

Corporate Governance Report 2006 Indutrade AB (publ)

The Swedish Code of Corporate Governance ("the Code") came into force on 1 July 2005. The Code is based on a comply or explain principle, entailing that companies that apply the Code may depart from individual rules, but if they do, they must provide an explanation for each departure. Indutrade was listed on the Stockholm Stock Exchange on 5 October 2005 and is subject to the rules of the Code since 1 July 2006. This report is not a formal part of the Annual Report.

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 2006 Indutrade had 5,230 shareholders and the ten largest shareholders controlled 72% of the share capital, of which Industrivärden's share was 37.1 percentage points. Swedish legal entities, including institutions such as insurance companies and mutual funds, owned 80.3% of the share capital and votes. Foreign investors owned 10.2% 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 to 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, at which an amendment to the Articles of Association will not be dealt with, 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 supreme 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 2007 Annual General Meeting is provided on page 68 in the Annual Report.

The notice of the Annual General Meeting scheduled for 26 April 2007 is expected to be published in daily newspapers and on Indutrade's website on 22 March 2007. The notice will provide a detailed 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 remuneration of the Company's senior executives.

2006 ANNUAL GENERAL MEETING

At the Annual General Meeting on 27 April 2006, 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 remuneration 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 2005.

The auditors presented relevant parts of their audit report and consolidated audit report for 2005.

The 2006 AGM made the following resolutions:

- to set the dividend at SEK 2.75 per share
- to elect as directors Bengt Kjell, Curt Källströmer, Eva Färnstrand, Gunnar Tindberg, Michael Bertorp, Owe Andersson, Johnny Alvarsson and Ulf Lundahl (new election)
- to elect Bengt Kjell as Chairman of the Board
- to elect Öhrlings PricewaterhouseCoopers AB as auditor for the period extending through the 2010 Annual General Meeting
- in accordance with the Nomination Committee's recommendation, that the Nomination Committee shall consist of representatives of the four 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 2006 and shall be publicly announced not later than six months prior to the Annual General Meeting
- to amend the Articles of Association in accordance with the Board's proposal (unanimous vote)
- to authorise the Board to decide on the new issue of a maximum of 4,000,000 shares in the Company with stipulations on bonus issues 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 2006 Annual General Meeting, Ulf Lundahl was elected as a director on the Board to succeed the departing director Anders Nyrén. The other directors were re-elected.

The Chairman of the Board, Bengt Kjell, is Executive Vice President of Industrivärden. Curt Källströmer is head of the Chairman's Office at Handelsbanken. Eva Färnstrand is Site Manager at Södra Cell Mönsterås. Gunnar Tindberg is the former CEO of Indutrade. Michael Bertorp is the former Executive Vice President of Svenska Cellulosa Aktiebolaget. Owe Andersson is the former President and CEO of Mekonomen. Ulf Lundahl is Executive Vice President of L E Lundbergföretagen. 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 66 in the Annual Report.

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

All of the directors, except for Johnny Alvarsson and Gunnar Tindberg, are independent in relation to Indutrade. Curt Källströmer, Johnny Alvarsson, Eva Färnstrand, Michael Bertorp and Owe Andersson are independent in relation to Indutrade's major shareholders. Only one director, Johnny Alvarsson, has an operational function 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.

The Board is responsible for the Company's organisation and for the administration of its affairs. This entails ensuring that the organisation is suited to its purpose and designed in such a way so as to ensure satisfactory control of its accounts, treasury management and financial circumstances 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 shall have five regular meetings each year, including the statutory meeting after the Annual General Meeting, and on any other occasions when the situation demands.

In 2006 the Board had a total of seven meetings in addition to the statutory meeting, plus three per capsulam meetings.

The Board conducted its work in 2006 in accordance with the work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance and acquisitions. All decisions were unanimous.

The directors were in attendance at all board meetings, with the exception of one director, who was not present on two occasions.

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 legislation 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, Michael Bergtorp. The Remuneration Committee draws up "The Board's proposed principles for remuneration 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 remuneration and terms of employment, and decides on matters pertaining to the remuneration and terms of employment for other senior executives, and informs the Board about decisions made.

The Remuneration Committee had two meetings during the year.

AUDIT COMMITTEE

The Board has appointed an audit committee, consisting of the entire board excluding the CEO. Curt Källströmer 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 four meetings in 2006, whereby six members were present at all meetings and one was absent from one of the four meetings.

On three occasions in 2006 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 27 April 2006 resolved that the Nomination Committee shall consist of representatives of the four largest shareholders as well as the Chairman of the Board, who shall also summons 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 2007 Annual General Meeting was to be based on ownership information as per 31 August 2006 and was to be publicly announced not later than six months prior to the Annual General Meeting.

Ahead of the 2007 Annual General Meeting, the Nomination Committee had the following members:

- Carl-Olof By, Industrivärden (committee chair)
- Claes Boustedt, L E Lundbergföretagen
- Robert Vikström, Handelsbanken Pension Foundation and Handelsbanken Pension Fund
- Neil Brown, Threadneedle Investments
- Bengt Kjell, Chairman of the Board, Indutrade

The Nomination Committee had three meetings, at which it was presented the evaluation of the Board's work during the past year and discussed the Board's composition. The committee recommended re-election of Bengt Kjell, Curt Källströmer, Eva Färnstrand, Michael Bertorp, Owe Andersson, Ulf Lundahl and Johnny Alvarsson, and new election of Gerald Engström, as Gunnar Tindberg had declined re-election. A more detailed presentation of the members of the Board is provided on page 66 in 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.

CEO AND EXECUTIVE VICE PRESIDENT

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 Vice President Kaj Österlund heads the Engineering & Equipment business area and has been President of Indutrade Oy since 1995. He was President of Lining Oy from 1990 to 1995 and Director of Sales and Marketing at Grönblom Oy from 1987 to 1990. Kaj Österlund owns no shares in Indutrade.

AUDITORS

At the 2006 Annual General Meeting, Öhrlings PricewaterhouseCoopers AB was appointed as the Company 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 2006, Öhrlings PricewaterhouseCoopers had a total of 98 audit assignments for companies listed on the Stockholm Stock Exchange. Six of these were conducted in collaboration with other accounting firms. Auditors' fees are described in Note 13 on page 52 in 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 favourable control environment. These include economic and financial reporting policies, a Group Finance Policy and a Group Investment Policy, among others. A central aim of these policies is to create a solid 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, 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

During the year, the Company conducted a structured process for assessing risks that could affect financial reporting. This process will be an annually recurring process that is subject to evaluations by the Audit Committee, which will present its evaluations to the Board.

As a result of this risk assessment, it has been ascertained that the Group's structure, consisting of a multitude of self-contained 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. However, no material joint risks were identified.

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 head, 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 the Group's, business areas' and subsidiaries' financial reporting. The Parent Company's finance department 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' business. 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.

In 2006 all companies owned by Indutrade were required to respond to the 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 established 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 and performance 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, 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.