

# Corporate governance report

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

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 Companies Act, the company's Articles of Association, stock exchange rules from Nasdaq OMX Stockholm and as of 1 January 2009 also in accordance with the Swedish Code of Corporate Governance. Any deviations from the Code are explained in the relevant sections. The report has not been scrutinised by the company's auditor.

## 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 annual in April or May at 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 notice to attend the Annual General Meeting must be published at the earliest six weeks before the Annual General Meeting, and at the latest four weeks before it. The Annual General Meeting elects the Board of Directors for the company. The other tasks of the Annual General Meeting also include

- approving and adopting the company's income statements and balance sheets
- making decisions on disposal of profits from business
- making decisions on changes to the Articles of Association
- electing auditors
- making decisions on discharge from liability for Board members and the CEO
- making decisions on remuneration for the Board of Directors and auditors

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

## Annual General Meeting 2008

31 shareholders, representing 62.8 % 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 13 May 2008. The Board of Directors, executive team and company's auditors were present at this meeting. Among other things, the following decisions were made:

- Lawyer Lars Hasp 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 1.20 per share
- The Board of Directors and Chief Executive Officer were granted discharge from liability for the 2007 business year
- Remuneration payable to the Board of Directors was set at a total of SEK 1 000 000

- Remuneration to the auditors will be paid in accordance with an approved invoice
- The Board of Directors was re-elected in its entirety, consisting of
  - Staffan Ahlberg (Chairman)
  - Anders Hultmark
  - Anna Lindström
  - Dag Sehlin
  - Terje Thon
- Establishment of principles for remuneration to leading officials and other terms of employment for the same
- Establishment of principles for the appointment of an election committee for the 2009 Annual General Meeting
- Decision on acquisition of minority participation in the company's subsidiary in Latvia
- Decision on reduction of the company's share capital by SEK 369 751 by means of withdrawal of 369 751 shares which have been bought back by the company in accordance with the authorisation given by the 2007 Annual General Meeting
- Decision on increasing the company's share capital through a bonus issue of SEK 369 751 by means of a transfer from non-restricted equity
- Authorisation for the Board of Directors to make decisions, for the period until the next annual meeting, on one or more occasions, on the issue of new shares without preferential rights for shareholders, of a total of no more than 1 050 000 shares against property other than cash or by set-off
- Authorisation for the Board of Directors to make decisions on acquisition of up to 10 % of the number of outstanding shares in the company by the next Annual General Meeting

## Election Committee

At Proact's Annual General Meeting, held on 13 May 2008, it was decided that the election committee is to consist of representatives of the four biggest shareholders and the Chairman of the Board, and that the Chairman of the Board should contact the biggest shareholders in accordance with VPC's list of shareholders as at 30 September.

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

If a significant change takes place to the ownership structure once the election committee has been appointed, the composition of the election committee shall be altered in accordance with the principles above.

Where appropriate, the election 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 an auditor and deputy auditor (where appropriate)
- decisions on principles for the appointment of an election committee

#### **Work of the election committee**

The composition of the election committee was published on 27 October 2008 and consists of Chairman of the Board Staffan Ahlberg, along with Catharina Bergquist (Sigal) – Chairman of the election committee – and Anders Hultmark (IGC), Erik Sjöström (Skandia Liv) and Mikael Gottschlich (Thyra Hedge). The election committee represents in total around 40 % of votes in Proact as at 30 September 2008.

All shareholders have the opportunity to consult the election committee with suggestions for Board members. The election committee has held seven minuted meetings. Among other things, the election committee has assessed the overall suitability of the Board on the basis of an assessment of Proact's future development and challenges.

A report on the work of the election committee is published on the Proact website in connection with the publication of its proposal for 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.

According to the Articles of Association, the Board of Directors must consist of three to eight members, with at the 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 13 May 2008, it was decided that the Board would consist of five members and no deputies for the period until the next Annual General Meeting.

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

Once per business year, the Board members discuss the following amongst themselves or with the assistance of external parties:

- Evaluation of the work of the Board
- Evaluation of the work of the CEO
- The CEO'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 13 May 2008 established the total remuneration to the Board at SEK 1 million. The Chairman of the Board will be paid a fee of SEK 320 000, while other members will be paid SEK 130 000 each, plus SEK 160 000 for committee work to be distributed SEK 80 000 to the audit committee and SEK 40 000 each to the remuneration committee and the acquisitions committee.

Board members are not included in any share or share price-related incentives schemes.

#### **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 CEO.

In 2008, the Board held ten meetings compared with eight 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 monitoring and control of operations, the Board has discussed over the year issues such as strategies, expansion to new countries, capital structure and organisational issues. The Board has also held two of its meetings at subsidiaries' premises in order to form a better perception of local conditions.

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**Composition of the Board and presence at Board meetings, 2008**

Board member	Remuneration committee	Acquisitions committee	Audit committee	Presence at Board meetings
Staffan Ahlberg	X	X		100 %
Anders Hultmark	X	X		90 %
Dag Sehlin			X	100 %
Terje Thon				100 %
Anna Lindström			X	100 %

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**The independence of the Board members**

Board member	Function	Date of birth	Nationality	Elected	Independence	Shareholding
Staffan Ahlberg	Chairman	1944	Swedish	2005	Yes	130 000
Anders Hultmark	Member	1954	Swedish	2005	No	1 178 764
Dag Sehlin	Member	1945	Swedish	2000	Yes	5 000
Terje Thon	Member	1946	Norwegian	2003	Yes	12 000
Anna Lindström	Member	1965	Swedish	2003	Yes	5 000

**Remuneration committee**

The job of the remuneration committee is to examine the principles for remuneration, including performance-based remuneration and pension terms for the company's leading official, and to give recommendations to the Board concerning these issues. Issues relating to the CEO'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 13 May 2009, 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 CEO and other corporate executive staff can be found in the annual report, Note 9.

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

**Acquisitions committee**

The job of the acquisitions committee is to work together with the CEO, and where appropriate the corporate executive, to analyse and prepare various alternative acquisitions/business startups prior to decisions by the Board.

In 2008, Proact has established new subsidiaries in Estonia and the Netherlands, and acquired a company in Norway. These issues have been prepared by the acquisitions committee prior to decisions by the Board.

The acquisitions committee has held four 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 keep abreast of the focus and scope of the audit and to discuss views on the company's risks. Decisions by the Board are required for services other than auditing exceeding 10 % of the budgeted audit fee. This committee is also tasked with providing its evaluation of the audit work to the election committee and with assisting the election committee with production of the election committee's proposals to the Annual General Meeting concerning the election of auditors and the size of the audit fee.

The audit committee consists of two Board members, which is a deviation from the recommendation in the Swedish Code of Corporate Governance for three Board members. With regard to the size and complexity of the company, the Proact Board of Directors has decided that two members are satisfactory for the task.

The company's CEO regularly participates in audit committee meetings, and the company's CFO prepares and convenes these meetings.

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

**External auditors**

Proact's auditors are selected by the Annual General Meeting for a period of four years. The Annual General Meeting which was held on 5 April 2006 elected the firm of auditors Ernst & Young (E & Y), with Ola Wahlqvist as the primary auditor for the period up to the 2010 Annual General Meeting.

The auditors review the Board's and the CEO'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 auditor's 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.

E & Y performs certain services for Proact in addition to audits. When E & Y 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, which are marginal and within the guidelines, has not impacted upon E & Y's independence.

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

### **CEO and Group management**

Olof Sand is the CEO and President of Proact. Olof Sand was born in Örebro in 1963, is an engineer and has studied economics and marketing at Uppsala University. He has completed an MBA at Uppsala University and an IFL education under the auspices of the Stockholm School of Business and Economics. He has previously held positions as the CEO of ABB Communications and Vice President of Tele2. He was one of the founders of consultancy company Acando AB, and its Senior Vice President. He took up his present position as CEO of Proact IT Group in January 2005. As at 31 December 2008, Olof Sand owned 87 000 shares and 200 000 purchase options in the company. These options are issued by SEB and have a redemption price of SEK 45.

Olof Sand has no significant shareholdings or co-ownership in companies with which Proact has significant business relationships.

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

The CEO 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 2008, Proact's Group management consisted of the CEO and eleven other leading officials, one of whom is the COO. Of the other leading officials, one person is employed by the parent company and the others by subsidiaries.

All subsidiaries running business report directly to the CEO. 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. All Chairmanships are held by the CEO of Proact IT Group AB.

### **Remuneration to senior executives**

The Annual General Meeting held on 13 May 2008 assumed principles concerning remuneration to leading

officials, which means that remuneration must be made up of a set salary, variable remuneration, other customary benefits and pension. The total remuneration to officials must be in line with the market and competitive on the labour market in which these officials operate; 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 leading officials must be maximised (to an amount corresponding, on average, to six 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 large amount of 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.

### **The Board's report on internal controls**

#### **Review 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 CEO, 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 control 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, manuals, etc. which affect financial reporting 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 reports. 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.

Proact has no internal auditing of its own due to the view that there are no special circumstances within the organisation or any other conditions which would justify this.