

# 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 2010 fiscal year, the company's sixty-sixth year of operation. The following corporate governance report, 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 high growth in net asset value over time and thereby enable a competitive total return to the shareholders.

### Corporate governance report

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

Industrivärden adheres to the Swedish Code of Corporate Governance. The Corporate Governance Report pertains to the 2010 fiscal year and 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 20–21.

### 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 auditor is elected and their fees are determined, and other items of legally ordained business are conducted.

### NOMINATING COMMITTEE

The members of the Nominating Committee are Bo Damberg (the Jan Wallander and Tom Hedelius Foundation, and others), Ulf

Lundahl (L E Lundbergföretagen), Sverker Martin-Löf (Chairman of Industrivärden), Anders Nyberg (SCA Pension Foundations and others), and Håkan Sandberg (committee chair – Handelsbanken Pension Foundation and Handelsbanken Pension Fund).

### MEMBERS OF THE BOARD OF DIRECTORS

Industrivärden's board of directors, which was elected by the 2010 Annual General Meeting, has eight members. The Chairman of the Board, Sverker Martin-Löf, is a former CEO of SCA and is the Chairman of SCA, Skanska and SSAB, among other positions. Olof Faxander is President and CEO of Sandvik (former CEO of SSAB). Boel Flodgren is a Professor of Business Law and former President of Lund University. Finn Johnsson is a board member of Skanska and is a former CEO of Mölnlycke Health Care, United Distillers and Euroc. Hans Larsson is Chairman of Handelsbanken, Nobia and Attendo. 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 49. 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 table on page 32.

### 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 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 the forms and application of active ownership; and
- major purchases and sales of listed stocks.

## ATTENDANCE, FEES AND INDEPENDENCE CONDITIONS

Name	Year elected	Board	Audit Committee	Compensation Committee	Attendance at board meetings	Attendance at committee meetings	Fee, 2010 SEK 000 <sup>3</sup>	Non-independence in relation to Industrivärden <sup>4</sup>	Non-independence in relation to major shareholders <sup>5</sup>
Sverker Martin-Löf <sup>1</sup>	2002	Chairman	Member	Chairman	All	All	1,200		
Olof Faxander	2009	Director	Member	–	All	All	400	X	
Boel Flodgren	2002	Director	Member	–	All	All	400		
Finn Johnsson	2000	Director	Member	–	All	All	400		
Hans Larsson	2010	Director	Chairman	Member	All <sup>2</sup>	All	400		X
Fredrik Lundberg	2004	Director	Member	–	All	All	400		X
Lennart Nilsson	1997	Director	Member	–	All	All	400		
Anders Nyrén	2001	Director	–	–	All	–	–	X	
<b>Total</b>							<b>3,600</b>		

<sup>1</sup> Sverker Martin-Löf was appointed as Vice Chairman in 2002 and as Chairman in 2010.

<sup>2</sup> Hans Larsson was elected as a director on the Board at the Annual General Meeting on May 5, 2010.

<sup>3</sup> No fee is paid for committee work.

<sup>4</sup> Olof Faxander was President and CEO of SSAB and is now President and CEO of Sandvik – companies in which Industrivärden is a major shareholder.

<sup>5</sup> Anders Nyrén is President and CEO of Industrivärden and the only executive director of the Company.

<sup>5</sup> Fredrik Lundberg is President and CEO of L E Lundbergföretagen, which is a major shareholder of Industrivärden. Hans Larsson serves as Chairman of foundations that are major shareholders of Industrivärden.

The Board has a central role in Industrivärden's business model for active ownership, which is described at length on pages 10–17.

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, decisions on the Company's signatories, appointment of persons to check the minutes of board meetings, and appointment of committee members.

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 to the Audit Committee on the auditors' observations and remarks from their audit.

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 the share price development and earnings performance. 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 development.

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 structure 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 IN 2010

The Board held a total of eight meetings in 2010. The most important duties of the Board concerned matters related to the holdings in the equities portfolio and strategic planning. In addition, the Board decided to carry out an issue of convertible bonds, to carry out large purchases of stocks, and to divest the holding in Munters.

## COMPENSATION COMMITTEE

The Board has appointed a compensation committee, which held one meeting. The guidelines for compensation of senior executives were adopted by the 2010 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 Chairman of the Board Sverker Martin-Löf (committee chair) and director Hans Larsson. No compensation was paid for the 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 coupled 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 notice period 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 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. Hans Larsson chairs the Audit Committee. The Audit Committee is tasked with reviewing 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 Audit Committee maintains regular contact with the Company's auditor to ensure that internal and external reporting meet established requirements and to discuss the scope and focus of the audit work. The auditor reports his observations to the Audit Committee in connection with the audit of the year-end financial statements. No compensation was paid to the Audit Committee members for their work on the committee.

#### AUDITOR

At the 2010 Annual General Meeting, PricewaterhouseCoopers AB was elected as the Company's auditor for a term through the 2014 Annual General Meeting. The chief auditor is Anders Lundin, Authorized Public Accountant.

In 2010 all interim reports were reviewed by the Company's auditor. 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, 2010, would have affected the market value by approximately +/- SEK 700 M. A detailed description of the risks associated with Industrivärden's business is provided on page 42.

#### INTERNAL CONTROL OF FINANCIAL REPORTING

Against the background 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 auditor 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 is made up 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 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

### SIGNIFICANT EVENTS

In January the Board of Directors decided to issue convertible bonds directed at European institutions. The loan is worth EUR 500 M, has a term until 2015 and carries a coupon of 2.5%. The conversion price is SEK 115.50, which corresponded to net asset value at the time of the issue.

Part of the proceeds from the convertible issue have been used for investments in the equities portfolio. Net purchases amounted to a total to SEK 2.5 billion. A major purchase was made of Volvo Class A shares by exercising a total return swap that was built up in 2009. Industrivärden purchased 12.5 million Class A shares at a price of SEK 64 per share. Net purchases for the year had an accumulated growth in value of 41%, compared with a 23% gain for the market index.

In October the Board decided to sell the shareholding in Munters to Nordic Capital for SEK 843 M; the holding generated a total return of 50% during Industrivärden's ownership.

### NET ASSET VALUE

During the year, net asset value increased from SEK 42.8 billion, or SEK 111 per share, to SEK 57.7 billion, or SEK 149 per share, a rise of 37%. The components making up net asset value are shown in the following table:

	SEK billion		SEK per share	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Equities portfolio	71.1	53.5	184	139
Interest-bearing net debt	-13.4	-10.8	-35	-28
Net asset value	57.7	42.8	149	111
Net asset value after full conversion	61.8		144	

### Equities portfolio

The market value of the equities portfolio at year-end was SEK 71,092 M (53,548). The market value exceeded cost by SEK 37,743 M (23,161). During the year, stocks were bought for a net amount of SEK 2,547 M (-400).

Taking into account purchases and sales, the value of the portfolio increased by 28% (56%) during the year. The stock market index (OMXSPI) rose 23% (47%). The total return of the equities portfolio was 31% (63%), compared with 27% (53%) for the return index (SIXRX).

### Short-term derivative transactions and equity trading

The Group company Nordinvest AB conducts short-term equity

trading. Income totaled SEK 17 M (7). Industrivärden's total income from short-term derivative transactions and equity trading amounted to SEK 114 M (100).

### Interest-bearing net debt

At year-end 2010, interest-bearing net debt amounted to SEK 13,401 M (10,766), corresponding to a net debt-equity ratio of 18.9% (20.1%). After full conversion of convertible loans, interest-bearing net debt at the same point in time was SEK 9,246 M, corresponding to a net debt-equity ratio of 13.0%.

### Parent Company

The Parent Company reports income after financial items of SEK 11,141 M (10,901). Shareholders' equity amounted to SEK 43,919 M (33,766) at year-end.

During the year, the the subsidiaries Industrivärden Invest AB and Industrivärden Förvaltning AB repaid conditional shareholder contributions of SEK 7,410 M to the Parent Company in connection with the refinancing of subsidiaries.

### Proposed dividend

The Board of Directors proposes a dividend of SEK 4.00 (3.00) per share. The proposed dividend corresponds to 3.5% of the Parent Company's shareholders' equity and 2.7% of the Group's shareholders' equity. Of shareholders' equity 46%, or SEK 20.3 billion in the Parent Company, and 57%, or SEK 32.0 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 1,545 M (1,159).

### Important events in 2011

In January 2011, the Board decided to issue six-year convertible bonds for EUR 550 M, which were oversubscribed. The Board's decision was formally approved at an Extraordinary General Meeting on February 9, 2011. The conversion price is SEK 162.00/share at a fixed euro exchange rate of SEK 8.8803, corresponding to a premium to net asset value and an annual coupon of 1.875%. The share dilution is limited and corresponds upon full conversion to approximately 8% of the capital and 1% of the number of votes.

## SHARE HOLDINGS 2010

SEK M	Dividend received 2010	Change in value	Net purchase/ sale (-) per holding	Market value, 12/31/2010	Total return, %
Sandvik	138	6,217	232	18,150	53
Handelsbanken	505	691	428	14,015	9
Volvo	-	4,660	1,770	10,713	89
SCA	262	733	-	7,487	15
SSAB	53	-505	540	6,347	-7
Ericsson	153	703	61	5,748	17
Skanska	182	385	363	4,280	15
Indutrade	63	1,429	-4	3,417	77
Höganäs	11	351	-	934	63
Munters	11	333	-843	-	69
Total, equities portfolio	1,379	14,997	2,547	71,092	31
SIXRX					27