

Corporate Governance Report

VBG GROUP AB (publ) is a Swedish limited liability company whose Series B shares are listed on the Stockholm Stock Exchange, where they are traded on the Nasdaq OMX Nordic Exchange, Mid Cap. The Stockholm Stock Exchange incorporated the Swedish Code of Corporate Governance ("the Code") in its rules for listed companies in 2005. The Code was revised in 2008 and covers the shareholders' meeting, appointment of board of directors and auditor, executive management and information on corporate governance. The revised Code entered into force on 1 July 2008.

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 deviation.

VBG GROUP AB has previously chosen not to apply the Code, since the company's market value was below the previous limit of three billion kronor, but the revised Code is being applied from 1 January 2009.

Shareholders

VBG GROUP AB had 4,847 shareholders at the end of 2008. Information on the share, the ownership structure etc. is provided on pages 26–27.

Legislation and articles of association

VBG GROUP AB is primarily subject to the Swedish Companies Act and the rules that follow from the fact that the share is listed on the Nasdaq OMX Nordic Exchange, Mid Cap, Stockholm (the Stockholm Stock Exchange), as well as generally accepted practices on the stock market. The Code is a part of the stock exchange's regulations. VBG GROUP AB must also comply with the provisions of its Articles of Association.

General Meeting of Shareholders

The highest decision-making body in VBG GROUP AB is the General Meeting of Shareholders. At the General Meeting, the shareholders exercise their right to vote in order to make decisions regarding the composition of the Board and in other important matters.

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 AGM 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.

VBG GROUP AB's Annual General Meeting was held on 13 May 2008 and all presentations were made in Swedish. Notice of the meeting, agenda, minutes with the Managing Director's

illustrations from his address are available on the website. The entire Board of Directors, the Group Management represented by the Managing Director and the CFO and the company's auditor were present at the meeting. During the meeting the shareholders were given an opportunity to ask and receive answers to questions concerning, for example, whether growth was expected to occur by acquisition or by development of new markets, whether decisions to refrain from acquisitions were due to financial unrest in the world, excessively high purchase prices or weaknesses in the companies to be acquired, whether the company could resist a sharp economic downturn, and finally a question about the dividend level. It was not possible to follow or participate in the meeting from another location with the aid of communication technology. No change in this respect is planned for the 2009 AGM.

The AGM decided to adopt the Board's proposal for a dividend of SEK 2.50 per share for 2007, with record date on 16 May 2008.

The AGM decided to re-elect Board members Peter Hansson, Anders Birgersson, Johnny Alvarsson and Staffan Ekelund and to elect Helene Richmond and Peter Augustsson for the first time, with Peter Hansson as the new Chairman and Johnny Alvarsson as the new Deputy Chairman.

The meeting decided to elect the auditing firm of Öhrlings PricewaterhouseCoopers AB with Authorised Public Accountant Bror Frid as principal auditor, and to re-elect Gunnar Hjalmarsson as deputy auditor.

The AGM also authorised the Board to resolve on one or more occasions up until the 2009 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.

Furthermore, the AGM decided to appoint a Nominating Committee consisting of Reidar Öster, Staffan Ekelund and Åke Persson, with Reidar Öster as chairman. The Nominating Committee submits recommendations for Board members and their fees and, if they are up for election, recommendations for auditors. From the time of the 2008 AGM up until the publication of this annual report, the Nominating Committee held two meetings.

On 11 December 2008, it was announced that the 2009 Annual General Meeting would take place in Vänersborg on 12 May 2009 at 5:00 p.m.

Nominating Committee

The task of the Nominating Committee is to present proposals 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 proposals for election of 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 that the proposal can be presented in the notice convening the AGM and at the same time on the VBG GROUP's website.

Prior to the 2008 AGM, the Nominating Committee consisted of Chairman Reidar Öster (private), Richard Persson (Chairman of VBG GROUP AB), Staffan Ekelund (member of the Board of VBG GROUP AB) and Åke Persson (Laxå Mekan). Following the sudden death of Richard Persson just before the Annual General Meeting, the 2008 AGM decided that the Nominating Committee for the 2009 AGM should be reduced to three persons but otherwise remain unchanged.

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. One member of the committee is a Board member.

The Nominating Committee proposes to the 2009 AGM that Hans-Göran Persson be elected to the Board. Furthermore, the Nominating Committee proposes re-election of Peter Hansson to the Board as Chairman, Johnny Alvarsson as Deputy Chairman, and Staffan Ekelund, Helene Richmond and Anders Birgersson (Managing Director) as ordinary members. Peter Augustsson has declined re-election.

The fees proposed for the members of the Board of Directors total SEK 565,000, of which SEK 130,000 to the Chairman, SEK 110,000 to the Deputy Chairman and SEK 95,000 each to the other Board members, plus SEK 5,000 per attended meeting. SEK 20,000 each is to be paid to the members of the Audit Committee and the Nominating Committee. This is unchanged compared with last year's fees. No fee is paid to the Managing Director.

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

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. There is no rule as to how long a member can remain on the Board.

The 2008 AGM re-elected Board members Peter Hansson, Johnny Alvarsson, Staffan Ekelund and Anders Birgersson (Managing Director) and elected Helene Richmond and Peter Augustsson for the first time. Peter Hansson was elected Chairman of the Board and Johnny Alvarsson was elected Deputy Chairman. 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 estimated at 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 and the Managing Director. 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.

Board Committees

On behalf of the Annual General Meeting, the Board of Directors appointed an Audit Committee and a Compensation Committee. The Audit Committee is responsible for contacts between the Board of Directors and the auditors and for evaluating the work of the auditors.

The members of the Audit Committee are Staffan Ekelund and Peter Augustsson, with Staffan Ekelund as chairman. From the time of the 2008 AGM up until the publication of this annual report, the Audit Committee held two meetings.

The Compensation Committee is responsible for proposing the terms of compensation of the Managing Director and other senior officers. The members of the Compensation Committee are Peter Hansson, Johnny Alvarsson and Anders Birgersson, with Peter Hansson as chairman. From the time of the 2008 AGM up until the publication of this annual report, the Compensation Committee held two meetings.

Board members as from the 2008 AGM

Name	Function	Elected	Committee work	Independent in relation to		
				the company	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	
Peter Augustsson	Board member	2008	Audit Committee	Yes	Yes	
Anders Birgersson	Board member, CEO and Managing Director	2001		No	No	
				Total	5/6	3/6
Employee representatives						
Willy Gustafsson/IF Metall	Board member	2004				
Lars-Ove Boström/Unionen	Board member	2008				
Rune Olausson/IF Metall	Deputy	2004				
Linda Hallberg/Unionen	Deputy	2008				

Information on the members of the Board is provided on pages 64–65.

The work of the Board during 2008

Prior to each Board meeting, an agenda is sent out to the Board members along with in-depth information on the business at hand. Ten meetings were held during financial year 2008, of which four (February, May, August and October) were held in connection with the publication of the company's interim reports.

The annual statutory Board meeting was held immediately after the AGM. As usual, the December meeting adopted the goals for 2009.

Four meetings were extraordinary Board meetings that dealt with acquisitions and restructuring.

Attendance at Board meetings in 2008

Name	Board	Audit Committee	Compensation Committee
Board members			
Peter Hansson	10	1	1
Johnny Alvarsson	9		2
Staffan Ekelund	10	3	
Helene Richmond ¹⁾	6		
Peter Augustsson ¹⁾	6	2	
Anders Birgersson (MD) ²⁾	10		2
Richard Persson ³⁾	2		1
Victoria Wikström ⁴⁾	3		
Employee representatives			
Willy Gustafsson IF Metall member	10		
Rune Olausson IF Metall deputy	—		
Lars-Ove Boström ¹⁾ Unionen member	4		
Linda Hallberg ¹⁾ Unionen deputy	3		
Hans Gustafsson ⁴⁾ Unionen deputy	3		
Total	10	3	2

¹⁾ Elected to the Board at the 2008 AGM

²⁾ Not member of Compensation Committee from 1 January 2009

³⁾ Former Chairman, deceased in April 2008

⁴⁾ Retired from the Board at the 2008 AGM

Group Management

The Board of Directors has delegated operational responsibility for the administration of the company and the Group to the company's Managing Director. An instruction regarding the division of labour between the Board and the MD is issued annually by the Board of Directors.

Overall management of the Group is handled in the Parent Company by the company's Managing Director and the Group's CFO, who is also responsible for the Group Staffs accounting, HR and IT. The VBG GROUP's operational business activities are conducted in the two business areas VBG GROUP TRUCK EQUIPMENT (BATE) and RINGFEDER POWER TRANSMISSION (BAPT).

The business management for BATE consists of the Managing Director, who is head of the business area, the Director of Sales, the Technical Director/Marketing Director, the Production Director and the Business Controller.

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

The business management of BAPT in 2008 consisted of the head of the business area and the Business Controller, who reported to and met with the CEO and CFO regularly during the year. In 2009, partly as a consequence of the acquisition of the GERWAH Group, the organisation in BAPT will change and the business management will be enlarged to more closely resemble the one in BATE.

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

Information on the Group Management and the management of the business areas is provided on pages 66–67.

Internal governance processes

Governance of the VBG GROUP is based on business concept, strategies and goals in the Group and the 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 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 business management.

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

Results are followed up by means of continuous financial reporting, and approved measures are followed up by supplementary follow-ups.

Remuneration

At the statutory Board meeting in May 2008, the Board of Directors appointed a Compensation Committee consisting of Peter Hansson, Johnny Alvarsson and Anders Birgersson. The Committee had two meetings during 2008 where it discussed questions of remuneration and other terms of employment for the Managing Director and senior officers in the Group. The Managing Director did not participate in the discussion or the decision concerning his own compensation.

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 on 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 2009 AGM for guidelines for remuneration to the Managing Director and senior officers is provided in the Report of the Directors on page 34.

The 2008 AGM set the director's fee and decided that fees to auditors shall be paid as billed, upon approval. Information on remuneration is provided in Notes 5 and 6 on pages 51–52.

Auditors

The auditing firm of Öhrlings PricewaterhouseCoopers AB (PWC) was elected by the 2008 AGM as auditor for a period of four years, with authorised public accountant Bror Frid as auditor 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 report, a statutory audit of the Parent Company and all subsidiaries (where required), audit of internal report packages, audit of the year-end closing and 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 for 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 and of the annual closing and annual report is performed in January–February.

During 2008, in addition to the audit assignment, the VBG GROUP consulted PWC on taxes, on accounting matters, and as a participant in due diligence processes in connection with both executed and non-executed acquisitions. During 2008, a total review and to some extent adjustment of the Group's internal transfer prices was carried out, along with extensive documentation. The size of remunerations paid to PWC in 2008 is shown in Note 6 on page 52.

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

Internal control

This section contains the Board's annual report on how internal control is organised in so far as it concerns 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 recommendations 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. 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.

The VBG GROUP has no special internal audit function. The Board of Directors has deemed that no special circumstances exist in the business or other conditions that warrant the establishment of such a function. During 2008 the company introduced a type of auditing where a qualified accountant within the Group visits and examines internal control procedures in other units within the Group.

Investor relations

The VBG GROUP's information to shareholders and other stakeholders is provided via the annual report, year-end closing and interim reports as well as press releases. Material is provided on the website covering the past few years, along with information on corporate governance. Some ten or so meetings with investors and analysts were held in Sweden during 2008.