

Corporate Governance Report 2017

Sensys Gatso Group AB is a Swedish public limited liability company with its headquarter in Jönköping, listed on Nasdaq Stockholm, Small Cap. Sensys Gatso follows the Swedish Code of Corporate Governance and hereby states the 2017 Corporate Governance Report. The company's auditors have carried out statutory audits of the report.



Shareholders and General Meetings of Shareholders

The shareholder's rights to decide on SGG's affairs are exercised at the Annual General Meeting (AGM), or when applicable extraordinary general meeting, which is the company's highest decision-making body. The AGM is to be held no later than six months after the end of the financial year and is usually held in April / May. At the AGM, the shareholders elect the company's Board of Directors, appoint external auditors, and decide on their fees. Furthermore, the AGM resolves on whether to adopt the income statements and balance sheets, to approve the appropriation of the company's profit and to discharge the Board and CEO from its liabilities. The AGM also resolves on the composition of the Nomination Committee and its work, and makes decisions on principles for remuneration and other terms of employment for the CEO and other group management.

The number of shareholders at year end was 21,012 (21,150). The largest individual shareholder is Cooperative Centrale (Gatso Special Products BV) with a total of 17.6 per cent

(17.6). For more information on the ownership structure, share capital, share price, etc, please notice the Sensys Gatso share on page 21.

2017 Annual General Meeting

The 2017 AGM was held on May 19th in Jönköping. A total of 34 (43) shareholders were presented at the meeting, representing 21.8 per cent (6.6) of the votes. The CEO informed about the position of the company and commented on the results for 2016, and the first quarter of 2017. During the AGM, the shareholders were given the opportunity to ask questions. Minutes from the AGM can be found on Sensys Gatso's website. All resolutions were passed with the required majority. Below is a selection of the resolutions passed at the meeting;

- » It was resolved that no dividend for 2016 was to be made.
- » Kerstin Sjöstrand, Pia Hofstedt, Katarina Staaf, Ingemar Skogö, Claes Ödman and Jochem Garritsen were all re-elected to the Board of Directors.
- » Claes Ödman was re-elected as Chairman.
- » It was resolved that the nomination committee shall be constituted by offering the four largest shareholders the possibility to each appoint their representative.

Extra General Meeting

In 25 September, Sensys Gatso held an extra general meeting in order to seek the approval of shareholders for the resolution by the Board of Directors made on 30 August 2017, on a new share issue of shares with preferential rights for the shareholders of approximately SEK 100 million. A total of 15 shareholders were present at the meeting, representing 17.8 per cent of the votes. Minutes from the GM can be found on Sensys Gatso's website. All proposals were passed unanimously. Below is a selection of the resolutions passed at the meeting;

- » the introduction of a long term incentive program for the CEO
- » it was resolved to approve the Board's proposal on a new share issue of shares with preferential rights for the shareholders.

The new share issue of shares took place during October 2017 through which Sensys Gatso received approximately SEK 103.3 million before issue costs.

Nomination Committee

A nomination committee is formed each year at the initiative of the Chairman of the Board. According to the AGM, the nomination committee shall represent the four largest shareholders of the company. If a nomination committee comprising five members (including the chairman) is not obtained after having contacted the eight largest shareholders, the chairman shall continue to contact the shareholders that are next in turn until a nomination committee comprising four members (including the chairman) has been obtained. The work of the nomination committee takes place during the end- and the beginning of the financial year. The Nomination Committee is to observe the guidelines that apply to independent Board members under the Swedish Corporate Governance Code when making nominations to the AGM. The nomination committee's proposals, with regard to the election and remuneration of Board members, are presented in the notice of the AGM as well as on the company's website.

The members of the nomination committee for 2017 was appointed based on the ownership structure as per 30 September 2017 and then known changes. Due to the new share issue performed in October, with changes of the ownership structure to follow, the nomination committee for 2017 was not fully appointed until the beginning of December, and therefore also communicated to the market later than what the policy requires.

The nomination committee has consisted of Jan Johansson (appointed by Inger Bergstrand), Per Wall, Timo Gatsonides (for own and others' holdings) and Claes Ödman (in his capacity as chairman of the company). Timo Gatsonides has been appointed Chairman of the nomination Committee. No remuneration has been paid for the work of the nomination committee.

Sensys Gatso Group deviates from the Code's rule 2.3, second paragraph, which states that neither the chief executive officer nor other members of the executive management are to be members of the nomination committee. The shareholder controlling the largest number of the votes has appointed Timo Gatsonides who is CTO of the Sensys Gatso Group and member of the executive management. In light of Timo Gatsonides' knowledge of the Sensys Gatso Group and large indirect shareholding via a family holding company, it was deemed beneficial to the company to deviate from the Code on this point. No violations of Nasdaq Stockholm's Rules for Issuers or good practice in the stock market have occurred.

All shareholders are entitled to approach the nomination committee with proposals for the AGM. No such proposals were received before the AGM in 2017.

External auditors

The company's auditor, elected at the AGM, examines Sensys Gatso's annual report and consolidated accounts, the CEO's and Board of Directors's administration of the company, the annual accounts of subsidiaries and submits an

audit report. The audit is conducted in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted accounting principles in Sweden.

At the AGM 2017, Öhrlings PricewaterhouseCoopers was appointed as auditor with Magnus Brändström and Martin Odqvist (as the auditor in charge). In February 2018 Martin Odqvist personally presented his report to the Board regarding the auditing assignment and the Company's internal controls for 2017.

Audit of the Group's subsidiaries has been coordinated by Öhrlings Pricewaterhouse Coopers. All of the activities in companies with a significant scope of operations has been audited by BDO in the respective country.

Remuneration to the auditors in 2017, was paid in accordance with the table in note 22.

THE BOARD OF DIRECTORS

The Board of Directors (BoD) currently consists of six members elected at the AGM. Company employees participate in Board meetings in a reporting capacity.

The Nominating Committee's reasoned statement ahead of the 2017 AGM certifies that in formulating its recommendations for members of the Board of Directors, the Nominating Committee has addressed the diversity within the Board.

The goal is that the Board shall have a suitable composition in respect of the Company's operations, phase of development and conditions in general, distinguished by a diversity and breadth of expertise, experience and backgrounds, and that an even gender balance shall be strived for. The 2017 AGM resolved to elect board members in accordance the Nominating Committee's recommendation, entailing that 6 directors were elected, of whom three are women and three are men.

For further information concerning the Board of Directors, please notice page 34 of this annual report.

The work of the Board

The work of the Board is regulated by the Swedish Companies Act, the Articles of Association and the formal work plan adopted by the Board. The BoD determines issues concerning the Group's strategic focus, finances, investments, acquisitions, sales and organisational issues and rules and policies. The BoD is informed of the company's operations partly through monthly reports provided by the CEO, and partly through their own work. Informal contact is also maintained among the members of the Board. Normally, nine board meetings are held each year whereof one statutory board meeting in conjunction with the AGM. Four of the board meetings are held prior to the publication of interim reports and four board meeting per year are assigned additional time, where a specific focus is placed on strategic issues and future business. The auditor of the company is present at board meetings whenever needed, normally

The Nomination Committee ahead of 2017 AGM comprises:

Member of the Nomination Committee	Representing	Participation/votes	Member of the Nomination Committees since
Per Wall	for own holdings	23,000,000	2017
Jan Johansson	Inger Bergstrand	24,521,289	2014
Timo Gatsonides	for own holdings	149,040,980	2015
Claes Ödman	Chairman of the Board	471,818	2016

once a year. Notices and supporting documents are sent to the Board one week in advance of the Board meetings.

The work of the Board 2017

The Board held 19 minuted meetings during the financial year (11). In conjunction with the Annual General Meeting, a statutory Board meeting was held at which decisions were made regarding company signatories, the Board's rules of procedure, CEO instructions and scheduled Board meetings throughout the year. Four of the Board meetings were held prior to the publication of interim reports, and three meetings were held with strategic focus. Several of the board meetings were held in conjunction with the new share issue.

CEO took part in all the Board meetings to present the reports. During 2017, Sensys Gatso Sweden AB's financial manager served as the board's secretary, and the Group's CFO reported of the finances. For information on the CEO, see page 35 of the Annual Report. Important matters dealt with during the year included, amongst other things:

- » Capitalization
 - Liquidity forecasting and banking
 - New share issue
- » The strategic focus of the operations
 - Interim reports and annual accounts
 - Budget
 - Taxes and transfer Pricing
- » Strategies, financial plans and forecasts
 - Follow up on the external audit
 - Business plan
- » Policies and instructions
 - Review of the Group's policies and instructions including Code of Conducts

Board of Directors' independence

According to the Swedish Corporate Governance Code, the majority of the elected Board members must be independent in relation to the company and management team. At least two of these must also be independent in relation to the company's largest shareholders. All members of the Sensys Gatso's Board are independent in relation to the company and in relation to the company's largest shareholders.

No member of the Board is employed by the Group. The nomination committee's assessment regarding whether each proposed member meets the independence requirements is announced in connection with the Committee's proposal. For further information please see page 21 and 34.

Evaluation of the work of the Board

The work of the Board is evaluated through a systematic and structured process. This evaluation is initiated by the Chairman of the Board. Among other things, the process includes a questionnaire in which Board members have the opportunity to express their opinion of the Board's work and to propose ways to improve it. The results of the evaluation are disclosed to the Board, followed by discussions and decisions regarding changes in working methods. The Board continuously evaluates the work of the CEO.

Special committees

The Board does not include any special committees. The Chairman of the Board takes responsibility for, and makes decisions, concerning the salaries and incentive programs of the CEO and group management on the basis of policies determined at the Annual General Meeting.

All members of the Board of Directors assume responsibility for ensuring that audit activities are conducted in an effective manner and that the company has appropriate internal control procedures in place and produces high-quality financial reports. The Board fulfils this duty by maintaining regular contact with the auditor and by examining their plan for the audit activities and the remuneration for this work.

CEO and Group Management

The CEO of Sensys Gatso Group is responsible for leading and developing operating activities according to the guidelines and instructions issued by the Board. The framework is provided by the terms of reference issued to the CEO, which are determined annually by the Board.

The CEO is assisted by group management consisting of the Heads of areas. In consultation with the Chairman, the CEO compiles the necessary information and documentation which provides the basis for the Board's work and for the Board to make informed decisions. The CEO is responsible for bringing matters to the attention of the Board and for motivating proposed decisions. Also the CEO leads the work of the group management and makes decisions in consultation with other members of management. Group management has at least 12 meetings per year during which it follows up operations, discusses matters affecting the Group and drafts proposals for strategic plans and budgets, which the CEO presents to the Board for decision. At year-end the management team for the Group consisted of Ivo Mönnink (CEO), Niki Gatsonides, Timo Gatsonides and Bram Mulders.

Board of Directors, as per year end 2017

Board of Directors elected by the AGM	Attendance	Born	Elected	Fee	Number of shares/votes	Nationality	Function	Independent*
Claes Ödman	19/19	1965	2016	300,000	471,818	Swedish	Chairman of the Board	independent
Kerstin Sjöstrand	19/19	1958	2016	175,000	28,542	Swedish	Board member	independent
Pia Hofstedt	18/19	1961	2016	175,000	128,570	Swedish	Board member	independent
Ingemar Skogö	16/19	1949	2011	175,000	97,138	Swedish	Board member	independent
Katarina Staaf	19/19	1967	2016	175,000	60,000	Swedish	Board member	independent
Jochem Garritsen	19/19	1972	2015	175,000	32,142	Dutch	Board member	independent

*Independent in relation to the company and/or the owners.

Management of subsidiaries

Sensys Gatso Group's operations comprise four active subsidiaries. The operations of the respective subsidiaries are controlled by their management teams. Sensys Gatso has a decentralised structure, with a strong focus on responsibility and performance.

Code of Conduct

Our global presence requires that our employees and business partners take responsibility for themselves and for each other. Therefore, we have a regulatory framework, our Code of Conduct.

The Code of Conduct is to be followed by everyone in our Group, employees as well as the Board and management. We also communicate our Code of Conduct to our business partners, with the expectation that they are to comply with it.

Our Code of Conduct states amongst other things, that we will act as a reliable and honest partner, who lives up to its commitments. We believe in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

The Code clarifies our position on issues related to human rights, labour conditions, the environment, business ethics and communication. The Code applies to all Sensys Gatso employees regardless of their position.

Equality and diversity policy

Differences between people can constitute not only gender, ethnic origin, age, disability, religion and sexual orientation, but also experience, education, living situation and values. Taken together, this creates a dynamic diversity that adds new perspectives and ideas. This collective diversity represents Sensys Gatso's, competence, which is a strategic asset in the Group's commercial and operational development. Sensys Gatso views equality and diversity as both self-evident and a strength, and therefore strives to achieve diversity in the composition of the workforce and in recruitment.

The purpose of the equality policy is to prevent individuals from being chosen for certain teams solely/primarily due to their gender, or so that a group does not become single gendered. A candidate is appointed in accordance with the defined requirements profile. If two or more candidates are equally qualified, Sensys shall ensure that the company's teams are well balanced and that Sensys uses its employees' time and skills in a manner that benefits both operations and individual personal development. When appointing vacant positions, the company shall also strive to achieve the best possible age and ethnicity distribution. The aim is to strive for as even a distribution as possible of all work tasks in the workplace and to act to prevent gender division in different tasks and roles. During the year, the company's values and goals for this policy have been a clear and active part of all performance appraisals, salary negotiations and recruitment processes that have taken place, which has also been apparent in the outcome of the company's employee survey.

REMUNERATION TO THE MANAGEMENT AND THE BOARD

Guidelines for remuneration

Remuneration to the CEO and other group management consists of basic salary, variable remuneration, other benefits and pensions. The balance between basic salary

and variable remuneration is to be in proportion to the employee's responsibilities and authority. For the CEO, annual variable remuneration is capped at six months' salary. For other group management, annual variable remuneration is also capped at six months' salary. Variable remuneration is typically based on improvement, compared to the previous year, in terms of each individual's respective responsibility for turnover, operating profit and the outcome of individual activity plans. These guidelines are also proposed for the coming year.

Remuneration to the Members of the Board

Fees payable to Board members are determined annually by the AGM. No separate fees are payable for work on the committees. In 2017, remuneration was paid in accordance with note 2.

Remuneration to the Auditors

In 2017 remuneration to the auditors was paid in accordance with note 22.

INTERNAL CONTROL AND FINANCIAL REPORTING

The purpose of internal control is to create an effective decision-making process in which requirements, goals and frameworks are clearly defined. Ultimately, internal control is aimed at protecting the company's assets and thereby the shareholders' investment. The company also has a set of internal instructions, procedures, systems and responsibilities in place to improve internal control.

Financial reporting to the Board

The CEO is responsible for ensuring that the Board of Directors receives the reports required to enable the Board to continually assess the company's financial position. The company's results and development are followed up on a monthly and quarterly basis and reported with analyses and comments to the Board. The company's business plan and reviews of the business plan constitute an important means of ensuring internal control. The company's financial reporting complies with the laws and regulations applicable to companies listed on the Stockholm Stock Exchange. It is of the opinion that a separate review function (internal audit) would not add additional value to the Group, which is why such a function does not exist.

Risk assessment

The financial risk assessment is mainly related to the potential for material misstatement in the reporting of the company's financial position and performance. To minimize these risks, governing documents have been established for accounting, procedures for annual reporting and follow-up of reported annual accounts. The financial reporting is managed through the Group's control structure. In addition, the management works continuously to identify and manage significant risks affecting the financial reporting. Further details about the company's risk management are provided under note 25.

Control activities and follow-up

Control activities involve all levels of the organisation. To ensure completeness and accuracy in the financial reporting, instructions and guidelines are being put into place and communicated to the relevant personnel. Control ac-

tivities also include follow-up and comparisons of earnings and order intake, account reconciliations and balance as well as accounting and valuation principles.

The Company is subject to provisions of the EU's Market Abuse Regulation No. 596/2014 (MAR), putting great demands on the Company on how to handle inside information. In particular, MAR governs how insider information should be published to the market, the conditions under which publication may be postponed and in what way the company is required to keep a list of persons working for the company, having access to inside information concerning the company (so-called logbook).

Since January 2017, the Company uses InsiderLog, a digital tool, to ensure that the above management meets the requirements of MAR and the Company's insider policy; from the decision to postpone disclosure of insider information all the way to the notice to be submitted to SFSA (Finansinspektionen) when the insider event is closed and the information has been disclosed. Only authorized persons in the Company have access to InsiderLog.

Activities in 2017

During the year, focus has been on continuing the internal control and on monthly and quarterly follow-up's, along with the implementation of process for transfer pricing, transfer policies and principles.

Information and communication

Sensys Gatso continuously provides information about the Group's performance and financial position to the market. The CEO is responsible for the accuracy and high quality of all information provided, for example, financial press-releases and presentation materials for various meetings with the media, shareholders and investors. An information policy applies for external communication that provides guidelines to the presentation of such information. The policy is intended to ensure that Sensys Gatso's information requirements are met in an accurate and complete manner. The most important governing documents, in the form of policies and instructions, are kept up-to-date and are communicated via the appropriate channels, mainly electronically. Internal information and communication is about creating awareness among the Group's employees about external and internal governing instruments, including authorities and responsibilities.

Sensys Gatso's whistle-blower policy means that each employee has the right to report suspected breaches of laws or regulations without fear of reprisal.

Shareholders

Sensys Gatso's shares have been listed on the Stockholm Stock Exchange since 2001. Sensys Gatso has a share capital of SEK 42.2 million. The number of outstanding shares in Sensys Gatso at year-end was 844,913,669 (657,155,077) and the number of shareholders totaled 21,012 (21,150). All shares carry the same voting rights and entitle the holder to the same share of the company's earnings and capital. As detailed on page 21, the company has one shareholder (Cooperatieve Centrale (Gatso Special Products BV)) with number of shares that exceeds 10 percent of the company's total number of shares. Also for 2016 Cooperatieve Centrale (Gatso Special Products BV) was the largest shareholder with 17.6 % of the total shares. For further information about the ownership structure, trading and share price movements, see page 21. The Articles of Association do not contain any conditions concerning voting right restrictions. There is no authorisation for repurchase of treasury shares.

Articles of association

The Articles of Association of Sensys Gatso Group AB state that the company's business is to develop and market traffic enforcement and traffic informatics products.

The Board of Directors shall consist of at least three and no more than seven Board members with no more than three Deputy Board members. The Board of Directors shall have its registered office in Jönköping in the Municipality of Jönköping. The Board members are elected annually at the Annual General Meeting for the period until the end of the next Annual General Meeting.

The company's accounts shall be examined by one or two auditors with up to two deputy auditors or a registered auditing firm. The Board is responsible for ensuring that there is an effective system for internal control and risk management. Responsibility for creating a good environment for working on these issues has been delegated to the CEO.