

## Corporate Governance Report 2013

### Introduction

SinterCast will focus primarily on providing process control technology and know-how for the reliable high volume production of Compacted Graphite Iron. SinterCast will promote CGI within the foundry and end-user communities to increase the overall market opportunity for CGI and to define the forefront of CGI development, production and application. This focus and these efforts will secure SinterCast's global leadership in the field of CGI. SinterCast will also build upon its technical expertise in thermal analysis and cast iron process control to develop and launch new technologies beyond the core CGI market. These focused activities will provide the foundation for increasing the long-term value of the Company for its shareholders. As a technology lead Company, SinterCast will grow and prosper by earning the respect of its customers.

Corporate Governance at SinterCast is aimed at ensuring the continued strong development of the company and, consequently, that the Group fulfils its obligations to shareholders, customers, employees, suppliers, creditors and society.

Corporate Governance at SinterCast includes: establishing the overall operational goals and strategy of the company;

ensuring that there is an effective system for follow-up and control of the company's operations; ensuring that there is a satisfactory process for monitoring the company's compliance with laws and other regulations relevant to the company's operations; and, defining necessary guidelines to govern the company's ethical conduct and ensuring that the company's external communications are characterised by openness and that such communications are accurate, reliable and relevant. The Group's risks are well-analysed and risk management is integrated in the work of the Board and in operational activities.

### External and Internal Regulation of Corporate Governance

The Swedish Annual Accounts Act prescribes that listed companies shall, on a yearly basis, present a Corporate Governance Report, to be included in the Annual Report. Corporate Governance is a question of ensuring that companies are run as efficiently as possible on behalf of the shareholders. The Swedish Companies Act defines the legal framework for limited liability companies including rules for the Articles of Association, the share, the Annual General Meeting (AGM), and the Management of the company. The Corporate Governance Report must be in accordance with the Swedish Code of Corporate Governance which is applicable to all Swedish companies whose shares are traded on a regulated market in Sweden.

## Board of Directors' Report on Internal Control and Risk Management of the Financial Reporting

The Board of Directors has the overall responsibility for internal control relating to financial reporting and an important part of the Board's work is to issue controlling instructions. The Board has established a Work Programme that clarifies the Board's responsibilities and regulates the internal distribution of work between the Board, its Committees and the Management. The Finance Policy and the Authorisation Policy, including the organisation chart, constitute other important controlling documents. The Board of Directors has established SinterCast's Finance Policy to manage different types of risks. The objective of this policy is to maintain a low risk profile. Operational risks have been discussed and evaluated during most Board Meetings. The entire Board constitutes the Audit Committee. The primary task of the Audit Committee is to ensure that established principles for financial reporting and internal control regarding financial reporting are followed and that appropriate relations are maintained with the company's auditors. During the year, the Audit Committee established a separate Review Group. The primary task of the Review Group is to ensure the quality of the Financial Reports.

### Risk Assessment

The Business is monitored in a structured process and associated risks have been discussed and evaluated during most Board Meetings. Any significant risks will result in changes in the instructions for the preparation of Financial Reports. Processes to track changes in accounting regulations to ensure that these changes are implemented correctly in the financial reporting are in place, in which the external auditors play an important role.

### Control Activities

The primary purpose of control activities is to prevent, or to discover at an early stage, errors in the financial reporting so that these can be addressed and rectified. Control activities take place on both higher and more detailed levels within the Group. Routines and activities have been designed in order to find and rectify significant risks associated with the financial reporting.

### Information and Communication

All external information must be provided in accordance with the listing agreement for listed companies in Sweden. The Board of Directors approves the Group's Annual Report and interim reports. All financial reports are published on the website after having first been sent to NASDAQ OMX stock exchange, Stockholm. Information concerning the Group may only be provided by the Managing Director.

### Monitoring

The Board's monitoring of the internal control with respect to financial reporting takes place primarily through the Audit Committee follow-up on the Financial Reporting, by reports from the external auditors and through internal self-assessment reported to the Board.

### Outcome 2013

The yearly evaluation of the need for a separate internal audit function has been discussed and, given the size of the company and the cost to add more functions, it was concluded that there is currently no need for a separate audit function. The internal control over financial reporting has functioned well during the past financial year and no material weaknesses have been observed.

## Overview of Corporate Governance of the SinterCast Group



## SinterCast Shareholders

The SinterCast shares have been listed since 26 April 1993 and are quoted on the Small Cap segment of the NASDAQ OMX stock exchange, Stockholm. Swedish shareholders hold and control 80.9% (79.5%) of the capital and votes in SinterCast AB. The largest shareholder, UBS AG Clients Account (Switzerland), controlled 11.2% (11.8%) of the capital and votes as a nominee shareholder. SinterCast AB had 3,623 (3,396) shareholders on 31 December 2013. The ten largest, of which four (four) were nominee shareholders, controlled 45.0% (46.7%) of the capital and votes. As of 31 December 2013, the SinterCast Board, management and employees controlled 1.0% (1.0%) of the capital and votes.

## Annual General Meeting (AGM) 2013

The AGM was held on Wednesday 15 May 2013, in Stockholm, Sweden. All Members of the Board, the Group Management, the Nomination Committee and the external Auditor were present during the meeting. The AGM was attended by 44 (54) shareholders, in person or by proxy, representing 1,430,069 (1,874,212) votes.

Jan Rynning was elected as Chairman of the AGM. During the AGM, presentations were provided by Mr Terry Aldea, Global Executive, Casting and Forging, Ford Motor Company and by Dr Steve Dawson, Managing Director. During the presentation, Dr Dawson presented an overview of recent market activities and provided an outlook for SinterCast's potential market development.

The AGM adopted the Annual Report and the consolidated financial statements as of 31 December 2013, as presented by the Board of Directors and the Managing Director; decided upon allocation of the company's result; and, granted the Directors and the Managing Director discharge from liability.

The Nomination Committee presented how it conducted its work during the year and presented its proposals.

During the AGM, Ulla-Britt Fräjdin-Hellqvist, Aage Figenschou, Robert Dover, Laurence Vine-Chatterton and Steve Dawson were re-elected as Board Members. Hans-Erik Andersson was elected as a new Board Member. Andrea Fessler declined re-election after ten years of service to the Board. Ms. Fessler was thanked for her contributions and devotion. Ulla-Britt Fräjdin-Hellqvist was re-appointed as Chairman. The AGM decided, for the period until the next AGM, that the Board shall receive a total remuneration of SEK 840,000 (SEK 780,000). The AGM decided the Nomination Committee to consist of three members and re-elected Ulla-Britt Fräjdin-Hellqvist, in her capacity as Chairman of the Board of Directors and Karl-Arne Henriksson as Chairman of the Nomination Committee. Andrea Fessler was elected as a new member of the Nomination Committee.

The Annual General Meeting decided upon a remuneration policy in respect of the Managing Director and other members of the Group Management, and authorised the Board to decide upon acquisition and disposal of SinterCast shares, as proposed by the Board of Directors.

## Board of Directors

During the AGM 2013, Ulla-Britt Fräjdin-Hellqvist, Aage Figenschou, Robert Dover, Laurence Vine-Chatterton and

Steve Dawson were re-elected as Board Members. Hans-Erik Andersson was elected as a new Board Member, Ulla-Britt Fräjdin-Hellqvist and Aage Figenschou were re-elected as Chairman and Vice Chairman respectively. The remuneration, decided at the AGM 2013, shall be divided between the Chairman SEK 280,000 and the four ordinary Board Members SEK 140,000 each, with no remuneration for the Managing Director. With the exception of the Managing Director, no member of the Board holds an operational position in the company. A more detailed description of the Board of Directors is presented on page 16.

## Statutory Board Meeting

In the statutory Board meeting held immediately after the AGM, Ulla-Britt Fräjdin-Hellqvist was re-confirmed as Chairman of the Board and Aage Figenschou was re-confirmed as Vice Chairman. The Compensation Committee, elected by the Board, consists of Ulla-Britt Fräjdin-Hellqvist and Aage Figenschou. Steve Dawson was re-elected Managing Director for SinterCast AB (publ) and President & CEO of the SinterCast Group. Further, the entire Board was elected to constitute the Audit Committee and Aage Figenschou and Laurence Vine-Chatterton were elected to constitute the Review Group.

## The Board's Establishment of Committees and its Work

### Nomination Committee

#### *Nomination Committee prior to the AGM 2013*

The Nomination Committee, elected by the AGM 2012, consisted of Karl-Arne Henriksson (Chairman), Torbjörn Nordberg and Ulla-Britt Fräjdin-Hellqvist. The Committee concluded that the current Board fulfilled the demands imposed on it in consideration of the company's position and future focus. As a result of this review, the Nomination Committee proposed to the AGM 2013, re-election of the Board members, with the exception of Andrea Fessler who declined re-election, and election of Hans-Erik Andersson as a new Board member. The Nomination Committee proposed the Board remuneration to the AGM, for the period until the next AGM.

#### *Nomination Committee after the AGM 2013*

The Nomination Committee, elected by the AGM 2013, consists of Karl-Arne Henriksson (Chairman), Andrea Fessler and Ulla-Britt Fräjdin-Hellqvist. The Chairman of the Board has described to the Nomination Committee the process applied for the annual evaluation of the Board of Directors, Managing Director and Group Management and has provided information regarding the results of these evaluations. The Nomination Committee's proposals are to be presented in the notice of the AGM and on the company's website. During the AGM 2014 the Nomination Committee will also present how it conducted its work and explain its proposals. Since the AGM 2013, the Nomination Committee of SinterCast carried out several informal meetings and one minuted meeting.

The Nomination Committee can be contacted at the following e-mail address: [nomination.committee@sintercast.com](mailto:nomination.committee@sintercast.com).

### Compensation Committee

The Compensation Committee, elected by the Board, consists of Ulla-Britt Fräjdin-Hellqvist and Aage Figenschou. The Board has established a Work Programme that defines the tasks and responsibilities of the Compensation Committee.

Since the AGM 2013, the Compensation Committee carried out two minuted meetings. The Board was informed of the Compensation Committee's activities and confirmed its decisions.

#### *Audit Committee*

During the statutory Board meeting, all Board Members were elected to sit on the Audit Committee and two Board members were elected to constitute a separate Review Group. The primary task of the Review Group is to ensure the quality of the Financial Reports.

On behalf of the Board, the responsibility of the Audit Committee is to ensure that the company has adequate internal controls and formal routines to ensure that approved principles for financial reporting and internal controls are applied, and that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee met the Auditors during the year to discuss audit reports and audit plans. The Committee also meets the Auditor in the absence of the Group Management.

The Audit Committee is responsible for the evaluation of the Auditors' work and the Auditors' efficiency, qualifications, fees and independence. The Audit Committee assisted the Nomination Committee with proposals for potential Auditors, which will be resolved during the Annual General Meeting. The Audit Committee also determined and identified risks to be handled in order to ensure good internal control and risk management. The Audit Committee prepared and approved the Corporate Governance Report for 2013. Since the AGM 2013, the Audit Committee carried out four minuted meetings. The Review Group reviewed the four interim reports in detail and provided feedback to the Finance Director.

#### **External Auditor**

At the AGM 2010, Öhrlings PricewaterhouseCoopers was re-appointed as Auditor until the AGM 2014. Anna-Carin Bjelkeby was appointed as Auditor in charge by Öhrlings PricewaterhouseCoopers. When Ms. Bjelkeby left PWC in November 2013, Tobias Strähle was appointed as Auditor in charge by PWC. The Auditor in charge has had two Auditors assisting in the audit work during the year. The audit follows an audit schedule, based on the Auditors risk assessment, in agreement with the Audit Committee.

Prior to the AGM 2013, in conjunction with the approval of the Annual Report 2012, the Auditor met with the Audit Committee. The Auditor reported its audit of the company's annual accounts and consolidated accounts and accounting practices and reported its observations directly to the Audit Committee. The Auditor provided a presentation of the Audit Plan for 2013 during the May Audit Committee meeting and met with the Board of Directors at the May and November Board meetings where the Auditor reported its observations directly to the Board of Directors without the presence of the Group Management. The Auditor has audited the company's annual accounts and accounting practices and reviewed the Board's and the Managing Director's management of the company. The Auditor presented the annual Audit Report at the AGM 2013. The Audit Report contained a statement that



**Auditor**  
**Öhrlings**  
**PricewaterhouseCoopers AB**  
**Tobias Strähle, Authorised Public**  
**Accountant**  
 Company auditor since 2013.  
 Assignments: Vendator AB,  
 ExeoTech Invest AB, Advanced  
 Stabilized Group AB

the Annual Report has been compiled in accordance with the relevant legislation and recommended that the Directors and the Managing Director shall be discharged from liability. The Auditor provided a follow-up of the Audit Plan for 2013 during the November Audit Committee meeting and presented the result from the review procedures on the Interim Report July-September 2013 and gave audit feedback from the interim audit procedures that was conducted during the third quarter of 2013.

#### **Chairman of the Board**

The Chairman directed the Board's activities and promoted the overall efficiency of the Board. The Chairman ensured that the Board's activities were conducted in accordance with the Swedish Companies Act and other applicable laws and regulations and ensured that the resolutions of the Board were implemented. The Chairman also conducted the evaluation of the Board's activities and shared the evaluation with the Nomination Committee. The Chairman proposed the agenda for each Board meeting in consultation with the Managing Director. The Chairman had regular communication with the Managing Director, relayed opinions from shareholders to the other Board Members and acted as spokesperson on behalf of the Board.

#### **Board Meetings**

During 2013, the Board of Directors of SinterCast carried out eleven minuted meetings. In connection with every quarterly report, the Managing Director presented the market and financial outlook and reported on operations and important current events. In addition, the Managing Director provided the Board with monthly reports including significant events and financial information. The Board of Directors dealt with long-term strategies, structural organisational issues, approval of the budget for the following year, the annual evaluation of the Board of Directors and risk assessment. Individual Board members also assisted the Group Management in various strategic and operational matters.

There were no material transactions between the company and any of the Board Members during the year with the exceptions of the ordinary Board fees and reimbursements and the final tranche of the employee stock option programme for the Managing Director. It was decided that the Board Members could invoice the Board fee, provided that it was cost neutral to the Company.

## Articles of Association, Work Programme and Other Instructions

The Articles of Association defines name, location, objectives of the company, number of shares, number of the Board members, number of Auditors, and proceedings for convening Annual General meetings. Changes to the Articles of Association must be decided by the AGM. The Articles of Association of SinterCast do not regulate dismissal of Directors.

Each year the Board adopts a written Work Programme documenting the Board's responsibilities and regulating the internal division of duties between the Board, its Committees and Group Management, the decision-making process within the Board, the Board's meeting schedule, summonses to Board meetings, agendas and minutes, and the Board's and its committees work on accounting and auditing matters and financial reporting. The Work Programme also regulates how the Board is to receive information and documentation in order to be able to make well informed decisions. Other controlling documents adopted by the Board include the Finance Policy and the Authorisation Policy, including the organisation chart. During the year, the Board established a formal Code of Conduct for the company, to clearly define how SinterCast and its employees shall behave and interact with business partners.

## Managing Director and Group Management

SinterCast's Board appointed Steve Dawson as the Managing Director for SinterCast AB (publ) and President & CEO for the Group. The Managing Director is responsible for the operational management of the company in accordance with the Board of Directors' instructions and guidelines. The Managing Director assisted the Chairman with the preparation for each Board Meeting and distributed information according to the Work Programme to be decided upon by the Board. The Managing Director established, as the President & CEO for the SinterCast Group, the Group Management team including the Operations Director and the Finance Director. More detailed information of the Managing Director and the Group Management is presented on page 15.

## Remuneration Policy for Group Management

The AGM 2013 established guidelines for the remuneration policy in respect of the Managing Director and other members of the Group Management. The remuneration shall consist of a balanced combination of fixed remuneration, variable remuneration, long-term incentive programmes, pension and other benefits. The total remuneration shall be in accordance with market practice and shall be based on performance. The fixed remuneration shall be individually determined and shall be based on each individual's responsibility, role, competence and position. Variable remuneration shall be based on predetermined targets on the Group level and the individual level, considering the effect on the long term result. In extraordinary situations a special compensation may be paid out to attract and retain key competence. Variable remuneration and special compensation (i.e. excluding remuneration according to long-term incentive programmes adopted by the Annual General Meeting) may not exceed

an amount corresponding to 75 percent of the fixed annual salary. Pension benefits are in the form of defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Upon termination by the company, the notice period for the Managing Director is nine months, and six months for the other members of the Group Management. Upon termination of the Managing Director by the company the Managing Director is entitled to a severance payment of nine months compensation. For the other members of the Group Management, severance pay does not exist. As regards the Managing Director, in the case of notice being provided by the company, no deduction shall be made for remuneration paid by another employer. The Board of Directors and, on behalf of the Board of Directors, the Compensation Committee, shall be entitled to deviate from the guidelines if there are specific reasons or needs in an individual case. The main conditions for remuneration to Group Management in the current employment agreements are described on page 38 and 39 in the Annual Report 2013. The Board proposes unchanged guidelines for remuneration to Group Management to the 2014 AGM.

## Employee Stock Option Programme

The final tranche of the options in the employee stock option programme 2010-2013 was exercised during the fourth quarter. The employees exercised 114,480 warrants at the subscription price of SEK 50.34 and a total amount of SEK 5.8 million was paid to the Company. The increase of the equity and cash was SEK 5.6 million, after expenses and fees related to the exercise of the options. As of 31 December 2013, there were no outstanding shares or share-based incentive programs for Board members, the Managing Director or the employees.

## Summary

According to the Swedish Companies Act, the Board is responsible for ensuring that the company's organisation is designed in such a way that the bookkeeping, financial management and the company's financial conditions are controlled in a satisfactory manner. The Swedish Code of Corporate Governance clarifies and prescribes that the Board is to ensure that the company has adequate internal controls and formal routines to ensure that approved principles for financial reporting and internal controls are applied, and that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies.

It has been decided by the Board that SinterCast shall comply with the Swedish Code of Corporate Governance and present a Corporate Governance Report in accordance with the Code including the Board of Directors' Report on internal control of financial reporting. The Corporate Governance Report is without any major deviations from the Corporate Governance code, as SinterCast's procedures and routines are compliant with the code.