

## CORPORATE GOVERNANCE

Fagerhult has applied the Swedish Code for Corporate Governance since 1 July 2008, in accordance with the listing requirements of NASDAQ OMX Nordic Exchange.

### SHAREHOLDERS FAGERHULT'S OWNERS

The Company's share has been listed on NASDAQ OMX, Nordic Exchange in Stockholm, Mid Cap list, since May 1997.

By the end of 2011, AB Fagerhult (publ) had approximately 3,389 shareholders. The largest individual owners are Investment AB Latour and SÄKI AB, of which the Douglas family is the majority owner. Together with their own holdings, the Douglas family directly, or indirectly, control 49.0 (49.2) percent of the share capital and votes in the Company. The eight largest owners represent 76.5 (72.9) percent of the share capital and votes. Foreign owners' shares amounted to 12.4 (3.4) percent. For more information regarding the major shareholders in the Company, price trends, etc., refer to the Fagerhult Share and Owner Structure, pages 48-49.

### ARTICLES OF ASSOCIATION

AB Fagerhult's (publ) Articles of Association stipulate, amongst other things, that the Company's operations are to be comprised of the production and sale of lighting fixtures, owning and managing property and undertaking related business activities.

The Board of Directors is to comprise of a minimum of three, and a maximum of ten, Board members, with a maximum of four deputy Board members.

There are no specific provisions in the Articles of Association for the appointment or dismissal of Board Members.

In addition, the trade unions have the right to appoint two Board members and two deputy Board members to the Board of Directors. The Board of Directors' registered offices are to be located in the Municipality of Habo, in the County of Jönköping.

The audit is to be executed by one or two auditors, with or without deputy auditors, or by an authorised public accounting firm.

### ANNUAL GENERAL MEETING

The Annual General Meeting shall be held no later than six months after the end of the financial year. The Annual General Meeting may be held in Fagerhult, Habo or Jönköping. All shareholders who, prior to the Annual General Meeting, are registered in the shareholders' register, and who have notified the Company of their wish to participate, may do so and may vote in accordance with their total shareholdings.

At the Annual General Meeting, questions concerning dividends, the Annual Report, the appointment of Board members and – in applicable cases – auditors, remuneration

to the Board of Directors and the auditors, and other matters relevant to the Annual General Meeting, will be discussed.

### ANNUAL GENERAL MEETING 2011

The 2011 Annual General Meeting was held on 28 April in Habo. A total of 62 shareholders were present at the meeting representing 68.3 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 meeting's resolutions:

- Resolution on the distribution of a dividend of SEK 3.50 per share.
- Anna Malm Bernsten, Eric Douglas, Björn Karlsson, Eva Nygren, Fredrik Palmstierna, Johan Hjertonsson, and Jan Svensson were re-elected to the Board of Directors. 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 granted the Board of Directors authorisation to repurchase the Company's own shares, corresponding to a maximum of 10 percent of total share capital, prior to the date of the next Annual General Meeting.

### THE BOARD OF DIRECTORS

The Board of Directors determines issues concerning the Group's strategic alignment, finances, investments, acquisitions, sales, organisational questions and rules and policies. The Board of Directors is regularly informed of the Company's operations through monthly reports provided by the Company management.

### 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 of 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 2012's Annual General Meeting is comprised of Gustaf Douglas (Chairman), Jan Svensson, Björn Karlsson and Göran Espelund, Lannebo Fonder.

The work of the Nomination Committee takes place at 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 elected, the Nomination Committee shall

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work together with the Audit Committee, which works with the evaluation of the audit in the Company. The Nomination Committee shall observe the regulations applied to independent members of the Board, according to the Swedish Code of Corporate Governance.

### BOARD MEMBERS

The Board of Directors currently consists of seven members elected by the Annual General Meeting of shareholders, as well as two Board members and two supplementary members chosen by the trade unions. Four (4) of the Board members represent holdings equivalent to 59 (60) 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. Officials in the Company participate in Board meetings to present reports. 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, pages 50-51, in this Annual Report.

### BOARD OF DIRECTORS' INDEPENDENCE

According to the Code's definition, the majority of Fagerhult's Board members are independent, see page 61. Note that the Chairman of the Board, Jan Svensson, and Fredrik Palmstierna, are not considered independent as they represent the Company's main owners in their roles as Managing Director and Chairman for Investment AB Latour, respectively. Eric Douglas represents the Douglas family. With the exception of the CEO and Group CEO, Johan Hjertonsson, the Board's members are not employed in the Group. The Nomination Committee's assessment as regards whether any proposed Board member meets independence requirements is reported in conjunction with the Nomination Committee's proposal. The CEO has no significant shareholdings or ownership in companies having significant business connections with the companies within the Fagerhult Group.

### THE WORK OF THE BOARD

The Board's work is regulated by the Swedish Companies Act, the Articles of Association and the 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, six 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. Additional time is assigned to one Board meeting per year and at this meeting a specific focus is placed on strategic issues. The auditor of the Company is present at Board meetings at least 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 Compensation Committee. The aim of these committees is to enhance and facilitate the Board's work, and to address matters related to each area.

### THE WORK OF THE BOARD 2011

The Board has met five times during the year, as well as holding one meeting following the election of the Board. One to two members of the Board have 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 during which the annual accounts were presented, and during which the auditor submitted his opinion. Important issues dealt with this year were, amongst others:

- The overall and long-term aims of the Company
- The strategic focus of the operations
- Business plans, financial plans and forecasts
- Major investments and acquisitions/disposals of operations
- The Group's organisation
- Capital and financing issues
- Policies and instructions
- Interim reports and annual financial statements
- 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 the plan 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.

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### THE AUDIT COMMITTEE

The main task 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 their compensation. The Committee shall, furthermore, assist the Nomination Committee in its choice of auditors and compensation prior to the Annual General Meeting at which the election of auditors takes place.

The Audit Committee is comprised of the entire Board, except for the CEO. Over the year, the Committee has had one meeting with the Company's auditor. At the meeting, all but one Board member were present.

### THE COMPENSATION COMMITTEE

The work of the Compensation Committee, on behalf of the Board, is to prepare and negotiate issues concerning the salary and other compensation to be provided to the CEO, and to approve the CEO's proposal for salaries for the other members of Group Management. Its tasks also include supervising the compensation 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 programs.

Decisions concerning compensation for the CEO and other leading officers in Group Management are resolved upon by the Board. The Committee has had one meeting over the past year, at which all Board members were present.

The Compensation Committee consists of Jan Svensson (Chairman of the Board), Eric Douglas (Deputy Chairman of the Board) and Eva Nygren.

### COMPENSATION TO THE BOARD

Compensation to the members of the Board is determined annually at the Annual General Meeting. No compensa-

tion is provided to those members of the Board employed by the Company. No specific compensation is provided for work performed in the committees, apart from the ordinary Board fees.

At the Annual General Meeting on 28 April 2011, total fees for the members of the Board were determined at SEK 1,500,000 (1,200,000). The Chairman of the Board is paid SEK 400,000, the Deputy Chairman of the Board, SEK 300,000 and other members of the Board, SEK 200,000 each

### AUDITORS

At the Annual general meeting of shareholders in 2008, Öhrlings PricewaterhouseCoopers was elected auditor, with Bo Karlsson as Auditor-in-Charge. Bo Karlsson is in charge of larger audit assignments, such as Investment AB Latour, Assa Abloy and Lundin Petroleum. At present, he has no assignments affiliated to any major owner of Fagerhult or to the CEO.

At the Board meeting in February 2012, the auditor presented a personal report to the Board regarding the audit assignment and also regarding internal control of the Group.

The auditing of the Group's worldwide companies is coordinated by Öhrlings PricewaterhouseCoopers. All of the activities of companies with a significant scope of operations are audited by PricewaterhouseCoopers in the country in question. For a number of smaller companies, the operations are audited by other accounting firms.

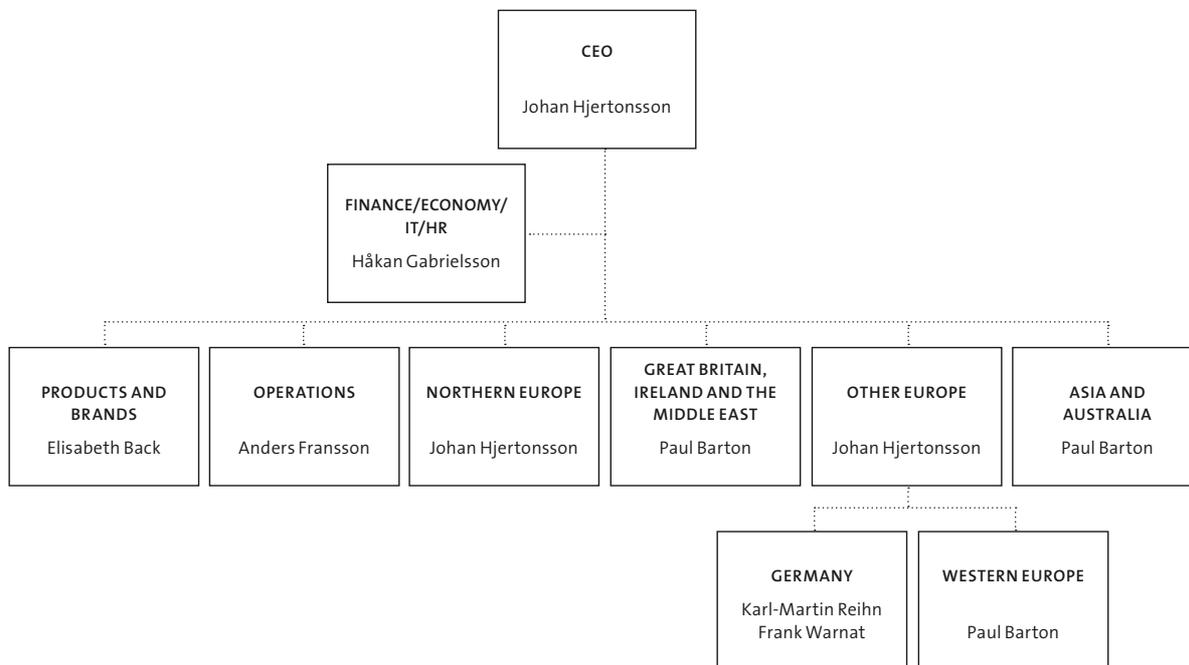
### THE GROUP'S OPERATIONAL GOVERNANCE 2011 MANAGEMENT GROUP

Internationalisation, a clear division of responsibility for results, resource optimisation and growth platforms are guidelines for the composition of the Group's Management Group. Group Management consists – apart from the CEO – of two managers in charge of the different Business Areas with re-

Members of the Board elected by the annual general meeting of shareholders	Elected	Born	Remuneration	Number of shares/votes	Independent in relation to the owners	Independent in relation to the company	Participated in number of meetings
Chairman, Jan Svensson	2007	1956	400,000	6,179,800 <sup>1)</sup>	No	Yes	5
Deputy Chairman, Eric Douglas	1993	1968	300,000	40,000 <sup>1)</sup>	No	Yes	4
Board Member, Anna Malm Bernsten	2003	1961	200,000	3,000	Yes	Yes	4
Board Member, Björn Karlsson	1997	1961	200,000	945,525 <sup>1)</sup>	Yes	Yes	4
Board Member, Eva Nygren	2004	1955	200,000	–	Yes	Yes	4
Board Member, Fredrik Palmstierna	1992	1946	200,000	285,770 <sup>1)</sup>	No	Yes	5
CEO, Johan Hjertonsson	2009	1968	–	25,000	Yes	No	5
<b>Total</b>			<b>1,500,000</b>	<b>7,479,095 (59%)</b>	<b>4 (57 %)</b>	<b>6 (86 %)</b>	<b>5</b>

\* Sum of own holdings, directly or indirectly, and as representative for shareholders.

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sponsibility for results, regions, and coordination tasks, two individuals with the functional responsibility for market work, product development and production, and one manager in charge of the staff functions finance/economy/IT/HR. Group Management holds a minimum of six meetings per year to review results, the Company's situation and strategic and operational issues. One meeting per year is somewhat longer in duration. The Company's activities are planned and discussed in greater detail at this meeting.

In conjunction with a new strategy for the Fagerhult Group, it was determined that the operational management structure should be adjusted accordingly. Fagerhult has chosen to divide its operations into four business areas based on geographical regions and other activities:

**Northern Europe.** The business area comprises our units and companies in the Nordic and Baltic countries and Russia. In addition, there is also the factory in China with manufacturing and purchasing. In Sweden, development, production and sales are conducted, whereas operations in other markets besides China refer only to sales.

**Great Britain, Ireland and the Middle East.** The business area comprises our companies in England and Ireland, as well as operations in the Middle East. The dominant unit is Whitecroft Lighting, which carries out the development, manufacturing and sale of lighting systems and this also includes the

company, Designplan Ltd, which was acquired during the year. Other units are engaged in sales operations.

**Other Europe.** The business area includes operations in Germany, Holland, France, Spain, Austria and Poland. The dominant operations, the newly acquired company in Germany, LTS Licht & Leuchten GmbH, engages in the development, manufacture and sale of lighting systems.

**Asia and Australia.** The business area is mainly comprised of operations in Australia, where, in addition to sales, manufacturing also takes place. Australia is the market which developed the most positively of the markets in the region in which Fagerhult is operative. Operations in China refer to sales on the Chinese market.

**Other.** Mainly the Parent Company, as well as certain Group-wide functions.

### PRODUCT AREAS

Fagerhult's operational subsidiaries engage in operations within three product areas – Indoor Lighting, Retail Lighting and Outdoor Lighting.

The specification of the operations per product area is based on the differences in the sales procedures and the manner in which customer requirements are fulfilled, such as the application environment, product concept and service level.

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### MANAGEMENT OF SUBSIDIARIES

The operations in the subsidiaries are managed by the respective Boards of Directors. The Boards of the subsidiaries are comprised of the Manager responsible for the subsidiary, at least one Business Area Manager and, in most cases, the CEO of the Parent Company.

A formal work plan is established each year for each subsidiary, in which responsibilities, authorisations and work procedures for the Board are regulated.

### STAFF FUNCTIONS

In the Parent Company AB Fagerhult (publ), there is a Group management and staff function for the co-ordination of financing, marketing, production and IT.

### INTERNAL CONTROL AND FINANCIAL REPORTING

The basis for the internal control as regards financial reporting is related to the control environment for the organisation, the decision making processes, the authorisations and responsibilities that have been documented and communicated in the governance documents. The allocation of work between the Board and CEO, in addition to the instructions for authorisation rights, as well as accounting and reporting instructions, are examples of such internal control activities.

The risks that have been identified as regards financial reporting are managed through the control structure of the Group.

With the aim of ensuring completeness and correctness in the financial reporting, governance documentation regarding these areas has been provided to the employees concerned. The effectiveness of these governing guidelines, and compliance therewith, is followed-up, both through programmed controls and through routines implemented by the personnel. The Group has a common reporting system in which all reporting takes place. Regular visits by the Group's management are paid to the subsidiaries, during which financial follow-ups are undertaken, and control activities are also further developed.

The Board and Company management have determined not to establish a specific control function in the form of an internal audit in the Fagerhult Group. The Group Finance Department continually monitors compliance with the Company's governance model, reporting principles and policies. The Finance Department conducts ongoing analyzes of the

Company's reporting and financial results in order to ensure continued development.

Discussions with the Company's external auditors regarding the focus of the audit and the accounting firm's comprehensive organisation, together with the controls carried out by Group management and the existing control functions in the different Business Areas, are considered to provide an acceptable level of assurance. This implies that no separate internal audit is considered necessary.

The Board receives monthly financial reports and the Group's financial situation is addressed at each Board meeting.

### FINANCIAL INFORMATION

Fagerhult continuously informs the market concerning the Group's development and financial position.

### INTERIM REPORTS

An interim report is produced after each completed quarter. The report issued after year-end is designated the year-end report. These reports are submitted within two months of the end of the period in question.

### ANNUAL REPORT

The annual report, together with a description of the Company's operations and a comprehensive account of the Company's activities during the past year, is delivered at the end of March each year.

### PRESS RELEASES

Press releases are submitted providing information regarding significant business events, such as the acquisition and disposal of companies, major orders, significant changes and similar events, in conjunction with the event in question taking place.

### PRESENTATIONS AND ANALYST MEETINGS

The Company's management remains in continuous contact with analysts and shareholders. Such contact is primarily carried out through smaller meetings with individual shareholders or analysts, during which the Company's operations are presented.