

Corporate governance report



Corporate governance 2010

Nolato is a Swedish limited company. Its corporate governance is based on Swedish legislation, primarily the Swedish Companies Act, the regulations set out by NASDAQ OMX Nordic, the Swedish Code of Corporate Governance and the rules and recommendations issued by relevant organisations.

Ownership

Nolato's B shares are listed on the NASDAQ OMX Nordic Exchange in the Stockholm Mid Cap segment, where the shares are included in the information technology sector.

Nolato had 7,889 shareholders as at 31 December 2010. The ten largest shareholders were the Paulsson family with 12% of the share capital (21% of the votes), the Jorlén family with 10% (25% of the votes), the Boström family with 9% (20% of the votes), and seven institutional investors, who together owned an additional 26%. Together, the ten largest shareholders hold 58% of the share capital and 78% of the votes.

For further information about ownership, see the previous page.

Annual General Meetings

The shareholders' right to make decisions on matters relating to Nolato is exercised at Annual General Meetings (AGMs). Shareholders entered in the register of shareholders on the dividend record date and registered before the final registration date are entitled to participate in the AGM, either in person or via a representative.

Resolutions at Annual General Meetings are normally passed by simple majority. On certain issues, as prescribed in the Swedish Companies Act, a specific minimum percentage of the shareholders present is required in order for the AGM to achieve a quorum or a statutory voting majority.

The AGM must be held within six months of the end of the financial year. At the AGM, matters relating to subjects such as dividends, adopting the income statement and

balance sheet, discharging the members of the Board and the President and CEO from liability, electing the Board members, the Chairman of the Board and, where appropriate, auditors, determining the fees payable to the Board and the auditors and agreeing on guidelines for the remuneration of senior executives and the principles for appointing the Nomination Committee are dealt with. Shareholders also have the opportunity to ask questions about the Company and its development at the AGM. All Board members, the Company's management and the auditors are normally present to answer any such questions.

The 2010 Annual General Meeting

The 2010 Annual General Meeting was held on 28 April 2010 in Grevie. Fredrik Arp was elected as chairman of the meeting.

The AGM approved a dividend of SEK 3.00 (2.75) per share.

Fredrik Arp, Gun Boström, Henrik Jorlén, Erik Paulsson, Hans Porat and Lars-Åke Rydh were re-elected as Board members. Anna Malm Bernsten was elected as a new Board member.

The meeting resolved that, for the period until the next AGM, the Board should receive unchanged fees totalling SEK 1,030,000, excluding travel allowances (SEK 1,030,000), to be distributed as follows among the non-employed members: SEK 250,000 (250,000) to the Chairman, and SEK 130,000 (130,000) each to the other non-employed members. It was also resolved that SEK 80,000 (80,000) should be paid to the members of the Audit Committee, of which SEK 50,000 should be paid to the chairman and SEK 30,000 to the ordinary member. A fee of SEK 50,000 (50,000) should be paid to the Chairman of the Remuneration Committee.

For the period until the 2012 AGM, Alf Svensson was elected by the 2008 AGM as ordinary auditor and Camilla Alm Andersson as deputy auditor, both of whom work for KPMG AB.

The AGM resolved in accordance with the Board's proposal that the Company should

have a Nomination Committee consisting of one representative for each of the five largest shareholders in terms of number of votes as at the end of September 2010. The names of the five shareholder representatives and the names of the shareholders whom they represent shall be made public as soon as they have been appointed, but no later than six months before the 2011 AGM.

The Nomination Committee's mandate period shall run until a new Nomination Committee has been elected. Unless the members of the Nomination Committee agree otherwise, the chairman of the Nomination Committee shall be the member who represents the largest shareholder in terms of number of votes.

The AGM passed resolutions on adopting the income statement and balance sheet for Nolato AB and the consolidated income statement and balance sheet, and on the distribution of earnings, and discharged the members of the Board and the President from liability for the 2009 financial year.

Nomination Committee

As decided by the 2010 AGM (see above), the Nomination Committee shall consist of one representative for each of the five largest shareholders as at the end of September 2010.

The Nomination Committee ahead of the 2011 AGM consists of Henrik Jorlén (chairman, representing the Jorlén family), Erik Paulsson (representing the Paulsson family), Gun Boström (representing the Boström family), Johan Lannebo (representing Lannebo Fonder) and Magnus Molin (representing Svolder AB). The Nomination Committee is responsible for making proposals to the AGM on the Chairman of the Board and other Board members, director's fees for each of the Board members, the chairman of the AGM, how the Nomination Committee should be appointed for the coming year and, where appropriate, auditors and auditors' fees. In addition, the Nomination Committee must also carry out certain tasks in accordance with the Swedish Code of Corporate Governance.

Since its inauguration and up until February 2011, the Nomination Committee has held one meeting.

The Nomination Committee can be contacted by writing to *The Nolato Nomination Committee, c/o Henrik Jorlén, Kommandörsgatan 4, 269 77 Torekov, Sweden* or by e-mailing *henrik.jorlen@gmail.com*.

The Company's application of the Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance is based on the principle follow or explain. This means that companies which apply the Code may deviate from specific rules, but must then provide explanations and reasons for each individual deviation. Nolato only deviates from points 2.4 and 7.3 of the Code.

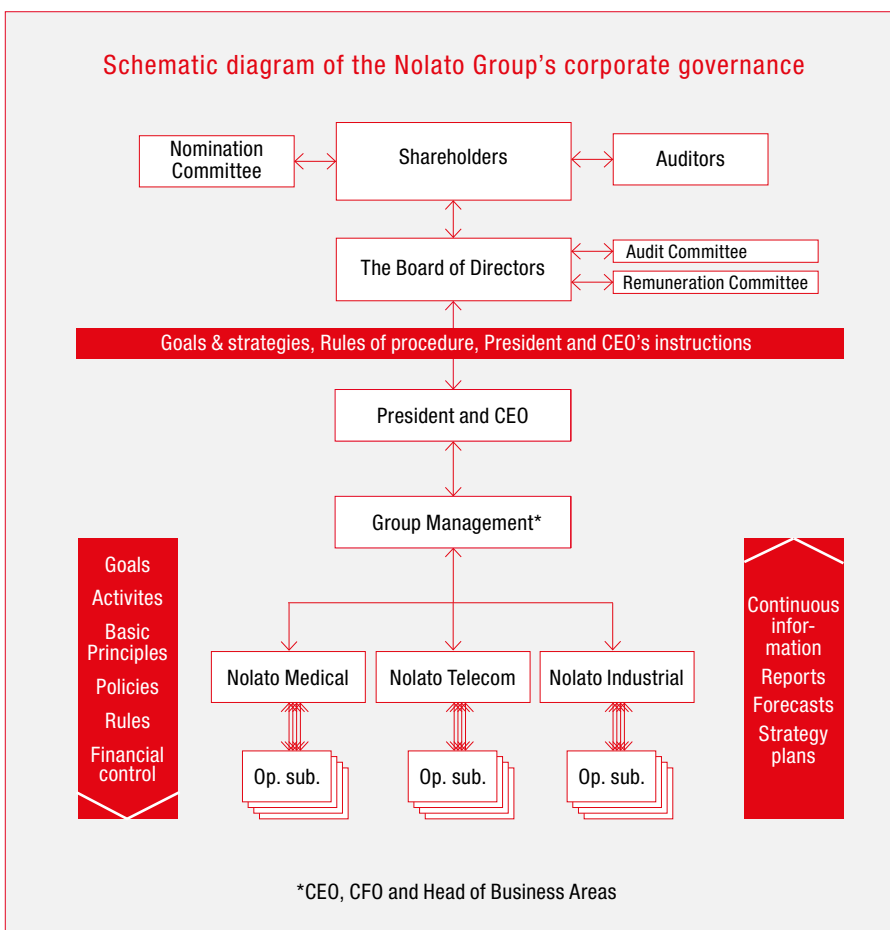
Point 2.4 states that the majority of the Nomination Committee should be made up of non-Board members, that no more than one of these Board members may be dependent in relation to the Company's major shareholders, and that the Chairman of the Nomination Committee should not be the Chairman of the Board or another Board member. Nolato's largest shareholders are of the opinion that the Company's ownership structure, with three families which hold around 65% of the Company's votes, is best represented within the Nomination Committee by these shareholders together with other major shareholders. Since the representatives of these families have such a large shareholding, they have deemed it to be both natural and necessary that they should also be involved and exercise their shareholders' interests through representation on both the Company's Nomination Committee and the Board.

Point 7.3 states that the Audit Committee should consist of at least three Board members. The Board has decided that, in view of the composition and size of Nolato's Board, the Audit Committee would be best represented by two members.

The Board and its work

The composition of the Board

According to the Company's Articles of Association, the Board of Nolato should consist of at least five and no more than nine Board members, with a maximum of three deputies, which are elected at the AGM for



The Annual General Meeting elects the Board of Directors, which is responsible for ensuring that the management and control of the Group is distributed between the Board, the Board's committees and the President and CEO in accordance with the Swedish Companies Act, other legislation, the Swedish Code of Corporate Governance, the Articles of Association and the Board's rules of procedure.

the period up until the first AGM held after the year in which the Board members were elected.

Following the AGM of 28 April 2010, the Board consists of seven members elected at the AGM: Fredrik Arp (Chairman of the Board), Gun Boström, Henrik Jorlén, Anna Malm Bernsten, Erik Paulsson, Hans Porat and Lars-Åke Rydh. The Board also includes three employee representatives: Magnus Bergqvist, Björn Jacobsson and Eva Norrman. Each of these has a deputy, and these are Ingegerd Andersson, Bo Eliasson and Håkan Svensson.

Apart from the CEO and the union representatives, none of the Board members is employed by or works within the Company's operations.

The Board members Anna Malm Bernsten, Lars-Åke Rydh and the Chairman of

the Board Fredrik Arp are deemed by the Board to act independently of the Company's major shareholders. From time to time, Erik Paulsson represents other companies which are Nolato suppliers or customers. Both in relation to the situation of this Board member and to that of each supplier/customer, Nolato's Board has determined that the transactions carried out with these companies do not constitute significant business connections when considering the size of revenues generated in comparison with annual supplier/customer sales.

Nolato's Board has therefore determined that all members elected by the AGM, apart from the CEO, are independent in relation to the Company.

The members of the Board of Nolato are presented on pages 78–79.

The working methods of the Board

The Board decides on the ultimate direction of Nolato's operations and prepares the necessary instructions. It determines the Nolato Group's management structure and appoints, dismisses and oversees the President and CEO.

Principles were decided on at the Board's constituent meeting following the AGM concerning the Board's rules of procedure for its work, the delegation of duties between the Board and the President and CEO, and financial reporting. The key elements of these principles determine the following:

- The Board shall establish a work plan with five regular meetings over the course of the year, at which various matters as stipulated by the rules of procedure shall be considered.

- Notice of the meeting, the agenda and the relevant documentation for the Board meeting shall normally be sent out no later than one week before the meeting. Numbered minutes shall be kept for every meeting.

- The delegation of duties clarifies the responsibilities of the Board and the key duties of the Chairman and the President and CEO. The instructions for the President and CEO include limitations on decisions in relation to investments, acquisitions, transfers and certain agreements.

- In order to enable the Board to follow and monitor the Group's financial position and development on an ongoing basis, the President and CEO shall provide the Board with monthly reports on sales, income, capital commitment, cash flow, the balance sheet, forecast monitoring and forecast updates.

The Board ensures the quality of financial reporting, which takes place through adopted governance instruments, such as the instructions for the President and CEO, the instructions for financial reporting to the Board, the information policy and the financial policy.

The Board also ensures the quality of financial reporting by reviewing the interim reports, the year-end report and the Annual Report in detail, both before and at the Board meetings. The Board is also informed of minutes drawn up by the Audit Committee and any observations, recommendations and proposed decisions and actions.

The Board has delegated the Company

management with the task of ensuring the quality of press releases with financial content and presentation materials in connection with meetings held with the media, shareholders and financial institutions.

The Chairman of the Board, Fredrik Arp, organises and leads the work of the Board so that this is carried out in accordance with the Swedish Companies Act, other legislation and regulations, applicable rules for listed companies (including the Swedish Code of Corporate Governance) and the Board's internal governance instruments. The Chairman of the Board monitors operations through ongoing contact with the President and CEO, and is responsible for other Board members receiving sufficient information and documentation for making decisions.

The Chairman of the Board is also responsible for the Board being kept updated, improving its knowledge about Nolato and otherwise receiving the training required in order for the Board to be able to carry out its work in an effective manner. In addition, the Chairman of the Board ensures that the work of the Board is evaluated on an annual basis, and that the Nomination Committee is informed of the outcome of this evaluation.

The Audit Committee

The task of the Audit Committee is to supervise the procedures for accounting, financial reporting and internal auditing. The committee will have frequent contact with the auditors of Nolato AB and the Group, in order to discuss audit matters on an ongoing basis, evaluate auditing work and establish guideless for services other than auditing that Nolato may procure from its auditors.

The members of the committee are Lars-Åke Rydh (chairman) and Henrik Jorlén, who were appointed by the Board. The work of the committee is regulated by specific rules of procedure, which have been adopted by the Board.

The Audit Committee held four meetings in 2010. Both the members were present at three of these, and one member was absent from one meeting. Minutes were taken at all meetings.

The Remuneration Committee

The Board includes a Remuneration Committee, which is responsible for making proposals to the Board on variable remunera-

tion for senior executives, including the President and CEO.

The committee also proposes all remuneration and benefits for the President and CEO to the Board. The Board has approved these principles for the variable remuneration of senior executives and all remuneration and benefits for the President and CEO.

The committee is also responsible for approving all remuneration to the executive management.

The members of the committee are Fredrik Arp (chairman) and Henrik Jorlén, who were appointed by the Board. The committee held two meetings in 2010.

Ahead of 2011, the committee drew principles for variable remuneration and other remuneration and benefits for the President and CEO and senior executives, which the Board will propose to the AGM for resolution.

The Board's work in 2010

During 2010, the Board held five meetings and a constituent meeting after the AGM. Reviews of the Company's operations, markets and finances were standing items on the Board's agenda. In addition to these points, the work of the board during the year has focused primarily on investment discussions, market communication, acquisition processes, budgets/forecasts, financing and strategy discussions relating to the Company's operations during the most recent three-month period.

All decisions have been unanimous.

Board meeting attendance in 2010

During 2010, the Board members elected by the AGM attended the following Board meetings:

	Feb	Apr	Jul	Oct	Dec
Fredrik Arp	x	x	x	x	x
Gun Boström	x	x	x	x	x
Roger Johanson ¹⁾	x	x			
Henrik Jorlén	x	x	x	x	x
Anna Malm Bernsten ²⁾			x	x	x
Erik Paulsson	–	x	x	–	x
Lars-Åke Rydh	x	x	x	x	x
Hans Porat	x	x	x	x	x

¹⁾ Left at the 2010 AGM.

²⁾ Elected at the 2010 AGM and co-opted to the April meeting.

Reporting and control

The Board and the Audit Committee analyse and assess risks and control environments, and oversee the quality of financial reporting and Nolato's internal control systems.

This takes place through, for example, issuing instructions to the President and CEO, agreeing on requirements for the content of the reports on financial conditions given to the Board on an ongoing basis, and holding reviews together with the management and the auditors.

The Board is informed of – and ensures the quality of – financial reports such as monthly reports, forecasts, interim reports and the Annual Report, but has delegated the Company management with the task of ensuring the quality of presentation materials in connection with meetings held with the media, shareholders and financial institutions.

Company Management

Group Management

The Group Management consists of Hans Porat (CEO of the Nolato Group and President of Nolato Industrial), Per-Ola Holmström (Executive Vice President and CFO), Christer Wahlquist (President of Nolato Medical) and Jörgen Karlsson (President of Nolato Telecom).

The President and CEO manages operations in accordance with the Swedish Companies Act and within the framework established by the Board of Directors. Working together with the Chairman of the Board, he draws up the necessary information and decision-making documentation for Board meetings, submits details of tasks and justifies proposals for decisions. He is also responsible for Nolato's corporate, strategic and financial development, and manages and coordinates day-to-day activities in accordance with the guidelines and decisions of the Board.

The President and CEO also appoints members of the Group management, in consultation with the Chairman of the Board. Nolato's Group management holds monthly operational reviews, under the leadership of the President and CEO.

Business operations

All business operations within the Group

are conducted by subsidiaries, in keeping with the decentralised culture that has always characterised Nolato.

Business areas

Each subsidiary belongs to one of the Group's three business areas. The president of each business area manages operational issues, and is in constant contact and discussion with the managing directors and other management of the subsidiaries within the business area in question.

Subsidiaries

The Group's success is due to the close business relationships which each Group company enjoys with its customers. Their understanding of – and sensitivity towards – customers' needs, business practices and distribution requirements are, and remain, crucial to Nolato's success.

Each subsidiary is managed by a Board of Directors, which approves and makes decisions on long-term strategies and overall structural and organisational changes. Each subsidiary has a managing director who is responsible for operations, as specified in the managing director's instructions issued by the Board of Directors. The managing director is assisted by a management team, with members from the various company functions.

Auditors

At the 2008 AGM, authorised public accountant Alf Svensson was elected as auditor of Nolato and authorised public accountant Camilla Alm Andersson was elected as deputy auditor, both for a mandate period of four years.

Both work for the accountancy company KPMG AB.

Nolato's auditor is tasked with auditing the annual report and the accounts, as well as the administration of the Board of Directors and the President and CEO. Auditing takes place in accordance with the Swedish Companies Act and the Standards on Auditing in Sweden. The auditor also reviews the remuneration of senior executives and the corporate governance report. The auditor works according to an audit plan. Reports have been submitted to the Board, both during the course of the audit and when adopting the year-end report for 2010 on 1 February 2011. The auditor also participates in the AGM, describing the audit work and



observations made in an auditors' report. Over the course of the year, the auditor has carried out a number of consultancy commissions over and above the audit, relating primarily to auditing and taxation issues.

The external audit is conducted in accordance with generally-accepted auditing practices. Annual reports for legal entities outside Sweden must be audited in accordance with statutory requirements and other applicable rules in the country in question, and in accordance with generally-accepted auditing practices. Nolato's auditors regularly study the approved minutes from Nolato's Board meetings, and also have ongoing access to the monthly reports which the Board receives.

Nolato's auditors are presented in this Annual Report on page 79.

Board remuneration

For the period starting with the 2010 AGM and ending with the 2011 AGM, Board remuneration totalled SEK 1,030,000 excluding

travel allowances (SEK 1,030,000), divided up as follows:

The Board:	
Chairman:	SEK 250,000
Board member:	SEK 130,000
Audit Committee:	
Chairman:	SEK 50,000
Member:	SEK 30,000
Remuneration Committee:	
Chairman:	SEK 50,000

Director's fees are paid only to external members. Company employees and employee representatives receive no director's fee.

During 2010, the current members of the Board received the following remuneration, which was paid in December 2010:

Fredrik Arp	SEK 300,000
Henrik Jorlén	SEK 160,000
Gun Boström	SEK 130,000
Anna Malm Bernsten	SEK 130,000
Erik Paulsson	SEK 130,000
Lars-Åke Rydh	SEK 180,000
Total	SEK 1,030,000

Remuneration information

Information on fees, salaries, pensions and other benefits for the Board of Directors, the President and CEO and other senior executives can be found in Note 11 on pages 53–54.

Information Policy

Nolato reports to NASDAQ OMX Nordic, where the Company is quoted in the Stockholm Mid Cap segment. Information in the form of quarterly reports, press releases, etc., is submitted in accordance with the requirements of the stock exchange and the information policy adopted by Nolato's Board of Directors.

Reports, press releases and other information can be downloaded from Nolato's website, www.nolato.com, under Investor Relations.

The website also includes additional information on corporate governance in terms of Board membership, procedures, work, committees and auditors. The current Articles of Association, information about Annual General Meetings and current details of major shareholders can also be found here. ■

The Board's description of internal control in relation to financial reporting

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for the Company's internal audit. The description does not constitute part of the formal Annual Report documents. In the description, the Board does not issue any statement on the effectiveness of the internal audit. The company's auditor has reviewed the description.

Nolato's internal audit in relation to financial reporting includes five main activities: creating a control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

Effective Board work forms the foundation for good internal auditing. The Board has established clear processes and rules of procedure for its work. One key element of the Board's work is deciding on and approving a number of fundamental policies, guidelines and frameworks for financial reporting. These include the Group's Code of Conduct, the information policy and the financial policy.

The Board evaluates operational performance and results on an ongoing basis, via a reporting package which includes operating income, rolling forecasts, the analysis of key figures and other significant operating and financial information.

Nolato has a simple legal and operational structure, with established management and internal audit systems. This enables the business to react swiftly in the event of changed conditions in the Group's market or in other areas. Operational decisions are taken at company or business area level, while decisions on overall strategy, focus, acquisitions, major investments and overall financial issues are taken by Nolato's Board and Group management.

Internal auditing in relation to Nolato's financial reporting is tailored to work within this organisation. Within the Group, there is a clear regulatory framework for delegating responsibility and authorisation, and this follows the Group structure. The basis for internal auditing in relation to financial reporting is a control environment consisting of the organisation, decision-

making paths, authorisation and responsibilities communicated, as well as the culture which the Board and the Company management communicates and works within. This culture is formulated in the documents Nolato's Basic Principles, Nolato's Code of Conduct, Nolato's Environmental Policy, Nolato's Quality Policy and Nolato's Information Policy, and is described on pages 24–29 of this Annual Report. These cultural declarations are an important element when it comes to creating an effective control environment within Nolato. They are communicated to all employees, including in the form of a publication entitled "The Nolato Spirit", and are based on a set of values which Nolato has upheld for many years.

In addition to this, rules of procedure for the Board and President and CEO instructions have also been drawn up. These describe matters such as the distribution of work within the Board and the duties of the Chairman of the Board and the President and CEO. Rules of procedure have also been drawn up for the managing director of each subsidiary. Managers at various levels within the Company are responsible for dealing with internal auditing on an ongoing basis within their own particular areas of responsibility.

Risk assessment

The Company carries out an annual process, involving a risk analysis of its financial reporting, which will be evaluated and ratified by the board. In connection with this risk analysis, income statement and balance sheet items are identified where there is a heightened inherent risk of serious errors.

Within the company's operations, these risks are mainly present in fixed assets, financial instruments, inventories, customer receivables, accrued expenses, taxes and revenue recognition.

These risk assessments are based on effects on financial reporting, the outcome of the income statement, business processes, external factors and the risk of fraud.

Control activities

Those risks which have been identified in



Injection-moulding in a clean room at Nolato Contour.

relation to financial reporting are dealt with via the Company's control activities, e.g. authentication checks for IT systems and authorisation controls.

These operational-specific controls are supplemented by detailed financial analyses of earnings, followed-up with business plans and forecasts, which provide an overall assessment of the quality of the reporting.

Information and communication

The Company's steering documents for financial reporting consist mainly of policies and guidelines, which are kept up-to-date and communicated via the relevant channels. Information is obtained from the subsidiaries through financial and operational reports to the boards of the subsidiaries, the business area management and the Group management.

There is a clear information policy for communication with external parties, which provides guidelines for the forms which this communication should take. The aim of the policy is to ensure that all information obligations are complied with in a correct and complete manner.

Monitoring

The President and CEO is responsible for

internal auditing being organised and monitored in accordance with the guidelines established by the Board. Financial control is carried out by the Group financial function. Financial reporting is analysed in detail each month.

The Board has monitored the financial reporting at its meetings, and the Company's auditors have reported back their observations to the Board and the Audit Committee. The Audit Committee has received reports from the auditor on an ongoing basis, and monitors measures taken to improve or amend controls. The Board has received financial reports on a monthly basis, and the Company's financial situation has been addressed at each Board meeting. The Board and the Audit Committee have reviewed all interim reports and the Annual Report prior to publication.

Internal audit

Nolato has a simple legal and operational structure, with established management and internal audit systems. The Board and the Audit Committee monitor the organisational assessment of internal auditing, including through contact with Nolato's auditors. In view of the above, the Board has chosen not to carry out any specific internal audit. ■

Auditor's statement on the corporate governance report

**To the Annual General Meeting of Nolato AB,
Swedish corporate identity number 556080-4592**

It is the Board of Directors who are responsible for the corporate governance report for the financial year 01/01/2010 to 31/12/2010 on pages 72–77 and for this being prepared in accordance with the Swedish Annual Accounts Act.

In order to provide a basis for my opinion regarding the preparation of the corporate governance report and its compliance with the Parent Company and consolidated accounts, I have read the corporate governance report and have assessed its statutory content based on my knowledge of the company.

I am of the opinion that a corporate governance report has been prepared, and that its statutory information complies with the Parent Company and consolidated accounts.

Malmö, 8 March 2011

Alf Svensson
Authorised public accountant