

# CORPORATE GOVERNANCE REPORT.

This Corporate Governance Report has been prepared in accordance with Swedish corporate law and Semcon's Articles of Association. The Articles of Association regulates the alignment of the business and share capital, and how and when the notice to attend the Annual General Meeting takes place. The Articles of Association are available in full on Semcon's website [semcon.com](http://semcon.com). Semcon also complies with applicable Swedish and foreign laws and regulations.

## Application

Semcon applies the Swedish Corporate Governance Code and has no deviations to report. The current code is available at: [www.corporategovernance-board.se](http://www.corporategovernance-board.se).

## General Meeting of Shareholders

The General Meeting of Shareholders is Semcon's highest decision-making body. The notice to attend must be published in the Official Swedish Gazette [PoIT], on [semcon.com](http://semcon.com) and in a press release. That the notice to attend has been published must be advertised in Dagens Industri.

At General Meetings of Shareholders, shareholders have the opportunity to exercise their voting rights and, in accordance with Swedish corporate law and Semcon's Articles of Association, to take decisions concerning the composition of the Board and other central issues. Shareholders or proxies can vote for the number of shares he/she owns or represents at the meeting. Resolutions at General Meetings of Shareholders usually require a simple majority. However, a qualified majority is sometimes required for some resolutions.

## 2017 Annual General Meeting

The Annual General Meeting (AGM) for the 2016 financial year was held on Wednesday, 26 April 2017 at Semcon's head office in Gothenburg, Sweden. Representatives of 41 per cent of the share capital were present, of which underlying shares held by the members of the Nominations Committee represented 35 per cent. Tore Bertilsson was elected to chair the meeting. The Board of Directors, Group management and a representative for Deloitte AB were present at the AGM.

### The AGM resolved on the following:

- \* that a dividend of SEK 2.25 per share [1.25] be paid
- \* to approve the Nominations Committee's proposal of Board members, remuneration to the Board and its chairman
- \* that the Board shall consist of five AGM-elected members
- \* to re-elect Tore Bertilsson, Marianne Brismar,

Jan Erik Karlsson, Jeanette Saveros and Karl Thedéen as Board members. Tore Bertilsson was elected as Chairman of the Board

- \* to newly elect Ernst & Young AB as the registered auditing firm until the close of next AGM
- \* to introduce a long-term performance-based share savings scheme for senior executives and key employees.

As in previous years, the AGM also granted the Board authorisation to:

- \* carry out a new share issue of a maximum 1,811,253 ordinary shares in the company
- \* acquire ordinary shares and transfer ordinary shares. Acquisitions may be made at any time for so many ordinary shares that the company holds a maximum of 10 per cent of all shares following acquisition.

Full minutes and information from the 2017 AGM are available at [semcon.com](http://semcon.com).

## 2018 Annual General Meeting

The AGM for the 2017 financial year will be held on Wednesday, 25 April 2018 at Semcon's head office in Gothenburg, Sweden. More information is available at [semcon.com](http://semcon.com).

## Share structure and voting rights

Semcon has one share class, ordinary shares, with a quotient value of SEK 1 and entitle the owner to one voting right. There were 18,112,534 [18,112,534] ordinary shares at year-end.

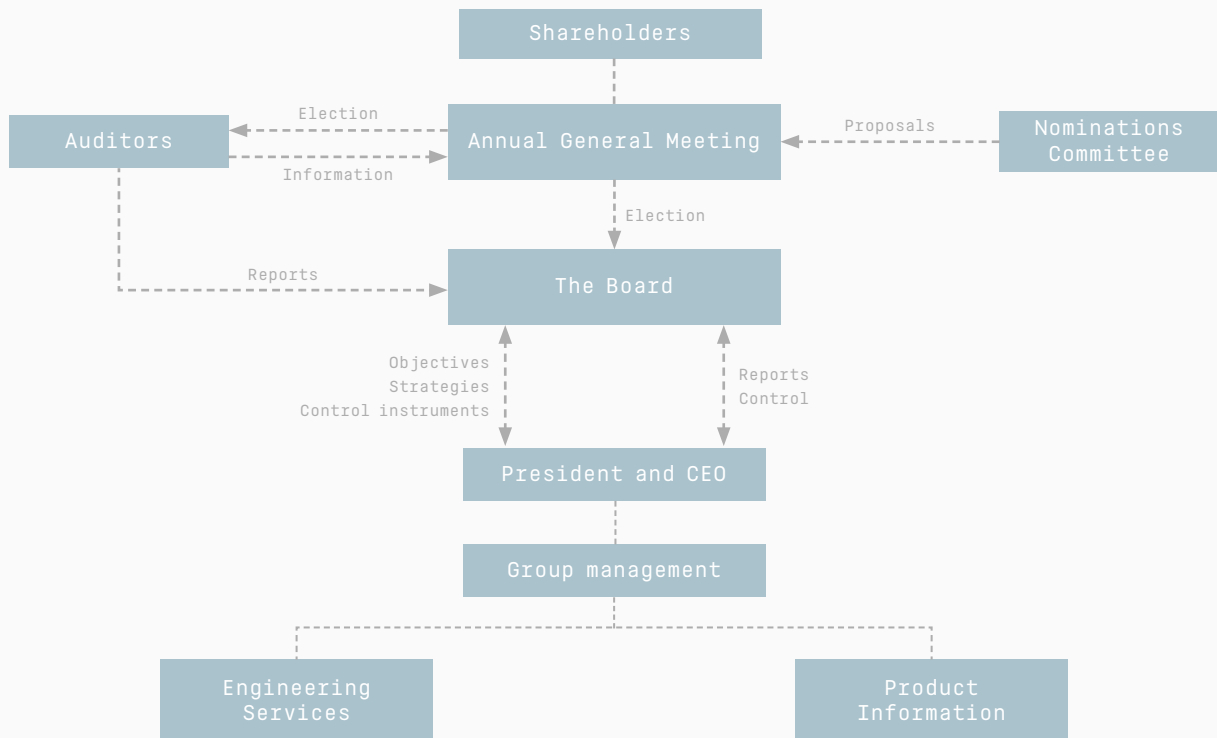
## Shareholder structure

At 31 December 2017, the JCE Group owned 25.9 per cent [25.9] of Semcon's shares, Nordea Investment Funds 7.9 per cent [7.2], Ålandsbanken 5.0 per cent [5.1], DNB Carlson Fonder 3.6 per cent [3.3] and BNYM RE Regents 3.5 per cent [3.4]. Semcon had 4,440 [4,478] shareholders, of whom 33.1 per cent [29.9] were registered abroad.

## Nominations Committee

According to a resolution by the AGM, based on ownership statistics from Euroclear Sweden AB on 31 August for each respective year, the Chairman of the Board must convene the three largest shareholders in the company in terms of votes, who each shall appoint one member to the Nominations Committee. Should any of the abovementioned shareholders waive the right to nominate a member, this right will transfer to the next largest shareholder in terms of voting rights. The member nominated by the largest shareholder will serve as the chairman of the Nominations Committee.

The summary below illustrates how responsibility for management and control of Semcon AB is divided between shareholders at the AGM, the Board, auditors and the CEO according to external regulations and internal policies.



The Nominations Committee is to present proposals to the AGM concerning:

- \* Chairman of the AGM
- \* Chairman of the Board and other Board members, remuneration to the Board and, in certain cases, auditors, and remuneration to the Board and auditors
- \* The decision concerning principles for the composition of the Nominations Committee

The Nominations Committee's members will be announced no later than six months prior to the AGM.

Information about the Nominations Committee's members and how proposals to the AGM can be submitted is available in press releases at [semcon.com](http://semcon.com) and in the Interim Report for the third quarter.

#### 2017/2018 Nominations Committee

The Nominations Committee's members in 2017/2018 consisted of Ulf Gillberg, JCE Group Aktiebolag [Nominations Committee's Chairman], Mats Andersson, Nordea Investment Funds, Claes Murander, Lannebo Fonder and Tore Bertilsson, Chairman of the Board of Semcon AB [co-opted member]. No remuneration was paid to the members. The Nominations Committee met twice in the autumn of 2017 and once in 2018. The basis of the Nominations Committee's work has mainly been the company's strategies and priorities and an evaluation of the Board and its size and composition. The Nominations Committee's proposal for election of Chairman of the Meeting, Board members, Chairman of the Board and auditors is outlined in the notice to attend the AGM, in addition to proposed remuneration to AGM-elected Board members and auditors. Furthermore, proposals are submitted for appointing a Nominations Committee, which is published at the same time on [semcon.com](http://semcon.com). Questions to the Nominations Committee can be submitted to: [valberedning@semcon.com](mailto:valberedning@semcon.com)

#### Nominations Committee ahead of the 2018 AGM

	Representing	Share of voting rights, %*
Ulf Gillberg	JCE Group	25.9
Mats Andersson	Nordea Investment Funds	7.9
Claes Murander	Lannebo Fonder	3.3
Tore Bertilsson	Semcon AB [co-opted member]	
Total		37.1

\* Share of voting rights 31 December 2017

### Board of Directors

The Board is ultimately responsible for the organisation and management of Semcon's business activities. The work of the Board is regulated by the Companies' Act, the Articles of Association and the rules of procedure adopted annually by the Board.

#### Board structure

The General Meeting of Shareholders elects Board members and their deputies in Semcon AB. According to the Articles of Association, the Board must consist of no fewer than three members and no more than eight members with no more than two deputies. Semcon AB's Board consists of five members elected by the AGM with no deputies, and three members and one deputy elected by the employees. Of the eight Board members, of whom three are women, all are Swedish citizens. The Board's composition meets the requirements for being independent set by the Swedish Corporate Governance Code and by Nasdaq Stockholm. See table on page 83.

#### Work of the Board

During the 2017 financial year, the Board held nine regular meetings and two extraordinary meetings per telephone or per capsulam. The Board has adopted a number of steering documents and policies. The Board oversees the CEO's work by continuously monitoring the business throughout the year, and is responsible for ensuring that the organisation, management and guidelines for administering the company's affairs are suitably structured and that there is an appropriate level of internal control. Furthermore, the Board is responsible for developing and following up the company's strategies through plans and objectives, decisions regarding the acquisition and divestment of businesses and major investments. The Board sets out guidelines for the company's conduct in society to ensure its long-term value-adding capability. The Board also approves the six-monthly and annual accounts. The work of the Board adheres to an agenda with fixed points for Board members. The Chairman leads and delegates Board work and ensures that urgent matters in addition to the fixed points on the agenda are addressed. Attendance at Board meetings is presented in the table on page 83. Other salaried employees in the company take part in Board meetings to present reports and as secretary.

#### Board meetings 2017

**February:** Annual accounts and Year-end report 2016, financial report, acquisitions and divestments, remuneration issues, CEO evaluation, auditor procurement, internal control, debriefing of audit [auditors present].

**March:** Review of annual report, proposed resolutions and notice to attend AGM.

**April:** Interim report, January-March, financial report.

**April:** Statutory meeting.

**June:** Review of market, trends and Semcon's position.

**July:** Interim report, January-June, financial report.

**August:** Follow-up and setting of strategies.

**October:** Interim report, January-September, financial report, debriefing of audit [auditors present].

**December:** Business plans and adoption of budget for 2018 for the Group and each of the business areas, decision on share buyback, Board evaluation. In addition, two Board meetings were held by telephone or per capsulam to consider issues such as the approval of acquisitions and divestments.

#### Statutory meeting

At the statutory Board meeting in connection with the AGM, the Board adopted the rules of procedure for the Board, terms of reference for the CEO, subsidiary instructions, financial reporting instructions, authorisation procedures, Code of Conduct and the financial policy.

#### Board evaluation

Board members have evaluated the Board's work, which has been summarised and made available to the Nominations Committee. The areas evaluated cover such aspects as the composition of the Board, its level of expertise, organisation, day-to-day work and working climate. In addition, the Nominations Committee conducted personal interviews with the AGM-elected Board members.

#### Audit Committee

Semcon has decided that the entire Board will carry out the Audit Committee's tasks. The entire Board strives to maintain close contact with the company's auditors so that it can satisfactorily monitor significant issues concerning the company's accounts, reporting procedures, management of company assets and internal control. These types of issues are therefore dealt with by the Board as a whole. To ensure that the Board's need for information is satisfied, the company's auditors report to the Board at least twice a year. Staffan Landén, authorised public accountant and auditor in charge at Ernst & Young AB, has reported his views over the past year on the Group's internal control and procedures for reporting and accounting, and for reviewing the January-September interim report and annual accounts.

### Remuneration issues

#### Remunerations Committee

Semcon has decided that the Board in its entirety will carry out the Remuneration Committee's assignments.

#### Remuneration to the Board

Remuneration to the Board is decided by the AGM following proposals by the Nominations Committee.

The AGM decided that remuneration to the Board in 2017/2018 should be SEK 600,000 [550,000] for the Chairman and SEK 280,000 [265,000] for each of the other Board members not employed by the company.

#### Remuneration to the CEO and senior executives

The AGM decides on remuneration principles and other employment guidelines for the CEO and senior executives who report to him. The Board decides on remuneration to the CEO.

The CEO's remuneration and benefits are presented in Note 9, page 61. Senior executives' remuneration is proposed by the CEO and approved by the Board. All senior executives in Group management are entitled to a fixed salary, which can be supplemented with a variable salary of no more than six months' salary based on how well they meet their respective targets. The fixed salary is adjusted to conditions in the market and set every calendar year. Remuneration guidelines include the individuals, who during the time the guidelines applied, were part of Group management. The Board has the right to deviate from the guidelines if there is just cause to do so in special circumstances. In 2018, the Board of Directors exercised its right to deviate from the guidelines and variable salary can amount to no more than nine months' salary. Senior executives' remuneration and benefits are presented in Note 9 on page 61.

#### Auditors

Ernst & Young AB was elected as the company's auditor by the 2017 AGM until the 2018 AGM. The company's auditor in charge is Staffan Landén (born 1963). His other audit assignments include Vattenfall AB, Polygon AB, Nederman Holding AB and Moment Group AB.

The auditors' interaction with the Board is described above. In addition to auditing, Ernst & Young also provides Semcon with advice on accounting issues. All services provided in addition to the statutory auditing service are checked spe-

cially to ensure there is no conflict of interest or disqualification issue. No senior executive at Semcon has held any position at Ernst & Young over the past five years. Semcon's remuneration to auditors and purchase of services in addition to auditing is presented in Note 8 on page 60.

#### Group management

Group management consists of the CEO, CFO, General Counsel, Director HR and Sustainability, Director Corporate Communications and Marketing and business area presidents, see pages 88-89. Group management holds regular meetings led by the CEO. The meetings follow an agenda and are minuted. In addition to these meetings, a number of meetings are held where all, or parts of, Group management are present along with other employees of the Group. Group management strives to maintain close contact with both business areas in order to support and provide help and the tools to enhance efficiency and in relation to marketing, business development and internal exchange of knowledge.

#### Business areas

Semcon's business activities were organised into two business areas in 2017. Semcon's organisation is characterised by far-reaching decentralisation, according to which every unit is highly independent and is granted extensive powers. In addition to continuous contacts, Group management's control of the business areas is carried out mainly in the form of monthly internal debriefings by business area presidents, controllers and business area management teams with members of Group management.

#### Authorisation and decision-making procedure

The Group has an authorisation and decision-making procedure that clearly regulates powers at every level in the company, from individual employees to Semcon's management. The areas regulated include contract levels, processing of quotes/tenders, investments, rental and lease contracts and over-

Composition of the Board of Directors		Elected	Attendance	Dependent	Audit Committee	Remunerations Committee
Tore Bertilsson	Chairman	2015	11 of 11	Yes*	Yes	Yes
Marianne Brismar	Member	2008	11 of 11	No	Yes	Yes
Jan Erik Karlsson	Member	2016	11 of 11	Yes**	Yes	Yes
Karl Thedéen	Member	2016	10 of 11	No	Yes	Yes
Jeanette Saveros	Member	2016	9 of 11	No	Yes	Yes
Christer Eriksson	Employee representative	2007	11 of 11		Yes	Yes
Mats Sällberg	Employee representative	2014	11 of 11		Yes	Yes
Monique Pehrsson	Employee representative	2014	9 of 11		Yes	Yes

\*Tore Bertilsson is not independent of major shareholders.

\*\*Jan Erik Karlsson is not independent of major shareholders.

A presentation of Board members is available on pages 86-87.

heads. The organisation of an assignment or project varies according to its size, location and complexity. Semcon is certified and applies quality and environmental management systems according to ISO 9001:2008 and ISO 14001:2004, which are reviewed on a regular basis by external auditors.

*Further information about corporate governance*

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

- \* More in-depth information about internal control instruments, such as the Articles of Association and Code of Conduct
- \* Information from Semcon's AGMs from 2005 and onwards [notices to attend meetings, minutes, etc.]

**Internal control over financial reporting**

The Swedish Companies Act regulates the Board and CEO's responsibility concerning internal control. The Board's responsibility is also regulated by the Swedish Corporate Governance Code, which includes requirements for annual external information disclosure concerning the manner in which the financial reporting is organised.

**Internal control**

Semcon has defined internal control as a process designed to provide reasonable assurance that Semcon's objectives are achieved in terms of appropriate, efficient operations, reliable reporting, and procedures for complying with applicable rules and regulations. The internal control is influenced by the Board, CEO, Group management and other employees and is based on a control environment that creates the basis for the other four components in the process - risk assessment, control activities, information and communication, and monitoring. The process bases itself on the framework for internal control issued by the Committee of the Sponsoring Organizations of the Treadway Commission [COSO]. The control environment includes the values and ethics that the Board, CEO and Group management communicate and use and that are documented in Semcon's Code of Conduct. It also includes the Group's organisational structure, management, decision-making channels, authorisations and responsibilities as well as the expertise of employees. Semcon's mission, objectives and strategies are the basis of day-to-day work. Semcon is characterised by a decentralised organisation based in target-oriented management.



*Framework for internal control*

drawn up in accordance with the Swedish Corporate Governance Code and the current application instructions and constitutes the Board's report concerning internal control over financial reporting.

**Control environment**

The Board has overall responsibility for the internal control over financial reporting. The Board has set out written rules of procedure that clarify the Board's responsibilities and that regulate the work of the Board. The Board will ensure that established principles for financial reporting and internal control are observed and that appropriate relationships with the company's auditors are maintained. The Board has prepared terms of reference for the CEO and instructions for financial reporting. The Group's internal control function provides support for the internal control over financial reporting in the Group's companies and business areas. Internal control instruments for financial reporting consist of the Group's financial policy, credit policy, information policy, investment rules, authorisation rules and the Group's accounting and reporting rules. Semcon's ethical values are documented in the

Group's Code of Conduct, and staff policies complement other rules and instructions for employees. In recent years, much time and effort has been spent on the Group's management systems and to establish clearer procedures and regulations for submitting tenders/bids, contractual terms and for signing agreements. To ensure adherence to these rules, a number of training initiatives were completed during the year. A further two projects were carried out in recent years to fully harmonise the Semcon Group's projects, processes and financial processes at all subsidiaries.

**Internal control over financial reporting**

Internal control over financial reporting aims to provide reasonable assurance concerning reliability of the external financial reporting in the form of interim reports, year-end reports and annual reports, and that the external financial reports are prepared in accordance with laws, applicable accounting standards and other requirements imposed on listed companies. The following description has been

**Risk assessment**

Semcon's risk assessment regarding financial reporting - meaning identification and evaluation of the most significant risks in the Group's companies, business areas and financial reporting processes - forms the basis for how these risks are

managed. Management takes the form of accepting, reducing or eliminating the risk. Annual evaluation activities are carried out by the internal control function using a risk-based model. A number of criteria are considered to assess the degree of risk of inaccuracies occurring in financial reporting. Complex accounting policies might, for example, mean that the financial reporting risks being inaccurate for the items covered by such policies. Measuring certain assets or liabilities using various assessment criteria might also constitute a risk. The same applies to complex and/or changed business conditions.

### Control activities

The significant risks identified for financial reporting are managed through various control activities and processes in the Group's companies and business areas, and aim to safeguard that the basic demands on external financial reporting are met. The control activities build on the Group's minimum requirements for internal control over financial reporting and consist of comprehensive, detailed controls that can be preventative and exploratory in nature. The respective business areas are responsible for the Group's control instruments being implemented and observed and that any possible deviations are reported.

### Information and communication

Information and communication about internal control instruments for financial reporting is published on Semcon's intranet, which is accessible to every employee. External communication consists of, for example, external financial reporting, such as interim reports and the Annual Report. There is a communication manual to support the

information procedures in the Group. This clearly states who is allowed to communicate what type of information and that the information must be correct, coordinated, consistent, prompt and transparent, both internally and externally.

### Monitoring

Monitoring to ensure effective internal control over financial reporting is carried out by the Board, CEO, Group management, the internal control function and the Group's companies and business areas. Monitoring is carried out informally and formally and comprises follow-ups of monthly financial statements against budgets and objectives as well as quarterly reports, which in certain cases is supplemented with independent reviews by external auditors. Monitoring and reporting to the Board function effectively. Semcon has introduced a Group-wide reporting system for work related to internal control over financial reporting, which includes self-evaluation of all the Group's companies and business areas. This provides an overview of how the Group's subsidiaries and business areas meet the minimum requirements for internal control over financial reporting for material risks identified and also provides information concerning the status of the work. Each company and business area is responsible for preparing action plans for deviations, which are subsequently followed-up by the respective internal board of each business area. In view of the results of these activities, the company has thus far found no reason to introduce a special internal audit function.

Gothenburg, 20 March 2018

Board of Directors

## Auditor's report on the corporate governance statement

To the general meeting of the shareholders of Semcon AB [publ], corporate identity number 556539-9549.

### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2017 on pages 80-85 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

We believe that the examination has provided us with sufficient basis for our opinions.

### Opinions

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

Gothenburg, 21 March 2018

Ernst & Young AB

Staffan Landén  
Authorized Public  
Accountant

Nina Bergman  
Authorized Public  
Accountant