

# CORPORATE GOVERNANCE REPORT 2016



"IN THE PAST YEAR, THE GRÄNGES' BOARD HAS CONTINUED TO FOCUS ON MEASURES DESIGNED TO IMPROVE EARNINGS IN EXISTING BUSINESSES AND LOOK AT OPPORTUNITIES RELATED TO GROWTH."

## DEAR SHAREHOLDER,

In the past year, the Gränges' Board has continued to focus on measures designed to improve earnings in existing businesses and look at opportunities related to growth.

One of the most important challenges that the Board had to address during the year was the acquisition of Noranda's rolled aluminium business in the US, which was completed in August 2016. A foothold in North America has long been on our agenda to improve Gränges' opportunities for long-term growth, and to strengthen the position globally. The presence in North America means that Gränges has manufacturing capacity in Europe, China and North America. Furthermore, Gränges has added new market niches. The business we acquired is well run and stable, and will make a substantial contribution to Gränges' earnings and cash flow from 2017. Together with a strong balance sheet, and given last year's acquisition, the Board is of the opinion that a dividend increase of 20 per cent to SEK 2.40 per share is reasonable.

## Sound corporate governance for a sustainable future

The global market for heat exchanger materials, which is Gränges' largest market, grew in 2016. Gränges continues to see excellent opportunities to take market share in all regions, especially so in Asia and Americas. It is encouraging that the Group has maintained focus on the business despite carrying out a major acquisition. During the past year, the Board has discussed topics such as governance, market position and production capacity; and early in 2017, the Board visited one of our new plants in Tennessee in the US. A review is currently being conducted into a potential expansion of US operations to meet increased demand in the region.

Gränges' 2016 annual report contains the Group's first sustainability report compiled according to GRI guidelines. Environmental considerations such as energy consumption, recycling and emissions, along with equality, are highly important areas for Gränges. From the Board's perspective, work in these areas is about strengthening the company's position and business opportunities in the longer term, while also reducing sustainability-related risks.

I would also like to take this opportunity to express the Board's appreciation of Gränges management and employees for their purposeful and well executed work in the past twelve months. Under the leadership of CEO Johan Menckel, Gränges has continued to improve business performance, completed an acquisition in North America, and at the same time strengthened our position on existing markets. Today, Gränges is a significantly larger company with a more balanced product portfolio.

Stockholm, February 2017

Anders G. Carlberg  
Chairman of the Board

Gränges AB has been listed on the Nasdaq Stockholm since October 2014. Gränges' corporate governance is based on Swedish regulations and Swedish legislation, primarily the Swedish Companies' Act, but also Nasdaq Stockholm's regulatory structure for issuers, the Swedish Corporate Governance Code ("the Code"), the Articles of Association, and other relevant internal and external regulations and policies.

Good corporate governance is about ensuring that the company is run in a sustainable, responsible and effective manner with the interests of its owners as guiding principles. Good corporate governance contributes to increased confidence among existing and potential owners, customers, legislators, the public and other stakeholders. In this way, industry's freedom to develop is ensured, as is the supply of risk capital and competence. The aim of the Code is to strengthen the confidence in Swedish listed companies by promoting the positive development of corporate governance in such enterprises.

This Corporate Governance Report has been prepared as part of Gränges' application of the Code. The company's auditors have reviewed this Report, and have not made any comments regarding its contents.

Gränges has not reported any infringements of the Code in 2016.

**ORGANISATION**

The Group's operations in 2016 consisted of three geographical regions: Asia, Europe, and Americas. On 22 August 2016, three production facilities in the US were acquired. These are in Huntingdon, Tennessee, in Salisbury, North Carolina and in Newport, Arkansas. The company already had two other production facilities located in

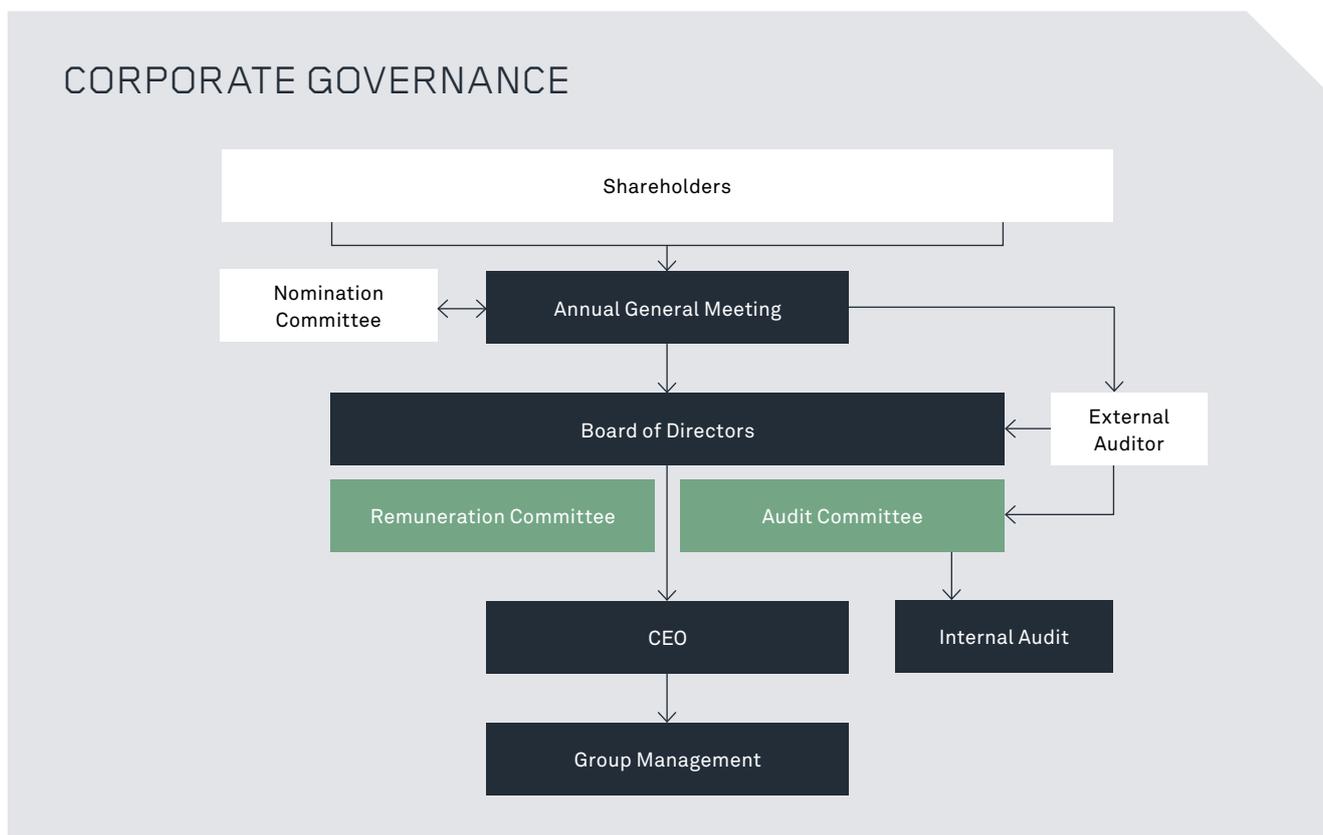
Finspång, Sweden, and in Shanghai, in China. The Chinese subsidiary also owns fifty per cent of another company based in Shanghai, which is engaged in metal stamping. The Group's parent company, Gränges AB, is a Swedish public listed company. Its organisation number is 556001-6122, and its registered office is in Stockholm with its head office on Humlegårdsgatan 19 A.

**THE CODE**

All companies with shares or receipts listed for trading on the Nasdaq Stockholm or other regulated market in Sweden, irrespective of market value, are required to apply the Code. The Code is based on the principle of "comply or explain", which means that a company may deviate from the Code's provisions, if, in certain circumstances, doing so results in improved corporate governance, without this constituting a breach of the Code. However, a company that fails to apply a provision of the Code is required to provide an acceptable explanation as to why it has chosen to do so. Effective corporate governance at Gränges may be summarised as several complementary components, as described below.

**SHAREHOLDERS**

Share capital in Gränges amounts to SEK 101 million, distributed among 75,155,386 shares that give the right to an equal number of votes and an equal share in the company's assets and profits. On 31 December 2016, the number of shareholders amounted to 7,757. Fjärde AP-fonden was the largest shareholder, followed by AFA Försäkring. Of the shareholders, 66.2 per cent held 500 shares or



fewer, and the ten largest shareholders held 35.0 per cent of the total number of shares. Foreign-based share ownership amounted to 56.5 per cent. A detailed table showing share ownership as at 31 December 2016 can be found on page 31. Shareholdings of Board members and Group management are shown on pages 68–71.

No shareholders own a shareholding amounting to more than 10 per cent of the total number of shares or the total number of votes. This should be compared with the situation on 31 December 2015, when Orkla Industriinvesteringar AB and Lannebo Fonder AB both owned more than 10 per cent of shares in the company.

There are no limitations regarding how many votes each shareholder may cast at a general meeting of shareholders.

The Annual General Meeting (AGM), held on 28 April 2016, authorised the Board, on one or more occasions prior to the 2017 AGM, to have the option of deciding to issue new shares and/or convertible instruments equivalent to 10 per cent of the total number of shares outstanding in the company at the time of the resolution adopted by the AGM, i.e.: 7,463,938 shares.

#### ANNUAL GENERAL MEETING

The company's highest decision making body is the AGM, during which shareholders exercise their influence over the company.

#### Annual General Meeting 2016

The AGM was held on 28 April 2016. At the meeting, 30.9 per cent of the shares in the company were represented.

At the AGM, Anders G. Carlberg was re-elected as Chairman of the Board. In addition, Terje Andersen, Ragnhild Wiborg and Carina Andersson were re-elected as Board members; and Katarina Lindström, Hans Porat and Peter Carlsson were elected as Board members. This means that the Board has a relatively even gender balance, with three of seven Board members being women. Ernst & Young AB were again appointed as the company's auditors, and authorised public accountant Erik Sandström was appointed by Ernst & Young AB as chief auditor.

Other resolutions taken during the AGM included:

- To pay a dividend of SEK 2.00 per share.
- To authorise the Board – as indicated above – to issue a maximum of 10 per cent of the number of shares at the time of the AGM via a new issue of shares and/or issue of convertibles.
- To adopt a short-term annual incentive programme for senior executives and other key people in the company. The programme is to be determined by several parameters consisting of key financial performance indicators of the company, such as adjusted operating profit and capital employed, and by predetermined individual objectives. Under the resolution, remuneration (STI) for 2016 may amount to a maximum of 60 per cent of basic annual salary.
- To adopt a long-term incentive programme for senior executives and key people in the Group whereby an amount corresponding to the outcome of STI 2016 for each respective participant is set aside in a so-called LTI bank, and, provided the person continues to be employed by Gränges, a third of the amount will be paid in each of the years 2018, 2019 and 2020 adjusted for Gränges' total return, including reference to the share price until respective payments.
- To approve Board members' and auditors' fees.

#### NOMINATION COMMITTEE

The duties of the Nomination Committee prior to the AGM consist of proposing nominations for the Chairman of the Board, Board members, the auditor, AGM chairman, Board fees, fees for committee work

and fees for the author. The Nomination Committee also proposes a new nomination committee or criteria for its composition.

The Nomination Committee for the 2017 AGM was appointed in line with the resolution agreed pertaining to the Nomination Committee at the AGM on 4 May 2015. Under this resolution, which was not subject to change at the 2016 AGM, the Gränges' Nomination Committee shall, prior to the 2017 AGM, comprise representatives from the company's three largest shareholders as at August 31 2016, and the Chairman of the Board. If one of these shareholders is no longer one of the three largest shareholders, its representatives shall step down from his/her post, and the shareholder who has become one of the three largest shareholders shall be offered a seat on the Nomination Committee, if the Nomination Committee deems this necessary. The Chairman of the Nomination Committee shall be the committee member who represents the largest shareholder, unless otherwise agreed by the Nomination Committee.

As at 31 August 2016, Gränges' three largest shareholders were Fjärde AP-fonden, AFA Försäkring and JP Morgan Asset Management, which have been invited to nominate candidates for the nomination committee. JP Morgan Asset Management chose to give up its place on the Nomination Committee, as did fourth largest shareholder, Old Mutual plc, and fifth largest shareholder, Catella Fonder. The sixth largest shareholder, SEB Fonder, was then offered a place on the Nomination Committee. As shown on the table on page 31, 31 December 2016, Fjärde AP-fonden, AFA Försäkring and SEB Fonder, were the company's largest, second largest and fourth largest shareholders respectively. On 24 September 2016, it was announced on the company's website that the Nomination Committee ahead of the 2017 AGM had the following composition: Jannis Kitsakis (Fjärde AP-fonden), Anders Algotsson (AFA Försäkring), Rikard Andersson (SEB Fonder) and Anders G Carlberg (Gränges' Chairman). The Chairman of the Nomination Committee is Jannis Kitsakis.

#### Nomination Committee for the 2017 AGM

Appointed by/name	Per cent of votes as at 31 December 2016
Fjärde AP-fonden/Jannis Kitsakis	8.7
AFA Försäkring/Anders Algotsson	5.6
SEB Fonder/Rikard Andersson	4.5
Chairman of the Board of Gränges AB/ Anders G. Carlberg	0.0

Shareholders had until 31 January 2017 to submit proposals and comments to the Nomination Committee. The Nomination Committee's proposals are published with the notice convening the AGM. In conjunction with the publication of this notice, the Nomination Committee has published a statement on granges.com that supports its proposals to the Board and a report on how the Nomination Committee's work has been conducted.

#### Work of the Nomination Committee prior to the 2017 AGM

Since the Nomination Committee was formed in the autumn of 2016, it has met on one occasion. The Chairman of the Board presented an evaluation of the Board's work that was conducted in September 2016 at the Nomination Committee's first meeting on 28 September 2016 and thereafter also notified the Board of the results of its evaluation at the meeting held on 21 October. The result of this evaluation was broadly positive, and differed marginally from the evaluation conducted in the autumn of 2015.

Prior to the 2017 AGM, the Nomination Committee has assessed whether the composition of the current Board is sufficiently broad, diverse and gender equal, and whether it meets the demands placed on the Board given the company's current and future circumstances. According to the review carried out by the Nomination Committee, the Board has strong breadth, is diverse in terms of backgrounds and skill sets, and has an excellent gender balance. The annual evaluation of the Board has formed part of the basis of this assessment. The Nomination Committee works continuously to identify and evaluate potential new Board members.

Pursuant to the instructions for the Nomination Committee, no fees shall be paid to the Nomination Committee.

### THE BOARD

The primary responsibility of the Board is to manage the affairs of the company in the best interests of the company and all shareholders. The Board shall assess the financial position of the company and the Group on a continuous basis, and ensure that the company's financial position can be satisfactorily verified. The Board shall also evaluate Group management. The Board decides on issues related to the Group's strategic direction and organisation, and decides on key acquisitions, investments and disposals. Prior to every AGM, and based on proposals made by the Remuneration Committee, the Board shall prepare proposals for guidelines for the determination of remuneration for the CEO and other members of Group management. Adopting a systematic and structured process, and on an annual basis, the Board shall evaluate the work of the Board with the aim of developing the Board's procedures and efficiency. In 2016 this was conducted under the leadership of the Chairman of the Board who asked all Board members to grade given aspects of the Board's work, and gave Board members the opportunity to submit proposals for improvements. The results of the evaluation, which are presented in the Nomination Committee section (above), were strongly positive throughout.

#### Board of Director's formal work plan

Each year, the Board adopts a formal work plan that includes instructions for the CEO, which, among other aspects, governs the division of work between the Board and the CEO.

The formal work plan governs how the Board's work is to be distributed among Board members, how often the Board should meet, and how work should be divided between the Board's various committees. Furthermore, the formal work plan states that there shall be a Remuneration Committee and an Audit Committee. Prior to every Board meeting, Board members receive an agenda and data on which to base decisions. Each Board meeting includes a review of current business conditions, Group results and financial position and outlook. Other issues that are considered include competition and general market conditions. The Board regularly reviews the overall risk situation from a variety of aspects, and the Group's work on health and safety, including accident statistics. The Board also has a system for continuous follow-up of decision making and unresolved issues.

#### Chairman of the Board

The Chairman organises and leads the Board's work, represents the company in ownership matters, and is responsible for the evaluation of the Board's work. The Chairman is also responsible for day-to-day contact with the CEO and for ensuring that the Board fulfils its duties and obligations effectively.

#### Composition of the Board of Directors

Under the Articles of Association, the Board shall be composed of at least four and no more than eight members elected by a general meeting of shareholders, with no more than four deputy members. The Board constitutes a quorum when more than half of all Board members (including members appointed by employees) are present. The composition of the Board should be broad and diverse in terms of Board members' competence, experience and background, reflecting the nature of the company's operations, phase of development, and general circumstances. Pursuant to the law regarding Board representation of private sector employees, employees are entitled to appoint two Board members and two deputy Board members. The employee organisations have exercised this right in 2016.

#### The Board's work in 2016

Fourteen minuted Board meetings were held in 2016, of which two were so-called per capsulam meetings, and five were telephone meetings. The remaining seven meetings, were conventional meetings, one of which was held at Gränges' plant in Finspång, while the others were held in Stockholm. The Board formed a quorum at all these meetings. At the meetings held on 3 February and 13 September, the Board held sessions in the absence of Group management. The CEO and CFO participated in all meetings. The Secretary of the Board is Gränges General Counsel, Niclas Nelson, who is not a Board member.

One of the most important issues that the Board worked on in 2016 was the acquisition in the US, which was formally concluded on 22 August. Additional Board meetings in the spring and summer of 2016 dealt almost exclusively with this complex issue, and outstanding points relating to the acquisition and its financing were reviewed and approved by Board members on a continuous basis. The Board and Group Management have devoted considerable amount of time and effort to the acquisition. In February 2017, the Board visited Gränges' production plant in Huntingdon, Tennessee and held its board meeting at the company's US headquarters in Franklin, Tennessee.

#### Remuneration Committee

Together with the Chairman of the Board, the Remuneration Committee shall consist of one or more Board members elected at a general meeting of shareholders, who shall be independent in relation to the company and Group management. Members of the Remuneration Committee should have the required knowledge and experience of issues relating to senior executive remuneration. The duties of the Remuneration Committee are set out in the Board's formal work plan. The CEO is co-opted to the Committee in a rapporteur capacity, but does not participate in the discussions relating to his or her own salary or terms of employment. Gränges' General Counsel is the Committee's secretary.

During 2016 the Remuneration Committee's work included preparing short- and long-term incentive programmes for senior executives and other key people. This work was more complex in 2016 than previous years due to the acquisition of the business in the US, because norms relating to incentive programmes in the US differ from those that prevail in Sweden. During its meetings, the Committee has analysed many models for short- and long-term remuneration and thereby the Committee also conducted a thorough analysis of praxis in the Swedish market. The aim of the Committee's work was to ensure that a connection with shareholders exists with the long-term programme. The Committee also discussed and prepared decisions regarding remuneration for the CEO in connection with the annual audit and the acquisition of the US business.

### Audit Committee

According to the formal work plan of the Board, the Audit Committee should consist of at least three Board members elected at a general meeting of shareholders. The majority of its members should be independent of the company and Group management. The Committee elects a chairman from among its members who may not be the Chairman of the Board. The duties of the Audit Committee are described in Board's formal work plan. An additional responsibility was added to the Committee's remit in 2016: the Committee will examine the Auditor's independence in relation to the other services purchased by the company. The Committee's rapporteur is the company's CFO. The company's General Counsel acted as the Committee's secretary until the AGM in April 2016, from when the role was filled by the company's Director Group Accounting, Carolin Thysell.

An established risk management process exists within the company that is based on operational and process flows. The Audit Committee reviews risk areas that are identified, (business risk and risk associated with errors in financial reporting), in these processes. Based on the outcome, the focus and scope of the audit are analysed together with the company's auditors.

The Audit Committee adopts an annual internal audit plan, which amongst other things is based on the risks that have emerged in the risk management process. The audit plan is discussed with external auditors to streamline and improve the quality of ongoing auditing work.

In May 2016, an internal audit was conducted of joint venture company Norca Heat Transfer LLC's operations in North America.

An internal audit was also commissioned of Gränges Sweden AB's operations in November.

The audit was carried out on a rolling schedule and was conducted by the company's group accounting function with support from the accounting functions of subsidiaries with the exception of the business that was the subject of the audit.

The Committee also analyses and highlights the key auditing issues that affected the company, and assists the Nomination Committee to prepare proposals for auditors as well the determination of their fees.

Finally, during 2016, the Audit Committee reviewed processes related to the preparation of quarterly reports to always ensure the quality of financial reporting. The Group's auditor, Erik Sandström, attended all Committee meetings and reported on controls and audit planning throughout the year.

### AUDITOR

The company's internal auditing is reported to the Board and shall ensure that the company has sufficient internal control systems in place for financial reporting. The external auditor is responsible for reviewing the company's annual accounts and bookkeeping, and to examine the Board and CEO's management of the company.

According to the Articles of Association, Gränges AB shall have at least one and at most two auditors. Registered auditing firms may be appointed as auditors. Ernst & Young AB were appointed auditors at the AGM. Ernst & Young AB has informed the company that authorised auditor Erik Sandström will be chief auditor until the 2017 AGM.

The external audit of the parent company and Group accounts, and of the administration of the Board and CEO is conducted in accordance with the International Standards on Auditing (ISA), and in accordance with generally accepted auditing standards in Sweden. The company's chief auditor participates in all Audit Committee meetings. For information regarding auditor fees, please refer to Note 9.

### Board attendance and remuneration

Name	Independent in relation to the company/ owners	Attendance Board meetings	Attendance Audit Committee meetings	Attendance Remuneration Committee meetings	Directors' fees, SEK	Audit Committee fees, SEK	Remuneration Committee fees, SEK	Total fees, SEK
Anders G. Carlberg	x	14/14	n/a	3/3	500,000	–	50,000	550,500
Terje Andersen (independent since 17 March 2016)	x	14/14	6/6	1/1	275,000	40,000	8,333	323,333
Ragnhild Wiborg	x	13/14	6/6	n/a	275,000	80,000	–	355,000
Hans Porat (from 28 April 2016)	x	9/10	n/a	2/2	183,333	–	16,666	200,000
Carina Andersson	x	14/14	n/a	2/2	275,000	–	16,666	291,666
Peter Carlsson (from 28 April 2016)	x	10/10	n/a	n/a	183,333	–	–	183,333
Katarina Lindström (from 28 April 2016)	x	10/10	3/3	n/a	183,333	26,666	–	210,000
Bertil Villard (until 28 April 2016)	x	4/4	3/3	1/1	91,666	13,333	8,333	113,333
Konny Svensson		14/14	6/6	n/a	40,000	–	–	40,000
Öystein Larsen		14/14	n/a	3/3	40,000	–	–	40,000
Tommy Andersson		13/13	n/a	n/a	40,000	–	–	40,000
Claudi Martin Callizo (until 1 July 2016)		7/7	n/a	n/a	20,000	–	–	20,000
Elin Lindfors (from 1 July 2016)		6/6	n/a	n/a	20,000	–	–	20,000

## GROUP MANAGEMENT

Group management is responsible for developing and implementing the Group's overall strategies that relate to issues such as product and customer strategies, and acquisitions and divestments. These issues, and larger investments, are prepared by Group management to be decided upon by the Board.

The CEO is responsible for the day-to-day management of the company in accordance with the Board's instructions and guidelines. On 1 January 2017, Group management consisted of eight people: the CEO, President Europe, President Asia, President Americas, the CFO, SVP Technology & Business Development, General Counsel, and SVP Communications & Investor Relations. The SVP Human Resources Magnus Carlström and the SVP Process Engineering & Operational Development Paul Neutjens are part of the extended Group Management.

During autumn 2016, the Board appointed the Group's CFO to Deputy CEO of Gränges AB with effect from 1 January 2017.

Group management holds monthly meetings to review the results and financial position of the Group and subsidiaries. Other questions dealt with at these meetings include strategy issues and follow-up of budgets and forecasts. Subsidiaries are also monitored more closely due to the CEO being Chairman of the three subsidiaries in Sweden, China and the US. Other members of Group management and employee representatives also serve on these companies' Boards. The subsidiaries' Boards monitor day-to-day operations, and approve the strategy and budget of each subsidiary. In 2016, due to the acquisition of the business in the US, an American subsidiary based in the state of Delaware was formed. This Board consists of the CEO, CFO and General Counsel.

### Remuneration of Group Management

Guidelines for remuneration of senior executives have been analysed and developed by the Remuneration Committee at the end of 2016 and beginning of 2017. The proposition regarding new guidelines will be presented in their entirety in the decision data for the AGM to be held on 4 May 2017.

### The Board's description of internal control and risk management regarding financial reporting

Under the Swedish Companies Act and the Code, the Gränges AB Board is responsible for ensuring that the company has good internal control. Internal control shall ensure that the company's financial reporting is reliable and prepared in accordance with laws, applicable accounting standards and other requirements for listed companies.

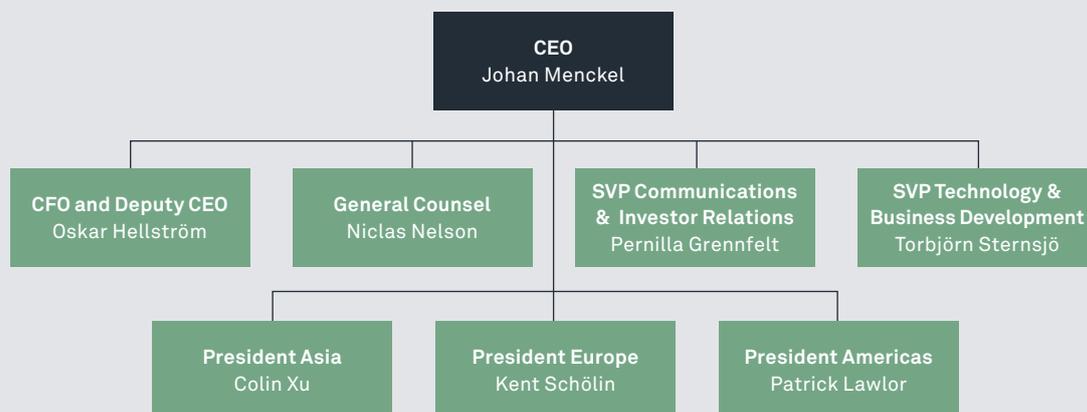
### Framework for internal control and risk management regarding financial reporting

Gränges complies with the established international framework, Internal Control Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In accordance with COSO, Gränges' process for internal control of financial reporting is based on five components. These five are: control environment, risk assessment, control activities, information and communication and monitoring. Gränges' internal control process is designed to ensure with reasonable certainty the quality and accuracy of financial reporting, and ensure that reporting is prepared in accordance with applicable laws and regulations, accounting standards and other requirements for listed companies in Sweden. This is dependent on a healthy control environment, reliable risk assessment and established control activities; and that information, communication and monitoring work satisfactorily.

### Control environment

The control environment is defined by the Group's organisational structure, Group management's working methods and values, and other roles and responsibilities within the organisation. The Audit Committee assists the Board with essential accounting issues that the Group applies, and monitors the internal control of financial reporting. To maintain an effective control environment and robust internal controls, the Board has delegated the day-to-day responsibility to the CEO, who in turn has assigned this responsibility to other members of Group management.

## GROUP MANAGEMENT



From 1 January, 2017.

Quality in financial reporting is ensured through several measures and routines. Continual work is ongoing to further develop common Group policies and manuals. These include the Financial Management Policy, the Metal Management Policy, the Group Accounting Manual and the Instruction for Financial Reporting. In addition to the above, there are important Group-wide steering documents such as the Information Policy, the Authorization Policy and the Code of Conduct (rules on business ethics). In 2016, a large number of Group employees have taken a web-based training course following the Group's decision to join the UN Global Compact. All employees required to take this course have done so. Since 2015 the company has had a whistle blower function that is described in detail on the Group's intranet. The whistle blower function makes it possible to anonymously report serious abuse and violations of Group rules regarding business ethics. One of the aims of the function is to guarantee safety in the workplace, to maintain good business ethics and curb financial irregularities, and thereby further improve the quality of Gränges' financial reporting to benefit the company's shareholders, employees, customers and suppliers. One whistle blower complaint was brought in 2016. This has not resulted in any further action by the Board.

#### **Risk assessment**

Gränges' organisation is exposed to internal and external risks. To reasonably ensure good internal control, risks that may affect financial reporting are identified, measured and managed. This is an integral part of day-to-day reporting to Group management and the Board, which forms the basis for the assessment of risks of errors in financial reporting. Gränges' operations are characterised by processes with established routines and systems. Risk assessment thus largely occurs within the framework of these processes. At Group level, only general risk assessments are conducted. Managers in the Group identify, monitor and follow-up on these risks. This creates the basis for taking well-rounded and correct business decisions at all levels. As a rule, financial risk such as currency, commodity, refinancing and counterparty risk, and interest rate and credit risk are mainly handled by the parent company's accounting and finance functions per the Financial Management Policy, the Metal Management Policy, the Group Accounting Manual and the Instruction for Financial Reporting.

#### **Control measures and activities**

The main purpose of control activities is to prevent and discover material errors in financial reporting at an early stage so that such errors can be managed and resolved. Control activities are conducted at a general level and at more detailed levels throughout the Group, and are both manual and automated in nature. Routines and activities have been designed to manage and resolve material risks related to financial reporting, and that are identified in risk assessments. Depending on the character and type of control activity, corrective action, implementation, documentation and quality assurance occur at a Group or subsidiary level. As is the case for other processes, each manager is responsible for the completeness and accuracy of the control activities.

The Group has a common consolidation system, where the legal entities report, which provides good internal control of financial reporting. Most controls and processes are automated and authorisation to access IT systems is limited.

Control activities are performed at all levels of the Group. One such example is the established controller function that analyses and monitors deviations and reports its findings to other parts of the Group. Monitoring by Group management occurs, for example, through regular meetings with subsidiary managing directors to discuss operations, financial position and results, as well as key financial and operating indicators. The Board continually analyses reports on operations in which Group management describes the previous period, and comments on the Group's financial position and results. Significant fluctuations and deviations are thus monitored, which limits the risks of errors in financial reporting.

The closing of the books and work on the annual accounts are processes where there is further risk that errors arise in financial reporting. Naturally, this work is less repetitive and often includes several instances where estimates are made. Important control activities include ensuring that there is a well-functioning reporting structure where subsidiaries report per standardised models, and that important income and balance sheet items are specified and commented upon.

#### **Information and communication**

Gränges' financial reporting follows Group guidelines and policies, and is updated and communicated regularly by Group management to all relevant employees. The accounting function has operational responsibility for day-to-day financial reporting, and works to ensure that the Group's guidelines, policies and instructions are applied in a uniform manner across the Group. The accounting function is also tasked with identifying and communicating deficiencies in financial reporting. All communication shall occur in accordance with the Nasdaq's rules for issuers, and conform to other applicable regulations. Financial information should provide capital and stock markets with a clear and comprehensive view of the company, its financial position, development and strategy. All financial reports and press releases published on the company's website are simultaneously released to the Nasdaq and the Swedish Financial Supervisory Board.

As indicated above, due to the MAR Directive, the Board adopted a new Insider policy on 29 June to meet demands now placed on the company and insiders. Furthermore, a system for managing insider issues was procured during the autumn.

#### **Monitoring**

The Board's monitoring of the internal control of financial reporting occurs primarily through the Audit Committee, including the monitoring of the internal audit and through contact with external auditors and their work and reports. External auditors monitor selected areas of internal control on an annual basis within the framework of the group audit. External auditors report the outcome of their audit to the Audit Committee and Group management. Material observations are also reported directly to the Board. In terms of the 2016 audit, the auditors have monitored the internal controls in selected key processes, and have reported their findings to the Audit Committee and Group management.