

CORPORATE GOVERNANCE REPORT

Corporate governance

ÅF AB is a Swedish public company with its registered office in Stockholm. The company's class B shares are listed on the Nasdaq OMX Stockholm exchange. ÅF is governed in accordance with the company's articles of association, the Swedish Companies Act, the Swedish Annual Accounts Act, the listing rules for the Nasdaq OMX Stockholm, the Swedish Code of Corporate Governance, and other relevant documents. ÅF did not depart from the Swedish Code of Corporate Governance in 2010. This corporate governance report has been reviewed by the company's auditor.

Governance, management and control are divided between the shareholders at the AGM, the Board of Directors and the President/CEO.

The articles of association adopted by the AGM are the most important instrument for the company's internal governance, followed by the board's formal work plan and the board's instructions for the President/CEO. ÅF has regularly introduced and developed other processes and control systems to ensure effective and profitable growth.

ÅF's major shareholders

Ångpanneföreningen's Foundation for Research & Development holds shares that correspond to a total of 40.9 percent of the total number of votes for all shares in the company. For further information on shareholders and the ÅF share, please see pages 46–48 and the ÅF website.

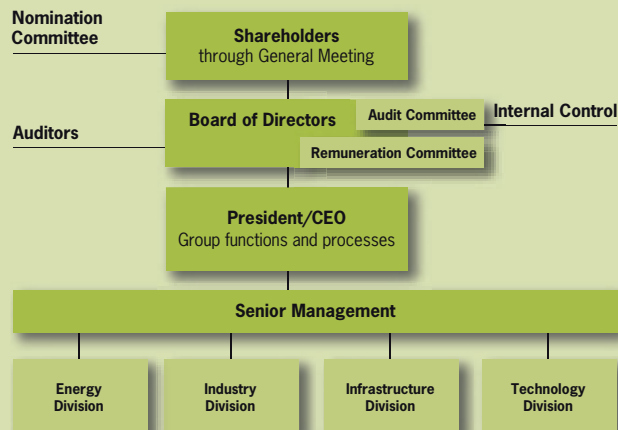
ÅF's Annual General Meeting for 2010

The AGM for 2010 was held at the ÅF Group's head office in Solna, Sweden, on 5 May. It was attended by 138 shareholders, representing 48.2 percent of the share capital and 63.6 percent of the total number of votes.

Resolutions

The AGM resolved, among other things:

- to pay a dividend for 2009 of SEK 4.00 per share (adjusted for the share split that took place during the year) in accordance with the proposal of the Board of Directors;
- to pay fees totalling SEK 1,625,000 to the board, with the Chairman to receive SEK 400,000 and members of the board not employed by the Group to receive SEK 175,000 each. Moreover, it was resolved that fees shall be paid for work in the Audit Committee, with the Chair of the committee receiving SEK 75,000 and other members of the committee who are not employed by the Group receiving SEK 35,000 each, and also that fees shall be paid for work in the Remuneration Committee, with the Chair of the committee receiving SEK 50,000 and other members of the committee receiving SEK 35,000 each. Auditors' fees are payable against invoices;
- to elect a board of eight directors: Ulf Dinkelspiel, Patrik Enblad, Eva-Lotta Kraft, Jon Risfelt, Helena Skåntorp, Anders Snell and Lena Treschow Torell were re-elected, while Björn O. Nilsson was elected as a new member. Ulf Dinkelspiel was appointed Chairman;



The principal external regulatory framework that shapes the governance of ÅF:

- The Swedish Companies Act
- Accounting legislation, IFRS, the Swedish Bookkeeping Act and the Swedish Annual Accounts Act
- Nasdaq OMX Stockholm Rules & Regulations
- Swedish Code of Corporate Governance

Examples of internal documents that shape the governance of ÅF:

- Articles of Association
- Instructions, rules of procedure
- Policies and guidelines
- Process descriptions for each business area

Shareholders

The shareholders' right to decide in matters relating to the company is exercised at the General Meeting of shareholders, which is the highest decision-making body in ÅF. The General Meeting ratifies the company's articles of association, votes on the appointment of the directors of the company and the Chairman of the Board, and elects auditors.

- to adopt the Performance-related Share Programme for 2010 in accordance with the proposal of the Board of Directors;
- to implement a share split in accordance with the proposal made by the Board so that one share be replaced by two shares;
- to authorise the Board to buy back shares so that the company's own holding amounts to a maximum of 10 percent of the shares in the company;
- to authorise the Board to decide on the issue of new shares that correspond to an increase of a maximum of SEK 15,000,000 in the company's share capital.

The minutes of the AGM are available in both Swedish and English on the ÅF website.

Nomination Committee

In accordance with a resolution passed at the AGM on 5 May 2010, the Nomination Committee shall, up until the time of the 2011 AGM, consist of the Chairman of the Board together with representatives for at least three and at most five of the shareholders with the largest number of votes in the company. The names of the members of the committee shall be announced no later than six months before the 2011 AGM.

The Nomination Committee appointed on 25 October 2010 comprised Staffan Westlin (Chair), representing Ångpanneföreningen's Foundation for Research & Development, Ulf Dinkelspiel, Chairman of the Board of ÅF, Åsa Nisell appointed by Swedbank Robur, and Peter Rudman appointed by Nordea Fonder. In January the Nomination Committee was extended to include a further member, Conny Karlsson, who was appointed by CapMan Public Market Fund.

The duties of the Nomination Committee

The Nomination Committee submits proposals, prior to the AGM, on the number of board members, the composition and remuneration of the board, and any fees payable for committee work. The committee shall also submit proposals on who is to chair the Board of Directors and the AGM and on auditors and their fees. In accordance with its remit, the committee shall also carry out those duties assigned to it under the Swedish Code of Corporate Governance.

The work of the Nomination Committee

In the period up to and including February 2011 the committee has held six minuted meetings and maintained contact between meetings. To assess how well the present Board of Directors meets the demands that will be placed on the board in consequence of the company's position and future focus, the committee has discussed the size and composition of the board in relation to, for example, experience in the industry and specialist expertise. As a basis for the committee's work, the Chairman of the Board has informed the committee about the work of the board during the year and of the work undertaken by the Audit Committee and the Remuneration Committee. The Nomination Com-

mittee has also familiarised itself with the results of the evaluation of the board and its work, and interviewed individual members of the board.

No remuneration has been paid for work on the committee.

All shareholders are entitled to approach the committee with suggestions for board members. The committee's proposals, the report on the committee's work prior to the 2011 AGM, and supplementary information on the proposed members of the board will be published in connection with the notice convening the 2011 AGM, and will be presented at the meeting.

Board of Directors

The Board of Directors of ÅF shall consist of a minimum of six and a maximum of ten members, with a maximum of five deputies appointed by the AGM. The 2010 AGM appointed eight directors with no deputies. The President/CEO of ÅF is not a member of the board. The company's employees are, however, represented on the board.

Björn O. Nilsson was elected as a new director of the company in 2010. Tor Ericsson did not seek re-election. Ulf Dinkelspiel, Patrik Enblad, Eva-Lotta Kraft, Jon Risfelt, Helena Skåntorp, Anders Snell and Lena Treschow Torell were re-elected. Ulf Dinkelspiel was elected by the AGM to serve as Chairman of the Board up until the next AGM. The board elected Lena Treschow Torell as its Deputy Chair. The President/CEO of ÅF, Jonas Wiström, is not a member, but participates in board meetings to present reports. The Group's CFO, Jonas Ågrup, also participates to present reports. Viktor Svensson, Executive Vice President, Corporate Information, serves as secretary to the board. For more information on the Board of Directors, please refer to pages 128–129.

Independence of members of the board

The composition of the board of ÅF meets the requirements for independent directors laid down by the rules of the Nasdaq OMX Stockholm and the Swedish Code of Corporate Governance. Directors Björn O. Nilsson and Anders Snell hold positions of dependence with regard to the largest shareholder, Ångpanneföreningen's Foundation for Research & Development.

Work of the Board of Directors

Each year the board produces a written formal work plan which sets out the responsibilities of the board, and which governs the allocation of duties among board members, the rules for decision-making, dates and times of board meetings, notification, agenda and minutes for board meetings, and the board's work with accounting and auditing matters.

The ÅF board holds an inaugural meeting immediately after the AGM, after which it is required to meet at least four times per calendar year. Every ordinary board meeting follows the agenda set out in the board's formal work plan, which includes a report from the President/CEO, financial reports and various strategic matters.

The board has opted to appoint a Remuneration Committee and an Audit Committee.

Work during the year

Because of a high level of activity in the company relating to acquisitions in 2010, the work of the board has been unusually intensive with more board meetings than what is normal during the year. In addition to the inaugural meeting, the board held 18 meetings in 2010, of which one was a *per capsulam* meeting and six were telephone meetings for which the relevant documentation was sent out in advance. Four of the meetings were held in connection with the publication of the company's interim reports. In connection with the board meeting in September, a visit was made to ÅF's subsidiary in Oslo.

The work of the board revolves mostly around strategic issues, business plans, budgeting, accounts and acquisitions, in addition to other decisions which, under the company's rules for decision-making, are dealt with by the board. Reports on the progress of the company's operational activities and finances are a standing item on the agenda. A strategy seminar was held at the meeting in September, and included a thorough review of each division. At every ordinary board meeting, there is a more in-depth presentation of one of ÅF's lines of business or divisions.

On one occasion each year the board discusses issues related to succession planning for senior executives within the company.

Attendance at board/committee meetings in 2010

	Function	Board	Remuneration- Cttee	Audit Cttee
Number of meetings		19	2	4
Ulf Dinkelspiel	C	19	2	4
Patrik Enblad	M	19		
Tor Ericson**	M	8		
Eva-Lotta Kraft	M	19		3
Björn O. Nilsson*	M	12		
Jon Risfelt	M	19	2	
Helena Skåntorp	M	18		4
Anders Snell	M	18		
Lena Treschow Torell	M	16	2	
<i>Employee representatives:</i>				
Fredrik Sundin	M	17		
Patrik Tillack	M	19		
Patrik Kerttu ***	D	1		
Anders Toll ***	D	2		

* Elected to the Board on 5 May 2010

** Resigned from the Board on 5 May 2010

*** Employee representatives' deputies normally attend only the inaugural meeting of the board

C = Chair M = Board member D = Deputy

Evaluation of the Board of Directors and President/CEO

Once a year, the Chairman of the Board initiates an evaluation of the work of the board by issuing each director with a detailed questionnaire, which is answered anonymously. The questionnaire covers areas such as the climate of cooperation, the breadth of expertise available and the manner in which the work of the board has been carried out. The object of the evaluation is to obtain an understanding of the directors' opinions on how the work of the board has been carried out, and what measures may be taken to improve the efficiency of this work. The results of the questionnaire are discussed by the board and communicated to the Nomination Committee.

The Board of Directors evaluates the work of the President/CEO on an ongoing basis, by monitoring the progress of the business against the targets that have been set. A formal evaluation is carried out once a year, and the results are discussed with the President/CEO.

Remuneration Committee

The Remuneration Committee is tasked with considering and making recommendations on salaries, other terms of employment and incentive programmes for the President/CEO and other senior executives in the company. The committee also deals with matters relating to overall conditions of employment and remuneration packages for all of the company's employees. The committee reports to the board. Prior to the 2011 AGM the committee has met on two occasions. The committee consists of Ulf Dinkelspiel (Chair), Jon Risfelt and Lena Treschow Torell. The President/CEO attends as a co-opted member, as does the CFO and ÅF's Director for Human Resources. Remuneration has been paid for work on the committee.

Audit Committee

The Audit Committee is a vital communications link between the board and the company's auditors, supporting the work of the board by safeguarding the quality of financial reports and following up the results of the reviews and audits carried out by the external auditors. The company's internal audit staff support the committee in its work. Since the 2010 AGM the committee has consisted of Helena Skåntorp (Chair), Ulf Dinkelspiel and Eva-Lotta Kraft. All members are independent of the owners and the company's management. The committee held four minutes meetings in 2010. The company's auditor has attended all meetings of the committee. The President/CEO attends as a co-opted member, as does the CFO and the manager responsible for the ÅF Group's financial reporting. The company's internal auditor has attended two meetings during the year. Remuneration has been paid for work on the committee.

Auditors

The Nomination Committee is tasked with proposing auditors to the AGM. 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 President/CEO. The 2007 AGM appointed the accounting firm Ernst & Young AB, represented by Lars Träff as auditor in charge, as the company's auditors to serve to the end of the AGM in 2011.

Ernst & Young carries out the audit of ÅF AB and major units within the ÅF Group. The auditors carry out a "hard close" after the nine-month report for the period January–September, and a full audit of the annual accounts. At the same time, an audit of internal routines and control systems is carried out together with an examination of the Group's corporate governance report and of the compliance with the guidelines approved by the AGM relating to remuneration to senior executives.

CEO and senior management

The Board of Directors has delegated operational responsibility for the administration of the company and the Group to the company's CEO. The CEO leads operations within the framework laid down by the board. The board has adopted instructions for the division of responsibility between the board and the CEO, which are updated and approved each year.

The CEO has appointed a senior management group with day-to-day responsibility for various aspects of the Group's operation. During 2010 ÅF's senior management group consisted of the CEO, the divisional Presidents, the CFO, the Director for Human Resources, the General Counsel, the Executive Vice President for Corporate Information, and the PA to the President, who serves as secretary to the senior management group. For further information about the members of the senior management group, please see pages 130–131.

ÅF's senior management group normally meets once a month, to discuss matters such as the Group's financial performance, acquisitions, group-wide development projects, succession planning and competence development, together with various other strategic issues. Eleven minuted meetings were held during 2010.

Once a month the CEO and the CFO discuss each division's income statement, balance sheet and key figures with the relevant divisional management team and conduct a status review of any major projects.

The board's description of internal controls

The board's responsibility for internal controls is regulated in the Swedish Companies Act and the Swedish Code of Corporate Governance, which set out requirements for annual external disclosures on how internal controls over financial reporting are organised.

Board members must keep themselves informed about the state of affairs in the company and evaluate the internal control system on a regular basis.

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

ÅF divides its internal controls over financial reporting into the following components: Control environment, Risk assessment, Control activities, Information and communication, and Follow-up.

Control environment

The control environment constitutes the basis for internal controls over financial reporting. One important aspect of the control environment is that decision paths, authority and responsibility are clearly defined and communicated between different levels of the organisation, and that there are guidance documents in the form of policies, guidelines and manuals. The term "control environment" describes the organisation, decision paths, authority and responsibility for financial reporting.

A description of ÅF's internal control system is included in the company's process-orientated business management system (ONE) used for managing and supporting day-to-day business operations. This sets out the organisational structure, together with the authority and responsibility vested in the various roles in the business. The process orientation of the ONE management system guides users to the relevant routines and appropriate tools for the particular task in question, thus providing a sound basis for compliance with requirements and expectations. The management system is available to all employees via the ÅF intranet.

Risk assessment

ÅF's risk assessment in respect of financial reporting aims to identify and evaluate the key risks affecting financial reporting in the ÅF Group's companies, business areas, divisions and processes. Risk assessment results in control targets that help to ensure that the fundamental requirements of external financial reporting are met, and provide a basis for managing risk through a variety of control structures. The risks are considered, assessed and reported by ÅF centrally together with the divisions. Risks are also considered in specific constellations; for example, risks associated with fixed-price projects and acquisitions.

Control activities

In order to ensure that the business is run efficiently and that the scheduled financial reports consistently provide a true and fair view of the situation, each process has a number of built-in control activities. These involve all levels of the organisation, from the board and management to other employees. Control activities aim to prevent, detect and rectify any errors and non-conformance. Risks are accepted, reduced or eliminated. At ÅF these control activities comprise two elements: an organisation with clearly defined roles that facilitate an

effective and, from an internal control perspective, appropriate division of responsibility; and specific activities that aim to identify or prevent the risk of reporting errors. For all ÅF units, including those outside Sweden, result analysis and other control activities take place continuously through the finance functions of the various divisions and ÅF AB's Group Accounting and Reporting department. All accounting and reporting activities for ÅF's Swedish operations are centralised under ÅF Business Services (ÅBS) in Solna, where the processes have been standardised and are continuously being made more robust. Control activities at ÅBS include profit analyses and other controls in respect of revenue and receivables, payments, non-current assets, work in progress, wages and salaries, VAT/tax, book-keeping, consolidation and reporting as well as the maintenance of databases.

Information & communication

Information about and communication relating to policies, process descriptions, routines and tools applicable to financial reports are contained in the management system that is available to the relevant personnel via the ÅF intranet. Updates are carried out in the event of any changes in internal or external requirements or expectations with regard to financial reports. The ÅF Group uses a process where divisional management confirms compliance with group policies each year.

Communication with internal and external parties is governed by a communication and IR policy, which sets out guidelines for the form this should take. The policy aims to ensure that all disclosure obligations are met properly and in full. Internal communication aims to ensure that every employee understands ÅF's values and business activities. Information is actively communicated on an ongoing basis through the group's intranet in order to keep employees informed.

Follow-up

Compliance and the efficacy of internal controls are followed up on an ongoing basis by both the board and management to guarantee the quality of the processes. The company's financial situation and strategy in respect of its financial position are considered at every board meeting. The board also receives detailed monthly reports on the company's financial position and the development of the business. The Audit Committee fulfils an important function by guaranteeing control activities for key risk areas in the financial reporting process. The Audit Committee, management and the internal audit function regularly follow up any reported non-conformances.

ÅF's system for financial management and control paves the way for effective financial follow-ups throughout ÅF. Monthly reports are submitted for each profit centre, and the reports on the financial performance of assignments reflect the highest standards of reliability and detail. Any errors that are identified and any measures that are taken are reported to the next level up in the line organisation. ÅF's internal

audit function carries out independent audits to monitor whether the internal control and management systems live up to ÅF's internal ambitions and external requirements and expectations. Priority areas for ÅF's internal audits are the ÅF brand, ÅF's values and ethics, processes and systems, as well as the assignments that ÅF has undertaken to perform. Reports are submitted to the President/CEO and the board's Audit Committee.

Sustainable business development

ÅF is working strategically over the long term towards becoming a more sustainable business. A Sustainability Strategy forms an integral part of the corporate governance environment and is followed up by both the board of directors and by senior management. A plan for ÅF's sustainability activities forms the basis for the company's work in this area. The Sustainability Plan and the objectives that this plan lays down are conceived to be profitable and otherwise beneficial from an environmental, social and economic perspective. For further details about the work that ÅF is engaged in with regard to sustainability, please see pages 51–56.

Stockholm, Sweden – 11 March 2011
Board of Directors of ÅF AB

Auditor's report on the Corporate Governance Report

To the Annual General Meeting of ÅF AB, corporate identity number 556120-6474

It is the Board of Directors that is responsible for the Corporate Governance Report for the year 2010 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the report and assessed its statutory content based on our knowledge of the company.

A Corporate Governance Statement has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Stockholm, Sweden – 11 March 2011
Ernst & Young AB

Lars Träff
Authorised Public Accountant