

# CORPORATE GOVERNANCE REPORT

ITAB Shop Concept AB (publ) is a Swedish registered limited liability company. ITAB's comprehensive ambition is to create long-term value for its shareholders and other stakeholders. The foundation for governance of the Group comprises Corporate Governance, Swedish laws and regulations such as the Companies Act and the Listing Agreement with NASDAQ OMX Nordic Exchange Stockholm (the stock exchange) as well as rules and recommendations such as the Swedish Code of Corporate Governance (the Code). The provisions of the Code apply to ITAB as of July 2008.

The Corporate Governance Report describes ITAB's corporate governance, management and administration as well as internal controls regarding financial reporting. The Code is built on the principle "comply or explain", which means that a company may deviate from individual rules, but must explain the deviation.

## ANNUAL GENERAL MEETING

The Annual General Meeting is the company's highest decision-making body and a forum for shareholders to exercise influence. The Annual General Meeting convenes once a year in order to decide on whether to adopt the income statement and balance sheet, on the discharge of liability for members of the Board and the CEO, and on the appropriation of profits or losses. The meeting also elects the Board and, when so is required, the auditors. All shareholders registered in the shareholders' register and who have given notice of attendance may participate in the Meeting and vote according to the number of shares owned. Shareholders who are unable to attend in person may exercise their rights by proxy.

## ANNUAL GENERAL MEETING 2011

ITAB's 2011 Annual General Meeting was held Thursday 5 May. Attending the Meeting were 35 shareholders representing 85 per cent of the votes and 61 per cent of the total number of shares. ITAB's Board of Directors, management and the auditors were present at the Meeting. The following decisions were taken:

- Dividends to the shareholders of SEK 1.25 per share, for a total of SEK 17.9 million.

- Anna Benjamin, Thord Johansson, Johan Rapp, Per Rodert, Stig-Olof Simonson and Lottie Svedenstedt were re-elected as members of the Board.
- Anders Moberg was elected for the first time.
- Thord Johansson was elected Chairman of the Board.
- Anders Rudgård (chairman), Johan Storm and Johan Rapp were elected to the Nomination Committee.
- Fees to the Board and auditors, guidelines for remuneration to senior executives and the composition of the Nomination Committee for the 2012 AGM.
- Authorisation to the Board to decide on a directed new share issue.
- Authorisation to the Board to decide on the purchase and transfer of company-owned shares.

## ANNUAL GENERAL MEETING 2012

ITAB's 2012 Annual General Meeting will be held on Wednesday 9 May at 3 pm in the company's offices at Instrumentvägen 2 in Jönköping, Sweden.

## NOMINATION COMMITTEE

The Nomination Committee is the Meeting's body for proposing the AGM's decisions regarding appointment issues that provides conditions for well-informed decision making in these issues. At the 2011 AGM, a Nomination Committee was appointed comprising Anders Rudgård as Chairman, Johan Rapp and Johan Storm. The Nomination Committee's task for the 2012 AGM is to propose candidates for chairman of the board and board members, for the post of meeting chairman and auditors, as well as fees and other remuneration for the board and audit. The Nomination Committee has evaluated the work of the Board and prior to the AGM, convened once with all members present, and had several other contacts.

## BOARD OF DIRECTORS

The tasks of the Board of Directors are to manage the company's affairs. ITAB's Board of Directors consists of seven members. The AGM-elected Board includes members who represent ITAB's major shareholders as well as independents. The CEO and other Group officials participate at Board meetings, either to present reports or in

an administrative capacity. In addition to current laws and recommendations, ITAB's Board work is governed by the Board's rules of procedure stipulated once a year. The rules of procedure include rules for the division of responsibilities between the Board and the CEO, financial reporting and investments. In 2011, the Board convened for a total of seven board meetings, six of which were ordinary board meetings. In addition to operational information, predetermined reports and resolution items are addressed at every regular meeting in accordance with the Board's rules of procedure. The Board also takes decisions in issues of a general nature, such as the company's strategy, structural and organisational issues, policies and guidelines, as well as major investments.

One of the company's auditors participates in at least one of the Board's meetings every year. At this time, the auditor presents observations made when auditing the company's accounts, procedures and internal audits.

## REMUNERATION COMMITTEE

The Board has a Remuneration Committee tasked with

- preparing the Board's decisions in issues regarding remuneration principles, remunerations and other terms of employment for corporate management,
- monitor and evaluate ongoing and during the year concluded schemes for variable remuneration to corporate management, and
- monitor and evaluate the application of guidelines for remuneration to senior executives decided by the annual general meeting and current remuneration structures and remuneration levels in the company.

The Committee is comprised of Board members Lottie Svedenstedt (Chair), Thord Johansson and Stig-Olof Simonsson, with CEO Ulf Rostedt as additional member.

## AUDIT COMMITTEE

The tasks of the audit committee entail examining the financial policy, reviewing the company's financial reporting and internal reporting and control systems, following up risks and evaluating the external audit. In 2011, the Audit Committee comprised Board members Anna Benjamin (Chair), Thord Johansson and Per Rodert.

## CORPORATE MANAGEMENT

The Chief Executive Officer is appointed by the Board to be responsible for the company's day-to-day management in line with the Board's guidelines and instructions. Group management comprises CEO Ulf Rostedt, Deputy CEO Mikael Gustavsson and CFO Magnus Olsson.

## AUDITORS

The auditors are appointed by the shareholders at the AGM. The auditors examine the company's annual accounts, consolidated accounts and accounting records as well as the administration of the Board of Directors and CEO. The company's auditors are Stefan Engdahl and Håkan Sundberg, both of Ernst & Young AB. The appointment is valid until and including the 2013 AGM. Alongside his duties for ITAB Shop Concept AB, Stefan Engdahl has auditing assignments for XANO Industri AB, Hexpol AB, Kobe AB, and Liljedahl Group AB. Håkan Sundberg has duties for EAB AB and Gislaved Gummi AB.

## PRINCIPLES FOR REMUNERATION TO SENIOR EXECUTIVES, INCENTIVE SCHEMES, ETC.

The Board proposes the AGM should decide on procedures for determining salary and other remuneration to the CEO and other members of executive management. The procedures decided at the 2011 AGM stipulate that the terms should be market rate. In addition to a basic salary, members of executive management may receive variable remuneration that is limited to a maximum three-month severance pay and result-based against stipulated targets. Senior executives are to have market-rate, premium-based pension terms and conditions. In the event the CEO is given notice from the company, an 18-month severance pay will be paid. The Board has the right to deviate from the guidelines should mitigating circumstances so require.

At the start of 2011, the Group had two outstanding incentive schemes. The first scheme is performance-based and involves some fifty senior executives and key employees. The scheme will run from October 2008, with the option to subscribe during the period September 2011 to March 2012 at a price of SEK 97 per share. On 8 February 2012, the Board decided to extend a repurchase offer in which the company offered to buy back warrants from warrant holders at a price based on the share's closing price on 9 February 2012.

The share's closing price on 9 February was SEK 114 and the price of the warrant was calculated at SEK 17. Twenty-one employees holding 213,000 warrants accepted this offer, which means the repurchase amount was about SEK 3.6 million. After the repurchase, the remaining warrants total 20,500 ITAB TO 1 (2088/2012). The purpose of the repurchase offer was to facilitate for holders to recover the value of the warrants. The second scheme was extended to all employees within the ITAB Group. 118 employees

opted to participate in the scheme that runs from 2010 with the option to subscribe for shares in November 2012, which deviates slightly from the Code rule according to which the time from the start of the agreement to the time that one share may be acquired shall not be less than three years. The reason for this is that the period chosen is deemed to be the most motivating to create a greater shared interest between the executives involved and the company's shareholders. There are 467,250 warrants and one warrant gives the right to subscribe for one share at a price of SEK 92.50.

## INTERNAL CONTROLS FOR FINANCIAL REPORTING

According to the Company's Act and the Swedish Code of Corporate Governance, the Board is responsible for internal controls aimed at protecting the company's assets and thereby the investments of its owners.

## FINANCIAL REPORTING

All units submit monthly reports concerning economic outcomes. The reporting is consolidated and constitutes the basis for interim reports and operative follow up. Operative follow-up follows an established structure in which orders received, invoicing, liquidity, earnings, capital tied-up and other for the Group important key ratio are compiled and constitute the basis for analysis and measures from management and controllers at various levels. Other important and Group-wide parts of the internal control include business plans and the annual forecast process. For communication with external parties, the Group has an information policy intended to ensure that all information obligations are complied with, correctly and in full.

## CONTROL ENVIRONMENT

The Audit Committee's primary task is to monitor the accounting and reporting processes and to ensure the quality of these reports and processes. The responsibility for maintaining an effective control environment, day-to-day risk management and internal controls in terms of financial reporting has been delegated to the CEO. Executives at various levels of the company are in turn responsible within their respective areas. Responsibility and authorisation is defined in the instructions to the CEO, instructions for approval lists, handbooks and other policies, routines and codes. The Board determines the Group's important policies concerning communication, credit, financing and risk management. Group management determines other policies and instructions, and Group functions issues guidelines and oversee the application of the company's regulatory framework. The Group's accounting and reporting rules are stipulated in the economy handbook available to all accounting staff. Together with laws and other external regulatory frameworks, the organisational structure and

internal regulatory frameworks is the control environment.

## RISK ASSESSMENT

ITAB makes regular risk analyses in which the risks for error in the financial reporting of significant income statement and balance sheet items are examined. Also operational risks are mapped.

## CONTROL ACTIVITIES

The purpose of control activities is to discover, prevent and correct errors and deviations. Policies and guidelines are particularly important for accurate accounting, reporting and information dissemination and define also which control activities should be conducted. Within ITAB, policies and guidelines are regularly updated, both in writing and at meetings. Control activities include approval routines, reconciliation of accounts, analytical follow-up and control of IT systems.

## FOLLOW UP

Corporate management and controllers regularly follow-up economic and financial reporting, as well as key business events. At each Board meeting, economic performance is monitored against forecast and it is examined whether investments follow plan. The Audit Committee regularly evaluates the internal control, the code of corporate governance and significant accounting issues. ITAB has as yet not found reason to establish a separate internal audit function. Internal control activities are conducted within the framework of the rest of the operations and conducted primarily with central resources in an internal audit programme that includes all Group companies according to pre-determined plan. It is the company's assessment that this largely corresponds to the work completed in other companies by an internal audit function. Parts of the internal control are regularly examined by the auditors. The issue of a separate internal audit function will be retested in 2012.

*Thord Johansson, Chairman of the Board*  
*Anna Benjamin*  
*Anders Moberg*  
*Johan Rapp*  
*Per Rodert*  
*Stig-Olof Simonsson*  
*Lottie Svedenstedt*  
*Ulf Rostedt, CEO*

## COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES, 2011

Name	Commissions	Remuneration Committee	Audit Committee	Independent in relation to the company and corporate management	Independent in relation to larger shareholders	Participation in Board meetings	Participation in Remuneration Committee	Participation in Audit Committee	Board fee including committee remuneration (SEK)
Thord Johansson	Chairman	Board member	Board member	No <sup>1)</sup>	No <sup>2)</sup>	7 (7)	2 (2)	2 (2)	150,000
Anna Benjamin	Board member	-	Chairman	Yes	Yes	7 (7)	-	2 (2)	160,000
Anders Moberg	Board member	-	-	Yes	Yes	6(6)	-	-	90,000
Johan Rapp	Board member	-	-	Yes	No <sup>2)</sup>	7 (7)	-	-	90,000
Per Rodert	Board member	-	Board member	Yes	Yes	7 (7)	-	2 (2)	120,000
Stig-Olof Simonsson	Board member	Board member	-	Yes	Yes	6 (7)	2 (2)	-	120,000
Lottie Svedenstedt	Board member	Chairman	-	Yes	Yes	7 (7)	2 (2)	-	160,000
Ulf Rostedt	President	-	-	No	Yes	7 (7) <sup>3)</sup>	2 (2) <sup>3)</sup>	-	-
									<b>800,000</b>

<sup>1)</sup> Thord Johansson is employed by the company.

<sup>2)</sup> Thord Johansson and Johan Rapp each control, via their own holdings and holdings through companies, more than ten per cent of the shares and votes in ITAB, which according to the Code is not to be considered as independent in relation to larger shareholders.

<sup>3)</sup> Ulf Rostedt has participated as deputy at Board meetings and the Remuneration Committee's meetings.

More information about the Board and corporate management is provided on page 72.

## PROPOSAL FOR THE APPROPRIATION OF PROFITS, ETC.

**PARENT COMPANY**

The following amount is at the disposal of the Annual General Meeting: (SEK thousands)

Share premium reserve	65,083
Profit brought forward	232,564
Profit for the year	5,871
<b>TOTAL</b>	<b>303,518</b>

The Board of Directors and CEO propose that these funds be distributed as follows: (SEK thousands)

to be paid as dividends to shareholders SEK 1.50 per share (14,285,952 shares) <sup>1)</sup>	21,429
To be carried forward to a new account <sup>1)</sup>	282,089
<b>TOTAL</b>	<b>303,518</b>

<sup>1)</sup> The above proposed allocation of profits is based on the number of registered shares at the turn of the year, 2011. In the case of full conversion and subscription for outstanding warrants (TO 1) before the 2012 AGM, a maximum of SEK 25,460 thousands is paid as dividends and SEK 278,058 thousands is carried forward to a new account.

**The Board's statement to the proposed dividends**

After the proposed dividends, the equity/assets ratio is secure since the company's and Group's business activities continue to be run profitably. The Board feels the company's and Group's liquidity can be maintained at a secure level.

It is the Board's standpoint that the proposed dividends will not prevent the Parent Company or other Group companies from fulfilling their obligations in the short and long term, nor from making any necessary investments. The Board of Directors considers the proposed dividend justifiable in terms of the requirements set out in the Swedish Companies Act, Chapter 17 §3 sections 2-3 (prudence concept).