

Corporate governance report

Corporate governance 2008

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 AB, 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 Small Cap segment, where the shares are included in the information technology sector.

Nolato had 6,562 shareholders as at December 31, 2008.

The ten largest shareholders were the Paulsson family with 12 percent of the share capital, the Jorlén family with 11 percent, the Boström family with 9 percent, and seven institutional investors, who together owned an additional 29 percent.

Together, the ten largest shareholders hold 61 percent of the share capital and 80 percent of the votes.

For further information about ownership, see the previous page.

Annual Meetings

The shareholders' right to make decisions on matters relating to Nolato is exercised at Annual Meetings. 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 Annual Meeting, either in person or via a representative.

Resolutions at Annual 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 Annual Meeting to achieve a quorum or a statutory voting majority.

The Annual Meeting must be held within

six months of the end of the financial year. At the Annual Meeting, 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 Annual Meeting. All Board members, the Company's management and the auditors are normally present to answer any such questions.

The 2008 Annual Meeting

The 2008 Annual Meeting was held on April 28, 2008 in Grevie. Carl-Gustaf Sondén, who is also the Chairman of the Board, was elected as the chairman for the meeting.

Resolution on the dividend

The Annual Meeting approved a dividend of SEK 3.00 (2.40) per share.

Election of the Board and resolution on fees

Carl-Gustaf Sondén, Gun Boström, Roger Johanson, Henrik Jorlén, Erik Paulsson and Lars-Åke Rydh were re-elected as Board members. Hans Porat was elected as a new Board member. Carl-Gustaf Sondén was elected as Chairman of the Board.

The meeting resolved that, for the period until the next Annual Meeting, the Board should receive fees totalling SEK 900,000, excluding travel allowances (SEK 820,000), to be distributed as follows among the non-employed members: SEK 250,000 (220,000) to the Chairman, and SEK 130,000 (120,000) each to the other non-employed members.

Election of auditors

For the period until the 2012 Annual Meeting, Alf Svensson was newly elected as ordi-

nary auditor and Camilla Alm Andersson as deputy auditor, both of whom work for KPMG AB.

Buy-back of the Company's own shares

The Annual Meeting authorised the Board, with a maximum duration of until the next Annual Meeting, to acquire and transfer a maximum of 10 percent of the Company's own shares, in accordance with the Board's proposal to the Annual Meeting.

Resolution on the Nomination Committee

The Annual Meeting 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 2008. 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 2009 Annual Meeting.

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.

Other resolutions

The Annual Meeting 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 and CEO from liability for the 2007 financial year.

Nomination Committee

As decided by the 2008 Annual Meeting (see above), the Nomination Committee shall consist of one representative for each of the five largest shareholders as at the end of September 2008.

The Nomination Committee ahead of the





2009 Annual Meeting consists of Henrik Jorlén (chairman, representing the Jorlén family), Erik Paulsson (representing the Paulsson family), Gun Boström (representing the Boström family), Erik Sjöström (representing Livförsäkringsaktiebolaget Skandia) and Magnus Molin (representing Svolder AB).

The Nomination Committee is responsible for making proposals to the Annual Meeting on the Chairman of the Board and other Board members, director's fees for each of the Board members, the chairman of the Annual Meeting 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.

Until February 2009, the Nomination Committee has held two meetings.

Shareholders who wish to contact the Nomination Committee may e-mail henrik.jorlen@bjarenet.com, erik.paulsson@hansan.se, gun.bostrom@gmail.com, erik.sjostrom@skandia.se or magnus.molin@svolder.se.

The address for regular mail is: The Nolato Nomination Committee, c/o Henrik Jorlén, Kommendörsgatan 4, 260 93 Torekov, Sweden.

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 the rea-

sons for each individual deviation. Nolato only deviates from point 2.4 of the Code, whereby the majority of the Nomination Committee should be made up of non-Board members, and that no more than one of these Board members should be dependent in relation to the Company's major shareholders.

Nolato's largest shareholders are of the opinion that the Company's ownership structure, with three families which hold 65 per-

cent 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.

The Board and its work

Composition

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 Annual Meeting for the period up until the first Annual Meeting held after the year in which the Board members were elected.

Following the Annual Meeting of April 28, 2008 the Board consists of seven members elected at the Annual Meeting: Carl-Gustaf Sondén (Chairman of the Board), Gun Boström, Roger Johanson, Henrik Jorlén, Erik Paulsson, Hans Porat and Lars-Åke Rydh. The Board also includes three employee representatives, Magnus Bergqvist, Björn Jacobsson and Eva Norrman. Each of the employee representatives has a deputy, and these are Ingegerd Andersson, Bo Eliasson and Fredrik Welandér.

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 Roger Johanson, Lars-Åke Rydh and the Chairman of the Board Carl-Gustaf Sondén 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 Annual Meet-

ing, 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 people who manage and represent Nolato.

Principles were decided on at the Board's constituent meeting following the Annual Meeting 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 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, Carl-Gustaf Sondén, 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 Remuneration Committee

The Board includes a Remuneration Committee, which is responsible for making proposals to the Board on variable remuneration 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 Remuneration Committee are Carl-Gustaf Sondén (chairman) and Henrik Jorlén, who were appointed by the Board. The committee held two meetings in 2008.

Ahead of 2009, the committee will submit proposals to the 2009 Annual Meeting on principles for variable remuneration and other remuneration and benefits for the President and CEO and senior executives.

The Board's work in 2008

During 2008, the Board held five meetings and a constituent meeting after the Annual

Meeting. Reviews of the Company's operations, markets and finances were rolling 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 2008

During 2008, the Board members elected by the Annual Meeting attended the following Board meetings:

| | Jan | Apr | Jul | Oct | Dec |
|--------------------------|-----|-----|-----|-----|-----|
| Carl-Gustaf Sondén | x | x | x | x | x |
| Gun Boström | x | x | x | x | x |
| Roger Johanson | x | x | x | x | x |
| Henrik Jorlén | x | x | x | x | – |
| Erik Paulsson | x | x | x | x | x |
| Lars-Åke Rydh | x | x | x | x | x |
| Hans Porat ¹⁾ | | | x | x | x |

¹⁾ Elected at the 2008 Annual Meeting

Reporting and control

The Board analyses and assesses risks and control environments, and oversees 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.



Tommy Nilsson, Nolato Gota, Götene, Sweden

Group management

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

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 head 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 Annual Meeting, 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. The auditor works according to an audit plan. Reports have been submitted to the Board, both during the course of the audit and when adopt-



Inger Nordström, Nolato Alpha, Kristianstad, Sweden

ing the year-end report for 2008 on January 29, 2009.

The auditor also participates in the Annual Meeting, 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 issues.

The external audit is conducted in accordance with generally-accepted auditing practices in Sweden. 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.

During 2008, Nolato's Board has elected to allow the entire Board to constitute the Audit Committee and carry out these duties.

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

Board remuneration

For the period starting with the 2008 Annual Meeting and ending with the 2009 Annual Meeting, Board remuneration totalled SEK 900,000 excluding travel allowances (SEK 820,000), divided up as follows:

| | |
|----------------|-------------|
| Chairman: | SEK 250,000 |
| Board members: | SEK 130,000 |

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

During 2008, the current members of the Board received the following remuneration, which was paid in December 2008:

| | |
|--------------------|--------------------|
| Carl-Gustaf Sondén | SEK 250,000 |
| Henrik Jorlén | SEK 130,000 |
| Gun Boström | SEK 130,000 |
| Roger Johanson | SEK 130,000 |
| Erik Paulsson | SEK 130,000 |
| Lars-Åke Rydh | SEK 130,000 |
| Total | SEK 900,000 |

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 10 on pages 54-55.

Information policy

Nolato reports to NASDAQ OMX Nordic, where the Company is quoted in the Stockholm Small 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 meetings and current details of major shareholders can also be found here.

The Board's description of internal audit

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 following description has been drawn up in accordance with sections 10.5 and 10.6 of the Code, and is therefore restricted to internal auditing in relation to financial reporting. 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, and has chosen not to permit the company's auditors to review the description.

In order to provide the Board with a basis for setting the level of internal management and control, Nolato began an overview and analysis during the latter part of 2008 of the existing instruments for internal auditing, and this will continue during 2009. The Board will continue to evaluate additional supervision of the internal audit and how the internal audit function will be organised in future.

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 deci-

sions 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 24-31 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.

Risk assessment

A risk analysis for the Group's financial reporting was carried out towards the end of 2008. This process will be repeated on an annual basis, and will be evaluated and ratified by the board. In connection with this risk analysis, income statement and balance sheet items were 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 a number of points, such as 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 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. There is a clear information policy for communications with external parties, which provide 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. The Board has received financial reports on a monthly basis, and the Company's financial situation has been addressed at each Board meeting.

Internal audit

Nolato has a simple legal and operational structure, with established management and internal audit systems. The Board monitors 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.