

## Corporate Governance Report for Sectra AB (publ) for the 2013/2014 fiscal year

Sectra is a public Swedish limited-liability company, listed on the NASDAQ OMX Nordic Exchange in Stockholm since 1999. Management and control of the Sectra Group is divided between the shareholders, the Board of Directors and the President. Information about corporate governance at Sectra is provided on the Group's website [www.sectra.com](http://www.sectra.com)

### Swedish Corporate Governance Code

Sectra applies the Swedish Corporate Governance Code ("the Code"). The principles of the Code are available on the Swedish Corporate Governance Board's website at [www.bolagsstyrningskollegiet.se](http://www.bolagsstyrningskollegiet.se). This Corporate Governance Report was prepared in accordance with the rules and application instructions stipulated in Swedish legislation, mainly Chapter 6, Section 6 of the Annual Accounts Act, and the Code. The report has been prepared as a separate document from the Annual Report and, in accordance with the Annual Accounts Act, the auditor's statement is enclosed in this report.

For those cases in which Sectra's work method or information disclosure in 2013/2014 deviated from the Code's rules, explanations are provided in conjunction with the relevant section below. No breaches of the listing agreement or good practice on the stock market according to resolutions from the Exchange's disciplinary committee or the Swedish Securities Council disciplinary committee occurred during the fiscal year.

### Articles of Association

Sectra's Articles of Association are available on the Group's website at [www.sectra.com](http://www.sectra.com) under the *Investor* heading and *Corporate Governance*. According to the Articles of Association, members of the Board of Directors are elected annually by the Annual General Meeting. The Articles of Association do not contain any restrictions regarding the appointment or dismissal of Board members or amendments to the Articles of Association. Decisions must be made in accordance with the Swedish Companies Act.

### Shareholding

On the balance-sheet date, Sectra's share capital totaled SEK 37,094,978 distributed between 37,094,978 shares. Of these shares, 2,620,692 were Class A and 34,474,286 Class B. All shares carry equal rights to the company's assets and profit. One Class A share confers ten votes, while one Class B share confers one vote.

On the balance-sheet date, Sectra had 4,808 shareholders. Of these shareholders, the following had direct and indirect shareholdings on the balance-sheet date corresponding to more than 10% of the voting rights associated with all shares in the company:

- Torbjörn Kronander, who directly and indirectly through companies represented 16.9% of the voting rights.
- Jan-Olof Brüer, who directly and indirectly through family members and companies represented 16.9% of the voting rights.
- Nordea Investment Funds, which directly and indirectly through companies represented 10.5% of the voting rights.

The Articles of Association contain a right of first refusal clause for the transfer of Class A shares. No other agreements between shareholders entailing restrictions on the right to transfer shares are known to the company. Nor is the company party to any agreements that would take effect should control of the company change

through public purchase offers. For more information about Sectra's share and ownership structure, refer to the 2013/2014 Annual Report which is available on the Group's website under the *Investor* heading and *Financial reports*.

### **General Meeting**

The General Meeting is the highest decision-making body through which Sectra's shareholders appoint Board members and auditors for the company and make decisions regarding appropriation of the company's earnings, amendments to the Articles of Association, changes in share capital and share-related incentive programs. The General Meeting also makes decisions concerning Board and auditor fees, as well as guidelines for remuneration of senior executives. Notices, minutes and other General Meeting documents are available on the Group's website at [www.sectra.com](http://www.sectra.com) under the *Investor* heading and *General Meetings*.

#### *2013 Annual General Meeting*

The 2013 Annual General Meeting was held on June 27 in Linköping, Sweden. A total of 45 shareholders were represented at the Meeting, representing 73.4% of the voting rights and 66.2% of the shares outstanding. The Meeting was attended by six of eight regular members of Sectra's Board of Directors, Sectra's President, CFO and the company's auditor. The Nomination Committee was represented by Thomas Ehlin, representative of Nordea Investment Funds.

The Meeting adopted the submitted income statement and balance sheet and the consolidated income statement and balance sheet. The members of the Board and the President were discharged from liability. The Annual General Meeting also passed a resolution regarding Board fees and approved the Board's proposal concerning guidelines for remuneration of senior executives.

The Annual General Meeting reelected Carl-Erik Ridderstråle as Chairman of the Board, as well as Board members Anders Persson, Carl-Erik Ridderstråle, Erika Söderberg Johnson, Torbjörn Kronander, Christer Nilsson and Jakob Svärdström. Jan-Olof Brüer was elected as a new Board member. The Board also includes two employee representatives, with one deputy appointed by Sectra's Akademiska union association.

The Annual General Meeting also passed the following resolutions:

- to transfer SEK 4.50 per share, totaling SEK 166.9 million, to shareholders through a 2:1 share split combined with a mandatory redemption process and bonus issue through a share redemption program. The redemption process was conducted during July-August 2013.
- to authorize the Board of Directors, during the period until the next AGM, to decide on a new share issue of not more than 3,700,000 Class B shares. The purpose of the authorization was to facilitate the use of new share issues for financing market investments and acquisitions of companies or operations, to cover the costs arising as a result of the company's incentive programs and to constantly adapt the company's capital structure. On the balance-sheet date, the Board of Directors had not utilized this authorization.
- that the company is entitled to repurchase up to 10% of Sectra's own shares during the period until the next AGM. On the balance-sheet date, the Board of Directors had not utilized this authorization.
- to establish share and share-price-related incentive programs in the form of convertibles and employee stock options for Group employees and external Board members. At the balance-sheet date, the Board had not issued any employee stock options due to new regulations in the US which have made it more difficult for US citizens to exercise options and hold shares in Swedish listed companies.
- to change the object of the company through an amendment to the Articles of Association.

For up-to-date information regarding all of the company's outstanding incentive programs, refer to the Group's website [www.sectra.com](http://www.sectra.com) under the *Investor* heading and *Sectra Share*.

### **Election and remuneration of the Board of Directors and auditors**

Resolutions adopted by the Annual General Meeting regarding election and remuneration matters are prepared by the company's Nomination Committee, whose members are appointed in accordance with decisions by the AGM.

#### *Nomination Committee*

The 2013 AGM resolved to appoint a Nomination Committee comprising four members, of whom one member would be the Chairman of the Board and the remaining three representatives of the company's major shareholders. Following consultations with the company's major shareholders, a Nomination Committee was appointed in accordance with the AGM's resolution. The members of the Nomination Committee were announced in conjunction with Sectra's six-month interim report on December 10, 2013 and comprised the following members:

- Carl-Erik Ridderstråle, Chairman of the Board (convener). Independent in relation to the company and its management.
- Torbjörn Kronander, Board member, President and CEO of Sectra AB and the company's largest shareholder.
- Jan-Olof Brüer, Board member of Sectra AB and the company's second-largest shareholder (Chairman).
- Ricard Wennerklint, representative of IF Skadeförsäkring AB. Independent in relation to the company and its management.

Jan-Olof Brüer, who is the company's second-largest owner in terms of votes, was appointed Chairman of the Nomination Committee since Torbjörn Kronander, the company's largest owner in terms of votes, decided to abstain from chairmanship due to his role as President of Sectra AB.

Since Torbjörn Kronander and Jan-Olof Brüer are members of both the Board of Directors and the Nomination Committee, and the latter is also Chairman of the Nomination Committee, Sectra deviated from the Code in the following aspects:

- According to the Code, Rule 2.3, neither the President nor any other member of company management may be a member of the Nomination Committee, and a majority of the Nomination Committee's members are to be independent in relation to the company and its management.
- According to the Code, Rule 2.4, Board members are not to comprise a majority of the Nomination Committee's members and a Board member is not to be the Chairman of the Nomination Committee. Not more than one of the Board members included in the Nomination Committee is to be dependent in relation to the company's major shareholders.

The reasons for the deviations are that Torbjörn Kronander and Jan-Olof Brüer are major shareholders of Sectra AB.

The Nomination Committee has the task of preparing and submitting proposals to the AGM for:

- Board fees to the Chairman and other members and any remuneration for committee work.
- Election of Chairman and other AGM-elected board members to the company's Board.
- Election and remuneration of auditors.
- Decisions regarding principles for appointing the Nomination Committee.
- Chairman of the AGM.

The 2014 AGM is scheduled for September 8, 2014. The Nomination Committee's proposals will be presented in the notice of the AGM, which will be announced not earlier than six and not later than four weeks prior to the Meeting through a press release and publication on the Group's website and in the *Official Swedish Gazette (Post och Inrikes Tidningar)*. Information that notice has been given will be published in *Svenska Dagbladet*. The Nomination Committee's statement explaining its proposal to the Board will be published on the Group's website when the notice is announced.

#### *Fees for 2013/2014*

In accordance with a resolution of the AGM, a fee of SEK 370,000 was paid to the Chairman of the Board and SEK 185,000 to each of the other Board members who were not employees of the company. For Audit Committee work, a fee of SEK 20,000 was paid to each of the Board's external members and SEK 40,000 to the Audit Committee's Chairman. No separate fees were paid for Remuneration Committee work. Fees to auditors were paid in accordance with approved invoices.

#### **Size and composition of the Board**

According to the Articles of Association, Sectra's Board of Directors is to comprise not fewer than three and not more than nine members. The members of the Board are elected annually by the AGM for the period until the next AGM is held. The Board currently consists of seven AGM-elected members with no deputies, and two employee representative with one deputy.

#### *Members of Sectra's Board of Directors and committees*

AGM-elected members	Elected	Attendance /number of meetings	Committee work	Independent in relation to the company and its management	Independent in relation to major shareholders
Carl-Erik Ridderstråle, Chairman of the Board	2001	9/9	Chairman Remuneration Committee	Yes	Yes
Erika Söderberg Johnson	2007	9/9	Chairman Audit Committee	Yes	Yes
Torbjörn Kronander	1988	9/9		No	No
Christer Nilsson	2008	9/9	Remuneration Committee, Audit Committee	Yes	Yes
Anders Persson	2004	9/9	Audit Committee	Yes	Yes
Jan-Olof Brüer	2013	9/9		No	No
Jakob Svärdröm	2011	9/9		Yes	Yes
<b>Employee representatives</b>					
Fredrik Häll	2013	7/9		No	Yes
Per Elmhester	2011	7/9		No	Yes
<b>Deputy employee representative</b>					
Klas Mehmeti	2013	2/9		No	Yes

For information regarding the Board members' backgrounds, other assignments and holdings of shares and other securities in Sectra, refer to Sectra's Annual Report for the 2013/2014 fiscal year or visit the company's website under the *Investor* heading and *Corporate Governance* and *Board of Directors*.

With the exception of Torbjörn Kronander, President and CEO of Sectra AB, none of the AGM-elected Board members holds an operational role in the company. For information on the Board members' independence in relation to the company and its management, as well as the company's major shareholders, refer to the table above.

Sectra's Board has established an Audit Committee and a Remuneration Committee; refer to the table above for information about the members that are included in each committee.

### **Activities of the Board of Directors**

Sectra's Board of Directors is the company's highest administrative body and is responsible for managing the company's affairs. The Board held a statutory meeting on July 3, 2013 and, until the date of signing the Annual Report, held nine minuted meetings, of which one was held per capsulam. Refer to the table on the preceding page for information about each member's attendance. The role of the Chairman of the Board is to lead the work of the Board and to ensure that it fulfills its duties. The Board's work follows an annual agenda with themes and fixed agenda items, including adoption of the Board's formal work plan, a directive for the President, instructions for reporting, the Group's budget, the year-end report and the framework for financial reporting. Four meetings were held in conjunction with publication of the company's quarterly reports. During the fiscal year, the Board devoted particular attention to the company's structure and focus areas, long-term financial goals, material risks and risk management, major investments, evaluation of acquisitions and other structural matters. A two-day meeting was devoted to long-term strategic planning, with a focus on growth areas in medical IT and secure communication. The Board also conducted an evaluation of its work, which formed a basis for planning the Board's activities in the coming year. The Nomination Committee was informed about the contents of the 2013 evaluation.

The company's CFO regularly participates in Board meetings. Other senior executives participate in Board meetings when necessary.

<i>Regular meetings</i>	<i>Theme</i>
<i>2013/2014</i>	
July	Statutory Board meeting
September	Three-month interim report, contracts and insurances
October	Long-term goals and strategies, growth areas in medical IT and secure communication
December	Six-month interim report, risk analysis, employees and salaries
February	First draft of budget
March	Nine-month interim report
April	Budget and business plans
May	Year-end report
June	Annual Report and proposals to the AGM

### **Audit Committee**

The main task of the Audit Committee is to support the Board in its work to ensure the quality of financial reporting. From the time of the Board's statutory meeting until the date of signing the Annual Report, the Committee held four meetings at which matters pertaining to interim reports, annual reports, financial policy, risk management and internal processes, accounting and other tasks of the auditors were discussed. The company's auditor and CFO regularly participate in Audit Committee meetings to provide and receive information about relevant issues noted during the audit and continuous reporting.

### **Remuneration Committee and remuneration of senior executives**

The main task of the Remuneration Committee is to prepare the Board's decisions on matters pertaining to principles for remuneration and other terms of employment for the President and management and the guidelines for remuneration of senior executives that the AGM is legally obliged to establish. From the time of the Board's statutory meeting until the date of signing the Annual Report, the Committee held two meetings.

Remuneration and other terms of employment for senior executives directly subordinate to the President are decided on by the President in accordance with the guidelines adopted by the AGM and the salary policy established by the Board. The guidelines adopted by the 2013 AGM are available on the company's website under the *Investor* heading and *Corporate Governance* and *General Information* together with a presentation of the company's system for variable remuneration of senior executives. In June 2014, the Board of Directors evaluated programs for variable remuneration of company management, both ongoing and those that ended during the year, the guidelines for remuneration of senior executives and the current remuneration structures and levels in the company. A presentation of this review will be available not later than three weeks prior to the 2014 AGM.

### **President**

The President and CEO of Sectra AB is Torbjörn Kronander. For information about the President's background, education, holding of shares and other securities in Sectra, refer to Sectra's Annual Report for the 2013/2014 fiscal year and the Group's website under the *Investor* heading, *Corporate Governance* and *Board of Directors & Senior Executives*.

The President is responsible for ensuring that the ongoing administration is handled in accordance with the guidelines provided by the Board. Responsibility for the operational activities is decentralized to the two business areas – Imaging IT Solutions and Secure Communications, as well as the business lines – Orthopaedics, Osteoporosis, Medical Education and Research, which are part of Business Innovation. Responsibility for the coordination of certain central functions such as IT, regulatory affairs, accounting and finance, human resources and marketing communication lies with each function.

The President ensures that the Board receives factual, comprehensive and relevant information and decision-making data and engages in ongoing dialog with the Chairman of the Board, and keeps the Chairman informed about the company's performance and financial position.

### **External auditing**

External auditors are appointed by the AGM for a term of one year. Grant Thornton AB, which has been the company's auditor since 2002, was reelected at the 2013 AGM. Grant Thornton appointed Authorized Public Accountant Peter Bodin as senior auditor, an assignment he has held since the 2009 AGM. Peter Bodin is the President of Grant Thornton Sweden AB and Chairman of the Board of Grant Thornton International Ltd.

Sectra's interim report for the nine-month period May 2013 to January 2014 was subject to a review by the auditors. The auditors' examination and audit of the year-end report and Annual Report were conducted in May.

The company's auditor participated in Audit Committee meetings and in the meeting at which the year-end report was presented, and communicated his observations to the Board. In conjunction with the Board meeting, the auditor held a meeting with the Board without the attendance of representatives of company management.

In addition to the audit assignment, Grant Thornton has also provided certain consulting services in the area of taxes and performed other audit-related services. Fees to auditors are paid on the basis of invoices received, in accordance with an AGM resolution. For further information, refer to Sectra's Annual Report for the 2013/2014 fiscal year.

### **Internal control and risk management regarding financial reporting**

The overall aim of the internal control is to ensure that the shareholders' investments and the Group's assets are protected, that the appropriate accounting documents are prepared and that the financial information used in the operations and when publishing is reliable.

#### *Control environment*

The procedures are designed to ensure efficiency in the operations and compliance with laws and regulations. The company has implemented specific control activities to continuously monitor and control the risks associated with the business. An essential part of the control environment is the policies, instructions and procedures that are maintained by the organizational structure which clearly defines roles and responsibility. The Board is ultimately responsible for the internal control, but the ongoing administration has been delegated to the President.

#### *Risk assessment*

Group Management identifies and evaluates the most serious risks associated with the Group's operations. Where risks are identified, control requirements are formulated and must be followed. Where necessary, new control requirements are established. Assessment of the most serious risks is based on their probability and potential to cause financial damage to Sectra's operations. The risk analysis is addressed annually by the Board and, if necessary, additional monitoring and control measures are conducted. For information about the company's most serious risks, refer to Sectra's Annual Report for the 2013/2014 fiscal year.

#### *Internal auditing*

The Board of Directors has assessed the need for a special auditing function (internal auditing) and concluded that such a function is currently unjustified at Sectra considering the scope of the business and the existing internal control structures. The Board reexamines the need for a special auditing function on an annual basis.

#### *Control activities*

The primary objective of the company's control activities is to prevent and identify errors as early as possible so that any deficiencies can be resolved. Procedures and activities have been designed to detect and manage the most essential risks related to financial reporting. The business areas, business lines and Group companies are monitored by the President and CFO through regular reports and personal meetings with each management team of companies included in the Sectra Group. The Board receives monthly reports in which the President and CFO present the earnings and financial position of the Group and its business areas for the preceding period. Work relating to monthly and annual accounts is well-defined and reporting is conducted in accordance with standardized reporting templates, including comments regarding all significant income statement and balance-

sheet items. Financial managers and controllers with functional responsibility for accounting, reporting and analysis are employed at both central and unit levels. This enables several controls of the company's financial reports to be performed, which reduces the risk of errors.

#### *Information and communication*

The financial information provided by Sectra is to be accurate and current, and provide comprehensive information about the Group's operations and financial performance to all stakeholder groups. This process is governed by internal guidelines and instructions for financial reporting. All press releases are published on the website simultaneously when they are announced. The Board is responsible for the Annual Report and for the delivery of interim reports. The CFO is responsible for informing financial managers and controllers about Group-wide accounting policies as well as other matters pertaining to financial reporting. Financial managers and controllers in the Group are responsible for ensuring a high level of quality in the internal reports and that reporting to the Parent Company takes place at the agreed time for financial reporting.

#### *Follow-up*

Follow-up of internal control is carried out continuously through monthly and quarterly reports to the Board outlining the company's financial outcome, including comments from Group management. In addition, follow-up takes place through reports from the Audit Committee and the company's auditors. The company's senior auditor also participates in most Audit Committee meetings and at least one Board meeting per year, during which the most significant observations during the year's audit are reported directly to the Board. At the same time, the Board is able to present questions to the auditor. At company level, follow-up is performed through weekly and monthly reporting to the Parent Company and personal visits to subsidiaries by the CFO or Group Controller. During these visits, a review of essential procedures and compliance with Group-wide policies and guidelines is conducted.

Linköping, June 26, 2014

The Board of Sectra AB (publ)

Carl-Erik Ridderstråle  
Chairman of the Board

Torbjörn Kronander  
Board member

Jakob Svärdröm  
Board member

Christer Nilsson  
Board member

Erika Söderberg Johnson  
Board member

Anders Persson  
Board member

Jan-Olof Brüter  
Board member

Fredrik Häll  
Board member  
Employee representative

Per Elmhester  
Board member  
Employee representative



Translation of Swedish original

# Auditor's report on the Corporate Governance Report

To the annual meeting of the shareholders in Sectra AB, corporate identity number 556064-8304

It is the Board of Directors who is responsible for the Corporate Governance Report for the financial year May 1, 2013 to April 30, 2014 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.

Linköping, June 27 2014

Peter Bodin  
Authorized Public Accountant