

# Corporate Governance Report for Sectra AB (publ) for the 2009/2010 fiscal year

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 at [www.sectra.com](http://www.sectra.com).

## Swedish Code of Corporate Governance

Sectra applies the Swedish Code of Corporate Governance ("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 of the Code and the application instructions stipulated in Swedish legislation and the Code itself. The Corporate Governance Report was prepared as a separate document from the Annual Report and the audit report enclosed therein.

In cases in which Sectra's work method or information disclosure in 2009/2010 deviated from the Code's rules, explanations are presented in conjunction with each section below.

## Articles of Association

Sectra's Articles of Association are available on the Group's website at [www.sectra.com](http://www.sectra.com) under *Investor 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

Sectra's share capital on the closing date totaled SEK 36,842,088, distributed among 36,842,088 shares. Of these shares, 2,620,692 were Class A shares and 34,221,396 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.

Sectra had 5,409 shareholders on the closing date. Of these shareholders, the following had direct and indirect shareholdings corresponding to more than 10% of the voting rights associated with all shares in the company:

- Jan-Olof Brüer, who directly and indirectly through family members and companies represents 16.9% of the voting rights.
- Torbjörn Kronander, who directly and indirectly through companies represents 16.9% of the voting rights.

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

## Annual General Meeting

The Annual General Meeting is the highest decision-making body through which Sectra's shareholders appoint the Board and auditors for the company and make decisions regarding the company's earnings, amendments to the Articles of Association, changes in share capital and share-related incentive programs. The Annual General

Meeting also makes decisions concerning Board and auditor fees, as well as guidelines for remuneration to senior executives. Notices, minutes and other Annual General Meeting documents are available on the Group's website at [www.sectra.com](http://www.sectra.com) under *Investor* and *Annual General Meeting*.

### *2009 Annual General Meeting*

The 2009 Annual General Meeting was held on June 26 in Linköping, Sweden. A total of 83 shareholders were represented at the Meeting, representing 80.56% of the voting rights and 69.10% of the shares outstanding. The Meeting was attended by all members of Sectra's Board of Directors, with the exception of the Chairman of the Board, who was unable to participate for personal reasons. In addition, the Meeting was attended by the company's President, CFO and auditors. The Nomination Committee was represented by Thomas Ehlin, representative of Nordea 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 to senior executives.

The Annual General Meeting reelected Board members Anders Persson, Carl-Erik Ridderstråle, Erika Söderberg Johnson, Torbjörn Kronander and Christer Nilsson. Carl-Erik Ridderstråle was reelected as Chairman of the Board. In addition to the members elected by the Annual General Meeting, the Board also includes two employee representatives, with deputies, appointed by local employee organizations.

The Annual General Meeting also passed the following resolutions:

- To authorize the Board of Directors, during the period until the next Annual General Meeting, to make decisions regarding new share issues of not more than 3,700,000 shares. The purpose of the authorization was to facilitate the use of new share issues for the financing of market investments and acquisitions of companies or operations, to cover the costs arising as a result of the company's incentive programs and to be able to constantly adapt the company's capital structure. As of the closing 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 Annual General Meeting. As of the closing date, the Board of Directors had not utilized this opportunity.
- To establish share and share price-related incentive programs for Group employees and external Board members.

For up-to-date information regarding all of the company's outstanding incentive programs, refer to the Group's website.

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

The propositions presented for approval by the Annual General Meeting regarding election and fee matters are submitted by the company's Nomination Committee, whose members are appointed in accordance with the decision of the Annual General Meeting.

### *2009 Nomination Committee*

The 2009 Annual General Meeting 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 represent the company's largest shareholders. After consulting the company's major shareholders, a Nomination Committee was appointed in

accordance with the resolution of the Annual General Meeting. The Chairman of the Committee was to be the member who represented the largest shareholder in the company based on voting rights. The members of the Nomination Committee were announced in conjunction with the six-month interim report on December 8, 2009 and comprised the following members:

- Carl-Erik Ridderstråle, Chairman of the Board (convener). Independent in relation to the company and management.
- Jan-Olof Brüer, CEO of Sectra AB and the company's largest shareholder (Chairman).
- Gündor Rentsch, representative of Frithjof Qvigstad. Independent in relation to the company and management.
- Thomas Ehlin, representative of Nordea Funds. Independent in relation to the company and management.

According to the Code, neither the President nor any other member of company management may be a member of the Nomination Committee. In this respect, Sectra deviated from the Code since the company's President is also the principle shareholder.

The Nomination Committee has the task of preparing and submitting proposals to the Annual General Meeting for the:

- Election of the Chairman and other members of the Board of Directors.
- Allocation of Board fee payments to the Chairman and other members of the Board and potential remuneration for committee work.
- Election of and payment of fees to auditors.
- Decisions regarding principles for the composition of the Nomination Committee.
- Chairman of the Annual General Meeting.

The Nomination Committee's proposals were presented in the notice of the 2010 Annual General Meeting, which is also available on the Group's website, along with a statement of the motivation for the proposal regarding the Board of Directors.

#### *Fees for 2009/2010*

In accordance with the resolution of the Annual General Meeting, a fee of SEK 250,000 was paid to the Chairman of the Board and a fee of SEK 150,000 to each of the other Board members who were not employees of the company. No separate fees were paid for committee work. Fees to auditors were paid in accordance with approved invoices.

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

According to the company's 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 Annual General Meeting for the period until the next Annual General Meeting.

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

<b>AGM-elected members</b>	<b>Elected</b>	<b>Attendance /number of meetings</b>	<b>Committee work</b>	<b>Independent in relation to the company and management</b>	<b>Independent in relation to major shareholders</b>
Erika Söderberg Johnson	2007	9/9	Audit Committee Chairman	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
Carl-Erik Ridderstråle, Chairman of the Board	2001	8/9	Remuneration Committee Chairman	Yes	Yes
<b>Employee representatives</b>					
Mats Björnemo	2005	8/9			
Ann-Sofi Mikaelsson	2007	7/9			
<b>Deputy employee representatives</b>					
Stein Norheim	2009	3/9			
Stefan Melin	2009	0/9			

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 2009/2010 fiscal year or visit the company's website under *Investor, Corporate Governance* and *Board of Directors*.

With the exception of Torbjörn Kronander, President of Sectra's Medical Systems operations and Vice President of Sectra AB, none of Sectra's Board members holds an operating role in the company. For information on the Board members' independence in relation to the company and 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 on 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 held a statutory meeting on June 26, 2009, and held an additional nine minuted meetings by the time this Annual Report was signed, of which two were per capsulam. Refer to the table above for information on each member's attendance at these meetings.

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 a theme and fixed agenda items, including establishing a formal work plan governing the activities of the Board, a directive for the President, instructions for reporting and the Group's budget, year-end report and the framework for financial reporting. Four meetings were held in

conjunction with the publication of the company's quarterly reports. During the fiscal year, the Board devoted particular attention to the company's structure and focus areas, material risks and risk management, major investments, assessing acquisitions and other structural matters. One two-day meeting was devoted to long-term strategic planning, with a focus on growth areas in the field of medical IT. The Board also conducted an assessment of its work, which formed the basis for the planning of the Board's activities for the coming year. The Nomination Committee was informed about the contents of the 2009 assessment.

The company's President and CFO regularly participate in Board meetings. Other executives take part in Board meetings as needed.

<i>Regular meetings 2009/2010</i>	<i>Theme</i>
June	Statutory Board meeting
September	Three-month interim report
October	Contracts and insurance
December	Six-month interim report, employees and salaries
February	First draft of budget
March	Nine-month interim report
April	Budget, plans, long-term goals and strategies
May	Year-end report and proposals for the Annual General Meeting

### **Audit Committee**

The main task of the Audit Committee is to support the Board in its work to ensure the quality of the company's financial reporting. From the time of the Board's statutory meeting until the signing of the Annual Report, the Committee held four meetings to discuss matters pertaining to interim reports, annual reports, risk management and internal processes, accounting and other tasks of the auditors. The company's auditor and CFO regularly participate in the Audit Committee's meetings to engage in current issues noted during auditing and continuous reporting.

### **Remuneration to 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 to senior executives to be decided on by the Annual General Meeting. From the time of the Board's statutory meeting until the signing of the Annual Report, the Committee held two meetings.

Remuneration and other terms of employment for executives directly subordinate to the President are decided on by the President in accordance with the salary policy established by the Board and the guidelines established by the Annual General Meeting.

A presentation of Sectra's system for variable remuneration to senior executives is available on the company's website under *Investor* and *Corporate Governance*.

## **President**

The President and CEO of Sectra AB is Jan-Olof Brüer. For more information about the President, including his background, education and holding of shares and other securities in Sectra, refer to Sectra's Annual Report for the 2009/2010 fiscal year or the Group's website under *Investor, Corporate Governance and Board of Directors*.

The President is responsible for ensuring that the ongoing administration of the company complies with the guidelines established by the Board of Directors. Responsibility for operational activities is decentralized to two business areas. Responsibility for the coordination of certain functions, such as economy and finance, human resources, information and IT administration, lies with the Group staff functions.

The President ensures that the Board receives factual, comprehensive and relevant information and decision-making data and engages in a continuous dialog with the Chairman of the Board, providing the Chairman with information pertaining to the company's performance and financial position.

## **External auditing**

External auditors are appointed by the Annual General Meeting for a term of four years. At the 2007 Annual General Meeting, Grant Thornton AB, which has been the company's auditor since 2002, was reelected as the company's auditor until the 2011 Annual General Meeting. Grant Thornton appointed Peter Bodin as senior auditor.

Sectra's interim report for the nine-month period from May 2009 to January 2010 has been reviewed by the auditors. The auditors' examination and audit of the year-end report and Annual Report are conducted in the period from May to June.

The company's auditor participated in the meeting at which the Year-end Report was presented and shared his observations with the Board. In conjunction with the Board meeting, the auditor held a meeting with the Board without the presence of representatives of company management.

In addition to auditing assignments, Sectra has consulted Grant Thornton in the area of taxes, auditing matters and valuation of the company's incentive programs. In accordance with the Annual General Meeting's resolution, auditors' fees are paid on the basis of invoices received. For further information, refer to Sectra's Annual Report for the 2009/2010 fiscal year.

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

The overall aim of the company's internal control activities 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.

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. Identification and assessment of the most serious risks associated with the Group's operations are conducted on an ongoing basis. For information about the company's risks, refer to the Annual Report for the 2009/2010 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 problems as early as possible so that potential deficiencies may be resolved. Procedures and activities have been designed to detect and manage the most essential risks related to financial reporting. The business areas and Group companies are followed up by the President, Executive Vice President and CFO through regular reports and personal meetings with the respective management teams of the 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 found centrally and at the unit level. This enables several controls of the company's financial reports to be performed, which reduces the risk of mistakes.

#### *Information and communication*

Financial information from the Sectra Group shall be accurate and current, and provide comprehensive information to all stakeholder groups regarding the Group's operations and financial development. This information is governed by internal guidelines and instructions for financial reporting. All press releases are posted on the website and published simultaneously. The Board is responsible for the Annual Report and the interim reports. The CFO is responsible for informing financial managers and controllers about all Group-wide accounting policies and 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 transpires 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 chief coordinating auditor also participates in at least one Board meeting a year, during which the most significant observations during the year's audit are reported directly to the Board. At the company level, follow-up is performed through weekly and monthly reports to the Parent Company and through personal visits to subsidiaries by the CFO or controller. During these visits, a review of essential procedures and compliance with Group-wide policies and guidelines is conducted.

Linköping, Sweden May 24, 2010

Board of Directors  
Sectra AB (publ)