

CORPORATE GOVERNANCE REPORT

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Although it is not mandatory for Sdipotech, the Board of Directors of Sdipotech has resolved to prepare a Corporate Governance Report in accordance with the Annual Accounts Act (1995:1554), Chapter 6. Sections 6-9, which shall accordingly be reviewed by the company's auditor. To all intents and purposes, Sdipotech also applies the Swedish Code of Corporate Governance in accordance with the revised Code that came into force on 1 December 2016, although this is not required. As of 1 July 2019, this will also be required of Sdipotech, as an issuer on Nasdaq First North Premier Sweden. The report also contains an account of the work of the Nomination Committee prior to the 2019 Annual General Meeting.

The report is included in the 2018 Annual Report. References in this report refer to the 2018 Annual Report.

CORPORATE GOVERNANCE STRUCTURE

Sdipotech is a Swedish public limited liability company with registered offices 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 (ordinary Class B share) been listed on Nasdaq First North Premier Sweden. Governance and control of the company is regulated through a combination of written rules and practices. The regulations are primarily the Swedish Companies Act and the Annual Accounts Act, but also, for example, 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 states that there must be three decision-making bodies: the General Meeting, the Board of Directors and the CEO, between whom there is a hierarchical relationship. There shall also be a body for control, an auditor, appointed by the General Meeting.

SHAREHOLDERS

On 31 December 2018, there were 2,617 shareholders, compared with 2,487 at the beginning of the financial year. Private individuals held 17 percent of the number of shares and 11 percent 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 4 percent (6) of the shares and 3 percent (4) of the votes. The ten largest shareholders had a total shareholding of 74 percent (73) of the shares and 84 percent (83) of the votes.

THE GENERAL MEETING AND CORPORATE GOVERNANCE

The General Meeting is Sdipotech's highest decision-making body. This is where the shareholders exert their influence through discussions and resolutions. The Meeting can determine any issue in the company that does not explicitly fall under the exclusive area of competence of another company body. Each shareholder has the right to participate

in General Meetings and to exercise the voting rights for his/her shares at there, as stated in the Articles of Association. Sdipotech's ordinary General Meeting, the Annual General Meeting, shall be held in Stockholm within six months of the end of the financial year. The Annual General Meeting appoints the company's Board of Directors and auditors and determines the fees for these. In addition, the Annual General Meeting adopts the financial statements and determines the appropriation of earnings and discharge from liability for the Board of Directors and the CEO and determines other matters that are incumbent on the Meeting in accordance with the law or the Articles of Association. Articles of Association have been adopted by the Annual General Meeting. These state that the company's shares are divided into three classes of shares, where Class A shares carries ten votes per share, Class B shares one vote and preference shares one vote. The company's share capital shall be at least five hundred thousand Swedish kronor (SEK 500,000) and at most two million Swedish kronor (SEK 2,000,000). There shall be at least 20,000,000 shares and at most 80,000,000 shares. Class A and B shares convey equal rights to participate in the company's assets and earnings. The preference shares convey preferential rights to dividends, see page 12. 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 set out the format for convening a General Meeting. The Articles of Association contain no limitations on how many votes each shareholder can cast at a General Meeting. For the complete Articles of Association, adopted in their current form by the Annual General Meeting of 15 October 2015, see the company's website. Notice of the Annual General Meeting and notice of an Extraordinary General Meeting at which an amendment to the Articles of Association is to be addressed shall be issued no earlier than six weeks and no later than four weeks before the Meeting. Notice of an Extraordinary General Meeting shall be issued no earlier than six weeks and no later than two weeks prior to 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. An advertisement stating that such notice has been issued, shall be posted simultaneously in the Swedish business newspaper Dagens Industri. Shareholders wishing to attend the Annual General Meeting shall (i) be included in the print-out or other presentation of the entire share register regarding circumstances 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 Annual General Meeting also determines the format for the appointment of a Nomination Committee.

Annual General Meeting 2018

The 2018 Annual General Meeting was held on 14 May in Stockholm. Notice of the Meeting was issued in the form of a press release on 13 April 2018 and was available on the



company's website from the same date. Simultaneously with the issuance of the notice, an advertisement was also posted in Swedish business newspaper Dagens Industri, stating that the notice had been issued. The notice was also entered in Post och Inrikes Tidningar (Swedish official gazette). The Annual General Meeting resolved, among other things, the following:

- In accordance with the Board of Directors' proposal, the Annual General Meeting 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 remaining profit be carried forward to a new account
- The Board of Directors and the CEO were discharged from liability for their administration of the company in 2017.
- The Annual General Meeting resolved, in accordance with the Nomination Committee's proposal, that (i) Ashkan Pouya, Saeid Esmaeilzadeh, Johnny Alvarsson, Katarina Lundblad Pinnekamp and Jan Samuelson be re-elected as Board Members, (ii) that Markus Sjöholm be newly elected as a Board Member and (iii) that Jan Samuelson be newly elected as Chairman of the Board.
- Fees to the Board of Directors and auditors were determined.
- Procedures for appointing a Nomination Committee in preparation for the next General Meeting were adopted.
- Principles were determined for remuneration and other terms of employment for senior executives.

BOARD OF DIRECTORS

The Board of Directors is tasked with optimally administrating the company's affairs and safeguarding the interests of the shareholders in its work. In 2018, 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 (from May 2018)
- Ashkan Pouya, (Chairman of the Board until April 2018)
- Saeid Esmaeilzadeh
- Johnny Alvarsson
- Katarina Lundblad Pinnekamp
- Mikael Lönn (until April 2018)
- Markus Sjöholm (from May 2018)

A detailed presentation of the Board Members, including details of other assignments, can be found under Board of Directors on page 65. Other Group executives may participate in Board meetings in a reporting capacity or as secretary.

CHAIRMAN OF THE BOARD

The Chairman of the Board directs the work of the Board of Directors and bears a specific responsibility for monitoring the company's development between Board meetings and for ensuring that Board Members receive, on an ongoing basis, the information needed to perform their work

satisfactorily. The Chairman maintains contact with management and meets with them as necessary. The Chairman is also responsible for the Board's work being evaluated and for informing the Nomination Committee of the results of the evaluation.

WORK OF THE BOARD OF DIRECTORS

During the 2018 financial year, the Board of Directors held 13 recorded meetings, including one statutory meeting in connection with the Annual General Meeting. The work of the Board of Directors follows rules of procedure that are adopted annually. The rules of procedure lay down the division of labour between the Board of Directors and the executive management, the responsibility of the Chairman of the Board and the CEO respectively, as well as the formats for financial reporting. The CEO is not a Board Member, but attends Board meetings in a reporting capacity. The Board of Directors has a quorum when at least three members are present and, where possible, decisions are made following discussions leading to a consensus. All Board meetings during the year were fully attended, with one exception. Each ordinary Board meeting addresses the company's economic and financial position, as well as its risks and internal control, and one item addresses acquisitions. The Board of Directors is provided with written information on the company's operations and matters of importance on an ongoing basis. During 2018, the work of the Board of Directors was characterised by matters concerning acquisitions, market development, financing and the business model. The Board of Directors has also held one meeting focused solely on the Group's position and strategy.

In accordance with the Code, the Board has evaluated the CEO's work during a meeting at which neither the CEO or other senior executives have been present. Sdiptech's total Board fees for 2018 amounted to SEK 1,200,000 (900,000). In accordance with the decision of the Annual General Meeting, the Chairman of the Board received SEK 200,000 (50,000), and other ordinary members received SEK 200,000 (200,000/50,000) each, 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", keeping itself abreast of imminent acquisitions by reading memoranda and letters of intent regarding acquisitions and taking the formal decision implementing 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. In 2018, the Investment Committee consisted of Jan Samuelson (chairman), Ashkan Pouya and Johnny Alvarsson, with the CEO in a reporting role. The Investment Committee shall meet as often as is necessary to fulfil its tasks. Meetings are conducted over the phone or in person.

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 Annual General Meeting regarding guidelines for remuneration to the CEO and other senior executives. The Committee is also tasked

with following up the Annual General Meeting's decision regarding principles for remuneration to senior executives. In 2018, the Remuneration Committee consisted of all Board members, with the Chairman of the Board as chairman of the Committee. The CEO participates in a reporting role, but does not participate in matters concerning him in particular. During the year, the Committee held one meeting. The full Committee was present at that meeting.

AUDITORS

At the 2018 Annual General Meeting, 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 planning of the scope and focus of the audit. Following their audit of the internal control and the accounts, the auditors report their observations at the Board meeting in March. In addition, the auditors are given access to Board meetings when the Board of Directors or the auditors consider this necessary. The auditors' independent position is ensured by the auditing firm's internal guidelines. Their independence has been confirmed to the Board of Directors.

COMPANY MANAGEMENT

The CEO and Group Management prepare and implement Sdiptech's overall strategies and address 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 the day-to-day management of the company in accordance with the Board of Directors' 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 can be found under Management on page 64. The management team meets on a monthly basis to discuss the earnings and financial position of the Group and its subsidiaries, as well as strategy, review of earnings, forecasts and business development. Tasks also include matters relating to acquisitions, joint projects, the consolidated financial reporting, stock market communications, internal and external information, as well as coordination and review 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 objective of the remuneration is to be competitive while also in line with 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 form a well-balanced remuneration reflecting individual skills, responsibilities and performance, in both the short and long term, as well as 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 Board's proposal to the 2019 Annual General Meeting regarding guidelines for remuneration to senior executives entails the principles for remuneration to the CEO and other senior executives remaining unchanged compared with the principles presented above.

OPERATIONAL GOVERNANCE

The Group's operating activities are performed within Sdiptech's subsidiaries. In all subsidiaries, active Board work is conducted under the direction of the Business Area Managers. The Boards of Directors of the subsidiaries monitor the day-to-day operations and set out business plans. Operations are conducted in accordance with the rules, guidelines and policies established by Group Management and the guidelines adopted by the Board of Directors of the relevant subsidiary. 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 Sdiptech'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 to act to achieve set targets.

DIVERSITY POLICY

The business ethical guidelines adopted by the Group (Code of Conduct) for how employees, suppliers, customers and other stakeholders should be treated in a lawful, fair and ethical manner also include guidelines on diversity. Sdiptech strives for employees within the Group to be afforded equal opportunities for career development, training, remuneration, work content and employment conditions, regardless of gender. In cases where compensation gaps do exist between men and women, we work actively to ensure that these are evened out. We also work for a more even gender distribution in recruitment. We offer equal opportunities for employment regardless of race, religion, gender, age, disability, family circumstances or sexual orientation. By being involved in recruitment processes, the Group's operational management ensures that the Board of Directors' guidelines are complied with and developed.

INTERNAL CONTROL

Internal control shall ensure that the company's strategies and targets are followed up and that shareholders' investments are protected. It also serves to ensure that information communicated to the stock market is reliable, relevant and in accordance with generally accepted accounting principles, and that laws, regulations and other requirements for listed companies are complied with throughout the Group. Sdiptech's Board of Directors has delegated the practical responsibility to the CEO, who has delegated responsibilities to the others in the management

teams and to the Managing Directors of the subsidiaries. Control activities occur at all levels throughout the organisation. Follow-up forms an integrated part of ongoing management work. Policies and guidelines governing financial reporting are in place, as well as automatic controls in the systems used, and a manual assessment of the reasonableness of flows and amounts. Management regularly assesses what new financial risks and risks of errors there are in the financial reporting. At each Board meeting, management reports its assessment of existing risks and other possible issues concerning internal control. The Board of Directors may then call for further measures if deemed necessary. In addition, the Board analyses Sdipotech's risk map at least once a year, summarising significant risks, their consequences and governing documents and processes. The focus is on significant items in the income statement and balance sheet, as well as areas where the consequences of any errors could be substantial. 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 safeguard favourable communications with the capital market, the Board has established an information policy. It states what is to be communicated, by whom and how. The basic principle is that regular financial information is issued through:

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

With openness and clarity, Sdipotech's Board of Directors and company management work 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, in such a way that the Annual General Meeting' can make informed decisions. The 2018 Annual General Meeting determined the principles for the appointment of the Nomination Committee and its assignment and that these principles shall apply until such time that a General Meeting resolves to amend them. This means that the Chairman of the Board was instructed to contact the largest shareholders in terms of voting rights at the end of August 2018, asking them to appoint members, who, alongside the Chairman of the Board constitute the Nomination Committee. In accordance with this, a Nomination Committee has been appointed, consisting of:

- Marcus Wahlberg (representing Elementa Management), chairman of the Nomination Committee
- Saeid Esmailzadeh (representing Serendipity Group 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 Annual General Meeting 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 paid for participation in the Nomination Committee. Sdipotech's strategic direction and business and governance models are based, among other things, on a strong commitment from the company's principal shareholder. This approach permeates Sdipotech'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, as adopted by the Extraordinary General Meeting of 5 March 2018. The programme aims to enhance motivation and imbue participation among managers and senior executives regarding opportunities in developing the company. The intention is also to motivate managers and senior executives to remain employed within 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. This number of warrants per participant and class depends on the participant's position within 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 engender conditions for retaining and recruiting competent personnel to the Group, enhancing participants' motivation, company loyalty and interests in common 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 generation.

A complete description of the outstanding option programmes can be found in Note 6.