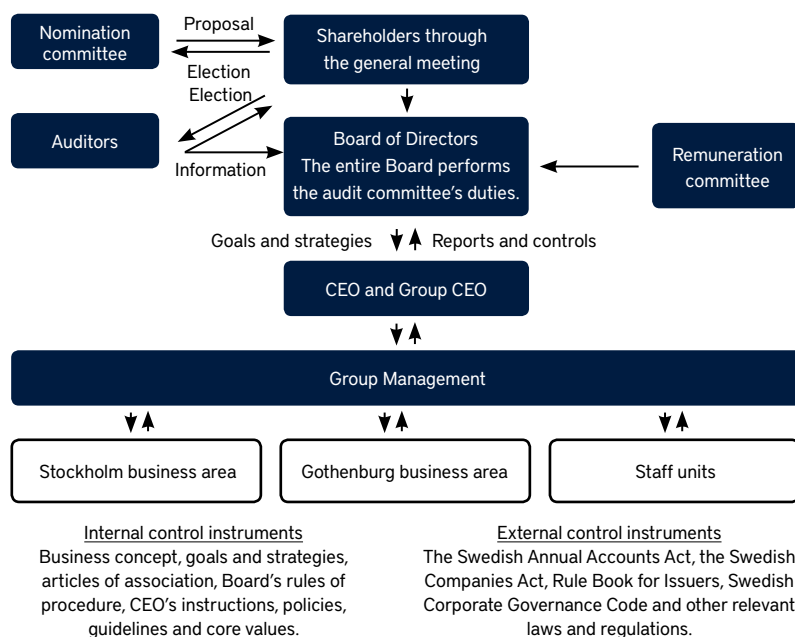


# Corporate governance report 2019

## Wallenstam's corporate governance structure



### Principles of corporate governance

Wallenstam AB is a Swedish public company with its registered office in Gothenburg. The company's B shares are listed on Nasdaq Stockholm, Large Cap. In order to ensure good governance of the Group, responsibility is clearly divided among the shareholders, Board as well as the CEO and Management. The articles of association, the Board's rules of procedure, including CEO instructions, adopted policies and guidelines, the Swedish Companies Act and other applicable legislation and regulations form the basis for control of the Group. Wallenstam also applies the Swedish Corporate Governance Code (the Code). Wallenstam follows the Code with the exception of the provision regarding composition of the nomination committee. This deviation is explained in more detail below.

### The share and owners

The number of shareholders in Wallenstam amounted to 14,619 at year-end. Wallenstam's principal shareholder is Hans Wallenstam who, together with his family and companies, holds 25 percent of the equity and 62 percent of the voting rights. Foreign share ownership amounted to 10 percent of the equity and 5 percent of the voting rights. The ten largest shareholders represented the equivalent of around 60 percent of the equity and about 80 percent of the voting rights. No warrants, convertibles or equivalent securities exist, which can result in additional shares in the company.

As of December 31, 2019, Wallenstam's share capital amounted to SEK 165 million, distributed among 34,500,000 A shares (ten votes per share) and 295,500,000 B shares (one vote per share). There are no limits to how many votes each shareholder may cast at annual general meetings. The shares all carry equal rights to the company's assets and profits. However, repurchased own shares have no dividend rights. Wallenstam's market capitalization at year-end amounted to SEK 37,356 million.

According to Wallenstam's dividend policy, the reported profit should primarily be reinvested in the operations to enable continued development of the Group's core business and thus create increased value growth. When determining the size of the dividend, consideration must also be given to the company's investment requirements, need to strengthen its balance sheet and position in general, and

the ability of the Group to develop in the future while maintaining its financial strength and freedom of action. The amount available for distribution must not exceed profit before changes in value and impairment charges less participations in the profits of associated companies and after standard tax rate.

### Annual General Meeting

The Annual General Meeting (AGM) is Wallenstam's highest decision-making body where shareholders have the opportunity to make decisions on questions concerning the company. The AGM is held in Gothenburg within six months of the end of the financial year. Shareholders have the right to participate in the AGM – personally or by proxy – if the shareholder is recorded in the share register on the record day and has notified his participation in the meeting to the company within the period prescribed in the convening notice. In order to exercise voting rights at the meeting, shareholders whose shares are nominee-registered must temporarily reregister their shares in their own name in accordance with the notice to the AGM.

The AGM elects the Chairman of the Board, the other Board members and the company's auditors. It is also tasked with adopting the balance sheets and income statements for the company and the Group, deciding on the appropriation of the company's profits, discharging the members of the Board and the CEO from liability for the financial year, approving guidelines for remuneration to senior executives and the appointment of a nomination committee.

Notice to attend the AGM is given through the Official Swedish Gazette (Post- och Inrikes Tidningar) and on Wallenstam's website. It shall also be announced in Dagens Industri that notice has been given. The convening notice includes the agenda and the resolutions proposed by the Board of Directors and the nomination committee. Shareholders who wish to have a matter dealt with at the AGM can request this in good time to Wallenstam's Board of Directors prior to the meeting.

A total of 319 shareholders were represented at Wallenstam's AGM on May 2, 2019, representing around 51 percent of the shares and about 75 percent of the total number of votes in the company. The Board of Directors, CEO, Group Management and

the company's auditor were present.

The following resolutions were adopted by the AGM on May 2, 2019:

- » Adoption of the income statements and balance sheets of the Group and the parent company for 2018.
- » A dividend of SEK 1.90 per share for the 2018 financial year, spread over two payment dates of SEK 0.95 each per share.
- » Fees to the Board totaling SEK 1,480,000 of which SEK 740,000 to the Chairman of the Board, SEK 260,000 to the Vice Chairman and SEK 160,000 to each of the other Board members. Amounts include remuneration for committee work.
- » Discharge from liability of the CEO and Board of Directors.
- » Re-election of Board members Christer Villard, Agneta Wallenstam, Anders Berntsson, Ulrica Jansson Messing and Karin Mattsson. Christer Villard was re-elected as Chairman of the Board.
- » Election of Deloitte AB as auditor with Harald Jagner as chief auditor.
- » Resolution regarding guidelines for remuneration to senior executives.
- » Authorization for the Board to take decisions regarding acquisition and assignment of the company's own shares.
- » Resolution regarding nomination committee ahead of the AGM 2020.

Minutes and a presentation from the AGM are available at <https://www.wallenstam.se/en/wallenstam/corporate-governance/>.

Christer Villard passed away on September 25, 2019. No Extraordinary General Meeting to carry out a new election was held in 2019. The Board of Directors elected Vice Chairman Ulrica Jansson Messing from among its members as the Chairman of the Board for the period until the AGM 2020.

#### Nomination committee

The 2019 AGM resolved to establish a nomination committee ahead of the 2020 AGM in order to present proposals, including for the election of the Chairman and other members of the Board, election of the auditor, the chairman of the AGM, and questions relating to fees.

The following persons were elected as members of the nomination committee ahead of the AGM 2020:

- » Dick Brenner (nomination committee chairman)
- » Christer Villard (Chairman of the Board, Wallenstam AB)
- » Hans Wallenstam (largest shareholder, Wallenstam AB)
- » Lars-Åke Bokenberger (representing the shareholder AMF).

The composition of the nomination committee implies a deviation from the Code's provision 2.3 as the CEO is a member of the nomination committee. The reason for the deviation is that the CEO is also the principal shareholder in the company and is thus a member of the nomination committee in that capacity.

The members of the nomination committee have carefully considered and stated that there is no conflict of interest in accepting the

assignment as a member of Wallenstam's nomination committee.

Shareholders have the possibility of submitting proposals to the nomination committee using the address provided on Wallenstam's website. The nomination committee's proposals to the AGM are published in connection with the convening notice. The nomination committee also submits a reasoned opinion regarding the proposed Board and a report on how the nomination committee carried out its work. In its work, the nomination committee aims to maintain a uniform gender distribution in the Board and that the Board in other respects should be characterized by versatility and breadth with regard to competencies, experience and background. The nomination committee applies rule 4.1 of the Swedish Corporate Governance Code for this purpose as a diversity policy, in drawing up its proposal for election of Board members.

Due to the passing of Christer Villard, the nomination committee since September 25, 2019 has been composed of three members, which is in accordance with the Code's provision 2.3.

The nomination committee held one recorded meeting on January 1, 2019 ahead of the 2019 AGM at which all of the matters that are incumbent on the committee to deal with under the Code were discussed. The nomination committee discussed and considered the size of the Board, what areas of expertise should be represented on the Board, fees to Board members and a proposal for election of the auditor. As a basis for its opinion, the nomination committee studied the result of the annual evaluation of the Board that was carried out during 2018. In addition to this, due to the passing of Christer Villard, the nomination committee had regular contact during fall 2019 and held a recorded meeting in November 2019, where the issues of a new Board member and the procurement of a new auditor were discussed.

#### Board of Directors

Shareholders elect the Board at the AGM every year. The Board of Directors has overall responsibility for the Group's organization and administration, and to ensure that the control of accounting, management of funds and economic conditions in general are satisfactory. It is therefore incumbent on the Board to ensure that a functioning reporting system is in place and that the Board receives the necessary information regarding the company's position, profit/loss, financing and liquidity through periodical reporting. In addition to its responsibility for the company's organization and administration, the Board's most important task is to take decisions on strategic matters such as approval of strategic plans, business and profitability targets and policies. The Board also takes decisions on major acquisitions and divestments of properties and companies and major investments in construction and wind power as well as financing questions.

#### Composition of the Board

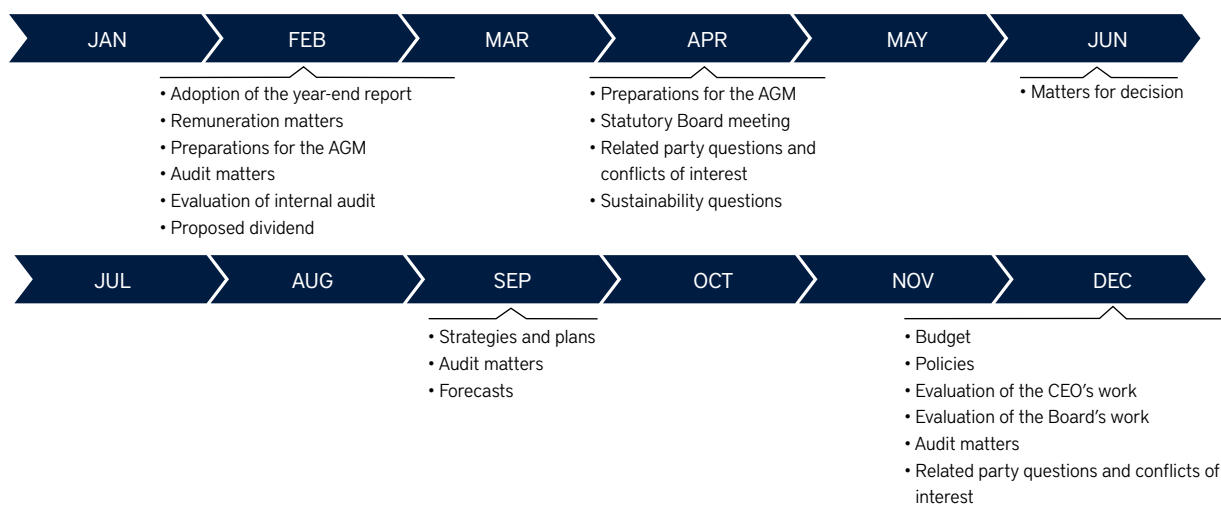
According to the articles of association, Wallenstam's Board must comprise at least four and not more than eight members, with no deputies. There are no provisions in the articles of association concerning the appointment and removal of Board members or about

Name	Function	Elected	Attendance Board meetings	Attendance audit committee meetings	Attendance remuneration committee meetings	Independent*
Christer Villard	Chairman	1995	6/8	1/3	1/1	Yes
Ulrica Jansson Messing	Vice Chairman	2008	8/8	3/3	1/1	Yes
Anders Berntsson	Board member	1997	8/8	3/3		No
Agneta Wallenstam	Board member	2010	8/8	3/3		No
Karin Mattsson	Board member	2016	7/8	3/3		Yes

\* Independent means independent in relation to the company, company management and to the company's major shareholders under the provisions of the Code.

## Annual planning by the board

Apart from standing items such as investment decisions and information from the CEO in the form of financial reports, market analysis etc.



changes to the articles of association. Board members are elected annually at the AGM for the period until the end of the next AGM. New Board members receive an overview of the company and its operations and participate in Nasdaq Stockholm's training for board members in listed companies.

Until September 25, 2019, Wallenstam's Board was composed of five members elected by the AGM and no deputies. At the 2019 AGM, Christer Villard, Ulrica Jansson Messing, Agneta Wallenstam, Anders Berntsson and Karin Mattsson were re-elected. Board members are presented in more detail on page 14. Due to the passing of Christer Villard and in accordance with the rules of procedure of the Board, Vice Chairman Ulrica Jansson Messing was elected as Chairman of the Board on September 25, 2019 for the period until the 2020 AGM. No Extraordinary General Meeting to carry out a new election was held in connection with Christer Villard's passing. From September 25, 2019, Wallenstam's Board has thus been composed of four members, which is in accordance with the articles of association.

The CEO does not sit on the Board.

### The work of the Board

The Board's work is governed by rules of procedure that are adopted annually at the statutory meeting. Among other things, the rules of procedure contain instructions about the division of duties within the Board and in relation to the CEO and the duties of the committees.

The Chairman of the Board leads the Board's work and ensures that the Board performs its duties. The Chairman monitors the Group's operations through continual contacts with the CEO and is responsible for ensuring that other members continually receive the information necessary to carry out the Board work in the best way. The Chairman is also responsible for conducting an annual evaluation of the Board's and CEO's work.

Board decisions require that both more than half of the members are present and more than one third of the total number of members vote for the resolutions. The Chairman has the casting vote in the event of the same number of votes.

### Meetings during 2019

In 2019, the Board held eight recorded meetings, of which one was the statutory meeting. At each of these meetings, the Board dealt with the matters described in the chart above and other matters of material importance for the company. At the two final Board meetings during 2019, Ulrica Jansson Messing was Chairman of

the Board and Christer Villard was not present due to the reason stated above. The Board work during the year focused in particular on strategy discussions, questions relating to market conditions and financing, compliance issues and investments. The Board also made site visits to a number of the company's ongoing reconstruction projects in central Gothenburg. The CEO and officers of the company attend Board meetings in a reporting capacity.

During the year, the company's auditors attended the Board meetings, which were held in February and December.

The Board conducted an evaluation of its work during 2019. The evaluation was conducted under the leadership of the Chairman of the Board in the form of an open discussion within the Board. The nomination committee received the results of the evaluation. The Board also evaluated the CEO, without him being present.

### Remuneration Committee

Within the Board, there is a remuneration committee tasked with preparing the Board's decisions on matters concerning remuneration principles as well as compensation and other terms of employment for company management. In addition, the remuneration committee must monitor and evaluate the application of guidelines for remuneration to senior executives that the AGM has adopted as well as current compensation structures and levels in the company. Where appropriate, the remuneration committee must also monitor and evaluate ongoing programs for variable remuneration to company management as well as programs concluded during the year.

The remuneration committee held one recorded meeting during 2019. Matters dealt with at the meeting included an evaluation of current remuneration to senior executives and proposals for future remuneration to these persons.

The committee's members are appointed by the Board once every year and its areas of responsibility are governed by the rules of procedure adopted by the Board annually. Until September 25, 2019, the remuneration committee was composed of Chairman of the Board Christer Villard and Vice Chairman Ulrica Jansson Messing. At a Board meeting on September 25, 2019, the Board decided, in view of Christer Villard's passing, that the entire Board would perform the remuneration committee's duties until further notice.

### Audit Committee

The Board of Directors has discussed the issue of setting up an audit committee but has chosen not to establish one. The Board as a whole therefore performs the duties that are incumbent on an audit com-

mittee within the framework of the regular board work. In this way, the Board's expertise can be fully put to use and Board meetings are made more efficient. The duties of the audit committee include:

- » monitoring the company's financial reporting and making recommendations and proposals to ensure the reliability of the reporting
- » monitoring the effectiveness of the company's internal control, internal audit and risk management in respect of the financial reporting
- » keeping informed about the audit of the annual accounts and consolidated financial statements
- » following the outcome of the audit
- » evaluating and reviewing the auditor's impartiality and independence
- » submitting proposals to the AGM for the election of auditor or to consider giving the nomination committee the task of submitting such proposals to the AGM.

During 2019, the Board met three times in its capacity as an audit committee to deal with the above matters.

### **CEO and Group Management**

The CEO is responsible for the company's day-to-day administration and leads the company's operations according to the Board's guidelines and directives, including the adopted CEO instructions. The CEO is responsible for preparing complete information and decision data prior to Board meetings, presenting matters for discussion and for justifying his proposals for actions and decisions. The CEO also keeps the Board continuously informed about the performance of the company and the Group through monthly newsletters.

Wallenstam's CEO Hans Wallenstam is the company's largest shareholder. It is a great advantage for Wallenstam to have a CEO with a long-term interest in the company. Apart from continuity, it also means quick decisions, which has proved to be a competitive advantage on a number of occasions.

In his day-to-day work the CEO leads the Group Management. Wallenstam's Group Management includes the CEO, the Vice CEO and Regional Director Stockholm and Uppsala business area, the Vice CEO and Regional Director Gothenburg business area, the CFO and Head of Investor Relations, the Communications Director and the Technical Director. Wallenstam's Group Management is presented on page 16. The CEO and other members of Group Management meet continuously in order to monitor developments and results in the business areas, update forecasts and plans, and to discuss current issues. Reporting from Group Management to the CEO, in respect of each operational area, occurs on a monthly basis. In connection with this, an evaluation takes place together with annual development discussions to ensure that the right competencies are found in key positions.

### *Remuneration to the CEO and Group Management*

Guidelines for salaries and other remuneration to the company's senior executives are decided by the AGM. The following guidelines, which apply to the CEO and other members of company management, were adopted by the 2019 AGM.

- » Senior executives shall be offered fixed salaries, which are competitive, market-related and based on the employee's area of responsibility and performance.
- » Senior executives should be offered market-related pension benefits chiefly in the form of premium-based pension agreements.
- » Senior executives should be offered customary non-monetary benefits to facilitate the performance of their work. Additionally, benefits in the form of accommodation, including related expenses, may also be offered in individual cases.
- » In addition to fixed salary, variable remuneration that rewards predetermined, measurable performance may also be offered. Such variable remuneration should seek to promote the creation

of long-term value within the Group. Variable remuneration shall be paid in the form of salary and may not exceed the fixed remuneration for the executive concerned for the year in question.

- » Senior executives may be offered incentives in the form of synthetic options if such an offer is available to all permanent employees in the company. The establishment of such a scheme is determined according to applicable rules and the more detailed terms and conditions of the scheme are determined by the Board or the party appointed by the Board. Payments under incentive schemes are not pensionable.
- » A reciprocal period of notice of six months shall apply to senior executives. Termination benefits, including salary during the period of notice, may not exceed 24 monthly salary payments.

The Board retains the right to depart from the guidelines if there are particular reasons for this in an individual case.

### **External auditors**

Wallenstam's auditors are elected annually by the AGM. At the 2019 AGM, Deloitte AB was elected as auditor with the former directly elected auditor Harald Jagner as chief auditor until the end of the 2020 AGM. The auditor examines the Board's and the CEO's administration of the company and the quality of the company's accounting. The auditor reports the outcome of his examination to the shareholders through his audit report, which is presented at the AGM. Moreover, as a general rule the auditor presents detailed statements to the Board at Board meetings at least three times per year. The Board meets the company's auditor without Group Management being present once per year.

In addition to the audit, Deloitte AB performs certain audit-related services for Wallenstam. These services mainly relate to accounting, tax and company law-related matters, and Wallenstam is of the opinion that the performance of these services does not jeopardize Deloitte AB's independence. Further information regarding remuneration to the auditors can be found in the Group's Note 4.

### **Internal control over financial reporting**

The Board has overall responsibility for ensuring that Wallenstam has a satisfactory system for internal control over financial reporting. This system is designed through collaboration among the Board, Group Management and the company's personnel aimed at ensuring the following:

- » that the company has reliable financial reporting
- » that the company has a suitable and efficient financial reporting organization
- » that the company complies with applicable legislation and other applicable regulations regarding the financial reporting.

The company uses the established COSO framework (Internal Control – Integrated Framework) in its financing reporting work.

### *Control environment*

To ensure internal control over financial reporting, Wallenstam's control environment is based on a clear division and distribution of responsibilities and duties between the Board and the CEO, and also within the company's operational activities. The Board's rules of procedure and CEO instructions aim to ensure such a distinct division of roles and responsibilities in order to facilitate the efficient management of operational risks. Correspondingly, there are also decision-making and authorization procedures covering all of the Group's operations, among other things, aimed at ensuring good order and at preventing or detecting irregularities/fraud (non-approved purchases, unauthorized use of the company's assets etc.) in time, which can have a significant impact on the company's financial reporting.

Policies adopted by the Board, such as the Code of Conduct and finance policy, are also important for the internal control work.

There are also established guidelines for the company's employees in order for them to understand the importance of their respective roles in the maintenance of good internal control. The guidelines for the financial reporting are updated in the event of changes in legal requirements, listing requirements and/or accounting standards.

#### *Risk assessment*

Wallenstam's Group Management continually evaluates and identifies the risk for material errors in the financial reporting based on discussions and meetings in the organization. The Board, in its capacity as an audit committee, reviews the company's material risks with the company's auditors and also decides on necessary measures that need to be taken. Higher risks have been identified in the following areas:

- » valuation of investment properties
- » valuation of wind turbines
- » fiscal estimates including interpretation of legal cases and regulatory changes.

#### *Control activities*

Control activities are designed both to prevent and detect shortcomings in the identified risk areas above and also to ensure that any errors in the financial reporting are corrected. There are also control activities to ensure that reporting occurs in accordance with applicable accounting rules and standards. Other controls include various forms of system support, built into established routines and division of duties such as quarterly reporting from the business areas to the CFO and through the principle that all documents should be reviewed and approved by at least two people. The company already has an ethics council, which employees can contact for guidance. In addition, an external whistleblowing function was established during 2018 where employees can report suspected irregularities.

The Board reviews the interim and annual accounts prior to publication.

Instructions, procedures and manuals are drawn up, updated and communicated to the employees concerned on an ongoing basis to ensure they have up-to-date information. Employees also undergo training to ensure they have the necessary competencies.

#### *Information and communication*

Both the internal information within Wallenstam and the external communication are governed by the Group's overall information disclosure guidelines. Company management is responsible for

informing the relevant employees about their responsibility for maintaining good internal control, with the aim of ensuring efficient and accurate disclosure of financial reporting. This occurs through regular information meetings in each business area, among other ways. Employees are also kept informed via Wallenstam's Intranet about adopted policies, guidelines, instructions and manuals.

The PR and marketing department is responsible for external information disclosure in respect of the financial reporting. This work is conducted according to the principle of current and correct disclosure as described in Nasdaq Stockholm's rule book for issuers.

#### *Follow-up of internal control*

Wallenstam's Group Management continually evaluates that the internal control over financial reporting is working in the intended way. This occurs through internal analyses and by reviewing the accounting department's work, with the aim of identifying measures needed or proposals for improvements. The Board subsequently receives Group Management's comments regarding the operations and the internal control. The company's auditors as a general rule participate in Board meetings three times per year and inform members of their observations regarding the company's internal routines and control system. Board members also have the opportunity to ask questions to the external auditors at these meetings. It is the duty of the Board to ensure that action is taken regarding possible shortcomings and proposed measures resulting from Group Management reports and in the audit and information from the auditors.

#### *Internal audit*

Wallenstam's Group Management continually reviews the procedures and documentation concerning the internal control system. Nothing has emerged to indicate that the control system is not working as intended. In the light of this, the Board has decided not to establish an internal audit function. This decision is reviewed annually.

#### **Non-compliance**

During 2019, no breaches of regulations or etiquette at the stock exchange where Wallenstam's shares are traded have taken place according to decisions by the exchange's disciplinary committee or pronouncements by the Swedish Securities Council.

This report is not part of the formal annual report.

Gothenburg, March 19, 2020

Ulrica Jansson Messing  
Chairman of the Board

Anders Berntsson  
Board member

Agneta Wallenstam  
Board member

Karin Mattsson  
Board member