

# CORPORATE GOVERNANCE REPORT

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The Board of Directors of Sdipotech AB (publ.) hereby submits its Corporate Governance Report in accordance with the Swedish Annual Accounts Act (1995:1554), Chapter 6 Sections 6 – 9. This report is included as an integrated part of company's Annual Report for 2019. The references made in the following report relate to the Annual Report for 2019 in its entirety. The report has been reviewed by the company's auditor. Sdipotech essentially applies the Swedish Corporate Governance Code in accordance with the revised Code that came into force on 1 December 2016, and which from 1 July 2019 is a requirement for Sdipotech, as an issuer on Nasdaq First North Premier Growth Market. The report also contains an account of the work of the Nomination Committee ahead of the 2020 Annual General Meeting.

## CORPORATE GOVERNANCE STRUCTURE

Sdipotech is a Swedish public limited liability company with its registered office in Stockholm. Through its subsidiaries, the company conducts sales of niched technologies, solutions and services to the infrastructure sector and has, since March 2015 (the Preference Share) and May 2017 (the ordinary Class B share) been listed on Nasdaq First North Premier Growth Market. Governance and control of the company are regulated through a combination of written rules and practices. The regulations are primarily the Swedish Companies Act and the Annual Accounts Act, but also include the rules that apply to the market in which the company's shares are admitted for trading. The Companies Act contains basic rules regarding the company's organisation. The Companies Act stipulates that there must be three decision-making bodies: the General Meeting of Shareholders, the Board of Directors and the CEO, in a hierarchical relationship with each other. There must also be a body for control, an auditor, appointed by the General Meeting of Shareholders.

## SHAREHOLDERS

As of 31 December 2019, the number of shareholders was 3,708, compared to 2,617 at the beginning of the financial year. Private individuals owned 57 percent (17) of the number of shares and 72 percent (11) of the votes in the company. The remainder was held by legal entities, mainly investment companies, equity funds, insurance companies and pension funds. Foreign shareholders owned 6 percent (4) of the shares and 4 percent (3) of the votes. The ten largest shareholders had a total shareholding of 67 percent (74) of the shares and 79 percent (84) of the votes.

## GENERAL MEETING OF SHAREHOLDERS AND ARTICLES OF ASSOCIATION

The General Meeting of Shareholders is Sdipotech's highest decision-making body. This is where the shareholders exercise their influence through discussions and resolutions. The General Meeting decides on all issues that do not expressly fall under the exclusive area of competence of another corporate body. Every shareholder has the right to participate in and to vote for their shares at the General Meeting in accordance

with the provisions of the Articles of Association. Sdipotech's ordinary General Meeting, the Annual General Meeting (AGM), shall be held in Stockholm within six months of the end of the financial year. The AGM appoints the company's Board of Directors and the auditors and determines their fees. In addition, The AGM adopts the financial statements and determines the appropriation of profits and discharge from liability for the Board of Directors and the CEO, and determines other matters that are incumbent on the AGM according to the Articles of Association or legislation. The Articles of Association have been adopted by the AGM. These state that that the company's shares are divided into three classes of shares, where Class A shares carry ten votes per share, Class B shares one vote per share and preference shares one vote per share. The company's share capital shall be not less than five hundred thousand Swedish kronor (SEK 500,000) and not more than two million Swedish kronor (SEK 2,000,000). There shall be not less than 20,000,000 shares and not more than 80,000,000 shares. Class A and B shares carry equal rights to participate in the company's assets and earnings. The preference shares carry preferential rights to dividends, see also section 20.

The Articles of Association permit conversion of Class A shares to Class B. The Articles of Association also state that the company's Board of Directors shall consist of at least three and at most ten members and regulate the forms of notice for convening a General Meeting. The Articles of Association contain no limitations on how many votes each shareholder may cast at a General Meeting. For the complete Articles of Association, adopted in their current form by the Annual General Meeting on 15 October 2015, see the company's website. Notice of the Annual General Meeting, and notice of an Extraordinary General Meeting (EGM), where an amendment to the Articles of Association will be on the agenda, shall be issued no earlier than six weeks and no later than four weeks before the Meeting. Notice of another EGM shall be issued no earlier than six weeks and no later than two weeks before the Meeting. Notice shall be issued by means of an advertisement in Post och Inrikes Tidningar (Swedish Official Gazette) and on the company's website. It shall also be concurrently announced in Dagens Industri that notice has been issued. Shareholders wishing to attend the Annual General Meeting shall (i) be included in the print-out or other presentation of the entire share register showing the state of affairs five weekdays prior to the Meeting, and (ii) notify the company of their attendance and the attendance of at most two assistants no later than 12:00 noon on the date stated in the notice of the Meeting. The AGM also determines the format for the appointment of a Nomination Committee.

## ANNUAL GENERAL MEETING 2019

The 2019 AGM was held on 13 May in Stockholm. Notice of the Meeting was issued in the form of a press release on 11 April 2019, and was published on the company's website on the same day. On the same date, it was also announced in Dagens Industri that notice that had been issued. The notice was

also published in Post och Inrikes Tidningar (Swedish Official Gazette). Resolutions passed by the AGM included the following:

- In accordance with the Board of Directors' proposal, the AGM resolved that dividends of SEK 8 per preference share be paid quarterly in the amount of SEK 2 per preference share.
- The Annual General Meeting resolved, in accordance with the Board of Directors' proposal, that no dividend be paid on Class A or Class B ordinary shares and that the remaining profit be carried forward.
- The Board of Directors and the CEO were discharged from liability for their administration of the company in 2018.
- The Annual General Meeting resolved, in accordance with the Nomination Committee's proposal, that (i) Ashkan Pouya, Johnny Alvarsson, Markus Sjöholm and Jan Samuelson be re-elected as Board members, (ii) that Urban Doverholt and Birgitta Henriksson be newly elected as Board members and (iii) that Jan Samuelson be newly elected as Chairman of the Board.
- Fees for the Board of Directors and the auditors were determined.
- Re-election of KPMG as auditing firm.
- Procedures were established for the appointment of a Nomination Committee ahead of the next AGM.
- Principles for remuneration and other terms of employment for senior executives were adopted.

## BOARD OF DIRECTORS

It is the duty of the Board of Directors to manage the affairs of the company in the best possible way and to safeguard the interests of the shareholders. In 2019, Sdiptech AB's Board of Directors consisted of six ordinary members who together represented broad commercial, technical and public experience:

- Jan Samuelson, Chairman of the Board
- Ashkan Pouya,
- Johnny Alvarsson,
- Markus Sjöholm,
- Saeid Esmaeilzadeh (until May 2019),
- Katarina Lundblad Pinnekamp (until May 2019),
- Birgitta Henriksson (from May 2019) and
- Urban Doverholt (from May 2019).

A detailed presentation of the members of the Board of Directors, including information about other assignments is provided under Board of Directors and Auditors on page 21. Other Group executives may participate in Board meetings in a reporting capacity or as secretary.

## CHAIRMAN OF THE BOARD

The Chairman of the Board leads the work of the Board of Directors and has a special responsibility to monitor the company's development between Board meetings and to ensure that the Board members are continually provided with the information necessary to perform their work satisfactorily. The Chairman maintains ongoing contact with the company management and holds meetings with them as needed. The

Chairman is also responsible for evaluating of the work of the Board and for ensuring that the Nomination Committee is informed of the result of the evaluation.

## WORK OF THE BOARD OF DIRECTORS

The Board of Directors held 14 recorded meetings during the 2019 financial year, of which one was the statutory meeting in connection with the AGM. The work of the Board follows rules of procedure that are adopted on an annual basis. These rules of procedure establish the division of work between the Board and the Executive Management, the Chairman, and the respective CEO's responsibilities, as well as the forms of financial reporting. The CEO is not a member of the Board, but attends Board meetings. The Board of Directors forms a quorum when at least three members are present and, where possible, decisions are made after a discussion that leads to consensus. The Board has been attending at all meetings during the year, except three, where Ashkan Pouya was absent once and Saeid Esmaeilzadeh been absent twice. During each ordinary Board meeting, the company's economic and financial position are dealt with as well as risks facing the company and its internal control, and one item on the agenda concerns acquisitions. The Board is kept continually informed by way of written information about the company's operations and other important information. During 2019, the work of the Board was dominated by questions relating to acquisitions, market development, financing and the business model. One Board meeting was devoted solely to discussing the Group's position and strategy.

In accordance with the Code, the Board of Directors evaluated the work of the CEO at a meeting without the presence of the CEO or other senior executives. The total directors' fees in Sdiptech for 2019 amounted to SEK 1,495,000 (1,200,000). In accordance with the resolution of the AGM, the Chairman of the Board received SEK 200,000 (200,000), and the other ordinary members received SEK 200,000 (200,000) each. Fees were paid to the company's Audit Committee, of SEK 75,000 to the chairman and SEK 50,000 per member (two members). Fees were paid to the company's Investment Committee, of SEK 40,000 to the chairman and SEK 40,000 per member (two members). No fees were paid to the company's Remuneration Committee. See also Note 6.

## INVESTMENT COMMITTEE

From among its own members, the Board of Directors has appointed an Investment Committee tasked with keeping the Board up-to-date on the current "acquisition pipeline", and keeping itself abreast of imminent acquisitions by reading memoranda and letters of intent regarding acquisitions and taking the formal decision to carry out an acquisition. The Investment Committee consists of the ordinary Chairman of the Board and at least one additional member. The Chairman of the Board is the chairman of the Investment Committee. 2018, the Investment Committee consisted of Jan Samuelson (chairman), Ashkan Pouya and Johnny Alvarsson, with the CEO participating in a reporting capacity. The Investment Committee shall meet as often as is necessary to fulfil its duties. Meetings are conducted over the phone or in person.

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## **AUDIT COMMITTEE**

The Board from among its own members has appointed an Audit Committee, which has the task of analysing and discussing the company's risk management, governance and internal control. During 2019, the committee consisted of Markus Sjöholm (chairman), Birgitta Henriksson and Jan Samuelsson. The Audit Committee maintains contact with the company's auditors to discuss the direction and scope of the audit work. In connection with the adoption of the annual accounts, the company's auditors report on their observations from the audit and their assessment of the internal control. The Board has opted to depart from the Swedish Corporate Governance Code's recommendation that the half-year report or interim report for the third quarter must be reviewed. This is because the extensive work required to enable a review within the deadline was not considered possible during this fiscal year.

## **REMUNERATION COMMITTEE**

From among its own members, the Board of Directors has appointed a Remuneration Committee tasked with preparing the Board's proposal to the AGM regarding guidelines for remuneration to the CEO and other senior executives. The Committee also has the task of following up the AGM's resolution regarding principles for remuneration to senior executives. The Remuneration Committee during 2019 consisted of Jan Samuelsson (chairman) and Ashkan Pouya. The CEO participates in a reporting capacity but does not participate in discussions of matters concerning him.

## **AUDITORS**

At the 2019 AGM, the registered auditing firm KPMG AB was elected auditor. The auditing firm appointed Authorised Public Accountant Duane Swanson as the auditor in charge. To ensure insight for the Board of Directors, each year, it is given the opportunity to comment on the auditors' planning of the scope and focus of the audit. Following a review of the company's accounts, the auditors report their observations at the Audit Committee meetings in January and March 2020. In addition, the auditors are prepared to attend Board meetings when the Board or auditors consider this necessary.

## **COMPANY MANAGEMENT**

The CEO and Group Management prepare and implement Sdiptech's overall strategies and deal with issues regarding acquisitions, divestments and major investments. Such matters are prepared by Group Management for decisions by the Board of Directors of the Parent Company or its Investment Committee. The President and CEO is responsible for day-to-day management of the company in accordance with the Board's decisions and guidelines. Sdiptech's Group Management consists of the CEO, the Group's CFO, the three Business Area Managers and the Group's Head of Acquisitions, – a total of six people. A detailed presentation is provided under Management on page 20. The Management team meets on a monthly basis to discuss the Group's and the subsidiaries' results and financial position, as well as issues pertaining to strategy, earnings follow-up, forecasts and the performance of the business. Other issues discussed include acquisitions, joint projects, consolidated financial reporting, communication with the stock market, internal and external information, and coordination and follow-up in the areas of safety, the environment and quality.

## **REMUNERATION TO SENIOR EXECUTIVES**

Sdiptech's principles for remuneration to senior executives mean that remuneration to the CEO and others in executive management may comprise basic salary, variable remuneration, pension, other benefits and financial instruments. The guidelines for remuneration to senior executives resolved upon by the 2019 AGM and information about existing incentive programmes are presented in Note 6 of this annual report and are summarised below. The objective of the remuneration is to be competitive while also aligned with the shareholders' interests. Remuneration to executives shall consist of fixed and variable salary, the opportunity to participate in a long-term incentive programme and pension compensation. Combined, these components should create a well-balanced compensation package reflecting individual skills, responsibilities and performance, in both the short and long term, and also reflecting the Group's overall performance. Variable remuneration shall not exceed 50 percent of the fixed annual salary. Long-term variable remuneration in the form of shares and/or share-related instruments in the company shall be payable through participation in long-term incentive programmes adopted by the General Meeting. Such programmes are to be performance-based, require continued employment with the Group and require personal investment by participants.

The proposal of the Board of Directors to the 2020 AGM on guidelines for remuneration to senior executives means that the principles for remuneration to the CEO and other senior executives should remain unchanged compared to the principles described above.

## OPERATIONAL GOVERNANCE

The Group's operating activities are performed within Sdipotech's subsidiaries. In all subsidiaries, active Board work is conducted under the leadership of the Business Area Managers. The subsidiaries' Boards follow the day-to-day operations and establish business plans. Operations are conducted in accordance with the rules, guidelines and policies adopted by Group Management and according to guidelines established by each subsidiary's Board of Directors. The Managing Directors of the subsidiaries are responsible for the performance of their respective companies and for ensuring growth and development in those companies. Within the Group, investment capital is distributed following decisions by the Board of Directors of Sdipotech's Parent Company in accordance with an annually updated investment policy. Operational governance is characterised by clear requirements set by Group Management and considerable freedom for each subsidiary to make decisions and act to achieve set targets.

## DIVERSITY POLICY

The guidelines adopted by the Group's Board of Directors for business ethics (Code of Conduct) for how employees, suppliers, customers and other stakeholders should be treated in a lawful, fair and ethical manner, also contain guidelines on diversity. Sdipotech strives to ensure that employees in the Group shall be afforded equal opportunities for career development, training, remuneration, work content and employment conditions, regardless of gender. In cases where compensation gaps exist between men and women, we work actively to ensure that these are evened out. We also work to achieve a more uniform gender distribution in recruitment. We offer equal employment opportunities regardless of race, religion, gender, age, disability, family circumstances or sexual orientation. By participating in the recruitment work, the Group's operational management ensures that the Board's guidelines are complied with and developed. The Board considering the company's operations, phase of development and circumstances in general should have an appropriate composition characterised by versatility and breadth as regards the competencies, experience and background of the members elected by the general meeting of shareholders. A uniform gender distribution shall be strived for.

## INTERNAL CONTROL

The internal control should ensure the company's strategies and targets are followed up and shareholders' investments are protected. It should aim to provide information to the stock market in accordance to be reliable, relevant and consistent with good accounting practices and to laws, regulations and other requirements listed companies are complied with throughout the Group. Sdipotech's Board of Directors has delegated the practical responsibility to the CEO who distributed responsibility to others in the management and to subsidiary managers. Control activities occur throughout the organisation at all levels. Follow-up is an integral part of the management's ongoing work. For the financial reporting

there are policies and guidelines as well as automatic controls in the systems as well as a manual reasonableness assessment of flows and amounts. Management regularly assesses the new financial risks and the risks of errors in the financial reporting. At each Board meeting, management reports on its assessment of existing risks and any other relevant issues regarding internal control. The Board may then call for further action if deemed necessary.

In addition, the Board analyzes Sdipotech's risk map at least one once a year, where significant risks, their consequences and governing documents and processes are summarized. The focus is on significant results and balance sheet items and areas where there is a risk that the consequences of any errors would be significant. It is the Board of Directors' opinion that an organisation of Sdipotech's scope in a decentralised organisation, in a defined geographical market, does not require a more extensive audit function in the form of an internal audit department. To secure a good capital market communication, the board has adopted an information policy. It specifies what is to be communicated, by whom and how. The basic premise is that regular financial information is provided in the form of:

- Press releases about significant events or price-sensitive events
- Interim reports, year-end reports and communiqués from Annual General Meetings
- Annual reports

Sdipotech's Board of Directors and company management work on the basis of openness and clarity to provide relevant and accurate information to the company's shareholders and the stock market.

## NOMINATION COMMITTEE

The Nomination Committee's principal task is to propose Board members, the Chairman of the Board and auditors, as well as the fees to be paid to these individuals, in such a way that the AGM can make informed decisions. At the AGM 2019, the principles for the Nomination Committee's mandate were determined, and how the Committee shall be appointed. These shall apply until such time that a General Meeting resolves to amend them. This means that the Chairman of the Board was entrusted with the task of contacting the largest shareholders in terms of votes as of 31 August 2019, requesting them to appoint members, to form a Nomination Committee together with the Chairman of the Board. In accordance with this, a Nomination Committee has been appointed, consisting of:

- Saeid Esmaeilzadeh, chairman of the Nomination Committee
- Helen Fasth Gillstedt (representing Handelsbanken Fonder AB)
- Magnus Skåniger (representing Swedbank Robur Fonder)
- Jan Samuelson (Chairman of the Board)

The Nomination Committee's proposals and motives are published in connection with the notice of the AGM and are also made available on the company's website. The Nomination Committee's term of office extends until the appointment of a new Nomination Committee. No fees are payable for Nomination Committee work. Sdiptech's strategic direction and business and governance models are based, among other things, on a strong commitment from the company's principal shareholders. This approach permeates Sdiptech's corporate culture and has proved important for the successful development of the Group. The assessment of the Board of Directors and the Nomination Committee is that the majority of the Board Members are independent in relation to the company and its management and that at least three of the members are also independent in relation to the company's major shareholders.

## **INCENTIVE PROGRAMME**

During the spring of 2018, a long-term incentive programme was introduced for managers and senior executives in the Group, according to a resolution of an Extraordinary General Meeting on 5 March 2018. The programme aims to increase motivation and create participation among managers and senior executives regarding the opportunities in the company's development. The programme also aims to motivate managers and senior executives to remain employed in the Group. The programme is based on warrants for Class B shares and is issued in three series. The programmes outstanding mean that shares can be subscribed for on three different occasions, deviating from existing shareholders' preferential rights, after three, four and five years from the time of issue. Each participant acquires a maximum number of warrants of each series. The number of warrants per participant and series depends on the participant's position in the Group on the initiation of the programme. In connection with the allocation of warrants to participants in the incentive programme, the company

reserves the right to repurchase warrants if the participant's employment or assignment within the Group ceases or if the participant, in turn, wishes to transfer the warrants before they can be exercised. The purpose of the incentive programme, and the reason for deviating from existing shareholders' preferential rights, is to create conditions for retaining and recruiting skilled personnel to the Group, increasing participants' motivation, company loyalty and shared interests with the company's shareholders, as well as promoting own share ownership in the company, thereby promoting shareholder value and the company's long-term value creation.

A complete description of the outstanding option programmes is provided in Note 6.