

Corporate governance report

Episurf Medical AB is a Swedish public limited company that is domiciled in Stockholm. The share has been traded on Nasdaq Stockholm since 11 June 2014. In a limited company like Episurf Medical, governance, management and control are divided between the shareholders, the Board of Directors, the CEO and the executive management in accordance with the applicable laws, rules and instructions.

Governance structure



THE COMPANY'S CORPORATE GOVERNANCE is regulated by the Articles of Association, the Swedish Companies Act, Nasdaq Stockholm's Rules for Issuers, which include the Swedish Corporate Governance Code (the Code), and other applicable laws and rules. Episurf Medical's Articles of Association can be downloaded from the company's website (www.episurf.com).

Episurf Medical complies with the Code with effect from the listing on Nasdaq Stockholm's main market. The Code is based on the "comply or explain" principle. This means that a company that applies the Code may deviate from individual rules in the Code, but must explain the reasons for doing so. The Code must be applied in full in connection with the first annual general meeting after the year after listing.

Episurf Medical complies with the Code with deviation for the audit committee. This deviation is explained in detail below. Since the time of listing, the company has not committed any violations of Nasdaq Stockholm's Rules for Issuers or generally accepted practice in the stock market.

1 Share and shareholders

Episurf Medical's shares are issued in two classes, class A and class B. The class B shares are traded on Nasdaq Stockholm with the ticker symbol EPIS B. Prior to this, the company's shares began trading on Nasdaq Stockholm First North on 15 August 2011. Each class A share carries the right to three votes at a general meeting and each share of

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class B carries the right to one vote at a general meeting. Shares of class A can be freely converted to class B. The total number of shares at year-end 2016 was 15,949,804, of which 3,400,871 were class A shares and 12,548,933 were class B shares.

The number of shareholders at year-end was 2,210 (1,940). The ten largest shareholders in Episurf Medical in terms of voting power held shares corresponding to 51.6 percent (53.3) of the share capital and 64.7 per cent (65.4) of the votes. The largest shareholder, Serendipity Ixora Fund AB, held shares corresponding to 17.7 per cent (17.7) of the share capital and 37.2 per cent (37.0) of the votes. For further information about the share, shareholders and ownership structure, see pages 32–34 of the annual report.

2 General meeting of shareholders

The general meeting of shareholders is the company's highest decision-making body and, according to the Articles of Association, shall be held yearly within six months after the end of the financial year. Shareholders who are recorded in the share register five days before the general meeting and who provide notification of attendance in the correct manner have the right to participate. Notice of attendance shall be made to the company no later than the date stated in the notice of meeting. All shareholders who are recorded in the share register on the record date and who have given notice of their attendance on time have the right to attend the meeting and vote the total number of shares held.

Notice of general meetings shall be given through an announcement in the Post- och Inrikes Tidningar (the Official Gazette) and through publication on the company's website. At the same time, an announcement that notice has been given shall be published in Dagens Industri and on the company's website (www.episurf.com).

At the Annual General Meeting (AGM), the shareholders elect the Board of Directors and, when appropriate, the auditors. The AGM also resolves on matters such as principles for appointment of the nominating committee, discharge from liability for the Board of Directors and the CEO, adoption of the annual report, appropriation of earnings, fees

for the Board of Directors and auditors, and guidelines for remuneration to the CEO and other senior executives.

Notices, minutes, communiqués and other materials related to general meetings are published on the company's website.

It is the General meeting which decides on amendment of the Article of Association.

AGM 2016

The AGM on 24 May 2015 passed the following resolutions:

- » To adopt the income statement and balance sheet.
- » To appropriate the earnings according to the Board's proposal in the annual report.
- » To grant the Board of Directors and the CEO discharge from liability for the past financial year.
- » The Board of Directors shall comprise of four ordinary members with no deputy members.
- » To pay a fixed board fee of SEK 100,000 to each member of the Board, including the Chairman of the Board of Directors, shall receive an annual fee of SEK 100,000, however that Wilder Fulford, in case he is elected as member of the Board of Directors, shall receive an annual fee of SEK 200,000, the total is therefore SEK 500,000. No fees paid for work on the Board's committees. It was proposed that fees for the auditors be paid according to approved account.
- » To re-elect Saeid Esmailzadeh and leif Ryd and elect Christian Krüeger and Wilder Fulford as members of the Board of Directors for the period until the end of next annual general meeting. It was further resolved to re-elect Saeid Esmailzadeh as chairman of the Board of Directors.
- » To re-elect the authorised public accounting firm KPMG AB as the company's auditor for the period until the end of the next annual general meeting, with Duane Swanson as auditor-in-charge.
- » To Adopt the procedures for establishing the nomination committee for the 2017 annual general meeting in accordance with the proposal of the nomination committee.
- » To adopt the guidelines for remuneration to the senior management in accordance with the proposal of the Board of Directors.

- » To approve a directed issue of shares in Episurf Medical UK Limited to the CEO of the company.
- » To approve bonus issue without issuance of new shares as well as a reduction of the share capital with retirement of shares of series B for allocation to the unrestricted shareholders' equity.
- » To Authorise the Board of Directors to resolve on new issues of shares for the period until the 2017 annual general meeting.

Extraordinary general meeting, August 2016

- » It was resolved that the Board of Directors shall comprise of six ordinary members with no deputy members.
- » It was resolved to elect Dennis D. Stripe and Wil Boren as new members of the Board of Directors in addition to Saeid Esmailzadeh, Leif Ryd, Wilder Fulford and Christian Krüeger who were elected at the Annual General Meeting 2016. It was further resolved to elect Dennis D. Stripe as new chairman of the Board of Directors.
- » It was resolved that each new member of the Board of Directors shall receive a fee of SEK 200,000 and that the Chairman of the Board of Directors shall receive a fee of SEK 400,000. It was further resolved that no fees shall be paid for committee work.
- » It was resolved to adopt an employee stock option programme and approve an issue of warrants.

2017 AGM

The 2017 AGM will be held in Stockholm on 22 May 2016. The notice of meeting will be made public through a press release and announcements in Post och Inrikes Tidningar and Dagens Industri, as well as publication on Episurf Medical's website.

3 Nomination committee

Ahead of the AGM, the nominating committee shall put forward proposals for the number of Board members, the composition of the Board, fees to the Board of Directors, the Chairman of the AGM and of the Board, and when appropriate, proposals for election of an auditor and auditing fees.

The 2016 AGM resolved on principles for Episurf Medical's nominating committee that shall apply until changed by a future general meeting, according to the following:

The work of Nomination committee

- » The nominating committee shall have four members. The three largest shareholders in the company in terms of voting power in the company at 31 August the year before the year in which the AGM is held shall each have the right to appoint a member to the nominating committee. The Board Chairman shall also be appointed as a member of the nominating committee. The CEO and other members of the executive management shall not be members of the nominating committee.
- » By 15 October, the Board Chairman shall convene the largest shareholders in the company. If any of these should waive its right to appoint a member to the nominating committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member.
- » The composition of the nominating committee shall be made public no later than six months before the AGM.
- » The Board Chairman shall convene the first meeting of the nominating committee. However, the Board Chairman shall not be appointed as chairman of the nominating committee.
- » If it becomes known that any of the shareholders that have appointed a member to the nominating committee is no longer one of the largest shareholders, due to changes in the shareholder's holding or as a result of changes in

Members of the Nomination Committee ahead of the 2016 AGM

Dennis D. Stripe	Chairman of Episurf Medical AB
Amin Omrani	Representing Serendipity Ixora AB
Christian Krüeger	Representing LMK Stiftelsen
Björg Arnadóttir	Representing Kauphing HF

Amin Omrani has been appointed chairman of the nomination committee

other shareholders' holdings, the member appointed by the shareholder, if the nominating committee deems it appropriate, shall resign and be replaced by a new member who is appointed by the shareholder which at that time is the largest registered shareholder that has not already appointed a member to the nominating committee. If the registered ownership conditions are otherwise significantly changed before the nominating committee has completed its work, and if the nominating committee deems it appropriate, the composition of the nominating committee shall be changed according to the above principles.

- » The nominating committee's mandate period extends until a new nominating committee has been appointed.
- » The Chairman of the Board shall annually present an evaluation of the Board's work during the year for the nominating committee, which should be the base for the work for the Nomination committee together with the requirements of the Swedish code and specific requirements of Episurf Medical AB.

The nominating committee's proposals are published in the notice of the AGM, on the company's website and at the AGM.

Nomination Committee meetings

Nomination committee for the AGM 2017 has held three meetings. No fees have been paid for work on the nominating committee.

Composition of the Board

Name	Function	Born in	Elected in	Fees (SEK)	Meeting attendance	Independent	
						From the company	From shareholders
Dennis D. Stripe ²	Board Chairman	1957	2017	400 000	5/14	Yes	Yes
Christian Krüeger ¹	Board member	1966	2017	100 000	9/14	Yes	Yes
Leif Ryd	Board member	1949	2008	100 000	13/14	No ³	Yes
Saeid Esmaeilzadeh	Board member	1974	2008	100 000	14/14	Yes	No
Wil Boren ²	Board member	1973	2017	200 000	5/14	Yes	Yes
Wilder Fulford ¹	Board member	1958	2017	200 000	8/14	Yes	Yes

1) Elected at the AGM on 24 May 2016.

2) Elected at the Extra General Meeting on 18 August 2016.6.

3) Independent in relation to the company, but not in relation to the company's senior executives.

4 Board of Direct

Episurf Medical's Board of Directors consists of five members elected by the AGM, with no deputies. The members of the Board are elected by the AGM to serve for the period until the company's next AGM. The 2015 AGM elected the Board according to the table below, which also shows fees, independence, etc. According to the Articles of Association, the Board shall consist of at least three and at most eight members. The CEO is not a member of the Board.

Independent

The company's Board of Directors has been assessed to meet the independence requirements, as five of the six members elected by the AGM are independent in relation to the company and its management and five of the six members are independent in relation to major shareholders. Leif Ryd is not deemed to be independent in relation to the company and its management as he currently active as a consultant in the company. Saeid Esmaeilzadeh is not deemed to be independent in relation to major shareholders as he himself is a major shareholder in the company (through direct holdings or via company). No Board member is a woman, but in accordance with the Code, the Board intends to strive for a more even gender distribution on the Board.

The Board's work and responsibilities

The Board of Directors establishes the company's goals, strategies, budget and business plan. The Board is respon-

sible for the company's organisation and administration and for ensuring the quality of its financial reporting and internal control. Furthermore, the Board shall examine and approve the financial reports and establish significant policies and regulatory systems. The Board shall also resolve on decisions outside the scope of day-to-day management, such as major investments and changes. The Board shall monitor the company's operations based on the established goals and guidelines. This work is governed by the Swedish Companies Act, the Articles of Association, the Code and the Board's procedural plan.

Every year, the Board shall hold an inaugural meeting immediately following the AGM. The inaugural meeting shall among other things appoint the company's authorised signatories and shall review and adopt the Board's procedural plan. The company's Board meetings shall normally deal with the company's financial situation and matters of material importance to the company. The CEO reports continu-

ously on business plans and strategic issues. According to the Board's procedural plan, the Board is a quorum when at least three of its members are present

Pursuant to the Swedish Companies Act, Episurf Medical's Board of Directors has adopted a written procedural plan for its work. The now applicable procedural plan and CEO instructions were adopted at the inaugural Board meeting on 6 May 2015. The procedural plan among other things regulates how the Board shall conduct its work and which matters are to be dealt with by the Board. The procedural plan also regulates how the Board is to be continuously provided with information and financial reporting by the CEO.

The Board in its entirety takes part in matters related to auditing, including monitoring and evaluation of the audit process, quality assurance of the company's financial reporting, assessment of reports from the independent auditor and review of the auditors' independence from the company, including the scope of any non-audit services provided

by the auditor to the company. The Board has therefore not set up any audit committee.

The Board shall annually review the Board's and the CEO's work and present it to the Nomination Committee.

Word of the Board in 2016

The Board held fourteen meetings in 2016. The Board members' attendance is shown in the table below. Each scheduled Board meeting followed an agenda and decision data was sent to the members of the Board ahead of each meeting. The CEO and certain other senior executives in the company have taken part in Board meetings in order to present reports. The Board has dealt with matters such as R&D, marketing plans and commercialisation of products, organisation, financial reporting and monitoring, financial position and investments. In 2016 the Board devoted special attention to issues related to marketing and sales.

Evaluation of the Board's work was conducted in January

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December

Decision on updated policies.

November

Scheduled Board meeting; discussion of interim report for January to September, budget/business plan for the coming year.

October

Financing and the USA were discussed.

August

Scheduled Board meeting, discussion of interim report for January to June, decision on authorized signatories.

July

Proposal new Board members, incentive scheme, notice to the extra general meeting.



February

Scheduled Board meeting; year-end report, finalised budget. Members of foreign company boards, equity research coverage.

April

Decisions regarding the annual report, notice of the AGM, members of the foreign company boards, etc.

May

Scheduled Board meeting, interim report for January to March.

AGM

Inaugural meeting; decision on authorized signatories.

The fixed items on the agenda of scheduled Board meetings have included the operations and financial results of the company and the subsidiaries, the CEO's situation report, sales and marketing strategy, feedback from the remuneration committee, and other pertinent projects and matters.

2017 and was presented written to the Board and the Nomination Committee in March 2017 and then orally for the Board April 6, 2017, the reason why the company chose to postpone the evaluation depends on that the Board August 18, 2017 added two directors and an judgement was made that a delayed evaluation would be more accurate. Evaluation of the Board's executive director was conducted in December 2016 and in January 2017 the formerly CEO Rosemary Cunningham Thomas left the company and Pål Ryfors took over as acting CEO.

Remuneration to the Board

Fees and other remuneration to the members of the board of directors, including the Chairman, are determined by a general meeting of the shareholders of the company. At the annual general meeting held on 24 May 2016, it was resolved that remuneration shall be paid with SEK 200,000 to Wilder Fulford and SEK 100,000 to Saeid Esmaeilzadeh, Leif Ryd and Christian Krüeger, respectively. Dennis D. Stripe and Wil Boren were appointed as directors at the extraordinary general meeting held on 18 August 2016. The extraordinary general meeting resolved that remuneration shall be paid with SEK 200,000 to Wil Boren and SEK 400,000 to Dennis D. Stripe, who was appointed Chairman of the board of directors. It was further resolved that no remuneration shall be paid for committee work. During the financial year 2016, the total remuneration to the members of the board of directors amounted to SEK 1,100,000 distributed in accordance with the table on page 45.



Auditor

The 2016 AGM elected the auditing firm of KPMG AB as the company's independent auditor to serve until the end of the 2017 AGM. Auditor in Charge is Authorised Public Accountant Duane Swanson. Duane Swanson, born in 1959, is an Authorised Public Accountant and a member of FAR. KPMG AB's office address is: Vasagatan 16, 101 27 Stockholm, Sweden.

BOARD COMMITTEES

5 Remuneration committee

According to the Code, the members of the remuneration committee shall be independent in relation to the company and the senior executives.

The board of directors' remuneration committee continuously evaluates the remuneration to senior executives in view of current market conditions. The Remuneration Committee currently consists of three members: Dennis D. Stripe, Christian Krüeger, Saeid Esmaeilzadeh, which are all considered to be independent in relation to the company and the senior executives.

The remuneration committee's main tasks are to (a) prepare the board of directors' decisions on issues relating to compensation and other employment terms for the senior executives, (b) monitor and to evaluate current remuneration structures, remuneration levels and programs for variable remuneration to the senior executives and (c) to monitor and evaluate the outcome of variable compensation schemes and the company's compliance with remuneration guidelines adopted by the general meeting.

After the annual meeting 2016, the Remuneration Committee held two meetings.

Remuneration committee	No. of meetings
Dennis D. Stripe,	2/2
Christian Krüeger	2/2
Saeid Esmaeilzadeh	2/2

— Audit Committee

Episurf Medical deviates from the Code in that it has no specially appointed audit committee. Matters related to auditing are dealt with by the Board, pursuant to the Swedish Companies Act, Chapter 8, section 49 a, paragraph 2.

The Board's assessment is that Episurf Medical has no need for a separate audit committee in view of Episurf Medical's size and that audit-related matters are best handled by the entire Board.

6 Auditors

The independent auditor is appointed at the AGM to examine the company's financial accounts and the administration of the company by the Board of Directors and the CEO. The 2016 AGM appointed the auditing firm of KPMG AB to serve as the company auditor until the end of the 2017 AGM, with Duane Swanson as the auditing firm's appointed Auditor in Charge.

7-8 CEO and executive management

The Board appoints the CEO. The CEO oversees the company's operations, supervises its day-to-day management and is responsible for ensuring that the Board is provided with the information necessary to discharge its duties.

The CEO is not a member of the Board. The CEO presents reports to the Board and takes part in meetings, except for when the CEO is evaluated, at which time the Board meets with the auditor without the presence of the executive management, or if the Board so decides. The segregation of responsibilities between the Board of Directors and the CEO is described in written CEO instructions that are subject to yearly revision.

Pål Ryfors was appointed Acting CEO in connection with Rosemary Cunningham Thomas resigning from her position as CEO in January 2017. Pål Ryfors has a Bachelor in Financial Economics, Gothenburg School of Economics. He has vast experience from leading positions within the finance and banking sector both in the Nordics and internationally.

The CEO appoints the members of the executive management. The role of the executive management is to drive business operations and monitor the company's development.

At the beginning of 2016 the executive management consisted of Rosemary Cunningham Thomas (CEO), Pål Ryfors (CFO) and Jeanette Spångberg (COO).

During 2016 there were no changes in the executive management but Rosemary Cunningham Thomas resigned from her position as CEO in January 2017 and Pål Ryfors was appointed Acting CEO.