

## Corporate governance report

AB Ångpanneföreningen (ÅF) is a Swedish public company whose shares are listed on the Stockholm Stock Exchange. ÅF is governed in accordance with Swedish company law, which means that the company's articles of association are a central document. ÅF also complies with other applicable Swedish and foreign laws and regulations, and with the Stockholm Stock Exchange listing agreement. Since 1 July 2005, this agreement has also incorporated the Swedish Code of Corporate Governance. The application in practice of the Swedish Code of Corporate Governance at ÅF began during 2005.

This corporate governance report does not form part of the formal annual report documents, and has not been reviewed by the Company's auditors.

### Annual General Meeting

The procedure for convening the shareholders' meeting is set out in the articles of association. Notification of the meeting is to be given through advertisements in the Swedish Official Gazette (*Post- och Inrikes Tidningar*), and in the business newspaper, *Dagens Industri*. Notification of an ordinary shareholders' meeting (annual general meeting: AGM) and notification of other shareholders' meetings, at which any changes to the articles of association are to be discussed, must be given no earlier than six weeks and no later than four weeks before the meeting. Notifications of other shareholders' meetings are to be issued no earlier than six weeks and no later than two weeks before the meeting.

At the shareholders' meeting, the shareholders exercise their voting rights, in accordance with Swedish company law and ÅF's articles of association, to make decisions affecting the composition of the Board of Directors and other key issues. Shareholders or their representatives may vote for the full number of shares they own or represent at the meeting.

The AGM for 2007 was held in Stockholm on 8 May. It was attended by 62 shareholders, representing 47 percent of the share capital and 63 percent of the total number of votes. The minutes of the shareholders' meeting are supplied to shareholders who wish to receive them, and are published on the company's website.

### Share structure and voting rights

Shares in ÅF are issued in two classes: A and B. Each class A share carries an entitlement to ten votes, and each class B share to one vote. All shares carry the same right to participate in the company's assets and profits, and are entitled to the same dividend. For the distribution of the number of shares and votes, and for the ownership structure, see pages 54–56.

On request, shares of class A can be converted into shares of class B. Such a conversion request must be made in writing to the Board of Directors in January or February. After the conversion is approved, it is to be reported to the Swedish Companies Registration Office. Conversion takes effect on registration.

### Composition of the Board of Directors

The Board of Directors shall consist of a minimum of six and a maximum of ten members, with a maximum of five deputies. The members are elected at the general meeting. Employees are represented on the board. Members of the board are elected for a term of one year. In 2007, the number of directors elected by the AGM was eight. In addition, two employee representatives joined the board, along with the same number of deputies. The President/CEO is not a member of the board.

One of the members of the board, Magnus Grill, holds a position of dependence with the largest shareholder, Ångpanneföreningen's Foundation for Research & Development. Another of the members, Peter Sandström, holds a position of dependence with the shareholder, ÅFOND (the ÅF Group Trust) and with the company.

### Nomination procedure

The 2007 AGM resolved that, for the period until a new Nomination Committee is appointed under a mandate from the next AGM, the Nomination Committee shall consist of the Chairman of the Board together with one representative from each of the company's three largest shareholders as at the end of the third quarter. The Nomination Committee shall appoint a Chair from the largest shareholder in terms of votes. If any member of the Nomination Committee leaves before the work of the committee is completed, if it is considered necessary, a replacement shall be appointed by the same shareholder who appointed the departing member or, if this shareholder

is no longer one of the largest shareholders, by another shareholder from among the largest shareholders. Fees shall not be payable to members of the Nomination Committee.

The composition of the Nomination Committee for the 2008 AGM was announced on 2 November 2007. The Nomination Committee has since consisted of Gunnar Svedberg, Chair, representing Ångpanneföreningen's Foundation for Research & Development, Ulf Dinkelspiel, Chairman of the Board of ÅF, Lars-Göran Orrevall, representing Skandia Liv, and Anders Oscarsson, SEB Fonder.

The Nomination Committee held two meetings for the purpose of submitting proposals to the 2008 AGM with regard to the Board of Directors, auditors and fees.

### Work of the Board of Directors

During the 2007 financial year, the board held nine meetings, of which five were ordinary meetings and one an inaugural meeting. The work of the board revolves mostly around strategic issues, business plans, annual accounts, major investments and acquisitions, in addition to other decisions which, under the provisions of the company's rules for decision-making, are to be dealt with by the board. Reports on the progress of the company's operation and its finances are a standing item on the agenda. At the meeting in August, a strategic seminar was held, with a special review of each division. At every ordinary board meeting, there is a more in-depth presentation of one of the various lines of business.

Other key management personnel in ÅF have participated in board meetings to present reports. The Executive Vice President, Corporate Information, has served as secretary to the Board.

The table below shows the attendance rate at board meetings:

#### Attendance

Number of meetings:	9
Ulf Dinkelspiel	9/9
Patrik Enblad*	4/4
Magnus Grill	7/9
Eva-Lotta Kraft	9/9
Jon Risfelt*	4/4
Peter Sandström	8/9
Helena Skåntorp	7/9
Lena Treschow Torell	8/9

Employee representatives:

Eva Lindén	8/9
Svante Karlsson*	4/4
Oskar Stridh, deputy*	3/4
Daniel Westman, deputy	8/9

\* Elected by the 2007 AGM

An evaluation of the work of the board carried out by an external consultant showed that the board was performing effectively, with good leadership and open and constructive dialogue.

### Rules of procedure

At the inaugural board meeting, the board adopted written rules of procedure, as well as written instructions with regard both to the division of responsibilities between the board and the President/CEO, and the information which the board is to receive on a regular basis. The formal rules of procedure will ensure that the board receives all necessary information.

### Chairman of the Board

The Chairman of the Board leads the work of the board. The Chairman is responsible for ensuring that this work is well organised and efficiently conducted, and that the board discharges its duties properly. The Chairman maintains regular contact with the President/CEO to monitor the Group's operations and progress, and to represent the Company in matters relating to ownership.

### Directors' fees

The AGM on 8 May 2007 approved remuneration for the work of the board for 2007 of a total of SEK 1,250,000. The Chairman received SEK 350,000 and members of the board not employed in the ÅF Group received SEK 150,000 each.

In addition, it was resolved to pay fees for committee work of SEK 25,000 to each committee member (apart from those serving in the Nomination Committee) who is not employed in the ÅF Group, and that a fee of SEK 50,000 be paid to the Chair of the Audit Committee. The total remuneration payable to the board is SEK 1,425,000, of which SEK 1,250,000 is for the ordinary work of the board and SEK 175,000 for committee work.

Employee representatives receive no directors' fees.

### **Remuneration Committee**

The board appoints a Remuneration Committee from among its members. Until the 2008 AGM, the members of this committee are Ulf Dinkelspiel (Chair), Magnus Grill and Lena Treschow Torell.

The Remuneration Committee is tasked with considering matters of remuneration and other terms of employment for the President/CEO and other senior officers of the company. These comprise the President/CEO and other members of the senior management group.

The Remuneration Committee met on three occasions.

### **Audit Committee**

The board appoints an Audit Committee from among its members. Until the 2008 AGM, the members of this committee are Helena Skåntorp (Chair), Ulf Dinkelspiel and Eva-Lotta Kraft. All members are independent of the shareholders and the company management. In 2007, the committee held two minuted meetings. In addition, the committee's chair has taken part in the auditors' report of the final accounts and in meetings to prepare for the auditing of the company's accounts for the period 2008 to 2011. The company's auditors participated in all Audit Committee meetings during the year. The President/CEO attends as a co-opted member, as does the Group CFO and the manager responsible for ÅF's internal accounting procedures.

### **CEO, company management and specialist staffs**

The Board of Directors has delegated operational responsibility for the administration of the company and the ÅF Group to the company's CEO. The CEO leads the operation within the framework laid down by the board. The board has adopted instructions for the division of responsibility between the board and the CEO.

The CEO has appointed a senior management team with day-to-day responsibility for various aspects of the Group's operation. During 2007, ÅF's senior management team consisted of divisional presidents, the Executive Vice President, Corporate Information and the CFO. For information about the members of the senior management team, see pages 124–125.

Group management meets once a month as a rule.

### **Business units**

ÅF's business activities are organised into five divisions, each led by a president.

ÅF's organisation reflects a far-reaching decentralisation, in which each unit has a considerable degree of autonomy and authority. Group management's control of the divisions is exercised through regular contacts, but principally through monthly internal reports presented by the divisional presidents and finance managers.

The ÅF Group has an authorisation plan and written rules for decision-making procedures that clearly define the authority exercised at every level in the company, from individual consultant to senior management. The areas covered include issuing quotations and making tenders, investments, rental and leasing agreements, overhead expenses and guarantees.

Approximately 57,000 assignments are carried out each year. The organisation for a project varies according to the size, location and complexity of the assignment. Each assignment is run by a contract manager. ÅF and its Swedish subsidiaries are certified under quality and environmental management systems in accordance with ISO 9001:2000 and 14001:2004. Quality and environmental audits are carried out on a regular basis by external auditors.

Fixed-price assignments of an invoiced value of more than EUR 50,000 are monitored at Group management level.

### **Internal controls**

Under the provisions of the Swedish Companies Act and the Swedish Code of Corporate Governance, the ÅF Board is responsible for ensuring that ÅF implements an effective system of internal controls. Board members must keep themselves informed about the state of affairs in the company and evaluate the internal controls on a regular basis.

The internal controls at ÅF are so designed to ensure that the company's operation is efficient and fit for purpose, that financial reporting is reliable and that applicable laws and regulations are complied with.

ÅF's approach to internal controls is described in a framework which is included in the ÅF Accounting Manual, and which has been communicated in Swedish and English to everyone involved by means of the ÅF intranet.

ÅF divides its internal controls into the following components: control environment, risk assessment, control measures, information and communication, and follow-up.

The basis for internal controls is the *control environment*, which describes the organisation, decision paths, authority and responsibility for financial reporting. Financial reporting is governed by a number of documents relating to policies, guidelines and manuals. These are included in the Accounting Manual. Checklists setting out a number of questions that relate to the control environment have been completed by ÅF's management and published on the ÅF intranet.

Through its operations, ÅF is exposed to a variety of business and financial risks. It is extremely important that these risks are managed within the framework laid down and that a *risk assessment* is carried out in accordance with ÅF's guidelines. The risks to which ÅF is exposed and how they are managed is described in the Sensitivity Analysis section on pages 57–60. Checklists that set out a number of questions that relate to risk assessment work have been completed by ÅF's management and published on the ÅF intranet.

ÅF's financial reporting is based on a number of control measures implemented in all reporting units in ÅF. *Control measures* are needed to prevent, reveal and rectify any errors and deviations. Comprehensive checklists are included in the Control Measures section and have been completed by the reporting units' Finance Departments. These checklists include questions which investigate in some detail how ÅF handles assignments, purchasing, investment, HR issues, IT, etc. In addition, a large number of questions relate to the accuracy of the accounts and the financial reports. Each question is supplemented with a brief description of best practice within ÅF. The various companies' Finance Departments carry out a self-assessment regarding their compliance with the control questions in relation to best practice.

*Information and communication* in respect of policies, manuals and guidelines that relate to financial reporting are contained in the ÅF Accounting Manual. This is a work in progress, which is updated regularly as internal rules and external accounting rules change. A checklist with control questions has been drawn up for this area.

*Follow-up* to ensure the quality of the internal controls is carried out through ÅF's management and financial organisation. Information about any errors discovered and what action is taken to rectify these is to be submitted to the next level in the corporate hierarchy. Here too, there is a checklist with control questions. From 2007 onwards, the internal audit procedure of the Swedish quality system is being supplemented with an internal audit of internal controls. The intention behind expanding the scope of internal auditing in this way is to

guarantee the quality and efficacy of internal controls and to check those parts of the operation which are not currently covered by the internal audit within the Operational System. Prioritised areas for internal control are fixed-price assignments, cash flow, acquisitions, employment issues and authorisation. The internal auditor reports directly to the President/CEO and also reports his/her observations directly to the Audit Committee.

### **Auditors**

Auditors are appointed by the AGM every four years. The auditors work for and on behalf of the shareholders to audit the company's accounting records, the annual accounts and the administration of the Board of Directors and the managing director. The 2007 AGM elected the accounting firm Ernst & Young (represented by Lars Träff as auditor in charge, and Marine Gesien) as the company's auditors to serve for a period of four years.

Ernst & Young carries out the audit of AB Ångpanneföreningen and major units. A "hard close" audit is performed for the period January–September, and for the annual accounts. At the same time, an audit of internal routines and control systems is carried out. The audit of the annual accounts and the annual report takes place in January–February. During 2007, the auditors reported to the ÅF board on one occasion and, in addition, to the Audit Committee and to the President/CEO on two occasions. The auditors have also participated in the meetings of the Audit Committee.

Over and above the audit assignments, ÅF has used Ernst & Young for consultations relating to tax matters, for various accounting issues and for investigations in conjunction with major projects such as acquisitions. The remuneration paid to the auditors is shown in note 7.

### **Information to the capital market**

ÅF provides the market with continuous updates on the Group's financial position and performance, in the form of interim and annual reports in both Swedish and English. In addition, press releases are issued relating to news and events that, it is considered, may have an effect on the value of the ÅF share. Presentations are made to shareholders, financial analysts and investors in Sweden and abroad. ÅF also hosts an annual capital market day in Stockholm in September. The information described above is also published on the Group's website, [www.afconsult.com](http://www.afconsult.com).