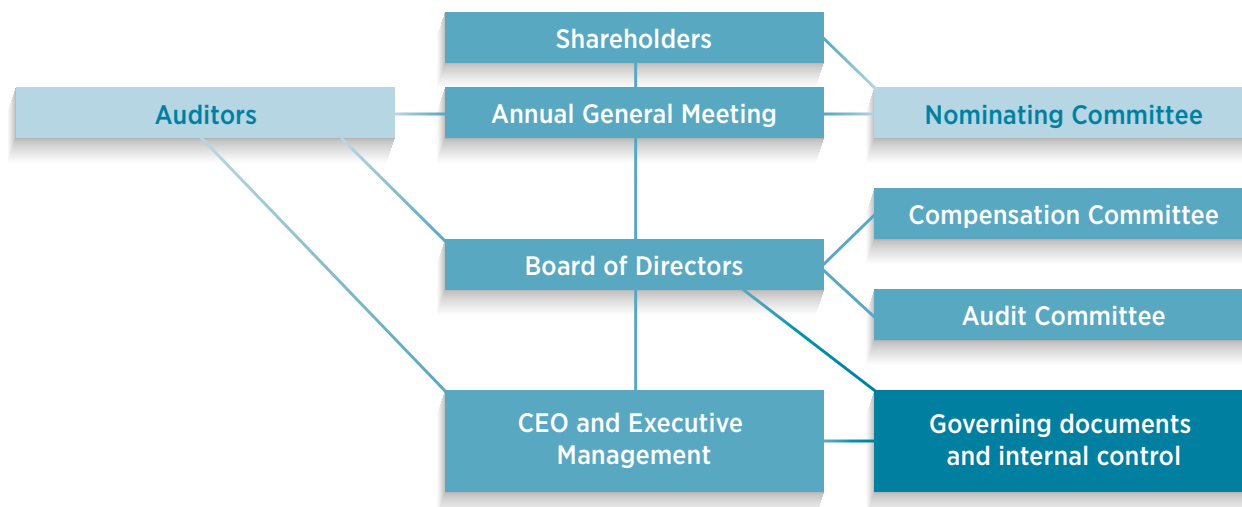


CORPORATE GOVERNANCE REPORT



STARTING POINT

Good corporate governance, risk management and internal control are central parts of a successful business and decisive for a company's ability to uphold the trust of its stakeholders. Industrivärden has high ambitions for its corporate governance.

CORPORATE GOVERNANCE STRUCTURE

Industrivärden's governing bodies are the general meeting, the Board of Directors, the CEO and the auditor. At the permanent general meeting, which is held within six months after the end of the fiscal year (Annual General Meeting), the shareholders elect the Board of Directors and auditor. The Board of Directors appoints the CEO. The auditor reviews the annual report and the Board's and CEO's administration. The Nominating Committee is tasked with recommending board members, the Chairman of the Board and the auditor for election at the Annual General Meeting.

Industrivärden applies the Swedish Corporate Governance Code (the Code), which is available at www.bolagsstyrning.se.

The Corporate Governance Report pertains to the 2017 fiscal year and has been reviewed by the Company's auditor. During 2017 Industrivärden did not have any departures from the Code.

SHAREHOLDERS

Information on Industrivärden's shares and shareholders is provided on pages 39–40.

GENERAL MEETINGS

General meetings of shareholders are Industrivärden's highest governing body. At the Annual General Meeting (AGM), resolutions are made concerning recommendations and proposals set forth by the Nominating Committee, the Board of Directors and shareholders. Among other items of business, the income statements and balance sheets are adopted, a decision is made regarding the dividend, and the Board of Directors are elected, which according to the Articles of Association shall consist of a minimum of three and a maximum of nine members. In addition, the auditor

is elected and the auditor's fee is determined, and other items of legally ordained business are conducted.

NOMINATING COMMITTEE

In accordance with a resolution for the Nominating Committee made by the 2011 Annual General Meeting, which applies until further notice, the Chairman of the Board is assigned the task of contacting four shareholders from among the largest registered shareholders in terms of votes in Euroclear Sweden AB's printout of the shareholder register as per the last business day in August, who each appoints one representative who is not a director on the Company's board, to form together with the Chairman of the Board a Nominating Committee for the time until a new Nominating Committee has been appointed. The Nominating Committee appoints a committee chair from among its members. The composition of the Nominating Committee shall be made public not later than six months before the next Annual General Meeting. No fee is payable for work on the Nominating Committee.

If a member leaves the Nominating Committee before its work has been completed, and if the Nominating Committee is of the opinion that there is a need to replace the departing member, the Nominating Committee shall appoint a new member. Any changes in the Nominating Committee's composition shall be made public immediately.

The Nominating Committee for conducting preparatory work for the election of directors, etc., ahead the 2017 AGM consisted of Mats Guldbrand (committee chair – L E Lundberg-företagen), Håkan Sandberg (Handelsbanken Pension Foundation and others), Mikael Schmidt (SCA Pension Foundation and others), Bo Damberg (the Jan Wallander and Tom Hedelius Foundation, and others), and Fredrik Lundberg (Chairman of the Board of Industrivärden).

The Nominating Committee's reasoned statement ahead of the 2017 AGM certifies that in formulating its recommendations for members of the Board of Directors, the Nominating Committee relied on Rule 4.1 of the Code as its diversity policy.

The goal of the policy is that the Board shall have a suitable composition in respect of the Company's operations, phase of development and conditions in general, distinguished by a diversity and breadth of expertise, experience and backgrounds, and that an even gender balance shall be strived for. The 2017 AGM resolved to elect board members in accordance with the Nominating Committee's recommendation, entailing that eight directors were elected, of whom three are women and five are men.

For conducting preparatory work for the election of directors, etc., ahead of the 2018 AGM, the following Nominating Committee has been appointed: Mats Guldbrand (committee chair – L E Lundbergföretagen), Håkan Sandberg (Handelsbanken Pension Foundation and others), Mikael Schmidt (SCA Pension Foundation and others), Bo Damberg (the Jan Wallander and Tom Hedelius Foundation, and others), and Fredrik Lundberg (Chairman of the Board of Industrivärden).

BOARD OF DIRECTORS

The Board of Directors has a central role in Industrivärden's business model for long-term asset management and active ownership. It is responsible for, among other things, issues related to major purchases and sales of listed stocks, the design and execution of active ownership, and overarching ownership matters concerning the portfolio companies. The Board has ultimate responsibility for Industrivärden's organization and administration. The members of the Board of Directors and information about their independence conditions are shown in the table below, and a presentation of the board members is provided on page 63.

The Board's duties are laid out in the Board's Rules of Procedure and follow a yearly plan. Every board meeting follows an agenda that has been distributed to the board members supported by relevant background documentation.

In addition to the statutory board meeting, which is held in conjunction with the Annual General Meeting, the Board normally meets eight times per year (regular meetings, including

meetings in connection with the publication of interim and year-end reports). Extra meetings are convened when necessary. In 2017 the Board held a total of nine meetings.

The statutory meeting deals with adoption of the Board's Rules of Procedure, designation of the Company's signatories, appointment of persons to check the minutes of board meetings, and appointment of committee members.

Each year the Board evaluates Industrivärden's financial reporting and makes demands on its content and structure to ensure it maintains a high level of quality. 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 submits a report on the auditors' observations and assessments from their audit.

The regular board meetings cover a number of set items of business. These include, among other things, a report on the financial result of operations, the development of net asset value and performance of the equities portfolio, and on equity transactions that have been carried out. Reporting also includes a description of the portfolio companies' performance and macroeconomic conditions. In addition, a special review is normally conducted of one or more of the portfolio companies and of potential investments or divestments. At several board meetings during the year, the CEO from a portfolio company make a presentation on the company's development.

All board decisions are based on extensive documentation and are made following a discussion that is led by the Chairman. The Board's work is evaluated yearly in a structured process conducted under the direction of the Chairman of the Board. The 2017 evaluation was conducted by means of a questionnaire that each board member was requested to complete, in the aim of gaining an idea about the directors' views on, among other things, how the board work has been conducted and which measures could be taken to improve the board work as well as which matters the directors feel should be given more attention and in which areas it could possibly be suitable to have

ATTENDANCE, FEES AND INDEPENDENCE CONDITIONS

The table pertains to the board members elected at the 2017 Annual General Meeting.

Name	Born	Year elected	Role on Board	Audit Committee	Compensation Committee	Attendance at meetings			Fee 2017 SEK 000s
						Board	Audit Committee	Compensation Committee	
Fredrik Lundberg	1951	2004	Chairman	Member	Chair	All	All	All	2,000
Pär Boman	1961	2013	Vice Chairman	Chair	-	All	All	-	1,200
Christian Caspar	1951	2011	Director	Member	-	All	All	-	600
Bengt Kjell	1954	2015	Director	-	-	All	-	-	600
Nina Linander	1959	2014	Director	Member	-	All	All	-	600
Annika Lundius	1951	2014	Director	-	Member	All	-	All	600
Lars Pettersson	1954	2015	Director	-	Member	All	-	All	600
Helena Stjernholm	1970	2016	Director	-	-	All	-	-	-
Total									6,200

Prior to the 2017 AGM the Nominating Committee made the following determination regarding directors' independence: Pär Boman has not been found to be independent in relation to the Company and the Executive Management, nor in relation to major shareholders. Fredrik Lundberg and Lars Pettersson have been found to be independent in relation to the Company and Executive Management, but not in relation to major shareholders. Helena Stjernholm has been found to be independent in relation to major shareholders but not in relation to the Company and Executive Management. Other board members have been found to be independent in relation to the Company and Executive Management as well as in relation to major shareholders. The Board's composition meets the Code's requirements for independent directors.

additional expertise on the Board. The results of this evaluation were reported on by the Chairman, followed by a discussion within the Board. In addition, the Chairman's work on the Board was evaluated with him not being present. The Chairman of the Board gave an oral report to the Nominating Committee on the conclusions of these evaluations and discussions.

BOARD COMMITTEES

The Board has appointed an audit committee and a compensation committee tasked with conducting drafting work for audit and compensation issues, respectively, for decision by the Board. The composition of the committees and attendance at committee meetings are shown in the table on page 34.

AUDIT COMMITTEE

The Audit Committee serves in an oversight role with respect to the Company's risk management, governance and control, and financial reporting. The committee shall also keep itself informed about the Swedish Inspectorate of Auditors' quality control, inform the Board about the audit's contribution to the reliability of the financial reporting, maintain regular contact with the auditor to ensure that the Company's internal and external reporting meet the requirements placed on a listed company and to discuss the scope and focus of the audit work. The auditor reports his observations to the Audit Committee on a regular basis and attended three board meetings during the year. The Audit Committee held four meetings in 2017. No fees have been paid to the board members for their work on the committee.

COMPENSATION COMMITTEE

The Compensation Committee addresses matters concerning principles for compensation and other terms of employment for the CEO and members of the Executive Management, monitors variable compensation programs for Company executives, and monitors and evaluates application of the compensation guidelines that have been set by the Annual General Meeting. The Compensation Committee held three meetings in 2017. No fees have been paid to the board members for their work on the committee.

CHIEF EXECUTIVE OFFICER

The CEO is responsible for Industrivärden's operative activities in accordance with the adopted strategy and the CEO's instructions set by the Board. These cover, among other things, investment rules for equities and derivative instruments which indicate the maximum amounts for the CEO's authority between board meetings to decide on purchases and sales of stocks and derivative instruments. The CEO makes regular presentations to the Board of Directors on the performance of operations.

THE BOARD'S PROPOSED GUIDELINES FOR COMPENSATION OF SENIOR EXECUTIVES

The Board of Directors proposes that the 2018 Annual General Meeting resolve in favor of the following guidelines: Compensation paid to the CEO and other members of the Executive Management shall consist of a base salary, a variable salary, other benefits and pension. The total compensation should be

competitive and in line with the going rate in the market, and shall be commensurate with the executive's responsibilities and authority. The variable salary portion consists of a short-term variable salary component (yearly) and a long-term variable salary component. The short-term variable salary component is based on individually defined targets, shall have a cap, and never exceed 50% of base salary. The long-term variable salary component is based on the long-term performance of the Company's stock and shall have a cap. None of the variable components shall be pensionable. Upon termination of an executive's employment contract by the Company, a maximum two-year notice period applies. No severance pay should be payable. Pension benefits shall be defined-contribution in all essential respects and give the members of the Executive Management the right to receive benefits from 60 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. The proposal is largely consistent with the guidelines approved by the 2017 Annual General Meeting.

AUDITOR

The auditor audits the annual report, the bookkeeping and the Board's and CEO's administration, and reports to the Annual General Meeting. At the 2017 Annual General Meeting, PricewaterhouseCoopers AB was elected as auditor for a term lasting through the 2018 Annual General Meeting. The chief auditor is Magnus Svensson Henryson (b. 1969), Authorized Public Accountant. In 2017 he was also chief auditor of the listed company SSAB. In 2017 the half-year interim report and year-end report were reviewed by the Company's auditor.

GOVERNANCE DOCUMENTS AND INTERNAL CONTROL

Industrivärden has transparent operations and established control systems. Each year the Board adopts governance documents in the form of the CEO's instructions, the investment policy and the finance policy. The CEO's instructions lay out central guidelines and clarify which decisions are to be made by the Board and which are made by the CEO. The investment policy specifies and sets the framework for investments in financial instruments, and the finance policy sets the framework for financing and management of financial risks.

Against the background of Industrivärden's operations, organizational structure and 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. The Board regularly evaluates the financial reporting that is received in connection with board meetings and which pertains to the equities portfolio, the Company's debt and other important conditions. The Audit Committee carries on a continuous dialog with the Company's auditor about the scope and quality of the Company's financial reporting.

Internal control over financial reporting is described in more detail on pages 46–47. Further information about corporate governance at Industrivärden can be found on the Company's website.