

# CORPORATE GOVERNANCE 2008

## CORPORATE GOVERNANCE REPORT

Industrial and Financial Systems, IFS AB (publ) (hereafter “IFS”) is a public Swedish stock corporation listed on the Nasdaq OMX Stockholm Nordic Exchange. Accordingly, the company applies the Swedish Code of Corporate Governance. This Corporate Governance Report describes how the work of corporate governance was conducted at IFS in fiscal 2008. The report has not been reviewed by IFS’ auditors.

### Annual General Meeting

IFS’ Annual General Meeting for 2008 was held at One Conference in Solna on April 3. A total of 26 stockholders, including proxies, participated in the meeting, representing 45.3 percent of the votes and 39.9 percent of the capital. The Board of Directors and management of IFS, and the company’s two auditors, were present at the meeting. The Annual General Meeting for 2009 will be held at One Conference in Solna on April 1.

### Nominations Committee

IFS’ Nominations Committee elects the members of the Board of Directors and the auditors. The Nominations Committee also submits proposals for the directors’ remuneration divided among the Chairman and other Board members and any remuneration for committee work, remuneration for auditors, decisions on principles for the appointment of the Nominations Committee and the election of a Chairman at the Annual General Meeting. In addition to the Chairman of the Board, the Nominations Committee shall comprise a representative of the principal owner, one representative of each of the two largest institutional owners, and a representative of other stockholders, who is selected from the founders. The representative of IFS’ principal owners convenes and is the Chairman of the Nominations Committee. In advance of the coming Annual General Meeting, the Nominations Committee shall submit proposals for the election of Board members and Chairman of the Board, remuneration to Board members and auditors and, when applicable, the election of auditors.

The Nominations Committee shall also submit proposals for the Chairman of the Annual General Meeting. The following ordinary Board members are included in the Nominations Committee for the Annual General Meeting 2009:

- Gustaf Douglas, Chairman, representing the company’s principal owners, the Douglas family and Förvaltnings AB Wasatornet,
- Ulf Strömsten, Catella Fonder,
- Sverre Bergland, DnB NOR ASA,
- Bengt Nilsson, for the founders,
- Anders Böös, Chairman of the Board of IFS.

### Board of Directors

At the 2008 Annual General Meeting, all Board members were reelected except for Gregory Gorman, who was replaced by Lars Harrysson. In addition to the Board members, other participants at the Board meetings are the Group’s CFO Håkan Zadler; Fredrik vom Hofe, Vice President Business Development; and General Counsel Kristina Lilja, who is also the secretary of the Board of Directors. Other salaried employees of the Group participate in the Board meetings as representatives of specific issues when applicable.

### Independence of the Board of Directors

The assessment of the Nominations Committee, which is shared by the Board of Directors, pertaining to the independence of Board members in relation to the company, Group management and stockholders, is indicated in the table below. As shown in the table, IFS complies with the regulations of the Nasdaq OMX Stockholm Nordic Exchange for issuers and the Swedish Code of Corporate Governance’s requirement that the majority of the Board members elected by the Annual General Meeting shall be independent in relation to the company and the Group management, and that at least two of the members shall be independent in relation to the company’s major stockholders.

Name	Position	Elected	Independence	Audit committee	Number of series A shares	Number of series B shares	Total number of shares
Anders Böös	Chairman	2003	No*	-	396 300	8 934	405 234
Bengt Nilsson	Vice-chairman	1983	No*	-	403 773	236 809	640 582
Ulrika Hagdahl	Member	2003	Yes	Member	-	30 000	30 000
Lars Harrysson	Member	2008	Yes	-	-	-	-
Jacob Palmstierna	Member	2004	Yes	Chairman	-	19 047	19 047
Alastair Sorbie	Member	2006	No*	-	-	6 776	6 776
Christina Stercken	Member	2004	Yes	-	-	-	-

\* Anders Böös and Bengt Nilsson are dependent in relation to the company’s major owners, as they each control more than 10 percent of the votes in the company. Alastair Sorbie is dependent in relation to the company as a result of his position as IFS’ President.

### The Board of Directors' Work

The work of the Board of Directors is conducted in accordance with the requirements of the Swedish Companies Act, the regulations of the Nasdaq OMX Stockholm Nordic Exchange, other rules and regulations relevant to the company, and operating procedures adopted by the Board. Specific instructions regulate the division of tasks between the Board and the President, the forms of financial reporting, and the President's assignments and right to make decisions. Furthermore, the Board establishes a finance policy that regulates risk related to financing, interest, liquidity, credit, and currency. It also determines an information policy that regulates the way in which IFS disseminates information. The operating procedures of the Board, related instructions and the information policy are reviewed annually. Other instructions and principles are reviewed as required.

In accordance with the current operating procedures, the Board shall meet at least six times per year (in addition to the statutory meeting held after the AGM). Each ordinary meeting addresses issues related to business and market development, adherence to the business plan and earnings, cash flow and financing, the current outlook, and acquisitions, divestment and pledged guarantees. One Board meeting is dedicated mainly to strategic issues, and one is dedicated to the business plan and budget.

The Chairman of the Board leads the Board's work. The Chairman monitors operations in a dialogue with the President and is responsible for ensuring that other Board members receive the necessary documentation for high-quality discussions and decisions. In addition, the Chairman is responsible for evaluating the work of the Board and ensuring that the Nominations Committee gains access to the assessments. The Chairman also participates in assessment and development issues pertaining to the Group's senior executives. The Chairman represents the company in ownership issues.

In 2008, the Board met 11 times (three of which were by correspondence) in addition to the statutory meeting after the AGM. The work of the Board in 2008 focused on managing IFS' profitability issues, organizational structure, strategic position, and outlook. During the year, regional managers and other senior executives, according to a rolling schedule, presented and discussed their areas of responsibility with the Board.

In 2008, the Board did not meet the auditors without the presence of the President or another representative of Group management. Accordingly, the company deviated from the Code of Corporate Governance, which states that, at least once annually, the Board shall meet the auditors without the presence of the President or another representative of Group management. On several occasions in 2008, the Board had contact with the auditors. Because of the satisfactory exchange of information at these meetings, the Board, through an oversight, did not

ensure that there was a meeting attended only by the Board, excluding the President, and the auditors.

The work of the Board in 2008 was evaluated at a plenary session on the basis of an agenda established in advance. No external evaluation of the Board was conducted during the year.

#### Attendance of the Board members in 2008

Name	Position	Board meeting	Audit committee
Anders Böös	Chairman	100%	-
Bengt Nilsson	Vice-chairman	100%	-
Ulrika Hagdahl	Member	82%	100%
Lars Harrysson	Member	100%	-
Jacob Palmstierna	Member	91%	100%
Alastair Sorbie	Member	91%	-
Christina Stercken	Member	100%	-

#### Committee work

##### Audit Committee

The Audit Committee was established in accordance by decision of the Board in April 2008. The Audit Committee is normally convened in conjunction with the publication of interim reports and the year-end report. The primary task of the committee is to ensure compliance with the established principles for financial reporting and internal control and that appropriate relations with the Board's auditors are maintained in accordance with the instructions established by the Board for the Audit Committee. The Audit Committee is a preparatory entity. The outcome of the Audit Committee's work in the form of observations, recommendations and proposals for decisions and actions are reported continuously to the Board, which takes any decisions made necessary by the Audit Committee's work. In 2008/09, the Audit Committee comprised Board members Jacob Palmstierna, the Chairman and Ulrika Hagdahl. Accordingly, the company deviated from the Code of Corporate Governance, which states that the Audit Committee shall comprise at least three Board members. However, the Board, which appoints the committee members, determined that these persons were the most suited to constitute the company's Audit Committee for 2008/09, taking into account experience, interest and competence. The Group's CFO Håkan Zadler, and General Counsel Kristina Lilja, who is also the secretary of the Audit Committee, participate in the Audit Committee's meetings. The Audit Committee met five times in 2008, and all members were present at the meetings. IFS' external auditors participated in two of the Audit Committee's meetings.

##### Remuneration Committee

The Board has decided not to appoint a separate Remuneration Committee. Remuneration of the President is determined by the Board, as are the principles and earnings

targets for variable remuneration of the President and senior executives reporting to the President. Other remuneration of senior executives reporting to the President is determined in consultation with the Chairman of the Board, and information is subsequently provided to the other members of the Board.

#### **The President and Senior Management**

The President leads the work of Group Management and takes decisions in consultation with other members of management. In addition to the President, these comprise the company's CFO, the Vice President of Business Development and the Head of Products and Marketing. Group Management participates in regular operational reviews under the leadership of the President.

#### **Auditors**

IFS' auditing company, reelected at the 2007 Annual General Meeting for three years, is Öhrlings PricewaterhouseCoopers, represented by authorized public accountant Lars Wennberg as auditor in charge and authorized public accountant Nicklas Kullberg as jointly responsible auditor.

#### **Internal control and risk management pertaining to financial reporting**

A report on internal control pertaining to financial reporting for fiscal 2008 was prepared and submitted by the Board in accordance with the Swedish Code of Corporate Governance, the guidance developed by FAR SRS and the Confederation of Swedish Enterprise, and the instruction for 2007 issued by the Swedish Corporate Governance Board.

The report describes how IFS' internal control pertaining to financial reporting is organized. Internal control pertaining to financial reporting is a process that involves the Board of Directors, Group management and other employees and is designed to ensure reliability in the external financial reporting. The internal control function can be divided into five areas: the control environment, risk assessment, control activities, information and communication, and monitoring.

##### **Control environment**

Our values form the basis for the control environment. Simplicity, commitment and a businesslike nature are the key concepts that are the foundation for IFS' work and interaction with customers, partners and employees. Attitudes and values are at least as important as experience and competence, and we place great emphasis on ensuring that our operations are characterized by openness, for example by working for a strong cohesion and encouraging honest, open dialogue.

The internal control environment pertaining to financial reporting is based on a clear division of roles and responsibility in the organization, established and communicated decision-making procedures, and instructions pertaining to authorization and responsibility. These are documented and communicated in the form of instructions to the Board, guidelines, manuals, codes, and accounting and reporting instructions. At the Group level, a well-defined "Finance Manual" is prepared and continuously distributed to ensure correct, reconciled and standardized financial reporting in all of the Group's companies. Controls pertaining to correct reporting occur first locally, then regionally and finally at the Group level. Financial reporting is secured on these levels through continuous analysis of detailed monthly accounts and through a hard-close process that secures the quality of the annual financial statements well before year-end.

##### **Risk assessment**

Group Management prepares an annual combined risk assessment pertaining to the financial reporting, which is reviewed with the Audit Committee. In the risk assessment, IFS has identified a number of processes in which the relative risk of substantial errors is higher, depending on the complexity in the process, or in which there is a risk that the impacts of any errors will be significant because the value of the transactions is high. These processes include, for example, procedures for reporting license revenues and valuation of deferred tax and disputes.

##### **Control activities**

The risk assessment results in a number of control activities. The purpose of these activities is to prevent, detect and correct errors and discrepancies. The control activities include analytical monitoring of decisions, comparisons between income statement items, checklists and automatic controls through IT systems. A differentiation of work tasks is desirable so that different individuals carry out or check each task. The essential control activities are documented and updated continuously.

##### **Information and communication**

The company has clear lines of communication and reporting, which form the basis for internal monitoring and external financial reporting. Manuals and guidelines that are significant for financial reporting are updated and communicated continuously to the affected employees. Group Management and the Audit Committee report regularly to the Board based on established procedures. For external communication, guidelines have been established to ensure that the company meets strict requirements for correct information.

##### **Monitoring**

The Board continuously evaluates information from Group Management and the Audit Committee. At each

Board meeting, the company's financial position is addressed. The Audit Committee reviews all interim and annual reports before publication. The company's financial reporting process is evaluated annually by Group Management to ensure that it includes all essential areas that affect financial reporting. As part of their audit, the accountants elected by the Annual General Meeting, Öhrlings PricewaterhouseCoopers AB, also review a selection of IFS' controls, and recommendations from the external accounting are continuously monitored by Group Management and the Audit Committee. In 2007, the

company implemented a system of self-evaluation pertaining to internal controls. The subsidiaries reported on a number of prioritized risk areas. The company also applies a process in conjunction with the year-end financial statement in which country managers and financial managers of the subsidiaries submit representation letters on essential information for the accounting.

Taking into consideration the monitoring that takes place through the financial and controller organization, the Board finds that there is no need for a separate internal auditing function.

Linköping, February 20, 2009

**The Board of Directors**