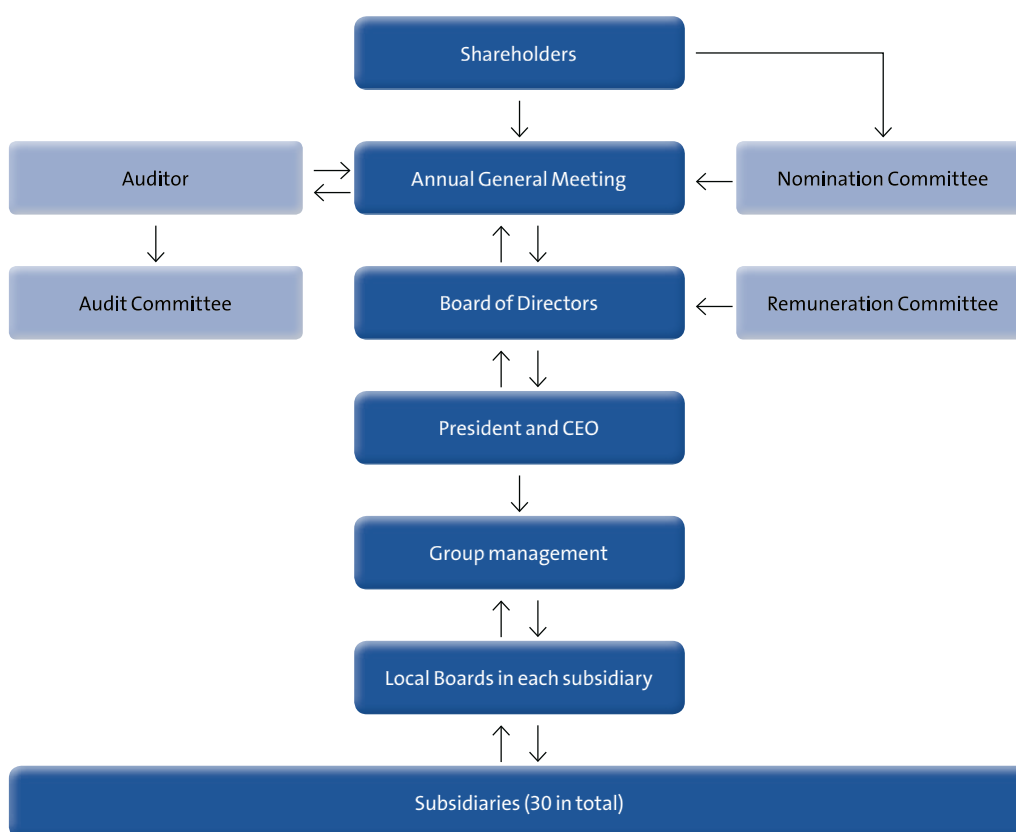


Corporate Governance Report

Decentralised governance and decision-making is one of Fagerhult’s strengths, and permeates the entire organisation. The objective of the Company’s corporate governance is to ensure that this takes place 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 Fagerhult’s confidence among stakeholders such as shareholders, customers, suppliers, capital markets, society and employees.



- MAJOR EXTERNAL REGULATIONS**
- Swedish Companies Act
 - NASDAQ OMX Stockholm’s regulations
 - Swedish Code of Corporate Governance (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 ANNUAL GENERAL MEETING

The shareholders' rights to decide on Fagerhult's affairs are exercised at the Annual General Meeting, or if appropriate, the Extraordinary General Meeting, which is the highest decision-making body.

The Annual General Meeting shall be held no later than six months after the end of the financial year and is usually held in April. At the Annual General Meeting, the shareholders elect the Company's Board of Directors and appoint external auditors, and decide on the remuneration due to the Board and auditors. Furthermore, the Annual General Meeting decides whether to adopt the income statement and balance sheet, approve the appropriation of profits and discharge the Board and CEO from liability. The Annual General Meeting also decides 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 amounted to 3,292. The largest individual shareholders are Investment AB Latour and SÄKI AB, in which the Douglas family are the main shareholders and whose total ownership participation is 49 percent. For more information on the ownership structure, capital, share price development, etc., please refer to the section on the Fagerhult share on pages 46–47 and to Note 29.

ANNUAL GENERAL MEETING 2013

The 2013 Annual General Meeting was held on 18 April in Habo. A total of 65 shareholders were present at the meeting, representing 72.1 percent of the votes. Minutes from the Annual General Meeting can be found on Fagerhult's website. All resolutions were made with the required majority. Below is a selection of the resolutions passed at the meeting:

- Resolution on the distribution of a dividend of SEK 6.50 per share.
- Anna Malm Bernsten, Eric Douglas, Björn Karlsson, Fredrik Palmstierna, Johan Hjertonsso, and Jan Svensson were re-elected to the Board of Directors. Eva Nygren withdrew herself from availability for re-election. Catherina Fored was elected to the Board as a new member.
- 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 Annual General Meeting resolved to introduce a performance-based share savings plan for senior management.

- The Annual General Meeting granted the Board of Directors authorisation to repurchase the Company's own shares, corresponding to a maximum of 10 percent of total share capital, for the period until the date of the next Annual General Meeting.

NOMINATION PROCEDURE

A Nomination Committee is formed each year at the initiative of the Chairman of the Board of Directors, and is subsequently appointed at the Annual General Meeting. The Committee shall comprise representatives of major shareholders in the Company. Board members can also serve as members of the Committee, but may not constitute a majority. The Chairman of the Board of Directors cannot serve as Chairman of the Nomination Committee. The Nomination Committee for the 2014 Annual General Meeting can be found in the table below.

The representatives of the Nomination Committee have broad and extensive experience of Board work and work in Nomination Committees.

The work of the Nomination Committee is undertaken during the end of the financial year and at the start of the new financial year. Prior to an Annual General Meeting at which auditors are to be appointed, the Nomination Committee cooperates with the Audit Committee, which works with the evaluation of the audit of the Company. The Nomination Committee is to consider the guidelines applying to independent members of the Board under the Swedish Code of Corporate Governance. Shareholders have the opportunity to provide written proposals to the committee.

EXTERNAL AUDITORS

The Company's auditor, elected at the Annual General Meeting, reviews Fagerhult's annual report and consolidated accounts, the management 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 Annual General Meeting 2013, PricewaterhouseCoopers were re-appointed as auditors, with Bo Karlsson as the responsible auditor. Bo Karlsson's major auditing 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 presented a personal report to the Board regarding the auditing engagement and the internal controls of the Group at a Board meeting held in February 2014.

Member of the Nomination Committee	Represents	Participation/votes:	Member of the Nomination Committee since
Gustaf Douglas (Chair),	Investment AB Latour	49.0 % ¹	1997
Jan Svensson	Investment AB Latour	49.0 % ²	2008
Björn Karlsson	Svensson family	7.5%	1997
Göran Espelund	Lannebo Fonder	7.0%	2004

¹ Holding through Investment AB Latour, where Gustaf Douglas with family and company are the main owners.

² Holding including SÄKI AB.

The review of the Group's companies around the globe is coordinated by PricewaterhouseCoopers. All companies of significant scope are audited by PricewaterhouseCoopers in the respective company's country of domicile. For a handful of smaller companies, the audit is performed by another accounting firm.

THE BOARD OF DIRECTORS BOARD MEMBERS

The Board of Directors resolves on matters 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 Annual General Meeting, as well as two Board members and two deputy members chosen by the trade unions. Four (4) of the Board members represent ownership participations equivalent to 59 (59) percent of the Company's share capital and votes. The CEO is one of the members elected at the Annual 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 CFO serves as the Board's secretary.

For further information concerning the Board members elected at the Company's Annual General Meeting, refer to the section concerning the Board of Directors on pages 60–61 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.

The Board's work plan contains, amongst other things, rules stipulating the number of Board meetings which are to be held each year, the issues to be addressed in the meetings, and the division of duties between the Board of Directors and the CEO. These duties and the obligation of the CEO to report to the Board are regulated in the terms of reference to the CEO.

Normally, five Board meetings are held each year and one Board meeting is held following the election of the Board. 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 (i.e. ownership exceeding 10 %). See the table below. The Chairman of the Board, Jan Svensson, as well as Fredrik Palmstierna, are not considered independent, as they represent the main shareholder in their roles as CEO and Chairman of Investment AB Latour. Eric Douglas represents the Douglas family. With the exception of the President 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 proposal. The CEO owns 77,815 shares in the Company, equivalent to an ownership participation of 0.6%, which is stated in the presentation of the Board and management on page 60–63. The holding is not classified as significant and the CEO has no ownership in companies that have significant business relationships with companies in the Fagerhult Group.

Board of Directors elected by the Annual General Meeting	Elected	Born	Remuneration	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	6,179,800*	No	Yes	5
Deputy Chairman, Eric Douglas	1993	1968	300,000	40,700*	No	Yes	4
Board Member, Anna Malm Bernstein	2003	1961	200,000	3,000	Yes	Yes	4
Board Member, Björn Karlsson	1997	1961	200,000	945,525*	Yes	Yes	5
Board Member, Catherina Fored	2013	1964	200,000	1,000	Yes	Yes	3
Board Member, Fredrik Palmstierna	1992	1946	200,000	285,770*	No	Yes	5
CEO, Johan Hjertonsson	2009	1968	–	77,815	Yes	No	5
Total			1,500,000	7,503,375 (59%)	4 (57 %)	6 (86 %)	5

* Sum total of directly and indirectly held Company shares and shares representing other owners.

THE WORK OF THE BOARD 2013

The Board has met five times during the year, as well as holding one meeting following the election of the Board. One member has been absent at two 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 during which the annual accounts were presented, and during which the auditor submitted his opinion.

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
- Major investments
- Evaluations and decisions regarding the acquisitions of I-Valo and Arlight
- Long-term financing
- Policies and instructions
- Interim reports and annual accounts
- Reports by the Board's committees
- Follow-up of 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. The process includes, amongst other things, a questionnaire in which the members of the Board have the opportunity to express their opinion of the Board's work and to provide proposals concerning the manner in which this can be improved. 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 records and financial reporting, as well as to remain in continuous contact with the auditors and review their work plan and their remuneration. The Committee shall, furthermore, assist the Nomination Committee in its choice of auditors and their remuneration prior to the Annual General Meeting at which the appointment of auditors takes place.

In 2013, 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. Five of the six Board members were present at this 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 be provided to the CEO, and to approve the CEO's proposal for salaries for the other members of senior management.

Its duties also include supervising the remuneration to be provided to the Board members in the event that they are engaged by the Company's Board as consultants. The Committee also deals with any Group-wide bonus system and option programmes.

Decisions concerning remuneration for the CEO are resolved upon by the Board.

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

CEO AND GROUP MANAGEMENT

Fagerhult's President and CEO is responsible for leading and developing the operations following the guidelines and instructions issued by the Board. The framework of such guidelines and instructions is the terms of reference issued to the CEO, which are determined annually by the Board.

The CEO is assisted in this work by Group management, consisting of the Heads of business areas and staff units. The CEO, in consultation with the Chairman, 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 reports to the Board on the Company's development. The CEO leads Group management and makes decisions in consultation with other members of management.

The Group management has consisted during the year of the CEO, two regional business managers, two managers with functional responsibility within marketing and product development, production and logistics, the Group's CFO and the Director of Human Resources and Sustainable Development. Group management has at least six meetings per year during which it follows up the operations, discusses matters affecting the Group and drafts proposals for strategic plans and budgets, which the CEO presents to the Board to ratify. 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. These include 30 subsidiaries. The operations of the respective subsidiaries are controlled by their Boards. The Boards of the subsidiaries consist of, among others, the Manager of the subsidiary, at least one business area manager and, in most cases, the Group's President. A formal work plan is established annually for each subsidiary, in which responsibilities and authorities are clearly delegated and where the work of the subsidiary's Board is governed.

Fagerhult has a decentralised structure, with a strong focus on responsibility and performance, which combines with clear, Group-wide processes to achieve synergies. The Company's approximately 100 senior managers and specialists meet annually for discussion, in order to reach a broad consensus on important issues.

CODE OF CONDUCT

Fagerhult's 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 included 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 shall 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 economic performance, concern for the environment, and social commitment

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

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 covers all Fagerhult employees regardless of position. The Board and 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 shall act as a reliable and honest company 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 economic performance, concern for the environment, and social commitment.

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 pension. The distribution of payment between basic salary and variable remuneration is to be in proportion to the senior manager's responsibilities and authority.

For the CEO, the annual variable remuneration is capped at six months' salary. The variable remuneration is based on the Group's earnings per share. For other senior management, the annual variable remuneration is capped at 30–40% 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.

neration 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. It is intended that three annual share savings plans should be implemented. The first plan was approved by the Annual General Meeting 2012 and runs between 2012–2015. The second plan was decided by the General Meeting 2013 and runs between 2013–2016.

The Board also proposes that the Annual General Meeting resolves on a third performance-based share savings plan for the CEO and senior management for the period 2014–2017.

For further information on guidelines for remuneration and the long-term incentive scheme, please refer to material enclosed with the notice for the Annual General Meeting. For additional information, see Note 2.

REMUNERATION TO THE BOARD

Fees payable to Board members are determined annually by the Annual General Meeting. Board members who are also employees of the Company receive no Board fees. No specific fees are payable for work in the committees other than the standard Board fee. In 2013, remuneration was paid in accordance with Note 2 on page 75.

REMUNERATION TO THE AUDITOR

In 2013, remuneration was paid in accordance with Note 23 on page 86.

INTERNAL CONTROL AND FINANCIAL REPORTING

The internal control is intended to ensure accurate and reliable financial reporting and accounting in accordance with applicable laws and regulations, accounting standards and other requirements for listed companies.

CONTROL ENVIRONMENT

The control environment is comprised of 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, 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 the accounting and reporting. Important internal control instruments include Fagerhult's Code of Conduct and values. The Code includes principles for the manner in which business is to be conducted. These val-

ues represent a long-term commitment and a common base connected to the business concept and strategies guiding employees in their daily activities. Fagerhult is characterised by a decentralised organisation based on goal-oriented management, where good performances are rewarded.

FINANCIAL REPORTING TO THE BOARD

The CEO is responsible for ensuring that the Board receives the reports required for its assessment of the Company's and the Group's financial position. Fagerhult's Board receives monthly financial reports and the Group's financial situation is discussed at each Board meeting.

RISK ASSESSMENT

Regarding financial risk assessment, the risks mainly relate to the potential for material misstatements in the reporting of the Company's financial position and results. To minimise these risks, governing documents have been established concerning accounting, procedures for annual reporting and follow-up of reported annual accounts. Fagerhult's Board regularly assesses reporting from a risk perspective. As a support for these assessments, income statement items and balance sheet items are compared with previous reports, budgets and forecasts. The risks identified in the financial reporting are managed by 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 the risks on page 89.

CONTROL ACTIVITIES AND FOLLOW-UP

Control activities involve all levels of the organisation and concern the measures selected to manage the Group's risks. In order to ensure completeness and accuracy in the financial reporting, there are instructions and guidelines that have been communicated to the relevant personnel. The activities also limit the identified risks. The Group's central Control Function analyses and monitors deviations from budgets, prepares forecasts, monitors significant variations between periods, and reports these to others within the organisation, which minimises 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.

The monitoring of the effectiveness and implementation of these control activities takes place through programmed controls and through individually established procedures. The Group has a common reporting system in which all reporting is undertaken. Financial monitoring is carried out by senior management in conjunction with regular visits to the subsidiaries, and the activities of the Control Function are consistently developed.

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 routines. The CEO is responsible for all of the information provided. For example, he is to ensure that financial press releases and presentation materials for various meetings with the media, shareholders and investors are accurate and of good quality. There is an information policy applying to external communication providing guidelines as to the manner in which such information is to be presented. 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 every employee has the opportunity 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. The Finance department conducts on-going analyses of the Company's reporting and financial results in order to gain assurance regarding the Company's development.

Discussions with the Company's external auditors concerning the audit approach, as well as the auditing firm's extensive organisation are, when taken together with the controls implemented by the Group's management and the existing control functions in the different business areas, considered to provide a satisfactory level of assurance. This means that a separate internal audit function is not considered necessary.

ACTIVITIES DURING 2013

During the year, the focus was on inventory valuation and liquidity management.