

Corporate governance in Rottneros

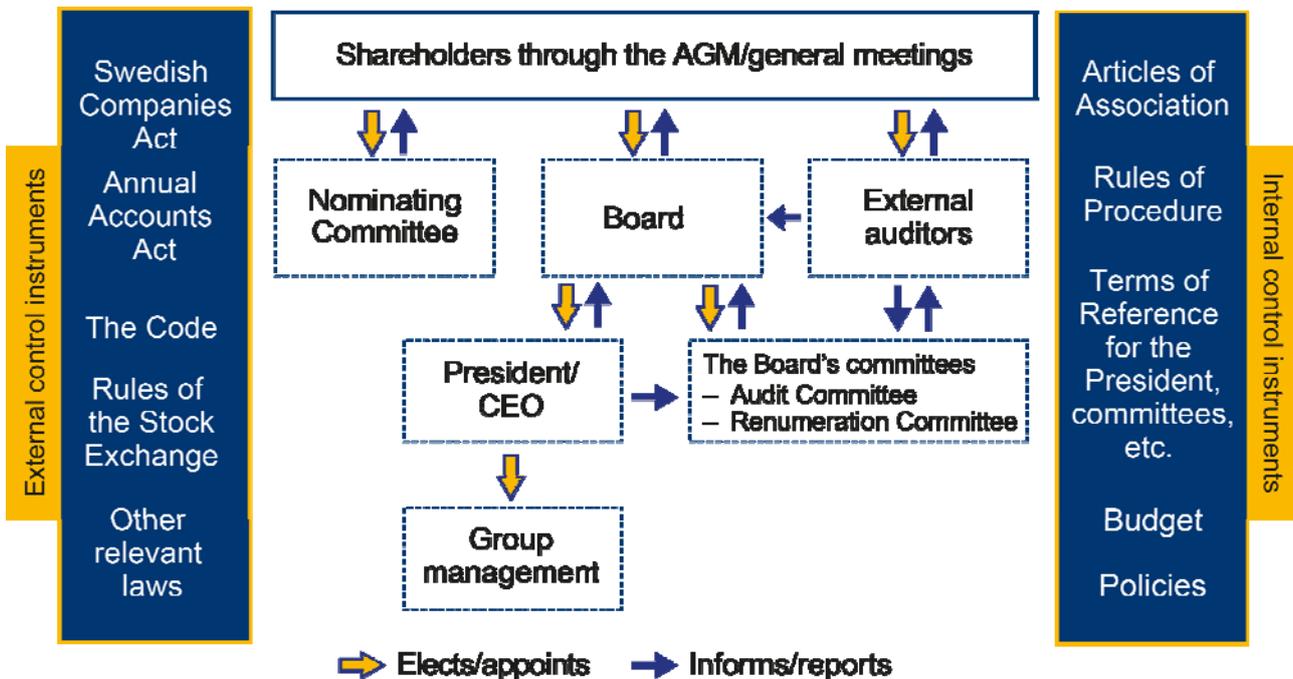
Rottneros is a Swedish public limited company based in Sunne, Sweden and is listed in the Small Cap segment on NASDAQ OMX, Stockholm ('the Stock Exchange'). Rottneros' corporate governance is based on the Swedish Companies Act, the Annual Accounts Act, the rules of the Stock Exchange and the Swedish Code of Corporate Governance ('the Code'). This corporate governance report refers to both Rottneros AB, which is the parent company, and the Group.

PRINCIPLES FOR CORPORATE GOVERNANCE

Rottneros applies the rules prescribed by law or other enactment, and also the Code. Rottneros applies the Code without deviations.

STRUCTURE FOR CORPORATE GOVERNANCE

The shareholders at the AGMs/general meetings make the appointments by election and lay down the guidelines which will form the basis for the corporate governance of Rottneros. The following organisation chart summarises how corporate governance is organised at Rottneros.



CONTROL INSTRUMENTS

The external control instruments that form the frameworks for corporate governance at Rottneros include the Swedish Companies Act, the Annual Accounts Act, the rules of the Stock Exchange, the Code and other relevant laws. Foreign subsidiaries apply the laws and ordinances in force in the country in question, but also ensure that the Group's guidelines for governance and control are observed.

The Board of Directors is ultimately responsible for the organisation and administration of the company's affairs. The authorities and bodies appointed by the authorities exercise supervision through receiving reports from the company and through regular checks conducted by the authorities.

The internal control instruments include the Articles of Association as adopted by the AGM, the

Rules of Procedure for the Board and the Terms of Reference for the CEO, the Board's committees and the Company's financial reporting. In addition, there are, for example, financial and quantitative targets, budgets, reports, policies, valuations and codes of conduct.

The policies resolved by the Board include the Code of Conduct, the Financial Policy, the Communication Policy and the Environmental Policy. The CEO decides on the Customer Credit Policy, Crisis Management Policy, IT Security Policy and Work Environment Policy, which are communicated to the Board. There are also five other important steering documents decided by the CEO or the person appointed by the CEO.

ANNUAL GENERAL MEETING

Rottneros' shareholders exercise their right to make decisions on the company's affairs at the AGM or, where applicable, an extraordinary general meeting. This is Rottneros' highest decision-making body. The AGM makes decisions on the Articles of Association, appoints the Board of Directors and the Chair of the Board, elects the auditors, adopts the income statement and balance sheet, makes decisions on the appropriation of profits and discharge from liability, and also makes decisions on nomination procedures, guidelines for the remuneration of senior executives, etc.

Rottneros' Articles of Association contain no special provisions about the appointment and dismissal of members of the Board or about amendments to the Articles of Association.

Each shareholder has the right to participate in the AGM, either 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.

Notices of meetings and other information prior to AGMs/general meetings are available on Rottneros' website www.rottneros.com. Minutes, the CEO's statements, etc. from the latest meetings are also available on the website.

SHAREHOLDERS

Rottneros' ordinary shares have been listed on NASDAQ OMX Stockholm since 1987. According to the share register kept by Euroclear Sweden, Rottneros had 9,012 shareholders on 31 December 2012. The share capital amounted to SEK 153,393,890, divided between 153,393,890 ordinary shares, each carrying equal voting rights and equal rights to the company's profit and capital. The Articles of Association contain no restrictions on the number of votes each shareholder can cast at a general meeting.

Arctic Paper S.A. had a participating interest amounting to 39.4 per cent of the total number of shares and votes on 31 December 2012 as a consequence of the public takeover bid that Arctic Paper S.A. presented to Rottneros' shareholders in November 2012. Otherwise, none of the shareholders had a direct or indirect shareholding representing at least one tenth of votes attached to all shares in Rottneros.

Rottneros' holding of treasury shares amounts to 821,965, corresponding to around 0.54 per cent of the total number of shares. Pages 32 to 33 of the company's Annual Report for 2012 provide more information about the share, shareholders, etc. Information is also available on the company's website.

2012 ANNUAL GENERAL MEETING

Rottneros' 2012 AGM was held on 19 April 2012 in Stockholm. Eighteen of the company's shareholders attended the meeting, representing 26 per cent of the company's votes and capital (excluding Rottneros' buyback shares). All members of the Board of Directors were present, as was the CEO. The company's auditor also attended the meeting.

Among other things the AGM passed the following resolutions:

- To distribute a dividend of SEK 0.10 per share to shareholders in accordance with the Board's proposal.
- That the Board should comprise four ordinary members. Board members Roger Asserståhl, Kjell Ormegard, Bengt Unander-Scharin and Ingrid Westin Wallinder were reelected.
- Kjell Ormegard was reelected Chair of the Board.
- That a fee of SEK 500,000 should be paid to the Chair of the Board and SEK 250,000 to each of the other Board members who are not employed by the company. Members of Board committees should not be paid a fee, except for the assignment as Chair of the Audit Committee, who should receive remuneration of SEK 75,000. Each employee representative will be paid a fee of SEK 25,000 for the time required to read materials prior to Board meetings. Auditors' fees are paid based on invoices approved by the CEO.
- Following a separate agreement with the company, a Board member may invoice the fees for the Board, together with statutory social security contributions and value added tax, through a company owned by the Board member, subject to the precondition that such payment is cost neutral for the company.
- To reelect the registered public accounting firm Öhrlings PricewaterhouseCoopers AB for the period up until the end of the 2013 AGM.
- That guidelines be approved for remuneration for the CEO and other senior executives in accordance with the Board's proposal. This means, for example, that remuneration shall comprise fixed salary, a possible variable remuneration component, other benefits and pension contributions. The total remuneration package must be in line with market rates and competitive in the market in which the executives work. The variable component of remuneration, which is cash, is to be based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. All matters relating to the remuneration of the executive management are dealt with by the Compensation Committee, except in

respect of the CEO, whose remuneration is decided by the Board.

- To authorise the Board to make decisions on transferring shares (shares previously acquired under the company's buy-back programme) in the company on one or several occasions during the period up until the next AGM.

NOMINATING COMMITTEE

Rottneros' AGM makes decisions on the principles for the appointment of the Nominating Committee. The 2012 AGM resolved that the Nominating Committee shall comprise the Chair of the Board of Directors and two additional members. The Chair of the Board may not chair the Committee. One of these two members, in addition to the Chair of the Board, must be a representative of the company's major shareholder and the other shall be a representative of one of the company's other four largest shareholders. Neither of these two members may be a Board member at the same time. The Nominating Committee appoints a chair from within its ranks. It is the responsibility of the Chair of the Board to ensure that members are appointed as stated above. The principles also include a procedure for replacing members who leave the Nominating Committee before the end of their mandate or when a member represents a shareholder that is no longer one of the five largest shareholders in terms of votes.

The names of members of the Nominating Committee shall be presented at least six months prior to the 2013 AGM. The composition of the Nominating Committee at any given time will be published on Rottneros' website. A press release with information about the composition of the Nominating Committee was published on 20 October 2012 and held available on Rottneros' website. Olle Grundberg from Nemus Holding AB was appointed Chair of the Nominating Committee. Other members appointed were Jan Alkmark from Danske Bank A/S, Denmark (Swedish Branch) and Kjell Ormegard, who chairs the Board of Rottneros AB. Altogether, the Nominating Committee represented just over 24 per cent of the votes attached to all shares in Rottneros at the time of the press release.

There have been major changes to the ownership of Rottneros as a consequence of the public takeover bid that Artic Paper S.A. presented to Rottneros' shareholders in November 2012. Jan Alkmark left the Nominating Committee in January 2013 and was replaced by Per Wennberg from Skagen Fonder Sverige. Kjell Ormegard and Olle Grundberg remained members of the Nominating Committee. However, Olle Grundberg now is the representative of Arctic Paper S.A. Per Wennberg left the Nominating Committee in February 2013 and was replaced by Peter Gyllenhammar from Bronsstädet.

The Nominating Committee shall submit proposals for decisions to the 2013 AGM as regards election of the Chair for meetings, number of Board members, election of Board members, election of Chair of the Board, fees for the Board, fees for the auditors, proposals concerning the election of auditors and criteria for the appointment of a new nominating committee.

AUDITORS

Rottneros' auditors are elected at the AGM. At the 2012 AGM, Öhrlings PricewaterhouseCoopers AB (PwC) was elected as the company's auditor for the period up until the 2013 AGM, with authorised public accountant Bo Lagerström as auditor in charge. Rottneros' Articles of Association do not set down any term for the auditor.

AUDIT WORK

The auditors examine the parent company's and the Group's annual accounts and accounting records and the administration of the company by the Board of Directors and the CEO. The company's auditor attends at least one Board meeting each year. The auditors attended all of the meetings of the Audit Committee and the 2012 AGM. The auditor attends the AGM to present the audit report.

In addition to the audit assignment, PwC has provided Rottneros with VAT and tax consulting services and assisted with various accounting-related investigations. PwC has to examine its independent status in connection with each consulting assignment. Information on the fees paid to the public accounting firm in 2012 is presented in Note 7 of the 2012 Annual Report.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD AND FEES

According to the Articles of Association, the Board of Directors of Rottneros shall comprise a minimum of three and a maximum of ten members elected by the AGM, in addition to the members appointed by the general meeting of shareholders according to law. In addition, the employees elect two representatives with two deputies. The Board of Rottneros comprises four members without deputies elected at the AGM, and two members and two deputies appointed by the employees. The CEO is not a member of the Board but is called in to all Board meetings, except when the agenda includes an evaluation of the work of the Board and the CEO. Other officials of the company are called in when necessary to present matters. The company's CFO serves as the Board secretary. The table on page 37 shows the composition of the Board in 2012 in addition to remuneration paid to Board members for the full years 2012 and 2011 respectively.

AMOUNTS IN SEK THOUSAND		TOTAL FEES, 2012	TOTAL FEES, 2011	ATTENDANCE 2012	
				BOARD MEETINGS	COMMITTEE MEETINGS
Kjell Ormegard ¹	(Chair)	525	592	100%	100%
Roger Asserstahl		267	300	100%	100%
Bengt Unander-Scharin ¹		259	266	79%	100%
Ingrid Westin Wallinder ^{1,2}		334	341	100%	100%
Bengt-Åke Andersson	(employee representative)	25	25	100%	–
Mikael Lilja	(employee representative)	25	25	84%	–
Tord Strömberg ³	(employee representative/deputy)	8	25	32%	–
Thomas Wasberg	(employee representative/deputy)	25	25	63%	–

¹ Kjell Ormegard (Chair of the Board) and Board members Bengt Unander-Scharin and Ingrid Westin Wallinder have invoiced their respective fees, together with social security contributions and value-added tax, via companies. This procedure is cost-neutral for Rottneros.

² Rottneros purchased legal services on market terms in 2012 for KSEK 88 from Ramberg Advokater, where Board member Ingrid Westin Wallinder works.

³ Left the board in conjunction with 2012 AGM.

EVALUATION OF THE BOARD'S WORK

The Board of Directors has conducted evaluations of the work of the Board in recent years with the help of an external advisor. However, this was not the case in 2012. This was in light of Arctic Paper S.A.'s public takeover bid presented to Rottneros' shareholders and their pronouncement that they wanted to take a more active role in the work of the Board from and including the 2013 AGM.

INDEPENDENCE

According to the Code, a majority of the members elected at the AGM must be independent in relation to the company and executive management; also, at least two of these members must be independent in relation to the company's major shareholders.

Rule 4.4 of the Code includes criteria to help assess the level of independence.

Rottneros' Board of Directors is considered to have met the requirements of the Code regarding independence, since the Board members elected at the AGM are considered independent of both the company and executive management and of the company's major shareholders.

BOARD WORK AND RESPONSIBILITIES

The Board of Directors oversees the work of the CEO and is responsible for ensuring that the organisation, management and guidelines for managing the company's funds are appropriate. The Board is also responsible for ensuring that the company is organised in such a way that its internal control is appropriate and effective. The Board is also responsible for developing and following up the company's strategies through planning, establishing targets and making decisions on the acquisition and divestment of operations, major investments, appointments of and remuneration for the management team as well as day-to-day follow-ups during the year. The Board approves the budget and annual accounts.

Rules of Procedure for the Board

The Board of Directors works according to specific Rules of Procedure prescribing the distribution of responsibilities between the Board and the CEO, between the Board's various committees and within the Board itself as well as instructions for financial reporting. The Board's Rules of Procedure contain special Terms of Reference for the CEO.

A Board meeting following election is held immediately after the AGM or immediately after extraordinary general meetings where a new Board has been elected. Rottneros held a Board meeting following election on 19 April 2012 where among other things members of the Board committees were appointed and the above-mentioned Rules of Procedure were adopted.

In addition to meetings following election, the Board convenes five scheduled meetings each year and additional meetings when the Chair sees fit or within 14 days following a request for a meeting from a member of the Board. Nineteen Board meetings were held in 2012. The work of the Board follows a schedule established in advance, which includes specific fixed items that require decisions during the financial year:

- In January/February, the Board works on the year-end report, the Board's recommendations with respect to dividends and any necessary additions to the budget and business plan. The Board also evaluates its work arrangements and procedures for making decisions and considers improvements to these.
- The official annual report is dealt with at the end of February. The company's auditors report any observations made when conducting their audit. Remuneration issues are also dealt with.
- The results for the first and second quarter are dealt with in April and July.

- The results for the third quarter are dealt with in October. The investment plans for the coming financial year are also dealt with in October together with a review of the Group strategies.
- In December, the Board works on preparations for the annual accounts, and the business plan for the coming year is approved.
- In addition to the items above, the primary focus of the Board's work in 2012, in addition to the normal matters that arise, has been on preparations for the disposal of the Utansjö equipment, possible structural alternatives and also discussions with Arctic Paper S.A. and the public takeover bid that these discussions led to.

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.

Financial Policy issues

The Board of Directors has the ultimate responsibility for the Group's financial activities. The Board is responsible for approving the Group's Financial Policy, which is to be updated annually. The Board makes decisions on comprehensive mandates and limits for restricting financial risk-taking by the Group in accordance with the Financial Policy, and also makes decisions about long-term financing. The Board approves the hedging levels based on proposals from the executive management. The Board also approves new financial counterparties and limits for the respective counterparty. The Board has delegated the operational responsibility in line with the allocation of responsibility indicated by the Financial Policy laid down.

THE BOARD'S CONTROL OF FINANCIAL REPORTING

The Board of Directors monitors the quality of financial reporting by providing instructions for its execution and through the Terms of Reference for the CEO. One of the tasks of the CEO is to work 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 also that it 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 each Board meeting. The Board also reviews 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. The company's auditors report to the Board at least once a year on 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 CEO or other members of management.

THE BOARD'S COMMITTEES

The Board of Directors has full knowledge of and responsibility for all matters on which it must make decisions. However, work was conducted by two of the committees appointed by the Board during the year: the Audit Committee and the Compensation Committee.

AUDIT COMMITTEE

This Committee comprises three representatives of the Board of Directors. Its tasks include preparatory work for decisions to be made by the Board to assure the quality of the company's financial reporting, monitoring the efficiency of the company's internal controls and risk management, assisting the Nominating Committee when procuring audit services and arranging for the election and payment of the auditors, reviewing the scope and focus of audit assignments, addressing audit issues, evaluating audit work, establishing guidelines for purchasing other services from the company's auditors, following up and assessing the application of current accounting principles and adopting new accounting principles, and other accounting requirements as stipulated in legislation, generally accepted accounting principles, applicable Stock Exchange rules, etc.

The company's auditor in charge and representatives of the accounting firm are co-opted for most of the meetings. Senior executives are also co-opted for meetings when appropriate. The Committee comprised Kjell Ormegard, who is Chair of the Board, and Board members Ingrid Westin Wallinder and Roger Asserståhl. Ingrid Westin Wallinder chairs the Committee.

The Audit Committee held four meetings in 2012. Minutes are forwarded to the Board on an ongoing basis. The auditors attended all of the meetings of the Audit Committee.

COMPENSATION COMMITTEE

This Committee shall comprise at least two representatives of the Board of Directors. The main tasks of the Committee are to: prepare the Board's decisions on issues concerning principles for remuneration, remuneration and other terms of employment for the executive management; monitor and evalu-

ate programmes for variable remuneration, both ongoing and those that have ended during the year, for the executive management; monitor and evaluate the application of the guidelines for remuneration for senior executives that the AGM is legally obliged to establish, as well as current remuneration structures and levels at the company.

The CEO's remuneration package and the principles for remunerating the executive management are determined by the Board. Remuneration for other senior executives is determined by the Compensation Committee within frameworks established by the Board and AGM.

The Compensation Committee comprised all of the Board's four members elected at the AGM. Kjell Ormegard chairs the Committee.

The Committee held two meetings in 2012 and the Board receives minutes from the Compensation Committee.

PRESIDENT/CEO

The CEO's responsibility as stipulated by 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 the measures necessary to ensure that the company's bookkeeping is managed in a satisfactory manner. The CEO 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 in a satisfactory way and to otherwise fulfil its reporting obligations with respect to the company's finances.

The company's CEO manages the business within the frameworks established by the Board in the special Terms of Reference for the CEO. These Terms of Reference include the CEO's responsibility for day-to-day business and matters that always require Board decisions or that must be reported to the Board, as well as the CEO's responsibility for presenting financial reports to the Board.

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

The Board evaluates the work of the CEO on an ongoing basis.

GROUP MANAGEMENT

The CEO leads the work of Group management and makes decisions in consultation with other members of the management team. This team comprises the CEO and five additional individuals: two heads of subsidiaries and three heads of Group staff. Information about the CEO and Group management is shown on page 45 of the 2012 Annual Report. The management team has regular business reviews led

by the CEO, often in conjunction with visits to the various units belonging to the Group.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The AGM decides on guidelines to determine remuneration for the CEO and other senior executives. The Board's proposed guidelines are stated below. At present, 'other senior executives' refers to the five people who, together with the CEO, make up Group management. These individuals are presented on the company's website and page 45 of the 2012 Annual Report.

The remuneration paid to the CEO and other senior executives comprises fixed salary, possible variable component of pay, other benefits and pension contributions. The total remuneration package must be in line with market rates and competitive in the labour market in which the executives work. Fixed salary and variable remuneration are related to the responsibilities and powers held by each executive. The variable component of pay, which is cash, is based on outcomes in relation to defined and measurable targets and is capped in relation to fixed salary. The variable component of pay for the CEO is capped at 50 per cent of fixed salary, excluding the special bonus connected to the Utansjö facility referred to below, and the variable component of pay for other senior executives is capped at 30 per cent of fixed salary. The programme for the variable components of pay shall be designed so that the Board can impose conditions, restrict or decline to make payments of variable component of pay in exceptional financial circumstances if such measure is considered to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

The period of notice is between six months and one year should notice be given by the executive, and between one and two years should notice be given by the company. The CEO is entitled to severance pay and a salary during the period of notice of in total up to an amount corresponding to the fixed salary for two years.

Pension benefits are either defined benefit or defined contribution plans or a combination thereof, and entitle the decision maker to receive a pension from no earlier than the age of 62.

Issues relating to remuneration for the executive management shall be prepared by the Compensation Committee. Remuneration principles and other employment conditions for the executive management as well as remuneration for the CEO shall be decided by the Board. If the company in a particular case assigns an individual Board member tasks on behalf of the company over and above his or her regular Board and committee duties, the Board

shall determine the level of remuneration, which must be reasonable and in line with market rates.

The Board will conduct an annual evaluation of whether or not to propose a long-term incentive programme at the AGM.

The Board shall be empowered to deviate from these guidelines if there are special reasons to do so in an individual case.

It is intended that a special capped, performance-based bonus linked to the Utansjö facility be paid to the CEO, capped at twelve monthly salaries at the 2008 salary level and, following a decision by the Compensation Committee, to other senior executives involved in this project.

Pay and remuneration for the CEO and other senior executives in 2012 can be found in Note 6 of the 2012 Annual Report for Rottneros.

Variable remuneration

The variable remuneration for the company's senior executives (i.e. CEO and other people in Rottneros' Group management) is compatible with the guidelines for the remuneration for senior executives determined by the AGM, which were reported above.

Variable remuneration is dependent on the achievement of targets, which are determined annually. These targets are broken down into specified quantitative objectives, mainly directed at financial objectives, results and cash flow of the Group, but also – in relation to Heads of Units – the respective business unit, and also qualitative personal objectives, which means that the variable remuneration is related to the individual's efforts and performance. Variable remuneration for the CEO is capped at 50 per cent of fixed salary and the special performance-based bonus linked to the Utansjö project is capped at twelve monthly salaries at the 2008 salary level. Variable remuneration for other senior executives is capped at 30 per cent of fixed salary.

As a benchmark, variable remuneration is not qualifying income for pension purposes. The Board can impose conditions, restrict or decline to make payments of variable remuneration in exceptional financial circumstances if the Board considers such measure to be reasonable and compatible with the duties of the company in relation to shareholders, employees and other interested parties.

Incentive programme

The 2010 AGM of Rottneros resolved to issue no more than 30 million subscription warrants to be used for an incentive programme for eight senior executives. In total, 12 million of these subscription warrants were transferred to those entitled to subscribe. The price per warrant amounted to SEK 0.10, and ten subscription warrants are re-

quired to subscribe for one new ordinary share. The issue price amounts to SEK 9.75 per share and shares can be subscribed for during the period 17 May 2012 to 16 May 2013. Rottneros has cancelled subscription warrants that were not transferred. The dilution effect will amount 0.8 per cent in the event that all warrants are exercised. As of 31 December 2012, no subscription warrants have been utilised to subscribe for new shares.

FURTHER INFORMATION IS AVAILABLE AT WWW.ROTTNEROS.COM

- Articles of Association
- Information from past AGMs from and including 2005 (notices, minutes, resolutions, the CEO's statements)
- Information about the Nominating Committee
- Information on corporate governance from 2004 to 2007 (included in the Annual Report for the respective year)
- Corporate governance reports from 2008 to 2011 (included in the Annual Report for the respective year)

ROTTNEROS' SYSTEM FOR INTERNAL CONTROL AND RISK MANAGEMENT IN CONJUNCTION WITH THE FINANCIAL REPORTING

The Board of Directors is responsible for the company's internal control in accordance with the Swedish Companies Act and the Code. According to the Swedish Companies Act, the Corporate Governance Report shall include information about the most important elements of the company's system for internal control and risk management regarding financial reporting.

Rottneros' internal control structure is predominantly based on the COSO model, according to which reviews and assessments are made in the following areas: control environment, risk assessment, control activities, information, communication and monitoring.

CONTROL ENVIRONMENT

The Board of Directors has drawn up a number of steering documents with respect to the company's internal control and governance, including the Rules of Procedure for the Board and Terms of Reference for the CEO 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 CEO and Group management, who report to the Board in accordance with established routines, are responsible for maintaining an effective control environment and the day-to-day internal control and risk management work. Managers at various levels within the company have the same responsi-

bility within their respective areas of responsibility 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 contacts between Group management and the subsidiaries' management teams. At risk reviews, Rottneros identifies areas where there is an increased risk of errors occurring.

CONTROL ACTIVITIES

Monthly financial reports are prepared for all of the companies in the Group as well as consolidated financial reports. These form the basis of the monthly meetings at each mill, where the CEO, CFO and Group Controller meets the respective company's management team. Areas emphasised for analysis are order status, cost follow-up, investments and cash flow. A conference call is made every quarter where the quarterly accounts and the subsidiary's forecast update are analysed. The CFO also visits the subsidiaries several times a year. These meetings are supplemented with Heads of Finance meetings, where the CFO, financial manager of each subsidiary and the Group's Chief Accountant and Controller meet. At these meetings, particular emphasis is placed on monitoring any problems and ensuring the accuracy of financial reporting. Forecasts are updated every quarter for all Group companies and there are controllers working on financial matters both locally and centrally, comparing these forecasts with outcomes and ensuring that the financial information is true, fair and correct.

The Board of Director's Audit Committee meets 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 Group staff is to implement, develop and maintain the Group's control routines and to intro-

duce internal control routines aimed at business-critical issues.

Rottneros' auditors examine both the financial information for the third quarter and the annual accounts. Every year the auditors also examine a selection of the company's control activities and processes and report any areas for improvement to the Board and Group management and also the management team of the respective subsidiary. The auditor in charge also attends meetings of the Audit Committee.

INFORMATION AND COMMUNICATION

The information contained in Rottneros' important control documents, in the form of policies, guidelines and manuals, is primarily communicated through a Group-wide intranet.

FOLLOW-UP

Each company has its own finance department and reports through a Group-wide reporting system. The Group's Chief Accountant and Controller also work closely with the Heads of Subsidiaries in matters concerning the annual accounts and reporting.

In 2012, the internal control was evaluated through various tests. These tests supplement the self-assessment conducted in 2010 concerning the status of internal control in respect of financial reporting. The assessment in 2010 commenced with a risk analysis that identified a number of areas of particular interest. Within these areas, tests were designed of the controls available to minimise identified risks, and Group companies were asked about how they considered that these controls were functioning. The companies' responses generally showed that there were sufficient and reliable controls to manage most of the risks within the areas identified. The Board of Directors is of the opinion that the Group's current scope and complexity does not warrant an internal audit function.