

# CORPORATE GOVERNANCE REPORT

# 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 Stockholm Mid Cap list. VBG Group AB has applied the Swedish Corporate Governance Code (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 President 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 amounted to SEK 65,490,060 on December 31, 2019, distributed among 2,440,000 Series A shares and 23,756,024 Series B shares, where each series A share carries ten votes and each series B share carries one vote, except for the 1,191,976 Series B shares repurchased by VBG Group AB in 2002. This amounts to a total of 25,004,048 shares outstanding with a total of 46,964,048 votes.

At the end of 2019, VBG Group AB had a total of 4,727 shareholders. At year end, the ten largest owner groups controlled 83.5% of the share capital outstanding, 79.7% of the total number of shares issued and 91.2% of the votes. The stake held by the largest shareholder, the Herman Krefting Foundation for Allergy and Asthma Research, amounted to 22.6% of the outstanding share capital and 28.3% of the votes. Other shareholders with more than 10% of the votes were the SLK Employees' Foundation and the VBG-SLK Foundation, whose holdings of Series A shares represented 24.2% and 10.4% of the votes, respectively.

More detailed information on the share, the ownership structure, and so on is provided on pages 34–35.

## 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 fiscal year, adopts the financial statements, resolves on a dividend, elects the Board of Directors and the auditors and establishes their fees, appoints the Nominating Committee, considers other statutory matters and passes resolutions 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, an

itemized 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.

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 three 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, [www.vbggroup.com](http://www.vbggroup.com).

## Annual General Meeting 2019

VBG Group AB's Annual General Meeting was held on 24 April 2019 and all presentations were in Swedish. Notice of the meeting, the agenda, and the minutes with the President's illustrations from his address are available on the website. The entire Board of Directors, the chairman of the Nominating Committee, the President and the CFO, as well as parts of Group Management 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 2020 AGM.

The AGM resolved to adopt the Board's proposal for an increased dividend of SEK 4.50 per share for fiscal year 2018 (of which SEK 3.50 in ordinary dividend and SEK 1.00 in extra dividend), which was an increase of 38.5% over the preceding year's dividend of SEK 3.25. The record date was April 26, 2019. Since Chairman of the Board Peter Hansson declined re-election, the AGM resolved that the number of Board members would decrease by one, to six ordinary members without deputies. The AGM resolved to re-elect Board members Johnny Alvarsson, Peter Augustsson, Louise Nicolin, Jessica Malmsten, Mats R. Karlsson and Anders Birgersson.

Norges Bank, with its holding of 165,386 shares (0.416% of the votes at the meeting) voted against the resolution but without making a reservation against it. Norges Bank was represented by proxy Lisa Emanuelsson.

Johnny Alvarsson was elected Chairman of the Board. No Deputy Chairman was elected.

As a result of the number of Board members decreasing by one, the Board fees were reduced to SEK 1,750,000 (1,795,000), of which SEK 600,000 (500,000) to the Chairman of the Board and SEK 250,000 each (220,000) to the other Board members, and SEK 100,000 (50,000) to the Audit Committee and SEK 50,000 (50,000) to the Compensation Committee. No fee was paid to the President.

Öhrlings PricewaterhouseCoopers was re-elected as auditor for a period of one year, with Johan Malmqvist as auditor in charge to succeed Fredrik Göransson, who could not be re-elected owing to the seven-year rule. Moreover, the AGM resolved that the fees to the company's auditors for their review of operations for 2019 would be paid in accordance with approved charges for work performed.

The AGM authorized the Board to resolve on one or more occasions up until the 2020 AGM that treasury shares can be

transferred, notwithstanding the shareholders' pre-emption rights, and that non-cash payment (apport) can be made for such transferred shares. This authorization enables the Board to use the Company's treasury shares as payment for acquired companies.

The AGM resolved to accept the Board's proposal for guidelines regarding remuneration and other terms of employment for senior executives.

Furthermore, the AGM resolved to appoint a Nominating Committee comprising Göran Bengtsson (Herman Krefting Foundation for Allergy and Asthma Research), Johnny Alvarsson (Chairman of VBG Group AB), Per Trygg (SEB Asset Management SA) and Johan Lannebo (Lannebo Fonder), with Göran Bengtsson as Chairman.

On April 24, 2019, it was announced that the 2020 AGM would take place in Vänersborg at 5:00 p.m. on April 28, 2020.

### Nominating Committee

The Nominating Committee is appointed by the AGM and, for the 2020 AGM, consists of the following members:

- Göran Bengtsson, Herman Krefting Foundation for Allergy and Asthma Research, also the Chairman of the Nominating Committee
- Johnny Alvarsson, Chairman of VBG Group AB
- Per Trygg, SEB Asset Management SA
- Johan Lannebo, Lannebo Fonder

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 far enough in advance 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 Nominating Committee strives for an even gender balance and diversity in terms of breadth of qualifications, experience and background, which is also reflected in the current composition. The Nominating Committee applies rule 4.1 of the Swedish Corporate Governance Code as its policy for diversity on the Board.

Half 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.

Member Jessica Malmsten declined re-election ahead of the 2020 AGM. The Nominating Committee proposes the re-election of Johnny Alvarsson, who is also proposed for re-election as the Chairman of the Board, Peter Augustsson, Louise Nicolin, Mats R. Karlsson and Anders Birgersson (President), as well as the election of Anna Stålenbring as a new Board member. Anna Stålenbring has a graduate degree in Business Administration from Växjö University and is presently the owner and Senior Adviser at A Advisory AB. Previously, Anna worked for more than 20 years at Nefab AB in Jönköping, initially as Chief Accountant, then as CFO and then EVP Head of M&A and Legal and IR. Anna is on the Board of Troax AB, FM Mattsson AB and Investment AB Chiffonjén.

The proposal of the Nominating Committee regarding fees to the Board and the Audit and Compensation Committees entails an increase to SEK 1,800,000 (1,750,000). Allocation of the fees is proposed as follows: SEK 600,000 (600,000) to the Chairman of the Board and SEK 250,000 (250,000) each to the other Board members.

Of the total fee, SEK 150,000 (100,000) is to be paid to the Audit Committee and SEK 50,000 (50,000) to the Compensation Committee, to be distributed by the Board of Directors. No fee is paid to the President.

Furthermore, the Nominating Committee proposes to the 2020 AGM the re-election of Öhrlings PricewaterhouseCoopers as auditor for a period of one year, with Johan Malmqvist as auditor in charge. Fees to auditors are proposed to be paid as billed, upon approval, for work performed.

### Board members as of the 2019 AGM

Board members	Function	Elected	Committee work	Independent in relation to the company	Independent in relation to major shareholders
Johnny Alvarsson	Chairman	2004	Compensation Committee / Audit Committee	Yes	No
Peter Augustsson	Board member	2011	Audit Committee	Yes	Yes
Louise Nicolin	Board member	2014	Audit Committee	Yes	Yes
Jessica Malmsten	Board member	2016	Audit Committee	Yes	Yes
Mats R. Karlsson	Board member	2018	Compensation Committee / Audit Committee	Yes	Yes
Anders Birgersson	Board member, President and CEO	2001	Audit Committee	No	No
				<b>5/6</b>	<b>4/6</b>
Employee representatives	Function	Appointed			
Jouni Isoaho, IF Metall	Board member	2016			
Cecilia Pettersson, Unionen/Swedish Association of Graduate Engineers/Ledarna	Board member	2011			
Karin Pantzar, Unionen/Swedish Association of Graduate Engineers/Ledarna	Deputy	2010			

Information on the members of the Board is provided on pages 104–105.

Shareholders representing more than 75% of the total number of votes in VBG Group AB propose that the 2020 AGM appoint the following persons to the Nominating Committee:

- Göran Bengtsson, Herman Krefting Foundation for Allergy and Asthma Research, also as the Chairman of the Nominating Committee
- Johnny Alvarsson, Chairman of VBG Group AB
- Johan Lannebo, Lannebo Fonder
- 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 2019 AGM elected Board members Johnny Alvarsson, Anders Birgersson (President), Peter Augustsson, Louise Nicolin, Jessica Malmsten and Mats R. Karlsson. Johnny Alvarsson was elected Chairman of the Board and no Deputy Chairman was elected. There is a presentation of the Board members and their assignments on pages 104–105.

In addition to the six members elected by the AGM, the trade unions Unionen/Swedish Association of Graduate Engineers/Ledarna and IF Metall each appointed one member and one deputy member.

The number of AGM-elected members for the 2020 AGM who are independent in relation to the company, according to the requirements for listing on the stock exchange, is judged to be five. Furthermore, four members are also judged to be independent of the company's major shareholders and all six members meet the requirements relating to experience. The President 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 CEO. According to the adopted rules of procedure, the Board of Directors holds eight ordinary meetings per year, including the statutory meeting

following the AGM. The Board is also called to attend Extraordinary Meetings whenever the situation warrants. Company officers take part in Board meetings as rapporteurs, and the company's CFO also 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 organizes 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 monitors the company's operations via continuous contacts with the President and is responsible for ensuring that other Board members receive relevant information and documents. The Chairman also ensures that an annual evaluation is conducted of the work of the Board and the President, 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 2020 AGM.

### Compensation Committee

At the statutory Board meeting in April 2019, the Board of Directors appointed a Compensation Committee consisting of Johnny Alvarsson (chairman) and Mats R. Karlsson. The Committee had two meetings during 2019 where it discussed remuneration and other terms of employment for the President and senior executives in the Group. The President was co-opted, but did not participate in the discussion when remuneration to the President was addressed.

The principle applied within the Group is that the manager's manager should approve decisions in compensation matters. A presentation was made at the AGM of the Board's proposal for guidelines for remuneration to the President and other senior executives. The AGM adopted the guidelines in accordance with the Board's proposal. Information on the Board's proposal to the 2020 AGM for guidelines for remuneration to the President and senior executives is provided on pages 102–103.

Information on remuneration in 2019 is provided in Notes 6 and 7 on pages 76–77.

### Audit Committee

At the statutory Board meeting in April 2019, the Board of Directors appointed an Audit Committee consisting of the entire Board with Johnny Alvarsson as Chairman. In 2019, the Audit Committee held three meetings of record, one before and two after the statutory Board meeting.

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's Chairman maintains ongoing 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 in 2019. The auditors' reports have not occasioned any special measure on the part of the Audit Committee.

### Attendance at Board meetings in 2019

Board members	Board of Directors	Audit Committee	Compensation Committee
Peter Hansson <sup>1</sup>	3 (3)	1 (1)	1 (1)
Johnny Alvarsson	9 (9)	3 (3)	2 (2)
Peter Augustsson	8 (9)	2 (3)	
Louise Nicolin	9 (9)	3 (3)	
Jessica Malmsten	9 (9)	3 (3)	
Mats R. Karlsson	9 (9)	3 (3)	1 (1)
Anders Birgersson	9 (9)	3 (3)	
Employee representatives			
Jouni Isoaho, IF Metall	7 (9)	1 (3)	
Cecilia Pettersson, Unionen/Swedish Association of Graduate Engineers/Ledarna	7 (9)	2 (3)	

<sup>1</sup> Left the Board of Directors in conjunction with the 2019 AGM.

### Board activities in 2019

Prior to each Board meeting, an agenda is sent out to the Board members along with in-depth information on the business at hand. Nine (12) meetings were held during the 2019 fiscal year, of which four (February, April, August and October) were held in connection with the publication of the company's quarterly reports. One meeting in March was held to adopt the 2018 Year-end/Annual Report and the annual statutory Board meeting was held immediately after the AGM. In conjunction with the October meeting, the Board visited BusWorld 2019, the major international bus exhibition, in Brussels, Belgium. The business plan for 2020 was adopted at the December meeting. The other two Board meetings in September and November primarily address issues related to acquisitions.

### Operational activities

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

### President and CEO

President 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 President of VBG Group AB, 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 owner foundations.

The President holds 1,017 shares and 20,000 warrants.

### Group Management

Group Management comprises four persons from the Parent Company: President and CEO Anders Birgersson; Chief Financial Officer Claes Wedin; Bo Hedberg, Senior Vice President of Business Development; and Christina Holgerson, Senior Vice President of HR and Corporate Responsibility. Anders Erkén, Executive Vice President of VBG Group and Division Manager Truck & Trailer Equipment with responsibility for the Ringfeder Power Transmission division, is also part of Group Management. Former Group Management member Clas Gunneberg, Executive Vice President VBG Group and Division Manager, Mobile Climate Control left the Group during the year and Anders Birgersson took up the post as manager of the division.

Group Management holds regular monthly meetings and deals 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, Group and division-related major projects are discussed and decided on.

Information on Group Management is provided on pages 106–107.

### Internal governance processes

Governance of the VBG Group is based on the vision, business concept and strategies of the Group and its divisions. Under the Board of Directors, the CEO and the Group Management, responsibility for operational activities has been decentralized to the three divisions. Responsibility for the coordination of certain functions such as accounting and finance, HR, IT, legal affairs, intellectual property, and acquisition-related matters rests with the Parent Company.

Over the short term, the Group works on one annual business plan (operations and finance) per division, which are then monitored monthly and for rolling twelve months. With each quarterly report, the divisions and the Group provide an outlook for the remainder of the fiscal year. This provides the Parent Company and the Board with the documentation for any decisions on adjustments or the need for necessary measures. For the longer planning horizon, the business plans also contain bigger activities and financial information for an additional two years, which is important for strategic governance and financial planning by the Group over the slightly longer term.

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 2019 AGM as auditor for a period of one year, with authorized public accountant Johan Malmqvist as auditor in charge.

The audit includes a statutory annual audit of VBG Group AB's annual accounts, a statutory audit of the Parent Company and all significant 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 the autumn, a meeting and dialogue is held with executive management and, where necessary, the Chairman of the Audit Committee for analysis of the organization, operations, business processes and balance sheet items for the purpose of identifying areas involving an elevated risk of errors in the financial reporting. A general review of the year-end closing is performed for the period January–September. An early warning review of the third quarter accounts is conducted in October–November, followed by an early warning meeting with company management and the Audit Committee where important issues for the annual closing are raised. Review and audit of the year-end and annual reports is performed in January–March.

During 2019, in addition to the audit assignment, the VBG Group consulted PwC on taxes, transfer price matters and accounting matters. The amount of remuneration paid to PwC in 2019 is shown in Note 7 on page 78.

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 organized 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.

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 President. 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. VBG Group AB's control environment consists of organizational 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 labor between the Board and its committees. In its role as Audit Committee, the Board of Directors has the principal task of ensuring 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 President and agreed on the economic reporting to the Board of Directors of VBG Group AB.

The President and the Group's CFO reports the results of his internal control work to the Chairman of the Audit Committee, who subsequently brings relevant issues and observations to the attention of the Audit Committee for possible decision on proposed measures.

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 Group companies.

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, divisions 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-compliances with adopted standards, for example, valuation of inventories and other significant assets.

#### **Internal control of the financial reporting**

Financial statements are prepared monthly and quarterly in the Group, the divisions and their subsidiaries. In conjunction with this reporting, 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 in the Parent Company and at division and major unit levels.

The VBG Group's internal control work is aimed at ensuring that the Group fulfills 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 policies, manuals and courses.

#### **Control activities**

The Group's companies are organized into three divisions. Each division management has a CFO/business controller who has a central role for analysis and follow-up of the division's financial reporting and earnings. The Parent Company has a Head of Consolidated Accounts for continuous analysis and follow-up of the Group's, the divisions' and the subsidiaries' financial reporting. The Parent Company's CFO is responsible for optimizing cash management (the Group's handling of cash, cash equivalents and foreign currency), receives weekly reports and communicates with all the companies in the Group. A finance conference is held annually to which key persons from the subsidiaries are invited in order to review important areas in financial reporting, cash management and so on. All the companies are linked up to and report to the Group's consolidation system.

#### **Follow-up**

The Board of Directors is informed on a monthly basis about the Group's development in terms of sales, earnings and other key events and activities via a written report from the President. On a quarterly basis, in connection with the interim report, the Board of Directors receives comprehensive information regarding the Group's and divisions' performance, earnings, financial position and cash flow via a report package comprising outcomes, forecasts and comments.

#### **Internal audit**

VBG Group AB has a relatively simple operational structure with three divisions, each consisting of small or medium-sized legal entities with varying platforms for internal control. Compliance with the governance and internal control systems established by the company are regularly monitored by the CFO and the controllers at the division and Parent Company level. In addition, the companies' reporting and economic outcomes are routinely analyzed 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, interim reports and press releases as well as via the company's website, vbggroup.com. Some ten or so meetings with investors, analysts and shareholders' clubs around Sweden were held during 2019.

## PROPOSAL FOR GUIDELINES REGARDING REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES (ITEM 11)

The Board of Directors proposes that the 2020 AGM resolve to adopt the guidelines below for remuneration to senior executives.

### Scope and application of the guidelines

The guidelines pertain to remuneration and other terms of employment for the Group Management of VBG Group and other senior executives. The Board's proposal conforms to the remuneration policies of previous years and is based on agreements already signed between the company and the respective executives. The preparation of remuneration issues is managed by the Compensation Committee, which completes the tasks the Committee has under the Swedish Corporate Governance Code.

The guidelines are to be applied to contracted remuneration, and to changes in previously contracted remuneration after adoption by the 2020 AGM.

The guidelines do not cover remuneration resolved by the General Meeting such as Board fees and share-based incentive programs.

### How the guidelines promote VBG Group's business strategy, long-term interests and sustainability

Briefly put, VBG Group's business strategy within selected product and market segments entails acquiring, owning and developing industrial companies in business-to-business commerce with strong brands and good growth potential. VBG Group strives to be the number one or number two player in these niches. Based on a long-term commitment and with a focus on growth and profitability, the VBG Group's shareholders will be offered attractive value growth. The business concept is a tried and tested one, having proved very successful over time.

To successfully implement VBG Group's business and sustainability strategy and safeguard VBG Group's long term interests, it will be necessary for VBG Group to recruit and retain management with strong competence and the capacity to reach the goals it has set. This requires VBG Group's ability to offer competitive remuneration. These guidelines promote VBG Group's business strategy, long-term interests and sustainability by providing the company with the possibility of offering senior executives competitive remuneration.

### Forms of remuneration

VBG Group's remuneration system must be market-related and competitive. Remuneration can be paid in fixed cash salary, variable remuneration, pension and other customary forms.

*Fixed remuneration* shall be individual to each senior executive and based on the executive's areas of responsibility and performance.

*Variable remuneration* is to be limited and based on the financial performance of the Group or respective division compared with established goals. For senior executives, the annual variable portion will depend on position and contract. Variable remuneration can amount to a maximum of 50% of the senior executive's fixed annual salary.

*Pension benefits* in general will correspond to pension benefits as provided by law and collective agreement (the ITP plan). It is, however, possible for the executive to opt for other pension arrangements at the same cost to VBG Group. Pension benefits can amount to a maximum of 35% of the senior executive's fixed annual salary.

*Other benefits* could entail a company car, health care and other similar benefits. Other benefits will comprise a smaller share of total remuneration, and can correspond to a maximum of 12% of the senior executive's fixed annual salary.

For conditions of employment covered by laws and regulations in a country other than Sweden, reasonable adjustments as far as pension and other benefits can be made to comply with compulsory laws or local practices, whereupon the overall purposes of these guidelines must be satisfied to the greatest extent possible.

### Criteria for disbursement of variable remuneration

The criteria forming the basis for disbursement of variable remuneration are to be adopted yearly by the Board for the purpose of ensuring the criteria are in line with VBG Group's current business strategy and earnings targets. The criteria may be individual or shared, financial or otherwise and must be designed in a way that they promote VBG Group's business strategy, sustainability strategy and long-term interests, which means the criteria must be clearly linked to the company's business strategy and objectives.

The financial criteria forming the basis of any variable remuneration must be based on earnings per share and operating profit (EBIT, or alternately EBITA).

The non-financial criteria forming the basis of any variable remuneration must be linked to clear and measurable operations-related targets, such as ones that benefit the general financial criteria, earnings per share and operating profit. The targets can also be at the level of specific divisions, and linked to the division's business development, business plan or other significant activities decided on by the Board or Group Management. The criteria can also be linked to the employee themselves, for example personal goals to be fulfilled under a performance plan.

The period forming the basis for assessing whether or not the criteria have been met (the measurement period) must be at least one year. The extent to which the criteria have been met will be determined by the Compensation Committee after the conclusion of the measurement period. The assessment of whether or not criteria have been met must be based on the latest financial information released by VBG Group. The Board of Directors

decides on disbursement of variable remuneration in accordance with preparations by the Compensation Committee.

In accordance with its agreements, the company does not have the possibility of demanding repayment of variable remuneration.

#### **Salaries and conditions of employment for employees**

For the purpose of assessing the reasonability of the guidelines, the Board took salaries and conditions of employment for VBG Group's employees into account when preparing these guidelines. In this connection, the Board of Directors has examined information regarding total remuneration to employees, the forms the remuneration consists of, how remuneration levels have changed over time and at what pace.

#### **Period of notice and severance pay**

Senior executives are permanently employed. The period of notice from the company is 6–12 months, and from the senior executive 3–6 months.

Severance pay in addition to salary during the period of notice may not exceed the senior executive's fixed annual salary. The sum total of fixed salary during the period of notice and severance pay may not exceed an amount corresponding to the senior executive's fixed salary for 24 months.

Remuneration may be paid for a non-competition commitment. Such remuneration must compensate for any loss of income, and will only be paid to the extent the former senior executive lacks the right to severance pay. Remuneration can total a maximum of 60% of the senior executive's fixed salary at the time notice is given, if not otherwise stipulated by law, the mandatory provisions of a collective bargaining agreement or established practice. Such remuneration may be paid during the period the non-competition obligation is in force, which may be a maximum of twelve months after the termination of employment.

For conditions of employment covered by laws and regulations in a country other than Sweden, reasonable adjustments as far as periods of notice, severance pay and remuneration for non-competition obligations can be made to comply with compulsory laws or local practices, whereupon the overall purposes of these guidelines must be satisfied to the greatest extent possible.

#### **Decision-making procedure for establishing, reviewing and implementing the guidelines**

The Board of Directors has established a Compensation Committee tasked with preparing the Board's decisions on issues of remuneration policy, remuneration and other conditions of employment for senior executives; monitoring and evaluating programs for variable remuneration to senior executives, both ongoing and concluded during the year; and monitoring and evaluating the application of the guidelines for remuneration to senior executive

that the General Meeting is to resolve on and regarding remuneration structures and levels in VBG Group.

The Board of Directors will prepare proposals for new guidelines when substantial changes to the guidelines are required, but at least once every four years. The Board of Directors will present the proposal for resolution at the AGM. The guidelines will be in force until new guidelines are adopted by the General Meeting.

For the purpose of avoiding conflicts of interest, senior executives will not be present while the Board of Directors addresses and decides on issues related to remuneration, to the extent such issues concern them.

#### **Departure from the guidelines**

The Board of Directors may decide to temporarily depart from the guidelines if, in an individual case, there are particular reasons for doing so and a departure is necessary to provide for VBG Group's long-term interests and sustainability, or to ensure VBG Group's financial strength.

Particular reasons may, for example, consist of a departure being deemed necessary to recruit or maintain key persons, or under extraordinary circumstances such as VBG Group achieving a given desired result in less time than planned, VBG Group signing a given agreement in less time and under better conditions than anticipated, or VBG Group increasing in value or increasing its sales or profits to a greater extent than forecast.

## Board of Directors



MEMBERS	JOHNNY ALVARSSON	ANDERS BIRGERSSON	LOUISE NICOLIN	PETER AUGUSTSSON
<b>Position on the Board</b>	Chairman	Board member	Board member	Board member
<b>Current position</b>	Chairman of Manava konsult AB since 2017.	President and CEO of VBG Group AB since 2001.	President and owner of Nicolin Consulting AB since 2011.	Chairman of Peter Augustsson Development AB since 2005.
<b>Education</b>	MSc. Eng., Industrial Economics, Institute of Technology at Linköping University.	MSc. Eng., Mechanical Engineering, Chalmers University of Technology. Business Administration, University of Skövde.	MSc. Eng., Molecular Biotechnology, Uppsala University. Executive MBA, Stockholm School of Business. International Directors Program (IDP-C), INSEAD, Fontainebleau.	MSc. Eng., Mechanical Engineering, Chalmers University of Technology.
<b>Elected</b>	2004	2001	2014	2011
<b>Born</b>	1950	1958	1973	1955
<b>Other Board assignments</b>	Chairman of FM Mattsson Mora Group AB, Manava Konsult AB and Dacke Industri AB. Board member of Beijer Alma AB, Instalco Intressenter AB and Sdiptech AB.	Board member of Elos Medtech AB, Sparbanken Lidköping AB, the Herman Krefting Foundation for Allergy and Asthma Research, the VBG-SLK Foundation and the SLK Employees' Foundation.	Chairman of AB Better Business World Wide, Sweden. Board member of Volati AB, Enzymatica AB, Optinova (Finland), and (until 2019) Dellner Couplers, Simris Alg AB and Uppdragshuset Sverige AB.	Chairman of Smoltek Nanotech Holding AB, AXsensor AB, Mechanum Sverige AB and Fortaco Group Oy. Board member of Walleniusrederierna AB and Ljunghäll Group AB.
<b>Work experience</b>	President and CEO of Indutrade AB, 2004–2017. President of the listed companies Elektronikgruppen BK AB (2000–2004) and Zeteco AB (1988–2000). Chief Engineer at Ericsson Telecom, 1975–1987.	Has worked in the engineering industry since 1984 in logistics, production, product development and senior management. Production Manager, President and Business Area Manager in the ESAB Group 1997–2001. Production Manager and Technical Manager in the SKF Group 1989–1997. Production and Logistics in the ABB Group 1979–1988.	Consulting assignments for such companies as AstraZeneca, Maquet Critical Care, Octapharma, Recipharm, GE Healthcare, Pfizer and Pharmadule 1998–. Marketing Manager and Business Area Head at Plantvision 2007–2011.	Has worked in the automotive and component industry since 1978. Saab Automobile AB 1998–2005. SKF AB 1994–1998. Volvo Personvagnar AB 1978–1994.
<b>Remuneration<sup>1</sup>, SEK</b>	640,000	—	270,000	270,000
<b>Attendance at Board meetings</b>	9 (9)	9 (9)	9 (9)	8 (9)
<b>Own shareholding and shareholding of related parties</b>	1,000	1,017	—	1,100
<b>Independent of the company</b>	Yes	No	Yes	Yes
<b>Independent of major shareholders</b>	No	No	Yes	Yes

<sup>1</sup> Remuneration approved at the 2019 AGM, including remuneration allocated by the Board from the respective committees.

**JESSICA MALMSTEN****MATS R. KARLSSON****CECILIA PETERSSON****JOUNI ISOAHO**

Board member

Board member

Board member and  
employee representative  
white-collar employeesBoard member and  
employee representative  
blue-collar employeesSenior Manager Customer  
Relationship Management  
Volvo Bil AB since 2017.Chairman of Mats R.  
Karlsson & Partners AB  
since 2017.Employee in the purchasing  
and logistics division of  
Truck & Trailer Equipment.  
Employed since 1998.International Welding  
Specialist (IWS) at Truck &  
Trailer Equipment. Employed  
since 1996.MSc. Eng., Electronic Engi-  
neering, Chalmers University  
of Technology.MSc. Eng., Industrial  
Economics, Institute of  
Technology at Linköping  
University.Three-year economics  
program.Upper secondary welding  
education, Artur Lund-  
qvistskolan.

2016

2018

2011

2016

1964

1958

1968

1959

—

Chairman of the Board of  
Ideation AS, Enequi AB  
and Askalon AB.  
Board member of Fire  
Fighting Systems AS.

—

—

Has held various senior  
positions in business and  
operations development.  
GöteborgsOperan AB,  
2007–2017. Volvo Person-  
bilar Sverige AB and Volvo  
Personvagnar Norden AB,  
2001–2007. Volvo Person-  
vagnar AB 1987–2001.President and CEO of Axel  
Johnson International,  
2008–2016. President of  
AxFlow, 2004–2008.  
Business Area President of  
Munters Humicool Europe,  
1998–2004. Business Area  
Manager, Primus-Sievert,  
1993–1998. Head of Busi-  
ness Development at Sanitec  
(1990–1993) and Atlas  
Copco (1985–1990).

—

—

270,000

295,000

—

—

9 (9)

9 (9)

7 (9)

7 (9)

100

—

—

—

Yes

Yes

—

—

Yes

Yes

—

—

**DEPUTY MEMBERS OF THE BOARD****Karin Pantzar**

Vänernborg, born 1977

Deputy Board member since 2010.

Employee representative white-collar employees.

Employed since 1998.

**AUDITOR****Öhrlings PricewaterhouseCoopers AB****Johan Malmqvist**

Auditor in charge

Born 1975

Authorized Public Accountant

Auditor of the company since 2019.

## Group Management



MANAGEMENT	ANDERS BIRGERSSON	CLAES WEDIN	BO HEDBERG
<b>Current position</b>	President and CEO, and acting Division Manager of Mobile Climate Control.	CFO, Director of Investor Relations and IT	Senior Vice President of Business Development
<b>Born</b>	1958	1956	1957
<b>Education</b>	MSc. Eng., Mechanical Engineering, Chalmers University of Technology. Business Administration, University of Skövde.	MSc. Econ., School of Business, Economics and Law at Gothenburg University.	MSc. Eng., Mechanical Engineering, Luleå University of Technology.
<b>Employed</b>	2001	1997	1996
<b>Work experience</b>	Has worked in the engineering industry since 1984 in logistics, production, product development and senior management. Production Manager, President and Business Area Manager in the ESAB Group 1997–2001. Production Manager and Technical Manager in the SKF Group 1989–1997. Production and Logistics in the ABB Group 1979–1988.	Director of Finances at the Älvsborg County Council 1992–1997. CFO and Executive Vice President at Miller-Nohab 1986–1992. Controller and Business Analyst at Volvo Flygmotor 1982–1986. Economist at Union Carbide 1979–1982.	Various positions within the VBG Group, including Director of R&D and Marketing. Marketing Director at Mark IV Automotive 1994–1996. Various positions within Saab Automobile 1981–1994, including Platform Manager in the purchasing division.
<b>Board assignments</b>	Board member of VBG Group since 2001. Board member of Elos Medtech AB, Sparbanken Lidköping AB, the Herman Krefting Foundation for Allergy and Asthma Research, the VBG-SLK Foundation and the SLK Employees' Foundation.	Secretary of VBG Group AB (publ) since 1997.	—
<b>Own shareholding and shareholding of related parties</b>	1,017	2,000	2,012
<b>Warrants</b>	20,000	10,000	7,500



**CHRISTINA HOLGERSON**

**ANDERS ERKÉN**

Senior Vice President of HR and Corporate Responsibility

Executive Vice President, VBG Group and Division Manager Truck & Trailer Equipment, with overall responsibility for Ringfeder Power Transmission.

1965

1964

Engineering, specializing in mechanical engineering, Nils Ericson Upper-Secondary School. Qualified Human Resources Specialist, FEI.

MSc. Eng., Mechanical Engineering, Luleå University of Technology.

1986–1996 and from 2000

2007

Various positions within the VBG Group, including Design Engineer, Quality Manager Purchasing and Quality and Environmental Manager. Many years of experience from the automotive industry, including in the Brink Group as Quality and Environmental Manager 1996–2000.

Branch Manager, Imaje AB 2004–2007. Production and logistics in ESAB AB, 1990–2003.

Deputy Chairman of the Scandinavian Automotive Supplier Association (FKG) since 2019. Board member of FKG since 2012.

—

—

1,107

5,000

15,000

Vänernsberg, March 26, 2020

Johnny Alvarsson  
Chairman of the Board

Anders Birgersson  
President and CEO

Peter Augustsson  
Board member

Louise Nicolin  
Board member

Jessica Malmsten  
Board member

Mats R. Karlsson  
Board member

Jouni Isoaho  
Employee representative

Cecilia Pettersson  
Employee representative

**Auditor's report on the corporate governance report  
To the general meeting of the shareholders in VBG Group AB  
(publ), corporate identity number org.nr 556069-0751**

*Engagement and responsibility*

It is the board of directors who is responsible for the corporate governance report for the year 2019 on pages 96–108 and that it has been prepared in accordance with the Annual Accounts Act.

*The scope of the audit*

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination

of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

*Opinions*

A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Göteborg, March 27 2020  
Öhrlings PricewaterhouseCoopers AB

Johan Malmqvist  
Authorized Public Accountant

**WELCOME TO THE 2020 ANNUAL GENERAL MEETING**

The Annual General Meeting of VBG Group AB (publ) will be held at 5:00 p.m. on Tuesday, 28 April 2020 in the company's offices at Herman Krefteings Gata 4 in Vänernsberg, Sweden.

**Notification**

Shareholders wishing to attend the meeting must:

- be listed in the share register kept by Euroclear Sweden AB by not later than 22 April 2020.
- notify the company by not later than 4:00 p.m. on 22 April 2020.

Notification may be given in writing to VBG Group AB (publ), Kungsgatan 57, SE-461 34 Trollhättan, Sweden; by telephone to +46 521 27 77 00; or by e-mail to [anmalan2020@vbggroup.com](mailto:anmalan2020@vbggroup.com). The notification of attendance must include a name and personal or corporate identity number.

Shareholders who are represented by a proxy should send a power of attorney with the notification of attendance. Anyone representing a legal entity must present a power of attorney, a copy of the registration certificate or equivalent documents showing the person(s) authorized to sign on behalf of the legal entity.

Shareholders whose shares are registered to a nominee must have the shares re-registered in their own name by the nominee (voting rights registration) in good time before 22 April 2020.

**Dividend**

The Board of Directors and President propose that an increased ordinary dividend of SEK 5.00 per share (3.50) and no extra dividend of (1.00) be approved, thereby establishing a total dividend of SEK 5.00 per share (4.50), with a record date of 30 April 2020. If the AGM approves this proposal, the dividend is expected to be distributed by Euroclear Sweden AB starting 6 May 2020.

**Report dates**

28 April	Interim report January–March
23 July	Interim report January–June
22 October	Interim report January–September
February 2021	Year-end report 2020

The VBG Group welcomes inquiries about the Group and its development. Contact persons are: Anders Birgersson, President and CEO, telephone: +46 521 27 77 67, and Claes Wedin, CFO, telephone: +46 521 27 77 06. More information is available at [vbggroup.com](http://vbggroup.com).