

Corporate Governance Report 2013

Elos AB is a Swedish limited liability company, whose Series B share is listed on the NASDAQ OMX Stockholm AB Small Cap. Elos AB is classified under the Health Care segment.

Corporate governance at Elos is based on Swedish legislation and the listing agreement with NASDAQ OMX Stockholm AB. Elos is governed via the general meetings of shareholders, the Board of Directors and the President in accordance with the Swedish Companies Act and the company's Articles of Association and rules of procedure. The currently applicable Articles of Association are available from the Elos website, www.elos.se, under the heading Financial information. From 1 July 2008, all companies whose shares are registered for trading on a regulated market are to apply the Swedish Corporate Governance Code (the "Code"). Accordingly, Elos has applied the Code from this date.

General meetings of shareholders

Shareholders exercise their right to make decisions on the company's affairs at general meetings. The Annual General Meeting (AGM) is held within six months of the end of the financial year. Elos's 2014 AGM will be held on 29 April in Lidköping.

At the AGM, all shareholders who are registered and have notified their intention to participate at the Meeting, can vote in relation to their shareholdings. A number of key issues are addressed at the AGM, for example, adoption of the company's income statement and balance sheet for the preceding year, discharge from liability for the Board, election of Board directors and auditors and remuneration of the Board and auditors.

All shareholders are entitled to submit motions for resolution to the AGM. In order for the company to have sufficient time to include such motions in the notice of the AGM, a request must be submitted not later than six weeks prior to the Meeting.

Nomination Committee

At the 2013 AGM, it was resolved that the Nomination Committee was to comprise one representative for each of the three largest shareholders – in terms of number of votes on 30 September every year – and one representative for other shareholders. The task of the Nomination Committee ahead of the 2014 AGM is to submit proposals concerning nomination of the Chairman of the AGM and the Chairman of the Board, the number of Board directors and election of Board directors, the election of auditors and resolutions concerning Board fees, remuneration for Committee work and auditors' fees.

The Nomination Committee ahead of the 2014 AGM comprises Agneta Bengtsson Runmarker, Bo Nilsson and Thomas Öster as representatives of the three largest shareholders and Bengt Belfrage as the representative for other shareholders. The Chairman is Bengt Belfrage.

Board of Directors

In accordance with Elos's Articles of Association, the Board is to comprise no fewer than three and no more than ten directors. The Elos Board of Directors comprised seven directors during the 2013 financial year. The President is a director of the Board.

The Board's work

Under the provisions of the Companies Act, the Board is to adopt a formal plan for its work every year, comprising instructions for the divisions of work within the Board, the division of responsibilities between the Board and the President and the financial reporting to the Board. During the year, the Board held six scheduled meetings, in addition to the statutory meeting. At these meetings, the Board discussed fixed agenda items for the respective meetings, such as status of the business, budget, year-end accounts and interim reports. Issues relating to investments, structural and organisational changes were also addressed.

The Chairman of the Board is responsible for ensuring that the Board continuously expands its knowledge of the company, that the Board's work is evaluated every year and that the Nomination Committee studies the evaluation results. The Chairman participates in the evaluation of the CEO, President and other senior managers.

Work of the Board's Committees

The Board has a Remuneration Committee and an Audit Committee. The Remuneration Committee discusses and decides on remuneration of the President and senior managers who report directly to the President. The Remuneration Committee comprises Stig-Arne Blom, Göran Brorsson, Agneta Bengtsson Runmarker and Erik Löwenadler. The Remuneration Committee has held one meeting since the 2013 AGM.

The Audit Committee comprises Stig-Arne Blom, Jeppe Magnusson, Mats Nilsson and Thomas Öster

(all of whom possess accounting expertise). The Committee has held two meetings since the 2013 AGM, at which the company's auditors participated. Issues concerning accounting, internal control and IT security were discussed at the meetings.

Remuneration of senior managers

The 2013 AGM resolved on guidelines for remuneration of and other terms of employment for senior managers. **More information about these guidelines can be found in the Annual Report on page 19 and in Note 1 on page 34.** (Tas ej med i den engelska)

Auditors

Öhrlings PricewaterhouseCoopers AB were re-elected as the company's auditors at the 2013 AGM until the conclusion of the 2014 AGM, with Authorised Public Accountant Bror Frid as Auditor in Charge. The elected auditors participate at the AGM and describe their audit work and observations made.

Internal control

Under the Swedish Companies Act and the Swedish Corporate Governance Code, the Board is responsible for the internal control. The section below describes how the internal control over the financial reporting is organised. Elos's financial reporting follows the laws and rules applicable to companies listed on the Stockholm Stock Exchange and the local regulations that apply in each country in which operations are conducted. In addition to external rules and recommendations, internal instructions, guidelines, systems and internal divisions of roles and responsibilities are in place to ensure a high level of internal control in the financial reporting.

Control environment

The basis of internal control comprises the overall control environment, with organisation, decision-making channels, authorities and responsibilities that are documented and communicated. Some of the most important components of the control environment are documented in the form of policies, for example, the Management Policy, the Authorisation and Decision-Making Policy, the Finance Policy and instructions in the form of, for example, the Financial Manual.

Risk management

Elos has noted that the most material risks in the financial reporting, in addition to financial risks, are deemed to be goodwill, inventories and accounts receivables. These may lead to misstatements in the financial reporting and/or impact the company's earnings, unless handled correctly. The company has subsequently identified that the Group has systems for ensuring that efficient risk management is in place.

Control activities

The internal control is ensured on the basis of both automated controls in, for example, IT-based systems that handle authorisations and authorisation rights, and manual controls in the form of, for example, reconciliations and stocktaking. The detailed economic analyses of results and follow-ups against budgets and forecasts that are continuously made throughout the year can also be viewed as a supplement to other controls and provide overall confirmation of the quality of the reporting.

Information and communication

Significant accounting policies, manuals, etc. of importance to the financial reporting are continuously updated and communicated to relevant employees. There is an Information Policy for external communication that ensures that the company complies with the applicable requirements for providing the correct information to the market.

Monitoring

Finance personnel and management at both company and Group level conduct detailed monthly analyses of the financial reporting. The Board continuously evaluates the financial information provided by management and studies the auditors' reports on observations made.

Internal audit

The Board monitors the company's assessment of the internal control, for example, through contact with the company's auditors. Considering the size of the Group, the Board has decided not to appoint a separate internal auditor at the current time.

Ownership structure

At year-end 2013, Elos AB's share capital amounted to SEK 37.8 M. The share capital is divided into Series A and Series B shares. Apart from Series A shares each carrying one vote and Series B shares one-tenth of a vote, there is no distinction as regards the rights of the different share series in the company. The Series B share is listed on the NASDAQ OMX Stockholm, while the Series A share with

stronger voting rights is not listed.

The total share capital of 6,051,000 shares was distributed between 1,099,740 Series A shares and 4,951,260 Series B shares. In 2013, no Series A shares were converted into Series B shares. The number of shareholders on 31 December 2013 was 1,468 (1,471). The ten largest shareholders hold shares equivalent to 56.1% of the share capital and 83.4% of the votes.

Auditors' statement on the Corporate Governance Report

To the Annual General Meeting of Elos AB (publ), Corp. Reg. No. 556021-9650

It is the Board of Directors who is responsible for the Corporate Governance Report for Elos AB (publ) for the year 2013 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the Group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report 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.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 20 February 2014.

Öhrlings PricewaterhouseCoopers AB

Bror Frid

Authorised Public Accountant