

# Corporate Governance Report

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Eltel AB is a Swedish public limited liability company. As a listed Company on Nasdaq Stockholm, Eltel applies the rules of the Swedish Companies Act (Sw. Aktiebolagslagen (2005:551)), the Swedish Annual Accounts Act (Sw. Årsredovisningslagen (1995:1554)), the Company's articles of association, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code as well as other Swedish and foreign laws and regulations, as applicable. The Swedish Corporate Governance Code applies to all Swedish companies with shares listed on a regulated market in Sweden. The Swedish Corporate Governance Code defines a norm for good corporate governance on a higher level of ambition than the Swedish Companies Act's and other regulations' minimum requirements. The Swedish Corporate Governance Code is based on the principle 'comply or explain'. It means that the Company is not forced at every occasion to obey every rule of the Swedish Corporate Governance Code, but may choose other solutions that are deemed to better correspond to the circumstances in the individual case, provided that the Company openly reports every such non-compliance, describes the alternative solution and states the reasons for this.

Eltel has applied the Swedish Corporate Governance Code in full from the time of the Annual General Meeting 2015. Eltel does not expect to deviate from any of the rules of the Swedish Corporate Governance Code except for internal audit where we explain why Eltel has selected to use an alternative method.

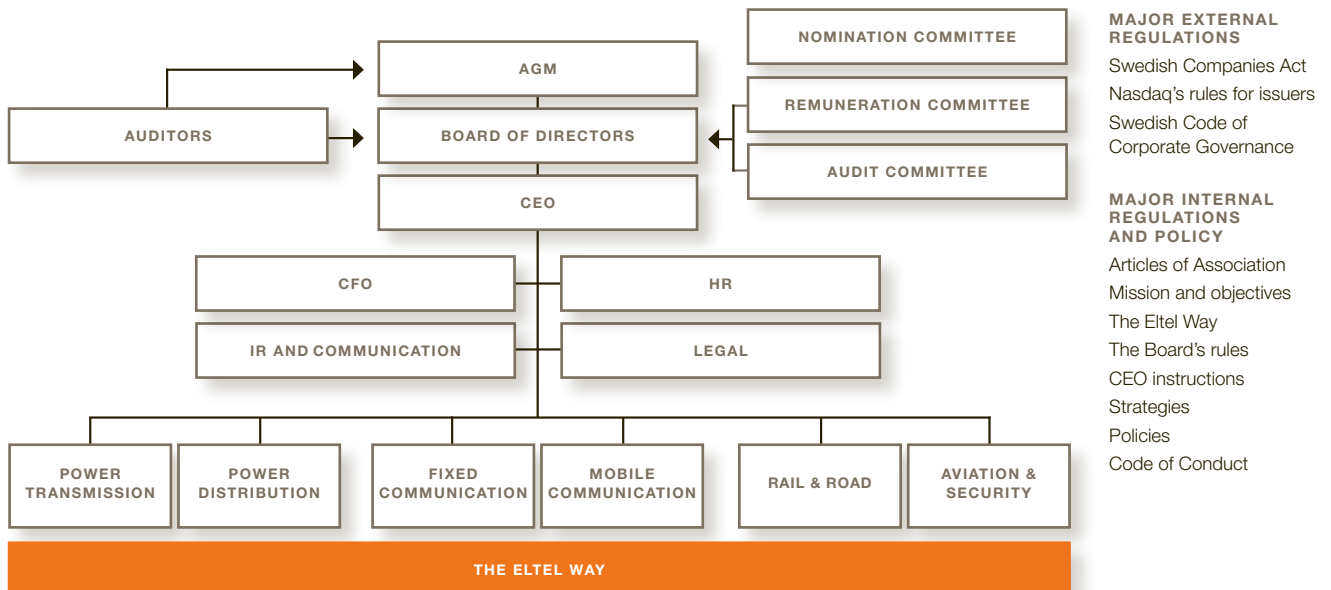
### THE ELTEL WAY

The Eltel Way is the Company's management principles and method of conducting operations which clearly defines roles, areas of responsibility, delegation of powers, reporting etc. Please also refer to the section on page 16.

### ELTEL SHARE AND SHAREHOLDERS

On 6 February 2015 Eltel's ordinary share was listed on the Nasdaq Stockholm under the trading symbol "ELTEL". The offering including the over-allotment option was increased in full and comprised a total of 42,165,277 shares, of which 19,485,294 were newly issued shares and 22,679,983 existing shares. The subscription price in the offering was SEK 68 per share. The total value of the offering was approximately SEK 1.3 billion and Eltel received approximately EUR 127.3 million in equity after issue costs.

### ELTEL GOVERNANCE MODEL



The largest shareholders of Eltel on 30 December 2015 were 3i-controlled entities owning 20.00%, Zeres Capital owning 10.50% and Swedbank Robur Fonder with 9.59%. At the end of 2015, the total amount of shares was 62,624,238.

### THE ANNUAL GENERAL MEETING

Under the Swedish Companies Act, the general meeting is Eltel's highest decision-making body. The general meeting may resolve upon every issue for the Company, which is not specifically reserved for another company body's exclusive competence. At the Annual General Meeting, which shall be held within six months from the end of the financial year, shareholders exercise their voting rights on issues, such as the adoption of income statements and balance sheets, appropriation of Company profits or losses, resolutions to release the members of the Board of Directors and the Chief Executive Officer (CEO) from liability for the financial year, the appointment of members of the Board of Directors and auditor and remuneration for the Board of Directors and the auditor.

Besides the Annual General Meeting, extraordinary general meetings may be convened. In accordance with the articles of association, all general meetings shall be convened through announcements in the Swedish Official Gazette (Sw. Post- och Inrikes Tidningar) and by posting the notice to the meeting on Eltel's website. An announcement shall be placed in Svenska Dagbladet with information that the meeting has been convened.

The Chairman of the Board of Directors, together with as many other board members as possible and the CEO shall be present at extraordinary general meetings of the Company. At Annual General Meetings, in addition to the aforementioned, at least one member of the Nomination Committee and, to the extent possible, all members of the Board of Directors, shall participate.

### GENERAL MEETINGS 2015

On 16 January 2015, an Extraordinary General Meeting of Eltel AB resolved to change the corporate category from a private limited liability company to a public limited liability company. Following the meeting's decision to change the corporate category, the meeting resolved to adopt new articles of association, comprising a change to the objects of the company, adoption of a central security depositary clause and an alteration of the limits for the number of shares and the share capital. The meeting resolved to make a reverse share split entailing that 20 existing shares are consolidated in to one share. There were a total of 43,181,789 shares in the company after the reverse share split. The meeting resolved upon reclassification of the company's shares of class A, class B, class C1 and class C2, in accordance with the proposal for the new articles of association. There is only one class of shares in the company after the reclassification.

On 19 May 2015, the Annual General Meeting re-elected the following members of the Board: Gérard Mohr, Matti Kyytsönen, Fredrik Karlsson, Susanne Lithander and Ulf Lundahl. As new members of the Board, Rada Rodriguez and Karl Åberg were elected. Jean Bergeret as a member and Thomas Hofmeister as a deputy member stayed on the Board until the Annual

General Meeting 2015 in May. Gérard Mohr was re-elected as Chairman of the Board. The Eltel employee unions elected the following persons as union representatives to the Board: Jonny Andersson (SEKO Tele) and Björn Ekblom (Unionen) as ordinary board members and Krister Andersson (SACO) and Ninni Stylin (Unionen) as deputies.

The Annual General Meeting approved a long-term incentive programme for key individuals. To ensure delivery of shares under the incentive programme, the Annual General Meeting resolved on the introduction of a new class of shares, Class C shares, which after conversion to ordinary shares may be transferred to participants in the programme or sold back to the market for cash flow purposes to secure the Company's payment of social security contributions related to the incentive programme. The Annual General Meeting authorised the Board to issue and subsequently repurchase a maximum of 537,000 Class C shares.

### ANNUAL GENERAL MEETING 2016 AND ANNUAL REPORT

Eitel's Annual General Meeting 2016 will be held at the Eltel AB headquarters, Adolfsbergsvägen 13, Bromma, Stockholm on 2 May 2016 at 10:00 am CET.

The Annual Report 2015 will be published and made available on the Group website, [www.eltelgroup.com](http://www.eltelgroup.com) and at the Eltel AB headquarters, Adolfsbergsvägen 13, Bromma, Stockholm, Sweden during the week starting on 11 April 2016.

### RIGHT TO ATTEND GENERAL MEETINGS

All shareholders who are registered directly, in the share register maintained by Euroclear, five week days prior to the general meeting and who notify the Company of their intention to attend the general meeting at the latest by the date specified in the notice convening the meeting shall be entitled to attend the general meeting and vote according to the number of shares held. Shareholders may attend general meetings in person or through a proxy, and may also be accompanied by two assistants.

### SHAREHOLDER INITIATIVES

Shareholders who wish a matter to be discussed at the general meeting must submit a written request in that regard to the Board of Directors. Requests must normally be received by the Board of Directors at least seven weeks prior to the general meeting.

### NOMINATION COMMITTEE

According to the rules of procedures for the Nomination Committee, the committee shall consist of four members, representing each of the four largest shareholders registered on 31 August 2015. The rules of procedures for the Nomination Committee comply with the Swedish Corporate Governance Code.

The members of the Nomination Committee shall, in connection with their assignment, accomplish their duties in accordance with the Swedish Corporate Governance Code. The Nomination Committee's main duties are to propose candidates for the post of Chairman and other members of the Board of Directors, as well as fees and other remuneration to each member of the

Board of Directors. The Nomination Committee is also to make proposals on the election and remuneration of the statutory auditor. Shareholders in Eltel are invited to submit proposals to the Nomination Committee. Based on the known ownership in Eltel on 31 August 2015, a Nomination Committee was appointed before the Annual General Meeting 2016 ("AGM").

The Nomination Committee appointed in November 2015 consisted of:

- Mattias Eklund, appointed by 3i (20.00% of votes)
- Joakim Rubin, appointed by Zeres Capital (10.50% of votes)
- Marianne Flink, appointed by Swedbank Robur Fonder AB (9.68% of votes)
- Per Colleen, appointed by the Fourth Swedish National Pension Fund (AP4) (9.22% of votes)

The Nomination Committee appointed in November represented 49.46% of the votes in the Company.

Following the change in the ownership of Eltel AB, the composition of Eltel's Nomination Committee changed in March 2016. Eltel's largest shareholder 3i Group plc reduced its holding from 20.00% to 7.60% and consequently stepped down from the Nomination Committee while Lannebo Fonder took on the position.

The Nomination Committee members as of March 2016 were:

- Joakim Rubin, Zeres Capital (12.90% of votes)
- Lars Bergkvist, Lannebo Fonder AB (9.89% of votes)
- Marianne Flink, Swedbank Robur Fonder AB (9.42% of votes)
- Per Colleen, The Fourth Swedish National Pension Fund (AP4) (9.22% of votes)

The Nomination Committee members represented 41.43% of the votes in the Company's.

## THE BOARD OF DIRECTORS

The Board of Directors is the highest decision-making body after the general meeting and the highest executive body. The Board of Directors' responsibility is regulated in the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's articles of association, directions given by the general meeting and the procedure for the Board of Directors of the Company adopted by the Board of Directors. In addition there to, the Board of Directors shall comply with the Swedish Corporate Governance Code and the Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and foreign laws and regulations, as applicable.

## MEMBERS OF THE BOARD OF DIRECTORS

Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. Furthermore, the Board of Directors shall continuously assess the Group's financial situation, as well as to see to it that the Company's organisation is

formed in a way that the accounting, management of funds and the Company's financial conditions otherwise are controlled in a secure manner.

The assignments of the Board of Directors include, inter alia, to set objectives and strategies, see to it that there are efficient systems for follow-up and control of the Company's operations, and see to it that a satisfactory control exists for the Company's compliance with laws and other regulations applicable to Eltel's operations. The assignments of the Board of Directors also include the required ethical guidelines set for the Company's behaviour and the disclosure of information being transparent and correct, relevant and reliable. In addition, the assignments of the Board of Directors include appointing, evaluating and if necessary dismissing the CEO.

Except for employee representatives, members of the Board of Directors are appointed annually by the Annual General Meeting for the period until the end of the next Annual General Meeting. According to the Company's articles of association, the members of the Board of Directors to be elected by the general meeting shall consist of a minimum of three members and a maximum of ten members with no more than three deputies. At the date of this report, the Company's Board of Directors consists of seven ordinary members and two employee representatives as ordinary members. In addition, there are two deputies to the employee representatives. The members of the Board of Directors are presented in greater detail, including their relevant education and experience, in the section "Board of Directors" on page 88.

Etel's Board of Directors observes a written procedure, adopted by the Board of Directors and reviewed annually. Inter alia, the procedure for the Board of Directors regulates the Board of Directors' role and responsibility, the Board of Directors' way of working and the division of work within the Board of Directors. The Board of Directors also adopts an instruction for the CEO of Eltel, as well as an instruction for financial reporting.

The Chairman Gérard Mohr and the Board members Matti Kyytsönen, Susanne Lithander, Rada Rodriguez and Ulf Lundahl are to be regarded independent from the owners and the Company.

## BOARD AGENDA DURING 2015

During 2015 the Board held nine ordinary board meetings. In addition, a number of extraordinary meetings in relation to the initial public offering (IPO) were also held. The average attendance rate at all board meetings was 86%.

For 2016, there are seven ordinary meetings planned. These meetings are in accordance with the yearly plan where quarterly interim reports are decided upon in February, May, August and November. In 2016, two to three strategic meetings will be held and in November the budget will be decided upon.

## MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Year of birth	Election year	Share holding	Remuneration EUR	Board meetings	Committee meetings	Independence from main owners	Independence of the Company	Other boardships as of 30 December 2015
Gérard Mohr	Chairman	1955	2011	75,092	89,691	13/13	5/5	Yes	Yes	JST Group, Levantina y asociados de minerales, S.A.U., Bee NV, M Prime Group, Cogefri NV
Jean Bergeret <sup>1)</sup>	Member	1953	2010	0	15,650	5/5	1/1	No	Yes	
Fredrik Karlsson	Member	1967	2013	0	48,922	12/13	7/9	No	Yes	Scandlines A/S
Matti Kyytsönen	Member	1949	2007	20,812	32,615	13/13	–	Yes	Yes	Silverback Consulting Oy, KP Tekno Oy, Lindström Invest Oy, Esperi Care Group Oy, Port of Helsinki Oy, Kesko Oyj
Susanne Lithander	Member	1961	2014	0	40,769	10/13	4/4	Yes	Yes	Svensk Exportkredit AB
Ulf Lundahl	Member	1952	2014	0	39,863	11/13	4/4	Yes	Yes	Fidelio Capital AB, Fidelio Industries AB, Fidelio Invest AB, Attendo AB, Attendo Utveckling AB, Attendo, Intressenter AB, Holmen Aktiefbolag, Ramirent Oy, Indutrade Aktiefbolag
Rada Rodriguez <sup>2)</sup>	Member	1959	2015	0	20,274	5/8	–	Yes	Yes	ZVEI
Karl Åberg <sup>2)</sup>	Member	1979	2015	0	24,604	8/8	4/4	No	Yes	Proffice AB
Thomas Hofmeister <sup>1)</sup>	Deputy Member	1971	2010	0	801	4/5	–	No	Yes	
Jonny Andersson <sup>2)</sup>	Employee represent.	1978	2015	0	–	4/8	–	Yes	No	
Krister Andersson <sup>2)</sup>	Deputy employee rep.	1964	2015	0	–	4/8	–	Yes	No	
Björn Ekblom <sup>2)</sup>	Employee represent.	1976	2015	1,400	–	1/8	–	Yes	No	
Ninni Stylin <sup>2)</sup>	Deputy employee rep.	1982	2015	0	–	4/8	–	Yes	No	

1) Until the Annual General Meeting 19 May 2015

2) From the Annual General Meeting 19 May 2015 onwards

## AUDIT COMMITTEE

The Board of Directors has internally appointed an Audit Committee. According to the Swedish Corporate Governance Code, the Audit Committee is to comprise three board members of whom the majority is to be independent in relation to the Company and its management, and at least one of the members is to be independent in relation to the Company and its management and must also be independent in relation to the Company's major shareholders. The current Audit Committee consists of three members: Susanne Lithander (Chairman), Fredrik Karlsson and Ulf Lundahl. Fredrik Karlsson is considered independent of the Company and its senior management but not of its major shareholders. Susanne Lithander and Ulf Lundahl are considered independent of the Company, its senior management and its major shareholders.

The Audit Committee shall, without any impact otherwise on the tasks and responsibilities of the Board of Directors:

- monitor the Company's financial reporting;
- in respect to the financial reporting, monitor the effectiveness of the Company's internal control, internal audit, and risk management;
- keep itself informed regarding the audit of the annual report and group accounts;
- review and monitor the impartiality and independence of the auditor, giving particular attention to if the auditor provides the Company with services other than auditing services; and assist in preparation of proposals to the general meeting's resolution regarding election of auditor.

As part of the tasks above, the Chairman of the Audit Committee shall support the senior management in questions regarding financial reporting and information disclosure and have an ongoing contact with the auditor in these matters.

In addition, the Audit Committee Chairman shall support the Chief Executive Officer, the Chief Financial Officer and the VP – IR and Group Communications in matters relating to information disclosures, financial reporting and media contacts, especially in the event of crisis situations, and sign off on matters relating to information disclosures. The Audit Committee held four meetings in 2015.

## REMUNERATION COMMITTEE

The Board of Directors has internally appointed a Remuneration Committee. According to the Swedish Corporate Governance Code, the members of the Remuneration Committee shall be independent in relation to the Company and its senior management. Eltel's Remuneration Committee shall consist of at least two members of the Board of Directors chosen by the annual meeting. The present Remuneration Committee consists of three members: Gérard Mohr (Chairman), Fredrik Karlsson and Karl Åberg. The present members of the Remuneration Committee are considered independent in relation to the Company and its senior management.

The Remuneration Committee's main tasks are to:

- prepare the Board of Directors' decisions on issues concerning principles for remuneration, remunerations and other terms of employment for the senior management;
- monitor and evaluate, both ongoing and terminated during the year, programmes for variable remuneration for the senior management;
- follow up and evaluate the application of the guidelines for remunerations to senior management that the Annual General Meeting is legally obliged to decide on, as well as the current remuneration structures and levels in the Company; and
- the assessment and succession planning of the senior management of Eltel.

The Remuneration Committee held five meetings in 2015.

#### REMUNERATION PRINCIPLES AT ELTEL

Etel's overall objective is to offer a competitive and market-based level of remuneration consisting of both fixed and variable salary, pension and other remuneration components. Remuneration to senior executives shall motivate senior management to do its utmost in the best interests of Eltel's shareholders. Remuneration shall be determined in relation to area of responsibility, duties, expertise and performance. The fixed salary component equals and compensates for engaged work of management at a high professional level, creating value to Eltel.

#### ELTEL'S SHORT-TERM INCENTIVES

The short-term variable salary component is based on predetermined and measurable financial and individual targets. The criteria are recommended by the Remuneration Committee and ultimately decided by the Board of Directors. The short-term (one year) variable salary component varies between 10% and 80% of fixed annual salary. The CEO has a 80% (2015) variable salary component and the remaining members of Group Management Team (GMT) have a 60% variable salary component. The short-term incentive programme at Eltel covers all managerial levels from team level to the GMT as well as key managers in shared services and Group functions. The range of variable salary component for other than GMT members is from 10 to 40% of the fixed annual salary depending on the job position of an employee.

The pension terms of the CEO and other senior executives in the GMT should be market based in relation to terms that generally apply for comparable executives. The Group Management Team being an international team with members from Sweden, Finland and Denmark, the pension terms of Eltel's senior management reflect some national differences.

#### ELTEL'S LONG-TERM INCENTIVES

Senior executives may be offered long-term incentive schemes at market-based terms. The motive for share-based incentive schemes is to achieve an increase in and spread of share ownership/exposure among the senior executives and to achieve a greater alignment of interests between the executives and the company's shareholders. A long-term personal share ownership

commitment among key personnel can be expected to stimulate greater commitment to the company's long-term development, to align management with shareholders' interests and to increase motivation and solidarity with the company. Decisions regarding share-based incentive schemes shall always be resolved on by an Annual General Meeting.

#### LONG-TERM INCENTIVE PROGRAMME 2015

The purpose of Eltel's Long-Term Incentive Programme 2015 (LTIP 2015), approved by the Annual General Meeting 2015, is to increase the attractiveness of Eltel as an employer on the global market, making it easier to retain and recruit qualified key individuals. The subscription period for the programme took place in August 2015. Interest in participation was high and 97% of the invited 70 participants chose to participate. On balance sheet date the LTIP 2015 comprised a maximum of 318,610 shares in total, corresponding to approximately 0.5% of the total outstanding shares and votes in the Company. Participation in LTIP 2015 assumes that the participant acquires and locks Eltel ordinary shares into LTIP 2015 ("Savings Shares"). For each acquired "Savings Share", the participant is entitled, after a certain qualification period and provided continued employment during the entire period, to receive an allotment of one Eltel matching share ("Matching Share"). Dependent on the fulfilment of certain performance targets linked to Eltel's earnings per share for the financial year 2017, the participant may also be entitled to receive allotment of additional Eltel shares ("Performance Shares"). The participant shall not pay any consideration for the allotted "Matching Shares" and "Performance Shares". "Matching Shares" and "Performance Shares" are Eltel ordinary shares. LTIP 2015 was directed towards three categories of participants:

- The CEO
- The GMT, a maximum of ten employees
- Individuals reporting directly to GMT members or other key employees, a total of 59 employees

The "Savings Shares" covered by the LTIP 2015 programme were acquired in a structured way in ordinary trading on the stock market on 17 September 2015. The average purchasing price of the total number of "Savings Shares" of 91,953 was 94.94 SEK.

#### PROPOSAL REGARDING GUIDELINES FOR REMUNERATION OF SENIOR MANAGEMENT

The Board of Directors proposes that the Annual General Meeting 2016 resolve to adopt the following guidelines for the remuneration of senior management for the period extending until the Annual General Meeting 2017.

Etel's overall objective is to offer senior management a competitive and market-based level of remuneration consisting of fixed and variable salary, pension and other remuneration components. Remuneration shall be determined in relation to area of responsibility, duties, expertise and performance. The fixed salary component equals and compensates for an engaged work of management at a high professional level, creating value to Eltel. The short-term variable salary component is based on predetermined and measurable financial targets recommended

by the Remuneration Committee and ultimately decided by the Board of Directors.

The pension terms of senior executives should be market based in relation to those that generally apply for comparable executives. Being an international team with members from Sweden, Finland and Denmark, the pension terms of Eltel's senior management reflect some national differences. In addition, senior executives may be offered long term incentive schemes on market-based terms.

The Board shall have the right to deviate from the guidelines in individual cases if there are particular grounds for such deviation.

#### **PROPOSAL REGARDING LONG-TERM INCENTIVE PROGRAMME (LTIP 2016)**

Eltel's Board of Directors proposes to the Annual General Meeting the implementation of a share savings programme, the performance-based Long-Term Incentive Programme 2016 (LTIP 2016), as a continuation of the LTIP 2015. For further details please refer to the Notice to the Annual General Meeting 2016.

#### **EVALUATION OF THE BOARD'S PERFORMANCE**

The Board of Directors should annually evaluate its work according to a structured process to get a view of the performance of the Board work, areas of improvement and areas for development. This assessment should also be a basis for the Nomination Committee's work until the next AGM. In 2015 the evaluation was performed as a written survey to all members of the Board and was presented by the Chairman to the entire Board and to the Nomination Committee.

#### **CHIEF EXECUTIVE OFFICER AND OTHER SENIOR MANAGEMENT**

The Chief Executive Officer (CEO) reports to the Board of Directors. The CEO's responsibility is governed by the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's articles of association, directions given by the general meeting, the instruction of Eltel and other directions and guiding principles established by the Board of Directors. In addition, the CEO shall comply with the Swedish Corporate Governance Code and Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and foreign laws and regulations, as applicable.

According to the Swedish Companies Act, the CEO shall attend to the day-to-day management pursuant to the Board of Directors' guidelines and instructions. In addition, the CEO shall take any measures necessary in order for the Company's accounts to be maintained pursuant to law and that the management of funds is conducted in a sound manner. The division of work between the Board of Directors and the CEO is described in the Instructions for the CEO of the Company.

The CEO shall administrate the operative management and execute the resolutions passed by the Board of Directors. The CEO shall control and supervise that the matters to be dealt with by the Board of Directors according to applicable legislation, the Articles of Association or internal instructions are presented to the Board of Directors, and shall continuously keep the Chairman

of the Board of Directors informed about the performance of the Company's operations, its earnings and financial position, as well as any other event, circumstances or condition that cannot be assumed to be irrelevant to the Board of Directors or to the shareholders.

The CEO shall ensure that the Company has issued policies and/or instructions in all main areas of the Company's operations, such as accounting, health and safety, sustainability and compliance, and that the policies and instructions are communicated and applied within the organisation. The CEO shall also ensure that the Company has a current authorisation manual that is properly observed and that the Company's accounting is performed in a way that is compliant with applicable laws.

Axel Hjärne, born 1964, has been President and CEO of Eltel AB since 2009 and an employee of Eltel since 2005. Prior to this he has been employed by Bravida AB, ABB and Euroc-Group where he held various senior management positions. Axel Hjärne holds a Master of Science degree from Linköping University. On 31 December 2015, his ownership in Eltel AB amounted to a total of 602,309 shares. For a summary of the CEO's assignments please refer to page 90.

The Group Management Team (GMT) of Eltel consists of 11 positions: the CEO, the CFO, VP – Group Strategy, VP – Group Human Resources, VP – IR and Group Communications and the six Business Unit Presidents. The GMT meets minimum 10 times per year to deal with operational and strategic matters. The GMT also delivers the annual business plan and budget to the Board of Directors in November each year as well as three forecast updates performed in March, May and August. From 2016 onwards, only two forecasts will be delivered.

The GMT has two permanent steering committees, one for Group IT and one for Group Shared Services. There is also a special committee for Mergers & Acquisitions.

Regarding principles for remuneration to management please see page 40.

#### **AUDITORS**

The shareholders at the Annual General Meeting elect external independent auditors for a one-year period. The auditors' report to the shareholders at the Company's general meetings. The auditors monitor and review how the Company is managed by its Boards of Directors and the CEO, and the quality of the Group's financial statements. The AGM 2015 elected Öhrings PricewaterhouseCoopers AB with a one year mandate as Auditor for Eltel, with Niklas Renström as the responsible auditor. In 2015, auditors were paid fees totalling EUR 1.2 million, of which non-auditing services accounted for EUR 0.7 million.

#### **THE BOARDS' REPORT ON INTERNAL CONTROL FOR THE 2015 FINANCIAL YEAR**

This report has been prepared in accordance with the Swedish Code of Corporate Governance and current instructions to the Code and constitutes the Board's report on internal control for financial reporting. The purpose of internal control for financial reporting is to provide suitable safeguards as to the reliability of

external financial reports in the form of interim reports, year-end reports and annual reports and to ensure that external financial reports are prepared in compliance with all laws, applicable accounting standards and other requirements on listed companies.

#### PRIORITY AREAS IN 2015

Eitel introduced an updated and extended framework for internal controls during 2013 covering the key processes of book closing, project accounting, payroll, and sourcing. The controls framework was rolled out fully during 2014 but has been assessed by the external auditors in separate audits annually since 2012. In 2012 the internal controls were assessed to be informal, i.e. designed, in place but not documented. During 2013 and 2014 the assessments has been that the controls are standardised, i.e. designed, in place and adequately documented. In 2015 internal controls were assessed to be monitored where the controls are standardised and periodically tested and effectively reported to management.

In 2014 Eitel developed an extension of the 2013 internal controls framework to cover also the processes for delegation of authority and sales and tendering. During 2015 the new framework was used in mandatory annual self assessments where each entity in Eitel performed a written self assessment on the compliance of each of the defined key internal controls. This assessment was then used both in the entities to perform improvement of the internal controls and also reported to management and the Audit Committee as a basis for further needs of improvements of the overall internal control framework. The outcome of the self assessment was at a good level and indicated only minor deviations from key controls, mainly in the areas of sourcing and standard cost accounting.

#### CONTROL ENVIRONMENT

With a view of creating and maintaining a functioning control environment according to The Eitel Way, the Board has established a number of fundamental documents and the Group has developed a number of group-wide policies, including the Policy over policies. The purpose of this policy is to set out rules on the policy and instruction creation process, to explain what policies and instructions are good for and to assign responsibilities for these documents.

Each Eitel policy has an owner who makes sure that the policy is up to date and informed to its target group. All Eitel policies are approved by the Board of Directors. They are published on Eitel Intranet pages in local languages for all Eitel employees and trained to the target groups. The Group management follows up by its internal control reporting that all Eitel companies comply with the policies. In 2015, a new interactive e-learning course was set up to efficiently educate the employees in all its operating countries on Eitel's Code of Conduct and competition rules.

Corporate governance and implementation of policies and instructions follow a top down logic where directions at higher levels are always implemented at lower levels. Hence, Eitel's governing documents structure can be illustrated as a pyramid where key control documents such as Board's rules of procedure and instructions for the CEO and committees forms the base for corporate governance procedures in the company.

Fundamental Eitel policy documents cover areas such as authorisation, Code of Conduct, internal control and risk management, health and safety, communication and investor relations, sustainability, accounting and controlling. Moreover, the internal control system also rests on a management system based on the Company's organisation and method of conducting operations – The Eitel Way – with clearly defined roles, areas of responsibility and delegation of authorities. The Eitel Way policy and associated instructions therefore come out strongly in how corporate governance is implemented and exercised in the company.

The CEO bears primary responsibility for implementation of the Board's instructions regarding the control environment in day-to-day work. He regularly reports to the Board as part of established procedures. Furthermore, there are operational monthly business reviews cascaded bottom up from teams to CEO.

#### RISK ASSESSMENT/MANAGEMENT

The Group conducts regular risk assessment to identify material risks in the financial statements. In terms of the financial statements, the main risk is considered to be material misstatements, e.g. regarding book keeping and the valuation of assets, liabilities, income and expense or other discrepancies.

Fraud and losses through embezzlement are a further risk. Risk management is an integral part of each process and different methods are used for evaluating and limiting risks and to ensure that the risks to which Eitel is exposed are managed according to established rules, instructions and follow-up procedures. The purpose is to minimise any risks and promote accurate accounting, reporting and information disclosure.

In the monthly business reviews that are performed at each level in the organisation, a report of the most important operational risks in terms of monetary risk are reported and assessed as for the need for mitigating actions and/or financial provisioning.

On a quarterly basis the most significant operational risks (risks that can affect the performance the next 12 months) and strategic risks (risks that can affect the performance the next 36 months or more) are collected, assessed and reported to Group management from each Business Unit. Based on these, the Group management assesses the need for mitigating actions and reports the most significant strategic risks and related mitigating actions to the Board of Directors. In addition, the Group Legal Review Forum (GLRF), consisting of representatives from Group Finance, Legal, HR and Communications, reviews all Eitel legal entities regarding major changes in local operations and e.g. due diligence of subcontractors on a quarterly basis.

#### CONTROL ACTIVITIES

Control activities are in place to manage the risks that the Board and Group management considers to be material to the business, internal control and financial statements. The rules of procedure for the Board and Board Committees as well as the instructions for the CEO are intended to establish a clear division of roles and responsibilities to facilitate the efficient management of risks identified in operations.



The control structure comprises clear roles within the organisation that enable the efficient distribution of responsibility for specific control activities aimed at detecting and preventing the risk of reporting errors on time. Such control activities include a clear decision-making hierarchy and procedure for major decisions such as larger tenders, acquisitions, other types of major investment, divestments, agreements and analysis as defined in the policy for Delegation of Authority for the Group.

An important duty of Eitel's staff is to implement, enhance and enforce the Group's control procedures and conduct internal control geared to business-critical matters. Those responsible for the process at different levels are responsible for implementing the necessary controls in the financial statements. The annual accounts and reporting processes include controls pertaining to valuation, accounting principles and estimates. Special internal control procedures for critical process tasks are also defined and tested both as self-assessments by each entity and by the external auditors as part of the annual audit programme.

The continual analysis performed of the financial statements is, together with the analysis performed at Group level, of great importance to ensure that the financial statements do not contain any material misstatements.

The Group's CFO plays an important role in the internal control process, bearing responsibility for the financial statements from each unit being accurate, complete and timely.

### INFORMATION AND COMMUNICATION

Eitel has a VP – Investor Relations and Group Communications. The Group Communication function focuses on four key communication areas: Investor Relations, Brand and Marketing, Internal Communications and External Communications. Eitel also works with external communication support when needed, which aims to promote completeness and accuracy in financial statements released to the stock market. Through regular up-

dates and bulletins, the employees concerned are informed of changes to accounting principles and reporting requirements, or other information. The organisation has access to policies and guidelines.

The Board receives monthly financial reports. External information and communication is notably governed by the Communication Policy, which describes Eitel's general information disclosure principles in order to be compliant with the strict requirements on accurate and simultaneous reporting for the financial markets.

### FOLLOW-UP

Eitel's compliance with adopted policies and guidelines is monitored by the Board and Group Management Team. At each Board meeting the Company's financial position is addressed. The Board's Remuneration and Audit Committees play important roles in terms of, for example, remuneration, financial statements and internal control.

Before publication of interim reports and the Annual Report, the Audit Committee and the Board review the financial statements.

Eitel's management conducts a monthly follow-up of earnings, analysing deviations from budget, forecasts and the previous year. The duties of the external auditor include performing an annual review of the internal controls of Group subsidiaries.

The Board meets with the auditors once a year to go through the internal controls and, in specific cases, to instruct the auditors to perform separate reviews of specific areas. The auditors also attend all the meetings of the Audit Committee. Considering the monitoring performed by the Finance organisation, the external auditors, the Audit Committee and the extended internal controls self assessment from 2015, the Board has decided that a special internal audit or review function is not necessary at present.

