

# BTS Group AB (publ)

## 2008 Corporate Governance Report

BTS Group AB is a public limited liability company headquartered in Stockholm, Sweden. The Company is listed on NASDAQ OMX Stockholm.

The BTS Group AB has applied the Swedish Code of Corporate Governance since July 1, 2008, and is submitting this corporate governance report for 2008.

The Swedish Code of Corporate Governance (the Code) is a set of rules and regulations for listed companies and complements legislation, companies' own articles of association, and other rules by specifying a norm for good corporate governance. The Code deals with the systems and corporate and decision-making bodies through which owners directly or indirectly control their company and is intended to safeguard the investments of shareholders and the assets of the Group as well as to insure that the financial information provided by the company is reliable. Any deviations from the Code are explained in connection with each section.

The corporate governance report does not constitute a part of the formal financial statements and has not been reviewed by the Company's auditors.

### **Corporate governance structure**

The corporate bodies of BTS Group AB comprise the following.

- |                               |  |
|-------------------------------|--|
| Annual General Meeting (AGM)  | - highest decision-making body   |
| Board of Directors            | - has ultimate responsibility for the Company's organization and management                  |
| Chief Executive Officer (CEO) | - has responsibility for day-to-day management   |
| Auditors                      | - audit the Board of Directors' and CEO's management at the request of the shareholders/AGM. |

### **Shareholders**

The total number of shares outstanding is 18,048,300, consisting of 853,800 Class A and 17,194,500 Class B shares. Each Class A share entitles the holder to 10 votes per share, each Class B one vote per share.

At December 31, 2008, BTS Group AB had approximately 700 shareholders. The 10 largest shareholders had total shareholdings corresponding to 72.9% of

shares and 81.0% of votes. A list of the largest shareholders is found on page YY of the annual report.

### **Annual General Meeting**

BTS's highest decision-making body is the Annual General Meeting (AGM). Notice of the AGM shall be published no earlier than six weeks and no later than four weeks before the Meeting and shall appear in *Post- och Inrikes tidningar* and *Svenska Dagbladet*. All shareholders who are entered in the share register on a certain record date and have notified the Company in time of their intention to participate in the meeting may do so. Shareholders unable to attend can be represented by proxy.

The AGM elects the Company's Board and the Chairman of the Board. The business of the AGM includes

- adopting the income statement and balance sheet,
- determining the appropriation of the Company's earnings,
- determining whether to discharge the members of the Board and the CEO from liability to the Company,
- electing auditors, and
- determining fees to be paid to the Board and auditors.

### **2008 Annual General Meeting**

The 2008 Annual General Meeting was held on Wednesday, May 7, 2008, at the Company's offices in Stockholm. Nineteen shareholders attended, representing 47.8% of the number of shares outstanding and 62.7% of the votes. All members of the Board and the Company's auditors participated in the Meeting. Decisions made included the following.

- The income statement and balance sheet and the consolidated income statement and balance sheet for fiscal 2007 were adopted.
- The proposed dividend of SEK 1.20 per share was approved.
- The Board of Directors and CEO were discharged from liability for management during the fiscal year as recommended by the auditors.
- A total of SEK 525,000 in fees was approved to be paid to those members of the Board who receive no salary from the Company or any subsidiary, of which SEK 275,000 shall be paid to the Chairman and SEK 125,000 each to other members.
- Auditors' fees were approved to be paid based on approved invoices.
- Mariana Burenstam Linder, Henrik Ekelund, Stefan Gardefjord, and Dag Sehlin were re-elected members of the Board for the period up until the next AGM. Dag Sehlin was re-elected Chairman of the Board.
- Guidelines for compensation and other conditions of employment for senior executives were adopted.
- The Board of Directors was authorized to decide, during the period until the next annual meeting, whether to issue shares or convertible instruments that would result in a maximum of 1,200,000 Class B shares being issued for

capital contributed in kind or as offsets. This authorization referred to corporate acquisitions.

In addition, the AGM was informed that Öhrlings PricewaterhouseCoopers had appointed Magnus Thorling as the new managing auditor for the Company's audit.

### **Nominating committee**

The nominating committee has the task of preparing and submitting proposals to the AGM concerning the following, when relevant.

- Election of a president for the AGM
- Election of the Chairman of the Board and other members of the Board
- Board fees: in total and divided among the Chairman and other members of the Board as well as compensation for work on committees, when relevant
- Audit fees
- Election of auditor and deputy auditor, when relevant
- Adoption of a policy for appointing the nominating committee

A nominating committee for BTS Group AB was appointed on October 27, 2008. BTS's three largest shareholders in consultation with Chairman of the Board Dag Sehlin appointed Anders Dahl, Dag Sehlin, and Stefan af Petersens to the nominating committee; Anders Dahl was appointed chair.

Shareholders in BTS Group AB have been able to contact the nominating committee to propose candidates to the Board.

All of the nominating committee's candidates based on the above will be announced in the notice for the 2009 AGM. The nominating committee's statement supporting its proposal for the Board of Directors of BTS Group AB as well as the information about the candidates recruited by the nominating committee will be published on BTS's web site when its proposal is announced.

### **Board of Directors**

The Board of Directors has ultimate responsibility for the Company's organization and management and is appointed by the shareholders at each AGM for the period from that meeting until the end of the next. BTS's Board decides on issues such as strategic direction, acquisitions, investments, financing, and Group-wide policies. BTS's Board shall also insure proper disclosure to BTS's various stakeholders.

The articles of association specify that the Board of Directors of BTS shall consist of no fewer than three and no more than eight members. The AGM held on May 7, 2008, decided that for the period until the next annual meeting the Board would consist of four members and no deputy members.

Once each fiscal year, the work of the Board is assessed, either by the Board itself or with the help of external parties, providing a basis for the Board's procedures in the future.

The Board of Directors is deemed to comply with the NASDAQ OMX Stockholm marketplace rules and the Swedish Code of Corporate Governance as regards requirements on independence of members of the Board to the Company and Company management.

### Composition and independence of the 2008 Board

Member	Position	Elect ed	Indepen dent	Board meeting attendanc e
Dag Sehlin	Chairman of the Board	2003	Yes	100%
Mariana Burenstam Linder	Member	2004	Yes	90%
Henrik Ekelund	Member	1986	No <sup>1</sup>	90%
Stefan Gardefjord	Member	2003	Yes	100%

<sup>1</sup> Henrik Ekelund is the largest shareholder and is President and CEO of BTS Group.

### The work of the Board of Directors

In addition to legislation and recommendations, a written set of procedures adopted annually governs the work of the Board of Directors. The Board's set of procedures is intended to clarify and regulate the Board's tasks and how it works as well as the division of responsibilities among the Chairman, other members of the Board, and the CEO. According to these procedures, the Board shall normally hold a minimum of four ordinary meetings. At each of these meetings, the Board deals with issues of material significance to the Company. In addition, the Board receives reports from senior management about current business conditions in the Group's market segments. Board meetings are held periodically in connection with the Company's financial reports. The Board deals with the year-end report and proposed appropriation of earnings in February, interim reports in April, August, and October, and the budget for the coming year at the December meeting. Occasionally, an issue is delegated to the Chairman of the Board and the CEO for joint deliberation. The Company's Chief Financial Officer (CFO) serves as Board secretary. During the past year, 10 meetings were held. Procedures for assessing the work of the Board were determined in November for assessment and discussion in the beginning of 2009.

### Compensation to the Board

The AGM held on May 7, 2008, approved a total of SEK 525,000 in fees to be paid to those members of the Board who receive no salary from the Company or

any subsidiary, such that SEK 275,000 be paid to the Chairman and SEK 125,000 each to the members who receive no salary from the Company.

Members of the Board in the Parent Company have received compensation only in the form of Board fees. Members of the Board are not included in any incentive programs for the Group related to shares or share prices.

### **Compensation committee**

The compensation committee has the task of reviewing and recommending to the Board policies for compensation, including performance-based payments and pension benefits for the Company's senior executives. Issues concerning the CEO's terms of employment, compensation, and benefits are prepared by the compensation committee and decided by the Board. The duties of the compensation committee were performed during the year by the Board as a whole excluding the CEO.

At the AGM to be held on April 29, 2009, the Board of Directors will present its proposed policies for compensation and other conditions of employment for executive management for the approval of the AGM.

More information about compensation to senior executives is found in the annual report, Note 7.

### **Audit committee**

The task of the audit committee is to prepare the work of the Board of Directors to assure the quality of the Company's financial reports. The audit committee also adopts guidelines on the other services in addition to auditing that the Company may procure from the Company's auditors. The committee is also tasked with providing the nominating committee with an assessment of the audit work and of assisting the nominating committee in preparing the nominating committee's proposal to the AGM for the election of auditors as well as the size of the audit fees.

During the year, the duties of the audit committee were performed by the Board as a whole. The Company's CFO, also the Board secretary, prepared the business for the Board's meetings. During specific parts of the auditor's review with the audit committee, neither the CEO nor the Board secretary participates, allowing the Board to have private discussions with the auditor in compliance with the Code. In addition, each member of the Board can contact the auditors directly.

### **Auditors**

The auditors examine the management of the Company by the Board of Directors and CEO and the quality of the Company's accounts and they report the results of their audit to the shareholders through the auditors' report, which is submitted at the AGM. In addition, the auditor participates in the Board meeting

when the final accounts are presented and submits a report on the audit of the Company's earnings, financial position, and internal audit. The Company's auditor may also submit a statement of his/her findings directly to the Chairman of the Board, if deemed necessary.

The auditor is selected by the AGM for a period of four years. The 2005 AGM re-elected the registered public accounting firm Öhrlings PricewaterhouseCoopers and managing auditor Lars Berglund for the period until the 2009 AGM. Lars Berglund resigned at the 2007 AGM, and Magnus Thorling was elected the new managing auditor.

More information about compensation to auditors is found in the annual report, Note 4.

For 2008, the Company's auditors did not audit BTS's semiannual report or the nine-month interim report, which deviates from the rules of the Code. The Board of Directors has determined, after checking with the Company's external auditors and others, that to date the additional costs of such audits have not been justifiable.

### **Senior executives**

BTS's senior executives include:

Henrik Ekelund, President & CEO of BTS Group AB,  
Stefan Brown, CFO and Vice President of BTS Group AB, and  
Jonas Åkerman, President of BTS USA Inc.

More information about senior executives is found on page XX of the annual report.

### **Guidelines for compensation and other terms of employment for senior executives**

The AGM held on May 7, 2008, adopted policies for compensation to senior executives such that BTS shall employ persons on terms and at salaries commensurate with the market to be able to recruit and retain employees with excellent skills and of a high caliber to reach the Company's goals. When employing persons outside Sweden, the Company shall comply with each country's generally accepted forms of employment and good practice.

Forms of compensation are intended to achieve a consensus on the long-term view of operations by rewarding performance that benefits the Company and thus the shareholders. Compensation paid to individual employees will be based on their position and tasks, performance, skills, and experience. Compensation will normally consist of a fixed basic salary and defined-contribution pension benefits, the latter no more than 30% of the fixed basic salary. When deemed appropriate, the basic salary and pension benefit can be augmented by variable

compensation, other benefits, and participation in incentive programs. Only the CEO in the Parent Company is entitled to a severance package, corresponding to 12 months' salary if the Company terminates his employment contract.

The Board is entitled to deviate from the principles above in individual cases under special circumstances.

### **Information and communication**

The overall goal of BTS's communication is to provide shareholders and employees, actors in the market, and other stakeholders with an up-to-date, true, and fair view of the Company and its operating activities. Communication shall be correct, credible, characterized by close relationships with the Company's stakeholders, and based on frequent contact, clarity, and good ethics. BTS believes that high-quality efforts in communication actively contribute to strengthening confidence in the Company and management, making it easier to achieve business objectives.

BTS publishes up-to-date information about the Company on its web site. Interim reports and annual reports are published in Swedish and English. Events that could be expected to affect the share price are announced in press releases. In addition, the Company communicates with mass media, capital markets, and shareholders when interim reports are published and also participates in other activities on an ongoing basis.

### **The Board of Directors' description of internal control concerning financial reports**

Good corporate governance is about organization and routine, the proper handling of financial information, and minimizing risk. A good control environment is also based on an organizational structure with explicit and documented delegation of decision-making authority, straightforward guidelines and policies, and a corporate culture with common values.

#### **Control environment**

Internal control at BTS is based on a control environment embracing the organization, lines of decision-making, authority, and responsibility. The Board of Directors has a written set of procedures that clarifies the Board's responsibility and regulates how Board tasks are delegated. The set of procedures also specifies which issues are submitted to the Board for a decision. How roles are divided between the Board and the CEO is described in the Board's set of procedures and its instructions to the CEO. The CEO also manages the business with reference to the Companies Act, other laws and regulations, rules and regulations for stock market companies, the Swedish Code of Corporate Governance, and the like.

The Company has established policies regarding financial reporting, IT and IT security, human resource issues (compensation to senior executives, the work environment, equal opportunity), and the like. The Board's instructions to the CEO specify financial responsibilities and authority as do procedures adopted for signing off. To limit and control financial risk, the Board has adopted a financial policy.

The Company's operating organization is communicated through an organization chart and the delegation of roles or responsibilities.

The Board of Directors follows up to insure that policies adopted for financial reporting and internal control are adhered to and maintains appropriate relationships with the Company's auditors. Company management is responsible for the system of internal controls required for managing significant material risks in operating activities.

### **Risk assessment and control activities**

The Board of Directors has ultimate responsibility for risk management. A well-defined organization and decision-making procedure are intended to foster prudent risk taking and good awareness of risk among employees. To insure that internal routines and controls have worked adequately and uniformly, the most important processes have procedural descriptions. Built-in checkpoints also minimize the risk of errors in accounting. Likewise, procedures for the Company's accounting and consolidation systems have been documented. Ongoing activities aim at maintaining good internal control, thus avoiding and detecting risks.

### **Information and communication**

Significant guidelines, manuals, and such that affect financial reporting are updated and communicated on an ongoing basis to personnel in the Group who are concerned. Formal as well as informal channels to Company management and the Board of Directors exist to convey significant information from employees. For external communication, the Company follows the controlling regulations discussed above.

### **Follow-up**

The Board of Directors continuously evaluates the information provided by Company management. The work of the Board includes insuring that actions are taken concerning any deficiencies and proposals for measures found in the external audit.

BTS has no internal audit unit of its own, based on the assessment that there are no special circumstances in operating activities or other conditions to justify such a unit.