

Corporate governance report

Corporate governance

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.

The Company's application of the Code

The Swedish Code of Corporate Governance is based on the principle *comply 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 deviates from points 2.4 and 7.3 of the Code.

Point 2.4 states that the majority of the Nomination Committee should consist 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 percent of the 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.

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 Industrials sector.

The Company's A shares entitle the holder to ten votes, and the B share to one vote. All shares have the same rights to the assets and earnings of the Company.

At the end of 2012, Nolato had 7,445 shareholders. Only one individual shareholder, Backahill AB, with 16.5 percent of the votes, has a holding that represents at least one tenth of the number of votes for all shares in the Company.

For further information about ownership, see the previous page.

Annual General Meeting

Shareholders entered in the register of shareholders on the dividend record date and registered within the timeframe stipulated by the notice of the Meeting are entitled to attend the Annual General Meeting, 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 Annual General Meeting to achieve a quorum or a statutory voting majority.

The Annual General Meeting must be held within six months of the end of the financial year. At the Annual General 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 General Meeting.

All Board members, the Company's management and the auditors are normally present to answer any such questions.

The 2012 Annual General Meeting

The 2012 Annual General Meeting was held on 24 April 2012 in Grevie. 179 shareholders attended the Annual General Meeting, together representing 48.8 percent of the shares and 68.2 percent of the votes.

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

Amongst other matters, the Annual General Meeting resolved on fees for the Board of Directors, remuneration guidelines for senior executives and principles for appointing the Nomination Committee.

The Annual General Meeting also resolved to adopt the income statement and balance sheet for Nolato AB and the consolidated income statement and balance sheet, and on the appropriation of profits. The Annual General Meeting discharged the members of the Board and the President and CEO from liability for the 2011 financial year.

Nomination Committee

The 2012 Annual General Meeting resolved that the Nomination Committee ahead of the 2013 Annual General Meeting shall consist of one representative for each of the five largest shareholders in terms of votes as at the end of September 2012.

In accordance with this decision, the Nomination Committee ahead of the 2013 Annual General Meeting consists of Henrik Jorlén, chairman, Erik Paulsson, Gun Boström, Johan Lannebo (Lannebo Fonder) and Ulf Hedlundh (Svolder AB).

Since its inauguration and up until February 2013, the Nomination Committee held three meetings.

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

Schematic description of the Nolato Group's corporate governance

The **Nomination Committee** is responsible for submitting proposals to the Annual General Meeting on the Chairman of the Board, Board members (number, individuals, chairman), directors' fees, remuneration for committee work, how the Nomination Committee should be appointed for the coming year and submitting proposals regarding auditors and auditors' fees.

The **shareholders'** right to make decisions on matters relating to Nolato is exercised at Annual General Meetings and, where appropriate, at Extraordinary General Meetings. The Annual General Meeting usually takes place at the end of April. The Annual General Meeting resolves on issues stipulated by the Swedish Companies Act and the Company Code. By registering a matter in writing with the Board within certain timeframes, shareholders have the right to have a matter addressed by the Annual General Meeting that is relevant thereto.

The **Auditor** is elected by the shareholders at the Annual General Meeting to audit the Company's annual report and accounts, and the Board's and President and CEO's management of Nolato. 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.

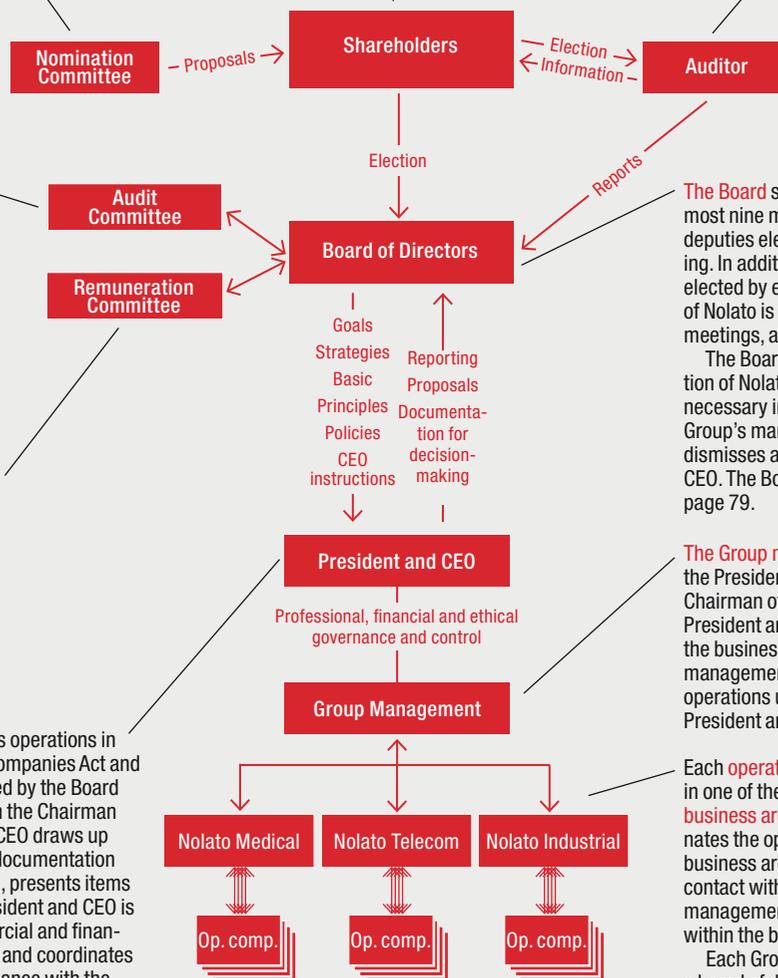
Reporting occurs to the Board and the Audit Committee. At the Annual General Meeting, the auditor provides information about the auditing work and observations made in an auditors' report. The auditor is presented on page 79.

The **Audit Committee's** task is to supervise the procedures for accounting, financial reporting and internal auditing. The committee shall have frequent contact with the Group's auditors in order to discuss audit matters, evaluate auditing work and establish guidelines for services other than auditing that Nolato may procure from its auditors.

The **Remuneration Committee** is responsible for proposing to the Board all remuneration and benefits for the President and CEO and principles for variable remuneration for senior executives. The committee shall also approve all remuneration for the executive management.

The **President and CEO** manages operations in accordance with the Swedish Companies Act and within the framework established by the Board of Directors. In consultation with the Chairman of the Board, the President and CEO draws up the necessary information and documentation for the Board's decision-making, presents items and justifies proposals. The President and CEO is responsible for Nolato's commercial and financial performance, and manages and coordinates day-to-day operations in accordance with the guidelines and decisions of the Board.

Reporting and control occurs by means of the Board and the Audit Committee analysing and assessing risks and control environments, and overseeing the quality of financial reporting and Nolato's internal control systems. This takes place through, for example, issuing instructions to the President and CEO and agreeing on requirements for the content of the reports on financial conditions given to the Board on an ongoing basis. The Board is informed of – and ensures – financial reports such as monthly reports, forecasts, interim reports and the Annual Report.



The **Board** shall consist of at least five and at most nine members, and a maximum of three deputies elected by the Annual General Meeting. In addition, it includes three members elected by employees. The President and CEO of Nolato is the person reporting at Board meetings, and Nolato's CFO is secretary.

The Board decides on the ultimate direction of Nolato's operations and prepares the necessary instructions. It determines the Group's management structure and appoints, dismisses and oversees the President and CEO. The Board members are presented on page 79.

The **Group management** is appointed by the President and CEO in consultation with Chairman of the Board and, besides the President and CEO, consists of the CFO and the business area presidents. Nolato's Group management holds monthly reviews of the operations under the management of the President and CEO.

Each **operational Group company** is included in one of the Group's three market-focused business areas. The business area coordinates the operations and is managed by a business area president, who is in constant contact with the managing directors and management functions of the companies within the business area in question.

Each Group company is managed by a board of directors, which approves and makes decisions on the company's long-term strategies and overall structural and organisational changes. Each Group company 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 important company functions.

Auditors

At the 2012 Annual General 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 the period until the next Annual General Meeting.

Both work for the accountancy company KPMG AB.

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 2012 on 5 February 2013. The auditor also participated in the Annual General Meeting, and described the audit work and observations made in an auditors' report.

Over the course of the year, the auditor carried out a number of consultancy commissions over and above the audit, relating primarily to accounting and taxation issues and consultations in connection with acquisitions.

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 auditor regularly study the approved minutes from Nolato's Board meetings, and also has ongoing access to the monthly reports which the Board receives.

The auditor has audited the remuneration of senior management and reviewed the company's half-year report.

Nolato's auditor and the deputy auditor are presented on page 79.

The Board and its work

The working methods of the Board

The Board decides on the ultimate strategic 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 Annual General 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, profit, capital commitment, cash flow, the balance sheet, forecast monitoring and forecast updates.

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 responsible for the Board being kept updated, improving its knowledge about Nolato and other-

wise 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.

Board composition in 2012

Following the 2012 Annual General Meeting, the Board consists of seven members elected at the Annual General Meeting: 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. These each have a deputy: 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 be independent 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 General Meeting, apart from the President and CEO, are independent in relation to the Company.

Further information about the members of Nolato's Board is provided on page 79.

The Board's work in 2012

During 2012, the Board held five meetings and a constituent meeting after the Annual General Meeting. 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/fore-

casts, financing and strategy discussions relating to the Company's operations during the most recent three-year period.

All decisions have been unanimous.

The Audit Committee

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 five meetings in 2012. Both members attended all meetings. Minutes were taken at all meetings.

The Remuneration Committee

The members of the committee are Fredrik Arp (chairman) and Henrik Jorlén, who were appointed by the Board. The committee held two meetings in 2012.

Ahead of 2013, 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 Annual General Meeting for resolution.

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.

The Board is also informed of minutes drawn up by the Audit Committee and any observations, recommendations and proposed decisions and actions.

Board meeting attendance in 2012

During 2012, the Board members elected by the Annual General Meeting attended the following Board meetings:

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

Board remuneration

For the period starting with the 2012 Annual General Meeting and ending with the 2013 Annual General Meeting, Board remuneration totalled SEK 1,100,000 excluding travel allowances (SEK 1,100,000), divided up as follows:

| The Board: | |
|---------------|-------------|
| Chairman: | SEK 270,000 |
| Board member: | SEK 140,000 |

| The Audit Committee: | |
|----------------------|------------|
| Chairman: | SEK 50,000 |
| Member: | SEK 30,000 |

| The Remuneration Committee: | |
|-----------------------------|------------|
| Chairman: | SEK 50,000 |

Directors' fees are paid only to external members. Employees of the Company do not receive directors' fees.

During 2012, the current members of the Board received the following remuneration, which was paid in December 2012:

| | |
|--------------------|----------------------|
| Fredrik Arp | SEK 320,000 |
| Gun Boström | SEK 140,000 |
| Henrik Jorlén | SEK 170,000 |
| Anna Malm Bernsten | SEK 140,000 |
| Erik Paulsson | SEK 140,000 |
| Lars-Åke Rydh | SEK 190,000 |
| Total | SEK 1,100,000 |

Other information

Group management

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

Further information about members of Group management can be found on page 80.

Business operations

All business operations within the Group are conducted by subsidiaries, in keeping with the decentralised culture that has always characterised Nolato. The operational subsidiaries are organised into three customer-focused business areas. Information about their organisation and operations is provided on pages 14–25.

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 for shareholders, etc.

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

Reports, press releases, the annual report and other information is available on Nolato's website, www.nolato.com, under Investor Relations.

The website provides up-to-date information about Nolato's corporate governance, for instance the current shareholdings of the Board, current Articles of Association and information about the Annual General Meeting and the largest shareholders.

■ Policy documents

The following overall policy documents for the Group have been established by the Board of Directors:

Nolato's Basic Principles

These define the common values platform for all Group operations.

Code of Conduct

This sets out the ethical and compassionate principles that Nolato employees are obliged to follow.

Environmental Policy

This governs the Group's environmental activities.

Financial Policy

This governs how financial risks should be dealt with within the Group.

IT Policy

This governs the Group's IT security structure.

Information Policy

This governs the dissemination of information by the Group, including in relation to listing requirements.

Insider Policy

This governs the application of reporting duties and the prohibition of short-term trading in accordance with the Swedish Insider Trading Act.

Quality Policy

This outlines the underlying focus of the Group's quality work.

Whistleblowing Policy

This governs the Group's procedures whereby employees can report serious misconduct.

The Board's description of the internal audit 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.

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 the operating activities' performance and results on an ongoing basis, via a reporting package which includes operating profit, 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.

Policy documents

Nolato's group-wide regulations are defined in nine policy documents, as detailed in the box to the left. These documents are an important part of creating an effective control environment within Nolato.

The documents relating to the group's core values are based on the combination of ethical and professional values that Nolato has upheld for many years, and that are communicated to all employees, including in the form of a publication entitled "The Nolato Spirit".

In addition to these policy documents, rules of procedure for the Board, and President and CEO instructions have 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 a risk analysis of its financial reporting, which is evaluated and adopted 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 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 2012 on pages 72–77 and for this being prepared in accordance with the Swedish Annual Accounts Act.

I have read the corporate governance report and, based on this reading and my knowledge about the Company and the Group, I believe that I have a sufficient basis for my opinion. This means that my statutory review of the corporate governance report is different in focus and considerably smaller in scope than the focus and scope of an audit conducted in accordance with the International Standards on Auditing and generally accepted auditing practices in Sweden.

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

Malmö, 8 March 2013



Alf Svensson
Authorised public accountant