

# Remunerations Report 2020

*Corporate governance at Balco is aimed at generating value for shareholders through active risk control and a sound corporate culture. Ongoing efforts to achieve well-functioning governance, control and monitoring have been a priority since Balco's IPO in 2017.*

## **Introduction**

This report details how the guidelines for the remuneration of senior executives in Balco Group AB, adopted by the 2020 Annual General Meeting, were applied during 2020. The report also includes information on the remuneration of the CEO and a summary of the Company's outstanding share and share price-related incentive programmes. The report has been prepared in accordance with the Swedish Companies Act and the Swedish Corporate Governance Board's Rules on Remuneration of the Board and Executive Management and on Incentive Programmes.

Further information on the remuneration of senior executives can be found in Note 8 (Remunerations to employees, etc.) on pages 85-87 in the 2020 Annual Report. Information on the work of the Remuneration Committee in 2020 can be found in the Corporate Governance Report on pages 59-60 of the 2020 Annual Report.

Board fees are not covered by this report. Such fees are determined annually by the Annual General Meeting and are reported in Note 8 on pages 85-86 of the 2020 Annual Report.

## **Developments in 2020**

The CEO summarizes the Company's overarching results in his comments on pages 6-8 of the 2020 Annual Report.

### **The Company's remuneration guidelines: scope, objectives and deviations**

A prerequisite for the successful implementation of the Company's business strategy and for fostering its long-term interests, including its sustainability, is the Company's capacity to recruit and retain qualified employees. This requires that the Company be able to offer competitive remuneration. The company's remuneration guidelines provide opportunities to offer competitive total remuneration to senior executives. The guidelines require remunerations to senior executives to be market-based and allow the inclusion of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to financial or non-financial criteria. It may comprise individually adapted quantitative or qualitative targets.

The criteria shall be designed to foster the Company's business strategy and long-term interests, including its sustainability, being, for example, clearly linked to the business strategy or furthering the executive's long-term development.

The guidelines are presented on page 60 in the 2020 Annual Report. In 2020, the Company adhered to the applicable remuneration guidelines adopted by the Annual General Meeting. No deviations from the guidelines occurred, nor were any deviations made from the decision-making process applied in accordance with the guidelines to determine remunerations. The auditor's opinion on the Company's compliance with the guidelines is available at <https://balcogroup.se/bolagsstyrning/bolagsstamma/arsstamma-2021/>. No demands have been made for the repayment of any remunerations. In addition to the remunerations covered by the guidelines, the Company's Annual General Meetings have resolved to introduce long-term share-based incentive programmes.

**Share-based remuneration*****Share-related and share price-related incentive programmes currently outstanding***

At an Extraordinary General Meeting held on 24 November 2020, it was decided to introduce a long-term incentive programme for the Company's senior executives and other key employees, in total 25 individuals. In total, the incentive programme encompasses at most 400,000 warrants, entitling holders to subscribe for at most the same number of shares. Balco's total expenses for the incentive programme during its term are not expected to exceed SEK 4 million. The programme entails a dilution corresponding to approximately 1.8 percent of the Company's total number of shares. Balco's senior executives have acquired 236,000 warrants with a total value of SEK 2,673,880.

The purpose of the incentive programme is to encourage a broad ownership of shares among the Company's key employees, to facilitate recruitment, to retain competent and talented employees, to increase the interests shared between key employees and the Company, and to increase the motivation to achieve or exceed the Company's financial targets.

To encourage participation in the programme, it was determined that this would be subsidized by means of a gross salary supplement. The size of the salary supplement will correspond at most to the gross amount invested by the participant. Should the Board of Directors approve this participation subsidy, it will be disbursed on the exercise of the warrants, assuming

e.g. that participants then remain in the employment of the Company, or in equivalent employment within the Balco Group, and retain their warrants. For each participant, the subsidy shall correspond at most to the premium paid for the warrants held by the participant on the payment date.

**Application of performance criteria**

The performance criteria for the CEO's variable remuneration have been selected to realize the Company's strategy and to encourage action in the long-term interests of the Company. In the selection of performance criteria, strategic targets, as well as short and long-term business priorities for 2020 have been taken into account. The non-financial performance criteria further foster the Company's values and its realignment to sustainable operations.

**Remunerations from other Balco Group companies**

The CEO did not receive any remunerations from any other company within the Balco Group during the preceding financial year.

### Total remuneration of the CEO in 2020 (SEK thousands) \*

Name of executive (position)		Fixed remuneration		Variable remuneration		Non-recurring items	Pension expenses	Total remuneration	Proportion of fixed and variable remunerations respectively*****
		Basic salary**	Other benefits***	Single-year	Multi-year****				
Kenneth Lundahl, CEO	2020	2,818	149	799	0	0	1,031	4,798	79%/21%
	2019	2,708	140	190	0	0	847	3,885	94%/6%

\* With the exception of multi-year variable remuneration, the table details total remunerations for 2020. Multi-year variable remunerations are reported to the extent vested (or earned) in 2020, in accordance with what is stated in Table 2, column 10 and in Table 3, column 8 below (where applicable). This applies regardless of whether payment has, or has not, been made in the same year.

\*\* Including holiday pay of SEK 46 thousand (44)

\*\*\* Company car

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

\*\*\*\*\* Pension expenses (column 4), pertaining in their entirety to basic salary and defined-contribution in nature, have been fully reported as fixed remuneration

The Balco Group's incentive programme 2017/2020 expired on October 5 and led to 286,037 shares being subscribed for, corresponding to a dilution of 1.3 percent.

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entitling holders to subscribe for at most the same number of shares. Balco's total expenses for the incentive programme during its term are not expected to exceed SEK 4 million. The programme entails a dilution corresponding to approximately 1.8 percent of the Company's total number of shares. Balco's senior executives have acquired 236,000 warrants with a total value of SEK 2,673,880.

The purpose of the incentive programme is to encourage

a broad ownership of shares among the Company's key employees, to facilitate recruitment, to retain competent and talented employees, to increase the interests shared between key employees and the Company, and to increase the motivation to achieve or exceed the Company's financial targets.

### Stock option programme (CEO)

Name of executive	Principal terms of the stock option programmes							Data for financial year reported*					
	Name of programme	Vesting period	Date of allocation	Date of vesting	End of lock-in period	Exercise period	Redemption price (SEK)	Opening balance		Over the year		Closing balance	
								Stock options, 1 Jan	Stock options allocated	Stock options vested	Stock options subject to performance terms	Stock options allocated but yet to be vested	Stock options subject to lock-in period
Kenneth Lundahl, CEO	2017/2020	Sep 2017 - Oct 2020	13 Sep 2017	5 Oct 2020	5 Oct 2020	6 Sep 2020 - 5 Oct 2020	69.70	80,358	-	-	-	-	-
	2020/2023	Dec 2020 - Dec 2023	16 Dec 2020	16 Dec 2023	16 Dec 2023	16 Dec 2023 - 15 Jan 2024	99.20	-	120,000	-	-	-	-
<b>Total</b>								<b>80,358</b>	<b>120,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Stock Option Programme 2017/2020 expired in 2020 with the CEO having subscribed for 25,760 shares. Under Stock Option Programme 2020/2023, the CEO was allocated 120,000 options in 2020.

\*\* On the allocation date, the total market value of the underlying shares was SEK 10,824 thousand. The total redemption price is SEK 11,904 thousand

### Performance of the CEO during the financial year reported: variable cash remuneration\*

Name of executive (position)	Description of criteria attributable 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 SEK 1,400 million, one additional monthly salary is payable (Budget, SEK 1,427 million)	16.6%	a) SEK 1,349.1 million b) SEK 222.0 thousand
	2. If invoiced sales exceed SEK 1,200 million, one additional monthly salary is payable, and if they exceed SEK 1,300 million, two additional monthly salaries are payable, with straight-line equivalence applied between these levels. (Budget, SEK 1,286 million)	33.3%	a) SEK 1,220.6 million b) SEK 261.960 thousand
	3. If EBITDA exceeds SEK 150 million, one additional monthly salary is payable, and if it exceeds SEK 183 million, two additional monthly salaries are payable. (Budget, SEK 183 million)	33.3%	a) - b) SEK 315.240 thousand
	4. If the Company completed one or more acquisitions during the year, one additional monthly salary is payable - this component being at the discretion of the Board of Directors.	16.6%	a) 0 items b) SEK 0 thousand

\* Pertains to the parameters applicable in 2019 and was disbursed in 2020.

### Change in remunerations and in the Company's earnings over the past five financial years

Annual change (SEK thousands)	2016 v. 2015		2017 v. 2016		2018 v. 2017		2019 v. 2018		2020 v. 2019		2020
Total remuneration of the CEO	555	17.6%	-208	-5.6%	271	7.7%	114	3.0%	913	23.5%	4,798
Consolidated operating profit	-1,366	-2.1%	28,735	45.2%	13,289	14.4%	34,733	32.9%	-24,980	-17.8%	115,378
Average remuneration based on the number of full-time equivalents employed* in the Group	4	0.0%	-1,964	-15.9%	-352	-3.4%	-596	-6.0%	1,963	20.9%	11,370

\* Excluding members of Senior Management

## Regarding guidelines for remuneration to senior executives adopted by the 2020 Annual General Meeting

The 2020 Annual General Meeting resolved to adopt the following guidelines concerning the remuneration of senior executives.

“Senior executive” means the CEO and members of the Senior Management team. These guidelines shall apply to contractual remuneration and to changes made to previously agreed remunerations following the adoption of the guidelines by the 2020 Annual General Meeting. Remunerations approved by shareholders at General Meetings fall beyond the scope of these guidelines. Thus, share-related incentive programmes for senior executives or remunerations to Board Members for Board work are not covered by these guidelines.

### *The guidelines’ contribution to the Company’s business strategy, long-term interests and sustainability*

Put briefly, the Company’s business strategy is aimed at strengthening the Company’s leading market position as a supplier of high-quality balcony solutions tailored to the customer’s specific needs and demands. For more information about the Company’s business strategy, see the Company’s website, [www.balco.se](http://www.balco.se). Successful implementation of the Company’s business strategy and realization of its long-term interests, including its sustainability, are conditional on the Company being able to attract, incentivize and retain senior executives. The objective with the Company’s remuneration is that it shall be competitive, while being in line with the shareholders’ interests. The types of remuneration provided by the Company shall, together, create well-

balanced remuneration which reflects individual skills, responsibility and performance, in both the short-term and long-term, as well as the Company’s overall performance.

### *Decision-making process*

The Board has established a Remuneration Committee, whose duties include preparing remuneration-related issues and proposals for the Board with respect to senior executives, as well as any decisions regarding deviations from the guidelines. The Board shall prepare a proposal for new guidelines when the need for significant amendment arises (although at least once every four years) and shall present its proposal for adoption by the Annual General Meeting. The guidelines shall apply until such time as new guidelines have been adopted by the Annual General Meeting. The Remuneration Committee shall also monitor and assess current and concluded programmes for variable remuneration to senior executives, the application of the guidelines for remuneration to senior executives, as well as applicable remuneration structures and remuneration levels in Balco. Senior executives do not participate in the Board’s discussions and decisions on matters of remuneration insofar as these pertain to the senior executive.

### **Types of remuneration**

Remunerations for senior executives may comprise fixed and variable salary as well as pension and other benefits. In addition, notwithstanding these guidelines

the General Meeting may, among other things, decide on share-related remuneration.

### *Fixed and variable salary*

The executives’ fixed annual salary shall be competitive and based on the individual executive’s skills, responsibilities and performance. In addition to fixed annual salary, the executive shall be able to receive variable remuneration.

In addition to fixed annual salary, executives shall be able to receive variable remuneration. Such variable remuneration shall be based on predetermined and measurable criteria which may be financial and non-financial. The variable salary may be linked directly or indirectly to the achievement of the financial targets set by Balco’s Board of Directors, which among other things relate to the Group’s operating profit. The non-financial criteria may be linked to sustainability. The variable salary is normally paid out based on performance during 12 months (the calendar year) and is based on the Company’s most recently published financial information. The variable cash remuneration is thus linked to the Company’s business strategy, long-term interests and sustainability.

The criteria must be established, followed up and evaluated annually by the board. For each senior executive, the variable remuneration may not exceed 50 percent of the fixed annual salary.

*Other benefits and pension*

The Group offers senior executives other benefits in accordance with local practices. Such other benefits may include, for example, company cars and occupational health care. For a limited period, company accommodation can also be offered, where relevant. The senior executives shall be entitled to pension benefits based on what is customary in the country where they are employed. Pension obligations shall be premium-defined and secured through payment of premiums to an insurance company, except where the individual in question is covered by a defined benefit pension in accordance with the provisions of an applicable collective agreement. Variable remuneration shall only constitute the basis for pension benefits if it is in accordance with the provisions of an applicable collective agreement. For each senior executive, pensions may not exceed 30 percent of the fixed annual salary to the extent that a higher provision does not follow from the applicable collectively agreed pension plan.

With regard to employment conditions that are subject to rules other than Swedish ones, with regard to pension benefits and other benefits, appropriate adjustments may be made to comply with mandatory such rules or local practices, whereby the overall purpose of these guidelines shall be met.

*Salary and employment terms for employees*

When preparing the Board's proposal for guidelines for remuneration, salary and employment terms for the Company's employees have been taken into consideration in as much as information regarding the total remuneration paid to employees, the components of the remuneration and the increase and rate of increase of the remuneration over time have constituted an element in the information on which the decisions of the Remuneration Committee and the Board of Directors are taken when assessing the reasonableness of the guidelines and the limitations which follow from them.

*Termination and severance compensation*

Employment agreements entered into between the Company and senior executives generally apply until further notice. If the Company terminates the employment of a senior executive, the termination period may not exceed 12 months. Severance compensation is payable only upon termination by the Company and shall not exceed an amount corresponding to the fixed annual salary during the termination period. In the event of termination by the senior executive, the termination period may not exceed six months and severance compensation shall not be paid in the event of termination by the senior executive.

*Deviations from the guidelines*

The Board is entitled to deviate from these guidelines, wholly or in part, where special reasons so justify and a deviation is necessary to meet the Company's long-term interests, including sustainability, or to ensure the Company's financial viability. As stated above, the duties of the Remuneration Committee in preparing decisions for the Board on the issue of remuneration includes the taking of decisions regarding deviations from the guidelines.