

## CORPORATE GOVERNANCE REPORT 2008

**This report has not been audited by Indutrade's external auditors and is not part of the formal Annual Report. Indutrade adheres to the Swedish Code of Corporate Governance ("the Code") since 1 July 2006. Indutrade did not make any departures from the Code during the 2008 financial year.**

### DELEGATION OF RESPONSIBILITIES

Responsibility for the management and control of the Group is delegated among the shareholders (via general meetings), the Board, its elected committees and the CEO in accordance with the Swedish Companies Act, other laws and regulations, applicable rules for listed companies, the Company's Articles of Association and the Board's internal governance tools.

### SHAREHOLDERS

Indutrade, which was previously a wholly owned subsidiary of AB Industrivärden, was listed on the Stockholm Stock Exchange on 5 October 2005. At year-end 2008 Indutrade had 4,577 shareholders. The ten largest shareholders controlled 77% of the share capital, of which Industrivärden's share was 36.9 percentage points. Swedish legal entities, including institutions such as insurance companies and mutual funds, owned 83% of the share capital and votes at year-end. Foreign investors owned 9% of the share capital and votes.

### ARTICLES OF ASSOCIATION

Indutrade's Articles of Association stipulate that Indutrade is a public company, whose business is to "pursue trade in connection with the import and export of machines, raw materials and finished and semi-manufactured products as well as industrial necessities, including production, preferably within the plastics, mechanical and chemical industries, and activities compatible therewith." In votes at general meetings of shareholders, there is no limitation on the number of votes for represented shares.

The Board shall consist of a minimum of three and a maximum of eight directors, who are elected each year at the Annual General Meeting. Notices of Annual General Meetings shall be issued not earlier than six weeks and not later than four weeks before the meeting. Notices of an extraordinary general meeting that does not concern an amendment to the Articles of Association, shall be issued not earlier than six weeks and not later than two weeks before the meeting. Notice shall be made through advertisements in the Official Swedish Gazette (Post- och Inrikes Tidningar) and in Dagens Nyheter.

## GENERAL SHAREHOLDERS' MEETINGS

General shareholders' meetings are Indutrade's highest governing body. At the Annual General Meeting (AGM), which is held within six months after the end of each financial year, the income statement and balance sheet are adopted, the dividend is set, the Board and auditors (where applicable) are elected, their fees are determined, other items of legally ordained business are conducted, and decisions are made on proposals submitted by the Board and shareholders.

All shareholders who are registered in the shareholder register on a specified record date and who have notified the Company in due time of their intention to participate at the general meeting are entitled to attend the meeting and vote for the total number of shares they have. Shareholders can be represented by proxy. More information about the 2009 Annual General Meeting is provided on page 72.

The notice of the Annual General Meeting scheduled for 4 May 2009 is expected to be published in the Official Swedish Gazette, Dagens Nyheter, and on Indutrade's website on 27 March 2009. The notice will provide a detailed proposed agenda including proposals for the dividend, the election of directors, directors' fees (broken down by the Chairman and other directors), auditors' fees, and proposed guidelines on compensation of the Company's senior executives.

## 2008 ANNUAL GENERAL MEETING

At the Annual General Meeting on 24 April 2008, attorney Klaes Edhall presided as chairman.

At the meeting, the annual report and audit report were presented. In connection with this, Chairman of the Board Bengt Kjell provided information on the work of the Board and reported on the principles of compensation of the executive management and on the work of the Audit and Remuneration Committees. In addition, CEO Johnny Alvarsson gave an address on Indutrade's operations in 2007. The auditors presented relevant parts of their audit report and consolidated audit report for 2007.

The 2008 AGM made the following resolutions:

- to set the dividend at SEK 5.25 per share;
- to elect as directors Bengt Kjell, Gerald Engström, Eva Färnstrand, Ulf Lundahl, Michael Bertorp, Owe Andersson, Johnny Alvarsson and Mats Jansson (new election);
- to elect Bengt Kjell as Chairman of the Board;
- in accordance with the Nomination Committee's recommendation, that the Nomination Committee shall consist of representatives of four of the largest shareholders as well as the Chairman of the Board until the composition of the next year's nomination committee has been publicly announced;
- that the Nomination Committee's composition shall be based on ownership information as per 31 August 2008 and shall be publicly announced not later than six months prior to the Annual General Meeting;

- in accordance with the Board's recommendation, that Indutrade shall apply compensation levels for senior executives which shall normally consist of a fixed and variable portion, shall be in line with the going rate in the market, and shall be commensurate with the executives' level of competence, responsibility and performance. The non-monetary benefits and pension benefits for members of Company management shall correspond to what is considered to be reasonable in relation to common practice in the markets in which the respective executives work;
- in accordance with the Board's proposal, to authorise the Board to decide on the new issue of a maximum of 4,000,000 shares in the Company with stipulations on issues in kind or set-off.

#### MEMBERS OF THE BOARD OF DIRECTORS

Indutrade's board of directors, which is elected by the Annual General Meeting, consists of eight members, including the CEO. Indutrade has not set any specific age limit for directors, nor any term limit for how long a director may serve on the Board.

At the 2008 Annual General Meeting, Mats Jansson was elected as a director on the Board to succeed departing director Curt Källströmer. The other directors were re-elected.

The Chairman of the Board, Bengt Kjell, is an Executive Vice President of Industrivärden. Eva Färnstrand is a former Site Manager at Södra Cell Mönsterås. Gerald Engström is President and CEO of Systemair. Michael Bertorp is a former Executive Vice President of Svenska Cellulosa Aktiebolaget. Owe Andersson is a former CEO of Mekonomen. Ulf Lundahl is an Executive Vice President of LE Lundbergföretagen. Mats Jansson is President and CEO of SAS Group. Johnny Alvarsson is President and CEO of Indutrade.

A presentation of the current assignments of the members of the Board can be found on page 70.

Other executives participate at board meetings to present reports when necessary.

All of the directors, except for Johnny Alvarsson, are independent in relation to Indutrade. Johnny Alvarsson, Eva Färnstrand, Mats Jansson, Michael Bertorp, Gerald Engström and Owe Andersson are independent in relation to Indutrade's major shareholders. Only one director, Johnny Alvarsson, has an operational role in the Company.

## THE WORK OF THE BOARD OF DIRECTORS

Each year, the Board adopts a formal work plan that governs the Board's work and its internal delegation of duties including the committees, decision-making procedures within the Board, meeting procedure and duties of the Chairman. The Board has also issued instructions for the CEO and instructions on financial reporting to the Board. In addition, the Board has adopted a number of policies, including a finance policy and a policy for social responsibility and environmental work.

The Board is responsible for the Company's organisation and for the administration of its affairs. This entails ensuring that the organisation is suited for its purpose and designed in such a way so as to ensure satisfactory control of its accounts, treasury management and financial conditions in general. In addition, the Board is responsible for ensuring that the Company has satisfactory internal control and continually evaluates the effectiveness of the Company's internal control systems. The Board is also responsible for developing and following up the Company's strategies by drawing up plans and setting objectives. The Board maintains constant oversight of the CEO's and operative management's work.

In accordance with the current work plan, the Board has seven regular meetings each year, including the statutory meeting after the Annual General Meeting, and on any other occasions when the situation demands.

In 2008 the Board had a total of nine meetings including the statutory meeting.

The Board conducted its work in 2008 in accordance with the work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance and acquisitions. All Board decisions were unanimous.

The directors were in attendance at all board meetings, with the exception of Gerald Engström and Mats Jansson, who were not present at three meetings.

## THE CHAIRMAN'S ROLE

The Chairman organises and leads the work of the Board to ensure that this is carried out in compliance with the Swedish Companies Act, other laws and directives, applicable rules for listed companies (including the Code), and the Board's own internal governance tools. The Chairman monitors business activities by maintaining regular contact with the CEO and ensuring that the other directors are provided with satisfactory information and decision-making documentation. The Chairman is also responsible for making sure that an annual evaluation is conducted of the Board's work and that the results of this evaluation are presented to the Nomination Committee. The Chairman represents the Company in ownership matters.

#### REMUNERATION COMMITTEE

The Board has appointed a remuneration committee consisting of the Chairman, Bengt Kjell, and one other director, Ulf Lundahl. The Remuneration Committee draws up "the Board's proposed principles for compensation and other terms of employment for Company management". This proposal is discussed by the Board and submitted to the AGM for approval.

In accordance with an AGM resolution, the committee conducts preparatory work for decisions to be made by the Board on the CEO's compensation and terms of employment, and decides on matters pertaining to the compensation and terms of employment for other senior executives, and informs the Board about decisions made.

The Remuneration Committee met on three occasions during the year.

#### AUDIT COMMITTEE

The Board has appointed an audit committee, consisting of the entire board excluding the CEO. Michael Bertorp served as chairman of the Audit Committee.

The Audit Committee has an oversight role with respect to the Company's risk management, governance and control, and financial reporting. The committee maintains regular contact with the Company's auditors to ensure that the Company's internal and external accounting satisfies requirements made on market-listed companies and to discuss the scope and focus of auditing work. The Audit Committee evaluates completed audit activities and informs the Company's nomination committee about the results of its evaluation and assists the Nomination Committee on drawing up recommendations for auditors and fees for their auditing work. The Audit Committee had two meetings in 2008, at which all members were present, with the exception of Mats Jansson, who was not present on one occasion, and Gerald Engström, who was not present on any occasion.

On two occasions in 2008 the committee performed reviews and received reports from the Company's external auditors. The auditors' reports did not give rise to any special action by the Audit Committee.

#### NOMINATION COMMITTEE

The AGM on 24 April 2008 resolved that the Nomination Committee shall consist of representatives of four of the largest shareholders as well as the Chairman of the Board, who shall also summon the first meeting of the Nomination Committee. The member representing the largest shareholder shall be appointed as committee chair. The composition of the Nomination Committee ahead of the 2009 Annual General Meeting was to be based on ownership information as per 31 August 2008 and was to be publicly announced not later than six months prior to the Annual General Meeting. The composition of the Nomination Committee ahead of the 2009 Annual General Meeting was published on 17 September 2008.

Ahead of the 2009 Annual General Meeting, the Nomination Committee has the following members:

- Carl-Olof By, Industrivärden (committee chair)
- Claes Boustedt, L E Lundbergföretagen
- Håkan Sandberg, Handelsbanken Pension Foundation and Handelsbanken Pension Fund
- Lars Öhrstedt, AFA Insurance
- Bengt Kjell, Chairman of the Board, Indutrade

The Nomination Committee had four meetings, at which it was presented the evaluation of the Board's work during the past year and discussed the Board's composition.

The Nomination Committee is tasked with drawing up proposals to be presented to the AGM for decisions regarding a person to serve as AGM chairman, the Chairman of the Board and other directors, directors' fees and, where applicable, election of auditor and the principles for the composition of the Nomination Committee.

Based on the results of the Board's evaluation and the current directors' availability for re-election – among other things – the Nomination Committee makes an assessment of whether the current board currently meets the requirements that will be made for the Board in view of the Company's situation and future orientation, or if the composition of competencies and experience needs to be changed.

Ahead of the 2009 AGM, the Nomination Committee proposes the re-election of Bengt Kjell, Eva Färnstrand, Michael Bertorp, Owe Andersson, Ulf Lundahl, Gerald Engström and Johnny Alvarsson. Mats Andersson has declined re-election. The committee has proposed the re-election of Bengt Kjell as Chairman of the Board. The Nomination Committee's proposal entails that the Board will be reduced by one member, and during the coming mandate period it will consist of seven members. A more detailed presentation of the members of the Board is provided on page 70 of the Annual Report. The Nomination Committee also does preparatory work regarding the appointment of auditors. Öhrlings PricewaterhouseCoopers AB was appointed by the 2006 Annual General Meeting to serve as auditor through the 2010 Annual General Meeting.

#### OPERATING ACTIVITIES

The CEO is responsible for the administration of Indutrade's day-to-day affairs, which are managed by the Company's management group. The CEO's decision-making authority regarding investments and financing matters is governed by rules set by the Board.

#### PRESIDENT AND CEO

Indutrade's President and CEO, Johnny Alvarsson, has been employed by Indutrade since 2004. He was CEO of Elektronikgruppen from 2001 to 2004, CEO of Zeteco AB from 1988 to 2000, and held various management positions at Ericsson from 1975 to 1987. Johnny Alvarsson owns 25,000 shares of Indutrade stock and 100,000 stock options issued by Industrivärden.

## EXECUTIVE COMPENSATION

The principles for compensation and other terms of employment for senior executives of Indutrade were approved by the 2008 AGM. For more information on compensation, including fixed and variable compensation, see the Directors' Report or Note 6 in the Annual Report.

## AUDITORS

At the 2006 Annual General Meeting, the chartered accounting firm Öhrlings PricewaterhouseCoopers AB was appointed as auditor for a term extending through the 2010 Annual General Meeting.

The auditors maintain regular contact with the Chairman of the Board, the Audit Committee and Company management.

The chief auditor was Authorised Public Accountant Lennart Danielsson.

In 2008, Öhrlings PricewaterhouseCoopers had a total of 100 audit assignments for companies listed on Nasdaq OMX Stockholm, of which two were conducted in co-operation with another accounting firm. Auditors' fees are described in Note 13 on page 56 of the Annual Report.

## INTERNAL CONTROL OF FINANCIAL REPORTING

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for internal control. This report has been prepared in accordance with the Code and describes how the internal control of the financial reporting is organised.

### **Control environment**

Effective board work is a prerequisite for good internal control. The Board's work plan and the instructions for the CEO and the Board's committees ensure a clear delegation of roles and responsibilities to the benefit of effective management of operational risks.

In addition, the Board has adopted a number of fundamental guidelines and policies designed to create the conditions for a good control environment. These include economic and financial reporting, a finance policy and an investment policy, among others. One of the aims of these policies is to create a platform for good internal control. These policies are followed up and revised as needed.

Company management continually draws up instructions on the Group's financial reporting which, together with the policies adopted by the Board, such as the finance policy and the policy for social responsibility and environmental work, are included in the Group's financial manual.

The Group has a joint reporting system that serves as the platform for the Group's monthly consolidation work.

### **Risk assessment**

The Company has implemented a structured process for assessing risks that could affect financial reporting. This is an annually recurring process and is evaluated by the Audit Committee and reported to and discussed with the Board.

Through this risk assessment it has been ascertained that the Group's structure, consisting of a multitude of stand-alone companies that are independent from each other in various sectors and of varying size, offers a considerable spread of risk. The risk assessment also covered the Group's income statement and balance sheet items to identify areas in which the aggregate risk for error would be greatest. The areas identified consisted primarily of revenue recognition, trade accounts receivable and inventories.

In addition, continuous risk assessment is conducted in connection with strategic planning, budgeting/forecasts and acquisition activities, aimed at identifying events in the market or operations that could give rise to changes in valuations of assets or liabilities, for example.

### **Control activities**

The Group's companies are organised in four business areas. In addition to a business area president, the respective business area management teams include a controller. The controller plays a central role in analysing and following up the business area's financial reporting and in ensuring compliance by the companies in the business area with Group policies that could have an impact on the financial reporting. In addition, the Parent Company has a function for continuous analysis and follow-up of financial reporting by the Group, the business areas and subsidiaries. The Parent Company's finance department also initiates the work on the annual self-evaluation routine regarding the internal control of financial reporting. This is a process that involves several parts.

In this evaluation, the Group's companies have been grouped into three categories, based on the nature and scope of the respective companies' businesses. For each group of companies, a questionnaire for evaluation of internal control has been prepared based on the performed risk analysis. A minimum acceptable level of internal control has been determined for each respective group, which served as the baseline for the evaluation.

All companies owned by Indutrade at the start of 2008 were required to respond to the evaluation questionnaire. An evaluation of the responses was made per group of companies and for the Group as a whole. As a complement to Indutrade's own work, the auditors conducted a validation of the respective companies' completed questionnaires. Both the evaluation performed by Indutrade and the result of the auditors' validation have been reported and discussed with the Audit Committee and the Board of Directors. The overall assessment of the evaluation of the internal control of the Group's financial reporting will serve as documentation for the next year's self evaluation and work on further strengthening internal control.

**Information and communication**

The Company's key governing documents, consisting of policies, guidelines and manuals – to the extent that these pertain to financial reporting – are updated on a regular basis and communicated via relevant channels to the companies within the Group.

Systems and routines have been created to provide management with necessary reports on the business results in relation to set targets. Necessary information systems are in place to ensure that reliable and current information is available, to enable management to perform its duties in a correct and effective manner.

**Follow-up**

The Board conducts a monthly evaluation of business development, earnings, position and cash flow based on a report packet containing outcomes, forecasts and comments on certain key factors.

The Audit Committee, which reports to the Board on a regular basis, has a supervisory role regarding the Company's financial reporting, risk management, and governance and control. In addition, the Audit Committee maintains regular contact with the Company's auditors to ensure that the Company's internal and external accounting satisfies requirements made on market-listed companies and to follow up any observations that emerge from the audit.

**Internal audit**

The Company has a simple operative structure consisting primarily of small and medium-sized self-contained operations that are independent of each other, with varying conditions for internal control. Compliance with governance and internal control systems that have been drawn up by the Company is regularly checked by the controllers at the business area and Parent Company level. In addition, the controllers conduct ongoing analyses of the companies' reporting to verify their performance. In view of the above, the Board has opted to not have any special internal audit function.

**AUDITORS' REVIEW**

This corporate governance report and the report on internal control of the financial reporting have not been reviewed by the Company's auditors.