



CORPORATE GOVERNANCE REPORT 2011



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Industrial and Financial Systems, IFS AB (publ) (hereafter “IFS”) is a public Swedish stock corporation listed on the Nasdaq OMX Stockholm. The company is the parent company of the IFS Group. IFS corporate governance is based on legislation, where applicable, primarily the Swedish Companies Act, the Swedish Code of Corporate Governance, the regulations of the Nasdaq OMX Stockholm Nordic Exchange for issuers, and other rules, ordinances, and recommendations that might apply. IFS follows developments in the field of corporate governance, continuously adapting its corporate governance principles so as to generate value for its owners and other interested parties by providing timely information, real owner influence, and efficient working procedures on the part of the management and board of directors.

APPLICATION OF THE SWEDISH CODE OF CORPORATE GOVERNANCE

This report, which has been submitted in accordance with the regulations for the Swedish Code of Corporate Governance, is the IFS corporate governance report for fiscal 2011 and reports on how corporate governance was conducted during that year. The report has been reviewed by an auditor.

Deviation from the Swedish Code of Corporate Governance and infringements

IFS has followed the Swedish Code of Corporate Governance in all respects apart from sections 2.4 and 7.3 (concerning the composition of the nomination committee and the audit committee respectively). Further details on these deviations are found below under Nomination Committee and Committee Work. During 2011, IFS has not infringed Nasdaq OMX Stockholm regulations for issuers or been in breach of good practice on the securities market as resolved by the disciplinary committee of exchange or reported by the Swedish Securities Council.

STOCKHOLDER INFLUENCE—THE GENERAL MEETING OF SHAREHOLDERS AND ITS RIGHT TO MAKE DECISIONS

Rules applying to the general meeting

According to the Swedish Companies Act, the general meeting of shareholders is the highest decision-making body in a company. At the general meeting, stockholders exercise their right to vote. IFS has issued two categories of shares: A shares, which according to the articles of association entitles holders to one vote per share at the general meeting; and B shares, which entitle holders to 0.1 votes per share. All stockholders who are registered in the

stock register on the record day and who have registered their intent to participate in time are entitled to attend the general meeting and vote in accordance with their total stockholding. Stockholders who are unable to attend in person may participate through a proxy.

Resolutions at the general meeting are usually adopted by a simple majority vote, except in cases where the Swedish Companies Act requires a higher proportion of the shares represented and votes cast at the general meeting. Resolutions adopted by the general meeting are published after the general meeting in a press release, and the minutes of the general meeting are published on the company website.

The general meeting resolves, among other things, on the adoption of the company’s annual report, the disposition of the company’s profit or loss, and on discharge from liability for the board of directors and the chief executive officer. The general meeting also appoints board directors and auditors, and resolves in respect of establishing a nomination committee. It also determines the fees paid to board directors and auditors in addition to guidelines for determining salary and other remuneration for the chief executive officer and senior management.

The Annual General Meeting (AGM) shall be held in Linköping or Stockholm within six months after the close of the fiscal year. At the AGM 2011 it was resolved to amend the articles of association of the company so as to reflect the simplified general meeting notification procedure pursuant to the new amendments made to the Swedish Companies Act. This means that notification of the general meeting shall be published in the Swedish Official Gazette and on the company website. At the same time as the notification is published, information to that effect shall be advertised in Svenska Dagbladet.

Annual general meeting 2011

IFS’s Annual General Meeting (AGM) for 2011 was held at Courtyard by Marriott hotel, Rålambshovsleden 50 in Stockholm on March 25. A total of 60 stockholders, including proxies, participated in the meeting, representing 64.1 percent of the votes and 56.4 percent of the capital. The board of directors and management of IFS, and the company’s auditor, were present at the meeting.

Resolutions adopted at the AGM 2011 concerned, among other things, the composition of the board of directors, fees paid to board directors and auditors, principles guiding the remuneration of senior management, the incentive program, and the establishment of a

nomination committee. Moreover, a resolution to issue a dividend of SKr 3.00 per share was adopted. In addition, the AGM resolved to cancel 500,000 Series B shares that the company repurchased, on the basis of the authorization granted by the AGM in 2010, by reducing the capital stock by an amount corresponding to the total quote value of the repurchased shares (SKr 10 million). The AGM also resolved to re-authorize the board of directors to repurchase during the period up to the coming AGM Series B shares on the Nasdaq OMX Stockholm in accordance with the rules of the stock exchange in such an amount that does not exceed 10 percent of the total number of shares in the company, at a share price within the registered share price interval on each occasion, i.e. between the highest buying price and the lowest selling price. Moreover, it was resolved to amend the articles of association of the company to reflect the regulations introduced into the Swedish Companies Act as of January 1, 2011, pertaining to a simplified AGM notification procedure and changed notification period regarding extraordinary general meetings, and to change the company's capital stock and the minimum and maximum number of shares.

The minutes of the AGM can be downloaded from the company website as can all proposals for resolution and other documentation.

Annual general meeting 2012

The Annual General Meeting for 2012 will be held at Courtyard by Marriott hotel, Rålambshovsleden 50 in Stockholm on March 29 at 3:00 p.m. Notification of the AGM has been published in the Swedish Official Gazette and on the company website on March 8, 2012. On the same day information to that effect has also been advertised in Svenska Dagbladet. Other information about the AGM will be published on the company website.

NOMINATION COMMITTEE

The election of the board of directors and auditors is prepared by the IFS nomination committee, which is appointed in accordance with guidelines resolved by the AGM. The nomination 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 nomination committee for the coming term of office, and the election of a chairman at the AGM. In addition to the chairman of the board, the nomination 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's principal owners

convenes and is the chairman of the nomination committee.

Nomination committee members for the AGM 2012

The nomination committee for the AGM 2012, whose composition is based on the ownership position on August 31, 2011, consists of the following members:

- Gustaf Douglas, Chairman, representing the company's principal owners, the Douglas family and Förvaltnings AB Wasatornet
- Ulf Strömsten, Catella Capital
- Lars Bergkvist, Lannebo Fonder
- Bengt Nilsson, for the founders
- Anders Böös, chairman of the board of IFS

The composition of the nomination committee was announced on September 28, 2011. The nomination committee represents approximately 57 percent of the votes in IFS. Its proposals, explanatory statement, and additional information about proposed members of the board are published in connection with the AGM notification and will be presented, with an account of the work of the committee, at the 2012 AGM. The members are not remunerated for their work on the nomination committee.

As shown in the table under Board of Directors below, both Chairman Anders Böös and Vice-chairman Bengt Nilsson are considered not independent in relation to the company's major owners. Accordingly, the constitution of the nomination committee deviates from section 2.4 of the Swedish Code of Corporate Governance, which states that if more than one member of the board is on the nomination committee, no more than one of these may be dependent of a major shareholder in the company. However, the nomination committee has considered, supported by the board, that its constitution represents the best interests of the shareholders as a whole and, consequently, does not affect its obligation to promote the interests of all shareholders.

BOARD OF DIRECTORS

The board consists of six members, without deputies, elected by the AGM. With the exception of Alastair Sorbie, the president and CEO of IFS, none of the members of the board is employed by IFS. The average age of the members is 54, and two are women. Information about the independence of board members follows below.

The members of the board

At the 2011 AGM, all board members were re-elected. In addition to the board members, other participants at the board meetings are the Group's CFO Paul Smith, Fredrik vom Hofe, vice president Business Development, and

Jesper Alwall, general counsel and 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 nomination 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 Swedish Code of Corporate Governance that the majority of the board members elected by the AGM 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 A shares	Number of B shares	Total number of shares
Anders Böös	Chairman	2003	No*	-	396 300	8 934	405 234
Bengt Nilsson	Vice-chairman	1983	No*	-	411 913	17 942	429 855
Ulrika Hagdahl	Member	2003	Yes	Chairman	-	30 000	30 000
Birgitta Klasén	Member	2009	Yes	-	-	7 000	-
Neil Masom	Member	2009	Yes	Member	-	-	-
Alastair Sorbie	Member	2004	No*	-	-	6 776	6 776

* Anders Böös and Bengt Nilsson are considered independent in relation to the company and Group senior management, but as dependent in relation to the company's major owner as both control more than 10% of the votes in the company. Alastair Sorbie is dependent in relation to the company as a result of his position as president and CEO of IFS.

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, the Swedish Code of Corporate Governance, 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 its committees, and between the board and the president, the forms of financial reporting, instructions to board committees, 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 dialog with the president and is responsible for ensuring that other board members receive the necessary documentation for high-quality discussions and decisions, and for continuously

updating and deepening their knowledge of the company. In addition, the chairman ensures that board decisions are executed, and 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 2011, the board met 17 times (eight of which were by correspondence and two by phone) in addition to the statutory meeting after the AGM. In addition to the ordinary items on its agenda, the work of the board in 2011 focused on managing IFS's growth, profitability, and strategic position. During the year, regional managers and other senior executives, according to a rolling schedule, presented and discussed their areas of responsibility with the board. Minutes are taken of each board meeting and are normally made available to directors pursuant to the stipulations of the Swedish Code of Corporate Governance.

In 2011, in accordance with the Swedish Code of Corporate Governance, the board submitted the nine-month report for review by the auditors, and on one occasion during the year met the auditors when neither the CEO nor any other member of senior management was present.

The work of the board in 2011 was evaluated both in writing and orally within the board and has also been treated at a plenary session of the board in February 2012 on the basis of an agenda established in advance in accordance with a structured, systematic process. Relevant parts of the result of the evaluation have been reported to the nomination committee. No external evaluation of the board was conducted during the year. In addition, the work

of the CEO has been continuously evaluated, in particular at board meetings at which no members of the senior management were present.

The chairman of the board and other board members, with the exception of the CEO, are remunerated for work on the board in accordance with resolutions adopted by the AGM. The AGM 2011 resolved that directors' fees of SKr 2.25 million be paid, of which SKr 1 million was paid to the chairman of the board and SKr 275 000 was paid to each of the remaining board members, with the exception of the CEO. The fees were unchanged from the previous year. A fee of SKr 100 000 was paid to the chairman and SKr 50 000 to other members of the audit committee, both unchanged from the previous year.

Board directors' attendance during 2011

Name	Position	Board meeting	Audit committee
Anders Böös	Chairman	100%	-
Bengt Nilsson	Vice-chairman	100%	-
Ulrika Hagdahl	Member	100%	100%
Birgitta Klasén	Member	100%	-
Neil Masom	Member	100%	100%
Alastair Sorbie	Member	100%	-

COMMITTEE WORK

Audit committee

To increase the efficiency of, and intensify, the work of the board, an audit committee was established in April 2008. The audit committee is normally convened in conjunction with the publication of interim reports and the year-end report, and on occasion, in connection with the AGM. 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 also manages the work of the internal audit function that the board established during 2010, see below for details, and to annually review the board's work in view of the Operating Procedures of the Board.

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 is reported continuously to the board, which takes any decisions made necessary by the audit committee's work. Minutes are kept of audit committee meetings and are made available to the board.

In 2011/12, the audit committee comprised board members Ulrika Hagdahl, chairman, and Neil Masom. Accordingly, the company deviated from section 7.3 of the Swedish 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 2011/12, taking into account experience, interest and competence. In doing so, the board has taken into particular account the requirements of Swedish Code of Corporate Governance that members of the audit committee have the requisite competence in matters of remuneration of senior executives. The Group's CFO Paul Smith and General Counsel Jesper Alwall, who is also the secretary of the audit committee, participate in the audit committee's meetings. The Audit Committee met five times in 2011, and all members were present at the meetings. IFS's 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 board continuously monitors and evaluates both the execution of the guidelines determined by the AGM for remuneration of senior executives and prevailing remuneration structures and remuneration levels in the company, and the ongoing and completed programs for variable remuneration of senior management in the company. A report on the findings of this evaluation is publicized on the company website no later than two weeks before AGM.

The company website also contains a more detailed account of current guidelines for remuneration of senior management and of the outstanding incentive program adopted by the board.

THE PRESIDENT AND SENIOR MANAGEMENT

The president is appointed by the board and is responsible, according to the Swedish Companies Act, the Operating Procedures of the Board and the Instruction to the President for the day-to-day management of the business of the company and Group. 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 general counsel. Group Management participates in regular operational reviews under the leadership of the president.

AUDITORS

IFS's auditing company, reelected at the 2010 AGM for four years, is PricewaterhouseCoopers AB (PwC). It is the responsibility of the auditors to appoint an auditor in charge. PwC has appointed Lars Wennberg as auditor in charge for fiscal 2011. For fiscal 2012, PwC has appointed Nicklas Kullberg as auditor in charge.

The task of the auditor is to scrutinize, on behalf of the stockholders, the annual report and accounts, as well as the administration of the board of directors and the CEO. The auditor in charge also presents an audit report at the AGM. Stockholders are invited to question the auditor at the AGM.

In addition to the audit, PwC, when required, undertake a limited number of other assignments for IFS. These primarily pertain to audit-related services such as a more detailed presentation in connection with the audit as well as tax consultancy.

GUIDELINES FOR REMUNERATION OF CORPORATE MANAGEMENT

For 2011, the following guidelines established by the AGM concerning remuneration and other terms and conditions of employment for the CEO and other senior executives were applied.

Remuneration of corporate management in IFS shall be aligned with market terms and conditions, shall be individual and differentiated, and shall support the interests of the stockholders. Remuneration principles shall be predictable, both in terms of costs to the company and benefits for the individual, and shall be based on factors such as competence, experience, responsibility and performance.

Total remuneration paid to corporate management shall consist of a basic salary, variable remuneration, an incentive program, pension contributions, and other benefits.

The total annual monetary remuneration paid to each member of corporate management, i.e., basic salary and variable remuneration, shall correspond to a competitive level of remuneration in the respective executive's country of residence.

Variable remuneration shall be linked to predetermined measurable criteria designed to promote long-term value generation in the company. The relationship between basic salary variable remuneration shall be proportionate to the executive's responsibility and powers. Variable remuneration varies according to position. For 2011, variable remuneration was not permitted to exceed 50 percent of the basic salary.

The AGMs of 2008, 2009, and 2010 resolved to adopt incentive programs for the corporate management and key personnel based on uniform terms and conditions.

The AGM 2011 adopted a revised incentive program which had been adjusted in accordance with the rules of the Swedish Corporate Governance Code applicable as per February 1, 2010. The program entails that the company have offered senior executives and key personnel in the company the opportunity to subscribe for warrants in the company valued at market price. To stimulate participation in the program, employees will be allotted, subject to certain terms and conditions, up to three warrants free of charge for each warrant acquired at market price. The number of warrants that participants can be allotted free of charge is dependent on the outcome of a performance condition linked to the company's earnings-per-share target during 2011 as determined by the board. Each warrant carries the right to acquire one Series B share during the period from publishing the interim report for the first quarter 2014 up to and including June 29, 2016, at a subscription price corresponding to 110 percent of the volume-weighted average price paid for the company's share on the Nasdaq OMX Stockholm Exchange between April 20, 2011 and April 29, 2011.

Pension benefits shall correspond to a competitive level in the respective executive's country of residence and shall, as in previous years, consist of a premium-based pension plan or its equivalent. The CEO is entitled to a premium-based pension plan with a premium that is 20 percent of the basic salary. The retirement age for the CEO and other senior executives is 65, but the CEO and the company are entitled to invoke the right to retirement for the CEO at the age of 62. In such a case, the CEO shall receive the equivalent of 60 percent of the basic salary until he is 65.

Other benefits are chiefly related to company cars and telephones and shall, where they exist, constitute a limited portion of the remuneration and be competitive in the local market.

If the company terminates the employment, the period of notice is normally 6–12 months; if the executive terminates the employment, the period of notice is normally 3–6 months. The basic salary during the period of notice, together with severance pay, shall not exceed an amount corresponding to two years' basic salary.

The board of directors shall have the right to deviate from the above guidelines in individual cases if there is good reason to do so. In such an event, the board shall inform the immediately following AGM and explain the reason for the deviation.

The principles apply to employment contracts entered into after the resolution is adopted by the AGM and to changes made to existing terms and conditions after this point in time.

INTERNAL CONTROL AND RISK MANAGEMENT PERTAINING TO FINANCIAL REPORTING

A report on internal control pertaining to financial reporting for fiscal 2011 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. These are further described below.

Control environment

IFS's values form the basis for the control environment. Simplicity, commitment and a businesslike nature are the key concepts that are the foundation for IFS's work and interaction with customers, partners and employees. Attitudes and values are at least as important as experience and competence, and IFS places great emphasis on ensuring that its 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 made available 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 reported. The audit committee thoroughly 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 AGM, PricewaterhouseCoopers AB, also review a selection of IFS's controls. Recommendations from the external accounting are continuously monitored by Group Management and the audit committee. The subsidiaries reported on a number of prioritized risk areas. The company applies a process in conjunction with the year-end financial statement in which managing directors and financial managers of the subsidiaries submit representation letters on essential information for the accounting.

Internal audit

During 2010, the board established a separate internal audit function to take responsibility for strengthening internal risk management, monitoring and control, as well as processes. The internal audit's tasks include mapping and scrutinizing essential areas of risk, and providing monitoring and specific scrutinizing and support input in selected areas. The internal audit plans its work in collaboration with the audit committee, corporate management and the company's external auditors; the

results of actions taken are reported continuously to the audit committee. During 2011, the work of the internal audit has primarily been focused on defining minimum internal control requirements to be implemented and observed locally by the IFS group companies. The internal control requirements have been identified on the basis of financial reporting and divided into separate processes depending on materiality, number of historical reporting errors, complexity, and risk for fraud etc.