

# Corporate Governance within Rottneros

## MESSAGE FROM THE CHAIRMAN

On 1 July 2008 Rottneros became a “code company.” This is the date when companies listed in the Small Cap segment on NASDAQ OMX Stockholm were added to the companies that come under the “Swedish Code of Corporate Governance.” This did not involve any major changes for Rottneros since we were essentially applying with the code before this date. We have conducted a review of our corporate governance and this has resulted in additional adjustments being made and a larger corporate governance section in the annual report.

The Board has worked intensely in 2008, convening 16 Board meetings. The work was largely focused on the company’s profitability and the dramatic changes in conditions as a result of events on the financial markets and the weakening of the markets.

One consequence of this situation was that the task of replacing the company’s credit became a complicated and protracted process in which the Board was involved to a great extent. The fact that, despite the difficult conditions, we managed to sign an agreement in October for a new credit facility equivalent to around SEK 620 million is particularly gratifying.

Other areas that have been high up on the Board’s agenda were the closure of the loss-making Utansjö Mill and the Group’s future structure and focus areas, e.g. the planned construction of a new mill to produce CTMP pulp in South Africa. This venture is based on moving the CTMP plant that was part of Utansjö Mill, which was closed in 2008.

In 2009 the company’s profitability will continue to have a high priority. Structural issues relating to our focus areas will continue to be a major emphasis for the Board. We are also expecting corporate governance issues to be increasingly significant in response to demands in our external environment for increased reporting and greater transparency.

Karlstad, February 2009

Rune Ingvarsson  
Chairman of the Board

## CORPORATE GOVERNANCE REPORT 2008

Rottneros is a Swedish public limited company registered in Sunne, Sweden and listed on NASDAQ OMX Nordic, Stockholm (the Exchange). Rottneros’ corporate governance is based on the Swedish Companies Act, the Annual Accounts Act and the rules of the Exchange including the Swedish Code of Corporate Governance (“the Code”) and other relevant laws and regulations. This report is not part of the formal annual report and has not been reviewed by the company’s auditors. No deviations from the Code’s instructions have been noted since the Code went into effect on 1 July 2008.

## SHAREHOLDERS

Rottneros has been a listed company since 1987. According to the register of shareholders maintained by Euroclear (formerly VPC), Rottneros had 17,869 shareholders at the end of 2008. The share capital amounted to SEK 94,216,053, shared between 188,432,105 shares, each with the same voting rights and share in the company’s profits and capital. Rottneros holds 8,219,641 treasury shares.

## CONTROL INSTRUMENTS

The external control instruments that form the framework for corporate governance within Rottneros include the Swedish Companies Act, the Annual Accounts Act, the rules of the Exchange including the Code and other relevant laws and regulations.

The internal control instruments include the Articles of Association as adopted by the Annual General Meeting, the Rules of Procedure for the Board and instructions for the President, the Board’s committees and the company’s financial reporting. Rottneros also works with financial and quantitative goals, budgets reports, policies, valuations and codes of conduct.

The policies decided upon by the Board of directors are the financial policy, ethics policy, communication policy, environmental and energy policy and the dividend policy. There are 13 other policies decided upon by the President and communicated to the Board of Directors; for example, the credit policy, work environment policy, quality policy, raw material policy and the equality policy.

## ANNUAL GENERAL MEETING

Annual General Meeting, or where applicable, extraordinary general meeting, is Rottneros’ highest decision-making body. The Annual General Meeting votes on the Articles of Association, appoints the Board and the Chairman of the Board, elects the auditors, adopts the income statement and balance sheet and takes decisions regarding the appropriation of profits and discharge from liability and votes on nomination procedures and principles for remuneration of the President and other senior executives etc.

Each shareholder has the right to participate in the AGM in person or through a representative holding a power of attorney. Each shareholder has the right to raise issues to be addressed at the AGM.

Rottneros’ 2008 AGM was held on 24 April 2008 in Sunne, Sweden. 41 of the company’s shareholders participated in the meeting, representing 28% of the votes and capital.

### Resolutions

The AGM passed the following resolutions:

- In accordance with the Board’s proposal, no dividend was distributed to shareholders.
- The Board will consist of six (6) members. Board members Per Eiritz, Johan Holmgren, Rune Ingvarsson, Kjell

Ormegard and Ingrid Westin Wallinder were re-elected. Roger Asserståhl was elected as a new Board member.

- Rune Ingvarsson was elected as Chairman of the Board.
- Retiring Board members Bengt Nordin (Chairman), Ingrid Lindqvist and Jan Viper were thanked for their excellent service to the Board.
- Fees for the Board will be paid in the amount of SEK 500,000 to the Chairman and SEK 250,000 each to other Board members who are not employed by the company. Members of committees will receive a daily fee totalling SEK 10,000 and employee representatives on the Board will receive a fee of 25,000 per person for time required to read materials prior to Board meetings. Auditors' fees are paid based on invoices approved by the President.
- The Board was authorised for the period until the next AGM to take decisions on the transfer of treasury shares acquired under the buy-back programme. Such transfer may set aside shareholders' preferential rights to finance acquisitions or other strategic investments in a cost-effective way.

#### NOMINATING COMMITTEE

Rottneros' AGM takes decisions on the principles for the appointment of the Nominating Committee. The 2008 AGM decided, as in previous years, that the Nominating Committee will consist of the Chairman of the Board and two additional members, who may not be members of the Board. One of these two members must be a representative from the company's principle shareholder and one representative from one of the company's other four main shareholders. The Nominating Committee appoints a chairman from within its ranks. The Chairman of the Board may not be the Committee's chairman. The Chairman of the Board convenes the Committee meetings. The principles also include procedures for compensating committee members who leave the Nominating Committee before the end of their mandate.

The names of the Nominating Committee members are to be presented no later than six months prior to the Annual General Meeting. The composition of the Nominating Committee will be published on the company's website. A press release with information about the composition of the Nom-

inating Committee was published on 23 October 2008 and has been made available on Rottneros' website.

#### Members of the Nominating Committee

Name	Representing	No. of votes as of 30 Sept. 2008
Olle Grundberg, Chairman	Nemus Holding AB	27.26 %
Torgny Prior	Idea, Prior & Nilsson, Fond och Kapitalför- valtning	1.33 %
Rune Ingvarsson	Chairman Rottneros	-

#### BOARD OF DIRECTORS

##### Composition of the Board

According to the Articles of Association, the Board is to consist of a minimum of three and a maximum of ten members with no more than six deputies elected by the Annual General Meeting.

In addition, the employees elect two representatives and two deputies. In 2008 Rottneros' Board consisted of six AGM-elected members without deputies, and two members and two deputies appointed by the employees. The President is not a member of the Board but is called in to all Board meetings, except when evaluation of the work of the Board and the President is on the agenda. Other officials of the company are called in when necessary to present information. The company's Chief Financial Officer serves as the Board secretary.

The composition of the Board for 2008 is shown in the table below.

##### Evaluation of the Board's work

The Chairman is responsible for evaluating the Board's work and for ensuring the Nominating Committee is provided with the conclusions of the evaluation. The evaluation of the Board's work in 2008 was carried out at the beginning of 2009 and this will form the basis for the Board's work in 2009.

##### Independence

According to the rules of the Exchange and the Code, a majority of the AGM-elected members must be independent of the

#### COMPOSITION OF THE BOARD

	Elected in	Independent	Total fees	ATTENDANCE	
				Board meetings	Committee meetings
Rune Ingvarsson (chairman)	2007	No*	453,333	100%	91%
Roger Asserståhl	2008	Yes	166,667	100%	-
Per Eiritz	2007	Yes	216,667	100%	-
Johan Holmgren	2002	Yes	226,667	100%	100%
Kjell Ormegard	2007	Yes	296,667	100%	100%
Ingrid Westin Wallinder	2006	Yes	266,667	100%	100%
Lars-Ove Brolin (employee rep./deputy)		-	21,667	69%	-
Mikael Lilja (employee rep.)		-	16,667	92%	-
Hans-Åke Nordstrand (employee rep.)		-	21,667	94%	-
Mats Wennborn (employee rep./deputy)		-	21,667	100%	-

\* Currently conducting assignments for companies related to Rottneros' main shareholder.

company and company management and at least two of these members must also be independent of the company's major shareholders.

Rottneros' Board of Directors is considered to have met the criteria of the Exchange and the Code regarding independence, since the AGM-elected Board members are considered independent of both the company and company management and of the company's main shareholders, with the exception of Chairman of the Board Rune Ingvarsson, who is independent of the company's main shareholders.

#### *Board work and responsibilities*

The Board oversees the work of the President and is responsible for ensuring that the organisation, management and guidelines for managing the company's funds are appropriate. The Board of Directors is also responsible for ensuring that the company is organised in such a way that the internal control is appropriate and effective. Development and follow-up of the company's strategies is also the responsibility of the Board. This is done through planning, establishing targets and taking decisions on the acquisition and disposal of operations, large investments, appointments and replacement of management and day-to-day follow-up during the year. The Board approves the budget and the year-end financial statements.

#### *Rules of Procedure for the Board*

The Board works according to specific Rules of Procedure prescribing the distribution of responsibilities between the Board and the President, the Board's various committees and within the Board itself. The Rules of Procedure also include instructions for financial reporting as well as instructions for the President.

A statutory Board meeting is held immediately following the Annual General Meeting or immediately following extraordinary general meetings in which a new Board is elected. The Board also convenes five regular meetings per year and additional meetings when the Chairman sees fit or within fourteen days following a request for a meeting from a member of the Board. In 2008 16 Board meetings were held.

The Board follows a schedule established in advance containing specific fixed items requiring decisions during the financial year:

- In February the Board reviews the year-end release. The Board works on its recommendations with respect to dividends and on any necessary additions to the budget and business plan. The company's auditors report any observations made when conducting their audit.
- At the end of February the Board reviews the official annual report.
- In April the Board examines the first quarter results and reviews the Group's strategies.
- In July and October the second and third quarter results are reviewed. In October the investment plan for the upcoming financial year is also dealt with.
- In December the Board works on preparations for the year-end accounts and the business plan for the upcoming year is approved.

In addition to the items above, the Board's work in 2008 focused on the following:

- Closure of the loss-making operations at Utansjö Mill.
- Action programme to improve profitability and cash flow
- Company financing.
- Plans to establish a new mill to produce CTMP pulp in South Africa.

The Board also receives a monthly report on the company's performance and liquidity trends. Other business is dealt with as determined by the nature of each individual matter.

#### *The Board's control of financial reporting*

The Board monitors the quality of financial reporting by providing instructions for its execution and through the Board's instructions for the President. The President is tasked with working with the CFO to review and ensure the quality of all external financial reporting including year-end releases, interim reports, annual reports, press releases with economic content and presentation materials produced for meetings with the media, shareholders and financial institutions.

The Board's Audit Committee works to ensure that financial reporting is accurate and maintains a high quality and is given final approval by the Board and communicated. The Board receives monthly financial reports and the financial position of the company and the Group is addressed at every Board meeting. The Board also reviews the interim reports and the annual report.

In order to ensure that the Board receives the information it needs, the company's auditors report to the Board every year on observations made during the audit and express an opinion on the company's internal control, in addition to reporting to the Audit Committee. At least once a year the company's auditors report to the Board on the whether the company has succeeded in ensuring that bookkeeping, administration and financial control are effective, after which the Board discusses this with the auditors without the presence of the President or other members of management.

#### THE BOARD'S COMMITTEES

The Board has full knowledge of and responsibility for all issues on which it must take decisions. Work was, however, also conducted by three appointed committees during the year: the Audit Committee, the Finance Committee and the Compensation Committee.

#### *Audit Committee*

The Audit Committee consists of three representatives from the Board and its tasks include preparatory work for decisions to be made by the Board to assure the quality of the company's financial information. The Committee also reviews the scope and focus of audit assignments, addresses audit issues, evaluates audit work, establishes guidelines for purchasing other services from the company's auditors, follows up and assesses the application of the current accounting principles and the adoption of new accounting principles, and other accounting requirements as stipulated in legislation, generally accepted auditing standards, applicable Exchange rules etc. The Audit Committee reports to the Board and final decisions are made by the Board.

The Company's chief auditor and representatives from the accounting firm are called in to Committee's meetings.

Senior executives are also called in to meetings where appropriate.

The Committee consists of Chairman of the Board Rune Ingvarsson and Board members Ingrid Westin Wallinder and Kjell Ormegard. The chairman of the Committee in 2008 was Ingrid Westin Wallinder.

The Audit Committee held five meetings in 2008 and the minutes were forwarded to the Board. The auditors attended the Committee's meetings.

Fees for committee work were paid in the amount of SEK 10,000 per member and day, totalling SEK 140,000.

#### *Finance Committee*

The Finance Committee consists of two members of the Board as well as the President and Chief Financial Officer. The Committee's task is to oversee the financial policy and the risk mandate. On several occasions the Committee invited financial experts to attend meetings. The Finance Committee has been mandated by the Board to manage the application of the Group's financial policy and take decisions regarding implementation as required by the policy. The Committee also ensures that the policy and these decisions are observed on an ongoing basis.

Since the statutory Board meeting on 24 April 2008, the Finance Committee has consisted of Kjell Ormegard, Rune Ingvarsson, Ole Terland (President) and Karl Ove Grönqvist (CFO). Kjell Ormegard served as chairman of the Finance Committee in 2008.

In 2008 the Committee held nine meetings and the minutes from the meetings were forwarded to the Board.

Fees for committee work were paid in the amount of SEK 10,000 per member and day, totalling SEK 120,000.

#### *Compensation Committee*

The Compensation Committee consists of three member of the Board. The Committee mainly carries out preparatory work for decisions to be made by the Board and the Annual General Meeting on guidelines and types of remuneration and employment terms for the President and other senior executives.

The President's remuneration package is determined by the Board of Directors. Remuneration of other senior executives is determined by the Compensation Committee within the framework established by the Board and the Annual General Meeting.

In 2008 the Compensation Committee consisted of Rune Ingvarsson, Johan Holmgren and Per Eiritz. Rune Ingvarsson served as chairman of the Committee.

The Committee held one meeting and the minutes were forwarded to the Board of Directors.

Fees for committee work were paid in the amount of SEK 10,000 per member and day, totalling SEK 30,000.

#### **PRESIDENT AND GROUP MANAGEMENT**

The President's responsibility as stipulated in the Swedish Companies Act and other legislation is to manage the company's day-to-day business according to the Board's guidelines and instructions and to implement measures necessary to ensure the company's bookkeeping is carried out in a satisfactory manner. The President also ensures that the Board

receives the information it needs on an ongoing basis to monitor the company's and the Groups' financial situation, position and development and to fulfil its reporting obligations with respect the company's finances.

The President manages the business within the framework established by the Board of Directors in the specific instructions for the President. The instructions cover, among other things, the President's responsibility for the day-to-day business and issues always requiring Board decisions or that must be reported to the Board, as well as the President's responsibility for presenting financial reports to the Board.

The President works with the Chairman to produce the materials required for information and decisions at Board meetings, presents matters for discussion and justifies recommendations.

The Board of Directors evaluates the work of the President on an ongoing basis.

#### *The work of Group management*

The President leads the work of Group management and makes decisions in consultation with other members of the management team. This team consists of the President and an additional 11 individuals: two heads of business areas, three heads of subsidiaries and six heads of Group staffs. Information about the President and senior executives can be found on page 70–71 of the 2008 Annual Report.

The management team is involved in business reviews led by the President approximately every six weeks, often in conjunction with visits to the various units in the Group.

Information on salaries and other remuneration for the President and other senior executives can be found in Note 6 in Rottneros' 2008 Annual Report.

#### *Share-related incentive programme*

There are no outstanding share-related incentive programmes for Group management.

#### **AUDITORS**

Rottneros' auditors are elected at the Annual General Meeting for a period of four years. At the 2007 AGM the firm Öhrlings PricewaterhouseCoopersAB was elected as the company's auditor until the 2011 AGM with authorised public accountant Magnus Brändström as chief auditor. Magnus Brändström has been chief auditor since 2004.

#### *Audit work*

The auditors examine the company's and the Group's annual accounts, accounting procedures and the administration of the company by the Board and the President. The company's auditors were present at one Board meeting in 2008. The auditors attended the Audit Committee's meetings and the 2008 Annual General Meeting. The auditor presents the audit report at the AGM.

In addition to audit assignments, Öhrlings PricewaterhouseCoopers has provided Rottneros with VAT and tax consulting services and assisted with various accounting-related studies. Öhrlings PricewaterhouseCoopers must examine its independent status in connection with each consulting assignment. Information on fees paid to the accounting firm is presented in Note 7 of the 2008 Annual Report.

<i>Auditors:</i>	Öhrlings PricewaterhouseCoopers
<i>Chief auditor:</i>	Magnus Brändström
	Authorised Public Accountant
	Shareholding in Rottneros: 0 shares

*Further information at [www.rottneros.com](http://www.rottneros.com)*

- Articles of Association
- Information on past Annual General Meetings starting from 2004 (notices, minutes, resolutions, the President's statements)
- Information on the Nominating Committee
- Information on corporate governance from 2004–2007 (included in the Annual Report for the respective year).

#### THE BOARD'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT RELATING TO FINANCIAL REPORTING

In accordance with the Swedish Companies Act and the Code, the Board is responsible for the company's internal control. This report has been prepared in accordance with the Code and is limited to internal control relating to financial reporting. The report is not part of the formal annual report and has not been reviewed by the company's auditors.

##### *Control environment*

The Board has drawn up documents with respect to the company's internal control and governance, including the Rules of Procedure for the Board and instructions for the President and the Board's committees, reporting instructions and a financial policy. All of these documents are intended to ensure a clearly-defined distribution of roles and responsibilities. Financial information is reported through a Group-wide reporting system.

The President and Group management, who report to the Board of Directors, are responsible for maintaining an effective control environment and for the day-to-day internal control and risk management work based on established routines. Managers at various levels within the company have this same responsibility within their respective departments and in turn report to Group management.

##### *Risk assessment*

Rottneros continuously updates its risk analysis with respect to assessing the risk of errors occurring in financial reporting. This is done mainly through contact between Group management and the subsidiaries' management teams. At risk reviews Rottneros identifies the areas where there is an elevated risk of errors occurring. The areas that were the main focus in 2008 were stocks and accounts receivables. Liquidity risks have also been given special attention due to the refinancing process implemented to improve Rottneros' liquidity situation.

##### *Control activities*

Every month financial reports are prepared for all of the companies in the Group as well as consolidated financial reports. These are the basis for monthly conference calls involving Group management and the management teams of each subsidiary. Areas emphasised for analysis are the order status, cost follow-up, investments and cash flow. The CFO also visits the subsidiaries several times a year and the chief auditor accom-

panies the CFO at least once a year. At these meetings particular attention is paid to monitoring any problems and ensuring that financial reporting is accurate. Forecasts are updated every quarter for all Group companies and there are controllers working on financial matters both locally and centrally, comparing forecasts to outcomes and ensuring that the financial information is correct.

The Board's Audit Committee and Finance Committee meet regularly to discuss identified risks.

The control environment has been created through common values, Rottneros' corporate culture, rules and policies, communication and follow-up as well as the way in which the business is organised.

The main task of the staffs and those assigned to them is to implement, develop and maintain the Group's control routines and to introduce internal control routines aimed at business-critical issues.

Rottneros auditors examine the financial information for the third quarter and the year-end accounts. Every year the auditors also examine a selection of the company's control activities and processes and report any areas where improvement is recommended to both Group management and the management teams of the respective subsidiaries. The chief auditor attends the Audit Committee's meetings.

##### *Information and communication*

The information in Rottneros' important control documents in the form of policies, guidelines and manuals is primarily communicated through a Group-wide intranet. This information is also communicated in monthly conference calls involving Group management.

##### *Follow-up*

Each company has its own finance department and reports through a Group-wide reporting system. The Group's accounting manager and controller also work closely with the heads of the subsidiaries in matters concerning closing the accounts and reporting.

A special review of the Group's internal control was conducted in 2007 based mainly on the so-called COSO model, according to which reviews and assessments are made in the following areas: control environment, risk assessment, control activities, information and communication and follow-up. A follow-up of this review was conducted in 2008.

The Board of Directors is of the opinion that the Group's scope and complexity at this time does not warrant an internal audit.

## Board of Directors



**RUNE INGVARSSON**

Born 1943, engineer  
Chairman since 2008  
Member of the boards of Arctic Paper S.A., Poland, SATOMO Invest. Previously held senior positions within Norske Skog, APRIL and Aracruz, etc.  
Elected: 2007  
Number of shares in Rottneros: 180,000 (incl. legal entity)



**ROGER ASSERSTÅHL**

Born 1943, M.Sc. Forestry  
Member of the board of Bergvik Skog AB, external Managing Director Asserstål Partners AB.  
Member of the Royal Swedish Academy of Agriculture and Forestry, Chairman of the Swedish Society of Forest History. Previous positions include Deputy CEO of Assi-Domän AB.  
Elected: 2008  
Number of shares in Rottneros: 20,000



**PER EIRITZ**

Born 1951, M.Sc. Engineering  
Chairman of the boards of Clarahälsan AB, Solstahälsan AB, Svensk PCI AB and Svensk PCI Värmland AB. Member of the boards of KMW Energi AB and Capee Group AB. Previous positions include President of Valment/Metso.  
Elected: 2007  
Number of shares in Rottneros: 10,000



**JOHAN HOLMGREN**

Born 1944, B. Sc.  
Chairman of the boards of Bo Ohlsson i Tomelilla AB, Bo Ohlsson i Tomelilla Holding AB, Troll Nursery SIA and Användbart Litet Företag goes abroad AB. Member of the boards of Hafa Bathroom Group AB and JG Business Development AB.  
Elected: 2002  
Number of shares in Rottneros: 15,000 (incl. legal entity)



**KJELL ORMEGÅRD**

Born 1949, M.Sc. Business and Economics  
Chairman of the board of Getupdated Internet Marketing AB. Member of the board of Ormegård Internet Marketing AB. Previous positions include Chairman of Handelsbanken Capital Markets; senior positions within Alfred Berg and Consensus. Has been a partner in Affärsvärlden and member of the Board of the Stockholm Stock Exchange.  
Elected: 2007  
Number of shares in Rottneros: 10,000



**INGRID WESTIN WALLINDER**

Born 1957, Bachelor of Laws  
Solicitor and partner in Advoktfirmen Lindahl KB (formerly RydinCarlsten Advokatbyrå) since 2002. Member of the board of Uppsala Akademiförvaltning. Previous work experience as chief legal counsel and board secretary for Avesta Sheffield AB and Avesta AB, and company solicitor at Nordstjernan AB.  
Elected: 2006  
Number of shares in Rottneros: 0



MIKAEL LILJA\*

Born 1966, mechanic, Rottneros Mill  
Member of Swedish Paper Workers Union  
(Pappers), Div. 89, member of Pappers'  
union committee.  
Appointed: 2008  
Number of shares in Rottneros: 0



HANS-ÅKE NORDSTRAND\*

Born 1955, warehouse worker, Utansjö Mill  
Member of Swedish Paper Workers Union  
(Pappers), Div. 5.  
Appointed: 2007  
Number of shares in Rottneros: 0



LARS-OVE BROLIN\*\*

Born 1945, mechanic, Vallvik Mill  
Member of Swedish Paper Workers  
Union (Pappers), Div. 106.  
Appointed: 2007  
Number of shares in Rottneros: 0

*Passed away on 6 February 2009*



MATS WENNBORN\*\*

Born 1951, process operator,  
Rockhammar Mill  
Swedish Paper Workers Union  
(Pappers), Div. 149.  
Appointed: 2005  
Number of shares in Rottneros: 0

## AUDITORS

ÖHRLINGS PRICEWATERHOUSE-  
COOPERS AB

Chief auditor: Magnus Brändström,  
Authorised Public Accountant, elected  
until the 2011 Annual General Meeting

\* Appointed by the employees

\*\* Deputy