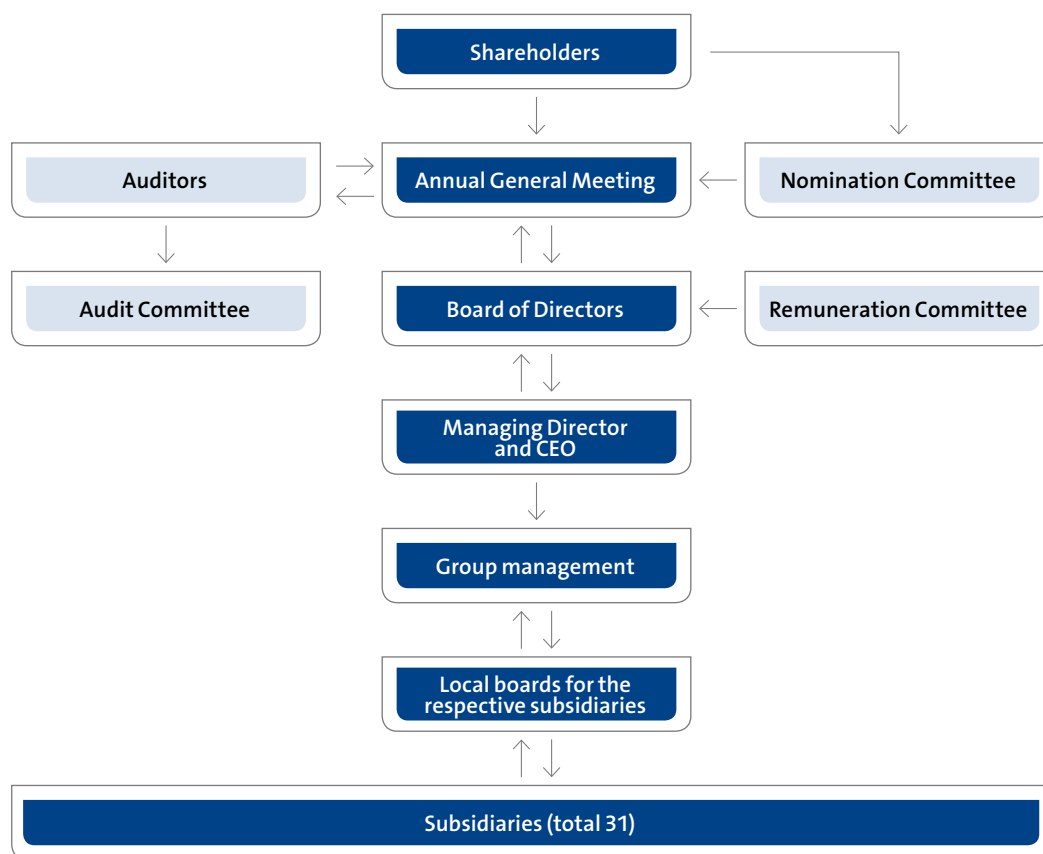


# CORPORATE GOVERNANCE

Decentralised governance and decision-making is one of Fagerhult's strengths, and permeates the entire organisation. The objective of corporate governance is to ensure that this is conducted in a clear, effective, reliable and business-oriented manner. Corporate governance is designed to support the company's long-term strategies, market presence and competitiveness. At the same time, it should help maintain confidence in Fagerhult among stakeholders, such as shareholders, customers, suppliers, capital markets, society and employees.



## KEY EXTERNAL REGULATIONS

- Swedish Companies Act
- Nasdaq OMX Stockholm's Issuer Rules
- Swedish Corporate Governance Code (the Code)
- Accounting rules and regulations

## KEY INTERNAL REGULATIONS

- Articles of Association
- Formal work plan for the Board of Directors and terms of reference for the CEO
- Guidelines for remuneration to senior management
- Various policy documents and instructions (such as the Group's Code of Conduct)

### Shareholders and general meetings of shareholders

Shareholders' rights to decide on Fagerhult's affairs are exercised at the Annual General Meeting (AGM) or, when applicable, extraordinary general meetings, which is the company's highest decision-making body. The AGM is to be held no later than six months after the end of the financial year and is usually held in April. At the AGM, the shareholders elect the company's Board of Directors and appoint external auditors, and decide on their fees. Furthermore, the AGM resolves on whether to adopt the income statements and balance sheets, to approve the appropriation of the company's profit and to discharge the Board and CEO from liability. The AGM also resolves on the composition of the Nomination Committee and its work, and makes decisions on principles for remuneration and other terms of employment for the CEO and other senior management.

The number of shareholders at year end was 3,745. The largest individual shareholder is Investment AB Latour, in which the Douglas family are the main shareholders and hold a total of 49 per cent. For more information on the ownership structure, share capital, share price development, etc., please refer to the section on the Fagerhult share on pages 42–43 and to Note 29.

### 2014 Annual General Meeting

The 2014 AGM was held on 24 April in Habo. A total of 77 shareholders were present at the meeting, representing 70.8 per cent of the votes. Minutes from the AGM can be found on Fagerhult's website. All resolutions were passed with the required majority. Below is a selection of the resolutions passed at the meeting:

- Resolution on the distribution of a dividend of SEK 7.25 per share.
- Resolution on a 3-for-1 share split.
- Eric Douglas, Catherina Fored, Björn Karlsson, Fredrik Palmstierna, Johan Hjertonsson, and Jan Svensson were re-elected to the Board of Directors. Anna Malm Bernsten had declined re-election. Cecilia Fasth was elected as a new member of the Board.
- Jan Svensson was re-elected Chairman.
- Gustaf Douglas, Jan Svensson and Björn Karlsson were re-elected to the Nomination Committee. These individuals were granted the authority to appoint one or two new members.
- The AGM resolved to introduce a performance-based share-savings plan for senior management.
- The AGM resolved to grant the Board of Directors authorisation to buy back the company's own shares, corresponding to a maximum of 10 per cent of total share capital, for the period until the date of the next AGM.

*The Nomination Committee ahead of 2015 AGM comprises:*

Member of the Nomination Committee	Representing	Participation/votes:	Member of the Nomination Committee since
Gustaf Douglas (Chairman)	Investment AB Latour	49.0 % <sup>1)</sup>	1997
Jan Svensson	Investment AB Latour	49.0 %	2008
Björn Karlsson	Svensson family	7.5 %	1997
Göran Espelund	Lannebo Fonder	6.9 %	2004

<sup>1)</sup> Holding through Investment AB Latour, where Gustaf Douglas with family and companies are the main owners.

### Nomination Committee

A Nomination Committee is formed each year at the initiative of the Chairman of the Board, and is subsequently appointed at the AGM. The Nomination Committee comprises the representatives of major shareholders in the company. Board members can also serve as members of the Nomination Committee, but may not constitute a majority. The Nomination Committee for the 2015 AGM is described in the following table. The Chairman of the Board cannot serve as Chairman of the Nomination Committee. The Committee's representatives have broad and extensive experience of Board work and work on Nomination Committees.

The work of the Nomination Committee takes place during the end of the financial year and at the start of the new financial year. Prior to an AGM at which auditors are to be appointed, the Nomination Committee collaborates with the Audit Committee, which works with the evaluation of the work of the auditors. The Nomination Committee is to observe the guidelines that apply to independent Board members under the Swedish Corporate Governance Code when making nominations to the AGM. Shareholders have the opportunity to submit written proposals to the Nomination Committee.

### External auditors

The company's auditor, elected at the AGM, examines Fagerhult's annual report and consolidated accounts, the administration of the company by the Board of Directors and the CEO, and the annual accounts of subsidiaries, and submits an audit report.

The audit is conducted in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted accounting principles in Sweden.

At the 2014 AGM, Öhrlings PricewaterhouseCoopers were re-appointed as auditors, with Bo Karlsson as the Auditor-in-Charge. Bo Karlsson's major audit engagements include SKF and Assa Abloy. He has no other engagements in companies that are associated with Fagerhult's major shareholders or CEO.

The auditor personally presented his report to the Board regarding the auditing assignment and the Group's internal controls at the Board meeting in February 2015.

Auditing of the Group's companies around the globe is coordinated by Öhrlings PricewaterhouseCoopers. All of the activities of companies with a significant scope of operations are audited by PricewaterhouseCoopers in the respective country. For a number of smaller companies, the audit is performed by other accounting firms.

## THE BOARD OF DIRECTORS

### Board members

The Board of Directors determines issues concerning the Group's strategic focus, finances, investments, acquisitions, sales, organisational matters and rules and policies. The Board of Directors is kept abreast of the company's operations through monthly reports provided by company management. The Board of Directors currently consists of seven members elected by the general meeting, as well as two Board members and two deputy members elected by the trade unions. Four (four) of the Board members represent ownership participations equivalent to 59 per cent (59) of the company's share capital and votes. The CEO is one of the members elected at the general meeting. With the exception of the trade union representatives, the CEO is also the only Board member employed by the company. Company employees participate in Board meetings in a reporting capacity. The company's Chief Financial Officer serves as the Board's secretary.

For further information concerning the Board members elected at the company's general meeting, refer to the section concerning the Board of Directors on pages 56–57 of this annual report.

### The work of the Board

The Board's work is regulated by the Swedish Companies Act, the Articles of Association and the formal work plan adopted by the Board.

Among other things, the Board's work plan contains rules stipulating the number of Board meetings to be held each year, the issues to be addressed at the meetings, and the division of duties between the Board of Directors and the CEO. The CEO's terms of reference set out the CEO's duties and obligation to report to the Board.

Normally, five Board meetings are held each year and one statutory Board meeting. Four of these meetings address quarterly reports and the year-end report. At least one of the Board meetings takes place in conjunction with a visit to, and an in-depth review of, one of the Group's companies. One Board meeting per year is assigned additional time, and at this meeting a specific focus is placed on strategic issues. The auditor of the company is present at Board meetings whenever needed, normally twice a year. Notices and supporting documents are sent to the Board one week in advance of the Board meetings. When issues are to be

decided upon, the Board usually receives supporting documents concerning these issues well in advance.

The Board appoints two different committees annually – the Audit Committee and the Remuneration Committee. The aim of these committees is to enhance and facilitate the Board's work, and to address matters related to each area.

### Board of Directors' independence

Fagerhult's Board meets the stipulation in the Code that a majority of the elected members are independent of the company and its management, and that at least two of the members are independent in relation to major shareholders (that is, ownership exceeding 10 per cent). See the table below. The Chairman of the Board, Jan Svensson, as well as Fredrik Palmstierna, are not considered independent, as they represent the company's main shareholder in their roles as CEO and Chairman of Investment AB Latour, respectively. Eric Douglas represents the Douglas family. With the exception of the Managing Director and CEO Johan Hjertonsson, no members of the Board are employed by the Group. The Nomination Committee's assessment regarding whether each proposed member meets the independence requirements is announced in connection with the Committee's proposal. The CEO owns 236,294 shares in the company, corresponding to 0.6 per cent of the shares, which is stated in the presentation of the Board and management on pages 56–59. The holding is not classified as significant and the CEO has no partnership in companies that have significant business relationships with companies in the Fagerhult Group.

### The work of the Board 2104

The Board met five times during the year, and held one statutory meeting. One member has been absent at three of the Board meetings. All members of the Board have been present at the other meetings. The company's auditor was present at one of the Board meetings. This was the Board meeting that addressed the annual accounts and, during which, the auditor submitted his findings.

Important matters dealt with during the year included, amongst other things:

- Long-term operational goals
- The strategic focus of the operations
- Business plans, financial plans and forecasts

Board of Directors elected by the AGM	Elected	Born	Fee	Number of shares/votes	Independent in relation to the owners	Independent in relation to the Company	Number of meetings participated in
Chairman, Jan Svensson	2007	1956	400,000	18,539,400 <sup>1</sup>	No	Yes	5
Vice Chairman, Eric Douglas	1993	1968	300,000	120,000	No	Yes	4
Board Member, Cecilia Fasth	2014	1973	200,000	1,000	Yes	Yes	3
Board Member, Björn Karlsson	1997	1961	200,000	2,836,575 <sup>1</sup>	Yes	Yes	4
Board Member, Catherina Fored	2013	1964	200,000	3 000	Yes	Yes	5
Board Member, Fredrik Palmstierna	1992	1946	200,000	1,005,000 <sup>1</sup>	No	Yes	5
CEO, Johan Hjertonsson	2009	1968	–	236,294	Yes	No	5
<b>Total</b>			<b>1,500,000</b>	<b>22,741,269 (60%)</b>	<b>4 (57%)</b>	<b>6 (86%)</b>	<b>5</b>

<sup>1</sup> Sum total of directly and indirectly held shares and shares representing other owners.

- Major investments
- Decisions on long-term financing
- Policies and instructions
- Review of the Group's risk management
- Interim reports and annual accounts
- Reports by the Board's committees
- Follow-up of the external audit

#### Evaluation of the work of the Board

The Board will ensure that its work is continuously evaluated through a systematic and structured process. This evaluation is initiated by the Chairman of the Board. Among other things, the process includes a questionnaire in which Board members have the opportunity to express their opinion of the Board's work and to propose ways to improve it. The results of the evaluation are disclosed to the Board, followed by discussions and decisions regarding changes in working methods.

The Board continuously evaluates the work of the CEO and Group management.

#### The Audit Committee

The main duty of the Audit Committee is to audit the Group's accounting and financial reporting, as well as to remain in continuous contact with the auditors and review their work plan and fees. Furthermore, the Committee is to assist the Nomination Committee in its choice of auditors and their fees prior to those AGMs at which the appointment of auditors takes place.

In 2014, the Audit Committee comprised the entire Board, with the exception of the CEO. Over the year, the Committee has had one meeting with the company's auditor. All Board members were present at the meeting.

#### The Remuneration Committee

The work of the Remuneration Committee is, on behalf of the Board, to prepare and negotiate issues concerning the salary and other remuneration to the CEO, and to approve the CEO's proposals for salaries and remuneration for the other members of senior management.

Its duties also include examining the fees to Board members in the event that they are engaged as consultants by the company's management. The Committee also addresses any Group-wide bonus system and option programmes.

Decisions concerning remuneration for the CEO are determined by the Board.

The Remuneration Committee consists of Jan Svensson (Chairman of the Board) and Eric Douglas (Vice Chairman of the Board). The Committee has had one meeting during the year, at which both members were present.

#### CEO and Group Management

Fagerhult's Managing Director and CEO is responsible for leading and developing operating activities pursuant to the guidelines

and instructions issued by the Board. The framework is provided by the terms of reference issued to the CEO, which are determined annually by the Board.

The CEO is assisted by Group management, consisting of the Heads of business areas and staff units. In consultation with the Chairman, the CEO compiles the necessary information and documentation which provides the basis for the Board's work and for the Board to make informed decisions. The CEO is responsible for bringing matters to the attention of the Board and for motivating proposed decisions. The CEO is responsible for and reports on an ongoing basis to the Board on the company's development. In addition, the CEO leads the work of the Group management and makes decisions in consultation with other members of management.

During the year, the Group management comprised the CEO, two managers with responsibility for the regional business areas, two managers with functional responsibility for marketing and product development, and production and logistics, the Group's CFO and the Head of Human Resources and Sustainable Development. Group management has at least five meetings per year during which it follows up operations, discusses matters affecting the Group and drafts proposals for strategic plans and budgets, which the CEO presents to the Board for decision. One longer meeting per year is held, during which the operations are planned and discussed in more detail.

#### Management of subsidiaries

Fagerhult's operations are organised into four business areas, which comprise 31 subsidiaries. The operations of the respective subsidiaries are controlled by their Boards. The Boards of the subsidiaries consist of, among others, the managing director of the sub-

#### CODE OF CONDUCT

Our global presence demands that our employees and business partners take responsibility for themselves and for each other. Therefore, we have created a regulatory framework, our Code of Conduct.

Our Code of Conduct should be followed by everyone in our Group, employees as well as the Board and management. We also communicate our Code of Conduct to our business partners, with the expectation that it is complied with.

Our Code of Conduct states, amongst other things, that we will act as a reliable and honest Group that lives up to its commitments. We believe in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

subsidiary, at least one business area manager and, in most cases, the Group's CEO. A formal work plan is established each year for each subsidiary, in which responsibilities and authorities are clearly delegated and where the work of the subsidiary's Board is set out.

Fagerhult has a decentralised structure, with a strong focus on responsibility and performance, which is combined with clear, Group-wide processes to realise synergies. The Company's senior managers and specialists meet continuously to reach a broad consensus on important issues.

Fagerhult's Code of Conduct and Fagerhult's global presence demand that our employees and business partners take responsibility for themselves and for each other. The Code clarifies Fagerhult's position on issues related to human rights, labour conditions, the environment, business ethics and communication. The Code applies to all Fagerhult employees regardless of their position. The Board and Group management have a particular responsibility to promote the application of the Code of Conduct. The Code is also communicated to all of Fagerhult's business partners with the expectation that it is complied with. Fagerhult acts as a reliable and honest Group that lives up to its commitments. Fagerhult believes in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

The Code of Conduct is available in its entirety at:  
<http://www.fagerhultgroup.com/en/sustainability>

## REMUNERATION TO THE MANAGEMENT AND BOARD

### Guidelines for remuneration

Remuneration to the CEO and other senior management consists of basic salary, variable remuneration, other benefits and pensions. The balance between basic salary and variable remuneration is to be in proportion to the employee's responsibilities and authority.

For the CEO, annual variable remuneration is capped at six months' salary. The variable salary is based on the Group's earnings per share. For other senior management, annual variable remuneration is capped at 30-40 per cent of basic salary. Variable remuneration is typically based on improvement, compared to the previous year, in terms of each individual's respective responsibility for operating profit, the Group's earnings per share and the outcome of individual activity plans. These guidelines are also proposed for the coming year.

### Long-term incentive scheme

In 2012, a long-term incentive scheme was introduced in the form of a performance-based share-savings plan for senior management. The first plan was approved by the 2012 AGM and runs from 2012 to 2015.

A second plan was approved by the 2013 General Meeting and runs from 2013 to 2016.

A third share-savings plan was approved in 2014 and runs from 2014 to 2017. The Board also proposes that the AGM resolves on a

fourth performance-based share-savings plan for the CEO and senior management for the period from 2015 to 2018.

For further information on guidelines for remuneration and the long-term incentive schemes, please refer to the material enclosed with the notice of the AGM.

For additional information, see Note 2.

### Remuneration to the Board

Fees payable to Board members are determined annually by the AGM. Board members who are also employees of the company receive no Board fees. No separate fees are payable for work on the committees other than the standard Board fee. In 2014, remuneration was paid in accordance with the table on page 52.

### Remuneration to the auditors

In 2014, remuneration was paid in accordance with Note 23 on page 82.

## INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control aims to ensure accurate and reliable financial reporting and accounting in line with applicable laws and regulations, accounting standards and other requirements for listed companies.

### Control environment

The control environment comprises the values and ethics which the Board of Directors, Audit Committee, the CEO and Group management communicate and operate under. The basis of internal control for financial reporting consists of the control environment together with the organisation, decision-making paths, authorities and responsibilities which are documented and communicated in governing documents. One example is the division of responsibilities between the Board and the CEO and instructions regarding the delegation of authority, as well as instructions applying to accounting and reporting. Important internal control instruments include Fagerhult's Code of Conduct and values. The Code includes principles governing how business is to be conducted. These values represent a long-term commitment and a shared base connected to the business concept and strategies guiding employees in daily operations. Fagerhult is characterised by a decentralised organisation driven by goal-oriented management with performance-based reward.

### Financial reporting to the Board

The CEO is responsible for ensuring that the Board receives the reports required for its ongoing assessment of the company's and the Group's financial positions. Fagerhult's Board receives monthly financial reports and the Group's financial situation is addressed at each Board meeting.

### Risk assessment

Regarding financial risk assessment, the risks are assessed as mainly relating to the potential for material misstatement in the reporting of the company's financial position and performance. To minimise these risks, governing documents have been established for accounting, procedures for annual reporting and follow-up of reported annual accounts.

A shared system for reporting annual accounts has also been implemented. Fagerhult's Board regularly assesses reporting from a risk perspective. As a support for these assessments, profit/loss items and balance-sheet items are compared with previous reports as well as budgets and forecasts. The risks identified in the financial reporting are managed through the Group's control structure.

In addition to assessing the risks in the financial reporting, the Board and management work continuously to identify and manage significant risks affecting Fagerhult's business from an operational and financial perspective. Read more about risks on page 84.

### Control activities and follow-up

Control activities involve all levels of the organisation and concern the measures selected to manage the Group's risks. To ensure completeness and accuracy in the financial reporting, instructions and guidelines are in place that have been communicated to the relevant personnel. The activities also limit risk from the identified risks. The Group's central control function analyses and monitors budget deviations, prepares forecasts, monitors significant variations between periods, and reports these to others within the organisation, thereby minimising the risk of errors in the reporting. Control activities also include follow-up and comparisons of earnings trends or significant individual items, account reconciliations and balances, and the approval of all proxy and attestation instructions, as well as accounting and valuation principles.

Monitoring of the effectiveness and compliance with these control activities takes place through programmed controls and through individually established procedures. The Group has a shared reporting system in which all reporting is carried out. Financial follow-up is carried out by Group management in conjunction with regular visits to the subsidiaries, in parallel with development of the control function.

### Information and communication

Fagerhult continuously provides information about the Group's performance and financial position to the market. The quality of external financial reporting is ensured through various activities and procedures. The CEO is responsible for the accuracy and high quality of all information provided, for example, financial press releases and presentation materials for various meetings with the media, shareholders and investors. An information policy applies for external communication that provides guidelines to the presentation of such information. The policy is intended to ensure that Fagerhult's information requirements are met in an accurate and complete manner. The most important governing documents, in the form of policies and instructions, are kept up-to-date and are communicated via the appropriate channels, mainly electronically.

Internal information and communication is about creating awareness among the Group's employees about external and internal governing instruments, including authorities and responsibilities. Fagerhult's whistle-blower policy means that each employee has the right to report suspected breaches of laws or regulations without fear of reprisal.

### Evaluation of the need for a separate audit function

The Board and management have determined that a separate internal audit function will not be established in the Fagerhult Group. The Group's Finance department continually monitors compliance with the company's governance model, reporting principles and policies. In addition, the Finance department conducts ongoing analyses of the company's reporting and financial results to gain assurance regarding the trend.

Together with the controls implemented by the Group's management and the different business areas' existing control functions, discussions with the company's external auditors concerning the audit approach, as well as the auditing firm's extensive organisation are assessed as providing a satisfactory level of assurance. This means that a separate internal audit function is not considered necessary.

### Activities in 2014

During the year, focus has been on integrating the recently acquired companies I-Valo and Arlight in the Group's internal control and on inventory valuation and inventory control linked to the shift to LED technology.