

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE IN SWEDFUND

Information below concerning corporate governance in 2015 is submitted in accordance with the *Swedish Code of Corporate Governance* (hereafter “the Code”). The articles of association, ownership policy, most recent corporate governance reports and other information that in accordance with the Code shall be available on the company’s website, may be found at www.swedfund.se. The 2015 corporate governance report is a part of the Integrated Report and has thus been audited by the company’s auditors. The Swedish state owns 100% of the company, which belongs to the group of companies with special social responsibility. The company has its head office in Stockholm and a regional office in Nairobi

SWEDFUND APPLIES the State’s ownership policy and guidelines for state-owned companies (2015) which includes the Code. Operations are governed by the aforementioned ownership policy, the company’s owner’s instructions and policy document and the financial targets set by the Annual General Meeting. In 2015 *Swedfund’s Policy for Sustainable Development* was updated and a new version adopted by the Board. Read more about Swedfund’s policy work on pages 18-19 and 60-61. The company’s policies, all of which are available on its website, are an important part of the company’s values and are continually being integrated into instructions and contracts. Continuous training takes place of Swedfund personnel and external members of portfolio company boards. Swedfund is a signatory of several international conventions and regulatory frameworks that in different ways influence working methods. For more details, see the overview of Swedfund’s policies, international obligations, guidelines and transparency commitments on page 61.

THE SWEDISH STATE’S ownership policy is not implemented in the portfolio companies. Instead, control is handled by implementing Swedfund’s policies in investment agreements. You can read about the requirements that Swedfund sets for its portfolio companies on page 58. Follow-up is carried out through work on the boards, self-assessments and active work on ESG issues. Read about Swedfund’s work on ESG issues in the portfolio companies and how Swedfund

creates value on pages 20-55. In all other regards, the local laws and norm systems of the portfolio company are applied.

With two exceptions the company only has minority stakes in portfolio companies. Wholly-owned companies are in the process of liquidation and have been transferred to Swedfund in order to secure development results and protect the company’s assets. Swedfund aims to have active dialogue with stakeholders such as owners, business partners, civil society organisations, trade unions and media representatives. For more information, see pages 62-63 for details of Swedfund’s stakeholder analysis.

In some cases Swedfund has chosen to deviate from the Code in accordance with the Code’s rules concerning “observe or explain”. The main reason for deviating is Swedfund’s ownership situation whereby Swedfund is wholly-owned by the Swedish state and thus not a listed company with broad ownership.

*Deviation from Swedish Code of Corporate Governance

In 2015 Swedfund deviated from the Code in the following areas: (i) nomination committee. Swedfund has no such committee due to its ownership structure. The nomination process for Board members, selection of chairman for the AGM and the appointment of auditors is performed in accordance with the principles stated in the Swedish state’s ownership policy; (ii) the Board’s independence to the owners. Swedfund does not report, in accordance with the Swedish state’s ownership policy, whether Board members are independent of the owners; (iii) audit and remuneration committees. Swedfund does not have either an audit or a remuneration committee. These assignments are instead performed by the Board.

MEETINGS AND OWNER

The owner exercises influence at Annual General Meetings and Extra Meetings, which are the company’s highest decision-making forums. Sweden’s Ministry of Enterprise and Innovation takes responsibility for administration of the Swedish state’s ownership of Swedfund. The Annual General Meeting appoints the Chairman of the Board, Board members and auditors, and determines remuneration for the

Chairman of the Board, other Board members and auditors. Further, the Meeting adopts the company’s income statement and balance sheet, and addresses issues that arise in accordance with the companies act or articles of association. The Meeting makes resolutions regarding changes in the articles of association, financial targets set at the Meeting and presents new Owner’s Instructions for the company’s operations. Notification of the Annual General Meeting or Extra Meeting where changes to the articles of association are to be addressed shall be submitted at the earliest six weeks and at the latest four weeks before the Meeting.

ANNUAL GENERAL MEETING

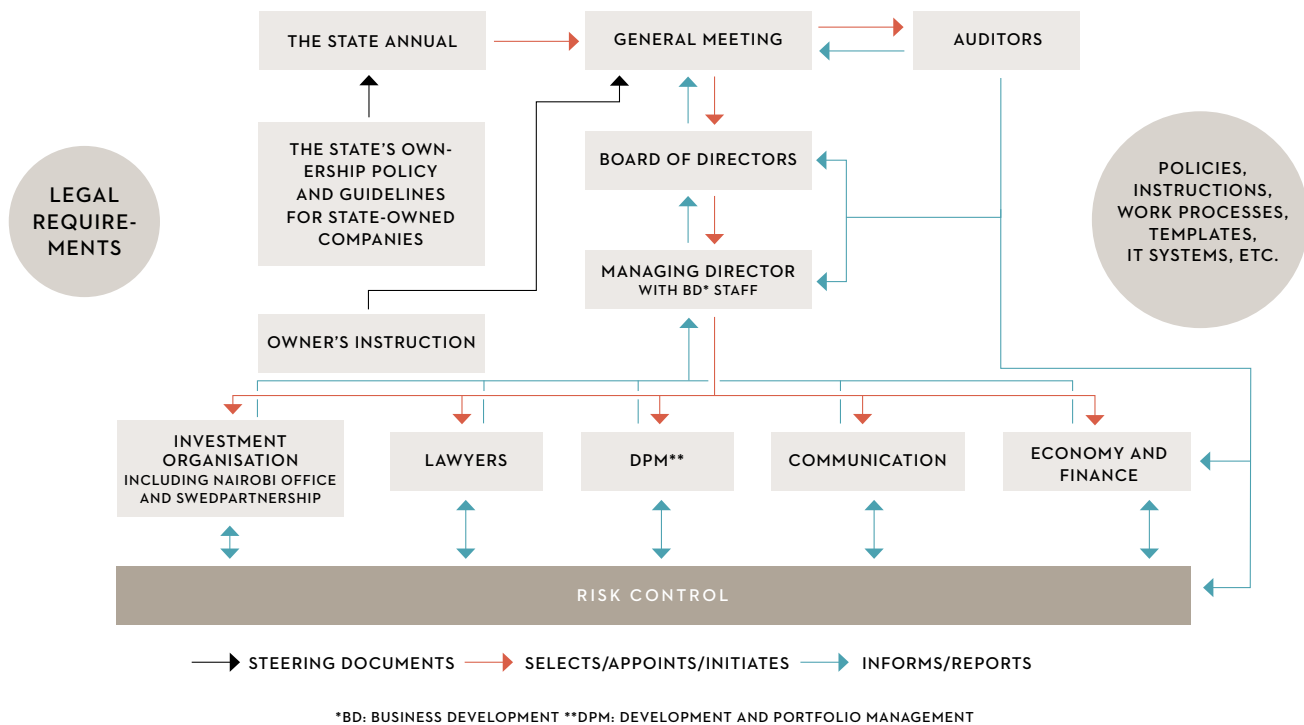
Swedfund’s Annual General Meeting was held on 27 April 2015. Members of Sweden’s parliament have the right to attend and address questions to the company. The Meeting is usually open to the public. Minutes of the Meeting are available on Swedfund’s website.

The following Board members were re-elected at the Meeting: Renée Andersson, Pernilla Bard, Björn Börjesson, Claes Ekström, Stefan Isaksson, Bengt Kvarnäck and Charlotte Salford. Lotta Mellström and Per Östensson left the Board. Hanna Lagercrantz was elected as a new Board member. Claes Ekström was re-elected Chairman of the Board. The Meeting adopted the income statement and balance sheet dated 31 December 2014 and approved discharge from liability for the Board and Managing Director for 2014. The Meeting approved the proposed appropriation of profit and the proposed guidelines for remuneration to senior executives.

AUDITORS

The state’s ownership policy prescribes that responsibility for selection of auditors appointed by the Annual General Meeting for state-owned companies rests with the owner. Auditors are normally appointed for a period of one year. At the 2015 Meeting, Ernst & Young AB were appointed auditors, with Jennifer Rock-Baley as the lead auditor. The auditors are accountable to the owner at the Annual General Meeting and submit an audit report on the Integrated Report and the Board’s administration. The auditors submit a summarised report of the audit to the Board in connection with the Q3 interim report and again in connection with the financial statement.

STRUCTURE FOR CORPORATE GOVERNANCE – OVERVIEW



BOARD OF DIRECTORS

In accordance with the articles of association, the Board shall comprise at least six, and at most nine, members, with no deputies. The General Meeting shall appoint the Chairman of the Board. If the Chairman leaves the post during the term of office, the Board shall elect a Chairman for the period until the end of the General Meeting when the new Chairman is elected by the General Meeting. As of 31 December 2015 the Board of Directors comprised eight members. None of Swedfund's management team are members of the Board. On 31 December 2015 the Board comprised four women and four men. Information about Board members is presented on pages 96-97.

The Board shall endeavour that the long-term development in the value of the company shall be the best possible and that business is conducted such that it favours sustainable development, in terms of the economy, society and the environment. The Board is responsible for the company's organisation and administers the company's affairs on behalf of the owner. The Board has responsibility for ensuring that the company sets a good example in the field of sustainable business and otherwise acts in ways that earn public trust. The Board appoints the Managing Director. The Board shall regularly assess the company's financial position and

ensure that the company is organised in such a manner that the book-keeping, management of resources and other economic circumstances are controlled satisfactorily. The Board shall ensure that the company has an effective system for following up and controlling the business and shall stay informed of how the company's system for internal control functions, and evaluate this system.

The Board is responsible for determining strategic goals for the company's sustainability work and ensuring that these strategic goals are integrated into the company's business strategy. The Board shall ensure that sustainability work is reported in accordance with the Global Reporting Initiative (GRI) and otherwise in accordance with the ownership policy.

The Board is responsible for the company's risk management and judicial compliance. This means the Board shall ensure that the risks associated with the company's business are continually identified, analysed and managed appropriately and that there is satisfactory internal control of compliance with those laws and regulations that cover the company's operations, including internal rules such as policies and instructions.

The Board is responsible for determining, implementing and monitoring of policy documents necessary for the business

and of other forms of control documents such as rules of procedure for the Board and instructions for the Managing Director. For a presentation of the current policy documents adopted by the Board, see swedfund.se. These policy documents describe how responsibility and authority are divided between the Board, Chairman and Managing Director. The Chairman is responsible for the annual evaluation of the Board's work and that relevant parts of this evaluation are reported to the individual responsible for nominations within the ownership unit at the Ministry of Enterprise and Innovation. The 2015 Board evaluation was assisted by an external consultant and included individual and collective assessments of the Board's work and competence. The Chairman reported relevant parts of the evaluation results to the individual responsible for nominations within the ownership unit at the Ministry of Enterprise and Innovation.

Apart from the specific assignments of the Chairman there is no specific division of labour within the Board. When necessary the Chairman meets important contacts and represents the company in ownership matters.

In 2015, the Board met on 15 occasions, see Note 1 on page 79 for attendance at this year's meetings. The meetings considered business activities in terms of the three pillars – Impact on society, Sustainability and Financial viability, and addressed the financial statement and

interim reports, other reports, strategic issues, business targets, business plan, budget, organisation and staffing issues and the evaluation of the Board's performance.

The Chairman maintained contacts with representatives of the company's owner in order to coordinate on issues where important decisions were to be made about the company.

MANAGING DIRECTOR

The Managing Director shall oversee the operational management of the company and coordinate activities with due care to the extent required for performing these assignments in accordance with current legislation, articles of association, ownership policy of the Swedish state and associated guidelines for state-owned companies, owner's instructions, rules of procedure for the Board, Managing Director instructions and other policies and guidelines adopted by the Board. The Managing Director is appointed by the Board but is not a member of the Board. Management activities are coordinated by a management group consisting at the end of 2015 of the Managing Director, Chief Legal Counsel, Director of Communications, Director of Finance and Administration, Director of Investment Operations, Director of Business Development and Portfolio Director.

The current Managing Director, Anna Ryott, was born in 1972 and took over the position in August 2013. She has an MSc in Business & Economics from Stockholm University and joined Swedfund from SOS Barnbyar, where she was general secretary. She has also been deputy general secretary of Unicef Sweden. In the private sector she has worked for Storåkers McCann as deputy Managing Director, and for McKinsey and for Hagströmer & Qviberg. Anna Ryott sits on the Board of Anna Lindh Academy and she is a member of the UN Foundation Global Entrepreneurs Council and Analysgruppen Global Samverkan.

SIGNATORIES

The authorised signatories of the company are the Board and two Board members jointly. Through the authorization by the Board, the Managing Director together with another member of the management team may sign for the company, and two of these members jointly may in turn own sign for the company in the Managing Director's absence in respect of any issue relating to investment operations. The Board's authorization is conditional on a valid board resolution for all commitments in excess of SEK 10 million. In accordance with the Managing Director instructions, the Managing Director has sole signatory power

concerning day-to-day administration within the framework of the established budget. Actions taken within the remit of the Managing Director are reported to the Board at the following meeting. When members of management have signed for the company, this is also reported to the Board at the following meeting. Department heads may order consultancy services costing a maximum of SEK 200,000 without the Managing Director's prior approval.

REMUNERATION TO SENIOR EXECUTIVES

The company applies the Government's

Guidelines for Terms of Employment for Senior Executives in state-owned Companies. Remuneration and benefits to the Managing Director and other senior executives are described in Note 1.

ORGANISATION

In the spring of 2015 a new Director of Business Development was appointed after the former director left to join another company. In the autumn of 2015 recruitment began for a new Director of Investment Operations after the former director moved to another position at Swedfund. No other significant organisational changes were implemented.

WORK OF THE BOARD IN 2015

The Board held 15 meetings. The work of the Board follows a structure constituting fixed and recurring activities, mainly as in the table above.

ACTIVITY	TIME
Inaugural meeting/Formal work plan for the Board/Managing Director Instructions/Signatory instructions/Delegation instructions/Authorisation instructions	After AGM
Status report/ Project inflow/Portfolio/Exit reports	Each meeting
Current investments/Cash and bank balances	Each meeting
Board decisions	Each meeting
Interim reports	Quarterly
Liquidity forecast	Quarterly
Risk report	Quarterly
Mission report	Every six months
Liquidity report	Every six months
Financial management policy	Annually
Performance evaluation of Board and Managing Director	Annually
Review of portfolio activities/Fund reports/Development results/ESG	Annually
Risk analysis	Annually
Swedfund's Integrated Report/Corporate governance/Internal controls/Audit issues	Annually
AGM/ Guidelines for salaries and other remuneration to senior executives	Annually
Strategy	Annually
Evaluation of policy documents and other guiding documents	Annually
Business plan/Activity plan and budget	Annually
Employee issues/Salary review	Annually

(The members of the Board are presented on the company's website www.swedfund.se/en and on pages 94-95.)

THE BOARD'S REPORT ON INTERNAL CONTROL IN FINANCIAL REPORTING

Under the Swedish Companies Act and the Swedish Code of Corporate Governance, the Board is responsible for internal control. This report has been prepared in accordance with Chapter 6, Section 6 of the Annual Accounts Act and with sections 7.3-7.4 of the Swedish Code of Corporate Governance, and is limited to the internal control in financial reporting.

Effective Board practices are the foundation for good internal controls. Internal control at Swedfund is described below based on five key areas.

CONTROL ENVIRONMENT

The base for internal controls regarding financial reporting is the control environment. Swedfund's control environment is defined by its organisational structure, clearly documented delegation of decision-making responsibilities from the Board to the Managing Director and other senior executives, various steering documents such as policies, guidelines, manuals, reporting instructions that give clear instructions within important areas to employees at various levels, business plan and budget. Employee competence and the values that the Board and the management team work from and communicate are also a part of the control environment and the task of the Managing Director is to establish guidelines so that all employees shall understand the requirement for maintaining ethical values and the role of each individual in this work, which among other things is regulated by the Code of Conduct that all employees shall observe.

RISK ANALYSIS

Swedfund works proactively in a structured way to identify, quantify, prevent and handle strategic, operational and financial risks. Significant strategic and operational risks once identified are reported at each Board meeting. The company's financial risks are managed according to the Financial Policy and reports concerning financial risks are submitted to the Board each quarter. Read

more about Swedfund's risk management on pages 57-59. Risk assessments concerning financial reporting include the identification and assessment of significant risks in the aforementioned areas that could mean the company not meeting requirements for accurate financial reporting in terms of completeness, correctness, evaluation and disclosure, and the risk of irregularities.

CONTROL ACTIVITIES

To ensure that the basis for financial reporting maintains the desired quality, various control activities are included in Swedfund's processes. These include a review of the budget, liquidity, forecasts and outcomes. Once a year a major review is performed of portfolio companies where the companies are evaluated based on the three pillars of impact on society, sustainability and financial viability. Authorizations, verifications, reconciliations and IT systems, with backup procedures and permissions are also control activities.

Swedfund has developed a comprehensive Investment manual to ensure that the quality is high during the appraisal of investments. In the portfolio companies control is ensured through evaluation and follow-up of financial reporting. In companies where Swedfund is a shareholder control is exerted through active participation in the work of the company's board of directors.

Internal control and management by senior managers of the company are evaluated annually by the company's external auditors. With consideration for the company's size and turnover as well as the steering and control system already in place, the Board finds in the current situation no need to set up any special audit function in the form of an internal audit.

INFORMATION AND COMMUNICATION

For internal controls to work correctly it is essential that all employees have access to up-to-date and relevant information about

what needs to be controlled and how control shall be exercised. All Swedfund's employees have access to the company's policies, guidelines and manuals.

At regular information meetings with company employees the importance of complying with rules and processes is stressed and changes to rules and procedures are presented in detail. Within the various departments of the company and through internal training sessions there are continuous updates on the application of these documents. Formal and informal communication between staff and managers is helped by the low number of staff who are in principle all based in the same office.

FOLLOW-UP

The Board's measures for checking that internal controls for financial reporting are functioning correctly may be summarised as follows. Control activities are followed up regularly to ensure that risks have been addressed and treated in a satisfactory way. The auditor reports to the Board observations from the general review of the interim report for Q3 and from the review of the financial statement. Company managers ensure and check that appropriate measures are taken relating to the recommendations for measures submitted by the Board and/or by the auditors.

Assessments of policy documents and other control documents are performed annually. Follow-up to ensure that financial reporting meets the desired quality is done by the Board, Managing Director, senior management team, the department for portfolio analysis and within the investment organisation. This work focuses on the follow-up of financial outcomes and significant deviation from budget plans, investments, divestments and other key business events. As of 31 December 2015 it is considered that control activities relating to internal controls for financial reporting are adequate.



TRANSLATION FROM THE SWEDISH ORIGINAL

Auditor's report

To the annual meeting of the shareholders of Swedfund International AB, corporate identity number 556436-2084

Report on the annual accounts

We have audited the annual accounts of Swedfund International AB for the year 2015 except for the corporate governance statement on pages 87-90. The annual accounts of the company are included in the printed version of this document on pages 9-94.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Swedfund International AB as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 87-90. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

Other matters

The audit of the annual accounts for 2014 was performed by another auditor who submitted an auditor's report dated 24 March 2015, with unmodified opinions in the Report on the annual accounts.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Swedfund International AB for the year 2015.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance statement on pages 87-90 has been prepared in accordance with the "Government's owner policy and guidelines for government owned companies" (Statens ägarpolicy och riktlinjer för företag med statligt ägande).

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company we believe that we have obtained a sufficient basis for our opinion. This means that our statutory examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance statement has been prepared, in accordance with the owner policy, and its mandatory statutory content is consistent with the other parts of the annual accounts.

Stockholm 23 March 2016

Ernst & Young AB

Jennifer Rock-Baley

Authorized Public Accountant