

Corporate Governance report

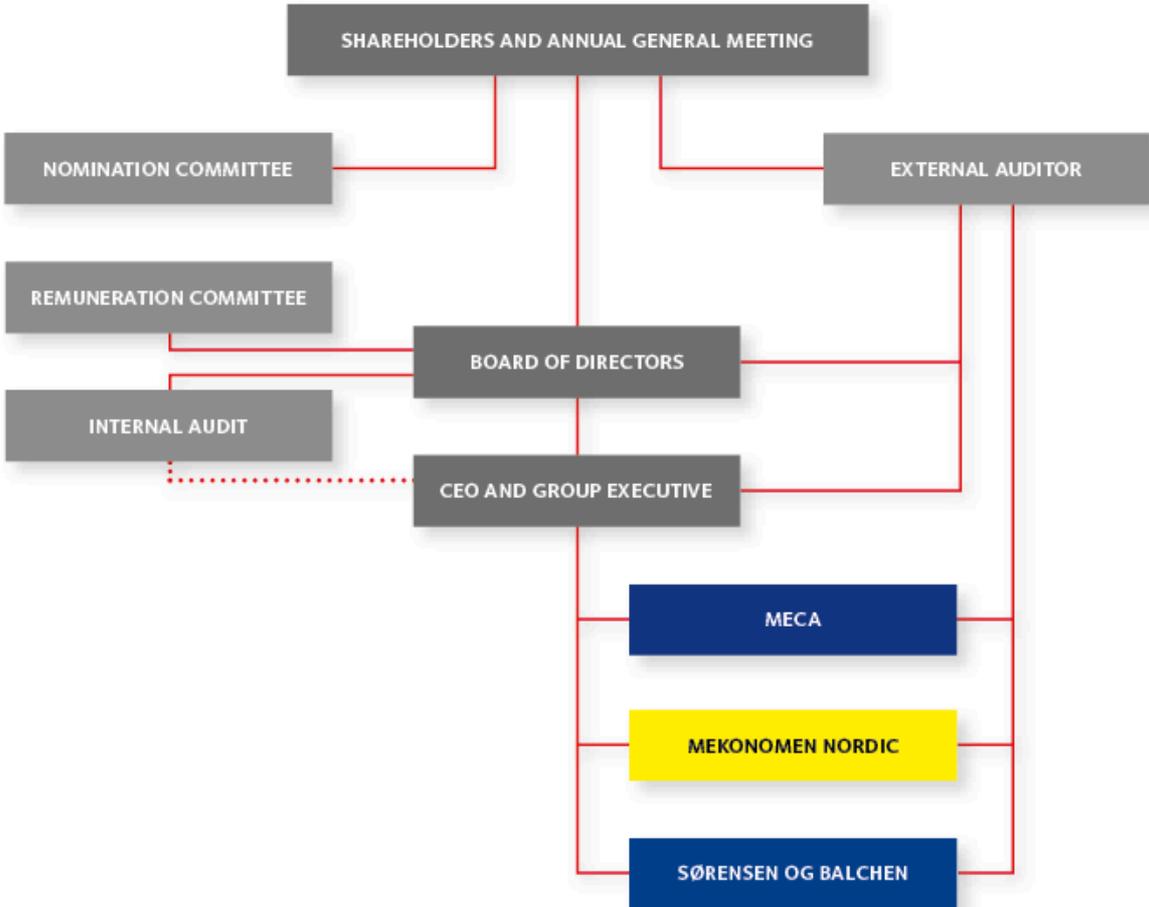
PRINCIPLES FOR CORPORATE GOVERNANCE

Mekonomen's Corporate Governance relates to how the business is managed, directed and controlled with a view to adding value for the company's shareholders and other stakeholders. Corporate Governance aims to create conditions for active and responsible corporate bodies, clarify the distribution of roles and responsibilities and ensure accurate reporting and information.

Both internal and external regulations are used as a foundation for governance of Mekonomen.

External regulations	Internal regulations
The Swedish Companies Act	The Articles of Association
The Annual Accounts Act	The Board's Rules of Procedure
Other relevant laws	The Board's instruction to the CEO
Regulations of Nasdaq OMX Stockholm AB for issuers	Policies, guidelines and instructions, The Code of Conduct and Core Values
Swedish Corporate Governance code (the Code)	

Mekonomen applies the Swedish Code for Corporate Governance, and Mekonomen has applied this without deviation during the 2013 financial year. This Corporate Governance report is part of the company's administration report. In general terms, Corporate Governance can be illustrated as follows:



SHAREHOLDERS

Mekonomen's shares have been listed since 29 May 2000 on the Nasdaq OMX Nordiska Stock Exchange in Stockholm, Mid Cap segment. The share capital amounted to SEK 89 753 718 on 31 December 2013, represented by 35 901 487 shares. The total market value for the company on 31 December 2013 amounted to SEK 7.1 billion, based on the closing price of SEK 198.00. All shares give the same entitlement to vote and equal rights to the company's profit and capital. The company's Articles of Association include no restrictions on how many votes each shareholder can cast at a General Meeting.

The number of shareholders on 31 December 2013 was 8 355 (8 138). At the same date, the ten largest shareholders controlled 56.0 (54.9) per cent of the capital and voting rights and the participation of foreign owners accounted for 33.4 (30.0) per cent of the capital and voting rights.

Shareholders which directly or indirectly represent at least one-tenth of the voting rights for all shares in Mekonomen are Axel Johnson AB and subsidiaries, whose shareholding at 31 December 2013 amounted to 26.5 (26.5) per cent. For further information on Mekonomen's shares and shareholders, see page 19.

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 making 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 is currently not financially justifiable 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, for example, Swedish Companies Act, which is why the objective is that the Board in its entirety, the representative of the Nomination Committee, the CEO, auditors and other management executives must always be present at the Annual General Meeting.

Annual General Meeting 2013

Mekonomen's 2013 Annual General Meeting took place in -Stockholm on 16 April 2013. The complete minutes of the Annual General Meeting are available on the Mekonomen website at mekonomen.com. In brief, the Annual General Meeting resolved:

- to adopt the income statement and balance sheet, the consolidated income statement and the consolidated balance sheet
- to pay to shareholders a dividend of SEK 7.0 per share
- to discharge from liability of members of the Board and the CEO
- to ensure that seven members are elected by the Annual General Meeting, with no deputy members
- to ensure that total Board fees amount to SEK 1 950 000 kronor, of which SEK 400 000 relates to fees to the Chairman of the Board and SEK 300 000 relates to the Executive Vice Chairman, and also SEK 250 000 relates to fees to each of the other Board members elected by the Annual General Meeting who are not employed by the Group, and that no further fees will be paid for committee work
- to re-elect Fredrik Persson as Chairman of the Board
- to re-elect Board members Antonia Ax:son Johnson, Kenny Bräck, Anders G Carlberg, Helena Skåntorp and Marcus Storch and elect Kenneth Bengtsson
- to re-elect the auditing firm of Deloitte AB as the company's auditor for the period ending with the 2014 Annual General Meeting
- to adopt proposals for guidelines regarding the structure of the Nomination Committee
- to adopt the Board's proposals for guidelines regarding remuneration to senior executives
- to adopt the Board's proposals concerning employees' acquisition of shares in subsidiaries
- to adopt authorisation for the Board, for the period until the next Annual General Meeting, on one or more occasions, with or without preferential rights for shareholders, to make decisions on new share issues of not more than 3 590 149 shares.

Annual General Meeting 2014

The Annual General Meeting of Mekonomen will take place at 15.00 on 8 April 2014 at Norra Latin in Stockholm.

Nomination Committee

In accordance with a resolution at the Annual General Meeting on 16 April 2013, Mekonomen has established a Nomination Committee. The company shall have a Nomination Committee comprising four members. The four biggest shareholders in the company were contacted by the Board of the company on the basis of the list of registered shareholders held by Euroclear Sweden AB as at 31 August 2013.

The Nomination Committee prior to the 2014 Annual General Meeting comprises Alexandra Mörner (the Axel Johnson AB group), Anna Ohlsson-Leijon (SEB fonder), Arne Lööw (Fjärde AP-fonden) and Leif Törnvall (Alecta). Alexandra Mörner was appointed Chairman of the Nomination Committee. Mekonomen's Chairman, Fredrik Persson, has been co-opted to the Nomination Committee. Fees will not be paid to members of the Nomination Committee.

In accordance with the Swedish Code of Corporate Governance, the Nomination Committee must have at least three members, of whom one shall be appointed Chairman. A majority of these must be independent in relation to the company and the company executive, and at least one of the members of the Nomination Committee must be independent in relation to the biggest shareholder in the company in terms of votes. Mekonomen's Nomination Committee comprises four members, all of whom are deemed to be independent in relation to the company and the company management. Mekonomen's Nomination Committee also meets the requirements for independence in general.

The work of the Nomination Committee involves submission of proposals prior to the Annual General Meeting concerning:

- the Chairman of the Annual General Meeting,
- the number of Board members and deputies,
- fees to the Board and auditors, plus any special remuneration for committee work,
- the Chairman of the Board and other Board members,
- auditors, and
- guidelines for the structure of the Nomination Committee, etc.

In connection with its work in general, the Nomination Committee shall perform the duties incumbent upon the Nomination Committee in accordance with the Swedish Code of Corporate Governance, and at the request of the Nomination Committee the company must provide human resources such as secretaries for the Nomination Committee in order to facilitate the work of the Nomination Committee. If necessary, the company must also be able to pay reasonable costs for external consultants deemed necessary by the Nomination Committee for performance of its duties.

Mekonomen has not established any specific age limit for Board members 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 of Association, the Board of Directors shall comprise three to seven members and no more than three deputy members. The company's Articles of Association include no specific provisions relating to the appointment and discharge of Board members or amendment of the Articles of Association. The Board of Directors shall be elected annually at the Annual General Meeting.

At the Annual General Meeting on 16 April 2013, it was decided that the Board shall comprise seven ordinary members with no deputy members. The Annual General Meeting resolved to re-elect Fredrik Persson as Chairman of the Board, to re-elect Board members Antonia Ax:son Johnson, Kenny Bräck, Anders G Carlberg, Helena Skåntorp and Marcus Storch, and to elect Kenneth Bengtsson as a Board member. Wolff Huber had declined to be re-elected prior to the 2013 Annual General Meeting.

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 CEO is not a member of the Board, nor is any other member of the Group executive. See also page 30.

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

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. The Board held eight meetings in 2013, 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. At the meetings for the year, the Board addressed the fixed items on the agenda of the particular Board meeting, such as business status, financial reporting and investments. Other issues discussed by the Board during the year included strategy, market development and corporate acquisitions. In addition, selected Board meetings discussed issues relating to annual accounts, interim reports and budget.

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 CEO, 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 CEO and 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. In 2013, the Chairman implemented a written survey involving all Board members. The collective opinion is that the Board's work during 2013 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 1 950 000, of which SEK 400 000 to the Chairman of the Board and SEK 300 000 to the Executive Vice Chairman, and SEK 250 000 to each of the other Board members.

Audit Committee

The entire Board of Mekonomen assumes responsibility for ensuring that the Group has acceptable procedures for internal control and high quality, 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 to the Board their opinion on how the company's accounting, management and financial control functioned. Following the formal report, the CEO 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. Two meetings were held during the year and all members were present at these meetings. In addition, the CEO of the company, Håkan Lundstedt, was present at one of these meetings.

COMPANY MANAGEMENT

CEO's assignment

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

Company management

A detailed presentation of the company management can be found on page 31.

Remuneration to senior executives

It is extremely important to ensure that there is a clear link between remuneration and the Group's values and financial targets in both the short and the long term. Guidelines established by the 2013 Annual General Meeting for remuneration to senior executives mean that the company must offer its senior executives market-based remuneration which makes it possible for the Group to recruit and retain the right senior executives, and that the criteria for establishing remuneration must be based on the significance of assignments and employees' competence, experience and performance.

Remuneration shall comprise the following parts:

- fixed basic salary,
- performance-related pay,
- pension benefits,
- other benefits and severance terms

The guidelines include the Group executive, which is currently made up of five people including the CEO, plus other senior executives. The Board's proposal for guidelines tallies with the previous years' remuneration principles and is based on agreements already entered into between the company and senior executives. Remuneration must be established by the Board's Remuneration Committee. However, remuneration to the CEO must be established by the Board as a whole.

Mekonomen's Board will make decisions on remuneration to the CEO, Håkan Lundstedt. He has a basic fixed cash salary which is monthly and a short-term variable cash salary portion, which is based on the company's profits and individual, qualitative parameters and can amount to a maximum of 60 per cent of the basic annual salary. Pension terms mean that pension premiums will be paid in an amount equivalent 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 initiated by the company and six months if initiated by the CEO. If employment is terminated by the company, severance pay amounts to maximum of six months' basic salary.

The distribution between basic salary and variable remuneration shall be in proportion to the senior executive's responsibilities and authorities. The short-term performance-related pay for other senior executives is based partly on the Group's profit and partly on individual qualitative parameters and can amount to a maximum of 33 percentage points of the basic 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. The period of notice is 12 months if termination is initiated by the company and six months if the employee tenders his/her resignation to the company. 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 the CEO and other senior executives may receive a cash bonus from the company. The bonus shall be calculated on the consolidated profit for the 2011–2013 financial years. The bonus programme, 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. This programme will not fall due and so no cost has been posted for this.

The Board has not made any decisions pertaining to share or share price-based incentive programmes 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 CEO'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 2013 Annual General Meeting, Deloitte AB, with Authorised Public Accountant Thomas Strömberg as Auditor in Charge, was appointed as the auditing firm until the 2014 Annual General Meeting. In addition to Mekonomen, Thomas Strömberg is also the auditor of Investor, Karolinska Development, Tele 2 and Rezidor Hotel Group AB.

Remuneration to Deloitte, SEK m	2013	2012
Remuneration for audit assignments	7	7
Audit-related services other than audit assignments	0	0
Tax advice	0	0
Other services	0	0

REPORTING AND AUDIT

Reporting

The Board supervises the quality of the financial reporting through instructions to the CEO. Jointly with the CFO, the CEO's job is to review and assure the quality of 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 the Group having acceptable procedures for internal control and high quality, 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 Board examines the auditors' planning and a risk assessment prior to the audit, and the auditors present their results from the audit on two occasions during the year. At at least one of these meetings, the CEO and CFO leave the Board meeting after presenting their formal reports to enable Board members to conduct discussions with auditors without the participation of company executives. The Board continuously evaluates the need to elect a specific Audit Committee.

INTERNAL CONTROL

Mekonomen's internal control process is designed to deal with and minimise the risk of errors in financial reporting. 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 addressing internal control pertaining to financial reporting.

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 CEO, 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 stocktaking 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 startups and acquisitions.

Control activities

Risks of errors in the financial reporting are reduced through good internal control of the financial reporting, with specific focus on significant areas defined by the Board of Directors. The aim of the appropriate control activities is to detect, 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 stocktaking in warehouses and stores.

Internal audit

Mekonomen has an internal audit function, 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 emails, 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 feedback 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.

ADDITIONAL INFORMATION

The company website at mekonomen.com includes:

- Articles of Association
- Code of Conduct
- Information from previous Annual General Meetings, from 2006 onwards
- Information on the Nomination Committee
- Information on principles for remuneration to senior executives
- The Board's evaluation of guidelines for remuneration of programmes for performance-related pay
- Corporate Governance reports from 2006 onwards
- Information prior to the 2014 Annual General Meeting.