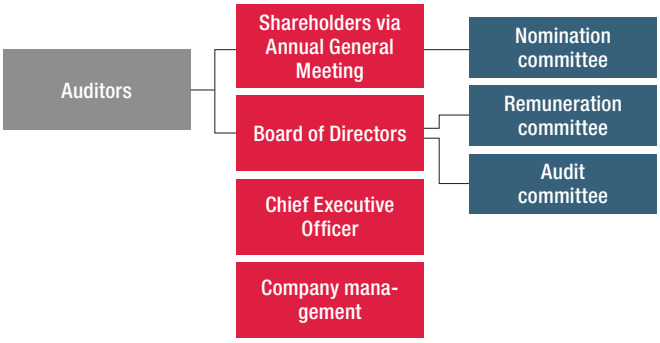
Corporate governance report

Proact IT Group AB (publ) is a parent company in the Proact Group which consists of a number of subsidiaries as outlined in the annual report, Note 17.

This corporate governance report has been compiled in accordance with the Swedish Company Accounts Act and the Swedish Code of Corporate Governance.

The parent company and Group are governed via the Annual General Meeting, the Board of Directors and the Chief Executive Officer in accordance with the Swedish Companies Act, the Swedish Company Accounts Act, the company's Articles of Association, the listing agreement with Nasdaq Stockholm and the Swedish Code of Corporate Governance. This code is based on the "comply or explain" principle. Proact deviates from the recommendations of the code in respect of one item: the company's half-yearly and nine-monthly reports have not been reviewed by the auditors. The Board is of the opinion that any such review on the basis of a cost perspective is not necessary, given the company's degree of complexity and business risks.

Governance structure



Annual General Meeting

The Annual General Meeting is the supreme governing body of Proact. The Annual General Meeting of Proact IT Group AB is held annually in April or May adjacent to the company's head office in Kista. The time and date of the meeting are published at the latest when the interim report for the third quarter is issued and published simultaneously on the company's website. The Annual General Meeting elects Proact's Board of Directors and its Chairman. The other tasks of the Annual General Meeting also include

- approving and adopting the company's income statements and balance sheets
- making decisions on allocation of the company's profit
- making decisions on changes to the Articles of Association
- electing auditors
- making decisions on discharge from liability for Board members and the Managing Director
- making decisions on remuneration for the Board of Directors and auditors
- approving the appointment of the nomination committee

Shareholders who do not have the opportunity to attend the General Meeting in person may instead participate via a representative.

The "Ownership" section in the Directors' Report indicates the direct or indirect shareholdings in the company which represent at least one-tenth of the voting rights for all shares in the company.

The "Shares" section also indicates the restrictions on how many votes each shareholder can cast at a Annual General Meeting.

Annual General Meeting 2019

65 shareholders, representing 39.5 per cent of both the number of shares and the total number of votes in the company, participated in Proact's Annual General Meeting which took place in Kista on 9 May 2019. The Board of Directors, executive team and company's auditors were present at this meeting. Among other things, the following decisions were made:

- Chairman of the Board Eva Elmstedt was appointed Chairman of the meeting.
- The income statement and balance sheet, and the consolidated income statement and consolidated balance sheet were approved and adopted.
- Establishment of a proposed dividend of SEK 4.15 per share.
- The Board of Directors and Managing Director were granted discharge from liability for the 2018 business year.
- Remuneration payable to the Board of Directors was set at a total of SEK 1,665,000.
- Remuneration to the auditors will be paid in accordance with an approved invoice.
- Eva Elmstedt was re-elected as a Board member and was also re-elected Chairman of the Board. The following other Board members were re-elected:
    - Martin Gren
    - Annikki Schaeferdiek
    - Anders Thulin
    - Thomas Thuresson
- Establishment of guidelines on remuneration for senior executives.
- A decision was made, with the requisite majority, to implement the performance share scheme in accordance with the Board's proposal. This scheme has been formulated to drive profitability and growth and includes around 17 individuals; the company's CEO, the Group executive and other key individuals within the company. For more information, see note 9.
- Establishment of principles for the appointment of a nomination committee for the 2020 Annual General Meeting.
- A decision was made to authorise the Board to make decisions on the new issue of shares. It was noted that payment through offsetting must only take place in connection with company acquisitions.
- A decision was made to authorise the Board to implement acquisitions and transfers of the company's own shares. It was also decided that the Board can only buy back shares in such numbers that bought-back shares, together with any newly issued shares according to the authorisation decided upon in the section above, do not exceed a total of 10 per cent of the now outstanding number of shares. It was noted that payment through offsetting must only take place in connection with company acquisitions and that the company is not allowed to sell its own shares on Nasdaq Stockholm.

Nomination committee

At the Annual General Meeting of Proact held on 9 May 2019, a decision was made for the nomination committee to comprise representatives for the four biggest shareholders in terms of votes as at 30 September 2019; or the five biggest shareholders in terms of votes in the cases stated in the paragraph below. The nomination committee therefore has the right to require the attendance of the Chairman of the Board at meetings of the nomination committee. The Chairman of the Board must, without delay, contact the four biggest shareholders in terms of votes in accordance with Euroclear Sweden's list of shareholders as at 30 September 2019, and offer each and every one of them the opportunity to appoint a member of the nomination committee within a reasonable time.

If there is a change in the company's ownership structure after 30 September but before the date occurring two months before the forthcoming Annual General Meeting, and if a shareholder constituting one of the four biggest shareholders in the company in terms of votes after this change expresses a desire to the Chairman of the nomination committee to become part of the nomination committee, this shareholder shall have the right to either appoint a further member of the nomination committee or, if so decided by the nomination committee, to appoint a member of the nomination committee who will replace the member that is the smallest shareholder in terms of votes after the change in ownership and that has appointed a member of the nomination committee. In addition, any member appointed by a shareholder that has sold more than half of its shareholding after 30 September and thus no longer constitutes one of the ten biggest shareholders in the company will be obliged to resign from the company's nomination committee within two weeks of the date of the sale.

The names of the members of the nomination committee must be published as soon as the nomination committee has been appointed. If any of the biggest owners declines to appoint a representative on the nomination committee, the next shareholder in order of size must be given the opportunity to appoint such a representative. A representative of the shareholders is appointed Chairman of the nomination committee. The mandate period of the nomination committee continues until a new nomination committee has been appointed.

Where appropriate, the nomination committee must prepare and submit to the Annual General Meeting proposals for:

- election of a Chairman for the meeting
- election of a Chairman of the Board and other company directors
- directors' fees divided between the Chairman and other members, plus remuneration for committee work
- election of and payment to auditors (where appropriate)
- decisions on principles for the appointment of a nomination committee

Work of the nomination committee

The composition of the nomination committee was published on 23 October 2019, and at that time comprised Stephanie Göthman (Livförsäkringsbolaget Skandia), Erik Malmberg (TVF TopCo Limited), Johannes Wingborg (Länsförsäkringar Fondförvaltning AB) and Jens Ismunden (Aktiebolaget Grenspecialisten) – Chairman of the nomination committee. This nomination committee represented a total of around 35 per cent of votes in Proact as at 30 September 2019. Karin Möllborg (Carey Trustees Limited) replaced Erik Malmberg as at 27 January 2020 when TVF TopCo Limited sold its entire shareholding on 13 December 2019.

The nomination committee has applied rule 4.1 in the Swedish Code of Corporate Governance as its diversity policy when devising the proposal for the Board, with the aim of achieving effective composition of the Board in terms of diversity and breadth with regard to factors such as gender, nationality, age and industry experience. The ambition of the nomination committee is to propose a Board composition where members complement one another with their respective experience and skills in a manner that gives the Board the opportunity to help bring about positive development of the company. The nomination committee always focuses on diversity so as to ensure that the Board has different perspectives on its Board work and the considerations made. The nomination committee also takes into account the need for regeneration and carefully examines whether the proposed Board members have the opportunity to devote sufficient time and care to their Board work. All shareholders have the opportunity to consult the nomination committee with suggestions for Board members. The nomination committee has held several minuted meetings.

A report on the work of the nomination committee is published on the Proact website – www.proact.se – in connection with the publication of its proposal to the 2020 annual general meeting concerning election of the Board of Directors.

Board of Directors

Proact's Board of Directors makes decisions on issues relating to Proact's strategic focus, investments, finance, organisational issues, acquisitions and divestments and more important policies. The Board must also ensure that correct information is given to Proact's stakeholders in accordance with the governing regulations mentioned above.

Board composition and diversity

According to the Articles of Association, the Board of Directors must consist of three to eight members, with at most five deputy members. These members, and where appropriate their deputies, are elected each year at the Annual General Meeting for the period until the next Annual General Meeting. At the Annual General Meeting held on 9 May 2019, it was decided that the Board would consist of five members and no deputies for the period until the next Annual General Meeting. The nomination committee applies the Swedish Code of Corporate Governments, section 4.1, as its diversity policy. The objective is to propose composition of a Board with complementary experience and skills, also demonstrating diversity in terms of age, gender, nationality and industry experience. The composition of the present Board is the result of the work of the nomination committee prior to the 2019 Annual General Meeting. The Board comprises members with
experience of various industries, and there is even gender distribution.

The Articles of Association contain no provisions relating to the appointment or compulsory retirement of Board members or to amendments to the Articles of Association.

The Board is deemed to be compliant with the stock exchange rules from Nasdaq Stockholm and the Swedish Code of Corporate Governance in respect of requirements for independent Board members.

Every business year, the Board of Directors carries out – either independently or with the help of external parties – a review of the work of the Board and CEO by means of:

- Evaluation of the work of the Board. A questionnaire provided by StyrelseAkademien was implemented during the fourth quarter of the

financial year. The results of the questionnaire will be discussed by the Board and communicated to the nomination committee. The nomination committee will then hold interviews with all members during the first quarter of next year.

- Evaluation of the work of the Managing Director
- The Managing Director's view of the work of the Board

This review forms the basis for the Board's future working methods.

Board remuneration

The Annual General Meeting held on 9 May 2019 established the total remuneration to the Board at SEK 1,665,000 million. The Chairman of the Board will be paid a fee of SEK 525,000, while other members will be paid SEK 210,000 each, plus SEK 300,000 for committee work to be distributed SEK 200,000 to the audit committee and SEK 100,000 to the remuneration committee. No further payments have been made to the Board over the year.

Board members are not included in any share or share price-related incentives schemes issued by the company.

The Board's procedures

The work of the Board is governed by a set of procedures established annually which regulate the members' mutual division of work, decision-making arrangements, signing on behalf of the company, a meeting agenda for the Board and the tasks of the Chairman. The work of the Board follows a set agenda intended to ensure that the Board's information needs are satisfied and that there is an appropriate distribution of work between the Board and the Managing Director.

In 2019, the Board held twelve meetings compared with ten in the previous year. The control issues arising at Board meetings are dealt with by the Board where appropriate following preparation by the remuneration committee or audit committee. In addition, the company's auditors report directly at least once a year to the Board their observations from the review and their assessments of the company's internal accounting control.

Besides the ongoing follow-up and monitoring of business, over the year the Board of Directors has dealt with strategies, acquisition issues, capital structure and organisational issues.

Composition of the Board and attendance at Board meetings, 2019

Board member	Remuneration committee	Audit committee	Attendance at Board meetings
Eva Elmstedt	•		100%
Annikki Schaeferdiek		•	100%
Martin Gren	•		100%
Anders Thulin			100%
Thomas Thuresson		•	100%

Board members' independence in respect of Proact, Proact's executive and major owners

Board member	Function	Date of birth	Nationality	Elected	Independent	Shareholding, 31/12/2019
Eva Elmstedt	Chairman	1960	Swedish	2009	Yes	8,465
Martin Gren	Member	1962	Swedish	2017	No	1,045,778[1)]
Annikki Schaeferdiek	Member	1969	Swedish	2017	Yes	1,000
Anders Thulin	Member	1963	Swedish	2018	Yes	–
Thomas Thuresson	Member	1957	Swedish	2018	Yes	–

1) Holding personally and via legal entity.

Other information on Board members

- Eva Elmstedt (Board work and investments, previous senior positions at companies including Nokia, Ericsson, 3 and IBM)
  Member of the Board at Addtech AB, Arjo AB, Gunnebo AB, Semcon (publ) and Smart Eye (publ)
- Martin Gren (founder and advisor to Axis Communications)
  Chairman at Axis Communications AB.
  Member of the Board at Askero Sagoboks Förlag AB, AB Grenspecialisten and H. Lundén Holding AB
- Annikki Schaeferdiek (own business and Board work, international experience of the IT/Telecoms industry)
  Chairman at Competella AB
  Member of Syster P AB, Formpipe Software AB and Axiell Group AB
- Anders Thulin (Head of Digital Practice Triton Partners, previous senior positions at Ericsson and McKinsey & Company)
  Member of the Board at Assemblin AB, Ramudden AB, Chevron Traffic Management and Sunweb Group
- Thomas Thuresson (Board work and CEO at Tetra Laval Real Estate AB, various previous positions at Alfa Laval Group)
  Chairman at Terratech Group AB
  Member of the Board at JM AB (publ), Solix Group AB and Skiold A/S.

DECEMBER
Establishment of budgets. Evaluation of the work of the Board, the CEO and the corporate management team. Organisational development, personnel and cultural issues and sustainability.

OCTOBER
Interim report, January-September. Decision on acquisition (PeopleWare), report from the audit committee and remuneration committee, plus completion of an internal audit.

SEPTEMBER
Strategic analysis, market situation, establishment of Group strategy, acquisition issues and budget guidelines.

JULY
Interim report, January-June. Acquisition issues, report from the audit committee and remuneration committee, and risk reporting.

FEBRUARY
Year-end report, guidelines for the annual report, a new operating model, matters for the Annual General Meeting, reports from the auditors and the remuneration committee, and risk reporting.

MARCH
Decision on the annual report and notice to attend the Annual General Meeting.

APRIL
Interim report, January-March. Acquisition issues, reports from the audit committee and remuneration committee, and risk reporting.

MAY
Annual General Meeting, inaugural Board meeting. Decision on signatories, establishment of instructions and policies, and meetings plan. Election of an audit committee and remuneration committee, and strategy planning.

Remuneration committee

The duty of the remuneration committee is to examine the principles for remuneration, including performance-based remuneration and pension terms for the company's senior executives, and to give recommendations to the Board concerning these issues. Issues relating to the Managing Director's terms of employment, remuneration and benefits are prepared by the remuneration committee and decided upon by the Board of Directors. This committee also discusses the general starting points for setting salary levels within the Group.

At the Annual General Meeting on 6 May 2020, the Board will present for the approval of the Board proposals for principles for remuneration and other terms of employment for the corporate executive.
More information on remuneration to the Chief Executive Officer and other corporate executive staff can be found in the annual report, Note 9.

The remuneration committee has held five minuted meetings over the year, as well as maintaining constant contact by telephone and e-mail.

Audit committee

The job of the audit committee is to prepare Board work on quality assurance of the company's financial reporting. This committee maintains constant contact with the company's external auditors in order to stay abreast of the focus and scope of the audit and discuss views on the company's risks. Decisions by the Board are required for non-audit services from the selected auditor that exceed SEK 500 thousand of the budgeted audit fee. Total fees for non-audit services must not exceed 70 per cent of the budgeted audit fee. This committee is also tasked with providing its evaluation of the audit work to the nomination committee and with assisting the nomination committee with production of the nomination committee's proposals to the Annual General Meeting concerning the election of auditors and the size of the audit fee.

After the 2019 Annual General Meeting, the audit committee comprises two Board members. The Chairman of the audit committee prepares and convenes the meetings of the audit committee.

The audit committee has held four minuted meetings during the year, as well as maintaining constant contact by telephone and email.

External auditors

The Annual General Meeting which was held on 9 May 2019 elected the firm of auditors Öhrlings PricewaterhouseCoopers AB (PwC), with Nicklas Kullberg as principal auditor, for the period up to the 2020 Annual General Meeting.

The auditors review the Board's and the Managing Director's management of the company and the quality of the company's accounts documentation.

The auditors' report on the results of their review to shareholders by means of the audit report, which is presented at the Annual General Meeting. In addition, the auditors submit detailed reports at the meetings of the audit committee with the committee and to the Board of Directors at least once a year.

The company's half-yearly and nine-monthly reports have not been reviewed by the auditors. This is a deviation from the recommendation in the Swedish Code of Corporate Governance. The Board is of the opinion that any such review on the basis of a cost perspective is not necessary, given the company's degree of complexity and business risks.

PwC performs certain services for Proact in addition to audits. When PwC is engaged to provide services other than auditing, this takes place in accordance with the rules decided upon by the audit committee for approval of the nature and scope of the services and remuneration for the same. Proact is of the opinion that execution of these services is within the guidelines and has not impacted upon PwC's independence.

Further information on remuneration to the auditors can be found in the annual report, Note 8.

Chief Executive Officer and Group executive

Jonas Hasselberg has been Chief Executive Officer and President of Proact IT Group AB since 1 September 2018. Jonas Hasselberg owned 4,500 shares in the company as at 31 December 2019. Jonas Hasselberg has no significant shareholdings or co-ownership in companies with which Proact has significant business relationships.

The Chief Executive Officer manages operations in accordance with the instructions of the Board of Directors and the approved distribution of work between the Board and the Chief Executive Officer. The Managing Director is responsible for keeping the Board informed and for ensuring that the Board is provided with the requisite decision data. The Managing Director presents reports to the Board but is not a Board member. This is in accordance with applicable policy, in which either the Managing Director or another senior executive must be a Board member in the parent company. In ongoing contact, the Managing Director keeps the Chairman informed of the development and financial position of the company and the Group besides providing periodic reporting.

The Managing Director and other members of the corporate executive hold regular meetings in order to review results development, update forecasts and plans, and make decisions on various issues.

As at 31 December 2019, Proact's Group executive consisted of the Managing Director and nine other senior executives.

The subsidiaries running operations report to the relevant Business Unit Directors, who in turn report directly to the Managing Director. Reporting takes place on a monthly basis, with more in-depth quarterly reviews of the operations in question. The Boards of Directors of the subsidiaries principally consist of members of Proact's Group executive. The Chairman positions at the subsidiaries are held either by the Managing Director of Proact IT Group AB or by the relevant Business Unit Directors.

Remuneration to senior executives

The Annual General Meeting held on 9 May 2019 assumed principles concerning remuneration to senior executives, which means that remuneration must be made up of a set salary, variable remuneration, other customary benefits and pension. Total remuneration to officers must be in line with market conditions and competitive on the labour market on which the officer is active, and significant performance must be reflected in the total remuneration.

The set salary and variable remuneration must be related to the responsibilities and authorisations of the officials. The total variable remuneration for all senior executives must be maximised (to an amount corresponding, on average, to eight monthly salaries), based on results in relation to targets set, and coincide with the interests of shareholders.

Provision of information

Proact strives to maintain communication with its shareholders and other stakeholders which is correct, clear, factual, reliable and quick. It must also be characterised by openness.

Proact regularly publishes interim reports and annual reports in Swedish and English. Events which are deemed to affect rates are published as press releases. The Proact website also includes a wide range of company information which is updated regularly.

In addition, Proact communicates with the capital market and the media by means of meetings with analysts and journalists in connection with the publication of the interim reports and annual reports. Representatives of Proact also take part regularly in various meetings of shareholders and analysts.

The Board's report on internal inspection

Inspection environment

Internal controls at Proact are based on a control environment which includes organisation, decision paths, authorisations and responsibilities. This is documented and communicated in steering documentation such as internal policies, guidelines and instructions. For example, this is applicable to the distribution of work between the Board of Directors and the Chief Executive Officer, and between the various units within the organisation, and also via instructions for rights of authorisation, accounting and reporting, etc. The Board follows up to ensure compliance with set principles for financial reporting and internal controls, and also maintains the appropriate relationships with the company's auditors.

The corporate executive reports to the Board based on established procedures. The corporate executive is responsible for the system of internal controls which is required for handling significant risks in ongoing operations. For example, guidelines and instructions for various officials are compiled in order to reinforce understanding and the importance of their respective roles, and hence also to contribute towards good internal control.

Risk assessment and inspection activities

The Board holds overall responsibility for risk management. Clear organisation and decision-making arrangements aim to create good awareness of risks among employees and well considered risk-taking. The risk assessment includes identification, charting and assessment of risks at all levels within the Group. Activities and reporting take place regularly in order to maintain good internal control, and hence to prevent and detect risks.

Information and communication

Essential guidelines and manuals – such as the finance manual and financial policy – affect financial reporting and are updated and communicated regularly to the relevant personnel within the Group. There are both formal and informal information channels for the corporate executive and Board for essential information from employees. For external communication, the company complies with the governing rules discussed previously.

Follow-up

The Board receives monthly financial statements, as well as non-conformance reports relating to the company's profit and position. Extraordinary incidents and emerging risks are also reported each month. The Board regularly evaluates the information submitted by the corporate executive. The work of the Board also includes ensuring that measures are implemented with regard to any shortcomings and proposals for measures which have arisen during external audits. Given the size of the company, there is no separate department for internal audits. Instead, this work is carried out from the Group finance function together with the company's own lawyers. Internal audits are performed regularly by the company's subsidiaries. The outcome is reported to the CEO, CFO and Board of Directors.