

## CORPORATE GOVERNANCE REPORT

## General Meeting is Supreme Governing Body

Industrivärden's governing bodies are general shareholders' meetings, the Board of Directors, the President and CEO, and the auditors. The Board and auditors are elected by the shareholders at a general meeting. The Board has ultimate responsibility for Industrivärden's organization and administration. The Board has a compensation committee and an audit committee. The Chairman of the Board and representatives of the shareholders form a Nominating Committee for election of board members and auditors.

Industrivärden's governing bodies consist of general shareholders' meetings, the Board of Directors, the President and CEO, and the auditors. Industrivärden also has two executive vice presidents. The Board is elected by the shareholders at a general meeting. The Board appoints the Company's President and CEO and executive vice presidents. The auditors are responsible, under assignment of the Annual General Meeting, for reviewing the accounts as well as the Board's and the President's administration during the fiscal year.

### Articles of Association

The Articles of Association stipulate that Industrivärden is a public company whose business is to own and manage real estate and chattel. The Company's shares are divided among Class A and Class C shares. In votes at general meetings of shareholders, the Class A shares carry entitlement to one vote and the Class C shares one-tenth of a vote.

The Board shall consist of at least three and not more than nine members, who are to be appointed yearly at the Annual General Meeting. Notices of the Annual General Meeting shall be issued not earlier than six weeks and not later than four weeks prior to the meeting. Notices of extraordinary general meetings in which the agenda does not concern amendments to the Articles of Association shall be issued not earlier than six weeks and not later than two weeks prior to the extraordinary general meeting in question. Notice shall be made through advertisements in the Official Swedish Gazette (Post- och Inrikes Tidningar) and in Dagens Nyheter and Svenska Dagbladet.

### General Shareholders' Meetings

General shareholders' meetings are Industrivärden's supreme governing body. At the Annual General Meeting (AGM), which is held within six months after the end of the fiscal year, the income statement and balance sheet are adopted, the dividend is decided on, the Board of Directors 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 intent to participate at a general meeting have the right to attend the meeting and vote for the total number of shares they have. Shareholders can be represented by proxy. More detailed information on the 2006 Annual General Meeting is provided on the inside back cover of this annual report.

The notice of the Annual General Meeting on May 8, 2006, is expected to be published in Swedish daily newspapers and on Industrivärden's website on April 6, 2006. This notice will present a detailed agenda, including proposals for the dividend, the election of directors and auditors, directors' fees (broken down by the Chairman, Vice Chairman and other board members), and auditors' fees.

### 2005 Annual General Meeting

At the Annual General Meeting on April 20, 2005, attorney Sven Unger presided as chairman.

At the Meeting, the annual report and audit report were presented. In connection with this, Chairman of the Board Tom Hedelius presented information on the Board's work, and reported on the principles for compensation of the members of the executive management and on the work of the Audit Committee. In addition, CEO Anders Nyren gave an address on Industrivärden's activities in 2004.

The auditors reported to the Annual General Meeting on their review in a separate audit report and, in connection with this, reported on their work during the 2004 fiscal year.

The 2005 AGM resolved:

- to set the dividend at SEK 6.00 per share;
- to elect as directors Boel Flodgren, Tom Hedelius, Finn Johnson, Fredrik Lundberg, Sverker Martin-Löf, Arne Mårtensson, Lennart Nilsson and Anders Nyren;
- to appoint Tom Hedelius as Chairman of the Board;
- to authorize the Chairman of the Board to appoint at least four members from among the major shareholders, who are not directors on Industrivärden's board, to form with the Chairman a nomi-

- nating committee for the next election of directors; and
- that the composition of the Nominating Committee shall be made public not later than six months before the 2006 Annual General Meeting.

At the statutory board meeting that followed the Annual General Meeting, Sverker Martin-Löf was appointed Vice Chairman of the Board.

### Board of Directors

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

At the 2004 AGM Fredrik Lundberg was elected as a director. Clas Reuterskiöld had declined reelection. All of the board members were reelected at the 2005 Annual General Meeting.

Industrivärden's chairman, Tom Hedelius, is a former CEO and chairman of Handelsbanken. Vice Chairman Sverker Martin-Löf is a former CEO of SCA. Boel Flodgren is a professor of commercial law and a former president of Lund University. Finn Johnsson is a former CEO of Mölnlycke Health Care, United Distillers and Euroc and is currently Chairman of Volvo. Fredrik Lundberg is President and CEO of LE Lundbergföretagen. Arne Mårtensson is a former CEO of Handelsbanken and is currently Chairman of Handelsbanken. Lennart Nilsson is a former CEO of Cardo.

A presentation of the current assignment for the members of the Board can be found on page 84. Where necessary, other executives participate at board meetings by presenting reports.

All directors except for Tom Hedelius and Anders Nyren are independent in relation to Industrivärden. Of the directors, Boel Flodgren, Finn Johnsson and Sverker Martin-Löf are independent from Industrivärden's major shareholders. Only one director has an operative function in the company, namely, CEO Anders Nyren.

### The Work of the Board of Directors

The Board has ultimate responsibility for the Company's organization and administration, and is also responsible for making decisions on strategic matters.

The Board's work is conducted according to a yearly plan. Each meeting follows an agenda, which together with the underlying documentation is distributed to the directors well in advance of each board meeting.

In general, the Board acts on matters of material importance, such as:

- setting the Board's work plan, including instructions of the CEO. These instructions cover, among other things, investment rules

for stocks and derivative instruments which indicate the amount limits for the CEO's right between board meetings to decide on purchases and sales of stocks and derivative instruments

- strategic plans and business and profitability targets
- acquisitions and sales of companies or businesses
- major purchases and sales of listed stocks

In addition to the statutory board meeting, which is held directly after the Annual General Meeting, the Board normally meets four times a year (regular meetings). Extra meetings are called when necessary.

The statutory meeting involves election of the Vice Chairman, adoption of the Board's work plan, and decisions on the Company's signatories and persons to check the minutes of board meetings.

In connection with the board meeting that deals with the annual financial statements, the Board of Directors' report, the proposed distribution of earnings and the year-end report, the Company's Chief Auditor reports on the auditors' observations and remarks from their audit. A similar report is also presented in connection with the nine-month interim report.

At regular meetings later in the year, the Board approves and releases the Company's interim reports, or delegates this task to the CEO.

The regular meetings cover a number of set agenda items. These include, among other things, a report on the current financial result of operations and on the development of net asset value and the performance of the equities portfolio, including detailed information on stock transactions that have been carried out. The report also includes a description of the share price and earnings trends. In addition, a special review is normally conducted of one or more of the portfolio companies and of potential new investments. As a rule, each year a meeting is held at one of the major portfolio companies, with a company visit in conjunction therewith.

Committees appointed by the Board are delegated the task of preparing matters ahead of board decisions. No compensation is paid for committee work.

The Board evaluates on an annual basis the financial reporting that it receives from the Company and makes demands on its content and structure in order to ensure the quality of financial reporting.

The Board's work is evaluated annually under the direction of the Chairman of the Board.

Board decisions are made following an open discussion which is led by the Chairman. The Company Secretary is attorney Sven Unger, from the law firm Mannheimer Swartling.

### The Chairman's Role

In addition to directing the work of the Board and its committees, the Chairman of the Board monitors the Group's continuing perfor-

mance through regular contacts with the CEO on strategic matters, and represents the Company in shareholder matters.

### **Compensation Committee**

The Board has appointed a compensation committee to submit for the Board's approval a proposal for the salary and remuneration of the President & CEO. The Committee also sets the principles for compensation of other members of the executive management and drafts proposals for any incentive programs. The Compensation Committee includes Tom Hedelius (Chairman of the Board) and Sverker Martin-Löf (Vice Chairman).

### **Audit Committee**

The Board has also appointed an audit committee, which includes all the Company directors except for the CEO. The Audit Committee is delegated with the task of examining the routines surrounding the Company's risk management, business management and control, and financial reporting. The Committee maintains regular contact with the Company's auditors in an effort to ensure that internal and external reporting meet the established requirements and to discuss the scope and focus of audit work. The auditors normally report their observations to the Audit Committee in connection with their examination of the nine-month interim report and in connection with their yearly audit.

### **Important Matters for the Board During the 2005 Fiscal Year**

In 2005 the Board had a total of four meetings in addition to the statutory meeting. The most important task of the Board concerns matters related to the active holdings in the equities portfolio. In addition to strategic planning, the most important single matters in 2005 involved the sale of the majority shareholding in the wholly owned subsidiary Indutrade in connection with the stock market introduction of that company, and sales and purchases of stocks in listed and unlisted companies. See further the Board of Directors' Report on page 45.

### **Nominating Committee**

The 2005 Annual General Meeting resolved to authorize the Chairman of the Board to appoint at least four members from among the major shareholders, who are not directors on Industrivärden's board, to form with the Chairman a nominating committee for the next election of directors. The composition of the Nominating Committee, which is based on known shareholdings at the end of the third quarter, was announced in October 2005, more than six months before the Annual General Meeting. The members of the Nominating Committee are: Tom Hedelius (Chairman of the Board), Christer Elmechagen (AMF Pension), Curt Källströmer

(Handelsbanken) Committee Chairman, Ulf Lundahl (L E Lundbergföretagen), and Anders Nyberg (SCA).

The Nominating Committee had two meetings, at which it evaluated the Board's work during the past year and recommended the reelection of Tom Hedelius, Boel Flodgren, Finn Johnsson, Fredrik Lundberg, Sverker Martin-Löf, Lennart Nilsson and Anders Nyrén, and new election of Lars O. Grönstedt, President and Group Chief Executive of Handelsbanken. Arne Mårtensson had declined reelection. For a more detailed presentation of Lars O. Grönstedt, see page 81.

The Nominating Committee also does drafting work for the appointment of the Company's auditors. Öhrlings PricewaterhouseCoopers AB was appointed by the 2002 Annual General Meeting to serve as auditor through the end of the 2006 Annual General Meeting.

### **Attendance at Board and Committee Meetings**

Due to illness, one board member was absent from the February meeting and the related meeting of the Audit Committee. Apart from that occasion, all board members were present at all board and committee meetings.

### **Operative Activities**

The CEO is responsible for Industrivärden's day-to-day management, which is administrated by the Company's executive management team. The CEO's authorization to decide on investments and on purchases and sales of listed stocks – and concerning financing matters – is subject to rules established by the Board of Directors.

### **The President and Executive Vice Presidents**

Industrivärden's President and CEO, Anders Nyrén, joined the Company in 2001. From 1997 to 2001 he was employed by Skanska as Executive Vice President and CFO. From 1996 to 1997 he served as an executive vice president and member of the executive management of Nordbanken. He was Executive Vice President and CFO of Securum from 1992 to 1996, and from 1987 to 1992 he served as CEO of OM International.

Anders Nyrén is vice chairman of Handelsbanken, and a director on the boards of Sandvik, SCA, Skanska, SSAB, Indutrade, and the wholly owned subsidiary Isaberg Rapid. Anders Nyrén owns 26,575 shares of Industrivärden stock and 50,000 employee stock options.

Bengt Kjell, Executive Vice President in charge of the investment operations, joined Industrivärden in 2002. He serves as chairman of Indutrade, Kungsleden and Isaberg Rapid and is a director on the boards of Munters and Pandox. Bengt Kjell owns 10,000 shares of Industrivärden stock and 35,000 employee stock options.

Carl-Olof By, Executive Vice President and Chief Financial Officer with responsibility also for Corporate Communications and

IT, joined Industrivärden in 1990 and is a director on the board of Handelsbanken Region Stockholm City, Isaberg Rapid and OMX Exchanges. Carl-Olof By owns 15,000 shares of Industrivärden stock and 35,000 employee stock options.

### **Compensation of Directors and Members of Executive Management**

The members of the executive management receive a fixed salary and standard employment benefits, to which is added pension benefits and incentive programs that include employee stock options issued in 2002 and a variable salary component. Compensation to the Board and members of the executive management in 2005, as well as a description of the incentive programs, are described in Note 7 on pages 69–70.

At the 2006 AGM the Board will report on the principles it uses for compensation of members of the executive management. According to the Swedish Companies Act, the Board is responsible for appointing the CEO and setting compensation levels. The Board feels that this practice, which has long been standard, should continue to apply and will therefore not refer the matter to the 2006 AGM. Thus responsibility for the Company's CEO and other members of the executive management will continue to rest entirely upon the Board and will not in any respect be delegated to the AGM.

### **Active Ownership**

Industrivärden's Chairman, CEO, four board members and Executive Vice President in charge of the investment operations are each directors of one or more of the companies in which Industrivärden serves as an active owner. These exercise Industrivärden's active ownership role in accordance with the principles described earlier in this Annual Report under the Business Model section on pages 11–13.

Participation on the portfolio companies' nominating committees is a vital aspect of Industrivärden's active ownership. Industrivärden's chairman chairs the nominating committee of Handelsbanken, and Industrivärden's CFO chairs the nominating committees of Sandvik, SCA, Skanska, SSAB, Munters and Indutrade, and is a member of the nominating committee of Höganäs.

### **Auditors**

At the 2002 Annual General Meeting, Öhrlings PricewaterhouseCoopers AB was elected as the Company's auditor for a term through the 2006 Annual General Meeting.

The auditors are in regular contact with the Chairman of the Board, the Audit Committee and executive management. See also page 16.

Anders Lundin, Authorized Public Accountant, has been Chief Auditor since August 2005, following the retirement of Ingvar Pramhäll, Authorized Public Accountant. In 2005 Anders Lundin was also Chief Auditor for the listed companies AarhusKarlshamn,

ASSA ABLOY, Axis, Bong Ljungdal and SÄKI, among others.

In 2005 Öhrlings PricewaterhouseCoopers had a total of 90 auditing assignments for companies listed on the Stockholm Stock Exchange, of which six were in cooperation with other auditing firms. Auditors' fees are disclosed in Note 8 on page 71.

### **Internal Control**

In reference to a statement issued on December 15, 2005, by the Council for Swedish Corporate Governance, the Board's report on internal control has been limited to a description of how the Company's internal control is organized.

Internal control is ensured by having a good control environment at Industrivärden. The control environment consist of the Company's business processes, currently applicable rules, and control and follow-up routines. Industrivärden has a lean organizational structure with a clear delegation of roles. Decision-making channels, authority and responsibility are defined by internal instructions, rules and policies adopted by the Board of Directors. Most of the Company's central business processes are conducted according to well structured routines. New investments, sales of stocks and reallocations within the equities portfolio are tested on a regular basis by a special Investment Committee, whose members include the executive management and representatives from the investment operations.

Systematic control activities are conducted to ensure that the organization works according to established rules. Examples include approval of all business transactions, follow-up to ensure that equity transactions are in agreement with decisions made by the Investment Committee, and checks to make sure that the value of purchases and sales of stocks and of underlying stocks in derivative transactions are within the scope of the executive management's mandate. All control activities are conducted by other employees than those who execute the transactions.

### **Quarterly Auditors' Review**

At each quarterly book-closing, the external auditors review the business transactions that have been carried out with respect to accounting and reporting. The auditors' review reports are published in the quarterly interim reports.

### **Ethical Guidelines**

Industrivärden strives to ensure that its business activities are conducted according to high standards of integrity and ethics within Industrivärden itself as well as in the companies that make up Industrivärden's portfolio of active holdings. See also the section Industrivärden's Role in Society, on page 13.

### **Review of the Corporate Governance Report**

This report has not been reviewed by the Company's auditors.