

# Corporate governance and internal control report

The current version of the Swedish Code of Corporate Governance (the “Code”) came into force on 15 November 2015. 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 2.5 percent of outstanding shares in the Company at 31 March 2016.

## 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 2015 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 2015. The Nomination Committee for the 2016 AGM consists of the following members: Olga Spiridonova (Nova Capital), Dag Rolander (representing a group of investors controlling in excess of 5 percent of the shares) and Anders Börjesson as secretary (CEO of RusForest AB publ). At the Nomination Committee’s first meeting, Olga Spiridonova was elected Chairman of the committee. The Nomination Committee’s task is to prepare proposals for the following resolutions at the 2016 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 2017. For the AGM 2016 the Nomination Committee has held one formal voting meeting by phone attended by all three formal members, complemented by significant preceding 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 on a term of 1 year at a time.

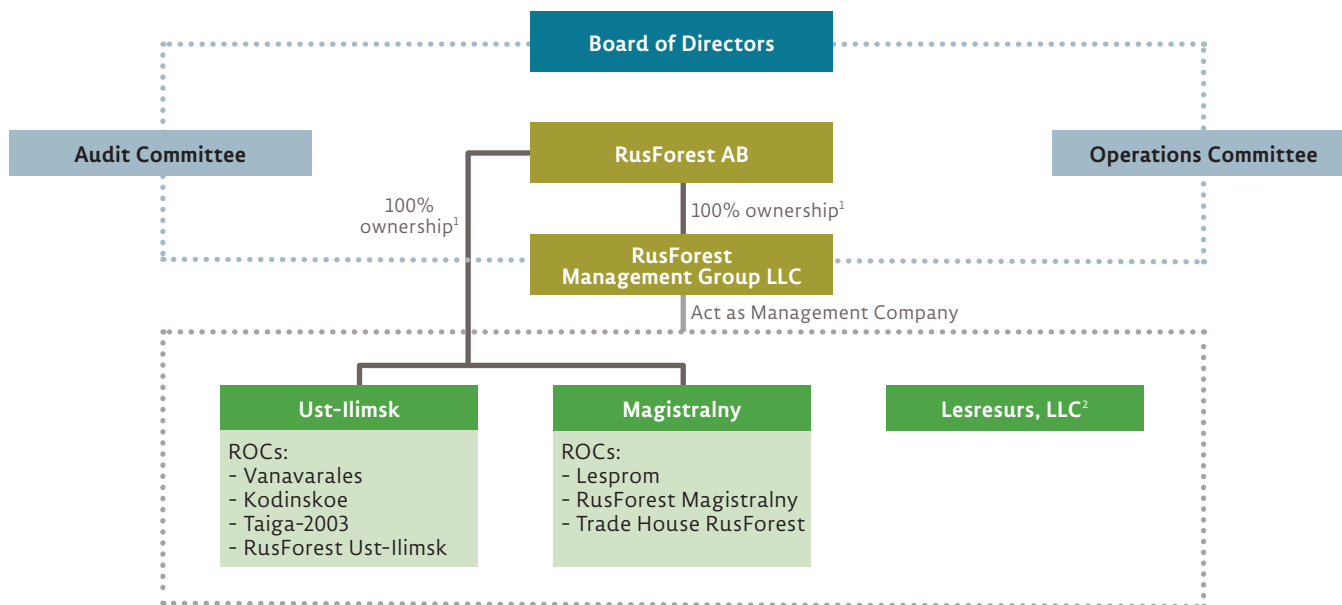
## The 2015 Board of Directors

At the AGM held on 15 May 2015, it was resolved, in accordance with the proposal of the 2015 Nomination Committee, to re-elect Per Brilioth, Peter Nilsson, Alexander Rudik, and Camilla Öberg as Directors, with Alexander Rudik as Chairman of the Board.

Garrett Soden and Paul Putz declined re-election. The audit committee was decided to consist of Camilla Öberg (chairman), and Per Brilioth. The operational committee was decided to consist of Peter Nilsson (chairman) and Alexander Rudik. The composition of the committees may be altered upon resolution of the board of directors.

All Board members are independent vis-à-vis the Company, its management and major shareholder, with the

## Corporate Governance Structure Overview



### RusForest Group Senior Management

**Anders Börjesson** – CEO of Swedish holding company RusForest AB, overseeing all corporate and legal matters of group structure. Based in Stockholm.

**Anton Bogdanov** – CEO of RusForest Management Group LLC, which acts as management company, overseeing and controlling all the commercial and production activities of the Russian operating entities. Based in Moscow.

**Gustav Wetterling** – Group CFO. Based in Stockholm.

1. One subsidiary in Ust-Ilimsk - Taiga-2003 is owned 60% by RusForest AB
2. RusForest Management Group LLC also acts as Management Company for the company Lesresurs. Lesresurs is not owned by RusForest, but is a related party

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

The 2015 Board of Directors had a gender distribution of 25% women and 75% men.

For a detailed presentation of the current Board, see "Board of Directors, management and auditors" in the 2015 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 2015, seven board meetings were held.

### Evaluation of Board of Directors and Managing Director

The Chairman of the Board of Directors annually conducts an evaluation of the Board by conducting one-on-one interviews with the other Board members with a view to assessing how well the board functions and whether there are areas which needs strengthening and competences that are deemed to be lacking. The Chairman presents his result of the assessment to the Nomination Committee along with any specific comments or matters raised by the board members for consideration

by Nomination Committee. The Board evaluates the work of the Managing Director at the customary in-person Board Meeting in December each year, in the form of a discussion without management present. In connection with the Board's annual evaluation of the Managing Director, any changes to the Company's motivational programs for management are also discussed.

### 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:

**Composition of the Board of Directors, including meeting attendance 2015**

Name	Elected to the Board	Position	Connection to the Company	Audit committee	Operational committee	Attended board meetings	Share holding <sup>1</sup>	Annual Board fee (SEK)
Alexander Rudik	2013	Chairman	Main owner		X	100%	2,121,732	300,000
Per Brilioth	2009	Member	Independent	X		100%	272,855	150,000
Peter Nilsson	2013	Member	Independent		X	100%	45,000	250,000
Camilla Öberg	2011	Member	Independent	X		100%	3,500	250,000
Garrett Soden <sup>2</sup>	2013	Chairman	Independent			29%	32,000	300,000
Paul Putz <sup>2</sup>	2013	Deputy Chairman	Independent	X		29%	75,000	150,000
Number of meetings				6	4	7		950,000 <sup>3</sup>

1. Share holdings as of 31 March 2016 based on holdings reported by management and board members to the Company, under insider reporting rules.
2. Garrett Soden and Paul Putz declined re-election at the AGM on 15 May 2015.
3. The annual total board fee of SEK 950,000 relates to annual rolling fee for a 4 member board, i.e. starting from May 2015 and also include board committee compensation.

- 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.

The Board shall furthermore ensure that it receives adequate and timely reports from management and board subcommittees to fulfil the functions listed above. Currently this entails monthly and quarterly reports from management, quarterly reports from audit committee, as well as special ad hoc reports for any specific business related decisions requiring the board of directors' approval.

**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****Audit Committee 2015**

	Number of meetings	Attended meetings
Camilla Öberg (Chair)	6	6
Per Brilioth	6	6

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 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.

At the AGM 2015 it was decided that given the reduced number of board

members from six to four and given the improved financial situation and control within the company, the number of audit committee members would amount to 2. During 2015, the Audit Committee convened six times. Both Audit Committee members were present at all meetings. The Audit Committee consists of Camilla Öberg (Chair) and Per Brilioth.

### Operational Committee

#### Operational Committee 2015

	Number of meetings	Attended meetings
Peter Nilsson (Chair)	4	4
Alexander Rudik	4	4

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 2015, the Operational Committee convened four times. The Operational Committee consists of Peter Nilsson (Chair) and Alexander Rudik.

### Management

To avoid any risk of the Swedish holding company RusForest AB being deemed as having permanent tax establishment in Russia due to the Russian engagement of its CEO, the Company has structured the management organisation in the way that the CEO of Swedish Parent Company RusForest AB has a controlling and supervisory function related to the investments/holdings in Russia but no operational direct engagements. At the same time the operational CEO of the Group is instead only employed in Russia in the subsidiary RusForest Management Group, which functions as a management company for the day-to-day management of all Russian subsidiaries. For a detailed presentation of the management, see the section "Board of Directors and management".

### Group Management in 2015

*Anders F. Börjesson:* CEO of Swedish holding company RusForest AB, overseeing all corporate and legal matters of group structure. Based in Stockholm.

*Anton Bogdanov:* CEO of RusForest Management Group LLC, which acts as management company, overseeing and controlling all the commercial and production activities of the Russian operating entities since February 2014. Based in Moscow.

*Gustav Wetterling:* Chief Financial Officer from 14 January 2014. Based in Stockholm.

### Investor relations

The investor relations function of the Company was during 2015 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.

### Remuneration of the senior management

The fixed annual salary to Anders Börjesson – CEO of Swedish Parent Company RusForest AB amounted to SEK 960 thousand or USD 117 thousand.

The fixed annual salary to Anton Bogdanov – CEO of RusForest Management Company amounted to RUB 16,234 thousand or USD 263 thousand. Anton's salary is fixed in RUB.

The combined fixed annual salary to the other senior executives amounted to a total of approximately USD 176 thousand. The CEO of the Swedish Parent Company RusForest AB and the chief

financial officer have pension plans 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 employment agreements of the members of the group management have a mutual notice period of six months.

### Incentive program Employee stock option 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 2015 financial statements. A total of 900,000 options are currently issued (300,000 options each to CEO of RusForest AB – Anders F. Börjesson, Management Company CEO – Anton Bogdanov and Group CFO – Gustav Wetterling). As of 31 December 2015 a total of 1,200,000 options granted for the option program had not been issued.

### Annual cash bonus pool based on the yearly financial performance

Motivating and retaining good personal in Russia, including rural Siberia, is a key success factor for the Company as a whole, the board of Directors of RusForest has adopted a principal profit sharing cash bonus system for its Russian business units. The bonus pool is formed annually on the basis of the consolidated Russian Accounting System (RAS) results of operations for the core business units of Magistralny and Ust-Ilimsk. The size of the bonus pool amounts to 15% of the consolidated net profit of the respective business unit (group of companies). The Bonus system is aimed specifically at Russian based management such as business unit CEOs, other local management and key specialist functions as well as Moscow management company CEO and specialists.

### 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 2015, Öhrlings PricewaterhouseCoopers AB was elected as the Company's auditors.

*Bo Lagerström*, Authorized Public Accountant, Lead Partner is appointed the auditor in charge. PricewaterhouseCoopers 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 "Auditor's Report" on page 54.

### 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 two 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. Once a year the audit committee meets to exclusively discuss internal control systems and structure.

### 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 2015 employed personnel at central level experienced in, and working specifically with, financial control and monitoring of the activities of the company's operational business units Magistralny and Ust-Ilimsk. RusForest has in 2014 and 2015 successfully simplified and made the corporate structure of the Group more transparent, transferring ownership of all the Russian operating subsidiaries directly to the Swedish Parent Company. As a result of transferring ownership as described and given Russian legislation, a wider range of decisions now needs to be taken by the Swedish Parent Company, compared to before.

### 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. 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. Control activities also include permanent routines for the presentation and reporting of company accounts, for example weekly cash flow reports, monthly production and profitability reports. 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 2015 on pages 58–63. 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, 2 May 2016

Öhrlings PricewaterhouseCoopers AB

Bo Lagerström  
Authorized Public Accountant  
Lead Partner