are independent both in relation to the company and its Executive Management staff, and its major shareholders. They also have many years of experience in management and Board positions in different publicly listed companies.

The other three Board members, Anders Fredriksson, Thomas Strindeborn and Olle Nyberg, are ICA retailers, and the latter two are also members of the ICA-handlarnas Förbund's Board of Directors.

All Board members are presented under Corporate Governance on the company's website. In accordance with the detailed specifications of regulations that govern the Stockholm Stock Exchange and the Code concerning the independence of Board members, these members of the Board are considered independent in relation to the company and its Executive Management, but not in relation to the principal owner, ICA-handlarnas Förbund.

BOARD OF DIRECTORS

**Lars Otterbeck**

Born 1942, Chairman

Lars Otterbeck has served as Chairman since the 2005 Annual General Meeting. He is a Assistant professor of business economics at the Stockholm School of Economics and a Doctor of Economics. Lars Otterbeck was President and Chief Executive Officer of Alecta pensionförsäkring during the period 2000–2004 and

served previously as President and Chief Executive Officer of D&D Dagligvaror AB (now Axfood). Lars Otterbeck is Chairman of the Industry and Commerce Stock Exchange Committee, Deputy Chairman of Tredje AP-fonden and a Board member of Aberdeen Property Investors AB, Försäkringsaktiebolaget Skandia, Lindex AB and Old Mutual Plc.

Holding: 1,200 shares

**Anders Fredriksson**

Born 1954, Deputy Chairman

Anders Fredriksson was elected to the Board of Directors at the 1997 Annual General Meeting. Anders Fredriksson was a member of ICA-handlarnas Förbund's Board of Directors during the period 1997–2006 and Chairman of ICA-handlarnas Förbund's Board of

Directors during the period 2001–2006. He is also an ICA-retailer at ICA Kvantum Hjerterbergs in Lidköping. Anders Fredriksson studied economics and law at university and completed a number of courses at the ICA-School.

Holding: 352,800 shares

**Cecilia Daun Wennborg**

Born 1963

Cecilia Daun Wennborg was elected to the Board of Directors at the 2005 Annual General Meeting. She is Chief Financial Officer of Carema Vård och Omsorg AB. She served as acting President of Skandiabanken until April 2005 and worked previously as Sweden

manager of Skandia, President of SkandiaLink Livförsäkrings AB and Chief Financial and Administrative Officer of SkandiaLink Livförsäkrings AB. Cecilia Daun Wennborg is also a member of Nefab AB's Board of Directors. She has a degree in economics and also studied journalism and language.

Holding: 0

**Jan-olle Folkesson**

Born 1939

Jan-olle Folkesson was elected to the Board of Directors at the 2005 Annual General Meeting. He is also Chairman of Sjötte AB-fonden, CBN AB, Sporthaus AB and Wordfinder Software and a Board member of Lennart Wallenstam Byggnads AB. He also serves as a member of several Boards. Jan-olle Folkesson has

extensive experience with ICA from his former position as President of ICA EOL during the period 1986–1990 and President of ICA Företagen 1990–1991. Jan-olle Fredriksson is a graduate of Köpmannainstitutet in Malmö and has completed a number of internal courses within ICA.

Holding: 600 shares

**Thomas Strindeborn**

Born 1961

Thomas Strindeborn was elected to the Board of Directors at the 2006 Annual General Meeting. Thomas Strindeborn is an ICA-retailer at Maxi ICA Stormarknad in Partille, Gothenburg, and has worked as an ICA-

retailer since 1986. He has completed several courses at the ICA-School. Thomas Strindeborn was elected Chairman of ICA-handlarnas Förbund at the Förbund's Annual Meeting in 2006.

Holding: 49,140 shares

**Olle Nyberg**

Born 1956

Olle Nyberg was elected to the Board of Directors at the 2000 Annual General Meeting. He is also a Board

member of ICA-handlarnas Förbund and an ICA-retailer in Söderhamn. He has completed several courses at the ICA-School.

Holding: 15,572 shares

**Jan Olofsson**

Born 1948

Jan Olofsson was elected to the Board of Directors at the 2005 Annual General Meeting. Jan Olofsson is Vice President and Senior Advisor within Handelsbanken Capital Markets. During the period 1992–2005, he was Head of M&A within Handelsbanken. He pre-

viously worked in several management positions within Esselte AB, most recently as Executive Vice President/Deputy Chief Executive Officer from 1985 to 1999. He is also Chairman of Init AB. Jan Olofsson has a degree as B.Sc. (Econ).

Holding: 2,400 shares

Members' attendance at Board meetings is reported in the table below.

Name	Member since	Independent in relation to the company	Independent in relation to owners	Committee work after 2006 AGM	Remuneration (SEK 000s)*	Meeting attendance during 2006
Cecilia Daun Wennborg	2005	Yes	Yes	Audit Committee (Chairman)	200	13/14
Jan-olle Folkesson	2005	Yes	Yes	Investment Committee	200	14/14
Anders Fredriksson (Deputy Chairman)	1997	Yes	No	Remuneration Committee Investment Committee	300	13/14
Stig Lundström	1999–2006	Yes	No	–	100	5/6
Olle Nyberg	2000	Yes	No	Audit Committee	200	13/14
Jan Olofsson	2005	Yes	Yes	Investment Committee	200	13/14
Lars Otterbeck (Chairman)	2005	Yes	Yes	Remuneration Committee (Chairman) Investment Committee (Chairman)	500	12/14
Thomas Strindeborn	2006	Yes	No	–	100	7/8

*) Excluding committee work. The Chairman of the Board had SEK 250,000 to distribute between members for their committee work.

The work of the Board in 2006

A total of 14 Board meetings were held in 2006, of which eight were held by the present Board elected on May 10, 2006. In conjunction with the 2006 Annual General Meeting, Stig Lundström resigned as a member of the Board and Thomas Strindeborn was elected as a new member of the Board.

Significant issues dealt with during the year included

- investment activities
- acquisition candidates and
- corporate governance, which is developed in the section on "active ownership everyday" in the Annual Report.

Hakon Invest became partowner during 2006 of the home electronics company Kjell & Company, the appliance company Hemma (Hemmabutikerna i Sverige Utveckling AB) and Cervera, which is a retail company with proprietary and franchise ownership stores in product areas comprising glass, porcelain, cutlery, kitchens and interior design.

Hakon Invest's Board committees

The Board has, from among its members, established three working committees to complement the work of the Board. The committees are subordinate to the Board and do not discharge Board members from their duties and responsibilities. The work of the committees is reported to the Board on a regular basis.

Audit Committee has as its main task supervising the accounts and financial reporting and obtaining information

about the auditing of the Group. The committee shall also monitor risk analyses within the company. The Audit Committee shall hold at least three meetings per year. The committee held five meetings before year-end, three of them after the 2006 Annual General Meeting. Olle Nyberg was absent from one meeting. Erik Åström (the company's auditor) participated in all of the meetings.

Remuneration Committee is responsible for the preparation of issues regarding remuneration and other terms of employment for Hakon Invest's Executive Management. In consultation with other members of the committee, the chairman shall decide on the number of meetings to be held by the committee, and the dates for these meetings. The number of meetings must not be less than two each year, one of which must be held in December. The committee met three times, most recently in December 2006. Both members of the committee were present at both meetings.

Investment Committee has as its main task examining the decision-making basis with regard to acquisition matters, recommending decisions and ensuring compliance with the company's investment policy. The chairman schedules meetings as required. The number of meetings shall be at least one a year, when the work instructions and investment policy are reviewed. The Investment Committee held seven meetings before year-end. All members were present at all meetings, with the exception of Stig Lundström (member until the 2006 Annual General Meeting) and Jan-olle Folkesson, who were absent at one meeting each.

EXECUTIVE MANAGEMENT

**Claes-Göran Sylvén**

Born 1959, President

Claes-Göran Sylvén has been employed by the company since 2003. Claes-Göran Sylvén is also President of ICA-handlarnas Förbund, Chairman of ICA AB and Forma Publishing Group AB and a Board member of

Svensk Handel, Cervera and UGAL. Claes-Göran Sylvén was originally an ICA-retailer and owns jointly with his family ICA Kvantum Flygfyren in Norrtälje.

Holding: 377,196 shares
50,000 call options

**Göran Hesseborn**

Born 1960, Chief Financial Officer

Göran Hesseborn has been employed by the company since 2005. Prior to joining Hakon Invest, Göran Hesseborn served as Executive Vice President and CFO of Spendrups AB during the period 2001–2005. From

1995 to 2001, he was Executive Vice President and CFO of Servera R&S. Göran Hesseborn is a Board member of Forma Publishing Group AB and Chairman of Kjell & Co Elektronik AB.

Holding: 1,800 shares
50,000 call options

**Fredrik Häggglund**

Born 1967, Legal Counsel

Fredrik Häggglund joined the company in 2002. Fredrik Häggglund has a Bachelor of Laws degree. He worked as a lawyer for Clifford Chance in Brussels during the period 1999–2002 and Assistant Counsel of Linklaters from 1996 to 1999. He has also worked in Anita

Gradin's cabinet in the European Commission. Fredrik Häggglund has been a member of ICA AB's Board of Directors since 2004 and is also a Board member of Eurocommerce and Institutet Mot Mutor.

Holding: 2,300 shares
50,000 call options

**Anders Hallgren**

Born 1952, Senior Vice President Communications

Anders Hallgren joined the company in 2000. He worked as information manager of ICA during the

period 1990–2000 and as a journalist for VLT and ICA Nyheter during the period 1972–1990.

Holding: 3,300 shares
50,000 call options

Executive Management

Hakon Invest's Executive Management consists of President and CEO Claes-Göran Sylvén, CFO Göran Hesseborn, Legal Counsel Fredrik Häggglund, and Senior Vice President Communications, Anders Hallgren. Executive Management meets regularly to discuss the development of the company and make decisions about matters of importance to the business operations.

The President is responsible for the day-to-day administration of the company in line with Board guidelines and instructions. In consultation with the Board's Chairman and Deputy Chairman, the President shall draw up an agenda for Board 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 development in order to be able to make valid decisions.

The Board of Hakon Invest has approved President Claes-Göran Sylvén's significant assignments and financial involvement outside the company, and conducted an evaluation of his work; no members of Executive Management were present during the evaluation. 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.

Work on auditing and accounting

The Board has drawn up formal working routines that ensure smoothly functioning work with auditing and accounting issues. The Board has established an Audit Committee and adopted work procedures and instructions for the President, Board of Directors and committees in order to maintain good control and appropriate relations with the company's auditors.

Internal control of financial reporting

The Board must issue a report of how internal control of financial reporting is organized. During 2006 Hakon Invest worked actively to further strengthen the internal control of financial reporting. As part of these efforts, the company applied and established a follow-up method, known as the COSO model, to monitor control environment, making risk assessments, handling information and follow-up. The company is of the opinion that there is an effective and appropriate internal control for its operations. Despite the fact that satisfactory control is considered to exist, the company has, for example, as a result of the evaluation in the COSO model, decided to further strengthen internal control by handling bookkeeping and accounting internally, which was previously handled by an external accounting firm. See also section "Risk management - fending off risks and finding opportunities" in the annual report in order to obtain deeper insight into the company's approach to internal control.

Control environment

In the Board's formal work plan and instructions for the President and Board committees, a clear role and responsibility distribution is ensured in the interests of the efficient management of operational risks. The Board has also adopted a number of basic guidelines of significance for the work on the internal control where the formal work plans for the Investment Committee, investment policy and finance policy are the most important elements. Executive Management reports regularly to the Board in line with fixed routines. In addition, there are reports from the Audit Committee's work. Executive Management is responsible for the system of internal controls required to handle significant risks in the day-to-day operations. These include guidelines for the authority of different senior 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 applied the COSO model for risk assessment of financial reporting which identifies a number of items in the income statement and balance sheet that may comprise an increased risk. Particular emphasis is placed on designing controls for prevention and identifying inadequacies in these areas.

Information and communication

Policies, routines, manuals and other items of significance for financial reporting are updated and communicated to the parties involved on an ongoing basis. There are both formal and informal information channels to Executive Management and the Board for significant information from employees. For

external communication there is a communications policy and guidelines to ensure, among other things, that the company complies with the requirements on the provision of accurate information to the market.

Follow-up

The Board continually evaluates the information submitted by Executive Management and the Audit Committee. The Audit Committee's work in monitoring the efficiency of Executive Management's performance is of particular importance in this area. Among other features, this work involves ensuring that action is taken to deal with any shortcomings and proposed measures arising from internal reviews in companies and holdings and the external audit.

Internal audit

The Group has no internal audit function, in view of the size of its operations. ICA AB, which is Hakon Invest's largest holding has an extensive internal audit that continually reports its findings to the Audit Committee within ICA AB's Board where Hakon Invest is represented with three people. The people who take part in ICA AB's Audit Committee then report to Hakon Invest's Audit Committee. The Board has decided that this follow-up is sufficient.

Work with internal control in the holdings

Hakon Invest works actively with internal control in its holding companies. Hakon Invest's business concept includes investing in and developing wholly and partly owned companies. As part of value creation in the holding companies, Hakon Invest wishes to create independent and high-quality organizations. Hakon Invest's finance function has an ongoing dialog with those persons responsible for finance in all holding companies and issues instructions 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 consequences are analyzed. 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.

Hakon Invest's active participation through its members on the holdings' boards, guarantees that reporting and internal control are handled in a fully satisfactory manner.

Whenever risks related to the internal control are identified, they are addressed by the holding company's Board of Directors in consultation with the auditors. In addition, Hakon Invest's Board member of the holding company continuously provides information to Hakon Invest's Executive Management. Hakon Invest's President, in turn, reports to the Audit Committee and the Board of Directors.

Auditors

In accordance with the Articles of Association, the Annual General Meeting shall appoint at least one and not than two registered public accounting companies. At the 2006 Annual General Meeting, the registered public accounting company Ernst & Young AB accounting agency was elected auditor for a mandate period of four years until the 2010 Annual General Meeting. Authorized public accountant Erik Åström was appointed chief auditor. The accounting company meets Hakon Invest's required competence qualifications. Erik Åström is also the auditor of other publicly listed companies, including Hennes & Mauritz (H&M), Kinnevik, Modern Times Group (MTG) and onetwocom.

The company's auditor participated in the Board meeting in August to present Ernst & Young's audit process in Hakon Invest and to provide opportunities for Board members to ask questions without the presence of Executive Management representatives.

Remuneration

The Chairman of the Board and Board members receive fees in accordance with the Annual General Meeting decision. Remuneration to the President and senior executives comprises fixed and variable salary, other benefits and remuneration as well as pensions. Other senior executives are those persons who, in addition to the President, comprise Executive Management: Göran Hesseborn (CFO), Fredrik Häggglund (Legal Counsel) and Anders Hallgren (Senior Vice President Communications). The President and senior executives have also been offered the opportunity to acquire call options in Hakon Invest. A specification of remuneration for 2006 to the Executive Management is presented in the table on page 11.

Remuneration to the President

Remuneration

An agreement was reached that provides a gross salary framework of SEK 4.6 M for 2006. The framework includes vacation, social fees, pension costs and other costs in the form of company car and other benefits. The President is free to dispose of the framework in a manner that is cost-neutral to the company. Variable remuneration paid to the President for 2006 corresponded to 9 months' salary, of which at least 50 percent of the total amount after tax must be used to purchase options in Hakon Invest under market terms and conditions¹.

Terms of notice and severance pay

For the President, both the company and the President are obliged to serve a six-month term of notice, during which the aforementioned gross salary framework may be distributed at 1/12 per month. The President is not entitled to severance pay.

Pension provisions

The company and the President are mutually entitled to request that the President retire at age 65. Within the aforementioned gross salary framework, the President is free to decide the amount of his pension provisions.

Remuneration to other senior executives

Remuneration

Fixed salaries paid to the other three senior executives are shown in the table on page 11. Additional costs pertained to benefits such as pension costs and other remuneration. Variable remuneration in 2006 to each of the other three senior executives amounted to six months' salary, of which of which at least 50 percent of the total amount after tax must be used to purchase options in Hakon Invest under market terms and conditions.

Terms of notice and severance pay

For the other senior executive officers, both the company and the senior officers are obliged to serve a six-month term of notice. In addition, if notice of termination is served by the company, the other senior executive officers are entitled to severance pay amounting to 18 months' salary. The severance pay is free from any reductions. If notice of termination is served by a senior executive officer, the officer is entitled, under certain conditions, to remuneration for a competition restriction that applies for six months after employment has been terminated. The remuneration is maximized at 60 percent of the fixed cash salary and is paid only for the period during which the competition restriction applies.

Pension provisions

The other senior executive officers have a fixed-premium pension plan, whereby the company pays 35 percent of the pensionable salary, but not more than a maximum of 10 price base amounts. The pensionable salary is calculated in accordance with the ITP-plan's regulations. Furthermore, the other senior executive officers are entitled to retire at age 62. For retirement at age 62, a fixed-benefit pension is paid corresponding to 75 percent of the senior officer's salary immediately before his/her retirement for the period until ordinary pension age. Pension benefits for the time after ordinary pension age shall be paid in the same amount the senior officer would have received if he/she had worked until age 65. The pension benefits are not transferable, i.e., not subject to conditions on future employment.

¹) For the President, who has a gross salary framework, the computed fixed monthly salary during 2006 amounted to SEK 215,000.

REMUNERATIONS 2006, SEK 000s ¹⁾	Fixed annual salary/Board fee	Benefits ¹⁾	Pension cost	Bonus/ Incentive	Total
Chairman of the Board	530				530
Other members of the Board (combined) ²⁾	1,470				1,470
President ³⁾	1,472	96	2,203	1,935	5,706
Other senior executive officers ⁴⁾	5,641	538	1,637	2,256	10,072
Total	9,113	634	3,840	4,191	17,778

1) Remuneration excluding social fees.

2) The Board of Directors consists of six persons, in addition to the Chairman. The Board members comprise one woman (14 percent) and six men (86 percent).

3) The gross salary framework of SEK 4.6 M includes vacation, social fees, pension costs and other costs in the form of a company car and costs for other benefits.

4) Other senior executive officers during 2006 consisted of three persons, all of whom are men.

Treatment by the Board of remuneration questions for senior executive officers

The Remuneration Committee met in December 2006 to discuss salaries to be paid to senior executive officers and the President during 2007 and the proposed renewal of the options program for senior executive officers. The committee presented its proposals at the Board of Directors meeting held on January 30, 2007.

Basic principles for remuneration to new senior executive officers

At the 2006 Annual General Meeting, changes were adopted in the basic principles governing forms of remuneration to senior executive officers. These principles apply to newly appointed/recruited senior executive officers. The total remuneration will consist of a fixed salary, pension benefits, conditions for notice of termination and severance pay, bonus, options and other terms and conditions. Fixed salaries will comply with current market norms. Pension conditions will comprise a fixed-premium pension plan for the senior executive officers. According to the plan, a maximum of 35 percent of pensionable salary may pertain to pension premiums, which will be paid during the time until ordinary retirement at the age of 65. A mutual six-month term of notice shall apply. Severance pay shall amount to a maximum of 18 months' fixed cash salary if the company serves notice of termination and shall be based on deduction for income received from other employment. If the senior officer serves notice of termination, and if the company chooses to impose a contractual competition restriction, remuneration during the competition restriction period shall amount to a maximum of 60 percent of the fixed salary. Severance pay and remuneration during the time of the competition restriction is not pensionable. In addition, the incentive program adopted by the 2006 Annual General Meeting shall apply to the President and other senior executive officers.

Incentive programs

ICA-handlarnas Förbund's incentive program

In conjunction with the stock market listing of Hakon Invest in 2005, ICA-handlarnas Förbund introduced an incentive program for all employees of Hakon Invest and its sister subsidi-

ary ICA-handlarnas Förbund AB, comprising an offering to purchase call options in Hakon Invest. The strike price for the options has been fixed at SEK 97.50, which corresponds to 110 percent of the average price for Hakon Invest shares during the period December 15-21, 2005. A total of 407,000 options were subscribed for (of which 338,500 by employees of Hakon Invest), corresponding to 0.2 percent of the total number of shares outstanding in the company. The options extend through December 31, 2008. Notification of intent to exercise the options shall be submitted during the period July 1 – December 31, 2008.

Hakon Invest's incentive program

The 2006 Annual General Meeting resolved that the President and other senior executive officers shall be included in a performance-based incentive program that will reward improvements in the company's earnings, expressed as earnings per share, and which on maturity will increase the employees' share exposure. The incentive program consists of bonus payments and opportunities to buy call options.

The bonus value will be maximized per person and year at an amount corresponding to nine (9) months' salary for the President and six (6) months' salary for the other three senior executive officers. Bonus payments are not pensionable. Of the bonus, 50 percent will be paid in cash and 50 percent will be paid in the form of call options within the framework of the company's options program. The President is entitled to buy 60,000 options and other members of Executive Management are entitled to buy 40,000 options each. The term of the options is three (3) years. Bonus payments for 2006 will be made if the company's earnings per share increase by 15 percent and, for maximum payments, earnings per share must increase by 22 percent.

The year-end financial accounts for 2006 show that the company's earnings per share increased by 23 percent, which means maximum bonus payments will be made.