

CORPORATE GOVERNANCE REPORT

GENERAL

The corporate governance of RaySearch is based on the Swedish Companies Act, the Swedish Annual Accounts Act, the Rule Book for Issuers of NASDAQ OMX Stockholm, the Articles of Association and RaySearch's application of the Swedish Code of Corporate Governance (referred to below as the "Code"). Companies listed on NASDAQ OMX Stockholm are obligated to apply the Swedish Code of Corporate Governance. The aim of the Code is to improve the governance of Swedish companies and, in particular, to ensure that companies are managed in the best interests of their shareholders. In turn, a high level of corporate governance enhances confidence in listed companies among capital market players and the public at large.

The term "apply the Code" entails that companies must actively make a decision regarding their approach to the various regulations of the Code. If a company chooses to deviate from the Code's rules, it must explain why in accordance with the principle of "comply or explain."

Since the Code's rules are primarily designed for larger companies with diversified ownership, they may be unnecessarily burdensome and difficult to apply for smaller companies with a concentrated ownership structure. RaySearch is a small company with a majority shareholder who is also actively involved in the company in his role as President. In most cases, this is the reason why RaySearch has opted not to observe certain Code regulations.

RaySearch presents Corporate Governance Reports in connection with the presentation of annual reports for each fiscal year.

ANNUAL GENERAL MEETING

Following motions by the shareholders, the Board of Directors and the audit firm (with an auditor-in-charge) are elected at the Annual General Meeting (AGM) for a term of office until the close of the following AGM. The date of the AGM is announced no later than in conjunction with the third-quarter interim report and is simultaneously published on the company's website. Shareholders representing 39.9 percent of the total number of shares and 68.7 percent of the total number of votes in the company participated in RaySearch's AGM held on May 22, 2013 in Stockholm. RaySearch's President, Board and auditors attended the AGM.

FUNCTION OF THE AGM

RaySearch is permitted to issue shares in two series, referred to as Class A and Class B. When voting at the AGM, each Class A share carries ten votes and each

Class B share carries one vote. The total number of shares in RaySearch is currently 34,282,773, of which 11,324,391 are Class A and 22,958,382 are Class B shares. There are no special provisions regarding the function of the AGM in the Articles of Association or, to the knowledge of RaySearch, in shareholder agreements.

AUTHORIZATION PROVIDED BY THE AGM

The AGM has not authorized the Board to decide on the issuance of new shares or acquisition of its own shares.

NOMINATION COMMITTEE

The company deviates from the rules of the Code by not appointing a nomination committee. In view of the ownership structure of RaySearch, the Board is of the opinion that a nomination committee would serve no purpose and simply give rise to unnecessary costs.

BOARD OF DIRECTORS

RaySearch's Board of Directors makes decisions on matters regarding the company's strategic direction, structure and organizational issues and matters related to research and development. The Board also addresses partnership agreements, interim reports, the annual accounts, internal control, auditing issues, budget and key policies. Moreover, it is the Board's duty to ensure that correct information is provided to the stock market. The Board's work is regulated in such documents as the Swedish Companies Act, the Articles of Association and the formal work plan adopted by the Board. Under the Articles of Association, the Board shall comprise no fewer than three and no more than eight members, with no more than three deputies.

After the AGM held on May 22, 2013, the Board of RaySearch comprises four members elected by the AGM, and no deputies.

The AGM held on May 22, 2013 elected Erik Hedlund as the Chairman of the Board until the next AGM. The Board fulfills the requirement for independent Board members pursuant to the Code. The Board evaluates its work once each fiscal year by use of a systematic and structured process, which evaluation forms the basis for the Board's future working methods. Although the Board also evaluates the work of the President, the company deviates from the Code in this respect in that the President may participate in this evaluation. The reason is that the President is a Board member and the Board believes that the presence of the President does not adversely affect the evaluation.

OWNERSHIP STRUCTURE – SHAREHOLDERS WITH AT LEAST 10% OF TOTAL VOTES

Name	Class A	Class B	Total shareholding	Share capital %	Votes %
Johan Löf	6,243,084	618,393	6,861,477	20.0	46.3
Erik Hedlund	1,567,089	228,699	1,795,788	5.2	11.7
Anders Brahme	1,390,161	185,000	1,575,161	4.6	10.3
Others	2,124,057	21,926,290	24,050,347	70.2	31.7
Total	11,324,391	22,958,382	34,282,773	100.0	100.0

WORK OF THE BOARD IN 2013

The Board's work is governed by a formal work plan that is adopted annually and which regulates such issues as the decision-making structure in the company, the Board meeting schedule and the duties of the Chairman. The Board as a whole addresses internal control issues that are its responsibility. In addition, the company's auditors personally report their observations from their audit and assessment of the internal control to the Board each year. The Board held nine meetings during the year, each attended by all Board members. Considering the size of the Board, it was not deemed necessary to introduce a separate delegation of duties among Board members. For the same reason, no committees were established.

REMUNERATION COMMITTEE

RaySearch deviates from the Code by not establishing a remuneration committee. This is because the size of the Board (and the company) does not warrant any such committee. The remuneration of the President is determined by the Board, without the participation of the President, following negotiations between the President and the Chairman of the Board, while remuneration of other senior executives is determined following negotiations between the President and the individual members of the executive management.

MAJOR DIRECT OR INDIRECT SHAREHOLDINGS

Shareholders with a direct or indirect shareholding in RaySearch who represent at least one tenth of the votes in the company are listed in the table on the preceding page.

PROVISIONS OF THE ARTICLES OF ASSOCIATION

RaySearch's Articles of Association do not contain any restrictions as to how many votes each shareholder may cast at the AGM. Nor do RaySearch's Articles of Association include any special provisions governing the appointment and dismissal of Board members, or amendments to the Articles of Association.

AUDIT COMMITTEE

RaySearch also deviates from the Code by not establishing an audit committee. This is because the size of the Board (and the company) does not warrant any such committee. The Board as a whole performs the work of an audit committee.

INTERNAL CONTROL

According to Swedish legal rules of corporate governance, the Board shall ensure that RaySearch has ample internal control and shall remain continuously informed of and evaluate the functioning of the company's internal control system. A key feature of the control environment is that organization, decision-making procedures, responsibilities and authorizations are clearly defined and communicated in governance documentation. Considering the limited size of the Finance Department, the Board has during its annual assessment of the possible need for a separate function to review the company's internal controls concluded that there is no need for an internal audit function.

CONTROL ENVIRONMENT

As part of the effort to create and maintain a functioning control environment, the Board has established a number of significant, fundamental documents for financial reporting, including special work procedures for the Board and instructions for the President. The Board has delegated to the President to maintain the control environment as directed by the Board. The Board also approves the attestation instructions that delegate the President's attestation responsibility to other executives at RaySearch. The President submits regularly to the Board and executive management of RaySearch reports containing comments on the business conditions and the financial results compared with the budget and forecasts. In addition, reports are also submitted by RaySearch's auditor. The internal control also builds upon a management system based on RaySearch's organization and manner of conducting business with clearly defined roles and areas of responsibility, and delegation of authority. Governance documentation, such as policies and guidelines, has a significant function in the control structure.

RISK ASSESSMENT

RaySearch's executive management performs regular risk assessments to identify significant risks relating to financial reporting. As regards financial reporting, the primary risk is deemed to be incorrect accrual accounting of revenues and valuation of assets, liabilities, income and expenses or other deviations. Fraud and loss through embezzlement are other risks. Risk management is incorporated into each process and various methods are used to evaluate and minimize risks in order to ensure that the risks to which RaySearch is exposed are managed in line with established regulations, instructions and monitoring procedures. The purpose of this is to reduce potential risks and promote accurate accounting, reporting and provision of information.

CONTROL ACTIVITIES

Control activities are designed to manage the risks that the Board and the company's executive management deem to be significant for the operations, internal control and financial reporting. The control structure includes distinct roles within RaySearch that enable effective allocation of responsibility of specific control functions aimed at the timely identification and prevention of the risk of reporting errors. Such control functions include clear decision-making procedures for major decisions, such as acquisitions, other types of major investments, divestments, agreements and analytical monitoring. Another important task for RaySearch's executive management is to implement, further develop and maintain the company's control procedures and to perform internal control measures aimed at business-critical issues. Process managers at various levels are responsible for the implementation of necessary controls for financial reporting. The closing accounts and reporting processes include checks in respect of valuation, reporting principles and estimates. The regular analyses made of financial reporting are essential to ensure that the financial reports do not contain any material errors. RaySearch's Chief Financial Officer (CFO) performs a key function in the internal control process by checking that financial reports are complete, accurate and presented on time.

INFORMATION AND COMMUNICATION

RaySearch cooperates with the communications consultant Cision in order to ensure comprehensiveness and accuracy in financial reports to the market. The employees concerned are regularly informed about, among other things, the prevailing accounting policies and changes in any reporting requirements. The Board regularly receives financial reports. External information and communication is governed by, among other things, RaySearch's information policy, which describes the company's general principles underlying information disclosure.

MONITORING

The Board and the executive management monitor RaySearch's compliance with adopted policies and guidelines. RaySearch's financial situation is addressed at each Board meeting. The Board and the executive management scrutinize the financial reports ahead of the publication of quarterly interim reports and the annual report. The auditor's duties also include an annual examination of RaySearch's internal control. The Board meets with RaySearch's auditor at least once per year to review the internal control, but also, in special cases, to assign additional internal controls to the auditor with a special focus on a particular area.

EXECUTIVE MANAGEMENT

Under the Swedish Companies Act, the Board is responsible for the company's organization and management. If a President is appointed he is, according to the Swedish Companies Act, responsible for the ongoing management of the company according to the guidelines and instructions provided by the Board.

RaySearch's President leads the Group's operations based on the frameworks established by the Board and appoints the other members of executive management. At the end of 2013, RaySearch's executive management consisted of the President, the Chief Financial Officer (CFO), Director of Research, Director of Development, Chief Technology Officer (CTO), Director of Sales and Marketing and the General Counsel.

Throughout the year, business reviews under the President's leadership were usually carried out on a weekly basis, except during holiday periods when they occurred less frequently. The Board meets with all members of executive management at least once annually.

The executive management also regularly meets with representatives for the US and European sales and marketing organizations, mainly through the President and the Director of Sales and Marketing, in order to monitor and evaluate the Group's operations in its entirety. The evaluation is based on the annually established targets and budgets for the Group, including, among other things, RaySearch's strategies, short and long-term goals and operational objectives, competitor analyses, and so forth. The Board is continuously informed about the executive management's monitoring and evaluation measures.

FURTHER INFORMATION

For more details about the Board and the President, refer to page 81 and Note 4 in the annual report. For more information about the auditors, refer to page 81 and Note 5 in the annual report.

Stockholm, April 25, 2014

Erik Hedlund
Chairman of the Board

Johan Löf
President/CEO and
Board member

Carl Filip Bergdendal
Board member

Hans Wigzell
Board member

AUDITORS' REPORT ON THE CORPORATE GOVERNANCE REPORT

**TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH
LABORATORIES AB (PUBL)
CORPORATE REGISTRATION NUMBER 556322-6157**

The Board of Directors is responsible for the 2013 Corporate Governance Report on pages 76–78 and that it is prepared in accordance with the Swedish Annual Accounts Act.

We have read the Corporate Governance Report and based on this and our knowledge about the company and the Group, we believe that we have sufficient basis for our opinions. This means that our statutory review of the Corporate Governance Report has another direction and is of a considerably smaller scope compared with the direction and scope of an audit in accordance with International Standards on Auditing and generally accepted standards in Sweden.

It is our opinion that a Corporate Governance Report has been prepared, and that its statutory content is consistent with the annual accounts and the consolidated financial statements.

Stockholm, April 25, 2014
Ernst & Young AB

Per Hedström
Authorized Public Accountant