

# CORPORATE GOVERNANCE REPORT

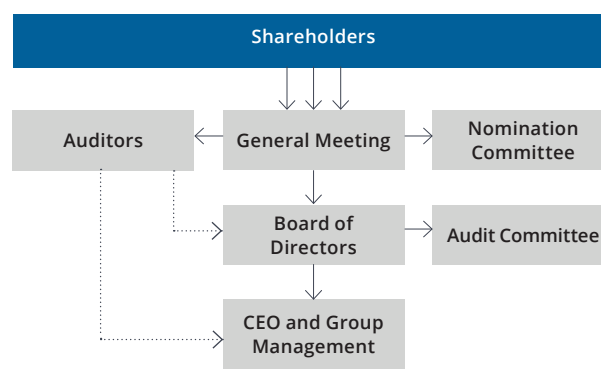
Elos Medtech AB (publ.), Organization no.: 556021-9650

Elos Medtech AB is a Swedish limited company whose Class B share is listed on NASDAQ Stockholm AB Small Cap. Elos Medtech AB is sector classified as a Health Care company. Elos Medtech's corporate governance is based on Swedish legislation and the listing agreement with NASDAQ Stockholm AB. The governance of Elos Medtech takes place via the General Meeting of shareholders, the Board of Directors and the CEO in accordance with the Swedish Companies Act and the company's Articles of Association and work plan. The current Articles of Association are available on the Elos Medtech website, [www.elosmedtech.com](http://www.elosmedtech.com) under the heading IR/Financial info. Elos Medtech applies the Swedish Corporate Governance Code.

The term corporate governance usually refers to the rules and structure that are built up to govern and manage a limited company in an efficient and controlled manner. Governance and control of Elos Medtech is divided between shareholders at the Annual General Meeting, the Board of Directors and the CEO, and is regulated in legislation (including the Companies Act), the company's Articles of Association, Nasdaq Stockholm's rules for issuers and the Swedish Code of Corporate Governance. The code is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se).

In addition to legal control and governance principles, Elos Medtech is also affected by a number of internal control documents such as instructions and the work plan for the CEO and the Board, as well as internal policies and guidelines.

## Overall governance structure for Elos Medtech



## Shareholders

At year-end 2018, Elos Medtech AB's share capital amounted to SEK 50.4 million. The share capital is divided into Class A and Class B shares. Except that the Class A shares are eligible for one vote and the B share to one tenth of a vote, there is no difference in the different series of shares in the company. The Class B shares are listed on NASDAQ Stockholm AB, while the voting-strong Class A share is not quoted.

In total, the share capital is distributed over 8,068,000 shares, of which 1,099,740 are Class A shares and 6,968,260 are Class B shares. In 2018, no Class A shares were converted into Class B shares.

The number of shareholders on December 31 2018 was 1,670 (1,672). The ten largest shareholders hold shares corresponding to 68.4 percent of the share capital and 84.4 percent of the votes.

## The largest shareholders in Elos Medtech AB (publ.), 12/31/2018:

	A shares	B shares	Total	% of share capital	% of votes
Öster family incl. company	378,826	436,609	815,435	10.1	23.5
Runmarker family	297,946	218,900	516,846	6.4	17.8
Nilsson Family	260,880	157,508	418,388	5.2	15.4
Kent Molin and family	136,000	263,999	399,999	5.0	9.1
Nordea Investment Funds	-	1,202,535	1,202,535	14.9	6.7
Svolder Limited Company	-	924,259	924,259	11.5	5.2
HealthInvest Partners AB	-	391,031	391,031	4.8	2.2
Ulrika Erlandsson	26,088	105,101	131,189	1.6	2.0
Magledal Holding APS	-	240,533	240,533	3.0	1.3
Nordnet Pensionsförsäkring AB	-	213,504	213,504	2.6	1.2
Other	-	2,550,282	2,550,282	31.6	15.6
<b>Total</b>	<b>1,099,740</b>	<b>6,968,260</b>	<b>8,068,000</b>	<b>100.0</b>	<b>100.0</b>

Source: Euroclear AB

More detailed information about the share and ownership structure can be found on pages 12–13 of the printed annual report.

### Articles of Association

The Articles of Association of Elos Medtech stipulate that the company shall operate primarily within the business areas of medical technology, fine mechanical engineering, industrial electronics, injection molding of thermoplastics and asset management, as well as managing movable and immovable property and operating other compatible activities. The Board of Directors is based in Gothenburg, Sweden. The annual general meeting shall be held in either Lidköping, Skara, Skövde, Gothenburg or Stockholm. The Articles of Association contain provisions on, inter alia, the number of shares, change of ownership of class A shares, number of Board members and auditors and the annual general meeting. The Articles of Association in their entirety are available for download at [www.elosmedtech.com](http://www.elosmedtech.com).

### General Meeting

The shareholders' right to make decisions regarding the company's affairs is exercised at the annual general meeting, which is the highest decision-making body in Elos Medtech. The annual general meeting (AGM) is to be held within six months of the end of the financial year. At the AGM, all shareholders can participate who are registered and have reported their interest in participating, and can vote in relation to their shareholdings. At the annual general meeting, a number of central issues are addressed, such as the adoption of the company's income statement and balance sheet for the past year including allocation of the company's profit, discharge from liability for the Board, election of the Board and auditors, remuneration to the Board and auditors, the composition of the Nomination Committee and other issues according to the Swedish Companies Act and the Articles of Association. Changes to the Articles of Association also require resolutions at the annual general meeting. All shareholders have the right to have matters dealt with at the annual general meeting. In order for such matters to be able to be included in the notice in time, the request must be submitted to the company no later than six weeks before the annual general meeting. Notice of the annual general meeting will be published no earlier than six and no later than four weeks before the meeting. Elos Medtech's Annual General Meeting for 2019 will be held on April 23 2019 in Gothenburg, Sweden.

#### *Annual General Meeting 2018*

Elos Medtech's Annual General Meeting took place on April 24 2018 in Gothenburg. At the AGM, 35 shareholders, in person or by proxy, attended. These represented approximately 60 percent of the total votes. The company's Board of Directors, Nomination Committee and auditors were present at the AGM.

The minutes of the AGM were presented on the company's website within one week of the meeting. The material from the meeting, such as summons, minutes and information about the nomination committee can be found on the company's website.

#### *Extraordinary General Meeting*

At an extraordinary general meeting on December 15 2017, the meeting authorized the Board, on one or more occasions before

the next annual general meeting, to decide on a rights issue of Class B shares. The issue under the authorization was intended to enable investments. On February 19 2018, the Board decided on a rights issue of 2,017,000 new class B shares. The share issue amounted to approximately SEK 101.5 million in new capital after issue costs.

### Nomination Committee

The Nomination Committee's main task is to give the AGM a proposal on the composition of the board, which is then decided by the AGM. The work of the Nomination Committee begins by taking note of the evaluation of the Board's work that the board has done. The Nomination Committee's work then forms discussions to achieve a well-balanced board. The Nomination Committee then nominates members to the Board for the next term and submits proposals to the Board of Directors' and auditors' remuneration and, where applicable, the election of the auditor.

#### *Nomination Committee for the 2019 Annual General Meeting*

At the 2018 AGM, it was resolved that the Nomination Committee would consist of at least three and at most five members of whom one shall be the Chairman of the Board. The other members shall be appointed by the three largest shareholders in the company by votes as of the end of the month of August and in addition to this by the largest shareholder in terms of the share of capital. If a shareholder refrains from appointing a member, the right to appoint a member transfers to the next following shareholder. The chairman of the Nomination Committee shall be the person who at the formation of the Nomination Committee represents the largest shareholder by votes insofar as the Nomination Committee does not unanimously decide to appoint another. In the appointment of the Nomination Committee, the rules of the Swedish Corporate Governance Code (the Code) shall be observed, 2.2, 2.3 and 2.4, including that no member of company management may be in the Nomination Committee and that Board members shall not constitute a majority in it, and that a maximum of one included Board member may be dependent in relation to one of the company's major shareholders. If a member is appointed by a certain owner, the name of the owner shall be indicated. A Nomination Committee member shall consider carefully where or not there is a conflict of interest before accepting the assignment.

The Nomination Committee's task for the 2019 AGM is to submit proposals on the election of the Meeting chairperson, the number of Board members and auditors, Board and committee fees and fees for the auditors, election of Board members, propose the Chairman of the Board and the election of auditors. In addition, the Nomination Committee shall submit proposals regarding tasks and principles for the Nomination Committee.

The Nomination Committee shall in the assessment of the Board's evaluation and in its proposal in accordance with 4.1 pay particular attention to the requirement of diversity and breadth in the Board and of striving for an even gender balance.

The Nomination Committee for the 2018 AGM consisted of Bo Nilsson, Ulf Runmarker and Thomas Öster who represent the

three largest shareholders, as well as Bengt Belfrage as representative for the largest shareholder in terms of the share of capital. Yvonne Mårtensson (Chairman of the Board) and ULF Hedlundh were called in to the nomination committee. The Chairman of the Nomination Committee, appointed by the Committee, is Yvonne Mårtensson.

Prior to the 2019 annual general meeting, the composition of the Nomination Committee was announced on October 4 in a separate press release in accordance with a decision by Elos Medtech AB's 2018 annual general meeting. The following persons have represented the largest shareholders: Bengt Belfrage on Nordea Fonder's mandate, Svante Nilsson on the Nilsson family's mandate, Ulf Runmarker on the Runmarker family's mandate, Thomas Öster on the Öster family's mandate and Ulf Hedlundh on Svalder's mandate. In addition, the Chair of the Board Yvonne Mårtensson has been co-opted to the Nomination Committee. Bengt Belfrage has been Chair of the Nomination Committee.

The Nomination Committee has taken note of the evaluation of the Board's work, as well as assessed and evaluated the Board's competence and composition, including the background and experience of the Board members in relation to the company's strategy and development plans.

The Nomination Committee has had seven meetings before the 2019 meeting. The Nomination Committee's proposal is presented in the notice of the 2019 annual general meeting and is also available on the company's website.

### Board of Directors

The Board of Directors bears the overall responsibility for the organization, administration and management of the Elos Medtech Group's operations in accordance with the company's and shareholders' interests. The Board of Directors decides on the Group's overall objectives, strategies and policies and acquisitions, divestments and investments according to the current authorization and decision procedures for investments and development projects.

Included among its other tasks are to:

- establish requisite guidelines for the company's conduct in society with the aim of ensuring its long-term value creation capacity
- ensure that there are effective systems for follow-up and control of the company's operations and the risks to the company that its operations are associated with
- ensure that there is a satisfactory control of the company's compliance to laws and other rules that apply to the company's operations and the company's compliance to internal guidelines.

The board is appointed by the shareholders at the AGM with a term of office from the AGM until the end of the next AGM. According to Elos Medtech's Articles of Association, the Board shall consist of a minimum of three and a maximum of ten members.

### Chairman of the Board

Since 2017, Elos Medtech's Board of Directors has been led by Chair of the Board Yvonne Mårtensson. The Chairman of the Board is appointed by the AGM. The Chair of the Board organizes and directs the work of the board, ensures that the board continuously deepens its knowledge of the company, communicates views from the owners and supports the CEO. The Chair of the Board and the CEO prepare proposals for the agenda for Board meetings. It is the Chair who is responsible for ensuring that the Board's decisions are implemented effectively, and that the work of the Board is evaluated annually and that the Nomination Committee is informed of the results of the evaluation.

### The Board's work plan

In accordance with the provisions of the Swedish Companies Act, the Board establishes a formal work plan for its work every year including instructions regarding the division of duties within the Board, the division of responsibilities between the Board and the CEO and financial reporting to the Board.

### Evaluation of the Board of Directors and CEO

The Chairman of the Board is responsible for the Board continuously deepening its knowledge of the company and that the Board's work is evaluated annually with the aim of developing the Board's ways of working and efficiency. This year's evaluation, a web-based survey, went out to all Board members. The result was presented to the Board and the Nomination Committee.

During the year, the Nomination Committee has communicated with the Board members through a questionnaire where the Board's work processes, expertise and composition, including the Board members' background, experience and diversity have been evaluated. The observations have then been presented to the Board. The Chair is involved in the evaluation of the CEO and other senior executives.

### Composition of the Board

During the 2018 fiscal year, Elos Medtech's Board of Directors consisted of seven members until the 2018 Annual General Meeting and thereafter six members.

At the 2018 Annual General Meeting, Yvonne Mårtensson, Agneta Bengtsson Runmarker, Anders Birgersson, Jeppe Magnusson, Mats Nilsson and Jon Risfelt were re-elected. Thomas Öster resigned as a Board member. Yvonne Mårtensson was re-elected as Chair of the Board. A presentation of each member can be found in the annual report on page 57 and on the company's website.

### The work of the Board of Directors in 2018

The Board of Directors has been involved in and followed up on the strategy developed by the company's management during the year. This includes, inter alia, a new business-oriented organization with segmentation and designated segment managers. As of Q1 2019, the company will report in the segments of Orthopedics, Dental and Life Science. Elos Medtech is now working as a company facing the market and all five manufacturing units are

included in the company's total production capacity which is important for the company's customers. During the year, in addition to the statutory meeting, the Board held seven ordinary and two extraordinary meetings. Four of the meetings were held in conjunction with the approval of the year-end report and the interim reports. At the meetings, fixed items were processed for each board meeting, such as state of business, budget, annual and interim reports. In addition, issues concerning investments, financing, new share issues, structural and organizational changes have been addressed.

In 2018, three of the meetings were held at the company's units in Görlöse, Memphis and Skara, to give the Board the opportunity to deepen its knowledge of the operations of each unit.

### The Board's committee work

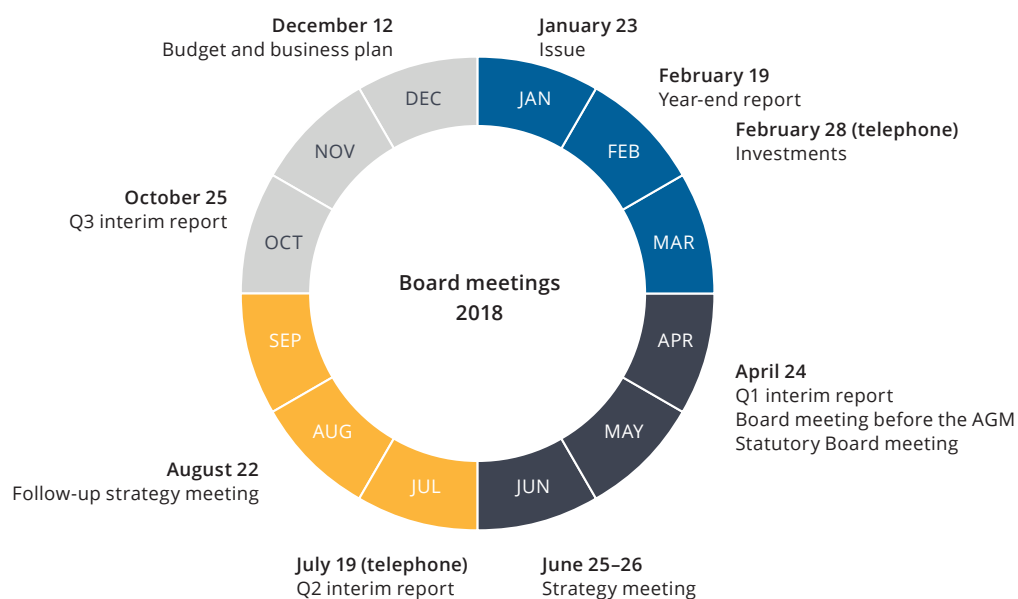
Within the Board of Directors, there is an Audit Committee. Since the AGM 2018, it consists of Agneta Bengtsson Runmarker and Jon Risfelt, chairman. The Chairman of the Board, Yvonne

Mårtensson, is co-opted to the Audit Committee. During the year, the Committee held four meetings since the 2018 AGM. The company's auditor has participated in three of these meetings.

Until the 2018 AGM, the Audit Committee consisted of three members, Agneta Bengtsson Runmarker, Jon Risfelt and Thomas Öster, chairman. The company's auditor and CFO regularly attend meetings. The Audit Committee's work consists of dealing with questions concerning accounting, financing, internal control, risk management and IT security. A summary of the Audit Committee's work and proposals for amendments in order to improve the Group's financial control are presented to the Board for decisions at each subsequent board meeting.

During the autumn of 2018, the Audit Committee, in collaboration with the Nomination Committee, conducted an audit procurement before the 2019 Annual General Meeting.

The Board has chosen not to set up a remuneration committee, but these issues have been handled by the entire Board under the Chair's leadership and following preparation by the Chair.



Board Member	Represents the percentage of votes	Presence of the total number of board meetings	Independent in relation to the company	Independent in relation to major shareholders
Agneta Bengtsson Runmarker	17.8%	10/10	Yes	No
Anders Birgersson		10/10	Yes	Yes
Jeppe Magnusson		10/10	Yes	Yes
Yvonne Mårtensson (chair)		10/10	Yes	Yes
Mats Nilsson	15.4%	10/10	Yes	No
Jon Risfelt		10/10	Yes	Yes
Thomas Öster*	23.5%	4/10	Yes	No

\* Resigned as a member at the 2018 AGM

Additional information for each of the Board members and for the CEO can be found on the website and in the annual report on pages 57–58.

**Group Management**

Group management consists of the CEO and CFO. Group management is focused on key management issues and it also provide Group-wide support in marketing, manufacturing and quality management, risk management, financing and financial control.

Information about the CEO's background and stock and option holdings can be found in the annual report on page 58.

**Remuneration to senior executives**

At the 2018 Annual General Meeting, guidelines were adopted for remuneration and other conditions of employment for Group management and other senior executives. In addition, information on these guidelines is available in the annual accounts on page 17 and on pages 32–33 in note 2.

**Internal control of financial reporting**

The Board is responsible for internal control pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. The section below describes how the internal control insofar as concerns financial reporting is organized. Elos Medtech's financial reporting follows the laws and rules that apply to companies listed on the Stockholm Stock Exchange and the local rules that apply in each country where operations are conducted. Besides external rules and recommendations, there are internal instructions, directions and systems, as well as an internal role and responsibility distribution that is intended to provide good internal control in the financial reporting.

**Control environment**

The basis of internal control is comprised of the general control environment with organization, decision pathways, authority and responsibilities that have been documented and communicated. Some of the most significant components in the control environment are documented in the form of policies, such as the Authorization and Decision Policy, Finance Policy and principles and manuals on financial reporting and accounting that are distributed continuously to the subsidiaries.

Historically, the company has primarily been organized on the basis of the local production units, but in 2019 a shift has taken place towards a more cohesive and segment-based organization which has created new requirements for internal control work. This work will continue in coming years.

**Risk management**

The company has a Group-wide process to identify risks in financial reporting that, besides the financial risks, are deemed to be the valuation of goodwill, inventory and accounts receivable. These can lead to misstatements in the financial reporting and/or affect the company's earnings if they are not properly managed. The company identified that there are systems in the

Group to ensure that an effective risk management exists and the Board is updated on a continuous basis. These systems consist of procedures for reporting, follow-up and analyses both at a Group level and a subsidiary level. Financial reporting takes place in a Group-wide reporting system that has pre-defined templates and built-in control functions.

**Control activities**

The internal control is ensured through both automatic controls in, for example, IT-based systems that manage permissions and authorization rights, as well as manual controls in the form of, for example, reconciliations and inventories. The continuous and detailed financial analyzes of results and follow-up against budget and forecasts during the year can also be seen as a complement to other controls and provide an overall confirmation of the quality of the reporting.

**Information and communication**

Significant accounting principles, information and policies, etc. of significance to the financial reporting are updated and communicated to the relevant staff on an ongoing basis. For external communication, there is an information policy that ensures that the company lives up to current requirements on correct information to the market.

**Follow-up**

Accounting staff and management at both the company and Group level analyze the financial reporting at a detailed level on a monthly basis. The Board continuously evaluates the financial information provided by management and receives the auditor's report regarding observations made.

**Internal audit**

The Board is responsible for the company having good internal control, which besides the financial reporting also includes reporting prepared in accordance with law, applicable reporting standards and other requirements for listed companies. The Board follows up the company's assessment of internal control through, inter alia, contacts with the company's auditors. The Board annually evaluates the need for a special audit function (internal auditor), but taking into account the Group's size, the Board has chosen not to have a separate internal auditor at present, but the work on supervisions of the Group's subsidiaries is managed by the accounting function through head office.

**External auditor**

At the 2018 AGM, Öhrlings PricewaterhouseCoopers AB was re-elected as the audit firm until the end of the 2019 AGM with authorized public accountant Bror Frid as the auditor in charge.

The elected auditor participates at the AGM and then describes the audit work and observations made.

Gothenburg, March 29 2019

Yvonne Mårtensson  
Chair of the Board

Agneta Bengtsson Runmarker  
Board Member

Jon Risfelt  
Board Member

Mats Nilsson  
Board Member

Anders Birgersson  
Board Member

Jeppe Magnusson  
Board Member

Jan Wahlström  
CEO

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# AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of Elos Medtech AB, corporate identity number 556021-9650.

## Assignment and division of responsibility

The Board of Directors is responsible for the corporate governance report for the year 2018 on pages 51–56 and for its preparation in accordance with the Swedish Annual Accounts Act.

## The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 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.

## Opinions

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

Gothenburg, March 29 2019  
Öhrlings PricewaterhouseCoopers AB

Bror Frid  
Authorized Public Accountant