

## Corporate Governance Report 2011

### Background

The Swedish Companies Act prescribes that listed companies shall, on a yearly basis, present a Corporate Governance Report, to be included in the Annual Report.

Corporate governance is a question of ensuring that companies are run as efficiently as possible on behalf of the shareholders. The Swedish Companies Act defines the framework for limited liability companies including rules for the Annual General Meeting (AGM), the Articles of Association, the Board of Directors and other activities.

The Shareholders' main influence to govern the Company is during the AGM, which is the Company's highest decision-making body, where all present shareholders have the right to vote on the presented proposals. All shares represented at the AGM have the same voting right. The shareholders shall be given the possibility to exercise their ownership role in an active, well-informed manner. Within six months of the expiry of each financial year, the shareholders shall hold an Annual General Meeting, at which the Board of Directors shall present the Annual Report and Auditor's Report for the Parent Company and the Group and the Nomination Committee shall propose candidates for election to the Board of Directors and the Chairman of the Board, as well as fees and other remuneration to each member of the Board. The Board of Directors are elected at the AGM, for the period until the next AGM. The tasks and duties of the Board of Directors are laid down primarily in the Swedish Companies Act and other relevant laws, the Listing Agreement with the NASDAQ OMX stock exchange, Stockholm and the Swedish Code of Corporate Governance.

### Corporate Governance in SinterCast

SinterCast AB (publ) is a publicly traded limited liability Company with its registered office located in Stockholm, Sweden. SinterCast provides on-line process control technology to the cast iron foundry industry to enable the reliable high volume production of Compacted Graphite Iron (CGI). CGI is primarily used in diesel engine cylinder blocks and heads, for passenger vehicle, commercial vehicle and industrial power applications. SinterCast AB (publ) is the Parent Company of the SinterCast Group. The Annual General Meeting is, by tradition, held during May each year. The Annual Meeting is the forum where the Shareholders meet the Board of Directors, the Management and the Company Auditors and where the Shareholders are given the possibility to raise questions and to vote on the proposals distributed prior to the meeting. Traditionally, the Managing Director informs the AGM of the Group's development and financial position. According to the Articles of Association, the Board of Directors shall be elected annually at the AGM and the Directors' mandate shall last until the conclusion of the next AGM. The majority of the directors elected by the AGM are to be independent of the Company and its Group Management. A director's independence is to be determined by a general assessment of all factors that may give cause to question the individual's independence of the Company or its Group Management. The

Nomination Committee is to propose candidates for election to the Board of Directors and the Chairman of the Board, as well as fees and other remuneration to each member of the Board. The AGM elects a Chairman and a Vice-Chairman and decides on the remuneration of the members of the Board of Directors according to the Nomination Committee proposal, in line with the Swedish Code of Corporate Governance rules.

The tasks and duties of the Board of Directors are laid down primarily in the Articles of Association, the Swedish Companies Act and other relevant laws and the Listing Agreement with the NASDAQ OMX stock exchange, Stockholm. Changes to the Articles of Association must be decided by the AGM. The Articles of Association of SinterCast do not regulate dismissal of directors.

SinterCast complies with the Swedish Code of Corporate Governance and presents a Corporate Governance Report in accordance with the Code including the Board of Directors' Report on internal control of financial reporting, without any major deviations, as SinterCast's procedures and routines are essentially compliant with the code.

The Corporate Governance report does not constitute a part of the formal Annual Report documentation and has only been reviewed by the Company's auditors.

### Shareholders

The SinterCast shares have been listed since 26 April 1993 and are quoted on the Small Cap segment of the NASDAQ OMX stock exchange, Stockholm.

Swedish shareholders hold and control 76.3% (78.3%) of the capital and votes in SinterCast AB. The largest shareholder, SIX SIS AG (Switzerland), controlled 12.3% (12.3%) of the capital and votes as a nominee shareholder. SinterCast AB had 3,721 (3,841) shareholders on 31 December 2011. The ten largest, of which five were nominee shareholders, controlled 46.3% (45.9%) of the capital and votes. As of 31 December 2011, the SinterCast Board, management and employees controlled 1.0% (1.0%) of the capital and votes.

### Parent Company Result 2011

The January-December 2011 revenue amounted to SEK 46.1 million (SEK 38.5 million). The revenue increase is a result of the significant increases in series production, Sampling Cup shipments, and the invoicing of both Mini-System 3000 and fully automated System 3000 process control systems.

The January-December 2011 operating result of SEK 11.1 million (SEK 7.7) million was primarily affected by the higher gross result of SEK 3.9 million compared to the same period 2010. The cost increase compared to the same period 2010 is mainly related to sales & marketing costs and administrative costs. The result after tax for the January-December 2011 period amounted to SEK 14.0 million (SEK 17.0 million), primarily related to the revaluation of the deferred tax asset, which was positively influenced in 2010 by the market recovery following the economic downturn.

## Annual General Meeting (AGM) 2011

The AGM was held on Thursday 19 May 2011, in Stockholm, Sweden. All Members of the Board, the Group Management and the external Auditor were present during the meeting. The AGM was attended by 52 (47) shareholders, in person or by proxy, representing 1,840,668 (950,218) votes.

Jan Rynning was elected as Chairman of the AGM. During the AGM, presentations were provided by Mr Jeffrey Breneman, Executive Director of the United States Coalition for Advanced Diesel Cars (USCADC) and by Dr Steve Dawson, Managing Director. During the presentation, Dr Dawson presented an overview of recent market activities and provided an outlook for SinterCast's potential market development.

Further, the AGM adopted the Annual Report and the consolidated financial statements as of 2010, as presented by the Board of Directors and the Managing Director; decided upon allocation of the Company's result; and, granted the Directors and the Managing Director discharge from liability.

The Nomination Committee presented how it conducted its work during the year and presented its proposals.

During the AGM, Ulla-Britt Fräjdin-Hellqvist, Aage Figenschou, Andrea Fessler, Robert Dover and Steve Dawson were re-elected as Board members and Laurence Vine-Chatterton was elected as a new member of the Board. Ulla-Britt Fräjdin-Hellqvist was re-appointed as Chairman. The AGM decided, for the period until the next AGM, that the Board shall receive an unchanged total remuneration of SEK 725,000. The remuneration shall be divided between the Chairman (SEK 225,000) and the four ordinary Board Members (SEK 125,000 each), with no remuneration for the Managing Director.

The AGM decided the Nomination Committee to consist of three members and re-elected as members Lars Ahlström, SinterCast's largest directly registered shareholder, as Chairman and representative of large shareholders, Torbjörn Nordberg, with the mandate to represent small shareholders and Ulla-Britt Fräjdin-Hellqvist, in her capacity as Chairman of the Board Directors.

The Annual General Meeting 2011 decided upon a remuneration policy in respect of group management such that remuneration shall consist of a balanced combination of fixed remuneration, variable remuneration, long-term incentive programmes, pension and other benefits. The total remuneration shall be in accordance with market practice and shall be based on performance. Variable remuneration and special compensation (i.e. excluding remuneration according to long-term incentive programmes) may not exceed an amount corresponding to 75% of the fixed annual salary. These principles have been followed during the year and the Board will propose to the Annual General Meeting 2012 that the basic principles for compensation and other terms of employment for group management shall remain unchanged for the coming year. Further, the AGM authorised the Board of Directors to compensate the employees in cash instead of exercising the employee stock options for new shares in the stock market.

## Statutory Board Meeting

In the statutory Board meeting held immediately after the AGM, it was confirmed that Ulla-Britt Fräjdin-Hellqvist was re-elected as Chairman of the Board and Aage Figenschou was re-elected as Vice Chairman. The Compensation Committee, elected by the Board, consists of Ulla-Britt Fräjdin-Hellqvist and Aage Figenschou. Steve Dawson was re-elected Managing Director for SinterCast AB (publ) and President & CEO of the SinterCast Group.

## The Board of Directors

The Board of Directors are presented on page 13.

Name	Committees/attendance			
	Independent	Audit	Nomination	Compensation
Ulla-Britt Fräjdin-Hellqvist	Yes	Yes/100%	Yes/100%	Yes/100%
Aage Figenschou	Yes	Yes/100%		Yes/100%
Andrea Fessler	Yes	Yes/100%		
Robert Dover	Yes	Yes/100%		
Laurence Vine-Chatterton	Yes	Yes/100%		
Steve Dawson	No	Yes/100%		

## The Board's Establishment of Committees and its Work

### Nomination Committee

The task of the Nomination Committee is, after consultation with the shareholders, to nominate members for election to the Board, to propose remuneration for each member of the Board, to nominate Auditors for election, to make recommendations on remuneration for the external auditors, and to establish certain other proposals for consideration at each AGM. The majority of the members of the Nomination Committee are to be independent of the Company and its Group Management. No members of the Group Management are to be members of the Nomination Committee and at least one member of the Nomination Committee is to be independent of the Company's largest shareholder. The AGM is to appoint members of the Nomination Committee or to specify how they are to be appointed.

### Nomination Committee prior to the AGM 2011

The Nomination Committee, elected by the AGM 2010, consisted of Lars Ahlström (Chairman), Torbjörn Nordberg and Ulla-Britt Fräjdin-Hellqvist. The Committee concluded that the current Board fulfilled the demands imposed on it in consideration of the Company's position and future focus, but also decided to propose the addition of new knowledge, competence and insights to the Board. As a result of this review, the Nomination Committee proposed to the AGM 2011, re-election of the present Board members and election of Laurence Vine-Chatterton as a new Board member. The Nomination Committee proposed that, for the period until the next AGM, the Board should receive the following remuneration: SEK 225,000 for the Chairman; SEK 125,000 for each of the ordinary Board Members; and, no remuneration for the Managing Director.

### Nomination Committee after the AGM 2011

The Nomination Committee, elected by the AGM 2011, consists of Lars Ahlström (Chairman, and the largest directly

registered shareholder as of 19 May 2011), Torbjörn Nordberg and Ulla-Britt Fräjdin-Hellqvist. The Chairman of the Board has described to the Nomination Committee the process applied for the annual evaluation of the Board of Directors, Managing Director and Group Management and has provided information regarding the results of the evaluation. The Nomination Committee's proposals are to be presented in the notice of the AGM and on the Company's website. The Nomination Committee will also present how it conducted its work and explain its proposals during the AGM. Since the AGM 2011, the Nomination Committee of SinterCast carried out three minuted meetings.

The Nomination Committee can be contacted at the following e-mail address: [nomination.committee@sintercast.com](mailto:nomination.committee@sintercast.com).

#### *Compensation Committee*

The Board has established a Compensation Committee whose main tasks are monitor and evaluate the remuneration guidelines that the AGM is legally obliged to establish, as well as the current remuneration structures and levels in the Company and to propose new incentive programmes to the Board to decide upon.

The Compensation Committee shall also agree on the principles for remuneration, and other terms of employment of the Managing Director and, after advice from the Managing Director, for Directors and Managers reporting directly to him and monitor and evaluate programmes for variable remuneration, both ongoing and those that have ended during the year, for the Group Management.

The Compensation Committee, elected by the Board, consists of Ulla-Britt Fräjdin-Hellqvist and Aage Figenschou. The Board has established a work programme for the work of the Compensation Committee.

Since the AGM 2011, the Compensation Committee carried out three minuted meetings. The Board was informed of the Compensation Committee's decisions.

#### *Audit Committee*

All Board Members sit on the Audit Committee. During the year, the Audit Committee established a separate Review Group. The primary task of the Review Group is to ensure the quality of the Financial Reports.

On behalf of the Board, the responsibility of the Audit Committee is to ensure that the Company has adequate internal controls and formalised routines to ensure that approved principles for financial reporting and internal controls are applied, and that the Company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Committee meets regularly with the Auditors during the year to discuss audit reports and audit plans. The Committee also meets with the Auditor in the absence of the Managing Director and Senior Management.

The Audit Committee is responsible for the evaluation of the Auditors' work and the Auditors' efficiency, qualifications, fees and independence. The Audit Committee must also assist the Nomination Committee with proposals for potential Auditors, which will be resolved during the Annual General Meeting.

The Audit Committee also assists Group Management in determining how identified risks will be handled in order to ensure good internal control and risk management. The Audit Committee prepares and decides on the Corporate Governance Report. Since the AGM 2011, Audit Committee of SinterCast carried out four minuted meetings.

#### **External Auditor**

Prior to the AGM 2011, after the Annual Report 2010 was approved, the Board of Directors met with the Auditor at the May Board meeting where the Auditor reported its observations directly to the Board of Directors without the presence of the Group Management. The Auditor has examined the Company's annual accounts and accounting practices and reviewed the Board's and the Managing Director's management of the Company and the Auditor presented the annual Audit Report at the AGM. The Audit Report contained a statement that the Annual Report has been compiled in accordance with the relevant legislation and recommended that the Directors and the Managing Director shall be discharged from liability.

At the AGM 2010, Öhrlings PricewaterhouseCoopers was re-appointed as Auditor. Anna-Carin Bjelkeby was appointed as Auditor in charge by Öhrlings PricewaterhouseCoopers. The Auditor in charge has had three Auditors assisting in the audit work during the year. The audit follows an audit schedule agreed with the Audit Committee. The Auditor provided a presentation of the Audit Plan for 2011 during the November Audit Committee meeting and gave audit feedback on the Interim Report July-September 2011 and the audit that was conducted during the third quarter of 2011.

#### **Chairman of the Board**

The Chairman directs the Board's activities and promotes the overall efficiency of the Board. The Chairman ensures that the Board's activities are conducted in accordance with the Swedish Companies Act and other applicable laws and regulations and ensures that the resolutions of the Board are implemented. The Chairman also ensures that the Board members receive any necessary training and is responsible for evaluating the Board's activities and sharing the evaluations with the Nomination Committee. The Chairman proposes the agenda for Board meetings in consultation with the Managing Director. The Chairman has regular communication with the Managing Director, relays opinions from the shareholders to other Board members and acts as spokesperson on behalf of the Board.

#### **Board Meetings**

During 2011, the Board of Directors of SinterCast carried out eight minuted meetings. In connection with every quarterly report, the Managing Director presents the market and financial outlook and reports on operations and important current events. In addition, the Managing Director provides the Board with monthly reports on significant events and financial summary information. The Board of Directors dealt with long-term strategies, structural organisational issues, approval of the budget for the following year, the annual evaluation of the Board of Directors and, risk assessment. Individual Board members also assisted the Group Management in various strategic and operational matters.

There were no material transactions between the Company and any of the Board members during the year, with the exception of the Managing Director, who received cash compensation for the second tranche (20%) of the warrants in the current Employee Stock Option Programme, according to the mandate received by the Board at the 2011 AGM.

### Work Programme

Each year the Board adopts a written Work Programme documenting the Board's responsibilities and regulating the internal division of duties between the Board, its Committees and Group Management, the decision-making process within the Board, the Board's meeting schedule, summonses to Board meetings, agendas and minutes, and the Board's work on accounting and auditing matters and financial reporting. The Work Programme also regulates how the Board is to receive information and documentation for its work so as to be able to make well informed decisions. Other controlling documents adopted by the Board include the Finance Policy.

### Managing Director and Group Management

SinterCast's Board has appointed a Managing Director who is responsible for the day-to-day management of the Company in accordance with the Board of Directors' instructions and guidelines. The Managing Director assists the Chairman with

the Board Meeting preparations and distributes information according to the Work Programme to be decided upon by the Board. The Managing Director has established, as the President & CEO for the SinterCast Group, the Group Management team including the Operations Director and the Finance Director.

### Summary

According to the Swedish Companies Act, the Board is responsible for ensuring that the Company's organisation is designed in such a way that the bookkeeping, financial management and the Company's financial conditions are controlled in a satisfactory manner. The Swedish Code of Corporate Governance clarifies and prescribes that the Board is to ensure that the Company has adequate internal controls and formalised routines to ensure that approved principles for financial reporting and internal controls are applied, and that the Company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. SinterCast complies with the extended rules and has implemented the code in full.

The Board of Directors hereby submits its report on internal control of financial reporting.

The Auditor has reviewed the Corporate Governance Report.