

Remuneration report 2021

The corporate governance of Balco aims to create value for shareholders through active risk control and a healthy corporate culture. Since Balco was listed on the stock exchange in 2017, the ongoing process for successful effective governance, control and monitoring has been a priority.

Introduction

This report describes how the guidelines for remuneration to senior executives of Balco Group AB, adopted by the Annual General Meeting 2021, were applied during 2021. The report also contains information on the remuneration of the Chief Executive Officer and a summary of the company's outstanding share and share price related incentive schemes. The report has been prepared in accordance with the Swedish Companies Act and the Swedish Corporate Governance Code Rules on executive remuneration and incentive schemes.

For further information on executive remuneration, see note 8 (Employee remuneration, etc.) on pages 86-88 of the 2021 Annual Report. Information on the work of the Remuneration Committee in 2021 can be found in the Corporate Governance Report on pages 58-67 of the 2021 Annual Report.

Directors' fees are not covered by this report. Such fees are decided annually by the Annual General Meeting and are disclosed in note 8 of the 2021 Annual Report.

Progress in 2021

The CEO summarises the company's overall performance in his report on pages 6-8 of the 2021 Annual Report.

Company remuneration guidelines: scope, purpose and deviations

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified employees. This requires being able to offer competitive remuneration. The company's remuneration policy allows for a competitive overall package for senior executives. According to the remuneration guidelines, the remuneration of senior executives must be market-based and may consist of the following components: fixed cash salary, variable cash remuneration, pension and other benefits. Variable cash remuneration must be linked to financial or non-financial criteria. They can take the form of personal quantitative or qualitative targets. The criteria should be designed to promote the

company's business strategy and long-term interests, including its sustainability, by, for example, having a clear link to the business strategy or promoting long-term development of the person concerned.

The guidelines can be found on page 62 of the 2021 Annual Report. In 2021, the Company complied with the applicable remuneration guidelines adopted by the General Meeting. There have been no deviations from the guidelines, nor from the decision-making process that the guidelines require to be applied to determine the remuneration. The auditor's opinion on the company's compliance with the guidelines is available at <https://balcogroup.se/bolagsstyrning/bolagsstamma/arsstamma-2022>. No remuneration has been claimed back. In addition to the remuneration covered by the Remuneration Guidelines, the Company's Annual General Meetings have decided on long-term share-based incentive schemes.

Share-based remuneration***Outstanding share-based and share-price related incentive plans***

At an Extraordinary General Meeting held on 24 November 2020, it was decided to introduce a new three-year incentive programme aimed at the company's senior executives and other key employees, totalling 25 employees. The incentive programme comprises a maximum of 400,000 warrants, entitling the holder to subscribe for a maximum of the corresponding number of shares. Balco's total cost for the incentive programme over its full term is expected to be approximately 4 MSEK. The programme involves a dilution corresponding to approximately 1.8 per cent of the company's total number of shares. The senior executives of Balco have acquired 236,000 warrants with a total value of 2,673,880 SEK.

At the Annual General Meeting held on 25 May 2021, it was resolved to introduce a three-year incentive programme aimed at the company's senior executives and other key employees, totalling 11 employees. The incentive programme comprises a maximum of 200,000 warrants, entitling the holder to subscribe for a maximum of the corresponding number of shares. Balco's total cost for the incentive programme over its full term is expected to be approximately 2 MSEK. The programme involves a dilution corresponding to approximately 0.9 per cent of the company's total number of shares. The senior executives of Balco have acquired 136,498 warrants with a total value of 1,325,396 SEK.

The purpose of the incentive programme is to encourage broad share ownership among the company's key employees, facilitate recruitment, retain skilled and talented employees, increase the alignment of interest between key employees and the company's objectives, and increase motivation to achieve or exceed the company's financial targets.

In order to encourage participation in the programme, it was decided to subsidise participation in the form of a gross salary supplement. The level of salary supplement cannot exceed the gross amount invested by the participant. In the event that the Board of Directors decides on such a subsidy to the participants, it will be paid in connection with exercising the warrants and will, among other things, require that the participant at that time still remains employed by the company or other equivalent employment within the Balco Group, and holds his/her warrants. The subsidy for each participant shall amount to a maximum of the premium paid for the participant's warrants held at the time of payment.

Application of performance criteria

The performance criteria for the variable remuneration of the Chief Executive Officer have been chosen to implement the company's strategy and to encourage actions that are in the long-term interest of the company. The selection of performance criteria has taken into account the strategic objectives and short- and long-term business priorities for 2021. The non-financial performance criteria further contribute to alignment with sustainability and the company's values.

Remuneration from other companies within the Balco Group

The CEO has not received any remuneration from any other company within the Balco Group during the previous financial year.

Total remuneration to the CEO in 2021 (kSEK)*

Name of the holder (position)		Fixed remuneration		Variable remuneration			Pension cost	Total remuneration	Proportion of fixed and variable remuneration*****
		Basic salary**	Other benefits***	Annual	Multiannual****	Extraordinary items			
Kenneth Lundahl, CEO	2021	2,904	159	244	0	0	962	4,268	93%/7%
	2020	2,818	149	799	0	0	1,031	4,798	79%/21%

* With the exception of the multiannual variable remuneration, the table shows remuneration due in 2021. Multiannual variable remuneration is disclosed to the extent that it has been vested in 2021 and thereby earned, as indicated in column 10 of Table 2 and column 8 of Table 3 below (if applicable). This applies regardless of whether or not a payment has been made in the same year

** Including holiday pay of 48 kSEK (46)

*** Car benefit

**** Vested share rights as shown in column 8 of Table 3 below

***** Pension costs (column 4), which relate entirely to basic salary and are defined contribution, have been fully recognised as fixed remuneration

At an Extraordinary General Meeting held on 24 November 2020, it was resolved to introduce a three-year incentive programme aimed at the company's senior executives and other key employees, totalling 25 employees. The incentive programme comprises a maximum of 400,000 warrants, entitling the holder to subscribe for a maximum of the corresponding number of shares.

Balco's total cost for the incentive programme during its full term is expected to be approximately 4 MSEK.

The programme involves a dilution equivalent to approximately 1.8 percent of the company's total number of shares. The senior

executives of Balco have acquired 236,000 warrants with a total value of 2,673,880 SEK.

At the Annual General Meeting held on 25 May 2021, it was resolved to introduce a three-year incentive programme aimed at the company's senior executives and other key employees, totalling 11 employees.

The incentive programme comprises a maximum of 200,000 warrants, entitling the holder to subscribe for a maximum of the corresponding number of shares. Balco's total cost for the incentive programme over its full term is expected to be approximately 2 MSEK.

The programme involves a dilution corresponding to approximately 0.9 per cent of the company's total number of shares. The senior executives of Balco have acquired 136,498 warrants with a total value of 1,325,396 SEK.

The purpose of the incentive programme is to encourage broad share ownership among the company's key employees, facilitate recruitment, retain skilled and talented employees, increase the alignment of interest between key employees and the company's objectives, and increase motivation to achieve or exceed the company's financial targets.

Warrant programme (CEO)

Name of the holder	Main terms of the warrant programme							Information for the reported financial year*							
	Name of the programme	Performance period	Date of award	Date of vesting	End of lock-in period	Period of use	Exercise price (SEK)	Opening balance		During the year				Closing balance	
								Stock options at beginning of year	Stock options granted	Vested stock options	Stock options subject to performance conditions	Unvested stock options granted	Stock options subject to lock-in period		
Kenneth Lundahl, CEO	2020/2023	Dec 2020-Dec 2023	2020-12-16	2023-12-16	2023-12-16	20231216-20240115	99.20	120,000	-	-	-	-	-	-	**
	2021/2024	June 2021-June 2024	2021-06-02	2021-06-02	2024-06-02	20240525-20240624	107.70	-	50,000	-	-	-	-	-	***
Total								120,000	50,000	0	0	0	0	0	

* In the Stock Option Plan 2020/2023, 120,000 options were awarded to the CEO in 2020. In the Stock Option Plan 2021/2024, 50,000 options were awarded to the CEO in 2021.

** The aggregate market value of the underlying shares at the time of award was 10,824,000 SEK. The total exercise price was 11,904,000 SEK. The option premium paid was 1,360,000 SEK.

*** The aggregate market value of the underlying shares at the time of award was 4,685,000 SEK. The total exercise price was 5,385,000 SEK. The option premium paid was 486,000 SEK.

Performance of the Chief Executive Officer during the reported financial year: variable cash remuneration*

Name of the holder (position)	Description of criteria related to the remuneration component	Relative weighting of performance criteria	a) Measured performance and b) actual allocation/remuneration outcome
Kenneth Lundahl, CEO	1. If order intake exceeds 1,475 MSEK, 1 MSEK is payable. (Budget 1,475 MSEK)	16.6%	a) 933 MSEK b) 0 SEK
	2. If invoiced sales exceed 1,200 MSEK, 1 MSEK is payable, and if they exceed 1,400 MSEK, 2 MSEK are payable and directly correlated between. (Budget 1,407 MSEK)	33.3%	a) SEK 1,200 MSEK b) 231 kSEK
	3. If adjusted EBIT exceed 140 MSEK, 1 MSEK is payable, and if they exceed 176 MSEK, 2 MSEK are payable. (Budget 176 MSEK)	33.3%	a) 136 MSEK b) 13 kSEK
	4. If the company makes 1 acquisition or more during the year, 1 MSEK is payable - this element is at the board's discretion.	16.6%	a) 0 pcs b) 0 SEK

* Refers to the parameters in force in 2020 and paid in 2021.

Changes in remuneration and company results over the last five reported financial years

Annual change (kSEK)	2017 vs 2016		2018 vs 2017		2019 vs 2018		2020 vs 2019		2021 vs 2020		2021
Total remuneration to the CEO	-208	-5.6%	271	7.7%	114	3.0%	913	23.5%	-530	-11.0%	4,268
Group operating result	28,735	45.2%	13,289	14.4%	34,733	32.9%	-24,980	-17.8%	2,612	2.3%	117,990
Average remuneration based on the number of FTEs employed * in the Group	-1,964	-15.9%	-352	-3.4%	-596	-6.0%	1,963	20.9%	-2,112	-18.6%	9,258

* Excluding members of Group Management

Current guidelines for remuneration to senior executives adopted at the Annual General Meeting 2021

The Annual General Meeting 2021 decided to adopt the following guidelines for remuneration of the company's senior executives.

Senior executives refers to the CEO and Group Management. These guidelines shall apply to remuneration agreed and changes made to remuneration already agreed after the guidelines were adopted by the 2021 Annual General Meeting. Remuneration decided by the shareholders at the general meeting falls outside these guidelines. Accordingly, share-based incentive schemes for senior executives or remuneration to directors for board service are not covered by these guidelines.

Contribution of the guidelines to the company's business strategy, long-term interests and sustainability

In short, the company's business strategy aims to strengthen its market-leading position as a supplier of high-quality balcony solutions tailored to the specific needs and requirements of its customers. For more information on the company's business strategy, see the company's website <https://balcogroup.se>. Successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, presupposes that the company can recruit, motivate and retain senior executives.

The objective of the company's remuneration is to be competitive and at the same time in line with shareholders' interests. The company's remuneration

schemes should combine to create well-balanced remuneration that reflects individual skills, responsibilities and performance, in the short and long term, as well as the company's overall performance.

Decision-making process

The Board has established a Remuneration Committee whose tasks include preparing remuneration-related issues and proposals to the Board regarding senior executives and possible decisions on deviations from the guidelines. The Board shall prepare a proposal for new guidelines when the need for substantial change arises, but at least every four years, and submit the proposal for decision at the Annual General Meeting. The guidelines shall remain in force until new guidelines are adopted by the Annual General Meeting. The Remuneration Committee shall also monitor and evaluate ongoing and variable remuneration programmes concluded during the year for senior executives, the application of the guidelines for remuneration of senior executives and the current remuneration structures and remuneration levels in Balco. Senior executives do not participate in the Board's consideration of and decisions on remuneration-related matters when they are affected by such matters.

The forms of remuneration

Remuneration to senior executives may consist of fixed and variable salary, pension and other benefits. In addition, the General Meeting may, independently of these guidelines, decide on share-based or other forms of remuneration.

Fixed and variable salary

Fixed annual salary for an executive shall be competitive and based on the skills, responsibilities and performance of the person. In addition to the fixed annual salary, executives shall be entitled to variable remuneration. Such variable remuneration shall be based on predetermined and measurable criteria, which may be financial or non-financial. Variable remuneration may be linked directly or indirectly to the achievement of the financial targets set by the Balco Board of Directors, which include the Group's operating result. Non-financial criteria can be linked to sustainability. Variable salary is normally paid based on performance over twelve months (calendar year) and on the most recent financial information published by the company. Variable cash remuneration is thus linked to the company's business strategy, long-term interests and sustainability. The criteria shall be established, monitored and evaluated annually by the Board of Directors. For each senior executive, the variable remuneration may not exceed 50 per cent of their fixed annual salary.

Other benefits and pension

The Group provides other benefits to senior executives in accordance with local practice. Such benefits may include, for example, a company car and occupational health care. For a limited period, official accommodation may also be offered where appropriate. Senior executives shall be entitled to pension benefits based on the practice in the country where they are employed. Pension contributions shall be defined-contribution and secured by payments of premiums to insurance companies, except where the individual concerned is covered by a defined benefit pension in accordance with the relevant collective agreement provisions. Variable remuneration shall only form the basis for pension benefits if provided for in the applicable collective agreement provisions. For each senior executive, pensions may not exceed 30 per cent of their fixed annual salary, unless a higher provision is made under the applicable collectively agreed pension plan.

In the case of employment contracts governed by rules other than those of Swedish law, appropriate adjustments may be made to pension and other benefits in order to comply with such mandatory rules or local practice, the overall purpose of these guidelines being to meet those needs.

Salary and employment conditions for employees

In preparing the Board's proposal for remuneration guidelines, the remuneration and employment conditions of the Company's employees have been taken into account by information on the total remuneration of the employees, the components of remuneration and the increase and rate of increase of the remuneration over time forming part of the basis for the decisions of the Remuneration Committee and the Board of Directors when assessing the appropriateness of the guidelines and the restrictions resulting from them.

Termination and severance pay

Employment contracts concluded between the company and senior executives shall, as a general rule, be for an indefinite period. If the company terminates the employment of a senior executive, the notice period may not exceed twelve months. Severance pay shall only be paid in the event of termination by the Company and shall not exceed an amount equal to the fixed annual salary during the period of notice. In the event an executive tendering resignation, the notice period shall not exceed six months and severance pay shall not be paid in such an event.

Deviations from the guidelines

The Board of Directors shall have the right to deviate temporarily from these guidelines, in whole or in part, if in a particular case when there are specific reasons for doing so and a deviation is necessary to meet the long-term interests of the Company, including sustainability, or to ensure the financial viability of the Company. As stated above, the Remuneration Committee's tasks include preparing the Board's decisions on remuneration issues, including decisions on deviations from the guidelines.