

# Corporate Governance Report

Epiroc's corporate governance is devised to support the Group's long-term strategies, market presence and competitiveness. At the same time, it shall uphold confidence among stakeholders, such as shareholders, customers, suppliers, capital markets, society and employees.

Corporate governance relates to decision-making systems by which the shareholders, directly or indirectly, control the Group. The following section provides details about corporate governance within Epiroc. As a company listed on Nasdaq Stockholm, Epiroc applies the rules of the Swedish Companies Act, the Swedish Annual Accounts Act, Epiroc's Articles of Association, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code (Code) as well as other Swedish and foreign laws and regulations, as applicable. The Code applies to all Swedish companies whose shares are listed on a regulated market in Sweden and is based on the principle comply or explain. This means that Epiroc is not required to apply every rule of the Code at all times, but may choose alternative solutions, deemed to better match to the circumstances, provided that Epiroc openly discloses all such deviations, describes the alternative solution and states the reason for the deviation. Epiroc does not report any deviations from the Code for the fiscal year. The auditor's statement regarding this report can be found on pages 123–125.

Further information about corporate governance is available at [www.epirocgroup.com](http://www.epirocgroup.com)

## Corporate Governance structure

The following section describes the governance structure within Epiroc and how corporate governance creates a framework for rules and regulations, areas of responsibility and processes and routines that effectively safeguard the interests of shareholders and other parties by minimizing risks and creating good conditions for a stable expansion of Epiroc's business.

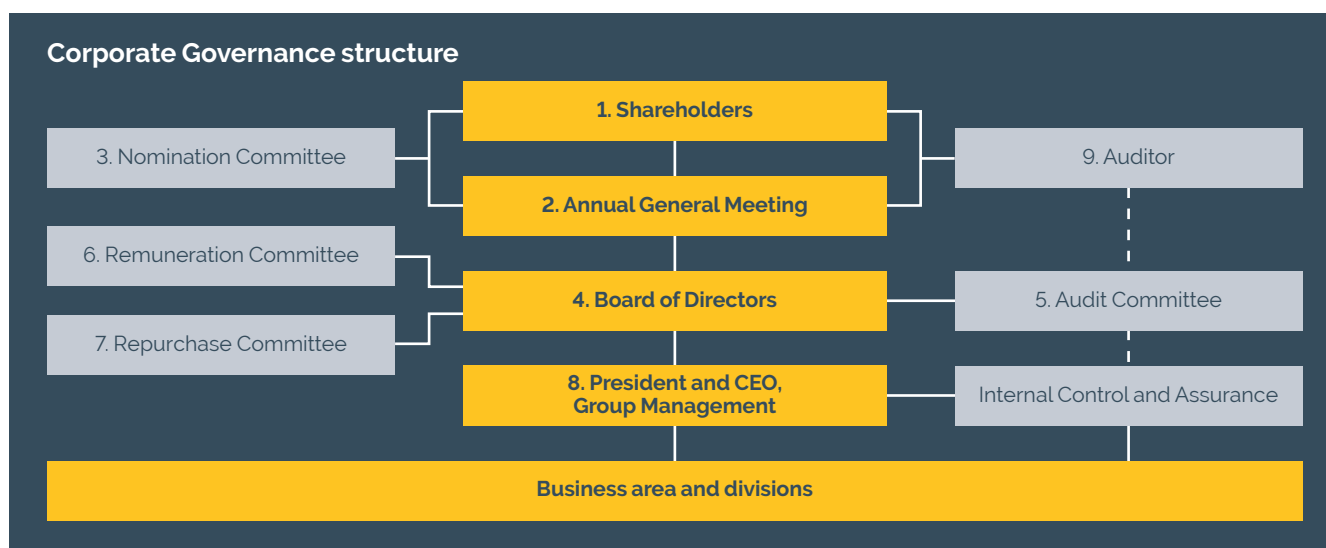
## 1. Shareholders

At year-end 2018, the total number of shareholders was 76,872. The proportion of foreign ownership was 54.0% of the number of shares on the market. One shareholder, Investor, more than 10% of the company. At year-end, Investor owned 207,645,611 shares, corresponding to 17.1% of shares and 22.7% of the votes. Further details about the company's shares and shareholders are presented in the section "The Epiroc share", see pages 138–139, and on the website, [www.epirocgroup.com/en/investors/share/shareholders](http://www.epirocgroup.com/en/investors/share/shareholders).

## 2. Annual General Meeting

The Annual General Meeting (AGM) is Epiroc's highest decision-making body, where the shareholders exercise their voting rights. Notice of a General Meeting of shareholders is posted on the Group's website and published in the Official Swedish Gazette, Post och Inrikes Tidningar. Information that the notice has been given shall at the same time be published in Svenska Dagbladet and Dagens Nyheter. The AGM decides on matters such as the adoption of Epiroc's annual accounts, appropriation of the company's profits and the discharge of Board members and the CEO from liability for the year. The AGM also elects members of the Board and auditors and votes on the establishment of a Nomination Committee, remuneration for the Board of Directors and auditors and guidelines for determining the salaries and other remuneration for the CEO and senior management team. Shareholders attending the AGM may also ask questions about the Group's activities. Resolutions passed at a meeting of shareholders are disclosed after the meeting in a press release, and the minutes of the meeting are published on Epiroc's website.

The Annual General Meeting 2019 will be held at 4 PM on May 9, 2019 at Aula Medica, Nobels väg 6, Solna, Sweden.



### 3. Nomination Committee

The main task of the Nomination Committee is to propose Board members and auditors, as well as remuneration for such persons, and a proposal for a Chairman for the AGM. The Nomination Committee instructions require that the committee, in addition to the Chairman of the Board, shall consist of one representative of each of the four shareholders controlling the largest number of votes. The composition of the committee is based on ownership statistics on the last day of trading in August 2018. The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2019. For further information about the committee instructions, see the website [www.epirocgroup.com](http://www.epirocgroup.com).

The Nomination Committee shall conduct its duties in accordance with the Code and particularly consider the requirements regarding breadth and versatility of the appointed Board members' qualifications, experience and background. The Nomination Committee has in its evaluation of the board composition also taken into account diversity, independence and gender balance.

In accordance with instructions on Epiroc's website, shareholders are welcome to present proposals and opinions to the committee. Shareholders who wish to submit proposals can do so by e-mailing the secretary of the Nomination Committee at [nominations@epiroc.com](mailto:nominations@epiroc.com) or by mailing Jörgen Ekelöw, Epiroc AB, P.O. Box 4015, SE-131 04 Nacka, Sweden.

The following representatives of Epiroc AB's shareholders, together with the Chairman of the Board, Ronnie Leten, form the Nomination Committee for the Annual General Meeting 2019:

- Petra Hedengran, Investor AB (chair)
- Ramsay Brufer, Alecta
- Jan Andersson, Swedbank Robur Funds
- Hans Ek, SEB Investment Management AB

### 4. Board of Directors

The Board of Directors is Epiroc's highest decision-making body below the AGM. The Board is charged with the organization of the Group and management of the Group's affairs. The Board's tasks include adopting strategies, business plans, interim reports, year-end reports, annual financial statements and certain instructions, policies and guidelines. The Board is also required to monitor economic developments and ensure the quality of financial reporting and internal controls and evaluate operations based on the objectives and guidelines set by the Board. Additional targets include deciding on the Group's major investments, acquisitions and divestments, and other changes in the organization and activities. The Board adopts instructions for the committees of the Board and an instruction for the President and CEO, as well as an instruction for the financial reporting.

The work of the Board follows written rules of procedure to ensure that the Board obtains information on all issues, and that all aspects of the Group's activities relating to the Board are addressed.

The Board has appointed three Board committees as part of efforts to strengthen the efficiency on certain issues: a Remuneration Committee, an Audit Committee and a Repurchasing Committee. The committees have a preparatory and administrative role and members are appointed for one year at a time at the inaugural Board meeting. The work and authority of the committees are regulated by the committee instructions, which are established annually.

#### Composition

Members of the Board of Directors, except for employee representatives, are appointed annually by the AGM for the period

until the end of the next Annual General Meeting. According to the Group's Articles of Association, the members of the Board of Directors to be elected by the General Meeting shall consist of a minimum of six members and a maximum of 12 members. Other than the President and CEO, the employee representatives and their deputies, none of the Board members are employed by the Group. Of the Board members elected by the AGM, three are women and five are men. The Board members are presented on pages 60–61.

The Chairman leads the work, is responsible for ensuring that the Board's work is carried out efficiently and that the Board fulfils its obligations in accordance with applicable laws and regulations. The Chairman shall monitor the Board's performance and prepare and chair the meetings. The Chairman is also responsible for ensuring that the Board of Directors evaluates its work each year and always receives the information necessary to perform its work effectively. The Chairman represents the Board in relation to Epiroc's shareholders.

#### Work of the Board

To accomplish its task, the Board's work follows an annual cycle. At the beginning of the year, the Board considers the year-end report and the annual report, as well as matters to be submitted to the AGM. Each year, the Board reviews the strategic direction of the Group as well as the business plan and targets for the year ahead. There is also a presentation of the annual audit made by the Group's principal auditor. Every quarter, the Board reviews the Group's earnings and interim reports. An inaugural Board meeting is held in connection with the AGM at which members of the Board's committees are appointed and matters such as the right to sign on behalf of the company are decided. At Board meetings, there are normally business presentations and/or presentations on certain matters. The Board evaluates the performance of the President and CEO and also follows up on the compliance of the Code of Conduct during the year.

In 2018, the Board has made a thorough review of the strategy and followed up on the progress of the split from Atlas Copco and the listing. The Board held 13 meetings in 2018, including the inaugural meeting. Five of the meetings were physical meetings, one was a telephone meeting and seven were per capsulam. In addition, the Board made a study trip to the Garpenberg mine in Sweden. See also the illustration on pages 58–59. The attendance at Board meetings is presented on page 59. The General Counsel acted as secretary at the Board meetings.

#### Evaluation of the Board

The annual evaluation of the Board of Directors' work, including the Board's committees was conducted by the Chairman through a questionnaire and a follow-up discussion with each Board member. The evaluation included working procedures, competence and composition of the Board as well as the experience and diversity of the Board members. The findings were presented to the Nomination Committee.

#### Remuneration of the Board of Directors

Remuneration and fees are based on the work done by the Board. The Annual General Meeting held on April 25, 2018 resolved that remuneration to the Board members elected by the General Meeting, for the period from the first day of trading of Epiroc's shares on Nasdaq Stockholm until the next Annual General Meeting should be as per below

- The Chairman of the Board was granted an amount of SEK 1,950,000.
- Each of the other Board members not employed by the Group was granted SEK 625,000.

- An amount of SEK 225,000 was granted to the chair of the Audit Committee and SEK 150,000 to each of the other members of this committee
- An amount of SEK 100,000 was granted to the chair of the Remuneration Committee and SEK 75,000 to each of the other members of this committee was granted.
- In addition it was decided in an extra general meeting on May 3, 2018 to grant an amount of SEK 60,000 to each non-executive director who, in addition, participates in committee work decided upon by the board.

Prior to the first day of trading in Epiroc's shares on Nasdaq Stockholm on June 18, 2018, the Board members had the following remuneration: Ronnie Leten was remunerated a pro rata amount of a yearly remuneration of SEK 1,300,000 from October 1, 2017. Ulla Litzén and Lennart Evrell were both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from October 1, 2017. Anders Ullberg was remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from April 25, 2018. Jeane Hull and Astrid Skarheim Onsum are both remunerated a pro rata amount of a yearly remuneration of SEK 417,000 from January 1, 2018. Johan Forssell did not receive a remuneration prior to June 18, 2018. See also note 5.

### 5. Audit Committee

To support the Board in its role in supervising auditing and internal control issues, a separate Audit Committee is appointed. The committee is responsible for monitoring the Group's financial reporting, financial risk management and internal control, as well as accounting and auditing. The Audit Committee has regular dialogue with the Group's auditor and has at least one meeting per year with the auditor when management is not present. It also reviews and monitors the auditor's impartiality and independence, other services provided by the Group's auditor and assists the Nomination Committee with the proposal for the election of the auditor.

The Audit Committee shall consist of at least three members of whom the majority must be independent in relation to the Group and its management. The Audit Committee consists of Ulla Litzén (chair), Anders Ullberg and Ronnie Leten, of which Ulla Litzén and Anders Ullberg are independent in relation the Group and its management.

### 6. Remuneration Committee

The principal function of the Remuneration Committee is to propose to the Board principles for remuneration and other employment terms for members of Group Management, including proposal for remuneration to the President and CEO, and to approve remuneration and other employment condi-

tions for the other members of the Group Management. The Remuneration Committee also handles remuneration matters of principle importance such as proposal of long-term incentive plans for key employees.

The Remuneration Committee shall consist of three members who may not be employees of the Group. The Chairman of the Board shall chair the committee. The other members shall be independent in relation to the Group and its management. The Remuneration Committee consists of Ronnie Leten (chair), Lennart Evrell and Johan Forssell, of which Lennart Evrell and Johan Forssell are independent in relation to the Group and its management.

#### Remuneration of the President and CEO and Group Management

The remuneration for Epiroc's senior executives shall consist of a base salary, variable compensation, long term incentive programs, pension contributions and additional benefits.

The base salary shall reflect the position, qualification and individual performance and the variable compensation shall be dependent on the extent to which predetermined quantitative and qualitative goals are met. The variable compensation is limited to a maximum of 70% of the base salary for the President and CEO, to 60% for the business area executive and to 40% for the other senior executives.

In case of termination of employment of a senior executive by the Group, the compensation amounts to between 12 and 24 months' base salary depending on age, length of employment and possible income from other economic activity or employment. See note 5 for information about the remuneration during 2018.

#### Performance based incentive programs

It is considered by the Board to be in the best interest of the shareholders, that key personnel in Epiroc have a long-term interest in a good value development of the shares of the Group. Particularly, this applies to the group of key personnel that consists of the senior executives and the division presidents. It is also the assessment of the Board that a share related option program increases the attractiveness of Epiroc on the global market and enhances the possibility to recruit and keep key personnel in the Group. The Annual General Meeting of Epiroc 2018 introduced a performance based personnel option plan for 2018. The option plan is directed at a maximum of 100 key employees.

For further information on the incentive programs, see note 23.

## Board work 2018

### Q1

**February 12**  
Full-year 2017 results and decision on Epiroc's financial goals

**March 15**  
Long-term incentive program – per capsulam

**March 23**  
• The listing of Epiroc  
• Review of the Rocktec division

**April 25**  
Inaugural Board meeting – per capsulam

**May 3**  
• Q1 2018 results  
• Review of the Surface and Exploration Drilling division  
• Review of the Mining and Rock Excavation Service division

### Q2

**May 25**  
Approval of prospectus – per capsulam

**June 5**  
• Split the existing shares – per capsulam  
• Resolution about the record date for the split – per capsulam

## 7. Repurchase Committee

The Board of Directors has appointed a Repurchase Committee that will prepare and execute repurchases of own shares in accordance with the AGM's authorization of the Board of Directors to repurchase own shares. See notes 20 and 23. The Repurchase Committee consists of Anders Ullberg (chair) and Ronnie Leten.

## 8. President and CEO, Group Management

The Group's President and chief executive officer (CEO) is appointed by the Board of Directors. The President and CEO, is responsible for the ongoing management of the Group's business operations in accordance with instructions and regulations established by the Board. These instructions include responsibility for financial reporting, preparation of information and input for decisions, and ensuring that agreements and other measures do not conflict with applicable legislation or regulations. The President and CEO and Group Management are jointly responsible for the daily operations.

The CEO has appointed a Group Management that is responsible for different parts of the business. In addition to Per Lindberg, President and CEO, the management team consists of Helena Hedblom, Senior Executive Vice President Mining and Infrastructure, Anders Lindén, Senior Vice President (CFO), Jörgen Ekelöv, Senior Vice President General Counsel, and Mattias Olsson, Senior Vice President Corporate Communication. As of March 1, 2019, the management team was expanded to also include Martin Hjerpe, Senior Vice President M&A and Strategy. For further information about the members of Group Management, see page 62.

The role of Group Management is to establish strategies and policies for the Group based on the objectives set by the Board. Group Management sets targets for operational activities, allocates resources and monitors the business' earnings. The management team is also responsible for investment planning and follow-up, acquisitions and divestments, and for preparations for Board meetings. Group Management meets monthly to review the financial performance of the preceding month, update forecasts and plans, as well as to discuss strategic issues.

## 9. Auditor

The task of the external auditor is to audit the Group's annual report and accounts, the consolidated financial statements and the significant subsidiaries, as well as the management by the Board of Directors and the President and CEO. Following each fiscal year, the auditor shall submit an audit report to the Annual General Meeting. The principal auditor participates at all meetings with the Audit Committee and presents the annual audit to the Board of Directors, where the Board also meet the auditor without the management being present.

At the Annual General Meeting 2018 the auditor Deloitte AB, Sweden, was elected external auditing firm until the AGM 2019 in compliance with a proposal from the Nomination Committee. The principal auditor is Thomas Strömberg, Authorized Public Accountant at Deloitte AB.

### Attendance

	Board meetings	Per capsulam resolutions	Audit Committee	Remuneration Committee	Repurchase Committee
Ronnie Leten	6	7	5	2	4
Anders Ullberg	6	7	5		4
Astrid Skarheim Onsum	6	7			
Jeane Hull	5	7			
Johan Forssell	6	7		2	
Lennart Evrell	6	7		2	
Per Lindberg	6	7			
Ulla Litzén	4	7	5		
Bengt Lindgren	6	7			
Kristina Kanestad	6	7			
Mårten Karlsson	5				
Gustav El Rachidi	4				
<b>Total meetings</b>	<b>6</b>	<b>7</b>	<b>5</b>	<b>2</b>	<b>4</b>

### Q3

#### July 19

- Q2 2018 results
- Decision to utilize the mandate related to purchase, transfer and sale of own shares granted by the AGM – per capsulam

#### August 20–22

- Field trip to a mine
- Strategy review meeting in Örebro, Sweden
- Review of the Underground Rock Excavation division
- Review of the Rock Drilling Tools division

### Q4

#### October 24

- Q3 2018 results
- Review of the Drilling Solutions division

#### November 19

- Approval of the Euro Medium Term Note program – per capsulam

# Board of Directors



**Ronnie Leten**  
Chairman Elected 2017

**Nationality / Born**  
Belgian / 1956

**Education**  
M.Sc. in Applied Economics from the University of Hasselt, Belgium.

**Principal working experience and other information**  
Ronnie Leten is Chairman and member of the Board of Directors of Telefonaktiebolaget LM Ericsson, and member of the Boards of Directors of AB SKF and IPCO AB. He previously held the position of President and CEO of Atlas Copco AB.

**Holdings in Epiroc AB**  
11,308 Class A shares  
55,650 Class B shares

**Independence of Epiroc / major shareholders**  
No<sup>1)</sup> / No<sup>2)</sup>

**Johan Forssell**  
Board member Elected 2017

**Nationality / Born**  
Swedish / 1971

**Education**  
M.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.

**Principal working experience and other information**  
Johan Forssell is President and CEO, and member of the Board of Directors, of Investor AB and a member of the Boards of Directors of Atlas Copco AB, Wärtsilä Oyj Abp, Patricia Industries AB and EQT AB. He previously held the position of Managing Director, Head of Core Investments, of Investor AB.

**Holdings in Epiroc AB**  
5,000 Class B shares  
1,621 Synthetic shares

**Independence of Epiroc / major shareholders**  
Yes / No<sup>3)</sup>

**Anders Ullberg**  
Board member Elected 2017

**Nationality / Born**  
Swedish / 1946

**Education**  
B.Sc. in Economics from the Stockholm School of Economics, Sweden.

**Principal working experience and other information**  
Anders Ullberg is Chairman and member of the Boards of Directors of Boliden AB and Studsvik AB and a member of the Boards of Directors of Atlas Copco AB, Beijer Alma AB and Valedo Partners. He is also Chairman of the Swedish Financial Reporting Board and a member of the Board of the European Financial Reporting Advisory Group. He previously held the positions of Executive Vice President and CFO and President and CEO of SSAB AB.

**Holdings in Epiroc AB**  
14,000 Class A shares  
10,000 Class B shares

**Independence of Epiroc / major shareholders**  
Yes / Yes

**Ulla Litzén**  
Board member Elected 2017

**Nationality / Born**  
Swedish / 1956

**Education**  
B.Sc. in Economics from the Stockholm School of Economics, Sweden, and an MBA from the Massachusetts Institute of Technology (MIT) in the United States.

**Principal working experience and other information**  
Ulla Litzén is a member of the Boards of Directors of AB Electrolux, NCC AB, Husqvarna AB and Ratos AB. She previously held the positions of President of W Capital Management AB and Managing Director and member of Group Management of Investor AB.

**Holdings in Epiroc AB**  
75,800 Class A shares  
3,000 Class B shares

**Independence of Epiroc / major shareholders**  
Yes / Yes

Principal working experience and other information and holdings in Epiroc AB as per December 31, 2018. Holdings include those of close relatives and legal entities.

1) Ronnie Leten has been President and CEO of a closely related company (Atlas Copco) within the last five years.

2) Ronnie Leten has a consultancy agreement with Investor AB, which is a major shareholder

3) Johan Forssell is President and CEO of Investor AB, which is a major shareholder

4) Per Lindberg is President and CEO of Epiroc AB

**Lennart Evrell**

**Board member** Elected 2017

**Nationality / Born**  
Swedish / 1954

**Education**

M.Sc. in Engineering from the Royal Institute of Technology (KTH) and a B.Sc. in Business Administration from Uppsala University, both in Sweden.

**Principal working experience and other information**

Lennart Evrell is a member of the Board of Directors of Svenska Cellulosa AB (SCA) and of The Confederation of Swedish Enterprise (Svenskt Näringsliv). He previously held the position of President and CEO of Boliden AB.

**Holdings in Epiroc AB**

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**Independence of Epiroc / major shareholders**  
Yes / Yes

**Bengt Lindgren**

**Board member, employee representative** Elected 2018

**Nationality / Born**  
Swedish / 1957

**Holdings in Epiroc AB**

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**Per Lindberg**

**Board member and President and CEO** Elected 2018

**Nationality / Born**  
Swedish / 1959

**Education**

M.Sc. in Engineering and a PhD in Industrial Management, Chalmers University of Technology, Gothenburg, Sweden.

**Principal working experience and other information**

Per Lindberg is the President and CEO of Epiroc since 2018. Previously, he was President and CEO of BillerudKorsnäs AB.

**Holdings in Epiroc AB**  
35,000 Class A shares  
1,000 Class B shares

**Independence of Epiroc / major shareholders**

No<sup>4)</sup> / Yes

**Kristina Kanestad**

**Board member, employee representative** Elected 2018

**Nationality / Born**  
Swedish / 1966

**Holdings in Epiroc AB**  
1,200 Class B shares

**Jeane Hull**

**Board member** Elected 2018

**Nationality / Born**  
American / 1955

**Education**

B.Sc. in Civil Engineering from South Dakota School of Mines and Technology and an MBA from Nova Southeastern University, both in the United States.

**Principal working experience and other information**

Jeane Hull is a member of the Boards of Directors of Interfor Corporation and Cloud Peak Energy Incorporated. She previously held the positions of Executive Vice President and Chief Technical Officer of Peabody Energy and Chief Operating Officer for Rio Tinto at the Kennecott Utah Copper Mine in the United States.

**Holdings in Epiroc AB**  
2,541 Synthetic shares

**Independence of Epiroc / major shareholders**

Yes / Yes

**Mårten Karlsson**

**Deputy employee representative** Elected 2018

**Nationality / Born**  
Swedish / 1978

**Holdings in Epiroc AB**

–

**Astrid Skarheim Onsum**

**Board member** Elected 2018

**Nationality / Born**  
Norwegian / 1970

**Education**

M.Sc. in Mechanical Engineering from the Norwegian University of Science and Technology in Trondheim, Norway.

**Principal working experience and other information**

Astrid Skarheim Onsum is Head of Wind Energy at Aker Solutions ASA in Norway. She previously held the positions of Chief Digital Officer and Managing Director of the Norwegian engineering business at Aker Solutions.

**Holdings in Epiroc AB**  
2,541 Synthetic shares

**Independence of Epiroc / major shareholders**

Yes / Yes

**Gustav El Rachidi**

**Deputy employee representative** Elected 2018

**Nationality / Born**  
Swedish / 1970

**Holdings in Epiroc AB**

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# Group Management



From the left: Mattias Olsson, Anders Lindén, Helena Hedblom, Per Lindberg, Jörgen Ekelöw

**Per Lindberg**

**President and CEO**

In current position since 2018

**Nationality / Employed / Born**  
Swedish / 2018 / 1959

**Education**

M.Sc. in Engineering and a PhD in Industrial Management, Chalmers University of Technology, Gothenburg, Sweden.

**Principal working experience and other information**  
Per Lindberg was President and CEO of BillerudKorsnäs.

**Holdings in Epiroc AB**  
35,000 Class A shares  
1,000 Class B shares

**Helena Hedblom**  
**Senior Executive Vice President Mining and Infrastructure**  
In current position since 2017

**Nationality / Employed / Born**  
Swedish / 2017 / 1973

**Education**

M.Sc. in Material Technology from the Royal Institute of Technology, Stockholm, Sweden.

**Principal working experience and other information**

Helena Hedblom is a member of the Boards of Directors of IPCO AB and Föreningen för gruvor, mineral- och metallproducenter i Sverige (SveMin). Previously, she was President of Atlas Copco Mining and Rock Excavation Technique business area.

**Holdings in Epiroc AB**  
6,242 Class A shares  
316,760 personnel options  
12,534 matching shares

**Anders Lindén**  
**Senior Vice President Controlling and Finance (CFO)**  
In current position since 2017

**Nationality / Employed / Born**  
Swedish / 2017 / 1962

**Education**

B.Sc. in Economics and Business Administration from the Stockholm School of Economics, Sweden.

**Principal working experience and other information**  
Anders Lindén was Vice President Business Control of Atlas

Copco Mining and Rock Excavation Technique business area.

**Holdings in Epiroc AB**  
4,000 Class A shares  
136,872 personnel options

**Mattias Olsson**  
**Senior Vice President Corporate Communications**  
In current position since 2018

**Nationality / Employed / Born**  
Swedish / 2018 / 1968

**Education**

M.Sc. in Business Administration from the University of Linköping, Sweden.

**Principal working experience and other information**  
Mattias Olsson was Head of Investor Relations at Assa Abloy.

**Holdings in Epiroc AB**  
2,015 Class A shares  
1,200 Class B shares

**Jörgen Ekelöw**  
**Senior Vice President General Counsel**  
In current position since 2017

**Nationality / Employed / Born**  
Swedish / 2017 / 1955

**Education**

Master of Law from Lund University, Sweden.

**Principal working experience and other information**  
Jörgen Ekelöw was General Counsel M&A and Global Projects at Atlas Copco.

**Holdings in Epiroc AB**  
3,221 Class A shares  
188,192 personnel options

**Martin Hjerpe**  
**Senior Vice President M&A and Strategy**  
Starts on March 1, 2019

**Nationality / Employed / Born**  
Swedish / 2019 / 1976

**Education**

M.Sc. in Engineering Physics from Chalmers University of Technology, Sweden

**Principal working experience and other information**  
Martin Hjerpe was Partner at McKinsey & Company.

Holdings in Epiroc AB as per December 31, 2018, including those of close relatives and legal entities.

# Internal control and risk management for financial reporting

This section includes a description of Epiroc's system of internal controls for financial reporting in accordance with the requirements set forth in the Swedish Corporate Governance Code and as stipulated by the Swedish Companies Act.

Epiroc's internal control system for financial reporting is designed to manage risks and ensure a high level of reliability in the preparation of financial reports, and to ensure that applicable accounting principles and other requirements as a publicly listed company are properly applied.

Epiroc's processes have been established based on the regulatory framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO's components are implemented in Epiroc as presented below.

## 1. Control environment

The basis for Epiroc's internal control framework is defined by the overall control environment. The Board of Directors is responsible for establishing an efficient system for internal control and governs the work through the Audit Committee, the CEO and a dedicated Group function overseeing internal control. Group Management sets the tone for the organization, influencing the control consciousness of the employees. One key success factor for a strong control environment is ensuring that the organizational structure, decision hierarchy, corporate values in terms of ethics and integrity as well as authority to act, are clearly defined and communicated through guiding documents such as internal policies, guidelines and Epiroc's Code of Conduct.

## 2. Risk assessment

An assessment of financial reporting risks is conducted annually and control activities are either reinforced or implemented. The key risk areas for Epiroc's financial reporting are presented on the next page.

## 3. Control activities

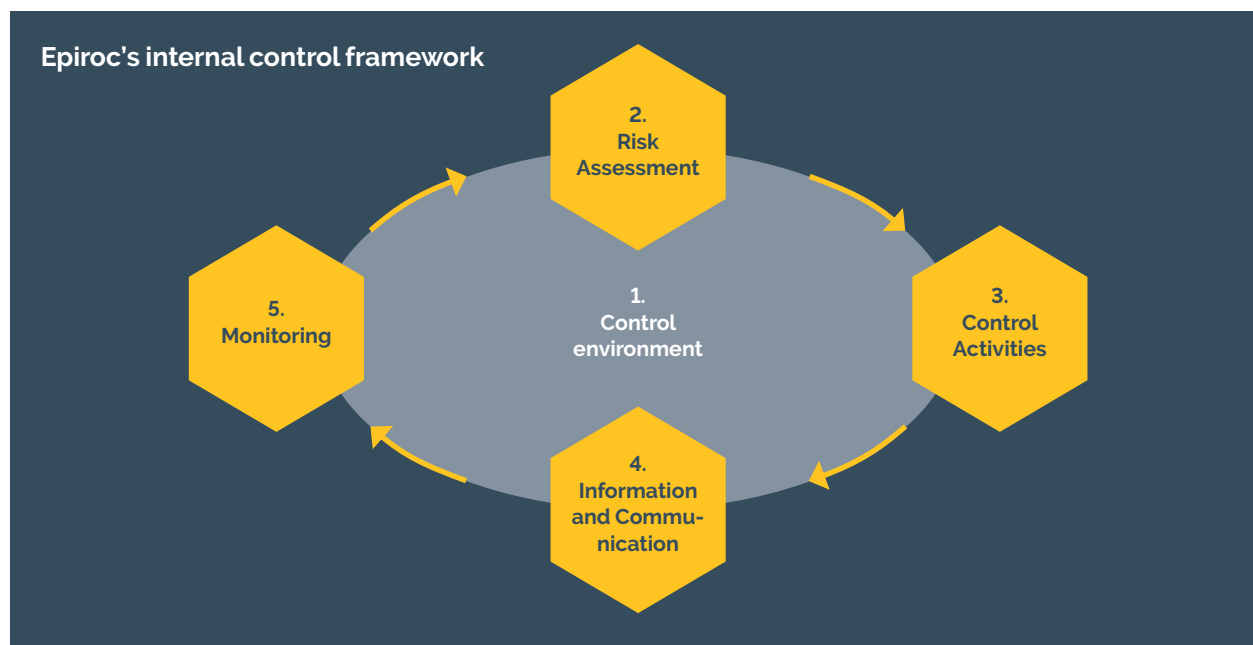
Epiroc's control activities are established to mitigate financial reporting risks. Control activities are performed at all levels of Epiroc and at various stages of the business processes.

## 4. Information and communication

Epiroc has information and communication channels designed to ensure that information is identified, captured and communicated in a form and timeframe that enable employees and managers to fulfill their responsibilities. Examples of information and communication in Epiroc are: Group policies and guidelines communicated through The Epiroc Way (intranet), business review meetings and trainings.

## 5. Monitoring

Ongoing and specific evaluations are carried out to ascertain that the five components of Epiroc's internal control framework are functioning. Epiroc's monitoring activities include independent internal audits, review of balance sheet accounting reconciliations, reviews of financial information and financial performance and monthly management meetings among others. Observations of suspected deficiencies are evaluated and are communicated in a timely manner. Deficiencies of material importance are reported to the Group Management team, the Audit Committee or the Board of Directors.





Key financial reporting risks	Control activities
<p>Revenues are not recognized in the appropriate accounting period</p>	<ul style="list-style-type: none"> <li>• Customer contracts are signed at appropriate level within the Group.</li> <li>• Revenues are disaggregated and analyzed by type (e.g. goods and services) and by period at local, division and Group level.</li> <li>• Revenues for goods shipped are scrutinized at period end against transfer of controls and the fulfillment of performance obligation for services and projects are assessed at each reporting date.</li> </ul>
<p>Inventory is not appropriately valued at the lower of cost or net realizable value</p>	<ul style="list-style-type: none"> <li>• Inventory counts are performed on a regular basis.</li> <li>• Inventories are appropriately reconciled at each reporting date.</li> <li>• Inventory costs and productions variances are reviewed and approved by the divisions and net realizable values are compared to carrying values to identify need for adjustments of inventory values.</li> <li>• Inventory levels and saleability of inventory are assessed at each reporting date together with obsolescence.</li> </ul>
<p>Income taxes are not accounted for in accordance with applicable tax legislation</p>	<ul style="list-style-type: none"> <li>• Tax calculations are prepared and reviewed at each reporting date.</li> <li>• The effective tax rate for each company is analyzed at each reporting date by Group Tax.</li> <li>• Compliance with transfer pricing policies is monitored regularly.</li> <li>• Ongoing tax audits and disputes are monitored and provision levels are evaluated by Group tax specialists.</li> </ul>
<p>Provision for bad debt is not calculated based on Group's guidelines</p>	<ul style="list-style-type: none"> <li>• A strong process and tools are in place for collection of accounts receivable.</li> <li>• Bad debt provision calculation guidelines are available in the Group's intranet.</li> <li>• Bad debt provision needs are recalculated and booked during each reporting cycle.</li> <li>• Balance sheet reviews are conducted to ensure the entity has followed Group guidelines when calculating provisions.</li> </ul>
<p>Journal entries are not accurate or supported</p>	<ul style="list-style-type: none"> <li>• Journal entries are prepared and supported by sufficient documents.</li> <li>• Reviews and approvals of journal entries are in place.</li> <li>• Access to financial transactions is restricted to appropriate personnel.</li> <li>• Balance Sheet reconciliations are done on a regular basis.</li> </ul>
<p>Reporting processes and procedures are not well documented</p>	<ul style="list-style-type: none"> <li>• A documented manual of the business system and financial system used exist and is updated accordingly.</li> <li>• Period end closing checklists exist, are maintained and used for financial reporting tasks. Management reviews the completed checklists on a timely basis.</li> </ul>
<p>Implementation of new IFRS standards is not done accordingly</p>	<ul style="list-style-type: none"> <li>• New IFRS standards applicable to Epiroc are known prior to their effective date.</li> <li>• Group Financial Reporting leads the implementation of new IFRS standards and sets a plan for all levels impacted.</li> <li>• Training for local finance teams is done.</li> <li>• Group guidelines are updated to reflect the requirements for the new IFRS standards.</li> </ul>

***The auditor's examination of the corporate governance statement***

The Board of Directors is responsible for that the corporate governance statement on pages 56–64 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Deloitte AB, was appointed auditor of Epiroc AB by the annual general meeting of the shareholders on April 25, 2018 and has been the company's auditors since June 17, 2010.

Stockholm, March 1, 2019

Deloitte AB

**Thomas Strömberg**

*Authorized Public Accountant*