

# 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. 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 governance 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 2012, VBG GROUP AB had a total of 4,046 shareholders. At year-end, the ten biggest shareholders controlled 73 per cent of the outstanding share capital and 89 per cent of the votes. The stake held by the largest shareholder, the Herman Krefting Foundation for Allergy and Asthma Research, amounted to 32.6 per cent of the outstanding share capital and 34.7 per cent of the votes. Other shareholders with more than 10 per cent of the votes were the SLK Employees' Foundation and the VBG-SLK Foundation, whose holdings of Series A shares represented 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 19–20.

## 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, appoints the Nominating Committee, 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 meet-

ing. The notice contains information on notification of intention to attend and right to participate in and vote at the meeting, an itemised 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 weeks 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 submitted 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 2012

VBG GROUP AB's Annual General Meeting was held on 26 April 2012 and all presentations were made in Swedish. Notice of the meeting, the agenda, and the minutes with the Managing Director's illustrations from his address are available on the website. The entire Board of Directors, the chairman of the Nominating Committee, 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 2013 AGM.

The AGM decided to adopt the Board's proposal for a dividend of SEK 2.25 per share for 2011, with a record date of 2 May 2012.

The AGM decided to re-elect Board members Peter Hansson, Anders Birgersson, Johnny Alvarsson, Helene Richmond, Hans-Göran Persson and Peter Augustsson. Peter Hansson was re-elected Chairman and Johnny Alvarsson was re-elected Deputy Chairman.

The AGM also authorised the Board to resolve on one or more occasions up until the 2013 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 to use the Company's own shares as payment for acquired companies.

Further, the AGM resolved to appoint a Nomination Committee consisting of Reidar Öster, Peter Hansson, Peter Rönström and Per Trygg, with Reidar Öster as Chairman.

On 26 May 2012, it was announced that the 2013 Annual General Meeting would take place in Vänersborg on 25 April 2013 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
- Peter Hansson, Chairman of VBG GROUP AB
- Peter Rönström, Lannebo Funds
- Per Trygg, SEB Asset Management SA

The task of the Nominating Committee is to present proposals to the AGM on behalf of the shareholders for election of 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 Nominating Committee shall also submit nominations for election of an auditor based on discussions in the VBG GROUP's Audit Committee and the Board of Directors.

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 2013 AGM re-elect Peter Hansson to the Board as Chairman, Johnny Alvarsson as Deputy Chairman, and Helene Richmond, Hans-Göran Persson, Peter Augustsson and Anders Birgersson (MD) as ordinary members.

It is proposed that the fee paid to the Board of Directors be raised to SEK 1,070,000 (currently SEK 1,025,000), of which SEK 300,000 (280,000) to the Chairman of the Board, SEK 210,000 (200,000) to the Deputy Chairman and SEK 160,000 each (155,000) to the other Board members.

Of the total fee, SEK 40,000 each (40,000) shall be paid to the Audit and Compensation Committees, to be distributed equally among the committee members appointed by the Board of Directors.

No fee is paid to the Managing Director.

Furthermore, the Nominating Committee proposes to the 2013 AGM re-election, for a period of one year, of PricewaterhouseCoopers as auditor with Fredrik Göransson as auditor in charge.

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 2013 appoint the following persons to the Nominating Committee:

- Reidar Öster, private, Chairman of the Nominating Committee
- Peter Hansson, Chairman of VBG GROUP AB
- Peter Rönström, Lannebo Funds
- Per Trygg, SEB Asset Management SA

#### 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 2012 AGM re-elected Board members Peter Hansson, Johnny Alvarsson, Ander Birgersson (MD), Helene Richmond, Hans-Göran Persson and Peter Augustsson. 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 appointed 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, four 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 extraordinary meetings whenever the situation warrants. Company officers take

#### Board members as from the 2011 AGM

Name	Function	Elected	Committee work	Independent in relation to the company	Independent in relation to major shareholders	
Peter Hansson	Chairman	2001	Compensation Committee	Yes	No	
Johnny Alvarsson	Deputy Chairman	2004	Compensation Committee	Yes	Yes	
Helene Richmond	Board member	2008		Yes	Yes	
Hans-Göran Persson	Board member	2009	Audit Committee	Yes	Yes	
Peter Augustsson	Board member	2011	Audit Committee	Yes	Yes	
Anders Birgersson	Board member, CEO and Managing Director	2001		No	No	
				<b>Total</b>	<b>5/6</b>	<b>4/6</b>

Employee representatives	Function	Elected
Michael Jacobsson/IF Metall	Board member	2011
Cecilia Pettersson/Unionen-CF-Ledarna	Board member	2011
Mikael Freholz/IF Metall	Deputy auditor	2009
Karin Pantzar/Unionen-CF-Ledarna	Deputy auditor	2010

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

part in Board meetings as rapporteurs, and the company's CFO serves as secretary.

The company's auditor reports his observations every year based on his review 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 governance 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

The Board of Directors appointed both an Audit Committee and a Compensation Committee for the period up until the 2013 AGM.

### Compensation Committee

At the statutory Board meeting in April 2012, the Board of Directors appointed a Compensation Committee consisting of Peter Hansson, Chairman, and Johnny Alvarsson. The Committee had two meetings during 2012 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 2013 AGM for guidelines for remuneration to the Managing Director and senior officers is provided in the Report of the Directors on page 27.

Information on remuneration is provided in Notes 6 and 7 on pages 43–45.

### Audit Committee

At the statutory Board meeting in May 2012, the Board of Directors appointed an Audit Committee consisting of Hans-Göran Persson, Chairman, and Peter Augustsson. The Audit Committee held four meetings of record during 2012.

The Audit Committee has a supervisory role with regard to the company's system for internal control and risk management of the 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 four occasions during 2012. The auditors' reports have not occasioned any special measure on the part of the Audit Committee.

## The work of the Board during 2012

Prior to each Board meeting, an agenda is sent out to the Board members along with in-depth information on the business at hand. Eight meetings were held during financial year 2012, of which four (February, April, August and October) were held in connection with the publication of the company's quarterly reports.

The annual statutory Board meeting was held immediately after the AGM. The October meeting was held in Gross-Umstadt, Germany, at one of the German Group companies. The business plan for 2013 was adopted at the December meeting.

## Attendance at Board meetings in 2012

Name	Board	Audit Committee	Compensation Committee
<b>Board members</b>			
Peter Hansson	8		2
Johnny Alvarsson	7		2
Peter Augustsson	8	4	
Helene Richmond	7		
Hans-Göran Persson	8	4	
Anders Birgersson (CEO)	8		
<b>Employee representatives</b>			
Michael Jacobsson, IF Metall	8		
Cecilia Pettersson, Unionen-CF-Ledarna	8		

## 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 and Division Management

Overall management of the Group is exercised in the Parent Company by the company's Managing Director and CEO, Ander Birgersson, and the Group's CFO, Claes Wedin. Furthermore, the Parent Company management consists of Bo Hedberg, Director of Business Development, and Christina Holgerson, Director of TQM & HR.

The VBG GROUP's operational business activities are conducted in the three divisions VBG TRUCK EQUIPMENT, with Division Manager Anders Erkén, EDSCHA TRAILER SYSTEMS, with Division Manager Per Ericson, and RINGFEDER POWER TRANSMISSION, with Division Manager Thomas Moka.

The meetings held by the Group Management with each division management deal 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. Furthermore, division-related projects are discussed and decided on.

Information on the Parent Company management and the division managers is provided on pages 64–65.

### Internal governance processes

Governance of the VBG GROUP is based on the business concept, strategies and goals of the Group and its divisions. Under the Board of Directors, the CEO and the Group Management, responsibility for operational activities has been decentralised to the three divisions. 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 day-to-day management of the business.

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

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

### Auditors

The auditing firm of Öhrlings PricewaterhouseCoopers AB (PwC) was elected by the 2012 AGM as auditor for a period of one year, with authorised public accountant Fredrik Göransson as auditor in charge.

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 a part of the work.

In September a meeting was held with the executive management and the Audit Committee for analysis of the organisation, operations, business processes and balance sheet 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. An early warning review is performed of the third quarter accounts in October–November, followed by an early warning meeting with the executive management and the Audit Committee 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 2012, 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 2012 is shown in Note 7 on page 45.

PwC is obliged to assess its independence prior to providing 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 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.

### Control environment

The control environment is the foundation for internal control. VOLVO 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 internal control work 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 essential 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 procedures have been created to provide 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 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 divisions 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, division and major unit levels.

The VBG GROUP's internal control work is aimed at ensuring that the Group fulfils 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 governance instruments, including powers and responsibilities. Information and communications regarding internal governance instruments for financial reporting are available for all concerned employees. Important tools for this are the VBG GROUP's manuals and trainings.

### **Control activities**

The Group's companies are organised in three divisions. Each division management includes a Business Controller. 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 three divisions, 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 division 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 2012.

Vänersborg, 20 March 2013

Peter Hansson  
Chairman of the Board

Anders Birgersson  
Managing Director and CEO

Hans-Göran Persson

Johnny Alvarsson

Helene Richmond

Peter Augustsson

Michael Jacobsson

Cecilia Pettersson

**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**

The Board of Directors bears responsibility for the Corporate Governance Report for 2012 on pages 56–61 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

We have read the Corporate Governance Report, and based on this reading and our knowledge of the Group, we believe that we have sufficient grounds for our opinions.

This means that our statutory examination of the Corporate Governance Report has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, and generally accepted auditing standards in Sweden.

We find that a Corporate Governance Report has been prepared, and that its statutory information is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 20 March 2013  
Öhrlings PricewaterhouseCoopers AB

Fredrik Göransson  
Authorised Public Accountant