

**Corporate governance report 2014**

Elos AB is a Swedish limited liability company, whose Class B share is listed on NASDAQ OMX Stockholm AB, Small Cap. In terms of sectors, Elos AB is classified as a Health Care company.

Corporate governance at Elos is based on Swedish legislation and the listing agreement with NASDAQ OMX Stockholm AB. The governance of Elos 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 current Articles of Association are available on the Elos website, [www.elos.se](http://www.elos.se) under the heading Investor Relations/Financial information. As of 1 July 2008, all companies whose shares are registered for trading on a regulated market must apply "the Swedish Corporate Governance Code". Accordingly, Elos has applied "the Code" since that date.

**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) must be held in Stockholm within a period of six months from the end of the financial year. Elos' 2015 AGM will be held on 27 April in Lidköping.

At the AGM, all shareholders who are registered and who have notified their intention to attend the AGM may vote in proportion to the shares they hold. 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, the discharge of board members and the CEO from personal liability, election of board members and auditors and remuneration of board members and auditors.

All shareholders are entitled to have a matter addressed at the AGM. To ensure that there is time to have such matters included in the official notification, a request must be in the possession of the company no later than six weeks prior to the AGM.

**Nomination Committee**

At the 2014 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 September, 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 2.3 and 2.4 of the Swedish Code of Corporate Governance (the Code) must be followed, entailing that no member of company management is to 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 one of the company's major shareholders. Prior to the 2015 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.

Prior to the 2015 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

According to Elos' Articles of Association, the Board is to consist of no fewer than three and no more than ten members. During the 2014 financial year, the Elos Board of Directors had seven members. The Chief Executive Officer was a member of the Board.

## 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 seven unscheduled meetings, of which three were held by conference phone. At these meetings, the Board discussed standing items on the agenda 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.

Name Board member	Represents percentage of votes	Attended total meetings	Independent in relation to the company	Independent in relation to major shareholders
<b>Agneta Bengtsson</b>				
Runmarker	20.0 %	12/13	Yes	No
Stig-Arne Blom (Chairman)		13/13	Yes	Yes
Göran Brorsson		13/13	No	Yes
Erik Löwenadler		11/13	Yes	Yes
Jeppe Magnusson	17.0%	13/13	Yes	Yes
Mats Nilsson	25.2%	13/13	Yes	No
Thomas Öster	25.2%	13/13	Yes	No

## 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 Remuneration Committee comprises Stig-Arne Blom, Göran Brorsson, Agneta Bengtsson Runmarker and Erik Löwenadler. The Remuneration Committee has held three meetings since the 2014 AGM.

The Audit Committee comprises Jeppe Magnusson, Mats Nilsson and Thomas Öster (all of whom possess accounting expertise). The Committee has held one meeting since the 2014 AGM, at which the company's auditor participated. Issues concerning accounting, internal control and IT security were discussed at the meeting.

## Remuneration of senior managers

The 2014 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 printed Annual Report on page 19 and in Note 2 on page 32.

## Auditors

Öhrlings PricewaterhouseCoopers AB was re-elected as the company's auditors at the 2014

AGM until the close of the 2015 AGM, with Authorised Public Accountant Bror Frid as Auditor in Charge.

The elected auditor participates at the AGM and describes his/her audit work and observations made.

### **Internal control**

Under the Swedish Companies Act and the Swedish Corporate Governance Code, the Board is responsible for internal control of the company. The section below describes how the internal control over the financial reporting is organised. Elos' financial reporting complies with 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. A number 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 instructions in the form of, for example, the Financial Manual.

#### *Risk management*

Elos 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 could 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 financial 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 control personnel and management at both company and Group level conduct detailed monthly analyses of the financial statements. 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, in part 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 2014, Elos 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 class in the company. The Class B share is listed on the NASDAQ OMX Stockholm, 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. No Class A shares were converted into Class B shares in 2014.

The number of shareholders on 31 December 2014 was 1,534 (1,468). The ten largest shareholders hold shares equivalent to 56.0% of the share capital and 83.4% 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</b>				
<b>incl. companies</b>	378,826	232,659	611,485	25.2
<b>Runmarker Family</b>	297,946	201,180	499,126	20.0
<b>Nilsson Family</b>	260,880	102,627	363,507	17.0

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

Lidköping, 18 February 2015

Stig-Arne Blom  
*Chairman of the Board*

Agneta Bengtsson Runmarker  
*Board member*

Erik Löwenadler  
*Board member*

Mats Nilsson  
*Board member*

Jeppe Magnusson  
*Board member*

Thomas Öster  
*Board member*

Göran Brorsson  
*Board member*

Johannes Lind-Widestam  
*Chief Executive Officer*

Our Auditor's Opinion was submitted on 27 February 2015

Öhrlings PricewaterhouseCoopers AB

Bror Frid  
*Authorised Public Accountant*