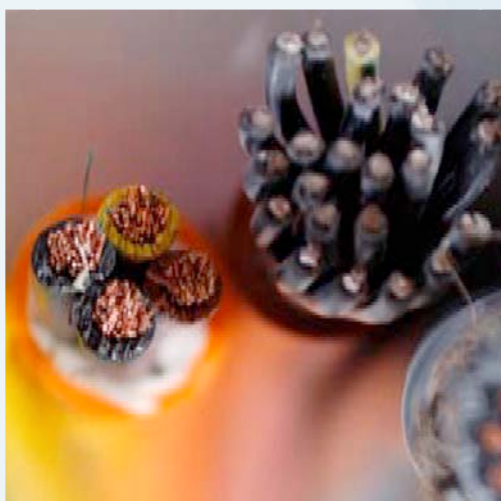


2016

ANNUAL REPORT



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Indutrade AB (publ) "Indutrade" is a Swedish company that is subject to Swedish jurisdiction. Amounts are presented in Swedish kronor (SEK). Amounts in millions of kronor are abbreviated as SEK million. Figures in parentheses refer to 2005, unless stated otherwise. Income statements, balance sheets and key data for the years 2000–2003 have not been adjusted to International Financial Reporting Standards (IFRS), but are based on the recommendations of the Swedish Financial Accounting Standards Council. Information about markets and competitors is based on Indutrade's own estimates, unless a specific source is stated. These estimates are based on the best and most recently available information. Pages 35–59 have been audited.

THE YEAR IN BRIEF

Net sales rose 18% to SEK 4,516 million (3,822). Of the increase, 11 percentage points pertained to acquired companies.

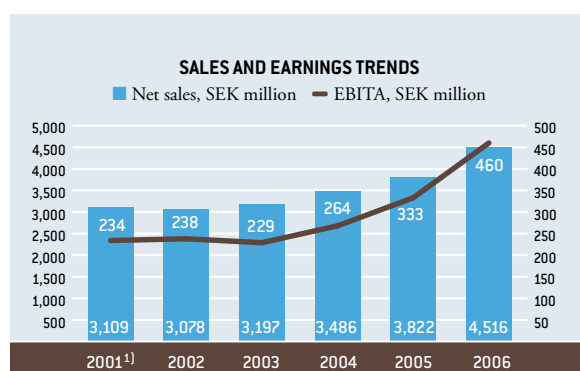
Operating profit before amortisation of intangible assets (EBITA) rose 38% to SEK 460 million (333).

Earnings per share were SEK 7.50 (5.55).

Eight companies were acquired during the year.

The Board of Directors proposes a dividend of SEK 3.75 per share (2.75).

KEY DATA	2006	2005
Net sales, SEK million	4,516	3,822
EBITA, SEK million	460	333
EBITA margin, %	10.2	8.7
Net profit for the year, SEK million	300	222
Return on equity, %	33.6	31.2
Return on operating capital, %	36.9	31.5
Average number of employees	1,673	1,510



¹⁾ On 1 January the Fagerberg, EIE and Tecalemit groups were acquired, with combined sales of approximately SEK 1 billion.

INDUTRADE AT A GLANCE

Indutrade is a technology sales company in the area of industrial components, systems and services. The products all have a high-tech content. A number of the Group's subsidiaries develop, manufacture and market own products.

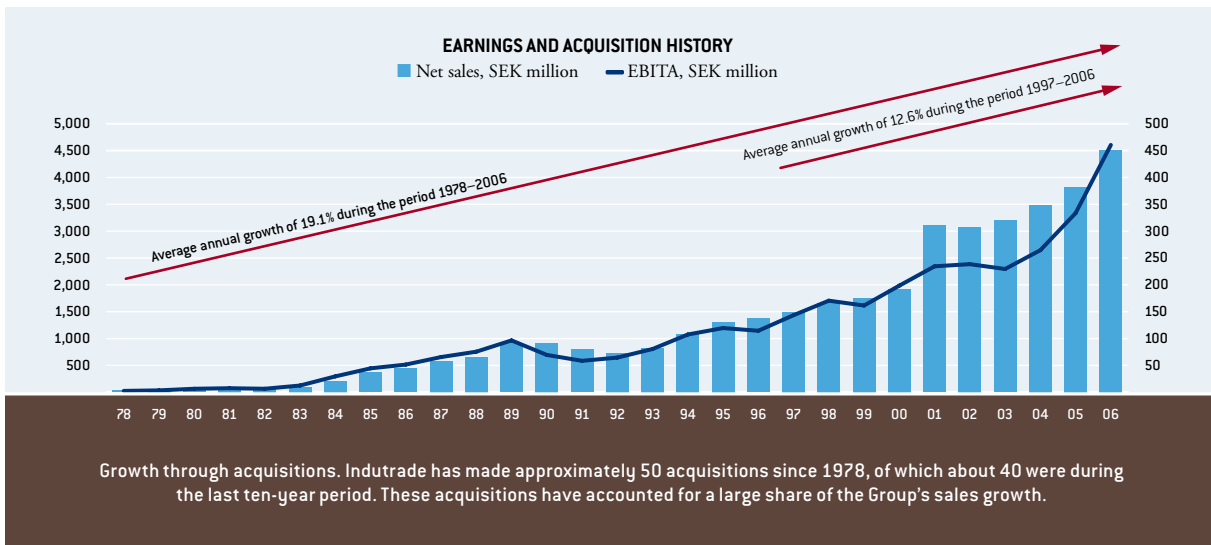
The Group is organised in four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products, and has more than 70 subsidiaries in Sweden, Finland, Norway, Denmark, Germany, the Netherlands, Belgium, the Baltic countries and Russia. Sales in 2006 totalled SEK 4,516 million.

Indutrade's subsidiaries work in well defined niches and have a high level of expertise in their respective technology areas. This high level of expertise enables them to create value-added for their customers.

Indutrade was introduced on the Stockholm Stock Exchange on 5 October 2005. The shares are quoted today on the Mid Cap list.

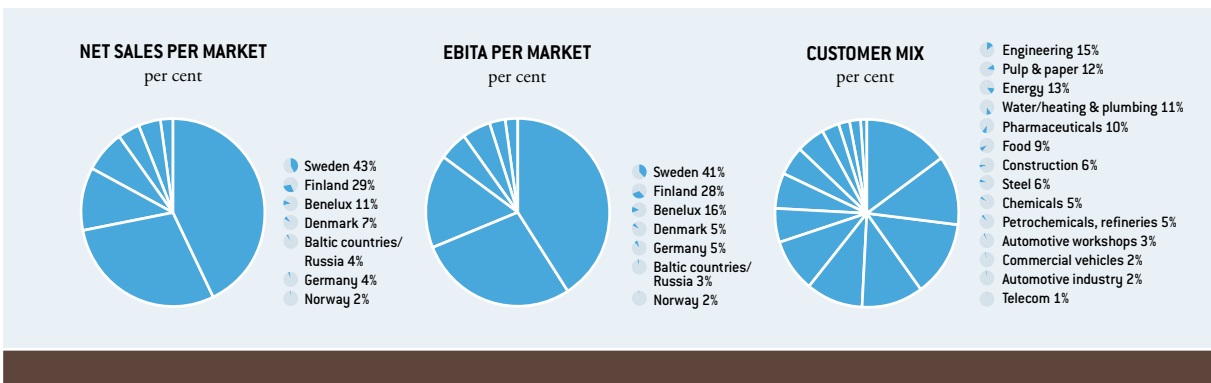


BUSINESS AREA	ENGINEERING & EQUIPMENT	FLOW TECHNOLOGY	INDUSTRIAL COMPONENTS	SPECIAL PRODUCTS
Description	Engineering & Equipment offers customised niche products, design solutions, aftermarket service and special processing. The products consist primarily of hydraulics, equipment for automotive workshops, flow products and transmissions.	Flow Technology offers components and systems for the management, control and monitoring of flows. The products consist primarily of valves, pumps, and measuring and analysis instruments.	Industrial Components offers a broad range of advanced technical components and systems for production and maintenance. The products, which mainly consist of consumables for recurring needs, include fasteners, filters, adhesives and cutting tools.	Special Products offers specially manufactured niche products, design solutions, aftermarket service, assembly and special processing. The products include measuring instruments, special plastics, tool holders, electrical components, industrial springs and high-pressure valves.
Net sales	SEK 1,576 million	SEK 1,073 million	SEK 798 million	SEK 1,094 million
EBITA	SEK 146 million	SEK 93 million	SEK 78 million	SEK 179 million
Number of employees	608	339	267	451



1978–1981	1982–1985	1986–1991	1992–1998	1999–2000	2001–2002	2003–2005	2006
Bengtssons Maskin	G.A. Lindberg	Lining (FI)	CCMP ¹⁾ (BE)	Belos	Liljegrens	Euro Energy	Puwimex (FI)
Carlsson & Möller	Diatom (DK)	Linatex ¹⁾ (DK)	Alnab	Lyma	EIE Maskin	Warla Trade (FI)	Robota
Sonesson Trading ²⁾	Colly Components	Seltek ¹⁾	Euronord	Akamex (FI)	Elmeko (NO)	Maansähkö (FI)	SPT (FI)
	Colly Filter	Tehovoitelu ³⁾	GPA	Lining Components (FI)	EIE (FI)	Kontram (FI)	Gedevelop
	Colly VT	Granzow (DK)	GPA (DK)	Pinteco (FI)	Pentronic	Granaths	PRP-Plastic (FI)
	Colly Teknik	ETP	Indutek (EE)	Processpumpar	GEFA (DE)	Hanwel (NL/BE)	Tribotec
	Colly (FI)	YTM (FI)	Industek (LV)	Teollisuusapu (FI)	G. Fagerberg (FI)	HP Valves (NL)	Spinova
	Colly (DK)	HITMA (NL)	Ventim	Novum (NO)	Tecalemit (FI)	Gimex (NL)	Damalini
		Aluglas (NL)	Maanterä (FI)	Techflow	G. Fagerberg	Satron	
		Novum	Edeco Tool		Teck Instrument ¹⁾	Saniflex	
		Novatool	Vipmek (FI)		G. Fagerberg (NO)		
		Mandorf	Kiinnike		G. Fagerberg (DK)		
			Kolmio (FI)		Tecalemit (EE)		
			Indutek (RU)		Tecalemit (LV)		
			Industek (LT)		Tecalemit (LT)		
					Tecalemit (RU)		

¹⁾ Subsequently sold by Indutrade.
²⁾ Sonesson Trading is now a division of the subsidiary Bengtssons Maskin.
³⁾ Tehovoitelu is now a division of the subsidiary YTM.



ACQUISITIONS BOOSTED GROWTH AND PROFITABILITY

A high pace of acquisitions made a strong contribution to our growth and boosted profitability during the year. The acquisitions also resulted in an increase in the share of subsidiaries with own manufacturing. Our next step will involve acquisitions outside Sweden and Finland.

Growing through acquisitions is a central part of Indutrade's strategy. In 2006 our primary ambition was to step up the pace of our acquisitions. So it is with great satisfaction that I can note that we successfully carried out no fewer than eight acquisitions during the year.

Owing to our broad contact network, we continued to find well managed and profitable family companies in our existing or closely related technology areas. The companies that joined the Group in 2006 were Damalini, Gedvelop, PRP-Plastic, Puwimex, Robota, Spinova, SPT and Tribotec. In addition, an agreement was made on the acquisition of ES Hydagent, which we took possession of in 2007. All of these acquisitions involved niche companies that are specialists in their respective technology areas.

The acquisitions were made in Sweden and Finland, where we have been strong in many areas for quite some time. These are the countries in which we are most firmly established and thus have the easiest time finding candidates and carrying out acquisitions. Our stock market debut in 2005 has raised our profile and prompted many entrepreneurs to spontaneously contact us regarding their plans to sell their companies. Many of them have heard of – and been curious about – our business philosophy that allows subsidiaries to continue operating with a large degree of independence within the Group.

Naturally, the acquisitions contributed to our sales, which rose 18% to SEK 4,516 million [3,822]. However, the sales increase also includes a significant measure of organic growth, which accounted for 8 percentage points.

In addition, the acquisitions have already contributed to the improvement in our margins. EBITA rose 38% to SEK 460 million [333], and the EBITA margin widened to 10.2% [8.7%]. The swift, positive effects of the acquisitions reflect our philosophy of buying well managed, profitable companies. We are not looking for turnaround candidates. My experience is that a company that is in good shape at the time of acquisition will usually exceed expectations, while it is considerably more difficult to do well with a company that has profitability problems.

OUTPERFORMED OUR TARGETS

Regarding both growth and profitability, we exceeded our goals by a wide margin. Sales growth was nearly double our target of 10%. In Finland, demand remained high, while it strengthened further in Sweden and Germany.

The EBITA margin amounted to 10.2%, and the return on operating capital was 36.9%. Our goal is to achieve an EBITA margin in excess of 8% and a return on operating capital in excess of 25%.

It should be kept in mind, however, that these targets represent averages over a business cycle and that in an economy that is as strong as in 2006, we should be outperforming our targets.

The earnings improvement can also be credited to the favourable performance of the companies we acquired in 2005. A prime example of this can be seen in our Dutch company, HP Valves, which manufactures high pressure steam valves, where sales as well as earnings rose sharply during the year.

The improved key ratios also reflect a clear focus on growth and earnings among our subsidiaries. In a few underperforming subsidiaries, actions were taken with good results.

FUTURE PLANS

There is another vital aspect of the year's acquisitions. By acquiring companies like Damalini, Gedvelop and Spinova, we continued our concerted effort at increasing the share of companies with proprietary products and brands. Such companies normally have greater potential for higher margins than pure technology sales companies.

Although we will continue to strive in this direction, our ambition is not that own products will make up a dominant part of the Group. Technology sales are and will continue to be our core business. This means that our risk profile will continue to be low. As a concrete example of our spread of risk, the subsidiaries that make the strongest contribution to consolidated earnings, calculated as a percentage, account for roughly 6% of total earnings.



>>Our introduction on the stock market in 2005 has raised our profile and prompted many entrepreneurs to spontaneously contact us regarding their plans to sell their companies. Many of them have heard of – and been curious about – our business philosophy that allows subsidiaries to continue operating with a large degree of independence within the Group.<<

Our goal for 2007 is to continue acquiring companies at a fast pace. I am convinced that our broad contact network and well established position in Finland and Sweden will provide us with many new acquisition opportunities. Granted, in certain product areas we are already so large that our opportunities are perhaps limited. But in other sectors, such as in components for the energy sector and measuring technology, I see good opportunities for growth.

On top of this, we are stepping up our efforts to locate candidates and make acquisitions in other markets, such as Norway, Denmark, Germany and France. We are aware, however, that it takes patience to build up the resources and the contact networks that are needed to achieve a steady inflow of well managed companies like we have here in Sweden and Finland. France and Germany, in particular, are relatively new markets for us, if we compare with Finland and Sweden, where we have been active for 23 and 29 years, respectively. This said, we are already noticing how our philosophy and business model have attracted the interest of entrepreneurs also in Germany and France.

In these markets we also plan to acquire companies with proprietary products and brands. At the same time, we will continue to grow organically through our existing businesses. Judging from everything, we will receive a boost from the market trend also in 2007 – one sign of this can be seen in the long order backlogs among our customers.

As I described above, the past year's favourable earnings can be credited to such factors as the economic trend and successful acquisitions. However, even more so, we owe our success to the strong commitment and high level of expertise of our employees.

Johnny Alvarsson, President and CEO

INDUTRADE SHARE DATA

Indutrade's shares were introduced on the Stockholm Stock Exchange on 5 October 2005. The shares are quoted today on the Mid Cap list. Indutrade's market capitalisation was SEK 5.4 billion on 31 December 2006.

INDUTRADE'S SHARE PRICE COMPARED WITH THE INDUSTRY AND STOCK MARKET AS A WHOLE

Indutrade's shares closed at SEK 135 in 2006, up 52% the year. The OMXS All Share index rose 24%, and the OMX Industrials index gained 30% during the same period. The highest price paid during the year was on 18 December (SEK 139), and the lowest price paid was on 16 January (SEK 80.50).

NOTEWORTHY EVENTS IN 2006

- Acquisition of Robota AB (27 January)
- Acquisition of Soumen Putkisto Tarvike (SPT) Oy (1 February)
- Acquisition of Gedevelop AB (25 April)
- New board elected at Annual General Meeting (27 April)
- Acquisition of PRP-Plastic Oy (1 June)
- Acquisition of Tribotec AB (9 June)
- Acquisition of Spinova AB (15 June)
- Acquisition of Damalini AB (22 September)
- Agreement reached on acquisition of ES Hydagent AB (14 December)

TRADING VOLUME

A total of 20,305,288 Indutrade shares were traded in 2006. Average trading volume per trading day was 78,703 shares, with an average of 71 transactions in Indutrade's shares per trading day.

SHARE CAPITAL

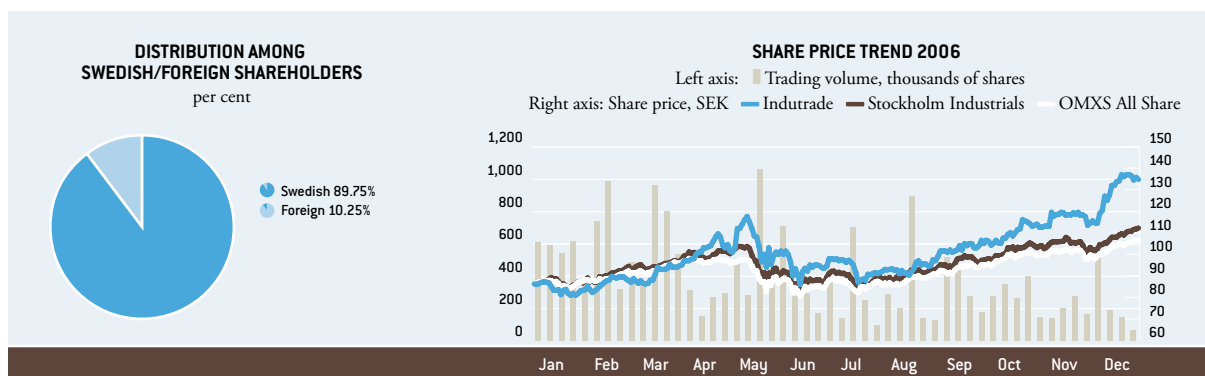
Indutrade's share capital was SEK 40 million on 31 December 2006, divided by 40,000,000 shares with a quota value of SEK 1. All shares have equal voting power.

INCENTIVE PROGRAMME

Indutrade's board of directors, in co-operation with AB Industrivärden, has established an incentive programme directed at senior executives of the Group. The aim of the programme is to encourage management's long-term commitment and participation in the Company. The term of the programme extends until 30 June 2010.

A total of 30 senior executives have acquired a combined total of 169,500 shares and 284,800 stock options in the Company, at market price. The stock options were issued by AB Industrivärden and expire on 30 June 2010. Indutrade compensates the executives participating in the programme with a total of 40% of the invested amount.

The total cost for the Company will amount to approximately SEK 7 million, of which SEK 1.4 million was charged against 2006 earnings, while SEK 1.3 million will be charged against earnings for each of the coming three years.



DIVIDEND

The Board's goal is to offer shareholders an attractive dividend yield as well as favourable dividend growth. The goal is that the dividend over time will amount to a minimum of 50% of profit after tax. For 2006, Indutrade's board has proposed a dividend of SEK 3.75 per share, corresponding to 50% of the year's profit after tax.

OWNERSHIP STRUCTURE

Indutrade had 5,230 shareholders on 31 December 2006. At year-end the ten largest owners controlled 72% of the capital and votes. Swedish legal entities, including institutions such as insurance companies and mutual funds, owned 80.35% of the capital and votes at year-end. Foreign ownership in the Company was 10.25%.

THE TEN LARGEST SHAREHOLDERS ON 31 DECEMBER 2006		
	Number of shares	Capital/votes, %
AB Industrivärden	14,857,800	37.14
L E Lundbergföretagen AB	4,000,000	10.00
AFA Insurance	2,183,220	5.46
Handelsbanken Pension Foundation	1,978,000	4.95
Handelsbanken Pension Fund	1,969,300	4.92
Threadneedle Investment Fund, UK	1,369,400	3.42
DLG mutual funds	618,863	1.55
Catella mutual funds	827,040	2.07
Carnegie mutual funds	500,000	1.25
Aktie-Ansvar mutual funds	496,100	1.24
Others	11,200,277	28.00

SHAREHOLDERS GROUPED BY SIZE

	Holding	Number of shareholders	Share of capital and votes, %	
1	–	500	3,277	2.1
501	–	1,000	1,038	2.1
1,001	–	2,000	420	1.7
2,001	–	5,000	262	2.3
5,001	–	10,000	92	1.8
10,001	–	20,000	44	1.6
20,001	–	50,000	47	3.9
50,001	–	100,000	18	3.2
100,001	–	500,000	25	15.1
500,001	–	1,000,000	1	1.6
1,000,001	–	5,000,000	5	27.2
10,000,001	–	–	1	37.1

KEY DATA PER SHARE

Share price at 31 December	SEK	135.00
Market capitalisation at 31 December	SEK m	5,400
Dividend ¹⁾	SEK	3.75
Earnings	SEK	7.50
Number of shares outstanding	Thousand	40,000
Number of shareholders on 31 December	Number	5,230
Highest price paid during the financial year	SEK	139.00
Lowest price paid during the financial year	SEK	80.50
Dividend yield ²⁾	%	2.8
Equity/net asset value	SEK	22.30
Cash flow from operating activities	SEK	6.63

¹⁾ Proposed by the Board of Directors.

²⁾ Dividend divided by the share price as per 31 December.

MISSION, GOALS AND STRATEGIES

MISSION

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

OVERALL GOALS

Indutrade will be the leading technology sales company in the Nordic region in terms of net sales and profitability as well as technical expertise. The Company aims to expand successively in its selected product areas and niches with limited business risk.

FINANCIAL TARGETS

- Average annual sales growth of 10% over a business cycle, of which
 - organic growth is to exceed GDP growth in the geographic markets in which Indutrade operates, and
 - remaining growth will be achieved through acquisitions.

During the period 1997–2006, consolidated net sales increased from SEK 1,372 million to SEK 4,516 million, corresponding to average annual sales growth of 12.6%.

Sales in 2006 rose 18%, of which approximately 11 percentage points was acquired growth and approximately 8 percentage points organic growth, while currency effects resulted in a 1 percentage point decrease in sales growth.

- The EBITA margin shall exceed 8% on average per year over a business cycle.

The average EBITA margin during the last five years (2002–2006) was 8.4%.

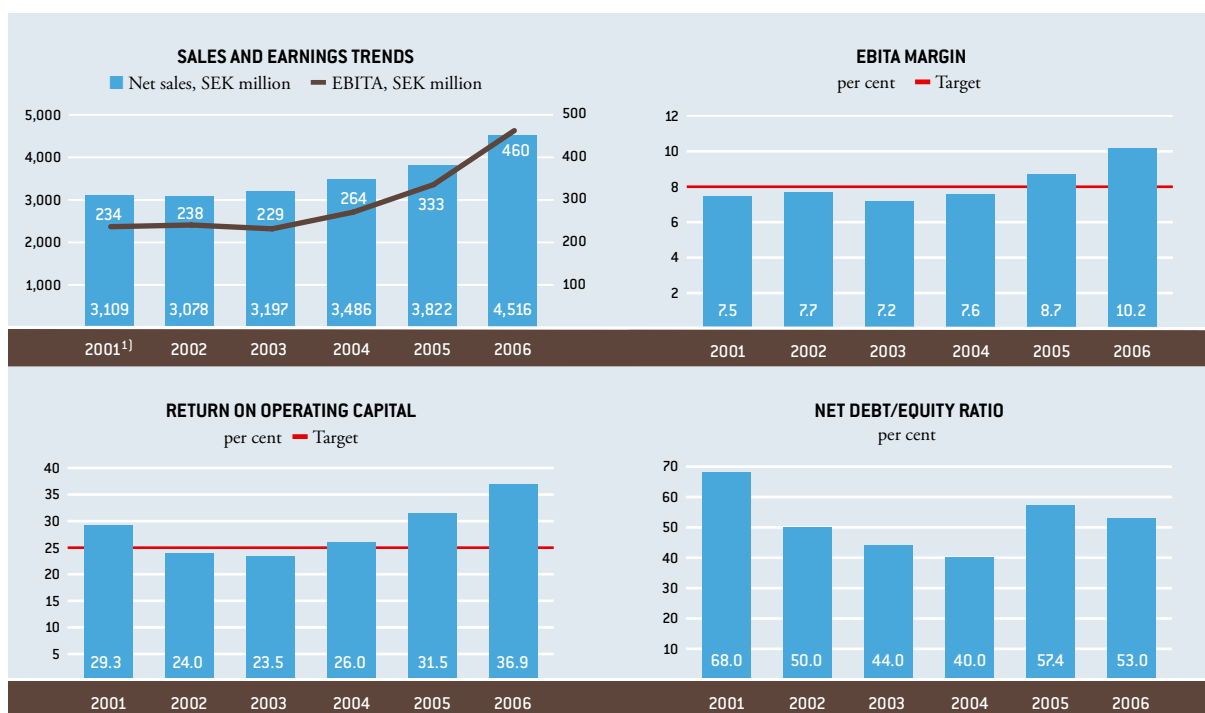
The EBITA margin in 2006 was 10.2%.

- Return on operating capital shall exceed 25% on average per year over a business cycle.

During the last five years (2002–2006), the average return on operating capital was 28.4%. In 2006 the average return was 36.9%.

- The net debt/equity ratio should normally not exceed 100%.

During the last five years, the net debt/equity ratio varied between 40% and 57%, and was thus below 100% by a wide margin. The debt/equity ratio at year-end 2006 was 53%.



¹⁾ On 1 January the Fabergerg, EIE and Tecalemit groups were acquired, with combined sales of approximately SEK 1 billion.



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

STRATEGIES

Indutrade has adopted the following strategies to achieve these targets:

Growth with limited operational risk

Growth shall be pursued in three dimensions:

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

Growth shall take place organically and through acquisitions. In pace with Indutrade's growth, the entry barriers for potential competitors are expected to increase. At the same time, the risk of Indutrade's suppliers establishing their own sales organisations in the Company's markets will decrease. Business development and growth are thus strategic tools for lowering operational risk.

Strong market positions

Indutrade focuses on selling products in niches in which it can attain a leading position. Strong market positions are often a condition for good profitability. They also make it easier to attract the best suppliers, which further secures Indutrade's position.

Long-term partnerships with leading suppliers

Indutrade gives priority to suppliers who, through their own development processes, provide market-leading, high-quality products with a high technology 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 makes Indutrade a more attractive business partner for existing and potential customers.

High share of repetitive sales and focus on selected customer segments

Indutrade offers components, systems and services for customers with recurring needs. This contributes to operating stability and predictable revenue flows.

The Group gives priority to customers with recurring needs 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 high start-up investment.

MISSION, GOALS AND STRATEGIES

Sales organisation with high level of technical expertise

Indutrade's range of products and services, which are aimed at both end users and OEM customers (customers that integrate Indutrade's products in their own products), shall have a high-tech content and incorporate a high level of service and qualified technical consulting. Indutrade's salespeople have a high level of technical expertise in their respective fields and a depth of knowledge about the customers' production processes. This makes Indutrade an attractive business partner that can create value-added for customers and suppliers.

Decentralised organisation with strong local presence

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

The subsidiaries are responsible for their own profitability, which contributes to greater flexibility and a stronger sense of entrepreneurship.

GROWTH THROUGH ACQUISITIONS

Most of Indutrade's future growth will be achieved through company acquisitions. The goal is to acquire a number of "normally large" companies each year. In addition, opportunities for larger acquisitions are evaluated on a continuous basis.

The Group has a long record of experience in company acquisitions. Since 1978 nearly 50 acquisitions have been carried out, of which more than 40 were during the last decade. These acquisitions have accounted for a large share of Indutrade's sales growth.

THE ACQUISITION STRATEGY FOCUSES ON:

- Companies in niches in which Indutrade has solid expertise
- Market-leading companies with a high-tech content in their respective niches
- Profitable companies
- Companies whose suppliers' long-term strategy is in line with Indutrade's strategy
- Companies whose customers have recurring needs and capital-intensive production
- Companies whose key persons are motivated to continue managing the company even after it has been acquired

Through its established network of customers, suppliers and other market players, Indutrade has a good picture of potential acquisition candidates in the market. Due to the fragmented market structure, access to acquisition candidates is good. By virtue of its strong acquisition history, its size and its good reputation, Indutrade has the experience and conditions needed to continue to make value-creating acquisitions.

THE ACQUISITION PROCESS

Indutrade works according to a tried-and-tested process for analysing, planning and implementing company acquisitions. The aim is to structure the acquisition process and ensure the quality of the acquisitions that are made. This process involves five steps:

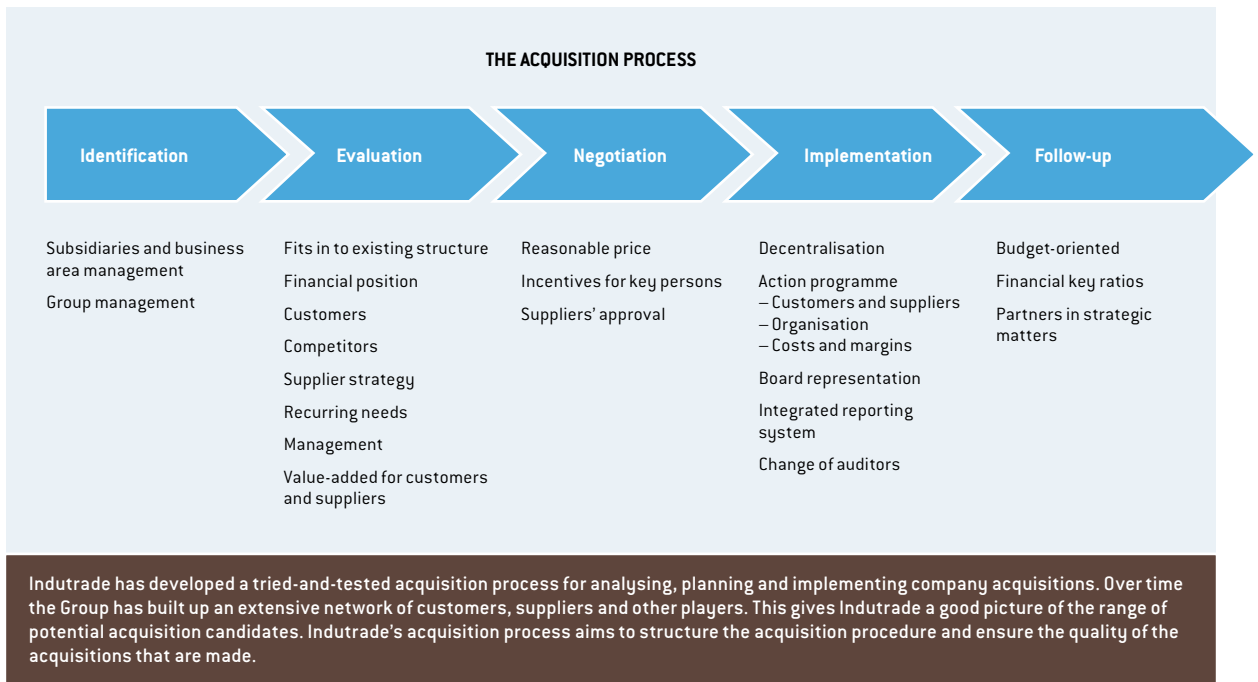
Identification

A list of potential acquisition candidates is continually updated and normally contains more than 100 companies. Small companies, with net sales of less than SEK 50 million, are often identified by Indutrade's subsidiaries or at the business area level, while Group management focuses on identifying larger, strategic acquisition candidates.

Indutrade strives at an early stage to engage in a dialogue with the owners of potentially interesting companies. By doing so, Indutrade is often the natural partner for the owners when discussing the possibility of a sale. At any given time, Indutrade is engaged in talks with five to ten acquisition candidates.

Evaluation

Potential acquisitions are evaluated according to a number of set parameters. Examples of these include market position, customers, competitors, the strategic and technical orientation of main suppliers, recurring elements in the product range, financial position, history, the continued involvement of key employees and the value-added the company can create for customers and suppliers. The aim of this analysis is to minimise the operational and financial risks associated with an acquisition.



Negotiation

The primary aims of the negotiation phase are to ensure:

- that the acquisition can be carried out at a price that makes it a value-creating deal. Historically, Indutrade has acquired businesses at a price of 4–8 times profit after tax;
- the continued involvement of key employees after the acquisition. Since the key persons are often part-owners of the company being acquired, usually an acquisition structure with an earn-out payment is used. This gives the key persons an incentive to continue working with the Group and contribute to continued growth in net sales and earnings;
- that the acquisition candidate's main suppliers approve of the acquisition, to prevent the loss of key product agencies.

Implementation

In connection with an acquisition, a structured review is conducted of the acquired company. This review is focused primarily on three areas:

- Customers and suppliers – broadening of the customer base and product range
- Organisation – streamlining with the primary aim of increasing focus on customers and sales
- Costs, margins and inventory turnover – to boost profitability and ensure a stable financial position

New financial targets are established and adjusted to the company's specific conditions.

Follow-up

Group management and the management teams of the respective business areas carry on a continuing dialogue with the company's management. The day-to-day management is goal-oriented, with focus on growth, margins and tied-up capital.

Normally, most key employees of acquired companies continue to work for Indutrade, even after an earn-out payment. A key reason for this is Indutrade's company culture, with a strongly decentralised organisation that gives entrepreneurs considerable freedom to continue developing their businesses.

EFFICIENT CHAIN CREATES VALUE

Indutrade is a technology sales company that creates value for customers and manufacturers by structuring and streamlining the value chain.

VALUE IS CREATED FOR CUSTOMERS THROUGH:

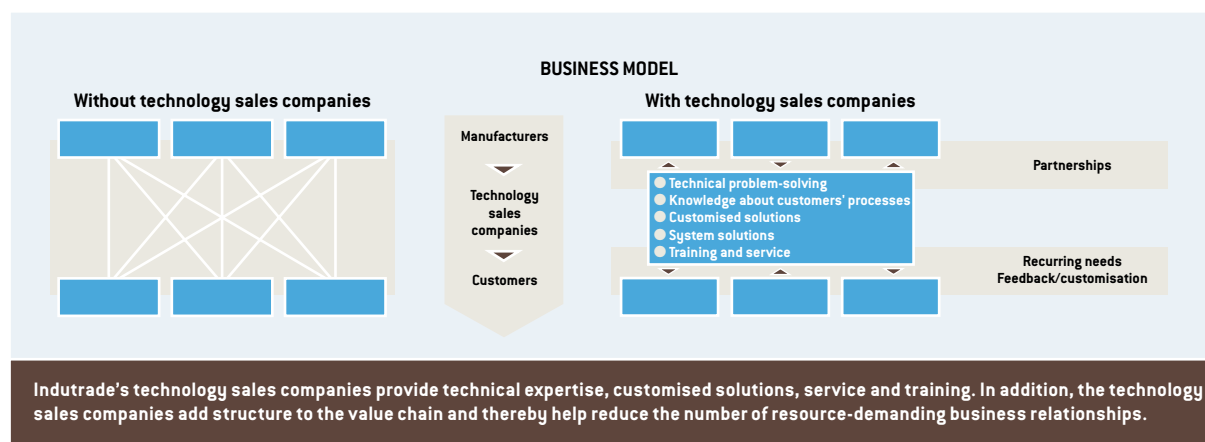
- **Professional advice regarding choices of components and systems.** Indutrade's subsidiaries offer a broad range of technically advanced products in selected niches. The products are often important for the customers' production processes and are designed to meet exacting demands on quality, durability and temperature tolerance, among other things. Many of the products meet recurring needs among customers and have a high-tech content. Indutrade also strives to establish close co-operation with customers and contribute know-how as early as in the planning and development stages.
- **Customised end-to-end solutions.** A number of Indutrade's subsidiaries conduct their own manufacturing, further processing and product development. This allows Indutrade to offer specialised system solutions to individual customers. In 2006 sales of proprietary and further-developed products amounted to approximately SEK 900 million, corresponding to roughly 20% of consolidated net sales.
- **Support, training and other aftermarket services, and access to a local business partner.** Some 20 Indutrade subsidiaries offer aftermarket service, such as repairs, monitoring, technical service, laboratory services, validation, product adaptation, assembly and tool sharpening. All services have a natural connection to the Group's products and customer relationships. Sales related to aftermarket

service amounted to approximately SEK 163 million in 2006, or just under 4% of consolidated net sales. Indutrade also offers training in use of the Group's products their integration in larger systems.

- **Reduction in the number of supplier contacts.** Indutrade offers a broad product range and broad geographic coverage in the Nordic region. This enables many customers to reduce the number of suppliers they use and thereby lower their administrative costs.

FOR MANUFACTURERS, VALUE IS CREATED BY:

- Access to a technically qualified sales organisation with established customer relationships and local market knowledge
- Access to information about customers' production processes through the technology sales companies' established customer relationships
- Broader areas of application for manufacturers' products by enabling the technology sales companies to combine products and systems from different manufacturers and thereby offer customised solutions
- The opportunity to sell products in markets in which it is not considered to be economically feasible to build up an own sales organisation
- Local support and training





»A key explanation for why Colly has been such an effective partner for such a long time is that we think in the same way. For instance, both we and Colly believe it is important that our employees have a high level of technical expertise. Colly also provides valuable views that help us develop and improve our products.«

Michael Böllhoff, President of Böllhoff GmbH

FIFTY YEARS OF PARTNERSHIP

Indutrade's subsidiary Colly has a long-standing and successful partnership with the German company Böllhoff, a world-leader in fastening systems.

"There are two things in particular that I like about Colly," says Michael Böllhoff. "They have a very professional approach, and our relationship is long-term."

Long-term is a bit of an understatement, since the co-operation between Bielefeld, Germany-based Böllhoff GmbH and Indutrade's Swedish subsidiary Colly was initiated 50 years ago by Böllhoff's grandfather, Josef Böllhoff, and Colly's founder, Fred Lindgren.

It all started with Helicoil screw thread inserts, which in the initial decades were used primarily to repair damaged threads in engine blocks, for example. As new, softer materials such as aluminium and magnesium have grown more common, Helicoil inserts are now often used from the start in applications requiring heavy-duty threads.

Over the years, Böllhoff GmbH has developed many other types of fastening systems. The single-largest product today is the Rivkle-brand blind rivet nut.

"A key explanation for why Colly has been such an effective partner for such a long time is that we think in the same way," says Böllhoff. "For instance, both we and Colly believe it is important that our employees have a high level of technical expertise. Colly also provides valuable views that help us develop and improve our products."

Böllhoff GmbH is a world leader in fastening technology and has two business areas: distribution and production of fastening systems – each accounting for roughly half of sales. This even spread is no coincidence.

"One of our basic principles is to have a sound balance in the business and not to be dependent on the financial markets or any individual large customer," says Böllhoff, who heads the manufacturing activities. His brother Wilhelm is head of distribution. The brothers are the fourth generation of leaders for this family business, which was established in 1877 by their great grandfather.

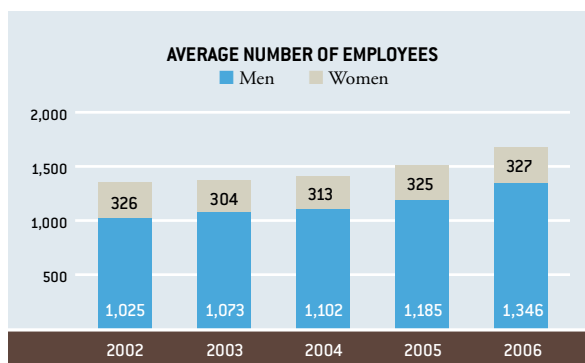
Their yearning for balance is also reflected in the fact that roughly half of sales are in Germany and half in other markets, and that there is a corresponding balance between customers in the automotive industry and other industries.

"We also put great emphasis on product development, whether it be minor improvements to existing products or innovating entirely new products," notes Böllhoff.

The goal is to have such a high rate of innovation that 25% of sales will be derived from products that are younger than three years.

MAJOR FREEDOM FOR SUBSIDIARIES

The best decisions are made close to customers and suppliers by people who have the best knowledge about the customers' needs and processes. This is why Indutrade's organisation is strongly decentralised.



The large amount of freedom given to Indutrade's subsidiaries is conducive to customer specialisation and flexibility, and creates a favourable environment for retaining an entrepreneurial spirit in the organisation.

Decentralisation is also a natural consequence of the Group's niche focus. Building up the expertise that is needed to create customer value – and thus profitability – requires that operations are concentrated in a number of niches. However, the conditions for this differ quite a bit among the various niches, which makes it suitable that each subsidiary forms its own strategy.

Moreover, giving subsidiary management a high degree of independence is an important factor in retaining key people in acquired companies.

The Parent Company's role is to support the subsidiaries with co-ordination services and to manage them by setting up specific objectives. Management by objective is primarily focused on profit margins and growth.

The Group is organised in four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products (see also pages 22–29). Each business area comprises a number of independent subsidiaries.

Indutrade has 76 subsidiaries in all. The companies vary in size, but typically consist of 15–40 employees, most of whom are sales engineers or technical consultants. Most of the companies have built up long-term and close customer relationships with their customers over several decades and have progressively become specialists in their respective technology areas. Operations are often built up around a couple of strong, well established suppliers, backed up by a number of smaller agencies.

The subsidiaries' success can largely be credited to their employees' business acumen and technical expertise. Consequently, the Group attaches major importance to continuous competence development. Business acumen is strengthened through leadership development and sales training initiatives, among other things. Technical training is conducted primarily under the direction of suppliers.

During the year, 42 employees participated in a specially adapted leadership development programme. The programme covered individual development plans for all participants and also gave Group management a solid foundation for its leadership succession planning within and between subsidiaries.

In 2007 the Flow Technology business area will be starting the Flow Academy, a school aimed at further raising the employees' expertise in technology as well as sales.

Indutrade had an average of 1,673 (1,510) employees during the year, of whom 20% were women and 80% men.

QUALITY

Indutrade's objective is that the products and services it provides should meet or exceed customer expectations. Consequently, priority is always given to maintaining high quality. Customers should equate Indutrade with quality products, delivery reliability, excellent technical support and a positive, professional attitude.

Quality assurance activities cover products and processes in which all aspects (from purchasing and inventory routines to delivered products and technical solutions) are to maintain the highest possible standards of quality. Quality systems are characterised by precision, long-term focus and continuous improvement with a distinct customer focus.

Upon initiating co-operation with a new supplier, major emphasis is put in evaluating quality aspects.

Twenty-six of the Group's subsidiaries are certified according to ISO 9001 and/or QS 9000. All ISO-certified companies have quantifiable goals (such as delivery deadlines to customers and number of returns) that are continuously compared with results.

Subsidiaries seek ISO certification only when it is deemed necessary for market reasons. However, even subsidiaries that are not certified conduct quality assurance work focused on continuous improvement.



Customers should equate Indutrade with quality products, delivery reliability, excellent technical support and a positive, professional attitude. Quality assurance activities cover products and processes in which all aspects are to maintain the highest possible standards of quality.

THE ENVIRONMENT

Indutrade's environmental work is steered by legal requirements and directives as well as by what is financially reasonable, technically possible and ecologically justifiable. The Group works continuously to minimise the environmental impact of its operations and to achieve transparency in reporting – both with respect to successes and any problems that may arise in the environmental area.

Since Indutrade's core business is trade and distribution, its direct environmental impact is limited.

Indutrade minimises its environmental impact by taking environmental concerns into account through a product's entire life cycle. When choosing similar products with comparable prices, the Group always strives to choose the product that has the smallest impact on the environment.

In connection with the start of a relationship with a new supplier, a review of environmental concerns is conducted.

Thirteen of the Group's subsidiaries are certified according to ISO 14001. Certification processes are conducted if warranted by demands from customers or suppliers. However, even subsidiaries without any environmental certification conduct systematic environmental work focused on continuous improvement.

Seven of the Group's Swedish subsidiaries conduct operations requiring permits according to the Environmental Code. Of the Group's foreign subsidiaries, two conduct operations with similar requirements for permits or notification.

EIGHT NEW ACQUISITIONS

Indutrade completed eight company acquisitions in 2006. All are niche companies which are specialists in their respective technology areas.



Puwimex is a technology sales company in the area of pump technology. Customers are in the chemical, pulp and paper, food and construction industries. Through the acquisition of Puwimex, Indutrade strengthened its position in the pump technology segment.

Sales 2006: SEK 37 million
EBITA 2006: SEK 3 million
Business area: Engineering & Equipment
Became part of Indutrade Group: 1 January 2006
Number of employees: 11

PUWIMEX OY · www.puwimex.fi



Robota sells products and customised water and drainage solutions, and has more than 40 years of experience in the pump business. The acquisition of Robota strengthens Indutrade's market position in the Nordic countries and is a good complement to corresponding segments in Finland and the Baltic countries.

Sales 2006: SEK 60 million
EBITA 2006: 7 million
Business area: Engineering & Equipment
Became part of Indutrade Group: 1 January 2006
Number of employees: 19

ROBOTA AB · www.robota.se



Suomen Putkisto Tarvike (SPT) sells products and services for leak detection and network monitoring. The acquisition of SPT complements the acquisition of Robota AB, and together the companies are expected to strengthen Indutrade's market position in the Nordic countries.

Sales 2006: SEK 6 million
EBITA 2006: 0
Business area: Engineering & Equipment
Became part of Indutrade Group: 1 February 2006
Number of employees: 4

SUOMEN PUTKISTO TARVIKE OY · www.sptoy.com



Gedevelop develops and markets precision instruments and systems for measuring flows and temperatures, mainly in the glass industry. Sales are made around the world, directly as well as through distributors. With the acquisition of Gedevelop, Indutrade strengthens its position in the instruments and measurement product segment.

Sales 2006: 44 million
EBITA 2006: 15 million
Business area: Special Products
Became part of Indutrade Group: 25 April 2006
Number of employees: 7

GEDEVELOP AB · www.gedevelop.com



Tribotec sells chemical-technical products in the areas of corrosion protection, bonding and lubrication technology, mainly in the Swedish market. Approximately 10% of sales are in Denmark and 1% in Norway. The acquisition will strengthen Indutrade's position in the area of chemical-technical products.

Sales 2006: SEK 66 million
EBITA 2006: SEK 7 million
Business area: Industrial Components
Became part of Indutrade Group: 9 June 2006
Number of employees: 21

TRIBOTEC AB · www.tribotec.se



PRP-Plastic manufactures various types of plastic products for the processing industry. The products are installed and maintained by its subsidiary Modul-Plastic. Typical products are surface linings, cisterns, components and pipe systems. Business is conducted at three locations in Finland.

Sales 2006: SEK 41 million
EBITA 2006: SEK 9 million
Business area: Engineering & Equipment
Became part of Indutrade Group: 1 June 2006
Number of employees: 33

PRP-PLASTIC OY · www.prplastic.fi



Spinova is one of Sweden's leading manufacturers of customised springs and wire forms. Its products are used as components in hydraulic systems, locks, garage doors, pumps, water and wastewater applications, and equipment for the food industry. With the acquisition of Spinova, Indutrade has entered into a new technology area and gains a greater share of proprietary manufactured products.

Sales 2006: SEK 64 million
EBITA 2006: SEK 14 million
Business area: Special Products
Became part of Indutrade Group: 15 June 2006
Number of employees: 47

SPINOVA AB · www.spinova.se



Damalini is a technological leader in laser-based measurement and alignment systems. Its proprietary EasyLaser® laser systems are used for shaft alignment, sheave/pulley alignment and geometrical measurements. Damalini fits well into Indutrade's strategy to grow in the area of industrial measurement technology.

Sales 2006: SEK 66 million
EBITA 2006: SEK 11 million
Business area: Special Products
Became part of Indutrade Group: 22 September 2006
Number of employees: 30

DAMALINI AB · www.damalini.se



»We wanted the best from a small company – entrepreneurship, fast decisions and involvement. But we also wanted the best that a large company has to offer – structures, expertise, networks and stability. We wanted an owner with expertise and strong finances, who believed in our way of working and was not out to break us up or change our concept.«

Pontus Cornelius, President of Spinova

»THE BEST OF SMALL AND LARGE COMPANIES«

Spinova was looking for a new owner that could add expertise, a large network and strong finances, and at the same time allow the company to continue working independently. The answer was Indutrade.

“We knew what type of owner we wanted. But we thought it would be hard to find anyone who met our preferences,” says Pontus Cornelius, President of Spinova.

It was back in 2004 that the future expansion rate came up in strategy discussions within Spinova’s board.

Spinova manufactures customised spiral springs – mainly in small and medium-sized series – for a broad spectrum of Swedish industrial companies. The company’s sales of roughly SEK 60 million account for about 10% of the Swedish market.

“Our employees’ expertise and experience is a key explanation to our success,” says Cornelius.

Spinova was thus a well-working company with a strong position. The company was owned by Margareta Invest AB, which in turn was owned by nine people, most of whom are Spinova employees. But in a rapidly changing world, the company was in need of a larger network of potential customers, suppliers and partners, especially on the international plane. An additional factor was that the part-owners, following a long period of ownership and involvement in the company, saw the advantages of bringing new energy into the company.

“The owners put their confidence in me to participate in the search for a new home for Spinova,” Cornelius explains. “We set up a list of desired qualities for the new owner. It was a long list of demands.

We wanted the best from a small company – entrepreneurship, fast decisions and involvement. But we also wanted the best that a large company has to offer – structures, expertise, networks and stability. We wanted an owner with expertise and strong finances, who believed in our way of working and was not out to break us up or change our concept.”

A list of conceivable owners was drawn up. By slump, Cornelius heard about Indutrade from a business associate. He contacted Indutrade, and less than six months later, in summer 2006, the deal was done.

“Indutrade had exactly the qualities we were looking for and gave a very professional impression,” notes Cornelius.

A key ingredient was that Indutrade promised that Spinova would be able to continue working entirely independently.

“Still, when we became a subsidiary of a listed company, I expected that we would have to submit volumes of reports and that ‘quarterly thinking’ would gradually creep in.

“But they have truly lived up to their word. I have essentially unrestricted freedom to run the company in the same way as previously,” says Cornelius.

The plan is to grow by 10% per year in a market that is expected to remain unchanged.

“We will continue to take market share.”

BROAD MARKET SMOOTHENS OUT FLUCTUATIONS

Indutrade's customers work in a variety of industries. This reduces the Group's sensitivity to economic swings.

Indutrade is a technology sales company in the northern European market for components, systems and services for use in industry. In this market, sales are made either directly through the manufacturers' own sales organisations, or indirectly through technology sales companies and wholesalers.

Technology sales companies differ from wholesalers in that they offer technical advice, customised solutions and generally more technologically advanced products. In addition, technology sales companies often offer high-quality support, training and other aftermarket services. From the manufacturer's perspective, working through a technology sales company is like having an own sales organisation.

PRODUCTS

The market can be broken down into products for recurring needs and products of an investment nature. Products for recurring needs generate more stable revenue flows. Indutrade focuses on products for recurring needs with a high-tech content in selected niches.



	Net sales	EBITA	Employees
Sweden	1,919	186	709
Finland	1,315	130	493
Benelux	487	75	134
Denmark	327	25	132
Baltic countries and Russia	202	13	110
Germany	169	24	75
Norway	97	7	20

FRAGMENTED MARKET

The market is fragmented and consists primarily of a large number of small, family-owned technology sales companies, which often work closely with one or a handful of manufacturers.

The market also has a few larger players, like Indutrade, as well as manufacturers who sell through their own sales organisations. However, for many manufacturers of high-tech industrial components and systems, it is not profitable to have an own sales organisation in smaller markets such as the Nordic region. Normally, the most profitable option for these manufacturers is to work together with a technology sales company.

MARKET SIZE

Indutrade conducts business in 11 countries. In 2006 the Group's two most important geographic markets, Sweden and Finland, together accounted for about 72% of consolidated net sales.

Indutrade estimates that the market for the niches in which the Group operates is worth approximately SEK 10 billion in Sweden and about SEK 6 billion in Finland. This means that Indutrade has an estimated market share of about 20% in its niches in the Swedish and Finnish markets, respectively. In the other geographic markets, Indutrade is a relatively minor player.

MARKET GROWTH AND CYCLICAL DEPENDENCE

Growth in Indutrade's markets is primarily dependent on growth in the industries in which the customers operate. Growth in the customer segments depends on several factors, including the general economic trend.

However, Indutrade sells products and services to many sectors, each of which is affected in different ways at any particular stage of the business cycle. This means that, compared with other companies with similar operations, Indutrade's profitability is normally less sensitive to economic swings. This also means that demand for Indutrade's products and services tends to grow in pace with GDP in the geographic markets in which Indutrade operates.

DRIVING FORCES AND TRENDS

Following is a description of the main trends and other central driving forces in Indutrade's markets.

Focus on core business

In recent years, many industrial companies in northern Europe have begun focusing more strongly on their core businesses. In many cases, non-core activities have been given lower priority, which has resulted in a decline in the level of knowledge in these areas. Consequently, industrial companies today have a greater need to work closely with suppliers that possess a high level of technical expertise and knowledge about their customers' processes and needs.

This is well in line with Indutrade's strategy and business orientation.

Higher demand for services

Many customers are working to reduce the size of their internal service and maintenance departments, which is in line with the general trend of core business focus.

This has led to growth in demand for service and support in recent years, which has consequently presented Indutrade with opportunities to extend its service and offer complementary services.

Fewer suppliers

Industrial companies are generally striving to use fewer suppliers in an effort to lower their administrative overhead at the same time that close alliance with a limited number of suppliers contributes to shorter lead times and thus lower levels of tied-up capital.

As a result, each supplier is expected to offer a broader range of products, which is normally good news for large technology sales companies. One way in which customers can reduce the number of suppliers is by using the same supplier for several geographic markets. Many large customers regard the Nordic region as a single market, and Indutrade believes it will become increasingly important to be able to deliver throughout the Nordic region.

Indutrade's objective is to offer an extensive range of products with pan-Nordic coverage in the respective niches, thereby creating conditions to be a comprehensive supplier.

Relocation of production to low-cost countries

There has been a growing trend in recent years to relocate industrial production from the Nordic countries and the rest of Western Europe to low-cost countries, predominantly in Eastern Europe and Asia.

This has had only a limited effect on Indutrade, mainly because the Group has chosen to focus on customers with recurring needs in sectors deemed as having solid enough bases to maintain competitive production in Indutrade's home markets.

These industries are typically characterised by a high degree of automation, high distribution costs and/or considerable start-up investments. Relocating production to low-cost countries is less profitable for these sectors than it is for more personnel-intensive operations.

Indutrade's business in such sectors accounted for about 75% of consolidated net sales in 2006.

From a historical perspective, relocation to low-cost countries has mainly affected the electronics and telecom industries, along with subcontractors in these industries.

Manufacturer consolidation

The manufacturers in Indutrade's markets have been growing steadily, mainly through acquisitions. When a manufacturer acquires a company, this can result in Indutrade's subsidiaries acquiring more products in their product range. However, there is also a risk that the supplier will choose to invest in its own sales organisation (due to greater size), or that such an organisation already exists in the acquired company.

Consolidation among manufacturers is also creating opportunities for suppliers to provide leading products due to a greater amount of capital being allocated to research and development. This, in turn, enhances the competitive strength of Indutrade's product portfolio.

Increased imports from low-cost countries

In Indutrade's markets as a whole, a general trend can be seen in the rise of imports of products and semi-finished products from non-European countries, primarily China. Over time this is expected to result in lower prices for both Indutrade and end users. However, for products with a high-tech content and stringent quality requirements, this type of import is still limited.

Several of Indutrade's suppliers have moved their production to low-cost countries. This trend is expected to continue and lead to lower prices, thereby enabling Indutrade to maintain its competitive strength.



A prevailing market trend is that companies are focusing increasingly on their core businesses. This is opening opportunities for technology sales companies like Indutrade to increase their service offering to industrial companies. Examples of this can be seen in Indutrade's subsidiary Pentronic, which offers training in temperature measurement and calibration, and GPA, which through its Competence Center offers customised training in thermoplastics, materials technology and joining methods.

COMPETITORS

Since the Nordic region is a relatively small market for global players, they usually choose to work in this market via technology sales companies, rather than setting up their own sales organisations. Indutrade's main competitors are thus other technology sales companies.

Technology sales companies can be divided into small, often family-run companies, and larger companies like Indutrade.

Structurally, family businesses are often similar to Indutrade's subsidiaries and normally represent one or a few manufacturers in a select number of niches. Examples of such competitors include Armatec/Armaturljansson in the area of valves and Christian Berner in pumps and instruments.

In some markets, Indutrade competes with specific subsidiaries of other major market players, such as Addtech, Bergman & Beving, GL Beijer and OEM International.

However, these companies do only limited business in Indutrade's niches, and Indutrade estimates that competition from these pertains to less than 10% of consolidated net sales. The competition from these companies is more tangible in the search for acquisition candidates.

Examples of large, international manufacturers that compete with Indutrade through their own sales organisations include Hydac and Millipore (filters), Loctite (chemical-technical products), and Sandvik and Seco Tools (metal cutting tools).

The Nordic market also has a number of wholesalers that distribute primarily high-volume products. Examples of such companies include Ahlsell and the Bufab Group. What these companies all have in common is that they market a broad range of products in which the degree of technical advice and customer adaptation is generally low. The main competitive advantages of the wholesalers are broad product portfolios, logistics and low prices.

Since Indutrade operates mainly in product niches with a high-tech content which require solid knowledge of the customer's processes, competition from these companies is limited to a small share of Indutrade's sales. Indutrade estimates that less than 10% of the Group's net sales face competition from pure-play wholesalers.

ACQUISITIONS CREATED GROWTH

Owing to the acquisitions of Robota, SPT, PRP-Plastic and Puwimex, the business area's sales rose despite weak market growth.

KEY RATIOS	2006	2005	2004	2003	2002
Net sales, SEK million	1,576	1,393	1,238	1,081	939
EBITA, SEK million	146	133	102	80	73
EBITA margin, %	9.3	9.5	8.2	7.4	7.8
Number of employees at year-end	618	526	510	491	419

Engineering & Equipment offers customised niche products, design solutions, aftermarket service and special processing.

Compared with the other business areas, sales consist to a slightly higher degree of investment goods. The business is also characterised by a relatively high share of special adaptations, compositions and installations of products from different suppliers.

The five largest subsidiaries are Bengtssons Maskin, Kontram, Lining, Tecalemit and YTM-Industrial, which together accounted for roughly 62% of the business area's net sales in 2006.

MARKET

The business area's geographic focal point is in Finland, however, it has subsidiaries in Sweden, Norway, Denmark, Estonia, Latvia and Lithuania. Engineering & Equipment has a particularly strong position in the Finnish market in most businesses. Competitors are mainly small family-owned companies and international manufacturers' sales companies in the respective product areas.

CUSTOMERS

Customers mainly operate in the water/heating, ventilation and plumbing sector, the pulp and paper industry, and the engineering and energy industries. Examples of customers include Kemira, Kvaerner, Metso, Stora-Enso and Tetra Pak.

PRODUCT AREAS

Business is organised into four product areas: Industrial Equipment, Transmission, Flow Products, and Hydraulics and Pneumatics.

Industrial Equipment

This product area has a comprehensive range of workshop equipment, with related project design for the refurbishing and construction of new automotive workshops. It also develops and designs special equipment for car repair shops. Other products include equipment for fire protection and central lubrication systems, as well as for industrial painting and surface treatment processes.

Transmission

Transmission products include chains and shaft couplings along with related adaptation and processing. Other products include gearboxes for the processing industry and compact precision gears for robot manufactures. Customised conveyor belts and power transmission belts are also offered for the engineering, food and paper industries.

Flow Control Products

Flow control products consist primarily of valves, pumps, measuring instruments and couplings, and wastewater handling solutions.

Hydraulics and Pneumatics

This product area includes hydraulic and compressed air components and compressors. The product range also includes tubes, quick connect/disconnect couplings and accessories, pneumatic components and magnetic valves.

THE YEAR IN REVIEW

Net sales rose 13% to SEK 1,576 million (1,393), and EBITA rose 10% to SEK 146 million (133).

Sales growth was mainly attributable to the acquisitions made during the year and to the acquisition of Puwimex in 2005, which was consolidated in the Group as from 1 January 2006. Organic growth in the business area's markets was limited, partly due to a low level of investment in the pulp and paper industry.

Due to higher overheads, earnings did not improve to the same degree as sales. Four of the business area's subsidiaries moved during the year to shared premises. This contributed to higher costs in 2006 but will result in more efficient stock-keeping. The market was also characterised by fierce competition and price pressure.

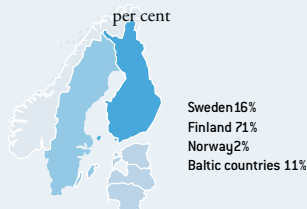


»Our ambition is to maintain a high rate of acquisitions. Potential acquisition candidates are continuously being evaluated and work in the business area's existing or related technology areas.«

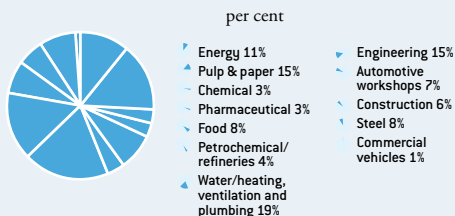
Kaj Österlund, President of Engineering & Equipment business area



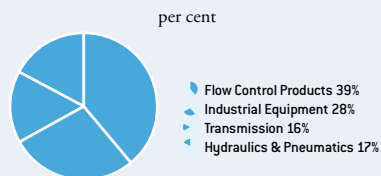
NET SALES PER GEOGRAPHIC MARKET



NET SALES PER CUSTOMER SEGMENT



NET SALES PER PRODUCT AREA



During the year, four companies were acquired in the business area. The Swedish company Robota sells products and customised solutions for water and drainage, and has more than 40 years of experience in the pump business. Annual sales amount to approximately SEK 53 million. As Indutrade already has similar, existing businesses in Finland and the Baltic countries, the acquisition strengthens the business area's market position in the Nordic region. The company is included in the Group as from 1 January 2006.

Suomen Putkisto Tarvike (SPT) specialises in leak detection and water network monitoring, and has annual sales of approximately SEK 8 million. The company complements the business area's strong position in valves and couplings. SPT is included in the Group as from 1 February 2006.

The Finnish company PRP-Plastic manufactures special plastic products, such as surface linings, cisterns, components and pipe systems for demanding fluids in the process industry. The products are installed and maintained by PRP-Plastic's own

subsidiary, Modul-Plastic. PRP-Plastic, with sales of approximately SEK 27 million, is a strong complement to the business area's existing businesses in the area of valves and pumps. The acquisition was completed on 1 June 2006.

At year-end 2005 an agreement was signed on the acquisition of the Finnish company Puwimex, with possession taking place in January 2006. Puwimex is a technology sales company in the area of pump technology, with annual sales of approximately SEK 60 million.

FUTURE OUTLOOK

The market is expected to continue to show weak growth in 2007. This means that acquisitions will continue to play a key role in achieving growth targets.

The ambition is to maintain a high rate of acquisitions. Potential acquisition candidates in the business area's existing or related technology areas are continuously being evaluated.

STRONG DEMAND FOR FLOW TECHNOLOGY

The market for industrial flow technology was strong, especially in the energy and environmental sectors, and the business area increased its market shares in several areas.

KEY RATIOS	2006	2005	2004	2003	2002
Net sales, SEK million	1,073	966	869	780	808
EBITA, SEK million	93	67	53	39	63
EBITA margin, %	8.7	6.9	6.1	5.0	7.8
Number of employees at year-end	341	329	304	304	307

The Flow Technology business area offers components and systems for controlling, measuring, monitoring and regulating flows. The business unit has roughly 15 subsidiaries that specialise in various areas of industrial flow technology. The five largest subsidiaries are Alnab, Gustaf Fagerberg AB, Gustaf Fagerberg A/S, GPA and Ventim, which together accounted for approximately 63% of the business area's sales in 2006.

MARKET

Indutrade is the dominant industrial flow technology group in the Nordic countries. Sweden and Denmark account for most sales, however, the business area also does business in Norway and Russia. Competitors consist primarily of individual companies in the subsidiaries' respective markets.

CUSTOMERS

Flow Technology's customers work in a large number of industries – primarily the energy, water/environment, pulp and paper, pharmaceutical, food, petrochemical and chemical industries. The breadth of customers across a wide range of industries is a strength in contacts with suppliers, whose products are often suitable for several different market segments. Examples of major customers are Aalborg Industries, Akzo/EKA, Novo Nordisk, Ringhals, Siemens Turbo Machinery and Tetra Pak.

PRODUCT AREAS

The business area is organised into five product areas: Valves, Measuring and Analysis Instruments, Pipe Systems, Pumps, and Compressors and Service.

Valves

The Swedish market's widest range of valves and fittings for industrial customers and municipalities. A high level of expertise forms the platform for close co-operation and partnerships with customers.

Measuring and Analysis Instruments

A comprehensive range of instruments for measuring and analysing flows, pressure, temperature and levels. The products often play a key role in ensuring the operation of the customers' processes.

Pipe Systems

Plastic valves, pipes, pipe parts and couplings, and Teflon-coated materials for systems with aggressive fluids. System solutions for pipes, pumps and tanks using customised materials. A high level of expertise in, among other things, material selection for corrosive fluids and gases.

Pumps

Pumps and customised system solutions in which pumps, regulating systems, valves and pipes are assembled together to form a complete unit. Many of these are turnkey systems. The product area also includes special products for handling aggressive, corrosive and environmentally hazardous fluids.

Compressors and Service

Pneumatic compressors and vacuum-technology equipment, as well as repair, maintenance and service of pumps, valves and regulating equipment. Service activities directly related to sold products are provided for several of the business area's subsidiaries.

THE YEAR IN REVIEW

Sales of the business unit rose 11% to SEK 1,073 million (966). EBITA rose 39% to SEK 93 (67).

Demand was strong in most of the business area's markets, especially in the energy and environmental sectors. Demand from the pulp and paper industry was relatively weak, however. The business unit benefited from market growth and also increased its market share in several areas. Geographically, the rate of growth was highest in Denmark and Russia.

Most of the business area's growth was organic, although a contribution was also made by the subsidiary Satron, which was acquired in 2005 and was consolidated in the business area for the full year 2006.

Late in the year, an agreement was reached to acquire ES Hydagent, a company that designs and sells hydraulic systems for mobile industrial solutions. Possession of the company will take place in 2007.



»We benefited from the growing market and also increased our market share in several areas.«

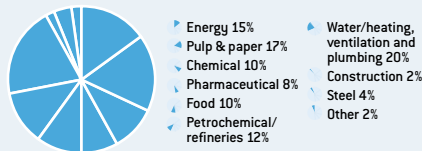
Peter Eriksson, President of Flow Technology business area



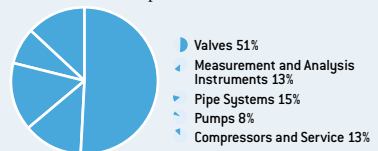
NET SALES PER GEOGRAPHIC MARKET
per cent



NET SALES PER CUSTOMER SEGMENT
per cent



NET SALES PER PRODUCT AREA
per cent



At year-end 2006, Axelvalves was acquired. With sales of approximately SEK 36 million, Axelvalves is one of Scandinavia's leading suppliers of industrial valves to the process industry in Eastern Europe. The acquisition strengthens the business area's market position particularly in Russia.

During the year, work was started on more clearly focusing the subsidiaries on their respective areas of specialisation, which contributed to improved profitability.

Many customers continued to reduce the number of suppliers they use during the year – a trend that is favourable for suppliers with the breadth of products that the Flow Technology business area has. An example of such an opportunity is the alliance with EKA Nobel, where Indutrade has total responsibility for all deliveries of valves, pumps and instruments.

FUTURE OUTLOOK

The market is expected to remain strong in 2007. The business area's strong position in the energy sector is expected to continue generating solid growth in 2007.

The ambition is to make a number of company acquisitions in the years ahead. In 2007 the business area will be starting the Flow Academy, a training programme aimed at further raising the employees' technology and sales competence.

SUBSTANTIAL EARNINGS IMPROVEMENT

Demand was strong, and higher volumes combined with cost-cutting resulted in a favourable earnings trend.

KEY RATIOS	2006	2005	2004	2003	2002
Net sales, SEK million	798	680	668	653	685
EBITA, SEK million	78	50	49	50	48
EBITA margin, %	9.8	7.4	7.3	7.7	7.0
Number of employees at year-end	271	248	242	239	247

The Industrial Components business area offers a wide range of technically advanced components and systems for production and maintenance. Products consist to a great extent of consumables.

Indutrade's subsidiaries in this business area typically work in close co-operation with their customers' development, production and maintenance departments. Major emphasis is put on identifying and understanding customers' production processes and needs.

The largest subsidiaries are Colly Components, Tribotec, Edeco Tool, Oy Colly Company and G. A. Lindberg. Together these companies accounted for approximately 56% of the business area's sales in 2006.

MARKET

Most of the business area's sales are in Sweden, although it does a considerable amount of business in Finland and Denmark, too. In Norway the business area does a relatively small but rapidly growing amount of business in the area of fasteners. Competitors consist of international companies as well as small, family-owned companies.

CUSTOMERS

Key customer groups are the engineering, pulp and paper, automotive and pharmaceutical industries. Examples of major customers include ABB, Metso, Stora Enso, AstraZeneca, Novo Nordisk, Tetra Pak and Volvo.

PRODUCT AREAS

The business area is organised into four product areas: Filter and Process Technology, Fasteners, Cutting Tools, and Adhesives and Chemical-Technical Products.

Filter and Process Technology

A number of the subsidiaries in the business area work with PALL Corporation, a major filter manufacturer. PALL has a broad product portfolio in filtration and separation along with related measurement and monitoring equipment.

Fasteners

The product offering consists of a wide range of fasteners, bearings and quick-connect/disconnect couplings with related assembly and automation equipment. Operations are focused on thin sheet joining, threaded-joint technology and fastening technology for the construction industry. The products are often included as subcomponents in the customers' own products.

Cutting Tools

In this product area, Indutrade is a leading importer of cutting tools in Sweden and offers a wide range of high-quality tools for various types of metalworking operations, such as drilling, turning, milling and thread cutting.

Adhesives and Chemical-Technical Products

Indutrade's companies in this product area work with leading suppliers of adhesives, silicone, lubricants and anti-corrosion packaging. They offer environmentally adapted oils and fluids for metalworking, rust protection, hydraulics, spray painting and tissue production. The product range also includes box and flat packaging and a number of specialised seals for demanding fluids and gas sealants.

THE YEAR IN REVIEW

Sales rose 17% to SEK 798 million (680). Nine percentage points of this growth was organic and was derived from a strong rise in demand in most of the business area's markets, most notably the automotive industry.

Apart from the strong general market growth, the business unit also increased its market shares in several areas. A prime example can be seen in the area of metal cutting tools, where co-operation with Mitsubishi Carbide was very successful. In the relatively newly established fastener business in Norway, growth was very rapid and sales nearly doubled. Acquisitions carried out during the year also contributed to sales growth.



»The strong earnings improvement can be credited to volume growth combined with the full impact in 2006 of cost-cutting measures taken in 2005.«

Olof Paulsson, President of Industrial Components business area



NET SALES PER GEOGRAPHIC MARKET

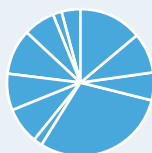
per cent



- Sweden 66%
- Finland 23%
- Denmark 10%
- Norway 1%

NET SALES PER CUSTOMER SEGMENT

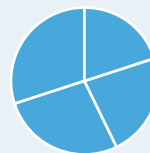
per cent



- Pulp & paper 14%
- Pharmaceutical 9%
- Food 6%
- Engineering 30%
- Automotive workshops 2%
- Construction 8%
- Steel 8%
- Automotive industry 10%
- Commercial vehicles 7%
- Telecom 2%
- Other 4%

NET SALES PER PRODUCT AREA

per cent



- Filters & Process Technology 20%
- Fasteners 23%
- Cutting Tools 27%
- Adhesives and Chemical-Technical Products 30%

EBITA rose 56% to SEK 78 million (50). This strong earnings improvement can be credited to volume growth combined with the full impact in 2006 of cost-cutting measures taken in 2005.

During the year, Indutrade acquired Tribotec AB, which supplies chemical-technical products in the area of corrosion protection, lubrication technology and bonding, with annual sales of approximately SEK 70 million. The acquisition complements the business area's existing operations conducted by the subsidiaries G.A. Lindberg and Diatom A/S, and strengthens the Group's position in the areas of chemical-technical products. Tribotec is consolidated in the Group as from 1 June 2006.

FUTURE OUTLOOK

Demand in the business area's markets is expected to remain favourable in 2007. The ambition in 2007 is to acquire a number of companies in existing or closely related technology areas.

GREATER SHARE OF PROPRIETARY PRODUCTS

During the year, the companies Gedevlop, Spinova and Damalini were acquired – all of which contributed to a higher share of proprietary products in the business area.

KEY RATIOS	2006	2005	2004	2003	2002
Net sales, SEK million	1,094	805	735	701	666
EBITA, SEK million	179	108	91	88	85
EBITA margin, %	16.4	13.4	12.4	12.6	12.8
Number of employees at year-end	520	424	356	364	384

The Special Products business area offers custom-fabricated niche products, design solutions, aftermarket service and special processing.

The business area includes a number of companies that conduct a considerable amount of own manufacturing and is the Indutrade business area with the highest share of proprietary products.

The five largest subsidiaries are ETP, GEFA, HITMA, HP Valves and Pentronic, which together accounted for approximately 64% of the business area's net sales in 2006.

MARKET

The business area is active primarily in three geographic markets: Sweden, Germany and the Benelux countries.

CUSTOMERS

Customers are primarily in the pharmaceutical, energy, food and engineering industries. Examples of major customers include Tetra Pak, Wärtsilä, Siemens, Sandvik and Alstom.

PRODUCT AREAS

The business area is structured into six product areas: Valves and Process Technology, Hydraulic Couplings, Electrical Components, Measurement Technology, Construction Plastics and Industrial Springs.

Valves and Process Technology

Customisation of butterfly valves, ball valves and several other types of valves. As a rule, valves are specially designed to meet specific customer needs. The product range also includes components and complete systems in valve and flow control technology, and in filtration and separation technology.

Hydraulic Couplings

Development, manufacture and marketing of hydraulic connections, couplings and chucks that are used in the assembly and

disassembly of drills and similar machinery with a high level of precision and quality. The offering also includes mounting and centring products based on hydraulic and hydromechanical principles. The product area has specialist expertise in this combination of mechanics and hydraulics and is a world-leading supplier in its niche, with exports accounting for 85% of total sales. Products are exported primarily to Western Europe and the USA.

Electrical Components

This product offering consists of electrical components and surge protection products that are marketed under the suppliers' own brands. Approximately 80% of the business area's electrical components are sold through electrical wholesalers, mainly to customers in the construction industry.

Measurement Technology

In this product area Indutrade develops, customises and markets advanced equipment for industrial measurement of temperatures and flows, as well as laser-based measurement systems for use in alignment and geometrical measurement. The product area also covers calibration of measuring instruments and personnel training in measuring equipment.

Construction Plastics

Indutrade's offering of construction plastics includes customised products and finished plastic components. Product development, design and choice of materials are conducted in close consultation with customers. Plastic materials with various properties are used in a large number of industries, from heavy industries with high demands on wear and durability, to the food and pharmaceutical industries, with high demands on temperature tolerance and chemical resistance.

Industrial Springs

Manufacture of customised springs and wire forms used in hydraulic systems, locks, doors, pumps, water and waste water applications, and equipment for the food industry, among others.

THE YEAR IN REVIEW

Sales rose 36% to SEK 1,094 million (805), and EBITA rose 66% to SEK 179 million (108).

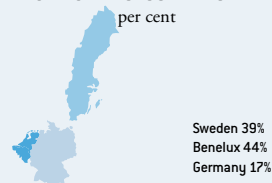


»The Special Product business area strives to create clusters of companies with related businesses, which can thereby draw benefit from each other's expertise and contact networks.«

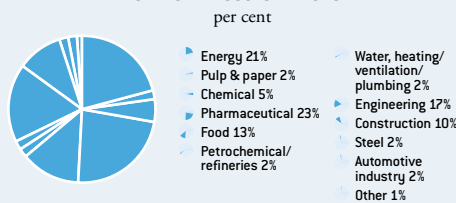
Johnny Alvarsson, President of Special Products business area



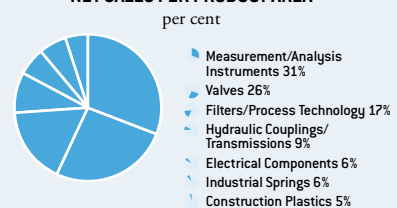
NET SALES PER GEOGRAPHIC MARKET



NET SALES PER CUSTOMER SEGMENT



NET SALES PER PRODUCT AREA



The market trend was favourable, with rising demand, primarily in the energy sector. Particularly noteworthy was the strong performance by HP Valves (acquired in 2005), which posted a strong gain in sales and earnings. HP Valves manufactures high-pressure valves for steam and power generation, and benefited from strong growth in investment during the year. Acquired companies accounted for 26 percentage points of sales growth. The earnings improvement can also be attributed to action plans carried out at two subsidiaries.

Three companies were acquired during the year. All three share in common the fact that they have contributed to a higher share of proprietary products manufactured in the business area.

The business area's position in measurement technology was strengthened through the acquisition of Gedvelop AB, with sales of approximately SEK 40 million. The company develops and sells precision instruments and systems for measuring flows and temperatures primarily in the glass industry. The company's products are sold worldwide.

Spinova AB is one of Sweden's leading manufacturers of customised springs and wire forms, with sales of approximately SEK 60 million (see also page 18). In connection with the acquisition of Spinova, Industrial Springs was created as a new product area.

Damalini AB, in Mölndal, is a technological and market leader in laser-based measurement and alignment systems, with sales of approximately SEK 60 million in more than 70 countries. Damalini fits well into the business area's strategy of growth in industrial measurement technology.

FUTURE OUTLOOK

The market outlook remains favourable. Rising prices of energy and raw materials are expected to continue driving efficiency-improvement measures in many industrial companies, which is leading to higher demand for many of the business area's products.

The aim is to acquire additional companies and continue increasing the share of custom-fabricated products.

OPERATIONAL RISKS

CHANGES IN THE ECONOMY

Indutrade's business is dependent on the purchases and investments made by its customers. However, the Company's profitability is relatively insensitive to economic fluctuations, since the Company is represented in a large number of industries and investment goods constitute a relatively small portion of total net sales.

As a result of these factors, demand for Indutrade's products follows GDP growth in the Group's geographic markets.

RELOCATION OF OPERATIONS

Relocation of industrial production to low-cost countries has been noted in Indutrade's markets in recent years. This trend has had a limited impact on Indutrade. This is mainly due to the fact that Indutrade has chosen to focus on customers with recurring needs in industries with high automation, high distribution costs and/or large initial investments.

COMPETITION FROM LOW-COST COUNTRIES

There has been a noticeable increase in products from low-cost countries in the markets for Indutrade's products. The risk that Indutrade will be affected by this competition is counterbalanced by the fact that the Group offers products and services with a high-tech content, high level of service and qualified technical advice.

Moreover, Indutrade strives to establish close partnerships with its customers by becoming involved early on in the planning and development phases, where its employees can contribute their expertise in various processes.

CHANGES AT THE SUPPLIER LEVEL

There is always a risk of suppliers deciding to leave a partnership with a technology sales company to set up their own sales organisation. Consolidation among manufacturers is one trend in the market that points to this. Indutrade tackles this by choosing suppliers who view a partnership with Indutrade as the most cost-effective sales method. Stable supplier relationships is one of the parameters that is assessed prior to Indutrade's acquisition of a company. By ensuring that acquired companies do not lose their product agency agreements, the Company's primary suppliers give their consent to the acquisition.

DEPENDENCE ON KEY PERSONS

The risk of losing experienced employees is accentuated in connection with company acquisitions. Consequently, Indutrade's acquisition strategy includes ensuring that a target company's key employees are motivated to continue running the company after the acquisition.

In addition, to attract and retain key personnel, Indutrade conducts continuous competence development and management development programmes.

ENVIRONMENTAL ISSUES

Of Indutrade's subsidiaries, seven in Sweden and two outside Sweden conduct operations that require permits or notification under the Environmental Code in their respective country and are subjected to regulatory oversight.

FINANCIAL RISKS

In the course of its business Indutrade is exposed to various types of financial risk, including financing and liquidity risk, interest rate risk, currency risk, and customer and counterparty risks (credit risk). The Group's financial activities are centralised in the Parent Company in order to benefit from economies of scale and minimise handling risks.

Financial activities are co-ordinated by the Parent Company, which executes all important external financial transactions and serves as an internal bank for the Group's transactions in the foreign exchange and bond markets.

Each year Indutrade's board of directors adopts a finance policy, which serves as the framework for managing financial risks and financial activities. The policy also regulates the applicable limits for counterparties.

FINANCING AND LIQUIDITY RISK

Financing and liquidity risk refers to the risk of not being able to meet payment obligations due to insufficient liquidity or difficulties in obtaining credit from external financing institutions. This risk is mitigated as far as possible by ensuring that the Company has a maturity structure in place that creates conditions to take necessary alternative means of raising capital should this be necessary.

INTEREST RATE RISK

Interest rate risk refers to the risk that unfavourable changes in interest rates will have an excessive impact on the Group's balance of net financial income and expense as well as earnings. To limit the negative effect on the Group's earnings caused by interest rate movements in the market, the Company maintains a staggered structure in the fixed-interest periods of its debt portfolio.

CURRENCY RISK

Currency risk is the risk of unfavourable movements in exchange rates affecting the Group's earnings and shareholders' equity measured in SEK.

The Group's net flows in foreign currencies are hedged primarily through currency clauses in customer contracts.

CUSTOMER AND COUNTERPARTY RISK

Credit risk in the Group's treasury management arises in connection with investments of liquid funds and as counterparty risk in connection with the use of forward contracts and other derivative instruments.

These risks are limited by dealing with counterparties that have been approved in accordance with the guidelines stipulated in the finance policy. Assessment of credit risk in commercial transactions is handed by the individual subsidiaries.

Indutrade's exposure to individual customers is small, and the spread of risk is considered to be favourable.

SENSITIVITY ANALYSIS

Based on the debt structure at year-end, a one percentage point rise in interest rates on an annualised basis would result in higher interest expense of approximately SEK 4.5 million, without taking into account the fixed-interest periods of loans. Taking into account the current terms of fixed interest, the effect for 2007 would be approximately SEK 3.9 million.

Indutrade estimates that the Company's translation exposure entails that a one percentage point change in the value of the Swedish krona (SEK) relative to other currencies would result in an annual positive/negative effect of approximately SEK 26 million in net sales and approximately SEK 2.4 million in pre-tax earnings.

SEVERAL-YEAR OVERVIEW

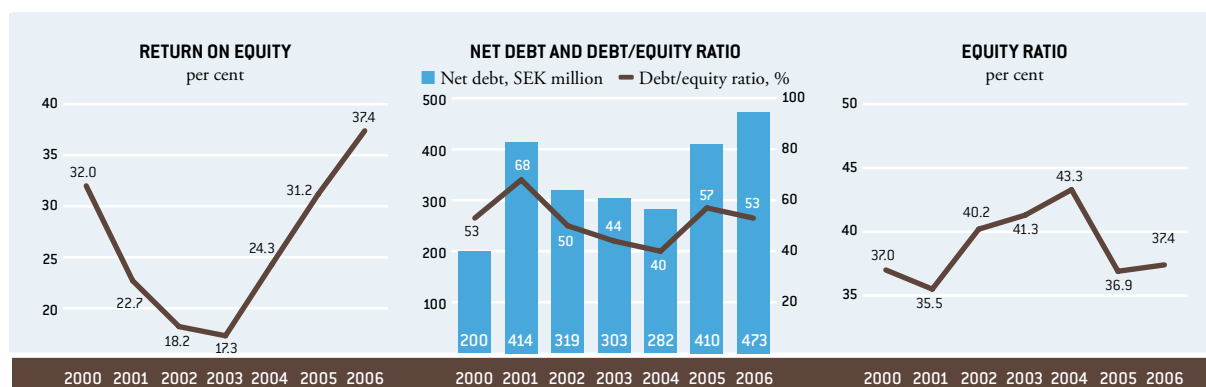
2000–2003 Figures not adjusted according to IFRS

CONDENSED INCOME STATEMENTS (SEK million)	2006	2005	2004	2003	2002	2001 ¹⁾	2000 ²⁾
Net sales	4,516	3,822	3,486	3,197	3,078	3,109	1,919
Cost of goods sold	-3,027	-2,582	-2,367	-2,166	-2,083	-2,123	-1,276
Gross profit	1,489	1,240	1,119	1,031	995	986	643
Development costs	-15	-12	-11	-10	-9	-9	-6
Selling costs	-835	-725	-677	-663	-642	-623	-393
Administrative expenses	-205	-182	-175	-167	-149	-157	-94
Other operating income/expenses	2	3	0	4	7	0	28
Operating profit	436	324	256	195	202	197	178
Financial income and expense	-20	-15	-13	-13	-21	-21	-1
Profit after financial items	416	309	243	182	181	176	177
Tax	-116	-87	-75	-67	-67	-64	-60
Net profit for the year	300	222	168	115	114	112	117
EBITA	460	333	264	229	238	234	198

CONDENSED BALANCE SHEETS (SEK million)	2006	2005	2004	2003	2002	2001 ¹⁾	2000 ²⁾
Assets							
Goodwill	265	210	156	167	133	166	60
Other intangible assets	183	88	15	4	4	5	7
Tangible assets	327	287	277	266	255	225	132
Financial assets	25	31	18	13	19	20	21
Inventories	719	615	556	567	571	625	382
Current receivables	748	585	517	480	447	468	293
Cash and cash equivalents	119	117	97	168	172	213	119
Total assets	2,386	1,933	1,636	1,665	1,601	1,722	1,014
Liabilities							
Equity	892	714	708	688	643	611	375
Non-current interest-bearing liabilities	356	411	175	283	449	545	174
Non-current noninterest-bearing liabilities	123	48	24	39	25	19	19
Current interest-bearing liabilities	236	116	204	188	42	82	145
Accounts payable, trade	398	322	263	228	225	227	154
Other current noninterest-bearing liabilities	381	322	262	239	217	238	147
Total liabilities and equity	2,386	1,933	1,636	1,665	1,601	1,722	1,014

¹⁾ On 1 January 2001, Indutrade acquired the Faberberg (incl. GEFA), EIE, and Tecalemit company groups, among others, with net sales of SEK 1,029 million for the 2001 financial year.

²⁾ Incl. SEK 26 million in funds with Alecta.



CONDENSED CASH FLOW STATEMENTS (SEK million)	2006	2005	2004	2003	2002	2001 ¹⁾	2000 ²⁾
Cash flows from operating activities before changes in working capital	369	313	251	210	210	201	193
Changes in working capital	-104	9	16	-8	44	-66	-37
Cash flow from operating activities	265	322	267	202	254	135	156
Net investment in non-current assets ³⁾	-41	-41	-24	-53	-77	-46	-26
Company acquisitions and divestments	-157	-148	-14	-57	6	-343	-33
Change in other financial assets	-16	-8	2	-	13	2	-13
Cash flow from investing activities	-214	-197	-36	-110	-58	-387	-72
Net borrowing	65	192	-157	-83	-91	340	-51
Dividend, Group contributions and shareholder contributions paid	-110	-301	-144	-11	-144	-1	-105
Cash flow from financing activities	-45	-109	-301	-94	-235	339	-156
Cash flow for the period	6	16	-70	-2	-39	87	-72
Cash and cash equivalents at start of year	117	97	168	172	213	119	189
Exchange rate differences	-4	4	-1	-2	-2	7	2
Cash and cash equivalents at end of year	119	117	97	168	172	213	119

¹⁾ On 1 January 2001, Indutrade acquired the Faberberg (incl. GEFA), EIE, and Tecalemit company groups, among others, with net sales of SEK 1,029 million for the 2001 financial year.

²⁾ Incl. SEK 26 million in funds with Alecta.

³⁾ Refers to the sum of the year's investments in/sales of tangible and intangible non-current assets (not including company acquisitions and sales).



SEVERAL-YEAR OVERVIEW

FINANCIAL RATIOS (SEK million)	2006	2005	2004	2003	2002	2001 ¹⁾	2000 ²⁾
Non-current interest-bearing liabilities	356	411	175	283	449	545	174
Current interest-bearing liabilities	236	116	204	188	42	82	145
Cash and cash equivalents	-119	-117	-97	-168	-172	-213	-119
Group net debt	473	410	282	303	319	414	200
Net debt/equity ratio, %	53	57	40	44	50	68	53
Interest coverage ratio	18.6	16.1	14.9	10.8	8.2	7.9	22.9
Equity ratio, %	37.4	36.9	43.3	41.3	40.2	35.5	37.0

RETURN RATIOS	2006	2005	2004	2003	2002	2001 ¹⁾	2000 ²⁾
Return on equity, %	37.4	31.2	24.3	17.3	18.2	22.7	32.0
Return on operating capital, %	36.9	31.5	26.0	23.5	24.0	29.3	36.7

KEY DATA PER EMPLOYEE	2006	2005	2004	2003	2002,2001 ¹⁾	2000 ²⁾
Average number of employees	1,673	1,510	1,415	1,377	1,351	1,375	846
Sales, SEK 000	2,699	2,531	2,464	2,322	2,278	2,261	2,268
Pre-tax profit, SEK 000	249	205	172	132	134	128	209

¹⁾ On 1 January 2001, Indutrade acquired the Faberberg (incl. GEFA), EIE, and Tecalemit company groups, among others, with net sales of SEK 1,029 million for the 2001 financial year.

²⁾ Incl. SEK 26 million in funds with Alecta.

DEFINITIONS

Return on operating capital:

EBITA divided by average operating capital.

Return on equity:

Net profit for the period divided by average equity.

Gross margin:

Gross profit divided by net sales.

EBITA:

Operating profit before amortisation of intangible assets.

Equity per share:

Equity divided by the number of shares outstanding.

Capital expenditures:

Gross investments in non-current tangible assets, excluding company acquisitions.

Interest-bearing net debt:

Interest-bearing liabilities, including pension liabilities, less cash and cash equivalents.

Net debt/equity ratio:

Net debt divided by equity.

Operating capital:

Equity plus net debt.

Operating cash flow:

Cash flow from operating activities and net investments in non-current assets (not including company acquisitions and divestments).

Earnings per share:

Net profit for the period divided by the number of shares outstanding.

Interest coverage ratio:

EBITA plus financial income divided by financial expenses.

EBITA margin:

EBITA divided by net sales.

Equity ratio:

Equity divided by total assets.

DIRECTORS' REPORT

The Board of Directors and President of Indutrade AB (publ), reg. no. 556017-9367, herewith submit the annual report and consolidated financial statements for the 2006 financial year.

OPERATIONS

Indutrade markets and sells components, systems and services with a high-tech content to industrial companies in selected niches. The Group is organised in four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products. Business is conducted via subsidiaries in Sweden, Finland, Norway, Denmark, Estonia, Latvia, Lithuania, Russia, Germany, Belgium and the Netherlands. Indutrade's shares are listed on the Stockholm Stock Exchange, Mid Cap list.

NET SALES AND EARNINGS

Incoming orders for the Group amounted to SEK 4,739 million (3,860), an increase of 23%, of which acquired companies accounted for 12 percentage points and currency effects -1 percentage point.

Net sales rose 18% during the year to SEK 4,516 million (3,822). Of the increase, 11 percentage points pertained to acquired companies, 8 percentage points to organic growth, and -1 percentage point to negative currency movements.

Operating profit before amortisation of intangible assets (EBITA) amounted to SEK 460 million (333), an increase of 38%, corresponding to a strengthening of the EBITA margin by 1.5 percentage points, to 10.2% (8.7%).

Net financial items totalled SEK -20 million (-15). Profit after tax rose 35% to SEK 300 million (222), corresponding to earnings per share of SEK 7.50 (5.55).

BUSINESS AREAS

Engineering & Equipment

Net sales in 2006 amounted to SEK 1,576 million (1,393), an increase of 13%, of which 9 percentage points pertained to acquired companies. EBITA increased by 10%, to SEK 146 million (133). The EBITA margin was 9.3% (9.5%). The slight drop in the EBITA margin was mainly due to higher overheads in connection with the move to a new warehouse shared by four companies in the business area, which will result in more cost-effective inventory management.

Flow Technology

Net sales, which totalled SEK 966 million in 2005, rose 11% during the year to SEK 1,073 million as a result of higher demand for the business area's products. EBITA reached SEK 93 million (67), corresponding to an EBITA margin of 8.7% (6.9%). The margin improvement can be credited primarily to a favourable product mix.

Industrial Components

Net sales amounted to SEK 798 million (680), an increase of 17%, of which 8 percentage points pertained to acquisitions. EBITA amounted to SEK 78 million (50), and the EBITA margin reached 9.8% (7.4%). The margin improvement can be credited primarily to the strong rise in net sales and to the effect of cost-cutting.

Special Products

Net sales rose 36% during the year, to SEK 1,094 million (805). Acquisitions accounted for 26 percentage points of the increase. EBITA reached SEK 179 million (108), and the EBITA margin strengthened by 3.0 percentage points to 16.4% (13.4%). The margin improvement is mainly attributable to acquired companies and to slower growth in other company overheads than net sales.

COMPANY ACQUISITIONS

The following eight companies were acquired during the year:

- Robota AB, Sweden, with annual sales of approximately SEK 55 million
- Puwimex Oy, Finland, with annual sales of approximately SEK 60 million
- Suomen Putkisto Tarvike Oy (SPT), Finland, with annual sales of approximately SEK 8 million
- Gedevelop AB, Sweden, with annual sales of approximately SEK 35 million
- PRP-Plastic Oy, Finland, with annual sales of approximately SEK 30 million
- Spinova AB, Sweden, with annual sales of approximately SEK 60 million
- Tribotec AB, Sweden, with annual sales of approximately SEK 70 million
- Damalini AB, Sweden, with annual sales of approximately SEK 60 million

PROFITABILITY, FINANCIAL POSITION AND CASH FLOW

The return on operating capital was 37% (32%), and the equity ratio was 37% (37%) at year-end. Equity per share was SEK 22.30 (17.85). The Group's interest-bearing net debt, after deducting cash and cash equivalents, amounted to SEK 473 million (410), corresponding to a net debt/equity ratio of 53% (57%).

Cash flow from operating activities was SEK 265 million (322) and was affected by an increase in tied-up capital stemming from higher net sales and by a higher tax payment, of which part pertained to 2005 earnings.

Capital expenditures totalled SEK 74 million (58). The price paid for company acquisitions carried out during the year amounted to SEK 247 million (145).

EMPLOYEES

At year-end Indutrade had 1,758 (1,534) employees. The average number of employees was 1,673 (1,510). Acquisitions made during the year increased the number of employees by some 180.

INCENTIVE PROGRAMME

Indutrade's board of directors, in co-operation with AB Industrivärden, has established an incentive programme directed at senior executives of the Group. The aim of the programme is to encourage management's long-term commitment and participation in the Company. The term of the programme extends until 30 June 2010.

A total of 30 senior executives have acquired a combined total of 169,500 shares and 284,800 stock options in the Company, at market price. The stock options were issued by AB Industrivärden and expire on 30 June 2010. Indutrade pays 40% of the invested amount to the executives participating in the programme.

The total cost for the Company will amount to approximately SEK 7 million, of which SEK 1.4 million was charged against 2006 earnings, while SEK 1.3 million will be charged against earnings for each of the coming three years.

PRINCIPLES FOR COMPENSATION OF SENIOR EXECUTIVES

The principles for compensation of senior executives, which the Chairman of the Board informed about at the 2006 Annual General Meeting, are described in Note 6.

The Board's proposed principles for compensation of senior executives, which will be decided on at the 2007 Annual General Meeting, are described in Note 6.

FINANCIAL RISKS

In the course of its operations, Indutrade is exposed to various types of financial risks: financing and liquidity risk, interest rate risk, currency risk, and customer and counterparty risks (credit risk). The Group's financial activities are centralised in the Parent Company in order to benefit from economies of scale and minimise handling risks. The Parent Company executes all major external financial transactions and acts as an internal bank for the Group's transactions in the foreign exchange and bond markets. Each year Indutrade's board of directors adopts a finance policy, which serves as the framework for managing financial risks and financial activities. The policy also regulates the applicable limits for counterparties. For a more detailed discussion on how Indutrade manages its various financial risks, see Note 2.

ENVIRONMENTAL IMPACT

Seven of the Group's Swedish subsidiaries conduct operations that require permits or notifications in accordance with the Swedish Environmental Code. Two foreign subsidiaries conduct operations subject to an equivalent permit or notification obligation.

None of the Group's companies are involved in any environment-related disputes.

RESEARCH AND DEVELOPMENT

Development of proprietary products is conducted primarily by companies in the Special Products business area.

ACCOUNTING PRINCIPLES

Indutrade prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Through 2003 Indutrade applied the recommendations and statements of the Swedish Financial Accounting Standards Council.

The reporting standards that have the greatest impact on Indutrade's accounting are IFRS 3 Business Combinations and IAS 19 Employee Benefits.

The effects of reporting standards on Indutrade's accounting, earnings and position are described on pages 39–59.

COMPOSITION AND WORK OF THE BOARD

The Board of Directors had eight members during the financial year. A presentation of the board members can be found on page 66.

During the year, the Board had ten regular meetings plus the statutory meeting. The Board's work focused on the Group's strategies and goals, company acquisitions and investments, among other things. For a detailed description of the Board's duties, its work methods, routine matters, committees, etc., see the Corporate Governance Report on pages 61–65.

PARENT COMPANY

The Parent Company's sales, which consisted entirely of the internal invoicing of services, amounted to SEK 1 million (5). The Parent Company's capital expenditures amounted to SEK 1 million (1). The number of employees on December 31 was 8 (7).

The Parent Company's primary functions are to take responsibility for business development, major acquisitions and financing of the Group's operations.

EVENTS AFTER THE BALANCE SHEET DATE

An agreement was reached in December 2006 on the acquisition of ES Hydagent AB, Sweden, with annual sales of approximately SEK 60 million. Indutrade gained a controlling interest in January 2007.

In January 2007 an agreement was reached on the acquisition of all of the shares in Axelvalves AB. Axelvalves sells industrial valves with its own brands to companies in the process industry in Eastern Europe. Annual sales amount to approximately SEK 36 million.

In February an agreement was reached to acquire all of the shares in SAV-Denmark Trading A/S, with annual sales of approximately SEK 65 million. The company represents a number of strong suppliers whose products are sold primarily under the company's own "SAV-Systemprodukter" brand.

The companies will be included in the Flow Technology business area.

FUTURE OUTLOOK

Indutrade's ambition in 2007 continues to be to achieve its set growth and profitability targets through organic growth and acquisitions. Since the Company's business is affected to a great extent by external factors such as market development in the segments in which the Company operates and access to profitable acquisition candidates, no forecast for the current year has been given.

PROPOSED DISTRIBUTION OF EARNINGS

PROPOSED DISTRIBUTION OF EARNINGS

The Annual General Meeting has the following funds at its disposal:

(SEK million)

Retained earnings	314
Net profit for the year	216
	<hr/>
	530

The Board of Directors and President propose the following distribution of earnings

Dividend of SEK 3.75 per share	150
To be carried forward	380
	<hr/>
	530

The dividend proposed by the Board of Directors and President corresponds to 26% of the Parent Company's equity and 17% of the Group's equity.

Indutrade's dividend policy is that the dividend shall amount to at least 50% of net profit over time.

The Board is of the opinion that the proposed dividend is fair and reasonable with respect to the goals, scope and risks of the operations and in respect of the opportunities to meet the Company's future obligations.

If the dividend had been paid out at year-end, the equity ratio would have been 31%.

After payment of the proposed dividend, Indutrade will continue to have good liquidity and a net debt/equity ratio that is well within the set limit.

The Board of Directors and President hereby affirm that, to the best of our knowledge, the Annual Report has been prepared in accordance with generally accepted accounting principles for listed companies, that the information presented reflects the actual conditions and that nothing of material significance has been omitted that could affect the picture of the Company presented in the Annual Report.

For a full presentation of Group's and Parent Company's earnings and financial position in general, please refer to the following income statements, balance sheets, cash flow statements and notes.

Stockholm, 9 March 2007

Bengt Kjell
Chairman of the Board

Owe Andersson

Michael Bertorp

Eva Färnstrand

Curt Källströmer

Ulf Lundahl

Gunnar Tindberg

Johnny Alvarsson
President and CEO

Our audit report was submitted on 9 March 2007.

Öhrlings PricewaterhouseCoopers AB

Lennart Danielsson
Authorised Public Accountant

CONSOLIDATED INCOME STATEMENT

SEK million	Note	GROUP	
		2006	2005
Net sales		4,516	3,822
Cost of goods sold		-3,027	-2,582
Gross profit		1,489	1,240
Development costs		-15	-12
Selling costs		-835	-725
Administrative expenses		-205	-182
Other operating income	4	7	9
Other operating expenses	4	-5	-6
Operating profit	5, 6, 7, 8, 13, 29	436	324
Financial income	9	5	6
Financial expenses	10	-25	-21
Profit after financial items		416	309
Tax	12	-116	-87
Net profit for the year		300	222
Earnings per share ¹⁾		7.50	5.55
Proposed dividend per share		3.75	2.75

¹⁾ Profit for the period divided by 40,000,000 shares. There is no dilutive effect.

REVENUES AND EXPENSES REPORTED DIRECTLY AGAINST EQUITY

SEK million	2006	2005
Actuarial gains/losses	10	-30
Exchange rate differences on foreign operations	-17	14
Tax on items reported directly against equity	-5	9
Total income and expenses reported directly against equity	-12	-7
Net profit for the year	300	222
Total reported income and expenses for the financial year	288	215

CONSOLIDATED BALANCE SHEET

		GROUP	
SEK million	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
<i>Non-current assets</i>			
Intangible assets	14	448	298
Tangible assets	15		
Buildings and land		171	153
Machinery		55	37
Equipment		100	93
Construction in progress and advances for tangible assets		1	4
Total tangible assets		327	287
Financial assets			
Shares and participations, other companies	16	3	3
Other non-current receivables	17	6	5
Deferred tax assets	12	16	23
Total financial assets		25	31
Total non-current assets		800	616
<i>Current assets</i>			
Inventories	18	719	615
Current receivables			
Accounts receivable, trade		679	532
Tax assets		16	17
Other current receivables		16	13
Prepaid expenses and accrued income	19	37	23
Total current receivables		748	585
Short-term investments		1	7
Cash at bank and in hand		118	110
Total cash and cash equivalents		119	117
Total current assets		1,586	1,317
Total assets		2,386	1,933

CONSOLIDATED BALANCE SHEET

GROUP			
SEK million	Note	31 Dec. 2006	31 Dec. 2005
EQUITY AND LIABILITIES			
<i>Equity</i>			
	20		
Share capital		40	40
Reserves		-7	10
Profit brought forward incl. in net profit for the year		859	664
Total equity		892	714
<i>Non-current liabilities</i>			
Borrowings	21	238	280
Pension obligations	22	118	131
Deferred tax liabilities	12	71	43
Other provisions	23	52	5
Total non-current liabilities		479	459
<i>Current liabilities</i>			
Borrowings	21	236	116
Accounts payable, trade		398	322
Tax liabilities		53	53
Other current liabilities		123	115
Accrued expenses and deferred income	24	205	154
Total current liabilities		1,015	760
Total equity and liabilities		2,386	1,933
Pledged assets	26	54	39
Contingent liabilities	27	1	2

CONSOLIDATED CASH FLOW STATEMENT

SEK million	Note	GROUP	
		2006	2005
OPERATING ACTIVITIES			
Cash flow from operating activities	28	405	391
Interest received		4	3
Interest paid		-19	-13
Income tax paid		-125	-59
Cash flow from operating activities		265	322
INVESTING ACTIVITIES			
Acquisitions of subsidiaries	25	-157	-148
Acquisitions of tangible assets	15	-65	-51
Sales of tangible assets	15	14	14
Acquisitions of intangible assets	14	-6	-4
Increase/decrease in financial assets		0	-8
Cash flow from investing activities		-214	-197
FINANCING ACTIVITIES			
Borrowings		100	207
Repayment of debt		-35	-15
Dividend		-110	-50
Group contribution paid out and repayment of shareholder contribution		-	-251
Cash flow from financing activities		-45	-109
Cash flow for the year		6	16
Cash and cash equivalents at start of year		117	97
Exchange rate differences in cash and cash equivalents		-4	4
Cash and cash equivalents at end of year		119	117

INCOME STATEMENT/CASH FLOW STATEMENT, PARENT COMPANY

Income statement, SEK million		PARENT COMPANY	
	Note	2006	2005
Net sales		1	5
Gross profit		1	5
Administrative expenses		-35	-38
Other operating income/expenses	4	-1	0
Operating income	5, 6, 7, 8, 13, 29	-35	-33
Financial income	9	14	14
Financial expenses	10	-15	-13
Profit from participations in Group companies	11	293	225
		292	226
Profit after financial items		257	193
Excess depreciation of equipment		0	0
Profit before tax		257	193
Tax	12	-41	-27
Net profit for the year		216	166

Cash flow statement, SEK million		PARENT COMPANY	
	Note	2006	2005
OPERATING ACTIVITIES			
Cash flow from operating activities	28	-29	-251
Interest received		14	11
Interest paid		-15	-10
Group contributions received and dividend income		213	225
Income tax paid		-52	0
Cash flow from operating activities		131	-25
INVESTING ACTIVITIES			
Acquisitions of subsidiaries	16	-167	-3
Acquisitions of tangible assets	15	-1	-1
Change in financial assets		79	43
Cash flow from investing activities		-89	39
FINANCING ACTIVITIES			
Borrowings		100	204
Repayment of debt		-26	-
Dividends paid		-110	-50
Repayment of shareholder contribution		-	-159
Cash flow from financing activities		-36	-5
Cash flow for the year		6	9
Cash and cash equivalents at start of year		9	0
Cash and cash equivalents at end of year		15	9

BALANCE SHEET, PARENT COMPANY

PARENT COMPANY			
	Note	31 Dec. 2006	31 Dec. 2005
ASSETS			
<i>Non-current assets</i>			
Tangible assets	15		
Equipment		2	2
<i>Financial assets</i>			
Participations in Group companies	16	673	428
Receivables from Group companies		100	104
Total financial assets		773	532
Total non-current assets		775	534
<i>Current assets</i>			
Current receivables			
Receivables from Group companies		365	355
Tax assets		–	0
Other receivables		1	2
Prepaid expenses and accrued income	19	5	1
Total current receivables		371	358
Cash and cash equivalents		15	9
Total current assets		386	367
Total assets		1,161	901

PARENT COMPANY			
	Note	31 Dec. 2006	31 Dec. 2005
EQUITY AND LIABILITIES			
<i>Equity</i>			
Restricted equity			
Share capital		40	40
Statutory reserve		5	5
		45	45
Unrestricted equity			
Profit brought forward		314	258
Net profit for the year		216	166
		530	424
Total equity		575	469
Excess depreciation of equipment			
		0	0
<i>Provisions</i>			
Deferred tax liability	12	0	0
Other provisions	23	34	1
Total provisions		34	1
<i>Non-current liabilities</i>			
Borrowings	21	201	259
Liabilities to Group companies		83	24
Total non-current liabilities		284	283
<i>Current liabilities</i>			
Borrowings	21	217	99
Accounts payable, trade		1	1
Tax liabilities		16	27
Liabilities to Group companies		27	14
Other current liabilities		0	1
Accrued expenses and deferred income	24	7	6
Total current liabilities		268	148
Total equity and liabilities		1,161	901
Pledged assets			
		–	–
Contingent liabilities			
	27	79	74

ACCOUNTING PRINCIPLES AND NOTES

Amounts stated in the notes are in SEK million unless otherwise indicated.

NOTE 1 GENERAL ACCOUNTING AND VALUATION PRINCIPLES

General

The Indutrade Group markets and sells components, systems and services with a high-tech content to industrial companies in selected niches. The Group is organised in four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products. Business is conducted via subsidiaries in Sweden, Finland, Norway, Denmark, Estonia, Latvia, Lithuania, Russia, Germany, Belgium and the Netherlands. Indutrade's shares are listed on the Stockholm Stock Exchange, Mid Cap list.

The Parent Company is a limited liability company with its domicile in the municipality of Stockholm

These consolidated financial statements were approved by the Board of Directors for publication on 9 March 2007.

Basis of preparation

The consolidated financial statements for the Indutrade Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the European Union and in compliance with RR30 and the Swedish Annual Accounts Act. The consolidated financial statements have been prepared in accordance with cost method, with the exception of revaluations of currency contracts, which have been stated at fair value via the income statement. Preparation of reports in accordance with IFRS requires the use of important accounting estimations. Further, application of the Company's accounting principles requires that management make certain estimates and assumptions. 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 in the section "Important estimations and assumptions" below.

Standards, amendments and interpretations that apply as from 1 January 2006

No new standards or amendments of previously published standards have been applied by the Group for the first time in 2006. The amendment to IAS 19 Employee Benefits was applied for the first time in 2004 with respect to reporting of actuarial gains and losses.

Standards, amendments and interpretations that apply as from 1 January 2007 or later

No newly issued IFRSs or interpretations have been applied prospectively.

Of the standards that apply as from 1 January 2007 or later, IFRS 7 Financial Instruments: Disclosures and IFRS 8 Operating Segments will not have any impact on the Group's earnings and position other than their presentation in the Group's reports.

Basis of consolidation

The consolidated accounts include subsidiaries in which the Parent Company directly or indirectly has a controlling interest. Subsidiaries are included in the consolidated financial statements from the date when the controlling interest is transferred to the Group. They are excluded from the consolidated financial statement from the date when the controlling interest ceases.

The consolidated financial statements have been prepared in accordance with the purchase method, which means that the subsidiaries' equity at the date of acquisition, defined as the difference between the fair value of assets and liabilities, is eliminated in its entirety. This means that only that portion of the equity of subsidiaries that arose after acquisition is included in consolidated equity.

If the consolidated cost of shares exceeds the value of the Company's net assets entered in the acquisition analysis, this is reported as consolidated goodwill. If the cost is below the fair value of the acquired subsidiary's net assets, the difference is reported directly in the income statement.

Translation of foreign currency

Items that are included in the financial reports for the Group's different units have been valued in the currency that is used in the economic environment where each company mainly operates (functional currency). In the consolidated financial statements, the Swedish krona (SEK) is used. This is the Parent Company's functional currency 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 for each of the subsidiaries' balance sheets are translated at the exchange rate on the balance sheet date,
- income and expenses for each of the income statements are translated at the average exchange rate, and
- all exchange rate differences that arise are reported as a separate part of equity.

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 company 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 when paying such transactions and when translating monetary assets and liabilities in foreign currencies at the exchange rate on the balance sheet date are reported in the income statement. Exchange rate differences that arise upon payment 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.

Tangible non-current assets

Tangible non-current assets are stated at cost with deduction for accumulated depreciation according to plan. 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. Tangible assets are depreciated over their estimated useful lives. In this context, the following depreciation periods are used:

Buildings	25–40 years
Machinery	5–10 years
Equipment	3–10 years
No depreciation is booked for land.	

Intangible non-current assets

Goodwill

Goodwill represents the amount by which the cost exceeds the fair value of the Group's share of the acquired subsidiary's identifiable net assets at the time of acquisition. Goodwill is tested 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 allocated to cash-generating units for impairment testing.

Agencies, trademarks, customer lists, licences, etc.

Agencies, trademarks, customer lists, licences, etc., are carried at cost. These assets have a limited useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to allocate the cost of these assets over their estimated useful lives (5–10 years).

Acquired software licences are valued at cost and are amortised over their estimated useful lives (not more than 3 years).

Impairment of non-financial assets

Assets that have an indefinite useful life, such as land, are not depreciated, but are instead tested for impairment annually. Impairment of assets is judged on the basis of a decline in value whenever events or changes in conditions indicate that the carrying amount is not recoverable. Impairment is booked of 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. 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 assets other than financial assets and goodwill that have previously been written down, a test is performed as per each balance sheet date to determine if any reversals should be done.

Inventories

Inventories are stated at the lower of their cost and net realisable value. The value of inventories 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 marketing and selling costs.

Financial instruments

The Group mainly has the following financial instruments: trade accounts receivable, cash and cash equivalents, trade accounts payable, borrowings and forward agreements. Forward agreements are stated at fair value. Realised and unrealised gains and losses resulting from changes in fair value are included in the income statement in the period in which they arise.

Trade accounts receivable

Trade accounts receivable are stated initially at fair value and thereafter in the amount that is expected to be received after individual assessment. A reserve provision for decreases in the value of trade accounts receivable 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. The asset's reported value is reduced by use of a value impairment account, and the loss is reported in the income statement under the item Selling costs. Recoveries of amounts previously written off are credited to selling costs in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and other short-term investments with maturities of three months or less. Drawn bank overdrafts are reported in the balance sheet as borrowings among current liabilities.

Trade accounts payable

Trade accounts payable are initially stated at fair value and thereafter at amortised cost using the effective interest method.

Borrowings

Loans are reported 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 reported in the income statement allocated over the terms of the loans using the effective interest method.

Provisions

A provision is reported in 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.

A provision is made for estimated, future earn-out payments associated with purchases of shares. The earn-out payment is based on future profits in the acquired company. However, it is conditional upon key persons staying with the company during a qualification period that has a maximum specified term.

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

Leases

IAS 17 defines a lease as an agreement whereby the 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 cars. Leases in which the Group in all essential respects accepts the financial risks are classified as finance leases. At the start of the lease period, finance leases are reported in 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 among amortisation of debt and financial expenses to achieve a fixed rate of interest for the reported liability. Corresponding payment obligations, after deducting financial expenses, are included in the balance sheet under the items Long-term borrowings and short-term borrowings. The interest portion of financial expenses is reported in the income statement allocated over the period of the lease so that every reporting period is charged with an amount that corresponds to a fixed interest rate for the liability reported during the respective periods. Non-current assets held under finance leases are depreciated during the shorter of the asset's period in use or lease period.

Segment reporting

The Group's operations are reported in primary and secondary segments. Assets and liabilities as well as revenues and expenses are attributed to the segment in which they are used or earned and consumed, respectively. The primary segment classification is based on the business area organisation according to which the governance and follow-up of the Group's operations are conducted. The secondary segment classification is based on the geographic areas in which the Group conducts its operations.

Taxes

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 financial statements, while the Parent Company still reports the difference pertaining to machinery and equipment as an untaxed reserve. Deferred tax assets attributable to unutilised tax-loss carryforwards are reported if it is considered that the probability of their being utilised in the foreseeable future is high. Tax is calculated on the basis of the current tax rate in the particular country. Current tax and deferred tax are reported directly in equity if the tax is attributable to items reported directly in equity.

Employee benefits

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 pension benefits that an employee will receive upon retirement. A defined contribution pension plan is a pension plan to which the Group makes set contributions to a separate legal entity.

The liability recognised in 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 government bonds that have been issued in the same currency that the benefits will be paid in and with maturity periods comparable to those of the current pension liabilities.

Actuarial gains and losses arising from experience adjustments and the effects of changes in actuarial assumptions are immediately recognised in equity after taking into account payroll tax and deferred tax.

Pension costs relating to past service are recognised immediately in the income statement.

For defined contribution pension plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are reported as payroll cost when they are due for payment.

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.

Development costs

The Group conducts only product-specific development activities, and thus development costs are normally reported as they arise.

Revenue recognition

The Group's sales consist mainly of sales of goods. Revenue is recognised (excluding VAT and discounts) when ownership has been transferred to the purchaser. Sales of services are recognised in the accounting period in which the services are rendered. Interest income and interest costs are recognised taking into account accrued interest at the balance sheet date.

Important estimations and assumptions for reporting purposes

The Group makes estimates and assumptions about the future which are used when preparing the financial reports. By definition, these estimations rarely match the actual outcome. The estimates and assumptions that entail a considerable risk for significant adjustments in the carrying amount of assets and liabilities in the next financial year are discussed below.

Impairment testing of goodwill

In connection with the annual impairment testing of goodwill, which was conducted most recently in December 2006, Indutrade applied a model in which assumptions were made about such items as revenue growth, gross margins, investments and capital costs. Important assumptions that were made for estimations of value in use: the rate of growth for all segments has been estimated at 2%, and the discount rate before tax at 14%.

The gross margin has been assumed as the reported gross margin for 2006. The forecast period is five years. The impairment test was performed at the business area level, which is the lowest cash-generating unit.

The impairment test did not result in any need to recognise impairment. Even if the discount rate before tax used in the model had been 1 percentage point higher and the gross margin had been 1 percentage point lower than management's estimations as at December 31, 2006, no need to recognise impairment would have arisen.

Valuation of pension obligations

In calculating the liability in the balance sheet pertaining to defined benefit pension plans, various assumptions have been made, as described in Note 22. If the discount rate were to be lowered by 1 percentage point, the PRI liability would increase by SEK 16 million, including payroll tax, and other defined benefit plans would increase by SEK 34 million. If the discount rate were to be increased by 1 percentage point, the PRI liability would decrease by SEK 13 million, and other defined benefit plans would decrease by SEK 28 million.

Valuation of inventories

Most of Indutrade's subsidiaries use a standard technique, the obsolescence rate, to assess the value of inventory. Slow-moving goods are therefore written down using a percentage rate that is determined by how long the products have been in stock, individually for each subsidiary.

Parent Company

The Parent Company has prepared its annual report in accordance with the Swedish Annual Accounts Act and Swedish Financial Accounting Standards Council recommendation RR32:05, Reporting for legal entities. According to recommendation RR32, in the annual report for a legal entity, the Parent Company shall apply all IFRSs and statements approved 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 recommendations indicate 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. Dividends and Group contributions received are reported as income under the condition that these stem from profits earned after the acquisition.

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).

NOTE 2 RISKS AND RISK MANAGEMENT

Market risks

The Indutrade Group's operations are conducted in Sweden, Finland, Denmark, Norway, the Netherlands, Belgium, Germany, Russia and the Baltic countries. The geographic spread along with a large number of customers and products provides relatively limited risk exposure and sensitivity to economic fluctuations.

A trading group such as Indutrade is subject to 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's 70 or so companies have, on average, 2–3 main agencies per company, complemented by a number of smaller agencies. As a result of the large number of agencies, no individual agency accounts for a decisive financial risk from the Group's perspective.

The risk associated with major customers deciding to bypass the agency level and trading directly with the producers is judged to be marginal, since customers place great value on the technical expertise, availability and delivery assurance provided by a local technology sales company such as Indutrade. Indutrade companies also provide aftermarket services such as servicing, installation, etc.

Financial risks

Owing to its international operations, the Indutrade Group is exposed to various types of financial risk:

- Financing risks
- Interest rate risks
- Currency risks
- Customer and counterparty risks

Finance policy

Indutrade's board of directors adopts 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 should be handled within the Group and the restrictions that should be considered in terms of counterparties.

Financing risk

Financing risk is the risk that financing of the Group's capital requirements is impeded or becomes more expensive. This is mitigated as far as possible by ensuring that the Company has a maturity structure that facilitates the taking of necessary alternative actions required to secure the raising of capital should this be necessary.

Indutrade takes a central approach to the Group's financing. In principle, all external financing is conducted by the Parent Company, which then finances the Group's subsidiaries both in and outside Sweden in local currencies. Group account systems are established in Sweden and Finland.

At year-end 2006 the Parent Company had external interest-bearing loans worth SEK 418 million (358). The corresponding amount for the Group was SEK 474 million (396). After taking interest-bearing provisions and cash and cash equivalents into account, the Group's interest-bearing net debt, including Group contribution liabilities, was SEK 473 million at year-end, compared with SEK 410 million a year earlier.

At year-end 2006 the Group had SEK 119 million (117) in cash and cash equivalents and SEK 433 million (243) in granted unutilised overdraft facilities.

Of the Group's interest-bearing loans, 50% of the total amount falls due for payment after 31 December 2007. The average remaining maturity of loans is 19 months.

Interest rate risk

Interest rate risk is 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 2006 the average remaining fixed interest term for the Group's loans was 3 months. Based on the loan structure at the end of the year, a one (1) percentage point rise in the interest rate on an annualised basis would result in an increase of about SEK 4.5 million in interest expense, without taking into account the loans' fixed interest periods. Taking into account the existing fixed interest periods, the effect for 2007 would be approximately SEK 3.9 million.

Currency risk

Currency risk is 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 revenues and costs in foreign currencies.
- Transaction 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. 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 special cases, forward contracts are used.

At year-end 2006 Indutrade had net exposure of SEK -65 million in foreign currency. The largest part of this exposure consisted of SEK -66 million in EUR (EUR -7.3 million), SEK -17 million in GBP (GBP -1.3 million), SEK 13 million in USD (USD 1.9 million), SEK 11 million in DKK (DKK 8.9 million), and SEK -6 million in CHF (CHF -1.1 million).

At year-end 2006 the Group had outstanding forward contracts amounting to SEK 26 million in order to reduce the currency risk associated with future flows, of which SEK 2 million pertains to EUR and SEK 24 million to USD. The EUR-based contracts expire within three months from the end of the year, and the USD contracts expire at regular dates during the first half of 2007. Fair valuation of the outstanding forward contracts as at 31 December 2006 resulted in an unrealised loss of SEK 0.2 million. In 2006, realised forward contracts had a marginal earnings impact. The Group is exposed to a translation risk on the translation of the accounts of foreign subsidiaries into the Group currency, SEK. This type of currency risk is not hedged.

Customer and counterparty risks

Credit risks in the financial management activities arise in connection with investments of cash and cash equivalents, and as counterparty risks in connection with the use of forward contracts and other derivative instruments. These risks are limited by using counterparties that have been approved in accordance with the guidelines contained in the finance policy.

Assessment of 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. At year-end 2006, the Group's trade accounts receivable amounted to SEK 679 million after making deducting SEK 5 million for doubtful debts. Customer losses were charged against consolidated profit in the amount of SEK 2 million.

Fair value

The fair value of financial assets and liabilities is not considered to vary significantly from their carrying amount.

NOTE 3 SEGMENT REPORTING

The Group is organised into four business areas: Engineering & Equipment, Flow Technology, Industrial Components and Special Products, which constitute the Group's primary segments. The Group's business areas operate primarily in the Nordic countries and northern Europe. The geographic segments Sweden, Finland, Denmark/Norway and Other Europe constitute the Group's secondary segments.

The Engineering & Equipment business area offers customised niche products, design solutions, aftermarket service and special processing. Products consist primarily of hydraulics, equipment for automotive workshops, flow products and transmissions.

The Flow Technology business area offers components and systems for controlling, measuring, monitoring and regulating flows. Products consist primarily of valves, pumps and measuring and analysis instruments.

The Industrial Components business area offers a wide range of technically advanced components and systems for production and maintenance. Its products, which consist mainly of consumables for recurring needs, include fasteners, filters, adhesives and cutting tools.

The Special Products business area offers custom-fabricated niche products, design solutions, aftermarket service, assembly and special processing. Its products include temperature sensors, special plastics, tool holders, electrical components, etc.

Indutrade's internal sales for its primary segments are reported together with external sales, since they are limited in scope and since for most of Indutrade's companies, internal transactions consist of random "supporting purchases". Companies with the same agencies sometimes do business with each other in order to meet a sudden customer need. Normally, the price is the purchase price plus an administrative charge (10%–15%).

Two of Indutrade's companies (GEFA and ETP) use other Indutrade companies as sales channels (Fagerbergbolagen and Bengtssons Maskin). The pricing between these companies is according to the market rate. Internal sales are estimated at slightly more than SEK 16 million per year. Due to the scope and nature of internal transactions, the problem of internal profit in inventory is negligible. Capital expenditures include purchases of tangible non-current assets (Note 15) and intangible assets (Note 14).

Note 3 continues on the next page.

Note 3, continued**Primary segments**

2006	EE	FT	IC	SP	Total	P.C./ELIM.	Total Group
Net sales	1,576	1,073	798	1,094	4,541	-25	4,516
Operating profit	138	91	75	168	472	-36	436
Financial income/expense	-5	-3	-2	-9	-19	-1	-20
Income tax	-34	-25	-22	-46	-127	11	-116
Profit for the year	99	63	51	113	326	-26	300
Amortisation of intangible assets	8	2	3	11	24	-	24
Depreciation of tangible non-current assets	9	13	9	22	53	1	54
Sales growth, %	13.1	11.1	17.4	35.9			18.2
EBITA	146	93	78	179	496	-36	460
EBITA margin, %	9.3	8.7	9.8	16.4			10.2
Operating capital	423	228	206	548	1,405	-39	1,366
Return on operating capital, %	34.5	40.8	37.9	32.7			36.9
Capital expenditures	16	16	12	28	72	2	74
Non-cash items	-	-	-	-4	-4	-	-4
Total assets	726	525	420	891	2,562	-176	2,386
Noninterest-bearing liabilities	268	276	207	305	1,056	-154	902
Interest-bearing liabilities	168	100	98	223	589	3	592

2005	EE	FT	IC	SP	Total	P.C./ELIM.	Total Group
Net sales	1,393	966	680	805	3,844	-22	3,822
Operating profit	129	66	49	105	349	-25	324
Financial income/expense	-3	-3	-2	-6	-14	-1	-15
Income tax	-31	-17	-14	-31	-93	6	-87
Profit for the year	95	46	33	68	242	-20	222
Amortisation of intangible assets	4	1	1	3	9	-	9
Depreciation of tangible non-current assets	9	12	8	19	48	1	49
Sales growth, %	12.5	11.2	1.8	9.5			9.6
EBITA	133	67	50	108	358	-25	333
EBITA margin, %	9.5	6.9	7.4	13.4			8.7
Operating capital	360	218	158	385	1,121	3	1,124
Return on operating capital, %	38.9	26.9	33.3	33.3			31.5
Capital expenditures	6	14	16	22	58	0	58
Non-cash items	3	-2	-1	-5	-5	-1	-6
Total assets	625	450	331	632	2,038	-105	1,933
Noninterest-bearing liabilities	219	214	164	215	812	-120	692
Interest-bearing liabilities	143	101	60	225	529	-2	527

Secondary segments

	GROUP	
	2006	2005
Net sales		
Sweden	1,919	1,578
Finland	1,315	1,201
Benelux	487	348
Denmark and Norway	424	385
Other Europe	371	310
	4,516	3,822

	GROUP	
	2006	2005
EBITA		
Sweden	186	103
Finland	130	125
Benelux	75	44
Denmark and Norway	32	26
Other Europe	37	35
	460	333

	GROUP	
	2006	2005
Assets		
Sweden	1,099	948
Finland	558	484
Benelux	358	273
Denmark and Norway	189	88
Other Europe	182	140
	2,386	1,933

	GROUP	
	2006	2005
Capital expenditures per geographic market		
Sweden	35	33
Finland	13	2
Benelux	12	10
Denmark and Norway	8	10
Other Europe	6	3
	74	58

NOTE 4 OTHER OPERATING INCOME/EXPENSES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Other operating income				
Exchange rate gains	7	4	0	0
Gain on sale of real estate	–	4	–	–
Other	0	1	–	–
	7	9	0	0
Other operating expenses				
Exchange rate losses	-5	-6	-1	–
	-5	-6	-1	0
Other operating income/expenses	2	3	-1	0

NOTE 5 AVERAGE NUMBER OF EMPLOYEES

	2006		2005	
	No. employ-ees	Of whom, women	No. employ-ees	Of whom, women
Parent company	8	4	7	4
Subsidiaries in Sweden	701	144	610	142
Total Sweden	709	148	617	146
Subsidiaries, outside Sweden				
Denmark	132	15	122	15
Finland	493	86	441	89
Netherlands	134	30	137	29
Norway	20	2	19	1
Germany	75	23	74	24
Other	110	23	100	21
Total outside Sweden	964	179	893	179
Group total	1,673	327	1,510	325

The Parent Company's board is composed of one woman and seven men. There are no women on the subsidiaries' boards of directors or in the Parent Company's or subsidiaries management.

NOTE 6 WAGES, SALARIES AND OTHER REMUNERATION, AND SOCIAL SECURITY COSTS

	2006			2005		
	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	11	7	3	10	6	3
Subsidiaries in Sweden	276	128	30	234	113	35
Total Sweden	287	135	33	244	119	38
Subsidiaries outside Sweden						
Denmark	75	6	5	66	5	4
Finland	186	45	35	170	41	30
Netherlands	57	9	2	44	13	7
Norway	11	2	1	9	3	1
Germany	34	6	–	31	6	–
Other	15	4	0	12	3	1
Total outside Sweden	378	72	43	332	71	43
Group total	665	207	76	576	190	81

Of the Parent Company's pension costs, SEK 1 million (1) pertains to the Board of Directors and President. The corresponding amount for the Group is SEK 11 million (13).

Wages, salaries and other remuneration broken down by country and between board members, etc. and other employees

	2006			2005		
	Boards and presidents	Of which, bonuses and similar	Other employees	Boards and presidents	Of which, bonuses and similar	Other employees
Parent Company	6	2	5	5	1	5
Subsidiaries in Sweden	27	4	249	21	3	213
Total Sweden	33	6	254	26	4	218
Subsidiaries outside Sweden						
Denmark	6	1	69	5	0	61
Finland	15	2	171	13	2	157
Netherlands	2	0	55	2	0	42
Norway	2	0	9	1	0	8
Germany	2	1	32	2	1	29
Other	3	0	12	3	0	9
Total outside Sweden	30	4	348	26	3	306
Group total	63	10	602	52	7	524

Total sick leave in the Parent Company in 2006 was 52 hours of a total of 14,450 hours, i.e., 0.36% (2.29%) of the total number of work hours. As in the preceding year, total sick leave in 2006 consisted of short-term absence. By short-term absence is meant uninterrupted absence due to sickness lasting less than 60 days.

Wages, salaries and remuneration of senior executives**Information provided at the 2006 Annual General Meeting pertaining to the 2006 financial year.**

The Chairman and members of the Board of Directors are paid a fee in accordance with a decision by the Annual General Meeting. According to the currently applicable AGM decision, the Chairman receives a fee of SEK 300,000. A fee of SEK 150,000 is paid to each of the other directors. However, no fee is paid to directors who are employees of companies belonging to the Indutrade Group. In addition, no special fee is paid for committee work.

Remuneration of the CEO and other senior executives consists of a fixed salary, variable salary (with the exception of one other senior executive, who is not entitled to variable salary), other benefits and pension. "Other senior executives" refers to the four persons holding positions such as Executive Vice President, Chief Financial Officer (CFO) and business area presidents. The senior executives employed by the subsidiaries receive their remuneration from their respective subsidiaries. For the president of the Parent Company, the variable salary component is maximised to seven months' salary, i.e., 58% of his fixed salary. For other senior executives, the variable salary component is maximised to 42%-58% of fixed salary. The variable salary component is related to the earnings performance of the Group or of the respective business units.

The retirement age for the CEO is 65.

In addition to statutory pension benefits, Indutrade is to pay pension premiums corresponding to 30% of fixed salary, but not more than the amount that is tax deductible for the Company. The CEO is entitled to choose his pension plan, within the said cost framework and subject to the approval of the Chairman.

Other senior executives are entitled to pension benefits corresponding to 33% of their fixed salaries. The retirement age is 65. Earned pension benefits are not conditional upon future employment by Indutrade.

Terms of notice

In the event of the Company serves notice, the CEO is entitled to a 24 month term of notice with retained employment benefits. In the event the CEO gives notice, a six month term of notice applies. For other senior executives, a notice period of 18-24 months applies for notice served by the respective companies, depending on the employee's age. Salary paid out during the notice period is not deducted from other income.

Note 6 is continued on the next page.

Note 6, continued**Incentive programme**

Indutrade's board of directors, in co-operation with AB Industrivärden, has established an incentive programme directed at senior executives of the Group. The aim of the programme is to encourage management's long-term commitment and participation in the Company. The term of the programme extends until 30 June 2010. A total of 30 senior executives, the executive management and a number of subsidiary presidents have acquired, at market price, a combined total of 169,500 shares and 284,800 stock options issued by AB Industrivärden. Indutrade pays 40% of the invested amount to the executives participating in the programme. The total cost for the Company will amount to approximately SEK 7 million, of which SEK 1.4 million was charged against 2006 earnings, while SEK 1.3 million will be charged against earnings for each of the coming three years.

Compensation and other benefits, 2006					
SEK 000s	Fixed salary/ directors' fees	Variable salary ¹⁾	Other benefits	Pension premiums	Total
Chairman of the Board	300	-	-	-	300
Other directors ¹⁾	900	-	-	-	900
CEO	2,632	1,763	88	790	5,273
Other senior executives	5,673	2,269	345	1,866	10,153
Total	9,505	4,032	433	2,656	16,626

Compensation and other benefits, 2005					
SEK 000s	Fixed salary/ directors' fees	Variable salary ¹⁾	Other benefits	Pension premiums	Total
Chairman of the Board	300	-	-	-	300
Other directors ¹⁾	900	-	-	-	900
CEO	2,470	1,499	81	741	4,791
Other senior executives	7,013	1,348	298	1,477	10,136
Total	10,683	2,847	379	2,218	16,127

¹⁾ Pertains to directors' fee of SEK 150 thousand per director. According to a decision by the Annual General Meeting, no directors' fee is payable to board members who are employees of companies in the Indutrade Group.

²⁾ Incl. compensation for senior executives participating in the incentive programme described above.

The Board's proposed principles for compensation and other employment benefits for company management to be presented to the 2007 Annual General Meeting

By company management is meant in this context the President and CEO, the Executive Vice President, the Chief Financial Officer and the business area presidents. Compensation of company management shall normally consist of a fixed and variable salary component. The variable component shall reward clear, target-related improvements in simple and transparent structures and shall have a maximum set level.

The fixed salary component for company management shall be in line with the going rate in the market and be commensurate with the executive's competence, responsibility and performance. The variable salary component for members of the company management shall normally not exceed nine months' salary and be related to the fulfilment of improving the Company's and respective business area's earnings and the Group's growth. Incentive programmes in the Company shall mainly be share price-related and cover persons in senior positions in the Company that have a significant influence on the Company's earnings and growth and achievement of set targets. An incentive programme shall ensure a long-term commitment to the Company's development and be implemented at market terms.

The pension terms for members of company management shall be in line with the going rate in the market for peer executives in the market in which the respective executives work and should be based on defined contribution pension solutions or correspond to a general pension plan (in Sweden, the ITP plan).

The Board's remuneration committee handles and conducts drafting work on compensation matters pertaining to company management for decision by the Board. The Remuneration Committee thus prepares and drafts proposals for decision regarding the terms of employment for the CEO, and the Board evaluates the CEO's performance annually. The CEO consults with the Remuneration Committee on the terms of employment for other members of company management. The Board shall have the right to depart from the above-described principles for compensation of company management in individual cases if there are special reasons.

NOTE 7 DEPRECIATION AND AMORTISATION

Depreciation and amortisation of tangible and intangible non-current assets are included in the following functions in the amounts of:

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Cost of goods sold	36	20	-	-
Development costs	1	0	-	-
Selling costs	29	27	-	-
Administrative expenses	12	11	1	1
	78	58	1	1

NOTE 8 OPERATING LEASES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Leasing payments expensed during the year:	63	52	6	2
Future contracted leasing payments				
Maturity year 1	62	60	3	3
Maturity year 2	51	48	3	3
Maturity year 3	41	37	4	3
Maturity year 4	24	31	4	3
Maturity year 5	14	16	4	3
Maturity year 6-	26	14	2	19
Total future leasing payments	218	206	20	34

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

NOTE 9 FINANCIAL INCOME

	GROUP		PARENT COMPANY	
	2006	2005	2005	2005
Interest	5	3	14	11
Exchange rate differences	0	3	0	3
	5	6	14	14
Of which, pertaining to Group companies				
Interest	-	-	14	11

NOTE 10 FINANCIAL EXPENSES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Interest expenses, bank loans	-18	-12	-14	-10
Interest expenses, pension liability	-4	-5	–	–
Interest expenses, finance leases	-2	-1	0	0
Total interest expenses	-24	-18	-14	-10
Exchange rate differences	-1	-2	-1	-2
Other	0	-1	0	-1
	-25	-21	-15	-13
Of which, pertaining to Group companies in the Indutrade Group				
Interest			0	-1

NOTE 11 PROFIT FROM PARTICIPATIONS IN GROUP COMPANIES

	PARENT COMPANY	
	2006	2005
Dividends from subsidiaries	111	96
Group contributions	182	129
	293	225

NOTE 12 TAXES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Tax expense				
Current tax	-125	-88	-41	-27
Deferred tax	9	1	0	0
	-116	-87	-41	-27

The Group's tax expense amounted to 27.9% (28.1%) of the Group's pre-tax profit. The difference between the reported tax expense and anticipated tax expense is explained below.

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Profit before tax	416	309	257	193
Weighted average tax based on national tax rates (Group 28.4% and 28.5%, respectively, and Parent Company 28.0%)	-118	-88	-72	-54
Tax effect of:				
Non-deductible other expenses/non-taxable income	0	1	31	27
Change of tax rate	2	–	–	–
	-116	-87	-41	-27
	27.9%	28.1%	16.0%	14.0%

Deferred tax assets in temporary differences whose value has not been estimated amount to SEK 0 million (0).

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Deferred tax liability				
Intangible assets	45	23	–	–
Land and buildings	13	14	–	–
Fixtures and equipment	8	6	–	–
Current assets	-1	-1	–	–
Untaxed reserves	4		–	–
Pension obligations	-14	-21	–	–
Accrued income and prepaid expenses	0	-1	0	0
	55	20	0	0
Of which, deferred tax asset	-16	-23	–	–
Of which, deferred tax liability	71	43	0	0

In applying IFRS, Indutrade has utilised the options to offset the total effect of actuarial gains and losses related to pensions directly against equity in consideration of deferred tax. At the end of the financial year, the deferred tax asset for this was SEK 10 million (15).

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Deferred tax liability 1 January	20	4	0	0
Deferred tax asset attributable to actuarial losses	5	-9	–	–
Deferred tax liability attributable to acquisitions	39	24	–	–
Deferred tax liability in the income statement	-9	-1	0	0
Exchange rate differences	0	2	–	–
Deferred tax liability 31 December	55	20	0	0

NOTE 13 AUDITORS' FEES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Auditing fees				
Öhrlings PricewaterhouseCoopers	6	7	1	1
Other auditing firms	0	0	–	–
Total auditing fees	6	7	1	1
Fees for other assignments				
Öhrlings PricewaterhouseCoopers	1	2	0	1
Other auditing firms	0	0	–	–
Total fees for other assignments	1	2	0	1
Total	7	9	1	2

Auditing assignments pertain to review of the annual report and bookkeeping, as well as the Board's and President's administration, other work duties that are incumbent upon a company auditor, and consulting or other assistance stemming from observations in connection with such review or implementation of other duties. Everything else constitutes other assignments.

NOTE 14 INTANGIBLE ASSETS

	GROUP			
	Goodwill	Agencies/ licences, etc.	Other intangible assets	Total intangible assets
As per 1 January 2005				
Cost	158	56	1	215
Accumulated amortisation and write-downs	-2	-42	0	-44
Book value	156	14	1	171
1 January-31 December 2005				
Opening book value	156	14	1	171
Exchange rate differences	3	0	0	3
Investments during the year	-	4	0	4
Company acquisitions	51	79	-	130
Sales and disposals	0	0	-1	-1
Amortisation/write-downs (Note 7)	-	-9	0	-9
Closing book value	210	88	0	298
As per 31 December 2005				
Cost	212	141	1	354
Accumulated amortisation and write-downs	-2	-53	-1	-56
Book value	210	88	0	298
1 January-31 December 2006				
Opening book value	210	88	0	298
Exchange rate differences	-5	-3	0	-8
Investments during the year	-	6	0	6
Company acquisitions	60	112	4	176
Sales and disposals	-	0	-	0
Amortisation/write-downs (Note 7)	-	-23	-1	-24
Closing book value	265	180	3	448
As per 31 December 2006				
Cost	267	249	7	523
Accumulated amortisation and write- downs	-2	-69	-4	-75
Book value	265	180	3	448

A summary of the breakdown of goodwill at the segment level is as follows:

	2006	2005
Engineering & Equipment	101	97
Flow Technology	27	29
Industrial Components	4	2
Special Products	133	82
Indutrade Group	265	210

NOTE 15 TANGIBLE NON-CURRENT ASSETS

	GROUP				
	Land and buildings	Machinery	Fixtures and equipment	Construction in progress	Total tangible non-current assets
As per 1 January 2005					
Cost	226	91	326	0	643
Accumulated depreciation and write-downs	-74	-57	-235	-	-366
Book value	152	34	91	0	277
1 January-31 December 2005					
Opening book value	152	34	91	0	277
Exchange rate differences	2	0	3	-	5
Investments during the year ¹⁾	5	10	35	4	54
Company acquisitions	4	4	2	-	10
Reclassifications	-	-2	2	-	0
Sales and disposals	-3	-1	-6	-	-10
Depreciation (Note 7)	-7	-8	-34	-	-49
Closing book value	153	37	93	4	287
As per 31 December 2005					
Cost	237	100	349	4	690
Accumulated depreciation and write-downs	-84	-63	-256	0	-403
Book value	153	37	93	4	287
1 January-31 December 2006					
Opening book value	153	37	93	4	287
Exchange rate differences	-2	0	-1	-	-3
Investments during the year ¹⁾	1	14	49	4	68
Company acquisitions	26	11	6	-	43
Transferred from construction in progress	2	4	1	-7	0
Sales and disposals	-1	0	-13	-	-14
Depreciation (Note 7)	-8	-11	-35	-	-54
Closing book value	171	55	100	1	327
As per 31 December 2006					
Cost	264	148	333	1	746
Accumulated depreciation and write-downs	-93	-93	-233	0	-419
Book value	171	55	100	1	327

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

	2006	2005
Cost – capitalised finance leases	50	41
Accumulated depreciation	-14	-8
Book value	36	33

¹⁾ Of total investments in tangible non-current assets, SEK 65 million (51) had an effect on cash flow, while SEK 3 million (3) pertain to investments financed via finance leases.

The tax assessment value of Swedish property was SEK 86 million (63), of which SEK 68 million (49) pertains to buildings and SEK 18 million (14) to land. The corresponding book value of Swedish property was SEK 114 million (91).

Note 15 continues on the next page.

NOTES

Note 15, continued

	PARENT COMPANY	
	2006	2005
Opening cost	4	3
Investments during the year	1	1
Sales and disposals	0	0
Closing accumulated cost	5	4
Opening depreciation	-2	-1
Depreciation for the year	-1	-1
Sales and disposals	0	0
Closing accumulated cost	-3	-2
Planned residual value	2	2

NOTE 16 SHARES AND PARTICIPATIONS

The Parent Company's direct holdings of shares and participations in subsidiaries

Company name/reg. no./VAT no.	Domicile	Share	Number	Book value
Gustaf Fagerberg Holding AB, 556040-9087	Gothenburg	100%	100,000	17
Bengtssons Maskin AB, 556037-8670	Arlöv	100%	2,000	14
Colly SaniTech AB, 556506-7948	Stockholm	100%	1,000	1
C&M Plast AB, 556554-3856	Malmö	100%	1,000	0
GEFA Processtechnik GmbH, Tyskland	Dortmund	100%	–	25
Colly Company AB, 556193-8472	Stockholm	100%	30,000	30
ETP Transmission AB, 556158-5398	Linköping	100%	20,000	21
AB Novum, 556296-6126	Helsingborg	100%	5,000	7
Indutrade A/S, Danmark	Glostrup	100%	167,443	45
Indutrade Benelux B.V., Holland	Uithoorn	100%	3,502	32
Indutrade Flödesteknik AB, 556364-7469	Stockholm	100%	1,000	185
Indutrade Oy, Finland	Helsinki	100%	42,000	48
G A Lindberg AB, 556606-8747	Stockholm	100%	1,000	0
Saniflex AB, 556441-5882	Stockholm	100%	2500	3
Pentronic AB, 556042-5141	Västervik	100%	30,000	9
Carlsson & Möller AB, 556057-0011	Helsingborg	100%	1,800	11
EIE Maskin AB, 556029-6336	Stockholm	100%	30,000	24
Robota AB, 556042-4912	Täby	100%	1,000	22
Gedevelop AB, 556291-8945	Helsingborg	100%	9,868	26
Spinova AB, 556188-7430	Torsås	100%	20,000	70
Tribotec AB, 556234-6089	Mölnlycke	100%	4,000	33
Damalini AB, 556474-3705	Mölnådal	100%	1,000,000	50
Total				673

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

	Domicile	Share of capital, %	Share of votes, %	Number	Book value
Finnish telecom stocks/ participations	Finland	–	–	1 534	0
Nevas Golf (Golf Exclusive Oy)	Finland	–	–	2	0
SN-Kiinnike OY	Finland	33	33	33	0
Honkakoli	Finland	–	–	18	1
Welna Andren Poland Sp.z.o.o.	Poland	–	–	60 000	1
Other					1
					3

Shares and participations

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Opening cost	3	2	954	951
External acquisitions	–	–	202	3
Restructuring within the Group	–	–	43	–
Company acquisitions	–	1	–	–
Closing accumulated cost	3	3	1 199	954
Opening revaluations	–	–	8	8
Closing accumulated revaluations	–	–	8	8
Opening write-downs	–	–	-534	-534
Closing accumulated write-downs	–	–	-534	-534
Book value	3	3	673	428

Effect on cash flow

Purchase price	245
Purchase price not paid	-78
	167

NOTE 17 OTHER NON-CURRENT RECEIVABLES

	GROUP	
	2006	2005
Deposits	3	2
Other items	3	3
	6	5

Other items pertain primarily to endowment insurance policies in which the book value corresponds to fair value. The maturity dates for these is dependent on the date of retirement for the persons insured.

NOTE 18 INVENTORIES

	GROUP	
	2006	2005
Inventories are broken down into the following items:		
Raw materials and consumables	85	69
Products in process	43	29
Finished products and goods for resale	591	517
	719	615

At year-end 2006 the total accumulated write down amounted to SEK 67 million (68). No part of inventories is carried at net sales value.

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Prepaid rents	13	4	4	–
Prepaid leases	1	1	0	–
Prepaid service and maintenance charges	3	3	0	0
Prepaid insurance premiums	3	3	1	0
Other items	17	12	–	1
	37	23	5	1

NOTE 20 CHANGE IN SHAREHOLDERS' EQUITY, GROUP

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					Total equity
	Share capital ¹⁾	Other capital contributions	Translation differences	Profit brought forward		
Equity at 1 January 2005	25	159	-4	528	708	
Bonus issue	15	–	–	-15	0	
Repayment of shareholder contribution	–	-159	–	–	-159	
Dividend payout	–	–	–	-50	-50	
Actuarial gains/losses	–	–	–	-30	-30	
Tax on items reported directly in or transferred from equity	–	–	–	9	9	
Translation differences	–	–	14	–	14	
Net profit for the year	–	–	–	222	222	
Closing balance at 31 December 2005	40	0	10	664	714	
Dividend payout	–	–	–	-110	-110	
Actuarial gains/losses	–	–	–	10	10	
Tax on items reported directly in or transferred from equity	–	–	–	-5	-5	
Translation differences	–	–	-17	–	-17	
Net profit for the year	–	–	–	300	300	
Closing balance at 31 December 2006	40	0	-7	859	892	

	PARENT COMPANY				Total equity
	Share capital ¹⁾	Statutory reserve	Unrestricted equity		
Change in equity					
Equity at 1 January 2005	25	5	482	512	
Bonus issue	15	–	-15	0	
Repayment of shareholder contribution	–	–	-159	-159	
Dividend	–	–	-50	-50	
Net profit for the year	–	–	166	166	
Equity at 31 December 2005	40	5	424	469	
Dividend	–	–	-110	-110	
Net profit for the year	–	–	216	216	
Equity at 31 December 2006	40	5	530	575	

¹⁾ On 31 December 2006 and 2005, the share capital consisted of 40,000,000 shares with a quota value of SEK 1.

NOTE 21 BORROWINGS

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Long-term borrowing				
Future leasing commitments for finance leases	21	21	–	–
SEK-denominated loans with terms longer than 1 year	83	–	70	–
EUR-denominated loans with terms longer than 1 year	134	259	131	259
	238	280	201	259
Short-term borrowing				
Utilised bank overdraft facilities	81	83	78	80
Future leasing commitments for finance leases	15	12	–	–
SEK-denominated loans with terms shorter than 1 year	22	–	21	–
EUR-denominated loans with terms shorter than 1 year	118	21	118	19
	236	116	217	99
Total borrowings	474	396	418	358

Car leases are reported as finance leases in accordance with IFRS, entailing an increase in both assets and liabilities of SEK 36 million. Of the Group's long-term leasing commitments, SEK 12 million fall due for payment in 2008 and SEK 9 million in 2009.

Externally granted bank overdraft facilities amounted to SEK 514 million (326) for the Group and SEK 456 million (249) for the Parent Company.

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Maturity dates for long-term loans in EUR:				
Amounts in EUR million				
Maturity 2007	–	13.0	–	13.0
Maturity 2008	7.6	7.5	7.5	7.5
Maturity 2009	2.2	2.0	2.0	2.0
Maturity 2010	5.0	5.0	5.0	5.0
Total long-term borrowings in EUR million	14.8	27.5	14.5	27.5
Corresponding amounts in SEK million	134	259	131	259

Long-term EUR-denominated loans are stated at book value. The fair value of long-term liabilities at fixed rates of interest (EUR 4.0 million), which fall due in 2008, is EUR 4.1 million (4.2). Fair value is discounted to present value at a rate corresponding to the difference between the loan rate of 4.51% and the market rate of 3.72% (3.20%). This gives rise to an increase in the value by EUR 0.1 million (0.2), corresponding to SEK 1 million (2). Other loans have variable interest rates.

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Maturity dates for long-term loans in SEK:				
Amounts in SEK million				
Maturity 2008	21	–	20	–
Maturity 2009	21	–	20	–
Maturity 2010	21	–	20	–
Maturity 2011	11	–	10	–
Maturity 2012 and thereafter	9	–	–	–
Total long-term borrowings in SEK million	83	0	70	0

The fair value of long-term SEK-denominated loans is the same as the book value. The reported amount for short-term borrowing is a close approximation of its fair value.

Effective interest rate on balance sheet date	SEK	EUR	DKK
	Bank overdraft facility, %	3.43	–
Bank loans, %	3.32	3.41	–

NOTE 22 PENSION OBLIGATIONS

In accordance with IAS 19 Employee Benefits, an actuary has, under assignment by Indutrade, computed the Group's pension liability and the amounts to be reserved on a regular basis for pensions for the Group's employees. The pension plans in the Indutrade Group are both defined benefit and defined contribution plans.

Defined benefit plans

The Group's defined benefit pension plans include retirement pension, disability pension and family pension. Apart from the PRI plan in Sweden, the Group has defined benefit plans in the Netherlands. The pension terms for the Dutch plan changed in 2006 with an increase in the retirement age from 62 to 65 years. This change resulted in a lower cost by SEK 4 million. The liability is broken down as follows:

Breakdown of liability in SEK million

PRI plan	76
Defined benefit plans, Netherlands	39
Total defined benefit plans	115
Other pension obligations	3
Total	118

Defined contribution plans

The Group's defined contribution pension plans include retirement pension, disability pension and family pension. 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's salary, and the cost of the premium is reported on a continuing basis in the income statement.

According to a statement from the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, retirement pension and family pension obligations secured through insurance with Alecta for salaried employees in Sweden are classified as multi-employer defined benefit plans. In 2006 Indutrade did 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 10 million. Alecta's collective funding ratio was 143.1% in December 2006. Actuarial gains and losses, including payroll taxes, for the part of the pension liability pertaining to the PRI plan, but less deferred tax, are reported directly against equity. Actuarial losses after tax amounted to SEK 29 million (34) at year-end.

The Group's plan assets, totalling SEK 138 million, consist of investments with insurance companies, mainly in bonds. The pension liability is vested.

GROUP	2006		2005	
	Sweden	Netherlands	Sweden	Netherlands
Assumptions in calculating pension obligation				
Discount rate, %	3.90	4.50	3.90	4.25
Anticipated return on plan assets, %	–	4.50	–	5.00
Future salary increases, %	3.00	2.50	3.00	2.00
Anticipated inflation, %	1.80	1.80	1.80	2.00
Future pension increases, %	1.80	2.00	1.80	2.00
Employee turnover, %	0	Age depending	0	Age depending
Anticipated remaining service period for employees, average (years)	18.2	13.9	18.8	13.9

	2006	2005
Amounts reported in balance sheet		
Present value of funded obligations	177	189
Fair value of plan assets	-138	-137
	39	52
Present value of unfunded obligations	76	76
	76	76
Net liability in the balance sheet, defined benefit plans	115	128
Present value of pension obligations at start of year		
Pension costs	7	11
Interest expenses	11	11
Pension payments	-7	-7
Change in pension terms	-4	–
Company acquisitions	–	3
Actuarial gains/losses	-12	29
Exchange rate differences	-7	4
Present value of pension obligations at year-end	253	265
Plan assets at start of year		
Return on plan assets	6	6
Employee contributions	1	1
Company contributions	6	9
Pension payments	-5	-5
Company acquisitions	–	3
Actuarial losses	-2	0
Exchange rate differences	-5	4
Plan assets at year-end	138	137
Net liability at start of year		
Net cost reported in the income statement	7	15
Pension payments	-2	-2
Company contributions	-6	-9
Actuarial gains/losses	-10	29
Exchange rate differences in foreign plans	-2	0
Net liability at year-end	115	128

2006 figures include experience-based adjustments of approximately SEK 3 million in pension obligations and SEK 0 million in plan assets.

GROUP	2006			2005		
	Defined benefit plans	Defined contribution plans	Total	Defined benefit plans	Defined contribution plans	Total
Amounts reported in income statement						
Past service cost	6	70	76	10	71	81
Change in pension terms	-4	–	-4	–	–	–
Interest on obligation	11	–	11	11	–	11
Anticipated return on plan assets	-6	–	-6	-6	–	-6
Net cost in income statement	7	70	77	15	71	86
Of which, included in selling costs	2	56	58	6	57	63
Of which, included in administrative expenses	0	14	14	4	14	18
Of which, included in financial items	5	–	5	5	–	5

Anticipated company contributions to defined benefit pension plans in 2007 amount to SEK 9 million (11).

NOTE 23 OTHER PROVISIONS

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Guarantee commitments	2	1	–	–
Earn-out payments	50	4	34	1
Total	52	5	34	1
	Guarantee commitments	Earn-out payments	Guarantee commitments	Earn-out payments
Opening balance, 1 Jan. 2006	1	4	–	1
Guarantee commitments in acquired companies	1	–	–	–
Earn-out payments for new acquisitions	–	46	–	33
Earn-out payments made	–	0	–	0
Closing balance, 31 Dec. 2006	2	50	–	34

Provisions for earn-out payments in 2006 pertained to the acquisitions of Saniflex, Satron, Robota, Gedevelop, Tribotec, Damalini, Puwimex, STP and PRP. If they result in payment, this will take place in 2008-2009.

NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Accrued personnel-related expenses	147	119	5	4
Other	58	35	2	2
Total	205	154	7	6

NOTE 25 ACQUISITIONS/SALES OF SUBSIDIARIES**Acquisitions 2006**

In November 2005 an agreement was made to purchase 100% of the shares in Puwimex Oy, with transfer of possession on 1 January 2006. Puwimex is a technology sales company in the area of pump technology with annual sales of approximately SEK 60 million.

On 1 January 2006, 100% of the shares were acquired in Robota AB, and on 1 February, 100% of the shares were acquired in Suomen Putkisto Tarvike Oy [SPT]. Robota, with annual sales of approximately SEK 53 million, sells customised water and drainage solutions. SPT sells products and services for leak detection and has annual sales of approximately SEK 8 million.

In April 2006, 100% of the shares were acquired in Gedevelop AB, which markets precision instruments and systems for measuring flows and temperatures, mainly in the glass industry. Annual sales amount to approximately 35 million. In June, three companies were acquired: PRP-Plastic Oy, Spinova AB and Tribotec AB, all to 100%.

PRP-Plastic manufactures various types of plastic products for the processing industry, including surface linings, cisterns, components and pipe systems, and has annual sales of approximately SEK 27 million. Spinova is one of Sweden's leading manufacturers of customised springs and wire forms. Its products are used as components in hydraulic systems, locks, garage doors, pumps, water and wastewater applications, and equipment for the food industry. Annual sales amount to SEK 60 million. Tribotec sells chemical-technical products in the areas of corrosion protection, bonding and lubrication technology. Customers are mainly in the general engineering industry and automotive industry along with subcontractors to these. Annual sales amount to SEK 70 million.

In September, Indutrade acquired Damalini AB, a technological leader in laser-based measurement and alignment systems. Its proprietary EasyLaser® laser systems are used for shaft alignment, sheave/pulley alignment and geometrical measurements. Damalini has annual sales of approximately SEK 60 million in 70 countries.

Effects of acquisitions during the year

Company	Business area	NET SALES		EBITA	
		Oct.-Dec.	Jan.-Dec.	Oct.-Dec.	Jan.-Dec.
Hanwel Europe B.V., Gedevelop AB, Spinova AB och Damalini AB	Special Products	52	216	12	51
Satron Instruments Process & Project AB	Flow Technology	5	19	0	0
Saniflex AB, Tribotec AB och Colly A/S	Industrial Components	23	56	2	5
Puwimex Oy, PRP-Plastic Oy, Suomen Putkisto Tarvike Oy samt Robota AB	Engineering & Equipment	34	131	2	15
Effect on Group		114	422	16	71
Acquisitions completed 2006		105	270	16	47
Acquisitions completed 2005		9	152	0	24
Effect on Group		114	422	16	71

If the Group had consolidated the acquired units from 1 January 2006, net sales for the period January–December would have amounted to SEK 4,631 million, and EBITA for the same period would have been SEK 478 million.

Acquired assets in Puwimex AB, Suomen Putkisto Tarvike Oy, Robota AB, PRP-Plastic Oy, Gedevelop AB, Spinova AB, Tribotec AB and Damalini AB.

	Book value	Market value adjustment	Market value
Purchase price including earn-out payment			247
Acquired assets			
Goodwill	–	60	60
Agencies, trademarks, customer lists, licences, etc.	4	112	116
Tangible non-current assets	40	3	43
Inventories	55	–	55
Other current assets	50	–	50
Cash, and cash equivalents	40	–	40
Deferred tax liability	-8	-31	-39
Interest-bearing loans	-16	–	-16
Other operating liabilities	-62	–	-62
	103	144	247

The cost of customer lists and agencies has been valued at one year's contribution margin and has been recorded in the balance sheet as agencies, trademarks, customer lists, licences, etc., and is amortised over a period of 5-10 years.

Goodwill is justified by the good profitability of the companies.

Effect on cash flow		
Purchase price incl. earn-out payment		247
Purchase price not paid out		-50
Cash and cash equivalents in acquired companies		-40
		157

Note 25 continues on the next page.

Note 25, continued

Acquisitions 2005

The Dutch subsidiary Hitma B.V. acquired all of the shares in the Dutch technology group Hanwel Europe B.V. on 27 June 2005. Hanwel joined the Group per 1 July 2005 in the Special Products business area. Hanwel's four companies are primarily active in the flow technology, customer-specific ceramics and piping systems technology areas. The company's primary markets are the processing, chemical and energy industries. The acquisition is a natural step in the further development of Indutrade's technology and market areas.

The cost of customer lists and agencies has been valued at one year's contribution margin and has been recorded in the balance sheet as agencies, trademarks, customer lists, licences, etc., and is amortised over a period of 10 years. For the company that manufactures its own products, customer lists and trademarks have been valued at the discounted cash flow of future payment flows. The assumptions on which the calculations are based are a 10% reduction in annual sales and a discount rate of 17.5%. Trademarks have been valued using an assumed 1% royalty discounted at a rate of 15.5%. Goodwill is fully attributable to the manufacturing company HP Valves and is justified by that company's good profitability.

Satron Instruments Process & Projects AB was acquired in September 2005. The company was consolidated as from 1 October 2005 in the Flow Technology business area. Satron's business consists of sales of electronic measurement and control equipment for the global processing industry, with specialisation in paper and pulp.

Saniflex was acquired in November 2005 and joined the Industrial Components business area on 1 December 2005. The company is a supplier of hose and pipe couplings and instruments to the Nordic processing industry. The cost of customer lists and agencies for these small acquisitions has been valued at one year's contribution margin and has been recorded in the balance sheet as agencies, trademarks, customer lists, licences, etc., and is being amortised over a period of 5 years.

	NET SALES		OPERATING PROFIT	
	Oct.-Dec.	Jan.-Dec.	Oct.-Dec.	Jan.-Dec.
Effect on Group 2005				
Hanwel Europe B.V.	49	93	9	17
Satron Instruments Process & Project AB och Saniflex AB	6	6	0	0
Effect on Group	55	99	9	17

If the Group had consolidated the acquired units from 1 January 2005, net sales would have amounted to SEK 3,929 million, and operating profit would have been SEK 331 million.

Acquired assets in Hanwel Europe B.V.

Purchase price	134
Transaction costs	2
Total	136

Acquired assets	Book value	Market value adjustment	Market value
Goodwill	38	13	51
Agencies, trademarks, customer lists, licences, etc.	–	70	70
Tangible non-current assets	5	4	9
Inventories	26	–	26
Other current assets	31	–	31
Deferred tax liability	–	-22	-22
Other operating liabilities	-29	–	-29
Total net assets	71	65	136

Acquired assets in Satron Instruments Process & Project AB and Saniflex AB

Purchase price including earn-out payment			9
Acquired assets	Book value	Market value adjustment	Market value
Agencies, trademarks, customer lists, licences, etc.	–	8	8
Tangible non-current assets	0	–	0
Inventories	3	–	3
Other current assets	12	–	12
Deferred tax liability	–	-2	-2
Other operating liabilities	-12	–	-12
	3	6	9
Effect on cash flow			
Purchase price in Hanwel Europe B.V.			136
Purchase price, Satron and Saniflex			9
Earn-out payment not made for Satron and Saniflex			-4
Earn-out payment made for Kontram Oy			7
			148

Acquisitions after the end of the financial year

An agreement has been made to acquire all of the shares in ES Hydagent, Axelvalves AB and SAV Danmark Trading A/S. These companies will be included in the Flow Technology business area. ES Hydagent designs and sells hydraulic systems for mobile industrial solutions, with annual sales of approximately SEK 60 million. Axelvalves is one of Scandinavia's leading suppliers of industrial valves to the process industry in Eastern Europe, and has own brands. Annual sales amount to approximately SEK 36 million. SAV-Danmark Trading A/S is a well established technology sales company with a broad product programme of couplings and valves in the heating and plumbing segments, with annual sales of approximately SEK 65 million. ES Hydagent will be consolidated as from 1 January 2007, while Axelvalves and SAV will be consolidated as from 1 February 2007.

Acquired assets in ES Hydagent AB, Axelvalves AB and SAV-Danmark A/S

Preliminary sales calculations.

Purchase price including earn-out payment			77
Acquired assets	Book value	Market value adjustment	Market value
Goodwill	–	21	21
Agencies, trademarks, customer lists, licences, etc.	–	48	48
Tangible non-current assets	4	–	4
Financial non-current assets	4	–	4
Inventories	36	–	36
Other current assets	27	–	27
Cash and cash equivalents	1	–	1
Deferred tax liability	–	-13	-13
Interest-bearing loans	-17	–	-17
Other operating liabilities	-34	–	-34
	21	56	77

Agencies, trademarks, customer lists, licences, etc. will be amortised over a 10-year period. The acquisitions affected cash flow in 2007 by SEK 45 million.

NOTE 26 PLEDGED ASSETS

	GROUP	
	2006	2005
For own liabilities		
Real estate mortgages	14	2
Assets subject to liens	36	33
Endowment insurance plans	2	3
Other	1	–
	53	38
For own contingent liabilities		
Other	1	1
	1	1
Total pledged assets	54	39

Car leases are reported as finance leases in accordance with IFRS, entailing an increase in assets, liabilities and pledged assets of SEK 36 million (33).

NOTE 27 CONTINGENT LIABILITIES

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Contingent liabilities for subsidiaries'				
PRi liabilities	–	–	62	60
Other contingent liabilities	1	2	17	14
Total	1	2	79	74

NOTE 28 CASH FLOW FROM OPERATIONS

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Net profit for the year	300	222	216	166
Adjustments for:				
Tax	116	87	41	27
Amortisation of intangible assets	24	9	0	0
Depreciation of tangible non-current assets	54	49	1	1
Gain/loss on sale of tangible non-current assets	0	-4	0	–
Net change in other provisions	-4	-6	0	0
Financial income	-5	-6	-14	-14
Financial expenses	25	21	15	13
Dividend income, etc.	–	–	-293	-225
Total adjustments	210	150	-250	-198
Changes in working capital:				
Inventories	-65	-15	–	–
Trade accounts receivable and other receivables	-132	-16	-1	-139
Trade accounts payable and other liabilities	92	50	6	-80
Total changes in working capital	-105	19	5	-219
Cash flow from operations	405	391	-29	-251

NOTE 29 INCOME STATEMENT CLASSIFIED BY TYPE OF COST

	GROUP		PARENT COMPANY	
	2006	2005	2006	2005
Depreciation, amortisation/write-downs	-78	-58	-1	-1
Costs for employee benefits	-872	-766	-17	-17
Changes in inventories of finished products	-2,424	-1,675	–	–
Raw materials and consumables	-195	-105	–	–
Rents for premises	-63	-51	-6	-2
Marketing costs	-49	-40	–	-1
Travel costs	-91	-67	-1	-1
Other costs	-310	-739	-11	-16
Total costs	-4,082	-3,501	-36	-38

NOTE 30 RELATED PARTY TRANSACTIONS

Intra-Group purchases and sales have been negligible. Investments with and borrowings from Group companies are done according to market terms.

Starting on 1 July 2005, the Parent Company and five of the Group's subsidiaries rent premises in the Malax 3 property in Akalla from the Group company Colly Company AB, which in turn rents the property from Fastighetsaktiebolaget Raseborg AB, which is a subsidiary of the largest shareholder, AB Industrivärden.

Previously the Parent Company rented the entire property directly from Fastighetsaktiebolaget Raseborg AB, and the space that the Parent Company did not use was sublet to five subsidiaries. The term of the lease expires on 31 December 2010. If notice of cancellation of the lease is not given within two years prior to its expiration, the term of the lease will be renewed for five years at a time. Colly Company bears the operating and maintenance costs as well as property tax assessed on the property. The rent was SEK 7 million in 2006 and is adjusted annually based on changes in the consumer price index.

AUDIT REPORT

To the annual meeting of the shareholders of Indutrade AB (publ) Corporate identity number 556017-9367

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Indutrade AB (publ) for the year 2006. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined

significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, 9 March 2007

Öhrlings PricewaterhouseCoopers AB

Lennart Danielsson
Authorised Public Accountant

CORPORATE GOVERNANCE REPORT

The Swedish Code of Corporate Governance ("the Code") came into force on 1 July 2005. The Code is based on a comply or explain principle, entailing that companies that apply the Code may depart from individual rules, but if they do, they must provide an explanation for each departure. Indutrade was listed on the Stockholm Stock Exchange on 5 October 2005 and is subject to the rules of the Code since 1 July 2006.

This report is not a formal part of the Annual Report.

DELEGATION OF RESPONSIBILITIES

Responsibility for the management and control of the Group is delegated among the shareholders (via general meetings), the Board, its elected committees and the CEO 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 tools.

SHAREHOLDERS

Indutrade, which was previously a wholly owned subsidiary of AB Industrivärden, was listed on the Stockholm Stock Exchange on 5 October 2005. At year-end 2006 Indutrade had 5,230 shareholders and the ten largest shareholders controlled 72% of the share capital, of which Industrivärden's share was 37.1 percentage points. Swedish legal entities, including institutions such as insurance companies and mutual funds, owned 80.3% of the share capital and votes. Foreign investors owned 10.2% of the share capital and votes.

ARTICLES OF ASSOCIATION

Indutrade's Articles of Association stipulate that Indutrade is a public company, whose business is to "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." In votes at general meetings of shareholders, there is no limitation on the number of votes for represented shares.

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 to Annual General Meetings shall be issued not earlier than six weeks and not later than four weeks before the meeting. Notices of an extraordinary general meet-

ing, at which an amendment to the Articles of Association will not be dealt with, shall be issued not earlier than six weeks and not later than two weeks before the meeting. Notice shall be made through advertisements in the *Official Swedish Gazette* (Post- och Inrikes Tidningar) and in *Dagens Nyheter*.

GENERAL SHAREHOLDERS' MEETINGS

General shareholders' meetings are Indutrade's supreme 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 (where applicable) are elected, 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 can be represented by proxy. More information about the 2007 Annual General Meeting is provided on page 68.

The notice of the Annual General Meeting scheduled for 26 April 2007 is expected to be published in daily newspapers and on Indutrade's website on 22 March 2007. The notice will provide a detailed agenda including proposals for the dividend, the election of directors, directors' fees (broken down by the Chairman and other directors) auditors' fees, and proposed guidelines on remuneration of the Company's senior executives.

2006 ANNUAL GENERAL MEETING

At the Annual General Meeting on 27 April 2006, attorney Klaes Edhall presided as chairman.

At the meeting, the annual report and audit report were presented. In connection with this, Chairman of the Board Bengt Kjell provided information on the work of the Board and reported on the principles of remuneration of the executive management and on the work of the Audit and Remuneration Committees. In addition, CEO Johnny Alvarsson gave an address on Indutrade's operations in 2005.

The auditors presented relevant parts of their audit report and consolidated audit report for 2005.

The 2006 AGM made the following resolutions:

- to set the dividend at SEK 2.75 per share
- to elect as directors Bengt Kjell, Curt Källströmer, Eva Färnstrand, Gunnar Tindberg, Michael Bertorp, Owe Andersson, Johnny Alvarsson and Ulf Lundahl (new election)
- to elect Bengt Kjell as Chairman of the Board
- to elect Öhrlings PricewaterhouseCoopers AB as auditor for the period extending through the 2010 Annual General Meeting
- in accordance with the Nomination Committee's recommendation, that the Nomination Committee shall consist of representatives of the four largest shareholders as well as the Chairman of the Board until the composition of the next year's nomination committee has been publicly announced
- that the Nomination Committee's composition shall be based on ownership information as per 31 August 2006 and shall be publicly announced not later than six months prior to the Annual General Meeting
- to amend the Articles of Association in accordance with the Board's proposal (unanimous vote)
- to authorise the Board to decide on the new issue of a maximum of 4,000,000 shares in the Company with stipulations on non-cash issue or set-off

MEMBERS OF THE BOARD OF DIRECTORS

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

At the 2006 Annual General Meeting, Ulf Lundahl was elected as a director on the Board to succeed the departing director Anders Nyrén. The other directors were re-elected.

The Chairman of the Board, Bengt Kjell, is an Executive Vice President of Industrivärden. Curt Källströmer is head of the Chairman's Office at Handelsbanken. Eva Färnstrand is a Site Manager at Södra Cell Mönsterås. Gunnar Tindberg is a former CEO of Indutrade. Michael Bertorp is a former Executive Vice President of Svenska Cellulosa Aktiebolaget. Owe Andersson is a former President and CEO of Mekonomen. Ulf Lundahl is Executive Vice President of L E Lundbergföretagen. Johnny Alvarsson is President and CEO of Indutrade.

A presentation of the current assignments of the members of the Board can be found on page 66.

Other executives participate at board meetings to present reports when necessary.

All of the directors, except for Johnny Alvarsson and Gunnar Tindberg, are independent in relation to Indutrade. Curt Källströmer, Johnny Alvarsson, Eva Färnstrand, Michael Bertorp and Owe Andersson are independent in relation to Indutrade's major shareholders. Only one director, Johnny Alvarsson, has an operational function in the Company.

THE WORK OF THE BOARD OF DIRECTORS

Each year, the Board adopts a formal 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 a number of policies.

The Board is responsible for the Company's organisation and for the administration of its affairs. This entails ensuring that the organisation is suited to its purpose and designed in such a way so as to ensure satisfactory control of its accounts, treasury management and financial circumstances in general. In addition, the Board is responsible for ensuring that the Company has satisfactory internal control and continually evaluates the effectiveness of the Company's internal control systems. The Board is also responsible for developing and following up the Company's strategies by drawing up plans and setting objectives. The Board maintains constant oversight of the CEO's and operative management's work.

In accordance with the current work plan, the Board shall have five regular meetings each year, including the statutory meeting after the Annual General Meeting, and on any other occasions when the situation demands.

In 2006 the Board had a total of seven meetings in addition to the statutory meeting, plus three per capsulam meetings.

The Board conducted its work in 2006 in accordance with the work plan. Matters requiring special attention by the Board during the year pertained to strategy, finance and acquisitions. All decisions were unanimous.

The directors were in attendance at all board meetings, with the exception of one director, who was not present on two occasions.

THE CHAIRMAN'S ROLE

The Chairman organises and leads the work of the Board to ensure that this is carried out in compliance with the Swedish Companies Act, other legislation and directives, applicable rules for listed companies (including the Code), and the Board's own internal governance tools. The Chairman monitors business activities by maintaining regular contact with the CEO and ensuring that the other directors are provided with satisfactory information and decision-making documentation. The Chairman is also responsible for making sure that an annual evaluation is conducted of the Board's work and that the results of this evaluation are presented to the Nomination Committee. The Chairman represents the Company in ownership matters.

REMUNERATION COMMITTEE

The Board has appointed a remuneration committee consisting of the Chairman, Bengt Kjell, and one other director, Michael Bertorp. The Remuneration Committee draws up "The Board's proposed principles for remuneration and other terms of employment for Company management". This proposal is discussed by the Board and submitted to the AGM for approval.

In accordance with an AGM resolution, the committee conducts preparatory work for decisions to be made by the Board on the CEO's remuneration and terms of employment, and decides on matters pertaining to the remuneration and terms of employment for other senior executives, and informs the Board about decisions made.

The Remuneration Committee had two meetings during the year.

AUDIT COMMITTEE

The Board has appointed an audit committee, consisting of the entire board excluding the CEO. Curt Källströmer served as chairman of the 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 auditors to ensure that the Company's internal and external accounting satisfies 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. The Audit Committee had four meetings in 2006, whereby six members were present at all meetings and one was absent from one of the four meetings.

On three occasions in 2006 the committee performed reviews and received reports from the Company's external auditors. The auditors' reports did not give rise to any special action by the Audit Committee.

NOMINATION COMMITTEE

The AGM on 27 April 2006 resolved that the Nomination Committee shall consist of representatives of the four largest shareholders as well as the Chairman of the Board, who shall also summons 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 2007 Annual General Meeting was to be based on ownership information as per 31 August 2006 and was to be publicly announced not later than six months prior to the Annual General Meeting.

Ahead of the 2007 Annual General Meeting, the Nomination Committee had the following members:

- Carl-Olof By, Industrivärden (committee chair)
- Claes Boustedt, L E Lundbergföretagen
- Robert Vikström, Handelsbanken Pension Foundation and Handelsbanken Pension Fund
- Neil Brown, Threadneedle Investments
- Bengt Kjell, Chairman of the Board, Indutrade

The Nomination Committee had three meetings, at which it was presented the evaluation of the Board's work during the past year and discussed the Board's composition. The committee recommended re-election of Bengt Kjell, Curt Källströmer, Eva Färnstrand, Michael Bertorp, Owe Andersson, Ulf Lundahl and Johnny Alvarsson, and new election of Gerald Engström, as Gunnar Tindberg had declined re-election. A more detailed presentation of the members of the Board is provided on page 66. The Nomination Committee also does preparatory work regarding the appointment of auditors. Öhrlings PricewaterhouseCoopers AB was appointed by the 2006 Annual General Meeting to serve as auditor through the 2010 Annual General Meeting.

OPERATING ACTIVITIES

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

PRESIDENT AND EXECUTIVE VICE PRESIDENT

Indutrade's President and CEO, 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 25,000 shares of Indutrade stock and 100,000 stock options issued by Industrivärden.

Executive Vice President Kaj Österlund heads the Engineering & Equipment business area and has been President of Indutrade Oy since 1995. He was President of Lining Oy from 1990 to 1995 and Director of Sales and Marketing at Grönblom Oy from 1987 to 1990. Kaj Österlund owns no shares in Indutrade.

AUDITORS

At the 2006 Annual General Meeting, Öhrlings PricewaterhouseCoopers AB was appointed as the Company auditor for a term extending through the 2010 Annual General Meeting.

The auditors maintain regular contact with the Chairman of the Board, the Audit Committee and company management.

The chief auditor was Authorised Public Accountant Lennart Danielsson.

In 2006, Öhrlings PricewaterhouseCoopers had a total of 98 audit assignments for companies listed on the Stockholm Stock Exchange. Six of these were conducted in collaboration with other accounting firms. Auditors' fees are described in Note 13 on page 52.

INTERNAL CONTROL OF FINANCIAL REPORTING

In accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for internal control. This report has been prepared in accordance with the Code and describes how the internal control of the financial reporting is organised.

CONTROL ENVIRONMENT

Effective board work is a prerequisite 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 operational risks.

In addition, the Board has adopted a number of fundamental guidelines and policies designed to create the conditions for a favourable control environment. These include economic and financial reporting policies, a Group Finance Policy and a Group Investment Policy, among others. A central aim of these policies is to create a solid platform for good internal control. These policies are followed up and revised as needed.

Company management continually draws up instructions on 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 platform for the Group's monthly consolidation work.

RISK ASSESSMENT

During the year, the Company conducted a structured process for assessing risks that could affect financial reporting. This process will be an annually recurring process that is subject to evaluations by the Audit Committee, which will present its evaluations to the Board.

As a result of this risk assessment, it has been ascertained that the Group's structure, consisting of a multitude of self-contained companies that are independent from each other in various sectors and of varying size, offers a considerable spread 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 would be greatest. The areas identified consisted primarily of revenue recognition, trade accounts receivable and inventories. However, no material joint risks were identified.

In addition, continuous risk assessment is conducted in connection with strategic planning, budgeting/forecasts and acquisition activities, aimed at identifying events in the market or operations that could give rise to changes in valuations of assets or liabilities, for example.

CONTROL ACTIVITIES

The Group's companies are organised in four 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 following up the business area's financial reporting and in ensuring compliance by the companies in the business area with Group policies that could have an impact on the financial reporting. In addition, the Parent Company has a function for continuous analysis and follow-up of the Group's, business areas' and subsidiaries' financial reporting. The Parent Company's finance department initiates the work on the annual self-evaluation routine regarding the internal control of financial reporting. This is a process that involves several parts.

In this evaluation, the Group's companies have been grouped into three categories, based on the nature and scope of the respective companies' business. For each group of companies, a questionnaire for evaluation of internal control has been prepared based on the performed risk analysis. A minimum acceptable level of internal control has been determined for each respective group, which served as the baseline for the evaluation.

In 2006 all companies owned by Indutrade were required to respond to the questionnaire. An evaluation of the responses was made per group of companies and for the Group as a whole. As a complement to Indutrade's own work, the auditors conducted a validation of the respective companies' completed questionnaires. Both the evaluation performed by Indutrade and the result of the auditors' validation have been reported and discussed with the Audit Committee and the Board of Directors. The overall assessment of the evaluation of the internal control of the Group's financial reporting will serve as documentation for the next year's self evaluation and work on further strengthening internal control.

INFORMATION AND COMMUNICATION

The Company's key 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 via relevant channels to the companies within the Group.

Systems and routines have been created to provide management with necessary reports on the business results in relation to established targets. Necessary information systems are in place to ensure that reliable and current information is available, to enable management to perform its duties in a correct and effective manner.

FOLLOW-UP

The Board conducts a monthly evaluation of business development and performance based on a report packet containing outcomes, forecasts and comments on certain key factors.

The Audit Committee, which reports to the Board on a regular basis, has a supervisory 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 accounting satisfies requirements made on market-listed companies and to follow up any observations that emerge from the audit.

INTERNAL AUDIT

The Company has a simple operative structure consisting primarily of small, self-contained operations 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 Company is regularly checked by the controllers at the business area and Parent Company level. In addition, the controllers conduct ongoing analyses of the companies' reporting to verify their performance. In view of the above, the Board has opted to not have any special internal audit function.

AUDITORS' REVIEW

This corporate governance report and the report on internal control of the financial reporting have not been reviewed by the Company's auditors.

BOARD OF DIRECTORS AND AUDITORS



Bengt Kjell

Born: 1954

Chairman of the Board since: 2005

Director since: 2002

Executive Vice President, Industrivärden

Education: MBA, Stockholm School of Economics

Other directorships: Chairman of Kungsleden.

Director of Höganäs, Munters, Pandox,

Isaberg Rapid and Helsingborgs Dagblad

Professional experience: Authorised Public

Accountant; Senior Partner, Navet AB;

Head of Corporate Finance, Securum

Number of shares: 30,100



Ulf Lundahl

Born: 1952

Director since: 2006

Vice President and Deputy CEO of

L E Lundbergföretagen

Education: LL.B. and B.Sc. Econ.

Other directorships: Director of Holmen,

IDL, Ramirent Oyj, Brandkontoret and

St. Eriks Ögonsjukhus

Professional experience: President, Östgöta Enskilda

Bank; CEO, Danske Securities

Number of shares: 0



Curt Källströmer

Born: 1941

Director since: 2002

Head of Chairman's Office at Handelsbanken

Education: General Certificate of Education and

School of Economics. Advanced level degree in

banking

Other directorships: Chairman of Handelsbanken

Pension Foundation, Handelsbanken's Pension

Fund and the Handelsbanken Employee Foundation.

Director of Holmen, Skanska, Stockholm Trade Fairs,

Thomas Concrete Group, SBC Bostadscentrum,

SBC mark and the Umeå School of Business

Professional experience: Executive Vice President,

Handelsbanken; Head of Central Sweden Regional

Bank and Northern Norrland Regional Bank,

Handelsbanken

Number of shares: 400



Michael Bertorp

Born: 1949

Director since: 2003

Education: LL.B.

Other directorships: Chairman of Talloil and

Linotech. Director of Handelsbanken Fonder AB

Professional experience: Executive Vice President,

Svenska Cellulosa Aktiebolaget Sweden

Number of shares: 1,800



Owe Andersson

Born: 1942

Director since: 2005

Education: MBA, Stockholm School of Economics

Other directorships: Chairman of Nordic Vikings

Group, JOFRAB and the Naval Academy of Sweden.

Director of HK Investment

Professional experience: President and CEO,

Mekonomen; President of Mekonomen Detaljist

Number of shares: 1,400



Eva Färnstrand

Born: 1951

Director since: 1998

Site Manager, Södra Cell Mönsterås

Education: M.Sc. Chemistry, Royal Institute of

Technology

Other directorships: Chairman of Forest Technology

Division of the Royal Swedish Academy of

Engineering Sciences

Professional experience: President, Tidnings-

tryckarna Aftonbladet Svenska Dagbladet;

Newsprint Business Area Manager, SCA Graphic

Sundsvall AB; Marketing Manager, Newsprint

Business Area, SCA Graphic Sundsvall AB

Number of shares: 200



Gunnar Tindberg

Born: 1938

Director since: 1980

Education: Engineering and economics

Professional experience: President of Indutrade,

1978-2004

Number of shares: 5,000



Johnny Alvarsson

Born: 1950

Director since: 2004

Other directorships: Director of VBG

Professional experience: President, Elektronik-

gruppen; President, Zeteco; various management

positions at Ericsson

Other information: see Management Group

Auditors

Öhrlings PricewaterhouseCoopers AB

Chief Auditor: Lennart Danielsson, Authorised

Public Accountant

Born: 1959

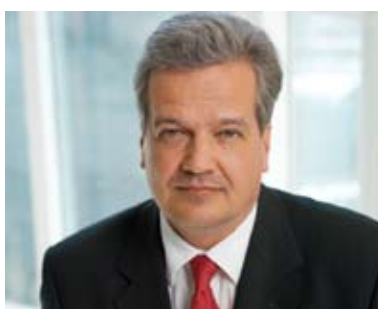
Auditor of Indutrade AB since 2006

Other auditing assignments: Securitas

EXECUTIVE MANAGEMENT

**Johnny Alvarsson***Born:* 1950

President and Chief Executive Officer

Employed since: 2004*Education:* M.Sc. Management Training*Professional experience:* President, Elektronik-gruppen; President, Zeteco; various management positions at Ericsson*Number of shares:* 25,000*Number of options:* 100,000**Kaj Österlund***Born:* 1954Executive Vice President, Indutrade
President of Engineering & Equipment
business area*Employed since:* 1990*Education:* Licentiate of Technology*Professional experience:* President, Indutrade
Oy; President, Lining Oy; Sales and Marketing
Manager, Grönblom Oy*Number of shares:* 0*Number of options:* 0**Olof Paulsson***Born:* 1949

President of Industrial Components business area

Employed since: 1983*Education:* Upper secondary school, Engineering
programme; B.Sc. Market Economics*Professional experience:* President of Colly
Company; President, Colly Filtereringsteknik;
President, Colly Components; Divisional Manager,
Colly Company*Number of shares:* 6,200*Number of options:* 18,000**Björn Lindström***Born:* 1948Vice President, Industrial Components business
area*Employed since:* 1976*Education:* Helsinki High School, Machine Techno-
logy programme; Technical College Helsinki, IFL*Professional experience:* President, Oy Colly
Company; President, Vipmek Oy; Area Manager, Oy
Colly Company*Number of shares:* 0*Number of options:* 0**Peter Eriksson***Born:* 1953

President of Flow Technology business area

Employed since: 1995*Education:* Tech. College Engineer; B.Sc. Market
Economics, IFL*Professional experience:* President, Indutrade Flow
Technology Group; President, Alnab; Sales Manager,
Alnab*Number of shares:* 12,000*Number of options:* 40,000**Olle Olofsson***Born:* 1948

Chief Financial Officer

Employed since: 2006*Education:* Upper secondary school, Business
programme*Professional experience:* CFO, Arcorus; CFO, Zeteco;
CFO, Bromma Conquip*Number of shares:* 6,641*Number of options:* 18,000**Anders Martinsson***Born:* 1968

Head of Business Development

Employed since: 2006*Education:* Tech. College Engineering degree;
Management studies*Professional experience:* Director of Sales and Marketing,
NAF; Project Leader, Ahlström Machinery (today Andritz)*Number of shares:* 5,000*Number of options:* 5,000

Interim report 1 January–31 March 2007
26 April 2007

Interim report 1 January–30 June 2007
2 August 2007

Interim report 1 January–30 September 2007
25 October 2007

ANNUAL GENERAL MEETING

Time and place

The Annual General Meeting will be held at 5 p.m. on Thursday, 26 April 2007, at Westmanska Palatset, Bryggarkungen room, Holländargatan 17, Stockholm.

Who is entitled to participate?

To be entitled to participate in the Annual General Meeting, shareholders must be listed in the shareholder register maintained by the VPC Central Securities Depository on 20 April 2007 and have notified the Company of their intention to participate no later than 4 p.m. on Friday, 20 April 2007.

How to become registered in the shareholder register

Shareholders who have registered their shares in their own name with VPC are automatically entered in the shareholder register. Shareholders whose shares are registered in the names of trustees must have their shares re-registered temporarily in their own names well in advance of 20 April to be eligible to participate in the Annual General Meeting.

Notice of attendance

Notice of intention to participate in the Meeting can be made using one of the following alternatives:

- by post to: Indutrade, Box 6044,
SE-164 06 Kista, attn. Hannelore Söderberg
- by phone +46 (0)8 703 03 00
by fax +46 (0)8 752 79 39
- via www.indutrade.se


Upon notification, shareholders should indicate their:

- name
- national ID number or company registration number
- address and phone number.

Notification must be received by the Company no later than 4 p.m. on Friday, 20 April 2006.

Proxies

Shareholders may exercise their right to participate in the Annual General Meeting 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 Meeting at the above address. Proxies for legal entities must also submit a certified copy of a certificate of incorporation or corresponding authorisation document.



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