

# CORPORATE GOVERNANCE REPORT

*This corporate governance report, a part of the Board of Director's report in the Annual Report, describes Elanders' corporate governance, which comprise the management and the administration of the company operations as well as internal control over financial reporting. The role of corporate governance in Elanders is to create a good foundation for active and responsible ownership, a suitable distribution of responsibility between the different company bodies as well as good communication with all of the company's interested parties.*

## SWEDISH CODE OF CORPORATE GOVERNANCE

Elanders follows the Swedish Code of Corporate Governance ("the Code"). The code is based on the principle "follow or explain", meaning that a company following the code can deviate from certain rules, but then needs to explain why. The following deviations from the Code at Elanders are:

- The Chairman of the Board is the Chairman of the nomination committee.

This deviation is further explained in the section on the nomination committee. More information about the Code can be found at [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

## CORPORATE GOVERNANCE IN ELANDERS - A BRIEF OVERVIEW

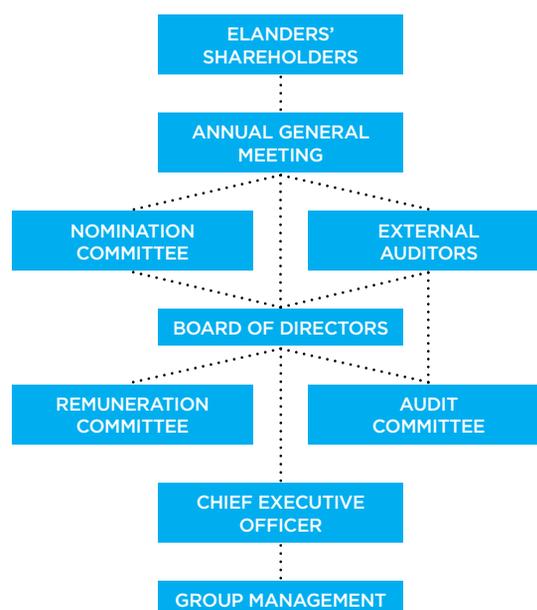
Corporate governance in Elanders is based on legal requirements (primarily the Companies Act and accounting regulations), the articles of association, NASDAQ OMX Stockholm's issuer rules, internal regulations, policies and the Code.

The Elanders Group's corporate governance, management and control are shared by the shareholders at the Annual General Meeting, the Board of Directors and the Chief Executive Officer in accordance with the Companies Act, the articles of association as well as the Group Management. Shareholders appoint the company's nomination committee, Board and external auditors at the Annual General Meeting.

## SHAREHOLDERS

On 31 December 2012 there were 2,270 (2,413) shareholders. On 31 December 2012 foreign ownership in Elanders was 19 (7) percent of shares and 13 (5) percent of votes.

The only direct or indirect shareholding exceeding a tenth of the votes in the company per 31 December 2012 was



Carl Bennet AB with 66.4 percent. No shares are owned by personnel through pension foundations or the like.

## ANNUAL GENERAL MEETING

Shareholders execute their influence at the Annual General Meeting, the company's highest decision-making body, see figure above. All shareholders recorded in the share register that have declared their intention to participate in the Annual General Meeting within the stated time limit have the right to participate in the Meeting. Shareholders that cannot participate in person can elect a representative. At the Annual General Meeting an A share represents ten votes and a B share represents one vote.

A shares and B shares have the same right to a share of company assets and profit. At the Annual General Meeting each person with voting rights is entitled to vote for their entire holding or represented holding without restrictions. Elanders' A shares are included in preemption as stated in the articles of association.

The Annual General Meeting decides on changes in the articles of association, chooses a Chairman, the Board and external auditors, adopts the annual accounts, decides on dividends if any and any other disposition of the result as well as discharges the Board from liability. Furthermore the Annual General Meeting decides on guidelines for salaries and other remuneration for leading senior officers, any new share issue and the manner in which the nomination committee is to be elected. Any shareholder with a matter they would like the Annual General Meeting to deal with should present their proposal to the Chairman of the Board or present any nomination proposal to the nomination committee. Minutes from Elanders' Annual General Meetings can be downloaded from [www.elanders.com](http://www.elanders.com) under Corporate Governance.

#### **ANNUAL GENERAL MEETING 2012**

The Annual General Meeting 3 May 2012 decided:

- to adopt the Annual Report for 2011,
- to distribute a dividend of SEK 0.50 per share for the financial year 2011,
- to discharge the members of the Board of Directors and the Chief Executive Officer from liability for 2011,
- to grant according to a proposal in the summons the Board and committee remuneration for a total of SEK 2,320,000 to be divided within the Board,
- to appoint the following Board Members:
  - Carl Bennet (re-elected)
  - Erik Gabrielson (new member)
  - Göran Johnsson (re-elected)
  - Cecilia Lager (re-elected)
  - Magnus Nilsson (CEO) (re-elected)
  - Kerstin Paulsson (re-elected)
  - Johan Stern (re-elected)
- to appoint Carl Bennet Chairman of the Board,
- to elect PricewaterhouseCoopers as company auditors until the next Annual General Meeting,
- to authorize the Chairman of the Board to summon the nomination committee before the Annual General Meeting 2013,
- to adopt regulations for the nomination committee work etc as stated in the summons to the Annual General Meeting,
- to carry out a directed new issue of 3,200,000 B shares as payment for the shares in the German companies dlolm and fotokasten
- to approve the Board's suggestion in the summons for remuneration to leading senior officers.

#### **ANNUAL GENERAL MEETING 2013**

The next Annual General Meeting for shareholders in Elanders will take place at Elanders headquarters in Mölnlycke Tuesday

7 May 2013. Further information about the Annual General Meeting will be published at [www.elanders.com](http://www.elanders.com).

#### **NOMINATION COMMITTEE**

The nomination committee prepares proposals for the Annual General Meeting concerning the election of, and remuneration to, the Chairman of the Board, Board members, committee members and external auditors, the latter having been proposed by the audit committee. The nomination committee meets as needed and at least once a year. The nomination committee met twice last year and discussed the work of the Board, the independence of Board members, Board members' evaluation of the work of the Board, the work of the committees, the audit and the composition of the nomination committee. This year the committee has consisted of Carl Bennet, Chairman (Carl Bennet AB), Hans Hedström (Carnegie Funds) and Göran Erlandsson (representative for the smaller shareholders). No remuneration has been paid to the nomination committee. The members' contact information is found in the Annual Report and on [www.elanders.com](http://www.elanders.com) under Corporate Governance.

The Chairman of the Board is also the chairman of the nomination committee, which is a deviation from the Code. Elanders believes it is reasonable that the shareholder with the largest number of votes be the chairman of the nomination committee since he ought to have a decisive influence on the composition of the nomination committee because he has a majority of the votes at the Annual General Meeting.

#### **THE BOARD OF DIRECTORS AND ITS WORK IN 2012**

The Board is elected by the Annual General Meeting and proposed by the nomination committee. The Board is ultimately responsible for the management of the company, monitoring the work of the Chief Executive Officer and continuously following developments in operations as well as the reliability of the company's internal control. The Board also decides on significant changes in the organization, investments and divestitures, adopts the budget and approves the annual accounts. The Board is ultimately responsible for ensuring that the Group has adequate systems for internal control, that the accounts are prepared and that they are reliable when published. The Group and its management have several methods to control the risks connected to operations. The Board supports Group Management by continually monitoring and identifying business risks in a structured manner as well as steering the work in the Group in how it handles the most significant risks. In conclusion this constitutes the Board's responsibility for corporate governance.

In accordance with Elanders' articles of association the Board of Directors should consist of at least three and no more than nine members with a maximum of two deputies. In 2012 the Board consisted of seven members without deputies: Carl Bennet, Chairman, Johan Stern, Vice Chairman, Erik Gabrielson, Göran Johnsson, Cecilia Lager, Magnus Nilsson and Kerstin Paulsson. In addition, employees were represented by Lilian Larnefeldt, and Tomas Svensson. Lena Hassini and Daniel Petersén are deputies to the employee representatives. All the members of the

## MEMBERS OF THE BOARD, REMUNERATION, ATTENDANCE, ETC

Member	Board, attendance (number of meetings)	Remuneration Committee, presence (number of meetings)	Audit Committee, attendance (number of meetings)	Total attendance, %	Remuneration Board + Committee work SEK '000s	Share holding <sup>1)</sup>	Independent
<b>MEMBERS CHOSEN BY THE AGM</b>							
Carl Bennet, Chairman	10 (10)	1 (1)	Not member	100	550 + 60	1,166,666 A 10,382,098 B	No, owner
Johan Stern, Vice Chairman	10 (10)	1 (1)	3 (3)	100	275 + 110 + 30	65,000 B	No, owner
Erik Gabrielson	7 (8)	1 (1)	Not member	89	275 + 30	-	Yes
Göran Johnsson	10 (10)	Not member	3 (3)	100	275 + 55	2,066 B	Yes
Cecilia Lager	8 (10)	Not member	3 (3)	85	275 + 55	11,000 B	Yes
Magnus Nilsson, CEO	10 (10)	Not member	Not member	100	Employee	37,800 B	No, company
Kerstin Paulsson	10 (10)	Not member	3 (3)	100	275 + 55	2,000 B	Yes
<b>EMPLOYEE REPRESENTATIVES</b>							
Lena Hassini	9 (9)	Not member	Not member	100	Employee	-	No, company
Lilian Larnefeldt	9 (10)	Not member	Not member	90	Employee	-	No, company
Daniel Petersén	6 (6)	Not member	Not member	100	Employee	-	No, company
Tomas Svensson	10 (10)	Not member	Not member	100	Employee	-	No, company
<b>TOTAL</b>				<b>97</b>	<b>2,320</b>		

<sup>1)</sup> Shareholding per 31 December 2012.

Board elected by the Annual General Meeting have an independent relationship to the company except Magnus Nilsson. Erik Gabrielson, Göran Johnsson, Cecilia Lager and Kerstin Paulsson are independent in relationship to the company's largest owner. Carl Bennet is dependent with regards to the shareholder Carl Bennet AB where he is Chairman of the Board and owner. Johan Stern is also dependent in relation to Carl Bennet AB where he is a member of the Board.

The Board has produced and adopted a work plan that regulates the division of responsibility between the Board, its Chairman and the Chief Executive Officer. It also includes a general meeting plan and instructions on financial reports as well as the other matters that must be put before the Board. The work plan is revised once a year or as needed.

The Board has seven ordinary meetings per year; four of them in conjunction with the year-end report and quarterly reports, a meeting dedicated to strategic matters, a meeting to adopt the coming year's budget and a constitutional meeting following the Annual General Meeting. In addition, the Board is called to further meetings as needed. The Group's external auditors participate in the meeting that deals with the report for the first nine months of the year as well as the meeting regarding the year-end report to inform the Board in its entirety about the result of their audit.

The Board followed the meeting plan for the year. The Board also met three times to handle matters concerning acquisitions, financing and the company's organization. The Board has otherwise been involved primarily in matters regarding financing, assessing market conditions, external circumstances and Elanders' business position as well as the Group's strategic expansion.

At the constitutional meeting of the Board the work plan and instructions for the Chief Executive Officer are reviewed and the customary decisions concerning authorized signatories are taken. In addition, the work plans for the remuneration and audit committees are adopted and their members appointed. At the constitutional meeting of the Board after the Annual General Meeting 2012 Johan Stern was made Vice Chairman. The Board in its entirety was authorized to sign for the company as well as two of the following persons together: the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer. At the meeting concerning the financial statements the Board met the auditors without the presence of the CEO or any other member from Group Management. The Board travels as often as possible to visit and hold its meetings in one of the Group's subsidiaries in Sweden or abroad. The Board members' remuneration and presence is presented in detail in the table above.

### THE CHAIRMAN OF THE BOARD

The Chairman leads and organizes the Board and is responsible for making sure the Board meets its responsibilities and that the members receive the information necessary to ensure the work done by the Board is of high quality and performed according to legal stipulations and the contract with the stock exchange. The Chairman of the Board must also make sure that during the year an evaluation of the Board's work is carried out and that the nomination committee is informed of the results. The evaluation is carried out annually in the form of a questionnaire and encompasses the Board's composition, remuneration, materials, administration, work methods, meeting content, reports from

the committees and education. The evaluation is on a scale of 1–5, where the highest grade is 5. The average score in 2012 was 4.61 (4.70). In addition, the Chairman of the Board represents the company in ownership matters and communicates viewpoints from the owners to the Board. The Chairman of the Board is elected by the Annual General Meeting. Carl Bennet has been the Chairman of the Board since 1997.

#### **REMUNERATION COMMITTEE**

The remuneration committee is composed of Board members with the highest competence in this field. It deals with matters concerning remuneration to the Chief Executive Officer and officers that report directly to him. Decisions concerning remuneration to other employees in management positions in the Group are made by each individual's closest superior in consultation with their closest superior, also known as the "grandfather principle". During the year the remuneration committee held one meeting during which they adopted their work plan and prepared a proposal for remuneration. During the year the remuneration committee consisted of Carl Bennet, Chairman, Erik Gabrielson and Johan Stern. The guidelines for remuneration to leading officers adopted at the Annual General Meeting 2012 can be found in note 5 in the formal financial statements and on the company's website, [www.elanders.com](http://www.elanders.com) under Corporate Governance. The guidelines for remuneration to leading officers for 2012 and the Board of Director's proposal for guidelines for 2013 can be found on page 76 in the Annual Report 2012. The company has not issued, and will not issue any share-based payment obligation, or any similar incitement programs.

#### **AUDIT COMMITTEE**

The audit committee is appointed from within the Board based on members' experience of, and expertise in financial reporting, accounting and internal control. The committee follows a work plan adopted by the Board. Its primary task is monitoring internal control, procedures for financial reporting, compliance of related laws and regulations as well as the external audit in the Group. The committee also evaluates the external auditors' qualifications and independence. The audit committee reports their observations on a regular basis to the Board and provides, as needed, external auditor candidates to the nomination committee. The committee meets at least twice a year and as needed. The external auditors normally participate in committee meetings. The committee met three times in 2012. The auditors reported on the audit of the nine month report and the year-end report, the company's situation with the Code of Corporate Governance and internal control were discussed. The members of the audit committee in 2012 were Johan Stern, Chairman, Göran Johnsson, Cecilia Lager and Kerstin Paulsson.

#### **CHIEF EXECUTIVE OFFICER**

The Chief Executive Officer is the President of the Group, a member of the Board and leads the Group's operations. The Chief Executive Officer's work is steered by the Companies Act, other laws and regulations, current laws for listed companies including the Code, the articles of association and the framework estab-

lished by the Board in, among other things, the CEO instruction. The Chief Executive Officer is authorized to sign for the company in daily management in accordance with the Companies Act as well as sign for all Group subsidiaries. The Chief Executive Officer is responsible for providing the Board with continual reports on Group results and financial position as well as the information the Board needs to make qualified decisions. The Chief Executive Officer also keeps the Chairman of the Board apprised of developments in operations. All the managing directors in the Group's subsidiaries receive written instructions. These instructions contain a division of responsibility between the Board and the managing director and guidelines the managing director must observe in the running of operations.

#### **GROUP MANAGEMENT**

The President and Chief Executive Officer lead the work performed by Group Management and make decisions in consultation with members of Group Management. Group Management is responsible for day-to-day financial and commercial management and follow-up in the Group. It also strives to continually achieve synergies, identify acquisition and structural opportunities as well as adapt Group operations to market demands and short and long-term developments. Group Management makes sure that the competence and capacity of the Group is coordinated and adjusted to be as useful and profitable as possible in the short and long term. Elanders' Group Management consists of Magnus Nilsson, President and Chief Executive Officer as well as responsible for operations in Great Britain, North America and Brazil, Per Brodin, responsible for Asia, Åsa Severed, responsible for Sweden and Poland (starting March 1, 2013), Peter Sommer, responsible for Germany, Hungary and Italy as well as Andréas Wikner, CFO. Group Management meets formally almost once a month, often in conjunction with a visit to a unit within the Group.

#### **THE BOARD'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The purpose of internal control over financial reporting is to insure that it is reliable and that the financial reports follow generally accepted accounting principles and otherwise follow applicable laws and regulations concerning listed companies. According to the Swedish Companies Act and the Code of Corporate Governance the Board is ultimately responsible for an effective, functioning internal control in the Group. Internal control is based on the framework for internal control published by COSO (Committee of Sponsoring Organizations of the Treadway Commission) and which comprises the control environment, risk assessment, control activities, information, communication as well as follow-up. The Chief Executive Officer is responsible for an organization and processes that ensure the quality of financial reports to the Board and the market.

#### ***Control environment***

The control environment at Elanders is characterized by the proximity between Group Management and the operating units.

All members of Group Management, except the Chief Executive Officer and the CFO are also MDs in one or more of the larger operative units in the Group. The framework for internal control over financial reporting in Elanders consists of routines and distribution of responsibility that are clearly communicated in internal policies and different kinds of manuals. The Board has adopted a work plan that regulates the Board's responsibility and the manner in which work is done in committees. The Board also has an audit committee that is responsible for ensuring that established principles in financial reporting and internal control are complied with and developed. It also maintains regular contact with the external auditors. In order to maintain an effective control environment and good internal control the Board has delegated the practical responsibility to the Chief Executive Officer and established a CEO instruction which defines the division of responsibility between the Board and the Chief Executive Officer.

#### ***Risk assessment***

It is the responsibility of the Board to identify and handle any major financial risks and the risk of mistakes in financial reporting. This includes identifying areas in financial reporting where the risk of making a crucial mistake is higher as well as developing control systems to prevent and discover these faults. This is primarily done by identifying situations in operations and events in the outside world that could have an impact on financial reporting.

#### ***Control procedures***

The aim of the control procedures is to ensure that financial reporting is correct and complete and that it is based on the Group's requirements for internal control over financial reporting. Control procedures consist of general and detailed controls and can be both preventive and detective. For instance, the Board continuously follows developments in the operations through monthly reports containing detailed financial information as well as the CEO's comments on operations and result and financial position. Group Management or representatives from Group Finance regularly visit each unit and evaluate internal control and financial reporting. The MD in each subsidiary is responsible for making sure Group governance regulations are implemented and followed and that any deviations are reported. Companies in the Elanders Group make annual evaluations of how internal control functions in relation to the Group's goals. In this year's revision several areas where improvements have been made were noted as well as areas where there is room for further improvement. Measures have been taken to make these changes.

#### ***Information and communication***

In order to make Elanders employees aware of the Group's policies and manuals the information is available on the Group intranet. Information is also regularly communicated via internal newsletters. To ensure that information communicated externally is correct and complete the Board has adopted an Information policy that dictates what should be communicated, by whom and how the information should be released.

#### ***Follow-up***

The Board follow-up of the internal control over financial reporting is first and foremost handled by the audit committee. The observations and potential areas of improvement in internal control that have been identified in the external audit are processed by the audit committee together with the external auditors and the CFO. The annual evaluation of internal control in each individual company is reviewed by Group Finance, sometimes in cooperation with the external auditors. Conclusions from this review have been reported to the audit committee.

#### **SPECIAL AUDIT FUNCTION, INTERNAL AUDIT**

Elanders does not have a special internal audit function at the moment. This function is performed by Group Management and Group Finance, supported by the audit committee and the external auditors. The Board annually evaluates the need for an internal audit function but so far, considering the size of the Group and Group Management's operative character, it does not believe a special audit function would be of any significant advantage. A continuous dialogue between the company and the external accountants together with the controls carried out by Group Management is considered sufficient to ensure that internal controls are kept on an acceptable level. This assessment is regularly evaluated and the matter will be tested once again in 2013.

#### **EXTERNAL AUDIT**

The Annual General Meeting 2012 chose the authorized public accounting company PricewaterhouseCoopers AB until the next Annual General Meeting. Head auditor is the authorized public accountant Johan Rippe. Once a year the auditors meet the Board in its entirety without the CEO or any other member of Group Management present, normally at the meeting that deals with the year-end report. The auditors also participate in the Board meeting dealing with the report for the first nine months of the year.