

# Corporate **governance** report

Ferronordic Machines AB (publ) is a Swedish public company domiciled in Stockholm. The shares in the company are listed on Nasdaq Stockholm.

Corporate governance comprises Ferronordic's control and management systems. The aim is to ensure efficient decision-making by a clearly specified allocation of roles and responsibilities among shareholders, the Board and the management.

This corporate governance report has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code (the Code). The corporate governance report has been reviewed by the company's auditors.

## **SUMMARY OF FERRONORDIC'S CORPORATE GOVERNANCE MODEL**

The shareholders make the ultimate decision on the company's direction by appointing the Board and the chairman of the Board. The AGM also elects the auditors and adopts the principles concerning the nomination committee. The task of the Board is to manage the company's affairs on behalf of the shareholders. The auditors report to the AGM on their scrutiny. The Board establishes work procedures for the Board, including instructions for the CEO. The Board appoints the CEO. The CEO in turn appoints the members of the management and the extended management team, including Ferronordic's regional directors.

## **MORE INFORMATION ON CORPORATE GOVERNANCE:**

The following information is available at [www.ferronordic.com](http://www.ferronordic.com):

- Ferronordic's Articles of Association
- Ferronordic's Code of Conduct
- Information on Ferronordic's General Meetings

The Swedish Corporate Governance Code is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se).

## **SWEDISH CORPORATE GOVERNANCE CODE**

Companies whose shares are listed on Nasdaq Stockholm must apply the Code. This e.g. means that the company must prepare a corporate governance report in order to describe how the company applies the Code. Deviations from the Code are permitted, provided that the company explains how and why it has deviated from the Code, and explains the alternative solution chosen instead. This report has thus been prepared to describe how Ferronordic applies the Code.

In 2018 Ferronordic deviated from the Code in that the chairman of the nomination committee for the 2018 AGM, Håkan Eriksson, was also a member of the Board. The nomination committee found this appropriate given that Håkan Eriksson represented the company's largest shareholder. There were no other deviations from the Code.

## SHARE CAPITAL AND SHAREHOLDERS

At the end of 2018, the company had one shareholder controlling over 10% of the votes: Skandinavkonsult i Stockholm AB with 15.6%. Further information about Ferronordic's share capital and shareholders can be found on pages 34–36.

## GENERAL MEETING

The general meeting is the company's highest decision-making body through which the shareholders exercise their right to make decisions regarding the company's affairs. The general meeting held within six months after the end of each financial year to adopt the annual report is called the annual general meeting (AGM). In addition to adopting the annual report, the AGM makes resolutions regarding dividends, election of Board members, election of auditors and other matters required by the Swedish Companies Act, the articles of association and the Code.

Notice convening a general meeting is published in the Swedish official gazette, Post- och Inrikes Tidningar, and on the company's website. The fact that a notice has been issued is also announced in Dagens Industri. Notices are also communicated to the market through press releases.

All shareholders are entitled to participate in the general meeting, either in person or by proxy, provided that they are recorded in the share register five working days prior to the general meeting and have given notice of their participation. All shareholders are entitled to have an item dealt with at the general meeting, provided that they inform the Board in writing early enough so that the item can be included in the notice. At the general meetings, shareholders also have the opportunity to ask questions to the Board and the management.

### *AGM 2018*

The AGM 2018 took place on 27 April 2018 in Stockholm. At the meeting, 42.4% of the shares and 42.2% of the votes were represented in person or by proxy. The chairman of the Board, Staffan Jufors was elected chairman. The CEO, the auditor, the chairman of the nomination committee and all Board members elected by the AGM were present. The minutes of the meeting were made available on the company's website.

The following resolutions were made at the AGM:

- the financial reports for the parent company and the Group were adopted
- dividends on preference shares in an amount of SEK 60.40 per preference share were approved
- dividends on ordinary shares in an amount of SEK 1.73 per ordinary share were approved
- the members of the Board and the CEO were discharged of liability with regard to the financial year 2017
- the number of Board members should remain six, without deputies
- fees to the Board were established
- Annette Brodin Rampe, Magnus Brännström, Lars Corneliussen, Erik Eberhardson, Håkan Eriksson and Staffan Jufors were re-elected Board members
- Staffan Jufors was re-elected chairman of the Board
- KPMG AB was re-elected the company's auditor
- principles regarding the company's nomination committee were adopted
- guidelines regarding remuneration of senior executives were approved
- a share-based long-term incentive program for certain senior executives was approved

### *AGM 2019*

The 2019 AGM in Ferronordic Machines AB will be held on 14 May 2019 at Radisson Blu Hotel, Nybrokajen 9 in Stockholm. More information is available at the company's website: [www.ferronordic.com](http://www.ferronordic.com).

## NOMINATION COMMITTEE

The nomination committee for the AGM 2018 consisted of Rune Andersson, representing Mellby Gård AB, Håkan Eriksson (chairman), representing Skandinavkonsult i Stockholm AB, Per-Olof Eriksson, representing Board members and employees of the Group, and John Hedberg, representing Creades AB. All members were independent of the company and the management. Except for Håkan Eriksson, all members were independent of the largest shareholder.

Shareholders were offered the opportunity to submit proposals to the nomination committee. No proposals were submitted. The nomination committee's proposals and motivated statements were presented in the notice to the AGM on 29 March 2018. No compensation was paid to the members of the nomination committee.

### *Principles regarding the nomination committee*

At the AGM 2018, the following principles were adopted regarding the nomination committee (in summary):

The nomination committee shall consist of four members.

The chairman of the Board shall in connection with the end of the third quarter contact each of the four largest shareholders in the company and encourage them to appoint their respective representatives for the nomination committee. Shareholders who are employed by the Group shall in this regard be regarded as one shareholder. If a member of the nomination committee resigns, the shareholder appointing the resigning member shall be asked to appoint another member of the nomination committee.

The chairman of the nomination committee shall be the member appointed by the largest shareholder, unless the nomination committee agrees otherwise.

The nomination committee shall act in the interest of all shareholders. The duties of the nomination committee shall include to evaluate the Board's composition and work, and to make proposals for the AGM regarding:

- election of chairman for the AGM
- number of Board members
- election of the Board and the chairman of the Board
- election of auditor (in cooperation with the Board's audit committee)
- fees for the Board members, Board committees and auditors
- principles concerning the nomination committee for the next AGM

The mandate of the nomination committee is valid until a new nomination committee has been constituted. In case of material changes in the ownership during the mandate period, the nomination committee shall ensure that a new large shareholder is given representation in the nomination committee. The constitution of the nomination committee shall be announced no later than six months before the AGM. The members of the nomination committee shall not receive any compensation from the company but are entitled to reimbursement for reasonable expenses.

### *Nomination committee for AGM 2019*

The nomination committee for the AGM 2019 consists of the following persons:

- Jörgen Olsson (chairman), representing Skandinavkonsult i Stockholm AB
- Tom Jörning, representing Scandsib Group Ltd
- Per-Olof Eriksson, representing employees of the Group
- Gustaf Lindskog, representing Man GLG Partners LLP

Proposals to the nomination committee can be addressed to Henrik Carlborg, e-mail: [henrik.carlborg@ferronordic.com](mailto:henrik.carlborg@ferronordic.com) (at the time of this report, no proposals had been received).

The proposals of the nomination committee will be made public in connection with the notice of the AGM, at the latest.

## THE BOARD OF DIRECTORS

The board of directors (Board) is responsible for the company's organisation and the management of the company's operations. The tasks of the Board include:

- establishing the company's objectives and strategy
- appointing, evaluating and, when needed, dismissing the CEO
- ensuring that there are effective systems to follow-up and control the company's operations
- ensuring that there is sufficient control over the company's compliance with laws and regulations
- ensuring that the company's information disclosure is characterised by transparency and is correct, relevant and reliable

The chairman of the Board ensures that the work of the Board is conducted effectively and that the Board fulfils its obligations.

### Composition

During 2018, the Board consisted of six members without deputies, all elected at the AGM 2018 for the period until the AGM 2019. The AGM 2018 also elected Staffan Jufors as the chairman of the Board until the AGM 2019.

Detailed information about the Board members, including their shareholdings and other positions, can be found on pages 38-39.

The Group's CFO and General Counsel attend the meetings of the Board. The General Counsel is also the secretary of the Board.

### Independence requirements

According to the Code, the majority of the Board shall be independent of the company and management, and at least two of the Board members who are independent of the company and management shall also be independent of major shareholders. The Board meets these requirements as five of the six Board members are independent of the company and its management, and three of these members are also independent of major shareholders.

### Work procedures

Each year, the Board adopts procedures for its work. The procedures contain rules pertaining to the distribution of work between the Board members, the number of meetings, matters to be addressed at regular meetings and the duties of the chairman. The work procedures also contain provisions regarding the Board's committees. The Board has also issued written instructions on reporting of financial information, as well as defining the distribution of duties between the Board and the CEO.

### Evaluation of the Board work

In accordance with the Code, the Board evaluates its work annually through a systematic and structured process to develop its working methods and efficiency. The process consists of a questionnaire that is filled out by each member anonymously. The result of the questionnaires is then compiled by the secretary of the Board and presented to the Board in its entirety. The result is then discussed and additional comments are added. The result of the evaluation is documented and presented to the nomination committee.

### Board work in 2018

The Board held ten meetings in 2018.

Over the year, the Board devoted particular focus to the following:

- earnings and financial position of the Group
- interim reporting
- development of Russia's economy and its effect on the market and the Group's financials
- corporate governance, risk management and internal control
- strategic issues and business development, in particular Group's expansion to Kazakhstan.
- financial matters

The Board continuously evaluates the work of the CEO. At least once per year, the Board discusses the evaluation of the CEO's work without the presence of the CEO or anyone else from the management.

## ATTENDANCE IN BOARD MEETINGS 2018

	Annette Brodin Rampe	Magnus Brännström	Lars Corneliussen	Erik Eberhardson	Håkan Eriksson	Staffan Jufors
22 February	•	•	•	•	•	•
26 March (telephone)	•	•	•	•	•	•
26 April	•	•	•	•	•	•
26 April (statutory)	•	•	•	•	•	•
27 April	•	•	•	•	•	•
9 August (telephone)	•	•	•	•	•	•
12 September	•	•	•	•	•	•
8 November	•	•	•	•	•	•
20 November (telephone)	•	•	•	•	•	•
10 December	•	•	•	•	•	•

## REMUNERATION OF THE BOARD

As resolved at the AGM 2018, the remuneration of the Board amounted to SEK 1.8m, of which SEK 600,000 was paid to the chairman and SEK 300,000 to each of the other directors, except for Lars Corneliusson, who was employed by the Group. No additional compensation is paid for committee work.

## BOARD COMMITTEES

The tasks of the Board's committees are described in the Board's working procedures. The main task of the committees is to prepare proposals and present them to the Board for resolutions.

### *Audit committee*

The audit committee shall ensure the quality of the financial statements, maintain ongoing contacts with the auditors, monitor the independence and objectivity of the auditors, prepare the election of the auditors (in cooperation with the nomination committee), monitor the internal control of the Group, as well as dealing with other related matters.

The audit committee consists of the following members:

- Annette Brodin Rampe
- Magnus Brännström (independent and qualified member)
- Håkan Eriksson (chairman)
- Staffan Jufors

All members of the audit committee are independent of the company and the management. Except for Håkan Eriksson, all members are independent of larger shareholders.

In 2018, the audit committee held four meetings. The audit committee convenes regularly to review drafts of the Group's interim reports and to make recommendations to the Board and clarify potential questions in advance. The Group's CFO and General Counsel are usually present at these meetings.

### *Remuneration committee*

The remuneration committee prepares matters concerning remuneration principles, remuneration and other employment terms of the CEO and other members of the management.

The remuneration committee consists of the following members:

- Annette Brodin Rampe
- Magnus Brännström
- Håkan Eriksson
- Staffan Jufors (chairman)

All members of the remuneration committee are independent of the company and the management. Except for Håkan Eriksson, all members are independent of the larger shareholders. The members are deemed to have appropriate knowledge and experience of matters relating to executive remuneration.

The remuneration committee held one formal meeting in 2018. In addition, the committee had a continuous informal discussion through the year by email and telephone, and in connection with the meetings of the Board.

## AUDITORS

Ferronordic's auditors are elected at the AGM. The current auditor is KPMG AB, re-elected at the AGM 2018 for the period until the AGM 2019. Mattias Lötbörn is the auditor-in-charge. The compensation paid to KPMG is described in Note 30.

## CEO AND MANAGEMENT

The Chief Executive Officer (CEO) Lars Corneliusson, is appointed by the Board and is responsible for the day-to-day management of the Group.

Management convenes on a regular basis and deals with the Group's financial development, company-wide development projects, business development, recruitment and other strategic issues.

In addition to the CEO, in 2018, management consisted of Nadezhda Arzumanova, Human Resources Director; Anders Blomqvist, Chief Financial Officer (Group) and Investor Relations Director; Henrik Carlborg, General Counsel and Business Development Director; Onur Gucum, Commercial Director; Alexander Shmakov, Director Construction Equipment; Jonathan Tubb, Chief Financial Officer (Russia); and Anton Zhelyapov, Director Trucks. Since November 2018, management also includes Andrey Korneev, Director Contracting Services and Key Accounts. Information on the members of management, including their age, main education, professional experience, shareholdings in the company, etc., can be found on pages 40-41.

Anders Blomqvist left his position in the company on 15 February 2019. The replacement is expected to start his position in Ferronordic during the second quarter of 2019. Meanwhile Jonathan Tubb is acting CFO for both the Group and Russia.

For certain matters, the executive management is supplemented by the regional directors and certain other Group functions (Extended Management Team).

The Group has established functions that are responsible for Group-wide activities, such as financial reporting, treasury, IT, communications, legal, HR, purchasing, logistics, real estate, etc.

Operationally, Ferronordic is divided into eight regions: Northwest (with hub in St. Petersburg), Central (with hub in Moscow), Volga (with hub in Kazan), South (with hub in Krasnodar), Urals (with hub in Ekaterinburg), Siberia (with hub in Krasnoyarsk), Far East (with hub in Khabarovsk) and Kazakhstan (with hub in Almaty). Each region has its own managing director. The regional managing directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a regional board, comprising the relevant regional managing director and certain members of management.

## REMUNERATION OF SENIOR EXECUTIVES

For information regarding remuneration to the management, please refer to Note 29.

The AGM 2018 adopted the following principles regarding remuneration to the company's executives:

### *Basic principles*

Remuneration to executives shall be based on market terms in the markets where Ferronordic operates and the environment in which the individual executive is working. In addition, remuneration shall be competitive in order to enable Ferronordic to attract and retain competent executives.

### *Fixed salaries*

Fixed salaries are established individually based on the criteria specified above, as well as the individual executive's areas of responsibility and performance. For expatriates with salaries in rubles, the fixed salaries can be adjusted to reflect changes in foreign exchange rates.

### *Variable salaries*

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon fulfilment of predetermined and measurable performance criteria, primarily based on the development of the Group as a whole or the development of the part of the Group for which the individual in question is responsible. The variable salary may, as regards the CEO, amount to not more than 100% of the fixed salary, and, as regards other executives, not more than 50% of the fixed salary. Exceptions can be made for executives whose duties predominantly consist of sales, for whom the variable salary should not amount to more than 200% of the fixed salary.

### *Non-monetary and other benefits*

Executives are entitled to customary non-monetary benefits such as company cars and company health insurance. In addition to these benefits, company housing and other benefits can be offered on an individual basis, such as housing allowances and school/kindergarten allowances for expatriates.

### *Pension benefits*

In addition to those pension benefits that executives are entitled to according to law, executives may be offered pension benefits that are competitive in the country where the individual in question is or has been a resident or to which the individual has a relevant connection. Pension plans shall be defined contribution plans without guaranteed level of pension.

*Severance pay*

Severance pay shall not exceed 12 months' salary.

*The Board's preparation and decision-making on issues concerning remuneration and other terms of employment*

The remuneration committee is responsible for:

- 1) preparing the Board's decisions on issues concerning principles of remuneration, remuneration and other terms of employment for executives
- 2) monitoring and evaluating programs for variable remuneration, both ongoing and those who end during the year
- 3) monitoring and evaluating the application of these guidelines
- 4) monitoring and evaluating current remuneration structures and levels in the group

The remuneration committee prepares and the Board resolves on:

- 1) the remuneration and terms of employment of the CEO
- 2) the principles for remuneration (including pension and severance pay) for the other executives

The remuneration committee is further responsible for reviewing and recommending to the Board share-related incentive programs to be decided by the AGM.

*Authority to decide on deviations from these guidelines*

The Board may deviate from these guidelines if there are specific reasons to do so in an individual case.

*Information on earlier decisions on remuneration that has not become due for payment at the time of the AGM's consideration of these guidelines*

Decisions on remuneration that will not have become due at the time of the AGM 2018 fall within the frames of these guidelines.

**REPORT ON INTERNAL CONTROL**

According to the Swedish Companies Act and the Code, the Board is responsible for ensuring that the company has good internal control. The Board shall also see to it that the company has formalised routines to ensure that established principles for financial reporting and internal control are complied with, and that the company's financial reports are prepared in accordance with law, applicable accounting standards and other requirements for listed companies.

*Control environment*

The control environment constitutes the basis for the internal control as well as the corporate culture that exists in the Group and within which the Group's management and employees are operating. The control environment is built around the Group's policies and procedures, as well as the Group's divisions of responsibilities and authorities. The Code of Conduct is an important document that aims to ensure that the organisation is characterised by integrity and good ethics and morals. Important documents for internal control over financial reporting include, *inter alia*, the financial handbook, with instructions on accounting and reporting, and the financial policy. The division of responsibilities and authority is established in the Board's instructions to the CEO, as well as the Group's signature policy, including authorisation and approval levels for different areas. The insider policy regarding insider matters and the information policy regarding external communication and press releases are other important policies and guidelines that aim to ensure good internal control.

*Risk assessment*

Ferronordic has established an annual process for reviewing and assessing risks relating to financial reporting. The risk assessment also includes risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Identified risks are prioritised and actions to manage and mitigate the identified risks are established. The risk assessment also forms the basis for the Board's annual plan for the internal audit. Risks relating to financial reporting are evaluated on an ongoing basis within the framework of the internal audit. Policies and procedures regarding financial reporting are evaluated continuously, based on the risk assessment. The Board is updated continuously on material risks as well as actions planned or taken to manage and mitigate such risks.

*Control activities*

The purpose of the control activities is to identify and prevent errors and thus guarantee the quality of the financial reporting. Based on the risk assessment, various control activities have been established. These aim to ensure that the requirements on the external financial reporting are fulfilled. The activities are both manual and automatic, and include e.g. reviews and approvals of different types of transactions, analysis of key ratios, verification of accounts and checklists, as well as application of controls for financial information in the IT systems used for the financial reporting. In addition, the Board and its audit committee, as well as management and the Group's internal audit function, constitute general control bodies that carry out different control activities.

*Information and communication*

Information on the policies and procedures regarding financial reporting is given to all relevant employees at the beginning of their employment. Subsequent updates of applicable policies and procedures are communicated to all relevant employees. Policies and instructions regarding financial reporting are also available at the Group's intranet, available to all employees. The Board regularly receives financial updates and reports. Financial information can only be communicated by the CEO or the CFO.

*Monitoring*

The company's financial development is reviewed at every Board meeting. All interim reports are reviewed and approved by the Board before they are made public. The annual report and the directors' report are reviewed and approved by the Board. The efficiency of the assessment and management of risks are followed up at different levels within the Group, for example at management meetings and the regional board meetings, as well as within the internal audit process. The monitoring includes both formal and informal processes, e.g. comparisons between result and budget, monthly reviews of overdue accounts receivable, etc.

*Internal audit*

Ferronordic has established an internal audit function. The role of the internal audit function is to independently and objectively assess and improve the efficiency of Ferronordic's internal control, risk management and governance processes. The head of internal audit reports functionally to the audit committee and administratively to the CEO. The internal audit function carries out regular reviews based on an annual internal audit plan, established by the Board based on the Group's risk assessment.

Stockholm, April 2019

The Board of Directors



