

CORPORATE GOVERNANCE REPORT

Corporate governance is the system, consisting of principles, guidelines, organization and processes, by which the Mycronic Group is managed and controlled to assure efficient decision-making that creates value. This objective is met through a clear division of responsibilities between shareholders, the Board and executive management.

Corporate governance is based on the Swedish Companies Act, Nasdaq Stockholm’s Rule Book for Issuers, and the Swedish Code of Corporate Governance (the Code). Information on corporate governance and the Code can be found at www.bolagsstyrning.se.

The Code rests on the “comply or explain” principle. In 2016, Mycronic complied with the Code without deviation.

INTERNAL REGULATIONS

The basis for internal systems of governance is the vision, mission, values and the Code of Conduct.

Internal regulations include the Articles of Association, the Board’s formal workplan, the terms of reference issued by the Board to the CEO, and policy documents which are updated annually. Examples of steering documents include policies for communication and diversity and the authorization policy.

SHAREHOLDERS

Mycronic is a Swedish public limited liability company registered in Täby. The share is listed on Nasdaq Stockholm’s Mid cap list. The share capital amounts to SEK 97,916,509 distributed across 97,916,509 shares. Each share carries one vote. At year-end 2016, Mycronic had 16,145 shareholders. Bure Equity AB was the largest shareholder with 29.9 percent of capital and votes.

THE ANNUAL GENERAL MEETING (AGM)

According to the Swedish Companies Act, the AGM is the company’s highest decision-making body. All shareholders have the right

to participate at the AGM and to exercise their voting rights.

The AGM elects the Board of Directors and auditor, adopts the income statement and balance sheet, and decides on the appropriation of profits and the discharge from liability for Board members and the CEO. The AGM decides on the remuneration of the Board and auditor and establishes guidelines for remuneration of senior executives.

At the AGM on 3 May, 2016, shareholders representing 59.72 percent of share capital and votes participated.

The AGM addressed customary matters. Two new Board members were elected. Patrik Tigerschiöld was elected Chairman of the Board. The public accounting firm EY was re-elected with Erik Sandström as the Auditor-in-Charge. The AGM approved an ordinary dividend of SEK 1.50 per share, as well as an extra dividend of SEK 2.50 per share. The AGM adopted the Board’s proposal regarding guidelines for remuneration of senior executives, and authorized the Board to decide on a new share issue and on the buyback of the company’s own shares for the next AGM. Information on the AGM and its minutes are available at www.mycronic.com.

The 2017 AGM will be held Thursday, 4 May, 2017.

THE NOMINATION COMMITTEE

The Nomination Committee represents shareholders and prepares proposals for the

AGM to decide as regards election of the Chairman of the Board, Board members and auditor, and their remuneration. The AGM decides how the Nomination Committee will be appointed. The Nomination Committee is composed of representatives from the three largest known shareholders as of 31 August, and the Chairman of the Board, for a total of four persons.

The composition of the Nomination Committee is announced no later than six months before the AGM.

The Chairman informs the Nomination Committee of the outcome of the completed Board evaluation. The Nomination Committee for the 2017 AGM consists of Henrik Blomquist (Bure Equity), Thomas Ehlin (Fjärde AP-fonden), Joachim Spetz (Swedbank Robur Fonder) and Patrik Tigerschiöld (Chairman of the Board).

THE BOARD OF DIRECTORS

The Board of Directors has overall responsibility for the company’s organization and management. The Board monitors operations, ensures a suitable organization, and establishes guidelines for internal control. The Board also establishes strategies and goals, and decides on major investments. The CEO is appointed by the Board and is responsible for ongoing administration.

The Board’s responsibilities are regulated by the Swedish Companies Act and the Procedural Plan. The division of labor between the

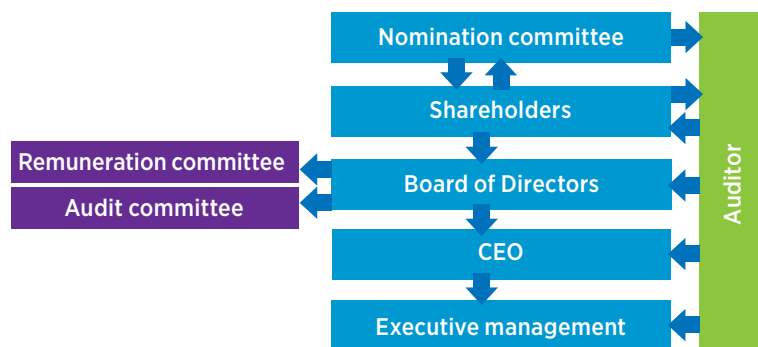
NOMINATION COMMITTEE

Name	Representing	Holdings at 31 August, 2016, %
Henrik Blomquist	Bure Equity	29.9
Thomas Ehlin	Fjärde AP-fonden	5.9
Joachim Spetz	Swedbank Robur Fonder	4.4
Patrik Tigerschiöld	Chairman of Mycronic AB	0.2

CORPORATE GOVERNANCE AT MYCRONIC

In order to govern the Mycronic Group in an efficient manner, governance, management and control has been distributed between shareholders, the Board, the CEO and Group management, with committees and collaborative bodies within specific areas.

Control is exercised by the external auditor and through internal control activities.



Board and the CEO is established through written instructions.

The Board consists of six members who are elected by the AGM, and two representatives appointed by Unionen and Akademikerna.

BOARD ACTIVITIES

The Board works according to a Procedural Plan that ensures that the Board is well-informed and that all Board-related issues are addressed. The Procedural Plan describes the division of responsibilities between the Board and committees, and between the Board and the CEO. The Board takes decisions on strategy and budget, confirms financial reports and important policies including the authorization policy, appoints the CEO and evaluates the CEO's work, establishes regulations for internal control and monitors how the internal control is working, decides on major investments and agreements, appoints the Audit Committee and Remuneration Committee, and evaluates the work of the Board. The Board monitors that the approved guidelines on remuneration of senior executives are followed, and proposes guidelines for remuneration for consideration by the AGM.

The Chairman of the Board leads the Board's work and represents the Company in ownership issues.

Board meetings are prepared by the Chairman together with the CEO. Board meeting minutes are recorded by the company's CFO. Written material is distributed

prior to every meeting. Certain issues are prepared by committees.

Recurring items at Board meetings are reviews of the business situation and financial reporting. Board committees report on their activities and raise issues for decision.

During 2016, there were twelve Board meetings. Additionally, the Board met during a workshop, in a strategy seminar, and during a trip to Japan and China. The Board's work year is illustrated below.

BOARD COMMITTEES

Committee tasks and rules of procedure are established by the Board in written instructions. The main task of the committees is to prepare matters for Board decision-making.

The Remuneration Committee

The Remuneration Committee is appointed by the Board and consists of three Board members. The committee is tasked with proposing the salary, other remuneration, and terms of employment for the CEO. The committee also proposes guidelines for remuneration and terms of employment for other senior executives and the directors of subsidiaries, and proposals for incentive programs. The Remuneration Committee ensures that established guidelines for remuneration of senior executives are followed.

As of the 2016 AGM, the Remuneration Committee consists of Patrik Tigerschöld (Chairman), Ulla-Britt Fräjdin-Hellqvist and Per Holmberg. The Remuneration Committee held three meetings in 2016.

The Audit Committee

The Audit Committee is appointed by the Board and consists of three Board members. The committee is tasked with ensuring the quality of the financial reporting. This comprises reviews of significant accounting and valuation issues. The Audit Committee evaluates the external auditing and assists the Nomination Committee with proposals for the election of the auditor. Employees do not participate during part of certain meetings between the Audit Committee and the external auditor.

Since the 2016 AGM, the Audit Committee consists of Magnus Lindquist (Chairman), Katarina Bonde and Stefan Skarin. The Audit Committee held six meetings in 2016.

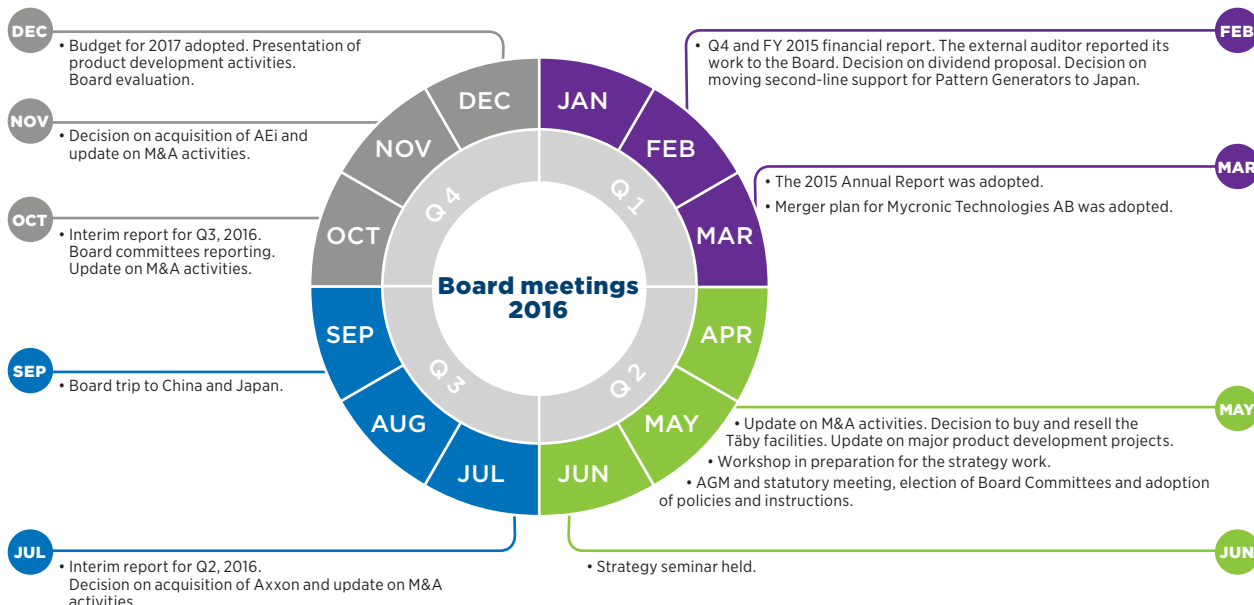
EVALUATION OF BOARD PERFORMANCE

The Board's performance is evaluated annually. The evaluation takes place either by an external evaluation or through self-assessment. The objective is to develop, set targets for, and measure the work of the Board, but also to provide the Nomination Committee a basis for the task of preparing proposals on Board appointments to the upcoming AGM.

The Chairman of the Board is responsible for the evaluation. In 2016, the evaluation was done by an external party using a questionnaire-based survey. The results were reported to the Chairman, and thereafter at the December Board meeting. The results were also presented to the Nomination Committee.

THE BOARD'S WORK 2016

During 2016 the Board held twelve meetings, of which one was the statutory meeting, one was by circulation and four were telephone meetings. In addition, the Board held one strategy seminar and conducted a Board trip to Asia.





The Board held twelve meetings in 2016. In addition, the Board held a strategy seminar and conducted a board trip to Asia. The picture shows Ulla-Britt Fräjdin-Hellqvist, Patrik Tigerschiöld and Katarina Bonde during one of the board meetings in Täby.

BOARD REMUNERATION

The 2016 AGM approved a Board fee of SEK 1,705,000 for the period up to the end of the next AGM. Of this fee, SEK 550,000 pertains to remuneration of the Chairman of the Board, and SEK 220,000 pertains to remuneration to each of the other Board members elected by the AGM. In addition, a fee of SEK 55,000 was established for the Chairman of the Audit Committee.

EXTERNAL AUDIT

Audit of the annual report and the consolidated financial statements, as well as the Board's and CEO's management, is done in accordance with International Standards on Auditing and generally accepted auditing

practices in Sweden.

Executive management is briefed on audit results continuously. The auditor meets with the Audit Committee regularly and the entire Board annually. During 2016, the auditor performed a synoptic review of the third quarter report.

Fees to the auditor are paid on an on-going basis. For information on remuneration to the auditor, please refer to Note 8.

CEO AND EXECUTIVE MANAGEMENT

Executive management consists of nine persons, including the CEO, pages 42-43. In 2016, Martin Petterson was appointed as Head of Production, Sourcing&Logistics and Torbjörn Wingårdh was appointed new CFO.

The CEO leads the work of executive management, which meets every other week for joint decision-making. Issues handled at executive management meetings include financial performance, development projects, leadership and competence issues, as well as other strategic issues.

The CEO is responsible for keeping the Board informed of the company's development. A global management meeting is held three times per year to strengthen uniformity in communication and governance throughout the Group.

In addition to executive management, there are several collaborative bodies that prepare and coordinate strategic and operative issues.

PRESENCE AND REMUNERATION FOR BOARD MEMBERS ELECTED BY THE AGM ON 3 MAY, 2016

Name	Elected	Independent ¹⁾	Holdings	Board	PRESENCE		REMUNERATION	
					Audit committee	Remuneration committee	Board	Audit committee
Patrik Tigerschiöld, chairman ²⁾	2009	no	235,170	12/12		3/3	550,000	
Katarina Bonde	2010	yes	2,000	11/12	6/6		220,000	
Ulla-Britt Fräjdin-Hellqvist	2012	yes	10,000	12/12		3/3	220,000	
Per Holmberg	2016	yes	5,000	9/9		2/2	220,000	
Magnus Lindquist ³⁾	2007	yes	-	12/12	6/6		220,000	55,000
Stefan Skarin	2016	yes	21,000	6/9	0/3		220,000	

1) According to the Swedish Code of Corporate Governance

2) Chairman of the remuneration committee

3) Chairman of the audit committee

EXTERNAL FINANCIAL REPORTING

In accordance with the established communication policy, Mycronic continuously reports information on the company's performance and financial position through interim reports, the annual report and press releases in conjunction with significant events.

In conjunction with interim reports, presentations are held for financial analysts, professional investors, and the media. Company management meets analysts and professional investors at other external and internal arrangements as well. In 2016, a Capital Markets Day was held, where the entire executive management team participated. Representatives from Mycronic also participate at events arranged by, for example, the Swedish Shareholders' Association.

Financial reports, press releases and other relevant information is presented on the website.

Mycronic observes a 30-day silent period before publication of financial reports, during which the company does not communicate with investors, analysts or the media.

INSIDERS

On 3 July, 2016, the EU Market Abuse Regulation (MAR) regarding insiders and their reporting of securities transactions came into force. Mycronic is obliged to maintain a register of persons in leadership positions and those close to them. This group consists of Board members and Group management. These persons are obliged to report all transactions in Mycronic securities to Finansinspektionen (Sweden's financial supervisory authority) and to the company.

The company is also required to maintain a temporary insider register (log book) of persons who have access to non-public information for a limited period in connection with particular events. This might be the Board, employees or contractors.

INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control is comprised of processes and methods that limit risks for material misstatement in the financial statements, and provide a reasonable assurance of the reliability and accuracy of the financial reporting.

Internal control is maintained by the Board, management and employees. Mycronic's internal control is based on the control environment, risk assessment, control activities, information and communication, and follow-up.

Control environment

The control environment consists of a suitable organization, decision-making procedures, authorization and responsibilities, as expressed in policies and guidelines. Common values provide consensus with the in-

tention of strengthening internal control. Mycronic's Code of Conduct describes the approach that employees are expected to maintain in matters relating to business ethics and social issues.

Steering documents include the formal workplan for the Board and its committees, as well as the Board's terms of reference to the CEO. The Board establishes certain policy documents including the authorization policy and the communication policy.

Responsibility for creating processes with a high degree of internal control is assigned to each department manager.

The Group's finance and control organization, centrally and at the level of each unit, plays an important role in the reliability of financial information and is responsible for ensuring that complete, accurate financial reporting is completed on time.

Risk assessment

Included in risk assessment is the identification and evaluation of the risk for material misstatement in the accounting and reporting. Critical processes are evaluated with respect to their efficiency and risk. When assessing risks that affect internal control as it relates to financial reporting, the evaluation is based on likelihood and impact. Risks are connected to processes. Critical processes comprise product development, sourcing, manufacturing, sales, and installation, as well as support processes such as financial closing and IT. Risk assessment also includes risks for irregularities and fraud.

Control activities and follow-up

Control activities should prevent, discover and resolve deviations. Controls exist at all levels within the company and within all functions.

Control activities may be automated by being built into IT systems, such as authorization structures. They may also be manual, such as double checks for disbursements and reconciliations in connection with financial closings. Recurring analyses of results complement daily controls. A financial handbook ensures uniformity of financial reporting within the Group. One system is used across the entire Group for financial reporting. The controller function constitutes a significant part of the control structure.

Information and communication

The Board and executive management have established communication channels to ensure complete and accurate financial reporting. Internal communication channels include quality assurance systems, analysis tools, and the intranet. One way to educate staff in the rule framework that applies across the entire Group is through e-learning, which can be linked to tests after the electronic training has been completed. Every month financial

information is compiled and distributed to the Board and executive management. External communication takes place in accordance with the established communication policy.

Monitoring

Mycronic has no separate review function in the form of internal audit. The Board has determined that monitoring of internal control shall be conducted through self-assessment.

Self-assessment means that employees become involved, which increases understanding of the significance of internal control.

The evaluation of internal control follows a plan approved by the Audit Committee. Risks for material misstatement or deficiencies in the financial reporting are reported. Self-assessment of critical processes is supplemented with external evaluation or statements of opinion.

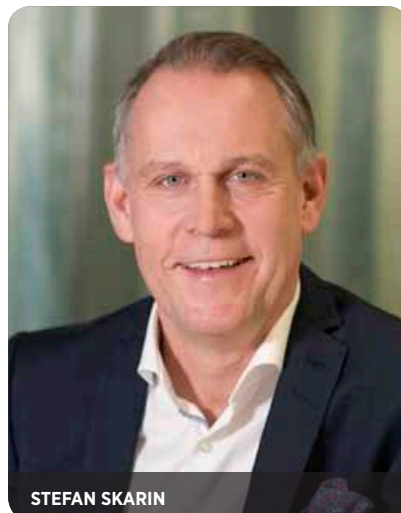
Personnel from the centralized finance and controller function visit subsidiaries regularly to monitor financial performance and evaluate internal controls.

Experiences are continuously shared among representatives from the finance and HR departments throughout the Group. In 2016, conferences were held in Sweden for both HR and Finance.

In 2016, Mycronic conducted a review and evaluation of three foreign subsidiaries after first conducting a pilot study together with the external auditor. Two of these internal control reviews were conducted together with representatives from EY. The reviews focused on inventories and trade receivables.

The Audit Committee monitors internal control and has ongoing contact with the external auditors. This contributes to the Board's collective insight into the internal control as it relates to financial reporting.

BOARD OF DIRECTORS AND AUDITOR



PATRIK TIGERSCHIÖLD

Chairman of the Board since 2012.
Board member since 2009.
Born 1964.
Dependent Board member.

Education: M.Sc in Business and Economics.

Other Board assignments: Chairman of Bure Equity AB, The Association for Generally Accepted Principles in the Securities Market and The Swedish Association for Listed Companies. Board member of Cavotec SA, Stockholm University and Fondbolaget Fondita AB among others.

Previous positions: CEO of Bure Equity AB 2010-2013, CEO of Skanditek Industriförvaltning 1999-2010, CEO of SEB Allemansfonder AB 1995-1999.

Committee in Mycronic: Chairman of the remuneration committee.

Shareholding in Mycronic: 235,170.

KATARINA BONDE

Board member since 2010.
Born 1958.
Independent Board member.
President of Kubi LLC.

Education: Master of Engineering, engineering physics.

Other Board assignments: Chairman of Opus Group AB and Propellerhead Software AB. Board member of Aptilo Networks AB, Avega Group AB, Fingerprint Cards AB, Microsystemation AB and Nordax Bank.

Previous positions: CEO of UniSite Software Inc 2000-2003, CEO of Captura International 1997-2000, Marketing director Dun&Bradstreet Software Inc 1996-1997, Vice President at Timeline Inc 1994-1995, CEO of Programator Industri AB 1989-1992.

Committee in Mycronic: Member of the audit committee.

Shareholding in Mycronic: 2,000.

ULLA-BRITT FRÄJDIN-HELLQVIST

Board member since 2012.
Born 1954.
Independent Board member.
Fräjdin&Hellqvist AB.

Education: Master of Engineering, engineering physics.

Other Board assignments: Chairman of Karlstad Innovation Park and Vindora Holding. Board member of Anna+Cie, DataRespons ASA, HRM Affärsutveckling, Fräjdin&Hellqvist AB, UBFH Management AB.

Previous positions: Leading positions in Svenskt Näringsliv 2001-2006, leading positions in Volvo Personvagnar 1979-2001.

Committee in Mycronic: Member of the remuneration committee.

Shareholding in Mycronic: 10,000.

PER HOLMBERG

Board member since 2016.
Born 1959.
Independent Board member.
President Hexagon MI EMEA since 2004.

Education: MBA, Handelshögskolan, Stockholm.

Other Board assignments: Board member of Adrian Michel AG.

Previous positions: Leading positions in Electrolux 1984-2003.

Committee in Mycronic: Member of the remuneration committee.

Shareholding in Mycronic: 5,000.

MAGNUS LINDQUIST

Board member since 2007.
Born 1963.
Independent Board member.
Co-Managing Partner, Cordet Capital Partners.

Education: Economist.

Other Board assignments: Board member of Axcel Advisory Board.

Previous positions: Partner of Triton 2008-2015. CFO and Vice President of Autoliv 2001-2008, Perstorp, 1996-2001 and Stora Cell Group, 1993-1996.

Committee in Mycronic: Chairman of the audit committee.

Shareholding in Mycronic: 0.

STEFAN SKARIN

Board member since 2016.
Born 1962.
Independent Board member.
CEO of IAR Systems since 2009.

Education: Economist.

Other Board assignments: -

Previous positions: Leading positions in IAR Systems Group AB 2001-2008, Head of Sales Adobe 1995-2001, Head Nordic Interleaf Technology Ltd 1994-1995, Leading positions in Oracle 1987-1994, several positions in Ericsson 1985-1987.

Committee in Mycronic: Member of the audit committee.

Shareholding in Mycronic: 21,000.

TOBIAS BÖÖK

Representing Akademikerna.
Board member since 2014.
Born 1966.
Controller.
Economist.

Shareholding in Mycronic: 0.

PETER SUNDSTRÖM

Representing Unionen.
Board member since 2012.
Born 1976.
Specialist software development.
Master of Engineering, engineering physics.

Shareholding in Mycronic: 0.

Auditor

ERIK SANDSTRÖM

Born 1975.
Auditor in Mycronic since 2016.
Authorized accountant, Ernst & Young AB.

Other assignments: Gränges, Munters, Rottneros, Södra Skogsägarna and Tradedoubler.

Shareholding as of 31 December, 2016, including own shares, shareholding through capital insurance and shareholdings of closely related parties.

EXECUTIVE MANAGEMENT



LENA OLVING

CEO and President since 2013.
Born 1956.

Education: Master of Engineering,
Mechanical Engineering.

Board assignments: Board member of
Investment AB Latour, Teknikföretagen and
The Swedish Corporate Governance Board.

Previous positions: Vice President and
COO at Saab AB (publ), leading positions in
Executive Management at Volvo Person-
vagnar AB, CEO at Samhall Högland AB.

Shareholding in Mycronic: 112,500.

NIKLAS EDLING

Sr VP, Strategic Product Management.
Employed since 2011.
Born 1963.

Education: Master of Engineering,
Mechanical Engineering and MBA.

Previous positions: VP Supply Chain &
Manufacturing Laerdal Medical,
VP Operations Hudson RCI.

Shareholding in Mycronic: 80,000.

SILKE ERNST

Sr VP, Human Resources.
Employed since 2013.
Born 1967.

Education: M.Sc Linguistics and MBA.

Previous positions: Vice Head of HR
Vattenfall BG Nordic, Director HR BU
Distribution Vattenfall, VP HR Business
Division Asset Optimisation & Trading
Vattenfall.

Shareholding in Mycronic: 450.

JOHAN FRANZÉN

Sr VP, Research and Development.
Employed since 2015.
Born 1978.

Education: Master of Engineering,
Electronic Design.

Previous positions: Manager SW
Applications Volvo CE, Manager Global EL
and Electronics systems development Volvo
CE, Manager Global Technical Support
Volvo CE.

Shareholding in Mycronic: 6,600

MARTIN PETERSSON

Sr VP, Operations, Sourcing and Logistics.
Employed since 2016.
Born 1980.

Education: Master of Engineering,
Industrial Management and Engineering.

Previous positions: Project Manager ACE
Volvo CE, Director Transmissions & Axles/
CPM Transmission (China) Volvo CE,
Manager Production Engineering Volvo CE,
Manager Industrialization and production
development Volvo CE.

Shareholding in Mycronic: 760.

MAGNUS RÅBERG

Sr VP, General Manager, Business area
Pattern Generators.
Employed since 1996.
Born 1966

Education: Master of Engineering,
System Engineering.

Previous positions: Head of global sup-
port, Head of system sales and other po-
sitions in the Mycronic Group.

Shareholding in Mycronic: 1,878.

CHARLOTT SAMUELSSON

Sr VP, Operational Excellence.
Employed since 1996.
Born 1963

Education: Master of Engineering,
System Engineering, Engineering Physics.

Previous positions: Head of global after-
market, Head of system and application
development and Head of business devel-
opment in the Mycronic Group.

Shareholding in Mycronic: 17,685

TORBJÖRN WINGÅRDH

Sr VP,
CFO.
Employed since 2016.
Born 1964.

Education: M.Sc in Economics and
Business Administration.

Previous positions: CFO Business area
Saab SDS and leading positions at Investor
AB in Sweden and the US.

Shareholding in Mycronic: 10,000

LENA OLVING

Acting General Manager, Business area
Assembly Solutions.