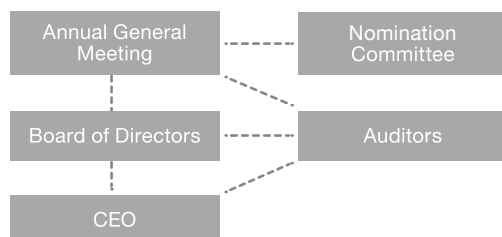


# Corporate Governance Report

As of 1 December, 2016, MSAB applies the revised Swedish Corporate Governance Code. Corporate Governance in MSAB is based on Swedish legislation, and the regulations and recommendations as set out by relevant organisations such as the Swedish Corporate Governance Board, Nasdaq Stockholm, the Swedish Securities Council, and others. Corporate Governance is conducted through the AGM, the Board of Directors ("the Board") and the Chief Executive Officer (CEO). The Company's auditors, appointed by the AGM, review the financial statements and the administration of the Company as conducted by the Board and CEO. The Nomination Committee prepares proposals to the AGM on the election and remuneration of the Board and auditors. The Code is built on the principle comply or explain, which means that a Company that applies the Code may deviate from its provisions provided that each deviation can be explained in a satisfactory manner.



## Annual General Meeting (AGM)

The AGM is the Company's highest decision-making body. The Company complies with the Swedish Companies Act with regards to how the AGM is organised, how shareholders exercise their rights, and what decision-making powers the AGM has. The AGM was held on 15 May, 2018 at Spårvagnshallarnas' premises in Stockholm. Decisions taken at the AGM included:

- adoption of the income statement and balance sheet as reported in the annual report, and discharge of board members and the CEO from liability.
- approval of proposal for a dividend of SEK 2.20 per share.
- re-election of Henrik Tjernberg as Board chair, and re-election of Katarina G. Bonde, JanOlof Backman, Carl Bildt and Robert Ahldin as Board members.
- re-election of Deloitte AB with Erik Olin as Auditor-in-Charge for the period up to the conclusion of the next AGM.
- adoption of the Nomination Committee's proposal for non-employee board member remuneration in the amount of SEK 185,000 and SEK 500,000 to the Board chair.
- adoption of the Board's proposal for remuneration of senior position holders.
- adoption of the Board's proposal on the Long-term Incentive Programme 2018-2021, and the Board's proposal on the issuance of share warrants in accordance with the Long-term Incentive Programme 2018-2021.
- adoption of the Board's proposal authorising the Board to make decisions regarding issuance of shares, share warrants and convertibles.
- adoption of the Board's proposal authorising the Board to make decisions on transfer of shares held in treasury.
- re-election of Henrik Tjernberg and Joakim Dal as members of the Nomination Committee. Erik Hermansson was appointed Nomination Committee chair.

Complete minutes from the AGM are available on the Company's website: [msab.com](http://msab.com).

## Share ownership

The Company's B share (MSABB) are listed on Nasdaq Stockholm. The total number of shareholders as of 31 December, 2018 was 2,974. At the end of the period, Henrik Tjernberg held shares or votes exceeding 10 percent.

## Nomination Committee

The Nomination Committee is elected by the AGM. At the 2018 AGM, Erik Hermansson, Henrik Tjernberg and Joakim Dal were re-elected to the committee. The Nomination Committee is responsible for preparing proposals for fees for the AGM chair, board chair and board members and auditors, and for preparing proposals for procedures for the Nomination Committee itself. Shareholders who wish to submit proposals to the Nomination Committee can do so via email to: [valberedning@msab.com](mailto:valberedning@msab.com).

## The Board and its work in 2018

The Board consisted of five members as elected by the AGM. The Board is ultimately responsible for how the Company is organised and for administration of the Company's affairs. Information about the business and its financial status is provided regularly at Board meetings. As part of the internal control of financial information, the Board reviews financial year-end reports, interim reports and annual reports, and poses control questions on process descriptions and ways of working prepared by senior management. The CEO and the Board chair communicate frequently regarding the business. The Board is also responsible for ensuring that appropriate policies are drawn up and implemented within the organisation. The distribution of tasks between board members, the Board chair and CEO are clarified in the following written instructions:

- the Board's Procedural Plan;
- distribution of tasks between the Board and CEO;
- instructions for the CEO.

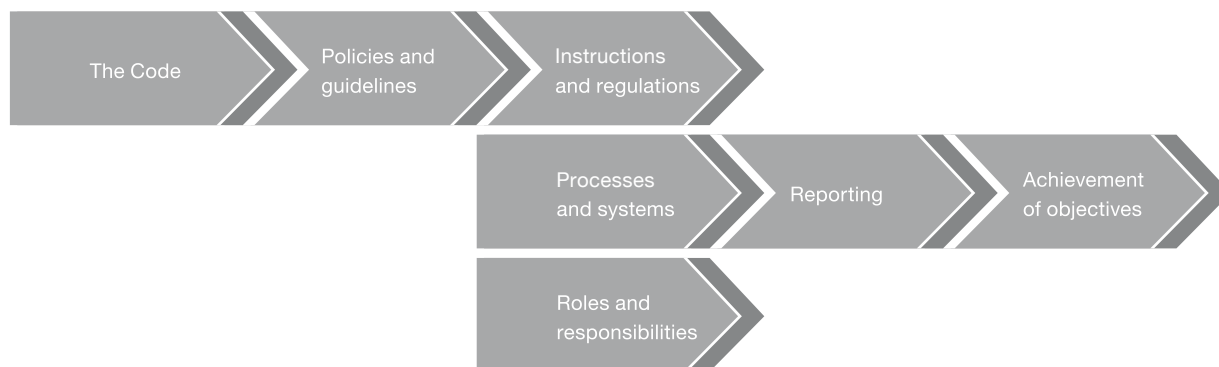
## Evaluation of Board and CEO performance

The Board, excluding members who are part of operational management, evaluates on a continuous basis the performance of the CEO within the framework of routine Board work. Board evaluation has been accomplished partly through the Chairman's reporting to the Nomination Committee on the Board's work and its way of functioning, and partly through surveys compiled jointly by the Board and completed by each board member. Great emphasis is placed on following up on former high-profile issues and on continuity in the change and improvement work. When necessary, complementary, in-depth interviews of individual board members are conducted. The results have provided a basis for the Nomination Committee's on-going work and have to some extent been reported back to the Board. The Board met nine times in Stockholm in 2018 with attendance as follows:

Board 2018	Board Function	Elected	Independent	Attendance board meetings
Henrik Tjernberg	Board Chairman	1986	No	9 of 9
Jan-Olof Backman	Member	1999	Yes	9 of 9
Örjan Gatu*	Member	1999	No	4 of 4
Katarina G Bonde	Member	2011	Yes	8 of 9
Robert Ahldin	Member	2013	No	9 of 9
Carl Bildt	Member	2016	Yes	4 of 9

\* Left the Board in conjunction with the 2018 AGM.

## Corporate Governance



### Board independence

The Board considers itself independent relative to major shareholders, management and the Company except for Board chair Henrik Tjernberg, whose voting rights exceed 10 percent, and Board member Robert Ahldin whose shareholdings and voting rights stand at 9 percent but were 10 percent until September 2018. The Board has not established special committees for remuneration as the Company and Board employ relatively few people, and these are handled entirely by the Board. In 2018, the Company did, however, establish an audit committee consisting of Henrik Tjernberg and Katarina Bonde.

The Board has discussed the Company's focus, product development, growth, future strategy and other significant operational issues. MSAB works actively with targets set by the Board, which are communicated to operational units via the CEO and management.

### Senior management

The CEO is responsible for preparing and implementing MSAB's strategies for achieving agreed targets. The CEO leads regular meetings with operational management teams, and with a team dedicated to product development issues. Meetings are also regularly convened for the entire Company, or certain departments, to disseminate information and review activities with the Company's employees.

### Auditors

At the 2018 AGM, the audit firm Deloitte was re-elected as the Company's external auditor for the period up to the next AGM. Erik Olin is the responsible Auditor-in-Charge. The auditor reports its conclusions to the Board and the Audit Committee annually and meets with the Board without management presence in accordance with the Swedish Corporate Governance Code.

### Internal control

The Board has overall responsibility for effective internal control of the Company. The CEO is responsible for ensuring there is a process and organisation that assures internal control and the quality of the financial reporting to the Board and the market. The essential components of the Company's internal control structure are the control environment itself, risk assessment, control activities and monitoring.

### Control environment

The basis for MSAB's control environment is the Company's established corporate culture. MSAB works actively to communicate the Company's values to ensure that a high level of morals, ethics and integrity permeate the organisation.

The backbone of internal control is built on the Company's guidelines, instructions, policies and the accountability and authority structure adapted to the organisation. During the year, the Board established a Code of Conduct to ensure good behaviour vis-à-vis customers, suppliers, employees and other stakeholders, and to ensure the Company's long-term value creation. The Group-wide ERP system has been upgraded and to some extent integrated into the Company's Group-wide CRM system. This is to streamline the sales process, reduce the need for manual actions, and contribute to strengthening the internal control environment.

### Risk assessment

Risks relating to the financial reporting are evaluated and monitored continuously by the Board and management. Risk assessments are made at both the Company and functional level for critical processes, including the IT environment. The Company's accounting is characterised by precautionary principles and management strives to limit financial risk. It is management's goal that even the Company's IT environment shall be reliable and risk-minimised, and that the Company's business systems are appropriate given the nature of the Company's operations. The Company strives for strong control of the production flow, including that all development and design takes place within the Company's organisation, and that all designs are proprietary. The Company is not dependent upon any single supplier, although some production is external. MSAB's operations are affected by several business risks which impact the Company's earnings and financial strength. When assessing future trends, it is important to weigh opportunities for growth in profitability against the risks. The most significant risks identified relating to business operations are currently:

- Exposure in various foreign currencies. The value of the Swedish krona relative to applicable currencies fluctuates, which creates uncertainties in forecasts of future income in Swedish kronor.
- More than 90 percent of the Company's total sales are for export, while approximately 60 percent of expenses are in Swedish kronor.
- Competition for customers is intensifying, and the Company works continuously with product improvements and packaging to meet customer requirements for the best tools.

- The speed of technological development and the launch rate of new and more advanced mobile phones places even greater demands on development resources.

### Control activities

Several control activities are applied in the on-going business processes to ensure that any errors or deviations in the financial reporting are prevented, detected, and corrected. The goal is to have an authorisation structure where the same individual cannot perform and control the same task. Finance personnel are also involved in on-going dialogues with subsidiaries and conduct visits to follow-up and ascertain that routines and policies are adhered to in accordance with Group management instructions.

### Monitoring

The CEO reports monthly to the Board through a report covering the consolidated earnings trend compared to the previous year and the budget, as well as the consolidated financial position. MSAB has no particular audit function or internal audit as the Company is relatively small, and the Board's opinion is that the Company's business model, current structure and scope do not require such a function. This function is instead performed by Group management and the Group's finance department, with support from the external auditors. An on-going dialogue takes place between the Company and its external auditor, and those controls performed by Group management are currently assessed as adequate to evaluate whether the internal control is of a good standard. This assessment is continually evaluated and will be examined again in 2019.

### Remuneration of Board of Directors and senior position holders

The Nomination Committee prepares proposals for remuneration of the Board and these fees are decided by the AGM and paid to board members who are not Company employees. Amounts of remuneration to the Board by fiscal year are reported in Note 8.

### Remuneration principles

The Board chair and other board members receive remuneration as decided by the AGM. Overall principles guiding remuneration to senior position holders are based on position, individual performance, consolidated profit, and that remuneration shall be competitive. Total remuneration to senior position holders shall consist of fixed salary and variable salary based on attainment of performance targets. Additionally, there are conditions governing termination and severance pay. Group management in 2018 comprised one senior position holder and the CEO. All senior position holders were employed throughout the entire year.

### Long-term Incentive Programme 2017–2020

On 10 May, 2017, MSAB's AGM decided to implement a long-term incentive programme for the Company's senior position holders and certain key persons (maximum 20 persons). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes method). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2020 up to and including 31 August, 2020 at a price equal to 130 percent of the average, volume-weighted closing price of the Company's B series shares during the period 11 May up to and including 24 May, 2017. The maximum number of shares that any programme participant is offered shall not exceed 40,000.

### Long-term Incentive Programme 2018–2021

On 15 May, 2018, MSAB's AGM decided to implement a long-term incentive programme for the Company's senior position holders and certain key persons (maximum 20 persons). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes method). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June, 2021 up to and including 31 August, 2021 at a price equal to 130 percent of the average, volume-weighted closing price of the Company's B series shares during the period 16 May, 2018 up to and including 29 May, 2018. The maximum number of shares that any programme participant is offered shall not exceed 40,000.

### Pension

The contractual retirement age for the CEO and other senior position holders is 65 years. Pension premiums for the CEO are calculated at a maximum of 22 percent of pensionable salary and follow a defined pension contribution plan. Other senior position holders also belong to a defined pension contribution plan, and pension premiums for 2018 were on average up to 16 percent of basic salaries. Variable remuneration is not included in pension calculations for the CEO nor for any other senior position holders. All pensions are inviolable, i.e. not conditional upon future employment.

### Severance pay

At year-end 2018, the CEO had a fixed annual salary of SEK 3,240,000 and variable remuneration of a maximum of 8 monthly salaries (SEK 2,160,000). Upon termination, the CEO is entitled to compensation corresponding to one year's fixed salary. The Company pays insurance compensation on severance pay. Severance pay is not offset against other income. When termination of other senior position holders is initiated from the Company's side, Swedish labour law (LAS) shall apply.

### Auditor's report on the Corporate Governance Report To the Annual General Meeting of shareholders in Micro Systemation AB (publ), Corp. ID no. 556244–3050

The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Annual Accounts Act. As a basis for opinion on whether the Corporate Governance Report has been prepared and is consistent with the annual accounts and consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the Company. In our opinion, the Corporate Governance Report has been prepared in accordance with, and its statutory content is consistent with, the annual accounts and the consolidated accounts.

Stockholm, 22 April, 2019

Deloitte AB  
Erik Olin  
Authorised Public Accountant