

# Corporate Governance report 2020



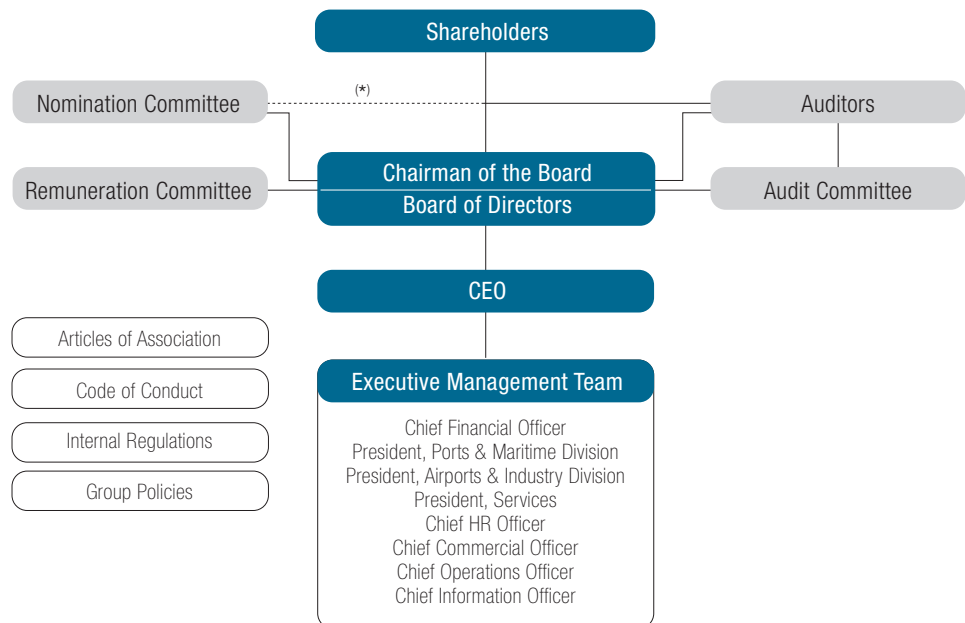
London, United Kingdom

Since Cavotec is a Swiss company listed on Nasdaq Stockholm, the corporate governance of Cavotec is based on Swiss and Swedish rules and regulations, such as the Swiss Code of Obligations (the "CO") and the Swedish Code of Corporate Governance (Sw. Svensk kod för bolagsstyrning) (the "Code").

**The Swedish code of Corporate Governance**

Swedish companies with shares admitted to trading on a regulated market in Sweden, including Nasdaq Stockholm, are subject to the Code. The Code is a codification of best practices for Swedish listed companies based on Swedish practices and circumstances. Cavotec has decided to apply the Code, however, the Company is not obliged to comply with every rule in the Code as the Code itself provides for the possibility to deviate from the rules, provided that any such deviations and the chosen alternative solutions are described and the reasons therefore are explained in the corporate governance report (according to the so-called "comply or explain principle"). Deviations that the Company is aware of have, as far as possible, been explained in the Company's corporate governance report.

**Cavotec Corporate Governance structure**



*(\*) To follow the rules that apply to Swiss companies, the Board of Directors has decided that the Nomination Committee shall be established by the Board of Directors. The composition of the Nomination Committee shall, however, be in line with the Code.*

## Shareholders' meetings

### General

Shareholders' rights to resolve on company matters are exercised at shareholders' meetings. An ordinary shareholders' meeting is to be held yearly within six months following the close of the business year. It is called by the Board of Directors or, if necessary, by the auditors. Extraordinary shareholders' meetings may be called by the Board of Directors, the liquidators or the auditors as often as necessary to safeguard the interests of the Company. Shareholders' meetings are held at the domicile of the Company or at such other place as the Board of Directors shall determine. The shareholders' meetings, deviating from the Code, will be held in English and information and material will be available in English only. This is in accordance with an exemption granted by the Swedish Financial Supervisory Authority. The minutes from shareholders' meetings will be published on the Company's website.

### Right to attend shareholders' meetings

All shareholders who are registered directly in Euroclear Sweden's and SIX SIS's share registers on the record date, as applicable, and who notify the Company of their intention to attend the shareholders' meeting at the latest by the date specified in the convening letter, shall be entitled to attend the shareholders' meeting and vote according to the number of shares they hold. Shareholders may attend shareholders' meetings in person or through a proxy. Shareholders may usually register for shareholders' meetings in several different ways, which are described in the Notice of Meeting.

### *Annual General Meeting 2020: extraordinary situation due to COVID-19*

Due to the extraordinary situation in connection with the coronavirus, which strongly limits the holding of any public or private event in Switzerland, the Board of Directors decided that the shareholders of Cavotec SA may exercise their rights at the Annual General Meeting exclusively through the Independent Proxy. The personal attendance at the Annual General Meeting will therefore not be allowed.

### Notice of shareholders' meetings and shareholder initiatives

Notice of a shareholders' meeting is given by means of a publication in the Swiss Commercial Gazette or by letter to the shareholders of record as well as through a press release. Between the day of the publication or the mailing of the notice and the day of the meeting there must be a time period of not less than 20 calendar days. The notice of the shareholders' meeting must indicate the agenda and the motions. The notice will also be published on the Company's website. At the time of the notice, the Company may publish in Svenska Dagbladet an announcement with information that the notice has been issued.

Stating the purpose of the meeting and the agenda to be submitted, one or more shareholders representing at least ten per cent of the share capital may request the Board of Directors, in writing to call an extraordinary shareholders' meeting. In such case, the Board of Directors must call a shareholders' meeting within two weeks.

### Nomination Process

The process for the nomination of Board members for Cavotec is construed in light of the Code, while still respecting Swiss laws and regulations applicable to a Swiss company. The ultimate goal has been to adopt a Nomination Process that is open and transparent to all shareholders and stakeholders.

The Nomination Committee shall be a committee established by the Board of Directors of Cavotec. This is in line with Swiss law but will constitute a deviation from the Code that prescribes that the Nomination Committee shall be determined by the shareholders. To follow the rules that apply to Swiss companies, the Board of Directors has decided that the Nomination Committee shall be established by the Board of Directors. The composition of the Nomination Committee shall, however, be in line with the Code.

The Nomination Committee shall ensure that the company has a formal and transparent method for the nomination and appointment of Board members. The objectives of the Nomination Committee are to regularly review and, when appropriate, recommend changes to the composition of the Board of Directors to ensure that the company has, and maintains, the right composition of Board members to effectively govern and provide guidance to business, and identify and recommend to the Board of Directors individuals for nomination as members of the Board and its Committees (taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Board members, as well as the diversity of the Board).

From November 15, 2019 the Nomination Committee members are Henrik Blomquist (representing Bure Equity AB), Fabio Cannavale (representing Nomina SA), Thomas Ehlin (representing The Fourth Swedish National Pension Fund), Stefan Widegren (representing the Founding Shareholders) and Patrik Tigerschiöld (Chairman of Cavotec's Board of Directors).

In November 2019 the Committee began preparing a proposal for the Board of Directors to be submitted to the Annual General Meeting 2020. An evaluation of the work performed by the Board of Directors was completed in October 2019.

The proposal of the Nomination Committee will be published in the invitation to the Annual General Meeting.

### **External auditor**

At the Annual General Meeting 2020 the Nomination Committee will also propose to appoint PricewaterhouseCoopers SA, Lugano, as the independent auditor of the company until the Annual General Meeting 2021. Efrem Dell'Era is the auditor in charge.

## The Board of Directors

The members of the Board are elected by the shareholders' meeting for the period until the end of the next ordinary shareholders' meeting. The Board of Directors constitutes itself, as set out in the Articles of Association, but by law the Chairman of the Board of Directors is elected by the shareholders' meeting.

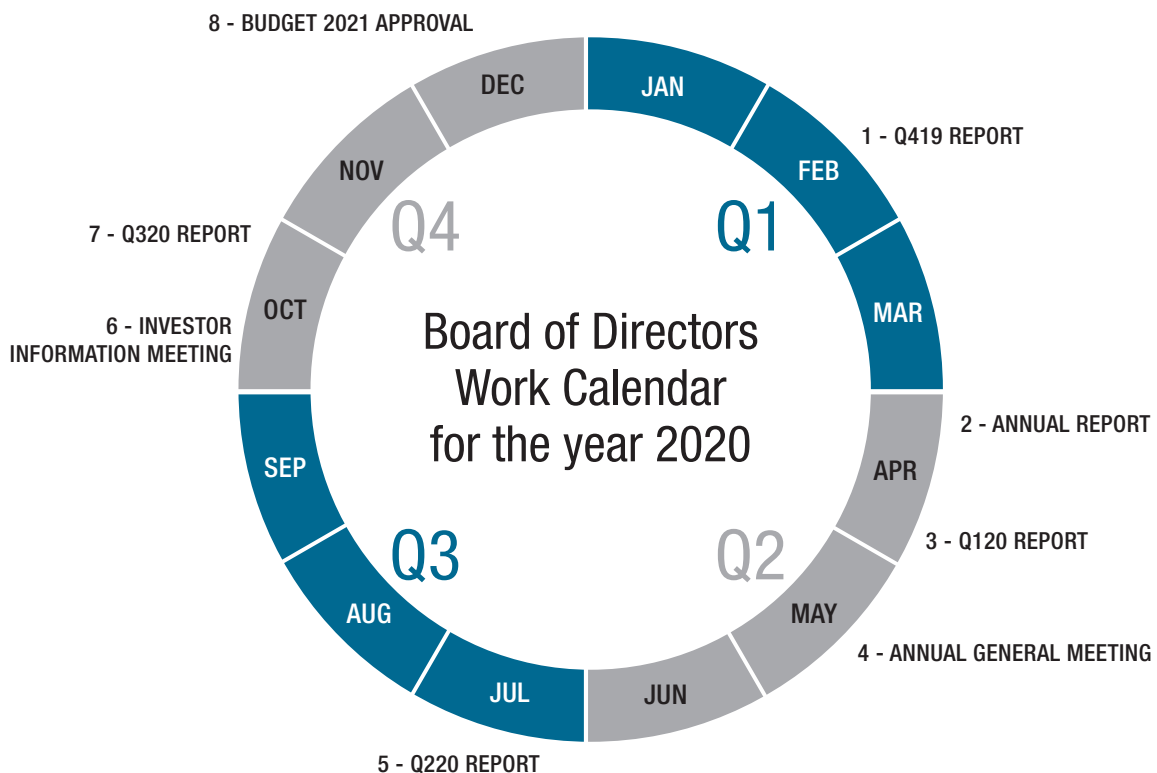
The members of the Nomination Committee and the Audit Committee, as well as the respective Chairmen, are elected from and by the Board members, the Remuneration Committee is elected by the shareholders' meeting and its Chairman is elected by the Board, as further described below in relation to the description of each committee.

The Board of Directors is entrusted with the ultimate management of the Company, as well as with the supervision and control of the management. The Board of Directors is the ultimate executive body of the Company and shall determine the principles of the business strategy and policies.

The Board of Directors shall exercise its function as required by law, the Articles of Association and the Board of Directors' Internal Regulations. The Board shall be authorised to pass resolutions on all matters that are not reserved to the general meeting of shareholders or to other executive bodies by applicable law, the Articles of Association or the Internal Regulations.

By Swiss law, the Board of Directors has the following non-transferable and inalienable duties:

- a) The determination of the strategy of the Company and the Group and the issuance of the necessary directives;
- b) The establishment of a framework of the organisation;
- c) The basic structuring of the accounting system, of a system of internal financial controls, and of the financial planning;
- d) The approval of the appointment (and suspension) of the officers entrusted with the management of the Company or with its representation;
- e) The supervision of management, in particular in relation to compliance with the law, the Articles and corporate regulations, charters and directives;
- f) Decisions on the business report consisting of the annual financial statements, the annual report, and consolidated financial statements including interim published reports and determination of the accounting standard;
- g) The preparation of the general meeting of shareholders of the Company and the implementation of its resolutions;
- h) Notification to the judge in case of a capital loss ("Unterbilanz") of the Company and in case of over indebtedness ("Überschuldung"; art. 725-725a CO);
- i) Preparation of the compensation report.



By Swiss law, the Board of Directors also has the following non-transferable responsibilities: Decisions in connection with capital increases pursuant to art. 651a, 652g, 653g CO (acknowledgement of capital increase) and art. 651 IV CO (increase of share capital in the case of authorised capital); decisions pursuant to art. 634a I CO (shares not fully paid in) and resolutions pursuant to the Swiss Merger Act.

The Board of Directors held eleven ordinary Board meetings for Cavotec SA in 2019.

#### Board and Committee meetings in Cavotec SA in 2019

	Board		Audit		Remuneration		Nomination	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Henrik Blomquist							2	2
Fabio Cannavale	11	10					2	1
Nicklas Edling <sup>(1)</sup>	5	5						
Thomas Ehlin							2	2
Roberto Italia	11	8	7	7				
Annette Kumlien <sup>(1)</sup>	5	5	5	5				
Erik Lautmann	11	9			5	5		
Heléne Mellquist <sup>(2)</sup>	6	4	2	2				
Helena Thrap-Olsen <sup>(2)</sup>	6	6			5	5		
Patrik Tigerschiöld	11	9	7	7	5	5		
Stefan Widegren							2	2

<sup>(1)</sup> Elected at the AGM 2019.

<sup>(2)</sup> Heléne Mellquist did not stand for re – election at the AGM 2019 and was replaced as Chairwoman of the Audit Committee by Annette Kumlien in May 2019.

<sup>(3)</sup> Helena Thrap-Olsen did not stand for re – election at the AGM 2019 and was replaced as Chairwoman of the Audit Committee by Annette Kumlien in May 2019.

## Board Committees

The Board of Directors currently has two Board committees, the Nomination Committee and the Audit Committee. Furthermore, the shareholders' meeting has constituted a Remuneration Committee, in accordance with the Minder Ordinance. The composition and tasks of the Board's Committees are regulated in the Board of Directors' Internal Regulations. The composition and tasks of the Remuneration Committee are regulated in the Articles of Association as well as in the Board of Directors' Internal Regulations. Below is a brief description of the Committees as per the current Internal Regulations (which are continuously reviewed and if deemed appropriate by the Board of Directors amended).

### Nomination Committee

The Nomination Committee shall be a committee established by the Board of Directors of the Company. This is in line with Swiss law but will constitute a deviation from the Code that prescribes that the Nomination Committee shall be determined by the shareholders. To follow the rules that apply to Swiss companies the Board of Directors has decided that the Nomination Committee shall be established by the Board of Directors. The composition of the Nomination Committee shall however be in line with the Code.

The Nomination Committee shall ensure that the Company has a formal and transparent method for the nomination and appointment of Board members. The objectives of the Nomination Committee are to regularly review and, when appropriate, recommend changes to the composition of the Board of Directors to ensure that the Company has, and maintains, the right composition of Board members to effectively govern and provide guidance to business, and identify and recommend to the Board of Directors individuals for nomination as members of the Board and its Committees (taking into account such factors as it deems appropriate, including experience, qualifications, judgment and the ability to work with other Board members).

The current members of the Nomination Committee in Cavotec are Henrik Blomquist (representing Bure Equity AB), Thomas Ehlin (representing The Fourth Swedish National Pension Fund), Fabio Cannavale (representing Nomina SA), Stefan Widegren (representing the Founding Shareholders) and Patrik Tigerschiöld (Chairman of Cavotec's Board of Directors).

### **Audit Committee**

The objective of the Audit Committee is to assist the Board of Directors in discharging its responsibilities relative to financial reporting and regulatory compliance. Members of the Audit Committee shall exclusively comprise of members of the Board appointed by the Board in accordance with the Code. The Audit Committee will comprise of not less than three members with a majority to be Independent Directors of the Board. One member must have a financial or accounting background.

The Audit Committee of Cavotec SA is involved in a wide range of activities including inter alia, the review of all quarterly, half - yearly and annual financial statements prior to their approval by the Board and release to the public. The Committee has periodic contact with the external auditors, PricewaterhouseCoopers, through the PwC engagement partner responsible for the Audit and through the principal engagement manager, to review any unusual matters and the effect of new accounting pronouncements. As a matter of policy, the Audit Committee meets with the PwC engagement partner without the presence of Management at least once every year. Further, the Committee reviews the annual audit plan, as prepared by the external auditors, including the adequacy of the scopes of the audits proposed for the principal locations and the proposed audit fees. The engagement of the Auditors for non-audit services of significance is approved in advance by the Audit Committee.

At least once every year Management gives a presentation to the Audit Committee on the risk profile of the Group and on the procedures in place for the management of Risk. Risks related to the potential impairment of assets and the related provisions required for financial exposures are reviewed and discussed with Management at least once a year, normally in conjunction with the third quarter closing.

The Audit Committee of Cavotec SA met 7 times in 2019.

The current members of Audit Committee are Annette Kumlien (Chairwoman), Patrik Tigerschiöld and Roberto Italia.

### **Remuneration Committee**

The main purpose of the Remuneration Committee is to act as remuneration committee pursuant to the Minder Ordinance against excessive compensation with respect to listed corporations. The Remuneration Committee has the following duties and responsibilities:

1. Reviewing and advising the Board of Directors on the terms of appointment of the CEO;
2. Reviewing working environments and succession planning for members of the management;
3. Reviewing the terms of the employment arrangements with members of the management, as well as to develop consistent group employment practices subject to regional differences;
4. Reviewing of and making proposals to the Board of Directors on the remuneration of the members of the Board of Directors and of the Chief Executive Officer;
5. Reviewing the terms of the Company's short and long term incentive plans;
6. Submission of a draft of the remuneration report to the Board of Directors.

The current members of the Remuneration Committee in Cavotec SA are Erik Lautmann (Chairman), Fabio Cannavale and Patrik Tigerschiöld.

In accordance to Art. 7 of the Minder Ordinance and with the Internal Regulations, the Nomination Committee proposes to elect the following Board members to be part of the Remuneration Committee for the year 2020/2021: Erik Lautmann, Fabio Cannavale and Patrik Tigerschiöld.

The Remuneration Committee of Cavotec SA met five times in 2019.

### **Executive Management Team – EMT**

The EMT is selected by the CEO and consists of nine members, combining Cavotec's senior operational and corporate functions.

The EMT fulfils the Group Management role – empowered by the CEO – and ensures efficient implementation of strategic decisions into Cavotec's global organisation and leads local management on key operational issues. The CEO, defines and implements operational strategy, policies, technical and commercial developments, as well as new acquisitions in line with targets set by the Cavotec's Board of Directors.

Cavotec's operational structure is reasonably flat in order to ensure that the Group's operations and decision-making processes are efficient and responsive. Strategic, Group-related operations are the responsibility of the CEO with the support of the EMT. All material decisions within the day-to-day operations of the Company are taken by the CEO.

Due to the inherent international character of the Group, the Managing Directors of local Cavotec companies – who are close to their customers, suppliers and staff in their respective time zones, cultural environment and geographical area – take day-to-day operational decisions.



Remuneration  
and incentive plans**Remuneration of the Board of Directors**

The remuneration to the members of the Board of Directors in Cavotec SA, is, in deviation from the Code, resolved by the Board of Directors as set out in the Articles of Association, upon proposal of the Remuneration Committee. Furthermore, the yearly shareholders' meeting approves the total maximum aggregate remuneration for the Board of Directors for the following business year. In addition, Board members may receive remuneration for consultancy services provided to the Company. None of the members of the Board of Directors are entitled to any benefits when resigning from the Board, in their capacity as Board members. However, Board members may be entitled to benefits according to employment or consultancy agreements that will continue even if the Board member would resign as Board member.

Board of Directors EUR	Board fees	Social security Contributions	Pension	Consultancy	Total 2019
Fabio Cannavale	36,250	-	-	-	36,250
Niklas Edling <sup>(1)</sup>	26,250	916	1,375	-	28,541
Roberto Italia	28,750	1,038	1,558	-	31,346
Annette Kumlien <sup>(1)</sup>	33,750	1,178	1,768	-	36,696
Erik Lautmann	45,000	722	1,577	-	47,299
Helené Mellquist <sup>(2)</sup>	11,250	404	606	-	12,260
Helena Thrap-Olsen <sup>(2)</sup>	10,000	155	339	-	10,495
Patrik Tigerschiöld (Chairman)	95,000	3,340	5,011	-	103,351
<b>Total remuneration</b>	<b>286,250</b>	<b>7,754</b>	<b>12,233</b>	<b>-</b>	<b>306,237</b>

<sup>(1)</sup> Elected as Independent Director at the AGM 2019.

<sup>(2)</sup> Did not stand for re-election as Board member at AGM 2019.

Chief Executive Officer EUR	Total Base Salary <sup>(1)</sup>	Short-term Incentive Plan <sup>(2)</sup>	Long-term Incentive Plan <sup>(3)</sup>	Benefits in kind <sup>(4)</sup>	Social Security, Insurance and Pension Contributions <sup>(5)</sup>	Total 2019
Mikael Norin	701,798	-	-	55,118	192,184	949,100

<sup>(1)</sup> Incl. children allowance, exchange rate used for 2019 is 1.11238 CHF/EUR.

<sup>(2)</sup> Paid in 2019.

<sup>(3)</sup> FY2016 LTIP Plan paid out respectively in 2019 but the CEO was not eligible for any of these plans.

<sup>(4)</sup> Allowances (Fitness, health insurance and school fees).

<sup>(5)</sup> Pension contribution to the CEO has partly been made in form of cash payment in lieu of defined contribution payment.

**Principles**

Compensation for all employees, and in particular for the Executive Management Team (EMT), focuses on achieving a high level of performance to ensure both sustained growth and value creation. The compensation of the EMT and members of the Board of Directors is reviewed on an annual basis by the Remuneration Committee, which proposes appropriate measures to the Board of Directors.

All amounts stated are gross and include all fixed and variable remuneration allocated to the members of the Board and to the CEO for the year under review.

The remuneration programme for senior executives in the Cavotec Group (the "Group") consists of four components:

- a) salary
- b) annual non-equity cash compensation ("STIP")
- c) equity-based incentives ("LTIP")
- d) pension benefits

The four components can be divided into fixed and performance-based elements. Salary and pension benefits are fixed, whereas STIP and LTIP are performance-based. Qualified international remuneration consultants from Willis Towers Watson were consulted when the remuneration system was designed to ensure that the remuneration system is competitive, attractive and in line with remuneration systems that exist in comparable companies.

Fixed pay	Variable pay
Salary	STIP
Pension benefits	LTIP
Based on:	For:
- functions and responsibilities	- performance and results
- mandatory pension plans of the country of employment	- participation in long-term success

**a) Base salary**

The base salary for a senior executive of the Group is designed to be attractive and market competitive. In 2018, the benchmark analysis was made by using all companies listed in the general industry survey from Willis Towers Watson for the countries of residency of the senior managers.

The salary is revised once a year. The average yearly increase is historically below five per cent, but depends on the country of employment (where the inflation rate is an important factor for determining the increase). The salary can also be adjusted in the case of a change of responsibility or relocation.

**b) STIP**

The short-term incentive plan (STIP) is the cash-based element of the variable remuneration for senior executives. Its objective is to:

- encourage performance and motivates the beneficiaries to work together for the sustainable success of the Group
- enable the alignment of objectives throughout the Company

The amount of the STIP paid out depends on the achievement of agreed targets that are defined at the beginning of each year. The targets are between 80-100 per cent quantitative financial objectives, and 0-20 per cent quantitative personal objectives. A new framework was introduced in 2018 to provide a simple, fair and transparent approach.

**c) LTIP**

The 3 following LTI plans are running in parallel in 2019:

**2019-2021 LTI Plan**

The implementation of a new equity based long term incentive plan (LTIP) was approved by May 10, 2019 AGM. This plan is a 3 years plan that rewards the performance between Jan 1, 2019 and Dec 31 2021 (performance period). The CEO and EMT members are eligible for the plan. The plan grants performance shares to the participants at the beginning of the period as a percentage of the base salary (80% for the CEO, 20-40% for the EMT members). The number of shares that will vest at the end of the performance period depends on the performance of two indicators:

- 1) Growth in Earnings Per Share (EPS) with 65% weight
- 2) Relative Total Shareholder Return (relative TSR) with 35% weight.

Threshold, target and stretch levels are defined for the achievement level calculation.

**2018-2019 LTIP Bridge Plan**

EMT members that joined the Group after April 1, 2017 are eligible for the bridge plan. Pay-out will be in cash and determined by the level of growth in earnings per share (EPS) achieved at the end of 2019 in comparison to its value on Dec 31, 2017. Threshold, target and stretch levels are defined for the achievement level calculation. The 2018-2019 LTI Bridge Plan will pay-out in 2020, based on the achievement level of the EPS on December 31, 2019.

**2017-2019 Co-investment shares plans**

Senior management members that joined the Group prior to 2017 are benefiting from the existing co-investment share LTIP. The Co-investment shares plan aimed at creating a managing shareholder culture by allowing selected key employees of the Group to become shareholders of Cavotec SA. The Plan Participant has the possibility, but is not obligated to purchase Co-investment Shares at fair value on the stock-market during the Co-investment Period of the Respective Plan. The amount of the Matching Incentive depends on the number of Co-investment Shares still held by the Plan Participant on the Matching Date, as well as, on the achievement of the Revenue Target and the EBIT Margin Target.

**d) Pension benefits**

Pension benefits are based on defined contributions that are determined by mandatory pension plans of the country of employment and other local conditions. In certain selected cases an extra pension benefit equal to 10 to 15 per cent of the base salary can be agreed with key managers as an extra compensation. This extra compensation can be revised on a yearly basis.

**Internal Control System (ICS)**

The internal control function has been embedded in the finance organisation. This task is performed by Group Finance, that together with the local entity's finance department and the Legal Compliance officer is responsible for ensuring that the necessary controls are performed along with adequate monitoring. Internal controls comprise the control of the Company's and Group's organisation, procedures and remedial measures. The objective is to ensure reliable and correct financial reporting, and to ensure that the Company's and Group's financial reports are prepared in accordance with law and applicable accounting standards and that other requirements are complied with. The internal control system is also intended to monitor compliance with the Company's and Group's policies, principles and instructions. In addition, the control system monitors security for the Company assets and monitors that the Company's resources are exploited in a cost-effective and adequate manner. Internal control also involves following up on the implemented information and business system, and risk analysis.

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