

Corporate Governance Report

PRINCIPLES FOR CORPORATE GOVERNANCE

Corporate governance in Handicare Group AB (publ) is based on Swedish law, in particular the Swedish Companies Act (2005:551) and the Swedish Annual Accounts Act (1995:1554). Handicare also complies with Nasdaq Stockholm's Rule Book for Issuers and also applies the Swedish Corporate Governance Code (the "Code"), as well as opinions from the Swedish Securities Council regarding generally accepted practice in the Swedish stock market.

A company is not obliged to comply with all the rules of the Code as the Code itself establishes scope to deviate from the rules, provided that all such deviations and the chosen alternatives are described and the reasons for deviation explained in the Corporate Governance Report (the "comply or explain" principle). Handicare has complied with all of the rules of the Code since the shares were listed on Nasdaq Stockholm, except for Rule 9.7 of the Code. Handicare deviates from Rule 9.7 of the Code because of the warrant programme adopted by the General Meeting on 9 October 2017 ahead of the listing on Nasdaq Stockholm, insofar as the participants may subscribe for new shares under one of the series after a two-year period and thus deviate from the Code's three-year period. The second warrant series entitles the participants to subscribe for shares after a three-year period.

The warrants offering with two and three years' duration, respectively, is considered to be aligned with Handicare's long-term business plan, strategy and financial targets. By introducing two series of warrants, the

company enters into a position that essentially resembles that of other already listed companies, which have ongoing three-year programmes outstanding. For potential new programmes, Handicare intends to only introduce three-year programmes in accordance with the Code.

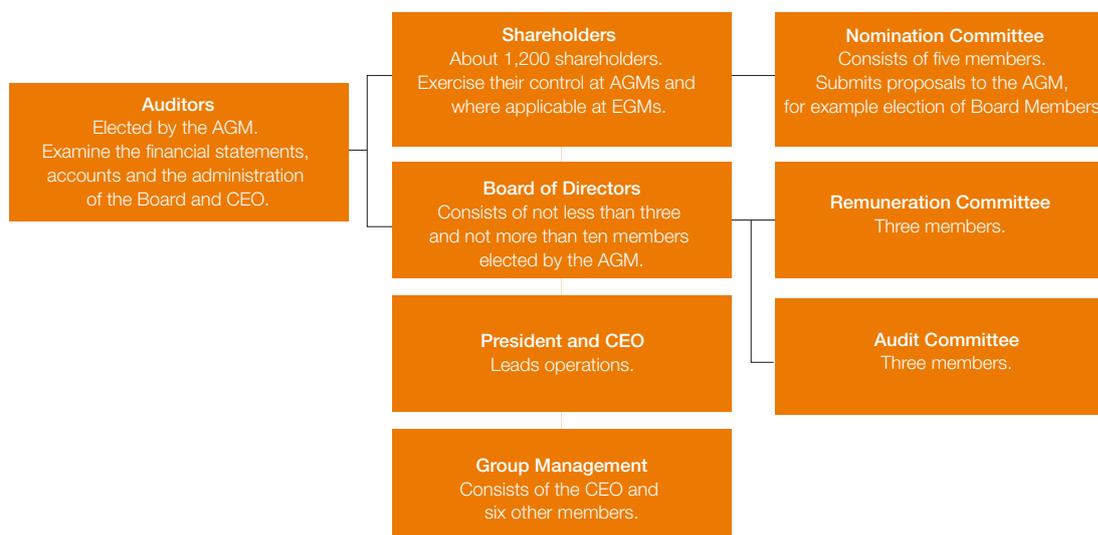
Handicare has committed no breach of Nasdaq Stockholm's Rule Book for Issuers or generally accepted practice in the stock market.

Responsibility for corporate governance and control of the Handicare Group is shared between the shareholders (via the general meeting), the Board of Directors and the CEO.

GENERAL MEETINGS OF SHAREHOLDERS

Pursuant to the Swedish Companies Act, the General Meeting is the company's highest decision-making body, at which the shareholders exercise their voting rights. The Annual General Meeting (AGM), the general meeting at which the annual report and the auditor's report are presented, must be held within six months of the end of each financial year. Resolutions are taken on a number of key issues at the AGM, including the appropriation of profit or loss, discharge of the Board of Directors from liability, and the election of the Board and auditors. The notice convening the AGM is published no earlier than six weeks and no later than four weeks prior to the meeting. Extraordinary general meetings (EGMs) are held when the Board of Directors considers such meetings appropriate or when either the auditor or shareholders representing at least 10 percent of all issued shares request such meeting in writing for a specified purpose. Pursuant to the

GOVERNANCE STRUCTURE



Swedish Companies Act, a General Meeting may not adopt any resolution which is likely to give undue advantage to a shareholder or a third party to the detriment of the company or another shareholder.

Shareholders who wish to have a matter brought before the General Meeting must submit a written request to this effect to the Board of Directors. Such request must normally be received by the Board of Directors no later than seven weeks prior to the General Meeting.

Right to participate in General Meetings

Shareholders who wish to participate in a General Meeting must be included in the share register maintained by Euroclear Sweden AB on the day falling five workdays prior to the meeting and notify Handicare of their participation not later than on the date stipulated in the notice convening the meeting.

Shareholders may attend the General Meeting in person or by proxy and may be accompanied by a maximum of two assistants. A shareholder may vote for all shares in the company owned by the shareholder.

2019 Annual General Meeting

The Handicare 2019 AGM will be held at 1:00 p.m. on 8 May at Tändstickspalatset, Västra Trädgårdsgatan 15, Stockholm.

Shareholders who wish to submit a proposal to the Nomination Committee or wish to have business brought before the AGM had the possibility to submit their proposal to the Nomination committee or to the company by 20 March 2019.

2018 Annual General Meeting

The AGM was held on 8 May and Joakim Andreasson, Jonas Arlebäck, Maria Carell, Elisabeth Thand Ringqvist, Claes Magnus Åkesson, Lars Marcher and Johan Ek were elected as members of the Board. Lars Marcher was elected Chairman of the Board. All AGM-related documents are available on the company's website.

SHARES

At year end, the share capital amounted to EUR 81,205 divided between 58,939,000 shares. All of the shares are of the same class and all of the shares in the company carry equal voting rights and equal rights to the company's profits and assets. At the end of 2018, Handicare had 1,244 shareholders, according to the shareholders' register maintained by Euroclear. The only holding representing a minimum of one-tenth of the number of votes was held by Cidron Liberty Systems Ltd, which had 62.86 percent of the votes at year-end 2018. Further information about the share and shareholders is available on the company's website.

NOMINATION COMMITTEE

The purpose of the Nomination Committee is to make proposals in respect of the Chairman at general meetings, Board member candidates, including the position of Chairman, fees and other remuneration for each member of the Board of Directors as well as remuneration for committee work, and election of and remuneration of the external auditor. The Nomination Committee's work is guided by the instructions adopted by the AGM, which are available on the company's website.

At the AGM held on 8 May 2018, it was resolved that the Nomination Committee ahead of the 2019 AGM, will be composed of representatives of the four largest directly registered owner-grouped shareholders (based on voting rights) according to Euroclear Sweden on 31 August 2018 and the Chairman of the Board. The member representing the largest shareholder will be appointed Chairman of the Nomination Committee. Changes to the composition of the Committee are announced as soon as they occur. Members of the Nomination Committee prior to 2019 AGM:

- Fredrik Näslund (Chairman), Cidron Liberty Systems Ltd
- Arne Lööw, Fourth Swedish National Pension Fund
- Esben Saxbeck Larsen, Danica Pension
- Espen Tidemann Jörgensen, Holta Life Sciences
- Lars Marcher, Chairman of the Board Handicare Group AB

The composition of the Nomination Committee meets the requirements regarding independent members in the Committee.

The Code states that the Nomination Committee, in its proposal for the Board of Directors, must pay particular attention to the requirement of endeavouring to have even gender distribution. In conjunction with its assignment, the Committee must otherwise complete the tasks incumbent on the Committee under the Code.

Particular importance was attached to the company's strategies and targets, as well as the demands the company's future focus is expected to place on the Board of Directors. As a basis for its proposals, the Committee interviewed the Board members of Handicare and consulted the Board evaluation. The Nomination Committee has held four meetings. The required documentation from the Nomination Committee ahead of the 2019 AGM is available on the company's website.

BOARD OF DIRECTORS

Under the Swedish Companies Act, the Board of Directors is responsible for the organisation of Handicare and the management of the company's affairs, which means that the Board of Directors is responsible for, inter alia, setting targets and strategies, establishing procedures and systems for evaluating the set targets, continuously assessing the company's financial position and results and for evaluating the operational management. Handicare's Articles of Association state that the Board of Directors must consist of not less than three and not more than ten ordinary members, each of whom is elected at an AGM for the period until the end of the next

AGM. Under the Code, the Chairman of the Board is appointed by the AGM and has particular responsibility for the management of the work of the Board of Directors and ensuring that such work is well organised and conducted effectively. The Chairman of the Board does not participate in the operating management of the company.

The Board applies written rules of procedure, which are revised annually and adopted by the statutory Board meeting each year. Among other things, the rules of procedure govern Board practices, its functions and the allocation of work between Board members and the CEO. At the statutory Board meeting, the Board also adopts instructions for the CEO, including instructions for financial reporting.

Handicare's Board of Directors comprises seven ordinary members and no deputies. For a presentation of the Board of Directors, see page 54-55.

Evaluation of the board of directors and the ceo

Once a year, the Chairman of the Board initiates an evaluation of the Board's work. The purpose of this evaluation is to gain an understanding of the Board members' view of how the Board's work is conducted and what measures can be implemented to enhance the efficiency of the Board's work. The intention is also to gain an understanding of what type of issues the Board believes should be given more attention and what areas could possibly require further expertise on the Board.

For the 2018 evaluation, each Board member responded to a questionnaire. The results of the evaluation were presented and discussed by the Board and presented to the Nomination Committee. The Board of Directors continuously assesses the CEO's work by monitoring the business's progress relative to its established goals.

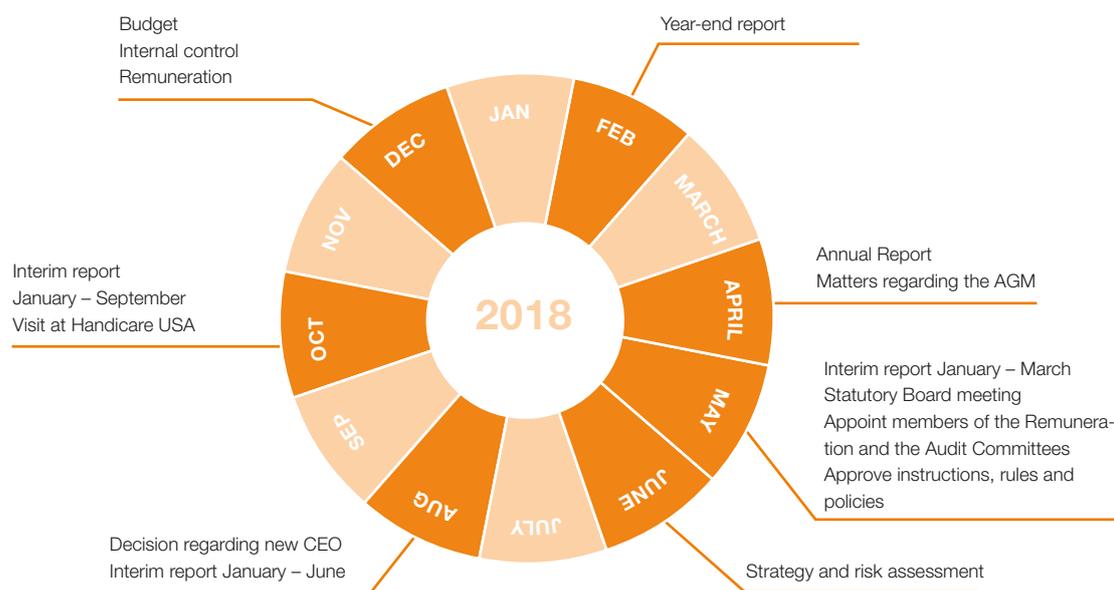
Board work In 2018

In 2018, 8 meetings were held. The members' attendance is presented on page 51. A key aspect of the Board's work is business development and strategy, financial reporting and internal control. The 2018 work plan for the Board, resolved at the statutory Board meeting, is presented below. Committee work comprises a significant part of the Board's work, see below.

Board committees

To streamline and increase the efficiency of the Board of Directors' work on remuneration and audit matters, the Board of Directors annually appoints a Remuneration Committee and an Audit Committee. The committees are appointed for a maximum of one year, and are appointed among the members of the Board of Directors itself. The primary objective of the committees is to provide preparatory and administrative support to the Board of Directors. The meetings held in 2018 and the attendance at these are presented in the table on page 51.

BOARD MEETINGS 2018



Audit Committee

The tasks of the Audit Committee, without prejudice to the general duties and responsibilities of the Board, include:

- monitoring the company's financial reporting and provide recommendations and proposals to ensure the reporting's reliability;
- with regard to the financial reporting, monitoring the efficiency of the company's internal control, internal audit and risk management;
- staying informed of the audit of the annual accounts and the consolidated accounts;
- informing the Board of the audit outcome and addressing the issue of the manner in which the audit contributed to the reliability of financial reporting and the Committee's specific functions;
- auditing and monitoring the auditor's impartiality and independence and thereby noting in particular, whether the auditor provides the company with services other than audit services; and
- assisting in the preparation of proposals for the general meeting's decision regarding the election of an auditor.

Handicare has an Audit Committee that comprises three members: Claes Magnus Åkesson (Chairman), Joakim Andreasson and Maria Carell. During 2018, 8 meetings were held.

Remuneration Committee

The Remuneration Committee is tasked with:

- preparing proposals concerning remuneration policies, remuneration and other terms of employment for the CEO and the Group management; and
- following up and evaluating the company's remuneration policy, remuneration programs and remuneration structure.

Handicare has a Remuneration Committee that comprises three members: Lars Marcher (Chairman), Joakim Andreasson and Elisabeth Thand Ringqvist. One ordinary meeting and one meeting per capsulam were held during the year.

PRESIDENT AND CEO

The CEO is subordinated to the Board of Directors and primarily has responsibility for the day-to-day management of the company's affairs and the daily operations. The division of work between the Board of Directors and the CEO is set out in the Handicare rules of procedure for the Board of Directors and the CEO's instructions. The CEO is also responsible for preparing reports and compiling information for the board meetings, and for presenting such documents at the Board meetings. Pursuant to the instructions for the CEO, the CEO is responsible for the company's financial reporting and, accordingly, is to ensure that the Board of Directors receives sufficient information for the Board to be able to continuously evaluate the company's financial position. The CEO keeps the Board of Directors continuously informed about the company's operations, the results of operations and its financial position, as well as any other event, circumstance or condition that cannot be assumed to be irrelevant to the company's shareholders. For a presentation of the CEO, see page 56.

REMUNERATION

Remuneration of the board

The amount of remuneration granted to the Board of Directors, including the Chairman, is determined by resolution at the AGM.

At the AGM on 8 May 2018, it was resolved that the remuneration of the Chairman of the Board would be SEK 450,000 and that the remuneration to the other ordinary members of the Board of Directors would be SEK 180,000 each. Furthermore, it was resolved that the remuneration for committee work in the Audit Committee would be SEK 100,000 for the Chairman and SEK 50,000 each to the members of the Committee. It was also resolved that the remuneration for committee work in the Remuneration Committee would be SEK 50,000 for the Chairman and SEK 25,000 each to the members of the Committee. The members of the Board of Directors are not entitled to any benefits upon ceasing to serve as a member of the Board.

Attendance and remuneration for the Board of Directors 2018

Name	Position	Nationality	Independence ¹⁾	Board meetings	Audit Committee	Remuneration Committee	Approved remuneration in total, SEK thousand	Shareholding
Lars Marcher	Chairman of the Board Committee Chairman	DK	Yes/No	8/8		1/1	500	493,513
Joakim Andreasson	Committee member	SE	Yes/No	8/8	8/8	1/1	255	0
Jonas Arlebäck ²⁾		SE	No/Yes	5/8			180	327,968
Maria Carell	Committee member	SE	Yes/Yes	8/8	8/8		230	27,183
Johan Ek	Vice Chairman of the Board	SE and FI	No/No	8/8			180	293,626
Elisabeth Thand Ringqvist	Committee member	SE	Yes/Yes	7/8		1/1	205	5,000
Claes Magnus Åkesson	Committee Chairman	SE	Yes/Yes	8/8	8/8		280	25,000

1) Pertains to independence in relation to the company and its management, and independence in relation to the major shareholders.

2) Elected at the AGM in May 2018, has attended all meetings as of the election in May.

Guidelines for remuneration of the CEO and group management

The Board of Directors decides on the remuneration policy for the CEO and Group management. Such policy is in accordance with the guidelines for remuneration of the CEO and Group management, as adopted by the AGM. Individual remuneration of the CEO is approved by the Board of Directors, while individual compensation to other members of Group management is decided by the CEO conditioned upon approval by the Chairman of the Board. All decisions on individual remuneration of members of the Group management are within the approved remuneration policy adopted by the Board of Directors.

Handicare President Asbjörn Eskild gave his notice to the Board on 6 August 2018 and the Board thereafter designated Staffan Ternström as the new CEO on 13 August 2018. The CEO's annual incentive-based remuneration is capped at 60 percent of the fixed annual salary. This amounts to a deviation from the remuneration guidelines approved by the committee, which stipulate 50 percent of the fixed annual salary. The Board resolved to emphasise annual incentive-based remuneration for the CEO.

PERIOD OF NOTICE AND SEVERANCE PAY

For the CEO, severance pay equivalent to six months' salary will additionally be paid upon termination by the company. Upon voluntary termination salary and other remuneration benefits will be paid in full, regardless of whether or not there is an obligation to work.

One member of Group management is entitled to a severance payment of twelve months' base salary upon termination of employment. Upon voluntary termination salary and other remuneration benefits will be paid in full, regardless of whether or not there is an obligation to work. Other than the payments stated above, no member of the Group management is entitled to post-employment remuneration, except in the event that existing competition clauses come into question.

AUDIT

Handicare's statutory auditor is appointed at the AGM. The auditor is to review the company's annual reports and financial statements, applicable accounting policies, and the management by the Board and CEO. Following each financial year, the auditor submits an audit report to the shareholders at the AGM. Pursuant to the company's Articles of Association, Handicare has not less than one and not more than two auditors, and not more than two deputy auditors. At the 2018 AGM, Ernst & Young AB was re-elected for a period until the end of the 2019 AGM, with Stefan Andersson-Berglund as the Auditor in Charge. In 2018, the total remuneration to the company's auditor amounted to MEUR 0.7.

INTERNAL CONTROL

The Board of Directors' responsibility for internal control is governed primarily by the Swedish Companies Act, the Swedish Annual Reports Act and the Code. Each year, in conjunction with financial reporting, information regarding the most important aspects of Handicare's system for internal control and risk management must be included in the company's Corporate Governance Report. Internal control and management is an integrated part of the company's operations and is broadly defined as a process, put in place by the company's Board of Directors, Group management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives described in the following. The procedures for internal control, risk assessment, control activities and monitoring with respect to the financial reporting have been designed to ensure reliable overall financial reporting and external financial reporting in accordance with IFRS, applicable laws and regulations as well as other requirements, which may apply to companies listed on Nasdaq Stockholm. This work involves the Board, Group management and other personnel. The procedures for internal control also aim to promote Handicare's development and profitability, secure the company's assets and to prevent and detect any fraud or error. The responsibility and liability of the Board of Directors for the internal control within the company cannot be assigned to any other party. Handicare has no independent function for internal audit, but the matter is reviewed regularly. Among other actions, the Board has appointed an internal audit project leader, who is responsible for coordinating, monitoring and reporting internal control events.

The description of Handicare's internal control process is based on COSO, which is published by the Committee of Sponsoring Organisations of the Treadway Commission.

Control environment

Control environment factors include, amongst others, the integrity, ethical values and competence of the Group's employees, the Group management's way of operating and organising the business and assigning authority and responsibility, as well as the instructions provided by the Board of Directors. The Board of Directors annually adopts a number of governance documents designed to provide support for the board and the Group management in acting in a way that promotes proper and thorough internal control and risk management. The central governance documents include, for example, the Board's rules of procedure, instructions for the committees and the remuneration guidelines. Key policies include the treasury policy, which is aimed at managing financial exposure, the authorisation policy, the information and communications policy, the insider policy and Handicare's Code of Conduct. In addition, the Group's Financial Manual, for which the CFO is responsible, provides guidance for financial reporting, accounting policies, internal control and significant processes such as financial statement close process and impairment testing.

The Accounting Manual, which is approved by the Audit Committee, also contains an internal control handbook.

All Handicare employees are trained in the company's Code of Conduct and the company's salaried employees, approximately half of all employees, receive specialised training in anti-corruption.

Risks, risk assessment and control activities

Risk is defined as the uncertainty of whether an event will occur and its effect on a unit's ability to achieve its business objectives in a given period of time (one to three years). Risk management is an important part of internal control and the Board of Directors is ultimately responsible for risk management in the company. It is Group management's responsibility to identify, evaluate and manage risks and to report to the Board of Directors. This evaluation is an integrated part of the company's strategic efforts. The evaluation and measures are presented to the Board of Directors and each identified risk has a risk owner within Group management. The main risks facing the Group are divided into the following categories: strategic risks, compliance and legal risks, operational risks and financial risks. See the section Risks and Risk management, page 44.

Risks pertaining to financial reporting are evaluated through an annual self-assessment performed by the project leader appointed by the Board. All major units in the Group participate in the self-assessment, which is sent to the Audit Committee. As a part of the audit performed by the company's external auditors, Handicare's internal controls are also assessed. Both the auditor's opinions and the results of the self-assessment are part of Handicare's annual action plan for internal control. The measures in the annual action plan are executed during the first three quarters of the year and are reported at every Audit Committee meeting. A new self-assessment is performed during the last quarter and then the action plan and implementation process is repeated.

Handicare has a process description and a control matrix for identified key processes, and these are updated and developed as a part of the annual internal control work.

Control procedures take place throughout the organisation, on all levels and in all functions, and responsibility for checking compliance and monitoring the operations is distributed among the various functions. For example, the CEO is responsible for introducing internal control guidelines and ensuring overall monitoring of internal control. Operational responsibility for the financial reporting and internal control, including the overall risk assessment, has been delegated to the CFO. The members of Group management are responsible for internal control work within their area of responsibility, including the coordination of the annual self-assessment.

Information and communication

The Group management of Handicare is responsible for informing the personnel of Handicare that control responsibilities are to be taken seriously, and to ensure that the personnel are aware of and understand their own role in the internal control system.

For this to function, there must be efficient means of internal communication. Handicare's communication structure is aimed at ensuring that relevant information is communicated in the right way, to the right recipient and at the right time. The communication of relevant information, both upwards and downwards in the organisation and to external parties, is an integrated part of Handicare's operational governance and an important part of effective internal control. Group management works to ensure that those persons within the company who are responsible for processes have sufficient knowledge about material risks and the control activities that are relevant to the specific process. Furthermore, there is an established work practice to ensure that employees report defects and deviations discovered with regard to controls even if such have been corrected. The purpose is to obtain a comprehensive view of how the work is carried out and be able to take measures and make improvements in the processes. Handicare has a communication policy in place, regulating both internal and external communication. The communication policy provides guidance on, among other things, disclosure of information to the public. It has been drafted with the aim of ensuring that the company complies with the requirements to provide correct information to the market.

Monitoring, evaluation and reporting

Monitoring is accomplished through ongoing monitoring activities and separate evaluations in the course of the operating activity. It includes regular management and supervisory activities and other actions employees take in performing their duties. The scope and frequency of separate evaluations depends primarily on an assessment of risks in question and the effectiveness of ongoing monitoring procedures. The company's Board of Directors has the final responsibility for all decisions regarding compliance within Handicare. Internal control deficiencies are reported to a higher level within the group, and serious matters are reported to the Group management and the Board of Directors. According to the implemented procedures on risk assessment and risk management, Group management must report on the activities for monitoring risks, combined with an overall risk assessment, to the Board of Directors on a six-monthly basis. Each year, the Board of Directors reviews and approves policies regarding internal control. If required, such review and approval takes place more frequently.