

# CORPORATE GOVERNANCE REPORT

VBG GROUP AB (publ) is a Swedish limited liability company whose Series B shares have been listed on the Stockholm Stock Exchange since 1987, where they are traded on the Nasdaq OMX Nordic Exchange Small Cap (Mid Cap during 2010). VBG GROUP AB has applied the Swedish Code of Corporate Governance (the Code) since 1 January 2009.

The Code is a part of corporate Sweden's self-regulation and is based on the "comply or explain" principle. This means that companies that apply the Code can choose not to comply with certain rules but must explain the reason for each non-compliance.

## Division of responsibility

Responsibility for management and control of the Group is divided between the shareholders at the Annual General Meeting, the Board of Directors, its elected committees and the Managing Director under the provisions of the Swedish Companies Act, other laws and ordinances, rules governing stock market companies, the Articles of Association and the Board's internal governing documents.

## Shareholders

The share capital in VBG GROUP AB amounts to SEK 34,235,000, distributed among 1,220,000 Series A shares and 12,474,000 Series B shares, where each A share carries 10 votes and each B-share carries one vote, except for the 1,191,976 Series B shares bought back by VBG GROUP AB in 2002.

This amounts to a total of 12,502,024 outstanding shares with a total of 23,482,024 votes.

At the end of 2010, VBG GROUP AB had 4 529 shareholders. At year-end, the ten biggest shareholders controlled 78.5 per cent of the share capital and 88.5 per cent of the votes, with the Herman Krefting Foundation for Allergy and Asthma Research holding 35.7 per cent of the share capital and 34.7 per cent of the votes.

Other shareholders representing more than 10 per cent of the votes were the SLK Employees' Foundation and the VBG-SLK Foundation, whose holdings of Series A shares accounted for 24.2 per cent and 10.4 per cent of the votes, respectively.

More detailed information on the share, the ownership structure etc. is provided on pages 22–23.

## Articles of Association

The Articles of Association state that VBG GROUP AB is a public company whose object is to "engage – on its own or through wholly and partly owned companies – in industrial activities, preferably in the area of automotive components and truck equipment, and other activities consistent therewith."

## General Meeting of Shareholders

The highest decision-making body in VBG GROUP AB is the General Meeting of Shareholders. The Annual General Meeting (AGM), which is held within six months of the end of the financial year, adopts the financial statements, resolves on a dividend, elects the Board of Directors and, where applicable, the auditors and establishes their fees, considers other statutory matters and votes on proposals from the Board of Directors and the shareholders.

Notice convening the Annual General Meeting is given not earlier than six and not later than four weeks prior to the meeting. The notice contains information on notification of intention to attend and right to participate in and vote at the meeting, a numbered agenda with the matters to be discussed, and information on the proposed dividend and the main content of other proposals. Shareholders or proxies can vote for the full number of shares held or represented. It is possible to give notification of attendance at the meeting on the company's website.

Notice convening an extraordinary general meeting where the articles of association will be addressed shall be given not earlier than six and not later than four weeks prior to the meeting. Notice convening other extraordinary general meetings shall be given not earlier than six weeks and not later than two weeks prior to the meeting.

Proposals to the meeting should be addressed to the Board of Directors and sent in good time before notice convening the meeting is given. Information on shareholders' rights to have matters addressed at the meeting is provided on the website.

## Annual General Meeting 2010

VBG GROUP AB's Annual General Meeting was held on 27 April 2010 and all presentations were made in Swedish. Notice of the meeting, agenda, and the minutes with the Managing Director's illustrations from his address are available on the website. The entire Board of Directors, the Group Management in the person of the Managing Director and the CFO, and the company's auditor were present at the meeting. Shareholders were given an opportunity to ask questions during the meeting. It was not possible to follow or participate in the meeting from another location with the aid of communication technology. No change is planned in this respect for the 2011 AGM.

The AGM decided to adopt the Board's proposal for a dividend of SEK 0.50 per share for 2009, with record date on 30 April 2010.

The AGM decided to re-elect Board members Peter Hansson, Anders Birgersson, Johnny Alvarsson, Staffan Ekelund, Helene Richmond and Hans-Göran Persson, with Peter Hansson as Chairman and Johnny Alvarsson as Deputy Chairman.

The AGM also authorised the Board to resolve on one or more occasions up until the 2011 Annual General Meeting that repurchased shares can be transferred, notwithstanding the shareholders' pre-emption rights, and that non-cash payment can be made for such transferred shares. This authorisation enables the Board of Directors to use the Company's own shares as payment for acquired companies.

Further, the AGM resolved to appoint a Nominating Committee consisting of Reidar Öster, Staffan Ekelund, Åke Persson and Peter Rönström, with Reidar Öster as Chairman.

On 27 April 2010, it was announced that the 2011 Annual General Meeting would take place in Vänersborg on 3 May 2011 at 5:00 p.m.

## Nominating Committee

The Nominating Committee is appointed by the AGM and currently consists of the following members:

- Reidar Öster, private, Chairman of the Nominating Committee
- Staffan Ekelund, member of the Board of VBG GROUP AB and Chairman of the Herman Krefting Foundation for Allergy and Asthma Research
- Peter Rönström, Lannebo Funds
- Åke Persson, Laxo Mekan AB

The task of the Nominating Committee is to present nominations to the AGM on behalf of the shareholders for a Chairman and other members of the Board of Directors as well as proposals for fees and other remuneration for Board work and auditors' fees. The years an auditor is to be elected for the VBG GROUP, the Nominating Committee shall submit nominations for an auditor based on discussions of the matter in the VBG GROUP's Audit Committee.

When the Nominating Committee nominates a Chairman and other members of the Board of Directors, it shall issue a statement to the effect that the nominated individuals are to be regarded as independent in relation to the company and the executive management as well as major shareholders in the company. The Nominating Committee's proposals shall be given to the VBG GROUP in good enough time so that the proposal can be presented in the notice convening the AGM and at the same time on the VBG GROUP's website.

The majority of the members of the Nominating Committee are independent in relation to the company, the executive management and the shareholder with the most votes, the Herman Krefting Foundation for Allergy and Asthma Research.

The Nominating Committee proposes that the 2011 AGM re-elect Peter Hansson to the Board as Chairman, Johnny Alvarsson as Deputy Chairman, and Helene Richmond, Hans-Göran Persson and Anders Birgersson (Managing Director) as ordinary members, while also electing former Board member Peter Augustsson as an ordinary member. Staffan Ekelund has declined re-election.

It is proposed that the fee paid to the Board of Directors be raised to SEK 930,000 (currently SEK 690,000, including meeting fees), of which SEK 250,000 (155,000) to the Chairman of the Board, SEK 180,000 (135,000) to the Deputy Chairman and SEK 140,000 each (120,000) to the other Board members, and that the meeting fee of SEK 5,000 per attended meeting be eliminated. SEK 40,000 each (20,000) is to be paid to the members of the Audit Committee and the Nominating Committee.

No fee is paid to the Managing Director.

Fees to auditors are proposed to be paid as billed, upon approval, for work performed.

Shareholders representing more than 75 per cent of the total number of votes in VBG GROUP AB propose that the AGM 2011 appoint the following persons to the Nominating Committee:

- Reidar Öster, private, Chairman of the Nominating Committee
- Peter Hansson, Chairman of VBG GROUP AB and member of the Board of the Herman Krefting Foundation for Allergy and Asthma Research
- Peter Rönström, Lannebo Funds
- Åke Persson, Laxo Mekan AB

### Composition of the Board of Directors

The members of the Board of Directors are elected annually by the AGM for the period up until the next AGM. VBG GROUP AB has not established a specific age limit for the Board members nor a time limit for how long someone may sit on the Board.

The 2010 AGM re-elected Board members Peter Hansson, Johnny Alvarsson, Staffan Ekelund, Helene Richmond, Hans-Göran Persson and Anders Birgersson (MD). Peter Hansson was elected Chairman of the Board and Johnny Alvarsson was elected Deputy Chairman. There is a presentation of the Board members and their assignments on pages 62–63.

In addition to the six members elected by the AGM, the trade unions Unionen/CF/Ledarna and IF Metall each appoint one member and one deputy member.

The number of AGM-elected members who are independent in relation to the company, according to the requirements for listing on the stock exchange, is judged to be five. Of these, three are also judged to be independent of the company's major shareholders and meet all requirements on experience. The Managing Director is the only Board member who works actively in the company.

### The work of the Board of Directors

The work of the Board follows an annual plan designed to satisfy the need of the Board for information. In all other respects, the work of the Board is subject to the special rules of procedure the Board has adopted governing the division of responsibilities between the Board, its committees and the Managing Director. According to the adopted rules of procedure, the Board of Directors holds six ordinary meetings per year, including the statutory meeting following the AGM, plus whenever the situation demands it. Company officers take part in Board meetings as rapporteurs, and the company's CFO serves as secretary.

In addition, the company's auditor reports his observations to the Board every year based on his examination and gives his assessment of the company's internal control.

### Role of the Chairman

The Chairman organises and leads the work of the Board of Directors so that it complies with the Swedish Companies Act, other laws and ordinances, rules governing stock market companies (including the Code) and the Board's internal governing documents.

The Chairman follows the company's operations via continuous contacts with the Managing Director and is responsible for ensuring

that other Board members get relevant information and documents. The Chairman also ensures that an annual evaluation is made of the work of the Board and the Managing Director, and that the results of this evaluation are communicated to the Nominating Committee.

According to the by-laws of the shareholder in the VBG GROUP AB with the most votes, the Herman Krefting Foundation for Allergy and Asthma Research, the company's Chairman shall be a member of the Board of the Foundation.

### Board committees

On behalf of the Annual General Meeting, the Board of Directors appointed both an Audit Committee and a Compensation Committee.

### Compensation Committee

At the statutory Board meeting in May 2010, the Board of Directors appointed a Compensation Committee consisting of Peter Hansson, Chairman, and Johnny Alvarsson. The Committee had two meetings during 2010 where it discussed remuneration and other terms of employment for the Managing Director and senior officers in the Group. The MD was co-opted, but did not participate in the discussion when remuneration to the MD was dealt with.

The principle applied within the Group is that the boss's boss should approve decisions in compensation matters. A presentation was made at the AGM of the Board's proposal for guidelines for remuneration to the Managing Director and other senior officers. The AGM adopted the guidelines in accordance with the Board's proposal. Information on the Board's proposal to the 2011 AGM for guidelines for remuneration to the Managing Director and senior officers is provided in the Report of the Directors on page 29.

Information on remuneration is provided in Notes 5 and 6 on pages 45–47.

### Audit Committee

At the statutory meeting in May 2010, the Board of Directors appointed an Audit Committee consisting of Staffan Ekelund, Chairman, and Hans-Göran Persson. The Audit Committee held five meetings of record during 2010.

The Audit Committee has a supervisory role with regard to the company's risk management, governance and control as well as financial reporting. The committee maintains constant contact with the company's auditors in order to ensure that the company's internal and external accounting meets the requirements made on a listed company and to discuss the scope and content of the audit work.

The committee had consultations with and received reports from the company's external auditors on three occasions during 2010. The auditors' reports have not occasioned any special measure on the part of the Audit Committee.

### The work of the Board during 2010

Prior to each Board meeting, an agenda is sent out to the Board members along with in-depth information on the business at hand. Six meetings were held during financial year 2010, of which four (February, April, August and October) were held in connection with the publication of the company's quarterly reports.

### Board members from the 2010 AGM

| Name               | Function                                | Elected | Committee work         | Independent in relation to the company | Independent in relation to major shareholders |
|--------------------|---|---------|------------------------|--|---|
| Board members      |   |         |                        |  |   |
| Peter Hansson      | Chairman                                | 2001    | Compensation Committee | Yes                                    | No  |
| Johnny Alvarsson   | Deputy Chairman                         | 2004    | Compensation Committee | Yes                                    | Yes   |
| Staffan Ekelund    | Board member                            | 2004    | Audit Committee        | Yes                                    | No  |
| Helene Richmond    | Board member                            | 2008    |                        | Yes                                    | Yes   |
| Hans-Göran Persson | Board member                            | 2009    | Audit Committee        | Yes                                    | Yes   |
| Anders Birgersson  | Board member, CEO and Managing Director | 2001    |                        | No                                     | No  |
|                    |   |         |                        | <b>Total 5/6</b>                       | <b>3/6</b>                                    |

### Employee representatives

|                            |              |      |
|----------------------------|--------------|------|
| Willy Gustafsson/IF Metall | Board member | 2004 |
| Lars-Ove Boström/Unionen   | Board member | 2008 |
| Mikael Freyholtz/IF Metall | Deputy       | 2009 |
| Karin Pantzar/Unionen      | Deputy       | 2010 |

Information on the members of the Board is provided on pages 62–63.

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The annual statutory Board meeting was held immediately after the AGM. The Board held its annual strategy day in conjunction with the August meeting that was held in Grosswallstadt at one of the German Group companies. The business plan and the goals for 2011 were adopted at the December meeting as usual.

## Attendance at Board meetings in 2010

| Name                    | Audit |           | Compensation Committee |
|-------------------------|-------|-----------|------------------------|
|                         | Board | Committee |                        |
| <b>Board members</b>    |       |           |                        |
| Peter Hansson           | 6     |           | 2                      |
| Johnny Alvarsson        | 6     |           | 2                      |
| Staffan Ekelund         | 6     | 5         |                        |
| Helene Richmond         | 5     |           |                        |
| Hans-Göran Persson      | 6     | 5         |                        |
| Anders Birgersson (CEO) | 6     |           |                        |

## Employee representatives

|   |   |  |  |
|---|---|--|--|
| Willy Gustafsson,<br>IF Metall member           | 6 |  |  |
| Mikael Freyholz,<br>IF Metall deputy            | – |  |  |
| Lars-Ove Boström,<br>Unionen member             | 5 |  |  |
| Karin Pantzar <sup>1</sup> ,<br>Unionen deputy  | – |  |  |
| Linda Hallberg <sup>2</sup> ,<br>Unionen deputy | – |  |  |
| <b>Total</b>                                    |   |  |  |

<sup>1</sup> Elected to the Board at the 2010 AGM

<sup>2</sup> Retired from the Board at the 2010 AGM

## Operational activities

The Managing Director is responsible for VBG GROUP AB's day-to-day administration, and rules established by the Board of Directors govern the MD's power of decision regarding investments and financing matters.

## Managing Director

MD Anders Birgersson, MSc. Eng., has been employed by the VBG GROUP AB since 2001 and has been active in the engineering industry since 1984 with a focus on logistics, production, product development and senior management at ABB, SKF and ESAB.

As VBG GROUP AB's Managing Director, Anders Birgersson is also a member of the boards of the Herman Krefting Foundation for Allergy and Asthma Research, the SLK Employees' Foundation and the VBG-SLK Foundation, in keeping with the by-laws of the foundations.

The MD holds 500 shares.

## Group Management and business area management

Overall management of the Group is exercised in the Parent Company by the company's Managing Director, Ander Birgersson, and the Group's Chief Financial Officer, Claes Wedin, who is also responsible for the Accounting, Human Resources and Information Technology staffs. The VBG GROUP's operational business activities are conducted in the two business areas VBG GROUP TRUCK EQUIPMENT and RINGFEDER POWER TRANSMISSION.

The management of VBG GROUP TRUCK EQUIPMENT consists of Anders Birgersson (Business Area Manager), Per Ericson (Director of Sales), Bo Hedberg (Technical and Marketing Director), Anders Erkén (Production/Supply Chain Director) and Niklas Gråsjö (Business Controller).

The CFO also participates in the work and meetings of the business management.

The management of RINGFEDER POWER TRANSMISSION during 2010 consisted of Thomas Moka (Business Area Manager), Wolfgang Proepper (Export Sales Manager), Manfred Niessen (Technical Manager), Markus Fuchs (Supply Chain Manager), Carl W. Fenstermacher (Regional Manager for North America) and Bernd Vössing (Business Controller), who met regularly during the year and reported to the Parent Company's management. Just

before the end of 2010, Bill Dair was appointed new Regional Manager for North America, replacing Carl W. Fenstermacher, who has left the operation.

The meetings held in the business areas with the Parent Company's management dealt with such matters as earnings performance and reports prior to and after Board meetings, strategy and business planning, discussions of goals, investments, internal control, policies and review of the market situation, the economic trend and other external factors that affect the business. Business area projects and staff-related projects were also discussed and decided on.

Information on the Group Management and the management of the business areas is provided on pages 64–65.

## Internal governance processes

Governance of the VBG GROUP is based on business concept, strategies and goals in the Group and its business areas. Under the Board of Directors, the CEO and the Group Management, responsibility for operational activities has been decentralised to the two business areas. Responsibility for the coordination of certain functions such as accounting and finance, HR, IT, legal affairs and corporate communications rests with the Group Management and the Group Staffs.

The Group works with annual, rolling, multi-year activity plans to break down goals and strategies into action plans and activities that can also be measured and evaluated. These activity plans are important for the long-term strategic management of the Group. The Group also uses annual objectives, forecasts and action plans for the ongoing management of the business.

Different business processes such as marketing, sales, purchasing and production are used to manage the operational activities in the business areas in order to achieve the activity goals that have been established.

Earnings are followed in regular financial reports, and the results of adopted measures are followed in follow-up reports.

## Auditors

The auditing firm of Öhrlings PricewaterhouseCoopers AB (PwC) was elected by the 2008 AGM as auditor for a period of four years, and authorised public accountant Bror Frid was put in charge of the audit. PwC carries out the audit of VBG GROUP AB and of nearly all subsidiaries.

The annual audit includes a statutory audit of VBG GROUP AB's annual accounts, a statutory audit of the Parent Company and all subsidiaries (where required), an audit of internal report packages, an audit of the year-end closing and a general review of one interim report. Reviews of internal control are included as part of the work.

In September a meeting was held with the executive management for analysis of the organisation, operations, business processes and line items for the purpose of identifying areas involving an elevated risk of errors in the financial reporting. In October a meeting was held with the Audit Committee for reconciliation of strategy and aims. A general review of the year-end closing is performed for the period January–September. In October–November an early warning review is performed of the third quarter accounts, followed by an early warning meeting with the executive management where important questions for the annual closing are raised. Review and audit of the annual closing and annual accounts is performed in January–February.

During 2010, in addition to the audit assignment, the VBG GROUP consulted PwC on taxes, transfer price matters and accounting matters. The size of remunerations paid to PwC in 2010 is shown in Note 6 on page 48.

PwC is obligated to examine its independence prior to decisions to provide independent advice to the VBG GROUP in addition to its auditing assignments.

## REPORT ON INTERNAL CONTROL

This section contains the Board's annual report on how internal control is organised in so far as it pertains to financial reporting. The point of departure for the description has been the Code's rules and the guidance provided by working groups within the Confederation of Swedish Enterprise and FAR SRS.

The Board's responsibility for internal control is described in the Swedish Companies Act, and the internal control regarding financial reporting is covered by the Board's reporting instruction to the Managing Director. The VBG GROUP's financial reporting complies with the laws and rules that apply to companies listed on the Stockholm Stock Exchange and the local rules that apply in each country where business is conducted. Besides external rules and recommen-

dations there are internal instructions, directions and systems, as well as an internal division of roles and responsibilities aimed at good internal control in the financial reporting.

## Control environment

The control environment is the foundation for internal control. VBG GROUP AB's control environment consists of organisational structure, instructions, policies, guidelines, reporting and defined areas of responsibility. The Board has overall responsibility for the internal control of the financial reporting. The Board of Directors has adopted written rules of procedure that clarify the Board's responsibility and define the division of labour between the Board and its committees. The Board of Directors has appointed an Audit Committee, whose principal task is to ensure that established principles for financial reporting and internal control are complied with and that good relations are maintained with the company's auditors. The Board of Directors has prepared an instruction for the Managing Director and agreed on the economic reporting to the Board of Directors of VBG GROUP AB.

The Group's CFO reports the results of his work with internal control to the Audit Committee. The results of the Audit Committee's work in the form of observations, recommendations and proposals for decisions and measures are reported continuously to the Board of Directors.

VBG GROUP AB's governing documents in the form of policies, guidelines and manuals are, to the extent they pertain to the financial reporting, kept continuously updated and communicated via relevant channels to the companies in the Group.

Systems and routines have been created to furnish the management with the necessary reports concerning business results in relation to established objectives. The necessary information systems are in place to ensure that reliable and up-to-date information is available for the management to be able to perform its duties in a correct and efficient manner.

## Risk assessment

The VBG GROUP's risk assessment regarding the financial reporting is aimed at identifying and evaluating the most significant risks that affect the internal control of the financial reporting in the Group's companies, business areas and processes. The most significant risks identified in the Group's internal control of the financial reporting are managed by control structures based on reporting of non-conformances from established goals or from adopted standards for e.g. valuation of inventories and other significant assets.

## Internal control of the financial reporting

Financial reports are prepared monthly and quarterly in the Group, its business areas and subsidiaries. In conjunction with this reporting, extensive analyses are conducted with comments and updated forecasts aimed at ensuring that the financial reporting is accurate. Accounting functions and business controllers with functional responsibility for accounting, reporting and analysis of financial developments are found at the central Group, business area and major unit levels.

The VBG GROUP's internal control work aims at ensuring that the Group lives up to its financial reporting goals. The financial reporting shall

- be accurate and complete and comply with relevant laws, rules and recommendations
- provide a fair and true description of the company's business
- support a rational and informed valuation of the business.

In addition to fulfilling these three goals, internal financial reporting shall provide support for correct business decisions at all levels in the Group.

## Information and communications

Internal information and communications have to do with creating an awareness among the Group's employees concerning external and internal governing instruments, including powers and responsibilities. Information and communications regarding internal governing instruments for financial reporting are available for all concerned employees. Important tools for this are the VBG GROUP's manuals, intranet and trainings.

## Control activities

The Group's companies are organized in two business areas. A controller is included in each business area management. The controller plays a central role for analysis and follow-up of the business area's

financial reporting and earnings. The Parent Company has additional functions for continuous analysis and follow-up of the Group's, the business area's and the subsidiaries' financial reporting.

## Follow-up

The Board of Directors is informed of and evaluates on a monthly basis the performance, earnings, financial position and cash flow of the operations via a report package containing outcomes, forecasts and comments on certain key factors.

## MISCELLANEOUS

### Internal audit

VBG GROUP AB has a simple operational structure with two business areas, each consisting of small and medium-sized legal entities with varying platforms for internal control. Governance and internal control systems established by the company are monitored regularly with regard to compliance by controllers at the business area and Parent company level. Controllers also perform continuous analyses of the companies' reporting and economic outcomes for the purpose of determining trends.

In view of the above, the Board of Directors has chosen not to have a special internal audit.

### Investor relations

The VBG GROUP's information to shareholders and other stakeholders is provided via the annual report, year-end report and interim reports as well as press releases. Financial information covering the past few years is provided at [www.vbggroup.com](http://www.vbggroup.com), along with information on corporate governance. Some ten or so meetings with investors and analysts were held in Sweden during 2010.

Vänernsberg, 17 March 2011

|  |  |
|--|--|
| Peter Hansson<br>Chairman of the Board | Anders Birgersson<br>Managing Director and CEO |
| Hans-Göran Persson                     | Johnny Alvarsson                               |
| Helene Richmond                        | Staffan Ekelund                                |
| Willy Gustafsson                       | Lars-Ove Boström                               |

### Auditor's statement on the Corporate Governance Report To the Annual General Meeting of Shareholders of VBG GROUP AB (publ) Corp. ID No. 556069-0751

We have examined the Corporate Governance Report for VBG GROUP AB (publ) for the financial year 1 January 31 to December 2010. The company's Corporate Governance Report is included in the printed version of this document on pages 58-61. The Board of Directors and Managing Director bear responsibility for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Annual Accounts Act. As a basis for our opinion that the Corporate Governance Report has been prepared in accordance with, and is consistent with, the other parts of the annual accounts, we have read the Corporate Governance Report and judged its statutory content based on our knowledge of the company. In our opinion, the Corporate Governance Report has been prepared in accordance with the Annual Accounts Act and that its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Gothenburg, 17 March 2011

Öhrlings PricewaterhouseCoopers AB

Bror Frid

Authorised Public Accountant