

## Corporate Governance Report for Sectra AB (publ) the 2018/2019 fiscal year

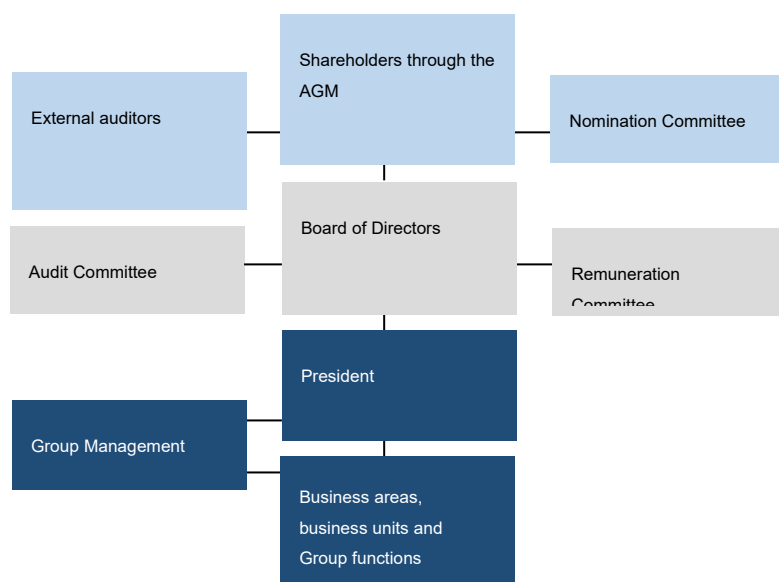
Sectra is a public Swedish limited-liability company, listed on the Nasdaq Stockholm Exchange since 1999. Management and control of the Sectra Group is divided between the shareholders, the Board of Directors and the President.

### Swedish Corporate Governance Code

Sectra applies the Swedish Corporate Governance Code (“the Code”). 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. These documents are available on the Group’s website [investor.sectra.com/governance](http://investor.sectra.com/governance) together with other information about corporate governance at Sectra. The principles of the Code are available on the Swedish Corporate Governance Board’s website at [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

Sectra’s work methods or disclosure of information in 2018/2019 deviated from Rule 2.3 of the Code regarding the members of the Nomination Committee and an explanation for these deviations is presented 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.

### Corporate governance structure



#### Significant external regulations

- Swedish legislation, such as the Companies Act and the Annual Accounts Act
- Nasdaq Stockholm Rule Book for Issuers
- Swedish Corporate Governance Code

#### Significant internal regulations

- Articles of Association
- The Board’s formal work plan, the directive for the President and instructions for financial reporting
- Financial Policy, instructions for authorization and Group guidelines for financial reporting
- Quality Policy, Risk Management Policy, Code of Conduct, Insider Policy, Communication Policy, Information Security Policy, etc.
- Processes and regulations for quality control internal control and risk

#### Articles of Association

Sectra’s Articles of Association are available on the Group’s website at [investor.sectra.com/governance/articles-of-association/](http://investor.sectra.com/governance/articles-of-association/). According to the Articles of Association, members of the Board of Directors are elected annually by the Annual General Meeting (AGM). 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.

## Shareholders

On the balance-sheet date, Sectra's share capital totaled SEK 38,352,871, distributed between 38,352,871 shares. Of these shares, 2,620,692 were Class A shares and 35,732,179 were Class B shares. All shares carry equal rights to the company's assets and earnings. One Class A share confers ten votes, while one Class B share confers one vote.

On the balance-sheet date, Sectra had 8,035 (6,166) 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 the company Shannon AB represents 17.1% of the voting rights.
- Jan-Olof Brüer, who directly and indirectly through related companies and the company Shannon AB represents 17.1% 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 2018/2019 Annual Report which is available on the Group's website at [investor.sectra.com/reports/annual-reports/](http://investor.sectra.com/reports/annual-reports/).

## General Meeting

The company's highest decision-making body is the General Meeting. It is through the General Meeting that the shareholders exercise their influence in the company, appoint Board members and auditors, and make decisions regarding appropriation of the company's earnings, amendments to the Articles of Association, changes in the share capital and share-based 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 [investor.sectra.com/governance/general-meetings/](http://investor.sectra.com/governance/general-meetings/).

The notice of the Meeting is published in a press release, on the company's website and in an advertisement in the *Swedish Official Gazette (Post- och Inrikes Tidningar)*. Publication of the notice is announced in the daily newspaper *Svenska Dagbladet*.

## 2018 AGM

The 2018 AGM was held on September 6 in Linköping, Sweden. Shareholders representing 85.0% of the voting rights and 76.2% of the shares outstanding were represented at the Meeting. The Meeting was attended by the members of Sectra's Board of Directors (except for departing Board member Jakob Svärdström), Sectra's President, CFO and the company's auditor. The Nomination Committee was represented by Jan Särilvik, 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 AGM also passed a resolution regarding Board fees and fees to the Audit Committee, and approved the Board's proposal concerning guidelines for remuneration of senior executives.

The AGM reelected Anders Persson, Torbjörn Kronander, Christer Nilsson, Jan-Olof Brüer, Tomas Puusepp and Ulrika Hagdahl. Jan-Olof Brüer was elected as the new Chairman of the Board and Birgitta Hagenfeldt was elected as a new Board member. Carl-Erik Ridderstråle and Jakob Svärdström were thanked for their many years of service to the Board. The Board also includes two employee representatives, with two deputies appointed by the local branch of the Swedish Association of Graduate Engineers at Sectra (refer to the table on page 4).

The AGM also passed the following resolutions:

- To transfer SEK 4.50 per share, totaling SEK 171.5 million, to the 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 in October 2018.
- To authorize the Board of Directors, during the period until the next AGM, to decide on new share issues 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.

## Nomination Committee

Resolutions adopted by the AGM regarding election and remuneration matters are prepared by the company's Nomination Committee, whose members are appointed in accordance with decisions by the AGM. The 2018 AGM resolved to appoint a Nomination Committee comprising four members, of whom one was to be the Chairman of the Board and the remaining three were to be representatives of the company's major shareholders. In accordance with these principles, the Chairman of the Board contacted the largest shareholders in autumn 2018 to form a Nomination Committee tasked with preparing proposals ahead of the 2019 AGM. Before agreeing to the assignment, the members of the Nomination Committee assessed whether it would create a conflict of interest and notified the company that no conflict of interest existed. The members of the Nomination Committee were announced in a press release published on December 7, 2018. The following members were appointed:

- Torbjörn Kronander, the company's largest shareholder and President and CEO of Sectra AB.
- Carl-Erik Ridderstråle, representing the company's second-largest shareholder, Jan-Olof Brüer. Independent in relation to the company and its management.
- Jan Särilvik, representative of Nordea Investment Funds, fourth-largest shareholder. Independent in relation to the company and its management.
- Jan-Olof Brüer, in the role of Chairman of the Board (convener).

Carl-Erik Ridderstråle, who represents the company's second-largest shareholder in terms of votes, was appointed Chairman of the Nomination Committee. Torbjörn Kronander, the company's largest shareholder in terms of votes, decided to abstain from the 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, Sectra deviated from the Code in the following aspects:

- The President is a member of the Nomination Committee and a majority of the Nomination Committee's members are not independent in relation to the company and its management, which is a deviation from Rule 2.3 of the Code.

The reason for the above deviations is that Torbjörn Kronander, President and CEO of Sectra AB, and Jan-Olof Brüer are major shareholders of Sectra AB and would otherwise find it difficult to combine their role as major shareholders with an active ownership role.

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 the 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 2019 AGM is scheduled for September 5, 2019. Shareholders have had the opportunity to submit proposals to the Nomination Committee, for example, via email [info.investor@sectra.com](mailto:info.investor@sectra.com). The Nomination Committee's proposals and explanatory statement will be published not later than in conjunction with the notice of the AGM.

### Work of the Nomination Committee since the 2018 AGM

The Nomination Committee has held regular meetings and phone discussions since it was appointed in 2018. These meetings and discussions mainly pertained to the assessment of the work of the current Board, the need to recruit new Board members and the assessment of prospective Board members as well as discussions about the number of Board members and Board fees. During the course of its work, the Nomination Committee paid particular attention to the diversity and breadth of the Board's composition as well as the requirement of working toward an even gender balance. As a basis for its work, the Nomination Committee has reviewed the Board's assessment of its work and the Chairman of the Board's presentation of the work of the Board, and held talks with the members of the Board. This review showed that the Board has been active and extremely dedicated, and that the members had a high attendance rate. When drafting proposals for the election of auditors and fees for audit work, the Audit Committee assist the Nomination Committee. The Nomination Committee's proposals will be submitted in conjunction with the notice of the 2019 AGM.

### Fees for 2018/2019

In accordance with a resolution of the AGM, an unchanged fee of SEK 450,000 was paid to the Chairman of the Board and SEK 225,000 to each of the other Board members who were not employees of the company. For Audit Committee work, a fee of SEK 40,000 was paid to each of the Board's external members and SEK 80,000 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.

### The Board of Directors

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 representatives with two deputies.

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

AGM-elected members	Elected	Attendance /number of meetings	Committees <sup>1</sup>	Independent in relation to the company and its management	Independent in relation to major shareholders
Torbjörn Kronander	1988	8/8		No	No
Carl-Erik Ridderstråle, stepped down September 2018	2001	4/4		Yes	Yes
Anders Persson	2004	8/8	Member of the Audit Committee	Yes	Yes
Christer Nilsson	2008	8/8	Member of the Remuneration Committee, Chairman of the Audit Committee	Yes	Yes

Jakob Svärdröm stepped down September 2018	2011	3/4		Yes	Yes
Jan-Olof Brüer, Chairman of the Board	2013	8/8	Chairman Remuneration Committee	No	No
Ulrika Hagdahl	2017	8/8		Yes	Yes
Tomas Puusepp	2017	8/8		Yes	Yes
Birgitta Hagenfeldt, appointed September 2018	2018	4/4	Member of the Audit Committee	Yes	Yes
<b>Employee representatives</b>					
Deborah Capello	2014	8/8		No	Yes
Bengt Hellman	2015	8/8		No	Yes
<b>Deputy employee representatives</b>					
Anna Vrilmak, stepped down October 2018	2015	0/5		No	Yes
Fredrik Söderqvist, stepped down September 2018	2017	0/4		No	Yes
Andreas Örnéus appointed September 2018	2018	3/4		No	Yes
Filip Klintenstedt, appointed March 2019	2019	0/0		No	Yes

<sup>1)</sup> Pertains to committee members as of the balance-sheet date on April 30, 2019.

For information regarding the Board members' backgrounds, other assignments and holdings of shares and other securities in Sectra, refer to Sectra's Annual Reports for the 2017/2018 and 2018/2019 fiscal years or visit the Group's website at [investor.sectra.com/governance/board-of-directors/](http://investor.sectra.com/governance/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 of 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 of Directors held a statutory meeting on September 6, 2018. The Board held eight minuted meetings during 2018/2019. Refer to the table above 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. The Board previously established ethical guidelines for Sectra's conduct in society, and

corporate social responsibility (CSR) issues are addressed every year at Board meetings. For information about key sustainability issues, refer to Sectra's 2018/2019 Annual Report. The Board also conducted an evaluation of its work, which formed the basis for planning the Board's activities in the coming year. This evaluation took the form of a survey and the results were followed up and discussed at Board meetings. The Nomination Committee was informed about the contents of the 2018 evaluation.

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

Regular meetings 2018/2019	Theme
May	Year-end report, employee survey, employee and remuneration survey, CSR
June	Annual Report, Corporate Governance Report, evaluation of remuneration of senior executives and proposals to the AGM
September	Three-month interim report, contracts and insurance, and statutory meeting regarding the Board's formal work plan, the directive for the President and instructions for reporting
December	Six-month interim report, risk analysis and Risk Management Policy, Board evaluation, cost calculations for investments and projects, follow-up on strategies and plans for US investments and the orthopaedics business unit
February	First draft of budget, strategy follow-up and competition analysis for Secure Communications, customer meetings
March	Nine-month interim report, Financial Policy, competition analysis for Imaging IT Solutions
April/May	Budget and business plans

### **Audit Committee**

The main task of the Audit Committee is to support the Board in its work to increase quality and strengthen the supervision of the company's financial risk exposure, risk management and financial reporting. From the time of the Board's statutory meeting until the date of signing the Annual Report, the Committee held three minuted meetings at which matters pertaining to interim reports, annual reports, Financial Policy, risk management and internal processes, accounting, the Audit Committee's formal work plan and other tasks of the auditors were discussed. The three members of the Committee attended all meetings. The company's auditor, CFO and employee representatives regularly participate in Audit Committee meetings to provide and/or 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 minuted meetings. The Committee's two members attended all 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 2018 AGM are available on [investor.sectra.com/governance/corporate-governance/remuneration/](http://investor.sectra.com/governance/corporate-governance/remuneration/), along with a presentation of the company's system for variable remuneration of senior executives. In June 2019, 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 on the website not later than three weeks prior to the 2019 AGM.

### **Diversity Policy for the Board of Directors**

The Board of Sectra has established a Diversity Policy, which entails that the Nomination Committee is to apply the requirements of Section 4.1 of the Code in its work and other specific regulatory conditions pertaining to the Board's composition.

According to the Code, taking into account the company's operations, stage of development and other circumstances, the Board is to have an appropriate composition, characterized by diversity and breadth in terms of the AGM-elected members' expertise, experience and background. An even gender balance is to be pursued. To achieve this, the Nomination Committee must strive for diversity on Sectra's Board in respect of expertise, age, nationality and gender as well as business experience, qualifications and professional background. The policy also stipulates that the Nomination Committee is to give particular consideration to ensuring that the experience and expertise of the Board members matches the Sectra Group's priorities and stage of development.

### **President**

The President and CEO of Sectra AB is Torbjörn Kronander. For information about the President's background, education and holding of shares and other securities in Sectra, refer to the Annual Report for the 2018/2019 fiscal year or the Group's website at [investor.sectra.com/governance/executive-management/](http://investor.sectra.com/governance/executive-management/).

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 Imaging IT Solutions and Secure Communications operating areas as well as the Orthopaedics, Medical Education and Research business units, which are part of the Business Innovation operating area. Responsibility for the coordination of certain central functions, such as IT, regulatory affairs, accounting and finance, recruitment, 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 Sweden AB, which has been the company's auditor since 2002, was reelected at the 2018 AGM. Grant Thornton appointed Authorized Public Accountant Mia Rutenius as Chief Coordinating Auditor, a position she has held since the 2016 AGM.

Sectra's interim report for the nine-month period May 2018 to January 2019 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 to June 2019.

The company's auditor participated in Audit Committee meetings and in the meeting at which the year-end report was presented, and communicated her 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. The auditor also participated in the Board meeting in December at which the annual review of risks was presented and discussed.

In addition to the audit assignment, Grant Thornton has also reviewed the nine-month interim report, submitted certifications in accordance with the Companies Act and, to a lesser degree, provided tax advisory 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 2018/2019 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.

At present, the Board is of the opinion that sufficient control of the financial statements and risk management are achieved through collaboration with the company's external auditors and the thorough reviews and follow-up carried out at the meetings of the Audit Committee. At the subsequent Board meeting, the Chairman of the Audit Committee presents the issues that have been discussed and the proposals and issues to be addressed by the entire Board.

### 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 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 2018/2019 fiscal year.

### Control activities

The Board's measures to monitor internal control in connection with financial reporting include thorough reviews and follow-ups at the meetings with the Audit Committee, which maintains regular contact with external auditors. The control structure has been designed to manage the risks deemed by the Board and Executive Management to be significant to the Group's operating activities, financial reporting and compliance with laws and regulations. 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 units 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.



### Internal information and communication

Financial reporting is governed by internal guidelines and instructions. 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 interim 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 Chief Coordinating 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, Accounting Manager or Group Controller. During these visits, a review of essential procedures and compliance with Group-wide policies and guidelines is conducted.

### External information

Sectra's disclosure of information is regulated by an Information Policy established by the Board. All communication should comply with the listing agreement for listed companies in Sweden. 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. The company observes a quiet period during 30 days prior to the publication of a year-end or interim report. The Board adopts the Group's annual report, year-end report and interim reports. All financial reports and press releases are published on the Group's website at [www.sectra.com](http://www.sectra.com) and distributed simultaneously to the media and Nasdaq Stockholm.

Linköping, June 28, 2019

The Board of Sectra AB (publ)

Jan-Olof Brüer  
Chairman of the Board

Torbjörn Kronander  
Board member  
President and CEO of  
Sectra AB

Christer Nilsson  
Board member

Ulrika Hagdahl  
Board member

Anders Persson  
Board member

Birgitta Hagenfelt  
Board member

Tomas Puusepp  
Board member

Bengt Hellman  
Employee representative

Deborah Capello  
Employee representative

# Auditor's report on the corporate governance statement

To the general meeting of the shareholders in Sectra AB (publ), corporate identity number 556064-8304.

## **Engagement and responsibility**

It is the board of directors who is responsible for the corporate governance statement for the financial year 2018/2019 and that it has been prepared in accordance with the Annual Accounts Act.

## **The scope of the audit**

Our examination has been conducted in accordance with FAR's auditing standard RevU 16 The 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 the second paragraph points 2-6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, June 28, 2019

Grant Thornton Sweden AB

Mia Rutenius  
Authorized Public Accountant