

## Corporate Governance Report for Sectra AB (publ) fiscal year 2016/2017

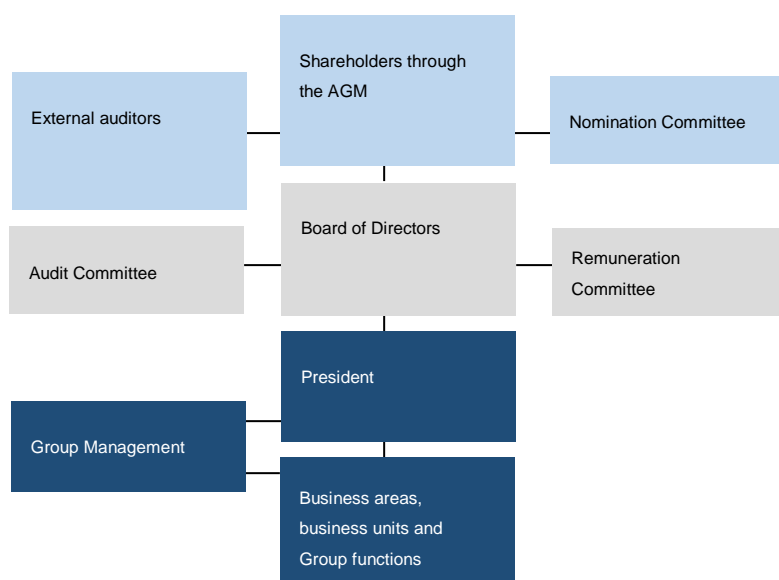
Sectra is a public Swedish limited-liability company, listed on the Nasdaq Stockholm Exchange since 1999. Management and control of the Sectra Group is divided between the shareholders, the Board of Directors and the President.

### 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 [www.sectra.com/corporate\\_governance](http://www.sectra.com/corporate_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.bolagsstyrning.se](http://www.bolagsstyrning.se).

Sectra’s work methods or disclosure of information in 2016/2017 deviated from Rule 2.3 and Rule 2.4 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 management

## Articles of Association

Sectra's Articles of Association are available on the Group's website at [www.sectra.com/articlesofassociation.html](http://www.sectra.com/articlesofassociation.html). 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 37,890,085 distributed between 37,890,085 shares. Of these shares, 2,620,692 were Class A shares and 35,269,393 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 5,916 (5,503) 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 2016/2017 Annual Report which is available on the Group's website at [www.sectra.com/investor/annual\\_reports/index.html](http://www.sectra.com/investor/annual_reports/index.html).

## 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 [www.sectra.com/agm](http://www.sectra.com/agm).

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*.

## 2016 AGM

The 2016 AGM was held on September 6 in Linköping, Sweden. A total of 87 shareholders were represented at the Meeting, representing 85.5% of the voting rights and 77.6% of the shares outstanding. The Meeting was attended by all regular members of Sectra's Board of Directors, Sectra's President, CFO and the company's auditor. The Nomination Committee was represented by Jan-Olof Brüer.

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 Carl-Erik Ridderstråle as Chairman of the Board as well as Board members Anders Persson, Erika Söderberg Johnson, Torbjörn Kronander, Jan-Olof Brüer, Christer Nilsson and Jakob Svärdröm. The Board also includes two employee representatives, with two deputies appointed by the local branch of the Swedish Association of Graduate Engineers at Sectra.

The AGM also passed the following resolutions:

- To transfer SEK 4.50 per share, totaling SEK 169.6 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 in October 2016.
- 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.
- To establish share-based and share-price-related incentive programs in the form of convertibles for Group employees and external Board members.

For up-to-date information regarding all of the company's outstanding incentive programs, visit the Group's website at [www.sectra.com/investor/sectra\\_share/share-based\\_incentive\\_programs.html](http://www.sectra.com/investor/sectra_share/share-based_incentive_programs.html).

## 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 2016 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. 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 a press release published on December 7, 2016. The following members were appointed:

- 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).
- Jan Särlvik, representative of Nordea Funds, fourth-largest shareholder. 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.

Given that Carl-Erik Ridderstråle, 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 has 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 majority of the Nomination Committee's members are Board members and the Chairman of the Nomination Committee is a Board member. Two of the Board members on the Nomination Committee are dependent in relation to the company's major shareholders, which is a deviation from Rule 2.4 of the Code.

The reason for the above deviations is that Torbjörn Kronander 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 2017 AGM is scheduled for September 13, 2017. Shareholders have had the opportunity to submit proposals to the Nomination Committee, for example, via e-mail [investor@sectra.com](mailto: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 2016 AGM**

Before agreeing to serve on the Board, the members of the Nomination Committee assessed whether such an assignment would create a conflict of interest and notified the company that no conflict of interest existed. The Nomination Committee has held regular meetings and phone discussions since it was appointed in autumn 2016. These meetings and discussions mainly pertained to the work of the Board, the number of Board members, the need to recruit new employees, prospective Board members and Board fees. The Chairman of the Board presented information on the work of the Board to the Nomination Committee. Ahead of the 2017 AGM, the Nomination Committee also drafted a proposal concerning the procedures for appointing the next Nomination Committee. In accordance with the Code, the Nomination Committee's assessment 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. The Nomination Committee will also submit a proposal regarding auditor fees and conducted an analysis and comparison with similar companies in order to gain an understanding of what a reasonable fee would be. When it came to drafting the proposal for the election of auditors and fees for audit work, the Nomination Committee was assisted by the Audit Committee. The Nomination Committee's proposals were submitted in conjunction with the notice of the 2017 AGM.

### **Fees for 2016/2017**

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 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 representative with two deputies.

AGM-elected members	Elect ed	Attendan ce/ number of meetings	Committee work	Independent in relation to the company and its management	Independent in relation to major shareholder s
Carl-Erik Ridderstråle, Chairman of the Board	2001	9/9	Chairman Remuneration Committee	Yes	Yes
Erika Söderberg Johnson	2007	8/9	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 Svårdström	2011	9/9		Yes	Yes
<b>Employee representatives</b>					
Fredrik Häll	2013	5/9		No	Yes
Deborah Capello	2014	6/9		No	Yes
<b>Deputy employee representatives</b>					
Bengt Hellman	2015	4/9		No	Yes
Anna Vrilmark	2015	3/9		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 2016/2017 fiscal year or visit the Group's website at [www.sectra.com/investor/corporate\\_governance/board\\_of\\_directors.html](http://www.sectra.com/investor/corporate_governance/board_of_directors.html).

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 September 6, 2016 and had held nine minuted meetings as of the date of signing the Annual Report. 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, the establishment of a presence in additional countries, long-term financial goals, material risks and risk management, major investments, evaluation of acquisitions and other structural matters. One meeting was devoted to long-term strategic planning, with a focus on growth in the area of IT security for critical infrastructure. 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 the company's key sustainability issues, refer to the Administration Report in Sectra's 2016/2017 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 2016 evaluation.

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

Regular meetings 2016/2017	Theme
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
October	Long-term goals and strategies, growth areas and competition analysis
December	Six-month interim report, risk analysis and Risk Management Policy, Board evaluation, cost calculations for investments and projects, update of Insider Policy
February	First draft of budget, customer meetings
March	Nine-month interim report, Financial Policy, employees and remuneration survey
April	Budget and business plans
May	Year-end report, update of Audit Committee's formal work plan, employee survey, CSR
June	Annual Report, Corporate Governance Report, evaluation of remuneration of senior executives 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 three 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. One member was absent from one meeting. Besides this, all members of the Committee attended all meetings. 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 signing of the Annual Report, the Committee held three meetings. All members of the Committee 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 2016 AGM are available on the company's website [www.sectra.com/investor/corporate\\_governance/remuneration\\_executive\\_management.html](http://www.sectra.com/investor/corporate_governance/remuneration_executive_management.html), along with a presentation of the company's system for variable remuneration of senior executives. In June 2017, 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 2017 AGM.

### **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 2016/2017 fiscal year or the Group's website at [www.sectra.com/investor/corporate\\_governance/executive\\_management.html](http://www.sectra.com/investor/corporate_governance/executive_management.html).

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, Secure Communications and Sectra Customer Financing 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, 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 2016 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 2016 to January 2017 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-June 2017.

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 2016/2017 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 quarterly 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 2016/2017 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 quarterly 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/investor](http://www.sectra.com/investor) and distributed simultaneously to the media and Nasdaq Stockholm.

Linköping, June 27, 2017

The Board of Sectra AB (publ)

Carl-Erik Ridderstråle  
Chairman of the Board

Torbjörn Kronander  
Board member  
President and CEO of Sectra AB

Jakob Svärdröm  
Board member

Christer Nilsson  
Board member

Erika Söderberg Johnson  
Board member

Anders Persson  
Board member

Jan-Olof Brüer  
Board member

Fredrik Häll  
Board member  
Employee representative

Deborah Capello  
Board member  
Employee representative

Translation of the auditor's report in Swedish

## **AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT**

To the general meeting of the shareholders in Sectra AB, 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 2016-05-01 – 2017-04-30 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 27 2017

Grant Thornton Sweden AB

Mia Rutenius  
Authorized Public Accountant