

# Corporate governance report 2012

Corporate governance concerns the regulations and structure existing to govern and manage a company in an effective and controlled manner. Corporate governance is primarily aimed at meeting the shareholders' requirements with regard to returns on their investment and to provide all interested parties with comprehensive and correct information about the company and its development. The Corporate governance of Auriant Mining AB (publ) is based on the Swedish Companies Act, the Swedish Corporate Governance Code, the Articles of Association and other relevant laws and rules. Auriant Mining AB (publ) ("Auriant", the "Company") is a Swedish public limited company with its registered office in Stockholm, Sweden and with business operations primarily in Siberia, Russia. Auriant was formed in 2004 and listed on the NGM Equity, Nordic Growth Market on March 29, 2005 under the name Central Asia Gold AB (publ). Since July 19, 2010 Auriant's shares are listed at the Swedish stock exchange NASDAQ OMX First North Premier. The shares are traded under the abbreviation, "AUR". Auriant has applied the Swedish Corporate Governance Code (the Code) since July 1, 2008, except for the deviations detailed in its corporate governance reports. The Code is based on the principle of "comply or explain", which implies that companies applying the Code can deviate from the specific rules, but they must provide an explanation for such deviation. Governance, management and control responsibilities in Auriant are divided between the shareholders at the Annual General Meeting of shareholders (or any Extraordinary General Meeting), the Board of Directors and the Chief Executive Officer.

## THE SHAREHOLDERS' MEETING

The shareholders' right to decide on Auriant's business is exercised at the Shareholders' Meeting of the Company, which is the Company's highest decision-making body. The Board of Directors is appointed by the Shareholders' meeting and the Chief Executive Officer is appointed by the Board of Directors. The Shareholders' Meeting has a sovereign role over the Board of Directors and the Chief Executive Officer. The mandates of the Shareholders' Meeting include the election of Members of the Board, the

approval of principles for the appointment of the Nomination Committee, the adoption of the Income Statement and Balance Sheet, resolutions on appropriation of profits and discharge from liability for the Members of the Board and the Chief Executive Officer of the company, the determination of fees payable to the Members of the Board and to the auditors and the principles governing conditions of employment and remuneration for the Chief Executive Officer and senior executives and, where relevant, the amending of Articles of Association and the election of auditor.

## SHAREHOLDERS

As of the end of 2012 there were in total 17,616,987 shares in the Company and the same amount of votes. There were 3,238 shareholders in the Company as of December 31, 2012 and the largest shareholder was Bertil Holdings Ltd holding 52.87% of shares and who is the only shareholder representing more than one tenth of the voting rights of all shares in the company. The share capital of the Company as at that date amounted to SEK 198,191,103.

## ANNUAL GENERAL MEETING IN 2012

Auriant's 2012 AGM was held on Thursday, May 24, 2012 in Stockholm. The minutes from the meeting are available at [www.auriant.com](http://www.auriant.com).

The following principal resolutions were adopted:

- The Board of Directors and the Chief Executive Officer were discharged from liability for the past financial year.
- Board members Lars Guldstrand, Preston Haskell, Nick Harwood were re-elected to the Board for 2012 and Denis Alexandrov and Ingmar Haga were elected.
- Preston Haskell was elected Chairman of the Board.
- Board fees were established for Lars Guldstrand, Nick Harwood and Ingmar Haga at TSEK 200 each and TSEK 250 to the Chairman of the Board Preston Haskell. It was decided that Board member and CEO Denis Alexandrov would not receive any Board fees.
- Remuneration for the Company's auditor Öhrlings PricewaterhouseCoopers was to be paid according to the invoiced amount according to agreement.

- The AGM approved the shareholders' proposal for the establishment of principles for appointment of the Nomination Committee.
- The AGM approved the Board's proposal on adoption of the guidelines for the remuneration of members of the executive management.
- The AGM approved to amend the articles of association in accordance with the Board of Directors' proposal.
- The AGM authorized, for the period until the next Annual General Meeting, on one or more occasions, with or without preferential rights for shareholders, to issue new shares, warrants and/or convertibles. Decisions related to the authorization could result in increase of the capital by a maximum of 28,125,000 SEK, representing a maximum of 2,500,000 shares of the Company, upon full exercise of the warrants and convertible bonds issued under the authorization and prior to any conversion in accordance to its terms. The share issue was authorized for financing of acquisitions of a Company, part of it or assets, which the board deems to be of value for the Company, as payment substitution for the Company's strategic partnerships, raising capital either for such acquisitions, partnerships or other investments, or for strengthening the Company's financial position, if necessary, and for the implementation of financial restructuring, such as a loan repayment.
- The AGM approved annulment of warrants issued to the employees of the Company according to the Board of Directors proposal.

At the 2012 Annual General Meeting 11,647,169 shares were represented by 8 shareholders either in person or via proxies. The shares represented comprised approximately 66% of the total number of shares in the Company.

#### EXTRAORDINARY GENERAL MEETING IN 2012

An Extraordinary General Meeting was held on Tuesday, November 27, 2012 in Stockholm. The minutes from this meeting are available at [www.auriant.com](http://www.auriant.com).

The following principal resolutions were adopted:

- Lord Peter Daresbury and Andre Bekker were elected to the Board of Directors.
- The EGM decided to change the payment order for the Directors' fees.
- The EGM decided to change the guidelines for remuneration of executive management in accordance with the proposal.
- The EGM decided to establish an incentive program to the company's CEO Denis Alexandrov and the Chief Investment Officer Max Yacoub.

At the Extraordinary General Meeting 9,314,969 shares were represented by 2 shareholders either in person or via proxies. The shares represented comprised approximately 53% of the total number of shares in the Company.

#### ANNUAL GENERAL MEETING IN 2013

The Annual General Meeting of the Shareholders will be held on Wednesday May 15, 2013 at Näringslivets Hus, Storgatan 19, Stockholm. The AGM will start at 15:00, and the doors will open at 14:30. The annual report for 2012 will be available on the Company's website as of April 22, 2013.

#### NOMINATION COMMITTEE

The role of the Nomination Committee is to present proposals to the AGM for: (i) the election of AGM Chairman; (ii) the number of members of the Board; (iii) the election of the Chairman of the Board and other Board members; (iv) Board fees, allocated between the Chairman and other members; (v) any remuneration for committee work; and (vi) the election and payment of auditors and alternate auditors (where applicable). In addition, the Nomination Committee shall make proposals for decisions about principles for establishing a new Nomination Committee.

The principles for the appointment of the Nomination Committee were approved by the AGM of May 24, 2012, as follows. The Company shall have a Nomination Committee comprised of the Chairman of the Board and four other members representing each of the four owners holding the largest number of voting rights. Those shareholders with the largest number of voting rights will be contacted on the basis of the Company's record provided by the Swedish Central Securities Depository of registered shareholders (by owner group) as at October 31, 2012. Those shareholders who are not registered with the Swedish Central Securities Depository, and who wish to exercise their voting rights, should apply to the Chairman of the Board and must be able to evidence ownership of shares. At the earliest convenient date after the end of October the Chairman of the Board shall contact the four shareholders with the largest number of voting rights, as determined above, and will request that they each appoint



a member to the Committee. If any of the shareholders decline their right to appoint a member to the Nomination Committee, the shareholder with the next most voting rights shall be provided with the opportunity to appoint a member. The names of the owner representatives and the names of the shareholders they represent shall be made public no less than six months prior to the AGM and shall be published on the Company's website as soon as possible upon their appointment. The Nomination Committee's mandate continues until a new Nomination Committee is appointed. The Chairman of the Nomination Committee shall, unless the members agree otherwise, be the member representing the largest shareholder. If a member resigns from the Nomination Committee prior to the work for that mandate being completed, and if the Nomination Committee deems that it is necessary to replace this member, then the Nomination Committee shall appoint a new member. No fees shall be paid to the members of the Nomination Committee.

The Nomination Committee may charge fair and reasonable expenses for travel and for reporting to the Company.

The Nomination Committee has been formed in accordance with the above described principles, as follows: Preston Haskell, the Chairman of the Board, James Smith representing Bertil Holdings Ltd, Peter Hamberg representing Niclas Eriksson with the family, Martin Diggle representing Vulpes Russian Opportunities Fund, and Bernt Plotek representing himself. The Nomination Committee has met a total of two times during 2012 and 2013 and has also had telephone contact.

The Nomination Committee works in the best interests of all shareholders of the Company and focuses on ensuring that the Company's Board of Directors is comprised of members who possess the knowledge and experience which corresponds to the needs of the Company.

### BOARD OF DIRECTORS

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the organisation of the Company and the administration of the Company's business, and shall continually assess the Company's and the Group's financial situation. The Board of Directors deals with issues of material significance, such as business plans including profitability targets, budgets, interim reports and annual reports, the acquisition or sale of companies, significant property acquisitions or sales, the establishment of important policies, the structure of internal control systems, and significant organisational changes. Each year, Auriant's Board establishes terms of reference of the Board of Directors, written instructions regarding financial reporting and the division of work between the Board and the Chief Executive Officer. The terms of reference regulate, among other things, the Board's duties, the minimum number of Board meetings each year, the manner in which meetings are to be notified and the documents required to be distributed before Board meetings and the manner in which the minutes of Board meetings are to be drawn

up. The written instructions regarding financial reporting regulate the reporting system in place, as the Board needs to be able to continually assess the Company and Group's financial position. A Chart of Authority, approved by the Board, regulates the division of work, authorities, and responsibilities, between the Board and the Chief Executive Officer.

According to the Articles of Association, the Board of Directors shall comprise a minimum of three members and maximum of ten members, without deputy members, elected by the Annual General Meeting.

### CHAIRMAN OF THE BOARD OF DIRECTORS

During 2012, Auriant's Chairman of the Board led the Board's work and ensured that the Board fulfilled its duties. The Chairman of the Board has continually followed the Group's business and development through contact with the Chief Executive Officer.

### MEMBERS OF THE BOARD OF DIRECTORS

At year-end 2012, Auriant's Board was comprised of five Board members, where Preston Haskell, Denis Alexandrov, Ingmar Haga were elected by the Annual General Meeting, and Andre Bekker and Peter Daresbury were elected by the Extraordinary General Meeting. The Chief Executive Officer Denis Alexandrov is a member of the Board of Directors. The members of the Board are presented in more detail on page 21 of the Annual Report, and the details of the members' independence vis á vis the Company and its management are presented below.

### BOARD'S DIVISION OF WORK

There was no verbal or written division of work for the members of the Board during the 2012 financial year.

### THE BOARD'S WORK IN 2012

The Board held 24 meetings in 2012, 16 of which were held by correspondence, 1 per telephone and 7 meetings were held in person. The important issues dealt with by the Board in 2012, in addition to the approval of the annual report and the interim reports, establishing a business plan and the related budgets, were as follows:

- The Company's financial position and liquidity
- Strategic decision-making
- Cooperation with Centerra Gold Inc.
- Reorganisation of the management team
- Preparation for the Annual General Meeting
- Meeting with the auditor without presence of the Group's management.

### BOARD COMMITTEES

Auriant's Board of Directors resolved to establish a remuneration committee in 2012, initially consisting of the Board members Peter Daresbury and Andre Bekker. Further, the Board decided in January 2013 that the remuneration committee shall be constituted by all non-executive Board members and shall be chaired by the Chairman of the Board. The remuneration committee submits propo-

**BOARD MEMBERS' INDEPENDENCE AND SHARES IN AURIANT**

Board member	Shares in Auriant	Warrants in Auriant	Independent of the company and management*	Independent of the major shareholders*
Preston Haskell	9,314,968	0	No	No
Denis Alexandrov	250,000	927,210	No	Yes
Ingmar Haga	0	0	Yes	Yes
Andre Bekker	0	0	Yes	No
Peter Daresbury	0	0	Yes	Yes
Lars Guldstrand	189,797	0	Yes	No
Nick Harwood	0	0	Yes	Yes

\* Independence as defined by the Swedish Code of Corporate Governance.

**BOARD MEMBERS' ATTENDANCE AT BOARD MEETINGS IN 2012**

Name	Position	Present
Preston Haskell	Chairman	23/24
Denis Alexandrov	Member, CEO	17/17
Ingmar Haga	Member	15/17
Peter Daresbury	Member	3/3
Andre Bekker	Member	3/3
Lars Guldstrand	Member	15/17
Nick Harwood	Member	14/17
Tom Baring*	Member	6/7
Gordon Wylie*	Member	5/7
Niclas Eriksson*	Member	5/7

\* Board members elected at the AGM 2011.

sals for resolution by the Board regarding salary and other terms of employment for the CEO. The committee also approves proposals regarding salaries and other terms of employment for the Group's management, according to the CEO's proposal.

The Board chose not establish an audit committee in 2012, when the Board considered it more appropriate to allow the Board to perform the tasks of the audit committee along with the ordinary Board work. The finance and audit committee was established in January 2013, consisting of the Board members Peter Daresbury and Ingmar Haga, with Mr. Daresbury serving as the chairman of the committee. The members of the committee have the necessary competence and experience in the accounting matters.

In January 2013 the Board established a new Technical Committee comprised of Ingmar Haga and Andre Bekker to advise the rest of Board on mining and technical issues.

The committees report to the Board on a regular basis and on any major decisions taken.

**BOARD FEES**

The Board of Directors' fees are decided by the Shareholders' meeting. The following Board fees were approved by the Shareholders' meetings in 2012: the Board fees for Ingmar Haga, Andre Bekker and Peter Daresbury at TSEK 200 each and for the Chairman Preston Haskell at TSEK 250. No Board fees shall be paid to the Board member and the Chief Executive Officer Denis Alexandrov.

**GROUP MANAGEMENT**

The Group's management comprises the CEO, CFO, CIO, COO, Head of HR, Chief Geologist, and Group General Counsel. The Group management has regular meetings in order to discuss the strategic and operational issues related to the management of the Auriant Group. The management of the Company is presented on page 22 of the Annual Report.

The Chief Executive Officer is responsible for the ongoing management of the Company. The CEO's work is evaluated once a year. Denis Alexandrov is Chief Executive Officer for Auriant Mining AB since May 2012.

## REMUNERATION OF EXECUTIVE MANAGEMENT

For information regarding the remuneration policy and the remuneration of the Chief Executive Officer, senior executives and other employees, please see Note 3 on page 69 of the annual report.

## LONG-TERM INCENTIVE PROGRAMS

The Board regularly evaluates the need for long-term incentive programs. Currently there are long-term incentive programs for the Chief Executive Officer and the Chief Investment Officer of the Company, adopted at the Extraordinary General Meeting on November 27, 2012.

## AUDITOR

The AGM appoints an auditor of the Company. The auditor's task is to examine the Company's annual financial statements and accounts, as well as the management by the Board and the Chief Executive Officer. The AGM of May 24, 2012 appointed, for a period until the 2013 AGM, Öhrlings PricewaterhouseCoopers AB as the Company's auditors. The responsible auditor at Öhrlings PricewaterhouseCoopers AB is Authorized Public Accountant Martin Johansson. Martin's audit engagements, in addition to Auriant, include Kraft Foods Sverige AB, Sotkamo Silver AB, PetroGrand AB, etc.

The audit is conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit of the annual accounts is conducted during the period from January to April. The process is initiated, however, when the examination of the nine-month accounts is initiated in October of the financial year in question. The 9 months interim report was subject to review during the financial year.

## INTERNAL CONTROL

Internal control is often defined as a process that is influenced by the Board, the company management and other staff, and which is developed to provide reasonable assurance that the company's targets are being met in terms of the business operations being both appropriate to the goals of the company and being efficient. Reasonable assurance is also to be provided as regards the reliability of the financial reporting and compliance with relevant laws and regulations. Internal control consists of various aspects: control environment, risk assessment, control activities, information and communication, as well as monitoring.

## CONTROL ENVIRONMENT

Internal control is underpinned by the control environment, which comprises the culture communicated by the Board and Company management, and according to which they operate, and that provides the discipline and structure for the other aspects of internal control. The control environment primarily consists of the organisational structure, the assignment of responsibility and powers, management philosophy, ethical values, staff competence,

policies and guidelines, as well as routines. In addition to the relevant legislation, the framework within which Auriant's Board and management work is comprised of the owners' aims and the Swedish Corporate Governance Code. The formal decision-making procedure is based on the division of responsibility between the Board and the CEO which the Board establishes each year in the form of the Chart of Authority. The Board has established procedures for its work. The CEO is able to delegate a degree of decision-making to other senior executives. Two members of the Board have the authority to sign on behalf of the Company. Furthermore, the CEO, in his normal business activities, is also entitled to sign on behalf of the Company.

## RISK ASSESSMENT

All business operations involve risk. A structured risk assessment makes it possible to identify the material risks having an effect on internal control with regard to financial reporting and where these risks exist within the organisation. Auriant's Board continually assesses the Company's risk management. This work consists in assessing the preventative measures which need to be taken to reduce the Company's risks, which involves, for example, ensuring that the Company has appropriate insurance and that the Company has the necessary policies and guidelines in place.

## CONTROL ACTIVITIES

Control measures are required to prevent, detect and correct errors and discrepancies. Each quarter, Auriant Mining's Finance Department compiles financial reports providing details of earnings and cash flow for the most recent accounting period at subsidiary and Group level. Deviations from budget and forecasts are analysed and commented on. Documented processes exist for the compiling of the information on which the financial reports are based. Detected errors and discrepancies are analyzed and followed up.

## MONITORING

Financial monitoring is carried out on a quarterly basis for all profit centres and at Group level. In addition, Group management receives operational reports on a weekly and monthly basis. Monitoring is, then, carried out in comparison with budgets. Auriant Mining AB is a mining company that is in its early stages, which is why no earnings or sales forecasts are currently provided externally. Instead, the financial report in February of each year stipulates targets for the expected volume of gold production for the full year. These targets are subsequently revised as often as is deemed necessary. As the gold production is currently highly seasonal, this usually occurs, at the earliest, in the summer months when production has begun in earnest. The Board continuously evaluates the information provided by the Company management. Each month the CEO reports to the Board on the Company's performance with regard to the targets in the Business Plan. Given its size, the Company has chosen not to establish a separate inter-

nal audit unit. If the Board finds it appropriate, internal control will be further expanded. The issue of internal control and a separate internal audit unit is annually reviewed by the Board and will be discussed again in 2013.

#### AURIANT HAS NOT COMPLIED WITH THE CODE AS REGARDS THE FOLLOWING POINTS:

- The Nomination Committee's proposals are to be presented in the notice of a general meeting where the election of Board members or auditor is to be held and on the Company's website.

*Due to the fact that the Board of Directors had not been informed by the Nomination Committee on its proposals before May 24, 2012, the Nomination Committee's proposal could not be included in the notice.*

- The Company's Nomination Committee is to propose a Chairman for the Annual General Meeting. The proposal is to be presented in the notice of the meeting.

*The Board of Directors was not informed by the nomination committee on its proposal regarding the appointment of the Chairman of the meeting in a timely manner so it could be included in the notice of the meeting. The proposal was announced on May 24, 2012.*

- Share- and share-price-related incentive programmes are to be designed with the aim of achieving increased alignment between the interests of the participating individual and the company's shareholders. Programmes that involve acquisition of shares are to be designed so that a personal holding of shares in the Company is promoted. The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years.

*The Extraordinary General Meeting on 27 November 2012 approved the incentive program to the CEO of the Company and Chief Investment Officer where the date for acquisition of shares is less than three years.*

*It was considered to be in the best interests of the Company and all shareholders to create a greater participatory interest for the CEO and the Chief Investment Officer by offering an incentive programme with the shorter period for acquisition of shares, than what the Swedish Code for Corporate Governance recommends.*

- The Chairman of the Board is to be elected by the shareholders meeting.

*The Board is responsible to elect its Chairman. It is believed to be in the Company's best interest that the Board is responsible for the election of the Chairman since this increases the flexibility of the Board's work.*

*Also it minimizes the cost for convening an extraordinary shareholders' meeting if the Chairman is to resign during the mandate period.*

*According to Sw Companies Act there is no obstacles of the board to elect the chairman, unless is stated in the articles of association that the chairman should be elected by the general meeting.*

#### PARENT COMPANY

The Parent Company is a holding company without significant operational activities. The Parent Company supports the subsidiaries with financing, investor relations and strategic decisions, etc. and has no revenue other than other operating income and interest on loans to the subsidiaries and on bank accounts.

The operating result for 2012 was MSEK -3.4 (US\$ -0.5 m) (2011: MSEK -13.7 (US\$ -2.1 m)). The difference from last year is mainly due to significant non-recurring operating income in 2012 of MSEK 8.1, where MSEK 6.7 referred to sale of 20% ownership in the joint venture Awilia to Centerra Gold.

Net financial items for 2012 amounts to MSEK -242.7 (US\$ -37.3 m) (2011: MSEK -228.4 (US\$ -35.1 m)) and includes write down of intercompany loan receivables of MSEK -238.9 (US\$ -36.7) (2011: MSEK -224.2 (US\$ -34.4 m) relating to the production units Tardan in 2012 and Solcocon for 2011.

Net result for the reporting period amounted to TSEK -246.2 (US\$ -37.8 m) (2011: MSEK -242.1 (US\$ -37.1 m)).

Total cash balance in the parent company was MSEK 1.2 (US\$ 0.2 m) (2011: MSEK 8.2 (US\$ 1.2 m) at the end of December 2012.

In December 2012 the loans liability to the shareholder was restructured into bond. As of December 31, 2012 bond liability equaled MSEK 214.4 (US\$ 32.9 m) (2011: MSEK 165.7 (US\$ 25.4 m)).

#### PROPOSAL FOR PROFIT DISTRIBUTION

The Group's equity at year-end 2012 amounted to MSEK 225.2, of which the share capital is MSEK 198.2.

#### IN THE PARENT COMPANY THE UNRESTRICTED SHAREHOLDERS EQUITY AMOUNTS TO:

	SEK
Share premium reserve	580,798,838
Translation difference reserve	-49,497,037
Retained earnings	-290,091,923
Net income for the year	-246,179,421
Total unrestricted equity	-4,969,543

The Board of Directors and the Chief Executive Officer propose that the Parent Company's accumulated losses are carried forward and that no dividend is paid for the financial year.