

# Corporate governance and internal control report

The current version of the Swedish Code of Corporate Governance (the “Code”) came into force on 1 February 2010. The rules of the Code are a supplement to the main provisions of the Swedish Companies Act (2005:551) regarding a company’s organization, but also to the relatively extensive self-regulation that exists for corporate governance. The Code is based on the principle of “comply or explain”. According to this principle a company may choose whether it wants to follow a clause in the Code, or explain why it has chosen not to.

## Corporate governance code application

RusForest AB (the “Company”) is a public limited liability company registered in Sweden. The Company’s shares are listed on Nasdaq First North, which has a less extensive rulebook than the main market and does not require that the Company follows the Code. However, RusForest has chosen to apply the rules of the main market and the Code. The Company will apply the Code in full, or, where applicable, explain deviations from it. The main principles of corporate governance in the Company are described below.

## Shareholders’ meetings

The annual general meeting (“AGM”) is the highest decision-making body of the Company, in which all shareholders are entitled to attend in person or by proxy. The AGM of the Company is held in Stockholm, Sweden, in Swedish, once per year, no later than six months after the end of the financial year. The task of the AGM is to report on the financial results and take decisions on corporate matters, including payment of dividend and amendments to the Articles of Association. The AGM also appoints members of the Board of Directors and auditors, and establishes the remuneration of the Board of Directors and the auditors.

## Major shareholders

Nova Capital, which holds a total of 33,500,000 shares in the Company, representing a total of 25.40 percent of the outstanding shares, is the largest shareholder. The shares are held through a legal entity controlled by Nova Capital.

Directors and senior management of the Company held a total of 0.8 percent of outstanding shares in the Company at 31 March 2015.

## Nomination Committee

Shareholders in the Company have the right to nominate members of the Board of Directors, and auditors, to the AGM.

At the Company’s AGM on 15 May 2014 it was resolved to establish a nomination committee consisting of representatives of the three largest shareholders of the Company, as at the last banking day of August 2014. The Nomination Committee for the 2015 AGM consists of the following members: Temo Jorbenadze (Nova Capital), Dag Rolander (representing a group of investors) and Garrett Soden (Chairman of the Board of RusForest AB). At the Nomination Committee’s first meeting, Temo Jorbenadze was elected Chairman of the committee. The Nomination Committee’s task is to prepare proposals for the following resolutions at the 2015 AGM: (i) election of the chairman of the AGM, (ii) election of Board members, (iii) election of the Chairman of the Board, (iv) remuneration to the directors, (v) election of auditors and their remuneration, and (vi) proposals on the nomination process for the AGM 2016. For the AGM 2015 the Nomination Committee has met twice in person, complemented by significant correspondence by phone and email.

## Appointment and remuneration of the Board of Directors and the auditors

According to the Company’s Articles of Association, the Board shall consist of not less than three (3) members and not more than seven (7) members, with or without not more than two (2) deputy members. The Board is appointed annually at the

AGM for the period until the closing of the next AGM. The term of office of a director may be terminated prematurely at the director’s own request to the Board or by the general meeting. In addition, the office of a director may be terminated prematurely by the Board upon the occurrence of any of the following events: (i) if he/she becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health; (ii) if he/she becomes bankrupt; or (iii) if he/she is prohibited by law from being a director. Where a director’s term of office is terminated prematurely, then the other directors shall take steps to have a new director appointed by the general meeting, for the remaining term of the office. However, such new appointment may be postponed until the next AGM at which an election of directors shall take place, provided that the remaining directors form a quorum and that the remaining number of directors is not less than the prescribed minimum number of directors.

Auditors are generally elected by the AGM for a term of four years at a time, however, at the AGM on 15 May 2014 the sitting auditors KPMG’s assignment was extended for a 5th year.

## The 2014 Board of Directors

At the EGM held on 11 July 2013, it was resolved, in accordance with the proposal of the 2013 Nomination Committee, to re-elect Per Brilioth, Peter Nilsson, Paul Putz, Alexander Rudik and Camilla Öberg as Directors, with Paul Putz as Deputy Chairman. Garrett Soden was elected as a new Board member and Chairman of the Board.

At the AGM held on 15 May 2014, it was resolved, in accordance with the proposal of the 2014 Nomination Committee, to re-elect Per Brilioth, Peter Nilsson, Paul Putz, Alexander Rudik, Garrett Soden and Camilla Öberg as Directors, with Garrett Soden as Chairman of the Board.

All Board members are independent vis-à-vis the Company, its management

and major shareholder, with the exception of Alexander Rudik, who is the founder and president of Nova Capital, the Company's largest shareholder.

For a detailed presentation of the current Board, see "Board of Directors, management and auditors" in the 2014 Annual Report.

### Board meetings

The Board of Directors meets at least twice per year in person, and more frequently when necessary. In addition, meetings are conducted by telephone if considered necessary, and, on occasion, resolutions may be passed by circulation. The Chief Executive Officer is in regular contact with the Chairman of the Board of Directors as well as the other members of the Board of Directors. During 2014, 12 board meetings were held.

### Work and responsibilities

The Board of Directors adopts decisions on overall issues affecting the Group. However, the Board of Directors' primary duties are the organization of the Company and the management of the Company's operations including:

- Decisions regarding the focus of the business and adoption of Company policies;
- Supply of capital;
- Appointment and regular evaluation of the work of the Chief Executive Officer and Company management;
- Approval of the reporting instructions for the Company management;

- Ensuring that the Company's external communications are open, objective and appropriate for target audiences;
- Ensuring that there is an effective system for follow-up and control of the Company's operations and financial position vis-à-vis the established goals; and
- Follow-up and monitoring that the operations are carried out within established limits in compliance with laws, regulations, stock exchange rules, and customary practice on the securities market.

### Sub-committees of the Board

At the AGM, held 20 May 2010, it was resolved that the Board of Directors shall establish an Audit Committee and an Operational Committee, each consisting of up to three members.

### Audit Committee

The Audit Committee shall function as the primary communication channel between the board and the Company's auditors and shall be responsible for the preparation of the board's work to assure the quality of the Company's financial reporting. The Audit Committee has a particular responsibility to review and bring any problems with the internal control of financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up by management and the Audit Committee.

The Audit Committee shall address any critical accounting issues and review

the financial reports issued by the Company. Among other the following issues and reports shall be considered:

- matters of internal control and application of relevant accounting principles and laws.
- discuss any uncertainties in presented values, changes in estimates and appraisals.
- significant events after the reporting period.
- address any established irregularities.
- the Company's annual report and the interim reports which are prepared four times annually shall be reviewed.
- discuss any other issues than the above that might affect the quality of the Company's reporting.

The Audit Committee meets with the Company's auditors on a continuous basis (at minimum once a year) to keep informed of the direction and extent of the audit. The Audit Committee and the auditors shall also discuss the coordination between internal control and external audit and the auditors' views on potential risks to the Company's quality of reporting.

- The Audit Committee shall set the guidelines for what other services than audit the Company may procure from the auditors.
- The Audit Committee shall on an annual basis in connection with the end of the financial year, evaluate the performance by the Company's auditors. They shall inform the nomination committee of the result of the

### Composition of the Board of Directors, including meeting attendance 2014

Name	Elected to the Board	Position	Connection to the Company	Audit committee	Operational committee	Attended board meetings	Share holding*	Annual Board fee (SEK)
Garrett Soden	2013	Chairman	Independent			92%	32,000	300,000
Paul Putz	2013	Deputy chairman	Independent	X		100%	75,000	150,000
Per Brilioth	2009	Member	Independent	X		92%	222,855	150,000
Peter Nilsson	2013	Member	Independent		X	92%	45,000	250,000
Alexander Rudik	2013	Member	Main owner		X	100%	181,560	150,000
Camilla Öberg	2011	Member	Independent	X		100%	3,500	250,000
Number of meetings				6	4	12		1,250,000

\* Share holdings as of 31 March 2015 based on holdings reported by management and board members to the Company, under insider reporting rules.

valuation, to be considered when they nominate auditors for the AGM.

- Assist the nomination committee in the process of nominating auditors and remuneration for the auditors.
- The Audit Committee shall review the annual and interim reports and make recommendations on these to the Board of Directors.

During 2014, the Audit Committee convened six times. The Audit Committee consists of Camilla Öberg (Chair), Per Brilioth and Paul Putz.

#### **Operational Committee**

The role of the Operational Committee is to make suitable investment recommendations and review the budget and operations in the operating units on a regular basis. These recommendations must at all times be in line with the overall strategy of the Company as decided by the Board of Directors

During 2014, the Operational Committee convened four times. The Operational Committee consists of Peter Nilsson (Chair) and Alexander Rudik.

#### **Management**

The Chief Executive Officer manages the Company's day-to-day activities and prepares investment recommendations in co-operation with the group management and members of the operating committee. For a detailed presentation of the management, see the section "Board of Directors and management".

#### **Group Management in 2014**

*Matti Lehtipuu:* Chief Executive Officer of the Group from 1 January to 31 December 2014.

*Gustav Wetterling:* Appointed as Chief Financial Officer on 14 January 2014, replacing Kirill Pronin.

*Anton Bogdanov:* Current CEO and former Chief Operating Officer and from February 2014 CEO of RusForest Management Company, performing management services to certain Group subsidiaries, including the Eastern Siberian production companies.

*Anders F. Börjesson:* CEO of the Swedish holding company RusForest AB and legal counsel to the Group.

#### **Investor relations**

The investor relations function of the Company was during 2014 managed by Gustav Wetterling, Chief Financial Officer.

#### **Remuneration of the Board of Directors and group management**

##### **Remuneration of the Company's Board of Directors**

The remuneration of the Board of Directors was set at SEK 300,000 for the Chairman of the Board and SEK 150,000 for each of the other members of the Board of Directors. For work on the Audit Committee, remuneration was set at SEK 100,000 for the chairman of the committee, for work on the Operational Committee; remuneration was set at SEK 100,000 for the chairman of the committee. Previously SEK 75,000 was also awarded to other committee members but this practice was abolished at the AGM 2014.

##### **Remuneration of the senior management**

The former Chief Executive Officer – Matti Lehtipuu's fixed annual salary was USD 300 thousand. Total remuneration to former CEO in 2014 was USD 656 thousand including severance type payment of USD 305 thousand. The monthly salary is deemed to include provision for pension. The Company also covered the cost of the former Chief Executive Officer's apartment and parking. The Chief Executive Officer is entitled to six months' full salary in the event of termination by the Company. Should he himself choose to resign the notice period is six months.

The combined fixed annual salary to the other senior executives amounted to a total of approximately USD 791 thousand including severance payment of USD 161 thousand to former CFO. The new chief financial officer has a pension plan based on Swedish market practice,

which is accounted for as a defined contribution plan in accordance with IAS 19. The premium is calculated on the basis of base salary. The former chief operating officer's now CEO, former COO – Anton Bogdanov's monthly salary is deemed to include provision for pension. The employment agreements of the other members of the group management have a mutual notice period of six months.

#### **Incentive program**

##### **Incentive program for the Company**

A share-based incentive program was adopted at the AGM held on 15 May 2013. The program is described in detail in Note 9 to the 2014 financial statements. A total of 1,200,000 options were issued and held by former CEO – Matti Lehtipuu at the beginning of 2014, a total of 900,000 were issued during 2014 (300,000 options each to current CEO – Anton Bogdanov, CFO – Gustav Wetterling and Group Legal Counsel – Anders F. Börjesson) and 800,000 options reverted back to the Company on 31 December 2014 in connection with the termination of former CEO – Matti Lehtipuu's employment. As at 31 December 2014 a total of 1,300,000 options were issued and outstanding.

##### **Other matters related to remuneration**

There are no agreements on severance payment or pensions for the Board of Directors. Except as otherwise stated there are no reserved or accrued amounts in the Company for pensions or other post-employment remunerations or post-assignment for members of the Board of Directors or the senior executives.

#### **Auditors**

At the Company's AGM held on 15 May 2014, KPMG AB was re-elected as the Company's auditors.

*Mats Kåvik,* Authorized Public Accountant, Lead Partner. Auditor in charge since 2013. KPMG AB, Sweden.

During the year the auditing firm has not had any other significant assignments from RusForest in addition to auditing work specified in the section "Independent Auditors' Report" on page 55.

### Internal control

The Board of Directors is responsible for the Company's organization and administration of the Company's activities, which includes internal control. Internal control in this context regards those measures taken by the Company's Board of Directors, management and other personnel, to ensure that bookkeeping, asset management and the Company's financial condition in general are controlled in a reliable fashion and in compliance with relevant legislation, applicable accounting standards and other requirements for listed companies. RusForest has an Audit Committee, consisting of three members of the board, charged with the special responsibility to evaluate the efficiency of internal control and ensure compliance with internal control methods as well as to review and discuss internal and external audit matters. This report on internal control is made in accordance with section 7.4 of the Code, which governs internal control over the financial reporting, and in accordance with guidance provided by FAR, the institute for the accounting profession in Sweden, and by the Confederation of Swedish Enterprise.

Management continuously monitors the Company's operations in accordance with the guidelines set out below. Monthly reports are produced for internal use, which later form the basis for a quarterly review by the Board of Directors.

### Control environment

The control environment, which forms the basis of internal control over financial reporting, to a large extent exists of the core values which the Board of Directors communicate and themselves act upon. RusForest's ambition is that values such

as precision, professionalism and integrity should permeate the organization. Another important part of the control environment is to make sure that such matters as the organizational structure, chain of command and authority are well defined and clearly communicated. This is achieved through written instructions and formal routines for division of labor between the Board of Directors on the one hand, and management and other personnel on the other. The Board of Directors establishes the general guidelines for RusForest's core business, which is utilizing its forest leases and produce a range of high-quality sawnwood.

The Company has in 2014 employed a full time internal auditor.

### Risk assessment

The Board of Directors of RusForest is responsible for the identification and management of significant risks for errors in the financial reporting. The risk assessment specifically focuses on risks for irregularities, unlawful benefit of external parties at RusForest's expense and risks of loss or embezzlement of assets. It is the ambition of RusForest to minimize the risk of errors in the financial reporting by continuously identifying the safest and most effective reporting routines. An internal control report is prepared by management and reviewed by the Board of Directors on a quarterly basis. The Board of Directors puts most effort into ensuring the reliability of those processes that are deemed to hold the greatest risk for error or where potential errors would have the most significant negative effect. Among other things this includes establishing clearly stated requirements for the classification and description of income statement and balance sheet items according to generally accepted accounting principles and applicable legislation.

### Control activities

To verify compliance with the requirements and routines established in response to the risk assessment made,

a number of concrete control activities need to be put in place. The purpose of the control activities is to prevent, detect and rectify any weaknesses and deviations in the financial reporting. For RusForest's part such control activities include the establishment of verifiable written decisions at every instance in the investment procedure. In addition, after every completed transaction, purchase or sale, the whole process is examined to verify the validity of the transaction, from recommendation to approval, execution and entry of the transaction into the Company's books. Bank and custody reconciliations are also performed and compared to reported financial statement items. Control activities also include permanent routines for the presentation and reporting of company accounts, for example monthly reconciliations of RusForest's assets and liabilities. Special focus is also put on making sure that the requirements and routines for the accounting procedure, including consolidation of accounts and creation of interim and full-year reports comply with pertinent legislation as well as generally accepted accounting principles and other requirements for publicly listed companies. Controls have also been carried out to ensure that the IT-/computer systems involved in the reporting process have a sufficiently high dependability.

### Information and communication

RusForest is working to ensure an efficient and accurate provision of information internally and externally. For this purpose the Company has established fixed routines and invested in reliable technical applications to guarantee a fast and reliable way of sharing information throughout the organization. Internal policies and general guidelines for financial reporting are communicated between the Board of Directors, management and other personnel through regular meetings and emails. To ensure the quality of the external reporting, which is an extension of the internal

reporting, there is a written communication policy which sets out what information shall be communicated and how it shall be communicated.

### **Monitoring**

The Board of Directors receives detailed quarterly reports on RusForest's financial position. The Company's financial situation and strategy are discussed at every board meeting, as well as any problems in the business and financial reporting since the last board meeting. The Audit Committee has a particular responsibility to review and bring any problems with the internal control of financial reporting to the Board of Directors' attention. Potential reported shortcomings are followed up via management and the Audit Committee. The Company prepares interim reports four times annually which are reviewed by the board and Audit Committee. A review of the Company's accounts is performed at least once a year in addition to the comprehensive audit in connection with the Annual Report.

RusForest is in full compliance with the Nasdaq First North member rules for issuers. There has not been any infringement to fair practices on the First North marketplace.

## **AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT**

To the annual meeting of the shareholders in RusForest AB (publ), corp. id. 556694-6421

### **Engagement and responsibility**

We have audited the corporate governance statement for the year 2014 on pages 01–05. It is the board of directors who is responsible for the corporate governance statement and that it has been prepared in accordance with the Annual Accounts Act. Our responsibility is to express an opinion on the corporate governance statement based on our audit.

### **The scope of the audit**

We conducted our audit in accordance with Fars auditing standard RevU 16 the auditor's examination of the corporate governance statement. That standard requires that we have planned and performed the audit to obtain reasonable assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the information included in the corporate governance statement. We believe that our audit procedures provide a reasonable basis for our opinion set out below.

### **Opinion**

In our opinion, the corporate governance statement has been prepared and is consistent with the annual accounts and the consolidated accounts.

Stockholm, 24 April 2015

KPMG AB

Mats Kåvik  
*Authorized Public Accountant*  
*Lead Partner*