

# Corporate Governance

## CORPORATE GOVERNANCE REPORT

This report was prepared in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance.

If companies included in the Code in no way apply the Code, this must be clearly stated and the reasons explained. Mekonomen's possible deviations from the Code and explanations are reported in the running text.

## SHAREHOLDERS

Shares and shareholders

The share capital amounted to SEK 82,036,513 on 31 December 2011, represented by 32,814,605 shares. Each share represents one voting right at the Annual General Meeting. The total market value for the company on 31 December 2011 amounted to SEK 7.4 billion, based on the closing price of SEK 225.

The number of shareholders on 31 December 2011 was 7,735. At the same date, the ten largest shareholders controlled 61.8 per cent of the capital and voting rights and the participation of foreign owners accounted for 33.5 per cent of the capital and voting rights.

The ten largest shareholders at 31 December 2011,  
according to SIS Ownership Data Corp.

Shareholders	Number of shares	% of votes and capital
Axel Johnson AB with subsidiaries	9,516,235	29.0
Eva Fraim Pählman	2,009,176	6.1
Otto Olsen Invest AS	1,945,783	5.9
Kempen European Participations N.V.	1,595,066	4.9
Capital Group Funds	1,406,309	4.3
Ing-Marie Fraim Sefastsson	1,000,000	3.0
Swedbank Robur Funds	966,981	2.9
SHB Funds	689,425	2.1
Enter Funds	597,712	1.8
T Rowe Price Funds	550,000	1.7
TOTAL	20,276,687	61.8

## Annual General Meeting

The Annual General Meeting is Mekonomen's highest governing body, at which every shareholder is entitled to participate. The Annual General Meeting shall be held within six months of the close of the financial year. The Annual General Meeting approves the income statement and balance sheet, the appropriation of the company's profit, decides on discharge from liability, elects the Board of Directors and auditors, and approves fees, addresses other statutory matters as well as makes decisions pertaining to proposals from the Board and shareholders. The company announces the date and location of the Annual General Meeting as soon as the Board has made its decision, but not later than in connection with the third-quarter report. Information pertaining to the location and time is available on the company's website.

Shareholders that are registered in Euroclear's shareholders register on the record date and have registered participation in adequate time are entitled to participate in the Annual General Meeting and vote according to their shareholdings. All information concerning the company's meetings, such as registration, entitlement for items to be entered in the agenda in the notification, minutes, etc., are available on the company's website.

With regard to participation in the Annual General Meeting, the Board has deemed it not financially justifiable at present to allow shareholders to participate in the Annual General Meeting through any means other than physical presence. It is the company's ambition that the Annual General Meeting shall be a consummate body for shareholders, in accordance with the intentions of the Swedish Companies Act, which is why the objective is that the Board in its entirety, the representative of the Nomination Committee, the President, auditors and other management executives must always be present at the Annual General Meeting.

## NOMINATION COMMITTEE

In accordance with a resolution at the Annual General Meeting on 14 April 2011, Mekonomen has established a Nomination Committee. The Nomination Committee shall prepare and submit proposals to the Annual General Meeting on 23 May 2012 pertaining to:

- election of Chairman of the Meeting,
- number of Board members and deputy members,
- election of the Chairman of the Board and other members to the Board of Directors of the company,
- Board fees and possible remuneration for committee work, and
- appointment of and fees paid to auditors.

The Nomination Committee, prior to the 2012 Annual General Meeting, consists of Göran Ennerfelt, representing the Axel Johnson AB Group, Eva Fraim Pählman, representing own shareholdings, Johan Lannebo, representing Lannebo Funds and Åsa Nisell representing Swedbank Robur Funds. The Nomination Committee elected Göran Ennerfelt as its Chairman. Mekonomen's Chairman, Fredrik Persson, has been co-opted to the Nomination Committee.

The Nominating Committee is entitled to charge the company with such costs as recruitment consultants and other consultants required to allow the Nominating Committee to fulfil its assignments. The Nominating Committee shall, in connection with its assignments otherwise, fulfil the tasks that rest upon the Nominating Committee in accordance with the Swedish Code for Corporate Governance.

Mekonomen has not established any specific age limit for Board meetings or time limits pertaining to the length of time Board members may sit on the Board. Auditors are elected annually when the matter is submitted to the Annual General Meeting.

## SPECIFIC INFORMATION ABOUT THE BOARD'S WORK

Size and composition

According to the Articles or Association, the Board of Directors shall comprise three to seven members and not more than three deputy members. The Board of Directors shall be elected annually at the Annual General Meeting. At the Annual General Meeting on 14 April 2011, it was decided that the Board shall comprise seven ordinary members with no deputy members. All existing Board members, Fredrik Persson, Marcus Storch, Antonia Ax:son Johnson, Kenny Bräck, Anders G Carlberg, Wolff Huber and Helena Skåntorp were re-elected. Fredrik Persson was elected Chairman of the Board.

All ordinary members are independent in relation to the company and its management in accordance with the definition in the Swedish Code of Corporate Governance. Three of the Board members are independent also in relation to major shareholders. The President is not a member of the Board and neither is any other member of the Management Group.

#### Board members

It is the opinion of the Nomination Committee that the Board's structure in terms of competency, experience and background is compatible with the company's operations, development phase and circumstances.

#### Chairman of the Board

The Chairman of the Board, Fredrik Persson, is not employed by the company and does not have any assignments for the company beyond his chairmanship. It is the opinion of the Board that Fredrik Persson ensures that the Board conducts its assignments efficiently and also fulfils its duties in accordance with applicable laws and regulations.

#### The Board's working procedures

The Board is responsible for the company's organisation and management and shall also make decisions pertaining to strategic issues. During 2011, the Board held ten meetings, of which one was a statutory meeting. The minutes of the meetings were recorded by the Board's secretary, who is the company's CFO. Relevant meeting documentation was sent to all members prior to each meeting, which were then held in accordance with the approved agenda. On occasions, other senior executives have participated in the Board Meetings in a reporting capacity, as necessary. No deviating views to be recorded in the minutes were expressed at any of the meetings during the year. Matters of high significance that were discussed during the year primarily concerned the company's financial development, the launch of new concepts and major acquisitions.

#### Assignments

In accordance with the requirements of the Code, the Board's ambition was to devote particular attention to establishing overall goals for the operation and decide on strategies by which to achieve the said goals, and in part to continuously evaluate the operating management, with the aim of securing the company's governance, management and control. The Board strives to ensure that there are functioning systems for the monitoring and control of the company's financial position in relation to the established goals, that control of compliance with laws and other regulations is implemented and that the provision of external information is open, objective and relevant.

There are written instructions that regulate the distribution of assignments between the Board and the President, and for the reporting process.

The instructions are reviewed annually and are primarily:

- the rules of procedure for the Board's work,
- instructions for the President,
- attestation regulations.

The Board evaluates its work every year and it is the duty of the Chairman of the Board to ensure that this is done. The evaluation involves individual meetings between the Chairman of the Board and all Board members. The collective opinion is that the Board's work during 2011 functioned well and that the Board fulfilled the requirements of the Code pertaining to the Board's assignment.

The Annual General Meeting resolved, in accordance with the proposal from the Nomination Committee, to allocate Board fees amounting to SEK 1,700,000, of which SEK 400,000 to the Chairman of the Board and SEK 300,000 to the Deputy Chairman, with the remaining amount to be distributed equally among the other Board members.

Board of Directors	Present at Board meetings	Dependent/independent *	Board member since
Fredrik Persson, Chairman	10/10	D	August 2006
Marcus Storch, Vice Chairman	10/10	D	August 2006
Wolff Huber	9/10	I	August 2006
Kenny Bräck	9/10	I	May 2007
Anders G Carlberg	10/10	D	August 2006
Helena Skántorp	9/10	I	May 2004
Antonia Ax:son Johnson	8/10	D	August 2006

<sup>\*)</sup> According to the definition in the Swedish Code of Corporate Governance.

All Board members are independent of the company and its management.

I = Board members considered independent of major shareholders in the company.

D = Board members considered dependent of major shareholders in the company.

#### Audit Committee

The entire Board of Mekonomen assumes responsibility for ensuring that the Group has acceptable procedures for internal control and high-quality and correct financial reporting. Twice per year, in connection with preparation of the financial accounting for the third quarter and annual financial statements, the company's auditors report on how the company ensured that accounting, management and financial control functioned. Following the formal report, the President and CFO leave the Board meeting to allow Board members to discuss with auditors without the participation of company officials.

#### Remuneration Committee

The Board of Directors has a Remuneration Committee comprising Fredrik Persson as Chairman, Marcus Storch and Anders G Carlberg. The work of the Remuneration Committee is based on resolutions by the Annual General Meeting pertaining to guidelines for remuneration to senior executives. Four meetings were held during the year and all members were present at these meetings. In addition, the President of the company, Håkan Lundstedt, was present at these meetings.

#### COMPANY MANAGEMENT

##### President's assignment

The President is appointed and may be discharged by the Board and his/her work is continuously evaluated by the Board, which occurs without the presence of Company Management. Mekonomen's President and CEO, Håkan Lundstedt, is also a member of the Board of Vanna AB, Dialect AB, as well as the foundation En Frisk Generation and has no shareholdings or ownership in companies with significant business ties with Mekonomen.

#### Company management

A presentation of the company Management is found on pages 34–35 in Mekonomen's annual report for 2011.

## Remuneration to Company Management

Mekonomen's Remuneration Committee makes decisions pertaining to remuneration of the President. Håkan Lundstedt has a basic salary per month and a variable salary portion, which is based on the company's profits and can amount to a maximum of 60 per cent of the basic annual salary. Under the pension terms, payment of pension premiums is made in the amount corresponding to 29 per cent of the basic salary. Other benefits consist of a company car. The period of notice is 12 months if termination is on the part of the company and six months on the part of the employee. If termination is initiated by the company, severance pay amounting to six months' salary is paid.

Issues pertaining to remuneration to other senior executives are also prepared by the Remuneration Committee. The principle for remuneration is based on the senior executives being offered market-based remuneration. The criteria shall accordingly be based on the significance of assignments, competency requirements, experience and performance and that remuneration shall comprise the following parts:

- fixed basic salary,
- variable remuneration,
- pension benefits,
- other benefits and severance terms.

The distribution between basic salary and variable remuneration shall be in proportion to the senior executive's responsibilities and authorities. The variable remuneration for senior executives is based partly on the Group's profit and partly on individual qualitative parameters and can amount to a maximum of four months' salary. Other benefits refer primarily to company cars. Pension premiums are paid in an amount that is based on the ITP plan or a corresponding system for employees abroad.

Pensionable salary refers to the basic salary. Severance pay for termination on the part of the company may amount to one annual salary. At the 2011 Annual General Meeting, it was also resolved that company management may receive a cash bonus from the company. The bonus will be profit-based and calculated on the Group's profit for the 2011-2013 financial years. The bonus program, in its entirety, as a total expense for the company, shall amount to a maximum of SEK 24 M for the period. The criteria for the size of an individual bonus shall be determined by the Board of Directors.

The Board has not made any decisions pertaining to share or share-price based incentive programs for Company Management.

## AUDITORS

The auditors are appointed at the Annual General Meeting and are charged with reviewing the company's financial reporting and the Board's and President's management of the company. Deloitte AB, which has an organisation comprising broad and specialised competency that is well-suited to Mekonomen's operations, has been the company auditor since 1994. At the 2011 Annual General Meeting, Deloitte AB, with Authorised Public Accountant Thomas Strömberg as Auditor in Charge, was appointed the auditing firm until the 2012 Annual General Meeting. In addition to Mekonomen, Thomas Strömberg is also the auditor of Karolinska Development and Rezidor Hotel Group AB. Thomas Strömberg has no assignments in companies that are closely related to Mekonomen's major shareholders or President.

Remuneration to Deloitte, SEK M	2011	2010
Remuneration for audit assignments	6.0	5.6
Audit related services other than the audit assignment	0.0	0.1
Tax advice	0.0	0.1
Other services	0.0	0.1

## REPORTING AND AUDIT

### Reporting

The Board supervises the quality of the financial reporting through Instructions to the President. Jointly with the CFO, the President's assignment is to review and quality-assure all external financial reporting including financial statements, interim reports, annual reports and press releases with financial content, as well as presentation material in connection with meetings with the media, shareholders and financial institutions.

### Audit

The entire Board of Mekonomen assumes responsibility for ensuring that the audit, in an efficient manner, establishes that the Group has acceptable procedures for internal control and high-quality and correct financial reporting. With regard to the preparation of the Board's work, the Board estimates that quality assurance of the financial reporting, which is conducted within the framework of the company's own internal control, corresponds to current requirements. The company's auditors personally present their plans, risk assessments and controls, as well as findings from the audit at two Board meetings during the year, which additionally secures the Board's information requirement. At these meetings, the President and CFO leave after presenting their formal reports to enable Board members to conduct discussions with auditors without the participation of company officials. The Board continuously evaluates the need to elect a specific Audit Committee.

## INTERNAL CONTROL

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board of Directors is responsible for internal control. This report was prepared in accordance with the Swedish Code of Corporate Governance, and FAR's guidance to the Swedish Code of Corporate Governance. The report is limited to address internal control pertaining to financial reporting and Mekonomen has elected to only submit a description of how internal control is organised.

### Control environment

The control environment represents the basis for the internal control pertaining to financial reporting. An important part of the control environment is that decision paths, authorities and responsibilities must be clearly defined and communicated between various levels in the organisation and that the control documents are available in the form of internal policies, handbooks, guidelines and manuals. Thus, a key part of the Board's assignment is to prepare and approve a number of fundamental policies, guidelines and frameworks. These include the Board's working procedures, instructions for the President, investment policies, financial policies and the insider policy. The aim of these policies is to create a basis for sound internal control. Furthermore, the Board focuses on ensuring that the organisational structure provides distinct roles, responsibilities and processes that benefit the effective management of the operation's risks and facilitate target fulfilment. Part of the responsibility structure includes an obligation for the Board to evaluate the operation's performance and results on a monthly basis, through appropriate report packages containing income statements, balance sheets, analyses of important key ratios, comments pertaining to the business status of each operation and also quarterly forecasts for future periods. As a contribution to strengthening the internal control, Mekonomen prepared a financial handbook that provides an overall picture of existing policies, rules and regulations and procedures within the financial area. This is a living document, which will be updated continuously and adapted to changes within the Mekonomen operation. In addition to the financial handbook, there are instructions that provide guidance for the daily work in stores and the rest of the organisation, for example, pertaining to stock taking and cash-register reconciliation, etc.

### Risk assessment

Mekonomen conducts continuous surveys of the Group's risks. During these surveys, a number of items were identified in the income statement and balance sheet in which the risks of errors in the financial reporting are elevated. The company works continuously on these risks by strengthening controls. Furthermore, risks are addressed in a special forum, including questions related to start-ups and acquisitions.

**Control activities**

The Group's control structure is formed to manage risks that the Board deems significant for the internal control of the financial reporting. The aim of the appropriate control activities is to discover, prevent and correct errors and deviations in the reporting. The control activities include reconciliation of accounts, analytic follow-up, comparison between income statements and balance sheets and control stock-taking in warehouses and stores.

**Internal audit**

Mekonomen has an internal audit department, which is an independent and objective hedging and advice unit that generates value and improves the Group's operations. This is done by evaluating and proposing improvement in such areas as risk management, compliance with policies and efficiency in the internal control of financial reporting. The function works throughout the Group. The Head of the internal audit reports to the Board of Directors, the CEO and CFO and informs management in each business area and other units on the results of the audits performed.

**Information and communication**

Policies and guidelines are particularly important for accurate accounting, reporting and dissemination of information. Within Mekonomen, policies and guidelines are continuously updated pertaining to the financial process. This occurs primarily within respective Group functions aimed at the various operations through e-mails, but also in connection with quarterly control meetings in which all financial managers/controllers participate. For communication with internal and external parties, there is a communications policy that states guidelines for conducting communication. The aim of the policy is to ensure that all information obligations are complied with in a correct and complete manner.

**Follow-up**

The Board continuously evaluates the information submitted by Company Management and auditors. The CEO and CFO hold monthly reviews with individual Heads of Operations pertaining to the financial position. Group accounting also cooperates closely with the subsidiaries' controllers on matters pertaining to accounts and reporting. The follow-up and feedbacks concerning possible deviations arising in the internal controls are a key part of the internal control work since this is an efficient manner for the company to ensure that errors are corrected and that the control is further strengthened.