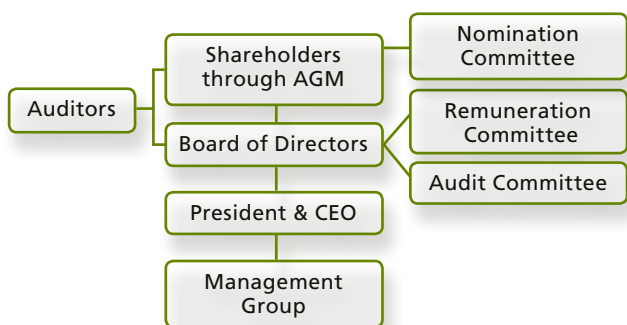


# Corporate Governance Report 2013

Indutrade applies the Swedish Corporate Governance Code (the Code) since 1 July 2006. The Code is a component of self-regulation in Swedish industry and is based on the “comply or explain” principle. This means that companies that adhere to the Code may depart from individual rules, provided that they give an explanation for each departure. Indutrade has no departures to report for the 2013 financial year. The Corporate Governance Report has been reviewed by the Company’s auditors.

## Delegation of responsibilities

Responsibility for 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 documents.



## Share capital and shareholders

The share capital amounts to SEK 40 million, divided among 40,000,000 shares with a share quota value of SEK 1. All shares have equal voting power. 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 2013 Indutrade had 6,038 shareholders (5,721). The ten largest shareholders controlled 66% of the share capital. Swedish legal entities, including institutions such as insurance companies and mutual funds, held 72% of the share capital and votes at year-end. Foreign investors owned 20% of the share capital and votes.

One shareholder, L E Lundbergföretagen AB, with 23.8% of the share capital and votes, controlled 10% or more of the share capital and votes at year-end.

According to Ch. 6 § 2 a of the Swedish Annual Accounts Act, listed companies are to provide disclosures about certain conditions that could affect opportunities to take over the company through a public offer to acquire the shares in the company. No such conditions exist in Indutrade AB.

## Articles of association

Indutrade is a public company whose business is to “on its own or through subsidiaries, 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.” 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 general meetings of shareholders shall be made through advertisement in the Official Swedish Gazette (Post- och Inrikes Tidningar) and the Company’s website within the time frame prescribed by the Swedish Companies Act. An advertisement shall be posted in the Swedish daily newspaper Dagens Nyheter announcing that notice of the Annual General Meeting has been issued. In votes at general meetings of shareholders, there is no limitation to the number of votes for represented shares.

## General meetings of shareholders

General meetings of shareholders 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 may be represented by proxy. More information about the 2014 AGM is provided on page 74 of this Annual Report and on the Company’s website.

The notice of the AGM scheduled for 28 April 2014 is expected to be published on 24 March 2014 in the Official Swedish Gazette and on Indutrade’s website. The notice will include a proposed agenda including proposals for the dividend, the election of directors, directors’ fees (broken down by the Chairman and other directors), the election of the auditor, the auditor’s fee, and proposed guidelines on compensation of the Company’s senior executives.

## 2013 Annual General Meeting

At the AGM on 6 May 2013, shareholders representing 71.8% of the shares and votes were in attendance. Attorney Klaes Edhall was appointed to serve as AGM chairman. At the AGM, 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 guidelines for compensation of the executive management and on the work of the Audit and Remuneration Committees. In addition, CEO Johnny Alvarsson gave an address reviewing Indutrade's operations in 2012 and start of 2013.

The auditors reported on their audit work and presented relevant parts of their audit report for 2012.

The 2013 AGM made the following resolutions:

- to adopt the financial statements for 2012;
- to set the dividend at SEK 7.05 per share;
- to discharge the members of the Board of Directors and the President from liability for the past financial year;
- to re-elect directors Eva Färnstrand, Bengt Kjell, Martin Lindqvist, Ulf Lundahl, Krister Mellvé, Mats Olsson and Johnny Alvarsson;
- to re-elect Bengt Kjell as Chairman of the Board;
- that the Nomination Committee shall consist of representatives of four of the largest shareholders in terms of votes as well as the Chairman of the Board;
- that the Nomination Committee's composition shall be based on ownership data as per 31 August 2013 and be announced not later than six months before the Annual General Meeting; and
- that Indutrade shall apply compensation levels for senior executives which mainly shall consist normally 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 expertise, responsibility and performance.

### **Extraordinary general meeting 2013**

Following changes in ownership in the summer of 2013, an extraordinary general meeting was held on 21 August 2013. At the extraordinary general meeting, Fredrik Lundberg and Lars Pettersson were elected as new directors on the Board. Board member Mats Olsson had announced prior to the meeting that he wished to resign in connection with the extraordinary general meeting. The extraordinary general meeting also elected Fredrik Lundberg as Chairman of the Board, and Bengt Kjell as Vice Chairman.

### **Members of the Board of Directors**

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

The Chairman of the Board, Fredrik Lundberg, is President and CEO of L E Lundbergföretagen. The Vice Chairman, Bengt Kjell, is a former Executive Vice President of Industrivärden

and is currently CEO of the company AB Handel och Industri. Eva Färnstrand is a former Site Manager at Södra Cell Mönsterås and is currently Chairman of Infranord. Martin Lindqvist is President and CEO of SSAB and has previously served in other executive positions in the SSAB Group. Ulf Lundahl is a former Executive Vice President of L E Lundbergföretagen. Krister Mellvé has been active in the Robert Bosch Group. Lars Pettersson is a former President and CEO of Sandvik. 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 32 of this Annual Report. The Company's CFO serves as company secretary. Other executives participate at board meetings in a reporting role when necessary.

All of the directors, except for Johnny Alvarsson, are independent in relation to Indutrade. Johnny Alvarsson, Eva Färnstrand, Bengt Kjell, Martin Lindqvist and Krister Mellvé are independent in relation to Indutrade's major shareholders. The Board thereby meets the requirement that at least two of the directors who are independent in relation to the Company shall also be independent in relation to the 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 written 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 numerous policies, including a finance policy and an investment policy.

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 book-keeping, treasury management and financial conditions in general. In addition, the Board is responsible for ensuring that the Company has satisfactory internal control and continuously evaluates the extent to which the Company's system for internal control works. The Board is also responsible for developing and following up the Company's strategies by drawing up plans and setting objectives. The Board oversees and evaluates the CEO's and operative management's work on a continuous basis. This particular matter is addressed yearly without any members of the executive management present.

In accordance with the adopted work plan, the Board holds at least eight regular meetings each year, including the statutory meeting after the AGM, and on any other occasions when warranted by the situation.

## Attendance at board meetings in 2013

Board member	Year elected	Board meetings	Independent in relation to the Company	Independent in relation to major shareholders <sup>1)</sup>
Johnny Alvarsson	2004	15/15	No	Yes
Eva Färnstrand	1998	14/15	Yes	Yes
Bengt Kjell (Vice Chairman)	2002	15/15	Yes	Yes
Martin Lindqvist	2011	12/15	Yes	Yes
Ulf Lundahl	2006	15/15	Yes	No
Fredrik Lundberg (Chairman)	2013	5/5	Yes	No
Krister Mellvé	2012	15/15	Yes	Yes
Lars Pettersson	2013	3/5	Yes	No

1) Pertains to the situation 2013.

In 2013 the Board held a total of 15 meetings including statutory meetings. The Board conducted its work in 2013 in accordance with the Board's work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance and acquisitions.

As part of the Board's work during the year, a number of subsidiary presidents and business area presidents gave in-depth presentations of their businesses.

All decisions made by the Board during the year were unanimous.

### **The Chairman's role**

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

### **Remuneration Committee**

The Board has appointed a remuneration committee consisting of the Chairman, Fredrik Lundberg, the Vice Chairman, Bengt Kjell, and board member Martin Lindqvist. The Remuneration Committee draws up "the Board's proposed guidelines for compensation and other terms of employment for senior executives". This proposal is discussed by the Board and is submitted to the AGM for approval.

The Remuneration Committee conducts preparatory work and drafts a recommendation for decision regarding the terms of employment for the CEO. In addition, the Remuneration Committee attends to and conducts preparatory work for matters pertaining to guidelines for compensation of the executive management for decision by the Board and submission to the AGM for resolution.

The CEO consults with the Remuneration Committee on the terms of employment for the other members of the executive management.

The Remuneration Committee met on three occasions in 2013. At those meetings all of the members were present.

### **Audit Committee**

The Board has appointed an audit committee, consisting of the entire board except for the CEO. Ulf Lundahl is Audit Committee chair.

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 auditor to ensure that the Company's internal and external reporting satisfies the 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 held three meetings in 2013. Martin Lindqvist and Lars Pettersson were each absent on one occasion, while the other members were present at all meetings.

On three occasions in 2013 the committee performed reviews and received reports from the Company's external auditors.

### Directors' fees

Fees are payable to the Chairman of the Board and directors in accordance with a resolution by the AGM. The Chairman receives a fee of SEK 500,000, the Vice Chairman receives a fee of SEK 375,000, and the other directors receive a fee of SEK 250,000 each. However, no fee is payable to directors who are employed by a company within the Indutrade Group. The Audit Committee chair is paid a fee of SEK 50,000, and the members of the Remuneration Committee each receive a fee of SEK 25,000. The total yearly fees thus amount to SEK 2,250,000.

### Nomination Committee

On 6 May 2013 the AGM resolved that the Nomination Committee shall consist of representatives of four of the largest shareholders in terms of votes as well as the Chairman of the Board, who shall also convene 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 2014 Annual General Meeting is to be based on ownership data as per 31 August 2013 and is to be publicly announced not later than six months prior to the AGM. The composition of the Nomination Committee ahead of the 2014 AGM was announced on 5 October 2013.

Ahead of the 2014 AGM, the Nomination Committee was composed of the following members:

#### Nomination Committee composition

Representative	Shareholder	Share of votes
Claes Boustedt	L E Lundbergföretagen, Committee chair	23.8 %
Mats Gustafsson	Lannebo Funds	9.6 %
Anders Oscarsson	AMF Insurance and funds	8.5 %
Håkan Sandberg	SHB Retirement fund, Pension foundation and others	4.4 %
Fredrik Lundberg	Chairman of the Board	

The Nomination Committee held two meetings, at which – among other items of business – the evaluation of the Board's work during the past year was presented and the Board's composition was discussed. The Nomination Committee is tasked with drawing up recommendations to be presented to the AGM for resolutions regarding a person to serve as AGM chairman, the Chairman of the Board and other directors, directors' fees, the auditor's fee and, where applicable, election of the auditor, and the principles for the appointment of the new 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 sitting board 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 expertise and experience needs to be changed.

Ahead of the 2014 AGM, the Nomination Committee has proposed the re-election of directors Johnny Alvarsson, Eva Färnstrand, Bengt Kjell, Martin Lindqvist, Fredrik Lundberg, Ulf Lundahl, Krister Mellvé and Lars Pettersson. The committee has nominated Fredrik Lundberg for re-election as Chairman of the Board, and Bengt Kjell as Vice Chairman. The Nomination Committee's proposal entails that the number of directors on the Board will be unchanged during the coming mandate period and that the Board will thereby have a total of eight members. A more detailed presentation of the members of the Board is provided on page 32 of this Annual Report.

### Operating activities

The CEO is responsible for the administration of Indutrade's day-to-day affairs, which are managed by the Company's executive management team. 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 8,050 shares of Indutrade stock.

### Auditors

At the 2010 Annual General Meeting, the chartered accounting firm PricewaterhouseCoopers AB ("PwC") was appointed as auditor for a term extending through the 2014 Annual General Meeting.

The auditors maintain regular contact with the Audit Committee and the executive management.

The chief auditor since 2013 is Michael Bengtsson, Authorised Public Accountant, who succeeded Lennart Danielsson, who was in charge of Indutrade's audits from 2006 to 2013. In 2013 PwC had a total of 98 audit assignments for companies listed on Nasdaq OMX Stockholm and four auditing assignments for companies listed on NGM Equity. The auditor's fee is reported in Note 10 of this Annual Report.

### Quarterly review by the auditors

During the 2013 financial year, Indutrade's nine-month interim report was reviewed by the external auditors.

## Internal Control Over Financial Reporting

As prescribed by the Swedish Companies Act, the Board is responsible for internal control. This report has been prepared in accordance with the Annual Accounts Act and describes how the internal control over financial reporting is organised.

### **Control environment**

Effective board work is the foundation 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 risks in the Company's operations.

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, among other things, a policy for social responsibility and environmental work, a policy for economic and financial reporting, a finance policy and an investment policy. These policies are followed up and revised as needed. The executive management continuously draws up instructions for 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 base for the Group's monthly reporting, consolidation work and earnings follow-up.

### **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 the Board.

Through this risk assessment it has been ascertained that the Group's structure, consisting of a multitude of standalone companies of varying size that are independent from each other in various sectors and geographic markets, entails a considerable diversification 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 and the effects of these 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 e.g., revenue streams and valuations of assets or liabilities.

### **Control activities**

The Group's companies are organised in five 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 monitoring the

business area's financial reporting and in ensuring compliance by the companies in the business area with Group policies. The Parent Company has additional functions for continuous analysis and monitoring of financial reporting by the Group, the business areas and subsidiaries. The Parent Company's finance department also initiates work on the annual self assessment routine regarding the internal control over financial reporting.

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 2013 were required to respond to the assessment questionnaire. The responses were compiled and evaluated per group of companies and for the Group as a whole. As a complement to this work, the auditors validated parts of the respective companies' completed questionnaires. Both the evaluation performed by the Company and the result of the auditors' validation have been reported and discussed with the Audit Committee. Feedback is provided to the companies in the Group where a need for improved routines has been identified. The overall evaluation of the assessment of internal control over the Group's financial reporting will serve as documentation for the subsequent years' self assessment and work on further strengthening internal control.

### **Information and communication**

The Company's 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 to the companies within the Group. Systems and routines have been established to provide management with reports on the results of operations and financial position in relation to set targets.

### **Monitoring**

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

The Audit Committee has an oversight 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 reporting satisfies requirements made on market-listed companies and to monitor any observations that emerge from the audit.

## Internal Audit

The Company has a simple operative structure consisting primarily of small and medium-sized standalone businesses 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 checked by the controllers on a regular basis at the business area and Parent Company levels. In addition, the controllers perform continuing analyses of the companies' reporting and financial outcomes to verify their performance. Added to this is the routine for annual self assessment of internal control over financial reporting. In view of the above, the Board has opted to not have any special internal audit function.