

Board of Directors' Report including Corporate Governance Report

Registered number SE 556043-4200

The Board of Directors and President of AB Industrivärden (publ) herewith submit their annual report and consolidated financial statements for the 2009 fiscal year, the company's sixty-fifth year of operation. The following income statements, balance sheets, statements of changes in shareholders' equity, statements of cash flows and notes to the financial statements form an integral part of this annual report and have been audited by the Company's auditors.

Operations

Industrivärden is one of the Nordic region's leading holding companies, taking an active ownership role in a concentrated selection of listed Nordic companies with good development potential. The goal is to generate competitive growth in net asset value over time.

CORPORATE GOVERNANCE REPORT

Industrivärden's governing bodies consist of the general shareholders' meetings, the Board of Directors, the President and CEO, and the auditors. At the Annual General Meeting, the shareholders elect a board and auditors. The Board appoints the President and CEO as well as executive vice presidents. The auditors audit the financial statements as well as the Board's and CEO's administration. The Nominating Committee is tasked with recommending directors and auditors for election by the Annual General Meeting.

Industrivärden adheres to the Swedish Code of Corporate Governance. The Corporate Governance Report pertains to the 2009 fiscal year and includes a report on the Nominating Committee's proposal ahead of the 2010 Annual General Meeting. The Corporate Governance Report has been audited by the Company's auditor.

Shares and shareholders

Information on Industrivärden's stock and shareholders is provided in the Industrivärden share data section on pages 12–13.

General shareholders' meetings

General shareholders' meetings are Industrivärden's highest governing body. At the Annual General Meeting (AGM), which is held within six months after the end of the fiscal year, resolutions are made concerning recommendations and proposals set forth by the Nominating Committee, the Board of Directors and shareholders. Among other things, the income statement and balance sheet are adopted, a decision is made regarding the dividend, the Board of Directors and – where applicable – the auditors are elected and their fees are determined, and other items of legally ordained business are conducted.

Nominating Committee

The members of the Nominating Committee are Tom Hedelius (Chairman of the Board), Bo Damberg (appointed by the Jan Wallander and Tom Hedelius Foundation), Håkan Sandberg (Committee Chairman – appointed by the Handelsbanken Pension Foundation, Handelsbanken Pension Fund and others), Ulf Lundahl (appointed by L E Lundbergföretagen) and Anders Nyberg (appointed by the SCA Pension Foundations and others).

The Nominating Committee has proposed to the 2010 AGM that Olof Faxander, Boel Flodgren, Finn Johnsson, Fredrik Lundberg, Sverker Martin-Löf, Lennart Nilsson and Anders Nyrén be re-elected as directors on the Board. Tom Hedelius, who has been a director since 1991 and Chairman of the Board since 2002, has decided to leave the Board. In addition, the Committee has proposed the new election of Hans Larsson (B.A. – born 1942), Chairman of Handelsbanken, Nobia and Attendo, among others. Hans Larsson is a former CEO of Nordstjernen, Esselte and Swedish Match. The Nominating Committee proposes that Sverker Martin-Löf be appointed as Chairman of the Board.

Members of the Board of Directors

Industrivärden's board of directors, which is elected by the Annual General Meeting, currently consists of eight members, including the CEO. The Chairman of the Board, Tom Hedelius, is a former CEO and subsequently former chairman of Handelsbanken. The Vice Chairman, Sverker Martin-Löf, is a former CEO of SCA and is currently Chairman of SCA, Skanska and SSAB. Olof Faxander is President and CEO of SSAB. 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. Fredrik Lundberg is CEO of L E Lundbergföretagen and Chairman of Cardo, Holmen and Hufvudstaden. Lennart Nilsson is a former CEO of Cardo. Industrivärden's CEO Anders Nyrén is a former executive vice president and CFO of Skanska and former executive vice president and CFO of Securum, among other positions.

A presentation of other significant assignments held by the members of the Board can be found on page 41. A more detailed description of the board members' professional experience can be found on Industrivärden's website.

Independence conditions

Independence conditions concerning the members of the Board of Directors are shown in the table on page 25.

Duties and 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

Attendance, fees and independence conditions

Name	Year elected	Position ¹	Audit Committee	Compensation Committee	Attendance at board meetings	Attendance at committee meetings	Fee, 2009 SEK 000 ²	Non-independence in relation to Industrivärden ³	Non-independence in relation to major shareholders
Tom Hedelius	1991	Chairman	Member	Chairman	All	All	1,200		X
Sverker Martin-Löf	2002	Vice Chairman	Chairman	Member	All	All	800		
Olof Faxander	2009	Director	Member	–	All ⁴	All	400	X	
Boel Flodgren	2002	Director	Member	–	All	All	400		
Finn Johnsson	2000	Director	Member	–	All	All	400		
Fredrik Lundberg	2004	Director	Member	–	All	All	400		X
Lennart Nilsson	1997	Director	Member	–	All	All	400		
Anders Nyrén	2001	Director	–	–	All	–	–	X	
Total							4,000		

1) In 2002 Tom Hedelius and Sverker Martin-Löf were named Chairman and Vice Chairman of Industrivärden's board, respectively, for the first time.

2) No fee is payable for committee work.

3) Anders Nyrén is President and CEO of Industrivärden and the only executive director of the Company. Olof Faxander is President and CEO of SSAB, in which Industrivärden is a major shareholder.

4) Olof Faxander was elected to the Board at the Annual General Meeting on May 8, 2009.

according to a yearly plan. Each meeting follows an agenda, which together with the underlying documentation is distributed to the directors in advance of each board meeting. In general, the Board deals with matters of material importance, such as:

- setting the Board's work plan, including the CEO's instructions. These instructions cover, among other things, investment rules for equities and derivative instruments which indicate the maximum amounts for the CEO's right between board meetings to decide on purchases and sales of stocks and derivative instruments;
- strategic matters regarding active ownership;
- acquisitions and sales of companies or businesses; and
- major purchases and sales of listed stocks.

The Board's role in Industrivärden's business model for active ownership is described at length on pages 5–9.

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

The statutory meeting deals with 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 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.

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 equity transactions that have been carried out. Reports are also made on trends in share prices and earnings. In addition, a special review is normally conducted of one or more

of the portfolio companies and of potential investments. At one or more board meetings during the year, the management of one of the portfolio companies presents a report on their company's performance.

Committees appointed by the Board are tasked with conducting drafting work on matters ahead of board decisions.

Each year the Board evaluates the financial reporting it receives from the Company and makes demands on its content and design in order to ensure the quality of the financial reporting.

The Board's work is evaluated each year in a structured process conducted under the direction of the Chairman of the Board.

Board decisions are based on extensive documentation and are made after a discussion that is monitored by the Chairman. The Company Secretary is attorney Sven Unger, from the law firm Mannheimer Swartling.

Important matters for the Board during 2009

In 2009 the Board had a total of five meetings. The most important task of the Board concerned matters related to the active holdings in the equities portfolio and strategic planning. In addition, the Board dealt with preparations for the convertible bond issue that was decided on in January 2010.

Compensation Committee

The Board has appointed a compensation committee, which held one meeting. The guidelines for compensation of senior executives were adopted by the 2009 Annual General Meeting. The Compensation Committee draws up recommendations for the CEO's compensation and decides on compensation for the other members of the executive management. The members of the Compensation Committee are Tom Hedelius (Chairman of the Board and Committee Chairman) and Sverker Martin-Löf (Vice Chairman of the Board). No compensation has been paid for directors' work on the committee.

Proposed guidelines for executive compensation

As in the preceding year, compensation paid to the CEO and

other members of the executive management shall consist of base salary, a variable salary component, other benefits and pension. The total compensation should be in line with the going rate in the market and competitive, and shall be commensurate with the executive's responsibilities and authority. The variable salary component consists of a short-term variable salary (yearly) and a long-term variable salary. The short-term variable salary component is based on outcome in relation to set targets and on individual performance, and shall have a cap and never exceed the base salary. The long-term variable salary is based on incentive programs that are linked to the long-term performance of the Company's stock. None of the variable components shall be pensionable. Upon termination of an executive's employment contract by the Company, a two-year term of notice applies. There should not be any severance pay. Pension benefits shall be either defined-benefit or defined-contribution, or a combination of both, and give the members of the executive management the right to retire from 60 years or 65 years of age, depending on their position. The Board may depart from these guidelines if there are special reasons for doing so in individual cases.

Audit Committee

The Audit Committee, which held two meetings during the year, includes all of the members of the Board except for the CEO. Sverker Martin-Löf chairs the Audit Committee. The Audit Committee is tasked with examining the routines for the Company's risk management, governance and control, and financial reporting. The Company's investment instructions and finance policy are adopted each year by the Board. The Chairman of the Board maintains regular contact with the Company's auditors to ensure that internal and external reporting meet established requirements and to discuss the scope and focus of the audit work. The auditors normally report their observations to the Audit Committee in connection with their review of the nine-month interim report and in connection with their audit of the year-end financial statements. No compensation has been paid to the members for their work on the committee.

Auditors

At the 2006 Annual General Meeting, PricewaterhouseCoopers AB was elected as the Company's auditor for a term through the 2010 Annual General Meeting.

In connection with each quarterly book-closing, the auditors review the business transactions that have been conducted with respect to accounting and reporting as well as the financial reports in general that are provided to the stock market. Against this background and in view of how the financial reporting has been organized in general, the Board finds no need for a dedicated review function in the form of an internal audit unit.

Risks and uncertainties

The dominant risk in Industrivärden's business is share price risk,

i.e., the risk of a decrease in value caused by changes in share prices. A 1% change in the share price of the holdings in the equities portfolio as per December 31, 2009, would have affected the market value by approximately +/- SEK 500 M. A detailed description of the risks associated with Industrivärden's business is provided on page 33.

Internal control of financial reporting

In view of the share price risk described above, the most important control process in Industrivärden's business consists of the continuous monitoring of its value exposure in the equities portfolio. Industrivärden's internal control is therefore primarily focused on ensuring the reliability of valuations of outstanding equity and derivative positions and of the reporting of purchases and sales of stocks and other securities.

According to the Swedish Companies Act, the Board is responsible for internal control. The Board's work plan lays out investment rules for equities and derivative instruments as well as a finance policy. Decision-making channels, authority and responsibility are defined by a set of investment rules as well as finance instructions. Industrivärden has an investment committee that has been set up specifically to make regular decisions on investment matters within the framework of the CEO's mandate.

Other processes with a bearing on the financial reporting are regulated by Industrivärden's insider rules, information policy, confidentiality policy and other policies.

Industrivärden's greatest risk consists of value exposure in the equities portfolio. The predominant risk in work processes pertains to potential errors in the accounting and reporting of equity transactions. Industrivärden continuously assesses the risks in the handling of equity transactions, which are discussed with the auditors and affect the structure of internal risk control.

Control activities pertaining to the equities portfolio include, among other things, approval of all business transactions, registration in internal systems not later than the day after the transaction date, follow-up to ensure that equity transactions are in accordance 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 is within the scope of established exposure limits. All equity positions are followed up on a continuous basis in real time. The Investment Committee, which consists of the executive management, continuously follows up investment decisions that have been made and checks to ensure that they have been executed correctly. Minutes are recorded of Investment Committee meetings.

Insider rules

Industrivärden adheres to applicable insider rules and stipulations on public disclosure regarding transactions in shares of the portfolio companies. In addition, Industrivärden has internal rules that prohibit employees from trading in shares in the companies in which Industrivärden has major shareholdings for 30 days prior

The holdings 2009

SEK M	Dividend received 2009	Change in value	Net purchases and sales (-) per holding	Market value 12/31/2009	Total return, %
Handelsbanken	442	4,953	-261	12,896	70
Sandvik	430	5,092	-76	11,701	87
SCA	248	2,016	-	6,754	50
SSAB	212	2,832	-116	6,313	91
Ericsson	138	416	156	4,984	12
Volvo	140	1,209	17	4,283	45
Skanska	156	1,303	-120	3,533	68
Indutrade	94	1,014	-	1,992	116
Höganäs	11	333	-	582	142
Munters	0	90	-	510	21
Total Equities Portfolio SIXRX	1,871	19,258	-400	53,548	63 53

to publication of interim reports and the year-end report, including the day of reporting. All employees of Industrivärden are required to report their total holdings of financial instruments in the portfolio companies in an internal register.

OPERATIONS**Net asset value**

During the year, net asset value increased from SEK 23.9 billion, or SEK 62 per share, to SEK 42.8 billion, or SEK 111 per share, a rise of 79%. The components making up net asset value are shown in the following table:

	SEK billion		SEK per share	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Equities portfolio	53.5	34.7	139	90
Interest-bearing net debt	-10.8	-10.8	-28	-28
Net asset value	42.8	23.9	111	62

Equities portfolio

The market value of the equities portfolio at year-end was SEK 53,548 M (34,744). The market value exceeded cost by SEK 23,161 M (3,579). Stocks were sold for a net amount of SEK 400 M (-330).

Taking into account purchases and sales, the value of the portfolio increased by 56% (-48%) during the year. The stock market index (OMXSPI) rose 47% (-42%) during the same period. The total return of the equities portfolio was 63% (-45%), compared with 53% (-39%) for the return index (SIXRX).

Short-term derivative transactions and equity trading

Group Company Nordinvest AB conducts short-term equity trading. During the year purchases of listed stocks totaled SEK 5,833 M (4,093) and sales totaled SEK 5,867 M (4,136). Profit from these activities was SEK 7 (7). Industrivärden's total income from short-term derivative transactions and equity trading amounted to SEK 100 M (68).

Interest-bearing net debt

At year-end 2009, interest-bearing net debt amounted to SEK 10,766 M (10,813), corresponding to a net debt-equity ratio of 20.1% (31.1%). Interest-bearing net debt decreased slightly. The net debt-equity ratio decreased as a result of the rise in value of the equities portfolio. Of interest-bearing net debt, SEK 2,100 M falls due for payment in 2010 and SEK 655 M in 2011. To meet these obligations, Industrivärden has, among other things, unutilized committed credit facilities with banks amounting to SEK 2,500 M.

Proposed dividend

The Board of Directors proposes a dividend of SEK 3.00 (4.50) per share. The proposed dividend corresponds to 4% of the Parent Company's shareholders' equity and 3% of the Group's shareholders' equity. Of shareholders' equity 15.4%, or SEK 4.5 billion in the Parent Company, and 54%, or SEK 22.9 billion in the Group, is attributable to the fair valuation of assets and liabilities. Industrivärden's dividend policy is to pay the shareholders a dividend yield that is higher than the average for the Stockholm Stock Exchange. The Board finds that the proposed dividend is well balanced in view of the objectives, scope and risk of operations, as well as with respect to the Company's ability to meet its future obligations. According to the proposal, the total dividend payout amounts to SEK 1,159 M (1,738).

Important events 2010

In January the Board of Directors decided to make an offering of convertible bonds to European institutions. The bonds have a principal amount of EUR 500 M due 2015 and carry a coupon of 2.5% per annum.

The conversion price is SEK 115.50, which corresponded to net asset value on the issue date. The issue was approved by an Extraordinary General Meeting on February 12.