
ANNUAL REPORT 2016

 **Indutrade**

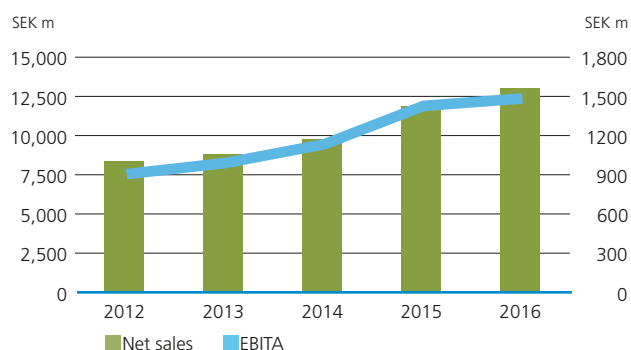


Year in brief

- » Order intake rose 9% to SEK 13,004 million (11,939).
- » Net sales rose 9% to SEK 12,955 million (11,881).
- » Operating profit before amortisation of intangible non-current assets attributable to acquisitions (EBITA) rose 4% to SEK 1,484 million (1,427).
- » Profit after tax rose 5% to SEK 936 million (894), corresponding to earnings per share of SEK 7.80 (7.44) before dilution.
- » Eleven acquisitions were carried out, with combined annual sales of SEK 1,130 million.
- » The Board of Directors proposes a dividend of SEK 3.20 (3.00) per share for 2016.
- » Bo Annvik has been appointed as new President and CEO, and will take office at the Annual General Meeting on 26 April 2017.

Key data	2016	2015
Net sales, SEK m	12,995	11,881
Operating profit, SEK m	1,272	1,235
EBITA, SEK m	1,484	1,427
EBITA margin, %	11.5	12.0
Profit before tax, SEK m	1,194	1,137
Profit for the year after tax, SEK m	936	894
Earnings per share before dilution, SEK	7.80	7.44
Return on operating capital, %	20	22
Cash flow from operating activities, SEK m	1,207	1,076
Net debt/equity ratio, %	82	80
Average number of employees	5,495	4,978

Net sales and earnings



In May 2016 a 2:1 bonus issue was carried out, increasing the number of shares from 40 million to 120 million. Relevant comparison figures in this annual report have been recalculated to take this into account.

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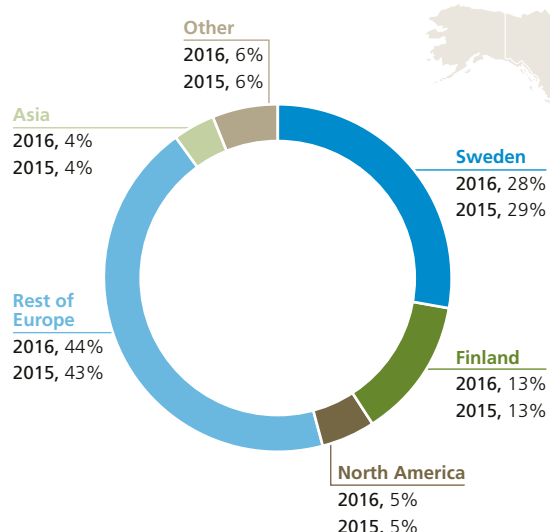
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» Business concept

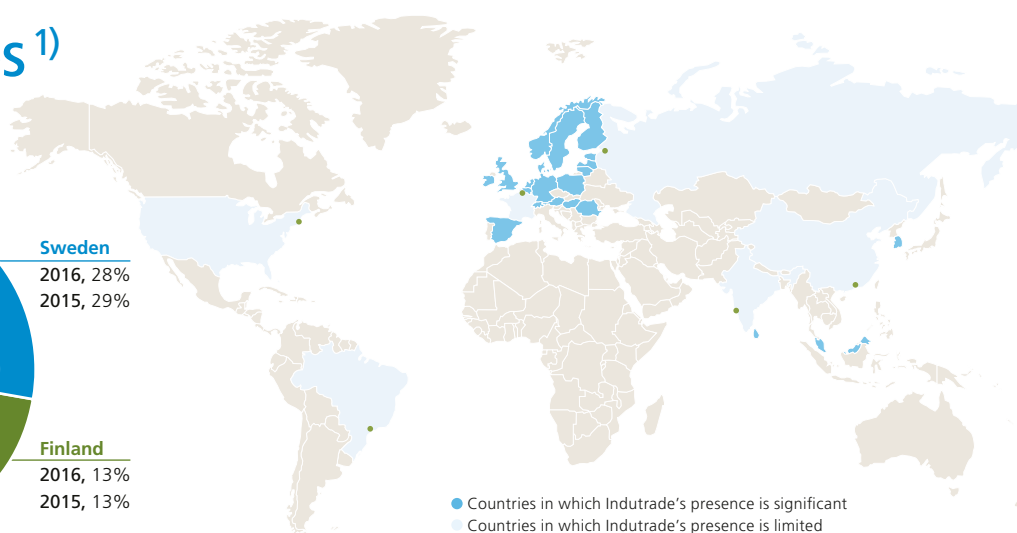
Indutrade **markets** and **sells** components, systems and services with **high-tech content** in selected industrial niches. By having good knowledge about customers' systems and processes, combined with a high level of technical expertise, **Indutrade** aspires to be the **most effective partner** for customers and suppliers alike.

Sales growth, %	Number of acquisitions	EBITA margin, %	Proposed dividend, SEK
9	11	11.5	3.20

» Share of sales¹⁾



1) Based on customer's residence.

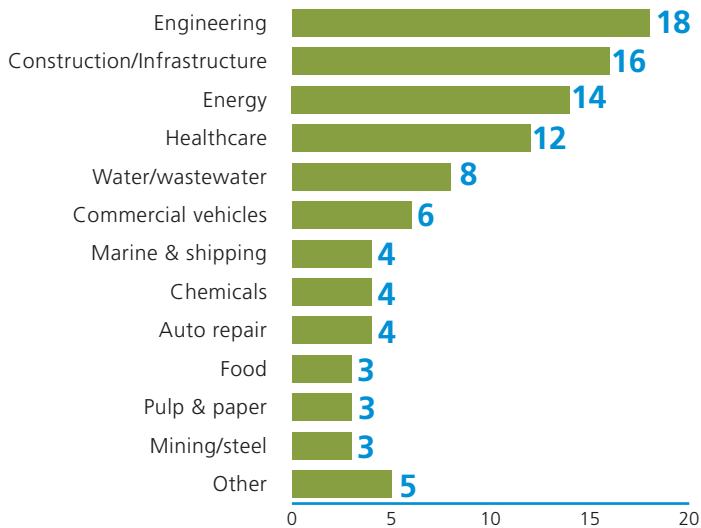


Austria	France	Malaysia	Singapore
Belgium	Germany	The Netherlands	Spain
Brazil	Hungary	Norway	Sri Lanka
China	India	Poland	South Korea
Denmark	Ireland	Romania	Sweden
Estonia	Latvia	Russia	UK
Finland	Lithuania	Switzerland	USA

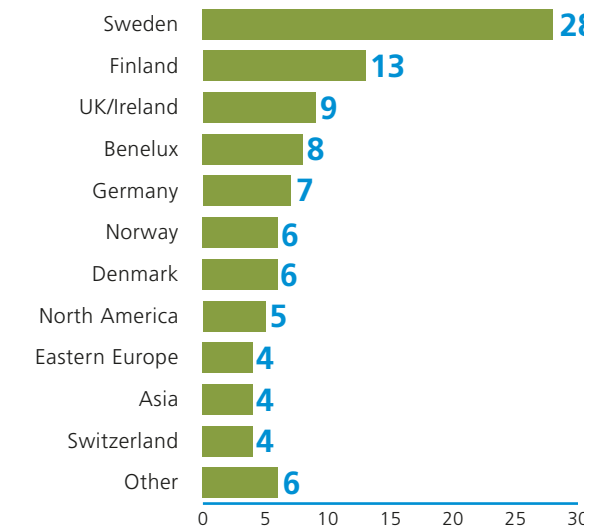
Indutrade in brief

- » Since the stock market introduction in 2005 we have grown by an average of 12% per year and our sales now amount to nearly SEK 13 billion. Indutrade today comprises more than 200 companies in 28 countries on four continents. Our companies are characterised by high-tech know-how and an ability to build enduring, close relationships with customers and suppliers.
- » Our business philosophy is based on entrepreneurship, self determination and customer-adapted leadership.
- » We continue to pursue our acquisition strategy of buying successful, well managed companies with a clearly defined market and distinct offering.

Net sales per customer segment, %



Net sales per market, %¹⁾



1) Based on customer's residence.

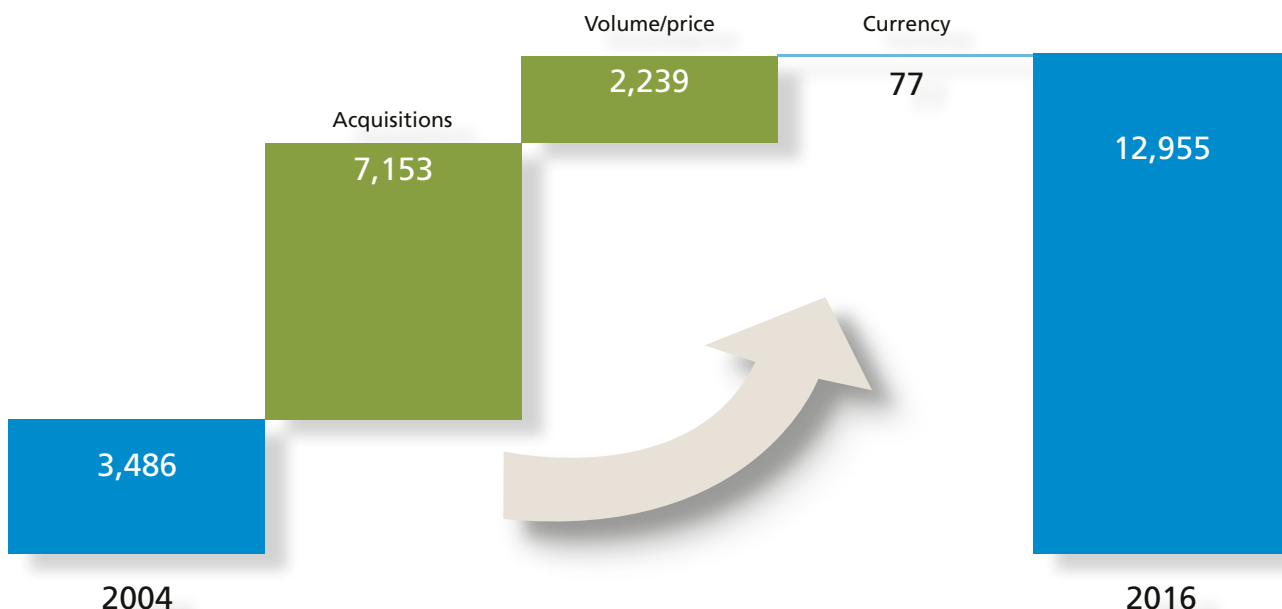
» Acquire

We set high standards for the companies we acquire. They are successful and well-managed, with a clearly defined market and distinct customer offering. They are run by entrepreneurs with a passion for their business concept and who want to further develop the business. We acquire companies in which the owner wants to continue leading and developing the business, without being the owner. The rationale for selling can vary. Perhaps the company is facing an expansion or investment phase. Or maybe the owner wants to see his life's work live on. Indutrade has no exit strategy, and by selling to Indutrade, the company's future can be secured.

» Develop

Being part of the Indutrade Group means that a company can retain its original identity at the same time that it gains access to the combined experience and knowledge of industry colleagues in the Group. Indutrade's companies stimulate each other and benefit from information-sharing. Network seminars and internal benchmarking help to establish best practice that can be spread throughout the Group. All Indutrade companies have clearly decentralised responsibility as well as authority. Indutrade supports them with industrial know-how, financing, business development and management by objective.

Sales growth, SEK million



A company to be proud of

As I now write my final CEO's message for an Indutrade annual report, I can affirm that we have once again reached record levels of sales and earnings. Despite a challenging business environment in many respects, 2016 was the best year ever in Indutrade's history. Sales rose 9% to nearly SEK 13 billion, while profit before tax rose 5%.

The rate of growth was slightly lower than what we have been used to, however. This is explained by the exceptionally good year we had in 2015 for sales of valves for power generation, with a number of major deliveries, for which we did not have any corresponding performance in 2016. The "drop" was thus from a very high level. An additional explanation for the lower rate of growth is the price pressure and weak demand that is currently prevailing in the marine segment.

Breadth that creates stability

Global growth has been weak in general, but our broad geographic presence reduces our dependence on individual markets. This breadth also gives us staying power in

tough times. It is therefore very gratifying to note the break in trend in Finland; following a long period of weak demand, we noted a clear improvement in the business situation, especially in construction and the shipbuilding industry.

In the UK and Ireland, the markets were negatively affected by the initial shock following the unexpected outcome of the Brexit vote. But we are now seeing a return of optimism and pick-up in demand.

The businesses that are affected by the US market are currently doing very well. A very limited amount of our sales are directly dependent on the USA, however, the underlying performance of many companies is being favourably affected, as they deliver to other companies that directly benefit from growth in the US.



"The type of leadership that I and my colleagues stand for focuses on capitalising on the resources that already exist in the companies we own and acquire. I am firmly convinced that our successes can be credited largely to the fact that we allow individuals to have and take responsibility."

Continued high rate of growth

Acquisition activity also stayed high, and during the year we welcomed eleven new companies to the Indutrade Group with combined sales of more than SEK 1.1 billion. Nine of the acquired companies have own brands, which is entirely in line with our strategy to increase the number of companies with proprietary products. Moreover, several of the companies have expertise in advanced testing and measurement technology – a segment that we believe has good growth potential, as we are seeing a heightened focus on efficient use of resources among all our customers.

As in previous years, most of the acquisitions were made abroad – only two of the companies are Swedish. To be sure, there are many good acquisition candidates in Sweden, but we have seen a clear increase in competition for them, and thus the prices have also risen. A few years ago we were relatively alone with our acquisition model that allowed a continued high degree of self-determination for the companies we acquired, but today there are more actors in the Swedish market that have adopted the same model. Since we do not compete with price, we have instead broadened our acquisition focus to markets outside Sweden, where we can find attractive companies at prices that do not raise the risk level.

Achieved objectives

Looking back on my more than 12 years as CEO of Indutrade, there are many things that I am very proud of. Among other things, we have grown geographically and have become a global group with business in 28 countries. The number of companies has grown from some 60 to more than 200. We have also dramatically increased the share of companies with own brands, which creates stability. Sales have risen every year, except for during the

financial crisis in 2009. Moreover, growth has always been achieved with profitability in focus. Both our earnings and dividends have grown at a steady pace over the years.

Strength in sharing responsibility

What I am most proud of is the power inherent in all of the people in all our companies and how we have allowed this power to take root and flourish. The type of leadership that I and my colleagues stand for focuses on capitalising on the resources that already exist in the companies we own and acquire. I am fully and firmly convinced that our successes can be credited largely to the fact that we allow individuals to have and take responsibility. We recognise talented people, we support them, and we give them room to grow.

Demanding leadership

The level of freedom we give our people is a strength, but it puts special demands on the central leadership. Above all it requires that one can listen and trust others' abilities. Indutrade consists of a vast number of successful entrepreneurs who know and understand their respective markets. The recipe for success is to allow these entrepreneurs to continue running their businesses in their own ways and to support and inspire them to develop even more. In this way we have built up substantial structural capital in the Group. Every country and every business area has strong organisations.

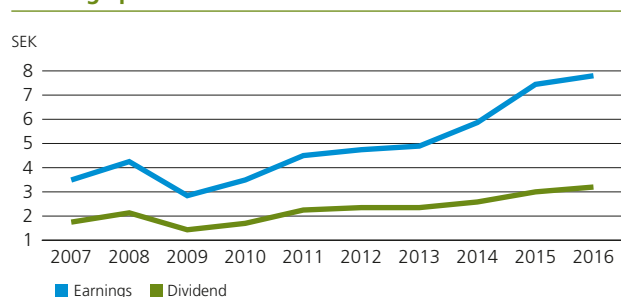
And finally...

As my parting words I want to express my heartfelt gratitude to all of the Group's employees, to my colleagues and to business partners who I have had the pleasure to work together with on this journey. You have all helped make Indutrade a strong and stable group that delivers results.

I want to wish my successor the best of luck – you are joining a wonderfully good company. Indutrade's business model has worked very successfully in the same way since 1978, and my strongest advice is to stick with it: "If it ain't broke, don't fix it!"

Johnny Alvarsson
President and CEO, Indutrade

Earnings per share



Goals and strategies

Overall goals

The Indutrade Group strives for continuous growth in selected geographic markets, product areas and niches while maintaining limited business risk. Growth is pursued organically as well as through acquisitions. Indutrade's overall goals for profitable growth are:

- » to be the leading technical sales group in northern Europe in terms of net sales and technical expertise, and
- » to be an international group with proprietary products and brands.

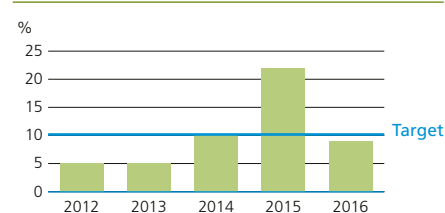
Financial targets

Average sales growth shall amount to a minimum of 10% per year over a business cycle. Growth is to be achieved organically as well as through acquisitions.

Target Achievement

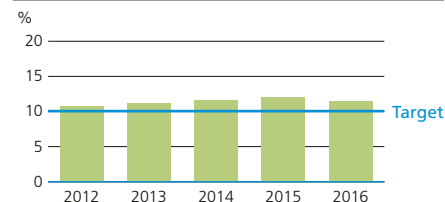
During the last five-year period average annual sales growth was 10%. Net sales rose 9% in 2016. For comparable units, the increase was 2%, while acquired growth was 8% and the currency effect was -1%.

Historical achievement



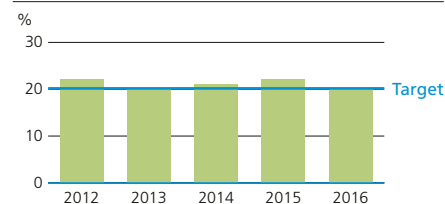
The target EBITA margin is a minimum of 10% per year over a business cycle.

The average EBITA margin during the last five years was 11.5%. The EBITA margin in 2016 was 11.5%.



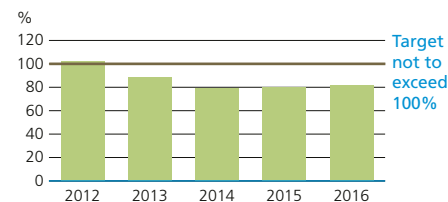
Return on operating capital should be a minimum of 20% per year over a business cycle.

During the last five years the average return on operating capital was 21%. In 2016 the return was 20%.



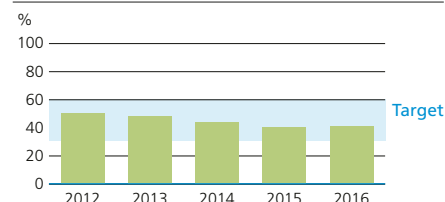
Net debt/equity ratio should normally not exceed 100%.

During the last five years the net debt/equity ratio at year-end ranged from 79% to 102%. The net debt/equity ratio at year-end 2016 was 82%.



The dividend payout ratio should range from 30% to 60% of net profit.

During the last five years the dividend payout ratio was 44% including the proposed dividend. For 2016 a dividend of SEK 3.20 has been proposed, corresponding to 41% of net profit.



Strategies

To achieve its overarching goals, Indutrade pursues the following strategies:

Growth with limited business risk

Growth will be pursued in three dimensions:

- In new and existing technology areas
- Through a broadened customer offering, such as extended support, training and other aftermarket services
- Geographically in selected markets

Growth is to be achieved organically as well as through acquisitions. As companies in the Indutrade Group grow, the entry barriers for potential competitors are also expected to rise. At the same time, the risk of Indutrade's suppliers to the technical sales companies establishing own sales organisations in the Company's markets decreases.

- » **Business development and growth are strategic tools for lowering business risk.**

Acquisitions

Indutrade acquires well managed, long-term successful, often owner-led industrial companies whose management teams are eager to continue running and growing the business. These companies manufacture or sell products in distinct markets.

- » **Indutrade normally does not sell companies. Nor do we change the companies' names or combine companies, which means that the seller knows that the company will continue as a player in the market.**

Strong market positions

Indutrade focuses on sales of products in niches in which it can attain a leading position.

- » **Strong market positions are often a prerequisite for good profitability. They also make it easier to attract the best suppliers, which further strengthens Indutrade's position.**

Long-term partnerships with leading suppliers

Indutrade gives priority to suppliers who, through own product development, provide market-leading, high-quality products with a high-tech content. A partnership with Indutrade should be the most profitable way for suppliers to sell their products in the geographic markets in which Indutrade operates.

- » **A range of market-leading products from the best suppliers, coupled with Indutrade's technical and market know-how, makes Indutrade an attractive business partner for existing and potential customers.**

Companies with proprietary products and brands

Indutrade has a number of companies with proprietary products and brands. The products should have a high-tech content, while the companies should have a strong market position and favourable growth potential.

- » **Proprietary products and brands balance the Group's technology sales companies. Since 2004 the share of sales of proprietary products has grown by 31 percentage points, and in 2016 they accounted for 40% of consolidated net sales.**

High share of repetitive sales and focus on selected customer segments

The Group gives priority to customers with a recurring need that are active in industries with favourable prospects for maintaining competitive production in Indutrade's home markets. Many of these industries are characterised by a high degree of automation, high distribution costs and/or large start-up investment.

- » **This contributes to business stability and predictability of revenue flows.**

Sales organisation with high level of technical expertise

Indutrade's product and service offering, which is aimed at both end users and OEM customers (customers that integrate Indutrade's products in their own products), should have a high-tech content and incorporate a high level of service and qualified technical consulting. Indutrade's sales representatives must have a high level of technical expertise in their respective niches and a depth of knowledge about the customers' production processes.

- » **This makes Indutrade an attractive business partner that creates value-added for customers and suppliers alike.**

Decentralised organisation with strong local ties

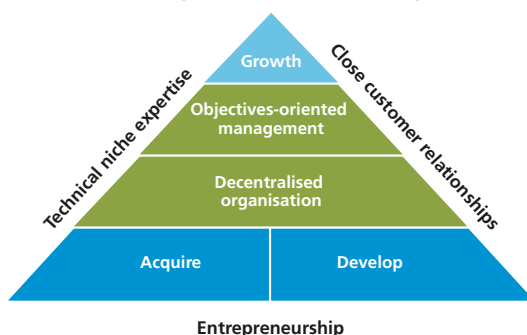
Indutrade's governance model is characterised by decentralisation, as the best business decisions are made close to customers by people who have the best understanding of the customers' needs and processes.

- » **The subsidiaries are responsible for their own profitability, which contributes to greater flexibility and a stronger entrepreneurial spirit.**

Business philosophy and acquisition process

Our business philosophy builds upon entrepreneurship, self-determination, and customer-adapted leadership. We buy profitable, well managed companies which, after being acquired, are allowed to continue doing business as usual, retaining their name, culture and management.

Giving the subsidiaries a great amount of freedom contributes to customer adaptation and flexibility, and creates favourable conditions to continue fostering entrepreneurship in the organisation. Our governance model is highly decentralised, which puts demands on acquired companies to have a well-working operation and management.



The benefit of being part of Indutrade

Indutrade supports its subsidiaries with industrial know-how, financing, business development and management by objective. We are a stable, stock exchange-listed owner that takes responsibility for our subsidiaries' long-term success. The Group's financial strength facilitates the subsidiaries' expansion and promotes stability.

At internal networking seminars, we provide opportunities for our subsidiaries to make comparisons and informally share ideas and experiences. Every quarter a benchmarking process is conducted in the form of a ranking list, which is designed to concretise the companies' goals and give the company presidents knowledge about other companies' development in the Group.

Acquisition process

Identification

Indutrade strives to establish a dialogue with the owners of potentially interesting companies at an early stage. In doing so, Indutrade is often positioned as a natural discussion partner for business owners prior to a possible sale. At any given time, Indutrade is in discussions with acquisition candidates.

Evaluation

Potential acquisitions are evaluated on the basis of such parameters as market position, the market segment's attractiveness, customers, competitors, the principal supplier's strategic and technical focus, repetitive features in the product offering, financial position, history, key persons' continued involvement, and the value-added that the company can create for customers and suppliers. Thorough evaluation minimises the operational and financial risk associated with an acquisition.

Negotiation

The main purpose of the negotiation phase is to ensure:

- that the acquisition can be carried out at a price that makes the deal a value-creating endeavour;
- the continued involvement of key persons after the acquisition. As the key persons are often part-owners of the company being acquired, normally an acquisition structure entailing earn-out payments is used. Key persons are thereby given an incentive to continue working in the Group and contribute to continued growth;
- that the acquisition candidate's main suppliers give their consent to the acquisition, thereby ensuring that key product agencies are not lost.

Governance process

Implementation

In connection with an acquisition, a structured review is conducted that focuses primarily on the acquired company's:

- customers and suppliers, with a view to broadening the customer base and product offering,
- organisation, with a view to improving efficiency and increasing focus on customers and sales,
- costs, margins and inventory turnover with a view to raising profitability.

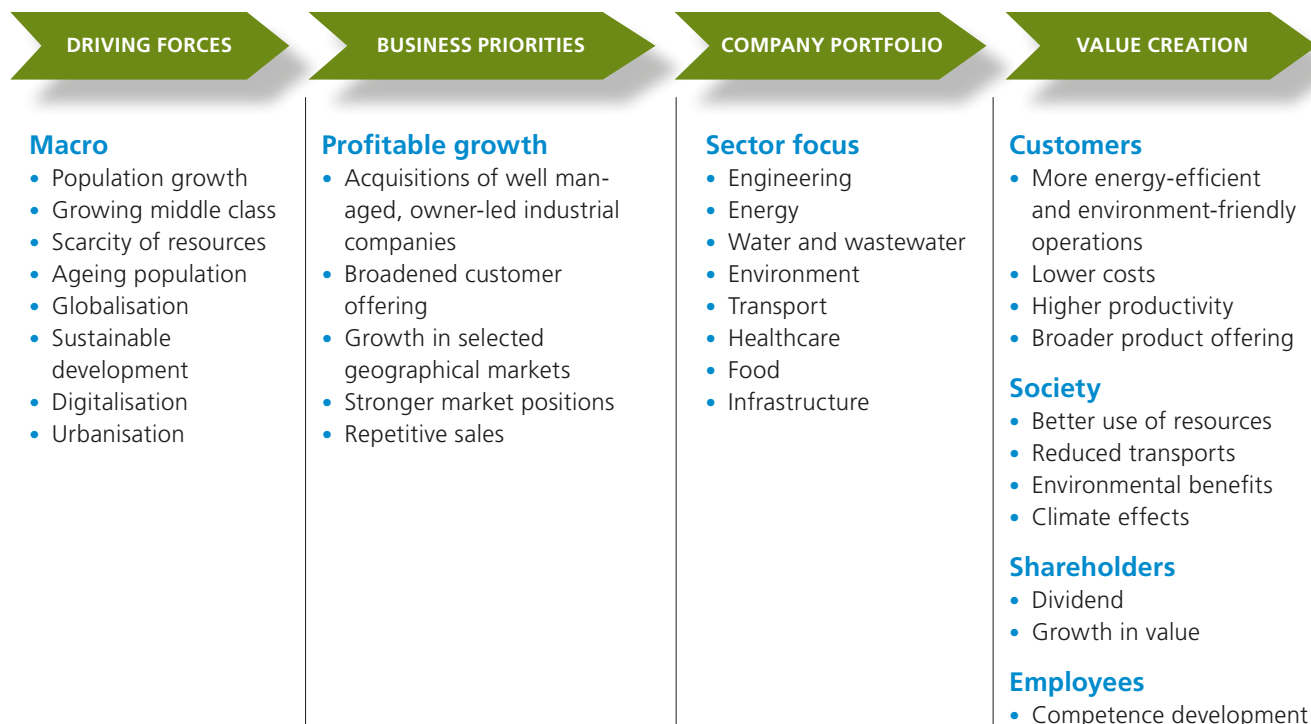
New financial targets – adapted to the company's conditions – are set.

Follow-up

The Group's management and the management of the pertinent business area conduct a continuous dialogue with the company's management. The ongoing governance is goal-oriented, with focus on growth, margins and working capital management.



Driving forces and business environment



Global macro-trends such as climate change, demographic changes and increased globalisation present our customers with a steady progression of new challenges. More efficient production and renewal are in constant focus. Indutrade is an important partner that contributes to its customers' ability to develop.

Conducting active business intelligence in which the salient trends are identified, monitored and analysed is crucial for Indutrade in its ability to make well-grounded decisions regarding its business. While global trends entail challenges, they also represent major business opportunities.

Population growth and a growing middle class are leading to rising demand for capital- as well as consumer goods, at the same time that the need for healthcare is rising as people are living longer. Migration in large parts of the world is creating a need for infrastructure investment. Limited natural resources are leading to greater demands for more efficient use of resources, recycling of material, and conservation of energy in industry. Climate change is leading to demands for greater use of renewable energy sources and a sustainable transport sector, with improved fuel economy and lower carbon emissions. This growing environmental awareness coupled with demands for long-term sustainable development is resulting in greater demand among consumers for locally produced goods.

More efficient production with Indutrade

Indutrade offers components, systems and services that improve our customers' ability to manage change and thereby effectively meet the challenges presented by a changing world.

Our growth strategy is focused on sectors with high demands for efficiency and thus a high degree of automation. Priority is given to products that help industries measure, govern, control, automate and improve the efficiency of their processes, and products that support industries in meeting environmental standards and their energy needs. With Indutrade's help, customers can conduct their business in a more energy-efficient and environment-friendly manner.

Diversification of risk

In an effort to diversify risk and reduce sensitivity to economic fluctuations, Indutrade works with products and solutions in a wide range of sectors.

In view of the growing demands for generally improved environmental performance and more efficient energy production, together with growing international trade, the segments that are considered to be the most important for Indutrade's continued expansion and development are energy, water and wastewater, the environment, transport, construction and infrastructure, healthcare, engineering and food. Indutrade's largest segments in terms of sales are currently engineering, construction and infrastructure, energy and healthcare.



Share data

Indutrade's shares are listed on Nasdaq Stockholm. The shares have been listed on the Large Cap list since 1 January 2015. Indutrade's market capitalisation on 31 December 2016 was SEK 21,960 million (19,220).

Indutrade's share price rose from SEK 160.17 to SEK 183.00 during the year, an increase of 14%. The Stockholm Stock Exchange gained 6% for the year, and the OMX Industrials PI index rose 19%. Including reinvested dividends, the total return for Indutrade shares was 17%. The highest price paid in 2016 was on 8 September, SEK 191.00, and the lowest price paid was on 9 February, SEK 136.23. During the last ten-year period Indutrade's shares have delivered a total return of 448% including reinvested dividends, while the SIX Return Index, which measures the total return of the market as a whole, showed a total return of 107% during the same period.

Trading volume

A total of 48.9 million (42.9) Indutrade shares were traded in 2016 for a combined value of SEK 8.1 billion (5.6). This corresponds to a turnover rate of 41% (36%). Average daily trading volume was 193,398 Indutrade shares (170,743), with 895 transactions (559).

Bonus issue

The Annual General Meeting on 27 April 2016 resolved in favour of a 2:1 bonus issue, with 27 May 2016 as the record date. For each existing share held on the record date, two new shares were issued to the shareholder at no charge. Following the bonus issue, the number of shares in Indutrade tripled, and the price per share decreased to roughly a third. As per 31 May 2016 the number of shares in Indutrade was 120,000,000.

Share capital

Indutrade's share capital amounted to SEK 240 million on 31 December 2016 (40), divided among 120,000,000 shares (40,000,000) with a share quota value of SEK 2 (1). All shares have equal voting power.

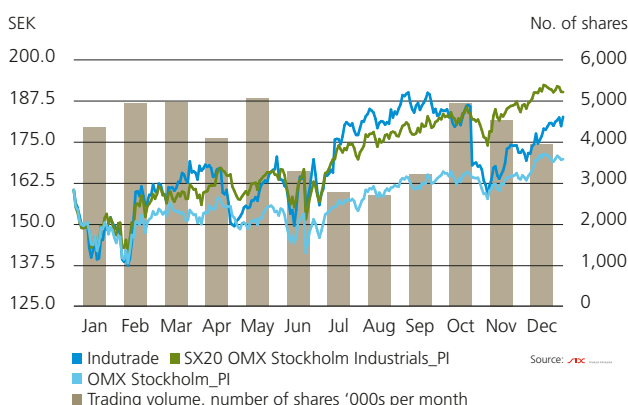
Ownership structure

Indutrade had 10,518 shareholders on 31 December 2016 (7,965). At year-end the ten largest owners controlled 61% of the capital and votes (65%). Swedish legal entities, including institutions such as insurance companies and mutual funds, owned 69% of the capital and votes at year-end (67%). Foreign ownership of the Company was 24% (26%).

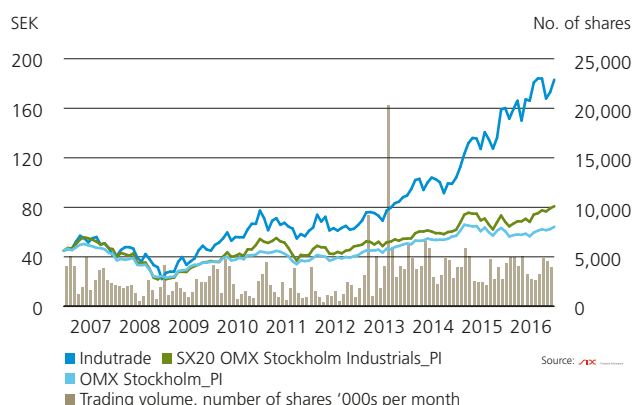
Incentive programmes

In April 2014 the Annual General Meeting of Indutrade AB resolved to implement an incentive programme, LTI 2014, comprising a combined maximum of 460,000 warrants

Share price trend 2016



Share price trend 2007-2016



in two series, directed at senior executives and other key persons in the Indutrade Group.

Within the framework of Series I, which was offered to 135 persons, the participants acquired a total of 257,500 warrants, and within the framework of Series II, which was offered to 13 persons, the participants acquired a total of 27,500 warrants. After the bonus issue in May 2016, each warrant entitles its owner to subscribe for three shares. The subscription price for Series I has been recalculated to SEK 118.80 per share, and the subscription price for Series II has been recalculated to SEK 116.70 per share.

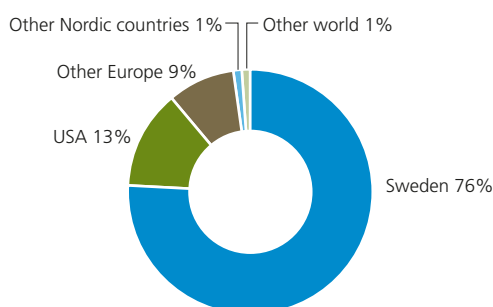
The shares can be subscribed during specially pre-scribed subscription periods through Friday, 18 May 2018. Upon full exercise, the number of shares outstanding will increase by 855,000, corresponding to 0.7% of the total number of shares and votes. During the full year 2016, there was a marginal dilutive effect of 0.21% (0.08%).

The Board of Directors has decided to propose to the Annual General Meeting in April 2017 to resolve in favour of an additional long-term share-based incentive programme directed at approximately 180 executives and other key persons within the Group. This programme will also be based on warrants.

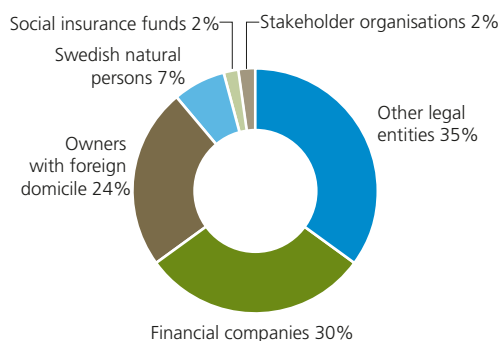
Dividend and dividend policy

The Board's goal is to provide the shareholders an attractive dividend yield and high dividend growth. The goal is that over time, the dividend shall range from 30% to 60% of net profit. During the last five-year period, of Indutrade's aggregate profit after tax, totalling SEK 3,689 million, dividends of SEK 1,618 million have been paid to the shareholders (including the proposed dividend for the year), which corresponds to 44% of net profit.

Ownership by country, %



Owners by category, %



Key data per share

	2016	2015
Share price per 31 December, SEK	183.00	160.17
Market cap at 31 December, SEK m	21,960	19,220
Dividend, SEK	3.20 ¹⁾	3.00
Earnings before dilution, SEK	7.80	7.44
Earnings after dilution, SEK	7.78	7.44
No. of shares outstanding, thousands	120,000	120,000
Average number of shares before dilution, thousands	120,000	120,000
Average number of shares after dilution, thousands	120,251	120,094
No. of shareholders per 31 December	10,518	7,965
Highest price paid during the financial year, SEK	191.00	162.77
Lowest price paid during the financial year, SEK	136.23	103.50
Dividend yield ²⁾ , %	1.7	1.9
Shareholders' equity, SEK	36.58	30.86
Cash flow from operating activities, SEK	10.06	8.97

1) Proposed by the Board of Directors.

2) Dividend divided by share price on 31 December.

10 largest shareholders at 31 December 2016

	No. shares	Share of capital and votes, %
L E Lundbergföretagen	31,575,000	26.3
Didner & Gerge funds	11,743,689	9.8
AMF Insurance and funds	7,829,190	6.5
Handelsbanken funds	6,659,032	5.6
SEB Investment Management	4,459,700	3.7
Första AP-fonden	2,389,000	2.0
JPM Chase NA	2,311,932	1.9
SSB Client Omnibus AC OM07	2,135,333	1.8
Odin Norden	1,996,951	1.7
Länsförsäkringar fund management	1,962,531	1.6
Other	46,937,642	39.1

Four reasons to invest in Indutrade

»» 1.

Sustainable growth

- Average annual rate of growth of 12% since stock market listing in 2005
- 448% total return, including reinvested dividends, during the last ten-year period
- History of successful acquisitions
- Opportunities to broaden product offering, enhance value creation and expand geographically

»» 2.

Attractive market position and risk profile

- Leading position in selected, niche segments
- Focus on high quality and technically advanced products for customers with recurring need
- Diversified and stable customer base
- Stable long-term relationships with leading suppliers
- Not dependent on any single supplier

»» 3.

Stable profitability and strong cash flow

- History of stable profitability
- Average EBITA margin of 11.5% during last five years
- Average return on operating capital of 21% during last five years
- Strong operating cash flow generated over the years
- High average dividend – 44% of net profit during last five years
- Equity ratio 40% at year-end 2016

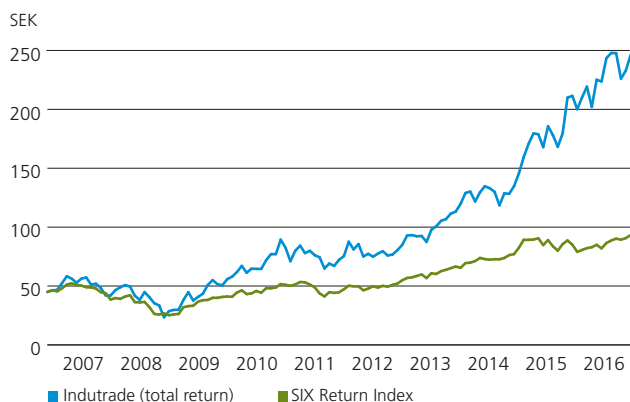
»» 4.

Strong culture and extensive expertise

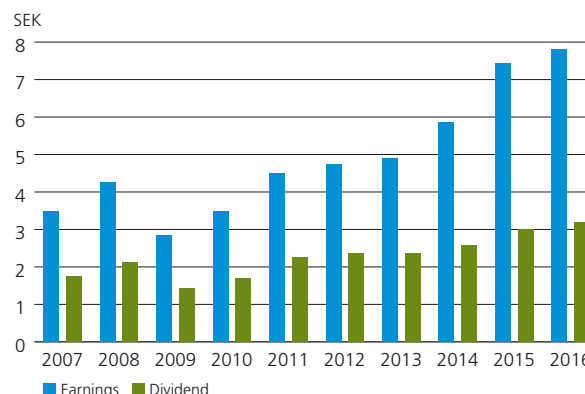
- Decentralised organisation
- Entrepreneurial spirit
- Strict income and cost control
- Sales force with extensive technical knowledge

Analyst firms that monitor Indutrade ABG Sundal Collier, Carnegie Investment Bank, Danske Bank Markets, Handelsbanken, Nordea, SEB and Swedbank.

Total return for Indutrade shares 2007-2016



Earnings and dividend per share



Greater focus on sustainable business

Acquiring companies is one of the cornerstones of Indutrade's business model. In our acquisition process it is therefore imperative that we ensure shared values and principles with respect to sustainable business. Our ambition is to conduct our business in close dialogue with the stakeholders that affect and are affected by our business decisions to a large extent. Staying abreast of developments in the world around us and advocating for a sustainable value chain gives us conditions to offer our customers innovative solutions to the challenges of today and tomorrow!

OUR VIEW OF SUSTAINABLE BUSINESS

Our role as an owner

Indutrade's most important duty is to create sustainable value through its subsidiaries – both for ourselves and for the communities we work in. We acquire well run and profitable companies that share our values. One of the most important reasons for Indutrade being considered to acquire a company is that the owners want to see their life's work continue to thrive and develop. For our part, being a responsible long-term owner requires that we make careful considerations in the demands we set and the support we lend to our subsidiaries on matters concerning corporate social responsibility. Sustainability issues are included as a recurring topic in discussions surrounding the strategic direction and financial objectives of our subsidiaries. Our ambition is to develop and strengthen our companies in this dimension as well.

Clearer focus for sustainability work

We need to continuously adapt our priorities to the ways in which Indutrade is developing and to changes in the surrounding world. Identifying and analysing the expectations that our key stakeholders put on us – including our subsidiaries, owners and employees – helps us to focus our work and our resources on the areas in which we have the greatest influence and where we are subject to high expectations from people in our operating environment. This is a prerequisite for our ability to create our intended level of sustainable value. In 2016 we began work on a general materiality analysis, which resulted in the definition of three focus areas for Indutrade's sustainability work: long-term ownership, competence and qualifications, and business ethics. We intend to validate this analysis with Indutrade's key stakeholders in 2017.

Activities carried out in 2016:

- Began work on materiality analysis
- Performed risk assessment of sustainability risks in operations
- Formulated target areas
- Followed up implementation of the Code of Conduct
- Identified sustainability risks among suppliers

Planned activities for 2017:

- Validate materiality analysis
- Formalise sustainability criteria in the due diligence process
- Formalise succession planning
- Develop and follow up training activities
- Conduct anti-corruption mapping
- Follow up mapping of risks in supply chain

LONG-TERM OWNERSHIP				COMPETENCE AND QUALIFICATIONS			BUSINESS ETHICS	
Company culture	Sustainable acquisition process	Decentralisation	Strong local ties	Diversity	Competence development	Succession planning	Implementation of the Code of Conduct	Sustainability among suppliers

OUR VIEW OF LONG-TERM OWNERSHIP

Values-steered acquisitions

We are steadfast in our belief that clearly formulated values form a foundation for good business ethics, which are crucial for upholding the trust of customers and employees as well as of other stakeholders. In our acquisition process, ensuring that we have a shared set of values and principles is therefore a key consideration. We put strong emphasis during the acquisition process on getting to know the company and its management, employees and owners in order to ensure they will be a good fit with Indutrade. Discussions and reasoning surrounding our decentralised governance model and our fundamental values are conducted as early as possible in the acquisition process. In 2017 we will begin work on formalising how we can include corporate culture and decentralisation perspectives

into our due diligence process. We will also monitor the subsidiaries' perceptions of Indutrade as a responsible owner from these perspectives.

Business with local ties

The business conducted by Indutrade's companies is based on long-term, strong relationships with customers and suppliers, but also with the local communities in which the companies are located and operate. Our companies contribute to local development through their long-term presence and profitable business. Each and every one of our employees plays a role in upholding the public's trust in Indutrade's companies as reliable and responsible companies that live up to their obligations in all respects.

OUR VIEW OF COMPETENCE AND QUALIFICATIONS

Diversity contributes to dynamism and competitiveness

Diversity and the rejection of all forms of discrimination are prerequisites for maintaining the competitiveness and dynamism in our organisation as well as for upholding our reputation as an attractive employer. All of our employees are to be given equal opportunities for career development regardless of gender, ethnicity, religion or faith, functional disability, sexual orientation or age. With a decentralised governance model, diversity in the subsidiaries is mainly an issue for the respective companies' presidents. In 2017 Indutrade will look into diversity-promoting measures related to the appointment of our subsidiary presidents.

Access to the right competence

Indutrade's greatest potential in the area of sustainability lies in helping the subsidiaries' customers meet growing demands and expectations for responsible and sustainable solutions. In addition to being a responsible business partner, this entails that – in developing our customer offerings and positioning our subsidiaries – we demonstrate that we provide value-added, such as from environmental or social

perspectives. Indutrade's companies can point to many good examples of environmentally adapted solutions or solutions that contribute to improved efficiency, safety and productivity for customers. In connection with our internal meetings, such as the Group's annual presidents meeting, the monthly Group Management meetings and internal board meetings, we highlight successful examples of sustainable customer offerings that can serve as inspiration for Indutrade's subsidiaries.

One prerequisite for our success at developing our business is that both we and our subsidiaries can attract, recruit, develop and retain employees with the right competence and values. Indutrade's subsidiaries typically serve as problem solvers for customers, which requires our people to have a high level of business and technical expertise. We therefore put great emphasis on continuous competence development in our companies, which also helps us attract and retain key people. It also helps us secure access to people who are prepared and competent to take on responsibility as a subsidiary president. In 2017 we will develop and follow up our internal development programmes and formalise succession planning within the Group.

Code of Conduct – everyone’s responsibility and right

The Code of Conduct that we introduced in 2015 lays out a number of overarching principles and guidelines that codify how we want to act and be perceived. The Code of Conduct, which covers environmental concerns, health and safety, business ethics, employee relations, human rights and community impacts, serves as a foundation for our daily work with sustainability issues and applies for all employees. The subsidiary presidents are responsible for ensuring the employees within their respective organisations are familiar with the Code of Conduct. The subsidiary presidents also determine if there are other actors in the company’s value chain who are covered by the Code, such as suppliers, contractors or consultants. During 2016 a first follow-up was conducted of the subsidiaries’ performance at implementing the Code of Conduct in their operations. This follow-up showed that the vast majority of companies have informed or discussed the content of the Code of Conduct with their employees. The most important issue is considered to be the one dealing with business ethics. Indutrade plans to conduct a review of its anti-corruption work in 2017.

Follow-up of adherence to the Code of Conduct will continue to be conducted as part of the annual monitoring of internal control. Employees can choose to report, anonymously if they so desire, deviations from the Code of Conduct or suspicions of improprieties via an established whistleblower function.

Safe and sound workplace

All Indutrade employees shall have a safe and healthy workplace. Proactively eliminating obvious physical risks and following up safety work and the employees’ work situations are a matter of course for us. In general, the

operations of Indutrade’s subsidiaries involve lighter workshop and assembly work. We want to give our subsidiaries the absolute best conditions to grow, among other things by continuously investing in their production environments. Apart from contributing to higher productivity, this also leads to safer workplaces with fewer risk areas and repetitive movements.

Environmental work across the value chain

Indutrade’s direct environmental impacts are relatively limited and arise primarily in the subsidiaries in connection with transports of finished products, business travel, and handling of waste. This notwithstanding, the goal is to reduce our environmental impact through systematic improvement work across the entire value chain. A number of subsidiaries are certified according to ISO 14001, but even companies that are not certified conduct systematic environmental work aimed at achieving continuous improvements that are followed up with targets and action plans within the subsidiaries’ respective frameworks. Priority areas of focus include efficient use of energy and natural resources, established systems for reusing and recycling material and energy, and prevention of environmental pollution.

Sustainability among suppliers

Indutrade is striving to develop and strengthen its subsidiaries with respect to sustainability among its suppliers. A mapping of the subsidiaries’ suppliers was conducted in 2016. In 2017 we will analyse the outcome of this mapping and determine how we as owner can best support our subsidiaries in managing potential risks in their respective supply chains.

Quarterly overview

Net sales, SEK million	2016					2015				
	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
Engineering & Equipment	1,537	415	389	397	336	1,466	376	373	371	346
Flow Technology	2,231	580	531	591	529	2,234	612	545	593	484
Fluids & Mechanical Solutions	1,558	445	385	404	324	1,249	339	316	307	287
Industrial Components	2,501	690	596	649	566	2,263	628	557	589	489
Measurement & Sensor Technology	1,171	338	295	297	241	938	246	227	246	219
Special Products	3,997	1,040	990	991	976	3,772	1,029	1,030	928	785
Parent Company and Group items	-40	-9	-10	-12	-9	-41	-11	-12	-9	-9
	12,995	3,499	3,176	3,317	2,963	11,881	3,219	3,036	3,025	2,601
EBITA, SEK million	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
Engineering & Equipment	124	29	42	38	15	125	29	41	32	23
Flow Technology	168	38	35	55	40	217	59	52	63	43
Fluids & Mechanical Solutions	199	54	48	56	41	163	41	43	40	39
Industrial Components	265	76	67	72	50	249	64	72	68	45
Measurement & Sensor Technology	177	51	51	45	30	164	43	42	38	41
Special Products	597	144	142	159	152	564	166	154	140	104
Parent Company and Group items	-46	-1	-8	-20	-17	-55	-4	-17	-19	-15
	1,484	391	377	405	311	1,427	398	387	362	280
EBITA margin, %	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar	Total	Oct-Dec	Jul-Sep	Apr-Jun	Jan-Mar
Engineering & Equipment	8.1	7.0	10.8	9.6	4.5	8.5	7.7	11.0	8.6	6.6
Flow Technology	7.5	6.6	6.6	9.3	7.6	9.7	9.6	9.5	10.6	8.9
Fluids & Mechanical Solutions	12.8	12.1	12.5	13.9	12.7	13.1	12.1	13.6	13.0	13.6
Industrial Components	10.6	11.0	11.2	11.1	8.8	11.0	10.2	12.9	11.5	9.2
Measurement & Sensor Technology	15.1	15.1	17.3	15.2	12.4	17.5	17.5	18.5	15.4	18.7
Special Products	14.9	13.8	14.3	16.0	15.6	15.0	16.1	15.0	15.1	13.2
	11.5	11.2	11.9	12.2	10.5	12.0	12.4	12.7	12.0	10.8

Several-year overview

Condensed income statements, SEK million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net sales	12,955	11,881	9,746	8,831	8,384	7,994	6,745	6,271	6,778	5,673
Cost of goods sold	-8,607	-7,847	-6,464	-5,833	-5,545	-5,268	-4,480	-4,207	-4,520	-3,826
Development costs	-156	-133	-107	-110	-95	-74	-48	-44	-32	-20
Selling costs	-2,179	-2,044	-1,708	-1,601	-1,527	-1,430	-1,224	-1,169	-1,169	-972
Administrative expenses	-791	-635	-535	-449	-426	-398	-376	-323	-299	-250
Other operating income/expenses	50	13	49	18	6	-2	-3	-3	2	4
Operating profit	1,272	1,235	981	856	797	822	614	525	760	609
Financial income and expenses	-78	-98	-86	-100	-83	-93	-61	-64	-68	-31
Profit after financial items	1,194	1,137	895	756	714	729	553	461	692	578
Tax	-258	-243	-192	-169	-145	-189	-148	-120	-182	-159
Net profit for the year	936	894	703	587	569	540	405	341	510	419
EBITA	1,484	1,427	1,134	990	905	917	703	594	820	650
EBITA margin, %	11.5	12.0	11.6	11.2	10.8	11.5	10.4	9.5	12.1	11.5

Condensed balance sheets, SEK million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Assets										
Goodwill	2,388	1,942	1,572	1,308	1,188	822	712	514	574	378
Other intangible assets	1,879	1,636	1,445	1,286	1,215	888	761	555	599	364
Property, plant and equipment	1,451	1,117	971	849	741	706	657	563	554	388
Financial assets	117	101	87	61	59	45	50	48	52	43
Inventories	2,249	1,931	1,617	1,546	1,472	1,328	1,183	1,064	1,207	936
Accounts receivable – trade	2,292	1,995	1,702	1,435	1,411	1,263	1,047	901	1,102	859
Other receivables	345	300	336	208	204	149	164	125	100	100
Cash and cash equivalents	332	339	357	261	243	264	219	229	223	203
Total assets	11,053	9,361	8,087	6,954	6,533	5,465	4,793	3,999	4,411	3,271
Liabilities and equity										
Equity	4,399	3,707	3,162	2,626	2,290	2,064	1,744	1,644	1,597	1,189
Non-current interest-bearing liabilities, and pension liabilities	2,274	1,260	1,216	2,201	1,158	837	939	886	930	431
Other non-current liabilities and provisions	563	480	412	353	333	255	231	132	148	237
Current interest-bearing liabilities	1,686	2,028	1,635	381	1,424	1,083	841	462	622	393
Accounts payable – trade	968	848	763	602	586	556	493	424	584	470
Other current liabilities	1,163	1,038	899	791	742	670	545	451	530	551
Total liabilities and equity	11,053	9,361	8,087	6,954	6,533	5,465	4,793	3,999	4,411	3,271

Condensed cash flow statements, SEK million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Cash flow from operating activities before changes in working capital	1,318	1,315	970	790	720	764	616	438	619	526
Changes in working capital	-111	-239	-66	69	-201	-55	40	120	-129	-127
Cash flow from operating activities	1,207	1,076	904	859	519	709	656	558	490	399
Net investment in non-current assets	-320	-221	-124	-206	-127	-139	-111	-90	-130	-67
Company acquisitions and divestments	-1,164	-878	-585	-444	-572	-467	-684	-188	-276	-307
Change in other financial assets	8	-1	3	1	-5	13	0	0	0	1
Cash flow from investing activities	-1,476	-1,100	-706	-649	-704	-593	-795	-278	-406	-373
Net borrowing	620	303	165	88	442	134	321	-12	131	203
Dividend payout	-360	-310	-282	-282	-270	-204	-172	-256	-210	-150
Cash flow from financing activities	260	-7	-117	-194	172	-70	149	-268	-79	53
Cash flow for the year	-9	-31	81	16	-13	46	10	12	5	79
Cash and cash equivalents at start of year	339	357	261	243	264	219	229	223	203	119
Exchange rate differences	2	13	15	2	-8	-1	-20	-6	15	5
Cash and cash equivalents at end of year	332	339	357	261	243	264	219	229	223	203
Financial metrics, SEK million	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Non-current interest-bearing liabilities	2,274	1,260	1,216	2,201	1,158	837	939	886	930	431
Current interest-bearing liabilities	1,686	2,028	1,635	381	1,424	1,083	841	462	622	393
Cash and cash equivalents	-332	-339	-357	-261	-243	-264	-219	-229	-223	-203
Interest-bearing net debt	3,628	2,949	2,494	2,321	2,339	1,656	1,561	1,119	1,329	621
Net debt/equity ratio, %	82	80	79	88	102	80	90	68	83	52
Interest coverage ratio, times	16.5	14.6	12.2	8.9	9.0	8.9	9.4	7.6	10.4	15.8
Equity ratio, %	40	40	39	38	35	38	36	41	36	36
Net debt/EBITDA, times	2.2	1.8	1.9	2.1	2.3	1.6	2.0	1.6	1.5	0.9
Return measures										
Average operating capital, SEK million	7,491	6,537	5,324	4,894	4,078	3,680	3,605	3,211	2,484	1,711
Return on operating capital, %	20	22	21	20	22	25	19	18	33	38
Average equity, SEK million	3,976	3,440	2,818	2,377	2,113	1,849	1,672	1,602	1,337	1,020
Return on equity, %	24	26	25	25	27	29	24	21	38	41
Number of employees										
Average	5,495	4,978	4,418	4,151	3,939	3,778	3,420	3,122	2,728	1,929
At year-end	5,705	5,107	4,578	4,218	4,086	3,807	3,444	3,040	3,269	2,083

Key data per share	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Share price at 31 December, SEK	183.00	160.17	104.00	89.50	65.67	61.00	77.33	45.00	22.08	41.25
Market cap at 31 December, SEK million	21,960	19,220	12,480	10,740	7,880	7,320	9,280	5,400	2,650	4,930
Dividend, SEK	3.20 ¹⁾	3.00	2.58	2.35	2.35	2.25	1.70	1.43	2.13	1.75
Earnings before dilution, SEK	7.80	7.44	5.87	4.89	4.74	4.50	3.39	2.84	4.25	3.49
Earnings after dilution, SEK	7.78	7.44	5.87	4.89	4.74	4.50	3.39	2.84	4.25	3.49
Number of shares outstanding, 000s	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Average number of shares before dilution, 000s	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Average number of shares after dilution, 000s	120,251	120,094	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Number of shareholders per 31 December	10,518	7,965	5,970	6,038	5,721	5,025	5,388	5,369	4,577	4,739
Highest price paid during the financial year, SEK	191.00	162.77	106.50	90.83	76.50	79.67	78.00	51.00	49.67	57.33
Lowest price paid during the financial year, SEK	136.23	103.50	80.33	66.00	58.33	51.17	44.83	23.17	21.25	39.00
Dividend yield ²⁾ , %	1.7	1.9	2.5	2.6	3.6	3.7	2.2	3.2	9.7	4.3
Shareholders' equity, SEK	36.58	30.86	26.33	21.86	19.07	17.18	14.52	13.70	13.31	9.91
Cash flow from operating activities, SEK	10.06	8.97	7.53	7.16	4.33	5.91	5.47	4.65	4.08	3.33

1) Proposed for 2016 by the Board of Directors.

2) Dividend divided by the share price on 31 December.

Definitions

In this annual report Indutrade presents certain key ratios (Alternative Performance Measures – APMs) that complement the financial measures defined in IFRS. Indutrade believes that these key ratios provide valuable information to investors and the Group's management, as they contribute to assessment of the Group's performance, trends, ability to repay debt and invest in new business opportunities, and they reflect the Group's acquisition-intensive business model.

Since not all companies calculate their financial key ratios in the same way, they are not always comparable. They should therefore not be regarded as a substitute for the key ratios defined in IFRS. Following are definitions of Indutrade's key ratios, of which most are APMs.

Earnings per share before dilution

Net profit for the period attributable to owners of the parent divided by the average number of shares outstanding. Definition according to IFRS.

Earnings per share after dilution

Net profit for the period attributable to owners of the parent divided by the average number of shares outstanding after dilution.

EBITA

Operating profit before amortisation of intangible non-current assets arising in connection with company acquisitions (Earnings Before Interest, Tax and Amortisation). EBITA is the principal measure of the Group's earnings.

EBITA margin

EBITA divided by net sales.

EBITDA

Operating profit before depreciation and amortisation (Earnings Before Interest, Tax, Depreciation and Amortisation).

Equity per share

Shareholders' equity attributable to the parent company divided by the number of shares outstanding.

Equity ratio

Shareholders' equity divided by total assets.

Gross margin

Gross profit divided by net sales.

Interest-bearing net debt

Interest-bearing liabilities including pension liability and estimated earn-outs from acquisitions, less cash and cash equivalents.

Interest cover ratio

Operating profit plus interest income divided by interest expenses.

Net capital expenditures

Purchases less sales of intangible non-current assets and of property, plant and equipment, excluding those included in acquisitions and divestments of subsidiaries and businesses.

Net debt/equity ratio

Interest-bearing net debt divided by shareholders' equity.

Net debt/EBITDA

Interest-bearing net debt at the end of the period divided by EBITDA on a moving 12-month basis.

Operating capital

Shareholders' equity plus interest-bearing net debt.

Return on equity

Net profit for the period on a moving 12-month basis divided by average shareholders' equity per month.

Return on operating capital

EBITA calculated on a moving 12-month basis divided by average operating capital per month.



Directors' report

The Board of Directors and President of Indutrade AB (publ), reg. no. 556017-9367, herewith submit the annual report for the 2016 financial year.

Operations

Indutrade markets and sells components, systems and services with a high-tech content to industrial companies in selected niches. Through solid knowledge about customers' systems and processes combined with a high level of technical expertise, Indutrade aspires to be the most effective partner for customers and suppliers alike.

The Group was organised in six business areas during the year: Engineering & Equipment, Flow Technology, Fluids & Mechanical Solutions, Industrial Components, Measurement & Sensor Technology, and Special Products. Operations in 2016 were conducted through some 200 subsidiaries in 28 countries on four continents. Indutrade's shares are listed on Nasdaq Stockholm, and have been included on the Large Cap list since January 2015.

Performance during the year

During the year we noted greater uncertainty in the market, which also led to greater variation in order intake and net sales for the Group's companies from month to month and between segments and countries. The Nordic countries as a whole performed well, and customer demand strengthened. In Finland order intake has increased in the latter part of the year after a long period of weak growth. The companies in Ireland and Benelux showed continued stable growth, while the UK had challenges.

Order intake, net sales and earnings

Order intake for the year totalled SEK 13,004 million (11,939), an increase of 9%. For comparable units the increase was 2%, with acquisitions contributing 8% and currency movements having a negative effect on order intake of 1%. For all of the business areas except Special

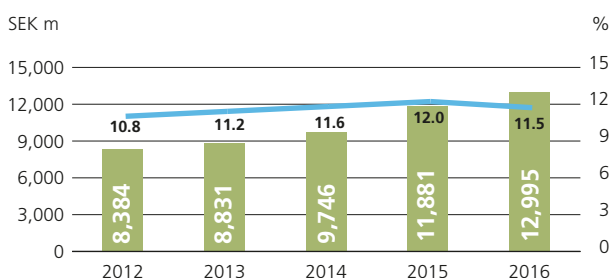
Products, order intake increased during the year for comparable units. Order intake for Special Products decreased by 3% on a like-for-like basis.

Net sales for the year totalled SEK 12,955 million (11,881), an increase of 9%. For comparable units the increase was 2% and acquired growth contributed 8%, while currency movements had a negative effect on net sales, by 1%.

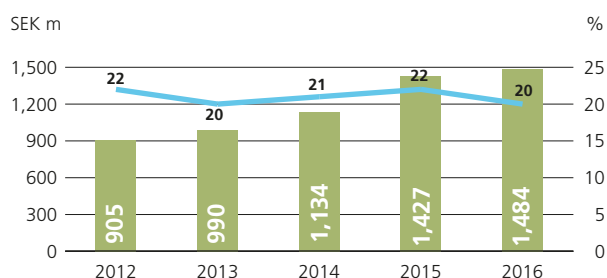
Operating profit before amortisation of intangible assets attributable to acquisitions (EBITA) was SEK 1,484 million (1,427) for the year, an increase of 4%. For comparable units, EBITA decreased by 4%, while acquisitions contributed 9% and currency movements had a negative effect of 1%. The EBITA margin was 11.5% (12.0%). The gross margin for the Group as a whole was slightly lower compared with the preceding year, at 33.6% (34.0%). The earnings improvement can be credited to favourable like-for-like performance for most companies combined with the contribution made by completed acquisitions. This was countered by lower outgoing shipments of valves for power generation in the energy segment and a challenging business situation for companies in the marine segment, which are also the main reasons why the EBITA margin did not reach the same level as a year ago. For the full year, four of the Group's six business areas exceeded the Group's target of an EBITA margin in excess of 10%.

Net financial items amounted to SEK -78 million (-98), of which net interest expense was SEK -68 million (-78). Net interest expense was favourably affected by a lower average interest rate. Tax on profit for the year was SEK -258 million (-243), corresponding to a tax charge of 22% (21%). Profit for the year rose 5% to SEK 936 million (894). Earnings per share before dilution grew 5% to SEK 7.80 (7.44).

Net sales SEK m, EBITA margin, %



EBITA SEK m, Return on operating capital, %



Profitability, financial position and cash flow

The return on operating capital was 20% (22%), and the return on equity was 24% (26%).

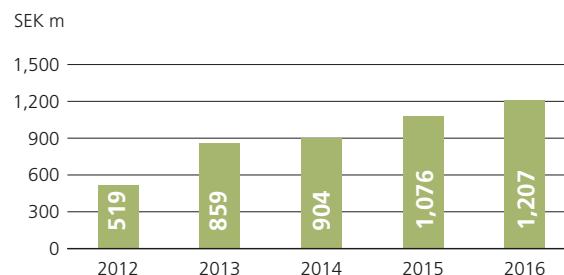
Shareholders' equity amounted to SEK 4,399 million (3,707) at year-end, and the equity ratio was 40% (40%).

Cash and cash equivalents amounted to SEK 322 million (339). In addition to this, the Group had unutilised credit promises of SEK 2,854 million (2,580). Interest-bearing net debt amounted to SEK 3,628 million (2,949). The net debt/equity ratio was 82% at year-end (80%).

Cash flow from operating activities was SEK 1,207 million (1,076). Cash flow after net capital expenditures in intangible non-current assets and property, plant and equipment (excluding company acquisitions) was SEK 887 million (855).

The Group's net capital expenditures, excluding company acquisitions, totalled SEK 320 million (221). Depreciation of property, plant and equipment amounted to SEK 178 million (156). Investments in company acquisitions totalled SEK 996 million (774). In addition, contingent earn-out payments for previous years' acquisitions totalled SEK 168 million (106).

Cash flow from operating activities, SEK m



Business Areas

» Engineering & Equipment



Share of
order intake
12%



Share of
net sales
12%

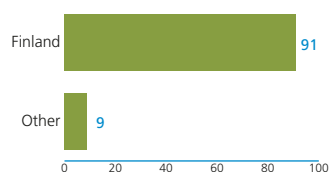
Net sales rose 5% during the year to SEK 1,537 million (1,466). For comparable units the increase was 4%, while currency movements had a positive effect on net sales of 1%.

Most of the business area's sales are in Finland, where the business situation has been challenging in recent years.

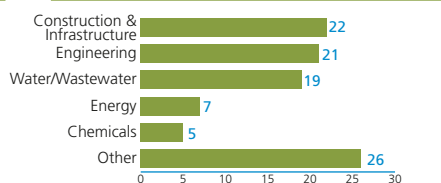
The start of the year was characterised by continued weak demand, but activity gradually increased during the year, and order intake during the fourth quarter showed signs of a break in this trend.

EBITA decreased marginally to SEK 124 million (125), corresponding to an EBITA margin of 8.1% (8.5%).

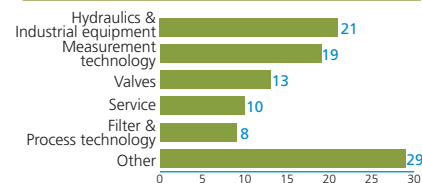
Net sales per geographical market, %



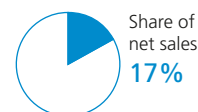
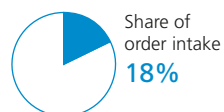
Net sales per customer segment %



Net sales per product area, %



» Flow Technology



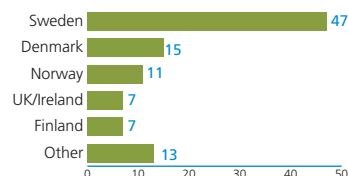
Net sales amounted to SEK 2,231 million for the year (2,234). This represents an increase of 1% for comparable units, while currency movements had a negative effect on net sales of 1%.

The demand situation was characterised by large variations between months and quarters, as well as between segments, but most companies performed well during the year as a whole. A lower level of investment in the nuclear

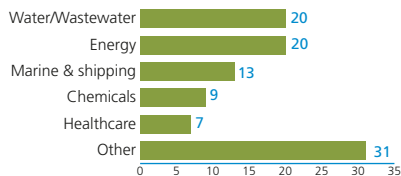
power industry, together with significantly lower level of business for companies in the marine sector, countered the stable demand situation in other segments.

EBITA decreased by 23% to SEK 168 million (217), and the EBITA margin reached 7.5% (9.7%). The decrease in earnings was mainly attributable to lower invoicing for companies in the marine segment, for which restructuring costs also contributed to the earnings decline.

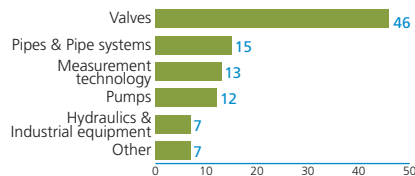
Net sales per geographical market, %



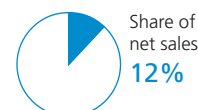
Net sales per customer segment %



Net sales per product area, %



» Fluids & Mechanical Solutions



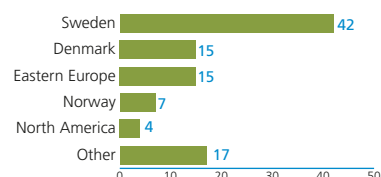
Net sales rose 25% during the year, to SEK 1,558 million (1,249). The increase for comparable units was 2%, while acquisitions accounted for 22% and currency movements for 1% of the increase.

Demand was stable during the year, and most companies in the business area reported profitable growth.

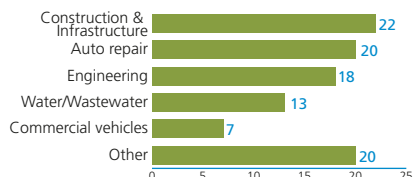
EBITA increased by 22% to SEK 199 million (163), and the EBITA margin was 12.8% (13.1%). The earnings improvement is mainly attributable to completed acquisitions combined with stable profitability for comparable units.

The companies Klokkeholm Karosseridele A/S (Denmark) and Scanmaskin Group (Sweden) were acquired during the year.

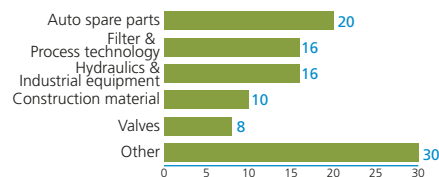
Net sales per geographical market, %



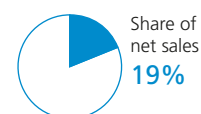
Net sales per customer segment %



Net sales per product area, %



» Industrial Components



Net sales rose 11% during the year, to SEK 2,501 million (2,263). The increase for comparable units was 4%, and acquisitions contributed 7%. Currency movements had a marginal effect on net sales.

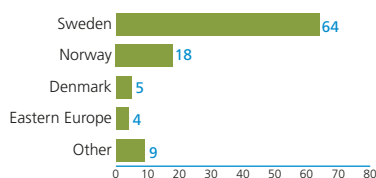
Overall, the business area experienced stronger demand during the year, with a continued large variation between companies and segments. During the year, companies in the construction, infrastructure, healthcare and commercial vehicles segments showed favourable

performance. In addition, an improved business situation was noted for companies with customers in the Norwegian offshore industry.

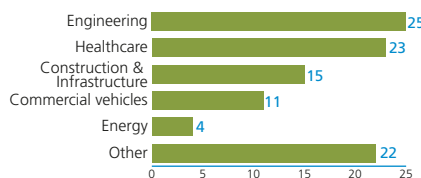
EBITA increased by 6% to SEK 265 million (249), corresponding to an EBITA margin of 10.6% (11.0%). The earnings improvement can mainly be credited to acquisitions.

The companies Industri Verktøy AS (Norway) and KA Olsson & Gems AB (Sweden) were acquired during the year.

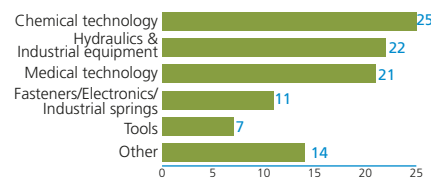
Net sales per geographical market, %



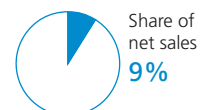
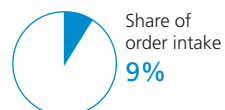
Net sales per customer segment %



Net sales per product area, %



» Measurement & Sensor Technology



Net sales rose 25% during the year, to SEK 1,171 million (938). The increase for comparable units was 5%, acquisitions contributed 20%, and currency movements had a marginal impact on net sales.

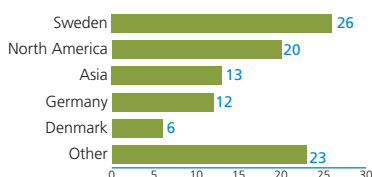
The business area includes companies with own manufacturing and proprietary products along with a relatively high share of project-related business, and as a result order intake and invoicing vary between months and quarters. Demand was generally strong for the business area's companies during the year, and both sales and earnings

developed in a positive direction for most companies on a like-for-like basis. The USA is the market that performed strongest during the year, which countered weak demand in Asia – especially China.

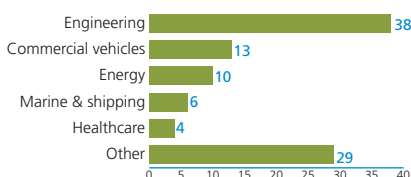
EBITA increased by 8% to SEK 177 million (164), corresponding to an EBITA margin of 15.1% (17.5%). The earnings improvement is mainly attributable to acquisitions.

The companies Senmatic A/S and Crysberg A/S (both in Denmark) were acquired during the year.

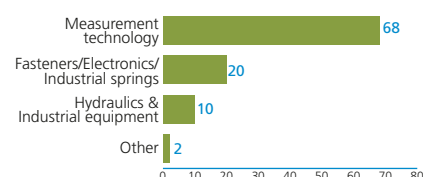
Net sales per geographical market, %

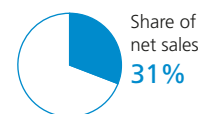


Net sales per customer segment %



Net sales per product area, %





Net sales rose 6% during the year, to SEK 3,997 million (3,772). For comparable units, net sales decreased by 1%, while acquired growth was 8% and currency movements had a negative effect on net sales, by 1%.

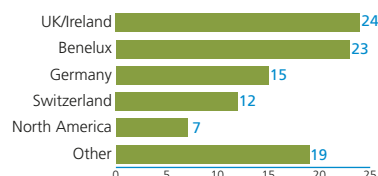
The business area, whose companies are outside of the Nordic region, noted a large variation in order intake and invoicing in many segments and countries. Special Products is also a business area with a relatively high share of companies with project-related business, resulting in a large variation in order intake and invoicing between months and quarters. For the companies in Benelux and Ireland, the business climate was favourable during the year, which countered weak demand in the UK. The challenging business climate in Switzerland remains, even though the situation has now stabilised following the sharp rise in the Swiss franc in January 2015.

During the year, lower order intake and outgoing shipments of valves for power generation in the energy segment had a significant impact on the comparison with the preceding year. The market remains strong, however, outgoing shipments in 2016 did not meet the same level as for the very large project orders in 2015.

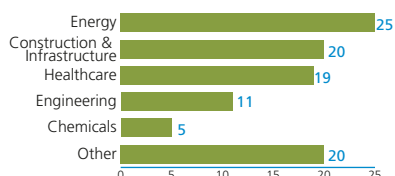
EBITA increased by 6% to SEK 597 million (564), and the EBITA margin was 14.9% (15.0%). The earnings increase is attributable to acquisitions and an overall positive performance for several companies, which countered lower outgoing shipments of valves for power generation.

The companies PECO Select Fasteners BV (Netherlands), and Beldam Crossley Ltd, Fluid Controls Ltd, Vacuum Engineering Services Ltd and Alphr Technology Ltd (all in the UK), were acquired during the year.

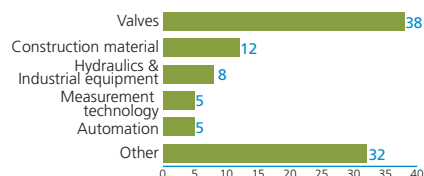
Net sales per geographical market, %



Net sales per customer segment %



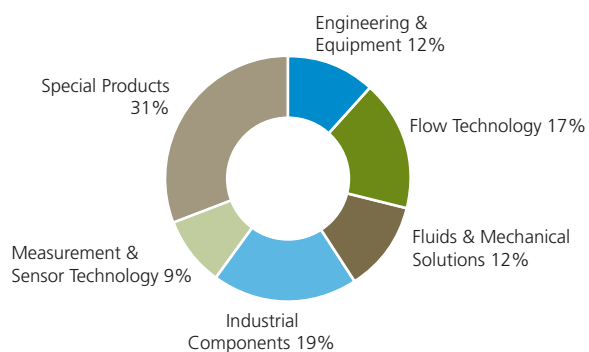
Net sales per product area, %



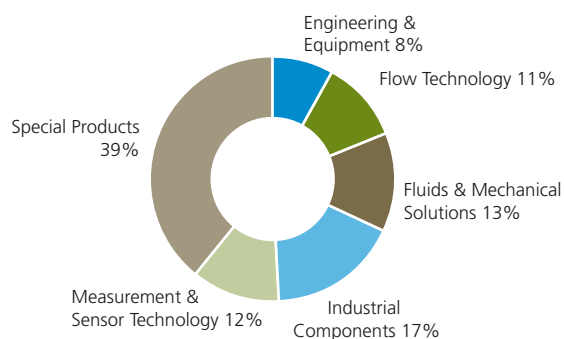
Key data per business area

	Engineering & Equipment		Flow Technology		Fluids & Mechanical Solutions		Industrial Components		Measurement & Sensor Technology		Special Products	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net sales, SEK million	1,537	1,466	2,231	2,234	1,558	1,249	2,501	2,263	1,171	938	3,997	3,772
EBITA, SEK million	124	125	168	217	199	163	265	249	177	164	597	564
EBITA margin, %	8.1	8.5	7.5	9.7	12.8	13.1	10.6	11.0	15.1	17.5	14.9	15.0
Return on operating capital, %	24	22	17	23	19	21	20	22	13	14	22	24
Average number of employees	526	517	680	670	620	513	695	645	1,315	1,176	1,649	1,447

Net sales per business area, %



EBITA per business area, %



Acquisitions

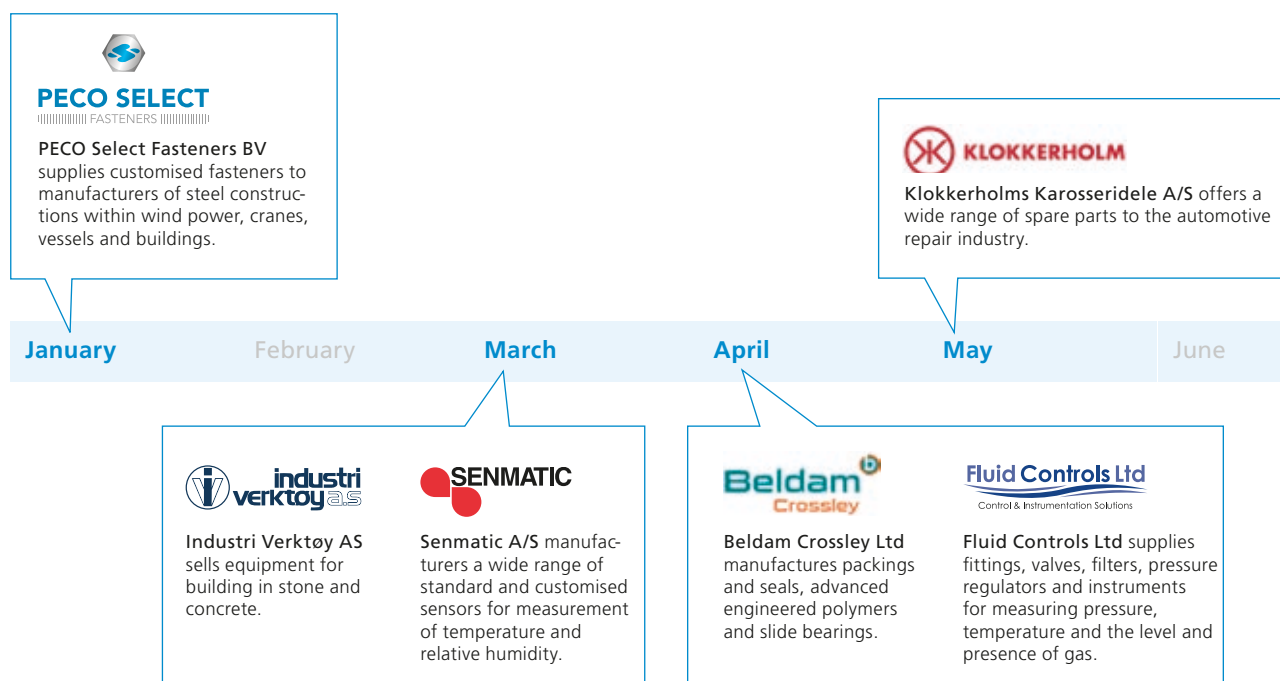
Acquisitions are a natural part of Indutrade's business and a key component of our growth strategy. We maintain a high pace of acquisitions and normally acquire ten or more companies per year.

The companies we acquire are well managed and successful, with well defined markets. They also have technical niche expertise. They have well-working and motivated management teams that are characterised by entrepreneurship and which are eager to continue with their involvement also after the acquisition. We have a decentralised governance model with a high level of self-determination in the companies.

Indutrade does not have an exit strategy and acts as a long-term owner.

The geographic spread is great, and at year-end 2016 we owned companies in 28 countries. For historical reasons we have the largest share of our business in Sweden and Finland. Outside of these two markets, the primary strategy is to strengthen our position in markets in which we are already established.

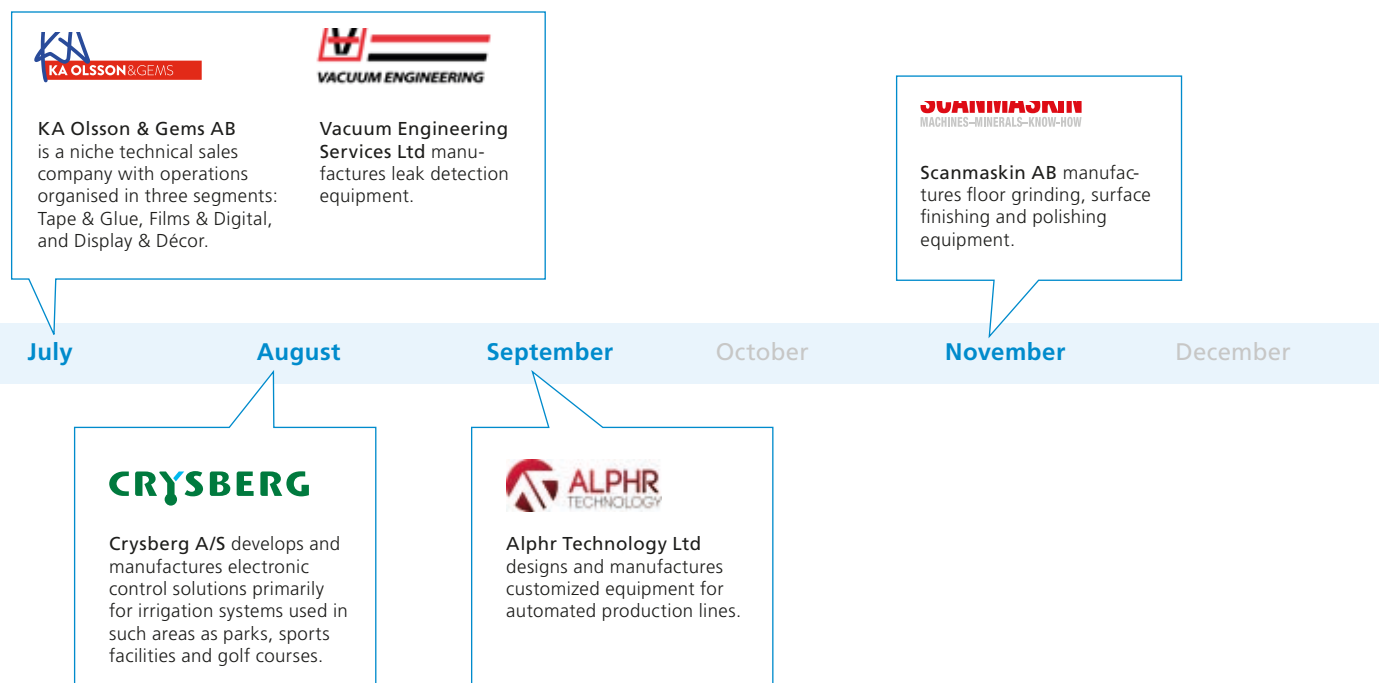
In 2016 we acquired eleven companies with combined annual sales of slightly more than SEK 1.1 billion.



Acquisitions 2016

Possession	Acquisition	Country	Business area	Sales, SEK million ¹⁾	No. employees
January	PECO Select Fasteners B.V.	Netherlands	Special Products	30	4
March	Industri Verktøy AS	Norway	Industrial Components	40	10
March	Senmatic A/S	Denmark	Measurement & Sensor Technology	150	87
April	Beldam Crossley Ltd	UK	Special Products	80	63
April	Fluid Controls Ltd	UK	Special Products	40	10
May	Klokkeholm Karosseriede A/S	Denmark	Fluids & Mechanical Solutions	310	114
July	KA Olsson & Gems AB	Sweden	Industrial Components	90	21
July	Vacuum Engineering Services Ltd	UK	Special Products	100	45
August	Crysberg A/S	Denmark	Measurement & Sensor Technology	90	46
September	Alphr Technology Ltd	UK	Special Products	80	78
November	Scanmaskin Group	Sweden	Fluids & Mechanical Solutions	120	28
Total				1,130	506

¹⁾ Estimated annual sales at the time of acquisition.



Risks and risk management

Indutrade is exposed to numerous risks that could impact the Group to a greater or lesser extent. Risks are defined mainly as factors that affect Indutrade's ability to achieve set goals.

Many of the risks described here could affect the Group both positively and negatively. This means that in the event of a favourable risk development or if the Group is successful in mitigating the risk through its risk management activities, its goal achievement may be better than

anticipated. In such way, risks also entail opportunities for Indutrade. Examples of this are the business climate, customer behaviours and variations in market prices.

At year-end 2016 Indutrade conducted business through 200 companies in 28 countries on four continents. This diversification of risk along with a large number of customers in a wide range of industries and a large number of suppliers in various technology areas limits the business risks.

Risk	Risk management
Changes in the economy	
Indutrade's business is dependent on customers' purchases and investments, and is affected by changes in the economy.	The effect of economic fluctuations in specific sectors and geographic markets is mitigated by the Group's involvement in many different sectors and geographic markets. In addition, the diversification of sales among OEM components, consumables, maintenance products, investment goods and service has a balancing effect.
Outsourcing of operations	
Outsourcing of industrial production to low-cost countries takes place in markets in which Indutrade is active.	Outsourcing has had a limited impact on Indutrade, since the Group has chosen to focus on customers with a recurring need in industries with a high degree of automation and/or large initial investments, which tend to not outsource.
Competition from low-cost countries	
An increase in products from low-cost countries can be seen in Indutrade's markets.	To counter the effects of this competition, Indutrade offers products and services with a high-tech content, a high level of service and qualified technical advice. In addition, Indutrade strives to establish close partnerships with customers by becoming involved early in the planning and development stages, where Indutrade employees can contribute their expertise about various processes.
Operational risk	
The Group's operations are conducted with two main focuses: trading companies with industrial technology sales, and companies that manufacture their own products. For the companies involved in trading, there is the risk of an agency relationship being terminated. This could occur, for example, in connection with a structural change at the supplier level.	Termination of an agency relationship is a natural occurrence in an agency company's operations, and the organisation has experience in dealing with this. Indutrade has some 100 trading companies with a few main agencies per company, complemented by a number of smaller agencies. Because of the large number of agencies, no individual agency accounts for a predominant economic risk from the Group's perspective. The risk associated with major customers deciding to bypass the agency level and trade directly with producers is limited, since customers place great value on the technical expertise, availability and delivery reliability provided by an inventory-holding local technology sales company. Indutrade's companies are also active in aftermarket sales, such as in servicing.

Risk

Risk management

Changes at the supplier level

There is always a risk of suppliers leaving a partnership with a technology sales company to set up their own sales operation.

Indutrade mitigates this risk by choosing suppliers who view a partnership with Indutrade as the most profitable sales method. Stable supplier relationships are one of the parameters that are assessed prior to Indutrade's acquisition of a company. To ensure that an acquired company does not lose its product agency agreements, its primary suppliers must give their consent to the acquisition.

Key person dependence

The risk of losing experienced employees is elevated in connection with company acquisitions.

Indutrade's acquisition strategy entails ensuring that the target company's key employees are motivated to continue running the company after the acquisition. To attract and retain key personnel, Indutrade conducts continuous competence development and special management development programmes.

Funding risk

By funding risk is meant the risk that funding of the Group's capital requirement will be impeded or become more costly.

To mitigate funding risk, the group strives to maintain a balanced maturity structure, a good liquidity reserve, and diversified borrowing. This creates a preparedness to take necessary, alternative measures to raise capital should this be necessary. Indutrade takes a centralised approach to the Group's funding. Essentially all external funding is conducted by the Parent Company, which then funds the Group's subsidiaries in local currency.

Interest rate risk

By interest rate risk is meant the risk that unfavourable changes in interest rates will have an excessive impact on the Group's net financial expense and earnings.

Indutrade strives to achieve an even spread of interest maturities to avoid a situation where large loan volumes will be subject to a new level of interest at the same point in time.

Currency risk

By currency risk is meant the risk of unfavourable movements in exchange rates affecting consolidated earnings and equity measured in SEK:

- Transaction exposure arises as a result of the Group having incoming and outgoing payments in foreign currencies.
- Translation exposure arises as a result of the Group, via its foreign subsidiaries, having net investments in foreign currencies.

The Indutrade Group's transaction exposure arises, for example, when subsidiaries import products for sale in the domestic market. Exchange rate effects are eliminated as far as possible through currency clauses in customer contracts and by buying and selling in the same currency. In certain cases, forward contracts are used.

The Group has a translation risk when translating the accounts of foreign subsidiaries to the Group currency, SEK. This type of currency risk is not hedged at present.

Environmental matters

Nine of Indutrade's Swedish subsidiaries conduct operations that require permits or reporting in accordance with the Swedish Environmental Code. Two foreign subsidiaries conduct operations subject to an equivalent permit or reporting obligation. None of the Group's companies are involved in any environment-related disputes.

Implementation of the Code of Conduct

Indutrade has adopted a Code of Conduct covering environmental concerns, health and safety, business ethics, employee relations, human rights and community impacts. The Code of Conduct applies for all employees, and the Group's subsidiaries have been instructed to implement the Code of Conduct in a manner that is suitable for their respective operations. Employees can choose to anonymously report deviations from the Code of Conduct or suspicions of improprieties via an established whistleblower function.

Employees

At year-end the Group had 5,705 employees (5,107), and the average number of employees during the year was 5,495 (4,978). A total of 506 employees were added through acquisitions.

Incentive programmes

In April 2014 the Annual General Meeting of Indutrade AB resolved to introduce an incentive programme (LTI 2014), comprising a combined maximum of 460,000 warrants in two series for senior executives and other key persons in the Indutrade Group.

Within the framework of Series I, which was directed at 135 individuals, the participants subscribed for a total of 257,500 warrants for a combined value of SEK 3,914,000. The price per warrant was SEK 15.20, and the subscription price was set at SEK 118.80 per share after the completed bonus issue.

Within the framework of Series II, which was directed at 13 individuals, the participants subscribed for a total of 27,500 warrants for a combined value of SEK 319,000. The price per warrant was SEK 11.60, and the subscription price for this series was set at SEK 116.70 per share after the completed bonus issue.

The shares under the programme can be subscribed during specially prescribed subscription periods starting in the second quarter of 2017 through Friday, 18 May 2018. Upon full exercise, the number of shares outstanding will increase by 855,000, corresponding to 0.7% of the total number of shares and votes.

The Board of Directors has decided to propose to the 2017 Annual General Meeting to resolve in favour of a new long-term share-based incentive programme directed

at approximately 180 senior executives and other key persons in the Group. The programme will be based on warrants.

Guidelines for compensation of senior executives

The guidelines for compensation of senior executives that applied in 2016 are outlined in Note 7. The Company's auditors have performed a review to ensure adherence to the guidelines set by the Annual General Meeting. Ahead of the 2017 Annual General Meeting, it is the Board's intention to propose essentially unchanged guidelines for compensation of senior executives, in accordance with the following recommendation:

- Indutrade shall apply the compensation levels and terms of employment necessary to be able to recruit and retain management with a high level of expertise and the capacity to achieve set objectives. The forms of compensation shall motivate members of the executive management to perform their utmost in order to safeguard the interests of the shareholders. The forms of compensation shall therefore be in line with the going rate in the market and shall be straightforward, long-term and quantifiable. Compensation of members of the executive management shall normally consist of a fixed and a variable portion. The fixed salary component for members of the executive management shall be in line with the going rate in the market and shall be commensurate with the individual's expertise, responsibilities and performance. The variable portion shall reward the achievement of clear goals regarding the company's and business area's earnings as well as the Group's growth in simple, transparent structures. Variable compensation for members of the executive management shall normally not exceed seven months' salary and may amount to a maximum of SEK 14 million in the aggregate.
- Incentive programmes in the Company shall mainly be share price-related and include persons in senior positions in the Company who have a significant influence over the Company's earnings and growth, and shall be based on the achievement of set targets. An incentive programme shall ensure long-term commitment to the Company's development and shall be implemented on market terms. The Company shall be able to pay cash compensation coupled to purchases of shares or share-based instruments. Such cash compensation shall normally not exceed 15% of the executive's fixed annual salary.
- Non-monetary benefits for members of the executive management shall facilitate the individuals in the execution of their duties and correspond to what can be considered to be reasonable in respect of practice in the market in which the respective executive is active.

- Pension terms for members of the executive management shall be in line with the going rate in the market in respect of what applies for peer executives in the market in which the executive works and should be based on a defined contribution pension solution or a general pension plan (in Sweden, the ITP plan).
- Severance pay for one member of the executive management shall not exceed a total of 24 months' salary in the event the Company serves notice, and 6 months in the event the member of the executive management gives notice.
- By executive management is meant in this context the President and CEO, the Chief Financial Officer, the Business Area presidents, the Head of Group Finance and the Head of Business Development.
- The Board's Remuneration Committee deals with and conducts drafting work for decisions on the terms of employment for the President, and the Board evaluates the President's performance once a year. The Remuneration Committee also prepares and conducts drafting work concerning guidelines for remuneration of members of the executive management, for decision by the Board. The President consults with the Remuneration Committee on terms of employment for other members of the executive management.
- The Board shall have the right to depart from these guidelines for compensation of members of the executive management if there are special reasons in a particular case.

Research and development

Development of proprietary products is conducted primarily by manufacturing companies, which are mainly in the Measurement & Sensor Technology and Special Products business areas.

Parent Company

The primary functions of Indutrade AB are to take responsibility for business development, acquisitions, financing, governance and analysis. The Parent Company's net sales, which consist entirely of internal invoicing of services, amounted to SEK 4 million (4) during the year. The Parent Company's financial assets consist mainly of shares in subsidiaries. During the year, the Parent Company acquired shares in seven new companies. The Parent Company did not make any major investments in intangible non-current assets or in property, plant and equipment. The number of employees on 31 December was 11 (10).

Events after the balance sheet date

During the period January–March 2017, four company acquisitions were carried out. For further information, see under Acquisitions in Note 29.

In other respects, no significant events have taken place for the Group after the end of the reporting period.

Future outlook

Indutrade's view is that the market volatility will continue, which will put high demands on the companies' ability to adapt to prevailing opportunities and challenges. The decentralised business model, in which the managements of Indutrade's 200 companies can make quick decisions in close proximity to their operations, inspires commitment and responsibility. This Indutrade model creates favourable conditions for continued profitable growth.

Corporate Governance Report

Indutrade applies the Swedish Corporate Governance Code (the Code) since 1 July 2006. The Code is a component of self-regulation in Swedish industry and is based on the “comply or explain” principle. This means that companies that adhere to the Code may depart from individual rules, provided that they give an explanation for each departure. Indutrade has no departures to report for the 2016 financial year. The Corporate Governance Report has been reviewed by the Company’s auditors.

Delegation of responsibilities

Responsibility for management and control of the Group is delegated among the shareholders (via general meetings), the Board, its designated committees and the President in accordance with the Swedish Companies Act, other laws and regulations, applicable rules for listed companies, the Company’s Articles of Association and the Board’s internal governance documents.

Share capital and shareholders

The share capital amounts to SEK 240 million, divided among 120,000,000 shares with a share quota value of SEK 2. All shares have equal voting power. Indutrade, which was previously a wholly owned subsidiary of AB Industrivärden, was introduced on the Stockholm Stock Exchange on 5 October 2005. At year-end 2016 Indutrade had 10,518 shareholders (7,965). The ten largest shareholders controlled 61% of the share capital at year-end. Swedish legal entities, including institutions such as insurance companies and mutual funds, held 69% of the

share capital and votes at year-end. Foreign investors (legal entities) owned 24% of the share capital and votes.

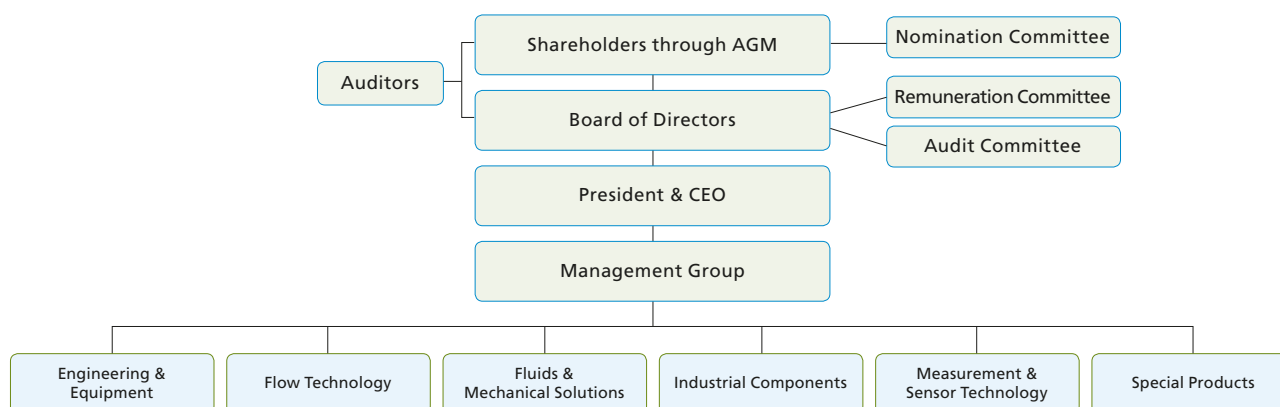
One shareholder, L E Lundbergföretagen AB, with 26.3% of the share capital and votes, controlled 10% or more of the share capital and votes at year-end.

Indutrade’s shares are listed on Nasdaq Stockholm and have been included on the Large Cap list since January 2015.

According to Ch. 6 § 2 a of the Swedish Annual Accounts Act, listed companies are to provide disclosures about certain conditions that could affect opportunities to take over the company through a public offer to acquire the shares in the company. No such conditions exist in Indutrade AB.

Articles of Association

Indutrade is a public company whose business is to “on its own or through subsidiaries, pursue trade in connection with the import and export of machines, raw materials and finished and semi-manufactured products as well as industrial necessities, including production, preferably within the plastics, mechanical and chemical industries, and activities compatible therewith.” The Board shall consist of a minimum of three and a maximum of eight directors, who are elected each year at the Annual General Meeting. Notices of general meetings of shareholders shall be made through advertisement in the Official Swedish Gazette (Post- och Inrikes Tidningar) and on the Company’s website within the time frame prescribed by the Swedish Companies Act. An advertisement shall be posted



External rules and regulations

Examples of external rules and regulations that affect governance of Indutrade

- The Swedish Companies Act
- Account laws, including the Bookkeeping Act, the Annual Accounts Act and IFRS
- Nasdaq Stockholm’s Rulebook for Issuers
- The Swedish Corporate Governance Code

Internal rules

Examples of internal rules that affect governance of Indutrade

- The Articles of Association
- The Board’s work plan
- The CEO’s instructions
- The Code of Conduct
- Other policies

in the Swedish daily newspaper Dagens Nyheter announcing that notice of the Annual General Meeting has been issued. In votes at general meetings of shareholders, there is no limitation to the number of votes for represented shares.

General meetings of shareholders

General meetings of shareholders are Indutrade's highest governing body. At the Annual General Meeting (AGM), which is held within six months after the end of each financial year, the income statement and balance sheet are adopted, the dividend is set, the Board and auditors are elected (where applicable), their fees are determined, other items of legally ordained business are conducted, and decisions are made on proposals submitted by the Board and shareholders.

All shareholders who are registered in the shareholder register on a specified record date and who have notified the Company in due time of their intention to participate at the general meeting are entitled to attend the meeting and vote for the total number of shares they have. Shareholders may be represented by proxy. More information about the 2017 AGM is provided on page 83 of this Annual Report and on the Company's website.

The notice of the AGM scheduled for 26 April 2017 is expected to be published on 22 March 2017 in the Official Swedish Gazette and on Indutrade's website. The notice will include a proposed agenda including proposals for the dividend, the election of directors, directors' fees (broken down by the Chairman and other directors), the election of the auditor, the auditor's fee, proposed guidelines on compensation of the Company's senior executives, and a proposal for a new long-term incentive programme.

Annual General Meeting 2016

At the AGM on 27 April 2016, shareholders representing 61.2% of the shares and votes were in attendance. Fredrik Lundberg was appointed to serve as AGM chairman. The annual report and audit report were presented to the AGM. In connection with this, Chairman of the Board Fredrik Lundberg provided information on the work of the

Board and reported on the guidelines for compensation of the executive management and on the work of the Audit and Remuneration Committees. In addition, CEO Johnny Alvarsson gave an address reviewing Indutrade's operations in 2015 and the start of 2016.

The auditors reported on their audit of the Group and presented relevant parts of their audit report for 2015.

The 2016 AGM made the following resolutions:

- to adopt the financial statements for 2015
- to set the dividend at SEK 9.00 per share
- to discharge the members of the Board of Directors and the President from liability for the past financial year
- to re-elect directors Fredrik Lundberg, Bengt Kjell, Ulf Lundahl, Krister Mellvé, Lars Pettersson, Katarina Martinson and Johnny Alvarsson, and to elect Annica Bresky as a new director.
- to re-elect Fredrik Lundberg as Chairman of the Board
- that Indutrade shall apply compensation levels for senior executives which mainly shall consist normally of a fixed and variable portion, shall be in line with the going rate in the market, and shall be commensurate with the executives' level of expertise, responsibility and performance.

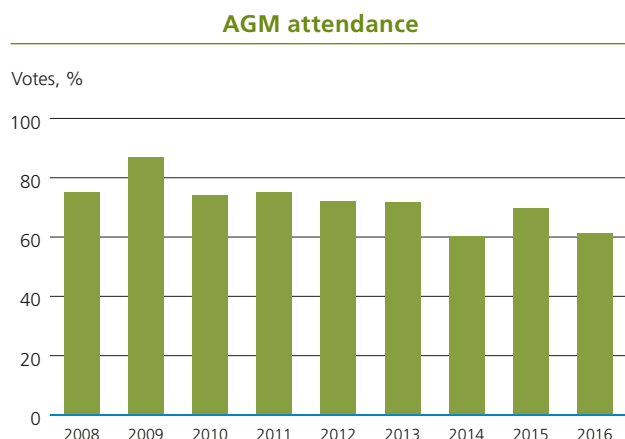
At the AGM on 6 May 2013, the decision was made in favour of a standing instruction for Indutrade's nomination committee, which shall apply until further notice. According to this instruction, the Nomination Committee ahead of a forthcoming AGM shall consist of representatives of four of the largest shareholders in terms of votes, plus the Chairman of the Board.

Members of the Board of Directors

Indutrade's board of directors, which is elected by the AGM, consists of eight members including the President. Indutrade has not set any specific age limit for the board members, nor any term limit for how long a director may sit on the Board.

The Chairman of the Board, Fredrik Lundberg, is President and CEO of L E Lundbergföretagen. The Vice Chairman, Bengt Kjell, is a former Executive Vice President of Industrivärden and former CEO of AB Handel och Industri. Ulf Lundahl is a former Executive Vice President of L E Lundbergföretagen. Krister Mellvé has held leading positions in the Robert Bosch Group. Lars Pettersson is a former President and CEO of Sandvik. Katarina Martinson works with asset management for the Lundberg family. Annica Bresky is a former CEO and Business Area Manager of Iggesund Paperboard. Johnny Alvarsson is President and CEO of Indutrade.

A presentation of the current assignments of the members of the Board can be found on pages 40-41 of this Annual Report. The Company's CFO serves as company secretary. Other executives participate at board meetings in a reporting role.



Attendance at board meetings and committee meetings in 2016

<div> <div>■ Member</div> <div>● Committee chair</div> </div>	Audit Committee	Remuneration Committee	Year elected	Attendance at board meetings	Attendance at Audit Committee meetings	Attendance at Remuneration Committee meetings	Independent in relation to the Company	Independent in relation to major shareholders ¹⁾
Johnny Alvarsson			2004	11/11			No	Yes
Eva Färnstrand	■		1998	3/11	1/5		Yes	Yes
Bengt Kjell (Vice chairman)	■	■	2002	11/11	5/5	3/3	Yes	Yes
Annica Bresky	■		2016	7/11	4/5		Yes	Yes
Ulf Lundahl	●		2006	11/11	5/5		Yes	Yes
Fredrik Lundberg (Chairman)	■	●	2013	11/11	5/5	3/3	Yes	No
Krister Mellvé	■		2012	11/11	5/5		Yes	Yes
Lars Pettersson	■	■	2013	10/11	5/5	3/3	Yes	No
Katarina Martinson	■		2015	11/11	5/5		Yes	No

1) Pertains to situation in 2016.

All of the directors, except for Johnny Alvarsson, are independent in relation to Indutrade. Johnny Alvarsson, Bengt Kjell, Krister Mellvé, Ulf Lundahl and Annica Bresky are independent in relation to Indutrade's major shareholders. The Board thereby meets the requirement that at least two of the directors who are independent in relation to the Company shall also be independent in relation to the major shareholders. Only one director, Johnny Alvarsson, has an operational role in the Company.

The work of the Board of Directors

Each year the Board adopts a written work plan that governs the Board's work and its internal delegation of duties including the committees, decision-making procedures within the Board, meeting procedure and duties of the Chairman. The Board has also issued instructions for the CEO and instructions on financial reporting to the Board.

In addition, the Board has adopted numerous policies, including a finance policy and an investment policy.

The Board is responsible for the Company's organisation and for the administration of its affairs. This entails ensuring that the organisation is suited for its purpose and designed in such a way so as to ensure satisfactory control of its bookkeeping, treasury management and financial conditions in general. In addition, the Board is responsible for ensuring that the Company has satisfactory internal control and continuously evaluates the extent to which the Company's system for internal control works. The Board is also responsible for developing and monitoring the Company's strategies by drawing up plans and setting objectives. The Board oversees and evaluates the President's and operative management's work on a continuous basis. This particular matter is addressed yearly without any members of the executive management present.

In accordance with the adopted work plan, the Board holds at least five regular meetings each year, including the statutory meeting after the AGM, and on any other occasions when warranted by the situation.

In 2016 the Board held a total of eleven meetings including the statutory meeting. The Board conducted its work in accordance with the Board's work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance, acquisitions and sustainability.

As a significant part of the Board's work during the year, a number of subsidiary presidents and business area presidents gave in-depth presentations of their businesses.

All decisions made by the Board during the year were unanimous.

The Chairman's role

The Chairman organises and leads the work of the Board to ensure that it is carried out in compliance with the Swedish Companies Act, other laws and regulations, applicable rules for listed companies (including the Code), and the Board's internal governance documents. The Chairman monitors business activities through regular contact with the CEO and ensures that the other directors are provided with adequate information and decision-making documentation.

To ensure and improve the quality of the Board's work, every year an evaluation is performed of the board members and of the Board's work, under the direction of the Chairman of the Board. In 2016 this evaluation was conducted by means of a questionnaire that was completed by all of the board members. The results of the evaluation was reported in writing to the board members, who thereafter discussed it jointly at the board meeting in

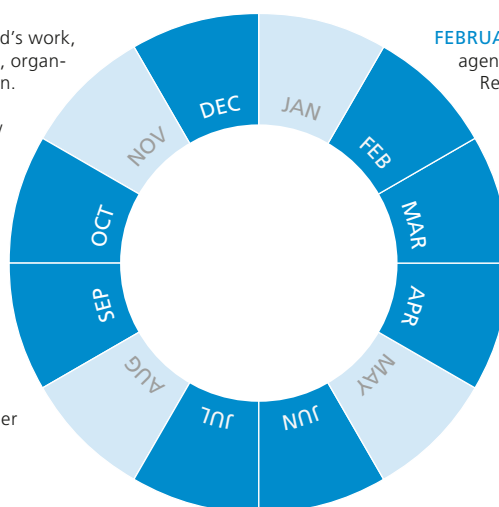
Board meetings 2016

DECEMBER Budget, evaluation of the Board's work, evaluation of CEO and Group Management, organisational development, leadership succession.

OCTOBER (Two meetings) Decision on new President and CEO.
Visit to new plant in the Netherlands.
Quarterly report January-September, report from Audit Committee, report from the auditors, report on the completion of internal audit, evaluation of the need for internal audit.

SEPTEMBER Visit to three companies in the UK. Group strategy, follow-up of acquisitions, capital structure.

JULY (Two meetings) Decision on new insider policy, revised information policy.
Quarterly report January-June.



FEBRUARY Year-end report, annual report, AGM agenda, report from the auditors and the Remuneration Committee.

MARCH Decision on annual report, AGM notice.

APRIL Quarterly report January-March.
AGM. Statutory meeting. Decision on company signatories, adoption of instructions and policies, appointment of Remuneration Committee and Audit Committee, meeting schedule.

JUNE Market situation, business intelligence, report from Audit Committee and Remuneration Committee, evaluation of reporting to the Board.

October. The Chairman of the Board also reported on the results of the evaluation at a meeting of the Nomination Committee.

The Chairman represents the Company on ownership matters.

Remuneration Committee

The Board's remuneration committee draws up a recommendation for decision regarding the terms of employment for the President. The Remuneration Committee also addresses and conducts drafting work for issues related to compensation of the members of the executive management, which culminates with the submission of a recommendation for decision by the AGM.

The President consults with the Remuneration Committee on the terms of employment for the other members of the executive management.

Audit Committee

The Audit Committee has an oversight role with respect to the Company's risk management, governance and control, and financial reporting. The committee maintains regular contact with the Company's auditor to ensure that the Company's internal and external reporting satisfies the requirements made on market-listed companies and to discuss the scope and focus of auditing work. The Audit Committee evaluates completed audit activities and informs the Company's nomination committee about the results of its evaluation and assists the Nomination Committee on drawing up recommendations for auditors and fees for their auditing work.

During the year a procurement of audit services was conducted in accordance with Regulation (EU) No. 537/2014 on statutory audit of public-interest entities,

Article 16.1-16.5. The Audit Committee thereafter issued a recommendation to the Nomination Committee for appointment of the Company's auditor.

On three occasions in 2016 the committee conducted reviews with and received reports from the Company's external auditors.

Directors' fees

Fees are payable to the Chairman of the Board and directors in accordance with an AGM resolution. The Chairman receives a fee of SEK 530,000, the Vice Chairman receives a fee of SEK 398,000, and the other directors receive a fee of SEK 266,000 each. However, no fee is payable to directors who are employed by a company within the Indutrade Group. The Audit Committee chair is paid a fee of SEK 52,000, and the members of the Remuneration Committee each receive a fee of SEK 26,000. The total yearly fees thus amount to SEK 2,388,000.

Nomination Committee

At the AGM on 6 May 2013 a decision was made in favour of a standing instruction for Indutrade's nomination committee, which applies until further notice. According to this instruction, the Nomination Committee ahead of a forthcoming AGM shall consist of representatives of four of the largest shareholders in terms of votes, plus the Chairman of the Board, who shall also convene the first meeting of the Nomination Committee. The member representing the largest shareholder shall be appointed as committee chair. The composition of the Nomination Committee ahead of the AGM is to be based on ownership data as per 31 August each year and is to be publicly announced not later than six months prior to the AGM. The composition of the Nomination Committee

ahead of the 2017 AGM was announced on 4 October 2016, based on ownership information as per 31 August 2016.

Nomination Committee composition

Representative	Owner	Share of votes as per 31 Aug 2016
Claes Boustedt	L E Lundbergföretagen, Committee Chair	26.3 %
Henrik Didner	Didner & Gerge funds	9.8 %
Anders Oscarsson	AMF Insurance and funds	6.4 %
Jonathan Schönback	Handelsbanken funds	5.8 %
Fredrik Lundberg	Chairman of the Board	

The Nomination Committee held two meetings, documented by minutes, at which the evaluation of the Board's work during the past year was presented and the Board's composition was discussed, among other items of business. The Nomination Committee is tasked with drawing up recommendations to be presented to the AGM for resolutions regarding a person to serve as AGM chairman, the Chairman of the Board and other directors, directors' fees, the auditor's fee and election of the auditor, and the principles for the appointment of a new Nomination Committee.

Based on the results of the Board's evaluation and the current directors' availability for re-election – among other things – the Nomination Committee makes an assessment of whether the sitting board meets the requirements that will be made for the Board in view of the Company's situation and future orientation, or if the composition of expertise and experience needs to be changed.

Ahead of the 2017 AGM, the Nomination Committee has proposed the re-election of board members Fredrik Lundberg, Bengt Kjell, Ulf Lundahl, Katarina Martinson, Krister Mellvé and Lars Pettersson. Annica Bresky has notified the committee that she is not available for re-election. Susanna Campbell has been nominated for election as a new director. Susanna Campbell (born 1973), M.Sc. Econ. Stockholm School of Economics, is a former CEO of Ratos and is currently a director for Telia Company AB, among other assignments.

Johnny Alvarsson, President of Indutrade AB, will retire in connection with the 2017 AGM and is not available for re-election. The President-elect, Bo Annvik, M.Sc. Econ., has been nominated for election as a new director. Bo Annvik was President and CEO of Haldex until February 2017. He has previously served in executive positions for Volvo Cars, SKF and Outokumpu.

Fredrik Lundberg has been nominated for re-election as Chairman of the Board. The Nomination Committee's proposal entails that the number of directors on the Board

will be unchanged during the coming mandate period and that the Board will thereby have a total of eight members. A more detailed presentation of the members of the Board is provided on pages 40-41 of this Annual Report.

Operating activities

The President is responsible for the administration of Indutrade's day-to-day affairs, which are managed by the Company's executive management team. The President's decision-making authority regarding investments and financing matters is governed by rules set by the Board.

President

Indutrade's President, Johnny Alvarsson, has been employed by Indutrade since 2004. He was CEO of Elektronikgruppen from 2001 to 2004, CEO of Zeteco AB from 1988 to 2000, and held various management positions at Ericsson from 1975 to 1987. Johnny Alvarsson owns 2,150 shares of Indutrade stock and 15,000 warrants.

At the AGM 2017 Johnny Alvarsson will retire and Bo Annvik will be appointed President and CEO.

External auditor

At the 2016 Annual General Meeting, the chartered accounting firm PricewaterhouseCoopers AB ("PwC") was re-elected as auditor for a term extending through the 2017 Annual General Meeting.

The auditors maintain regular contact with the Audit Committee and the executive management.

The chief auditor since 2013 is Michael Bengtsson, Authorised Public Accountant. The auditor's fee is reported in Note 10 of this Annual Report.

Indutrade's nine-month interim report for the 2016 financial year was reviewed by the Company's auditors.

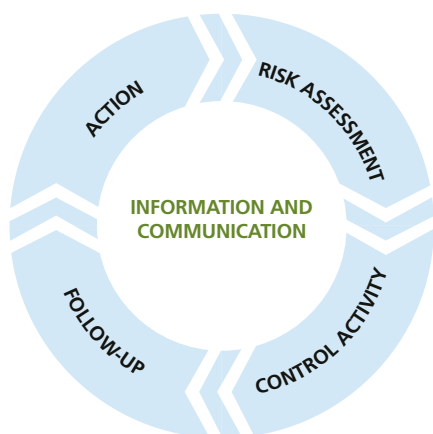
Internal control over financial reporting

As prescribed by the Swedish Companies Act, the Board is responsible for internal control. This report has been prepared in accordance with the Annual Accounts Act and describes how the internal control over financial reporting is organised.

Control environment

Effective board work is the foundation for good internal control. The Board's work plan and the instructions for the CEO and the Board's committees ensure a clear delegation of roles and responsibilities to the benefit of effective management of risks in the Company's operations.

In addition, the Board has adopted a number of fundamental guidelines and policies designed to create the conditions for a good control environment. These include, among other things, Indutrade's Code of Conduct, a policy for economic and financial reporting, a finance policy and an investment policy. These policies are followed up and



revised as needed. The executive management continuously draws up instructions for the Group's financial reporting which, together with the policies adopted by the Board, are included in the Group's financial manual.

The Group has a joint reporting system that serves as the base for the Group's monthly reporting, consolidation work and monitoring of earnings performance.

Risk assessment

The Company has implemented a structured process for assessing risks that could affect financial reporting. This is an annually recurring process and is evaluated by the Audit Committee and the Board.

Through this risk assessment it has been ascertained that the Group's structure, consisting of a large number of standalone companies of varying size that are independent from each other in various sectors and geographical markets, entails a considerable diversification of risk. The risk assessment also covered the Group's income statement and balance sheet items to identify areas in which the aggregate risk for error and the effects of these would be greatest. The areas identified consisted primarily of revenue recognition, trade receivables and inventories.

In addition, continuous risk assessment is conducted in connection with strategic planning, budgeting, forecasts and acquisition activities, aimed at – among other things – identifying events in the market or operations that could give rise to changes in e.g., revenue streams and valuations of assets or liabilities.

Control activities

The Indutrade Group is organised in six business areas. In addition to a business area president, the respective business area management teams include a controller. The controller plays a central role in analysing and monitoring the business area's financial reporting and in ensuring compliance by the companies in the business area with Group policies. The Parent Company has additional func-

tions for continuous analysis and monitoring of financial reporting by the Group, the business areas and subsidiaries. The Parent Company's finance department also initiates work on the annual self assessment routine regarding internal control over financial reporting.

In this evaluation the Group's companies have been grouped into three categories, based on the nature and scope of the respective companies' businesses. For each category of companies, a questionnaire for evaluation of internal control has been prepared based on the performed risk analysis.

All companies owned by Indutrade at the start of 2016 were required to respond to the evaluation questionnaire. The responses were compiled and evaluated per category of companies and for the Group as a whole. As a complement to this work, the auditors validated parts of the respective companies' completed questionnaires. In addition to this, the controllers of the business areas and Parent Company monitor internal control through visits to a number of companies each year. Both the evaluation performed by the Company and the result of the auditors' validation were reported and discussed with the Audit Committee. Feedback is provided to the companies in the Group where a need for improved routines has been identified. The overall evaluation of internal control over the Group's financial reporting will serve as documentation for the subsequent years' self assessment and work on further strengthening internal control.

Information and communication

The Company's governing documents, consisting of policies, guidelines and manuals – to the extent that these pertain to financial reporting – are updated on a regular basis and communicated to the companies within the Group. Systems and routines have been established to provide management with reports on the results of operations and financial position in relation to set targets, among other things.

Monitoring

The Board conducts a monthly evaluation of business development, earnings, position and cash flow using a report pack containing comments on outcomes and certain key ratios.

The Audit Committee has an oversight role regarding the Company's financial reporting, risk management, and governance and control. In addition, the Audit Committee maintains regular contact with the Company's auditors to ensure that the Company's internal and external reporting satisfies requirements made on market-listed companies and to monitor any observations that emerge from the audit.

Internal audit

The Group has a simple operative structure consisting primarily of small and medium-sized standalone businesses that are independent of each other, with varying conditions for internal control. Compliance with governance and internal control systems that have been drawn up by the Group is checked by the controllers on a regular basis at the business area and Parent Company levels. In addition, the controllers perform continuing analyses of the companies' reporting and financial outcomes to verify their performance. Added to this is the routine for annual self assessment of internal control over financial reporting. In view of the above, the Board has opted to not have a dedicated internal audit function.

Proposed distribution of earnings	SEK million
Dividend of SEK 3.20 per share	384
To be carried forward	2,888
Total	3,272

The Board of Directors proposes a dividend of SEK 3.20 per share corresponding to SEK 384 million. The Board's proposal is fully disclosed in note 33.

Group Management



JOHNNY ALVARSSON

President and CEO.
President of Special
Products business area

Born
1950

Employed since
2004

Education
M. Sc. Eng., Management
studies

Professional experience
President and CEO
Elektronikgruppen and
Zeteco, various positions
at Ericsson

No. of shares
2,150

No. of warrants
15,000



PETER ERIKSSON

President of
Flow Technology business
area

Born
1953

Employed since
1995

Education
Technical college
engineer, B. Sc. Market
economics, IFL

Professional experience
President and Partner
Alnab, Sales Manager
Alnab

No. of shares
44,150

No. of warrants
10,000



CLAES HJALMARSSON

Head of Business
Development

Born
1954

Employed since
1984

Education
B. Sc. Economics

Professional experience
CFO Colly Group, CFO
G A Lindberg Group,
Auditor Ernst & Young

No. of shares
12,600

No. of warrants
10,000



JUHA KUJALA

President of Engineering &
Equipment business area

Born
1967

Employed since
2006

Education
eMBA, Technical college
engineer

Professional experience
President Kontram Oy
and Maansäkö Oy, Sales
Manager Kontram Oy,
Export Manager Kalmar
Industries Oy

No. of shares
3,000

No. of warrants
10,000



GÖTE MATTSSON

President of Fluids &
Mechanical Solutions
business area

Born
1955

Employed since
1999

Education
B. Sc. Economics,
Management studies

Professional experience
President and Partner
Industri Belos, President
J Sörling, Group Controller
Transventor,
Vice President Parator

No. of shares
16,200

No. of warrants
10,000



SUSANN NYBERG

Head of Group Finance

Born
1963

Employed since
2012

Education
M. Sc. Business
Administration and
Economics

Professional experience
Group Controller Addtech,
Management Consultant
KPMG, Financial Manager
positions at Telia, Financial
Manager and Controller
positions at SKF

No. of shares
1,438

No. of warrants
3,500



JOAKIM SKANTZÉ

President of Industrial
Components business
area

Born
1967

Employed since
2016

Education
M. Sc. Electronics,
economics and
management studies

Professional experience
Venture Manager Traction,
President Gnosjö Plast,
Business Area Manager
and Partner Schneider
Grafiska, Senior consultant
Accenture

No. of shares
0

No. of warrants
0



PATRIK STOLPE

President of Measurement
& Sensor Technology
business area

Born
1965

Employed since
2015

Education
B. Sc. Electronics,
Industrial marketing

Professional experience
Global Segment Manager
Xylem, President and CEO
Lorentzen & Wettre

No. of shares
1,521

No. of warrants
10,000



JAN ÖHMAN

CFO

Born
1960

Employed since
2014

Education
Senior High School,
Business economics

Professional experience
CFO Sandvik Venture,
CFO and Vice President
Sandvik Materials
Technology,
General Manager Boliden
Aitik Mining Operation

No. of shares
10,000

No. of warrants
20,000

Board of Directors and auditors



Fredrik Lundberg



Bengt Kjell



Annica Bresky



Ulf Lundahl

FREDRIK LUNDBERG

Chairman since 2013
President and CEO of L E Lundbergföretagen

Born
1951

Education
B. Sc., MBA, Hon. PhD in Economics and Hon. PhD in Technology

Professional experience
President and CEO of L E Lundbergföretagen

Other directorships
Chairman of Holmen, Hufvudstaden and Industrivärden. Vice chairman of Svenska Handelsbanken. Director of Skanska and L E Lundbergföretagen

No. of shares
31,575,000
(via L E Lundbergföretagen)

BENGT KJELL

Vice chairman since 2013
Director since 2002
Own investment business

Born
1954

Education
MBA, Stockholm School of Economics

Professional experience
Acting President and CEO of Industrivärden, President and CEO of Handel och Industri, Executive Vice President and Head of Investment of Industrivärden, Head of Corporate Finance Securum, Senior Partner and founder Navet, Authorised public accountant

Other directorships
Chairman of Hemfosa Fastigheter and SSAB. Director of Industrivärden, ICA Gruppen and Pandox among others

No. of shares
60,000

ANNICA BRESKY

Director since 2016

Born
1975

Education
M. Sc. and Executive MBA

Professional experience
President of Iggesund Paperboard, President of BillerudKorsnäs Karlsborg and Production Manager StoraEnso Kvarnsveden

Other Directorships
Director of Åforsk foundation and negotiating delegation of Industriarbetsgivarna Pulp & Paper. Deputy member of Skogsindustrierna's board

No. of shares
1,660

ULF LUNDAHL

Director since 2006

Born
1952

Education
LL. B. and B. Sc. Economics

Professional experience
Executive Vice President and Deputy CEO of L E Lundbergföretagen, President of Östgöta Enskilda Bank, Head of Swedish operations of Danske Bank, CEO of Danske Securities

Other Directorships
Chairman of Fidelio Capital, Ramirent, Eltel and SHB Regionbank Stockholm. Director of Holmen and Attendo

No. of shares
12,000



Katarina Martinson



Krister Mellvé



Lars Pettersson



Johnny Alvarsson

KATARINA MARTINSON

Director since 2015
Works with asset management for the Lundberg family

Born
1981

Education
M. Sc. Economics

Professional experience
Analyst at Handelsbanken Capital Markets, Vice President Strategas Research Partners LLC, New York, Analysis of investment strategies investment research, International Strategy & Investment Group, New York

Other directorships
Director of L E Lundbergföretagen, Fastighets AB L E Lundberg, Fidelio Capital, Husqvarna, Karlsson & Wingsjö, Lundbergs Kapitalförvaltning, AniCura and Lyko

No. of shares
31,575,000
(via L E Lundbergföretagen)

KRISTER MELLVÉ

Director since 2012

Born
1949

Education
B. Sc. Economics

Professional experience
Leading positions within Robert Bosch Group

Other directorships
Chairman of DeltaNordic and Giganse. Director of Modular Management and Mannerheim Invest Holding AB

No. of shares
45,000

LARS PETTERSSON

Director since 2013

Born
1954

Education
M. Sc. PhD h.c. Uppsala University

Professional experience
President and CEO of Sandvik AB, Sandvik Materials Technology, Sandvik Tooling and Sandvik Coromant

Other directorships
Chairman of KP Komponenter A/S. Director of Husqvarna, Industrivärden, L E Lundbergföretagen and Festo AG

No. of shares
2,100

JOHNNY ALVARSSON

President and CEO.
Director since 2004

Born
1950

Education
M. Sc. Engineering, Management studies

Professional experience
President and CEO of Elektronikgruppen and Zeteco, various positions at Ericsson

Other directorships
Chairman of FM Mattsson Mora Group. Director of VBG Group, Instalco and Sdiptech

No. of shares
2,150

No. of warrants
15,000

Auditors PricewaterhouseCoopers AB

Michael Bengtsson, Authorised public accountant. Born 1959. Chief Auditor of Indutrade since 2013.

Other auditing assignments in public companies: Bure, Sweco, Nobina, Invisio Communication and Eniro. Other auditing assignments in major unlisted companies: Perstorp and Carnegie.



Consolidated income statement

SEK million	Note	2016	2015
Net sales	3	12,955	11,881
Cost of goods sold		-8,607	-7,847
Gross profit		4,348	4,034
Development costs		-156	-133
Selling costs		-2,179	-2,044
Administrative expenses		-791	-635
Other operating income	5	154	117
Other operating expenses	5	-104	-104
Operating profit	4, 7, 8, 9, 10	1,272	1,235
Financial income	11	59	46
Financial expenses	12	-137	-144
Profit after financial items		1,194	1,137
Tax	14	-258	-243
Net profit for the year		936	894
Profit attributable to:			
Equity holders of the parent		936	893
Non-controlling interests		0	1
Earnings per share attributable to equity holders of the parent, SEK		7.80	7.44
Earnings per share after dilution, attributable to equity holders of the parent, SEK		7.78	7.44
Average number of shares before dilution, 000s		120,000	120,000
Average number of shares after dilution, 000s		120,251	120,094
Proposed dividend per share, SEK		3.20	3.00

Consolidated statement of comprehensive income

SEK million	Note	2016	2015
Net profit for the year		936	894
Other comprehensive income			
Items that subsequently can be reversed into income statement			
Fair value adjustment of hedge instruments	2	25	16
Tax attributable to fair value adjustment		-5	-3
Exchange rate differences		103	-50
Items that cannot be reversed into income statement			
Actuarial gains/losses	23	-15	-5
Tax attributable to actuarial gains/losses		3	2
Other comprehensive income, net after tax		111	-40
Total comprehensive income for the year		1,047	854
Comprehensive income attributable to			
Equity holders of the parent		1,047	853
Non-controlling interests		0	1

Consolidated balance sheet

SEK million	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets			
Goodwill		2,388	1,942
Agencies, customer relationships, etc.		1,446	1,254
Trademarks		279	259
Software, licences, etc.		53	52
Other intangible assets		101	71
Total intangible assets	15	4,267	3,578
Property, plant and equipment			
Land and buildings		803	559
Machinery		357	280
Equipment		285	258
Construction in progress and advances for property, plant and equipment		6	20
Total property, plant and equipment	16	1,451	1,117
Financial assets			
Financial assets available for sale	17	15	5
Non-current receivables	18	19	19
Deferred tax assets	14	83	77
Total financial assets		117	101
Total non-current assets		5,835	4,796
Current assets			
Inventories	19	2,249	1,931
Accounts receivable – trade	20	2,292	1,995
Current tax assets		18	17
Other current receivables		189	172
Prepaid expenses and accrued income	21	138	111
Cash and cash equivalents	28	332	339
Total current assets		5,218	4,565
TOTAL ASSETS		11,053	9,361

SEK million	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity			
Share capital		240	40
Reserves		143	20
Profit brought forward incl. net profit for the year		4,006	3,643
Total equity attributable to owners of the parent		4,389	3,703
Non-controlling interests		10	4
Total equity		4,399	3,707
Non-current liabilities			
Non-current interest-bearing liabilities	22	1,993	1,005
Other non-current liabilities		4	–
Pension obligations	23	281	255
Deferred tax liabilities	14	549	472
Other provisions	24	10	8
Total non-current liabilities		2,837	1,740
Current liabilities			
Current interest-bearing liabilities	22	1,686	2,028
Accounts payable – trade		968	848
Current tax liabilities		127	106
Other current liabilities		465	437
Accrued expenses and deferred income	25	571	495
Total current liabilities		3,817	3,914
TOTAL EQUITY AND LIABILITIES		11,053	9,361

Information on pledged assets and contingent liabilities is provided in Notes 26 and 27.



Consolidated statement of changes in equity

SEK million	Attributable to owners of the parent				Non-controlling interests	Total equity
	Share capital	Reserves	Profit brought forward	Total		
OPENING BALANCE, 1 JANUARY 2015	40	57	3,063	3,160	2	3,162
Comprehensive income						
Net profit for the year	–	–	893	893	1	894
Other comprehensive income						
Fair value adjustment of hedge instruments	–	16	–	16	–	16
Tax attributable to fair value adjustment	–	–3	–	–3	–	–3
Actuarial gains/losses	–	–	–5	–5	–	–5
Tax attributable to actuarial gains/losses	–	–	2	2	–	2
Exchange rate differences	–	–50	–	–50	–	–50
Total comprehensive income	–	–37	890	853	1	854
Transactions with shareholders						
Acquisitions of non-controlling interests	–	–	–	–	1	1
Dividend paid for 2014	–	–	–310 ¹⁾	–310	–	–310
Total transactions with shareholders	–	–	–310	–310	1	–310
OPENING BALANCE, 1 JANUARY 2016	40	20	3,643	3,703	4	3,707
Comprehensive income						
Net profit for the year	–	–	936	936	0	936
Other comprehensive income						
Fair value adjustment of hedge instruments	–	25	–	25	–	25
Tax attributable to fair value adjustment	–	–5	–	–5	–	–5
Actuarial gains/losses	–	–	–15	–15	–	–15
Tax attributable to actuarial gains/losses	–	–	3	3	–	3
Exchange rate differences	–	103	–	103	0	103
Total comprehensive income	–	123	924	1,047	0	1,047
Transactions with shareholders						
Acquisitions of companies with non-controlling interests	–	–	–	–	6	6
Acquisitions of non-controlling interests	–	–	–1	–1	0	–1
Bonus issue	200	–	–200	–	–	–
Dividend paid for 2015	–	–	–360 ²⁾	–360	0	–360
Total transactions with shareholders	200	–	–561	–361	6	–355
CLOSING BALANCE, 31 DECEMBER 2016	240	143	4,006	4,389	10	4,399

1) The dividend per share for 2014 was SEK 2.58.

2) The dividend per share for 2015 was SEK 3.00. The proposed dividend per share for 2016 is SEK 3.20.

Consolidated statement of cash flows

SEK million	Note	2016	2015
Operating activities			
Operating profit		1,272	1,235
Adjustment for			
Depreciation, amortisation and impairment losses	8, 15, 16	411	365
Adjustment of contingent consideration	29	-32	-7
Net profit from sale of operations, property, plant and equipment, and shares		0	1
Other non-cash items		28	24
Paid tax		-299	-215
Change in working capital			
Inventories		-45	-149
Accounts receivable – trade		-71	-160
Accounts payable – trade		10	20
Other operating assets and liabilities, net		-5	50
Interest received		8	6
Interest paid		-65	-66
Other financial items		-5	-28
Cash flow from operating activities		1,207	1,076
Investing activities			
Acquisitions of subsidiaries and operations	29	-1,164	-880
Sales of subsidiaries and operations	29	0	2
Acquisitions of property, plant and equipment	16	-306	-199
Sales of property, plant and equipment	16	14	11
Acquisitions of intangible non-current assets	15	-28	-33
Decrease/increase in financial assets		8	-1
Cash flow from investing activities		-1,476	-1,100
Financing activities			
Borrowings		4,724	4,221
Repayment of debt		-4,104	-3,918
Dividends paid		-360	-310
Cash flow from financing activities		260	-7
Cash flow for the year		-9	-31
Cash and cash equivalents at start of year		339	357
Exchange rate differences in cash and cash equivalents		2	13
Cash and cash equivalents at end of year	28	332	339

Income statement Parent Company

SEK million	Note	2016	2015
Net sales		4	4
Gross profit		4	4
Administrative expenses	4	-64	-55
Operating loss	7, 8, 9, 10	-60	-51
Financial income	11	97	55
Financial expenses	12	-107	-99
Profit from participations in Group companies	13	664	573
Profit after financial items		594	478
Group contributions received		605	599
Group contributions rendered		-66	-70
Change in tax allocation reserve		-55	-110
Excess depreciation of equipment		0	0
Profit before tax		1,078	897
Tax	14	-92	-73
Net profit for the year		986	824

Statement of comprehensive income Parent Company

SEK million	Note	2016	2015
Net profit for the year		986	824
Other comprehensive income			
Items that subsequently can be reversed to the income statement			
Fair value adjustment of hedge instruments	2	12	15
Tax attributable to fair value adjustment		-3	-3
Other comprehensive income, net of tax		9	12
Total comprehensive income for the year		995	836

Balance sheet Parent Company

SEK million	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
<i>Intangible non-current assets</i>			
Software and licences	15	0	0
<i>Property, plant and equipment</i>			
Equipment	16	1	1
<i>Financial assets</i>			
Participations in Group companies	17	4,564	4,112
Non-current receivables	18	14	12
Deferred tax assets	14	6	9
Total financial assets		4,584	4,133
Total non-current assets		4,585	4,134
Current assets			
<i>Current receivables</i>			
Receivables from Group companies		3,838	2,908
Other receivables		50	15
Prepaid expenses and accrued income	21	6	5
Total current receivables		3,894	2,928
Cash and cash equivalents	28	0	29
Total current assets		3,894	2,957
TOTAL ASSETS		8,479	7,091

SEK million	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital	32	240	40
Statutory reserve		5	5
		245	45
<i>Unrestricted equity</i>			
Share premium reserve		4	4
Reserve for fair value		-11	-20
Profit brought forward		2,293	2,029
Net profit for the year		986	824
		3,272	2,837
Total equity		3,517	2,882
Untaxed reserves			
Tax allocation reserve		553	498
Excess depreciation of equipment		0	0
Total untaxed reserves		553	498
Non-current liabilities			
Non-current interest-bearing liabilities	22	1,807	832
Other non-current liabilities		2	-
Pension obligations	23	15	14
Deferred tax liabilities	14	11	3
Total non-current liabilities		1,835	849
Current liabilities			
Current interest-bearing liabilities	22	1,538	1,852
Accounts payable – trade		1	1
Liabilities to Group companies		961	927
Other current liabilities		20	37
Current tax liabilities		37	25
Accrued expenses and deferred income	25	17	20
Total current liabilities		2,574	2,862
TOTAL EQUITY AND LIABILITIES		8,479	7,091

Information on pledged assets and contingent liabilities is provided in Notes 26 and 27.



Parent Company statement of changes in equity

SEK million	Share capital	Reserves	Share premium reserve	Reserve for fair value	Retained profit	Total
OPENING BALANCE, 1 JANUARY 2015						
Comprehensive income	40	5	4	-32	2,339	2,356
Net profit for the year	–	–	–	–	824	824
Other comprehensive income						
Fair value adjustment of hedge instrument	–	–	–	15	–	15
Tax attributable to fair value adjustment	–	–	–	-3	–	-3
Total comprehensive income	–	–	–	12	824	836
Transactions with shareholders						
Dividend paid for 2014	–	–	–	–	-310 ¹⁾	-310
Total transactions with shareholders	–	–	–	–	-310	-310
OPENING BALANCE, 1 JANUARY 2016						
	40	5	4	-20	2,853	2,882
Comprehensive income						
Net profit for the year	–	–	–	–	986	986
Other comprehensive income						
Fair value adjustment of hedge instrument	–	–	–	12	–	12
Tax attributable to fair value adjustment	–	–	–	-3	–	-3
Total comprehensive income	–	–	–	9	986	995
Transactions with shareholders						
Dividend paid for 2015	–	–	–	–	-360 ²⁾	-360
Bonus issue	200	–	–	–	-200	–
Total transactions with shareholders	200	–	–	–	-560	-360
CLOSING BALANCE, 31 DECEMBER 2016	240	5	4	-11	3,279	3,517

1) The dividend per share for 2014 was SEK 2.58.

2) The dividend per share for 2015 was SEK 3.00. The proposed dividend per share for 2016 is SEK 3.20.

Cash flow statement Parent Company

SEK million		2016	2015
Operating activities			
Operating loss		-60	-51
Adjustment for			
Depreciation, amortisation and impairment losses	8, 15, 16	0	0
Other non-cash items		0	4
Tax paid		-72	-11
Change in working capital			
Accounts receivable – trade		0	0
Accounts payable – trade		1	-1
Other operating assets and liabilities, net		-563	-266
Interest received		53	40
Interest paid		-53	-56
Group contributions received and dividend income		1,247	969
Other financial items		-8	-21
Cash flow from operating activities		545	607
Investing activities			
Acquisitions of subsidiaries	17	-960	-625
Acquisitions of intangible non-current assets	15	-	0
Acquisitions of financial assets		-1	0
Cash flow from investing activities		-961	-625
Financing activities			
Borrowings		4,718	4,179
Repayment of debt		-3,971	-3,822
Dividends paid		-360	-310
Cash flow from financing activities		387	47
Cash flow for the year		-29	29
Cash and cash equivalents at start of year		29	0
Cash and cash equivalents at end of year	28	0	29

Notes

Amounts stated in the notes are in SEK million unless indicated otherwise. The symbols **IS** and **BS** indicate amounts in the notes that can be found in the income statement or balance sheet, respectively.

Note 1

Accounting and valuation principles

General information

The Indutrade Group markets and sells components, systems and services with a high-tech content to industrial companies in selected niches. Business is conducted via approximately 200 subsidiaries in 28 countries. Indutrade's shares have been listed on Nasdaq Stockholm since 2005 and quoted on the Large Cap list since 2015. The Group is organised in six business areas.

The Parent Company is a limited liability company with registered office in Stockholm.

This annual report was approved by the Board of Directors for publication on 21 March 2017. The consolidated and parent company income statements and balance sheets will be presented for adoption by the Annual General Meeting on 26 April 2017.

Overarching accounting principles and new standards are reported below. Other important accounting principles are reported in connection with the respective notes.

Basis of preparation

The consolidated accounts of the Indutrade Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union as well as with RFR 1 and the Swedish Annual Accounts Act. Assets and liabilities have been accounted for at historical cost, except for with respect to revaluations of financial assets and liabilities (including derivative instruments) and available-for-sale financial assets, which are measured at fair value.

Preparation of financial statements in accordance with IFRS requires the use of a number of important accounting estimations. Further, application of the Company's accounting principles requires that management makes certain assessments. Areas that involve a high degree of assessment, or areas in which assumptions and estimations are of material significance for the consolidated financial statements, are described below in the section "Important estimations and assumptions for accounting purposes".

Standards, amendments and interpretations that apply as from 1 January 2016

There are no new IFRSs or IFRIC pronouncements endorsed by the EU that are applicable for Indutrade or that had a significant impact on the Group's result of operations and position in 2016.

Standards, amendments and interpretations that apply as from 1 January 2017

There are no new IFRSs or IFRIC pronouncements that will have a significant impact on the Group's result of operations and position in 2017.

No newly issued IFRSs or interpretations have been applied prospectively.

Other new accounting principles that have been issued, but not taken effect

IFRS 15 Revenue from Contracts with Customers, the new IFRS for revenue recognition, has been endorsed by the EU and

takes effect in 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. This new standard uses a five-step control-based model and is built upon the principle that revenue is recognised when the customer gains control over the sold product or service; this replaces the previous principle that revenue is recognised when the risks and rewards have been transferred to the buyer. During the year Indutrade mapped out conceivable effects of the new standard. This evaluation is not yet complete, but thus far no material effects have been discovered. The effects of the expanded disclosure requirement will be determined in 2017. We have not yet taken a position on which transitional method will be used.

IFRS 9 Financial Instruments, which has been endorsed by the EU and takes effect in 2018, replaces most of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification, valuation and recognition of financial assets and liabilities, and introduces new rules for hedge accounting. The standard introduces a new model for impairment of financial assets that is based on anticipated losses, and not as previously under the former IAS 39, in connection with a loss event having occurred. The new standard also facilitates more hedging strategies to qualify for hedge accounting. With respect to recognition of impairment, for Indutrade's part it is mainly trade receivables that are affected. The quantitative effects will be determined in 2017.

The new leasing standard, IFRS 16, replaces the current IAS 17. The standard entails changes primarily for lessees in that the breakdown of leases into operating and finance leases has been removed. Assets and liabilities attributable to all leases, with a few exceptions, are to be recognised on the balance sheet. IFRS 16 takes effect in 2019 and has not yet been endorsed by the EU. The disclosures provided in Note 9, Operating leases, provide an indication of the scope of the contracts that exist at present.

Basis of consolidation

The consolidated accounts include subsidiaries in which the Group directly or indirectly has control. Subsidiaries are included in the consolidated accounts from the date control is transferred to the Group. They are excluded from the consolidated accounts from the date control ceases.

The purchase method is used for reporting of the Group's business acquisitions. The purchase price for the acquisition of a subsidiary consists of the fair value of the acquired assets and liabilities. The purchase price also includes the fair value of all assets and liabilities that are the result of an agreement on contingent consideration. Transaction costs in connection with acquisitions are recognised directly in profit for the year as other operating expenses. In cases where contingent consideration is remeasured at fair value, this is recognised in operating profit. Identifiable, acquired assets and liabilities taken over in a business acquisition are initially measured at fair value as per the acquisition date.

For each acquisition, the Group determines if non-controlling interests in the acquired company are to be stated at the holding's proportional share of the fair value of identifiable net assets, excluding goodwill (partial goodwill), or at fair value, which entails that goodwill is also reported for non-controlling interests (full goodwill). Subsequent acquisitions up to 100% are reported as equity transactions.

Goodwill is initially carried at the amount in which the total purchase price and non-controlling interests exceed the fair value of identifiable, acquired assets and liabilities taken over.

Intra-Group transactions and balance sheet items as well as unrealised gains and losses on transactions between Group companies are eliminated.

Note 1

continued

The Group treats transactions with non-controlling interests as transactions with the Group's shareholders. Transactions with non-controlling interests are reported in equity.

Classification

Non-current assets and non-current liabilities consist essentially of amounts that are expected to be recovered or paid after later than 12 months from the balance sheet date. Current assets and current liabilities consist essentially of amounts that are expected to be recovered or paid within 12 months from the balance sheet date.

Translation of foreign currency

Items that are included in the financial statements for the Group's various units have been valued in the currency that is used in the economic environment in which the respective company mainly operates (the functional currency). In the consolidated accounts, Swedish kronor (SEK) is used, which is the Parent Company's functional and reporting currency. The earnings and financial position of all Group companies that have a different functional currency than their reporting currency are translated to the Group's reporting currency in accordance with the following:

- assets and liabilities on each of the subsidiaries' balance sheets are translated at the exchange rate in effect on the balance sheet date,
- income and expenses in each of the income statements are translated at the average exchange rate for the year, and
- all exchange rate differences that arise are reported in other comprehensive income.

Goodwill and fair value adjustments that arise in connection with the acquisition of a foreign business are treated as assets and liabilities in the acquired business and are translated at the exchange rate in effect on the balance sheet date.

Transactions and balance sheet items in foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rate in effect on the transaction date. Exchange rate gains and losses that arise upon payment in such transactions and when translating monetary assets and liabilities in foreign currencies at the exchange rate on the balance sheet date are recognised in profit or loss. An exception to this rule is applied for transactions that constitute hedges that meet the conditions for hedge accounting of cash flows or of net investments, for which gains/losses are recognised in other comprehensive income.

Exchange rate differences that arise upon translation or recognition of operating assets/liabilities are reported as other income/expenses, while exchange rate differences that arise upon payment of financial assets/liabilities are reported as financial income/expenses.

Important estimations and assumptions for accounting purposes

The Group makes estimations and assumptions about the future. By definition, the estimations for accounting purposes that are a consequence of these rarely match the actual outcome. This applies primarily for the need to recognise impairment of goodwill and defined benefit pension obligations. Assumptions and estimations are evaluated continuously and are based on historical experience and anticipations of future events that are considered to be reasonable under prevailing conditions.

Parent Company

The Parent Company accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Reporting for Legal Entities. According to RFR 2, in the annual report for a legal entity, the Parent Company shall apply all IFRSs and statements endorsed by the EU as far as possible within the confines of the Annual Accounts Act and taking into account the connection between reporting and taxation. The recommendation indicates which exceptions and amendments are to be applied with respect to IFRS.

Participations in Group companies are reported in the Parent Company using the cost method. In the Parent Company, a change in the liability for contingent consideration affects the value of participations in subsidiaries. Contingent consideration is reported in the Parent Company when it is certain or probable that the obligation will arise.

Untaxed reserves are reported in the Parent Company including deferred tax liabilities and not as in the Group (broken down into deferred tax liabilities and equity).

Group contributions are reported gross as appropriations in accordance with the alternative rule in RFR 2.

Note 2

Risks and risk management

ACCOUNTING PRINCIPLE

Financial instruments

The Group mainly has the following financial instruments: trade receivables, cash and cash equivalents, trade payables, borrowings, contingent consideration and derivative instruments.

Trade payables

Since Indutrade's trade payables normally have a remaining term of less than six months, the carrying amount is considered to reflect fair value.

Derivative instruments

Derivative instruments are stated at fair value on the balance sheet as per the contract date, both initially and for subsequent revaluations. The method for reporting the gain or loss that arises in connection with revaluation depends on whether the derivative instrument has been identified as a hedge instrument and, if such is the case, the nature of the item that has been hedged. The Group identifies certain derivatives as a hedge of a particular risk that is coupled to a reported asset or liability, or a very probable, prognosticated transaction (cash flow hedge). See further under Cash flow hedging below.

The Group's other derivatives consist of forward contracts. Realised and unrealised gains and losses arising from changes in fair value are included in the income statement during the period in which they arise. Gains and losses arising from forward cover of payments in foreign currencies are posted as other operating income/expense, and the earnings effect of forward contracts used to hedge loans is reported among financial income and expenses.

Cash flow hedging

The effective portion of changes in the fair value of a derivative instrument that is identified as a cash flow hedge and that



Note 2

continued

meets the conditions for hedge accounting is reported in other comprehensive income. Changes in the value of the derivative are recognised in the income statement on the same line and at the same point in time as the hedged item.

Indutrade uses interest rate swaps to some extent to hedge borrowings at variable interest rates. The gain or loss that is attributable to the effective portion is recognised in other comprehensive income, while the ineffective portion is recognised immediately in the income statement in the item "Interest expense". Accumulated amounts in equity are restated in the income statement in the periods in which the hedged item affects earnings (e.g., when the prognosticated, hedged interest payment is made). The gain or loss that is attributable to the effective portion of interest rate swaps is then reported as interest expense in the income statement.

When a prognosticated transaction is no longer expected to take place, the accumulated gain or loss that was previously reported in the hedging reserve through other comprehensive income is immediately transferred to the income statement.

Available-for-sale financial assets

This category includes financial assets that are not derivatives and that have been designated to this category at the time of acquisition or have not been classified in any other category. These are included in non-current assets unless the Group has the intention of selling the asset within 12 months after the balance sheet date. The Group has only negligible holdings of such assets. The difference between the carrying amount and fair value is considered to be immaterial.

Market risks

At year-end 2016 the Indutrade Group conducted business in 28 countries. This geographic spread along with a large number of customers and products provides relatively limited risk exposure and sensitivity to economic fluctuations. The Group's operations are conducted with two main focuses: trading companies with industrial technology sales, and companies that manufacture their own products.

For the companies involved in trading, there is the risk of an agency relationship being terminated. This could occur, for example, in connection with a structural change at the supplier level. This is a natural occurrence in an agency's operations, and the organisation has experience in dealing with this. Indutrade has more than 100 trading companies with a few main agencies per company, complemented with a number of smaller agencies. Because of the large number of agencies, no individual agency accounts for a predominant economic risk from the Group's perspective.

The risk associated with major customers deciding to bypass the agency level and trade directly with producers is limited, since customers place great value on the technical expertise, availability and delivery reliability provided by an inventory-holding local technology sales company. Indutrade's companies also provide aftermarket services, such as servicing.

Financial risks

In the course of its business, the Indutrade Group is exposed to various types of financial risk:

- Funding risk
- Interest rate risk

- Currency risk
- Customer and counterparty risk

Finance policy

Indutrade's board of directors sets the Company's finance policy on a yearly basis. This policy establishes the Company's financial strategy and internal delegation of responsibilities. The policy also governs such matters as how financing, liquidity management and currency risk management are to be handled within the Group as well as any restrictions that should be considered with respect to counterparties.

Funding risk

By funding risk is meant the risk that funding of the Group's capital requirement will be impeded or become more costly. To mitigate funding risk the Group strives to maintain a balanced maturity structure, a good liquidity reserve, and diversified borrowing. This creates a preparedness to take necessary alternative actions to raise capital should this be necessary.

Indutrade takes a central approach to the Group's funding. In principle, all external funding is conducted by the Parent Company, which then funds the Group's subsidiaries, both in and outside Sweden, in local currency. Cash pools are established in Sweden, Finland, Norway, Denmark, Germany, the Netherlands and the UK.

Indutrade has had a commercial paper programme in place since 2014. The framework of the programme was expanded in 2016 from SEK 1,500 million to SEK 2,000 million.

At year-end 2016 the Parent Company had external interest-bearing liabilities of SEK 3,345 million (2,684). The corresponding amount for the Group was SEK 3,679 million (3,033). The Group's interest-bearing net debt was SEK 3,628 million at year-end (2,949).

At year-end 2016 the Group had SEK 332 million (339) in cash and cash equivalents and SEK 2,854 million (2,580) in unutilised overdraft facilities. Of the Group's interest-bearing loans, 54% of the total principal falls due for payment after 31 December 2017. For a more detailed maturity analysis, see the description of the Group's borrowings in Note 22.

The Group strives to maintain a reasonable balance between equity, debt financing and liquidity, to enable the Group to secure funding at a reasonable capital cost. The Group's goal is that the net debt/equity ratio, defined as interest-bearing liabilities less cash and cash equivalents in relation to equity, normally should not exceed 100%. At year-end the debt/equity ratio was 82% (80%).

Interest rate risk

By interest rate risk is meant the risk that unfavourable changes in interest rates will have an excessive impact on the Group's net financial items and earnings. At year-end 2016, as in the preceding year, most of the Group's loans carried variable rates of interest.

The Parent Company has entered into contracts to hedge SEK 400 million of its borrowing at variable interest against fixed interest for five years. Both contracts expire in 2018. The difference between the fixed and variable interest is expensed in the income statement. During the year, valuation of interest rate swaps resulted in a gain for the Group of SEK 13 million (15) before tax, which is recognised in other comprehensive income. The Parent Company had a corresponding gain of SEK 12 million (15).

Note 2

continued

Based on the loan structure at year-end, a 1% rise in the interest rate on an annualised basis would result in a higher interest expense of approximately SEK 35 million (27), without taking into account the loans' fixed interest periods. Taking into account the existing interest swaps, the effect would be approximately SEK –31 million (–20). Profit after tax would be affected by SEK –24 million (–16).

The table below shows the remaining contractual terms of loans until maturity including interest, on loans, leasing commitments and contingent consideration. Trade payables normally have a term of less than six months.

For information on the utilisation of bank overdraft facilities and granted credit limits, see Note 22.

	Group		Parent Company	
Maturity dates for loans, leasing commitments and contingent earn-out payments, incl. interest:	2016	2015	2016	2015
Maturity 2016		2,051		1,868
Maturity 2017	1,716	137	1,558	42
Maturity 2018	929	864	820	805
Maturity 2019	545	13	507	–
Maturity 2020	20	9	5	–
Maturity 2021 or later	523	7	501	–
Total borrowings incl. interest, SEK million	3,733	3,081	3,391	2,715

Currency risk

By currency risk is meant the risk of unfavourable changes in exchange rates affecting consolidated earnings and equity measured in SEK:

- Transaction exposure arises as a result of the Group having incoming and outgoing payments in foreign currencies.
- Translation exposure arises as a result of the Group, via its foreign subsidiaries, having net investments in foreign currencies.

The Indutrade Group's transaction exposure arises when subsidiaries import products for sale in the domestic market and/or sell products in foreign currency. Exchange rate effects are eliminated as far as possible by using currency clauses in customer contracts and by buying and selling in the same currency. In certain cases, forward contracts are used. Indutrade therefore considers its transaction exposure to be limited.

The consolidated income statement includes SEK 12 million (11), net, in exchange rate differences in operating profit and SEK 2 million (–7), net, in financial items.

With respect to transaction exposure, at 31 December 2016 Indutrade had net exposure of SEK 150 million (105) in foreign currency. See the breakdown of currencies in the following table.

Net exposure at year-end

Group	2016		2015	
SEK million	Local currency	SEK	Local currency	SEK
USD	9.6	87	15.7	131
EUR	4.7	45	–2.4	–22
GBP	1.9	21	–0.6	–8
DKK	4.3	6	10.7	13
CHF	–0.7	–6	–1.0	–8
Other currencies		–3		–1
Total		150		105

At year-end the Group had outstanding forward contracts to reduce the currency risk associated with future flows. All of the contracts expire within 16 months. Market valuation of outstanding forward contracts as per 31 December 2016 resulted in an unrealised gain of SEK 10 million (16) before tax, which is recognised in other comprehensive income.

Forward contracts

Group	2016	2015
SEK million		
USD	121	207
EUR	80	98
SEK	27	–
GBP	26	–
SGD	6	15
AUD	3	–
Total	263	320

In addition, the Parent Company has hedged outstanding receivables from and liabilities to subsidiaries, contingent earn-out payments and anticipated dividends, as shown in the table below. Receivables from subsidiaries increased during the year.

Forward contracts

Parent Company	2016	2015
SEK million		
EUR	1,131	391
GBP	822	161
CHF	160	103
NOK	38	29
PLN	22	21
DKK	77	20
RUB	7	12
SGD	3	2
Total	2,260	739

All contracts expire within 14 months.



Note 2

continued

The Group is exposed to a translation risk associated with translation of the accounts of foreign subsidiaries to the Group currency, SEK. This type of currency risk is not hedged. Net investments in foreign subsidiaries at year-end are shown in the following table. Indutrade also had net investments in other currencies in both 2016 and 2015, but the amounts were insignificant.

Net investments in foreign subsidiaries

Group	2016		2015	
Net exposure in millions	Local currency	in SEK	Local currency	in SEK
EUR	153	1,462	142	1,296
GBP	69	776	52	641
DKK	459	591	120	146
NOK	378	399	320	305
CHF	20	180	22	182
Total		3,408		2,570

Indutrade estimates that the Company's translation exposure entails that a 1% change in the value of SEK vs. other currencies would result in a yearly positive/negative effect (in the event of a weakening/strengthening of SEK) corresponding to approximately SEK 90 million (81) on net sales and approximately SEK 7 million (6) on net profit. The effect on equity of a 1% change would be SEK 35 million (27).

Customer and counterparty risks

In the treasury management activities, credit risks arise in connection with investments of cash and cash equivalents, and counterparty risks arise in connection with the use of forward contracts. These risks are limited by working with counterparties that have been approved in accordance with the guidelines stipulated in the finance policy.

The risk of the Group's customers failing to meet their obligations, i.e., of payment not being received from customers, constitutes a customer credit risk. Assessment of Indutrade's credit risk in commercial transactions is handled by the respective subsidiaries. Indutrade's exposure to individual customers is small, and the risk spread is considered to be favourable. No single customer accounts for more than 3% (3%) of consolidated sales. The Indutrade Group does business in many countries, which entails a spread of credit risk exposure over several geographic areas. For information on sales and profit per geographic area, see Note 3.

For information on age analysis, provisions for impaired trade accounts receivable and customer losses, see Note 20.

Calculation of fair value

The table below shows financial instruments at fair value, based on the classification of the fair value hierarchy. The various levels are defined as follows:

1. Quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1)
2. Other observable data for assets and liabilities than quoted prices included in level 1, either directly (i.e., through price quotations) or indirectly (i.e., stemming from price quotations) (level 2)
3. Data for the asset or liability that is not based on observable market data (i.e., non-observable market data) (level 3)

The Group's assets and liabilities at fair value as per 31 December 2016

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	–	–	15	15
Derivative instruments held for hedging purposes	–	0	–	0
Liabilities				
Derivative instruments held for hedging purposes	–	18	–	18
Contingent earn-out payments	–	–	129	129

The Group's assets and liabilities at fair value as per 31 December 2015

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	–	–	5	5
Derivative instruments held for hedging purposes	–	3	–	3
Liabilities				
Derivative instruments held for hedging purposes	–	38	–	38
Contingent earn-out payments	–	–	259	259

Derivative instruments consist of currency forward contracts and interest rate swaps. No transfers were made between level 2 and level 3 during the year. Assets in level 3 consist essentially of holdings of shares and participations in unlisted companies. Fair value is considered to be equal to cost. For further information, see Note 17. Contingent earn-out payments have been discounted to present value using an interest rate that is judged to be in line with the market rate at the time of acquisition. Adjustments for changes in market interest rates are not made on a regular basis, as this effect is considered to be immaterial. Essentially all long- and short-term loans carry variable interest rates, which is why fair value is equal to the carrying amount. For further information about contingent earn-out payments and loans, see Note 22. For the Group's other financial assets and liabilities, such as trade accounts receivable, cash and cash equivalents, and trade accounts payable, fair value is estimated to be equal to the carrying amount.

Note 2

continued

Contingent earn-out payments

	2016	2015
Opening book value	259	241
Acquisitions during the year	72	120
Earn-out payments	-174	-106
Reversed via income statement	-32	-7
Interest expense	3	10
Exchange rate differences	1	1
Closing book value	129	259

Note 3

Segment reporting

ACCOUNTING PRINCIPLE

Segment reporting is based on internal reporting to the chief operating decision maker. For Indutrade, this means the Group CEO and the key ratios that are presented for the business areas.

The Group recognises revenue when its amount can be measured in a reliable manner and it is probable that future economic benefit will accrue to the Company. Revenue is recognised excluding value added tax and discounts. The Group's sales consist in all essential respects of sales of products. Revenue from sales of products is recognised when ownership, i.e., the benefits and risks, has been transferred to the buyer. The date on which ownership is transferred is regulated in most sales made by the Group in written agreements with the buyer. For the small portion of sales that pertain to sales of services, revenue is recognised when the services are rendered.

The Group is organised in the six business areas Engineering & Equipment, Flow Technology, Fluids & Mechanical Solutions, Industrial Components, Measurement & Sensor Technology, and Special Products, which constitute the Group's operating segments. The Group's business areas conduct business primarily in the Nordic countries and in central and northern Europe.

The Engineering & Equipment business area's operations involve sales of components as well as customisation, combinations and installations of products from various suppliers. Business is conducted mainly in Finland.

The Flow Technology business area offers components and systems for controlling, measuring, monitoring and regulating flows. The business area includes companies that specialise in various areas of industrial flow technology.

The Fluids & Mechanical Solutions business area offers hydraulic and mechanical components to industries in the Nordic and Baltic countries. Important product areas are filters, hydraulics, tools & transmission, industrial springs, valves, water and waste-water fittings, steel profiles, compressors, product labelling and construction plastics.

The Industrial Components business area offers a wide range of technically advanced components and systems for production and maintenance, and medical technology equipment. The products consist mainly of consumables.

The Measurement & Sensor Technology business area offers design solutions, measurement instruments, measurement

systems and sensors for various industries. All of the business area's companies have proprietary products based on advanced technological solutions and own development, design and manufacturing.

The Special Products business area offers specially manufactured niche products, design solutions, aftermarket service and assembly, and special processing. The business area includes companies with a considerable amount of own manufacturing and proprietary products.

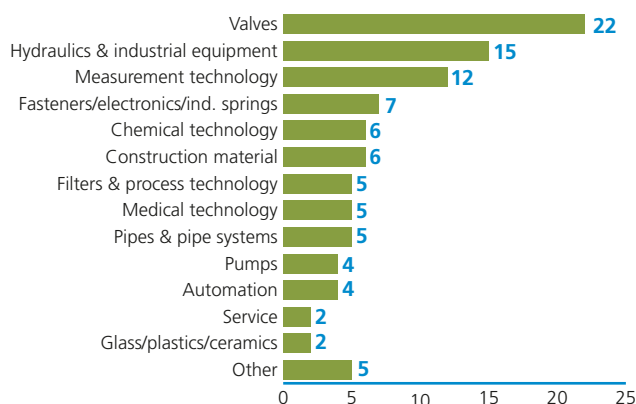
According to IFRS, the part of operations that does not constitute its own operating segment is to be called "Other". At Indutrade, only the Parent Company is included in the segment called "Other". Indutrade AB lacks a major revenue source, which is why the Parent Company does not constitute its own operating segment.

The operating segments are monitored through "Net sales", which include both external and internal sales. However, the scope of internal sales between the subsidiaries is very limited, which is shown in the eliminations column in the table below.

The earnings metric that is monitored in Indutrade is EBITA. The table below also shows Profit before tax.

The business areas are followed up using the same accounting principles as the Group.

Sales per product area, %



Note 3

continued

The Indutrade Group does not receive revenue from any single customer that amounts to 10% of total, which is why no data is reported on this.

Investments in non-current assets include purchases of intangible assets (Note 15), and property, plant and equipment (Note 16).

The principle for breaking down external revenue and non-current assets per geographic area in the tables below is that such reporting is based on the location of the subsidiary's registered office.

2016	EE	FT	FM	IC	MST	SP	PC	Elim. ¹⁾	Total
Net sales	1,537	2,231	1,558	2,501	1,171	3,997	4	-44	12,955
Operating profit	112	147	168	222	139	532	-60	12	1,272
Net financial items	-5	-14	-3	-6	0	-35	654	-669	-78
Profit before tax	108	133	165	215	139	498	1,078	-1,142	1,194
EBITA	124	168	199	265	177	597	-60	14	1,484
EBITA margin, %	8.1	7.5	12.8	10.6	15.1	14.9	-	-	11.5
Amortisation of intangible assets	-19	-24	-34	-45	-44	-67	0	-	-233
Depreciation of property, plant and equipment	-12	-23	-25	-27	-30	-61	0	-	-178
Sales growth, %	5	0	25	11	25	6	-	-	9
Operating capital at year-end	557	927	1,213	1,362	1,479	2,989	3,723	-4,223	8,027
Return on operating capital, %	24	17	19	20	13	22	-	-	20
Investments in non-current assets	27	32	24	51	26	223	1	-	384
Total assets	805	1,484	1,744	2,122	1,903	3,935	8,479	-9,419	11,053
Total liabilities	666	1,339	625	1,191	638	2,524	4,409	-4,738	6,654

2015	EE	FT	FM	IC	MST	SP	PC	Elim. ¹⁾	Total
Net sales	1,466	2,234	1,249	2,263	938	3,772	4	-45	11,881
Operating profit	113	194	136	209	133	505	-51	-4	1,235
Net financial items	-6	-14	-1	-6	-10	-22	529	-568	-98
Profit before tax	107	180	135	203	123	483	897	-991	1,137
EBITA	125	217	163	249	164	564	-51	-4	1,427
EBITA margin, %	8.5	9.7	13.1	11.0	17.5	15.0	-	-	12.0
Amortisation of intangible assets	-17	-25	-28	-42	-34	-63	0	-	-209
Depreciation of property, plant and equipment	-13	-20	-21	-24	-27	-51	0	-	-156
Sales growth, %	1	8	18	29	25	39	-	-	22
Operating capital at year-end	532	935	798	1,234	1,145	2,484	2,764	-3,236	6,656
Return on operating capital, %	22	23	21	22	14	24	-	-	22
Investments in non-current assets	27	38	25	61	31	91	1	-	274
Total assets	749	1,557	1,213	1,915	1,472	3,367	7,091	-8,003	9,361
Total liabilities	592	1,399	481	1,102	485	1,669	3,711	-3,785	5,654

1) Pertains mainly to elimination of the Parent Company's dividends from subsidiaries, impairment of subsidiary shares, shares in subsidiaries, and loans to and from subsidiaries.

EE – Engineering & Equipment
SP – Special Products
PC – Parent Company

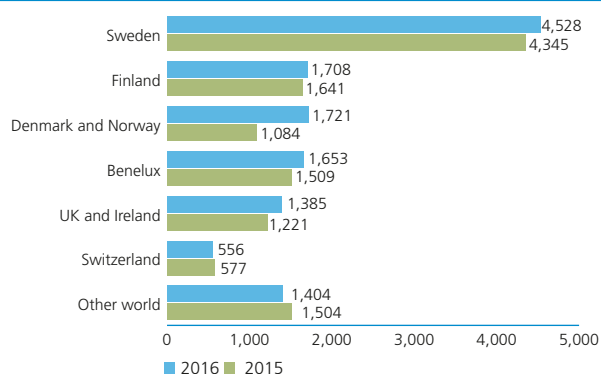
IC – Industrial Components
FM – Fluids & Mechanical Solutions

FT – Flow Technology
MST – Measurement & Sensor Technology

Note 3

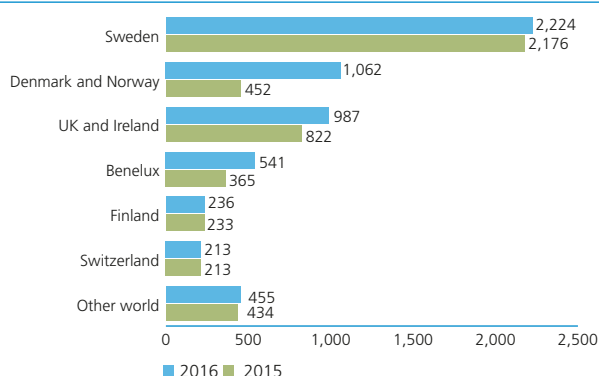
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Consolidated revenue from external customers per geographic area, SEK million



Based on where the Group's legal companies have their registered offices. The information on page 2 is based on where the customers are located.

The Group's non-current assets per geographic area, SEK million



Based on where the Group's legal companies have their registered offices, excluding financial assets.

Note 4

Income statements classified by type of cost

	Group		Parent Company	
	2016	2015	2016	2015
Goods for resale, raw materials and consumables	-6,929	-6,423	-	-
Costs for employee benefits	-2,980	-2,674	-41	-39
Depreciation/amortisation	-411	-365	0	0
Transport costs	-269	-236	0	-
Marketing costs	-100	-88	-1	-4
Property-related costs	-502	-429	-7	0
Other costs	-542	-444	-15	-12
IS Total	-11,733	-10,659	-64	-55

Note 5

Other operating income/expenses

	Group		Parent Company	
	2016	2015	2016	2015
Other operating income				
Exchange rate gains	108	109	-	-
Revaluation of liabilities pertaining to contingent consideration	31	7	-	-
Gain on sale of subsidiaries/operations	0	1	-	-
Other	15	0	-	-
IS Total	154	117	-	-
Other operating expenses				
Exchange rate losses	-96	-98	-	-
Transaction costs for acquisitions	-8	-6	-	-
Other	-	0	-	-
IS Total	-104	-104	-	-
Other operating income/expenses, net	50	13	-	-

Note 6

Average number of employees

	2016		2015	
	Number of employees	Of whom, women	Number of employees	Of whom, women
Parent Company	11	5	10	5
Subsidiaries in Sweden	1,449	308	1,387	291
Total Sweden	1,460	313	1,397	296
Subsidiaries outside Sweden	4,035	1,008	3,581	916
Total	5,495	1,321	4,978	1,212

The Parent Company's board is composed of two women and six men (same as in preceding year). The subsidiaries' boards and management include six women (2015: five women). The Group's management consisted of one woman and eight men through 31 December 2016 (same as in preceding year).

Note 7

Wages, salaries and other remuneration, and social security costs

ACCOUNTING PRINCIPLE

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary departure in exchange for such benefits. The Group reports severance pay when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or to providing termination benefits as a result of an offer made to encourage voluntary departures.

Profit-sharing and bonus plans

The Parent Company and most of the subsidiaries have bonus or profit-sharing systems based on the earnings performance of each unit. The Group reports a liability and an expense for these programmes when it has a formal or constructive obligation to make such payments in exchange for services performed by employees and the amount of such obligations can be calculated in a reliable manner. Reporting is done in the period the cost pertains to.

	2016			2015		
	Wages, salaries and other remuneration	Social security costs	Of which, pension costs	Wages, salaries and other remuneration	Social security costs	Of which, pension costs
Parent Company	30	12	3	25	14	5
Subsidiaries in Sweden	761	331	76	667	301	72
Total Sweden	791	343	79	692	315	77
Subsidiaries outside Sweden	1,588	277	145	1,348	262	128
Total	2,379	620	224	2,040	577	205

Of the Parent Company's pension costs, SEK – million (2) pertains to the Board of Directors and the CEO. The corresponding amount for the Group is SEK 35 million (34).

Wages, salaries and other remuneration broken down by country and between the companies' management and other employees

	2016			2015		
	Companies' management ¹⁾	Of which, bonuses and similar	Other employees	Companies' management ¹⁾	Of which, bonuses and similar	Other employees
Parent Company	15	2	15	13	3	12
Subsidiaries in Sweden	94	10	667	85	13	582
Total Sweden	109	12	682	98	16	594
Subsidiaries outside Sweden	152	21	1,436	155	21	1,193
Total	261	33	2,118	253	37	1,787

1) Pertains to the Board of Directors and Presidents.

Wages, salaries and remuneration of senior executives

Information provided at the 2016 Annual General Meeting pertaining to the 2016 financial year

The Chairman and members of the Board of Directors are paid a fee in accordance with a resolution by the Annual General Meeting. A fee of SEK 530,000 is payable to the Chairman, and a fee of SEK 398,000 is payable to the Vice Chairman. A fee of SEK 266,000 is payable to each of the other non-executive directors, and a fee of SEK 52,000 is payable to the Audit Committee chair. A fee of SEK 26,000 is paid to members of the Remuneration Committee.

Compensation for the CEO and other senior executives consists of a base salary, variable compensation, other benefits and pension. By other senior executives is meant eight persons: the Chief Financial Officer (CFO), five business area presidents, the Head of Group Finance and the Head of Business Development. Senior executives employed by the subsidiaries receive their compensation from the respective subsidiaries.

For the CEO of the Parent Company, the variable compensation is capped at six months' salary, i.e., 50% of base salary. For other senior executives, the variable compensation is capped at four to seven months' salaries, or 33% to 58% of base salary. Variable compensation is related to the earnings performance of the Group or of the respective business areas.

The retirement age for the CEO is normally 65. In addition to statutory retirement benefits, Indutrade is to pay pension premiums – excluding premiums for disability insurance and waiver of premium protection – corresponding to 35% of his base salary. The CEO is entitled to choose his pension solution, within the cost framework described above and subject to the approval of the Chairman. Johnny Alvarsson has been given an extended mandate as President and CEO until the 2017 Annual General Meeting, with unchanged terms. Other senior executives are entitled to retirement benefits corresponding to an average of 30% of their respective base salaries. The retirement age is 65. Earned retirement benefits are not conditional upon future employment by Indutrade.

Note 7

continued

Terms of notice

In the event of the Company serves notice, the CEO is entitled to a 24-month notice period with retained employment benefits. For notice given by the CEO, a six-month notice period applies. For other senior executives, a notice period of six to 24 months applies for notice served by the respective companies, depending on the employee's current age. Salary paid out during the notice period is not deducted from other income.

Incentive programmes

In April 2014 the Annual General Meeting resolved in accordance with the Board's proposal to implement an incentive programme, LTI 2014, comprising a combined maximum of 460,000 warrants in two series, directed at senior executives and other key persons in the Indutrade Group. Within the framework of Series I, which was offered to 135 persons, the participants acquired a total of 257,500 warrants for a combined total of SEK 3,914,000. The price per warrant was SEK 15.20, which corresponded to the market price. The subscription price was set at SEK 118.80 per share, recalculated for the bonus issue carried out in May 2016. Within the framework of Series II, which was offered to 13 persons, the participants acquired a total of 27,500 warrants for a combined value of SEK 319,000. The price per warrant was SEK 11.60, which corresponded to the market price. The subscription price for this series was set at SEK 116.70 per share, recalculated for the bonus issue carried out in May 2016. The CEO acquired 15,000 warrants, and other senior executives acquired 73,500 warrants. Each warrant carries entitlement to subscribe for three shares in Indutrade during specially prescribed subscription periods through 18 May 2018. A cash subsidy corresponding to 120% of the price paid by the participants for the warrants will be paid out on two occasions and in equal parts after half of the term of the programme and after three years, respectively, normally under the condition that the participant has not sold any warrants and continues to be employed by the Group at the time of payment. Half of the subsidy was paid out in 2016.

The Board of Directors has decided to propose to the Annual General Meeting in April 2017 to resolve in favour of a new long-term share-based incentive programme directed at approximately 180 senior executives and other key persons in the Group. The programme will be based on warrants.

Guidelines for compensation and other terms of employment for senior executives adopted by the 2016 Annual General Meeting

By executive management is meant in this context the President and CEO, the Chief Financial Officer, the business area presidents, the Head of Group Finance and the Head of Business Development.

Indutrade shall apply the compensation levels and terms of employment necessary to be able to recruit and retain management with high competence and the capacity to achieve set objectives. The forms of compensation shall motivate members of the executive management to perform their utmost in order to safeguard the interests of the shareholders.

The forms of compensation shall therefore be in line with the going rate in the market and shall be straightforward, long-term and quantifiable. Compensation of members of executive management shall normally consist of a fixed and a variable portion. Fixed salary for members of the executive management shall be in line with the going rate in the market and shall be commensurate with the individual's expertise, responsibilities

and performance. The variable portion shall reward achievement of clearly set goals regarding the Company's and the respective business areas' earnings performance as well as the Group's growth in simple, transparent structures. The variable compensation component for members of the executive management shall normally not exceed seven months' salary and can amount to a maximum of SEK 14 million.

Incentive programmes in the Company shall mainly be share price-related and cover persons in senior positions in the Company who have a significant influence over the Company's earnings and growth, and shall be based on the achievement of set targets. An incentive programme shall contribute to the long-term commitment to the Company's development and shall be implemented on market terms. The Company shall be able to pay cash compensation coupled to senior executives' purchases of shares and share-related instruments. Such cash compensation shall normally not exceed 15% of the executive's fixed salary.

Non-monetary benefits for members of the executive management shall facilitate the individuals in the execution of their duties and correspond to what can be considered to be reasonable in respect of practice in the market in which the respective executive is active.

Pension terms for members of the executive management shall be in line with the going rate in the market in respect of what applies for peer executives in the market in which the executive works and should be based on a defined contribution pension solution or a general pension plan (in Sweden, the ITP plan).

Severance pay for members of executive management shall not exceed a total of 24 months' salary in the event the Company serves notice, and 6 months in the event the member of the executive management gives notice.

The Board's Remuneration Committee prepares and conducts drafting work for decisions on the terms of employment for the CEO, and the Board evaluates the CEO's performance once a year. The Remuneration Committee also prepares and conducts drafting work concerning guidelines for remuneration of members of the executive management, for decision by the Board. The President consults with the Remuneration Committee regarding the terms of employment for other members of the executive management.

The Board shall have the right to depart from the aforementioned guidelines for compensation of the executive management if there are special reasons in a particular case.

Note 7

continued

Compensation and other benefits, 2016

SEK 000s	Base salary/ directors' fees	Variable compensation ¹⁾	Other benefits	Pension cost	Total
Fredrik Lundberg, Chairman of the Board, member of the Remuneration Committee	556	–	–	–	556
Bengt Kjell, Vice Chairman of the Board, member of the Remuneration Committee	424	–	–	–	424
Annica Bresky, Director	266	–	–	–	266
Katarina Martinson, Director	266	–	–	–	266
Ulf Lundahl, Director, Audit Committee chair	318	–	–	–	318
Krister Mellvé, Director	266	–	–	–	266
Lars Pettersson, Director, member of the Remuneration Committee	292	–	–	–	292
Johnny Alvarsson, President and CEO	10,897	2,126	114	– ²⁾	13,137
Other senior executives (8 persons)	16,828	4,057	844	5,697	27,426
Total	30,113	6,183	958	5,697	42,951

1) Including compensation (the year's subsidy cost) for the senior executives who participate in the above-mentioned incentive programme, which amounted to SEK 74,000 for the CEO and SEK 413,000 for senior executives.

2) After reaching an agreement with the Remuneration Committee, the CEO has opted to take out an amount corresponding to pension premiums as salary.

Compensation and other benefits, 2015

SEK 000s	Base salary/ directors' fees	Variable compensation ¹⁾	Other benefits	Pension cost	Total
Fredrik Lundberg, Chairman of the Board, member of the Remuneration Committee	546	–	–	–	546
Bengt Kjell, Vice Chairman of the Board, member of the Remuneration Committee	416	–	–	–	416
Eva Färnstrand, Director	260	–	–	–	260
Martin Lindqvist, Director, member of the Remuneration Committee	260	–	–	–	260
Ulf Lundahl, Director, Audit Committee chair	312	–	–	–	312
Krister Mellvé, Director	260	–	–	–	260
Lars Pettersson, Director	286	–	–	–	286
Johnny Alvarsson, President and CEO	6,720	3,474	120	2,364	12,678
Other senior executives (6 persons)	16,899	7,717	926	4,609	30,151
Total	25,959	11,191	1,046	6,973	45,169

1) Including compensation (the year's subsidy cost) for the senior executives who participate in the above mentioned incentive programme, which amounted to SEK 114,000 for the CEO and SEK 465,000 for senior executives.

Note 8

Depreciation and amortisation

Depreciation of property, plant and equipment and amortisation of intangible non-current assets are included in the following functions in the following amounts:

	Group		Parent Company	
	2016	2015	2016	2015
Cost of goods sold	301	267	–	–
Development costs	8	5	–	–
Selling costs	66	61	–	–
Administrative expenses	36	32	0	0
Total	411	365	0	0

Note 9

Operating leases

	Group		Parent Company	
	2016	2015	2016	2015
Lease payments expensed during the year:	223	189	2	2
Future contracted lease payments				
Maturity year 1	212	182	2	2
Maturity year 2	172	140	2	2
Maturity year 3	127	104	2	2
Maturity year 4	87	62	2	2
Maturity year 5	51	45	2	2
Maturity year 6–	100	75	10	12
Total future lease payments	749	608	20	22

Operating leases in the Parent Company and Group pertain primarily to premises.

Note 10

Auditors' fees

	Group		Parent Company	
	2016	2015	2016	2015
PricewaterhouseCoopers				
Audit assignment	13	12	1	1
Auditing activities in addition to audit assignment	1	1	–	–
Tax consulting	1	1	–	–
Other services	1	1	0	0
Total fees, PricewaterhouseCooper	16	15	1	1
Other auditing firms				
Auditing fees	5	4	–	–

Other auditing firms refers to several auditing firms where none account for a significant amount in 2016 or the preceding year.

Audit assignment pertains to fees for the statutory audit, i.e., such work that was necessary to issue the audit report as well as audit consulting in connection with the audit assignment.

Note 11

Financial income

ACCOUNTING PRINCIPLE

Financial income consists of interest income on invested funds, dividends, and gains on hedge instruments recognised in profit for the year.

Interest income is reported in accordance with the effective interest method and includes accrued interest as per the balance sheet date. Dividend income is recognised when the right to payment has been determined.

	Group		Parent Company	
	2016	2015	2016	2015
Interest	8	7	53	40
Exchange rate differences	51	39	44	15
Other	–	0	–	–
IS Total financial income	59	46	97	55

Of which, pertaining to Group companies:

Interest	–	–	52	38
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Note 12

Financial expenses

ACCOUNTING PRINCIPLE

Financial expenses consist of interest expenses on loans and pension liabilities, effects of the dissolution of discounted contingent consideration, losses on hedge instruments recognised in profit for the year, and bank charges. Interest expenses are reported in accordance with the effective interest method.

	Group		Parent Company	
	2016	2015	2016	2015
Interest expenses, bank loans	–67	–68	–57	–59
Interest expenses, pension obligations	–4	–5	–	–
Interest expenses, finance leases	–2	–2	0	0
Interest expenses, contingent consideration	–3	–10	–1	–6
Total interest expenses	–76	–85	–58	–65
Exchange rate differences	–49	–46	–38	–23
Other	–12	–13	–11	–11
IS Total financial expenses	–137	–144	–107	–99

Of which, pertaining to Group companies:

Interest	–	–	–3	–3
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Note 13

Profit from participations in Group companies

Parent Company	2016	2015
Dividends from subsidiaries	664	573
IS Total	664	573

Note 14

Taxes

ACCOUNTING PRINCIPLE

Income tax consists of current tax and deferred tax. Income taxes are reported in the income statement, except in cases where the tax is attributable to items that are reported in other comprehensive income.

Current tax is tax that is to be paid or received in the current year using the tax rates that apply at the balance sheet date; this also includes adjustments of current tax attributable to earlier periods. Tax is calculated according to the current tax rate in the respective countries.

Deferred taxes attributable to temporary differences between the book value and the taxable value of assets and liabilities are reported in full in the consolidated accounts, while the Parent Company still reports the difference pertaining to machinery and equipment as an untaxed reserve. However, deferred tax liability is not reported if it arises as a result of initial recognition of goodwill. Valuation of deferred tax is based on how the underlying asset or liability is expected to be realised or settled. Deferred tax is calculated using the tax rates that apply on at the balance sheet date or announced as per the balance sheet date and which are expected to apply when the deferred tax asset in question is realised or the tax liability is settled. Deferred tax assets attributable to deductible, temporary differences and unutilised tax-loss carryforwards are reported to the extent that it is probable that they will be utilised in the foreseeable future.

	Group		Parent Company	
	2016	2015	2016	2015
Tax expense				
Current tax	-299	-283	-84	-73
Deferred tax	41	41	-8	0
Other tax	0	-1	-	-
Total	-258	-243	-92	-73

The Group's tax expense amounted to 21.6% (21.4%) of consolidated profit before tax. The difference between the reported tax expense and anticipated tax expense (weighted average tax based on national tax rates) is explained below.

Note 14

continued

	Group		Parent Company	
	2016	2015	2016	2015
Profit before tax	1,194	1,137	1,078	897
Weighted average tax based on national tax rates (Group 21.7% and 22.0%, respectively, and Parent Company 22.0% and 22.0%, respectively)	-259	-250	-237	-197
Tax effect of:				
Non-deductible interest expenses on discounted contingent consideration	-1	-2	0	-1
Non-deductible transaction costs for acquisitions	-2	-1	-	-
Non-deductible impairment of goodwill	7	2	-	-
Other non-deductible expenses/tax-exempt income	-9	1	145	125
Utilisation of loss-carryforward where tax was not previously reported	0	2	-	-
Adjustment pertaining to previous years' current tax	2	0	-	-
Change in tax rate	4	6	-	-
Other items	0	-1	-	-
IS Total	-258	-243	-92	-73
	21.6%	21.4%	8.5%	8.1%

Note 14

continued

Group	Intangible non-current assets	Property, plant and equipment	Untaxed reserves	Pension obligations	Other items	Total tax
1 Jan. - 31 Dec. 2015						
Deferred tax, net	-264	-35	-93	33	23	-336
Opening book value						
Deferred tax as per income statement	41	-3	-19	2	14	35
Change in tax rate affecting income statement	6	0	-	0	0	6
Deferred tax recognised in other comprehensive income	-	-	-	2	-3	-1
Deferred tax attributable to acquisitions	-88	-4	-6	-	0	-98
Exchange rate differences	1	0	-	-1	-1	-1
Deferred tax, net						
Closing book value	-304	-42	-118	36	33	-395
As per 31 Dec. 2015						
Deferred tax asset	1	1	-	36	39	77
Deferred tax liability	-305	-43	-118	0	-6	-472
Deferred tax, net	-304	-42	-118	36	33	-395

Group	Intangible non-current assets	Property, plant and equipment	Untaxed reserves	Pension obligations	Other items	Total tax
1 Jan. - 31 Dec. 2016						
Deferred tax, net	-304	-42	-118	36	33	-395
Opening book value						
Deferred tax as per income statement	44	-6	-4	3	0	37
Change in tax rate affecting income statement	4	0	-	-	0	4
Deferred tax recognised in other comprehensive income	-	-	-	3	-5	-2
Deferred tax attributable to acquisitions	-88	-14	-5	-	0	-107
Exchange rate differences	-5	0	-	1	1	-3
Deferred tax, net						
Closing book value	-349	-62	-127	43	29	-466
As per 31 Dec. 2016						
BS Deferred tax asset	0	1	-	43	39	83
BS Deferred tax liability	-349	-63	-127	0	-10	-549
Deferred tax, net	-349	-62	-127	43	29	-466

The loss-carryforward, in which deferred tax has been capitalized, amounts to SEK 98 million (74), corresponding to a tax asset of SEK 29 million (22). Uncapitalised loss-carryforwards amount to SEK 32 million (10), corresponding to a tax asset of SEK 9 million (3).

Substantial dividends may be recognised without withholding tax.

Of the deferred tax liabilities, SEK 48 million will be dissolved in 2017. The calculation is based on estimated depreciation of acquisition calculations in the coming year.

Note 14

continued

Parent Company

	Pension obligations	Other items	Total tax
1 Jan. - 31 Dec. 2015			
Deferred tax, net			
Opening book value	2	7	9
Deferred tax as per income statement	1	-1	0
Deferred tax recognised in other comprehensive income	-	-3	-3
Deferred tax, net			
Closing book value	3	3	6
As per 31 Dec. 2015			
Deferred tax asset	3	6	9
Deferred tax liability	-	-3	-3
Deferred tax, net	3	3	6
1 Jan. - 31 Dec. 2016			
Deferred tax, net			
Opening book value	3	3	6
Deferred tax as per income statement	0	-8	-8
Deferred tax recognised in other comprehensive income	-	-3	-3
Deferred tax, net			
Closing book value	3	-8	-5
As per 31 Dec. 2016			
BS Deferred tax asset	3	3	6
BS Deferred tax liability	-	-11	-11
Deferred tax, net	3	-8	-5

Note 15

Intangible assets

ACCOUNTING PRINCIPLE

Goodwill

Goodwill consists of the amount by which the total purchase price and non-controlling interests exceed the fair value of identifiable, acquired assets and liabilities taken over. Goodwill is tested at least annually for impairment and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the remaining carrying amount of goodwill relating to the entity sold. Goodwill is normally allocated at the segment level for impairment testing. For impairment testing during the year, see "Impairment testing of non-financial assets" below.

Agencies, trademarks, customer relationships, etc.

The Group's starting point with respect to acquisitions is that agencies, customer relations, etc., and the item software, licences, etc. have a limited useful life and are carried at cost less accumulated amortisation. Trademarks are possible to identify in connection with major company acquisitions. Trademarks that have been capitalised to date have been judged to have an indefinite useful life, and no amortisation is calculated. Instead, an impairment test is conducted at least annually, as for goodwill.

In connection with nearly all company acquisitions completed by Indutrade, a value is identified for purchased agencies and the customer relations that are included as part of the acquisition. Since most of Indutrade's acquisitions are small, it is not possible to itemise the intangible assets. For small acquisitions, the cost of customer relations and agencies is normally valued at between a half year's and one year's gross profit. According to IFRS, supplementary disclosures are to be made for each significant intangible asset. Since the Indutrade Group's intangible assets consist for the most part of many small sub-items, where none constitutes an item with material impact on the Group's result or position, no supplementary disclosures are made for these smaller intangible non-current assets.

Amortisation is calculated on a straight-line basis to allocate the cost of these assets over their estimated useful lives. The following amortisation schedules are used:

Agencies, customer relations, etc.	5–20 years
Trademarks	–
Software, licences, etc.	5–10 years
Other intangible assets	5–20 years

Development costs

The Group conducts certain product-specific development activities. Outlays for development are reported as development costs in the income statement as they arise. If the requirements in IAS 38 for internally prepared intangible assets are fulfilled, then the development that has been conducted is capitalised and is included in the item "Other intangible assets". The requirements of this standard are that the development costs pertain to identifiable, unique assets that are controlled by the Group. Capitalisation is done if it is technically possible to complete preparation of the asset and the intention is to use or sell the asset, that it can be shown that future economic benefit is probable, and that the costs can be calculated in a reliable manner.

Note 15

continued

Impairment testing of non-financial assets

Goodwill and trademarks are judged to have an indefinite useful life and are not amortised, but are instead tested at least annually for impairment. For assets, which are amortised, impairment is judged on the basis of a decline in value whenever events or changes in conditions indicate that the carrying amount may not be recoverable. Impairment is recognised in the amount in which the asset's carrying amount exceeds its recoverable value. The recoverable value is the higher of the asset's fair value less selling costs and its value in use. In calculations of value in use, future cash flows are discounted using a discount factor that takes into account risk-free interest and the risk associated with the specific asset. When determining any need to recognise impairment, assets are grouped at the lowest levels in which there are separate, identifiable cash flows (cash-generating units). For Indutrade this entails that such determination is normally done at the segment level, which corresponds to Indutrade's business areas. For assets other than financial assets and goodwill for which an impairment loss has previously been recognised, a test is performed as per each balance sheet date to determine if any reversals should be made.

Group

	Goodwill	Agencies, customer relationships, etc.	Trademarks	Software, licences, etc.	Other intangible assets	Total intangible assets
1 Jan.–31 Dec. 2015						
Opening book value	1,572	1,089	252	46	58	3,017
Exchange rate differences	–35	–15	2	–2	0	–50
Investments during the year	–	–	–	19	14	33
Company acquisitions	404	372	5	1	4	786
Reclassification	–	–	–	0	–	0
Adjustment of preliminary purchase price allocation	1	0	–	–	–	1
Amortisation	–	–192	0	–12	–5	–209
Closing book value	1,942	1,254	259	52	71	3,578
As per 31 Dec. 2015						
Cost	2,066	2,211	259	133	101	4,770
Accumulated amortisation and impairment charges	–124	–957	0	–81	–30	–1,192
Book value	1,942	1,254	259	52	71	3,578

Group

	Goodwill	Agencies, customer relationships, etc.	Trademarks	Software, licences, etc.	Other intangible assets	Total intangible assets
1 Jan.–31 Dec. 2016						
Opening book value	1,942	1,254	259	52	71	3,578
Exchange rate differences	26	12	4	2	2	46
Investments during the year	–	–	–	14	14	28
Company acquisitions	424	389	16	0	23	852
Sales and disposals	–	–	–	0	0	0
Adjustment of preliminary purchase price allocation	–4	–	–	–	–	–4
Amortisation	–	–209	0	–15	–9	–233
BS Closing book value	2,388	1,446	279	53	101	4,267
As per 31 Dec. 2016						
Cost	2,513	2,636	279	156	151	5,735
Accumulated amortisation and impairment charges	–125	–1,190	0	–103	–50	–1,468
BS Book value	2,388	1,446	279	53	101	4,267

Impairment testing of goodwill

Goodwill is not amortised continuously; instead, the value is tested yearly for impairment in accordance with IAS 36. Testing was conducted most recently in December 2016.

Goodwill is apportioned over cash-generating units, which for Indutrade are equated with operating segments. Operating segments correspond to Indutrade's business areas.

The recoverable value has been calculated according to value in use and is based on the current estimation of cash flows for the next five years. Assumptions have been made on the gross margin, level of overheads, need for working capital and investment need. The parameters have been set to correspond to budgeted earnings for the 2017 financial year. During the rest of the five-year period, an annual growth rate of 2% (2%) has been assumed. Where greater changes are expected, the assumptions have been adapted to better correspond to these expectations. For cash flows beyond the five-year period, the rate of growth has been assumed to correspond to the growth rate during the fifth year, ordinarily 2%. The cash flows have been discounted with a weighted cost of capital that corresponds to approximately 9% (10%) before tax. The weighted cost of capital has been adapted to the prevailing level of interest rates. The same discount rate has been used for all segments, since they conduct similar operations. The calculation shows that value in

Note 15

continued

use exceeds the carrying amount at the segmental level. A sensitivity analysis shows that the remaining goodwill value would continue to be upheld if the discount rate were to be raised by 1 percentage point or long-term growth were to be decreased by 1 percentage point.

Other impairment testing

Every year impairment testing is conducted for trademarks at the segmental level in accordance with the same principles and at the same point in time as for goodwill.

No events or changed conditions have been identified that warrant impairment testing for other intangible non-current assets that are amortised.

Group breakdown of goodwill at segmental level

	2016	2015
Engineering & Equipment	134	128
Flow Technology	179	180
Fluids & Mechanical Solutions	436	295
Industrial Components	461	403
Measurement & Sensor Technology	436	316
Special Products	742	620
Total	2,388	1,942

Group breakdown of trademarks at segmental level

	2016	2015
Engineering & Equipment	0	0
Flow Technology	59	59
Fluids & Mechanical Solutions	17	–
Industrial Components	5	4
Measurement & Sensor Technology	146	146
Special Products	52	50
Total	279	259

Parent Company	2016	2015
Opening cost	2	2
Investments during the year	–	0
Closing accumulated cost	2	2
Opening amortisation	–2	–2
Amortisation for the year	0	0
Closing accumulated amortisation	–2	–2
BS Planned residual value	0	0

Note 16

Property, plant and equipment

ACCOUNTING PRINCIPLE

Property, plant and equipment are stated at cost less accumulated depreciation according to plan. Cost includes charges that are directly attributable to acquisition of the asset. Additional charges are added to the asset's carrying amount or are reported as a separate asset, depending on which is suitable, only when it is probable that the future economic benefit associated with the asset will accrue to the Group and the asset's cost can be measured in a reliable manner. All other forms of repairs and maintenance are reported as costs in the income statement in the period in which they were incurred.

Property, plant and equipment are depreciated over their estimated useful lives. The following depreciation schedules are used:

Buildings	25–40 years
Machinery	5–10 years
Equipment	3–10 years

No depreciation is calculated for land.

The assets' residual value and useful lives are tested for impairment at the end of every reporting period and are adjusted as necessary. Gains and losses on disposals of non-current assets are reported in the function in which depreciation was reported prior to their disposal or, alternatively, in other operating income and expenses.

Impairment testing of non-financial assets

Land is judged to have an indefinite useful life and is not amortised, but is instead tested at least annually for impairment. For assets, which are depreciated, impairment is judged on the basis of a decline in value whenever events or changes in conditions indicate that the carrying amount may not be recoverable. Impairment is recognised in the amount in which the asset's carrying amount exceeds its recoverable value. The recoverable value is the higher of the asset's fair value less selling costs and its value in use. In calculations of value in use, future cash flows are discounted using a discount factor that takes into account risk-free interest and the risk associated with the specific asset. When determining any need to recognise impairment, assets are grouped at the lowest levels in which there are separate, identifiable cash flows (cash-generating units). For Indutrade this normally entails that such determination is normally done at the segment level, which corresponds to Indutrade's business areas. For assets other than financial assets and goodwill for which an impairment loss has previously been recognised, a test is performed as per each balance sheet date to determine if any reversals should be made.

Note 16

continued

Group

	Land and buildings	Machinery	Equipment	Construction in progress	Total property, plant and equipment
1 Jan.–31 Dec. 2015					
Opening book value	524	214	226	7	971
Exchange rate differences	–2	10	–2	0	6
Investments during the year ¹⁾	34	70	111	24	239
Company acquisitions	25	33	28	–	86
Transferred from construction in progress	0	10	1	–11	0
Sales and disposals ¹⁾	–	–1	–28	–	–29
Reclassification	0	1	–1	–	0
Depreciation	–22	–57	–77	–	–156
Closing book value	559	280	258	20	1,117
As per 31 Dec. 2015					
Cost	825	843	806	20	2,494
Accumulated depreciation and impairment charges	–266	–563	–548	–	–1,377
Book value	559	280	258	20	1,117

1 Jan.–31 Dec. 2016

Opening book value	559	280	258	20	1,117
Exchange rate differences	12	0	5	1	18
Investments during the year ¹⁾	8	69	117	162	356
Company acquisitions	122	26	18	2	168
Transferred from construction in progress	127	51	1	–179	0
Sales and disposals ¹⁾	–	–2	–28	–	–30
Reclassification	–	–1	1	–	0
Depreciation	–25	–66	–87	–	–178
BS Closing book value	803	357	285	6	1,451
As per 31 Dec. 2016					
Cost	1,158	1,162	929	6	3,255
Accumulated depreciation and impairment charges	–355	–805	–644	–	–1,804
BS Book value	803	357	285	6	1,451

1) Of net investments in property, plant and equipment, SEK 292 million (188) had an effect on cash flow, while SEK 46 million (46) pertain to investments financed via finance leases.

The item “equipment” includes leased assets held by the Group under finance leases in the following amounts:

	2016	2015
Cost		
– capitalised finance leases	158	132
Accumulated depreciation	–56	–41
Book value	102	91

Leased assets consist primarily of cars.

Parent Company	2016	2015
Opening cost	4	4
Investments during the year	1	1
Sales and disposals	–1	–1
Closing accumulated cost	4	4
Opening depreciation	–3	–3
Depreciation for the year	0	0
Sales and disposals	0	0
Closing accumulated depreciation	–3	–3
BS Planned residual value	1	1

Note 17

Shares and participations

The Group's holdings of shares and participations in other companies

	Domicile	Share of capital %	Share of votes %	No. shares	Book value
Kiinteistö Oy Honkakoli	Finland	–	–	18	1
Kytäjän Golf Oy	Finland	–	–	6	1
Ega Matic	Denmark	27	27	125	1
Veng Norge	Norway	30	30	300	9
Other		–	–	–	3
Available-for-sale financial assets					15

For the Group's holdings of shares and participations in other companies, fair value is considered to be equal to cost. See also Note 2.

Shares and participations

	Group		Parent Company	
	2016	2015	2016	2015
Opening cost	5	4	4,748	4,137
External acquisitions	–	–	781	586
Shareholder contribution	–	–	92	30
Internal restructuring	–	–	–394	–
Adjustment of estimated contingent consideration	–	–	–27	–5
Increase through company acquisitions	10	0	–	–
Exchange rate differences	0	1	–	–
Closing accumulated cost	15	5	5,200	4,748
Opening revaluations	–	–	8	8
Closing accumulated revaluations	–	–	8	8
Opening impairment charges	–	–	–644	–644
Impairment charges during the year	–	–	–	–
Closing accumulated impairment charges	–	–	–644	–644
BS Book value	15	5	4,564	4,112

Effect on cash flow

Purchase price, external acquisitions	–781	–586
Purchase price not paid	8	61
Reversal of contingent consideration	–	5
Purchase price paid for previous years' acquisitions	–103	–98
Shareholder contribution paid out	–84	–7
Total	–960	–625

Note 17

continued

A complete, statutory specification has been appended to the annual report sent in to the Swedish Companies Registration Office. This specification is available upon request from Indutrade AB.

Note 18

Non-current receivables

	Group		Parent Company	
	2016	2015	2016	2015
Opening balance	19	15	12	9
Additional receivables	2	1	2	–
Repaid deposits/amortisation	–10	–	–	–
Company acquisitions	8	1	–	–
Change in value of pensions	0	1	0	1
Reported net against pension obligations	–	2	–	2
Exchange rate differences	0	–1	–	–
BS Total	19	19	14	12

The Group's non-current receivables pertain mainly to endowment insurance policies. The book value is judged to correspond to fair value. The maturity dates for the endowment insurance policies is dependent on the date of retirement for the persons insured.

The Parent Company's non-current receivables pertain mainly to an endowment insurance policy.

Note 19

Inventories

ACCOUNTING PRINCIPLE

Inventories

Inventories are stated at the lower of their cost and net realisable value. Cost is calculated using the first-in first-out (FIFO) method. The cost of finished goods and work in progress consists of raw materials, direct wages, other direct costs and related indirect manufacturing costs (based on normal manufacturing capacity).

Net realisable value is the estimated selling price in the normal course of business, less relevant variable selling costs.

Group

Inventories are broken down into the following items:	2016	2015
Raw materials and consumables	373	289
Products in process	305	281
Finished products and goods for resale	1,571	1,361
BS Total	2,249	1,931

The cost of goods sold for the Group includes impairment of inventory, totalling SEK 24 million (21). No significant reversals of previous impairment charges were made in 2016 or 2015.

Note 20

Trade receivables

ACCOUNTING PRINCIPLE

Trade receivables

Trade receivables are stated initially at fair value and thereafter in the amount that is expected to be received after individual assessment. A provision for decreases in the value of trade receivables is made when there is objective evidence that the Group will not be able to receive all amounts due according to the original terms of the receivable. Testing is conducted locally in the respective subsidiaries. The asset's carrying amount is reduced by use of a value impairment account, and the loss is recognised in the income statement under the item "Selling costs". Recoveries of previous impairment losses are credited to selling costs in the income statement. Since the Group consists of approximately 200 operating companies, the item trade receivables consists of many smaller amounts. The subsidiaries have close contact with their customers, and thus valuation of trade receivables rarely poses any difficulty. The risk is lower, and the subsidiaries can act quickly, if a customer does not pay in accordance with the terms and conditions. See also Note 2. Since Indutrade's trade receivables normally have a remaining term of less than six months, the carrying amount is considered to reflect the fair value.

Age breakdown of trade receivables and provisions for impaired trade receivables

Group		
Trade receivables	2016	2015
Trade receivables not due	1,704	1,494
Trade receivables 0–3 months past due	473	454
Trade receivables 3–6 months past due	43	39
Trade receivables more than 6 months past due	124	53
Provision for impaired trade receivables	–52	–45
BS Total	2,292	1,995

Provision for impaired trade receivables

Provision for trade receivables, 0–3 months past due	–4	–5
Provision for trade receivables, 3–6 months past due	–2	–6
Provision for trade receivables, older than 6 months	–46	–34
Total	–52	–45

Change in provision for impaired trade receivables during the year

Opening provision	–45	–36
Receivables written off as customer losses	7	5
Reversed, unutilised provisions	6	6
Provision for the year for impaired trade receivables	–16	–21
Company acquisitions	–2	0
Exchange rate differences	–2	1
Closing provision	–52	–45

For a description of risks associated with the Company's trade receivables, see Note 2.

Note 21

Prepaid expenses and accrued income

	Group		Parent Company	
	2016	2015	2016	2015
Prepaid rents	19	20	–	–
Prepaid insurance premiums	11	11	0	0
Other prepaid expenses	93	68	6	5
Accrued income	15	12	–	–
BS Total	138	111	6	5

Note 22

Non-current and current interest-bearing liabilities

ACCOUNTING PRINCIPLE

Borrowings

Loans are stated initially at fair value, net after deducting transaction costs. They are thereafter stated at amortised cost, and any difference between the amount received (net after transaction costs) and the repayment amount is stated in the income statement allocated over the duration of the loans using the effective interest method. Borrowings are classified as non-current liabilities unless the Group has an unconditional right to defer repayment by at least 12 months after the balance sheet date.

Contingent consideration

Indutrade normally uses an acquisition structure consisting of a base level of consideration and contingent consideration (earn-out payment). Contingent consideration is normally based on the projected earnings of the acquired company in the years immediately ahead. As per the date of the transaction, the contingent consideration is measured at fair value by estimating the present value of the likely outcome. The interest expense is thereafter allocated over the period up until the date of payment. Contingent consideration is remeasured at every reporting date. Excess or deficit amounts are booked as an expense or revenue in the income statement under other operating income/expense. Contingent consideration is reported as current if it is payable within 12 months from the balance sheet date.

Leases

IAS 17 defines a lease as an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The Group leases certain non-current assets, mainly premises and cars.

Leases in which the Group in all essential respects accepts the financial risks and benefits associated with ownership are classified as finance leases. Otherwise, the lease is classified as an operating lease.

At the start of the lease period, finance leases are carried on the balance sheet at the lower of the leased asset's fair value and the present value of the minimum lease payments. Every lease payment is allocated between amortisation of the liability and financial expenses to achieve a fixed rate of interest for the reported liability. Corresponding payment obligations, after deducting financial expenses, are reported on the balance sheet under long-term and short-term borrowings. Non-current assets held under finance leases are depreciated during the shorter of the asset's useful life or lease period.

Note 22

continued

Assets leased under operating leases are not carried as assets on the consolidated balance sheet, and operating leases do not give rise to any liability. Lease payments are expensed on a linear basis over the lease period as operating expenses. See Note 9.

	Group		Parent Company	
	2016	2015	2016	2015
Non-current				
Future leasing obligations for finance leases	56	54	1	1
SEK-denominated loans with terms longer than 1 year	1,808	800	1,800	800
EUR-denominated loans with terms longer than 1 year	3	4	–	–
Loans in other currencies with terms longer than 1 year	45	55	–	–
Contingent earn-out payments in SEK with payment due later than 1 year	1	22	–	22
Contingent earn-out payments in EUR with payment due later than 1 year	36	44	–	–
Contingent earn-out payments in other currencies with payment due later than 1 year	44	26	6	9
BS	1,993	1,005	1,807	832
Current				
Utilised bank overdraft facilities	48	40	25	–
Future leasing obligations for finance leases	43	35	1	–
SEK-denominated loans with terms shorter than 1 year	1,500 ¹⁾	1,538 ¹⁾	1,499 ¹⁾	1,538 ¹⁾
EUR-denominated loans with terms shorter than 1 year	0	201	–	201
Loans in other currencies with terms shorter than 1 year	47	47	–	–
Contingent earn-out payments in SEK with payment due less than 1 year	13	47	13	45
Contingent earn-out payments in EUR with payment due less than 1 year	17	6	–	–
Contingent earn-out payments in other currencies with payment due less than 1 year	18 ²⁾	114 ²⁾	–	68
BS	1,686	2,028	1,538	1,852
Total	3,679	3,033	3,345	2,684

1) Of which, commercial paper SEK 1,499 million (1,038).

2) Of which, GBP corresponding to SEK 18 million.

Car leases are reported as finance leases in accordance with IFRS, entailing an increase in liabilities by SEK 99 million (89). Of the Group's long-term leasing obligations, SEK 33 million falls due for payment in 2018, SEK 21 million in 2019, and SEK 2 million in 2020 or later.

Externally granted bank overdraft facilities amount to SEK 789 million (798) for the Group and SEK 680 million (680) for the Parent Company.

	Group		Parent Company	
SEK million	2016	2015	2016	2015
Maturity dates for long-term loans in SEK				
Maturity 2017		–		–
Maturity 2018	801	800	800	800
Maturity 2019	501	–	500	–
Maturity 2020	1	–	–	–
Maturity 2021 or later	505	–	500	–
Total long-term borrowings in SEK million	1,808	800	1,800	800

Long-term loans in SEK carry variable rates of interest. The carrying amount corresponds to fair value. The Parent Company has entered into contracts to hedge part of its borrowing that is at variable interest rates to fixed interest rates. See Note 2.

	Group		Parent Company	
EUR million	2016	2015	2016	2015
Maturity dates for long-term loans in EUR				
Maturity 2017		0		–
Maturity 2018	0	0	–	–
Maturity 2019	0	0	–	–
Maturity 2020	0	0	–	–
Maturity 2021 or later	0.3	0.4	–	–
Total long-term borrowings in EUR million	0.3	0.4	–	–
Corresponding amounts in SEK million	3	4	–	–

Long-term loans in EUR carry variable rates of interest. The carrying amount corresponds to fair value.

	Group		Parent Company	
SEK million	2016	2015	2016	2015
Maturity dates for long-term loans in other currencies				
Maturity 2017		26		–
Maturity 2018	11	8	–	–
Maturity 2019	10	8	–	–
Maturity 2020	10	8	–	–
Maturity 2021 or later	14	5	–	–
Total long-term borrowings in other currencies	45	55	–	–

By other currencies is meant KRW, DKK, GBP and USD. The loans have both variable and fixed rates of interest. The difference between fair value and the carrying amount is negligible.

Note 22

continued

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Payment due for long-term contingent earn-out payments in SEK				
Payable in 2017		22		22
Payable in 2018	1	–	–	–
Total long-term contingent earn-out payments in SEK million	1	22	–	22

The present value is calculated using an interest rate of 2%.

EUR million	Group		Parent Company	
	2016	2015	2016	2015
Payment due for long-term contingent earn-out payments in EUR				
Payable in 2017		2.0		–
Payable in 2018	2.9	2.6	–	–
Payable in 2019	0.3	0.2	–	–
Payable in 2020	0.6	–	–	–
Total long-term contingent earn-out payments in EUR million	3.8	4.8	–	–
Corresponding amount in SEK million	36	44	–	–

The present value is calculated using an interest rate of 2% for payments of SEK 7 million, an interest rate of 3% for payments of SEK 23 million, and an interest rate of 4% for payments of SEK 6 million.

SEK million	Group		Parent Company	
	2016	2015	2016	2015
Payment due for long-term contingent earn-out payments in other currencies:				
Payable in 2017		26		9
Payable in 2018	44	–	6	–
Total long-term contingent earn-out payments in other currencies	44	26	6	9

By other currencies is meant NOK, GBP, KRW and MYR, of which NOK accounts for approximately SEK 6 million and GBP for SEK 36 million. The present value is calculated using an interest rate of 2%.

Note 23

Pension obligations

ACCOUNTING PRINCIPLE

The Group has both defined benefit and defined contribution pension plans. A defined benefit pension plan is a pension plan that specifies a level of post-retirement benefits. The Group's defined benefit plans are both funded and unfunded. For funded plans, the assets have been detached (plan assets). A defined contribution pension plan is a pension plan to which the Group makes set contributions to a separate legal entity.

The liability carried on the balance sheet pertaining to defined benefit pension plans consists of the present value of the defined benefit obligations on the balance sheet date, less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is calculated by discounting the anticipated future cash flows using the rate of interest for high quality corporate bonds in countries in which such a market exists (the Netherlands, the UK and Switzerland).

For calculations of defined benefit pension obligations in Sweden, the discount rate has been set in reference to the interest rate for mortgage bonds with a duration that corresponds to the average duration of the obligations. Indutrade has determined that a deep market for high quality corporate bonds exists in Sweden and is of the opinion that Swedish mortgage bonds issued by Swedish corporations in the financial sector are covered by the concept of corporate bonds. Based on the outstanding volume, turnover and number of issues in the mortgage bond market, it has been determined that a deep market exists for these bonds. Consequently, mortgage bonds have been used as a basis for the interest rate.

Actuarial gains and losses arising from experience-based adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income after taking into account payroll tax and deferred tax.

Pension costs relating to service in current and past periods are recognised directly in profit or loss.

For defined contribution pension plans, the Group pays contributions to publicly or privately administered pension plans on a statutory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Earnings are charged in pace with employees' earnings of the benefits.

Some of the Group's defined benefit pension obligations have been financed through payment of premiums to the insurance company Alecta. Since relevant information about these cannot be obtained from Alecta, these obligations are reported as a defined contribution plan.

Valuation of pension obligations

In calculations of the liability on the balance sheet pertaining to defined benefit pension plans, various assumptions have been made, as shown in the table.

The Parent Company's pension obligation consists of an endowment insurance policy.

Defined benefit plans

In accordance with IAS 19 Employee Benefits, actuaries commissioned by Indutrade have computed the Group's pension liability and the provisions to be made on a regular basis for pensions for the Group's employees.

Note 23

continued

The pension plans include retirement pensions, disability pensions and family pensions. Calculations are done individually and are based on the employee's salary, previously earned pension benefits and the anticipated remaining service period. Apart from the PRI plan in Sweden, the Group has defined benefit plans primarily in the Netherlands, Switzerland and the UK. Switzerland has a risk-sharing system for defined benefit plans in which the risk is split between the company and the employees. The plan in the UK was closed for new contributions in 2014.

Breakdown of net liability in SEK million

	2016	2015
PRI plan	117	104
Defined benefit plans, Netherlands, Switzerland and the UK	137	126
Total defined benefit plans	254	230
Other pension obligations	27	25
BS Total	281	255

The Group's plan assets, totalling SEK 748 million (680), consist for Switzerland and the Netherlands of investments with insurance companies, mainly in government bonds, corporate bonds and interest rate derivatives. Plan assets in the UK consist of equities and equity funds, government and corporate bonds, and liquid assets. The pension liability is irrevocable.

Defined contribution plans

The pension plans include retirement pensions, disability pensions and family pensions. Premiums are paid on a regular basis during the year to independent legal entities. The size of the pension premiums is based on the individual employee's salary, and the cost of the premium is recognised on a continuing basis through profit or loss.

According to a pronouncement from the Swedish Financial Reporting Board, retirement pension and family pension obligations secured through insurance with Alecta for salaried employees in Sweden are classified as multi-employer defined benefit plans. For 2016 Indutrade does not have access to such information that would make it possible to report this plan as a defined benefit plan, which is why the plan is reported as a defined contribution plan. Premiums paid during the year for pension plans with Alecta amounted to approximately SEK 20 million (18). Premiums for 2017 are expected to be in line with 2016. Alecta's collective funding ratio was 149% (153%) in December 2016.

Assumptions used in actuarial computations

Group	2016			
	Sweden	Netherlands	Switzerland	UK
Assumptions in calculating pension obligations				
Discount rate, %	2.55	1.90	0.80	2.90
Future salary increases, %	3.00	1.80	1.00	–
Anticipated inflation, %	1.50	1.80	0.50	3.50
Future pension increases, %	1.50	1.80	0.00	2.50
Employee turnover, %	2.00	1)	1)	–

1) Age-related

	2015			
	Sweden	Netherlands	Switzerland	UK
Assumptions in calculating pension obligations				
Discount rate, %	3.20	2.20	1.10	3.60
Future salary increases, %	3.05	2.50	1.00	–
Anticipated inflation, %	1.55	1.90	0.50	3.10
Future pension increases, %	1.55	1.80	0.00	2.40
Employee turnover, %	2.00	1)	1)	–

1) Age-related

Duration

Duration, years	2016	2015
Sweden	18	18
Netherlands	20	15
Switzerland	17	17
UK	16	14

Sensitivity analysis for changes in significant assumptions:

Impact on defined benefit obligation, SEK million	Sweden	Netherlands	Switzerland	UK
Discount rate, increase by 1.00%	–16	–72	–53	–11
Discount rate, decrease by 1.00%	21	97	71	11
Salary increase of 1.00%	14	9	9	0

Note 23

continued

Amounts reported on the balance sheet	2016	2015
Present value of funded obligations	885	806
Fair value of plan assets	-748	-680
	137	126
Present value of unfunded obligations	117	104
	117	104
Net liability, defined benefit plans, on balance sheet	254	230
Revaluation in other comprehensive income		
Experience-based adjustments of defined benefit obligations	-3	-2
Return on plan assets, excl. interest income	-25	-11
Demographic adjustments of defined benefit obligations	-5	-1
Financial adjustments of defined benefit obligations	48	19
Total	15	5

Actuarial gains and losses, including payroll taxes in Sweden, are recognised in other comprehensive income. At the end of the financial year, accumulated actuarial losses recognised in comprehensive income amounted to SEK 127 million (110).

	2016	2015
Present value of pension obligations at start of year	910	887
Pension costs	24	27
Interest expenses	17	19
Employee contributions	9	8
Pension payments	-30	-50
Dissolution of pension liability	-	-5
Actuarial gains (-)/losses (+)	40	16
Exchange rate differences	32	8
Present value of pension obligations at year-end	1,002	910
Plan assets at start of year	680	669
Interest income	13	14
Employee contributions	10	10
Company contributions	20	18
Pension payments	-26	-45
Dissolution of pension liability	-	-3
Return on plan assets, excl. interest income	25	11
Exchange rate differences	26	6
Plan assets at year-end	748	680
Net liability at start of year	230	218
Net cost reported in the income statement	28	32
Pension payments	-5	-7
Company contributions	-20	-18
Dissolution of pension obligation	-	-2
Actuarial gains (-)/losses (+)	15	5
Exchange rate differences in foreign plans	6	2
Net liability at year-end	254	230

Group	2016			2015		
Amounts reported in income statement	Defined benefit plans	Defined contribution plans	Total	Defined benefit plans	Defined contribution plans	Total
Current service cost	24	196	220	27	173	200
Interest on obligation	17	-	17	19	-	19
Return on plan assets	-13	-	-13	-14	-	-14
Net cost in income statement	28	196	224	32	173	205
Of which, included in selling costs	24	144	168	27	132	159
Of which, included in administrative expenses	0	52	52	0	41	41
Of which, included in financial items	4	-	4	5	-	5

Anticipated company contributions to defined benefit pension plans in 2017 amount to SEK 20 million.



Note 24

Other provisions

ACCOUNTING PRINCIPLE

A provision is reported on the balance sheet when the Group has a formal or constructive obligation as a result of an event that has occurred and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been calculated in a reliable manner.

Future obligations for guarantee commitments are based on outlays for similar costs during the financial year or calculated costs for the respective obligations.

	Group		Parent Company	
	2016	2015	2016	2015
Guarantee commitments	10	8	–	–
Total long-term provisions	10	8	–	–

Guarantee commitments

Opening balance, 1 January 2016	8
Guarantee commitments in acquired companies	1
Change in guarantee commitments for the year	1
BS Closing balance, 31 December 2016	10

Note 25

Accrued expenses and deferred income

	Group		Parent Company	
	2016	2015	2016	2015
Accrued vacation pay	189	164	4	3
Other payroll costs	169	148	5	8
Accrued social security costs	72	68	3	4
Customer bonuses and discounts	26	22	–	–
Accrued financial expenses	3	4	3	3
Other	112	89	2	2
BS Total	571	495	17	20

Note 26

Pledged assets

	Group		Parent Company	
	2016	2015	2016	2015
For own liabilities:				
Real estate mortgages	158	112	–	–
Chattel mortgages	18	113	–	1
Assets subject to liens ¹⁾	102	91	–	–
Endowment insurance policies	–	1	–	–
BS Total	278	317	0	1

¹⁾ Car leases are reported as finance leases in accordance with IFRS, entailing an increase in assets, liabilities and pledged assets.

Note 27

Contingent liabilities

ACCOUNTING PRINCIPLE

A contingent liability is recognised when a possible obligation arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events, or when an obligation currently exists that is not reported as a liability or provision because it is not probable that an outflow or resources will be required to settle the obligation.

	Group		Parent Company	
	2016	2015	2016	2015
Contingent liabilities for subsidiaries' PRI liabilities	–	–	78	78
Guarantees pledged for the benefit of subsidiaries	–	–	52	34
Contingent liabilities for own PRI liabilities	2	2	–	–
Other contingent liabilities	2	1	–	–
BS Total	4	3	130	112

Note 28

Cash and cash equivalents

ACCOUNTING PRINCIPLE

Cash and cash equivalents include short-term investments with maturities of less than three months, and cash and bank balances. Drawn bank overdraft facilities are stated on the balance sheet under the item "Current interest-bearing liabilities".

Cash and cash equivalents on the balance sheet and in the statement of cash flows consist of:

	Group		Parent Company	
	2016	2015	2016	2015
Cash and bank balances	324	335	0	29
Short-term investments	8	4	–	–
BS Total	332	339	0	29

Note 29

Acquisitions and divestments of subsidiaries

Acquisitions 2016

All of the shares were acquired in PECO Select Fasteners BV (Netherlands), Industri Verktøy AS (Norway), Senmatic A/S (Denmark), Beldam Crossley Ltd (UK), Fluid Controls Ltd (UK), Klokkeholm Karosseridele A/S (Denmark), KA Olsson & Gems AB (Sweden), Vacuum Engineering Services Ltd (UK), Crysberg A/S (Denmark), Alphr Technology Ltd (UK), and Scanmaskin Group (Sweden).

Industrial Components

On 16 March Industri Verktøy AS (Norway) was acquired, with annual sales of SEK 40 million. The company supplies equipment for building in stone and concrete.

On 1 July KA Olsson & Gems AB (Sweden) was acquired, with annual sales of SEK 90 million. The company is a niche technology sales company with business in three segments: Tape & Glue, Films & Digital, and Display & Décor.

Fluids & Mechanical Solutions

On 3 May Klokkeholm Karosseridele A/S (Denmark) was acquired, with annual sales of SEK 310 million. The company offers a wide range of spare parts to the automotive repair industry.

On 8 November Scanmaskin Group (Sweden) was acquired, with annual sales of SEK 120 million. The company manufactures floor grinding, surface finishing and polishing equipment.

Measurement & Sensor Technology

On 18 March Senmatic A/S (Denmark) was acquired, with annual sales of SEK 150 million. The company manufactures a wide range of standard and customised sensors for measurement of temperature and relative humidity.

On 12 August Crysberg A/S (Denmark) was acquired, with annual sales of SEK 90 million. The company develops and manufactures electronic control solutions primarily for irrigation systems used in such areas as parks, sports facilities and golf courses.

Special Products

On 8 January PECO Select Fasteners BV (Netherlands) was acquired, with annual sales of SEK 30 million. The company supplies special and customised fasteners to manufacturers of steel constructions within wind power, cranes, vessels and buildings.

On 1 April Beldam Crossley Ltd (UK) was acquired, with annual sales of SEK 80 million. The company manufactures packings, advanced plastic components and bearings.

On 6 April Fluid Controls Ltd (UK) was acquired, with annual sales of SEK 40 million. The company provides control and instrumentation solutions comprising valves, fittings and pressure regulators.

On 5 July Vacuum Engineering Services Ltd (UK) was acquired, with annual sales of SEK 100 million. The company manufactures leak detection equipment.

On 21 September Alphr Technology Ltd (UK) was acquired, with annual sales of SEK 80 million. The company designs and manufactures customised equipment for manual and automated production lines.



Note 29

continued

Effects of acquisitions carried out in 2015 and 2016

Pertains to the impact on the 2016 income statement

SEK million	Net sales	EBITA
Engineering & Equipment	–	–
Flow Technology	–	–
Fluids & Mechanical Solutions	280	33
Industrial Components	164	16
Measurement & Sensor Technology	185	24
Special Products	314	51
Effect on Group	943	124
Acquisitions completed in 2015	262	31
Acquisitions completed in 2016	681	93
Effect on Group	943	124

If all of the acquired units had been consolidated as from 1 January 2016, net sales would have amounted to SEK 13,440 million, and EBITA would have totalled SEK 1,554 million.

Acquired assets in 2016

Preliminary purchase price allocation	SEK million		
Purchase price, incl. contingent earn-out payments totalling SEK 72 million			1,142
	Book value	Fair value adjustment	Fair value
Acquired assets			
Goodwill	–	420	420
Agencies, trademarks, customer relationships, licences, etc.	24	405	429
Property, plant and equipment	168	–	168
Financial assets	17	–	17
Inventories	238	–	238
Other current assets ¹⁾	194	–	194
Cash and cash equivalents	82	–	82
Deferred tax liability	–21	–86	–107
Provisions incl. pension obligations	–1	–	–1
Other operating liabilities	–292	–	–292
Non-controlling interests	–6	–	–6
	403	739	1,142

1) Mainly trade receivables.

Since disclosures about the individual acquisitions are insignificant, they are provided here in aggregate form. The cost of customer relations and agencies has been valued at one-half to one year's gross profit and is reported on the balance sheet as

agencies, trademarks, customer relations, licences, etc. Agencies, customer relations, licences, etc. will be amortised over a period of 10 to 20 years, while trademarks are assumed to have indefinite useful life. Trademarks are included in the amount of SEK 16 million. Goodwill is justified by the good profitability and personnel included in the acquired companies.

Indutrade normally uses an acquisition structure entailing a base level of consideration plus a contingent earn-out payment. Initially, the contingent earn-out payments are valued at the present value of the likely outcome, which for the acquisitions made during the year amount to SEK 72 million. The contingent earn-out payments fall due for payment within four years and can amount to a maximum of SEK 74 million. If the conditions are not met, the outcome can be in the range of SEK 0–74 million.

Transaction costs for the acquisitions carried out during the year totalled SEK 8 million (6) and are included in Other operating expenses in the income statement. Contingent earn-out payments have been restated in the amount of SEK 32 million (7). The resulting income is reported in Other operating income in the income statement in the amount of SEK 31 million (7) and in net financial items in the amount of SEK 1 million (0).

The purchase price allocation calculation for EPE-Goldman BV, which was acquired in October 2015, has now been finalised. No significant adjustments have been made in the calculation. For other acquisitions, the purchase price allocation calculations are preliminary. Indutrade regards the calculations as preliminary during the time that uncertainty exists with respect to, for example, the outcome of guarantees in the acquisition agreements concerning inventories and trade receivables.

Effect on cash flow, SEK million

Purchase price, incl. contingent earn-out payments	1,142
Purchase price not paid out	–64
Cash and cash equivalents in acquired companies	–82
Payments pertaining to previous years' acquisitions	168
Total effect on cash flow	1,164

Acquisitions after the end of the reporting period

On 10 January Indutrade acquired RS Technics BV (Netherlands), with annual sales of SEK 20 million. The company develops and manufactures customer-specific sensors for measuring temperature, pressure and humidity.

On 19 January Indutrade acquired Sunflower Medical Ltd (UK), with annual sales of SEK 50 million. The company is a manufacturer of healthcare equipment.

On 13 February Indutrade acquired Ellard Ltd (UK), with annual sales of SEK 100 million. The company manufactures drives, motors and controls for doors and shutters, complemented with accessories.

On 13 March Indutrade acquired Türenfabrik Safenwil AG (Switzerland), with annual sales of SEK 70 million. The company manufactures various kinds of doors, such as interior and exterior doors, fire protection and security doors.

Preliminary purchase price allocation calculations will be presented in the first quarter interim report for 2017.

Note 29

continued

Acquisitions 2015

All of the shares were acquired in Flowtec Industrietechnik GmbH (Austria), Adaero Precision Components Ltd (UK), Cepro International BV (Netherlands), Sepab Fordonsprodukter AB (Sweden), Filtration Ltd (UK), Combilent A/S (Denmark), Milltech Precision Engineering Ltd (UK), Geomek Stockholms Geomekaniska AB (Sweden), Relekta-gruppen (Norway), Professional Parts Sweden AB (Sweden), Trelawny SPT Ltd (UK), Fergin Sverige AB (Sweden) and EPE-Goldman BV (Netherlands).

Industrial Components

On 14 April Geomek Stockholms Geomekaniska AB (Sweden) was acquired, with annual sales of SEK 140 million. Geomek markets and sells solutions, products and services in geotechnical surveying and the foundation drilling industry.

On 24 April Relekta-gruppen (Norway – Relekta AS, Norsk Industrielje AS and Relekta Service AS) was acquired, with annual sales of SEK 270 million. Relekta is a Norwegian technology sales company that supplies products for construction, repair and maintenance primarily for the construction industry, automotive workshops and general industry.

Fluids & Mechanical Solutions

On 16 June Professional Parts Sweden AB (Sweden) was acquired, with annual sales of SEK 130 million. Proparts is a technology sales company that supplies replacement parts to the automobile aftermarket.

On 9 September Fergin Sverige AB (Sweden) was acquired, with annual sales of SEK 50 million. Fergin sells a wide range of encapsulated lighting fixtures for use in demanding environments.

Measurement & Sensor Technology

On 22 January Sepab Fordonsprodukter AB (Sweden) was acquired, with annual sales of SEK 50 million. With focus on commercial vehicles, Sepab develops unique products for safety, national adaptation, efficiency and comfort.

On 12 March Combilent A/S (Denmark) was acquired, with annual sales of SEK 100 million. Combilent is a leading manufacturer of combiner systems and RF conditioning products for communication systems.

Special Products

In early January 2015 the acquisition of Flowtec Industrietechnik GmbH (Austria) was completed, with annual sales of SEK 80 million. Flowtec is a technology sales company that sells industrial components to companies in Austria and Eastern Europe.

On 9 January Adaero Precision Components Ltd (UK) was acquired, with annual sales of SEK 50 million. Adaero manufactures customised, high precision industrial components.

Also on 9 January, Cepro International BV (Netherlands) was acquired, with annual sales of SEK 70 million. Cepro manufactures work station products for welding and grinding workshops.

On 6 March Filtration Ltd (UK) was acquired, with annual sales of SEK 30 million. Filtration sells high quality filters from leading manufacturers.

On 18 March Milltech Precision Engineering Ltd (UK) was acquired, with annual sales of SEK 45 million. Milltech conducts manufacturing and assembly of high precision components.

On 1 July Trelawny SPT Ltd (UK) was acquired, with annual sales of SEK 60 million. Trelawny manufactures and installs pneumatic tools and equipment for various types of surface treatment.

On 2 October EPE-Goldman BV (Netherlands) was acquired, with annual sales of SEK 80 million. EPG supplies hydraulic products from leading manufacturers to industrial customers.

Effects of acquisitions carried out in 2014 and 2015

Pertains to the impact on the 2015 income statement

SEK million	Net sales	EBITA
Engineering & Equipment	–	–
Flow Technology	–	–
Fluids & Mechanical Solutions	152	30
Industrial Components	402	51
Measurement & Sensor Technology	100	3
Special Products	545	91
Effect on Group	1,199	175
Acquisitions completed in 2014	401	67
Acquisitions completed in 2015	798	108
Effect on Group	1,199	175

If all of the acquired units had been consolidated as from 1 January 2015, net sales for the year would have increased by SEK 311 million to SEK 12,192 million, and EBITA would have increased by SEK 40 million to SEK 1,467 million.

Acquired assets in 2015

	SEK million		
Preliminary purchase price allocation			
Purchase price, incl. contingent earn-out payments totalling SEK 120 million			974
	Book value	Fair value adjustment	Fair value
Acquired assets			
Goodwill	2	402	404
Agencies, trademarks, customer relationships, licences, etc.	5	377	382
Property, plant and equipment	83	3	86
Financial assets	1	–	1
Inventories	199	–	199
Other current assets ¹⁾	228	–	228
Cash and cash equivalents	79	–	79
Deferred tax liability	–8	–90	–98
Other operating liabilities	–305	–	–305
Non-controlling interests	–2	–	–2
	282	692	974

1) Mainly trade receivables.



Note 29

continued

Since disclosures about the individual acquisitions are insignificant, they are provided here in aggregate form. The cost of customer relations and agencies has been valued at one-half to one year's gross profit and is reported on the balance sheet as agencies, trademarks, customer relations, licences, etc. They will be amortised over a period of 10 to 20 years, with the exception of trademarks, which are assumed to have indefinite useful life. Trademarks are included in the amount of SEK 5 million. Goodwill is justified by the good profitability and personnel included in the acquired companies.

Indutrade normally uses an acquisition structure entailing a base level of consideration plus a contingent earn-out payment. The contingent earn-out payments are based on the earnings of the acquired companies during the years immediately ahead. Initially, the contingent earn-out payments are valued at the present value of the likely outcome, which for the acquisitions made during the year amount to SEK 120 million. The contingent earn-out payments fall due for payment within four years and can amount to a maximum of SEK 127 million. If the conditions are not met, the outcome can be in the range of SEK 0-127 million.

Transaction costs for the acquisitions carried out during the year totalled SEK 6 million (5) and are included in Other operating expenses in the income statement. Contingent earn-out payments have been restated in the amount of SEK 7 million (101). The resulting income is reported in Other operating income in the income statement in the amount of SEK 7 million (94) and in net financial items in the amount of SEK 0 million (7).

Effect on cash flow, SEK million

Purchase price, incl. contingent earn-out payments	974
Purchase price not paid out	-121
Cash and cash equivalents in acquired companies	-79
Payments pertaining to previous years' acquisitions	106
Total effect on cash flow	880

Divestment 2015

In January the operations of Tuupakan Sähkökeksus Oy, which was part of the Engineering & Equipment business area and had net sales of SEK 14 million, were divested. The sale generated a capital gain of SEK 1 million.

Note 30

Related party transactions

Intra-Group purchases and sales were only limited in extent. Investments with and borrowings from Group companies have been made on an arm's length basis.

The Indutrade Group's related parties consist mainly of senior executives. Disclosures of transactions with these related parties are provided in Note 7, Wages, salaries and other remuneration, and social security costs.

Note 31

Events after the balance sheet date

During the period January–March 2017 four company acquisitions were carried out. For further information, see Note 29.

In other respects, no significant events for the Group have occurred after the end of the reporting period.

Note 32

Disclosures about Parent Company

Indutrade AB, reg. no. 556017-9367, is the Parent Company of the Group. The Company is a Swedish limited liability company with registered office in Stockholm, Sweden. Address:

Indutrade AB

Box 6044
SE-164 06 Kista
Tel: +46 (0)8 703 03 00
Website: www.indutrade.com

The share capital of Indutrade AB as per 31 December 2015 consisted of 40,000,000 shares with a share quota value of SEK 1. A 2-for-1 bonus issue was carried out in May 2016, in which each existing share carried entitlement to two new shares. The share quota value increased from SEK 1 to SEK 2, the number of shares increased by 80,000,000, and the share capital increased by SEK 200 million. As per 31 December 2016 the share capital thus consisted of 120,000,000 shares with a share quota value of SEK 2, for a total of SEK 240 million.

At the Annual General Meeting on 26 April 2017, a dividend of SEK 3.20 per share will be proposed for the 2016 financial year, for a total of SEK 384 million. The proposed dividend has not been reported as a liability in these financial statements.

Note 33

Proposed distribution of earnings

The Annual General Meeting has the following funds at its disposal (SEK million)

Share premium reserve	4
Reserve for fair value	-11
Retained earnings	2,293
Net profit for the year	986
Total	3,272

The Board of Directors proposes the following distribution of earnings (SEK million)

Dividend of SEK 3.20 per share	384
To be carried forward	2,888
Total	3,272

The dividend proposed by the Board of Directors corresponds to 11% of the Parent Company's equity and 9% of the Group's equity. Indutrade's dividend policy is that the dividend shall, over time, amount to between 30% and 60% of net profit.

Against the backdrop of the anticipated trend in the economy, the Board is of the opinion that the proposed dividend is well balanced with respect to the goals, scope and risks of the operations and with respect to the ability to meet the Company's future obligations.

If the dividend had been paid out at year-end, the Group's equity ratio would have been 36%. After payment of the proposed dividend, it is judged that Indutrade will continue to have a favourable financial position.

The Board's assurance

The Board of Directors and President certify that the consolidated financial statements and annual report have been prepared in accordance with International Financial Reporting Standards (IFRS) and generally accepted accounting principles and give a true and fair presentation of the Group's and Parent Company's position and result of operations. The Directors' Report for the

Group and Parent Company gives a true and fair overview of the Group's and Parent Company's operations, position and result of operations and describes material risks and uncertainties facing the Parent Company and companies included in the Group.

The Group's and Parent Company's result of operations and position in general are shown in the preceding income statements, balance sheets, cash flow statements and notes.

Stockholm, 21 March 2017

Fredrik Lundberg
Chairman of the Board

Bengt Kjell
Vice Chairman of the Board

Annica Bresky
Director

Katarina Martinson
Director

Ulf Lundahl
Director

Krister Mellvé
Director

Lars Pettersson
Director

Johnny Alvarsson
President and CEO, Director

Our audit report was submitted on 22 March 2017
PricewaterhouseCoopers AB

Michael Bengtsson
Authorised Public Accountant

Auditors' report

To the general meeting of the shareholders of Indutrade AB (publ), corporate identity number 556017-9367

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Indutrade AB (publ) for the year 2016, with the exception of the Corporate Governance Report on pages 32-41 of the printed version of this document. The annual accounts and consolidated accounts of the company are included on pages 20-79 in this document and appendix to note 17 Shares and participations.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not cover the corporate governance report on pages 32-41. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered areas where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Indutrade markets and sells components, systems and services with high-tech content in selected niches to the industry. The Group consists of 200 companies in 28 countries and has a clearly defined acquisition strategy. Since the stock market introduction

in 2005, the Group has grown, mainly through acquisitions, by 12 percent in average per year. The single largest company in the Group is HP Valves in the Netherlands. With the exception of this company the Group consists of individually small entities with respect to the Group as a total. The most significant balance sheet items are inventories and accounts receivables.

In order to ensure that we in our audit of the consolidated accounts have a common focus on important areas, and to ensure that we obtain a sufficient coverage of the Group's net sales, the Group audit team have assigned each subsidiary one out of five audit scopes. These scopes vary from no audit (non-significant subsidiary or no statutory audit obligation) to so called full audit which means interim audit procedures during fall with a focus on internal controls, review procedures as of September 30 and year-end audit procedures. Through this scope of our work we as Group auditors obtain enough coverage from subsidiaries in Group reporting scope when we issue this Auditor's report. In addition, local statutory audit procedures are performed for all legal entities within the Group subject to such requirements according to local law.

The strongly decentralized governance model adopted by Indutrade, means local management in the individual subsidiaries have important responsibilities in terms of establishing and maintaining proper internal controls. Within the Indutrade Group there is an annual process for self-assessment whereby the companies respond to an internal controls questionnaire. Answers are summarized and evaluated by the parent company's finance department and business area controllers. In addition, we perform as part of our audit a validation of selected questions in the self-assessment.

On Group level we audit areas such as impairment of goodwill, actuarial reports for significant pension plans and acquisition balances.

Our audit is carried out continuously during the year. In 2016, with respect to the interim reports for the third quarter and year-end, we reported our main observations to Group management and the Board of Directors. For the third quarter, we issued a public review report.

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Valuation of inventories

Inventories in the Group amount to SEK 2.2 billion as of December 31, 2016, which constitutes a significant item in the consolidated balance sheet where existence and valuation are important factors to consider. The obsolescence provisions are to some extent affected by management's judgments.

Refer to the Annual Report Note 19 – Inventories.

In our audit we have mapped and assessed the companies' inventory processes including routines for valuation and assessment of obsolescence in order to gain an understanding of risks and controls. We have also participated in stocktaking and performed audit procedures of pricing of articles in stock.

We have tested the obsolescence models in the subsidiaries against Indutrade's general accounting principles considering the company's operations, system support, inventory turnover and other relevant factors.

Based on our work, we had no material observations for the overall audit on Indutrade's valuation of inventory.

Valuation of accounts receivable

Accounts receivable amount to SEK 2.3 billion as of December 31, 2016 which constitutes a significant balance sheet item, where existence and valuation are important factors. Also in this case, there are elements of management's judgments in terms of impaired accounts receivable and assessment of credit risk. Based on this valuation of accounts receivable is considered a key audit matter in our audit.

Refer to the Annual Report Not 2 – Risk and risk management and note 20 – Trade receivables.

The sales process, covering controls related to credit assessment, follow-up and monitoring of receivables past due and valuation of impaired accounts receivable, is an important process to focus on in our audit. In connection with the year-end audit we have had a specific focus in our audit on provisions for impaired trade accounts receivable, where we need to assess the chosen model for provisioning and management's judgment with respect to significant credit risks or customers with payment difficulties. We have also performed tests over subsequent payments in order to confirm existence of accounts receivable.

Based on our work, we had no material observations for the overall audit on Indutrade's valuation of accounts receivable.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-19 and page 83. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämndens website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Indutrade AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämndens website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

The auditors' examination of the corporate governance report

The Board of Directors is responsible for the Corporate Governance Report on pages 32-41 of this document having been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, the second paragraph, points 2-6 of the Annual Accounts Act and Chapter 7, Section 31, the second paragraph of the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm March 22, 2017
PricewaterhouseCoopers AB

Michael Bengtsson
Authorized public accountant
Partner in charge

Annual General Meeting and reporting dates

Annual General Meeting

Time and place

The Annual General Meeting (AGM) will be held at 4 p.m. on Wednesday, 26 April 2017, at IVA Konferenscenter, Wallenberg room, Grev Turegatan 16, Stockholm.

Who is entitled to participate?

To be entitled to participate in the AGM, shareholders must be listed in the shareholder register maintained by Euroclear Sweden AB on Thursday, 20 April 2017, and have notified the Company of their intention to participate by Thursday, 20 April 2017 at the latest.

How to become registered in the shareholder register?

Shareholders who have registered their shares in their own name with Euroclear are automatically entered in the shareholder register. Shareholders whose shares are registered in the names of a trustee must have their shares re-registered temporarily in their own names well in advance of 20 April to be eligible to participate in the AGM.

Notification of attendance

Notification of intention to attend the AGM can be made:

- on the Company's website: www.indutrade.se
- by e-mail to: arsstamma@indutrade.se
- by post to: Indutrade AB, Box 6044, 164 06 Kista
- by phone +46 (0)8 703 03 00.

Upon notification, shareholders must indicate their:

- name
- personal identity number or corporate identity number
- address and phone number

Notification must be received by the Company no later than Friday, 21 April 2017.

Proxies

Shareholders may exercise their right to participate in the AGM through appointment of a proxy with power of attorney. Such power of attorney must be in writing and should be sent to the Company well in advance of the AGM at the above address. Proxies for legal entities must also submit a certified copy of a certificate of incorporation or corresponding authorisation document.

Dividend

The dividend will be paid to shareholders who on the record date, 28 April 2017, are registered in the shareholder register. Provided that the AGM resolves in accordance with the Board's proposal, payment of the dividend is expected to be made via Euroclear Sweden on 4 May 2017.

Reporting dates

Interim reports

1 January–31 March 2017	26 April 2017
1 January–30 June 2017	25 July 2017
1 January–30 September 2017	25 October 2017

CONTACT INFORMATION

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Reg. no. 556017-9367

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