

Board of Directors' Report including Corporate Governance Report

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The Board of Directors and President of AB Industrivärden (publ) herewith submit their annual report and consolidated financial statements for the 2008 fiscal year, the company's sixty-fourth 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 high 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 2008 fiscal year and also includes a report on the Nominating Committee's work ahead of the 2009 Annual General Meeting. The Corporate Governance Report has been audited by the Company's auditors.

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, the income statement and balance sheet are adopted, the dividend is decided on, the Board of Directors and auditors 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 the shareholders.

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 chair – 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 2009 AGM that Boel Flodgren, Tom Hedelius, Finn Johnsson, Fredrik Lundberg, Sverker Martin-Löf, Lennart Nilsson and Anders Nyren be re-elected as directors on the Board. In addition, the committee has proposed the new election of Olof Faxander, who is President and CEO of SSAB since 2006. Further, the Nominating Committee has proposed that Tom Hedelius 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 seven members, including the CEO. The Chairman of the Board, Tom Hedelius, is a former CEO and chairman of Handelsbanken. The Vice Chairman, Sverker Martin-Löf, is a former CEO of SCA and is currently Chairman of SCA, Skanska and 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, and is currently Chairman of Volvo. Fredrik Lundberg is CEO of L E Lundbergföretagen and Chairman of Cardo, Holmen and Hufvudstaden. Lennart Nilsson is a former CEO of Cardo. Anders Nyren is a former executive vice president and CFO of Skanska and former executive vice president and CFO of Securum, among other positions.

Lars O. Grönstedt, who was elected to the Board in 2006, declined re-election to the Board at the Annual General Meeting on April 15, 2008.

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 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:

Attendance, fees and independence conditions

Name	Year elected	Position ¹	Audit Committee	Compensation Committee	Attendance at board meetings	Attendance at committee meetings	Fee, 2008 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		
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							3,600		

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) Industrivärden's President and CEO, Anders Nyrén, is the only executive director of the Company.

- 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;
- a strategic plan 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 more 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 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.

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. 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 investment decisions. 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.

Board committees are tasked with conducting preparatory 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 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 2008

In 2008 the Board had a total of five meetings in addition to the statutory meeting, of which one was held per capsulam. 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 2008 involved sales and purchases of stocks.

Compensation Committee

The Board has appointed a compensation committee, which held two meetings. The guidelines for compensation of senior executives were adopted by the 2008 Annual General Meeting. The Compensation Committee draws up recommendations for the CEO's compensation, decides on compensation for the other members of the executive management, and submits proposals for incentive programs. 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 their 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 variable salary component shall be maximized to and never exceed the base salary. The short-term variable salary component is based on the outcome in relation to set targets and on individual performance. 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 are 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 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 is chairman of 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 of the Corporate Governance Report and the focus of 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, 2008, would have affected the market value by approximately +/- SEK 350 M. A detailed description of the risks associated with Industrivärden's business is provided on pages 33–34.

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 stocks and derivative instruments as well as a treasury 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 are 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 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 fell from SEK 54.8 billion, or SEK 142 per share, to SEK 23.9 billion, or SEK 62 per share, a decrease of 56%. The components making up net asset value are shown in the following table:

	SEK billion		SEK per share	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Equities portfolio	34.7	65.8	90	170
Interest-bearing net debt	-10.8	-11.0	-28	-28
Net asset value	23.9	54.8	62	142

Equities portfolio

The market value of the equities portfolio at year-end was SEK 34,744 M (65,844), a decrease of 47% (increase of 4%). The market value exceeded cost by SEK 3,579 M (36,260). Purchases of stocks during the year totaled SEK 4,644 M (8,834), and sales totaled SEK 4,314 M (2,124). Thus stocks were bought for a net amount of SEK 330 M (6,710).

Taking into account purchases and sales, the value of the portfolio fell by 48% (-6%) during the year. The stock market index (OMXSPI) fell by 42% (-6%) during the same period. The total return of the equities portfolio was -45% (-2%), compared with -39% (-3%) for the return index (SIXRX).

Dividends received

SEK M	2008	2007
Handelsbanken	923	547
Sandvik	546	438
SCA	312	283
SSAB	283	193
Skanska	267	267
Volvo	261	76
Ericsson	190	188
Indutrade	77	55
Munters	27	25
Höganäs	22	22
Hemtex	10	13
Total	2,918	2,107

Equity transactions during the year

	No. of shares	SEK M
Purchases		
Volvo A	26,438,345	1,830
Handelsbanken A	9,637,539	1,520
Volvo B	6,000,000	446
Other		848
Total		4,644
Sales		
Handelsbanken A	12,926,975	1,961
SSAB A	6,092,587	963
Volvo B	8,000,000	523
Other		867
Total		4,314

Net purchases and sales per shareholding are shown in Note 3.

Changes in value of shareholdings

SEK M	2008	2007
Ericsson	-1,305	-4,667
Handelsbanken	-5,513	-11
Hemtex	-220	-200
Höganäs	-184	-152
Indutrade	-841	-172
Munters	-421	-244
Sandvik	-8,563	1,879
SCA	-3,567	-269
Skanska	-1,480	-436
SSAB	-5,724	644
Volvo	-3,612	-635
Other	-75	288
Total	-31,505	-3,975

Short-term derivative transactions and equity trading

Nordinvest AB conducts short-term equity trading. During the year purchases of listed stocks totaled SEK 4,093 M (3,598) and sales totaled SEK 4,136 M (3,697). Stocks were thus sold for a net total of SEK 43 M (99). Operating income was SEK 7 M (16). Including earnings from the Parent Company's short-term derivative transactions, totaling SEK 61 M (126), total profit from short-term derivative transactions and equity trading amounted to SEK 68 M (142).

Interest-bearing net debt

At year-end 2008, interest-bearing net debt amounted to SEK 10,813 M (10,951), corresponding to a net debt-equity ratio of 31.1% (16.6%). Interest-bearing net debt decreased by SEK 138 M, mainly due to the fact that dividend income exceeded the Company's dividend payout. However, the net debt-equity ratio increased as a result of the decline in value of the equities portfolio.

Of interest-bearing net debt, SEK 2,100 M falls due for payment in 2009 and SEK 1,199 M in 2010. To meet these obligations, the Group has cash and cash equivalents that amounted to SEK 1,096 M at the end of the fiscal year and unutilized committed credit facilities with banks amounting to SEK 3,371 M.

Proposed dividend

The Board of Directors proposes a dividend of SEK 4.50 (5.00) per share. The proposed dividend corresponds to 8% of the Parent Company's shareholders' equity and 7% of the Group's shareholders' equity. Of shareholders' equity, none of which in the Parent Company, and 14%, or SEK 3.4 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.

In the Board's judgment, 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 will amount to SEK 1,738 M (1,931).