

## Corporate governance report 2015

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

Corporate governance at Elos Medtech is based on Swedish legislation and the listing agreement with NASDAQ Stockholm AB. The governance of Elos Medtech is effected via general meetings of shareholders, the Board of Directors and the CEO in accordance with the Swedish Companies Act and in accordance with the company's Articles of Association and rules of procedure. The currently applicable Articles of Association are available from the Elos Medtech website, [www.elosmedtech.com](http://www.elosmedtech.com), under the heading IR/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 Medtech has applied the Code from this date. Adaptations to the revised Code, which came into effect on 1 November 2015, were implemented during the year and are included in the description below.

### General meetings of shareholders

The shareholders' entitlement to make decisions influencing the company's affairs is exercised at general meetings of shareholders. The Annual General Meeting (AGM) is held within six months of the end of the financial year. Elos Medtech's 2016 AGM will be held on 26 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, such as adoption of the company's income statement and balance sheet for the preceding year, discharge from liability for the Board, election of Board members and auditors and remuneration of the Board and auditors, as well as other matters according to the Swedish Companies Act and the Articles of Association. 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 AGM.

The 2015 AGM authorised the Board during the period through the close of the next AGM to make decisions on one or more occasions to increase the company's share capital by a maximum of SEK 3,750,000 through new issues of not more than 600,000 Class B shares and/or convertible shares exchangeable for not more than 600,000 Class B shares. The authorisation to make decisions concerning new share issues was intended to create opportunities for the company to acquire all or parts of other companies. Full exercise of the authorisation corresponds to approximately 9 per cent of the total number of shares. No decisions concerning new share issues were made during 2015.

The 2015 AGM also resolved to approve the Board of Directors' motion regarding a change in the company's registered name to Elos Medtech AB and to complement the description of operations by adding "injection moulding of thermoplastics".

### Nomination Committee

At the 2015 AGM, it was resolved that the Nomination Committee is to comprise a minimum of four and a maximum of six members, of whom one is to be the Chairman of the Board. Other members are to be elected, by the end of August, by the three largest shareholders in terms of voting rights in the company, and thereafter by the largest shareholders in terms of capital. Should one shareholder decline to elect a member, the right to elect a member will transfer to the next shareholder in line in terms of voting rights. The Chairman of the Nomination Committee is to represent the largest shareholder in terms of voting rights on the Nomination Committee unless the Nomination Committee unanimously decides to elect someone else. When appointing the Nomination Committee, the regulations stipulated in the Items 2.2, 2.3 and 2.4 of the Swedish Code of Corporate Governance (the Code) must be followed, entailing that

no member of company management may be a member of the Nomination Committee, that Board members are not to comprise a majority and that a maximum of one Board member may be dependent in relation to any of the company's major shareholders. Before accepting the assignment, a prospective member of the Nomination Committee should carefully consider whether a conflict of interest prevails.

Prior to the 2016 AGM, the Nomination Committee's task is to submit proposals for the election of the Chairman of the AGM, the number of Board members and auditors, fees to be paid to the Board members and remuneration for committee work, as well as fees for auditors, election of Board members, proposal for Chairman of the Board and election of auditors. In addition, the Nomination Committee is to submit proposals concerning duties and principles for the Nomination Committee.

When assessing the evaluation of the Board of Directors and in its proposal according to Item 4.1, the Nomination Committee must particularly take into account the requirement of versatility and breadth on the Board of Directors and endeavour to achieve an even gender distribution.

Prior to the 2016 AGM, the Nomination Committee comprises Bo Nilsson, Ulf Runmarker and Thomas Öster representing the three largest shareholders, Stig-Arne Blom (Chairman of the Board) and Bengt Belfrage representing other shareholders. The Chairman of the Nomination Committee, appointed by the Nomination Committee, is Bengt Belfrage.

### **Board of Directors**

The Board of Directors has overall responsibility for the organisation, administration and management of the Elos Medtech Group's operations in the interests of the company and the shareholders. The Board determines the Group's overall objectives, strategies and policies, as well as acquisitions, divestments and investments according to the current attestation and decision-making regulations for investments and development projects.

Other duties include:

- establishing necessary guidelines for the company's conduct in society in order to safeguard its long-term value-generation capability
- ensuring the existence of effective systems for the follow-up and control of the company's operations, and the risks for the company to which its operations are associated
- ensuring the existence of satisfactory controls of the company's compliance with laws and other regulations governing the company's operations, as well as the company's compliance with internal guidelines.

According to Elos Medtech's Articles of Association, the Board is to consist of no fewer than three and no more than ten members. During the 2015 financial year, the Elos Medtech Board of Directors had six members.

### **The Board's work**

In accordance with the stipulations of the Swedish Companies Act, the Board of Directors annually adopts rules of procedure for its work in respect of the division of duties within between the Board, the division of duties between the Board and the CEO and financial reporting to the Board. During the year, the Board held six scheduled meetings, in addition to the statutory meeting, plus two unscheduled meetings, of which one was held by conference phone. At these meetings, the Board discussed standing items on the agenda of 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, including the acquisition of Onyx Medical LLC, which was completed on 23 April 2015.

The Chairman of the Board is responsible for ensuring that the Board continuously expands its knowledge of the company and that the Board's work is evaluated every year with a view to developing the work formats and efficiency of the Board. The Nomination Committee held personal discussions with each member of the Board, during which the Board of Directors' work

processes, competencies and composition were addressed, including evaluations of the Board members' background, experience and diversity. The observations were subsequently presented to the Board. The Chairman participates in the evaluation of the CEO/President and other senior managers.

<b>Name Board member</b>	<b>Represents percentage of votes</b>	<b>Attended total Board meetings to the company</b>	<b>Independent in relation to the company</b>	<b>Independent in in relation to major shareholders</b>
Agneta Bengtsson Runmarker	20.0 %	9/9	Yes	No
Stig-Arne Blom (Chairman)		9/9	Yes	Yes
Göran Brorsson*		4/4	No	Yes
Erik Löwenadler*		4/4	Yes	Yes
Jeppe Magnusson		9/9	Yes	Yes
Yvonne Mårtensson**		5/5	Yes	Yes
Mats Nilsson	16.9%	9/9	Yes	No
Thomas Öster	25.2%	9/9	Yes	No

\*) Stepped down in connection with the 2015 AGM.

\*\*\*) Elected to the Board in connection with the 2015 AGM.

Additional information concerning each member of the Board, and the CEO, is available on the website and in the annual report, pages 50.

### **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 CEO and senior managers who report directly to the CEO. The members of the Remuneration Committee are Stig-Arne Blom, Yvonne Mårtensson and Mats Nilsson. The Remuneration Committee has held one meeting since the 2015 AGM.

The Audit Committee comprises Agneta Bengtsson Runmarker, Jeppe Magnusson and Thomas Öster (all of whom possess accounting expertise). The Committee has held one meeting since the 2015 AGM, at which the company's auditor participated. Issues concerning accounting, acquisitions, internal control and IT security were discussed at the meeting.

### **Remuneration of senior managers**

The 2015 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 2 on page 32.

### **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 Medtech'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 key components of the control environment are documented in the form of policies, such as the Management Policy, the Attestation and Decision-Making Policy,

the Finance Policy and principles and manuals concerning financial reporting and accounting, which are distributed on an ongoing basis to the subsidiaries.

#### *Risk management*

Elos Medtech has noted that the most material risks associated with the financial reporting, in addition to financial risks, are deemed to be goodwill, inventories and accounts receivables. If not handled correctly, these may lead to misstatements in the financial reporting and/or impact the company's earnings. The company has identified that the Group has systems for ensuring that efficient risk management is in place. These systems include procedures for reporting, following up and analysing at both Group and subsidiary level. The company's financial reporting occurs through a Group-wide reporting system featuring predefined templates and built-in control functions.

#### *Control activities*

The internal control is safeguarded 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*

Financial departments and management at both company and Group level conduct detailed monthly analyses of the financial reporting. During the year, staff in the finance departments met twice to review improvements and changes to the financial reporting, including follow-ups of compliance with the Group's policies. The Board continuously evaluates the financial information provided by management and studies the auditors' reports on observations made.

#### *Internal audit*

The Board is responsible for ensuring that the company has efficient internal control which, in addition to the financial statements, also includes ensuring that reports are prepared in compliance with laws, applicable accounting standards and other requirements placed on listed companies. The Board monitors the company's assessment of the internal control, for example, through contact with the company's auditors. The Board annually assesses the need of a special audit function (internal auditor) in relation to the size of the Group, and that reporting to the Board proceeds in a satisfactory manner; the Board has decided not to appoint a separate internal auditor at the current time and that the work of internally auditing the Group's subsidiaries be managed by the finance department via the head office.

#### **External auditor**

Öhrlings PricewaterhouseCoopers AB was re-elected as the company's auditor at the 2015 AGM until the close of the 2016 AGM, with Authorised Public Accountant Bror Frid as Auditor in Charge.

The elected auditor participates in the AGM and describe the audit work performed and observations made.

#### **Ownership structure**

At year-end 2015, Elos Medtech AB's share capital amounted to SEK 37.8 M. The share capital is divided into Class A and Class B shares. Apart from the fact that Class A shares each carry one vote and Class B shares carry one-tenth of a vote, there is no distinction as regards the rights of the different share series in the company. The Class B shares are listed on the

NASDAQ Stockholm AB, while the Class A shares carrying stronger voting rights are not listed.

The total share capital of 6,051,000 shares was distributed between 1,099,740 Class A shares and 4,951,260 Class B shares. In 2015, no Class A shares were converted into Class B shares.

The number of shareholders on 31 December 2015 was 1,786 (1,534). The ten largest shareholders hold shares equivalent to 58.0% of the share capital and 84.0% of the votes.

The shareholders who directly or indirectly have shareholdings in the company representing at least one-tenth of the votes for all shares in the company are as follows:

	<b>Class A shares</b>	<b>Class B shares</b>	<b>Total shares</b>	<b>% of votes</b>
<b>Öster Family incl. companies</b>	378,826	232,564	611,390	25.2
<b>Runmarker Family</b>	297,946	207,870	505,816	20.0
<b>Nilsson Family</b>	260,880	93,517	354,397	16.9

More detailed information about the share and ownership structure is available on pages 4-5 of the Annual Report.

Lidköping, 24 February 2016

Stig-Arne Blom  
*Chairman of the Board*

Agneta Bengtsson Runmarker  
*Board member*

Jeppe Magnusson  
*Board member*

Yvonne Mårtensson  
*Board member*

Mats Nilsson  
*Board member*

Thomas Öster  
*Board member*

Our Auditor's Opinion was submitted on 15 March 2016

Öhrlings PricewaterhouseCoopers AB

Bror Frid  
*Authorised Public Accountant*



## AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the annual meeting of the shareholders in Elos Medtech AB (publ) corporate identity number 556021-9650

### *Engagement and responsibility*

We have audited the corporate governance statement for the year 2015 on pages x–y. It is the board of directors who is responsible for the corporate governance statement and that it has been prepared in accordance with the Annual Accounts Act. My responsibility is to express an opinion on the corporate governance statement based on my audit.

### *The scope of the audit*

We conducted my audit in accordance with Fars auditing standard RevU 16 The auditor's examination of the corporate governance statement. That standard require that We have planned and performed the audit to obtain reasonable assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the corporate governance statement. We believe that our audit procedures provide a reasonable basis for our opinion set out below.

### *Opinion*

In our opinion, the corporate governance statement has been prepared and is consistent with the annual accounts and the consolidated accounts.

Göteborg 15 March 2016

Öhrlings PricewaterhouseCoopers

Bror Frid  
Authorized Public Accountant