

# Corporate governance report



## Corporate governance 2009

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

Nolato had 6,611 shareholders as at 31 December 2009.

The ten largest shareholders were the Paulsson family with 12% of the share capital, the Jorlén family with 11%, the Boström family with 9%, and seven institutional investors, who together owned an additional 28%. Together, the ten largest shareholders hold 60% of the share capital and 80% 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. 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 General Meeting, either in person or via a representative.

Resolutions at Annual General Meetings are normally adopted 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 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 2009 Annual General Meeting

The 2009 Annual General Meeting was held on 27 April 2009 in Grevie, Sweden. Carl-Gustaf Sondén was elected as chairman of the meeting.

The Annual General Meeting approved a dividend of SEK 2.75 (3.00) per share.

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

The meeting resolved that, for the period until the next Annual General Meeting, the Board should receive fees totalling SEK 1,030,000, excluding travel allowances (SEK 900,000), 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 (0) 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 (0) should be paid to the Chairman of the Remuneration Committee.

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

The Annual General Meeting authorised the Board, no later than by the next Annual General Meeting, to acquire and transfer

a maximum of 10% of the Company's own shares, in accordance with the Board's proposal to the Annual General Meeting.

The Annual General 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 shareholders with the largest number of votes as at the end of September 2009. 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 2010 Annual General Meeting.

The Nomination Committee's term shall continue 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 shareholder with the largest number of votes.

The Annual General 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 from liability for the 2008 financial year.

## Nomination Committee

As decided by the 2009 Annual General Meeting (see above), the Nomination Committee shall consist of one representative for each of the five largest shareholders as at the end of September 2009.

The Nomination Committee ahead of the 2010 Annual General Meeting 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 submitting nominations to the Annual General Meeting for Chairman of the Board and other Board members, and for proposing director's fees for each of the Board mem-

bers, the chairman of the Annual General 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.

Since being constituted, and up until February 2010, the Nomination Committee has held two meetings. Shareholders who wish to contact the Nomination Committee may e-mail Henrik Jorlén (henrik.jorlen@gmail.com), Erik Paulsson (erik.paulsson@hansan.se), Gun Boström (gun.bostrom@gmail.com), Johan Lannebo (johan.lannebo@lannebofonder.se) or Magnus Molin (magnus.molin@svolder.se).

The postal address is The Nolato Nomination Committee, c/o Henrik Jorlén, Kommandörsgatan 4, 260 93 Torekov, Sweden.

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

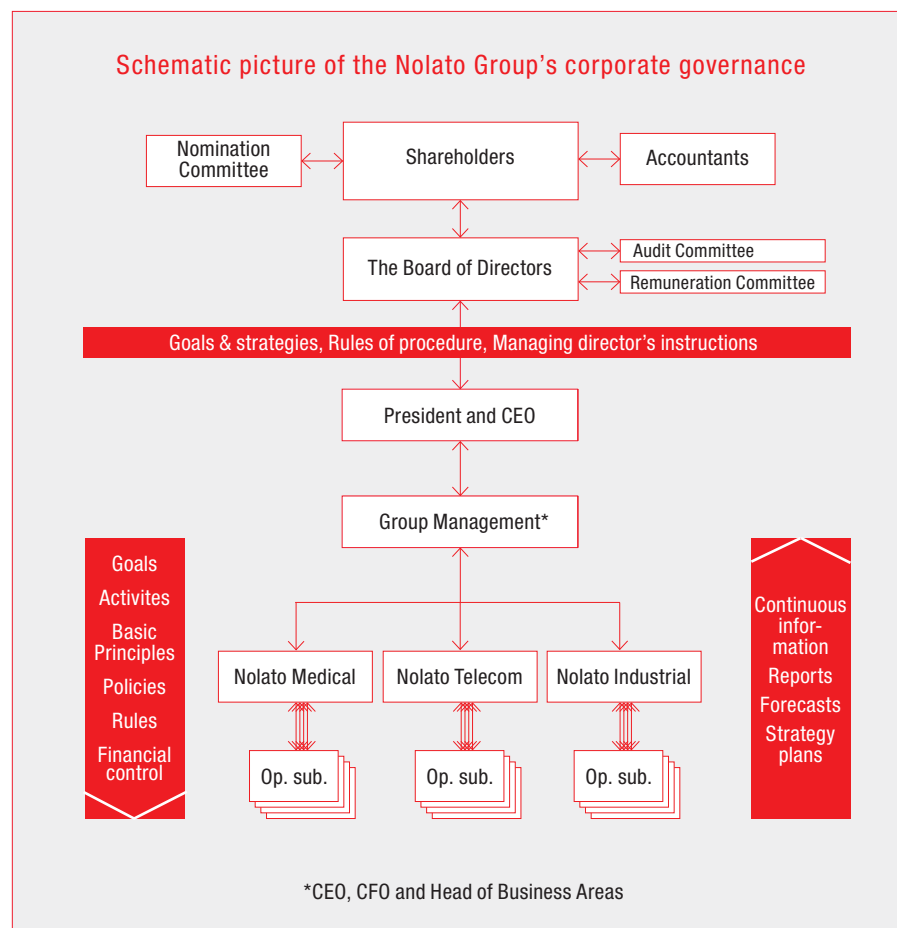
The Swedish Code of Corporate Governance is based on the principle comply or explain. This means that companies which apply the Code may deviate from specific rules, but must then provide explanations and the reasons for each individual deviation. Nolato only deviates from point 2.4 of the Code, whereby 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 holding around 65% of the Company's votes, is best represented on 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

### 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 Annual Gen-



*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.*

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

Following the Annual General Meeting of 27 April 2009 the Board consists of seven members elected at the Annual General Meeting: Fredrik Arp (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 Normman. Each of the employee representatives 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 in the Company's operations.

Board members Roger Johanson, Lars-

Åke Rydh and 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. Nolato's Board has determined both with regard to this Board member and to each supplier and customer, that the transactions carried out with these companies do not constitute significant business connections when considering the size of revenues generated in comparison with the annual sales of each of the suppliers and customers.

Nolato's Board has therefore determined that all members elected by the Annual General Meeting, 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 content of Nolato's operations and prepares the necessary regulations. It determines the Nolato Group's management structure and appoints, dismisses and supervises the people who manage and represent Nolato.

Principles were decided on at the Board's organisational 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 CEO, and financial reporting.

The salient parts of these principles stipulate the following:

- The Board shall establish a schedule 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 should 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 CEO. The regulations for the 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 CEO will 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 regulations for the CEO, the regulations 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 Accounts in detail, both before and during 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 directs 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 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, increasing 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 should 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 2009. Both members were present at each of these meetings, at which minutes were taken.

### 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 CEO.

The committee also proposes all remuneration and benefits for the CEO to the Board. The Board has approved these principles for the variable remuneration of senior executives and all remuneration and benefits for the 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 2009.

Ahead of 2010, the committee will draw up principles for variable remuneration and other remuneration and benefits for the CEO and other senior executives, which the Board will propose to the Annual General Meeting.

### The Board's work in 2009

During 2009, the Board held five meetings and an organisational 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/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 2009

During 2009, the Board members elected by the Annual General Meeting attended the following Board meetings:

	Jan	Apr	Jul	Oct	Dec
Fredrik Arp <sup>1)</sup>			x	x	x
Gun Boström	x	x	x	x	x
Roger Johanson	x	x	x	x	x
Henrik Jorlén	x	x	x	x	x
Erik Paulsson	x	x	x	x	x
Lars-Åke Rydh	x	x	x	x	x
Hans Porat	x	x	x	x	x

<sup>1)</sup> Elected at the Annual General Meeting 2009

### Reporting and auditing

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

This takes place through, for example, issuing instructions to the CEO, adopting requirements for the content of the reports on financial conditions submitted 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 Accounts, but has delegated to the Company's management 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 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 develop-

ment, and manages and coordinates day-to-day activities in accordance with the guidelines and decisions of the Board.

The 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 CEO.

### Business operations

All of the Group's business operations 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 belonging to 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 regulations 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 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 a mandate period of four years.

Both work for the accountancy company of KPMG AB.

Nolato's auditor is tasked with auditing the annual report and the accounts, as well as the management by the Board of Directors and the CEO. The auditor works according



to an audit plan. Reports have been submitted to the Board, both during the course of the audit and upon the adoption of the year-end report for 2009 on 1 February 2010. The auditor also participates in the Annual General Meeting, describing the audit work and observations made in an auditors' report.

Over the course of the year, the auditor has been consulted on a number of occasions in addition to the audit, relating primarily to accounting 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 of 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 2009 Annual General Meeting and ending with the 2010 Annual General Meeting, Board remunera-

tion totalled SEK 1,030,000 excluding travel allowances (SEK 900,000), 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
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Director's fees are paid only to external members. Company employees and employee representatives receive no director's fee.

During 2009, the current members of the Board received the following remuneration, which was paid in December 2009:

Fredrik Arp	SEK 300,000
Henrik Jorlén	SEK 160,000
Gun Boström	SEK 130,000
Roger Johanson	SEK 130,000
Erik Paulsson	SEK 130,000
Lars-Åke Rydh	SEK 180,000
<b>Total</b>	<b>SEK 1,030,000</b>

### Remuneration information

Information on fees, salaries, pensions and other benefits for the Board of Directors, the CEO and other senior executives can be found in Note 11 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](http://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 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 description does not constitute part of the formal Annual Account 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 carried out an overview and analysis during the latter part of 2008 of the existing instruments for internal auditing during 2008 and 2009, in connection with upgrading the Group's IT systems in most of the Group's operations.

The Board will continue to carry out additional supervision of the internal audit and the future organisation of the internal audit function.

Nolato's internal audit of 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, acquisi-

tions, 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. The Group has 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 in which the Board and the Company management communicates and functions. 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 at 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 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 CEO.

Rules of procedure have also been drawn up for the managing director of each subsidiary. Managers at various levels in 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 adopted by the board. In connection with this risk analysis, income statement and balance sheet items are identified with an inherently heightened inherent risk of serious errors.

In 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 profits reported on the income statement, business processes, external factors and the risk of fraud.

### Verification

Those risks which have been identified in relation to financial reporting are dealt with via the Company's verification activities, e.g. authentication checks for IT systems and authorisation controls. Checks and verifications related to a single activity 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 governing financial reporting documents 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 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 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 financial reporting at its meetings, and the Company's auditors have reported on their observations to the Board and the Audit Committee.

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 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.