Finance Policy

1 Objective

The overall objective of the Finance policy is to manage effects on the operating result and the net assets from risks stemming from currency changes, interest changes and other financial risks. The policy also provides guidelines for how to act and manage these different risk exposures.

More specifically, the objectives of this Finance policy are to:
- Identify and define the financial risk exposures of BALCO
- Define the level of specific risks deemed acceptable
- Delegate the finance risk management within BALCO.

2 Scope

Balco Group AB and its subsidiaries, collectively "BALCO", is exposed to financial risks through its activities. It is the judgement of the Board of Directors that the exposure of foreign exchange-, interest rate-, funding-, liquidity- and counterpart risks are unavoidable.

The Finance Policy defines rules and guidelines for managing the financial risks within BALCO, clarifying roles and responsibilities, strategies for financial risk management as well as risk mandates.

The Finance Policy is issued and approved by the Board of Directors, reviewed annually or when conditions so require. The policy should be distributed and known by the members of the Board of Directors, the CEO, the CFO and the Financial Manager/Managing Director of each subsidiary within BALCO.

This Finance policy is to be applied and adhered to throughout the whole group.

Any change in, or deviation from, this policy is a decision exclusively for the Board of Directors in Balco Group AB.

3 Policy

3.1 Financial risks

a) Currency risk

Transaction risk is defined as:
"the risk of negative financial impact due to changes in exchange rates when doing business in other currencies than BALCO's reporting currency (SEK)".

Translation risk is defined as:
"the risk of having negative financial impact on the consolidated net equity when consolidating subsidiaries using other currencies than BALCO's reporting currency (SEK)".

Mandate Transaction risk:

- BALCO shall to largest possible extent strive for "natural hedging", matching in- and outgoing cash flows in foreign currencies.
- BALCO shall hedge projected commercial flows with the purpose to avoid severe adverse currency impacts to BALCO's Profit & Loss statement. Time horizon and degree of how much of projected cash flows to be hedged should be limited to avoid an over hedge, 50-75% of the coming twelve months projection should be hedged. However exposure in single currency below 20 MSEK are not required to hedge.
- Capital expenditures in excess of 5 MSEK are hedged to 100 % from the time decision of investment made.
- BALCO shall monitor, measure and follow up on each subsidiaries' transaction exposure, at least twice a year.
- Subsidiaries within BALCO shall to the largest extent match in- and outgoing cash flows in foreign currency, i.e. to achieve natural hedging and are not allowed to do any hedging.
- Approved instruments to use when managing the hedging are forwards, options and swaps, all instruments used only for risk minimizing purposes.

Mandate Translation risk:

- BALCO shall not hedge Profit & Loss statement translation exposure
- BALCO shall not hedge net equity exposure.
- Currency risk in Balance sheet should be avoided in all BALCO's foreign subsidiaries and exceptions have to be approved by the CFO.
- BALCO should hedge all currency risk related to cash, cash equivalent and loans to at least 90 %, except for the use of bank overdraft in foreign currency used for bridging timing differences in currency flows.
- BALCO's operating working capital is an integrated part to the transaction exposure and not hedged separately.
- BALCO shall monitor, measure and follow up on the total translation exposure annually.

b) Interest rate risk

Interest rate risk is defined as:
"the risk of negative impact on BALCO's financial net due to movements interest rates".

Mandate Interest rate risk:

- Long term financing should be done with fixed interest rates when Net debt/EBITDA are exceeding 1,5 (Net debt excluding financial leases).
- Short term funding and working capital funding are to be done with non-fixed interest

c) Liquidity risk

Liquidity risk is defined as:
"the risk that BALCO has insufficient payment capacity, loans cannot be refinanced when desired, new funding possibly not raised or refinancing only take place at unfavorable conditions".

Refinancing risk is defined as:
"the risk BALCO will not have the possibility to obtain necessary external funding and credit facilities at any given time".

Liquidity reserve is defined as:
"available cash, unutilized credit facilities, and short term investments which can be converted to cash".

Mandate Refinancing risk, Liquidity risk and Liquidity reserve:
- Long-term financing should be applied for interest bearing liability exceeding Net debt exceeding 1,5 * EBITDA (Net debt measured excluding financial leases).
- BALCO shall strive to diversify the external funding and credit facilities to more than one financial counterpart. Two counterparts will be required if Net debt/EBITDA exceeds 2,5 (Net debt measured excluding financial leases).
- BALCO's available liquidity reserve shall as average per month exceed four percent of last twelve months revenue (LTM) and not at any time be less than 50 MSEK.

3.2 Cash management

The primarily objective of cash management is to secure and safeguard the cash within BALCO. Second objective is to manage the cash efficient, such as using cash pool, when possible.

Invoicing should be handled without delay and invoices should clearly describe payment terms, bank account numbers and consequences if payment is delayed.

Supplier payments should <u>not</u> be issued prior to due date, unless certain commercial considerations apply. Standard requested supplier payment terms should be no less than **60** days; longer terms should of course be used in countries having that as normal local practice.

Mandate Cash management:
- Subsidiaries shall make any surplus liquidity available to BALCO through the cash pool, dividend or internal loans.
- Any arrangement by a subsidiary outside the cash pool shall be subject to the consent to the CFO.
- BALCO may invest surplus cash in deposits and commercial papers issued and granted by any Swedish bank, with duration of maximum six months.

3.3 Pledge assets and guarantees

The general principle is to avoid pledges and company guarantees. Given the kind of business carried out, the issue of parental guarantees is an integrated part of doing business, where parental guarantees for contractual fulfillment are preferred compared to external providers, due to cost.

Mandate pledge assets and guarantees:
- Pledging of assets are not within the normal course of business and has to be approved by the board.
- All parent guarantees for operational fulfillment to counterparts should have dual signatures by either CEO, COO, CFO or any member of the Board.
- All pledges and guarantees should be filed at group controlling.

3.4 Leasing

Leasing is seen as an alternative source of funding, both for cars, equipment as well as machinery. The investment itself should follow the Investment routine.

All leasing contracts, considering the kind of investment that is financed, should be based on reasonable amounts of installments and a fair judged residual value. All leasing contracts should be evaluated based on the contract actual calculated interest.

Mandate Leasing:
- All leasing contracts with a value in excess of 100 kSEK should have dual signatures by CEO and CFO or COO.
- Car leasing should be based on 36 monthly installments and a residual value not exceeding 45%. Country specific exceptions can be approved by CFO.

3.5 Insurance risk

Insurance risk is defined as:
"the risk BALCO are not able to get appropriate insurance cover".

Mandate Insurance risk:
- BALCO shall ensure that sufficient insurance cover are maintained, defined as cover for at least 12 months business interruption, directors and officers liability and all assets covered to replacement value.

3.6 Administrative risk

Administrative risk is defined as:
"the risk of losses occurring due to lack of inadequate administrative control such as lack of segregation of duties, personnel or system failure".

Administrative risks are reduced by internal control and routines, which is supported by allocation of responsibility and authority.

Mandate Administrative risk:
- All payments and other binding obligations shall be signed by at least <u>two</u> authorized persons, i.e. dual signatures (four eyes principle)
- Each subsidiaries' Managing director are responsible for having accurate and valid Power of Attorneys in place at all times.

4 Roles and responsabilities

The Board of Directors:

- Annual approval of the Finance Policy, or when required
- Decide upon BALCO's overall capital structure and external funding
- Approval of deviations outside the set risk mandates in the Finance Policy
- Delegates the formal responsibility for the Finance Policy implementation to the CEO

Audit Committee:

- Prepare the annual approval of the policy
- Prepares and analyses certain financial inquiries and gives recommendation to the Board of Directors

Chief Executive Officer – CEO:

- Ensure implementation of the Finance Polic
- Delegate daily responsibility for the Finance Policy adherence to the CFO

Chief Financial Officer – CFO:

- Responsible for securing BALCO's compliance with the mandates given in the Finance Policy
- Secures that the risk management is in coherence with the financial targets and the requirements set in the loan documents and similar documents
- Secure reporting requirements to the Board of Directors to each ordinary board meeting
- Report to the CEO if and when a risk limit is expected to be exceeded
- Approve credit risks, pledge and guarantees according to the Finance Policy
- Approve execution for hedge transactions, investments and financial leases
- Decide upon internal financing limits and subsidiaries' capital structure
- Delegate responsibility for the Finance Policy execution and adherence within the finance function
- Evaluate and propose changes and improvements to the Finance Policy and the Credit Instruction to the Audit Committee
- Manage bank relations, banking services and cash pool accounts and products

Group subsidiaries, by Finance Manager and Managing Director:

- Ensure compliance to the Finance Policy
- Immediately report to CFO any deviations to the Finance Policy deriving from their legal entity and its activities
- Ensure Credit Instruction adherence

5 Reporting

Financial reports shall be established with the purpose of constituting basis for planning and decision making as well as being a management control instrument for the financial department's compliance to the Financial Policy.

Monthly measuring with quarterly reporting to the Board of Directors, at every ordinary board meeting, should be carried out by CFO. The report shall cover the following areas:

- Net debt/EBITDA (Net debt excluding financial leases)
- Covenant fulfillment

Deviations from the rules and procedures set out in the Finance Policy are to be reported directly to the CFO, who shall inform the CEO and the Board of Directors.

6 Subsequent documents