

Corporate governance report

Indutrade applies the Swedish Corporate Governance Code (the Code) since 1 July 2006. The Code is a component of self-regulation in Swedish industry and is based on the “comply or explain” principle. This means that companies that adhere to the Code may depart from individual rules, provided that they give an explanation for each departure. Indutrade has no departures to report for the 2017 financial year. The Corporate Governance Report has been reviewed by the Company’s auditors.

Delegation of responsibilities

Responsibility for management and control of the Group is delegated among the shareholders (via general meetings), the Board, its designated committees and the President in accordance with the Swedish Companies Act, other laws and regulations, applicable rules for listed companies, the Company’s Articles of Association and the Board’s internal governance documents.

Share capital and shareholders

The share capital amounts to SEK 242 million, divided among 120,798,600 shares with a share quota value of SEK 2. All shares have equal voting power. Indutrade, which was previously a wholly owned subsidiary of AB Industrivärden, was introduced on the Stockholm Stock Exchange on 5 October 2005. At year-end 2017 Indutrade had 9,816 shareholders (10,518). The ten largest shareholders controlled 63% of the share capital at year-end. Swedish legal entities, including institutions such as insurance companies and mutual funds, held 65% of the share capital and votes at year-end. Foreign ownership accounted for 29% of the share capital and votes.

One shareholder, L E Lundbergföretagen AB, with 26.1% of the share capital and votes, controlled 10% or more of the share capital and votes at year-end.

Indutrade’s shares are listed on Nasdaq Stockholm and have been included on the Large Cap list since January 2015.

According to Ch. 6 § 2 a of the Swedish Annual Accounts Act, listed companies are to provide disclosures about certain conditions that could affect opportunities to take over the company through a public offer to acquire the shares in the company. No such conditions exist in Indutrade AB.

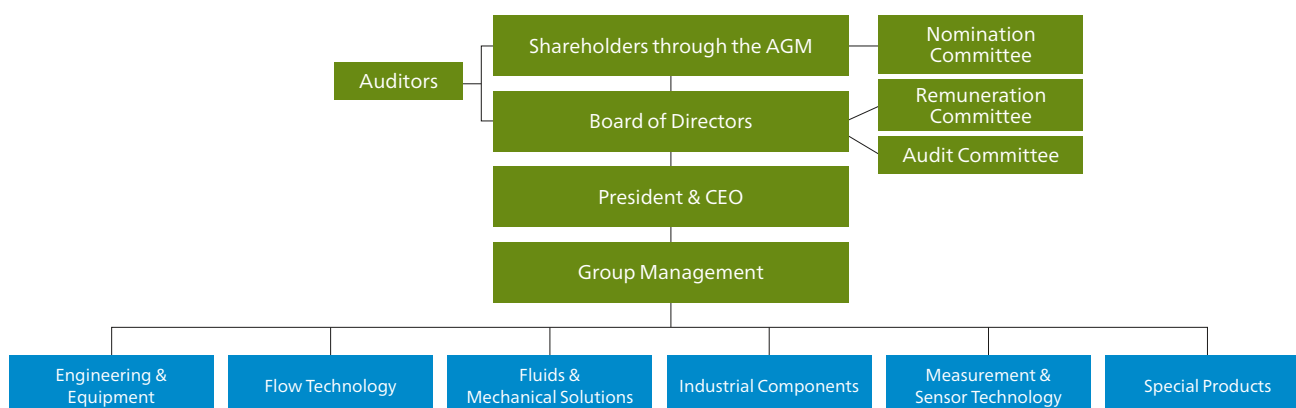
Articles of Association

Indutrade is a public company whose business is to “on its own or through subsidiaries, pursue trade in connection with the import and export of machines, raw materials and finished and semi-manufactured products as well as industrial necessities, including production, preferably within the plastics, mechanical and chemical industries, and activities compatible therewith.” The Board shall consist of a minimum of three and a maximum of eight directors, who are elected each year at the Annual General Meeting. Notices of general meetings of shareholders shall be made through advertisement in the Official Swedish Gazette (Post- och Inrikes Tidningar) and on the Company’s website within the time frame prescribed by the Swedish Companies Act. An advertisement shall be posted in the Swedish daily newspaper Dagens Nyheter announcing that notice of the Annual General Meeting has been issued. In votes at general meetings of shareholders, there is no limitation to the number of votes for represented shares.

General meetings of shareholders

General meetings of shareholders are Indutrade’s highest governing body. At the Annual General Meeting (AGM), which is held within six months after the end of each financial year, the income statement and balance sheet are adopted, the dividend is set, the Board and auditors are elected (where applicable), their fees are determined, other items of legally ordained business are conducted, and decisions are made on proposals submitted by the Board and shareholders.

All shareholders who are registered in the shareholder register on a specified record date and who have notified the Company in due time of their intention to participate at the general meeting



External rules and regulations

Examples of external rules and regulations that affect governance of Indutrade

- The Swedish Companies Act
- Accounting laws, including the Bookkeeping Act, the Annual Accounts Act and IFRS
- Nasdaq Stockholm’s Rulebook for Issuers
- The Swedish Corporate Governance Code

Internal rules

Examples of internal rules that affect governance of Indutrade

- The Articles of Association
- The Board’s work plan
- The CEO’s instructions
- The Code of Conduct
- Policies

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are entitled to attend the meeting and vote for the total number of shares they have. Shareholders may be represented by proxy. More information about the 2018 AGM is provided on page 85 of this Annual Report and on the Company's website.

The notice of the AGM scheduled for 26 April 2018 is expected to be published on 22 March 2018 in the Official Swedish Gazette and on Indutrade's website. The notice will include a proposed agenda including proposals for the dividend, election of directors, directors' fees (broken down by the Chairman and other directors), election of the auditor, the auditor's fee, and proposed guidelines on compensation of the Company's senior executives.

Annual General Meeting 2017

At the AGM on 26 April 2017, shareholders representing 69.6% of the shares and votes were in attendance. Fredrik Lundberg was appointed to serve as AGM chairman. The annual report and audit report were presented to the AGM. Chairman of the Board Fredrik Lundberg provided information on the work of the Board and reported on the guidelines for compensation of the Group Management and on the work of the Audit and Remuneration Committees. In addition, CEO Johnny Alvarsson gave an address reviewing Indutrade's operations in 2016 and the start of 2017.

The auditors reported on their audit of the Group and presented relevant parts of their audit report for 2016.

The 2017 AGM made the following resolutions:

- to adopt the financial statements for 2016
- to set the dividend at SEK 3.20 per share
- to discharge the members of the Board of Directors and the President from liability for the past financial year
- to re-elect directors Fredrik Lundberg, Bengt Kjell, Ulf Lundahl, Krister Mellvé, Lars Pettersson and Katarina Martinson, and to elect Bo Annvik and Susanna Campbell as new directors
- to re-elect Fredrik Lundberg as Chairman of the Board
- that Indutrade shall apply compensation levels for senior executives which mainly shall consist normally of a fixed and variable portion, shall be in line with the going rate in the market, and shall be commensurate with the executives' level of expertise, responsibility and performance
- to introduce a long-term incentive programme consisting of a directed issue and transfer of warrants

At the AGM on 6 May 2013, the decision was made in favour of a standing instruction for Indutrade's nomination committee, which shall apply until further notice. According to this instruction, the Nomination Committee ahead of a forthcoming AGM shall consist

of representatives of four of the largest shareholders in terms of votes, plus the Chairman of the Board.

Members of the Board of Directors

Indutrade's board of directors, which is elected by the AGM, consists of eight members including the CEO. Indutrade has not set any specific age limit for the board members, nor any term limit for how long a director may sit on the Board.

The Chairman of the Board, Fredrik Lundberg, is President and CEO of L E Lundbergföretagen. The Vice Chairman, Bengt Kjell, is a former Executive Vice President of Industrivärden and former CEO of AB Handel och Industri. Ulf Lundahl is a former Executive Vice President of L E Lundbergföretagen. Krister Mellvé has held leading positions in the Robert Bosch Group. Lars Pettersson is a former President and CEO of Sandvik. Katarina Martinson works with asset management for the Lundberg family. Susanna Campbell is a former CEO of Ratos and is currently serving as a director on Telia Company AB's board among others. Bo Annvik is President and CEO of Indutrade.

A presentation of the current assignments of the members of the Board can be found on pages 40–41 of this Annual Report. The Company's CFO served as company secretary through September 2017; thereafter, Mattias Karlsson, from the law firm Mannheimer och Swartling, was company secretary. Other executives participate at board meetings in a reporting role.

All of the directors, except for Bo Annvik, are independent in relation to Indutrade. Bo Annvik, Bengt Kjell, Krister Mellvé, Ulf Lundahl and Susanna Campbell are independent in relation to Indutrade's major shareholders. The Board thereby meets the requirement that at least two of the directors who are independent in relation to the Company shall also be independent in relation to the major shareholders. Only one director, Bo Annvik, has an operational role in the Company.

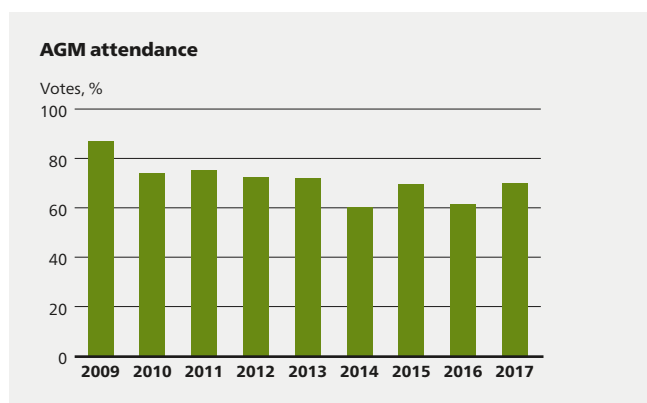
The work of the Board of Directors

Each year the Board adopts a written work plan that governs the Board's work and its internal delegation of duties including the committees, decision-making procedures within the Board, meeting procedure and duties of the Chairman. The Board has also issued instructions for the CEO and instructions on financial reporting to the Board.

In addition, the Board has adopted numerous policies, including a finance policy and an investment policy.

The Board is responsible for the Company's organisation and for the administration of its affairs. This entails ensuring that the organisation is suited for its purpose and designed in such a way so as to ensure satisfactory control of its bookkeeping, treasury management and financial conditions in general. In addition, the Board is responsible for ensuring that the Company has satisfactory internal control and continuously evaluates the extent to which the Company's system for internal control works. The Board is also responsible for developing and monitoring the Company's strategies by drawing up plans and setting objectives. The Board oversees and evaluates the CEO's and operative management's work on a continuous basis. This particular matter is addressed yearly without any members of the Group Management present.

In accordance with the adopted work plan, the Board holds at least five regular meetings each year, including the statutory meeting after the AGM, and on any other occasions when warranted by the situation.



Attendance at board meetings and committee meetings in 2017

■ Member ● Committee chair	Audit Committee	Remuneration Committee	Year elected	Attendance at board meetings	Attendance at Audit Committee meetings	Attendance at Remuneration Committee meetings	Independent in relation to the Company	Independent in relation to major shareholders ¹⁾
Bo Annvik ²⁾			2017	6/9			No	Yes
Johnny Alvarsson ²⁾			2004	3/9			No	Yes
Bengt Kjell (Vice Chairman of the Board)	■	■	2002	9/9	3/3	1/1	Yes	Yes
Annica Bresky ³⁾	■		2016	2/9	1/3		Yes	Yes
Ulf Lundahl	●		2006	9/9	3/3		Yes	Yes
Fredrik Lundberg (Chairman of the Board)	■	●	2013	9/9	3/3	1/1	Yes	No
Krister Mellvé	■		2012	9/9	3/3		Yes	Yes
Lars Pettersson	■	■	2013	9/9	3/3	1/1	Yes	No
Katarina Martinson	■		2015	9/9	3/3		Yes	No
Susanna Campbell ⁴⁾	■		2017	6/9	2/3		Yes	Yes

¹⁾ Pertains to situation in 2017.

²⁾ Bo Annvik succeeded Johnny Alvarsson at the 2017 AGM.

³⁾ Annica Bresky left the Board at the 2017 AGM.

⁴⁾ New board member as from the 2017 AGM and succeeded Annica Bresky in the Audit Committee.

In 2017 the Board held a total of nine meetings including the statutory meeting. The Board conducted its work in 2017 in accordance with the Board's work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance, acquisitions and sustainability.

As a significant part of the Board's work during the year, a number of subsidiary managing directors and business area directors gave in-depth presentations of their businesses.

All decisions made by the Board during the year were unanimous.

The Chairman's role

The Chairman organises and leads the work of the Board to ensure that it is carried out in compliance with the Swedish Companies Act, other laws and regulations, applicable rules for listed companies (including the Code), and the Board's internal governance documents. The Chairman monitors business activities through regular contact with the CEO and ensures that the other directors are provided with adequate information and decision-making documentation.

To ensure and improve the quality of the Board's work, every year an evaluation is performed of the board members and of the Board's work, under the direction of the Chairman of the Board. In 2017 this evaluation was conducted by means of a questionnaire that was completed by all of the board members. The results of the evaluation were reported in writing to the board members, who thereafter discussed it together at the board meeting in October. The Chairman of the Board also reported on the results of the evaluation at a meeting of the Nomination Committee.

The Chairman represents the Company on ownership matters.

Remuneration Committee

The Board's remuneration committee draws up a recommendation for decision regarding the terms of employment for the CEO. The Remuneration Committee also addresses and conducts drafting work for issues related to compensation of the members of the Group Management, which culminates with the submission of a recommendation for decision by the AGM.

The CEO consults with the Remuneration Committee on the terms of employment for the other members of the Group Management.

Audit Committee

The Audit Committee has an oversight role with respect to the Company's risk management, governance and control, and financial reporting. The committee maintains regular contact with the Company's auditor to ensure that the Company's internal and external reporting satisfies the requirements made on market-listed companies and to discuss the scope and focus of auditing work. The Audit Committee evaluates completed audit activities and informs the Company's nomination committee about the results of its evaluation and assists the Nomination Committee on drawing up recommendations for auditors and fees for their auditing work.

On three occasions in 2017 the committee conducted reviews with and received reports from the Company's external auditors.

Directors' fees

Fees are payable to the Chairman of the Board and directors in accordance with an AGM resolution. The Chairman receives a fee of SEK 540,000, the Vice Chairman receives a fee of SEK 406,000, and the other directors receive a fee of SEK 271,000 each. However, no fee is payable to directors who are employed by a company within the Indutrade Group. The Audit Committee chair is paid an additional fee of SEK 60,000, and the members of the Remuneration Committee each receive an additional fee of SEK 27,000. The total yearly fees thus amount to SEK 2,442,000.

Nomination Committee

At the AGM on 6 May 2013 a decision was made in favour of a standing instruction for Indutrade's nomination committee, which applies until further notice. According to this instruction, the Nomination Committee ahead of a forthcoming AGM shall consist of representatives of four of the largest shareholders in terms of votes, plus the Chairman of the Board, who shall also convene the first meeting of the Nomination Committee. The member repre-

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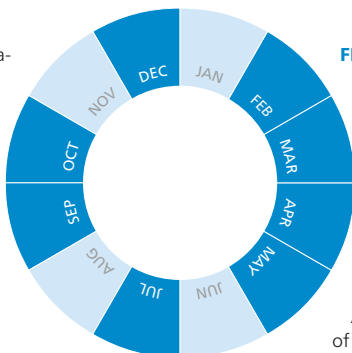
Board meetings 2017

DECEMBER Budget, evaluation of the Board's work, evaluation of CEO and Group Management, organisational development, leadership succession, MTN programme.

OCTOBER Offering LTI 2017 Series II, quarterly report January–September, report from Audit Committee, report from the auditors, report on the completion of internal audit, evaluation of the Board's work.

SEPTEMBER Visit to companies in Helsinki, Finland. Group strategy, follow-up of acquisitions, capital structure.

JULY Quarterly report January–June.



FEBRUARY Year-end report, annual report, AGM agenda, report from the auditors and the Remuneration Committee.

MARCH Decision on annual report, AGM notice.

APRIL Quarterly report January–March.

AGM. Statutory meeting. Decision on company signatories, adoption of instructions and policies, appointment of Remuneration Committee and Audit Committee, meeting schedule.

MAY Market situation, business intelligence, report from Audit Committee and Remuneration Committee, evaluation of reporting to the Board. Offering LTI 2017 Series I.

senting the largest shareholder shall be appointed as committee chair. The composition of the Nomination Committee ahead of the AGM is to be based on ownership data as per 31 August each year and is to be publicly announced not later than six months prior to the AGM. The composition of the Nomination Committee ahead of the 2018 AGM was announced on 25 September 2017, based on ownership information as per 31 August 2017.

Nomination Committee composition

Representative	Shareholder	Share of votes as per 31 Aug 2017
Claes Boustedt	L E Lundbergföretagen, Committee Chair	26.2%
Henrik Didner	Didner & Gerge funds	9.8%
Dick Bergqvist	AMF insurance and funds	7.8%
Jonathan Schönback	Handelsbanken funds	4.7%
Fredrik Lundberg	Chairman of the Board	

The Nomination Committee held three meetings, documented by minutes, at which the evaluation of the Board's work during the past year was presented and the Board's composition was discussed, among other items of business. The Nomination Committee is tasked with drawing up recommendations to be presented to the AGM for resolutions regarding a person to serve as AGM chairman, the Chairman of the Board and other directors, directors' fees, the auditor's fee and election of the auditor, and the principles for the appointment of a new Nomination Committee.

The Nomination Committee has used Rule 4.1 of the Code as its diversity policy, entailing that the Board shall have a composition appropriate to the Company's operations, phase of development and other relevant circumstances, the AGM-elected directors shall exhibit diversity and breadth of qualifications, experience and backgrounds, and the Company shall strive for gender balance on the Board. The 2017 AGM resolved in favour of the Nomination Committee's recommendations.

Based on the results of the Board's evaluation and the current directors' availability for re-election – among other things – the Nomination Committee makes an assessment of whether the sitting board meets the requirements that will be made for the Board in view of the Company's situation and future orientation, or if the composition of expertise and experience needs to be changed.

The Nomination Committee proposes that Katarina Martinson be elected as Chairman of the Board at the 2018 Annual General Meeting. The Committee also proposes the re-election of directors Susanna Campbell, Bengt Kjell, Ulf Lundahl, Krister Mellvé, Lars Pettersson and Bo Annvik. Anders Jernhall is proposed as a new director.

The current Chairman, Fredrik Lundberg, has declined re-election. The timing for handing over the chairmanship has been deemed to be appropriate. Katarina Martinson has extensive knowledge of the Company, which will ensure continuity of the Board's work.

Fredrik Lundberg has expressed a wish to step down from one of his assignments, as an adaptation to the EBA and ESMA Guidelines for assessing the suitability of members of the management body, which take effect on 30 June 2018. The Guidelines set out the maximum number of directorships that a board member of a major banking company may undertake. Fredrik Lundberg is Vice Chairman of Handelsbanken.

Katarina Martinson was born in 1981, holds a B.Sc. Econ. and has been a director on Indutrade's board since 2015. Katarina Martinson is a director of the listed companies L E Lundbergföretagen AB and Husqvarna Group. She is also a principal investor and director of Fidelio Capital.

Anders Jernhall was born in 1970 and holds a B.Sc. Econ. He is Executive Vice President and CFO of Holmen AB.

The Nomination Committee's proposal entails that the number of directors during the coming mandate period will be unchanged at eight.

A more detailed presentation of the members of the Board is provided on pages 40–41 of this Annual Report.

Operating activities

The CEO is responsible for the administration of Indutrade's day-to-day affairs, which are managed by the Company's Group Management Team. The CEO's decision-making authority regarding investments and financing matters is governed by rules set by the Board.

CEO

Bo Annvik (born 1965), M.Sc. Econ., is CEO of Indutrade AB, since April 2017. He served as President and CEO of Haldex from 2012 to 2017 and served in executive positions for Volvo Cars during the years 1994–2002, for SKF during the years 2002–2007, and for Outokumpu during the years 2007–2011.

Bo Annvik owns 0 shares and 140,000 warrants.

External auditor

At the 2017 Annual General Meeting, the chartered accounting firm PricewaterhouseCoopers AB ("PwC") was elected as auditor for a term extending through the 2018 Annual General Meeting following a tendering process for audit services conducted in accordance with Regulation (EU) No. 537/2014 on statutory audit of public-interest entities, Article 16.1–16.5.

The auditors maintain regular contact with the Audit Committee and the Group Management.

The chief auditor since 2013 is Michael Bengtsson, Authorised Public Accountant. The auditor's fee is reported in Note 10 of this Annual Report.

Indutrade's nine-month interim report for the 2017 financial year was reviewed by the Company's auditors.

Internal control over financial reporting

As prescribed by the Swedish Companies Act, the Board is responsible for internal control. This report has been prepared in accordance with the Annual Accounts Act and describes how the internal control over financial reporting is organised.

Control environment

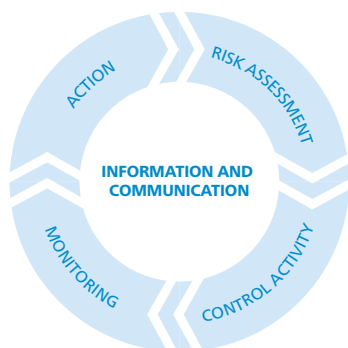
Effective board work is the foundation for good internal control. The Board's work plan and the instructions for the CEO and the Board's committees ensure a clear delegation of roles and responsibilities to the benefit of effective management of risks in the Company's operations.

In addition, the Board has adopted a number of fundamental guidelines and policies designed to create the conditions for a good control environment. These include, among other things, Indutrade's Code of Conduct, a policy for economic and financial reporting, a finance policy and an investment policy. These policies are followed up and revised as needed. The Group Management continuously draws up instructions for the Group's financial reporting which, together with the policies adopted by the Board, are included in the Group's financial manual.

The Group has a joint reporting system that serves as the base for the Group's monthly reporting, consolidation work and monitoring of earnings performance.

Risk assessment

The Company has implemented a structured process for assessing risks that could affect financial reporting. This is an annually recurring process and is evaluated by the Audit Committee and the Board.



Through this risk assessment it has been ascertained that the Group's structure, consisting of a large number of standalone companies of varying size that are independent from each other in various sectors and geographic markets, entails a considerable diversification of risk. The risk assessment also covered the Group's income statement and balance sheet items to identify areas in which the aggregate risk for error and the effects of these would be greatest. The areas identified consisted primarily of revenue recognition, trade receivables and inventories.

In addition, continuous risk assessment is conducted in connection with strategic planning, budgeting, forecasts and acquisition activities, aimed at – among other things – identifying events in the market or operations that could give rise to changes in e.g., revenue streams and valuations of assets or liabilities.

Control activities

The Indutrade Group was organised in six business areas in 2017. In addition to a business area director, the respective business area management teams include a controller. The controller plays a central role in analysing and monitoring the business area's finan-

cial reporting and in ensuring compliance by the companies in the business area with Group policies. The Parent Company has additional functions for continuous analysis and monitoring of financial reporting by the Group, the business areas and subsidiaries. The Parent Company's finance department also initiates work on the annual self assessment routine regarding internal control over financial reporting.

In this evaluation the Group's companies have been grouped into three categories, based on the nature and scope of the respective companies' businesses. For each group of companies, a questionnaire for evaluation of internal control has been prepared based on the performed risk analysis.

All companies owned by Indutrade at the start of 2017 were required to respond to the evaluation questionnaire. The responses were compiled and evaluated per group of companies and for the Group as a whole. As a complement to this work, the auditors validated parts of the respective companies' completed questionnaires. In addition to this, the controllers of the business areas and Parent Company monitor internal control through visits to a number of companies each year. Both the evaluation performed by the Company and the result of the auditors' validation were reported and discussed with the Audit Committee. Feedback is provided to the companies in the Group where a need for improved routines has been identified. The evaluation of internal control over the Group's financial reporting will serve as documentation for the subsequent years' self assessment and work on further strengthening internal control.

Information and communication

The Company's governing documents, consisting of policies, guidelines and manuals – to the extent that these pertain to financial reporting – are updated on a regular basis and communicated to the companies within the Group. Systems and routines have been established to provide management with reports on the results of operations and financial position in relation to set targets, among other things.

Monitoring

The Board conducts a monthly evaluation of business development, earnings, position and cash flow using a report pack containing comments on outcomes and certain key ratios.

The Audit Committee has an oversight role regarding the Company's financial reporting, risk management, and governance and control. In addition, the Audit Committee maintains regular contact with the Company's auditors to ensure that the Company's internal and external reporting satisfies requirements made on market-listed companies and to monitor any observations that emerge from the audit.

Internal audit

The Group has a simple operative structure consisting primarily of small and medium-sized standalone businesses that are independent of each other, with varying conditions for internal control. Compliance with governance and internal control systems that have been drawn up by the Group is checked by the controllers on a regular basis at the business area and Parent Company levels. In addition, the controllers perform continuing analyses of the companies' reporting and financial outcomes to verify their performance. Added to this is the routine for annual self assessment of internal control over financial reporting. In view of the above, the Board has opted to not have a dedicated internal audit function.