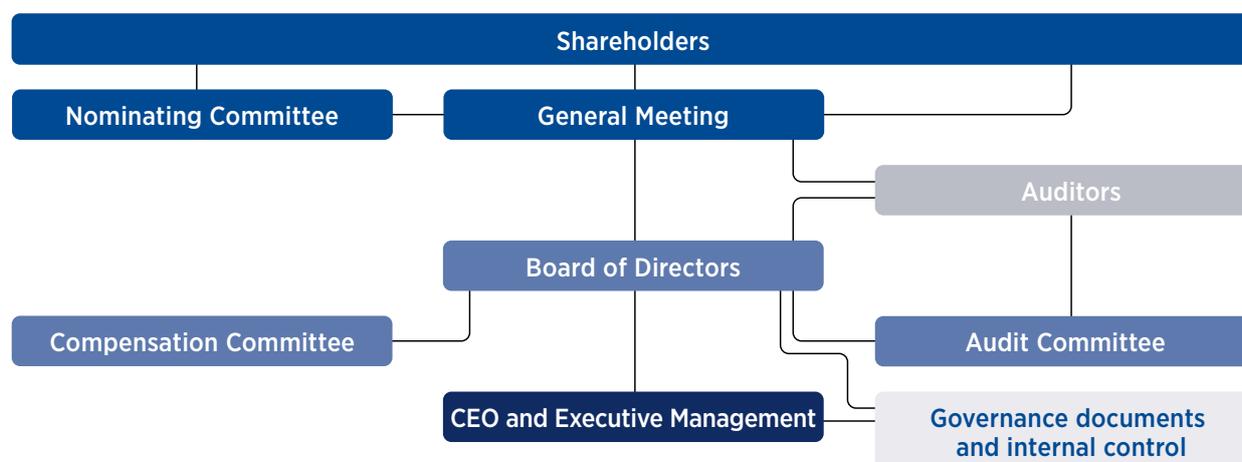


Corporate Governance Report



Corporate governance structure

Good corporate governance is of major importance for maintaining correct, transparent and trust-instilling management and control. Industrivärden's corporate governance is conducted on the basis of laws, the Stockholm Stock Exchange's Rule Book for Issuers (www.nasdaqomxnordic.com), the Swedish Corporate Governance Code ("the Code") (www.bolagsstyrning.se) and other applicable external rules and regulations. Among the internal governance documents that Industrivärden's corporate governance is based on are Industrivärden's Articles of Association, the instructions and Rules of Procedure for the Board of Directors, the Board's committees and the Chief Executive Officer (CEO), and various policies and guidelines for the Company's operations and organization.

The foundation for Industrivärden's corporate governance is made up of the central company bodies: the general meeting of shareholders, the Nominating Committee, the Board of Directors and its committees, the CEO and the auditor. At the Annual General Meeting (AGM), which is held within six months after the end of the fiscal year, 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, among other things, recommending board members, the Chairman of the Board and the auditor for election at the AGM.

Through the Articles of Association the shareholders have stipulated the object of the Company's business, the minimum and maximum number of board members, and the forms of conducting general meetings of shareholders. Industrivärden's Articles of Association and further information about the Company's corporate governance model are provided on Industrivärden's website under the menu Corporate Governance.

This Corporate Governance Report for the 2019 fiscal year has been prepared in accordance with the Annual Accounts Act and the Code, and has been examined by the Company's auditor. During 2019 Industrivärden did not depart from the Code.

Shareholders

As per December 31, 2019, Industrivärden had approximately 88,000 shareholders. Two shareholders each hold more than 10% of the number of votes: L E Lundbergföretagen owns 23.8% of the number of votes, and the Handelsbanken Pension Foundation owns 10.8% of the number of votes, in the Company. For further information on the ownership structure, see pages 26–27.

General meetings

The shareholders' influence over Industrivärden's affairs is exercised at general meetings of shareholders, which are the Company's highest governing body. Class A shares carry entitlement to one vote, and Class C shares carry entitlement to one-tenth of a vote. Apart from what is prescribed by law regarding the shareholders' right to participate at general meetings, the Articles of Association prescribe that notification shall be made within a period of time stated in the AGM notice.

At the AGM, resolutions are made concerning recommendations and proposals set forth by the Nominating Committee, the Board and the shareholders, and other legally ordained matters are addressed. Among other things, the income statement and balance sheet are adopted, a decision is made regarding the dividend, the Board of Directors and auditor are elected and their fees are set, a decision is made on whether to discharge the directors and the CEO from liability, and the guidelines for compensation of senior executives are adopted.

At the AGM on April 17, 2019, the following resolutions were made, among others:

- To pay a dividend of SEK 5.75 per share
- To re-elect all board members
- To elect Deloitte AB as new auditor
- To adopt the guidelines for compensation of senior executives
- To approve a long-term share savings program for Industrivärden employees

Further information on Industrivärden's 2019 AGM is available on Industrivärden's website under the menu Corporate Governance.

Industrivärden's 2020 Annual General Meeting will be held on April 24, 2020. For more information, see page 69 and Industrivärden's website under the menu Corporate Governance.

Nominating Committee

The Nominating Committee is responsible for performing the duties prescribed to it by the Code, and as a drafting body shall draw up recommendations for, among other things, election of the members of the Board of Directors, the Chairman of the Board and auditor, and for directors' and the auditor's fees, for decision by the Annual General Meeting.

In accordance with the resolution for the Nominating Committee made by the 2011 AGM, 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 appoint 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 AGM. 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's composition ahead of the 2019 AGM and the Nominating Committee's report is available on Industrivärden's website under the menu Corporate Governance.

The Nominating Committee ahead of the 2020 AGM has the following composition: Mats Guldbrand (L E Lundbergföretagen), Stefan Nilsson (Handelsbanken Pension Foundation and others), Mikael Schmidt (SCA and Essity Pension Foundations and others), Bo Damberg (the Jan Wallander and Tom Hedelius Foundation and others), and Fredrik Lundberg (Chairman of the Board of Industrivärden). Mats Guldbrand has been appointed as committee chair.

Board of Directors

The Board's role, composition and fees

The Board of Directors has ultimate responsibility for Industrivärden's organization and administration, and plays a central role in Industrivärden's business model for exercising long-term active ownership. It is responsible for, among other things, the Company's strategy, matters involving major purchases and sales of securities, formulation and application of the methods for active ownership, and overarching ownership matters concerning the portfolio companies. The Articles of Association stipulate that the Board shall consist of a minimum of three and a maximum of nine directors. The Board's composition, the directors' attendance at board and committee meetings, and directors' fees are shown in the table below. For a more detailed presentation of the board members, see page 46 and Industrivärden's website, under the menu Corporate Governance.

The Nominating Committee's reasoned statement ahead of the 2019 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. The 2019 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.

The composition of Industrivärden's board meets the Code's requirement for independent directors. The Nominating Committee's assessment regarding the directors' independence conditions ahead of the 2019 AGM is outlined in the table below.

The Board has appointed an audit committee and a compensation committee tasked with conducting preparatory work for audit and compensation matters, respectively, for decision by the Board. The aim of the committees is to take a more in-depth look at, streamline and quality-assure the Board's work on these matters. The committees are described in more detail below.

Attendance, fees and independence conditions

Board members elected at the 2019 Annual General Meeting

Name	Role			Independent in relation to		Attendance at meetings			Decided fee 2019, SEK 000s
	Role on Board	Audit Committee	Compensation Committee	The company and Executive Management	Major shareholders	Board	Audit Committee	Compensation Committee	
Fredrik Lundberg	Chairman	Member	Chair	x		9	3	3	2,060
Pär Boman	Vice Chairman	Chair	-			9	3	-	1,240
Christian Caspar	Director	Member	-	x	x	9	3	-	620
Bengt Kjell	Director	-	-	x	x	9	-	-	620
Nina Linander	Director	Member	-	x	x	9	3	-	620
Annika Lundius	Director	-	Member	x	x	9	-	3	620
Lars Pettersson	Director	-	Member	x		8	-	3	620
Helena Stjernholm	Director	-	-		x	9	-	-	-
Total									6,400

The Board's work

The Board's duties are laid out in the Rules of Procedure (incl. the CEO's instruction), which are adopted yearly at the statutory board meeting. The Rules of Procedure and the CEO's instructions regulate and structure the Board's duties during the year, clarify internal decision-making processes and prescribe the division of responsibility vis-à-vis the CEO.

In addition to the Rules of Procedure, the Board adopts a number of governance documents for the Company's operations. For further information, see the subheading "Internal control over financial reporting" on page 45. Every board meeting is conducted in accordance with an agenda that has been distributed to the directors along with relevant documentation. All board decisions are based on extensive documentation and are made following a discussion that is led by the Chairman of the Board. Minutes are recorded of board meetings by the Company's General Counsel.

In addition to the statutory board meeting, which is held in conjunction with the AGM, the Board normally meets eight times per year (regular meetings, including meetings in connection with the publication of interim and year-end reports). Extra board meetings are convened when necessary. In 2019 the Board held a total of nine meetings.

The regular board meetings cover a number of set agenda points. 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. Industrivärden's action plans for the portfolio companies are also updated on a continuous basis and are presented to the Board. Through representation on the portfolio companies' boards and nominating committees, Industrivärden's board members and executive management play a central role in exercising active ownership. Senior executives of Industrivärden participate at board meetings to give presentations on specific matters. During 2019, within the framework of active ownership and as in earlier years, a significant part of the Board's work consisted of hearing presentations from members of the Executive Management covering Industrivärden's more in-depth view and action plan for a couple of the portfolio companies, and discussing and evaluating these action plans.

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 its observations and assessments from the performed audit.

Evaluation of the Board's work

The Board's work is evaluated yearly in a structured process conducted under the direction of the Chairman of the Board. The 2019 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 can 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 additional expertise on the Board. The results of this evaluation were reported and discussed by the Board. In addition,

the Chairman's work on the Board was evaluated with him not being present. The conclusions of these evaluations and discussions were that the board work was considered to work very well, which was reported on to the Nominating Committee.

Audit Committee

The Audit Committee serves a preparatory and oversight role with respect to the Company's risk management, governance and control over financial reporting. The committee maintains regular contact with the auditor to ensure that the Company's internal and external reporting meet the requirements placed on a listed company, monitor the effectiveness of the Company's internal control over financial reporting, stay informed about the audit of the annual report and consolidated financial statements, and to discuss the scope and focus of the audit work with the auditor. In addition, the Audit Committee reviews and oversees the auditor's impartiality and independence, issues guidelines for which other services than auditing may be procured from the Company's auditor and, where applicable, handles procurement of services from the auditor. The auditor reports on its observations to the Audit Committee on a regular basis.

The Audit Committee held three meetings in 2019. The Company's auditors participated at all three meetings, of which the departing auditor PricewaterhouseCoopers AB participated at one meeting, and the new auditor elected at the 2019 AGM, Deloitte AB, participated at two meetings. The members of the Audit Committee are listed in the table on page 42. No fees have been paid to the board members for their work on the committee.

Compensation Committee

The Compensation Committee has a preparatory role ahead of the Board's decisions on matters concerning principles for compensation and other terms of employment for the CEO and senior executives, and evaluates variable compensation program for members of the Executive Management, application of the compensation guidelines for senior executives that the AGM decides on, and applicable compensation structures and compensation levels in the Company.

The Compensation Committee held three meetings in 2019. The members of the Compensation Committee are listed in the table on page 42. No fees have been paid to the board members for their work on the committee.

CEO and Executive Management

The CEO is responsible for Industrivärden's operating activities in accordance with the objectives and strategies set by the Board of Directors as well as in accordance with the division of responsibilities laid out in the CEO's instructions. The CEO's duties include, among other things, leading and structuring the investment and analysis operations, deciding on share transactions, preparing action plans, and responsibility for personnel, finance and business administration matters. The CEO organizes the operations and appoints the senior executives who make up Industrivärden's Executive Management. Other members of the Executive Management support the CEO in her assignment. The CEO makes regular presentations to the Board of Directors on the performance of operations in order to facilitate well-informed board decisions. The Board continuously evaluates the CEO's work by monitoring performance of the operations based on set goals, and a comprehensive evaluation is performed yearly. For a more detailed presentation of Industrivärden's CEO and Executive Management, see page 47 and Industrivärden's website under the menu Corporate Governance.

Compensation

Directors' fees

The 2019 AGM resolved on directors' fees in accordance with the table on page 42.

Compensation of senior executives 2019

The guidelines for compensation of senior executives that were adopted by the 2019 AGM and information on compensation of senior executives in 2019 are provided in Note 7 on pages 54–55.

Guidelines for compensation of senior executives 2020

The Board of Directors recommends that the 2020 AGM resolve in favor of the following guidelines for compensation of senior executives.

These guidelines pertain to Industrivärden's CEO and other members of the Executive Management. The guidelines are to be applied for compensation agreed upon, and changes made to already agreed upon compensation, after the guidelines have been adopted by the 2020 AGM. Compensation decided by the AGM is not covered.

Compared with the guidelines decided upon by the 2019 AGM, the proposal below has been updated to meet the requirements arising out of implementation of the EU's Shareholder Rights Directive.

The guidelines' promotion of the Company's business mission, long-term interests and sustainability

The Company's business mission is to be a long-term asset manager and active owner of listed Nordic companies. The mission, objectives and strategy are presented in more detail on Industrivärden's website www.industrivarden.net.

Successful and sustainable execution of the Company's mission, objectives and strategy for capitalizing on the Company's long-term interests requires that the Company can recruit and retain qualified employees. The guidelines contribute to this by ensuring that senior executives can be offered a going-rate, competitive total compensation package that is commensurate with their responsibilities and authority.

Types of compensation, etc.

Compensation shall be in line with the going rate in the market and competitive, and be related to individual performance as well as the Company's development. Compensation may consist of the following components: fixed cash salary, short-term variable cash compensation, pension benefits and other benefits.

Short-term variable cash compensation may amount to a maximum of 50% of the executive's fixed annual cash salary. The compensation shall be coupled to fulfillment of individual criteria that are set yearly and that are evaluated according to the executive's work contribution and performance. The criteria may be financial or nonfinancial, or they may consist of individually adapted quantitative or qualitative goals. The criteria shall be formulated so that they have a clear coupling to value creation for the Company and promote the Company's business mission and sustainable execution of the Company's long-term interests.

Fulfillment of criteria for payment of short-term variable cash compensation shall be measured during a period of one year. The Compensation Committee is responsible for assessing the extent to which the criteria for payment of short-term variable cash

compensation to the CEO is fulfilled. The Board thereafter sets the CEO's compensation. The CEO is responsible for assessing the fulfillment of criteria for payment of short-term variable cash compensation for other senior executives. Short-term variable cash compensation shall not be pensionable.

The Board shall have the opportunity pursuant to law or agreement, with the restrictions that may arise out of such, to fully or partly rescind variable cash compensation paid out on incorrect grounds.

Pension benefits, including disability insurance, (Sw. sjukförsäkring) shall be defined contribution solutions to the extent that the executive is not covered by a defined benefit pension under compulsory collective contract provisions, and shall entitle the executive to receive a pension from 60 or 65 years of age, depending on the position. For the CEO and other senior executives, premiums and other costs related to defined contribution pensions may amount to a combined maximum of 40% of the fixed annual cash salary, depending on the position.

Other benefits may include, among other things, life insurance, health insurance (Sw. sjukvårdsförsäkring), a car benefit and a wellness benefit. For the CEO, such benefits may amount to a maximum of one (1)% of fixed annual cash salary, and for other senior executives they may amount to four (4)% of fixed annual cash salary, depending on the position.

In addition to the above, the general meeting of shareholders may – independently from these guidelines – decide on e.g., share-based and share price-related compensation. Since 2012 the Company has established share-based incentive programs approved by general meetings, of which the 2017–2019 programs are currently in effect. The programs cover all employees and require a personal shareholding and holding period of three (3) years. The outcome is based on performance targets that are related to the long-term growth in Industrivärden's share price. Approved share-based incentive programs are presented in more detail on Industrivärden's website www.industrivarden.net.

For notice of termination served by the Company, the notice period may be a maximum of two (2) years. Fixed cash salary paid during the notice period and severance pay may together not exceed an amount corresponding to two (2) years' fixed cash salary. For notice given by the executive, the notice period may be a maximum of six (6) months, without any right to severance pay.

Additionally, compensation may be payable for any non compete obligation. Such payment shall compensate for possible loss of income and shall only be paid to the extent the former executive lacks entitlement to severance pay. Compensation shall amount to a maximum of 60% of fixed cash salary at the time notice was served, unless other terms apply under stipulations of a compulsory collective agreement. It shall be paid during the time the noncompete obligation applies, which shall be a maximum of 12 months after the end of employment.

Decision-making process for setting, revising and implementing the guidelines

The Compensation Committee's duties include conducting preparatory work for board decisions on proposed guidelines for compensation of senior executives. The Board shall draw up a recommendation for new guidelines at least every fourth year and present the recommendation for decision by the Annual General Meeting. The guidelines apply until new guidelines have been adopted by a general

meeting. The Compensation Committee shall also monitor and evaluate variable compensation programs for members of the Executive Management, application of guidelines for compensation of senior executives and applicable compensation structures and compensation levels in the Company.

In the preparatory work for the Board's recommendation on these compensation guidelines, salary and terms of employment for the Company's other employees have been taken into account, whereby information on the employees' total compensation, the components of their compensation and the increase in their compensation and rate of growth over time have made up part of the Compensation Committee's and Board's decision-making documentation in evaluating the fairness of the guidelines and the limitations that arise out of these.

The Compensation Committee's members are independent in relation to the Company and Executive Management. In the Board's handling of and decisions on compensation-related matters, the CEO and other members of the Executive Management are not present to the extent they are the subject of the matters at hand.

Departures from the guidelines

The Board may decide to temporarily depart from the guidelines entirely or partly if in an individual case there are special reasons for doing so and a departure is necessary for safeguarding the Company's long-term interests or to ensure the Company's financial soundness. The Compensation Committee's duties include conducting preparatory work for the Board's decisions on compensation matters, which includes decisions to depart from the guidelines.

Auditor

The Annual General Meeting appoints the Company's auditor yearly. The auditor audits the annual report, the bookkeeping and the Board's and CEO's administration of the Company, and reports to the Annual General Meeting.

At the 2019 AGM, Deloitte AB was elected as new auditor for a term lasting through the 2020 AGM. The chief auditor is Hans Warén (born 1964), Authorized Public Accountant, who has been active as an auditor since 1987. In addition to his assignment for Industrivärden, in 2019 Hans Warén was chief auditor, for among other things, the listed companies Axfood, Castellum, Trelleborg, Gunnebo and Lindab.

In 2019 the Company's auditor reviewed the half-year report and year-end report, and audited the annual report and consolidated financial statements. The auditor has submitted written as well as oral reports to the Audit Committee and the Board. The auditor's report for 2019 is provided on pages 64–66, and the auditor's fee is shown in Note 8 on page 56.

Internal control over financial reporting

Control environment

Internal control at Industrivärden aims primarily to ensure a correct valuation of outstanding equity positions as well as effective and reliable controls in the reporting of purchases and sales of shares and other securities.

Industrivärden's control environment is built upon a clear division of duties and responsibilities between the Company's various bodies and functions, a sound corporate culture and transparent operations. Relevant policies and guidelines are decided on and evaluated on a continuing basis by the Company's board and

management. These frameworks, together with internal, formal process descriptions, are well-established and known by the pertinent employees.

Relevant governance documents adopted by the Board of Directors include, among others, the CEO's instructions, which stipulate the division of responsibility between the Board and the CEO, and the Investment and Finance Policy, which lays out the frameworks for investments in financial instruments, financing and management of financial risks. Decision-making channels, authority and responsibility at the operational level are defined in more detail by the CEO in Investment Rules, the Risk Policy and Authorization Instructions.

Risk assessment

Industrivärden continuously identifies, assesses and manages risks for material errors in the financial reporting. This process is fundamental for ensuring that the financial reporting is reliable. The Company's assessments and measures are reported on a regular basis to the Audit Committee. Risk management is described in more detail in Note 26 on page 61.

Control activities

Industrivärden has established a number of different control activities aimed at ensuring the effectiveness of the measures taken to prevent material errors in the financial reporting. Relevant control and monitoring activities make up an integral part of Industrivärden's business, decision-making and accounting processes.

The Board of Directors continuously evaluates the financial reporting that is received in connection with board meetings and which covers the equities portfolio, gearing and other important conditions. The Audit Committee carries on a continuous dialog with the Company's auditor on the scope and quality of the Company's financial reporting.

Against the background of Industrivärden's operations, organizational structure and how the financial reporting in other respects is organized, in 2019 the Board did not find a need for a dedicated audit function in the form of internal audit.

Internal control activities concerning the financial reporting are described in more detail in Note 26 on page 61.

Information and communication

Industrivärden's communication of external information is regulated by an Information Policy that is adopted by the Company's board. In addition, internal guidelines are in place to ensure information security, and correct and reliable communication of information.

Monitoring

Industrivärden's board and management continuously evaluate the effectiveness and quality of internal control over financial reporting. Management reports on the Company's operational and financial development to the Board on a regular basis in connection with forthcoming interim reporting, and board and Audit Committee meetings. Between such occasions, reporting is conducted as needed. The Company's auditor reports its observations to the Audit Committee on a continuing basis.