



**Finnish Corporate  
Governance Code 2015**  
Securities Market Association





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*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

# PREAMBLE

## **Background to the Reform of the Corporate Governance Code and Regulatory Developments**

The current Finnish Corporate Governance Code (2010) preceding the new Corporate Governance Code entered into force on 1 October 2010. Since then, regulation concerning listed companies as well as the procedures adopted and applied by the companies have developed in many ways.

The Securities Market Association conducted an extensive preliminary review in 2014 to identify the changes needed to the current Corporate Governance Code as a result of the developments in both national and international regulatory framework. The preliminary review also included a user survey conducted among listed companies and other market operators, which identified a number of development targets in the current Corporate Governance Code (2010).

In December 2014, the Board of the Securities Market Association appointed a working group to update the Corporate Governance Code to reflect the new regulations and recommendations, as well as the development targets identified in the user survey.

## **Premises and Objectives of the Reform**

Promoting openness, transparency, and comparability, as well as good corporate governance, in a manner that enhances the competitiveness and success of Finnish listed companies have been among the most important objectives of the reform of the Corporate Governance Code. The administrative burden of the companies has been reduced by paying particular attention to the structure of the Corporate Governance Code. At the same time, the number of recommendations has significantly decreased.

Legislative initiatives introduced by the European Commission in the field of corporate governance have played a significant role in the reform of the Finnish Corporate Governance Code.

- On 9 April 2014, the European Commission published a recommendation on the quality of corporate governance reporting. The recommendation aims to strengthen the 'comply or explain' principle and, in particular, improve the quality of explanations concerning the departures. The measures required by the Commission recommendation, such as the more accurate structuring of the recommendations and obligations arising from law, have been implemented as part of the reform of the Corporate Governance Code. Although the Commission recommendation did not actually require changes to the content of the previous Corporate Governance Code, a comprehensive re-evaluation of the recommendations was carried out in the reform process. As a result, the number of recommendations has significantly decreased.
- Other legislative initiatives in the European Union were also closely monitored during the reform of the Corporate Governance Code. The most significant developments include the upcoming revision of the Shareholder Rights Directive and the new Directive on Disclosure of Non-Financial Information and the Statutory Audit Directive and Regulation, which are yet to be implemented into Finnish law. Some of the changes and their timetables are still open. The aforementioned pending legislative initiatives have not been taken into account in advance in the reform of the Corporate Governance Code; the need to revise the Code with regard to these developments will be assessed separately at a later stage. Thus, recommendations relating to, for example, remuneration have not been changed with regard to content at this stage, with the exception of the provisions concerning reporting.

- However, a new recommendation concerning the definition of principles concerning the diversity of the board of directors was introduced as part of the reform of the Corporate Governance Code. The new recommendation requires companies to report the objectives relating to both genders being represented in the company's board of directors as well as the means to achieve these objectives (**RECOMMENDATION 9**). In addition to the upcoming changes to the Audit Directive, the new recommendation is motivated by the Government Resolution of 17 February 2015.
- Furthermore, **RECOMMENDATION 16** (Audit Committee) was revised to reflect the expected increase in the mandatory tasks of audit committees following the regulatory developments in the European Union. As a result, companies will be subject to significant additional requirements and the importance of technical knowhow and expertise will also become more significant. The requirement concerning the independence of audit committee members has been revised to meet the mandatory requirement on the majority of the members being independent of the company. At the same time, more attention has been paid to the knowhow and competence of the audit committee as a whole.

## **Most Notable Changes of the Reform**

### ***Preparation of Proposals for the Composition of the Board of Directors***

**RECOMMENDATION 7** on the disclosure of the procedure applied in the preparation of proposals for the composition of the board of directors and **RECOMMENDATION 18B** on establishing a shareholders' nomination board as an alternative for the preparation are completely new recommendations of the Code. In addition to the recommendation relating to the preparatory work, more attention has also been paid, *inter alia*, to successor planning and diversity (**RECOMMENDATION 9**).

### ***Evaluation of Independence***

With regard to the evaluation of the independence of directors (**RECOMMENDATION 10**), the 12-year consecutive term of directors has been shortened to 10 years. The board membership's length is one of the factors that are taken into account in the overall evaluation of the independence, which must be carried out at regular intervals and, in any case, at least once a year. The Corporate Governance Code has also been specified and the transparency has been increased, *inter alia*, with regard to the evaluation of directors' independence of major shareholders.

### ***Related Party Transactions***

A completely new theme in the Corporate Governance Code is **RECOMMENDATION 28** concerning related party transactions. According to the recommendation, companies need to report the decision-making procedure concerning any significant and unusual related party transactions. The requirement to report the decision-making procedure relating to exceptional situations enhances transparency. The recommendation also increases awareness about the regulation on related party transactions in general and helps companies to ensure that they use appropriate decision-making processes and procedures that observe potential conflicts of interests. The rationale of the recommendation is also more detailed than that provided for in the other recommendations.

## **Mandatory Reporting Obligations**

The guidance on reporting has been reformed in its entirety, and it is included as its own section at the end of the Corporate Governance Code. A company may not depart from the reporting obligations set out in the Corporate Governance Code (i.e. the issuance and contents of the Corporate Governance Statement and Remuneration Statement). The reform promotes transparency and increases the consistency of reporting. The new uniform and clear reporting guidelines also reduce companies' administrative burden with regard to reporting.

## **Overview of Corporate Governance in Finland**

The reform of the Corporate Governance Code has taken into account the wish of market operators to include an overview of the Finnish corporate governance in response to the information needs of companies, investors, and different interest groups. The brief overview provided in the introduction to the Corporate Governance Code is supplemented by a more comprehensive description of the Finnish corporate legislation found on the website of the Securities Market Association. The descriptions do not revise the current legal status. They are designed to provide general background information to market operators, while the recommendations of the Corporate Governance Code are targeted at the companies applying the Corporate Governance Code.

### **Corporate Governance Working Group 2015**

Chairman of the Working Group:

Riikka Rannikko, Attorney-at-law (Hannes Snellman Attorneys Ltd)

Members of the Working Group:

Miika Arola, Group General Counsel (Metsä Group)

Mikko Korttila, General Counsel (Alma Media Corporation)

Anne Leppälä-Nilsson, Senior Vice President, Group General Counsel (Kesko Corporation)

Leena Linnainmaa, Deputy Chief Executive (Finland Chamber of Commerce)

Jaakko Raulo, Corporate Secretary (Nasdaq Nordic)

Hannu Rautiainen, Director (Confederation of Finnish Industries)

Leena Siirala, General Counsel (Ilmarinen Mutual Pension Insurance Company)

Secretariat of the Working Group:

Tapani Manninen (Associate General Counsel, Nasdaq Helsinki)

Antti Turunen (Legal Counsel, Finland Chamber of Commerce)

Hannu Ylänen (Legal Counsel, Confederation of Finnish Industries)

The Working Group convened 11 times during its mandate. The Working Group consulted a wide range of authorities, experts, and market operators in the course of its work. An extensive consultation was organised in the summer of 2015, and a total of 34 statements were received.

## Ratification and Entry into Force of the Corporate Governance Code

The Board of the Securities Market Association ratified the Corporate Governance Code on 1 October 2015.

The new Corporate Governance Code will be in effect as of 1 January 2016. However, companies can voluntarily apply all or some of the reporting principles set out in the new Corporate Governance Code for reports relating to the remainder of the current financial period ending on 31 December 2015. The new Corporate Governance Code will replace the previous Finnish Corporate Governance Code for Listed Companies, which has been in effect since 1 October 2010, and also the associated guidance issued by the Securities Market Association.

A summary of the most important changes made to the Corporate Governance Code, an account of the most significant differences between the old code and the new code, and instructions on interpreting the effective date of each recommendation can be found on the Securities Market Association website at [www.cgfinland.fi/en](http://www.cgfinland.fi/en).

Helsinki, 1 October 2015

Board of the Securities Market Association



Hannu Syrjänen  
Chairman



Ilona Ervasti-Vaintola



Maija-Liisa Friman



Timo Ritakallio



Lauri Rosendahl

*The Securities Market Association is a cooperative body established in December 2006 by the Confederation of Finnish Industries EK, Finland Chamber of Commerce and Nasdaq Helsinki Ltd.<sup>1</sup> The aim of the Association is to ensure, through more efficient self-regulation, that companies operating in the securities market observe uniform and transparent operating principles and rules. The mission of the Association includes promoting good corporate governance and administering the Corporate Governance Code. The Securities Market Association follows domestic and international development and updates the code when necessary. For more information about the Association, the history of the Corporate Governance Code, and previous working groups, see the Securities Market Association website at [www.cgfinland.fi/en](http://www.cgfinland.fi/en).*

<sup>1</sup> The official name of the Helsinki Stock Exchange following a change expected to take effect on or about 1 December 2015 (before the change, the official name is NASDAQ OMX Helsinki Ltd).





# INTRODUCTION

## Objectives of the Corporate Governance Code

The Corporate Governance Code is a collection of recommendations on good corporate governance for listed companies. The recommendations of the Corporate Governance Code supplement the obligations set forth in the legislation. The objective of the Corporate Governance Code is to maintain and promote the high quality and international comparability of corporate governance practices applied by Finnish listed companies. Good corporate governance supports the value creation of Finnish listed companies and their attractiveness as investment objects.

The purpose of the Corporate Governance Code is to harmonise the procedures of listed companies and to promote openness with regard to corporate governance and remuneration. From the perspective of a shareholder and an investor, the Corporate Governance Code increases the transparency of corporate governance and the ability of shareholders and investors to evaluate the practices applied by individual companies. The Corporate Governance Code also provides investors with an overview of the kinds of corporate governance practices that are acceptable for Finnish listed companies.

## Application of the Corporate Governance Code and Definitions

The Corporate Governance Code is applicable to all companies that are listed on Nasdaq Helsinki Ltd<sup>1</sup> (Helsinki Stock Exchange). According to the Rules of the Helsinki Stock Exchange, all issuers of shares that are traded on the official list must comply with the Corporate Governance Code. However, issuers of securities other than shares, as well as companies whose shares are listed, for example,

on the First North Helsinki marketplace, do not have the obligation to comply with the Corporate Governance Code.<sup>2</sup> Pursuant to the Securities Market Act, issuers of other securities traded on a regulated market, such as issuers of bonds, shall include a Corporate Governance Statement in the report by the board of directors or in a separate report.<sup>3</sup> These and the companies traded on the First North Helsinki marketplace may, of course, choose to voluntarily apply the Corporate Governance Code, either in full or in part.

The Corporate Governance Code uses the term 'company' to refer to a listed company. The majority of the recommendations are directed to the listed company as the parent company of a group. Many of the recommendations on control, supervision, and reporting, as well as the associated rationale, however, apply to the company's entire group. For the avoidance of doubt, certain sections of the Corporate Governance Code expressly mention either the group or the companies belonging to the group.

The Corporate Governance Code uses the term 'publish' to refer to the provision of information specifically by means of stock exchange releases. For the other ways of disseminating information, the Corporate Governance Code uses the terms 'report', 'disclose', and 'make available'. In these cases, the rationale for the recommendation in question also includes more detailed guidance on the manner in which the information is to be disseminated, such as in the Corporate Governance Statement or the Remuneration Statement, or on the company's website. All guidance relating to the dissemination of information is compiled into a separate reporting section.

- 1 The official name of the Helsinki Stock Exchange after the change that is due to take effect on or about 1 December 2015 (before the change, the official name is NASDAQ OMX Helsinki Ltd).
- 2 Rules of the Helsinki Stock Exchange, the rationale for Section 2.2.5: A company with a registered office in Finland follows the Finnish Corporate Governance Code, but a company with a registered office in a country other than Finland follows the corporate governance recommendations that are applied to it in its home state. If corporate governance recommendations are not applied to the company in its home state (no corporate governance recommendations exist in its home state), the company shall, as a rule, apply the Finnish Corporate Governance Code, unless the Exchange has, on special grounds, given the right to depart from this principle in accordance with Rule 2.2.7.3.
- 3 Section 7 of Chapter 7 of the Securities Markets Act and Section 7 of the Ministry of Finance Decree on the obligation of securities issuers to disclose periodic information.

Some of the recommendations impose an obligation on the company to 'establish' or 'define' a specific corporate governance practice or other policy, such as the terms of the managing director's service contract. In these cases, the information in question need not be published or otherwise be made available to investors, unless the reporting section expressly stipulates otherwise.

The English language translation of the Corporate Governance Code uses the term 'directors' to refer to the members of the company's board of directors.

### The 'Comply or Explain' Principle

The Corporate Governance Code is to be applied in accordance with the 'comply or explain' principle. Thus, the starting point is that the company shall comply with all recommendations of the Corporate Governance Code. The company may, however, depart from the specific recommendations, provided that it has good reasons for doing so. In these cases, the company shall, in accordance with the 'comply or explain' principle, report which recommendations it is departing from and why, as well as how the decision to depart from the recommendations was made. In other words, the company is deemed to be in compliance with the Corporate Governance Code even if it departs from individual recommendations, provided that the departures are reported and explained.

The 'comply or explain' principle is widely used internationally and gives the company more flexibility in the application of the Corporate Governance Code. Not all practices set out in the Corporate Governance Code apply equally well to all companies, and the recommendations of the Corporate Governance Code may not always lead to the best possible outcome in all individual cases. The company may adopt procedures that depart from the individual recommendations of the Corporate Governance Code due to e.g. the company's ownership structure or the special features of the company or its industry – provided that these alternative procedures are appropriate and sufficient in view of the company and its circumstances. The company may also introduce procedures that are stricter than those required under the Corporate Governance Code. The obligations included in the Corporate Governance Code therefore need to be evaluated separately in case of each company, having regard to the circumstances of the company and its shareholders. Any departures from the individual recommendations always need to be based on a careful evaluation, from the point of view of the company's

individual circumstances, and any departures need to be well justified and duly decided upon. Legislation may also place some restrictions on the ways in which companies may depart from the individual recommendations.

### Departures from the Recommendations

If a company departs from the individual recommendations of the Corporate Governance Code, the reasons given for the departure must be sufficiently clear and detailed, so as to allow the investors to evaluate the significance of such departures from the recommendations. An explanation that sets out the reasons for the departure in an open and comprehensive manner and outlines the alternative procedures chosen by the company is conducive to improving the interaction between the company and its shareholders and investors, as well as to build trust towards the company's chosen practice.

The following must be reported by the company **for each departure**:

- an explanation of the manner in which the company has departed from a recommendation;
- a description of the reasons for the departure;
- a description of how the decision to depart from the recommendation was taken within the company;
- where the departure is limited in time, an explanation of when the company envisages complying with a particular recommendation;
- where applicable, a description of the measure taken instead of compliance and an explanation of how that measure achieves the underlying objective of the specific recommendation or of the code as a whole, or a clarification of how it contributes to good corporate governance of the company.

The company shall provide information about its compliance with the Corporate Governance Code and any departures from it, including reasons therefor, on its website and in its annual CG Statement. The company's report by the board of directors shall also include a reference to the website on which information about compliance with the Corporate Governance Code and any departures from it can be found.

>> *See Corporate Governance Reporting, Section A – Corporate Governance Statement*

## Structure of the Corporate Governance Code

The Corporate Governance Code consists of three sections: i) introduction, ii) recommendations, and iii) reporting.

The **introduction** describes the objectives, structure, and the application of the Corporate Governance Code and explains the 'comply or explain' principle, which is applied to the recommendations. The introduction also includes an overview of the corporate governance model of Finnish listed companies.

The **recommendations** section that consists of individual recommendations is divided into separate subsections I-VI. Certain general principles relating to each category are discussed at the beginning of each subsection.

- **Individual recommendations** (1–28) are listed in chronological order in bold font. Departures from the individual recommendations and the reasons therefor shall be reported.
- Each individual recommendation is followed by its **rationale**, which explains the reasons behind the recommendation, provides descriptive and clarifying considerations to the recommendations and includes any relevant references to the reporting section. The rationale for individual recommendations also includes, for the applicable parts, a list of examples or voluntary procedures, in respect of which there is no obligation to disclose or explain the departures. Thus, the rationale of the recommendation does not contain an obligation of a recommendatory nature to comply, but departures from the actual recommendations must merely be reported and explained. The rationale of certain recommendations also includes references to the procedures that the company is under applicable laws bound to comply with.

The **reporting** section comprises two subsections

- Corporate governance reporting
- Remuneration reporting

Companies shall draw up the statements described in the reporting section (the Corporate Governance Statement and Remuneration Statement), and no departures from the reporting of the required information are allowed.

## Corporate Governance of Finnish Listed Companies

The Finnish corporate governance model is efficient and flexible. It is based on the principle of majority rule, which promotes a strong ownership role and is balanced out by the principle of equal treatment, qualified majority requirements, and the rights given to minority shareholders, as well as a clear division between the responsibilities of the company's governing bodies.

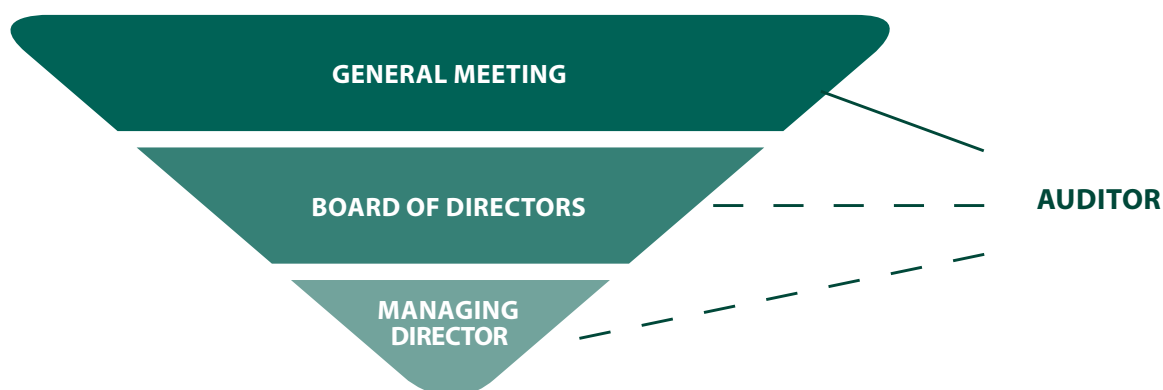
Good corporate governance of listed companies is based on a combination of laws and decrees issued on the basis of them, as well as self-regulation and other best practices. The most essential domestic legal provisions are included in the Limited Liability Companies Act, the Securities Markets Act, the Auditing Act, and the Accounting Act. Finnish listed companies are also bound by the EU-level regulations, as well as the Rules of the Helsinki Stock Exchange (including the Corporate Governance Code and the associated reporting requirements), as well as the regulations and guidelines issued by the Financial Supervisory Authority (FIN-FSA).

The most essential regulation, as far as the listed companies' corporate governance is concerned, is the Limited Liability Companies Act, which lays down the framework for the companies' organisation and operative arrangements.

The Limited Liability Companies Act defines, for example, the company's governing bodies, their roles and responsibilities, as well as their relation to each other.

The Limited Liability Companies Act is also essential from the point of view of the shareholders' rights. The Limited Liability Companies Act contains provisions on the rights associated with the shares and on the exercise of the rights, and it also contains the key principles of corporate law applied to corporate governance.

In addition to its strong principles, another central feature of the Limited Liability Companies Act is its extensively non-mandatory nature. Many of the provisions of the Limited Liability Companies Act are default provisions that companies may – subject to certain restrictions laid down by law – depart from by providing otherwise in their articles of association. The linking of the non-mandatory nature of the act to the express provisions in the articles of association well reflects the more general objective of the Limited Liability Companies Act to make corporate governance more transparent. This objective is particularly emphasised in the case of listed companies, which are further subject to the extensive reporting obligation under the Securities Markets Act.



*Almost all Finnish listed companies use the unitary board structure described in this section, in which the company's administration is the responsibility of the board of directors and the managing director. Companies may also have a two-tier structure in which a supervisory board supervises the governance of the company vested in the board of directors and the managing director. The provisions regarding a supervisory board must be included in the company's articles of association, which can also stipulate that the supervisory board shall elect the members of the board of directors instead of the general meeting. In the case of the latter, the company shall, under Recommendation 5, disclose and explain its departure from the standard board structure described in the code. The two-tier structure is not common among Finnish listed companies, which is why supervisory boards are not discussed in more detail in the Corporate Governance Code.*

## Governing Bodies and Auditor

The highest governing body of a company is the **general meeting**, in which the shareholders exercise their decision-making powers. An annual general meeting must be held once a year. Extraordinary general meetings must be held when requested by shareholders, when the shareholders demanding the handling of a given matter hold no less than 10% of the total number of the company's shares. Matters within the decision-making power of the general meetings include the matters provided for in law or the articles of association, such as the remuneration and appointment of directors and auditors, adoption of the company's financial statements, distribution of assets, discharge from liability of the executives, amendments to the articles of association, and decisions relating to the company's shares or share capital. Thus, the general meeting does not have general competence, unlike the company's board of directors. The board of directors has the right to refer matters falling within its general competence to the general meeting.

The **board of directors** shall see to the administration of the company and the appropriate organisation of its operations. The board of directors consists of directors appointed by the general meeting. The number of directors depends on the provisions of the company's articles of association and the general meeting's decisions and varies from one company to another. The boards of directors of Finnish listed companies usually consist of three to ten directors. The boards of directors of a majority of Finnish listed companies consist exclusively of directors who are not members of the company's operative management (non-executive directors).

The board of directors has an extensive general competence. The competence of the board of directors generally covers all matters that are not within the general meeting's powers or part of the general competence of the managing director. It is the duty of the board of directors to ensure that the company is duly organised and that the board of directors is kept up to date with the development of the company's circumstances and financial situation. The board of directors is responsible for the appropriate arrangement of the control of the company accounts and finances. The most essential tasks of the board of directors include appointing and discharging the managing director, deciding on the terms of the managing director's service contract, such as the remuneration, as well as defining the company's strategy and monitoring its implementation.

Furthermore, the most important business decisions, such as mergers and acquisitions, major contracts, investments, and financing arrangements fall under the general competence of the board of directors.

The Limited Liability Companies Act does not contain detailed provisions on the role of the **chairman of the board of directors**, and the duties of chairmen of the board of directors can therefore vary from one company to another. The chairman is responsible for ensuring that the board of directors convenes when necessary and that the decisions taken by the board of directors are documented. In other respects, the role or powers of the chairman do not differ from those of the other directors under the Limited Liability Companies Act. In practice, however, the role of the chairman of the board of directors is often considerably more extensive than that of the other directors in a listed company. The chairman of the board of directors is responsible for the organisation of the work of the board of directors. The chairman assists the managing director in his/her work and often represents the company in relation to important stakeholders. Depending on the company, the role of the chairman can, especially in strategically significant business transactions, be particularly important. The board of directors appoints a chairman amongst itself, unless the articles of association stipulate otherwise or a decision to the contrary is made when appointing the board of directors.

The board of directors can increase its efficiency by forming smaller compositions, **committees**, to take charge of certain specific tasks of the board of directors. The committees do not have a formal legal status or independent decision-making powers, and their role is to provide support in the preparation of the decision-making. The responsibility for the decisions remains with the board of directors even if the matter has been delegated to a committee. The most common committees in listed companies are audit committee, remuneration committee, and nomination committee, which are discussed in more detail in the Recommendation Section III of the Corporate Governance Code. In addition, the board of directors can also set up ad-hoc committees, for example, for the purpose of preparing for a major business transaction or in the event of conflicts of interests.

The board of directors has the power to appoint and discharge the **managing director**, who shall see to the daily administration of the company in accordance with the instructions and orders given by the board of directors. In listed companies, the managing director is responsible for the company's operative activities. In addition to the daily administrative tasks, the decisions of the board of directors are often based on the managing director's proposals, and the managing director is also responsible for their implementation. In practice, it is the managing director who organises the company's operations, negotiates and concludes major business arrangements, and represents the company. Pursuant to the Limited Liability Companies Act, the managing director shall see to it that the accounts of the company are in compliance with the law and that its financial administration has been arranged in a reliable manner.

Listed companies also have an **auditor**, who is elected by the general meeting. At least one of the auditors of a listed company must be an approved auditor within the meaning of the Auditing Act or an auditing firm that satisfies the requirements of the Auditing Act. Auditors play an important role as a controlling body elected by the shareholders. Through the audit, shareholders receive an impartial opinion of the company's financial statements and report by the board of directors, as well as of the company's accounts and administration.

## Communication with Shareholders

In Finland, it is an established view that a company should take a restrictive approach to disclosing information concerning the company to individual shareholders, unless the same information is available to all investors. The principle of equal treatment, insider regulation, directors' and executives' duties of confidentiality and loyalty, as well as for instance reasons related to competition law place restrictions on the provision and receipt of information about the company.

From the point of view of equality and equal treatment of shareholders, there is nothing to prevent an individual shareholder from sharing his or her views with the company's directors and executives, who may, in their discretion, take the information into account in their decision-making. It is another established view in Finland that in matters falling within the competence of the general meeting, it may be in the interests of the company and all of its shareholders that the board of directors is aware of the opinions of the shareholders with significant voting rights in the matter being prepared.

If the board of directors decides, after a careful evaluation of the situation, that it is possible and in the interests of the company to discuss with an individual shareholder and disclose information, the board of directors shall ensure that any subsequent decisions are taken in an appropriate manner considering the company and all of its shareholders. A clear definition of the procedures and individuals involved in the discussions support the pertinence of the decision-making of the board of directors.

## Key Features of Finnish Corporate Governance

PRINCIPLE OF MAJORITY RULE  
PRINCIPLE OF EQUAL TREATMENT

STRONG MINORITY RIGHTS

TRANSPARENCY

### The Principles of Majority Rule and Equal Treatment

The Finnish corporate governance model is based upon the strong principles set out in the Limited Liability Companies Act. Of these, one of the most central is the **principle of majority rule**, which promotes strong ownership role. According to the rule, decisions are based on the majority vote, unless otherwise provided for by law or the company's articles of association.

The **principle of equal treatment** balances out the principle of majority rule together with the more detailed minority protection provisions of the Limited Liability Companies Act. Pursuant to the principle of equal treatment, all shares carry equal rights in a company, unless otherwise stipulated in the company's articles of association. The general meeting, the board of directors, or the managing director may not make a decision or take measures that are conducive to conferring an undue benefit to a shareholder or another person at the expense of the company or another shareholder.

One of the main aims of the principle of equal treatment is to protect minority shareholders. Compliance with the principle does not prevent the use of the majority rule, but it prevents some shareholders from being favoured at the expense of others.

The duty of loyalty imposed on the executives under the Limited Liability Companies Act supports the principle of equal treatment in practice. The company directors and executives have an obligation to promote the interests of the company. Safeguarding the company's interests ultimately benefits all shareholders and helps the company achieve its purpose, which is to generate profit for its shareholders. This purpose can only be departed from if a provision to this end is included in the articles of association.

### ***Strong Minority Rights***

#### **Decisions That Are Based on a Qualified Majority and Decisions That Require Consent**

As a rule, a proposal that is supported by more than half of the votes cast shall constitute the decision of the general meeting. Pursuant to the Limited Liability Companies Act, certain decisions – such as decisions to amend the articles of association and decisions on directed share issues – nevertheless require a qualified majority of two-thirds of the votes cast and represented at the meeting. Moreover, the Limited Liability Companies Act provides that specific shareholders or all shareholders must consent to a decision limiting the rights arising from shares or increasing the obligations of shareholders.

#### **Rights of Shareholders Owning No Less Than 10% of the Company's Shares**

Shareholders who hold no less than 10% of the company's shares may, subject to certain conditions,

- demand that an extraordinary general meeting be called to address a specific issue;
- demand that a minority dividend be distributed;
- demand that decisions concerning the adoption of the company's financial statements, the distribution of assets and the discharge from liability of the directors and managing director be deferred to a continuation meeting;
- bring an action against the company's directors, the managing director, or another shareholder for the payment of damages to the company; and
- propose that a special audit be carried out (in addition to the support of a sufficient number of votes at the general meeting, this also requires that the Regional State Administrative Agency approves the application for the special audit).

#### **Right to Request Information and Submit Draft Resolutions**

Every shareholder has the right to request information about any of the items on the agenda of a general meeting. At the annual general meeting, the right to request information covers the company's financial situation on a more general level. Shareholders also have the right to submit proposals for decisions that fall within the competence of the general meeting and that are on the agenda of that meeting.

Shareholders have the right to have a matter falling within the competence of the general meeting dealt with by the general meeting, provided that the shareholder so demands in writing from the board of directors well in advance, so that the matter can be included in the meeting notice (**RECOMMENDATION 2**).

### ***Transparency***

The corporate governance of Finnish listed companies is characterised by openness and transparency, which is evidenced, for example, by the reporting of information relating to remuneration. Transparency is conducive to increasing interaction between investors and companies and build trust in the company. The Corporate Governance Code strives for its part to promote and maintain the high quality, international comparability, and openness of the corporate governance practices applied by listed companies. Transparency increases flexibility and efficiency. It gives companies more leeway to follow procedures that depart from the Corporate Governance Code but which are sound and carefully reasoned from the point of view of the company.



# I GENERAL MEETING

*Shareholders exercise their decision-making power at the general meeting, where they have the right to speak, ask questions, and vote. The general meeting shall be organised in a manner that allows shareholders to exercise their ownership rights effectively. General meeting procedures shall promote the objective of general meetings and enable active participation and decision-making by shareholders on matters included in the agenda of the general meeting in an appropriate and reliable manner and based on sufficient information.*

*The general meeting shall be organised in a manner that allows shareholders to participate in the general meeting as extensively as possible. The shareholders' ability to participate in the general meetings vary, particularly in companies that have an international ownership structure. The company shall use all reasonable means to encourage shareholders' participation. Participation can be encouraged by taking into account the shareholder's right to use proxy representatives, the advance voting instructions, and the company's possibility, in its discretion, to make use of telecommunications or other technical facilities to support shareholders' participation in the meetings.*

*In addition to the provisions of the Limited Liability Companies Act, provisions on general meetings can also be included in the company's articles of association. The Advisory Board of Finnish Listed Companies has published templates for a notice of the general meeting and notice in a newspaper, as well as for minutes of the general meetings. The Advisory Board has also issued guidelines on certain procedures related to general meetings of listed companies.<sup>1</sup>*

<sup>1</sup> <http://cgfinland.fi/en/advisory-board-of-finnish-listed-companies>

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

### RECOMMENDATION 1 – Notice of the General Meeting and Proposals for Resolutions

In addition to what is provided by law and in the company's articles of association, a notice of the general meeting shall include the following proposals (if the relevant item is included in the agenda of the meeting):

- proposal concerning the composition of the board of directors;
- the specific procedure, if any, according to which the directors are to be appointed pursuant to Section 9 of Chapter 6 of the Limited Liability Companies Act;
- proposal concerning the remuneration of the directors; and
- proposals concerning the election of auditors.

Any proposals submitted by shareholders concerning the composition and remuneration of the board of directors and the election of auditors shall be included in the notice of the general meeting provided that

- the shareholder(s) who submitted the proposal represent(s) no less than 10% of the votes conferred by the company's shares;
- the candidates have consented to the appointment; and
- the proposal was submitted to the company in such a manner that it can be included in the meeting notice.

Any similar proposals submitted by the shareholders representing no less than 10% of the company's shares after the publication of the notice of the general meeting, must be published separately.

### RATIONALE

Shareholders must be provided with sufficient information about the items on the agenda before the general meeting. Advance information gives the shareholders an opportunity to evaluate whether they wish to participate in the general meeting and to ask questions at the meeting, as well as to decide on how they intend to vote. This allows even those shareholders who do not participate in the meeting to receive information about the company. The matters to be dealt with at the meeting will be presented in an agenda attached to the notice of the general meeting.<sup>1</sup>

The election of the board of directors is an important decision for the shareholders. Thus, it is important that the shareholders are notified of the proposed composition of the board of directors well in advance of the relevant general meeting. A proposal for the composition and remuneration of the board of directors must be included in the notice of the general meeting, regardless of the procedure applied by the company in the preparation of the composition and remuneration of the board of directors and regardless

of whether any shareholders have submitted proposals relating to the matter before the publication of the notice of the general meeting. The procedures applied in the nomination of individuals for directorship are discussed in more detail in **RECOMMENDATION 7**. If a proposal is not available before the notice of the general meeting is issued, the company shall report and give reasons for the departure from the recommendation.

The biographical details of all candidates must be published on the company's website. The publication of the candidates' biographical details on the company's website allows the shareholders to form an opinion on the proposed composition of the board of directors, especially with regard to new director candidates. In the same connection, the company may also provide information about the independence of the candidates (**RATIONALE FOR RECOMMENDATION 10**), when it is appropriate to provide such information.

<sup>1</sup> The Advisory Board of Finnish Listed Companies has provided a model notice to the general meeting and template for a newspaper announcement, which take into consideration the relevant provisions of legislation and where appropriate guidance for nominee registered shareholders is included. (<http://cgfinland.fi/en/advisory-board-of-finnish-listed-companies>)

In addition to the proposals for resolutions expressly mentioned in this recommendation, all written proposals submitted to the company before the date of its general meeting and relating to the items on the agenda of that meeting must be published on the company's website. The proposals to the general meeting referred to herein include proposals made by the board of directors and other competent body, as well as proposals made by shareholders that fall within the competence of the general meeting. They do not include, for example, opinions expressed in advance concerning a specific item on the agenda without a concrete counter-proposal.

This recommendation is not intended to limit the shareholder's right to propose issues to be addressed at the general meeting (**RECOMMENDATION 2**) or the right to voice proposals at the general meeting on matters falling within its competence.

>> *See Corporate Governance Reporting, Section B – Other Information to Be Provided on the Company's Website*

### **RECOMMENDATION 2 – Shareholders' Proposals for Issues to Be Addressed at the General Meeting**

The Company shall disclose on its website the date by which a shareholder must notify the company's board of directors of an issue that he or she demands to be addressed at the general meeting. The date shall be published no later than by the end of the financial period preceding the general meeting.

#### **RATIONALE**

A shareholder has the right to have a matter falling within the competence of the general meeting under the Limited Liability Companies Act addressed by the general meeting. The decision-making related to the notice of the meeting and the practical measures related to the issuance of the notice require that the company has sufficient time to deal with the demands of shareholders on items to be put on the agenda of the general meeting. The Limited Liability Companies Act gives a company discretion to decide when to issue the notice of the general meeting.

To ensure efficient dissemination of information and to allow shareholders to prepare for the general meeting, it is important that the company informs well in advance on its website of the date by which a shareholder must make his or her demand known, so as to ensure that the company has time to process it before the issuance of the notice. Under the Limited Liability Companies Act, the date may not be earlier than four weeks prior to the issuance of the notice of the general meeting.

It is the duty of a shareholder to ensure that any matters demanded to be addressed at the general meeting are in compliance with the Limited Liability Companies Act and that they are sufficiently detailed in order for them to be included in the notice of the general meeting and be addressed at the general meeting. The shareholder who made the demand, also has the duty to ensure that a proposal for a resolution on the basis of which the matter can be resolved, is submitted to the general meeting.

The relevant date and instructions on the email or postal address to which the shareholder's demand should be sent will be published on the company's website, as well as in the events calendar.

>> *See Corporate Governance Reporting, Section B – Other Information to Be Provided on the Company's Website*

**RECOMMENDATION 3 – Attendance at the General Meeting**

The chairman of the board of directors, directors, and the managing director shall be present at the general meeting.

The auditor shall be present at the annual general meeting.

Director candidates shall be present at the general meeting deciding on their election.

**RATIONALE**

The presence of the directors, members of the board committees, and the managing director at the general meeting is necessary in particular for the purpose of ensuring the interaction between the company's shareholders and executives as well as the shareholders' right to ask questions.

By exercising their right to ask questions, the shareholders can obtain more detailed information about matters that may have an impact on the evaluation of the company's financial statements or financial position or any other issues on the agenda of the general meeting. It is particularly important that the directors and the managing director attend the annual general meeting. In an extraordinary general meeting, it may be sufficient, considering the nature of the matter to be dealt with and the fulfilment of the shareholders' right to ask questions, that the managing director, chairman of the board of directors, and at least a qualified majority of the directors attend the meeting.

The presence of the auditor at the annual general meetings allows the shareholders to ask the auditor for more detailed information on matters that may have an impact on the evaluation of the financial statements or other issues on the agenda of the meeting. In case of the company's auditor being an auditing firm, it is the auditor-in-charge to whom the requirement to be present relates. When organising an extraordinary general meeting, a company should seek to ensure that the auditor is present, for instance, if the matters to be discussed include the adoption of interim financial statements, merger, or another procedure regarding which the auditor has submitted a report.

The presence of the director candidates at the general meeting in which their appointment is decided upon is important so that they can be introduced to the company's shareholders.

If one or more persons fail to attend the general meeting pursuant to the recommendation, it is sufficient that the company notifies the general meeting of such non-attendance, in which case the non-attendance need not be reported as a departure from the code.

**RECOMMENDATION 4 – Archive of the General Meeting Documents**

General meeting documents shall be kept on the company's website for a period of no less than five years from the general meeting in question.

**RATIONALE**

Making the general meeting documents subsequently available to shareholders on the company's website promotes the effective exercise of the shareholders' rights. Publishing the minutes of the general meetings and the voting results on the company's website also allows those shareholders who did not participate in the meeting to be informed of the events of the general meeting and the outcome of the vote. Furthermore, the possibility to familiarise themselves with the general meeting documents of the previous years also promotes the shareholders' effective preparation for the meetings.

General meeting documents consist, in addition to the notice of the meeting and the proposals issued by the company, at least of the minutes of the general meeting, including the voting results and any appropriate appendices (either per se or with reference to another document elsewhere). In accordance with the Limited Liability Companies Act, the minutes of the general meeting shall be made available on the company's website within two weeks of the general meeting. However, lists of participants, proxy documents, and shareholders' voting instructions are not among the documents that need to be published on the company's website.

>> *See Corporate Governance Reporting, Section B – Other Information to Be Provided the Company's Website*

## II BOARD OF DIRECTORS

*The company's board of directors is responsible for the administration and the proper organisation of the operations of the company. The board of directors appoints and discharges the managing director, approves the strategic objectives and the principles of risk management for the company, and ensures the proper operation and supervision of the management system. The board of directors also ensures that the company has established the corporate values applied to its operations.*

*The duty of the board of directors is to promote the best interest of the company and all its shareholders. A director does not represent the interests of the parties who have proposed his or her election as a director.*

*The boards of directors of Finnish listed companies mainly consist of non-executive directors. A non-executive director is a person with no employment or service contract with the company. In some companies, the managing director is a member of the board of directors.*

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

**RECOMMENDATION 5 – Election of the Board of Directors**

The general meeting shall elect the board of directors.

**RATIONALE**

By electing the board of directors, the shareholders directly and efficiently contribute to the administration of the company and thereby to the operation of the entire company. It is therefore justified that the general meeting elects the board of directors even when the company has a supervisory board. Any provisions of the company's articles of association that depart from this recommendation shall be disclosed as departures.

The articles of association may provide that less than half of the directors are to be appointed following a procedure other than election by the general meeting. The special appointment procedure may, for instance, concern the employees' right to appoint directors to the board of directors. Information about any appointment procedure that departs from the recommendation shall also be included in the notice of the general meeting in accordance with **RECOMMENDATION 1**.

**RECOMMENDATION 6 – Term of Office of the Board of Directors**

The board of directors shall be elected annually at the annual general meeting.

**RATIONALE**

Shareholders shall have the possibility to evaluate the performance of the board of directors and the directors on a regular basis. Good corporate governance requires that the entire board of directors is elected annually at the annual general meeting. Any provisions of the company's articles of association that depart from this recommendation shall be disclosed as departures.

### RECOMMENDATION 7 – Preparation of the Proposal for the Composition of the Board of Directors

The company shall disclose the procedure applied in the preparation of the proposal for the composition of the board of directors.

#### RATIONALE

The election of the board of directors is one of the most important decisions taken in the general meeting. The transparency of the procedure applied in preparing the proposal for the composition of the board of directors provides shareholders with information and supports the preparation for the general meeting. The proposal for the composition of the board of directors may, for example, be prepared

- by the board of directors or a separate committee of the directors (nomination committee); or
- by a board appointed by the general meeting and which consists of individuals other than directors, for instance, of representatives of the company's largest shareholders (shareholders' nomination board); or
- by the major shareholders of the company.

Nomination committees and shareholders' nomination boards are addressed in **RECOMMENDATIONS 18A** and **18B**. The company shall assess the best preparation procedure for its own purposes.

The company shall disclose the procedure applied in the preparation of the proposal for the composition of the board of directors. In addition, the company may, at its own discretion, also otherwise describe the practices applied in the preparation of the proposal.

The procedure disclosed by the company shall not restrict the shareholders' right to make proposals concerning the composition or remuneration of the board of directors.

*>> See Corporate Governance Reporting, Section B – Other Information to Be Provided on the Company's Website*

### RECOMMENDATION 8 – Composition of the Board of Directors

The composition of the company's board of directors shall reflect the requirements set by the company's operations and development stage.

A person elected as a director must have the competence required by the position and the possibility to devote a sufficient amount of time to attending to the duties. The number of directors and the composition of the board of directors shall be such that they enable the board of directors to see to its duties efficiently. Both genders shall be represented in the board of directors.

#### RATIONALE

With regard to the duties and efficient operation of the board of directors, the board of directors shall have a sufficient number of directors. The directors shall also have sufficient and versatile expertise as well as mutually complementary experience and knowledge of the industry.

The successful discharge of the duties of the board of directors requires knowledge of business operations or the different areas thereof. The directors shall also have the possibility to familiarise themselves with the company matters in the required extent. The directors, and the



chairman in particular, are often required to perform a considerable amount of work in addition to attending to the board meetings. When assessing the sufficiency of the time an individual director is able to devote to the duties of a director, the director's main occupation, secondary occupations, and simultaneous board memberships and positions of trust, *inter alia*, shall be taken into account. Individuals who have been proposed as directors shall, in confidence and as instructed by the company, provide

the information required to assess their competence and the amount of time they can devote to the task. This information shall be provided to the body in charge of the proposals for the composition of the board of directors in accordance with **RECOMMENDATION 7**.

Having both genders represented in the board of directors is one element of a diverse board composition.

### RECOMMENDATION 9 – Diversity of the Board of Directors

The company shall establish principles concerning the diversity of the board of directors.

#### RATIONALE

Diversity of the board of directors supports the company's business operations and development. Diversity of the knowhow, experience, and opinions of the directors promotes the ability to have an open-minded approach to innovative ideas and also the ability to support and challenge the company's operative management. Adequate diversity promotes open discussion and independent decision-making. Diversity also promotes good corporate governance, efficient supervision of the company's directors and executives, as well as succession planning.

The company shall establish the principles on diversity for its own purposes, taking into account the scale of its business operations and the requirements of its development stage. Factors to be taken into account when establishing the principles on diversity may include, for example, age

and gender as well as occupational, educational, and international background. The company shall decide the matters to be incorporated into its diversity principles and the objectives included therein on the basis of its own circumstances. Decisions on the election of directors shall always be made at the general meeting.

The company can decide the extent in which the principles concerning diversity are disclosed. However, the information disclosed shall always include at least the objectives relating to both genders being represented in the company's board of directors, the means to achieve the objectives, and an account of the progress in achieving the objectives.

>> *See Corporate Governance Reporting, Section A – Corporate Governance Statement*

**RECOMMENDATION 10 – Independence of Directors**

The board of directors shall evaluate the independence of the directors. The majority of the directors shall be independent of the company. At least two directors who are independent of the company shall also be independent of the significant shareholders of the company.

***Independence of the Company***

A director is not independent of the company if

- a) the director has an employment relationship or service contract with the company;
- b) the director has had an employment relationship or service contract with the company in the last three years, and such employment relationship or service contract has not been temporary;
- c) the director receives, or has received during the past year, not insignificant remuneration for services not connected to the duties of a director, e.g. consulting assignments, from the company or members of the company's operative management;
- d) the director belongs to the operative management of another corporation which has or has had during the past year a customer, supplier or cooperation relationship with the company, and such relationship is or has been significant to the other corporation;
- e) the director is, or has been in the past three years, the auditor of the company, a partner or an employee of the present auditor, or a partner or an employee in an audit firm that has been the company's auditor in the past three years; or
- f) the director belongs to the operative management of another company whose director is a member of the operative management of the company (interlocking control relationship).

***Independence of Major Shareholders***

A significant shareholder is a shareholder who holds at least 10% of all company shares or the votes carried by all the shares, or who has the right or obligation to acquire the corresponding number of already issued shares.

A director is not independent of a significant shareholder if

- g) the director is a significant shareholder of the company or a director of a significant shareholder, or has a relationship such as referred to in sub-sections a) - b) above with a significant shareholder; or
- h) the director exercises direct or indirect control in a significant shareholder or is a director of a significant shareholder, or the director has a relationship such as referred to in sub-sections a) - b) above with a party who exercises direct or indirect control in a significant shareholder.

***Overall Evaluation***

In addition to the above-mentioned criteria, the board of directors may, based on an overall evaluation, determine that a director is not independent of the company or a significant shareholder. The following factors, *inter alia*, shall be taken into account when conducting the overall evaluation of independence:

- i) the director participates in the same performance-related or share-based remuneration scheme as the operative management of the company, which may be of substantial financial significance to the director;
- j) the director has served as a director for more than 10 consecutive years;
- k) a member of the director's family or a private or legal person closely related to the director is subject to circumstances such as described in this recommendation; or
- l) the company is aware of other factors that may compromise the independence of the director and the director's ability to represent all shareholders.

**RATIONALE**

The duty of the board of directors is to supervise and control the managing director of the company. In order to avoid conflicts of interest, the majority of the directors should not have an interdependent relationship with the company. Although it is recommended that directors hold shares in the company, the majority of directors, consisting of independent directors, shall include at least two directors who are also independent of significant shareholders of the company. Such composition of the board of directors supports the objective that the board of directors shall act in the interests of the company and all of its shareholders.

**Access to Information and Procedures**

Each director shall provide the board of directors with sufficient information so as to allow the board of directors to evaluate his/her independence. Each director shall also notify the board of directors of any changes in factors that may affect his/her independence and express his/her own opinion of his/her independence.

The board of directors shall evaluate the independence of the directors and disclose which directors are independent of the company and which are independent of the significant shareholders. The board of directors shall re-evaluate the situation every year, and the evaluation shall be included in the company's Corporate Governance Statement. An updated evaluation shall be published on the company's website if factors affecting the independence of a director change during the year.

>> See *Corporate Governance Reporting, Sections A and B*

Individuals who have been proposed as directors shall, in confidence and as instructed by the company, provide the information required to evaluate their independence and also their own assessment of their independence. This information and assessment shall be provided to the body in charge of preparing the proposal for the composition of the board of directors in accordance with **RECOMMENDATION 7**.

**Absoluteness of the Independence Criteria and Factors to Be Taken into Account in the Evaluation**

The evaluation of independence shall be based on a director-specific overall evaluation that takes into account the information provided by the director and the independence factors referred to in the recommendation.

The criteria listed in sub-sections a) - h) of the recommendation are absolute in that the existence of even one of the circumstances cited in sub-sections a) - f) means that the director cannot be regarded as being independent of the company. Similarly, the presence of any of the circumstances cited in sub-sections g) - h) means that the director cannot be regarded as being independent of a significant shareholder.

In addition to the absolute criteria, the board of directors may, based on an overall evaluation, determine that the director is not independent of the company or a significant shareholder (considering, for example, the factors addressed in sub-sections i) to l)).

The following factors shall be taken into account in the interpretation of the criteria:

- 'Operative management' refers to the managing director and the other executives as defined in **RECOMMENDATION 21**;
- The term 'company' used in **sub-sections a) - e)** also covers companies that belong to the same group as the listed company. In **sub-sections f) - h)**, 'company' refers to the listed company only. With regard to **sub-section f)**, any interlocking control relationship concerning companies belonging to the same group as the relevant listed companies shall be taken into account as a factor affecting the overall evaluation;
- In **sub-sections a) - b)**, 'service contract' refers primarily to the managing director and the chairman of the board of directors if he/she has an employment relationship or service contract with the company;
- In the context of **sub-section b)**, 'employment relationship or service contract' shall never be considered temporary if the individual in question has held his/her position for more than one year;

- The amount and significance of 'remuneration' referred to in **sub-section c)** shall be evaluated from the perspective of the director in question, and the evaluation shall also take into account any remuneration received via a company in which the director is an owner or exercises influence otherwise (such as a company that provides consultancy or expert services);
- The effect of a director's long service history (in excess of 10 consecutive years) referred to in **sub-section j)** on his/her independence shall be evaluated at regular intervals as part of the overall evaluation, i.e. at least once a year. The evaluation shall be based on the actual circumstances from both the perspective of the company and the director in question. The evaluation is all the more significant if a director who has served as a director for more than 10 consecutive years is not dependent of significant shareholders; and
- In the context of **sub-section k)**, a private or legal person is 'closely related' to a director if the person is able to exercise significant influence on the financial and business-related decisions of the other (i.e. the director relative to a private or legal person, or *vice versa*). When evaluating the circumstances referred to in **sub-section k)**, regard shall be had to the nature of the criterion as a part of the overall evaluation.

### RECOMMENDATION 11 – Charter of the Board of Directors

The board of directors shall draw up a written charter for its work.

#### RATIONALE

Efficient board work requires that the main duties and working principles are defined in a written charter, the key contents of which shall be reported. The information provided in the charter allows, for its part, the shareholders to evaluate the operations of the board of directors

>> *See Corporate Governance Reporting, Section A – Corporate Governance Statement*

**RECOMMENDATION 12 – Right of Board of Directors to Receive Information**

The company shall ensure that all directors have access to sufficient information about the company's business operations, operating environment, and financial position, and that new directors are properly introduced to the operations of the company.

**RATIONALE**

In order to see to its duties, the board of directors needs information about the company's structure, business operations, and operating environment, and also the company's market and financial position. By virtue of the Limited Liability Companies Act, the managing director has a duty to provide the board of directors and the directors with any information that the board of directors may need in order to see to its duties.

The company shall choose procedures that promote the board of directors' access to sufficient and timely information. A new director's adequate familiarisation with the company and its business operations and practices supports the beginning of the board work in the company and, simultaneously, the efficient work of the entire board of directors.

**RECOMMENDATION 13 – Performance Evaluation of the Board of Directors**

The board of directors shall conduct an annual evaluation of its operations and working methods.

**RATIONALE**

Board work requires a considerable amount of work from the directors. In addition to attending the meetings, a significant part of board work consists of preparing for the meetings, committee work, familiarisation with the company's business operations and operating environment, and monitoring of the operations of the company.

In order to ensure the efficiency and continuity of its work, the board of directors shall make sure that its operations and working methods are evaluated regularly. The evaluation may be carried out in the form of an internal self-evaluation. Using an external evaluator at intervals and in the extent deemed necessary by the company may provide new and more objective perspectives.

The evaluation may focus on, for example, the composition of the board of directors, the organisation and effectiveness of the board of directors as a team, the meeting preparations, cooperation with the managing director, and the competence, special expertise, and efficiency of each director and the board of directors as

a whole. The evaluation may also include an assessment on how successfully the board of directors has operated in relation to the set objectives. It may also be justified to conduct similar evaluations of the committees of the board of directors.

The company has a duty to ensure that the findings of such evaluations are provided, in confidence, to the body in charge of the proposal for the composition of the board of directors as set forth in **RECOMMENDATION 7** insofar as the findings may affect the planning of the preparation concerning the composition of the board of directors.

The company shall disclose the number of board meetings held during the financial period and the meeting attendance of each director.

>> See *Corporate Governance Reporting, Section A – Corporate Governance Statement*

## III COMMITTEES

### Overview

*The preparation of matters within the competence of the board of directors may be made more efficient by the establishment of board committees allowing more extensive concentration on matters. Decisions on the establishment of board committees are taken by the board of directors, unless otherwise stipulated in the company's articles of association. The establishment of board committees may be necessary, in particular for the supervision of the company's reporting and control systems and the nomination of the executives, as well as for the development of the company's remuneration systems. The committees assist the board of directors by preparing matters falling within the competence of the board of directors. The board of directors remains responsible for the duties assigned to the committees. The committees have no autonomous decision-making power, and the decisions within its competence are taken collectively by the board of directors.*

**RECOMMENDATIONS 14 TO 18(A)** discuss the establishment and the duties of three committees (audit committee, remuneration committee, and nomination committee). **RECOMMENDATIONS 14 TO 15** apply to all committees and **RECOMMENDATIONS 16 TO 18(A)** to specific committees. If necessary, the board of directors may also establish other committees, combine the duties assigned to different committees, or decide that a certain matter be prepared by the entire board of directors. Moreover, the general meeting may choose to establish a shareholders' nomination board (or the articles of association may contain a stipulation on the shareholders' nomination board). The shareholders' nomination board is discussed in more detail in **RECOMMENDATION 18(B)**.

*Companies do not have an obligation under the Corporate Governance Code to establish committees or a shareholders' nomination board. As the establishment of the committees is not obligatory, the lack of committees is not deemed to be a departure from the code and therefore there is no need to report or explain it. Thus, the recommendations on board committees and shareholders' nomination board are only applicable to companies that have committees or a shareholders' nomination board. If a company establishes a committee or a shareholders' nomination board and departs from an individual recommendation regarding it, the company shall report the departure and give reasons for it. However, it is not considered a departure from the code if the company chooses to combine the duties of two committees into a single committee, provided that the recommendations pertaining to the committees in question are complied with, or if the duties of one or more committees are dealt with by the entire board of directors.*

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

**Audit Committee**

*By way of derogation from the above, mandatory legislation provides that a company must either have an audit committee or that the mandatory duties of an audit committee are discharged by the entire board of directors or that these duties must be delegated to another governing body of the company.*

**Nomination Committee and Shareholders' Nomination Board**

*It is important to analyse the experience, skills, and independence of individuals and candidates proposed as directors to the company's board of directors for the purpose of ensuring the appropriate composition and continuity of the board of directors. A well-organised practice that follows the procedure disclosed by the company increases the transparency of the preparation process.*

*According to **RECOMMENDATION 7**, proposals concerning the election of directors can be prepared by the board of directors, by a separate nomination committee consisting of directors, or by the shareholders' nomination board consisting, for example, of representatives appointed by the company's largest shareholders and possibly also directors. In addition to these, the company's shareholders can propose individuals as directors. The company shall choose the procedure it deems best, and the code does not comment on which procedure is the most expedient for individual companies.*

**RECOMMENDATION 14 – Establishment of Committees**

The board of directors shall decide on the establishment of committees, unless the articles of association stipulate otherwise. The board of directors shall confirm the main duties and operating principles of each committee in a written charter. The committee shall regularly report on its work to the board of directors.

**RATIONALE**

The role of the committee within the company shall be determined in a written charter. The duties and operating principles shall be defined in a manner allowing the committee to operate efficiently. The material content of the charter shall be disclosed.

>> *See Corporate Governance Reporting, Section A – Corporate Governance Statement*

A committee shall regularly report on its work to the board of directors. The board of directors may define the details and schedule of the reporting by the committee to the board of directors. The reports shall include at least a summary of the matters addressed and measures taken by the committee.



**RECOMMENDATION 15 – Appointment of Members to Committees**

The board of directors shall appoint from among itself the members and chairman of the committee. The committee must have at least three members. The members of the committee shall have the expertise and experience required for the duties of the committee.

**RATIONALE**

As the committees are acting as support for the board of directors and prepare matters falling within the competence of the board of directors, the board of directors shall appoint the members of the committees from among the directors. Although the members of the committee are elected from among the directors, the committee may also invite, in addition to the representatives of the company, external experts to its meetings, when necessary.

The fact that a board of directors only has few directors may be a reason to depart from the recommendation regarding the minimum number of members. Thus, a committee may, in exceptional cases, consist of two members, in which case the departure from the recommendation must be reported by the company.

The company shall report the composition of the committee, the number of the committee meetings held during the financial period, and the attendance of each committee member at the meetings. On the basis of the information regarding the committee members, the shareholders are able to evaluate the relationship of the committee members to the company as well as the conditions for the efficiency of the committee work. On the basis of the information regarding the number of the committee meetings and the attendance of the members, the shareholders are able to evaluate the committee work. The attendance of the members at the committee meetings shall be reported separately for each individual member.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

**RECOMMENDATION 16 – Audit Committee**

The board of directors may establish an audit committee to deal with the preparation of matters relating to the company's financial reporting and control. A company shall establish an audit committee, if the extent of the company's business requires that the preparation of the matters pertaining to financial reporting and control be done by a body smaller than the entire board of directors.

The majority of the members of an audit committee must be independent of the company and at least one member shall be independent of the company's significant shareholders.

The members of the audit committee must have the expertise and experience required for the performance of the responsibilities of the audit committee.

**RATIONALE**

According to the legislation,<sup>1</sup> listed companies must have a governing body that

- monitors the reporting process of financial statement reporting;
- monitors the efficiency of the company's internal control, internal audit, if applicable, and risk management systems;
- reviews the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement;
- monitors the statutory audit of the financial statements and consolidated financial statements; and
- evaluates the independence of the statutory auditor or auditing firm, particularly the provision of related services to the company.

The legislation is based on the idea that an audit committee is responsible for the aforementioned mandatory duties. If the company has no audit committee, the law requires that the duties of the audit committee be discharged by the entire board of directors or that the company delegate them to another governing body.

The need to establish an audit committee shall be assessed by the board of directors from the perspective of the company. The audit committee is in a better position than the entire board of directors to review questions pertaining to the company finances and control and to take care of the communication with the auditors and the internal audit function.

Thus, in principle, all companies should have an audit committee, but under the recommendation, no audit committee needs to be established in companies in which the establishment of one would not be expedient due to, for example, the nature of the company's business, the stage of the company's development, the size of the company, or the composition of the company's board of directors. The lack of an audit committee is not deemed to constitute a departure from the code, provided that the duties of the audit committee are discharged, under mandatory legislation, by the company's entire board of directors or another governing body appointed by the board of directors.

Legislation requires that the Corporate Governance Statement issued by the company must include a description of the composition and operations of the governing body responsible for the aforementioned mandatory duties.<sup>2</sup>

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

<sup>1</sup> Decree of the Ministry of Finance on the obligation of securities issuers to disclose periodic information (1020/2012), Government Bill 194/2006, Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006. In addition, the following directives and regulations shall be taken into account: Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts as well as Regulation (EC) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities and repealing Commission Decision 2005/909/EC. The new EU-level legislation will increase the amount of mandatory tasks of audit committees. The changes necessitated by the amendments in the EU legislation with regard to auditing, the drawing up of financial statements, and the duties of an audit committee are not reflected beforehand in the current version of the Corporate Governance Code. These changes are expected to enter into force as of 2017.

<sup>2</sup> Decree of the Ministry of Finance on the obligation of securities issuers to disclose periodic information (1020/2012), Section 7.

### Other Duties of the Audit Committee

In addition to the aforementioned statutory duties, the duties of the company's audit committee may also comprise, for example, the following:

- monitoring of the financial position of the company;
- supervision of the financial reporting process and risk management process;
- approval of the operating instructions for internal audit;
- revision of the plans and report of the internal audit function;
- evaluation of the processes aimed at ensuring compliance with laws and regulations;
- communication with the company's auditor;
- revision of the reports prepared by the auditor for the audit committee;
- preparation of a proposal for the election of auditors;
- monitoring of the company's credit position and taxation;
- monitoring of the significant financial, credit, and tax risks;
- monitoring of the processes and risks relating to IT security;
- review of the company's Corporate Governance Statements; and
- resolution and monitoring of any special questions allocated by the board of directors and falling within the competence of the audit committee (such as questions relating to the company's procedures and/or specific risks).

The duties of the audit committee must be reported in the same manner as the duties of the other committees.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

### Expertise and Composition of the Audit Committee

The legislation requires that at least one member of the company's audit committee must be an independent individual with special expertise in accounting, bookkeeping, or auditing.

The range of duties of the audit committee is wide. The versatile and mutually complementary expertise, competence, and business administration experience of the audit committee members contribute to the audit committee's ability to support and challenge the company's operative management in matters falling within the audit committee's competence. The audit committee shall, as a whole, and taking into account the mutually complementary expertise, competence, and industry knowledge of its members, have sufficient expertise and experience of matters forming part of the audit committee's duties and of the company's operating environment.

Due to the nature of the matters dealt with by audit committees, the majority of the members of the audit committee must be independent of the company as provided for in **RECOMMENDATION 10** and at least one member must be independent of the company's significant shareholders.

**RECOMMENDATION 17 – Remuneration Committee**

The board of directors may establish a remuneration committee to prepare matters pertaining to the remuneration and appointment of the managing director and the other executives as well as the remuneration principles observed by the company.

The majority of the members of the remuneration committee shall be independent of the company. The managing director or the other executives of the company shall not be appointed to the remuneration committee.

**RATIONALE**

The remuneration committee can focus on the development of the remuneration schemes of the managing director and the other executives, as well as the remuneration principles observed by the company, more efficiently than the entire board of directors. The establishment of the remuneration committee promotes the transparency and systematic functioning of the company's remuneration schemes, the development of the company's intellectual capital and of the competence of the organisation, as well as successor planning.

In addition to the preparation of matters pertaining to the remuneration and other financial benefits of the managing director, the duties of the remuneration committee may include, for example, the following:

- preparation of matters pertaining to the remuneration and other financial benefits of the other executives;
- preparation of matters pertaining to the remuneration schemes of the company;
- evaluation of the remuneration of the managing director and the other executives, as well as ensuring that the remuneration schemes are appropriate;
- answering questions related to the Remuneration Statement at the general meeting;
- preparation of matters pertaining to the appointment of the managing director and the other executives, as well as the identification of their potential successors; and
- planning of matters pertaining to the remuneration of other personnel and the development of the organisation.

The duties of the remuneration committee shall be disclosed in the same manner as the duties of other committees.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

The majority of the members of the committee shall be independent of the company. Neither the company's managing director nor the executive directors may be members of the committee.

When carrying out its duties, the remuneration committee shall act independently with relation to the operative management of the company. If the remuneration committee uses an external advisor to assist in carrying out its duties, the committee shall ensure that the advisor is not also advisor to the operative management in a manner that can result in a conflict of interest.

**RECOMMENDATION 18a – Nomination Committee**

The board of directors may establish a nomination committee to prepare matters pertaining to the appointment and remuneration of the board of directors.

The majority of the members of the nomination committee shall be independent of the company. The managing director or the other executives of the company shall not be appointed to the nomination committee.

**RATIONALE**

The board of directors may establish a nomination committee to improve the efficient preparation of matters pertaining to the appointment of the board of directors. The establishment of a nomination committee promotes the transparency and the systematic functioning of the election process.

The duties of the nomination committee may include, for example, the following:

- preparation of the proposal to the general meeting relating to the composition of the board of directors (the number of directors and the candidates);
- preparation of the proposal to the general meeting concerning the remuneration of the directors;
- identification of prospective successors for the directors; and
- presentation of the proposal relating to the composition of the board of directors at the general meeting.

The duties of the nomination committee shall be defined in the charter adopted for the committee, and they shall be disclosed in the same manner as the duties of the other committees.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

As the board of directors controls and supervises the operative management of the company, the majority of the members of the nomination committee, which prepares the election of the directors, must be independent of the company. Due to the nature of the matters addressed by the nomination committee, neither the managing director nor the executive directors may be members of the nomination committee.

It may be in the interests of the company and all its shareholders that the nomination committee is aware of the opinion of shareholders holding significant voting rights regarding the proposal for the appointment of directors which is being prepared.

The nomination committee is entitled to receive information on the factors affecting the evaluation of the independence of new candidates in accordance with **RECOMMENDATION 10** as well as on the findings of the evaluations concerning the board of directors' performance as set forth in **RECOMMENDATION 13**.

The proposal for the composition of the board of directors shall be disclosed no later than in the notice of the general meeting, as set forth in **RECOMMENDATION 1**. The nomination committee shall ensure that the proposal is presented at the general meeting.

**RECOMMENDATION 18b – Shareholders' Nomination Board**

The company's general meeting may establish a shareholders' nomination board to prepare matters pertaining to the appointment and remuneration of the board of directors. The shareholders' nomination board shall consist of the company's largest shareholders or persons appointed by the largest shareholders. The shareholders' nomination board may also include members of the board of directors.

**RATIONALE**

As an alternative to a nomination committee set up by the company's board of directors, the general meeting may resolve to establish a shareholders' nomination board and adopt the procedure for appointing its members. In addition to the company's largest shareholders and persons appointed by the same, the shareholders' nomination board may also include directors. Establishing a shareholders' nomination board can also be based on the company's articles of association.

The duties of the shareholders' nomination board may include, for example, the following:

- preparation of the proposal to the general meeting relating to the composition of the board of directors;
- preparation of the proposal to the general meeting concerning the remuneration of the directors;
- identification of prospective successors for the directors; and
- presentation of the proposal relating to the composition of the board of directors at the general meeting.

The shareholders' nomination board may not assume other responsibilities beyond those assigned to it in the charter adopted by the general meeting.

The process for electing the members and the chairman of the shareholders' nomination board, as well as the composition and the duties of the nomination board, shall be specified in the charter adopted for the nomination board, and they shall also be disclosed.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

Good corporate governance requires an unambiguous and transparent process for establishing the shareholders' nomination board, and such process shall also treat all shareholders equally. With regard to the appointment process, at least the procedure and cut-off date for determining the company's largest shareholders who have the right to nominate members to the shareholders' nomination board and the procedure for appointing the members must be reported. The term of office of the members may also be reported, along with information on whether the shareholders' nomination board is a permanent or a temporary one. With regard to the composition of the nomination board, the company shall report the members of the nomination board and whose nominees they are. Good corporate governance requires that holders of nominee-registered shares and shareholders whose holdings should, according to shareholding disclosure rules, be added together are also taken into account in the appointment process. Each company shall evaluate the need to issue more detailed instructions and to take practical measures from their own perspectives.

The shareholders' nomination board is entitled to receive, in confidence and subject to insider rules, information on the independence of the candidates (or, in the case of new candidates, on any factors that may affect their independence) in accordance with **RECOMMENDATION 10**, and on the findings of the evaluations concerning the board of directors' performance as set forth **RECOMMENDATION 13**, in so far as they may be relevant when planning the composition of the board of directors.

The proposal for the composition of the board of directors shall be disclosed no later than in the notice of the general meeting, as set forth in **RECOMMENDATION 1**. The shareholders' nomination board shall ensure that the proposal is presented at the general meeting.

## IV MANAGING DIRECTOR AND THE OTHER EXECUTIVES

*The operative management of the company is based on the organisation of the executives adopted for the company. The organisation of the executives is an important element of the company's corporate governance system.*

*The **managing director** is a corporate body that is in charge of the day-to-day management of the company in accordance with the instructions and orders issued by the board of directors. The board of directors appoints and discharges the managing director, decides on the financial benefits and other terms of the service, and supervises the operations of the managing director.*

*The managing director may undertake measures that are unusual or extensive, considering the scope and nature of the operations of the company, only with the authorisation of the board of directors. The managing director is responsible for ensuring that the company's accounting practices are in compliance with the law and that the financial matters are organised in a reliable manner.*

*The recommendations of the Corporate Governance Code relating to the managing director shall also be applied to the deputy managing director whenever the deputy managing director actually sees to the duties of the managing director.*

*The term **other executives** refers to the members of the management team of the company or its group or to the executives specified by the company if, for instance, the company does not have a management team.*

*The duties of the managing director are set forth in the Limited Liability Companies Act. The management team or the other executives as specified by the company have no official position in terms of corporate law.*

*Information to be provided with regard to the managing director and the other executives is set out in the Reporting section.*

*>> See Corporate Governance Reporting, Sections A and B and Remuneration Reporting, Sections A, B, and C*

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

**RECOMMENDATION 19 – Terms of the Managing Director’s Service Contract**

The terms of the managing director’s service shall be specified in writing in the managing director’s service contract, which shall be approved by the board of directors. The managing director’s service contract shall also specify the financial benefits of the service, including the managing director’s severance package and any other compensation.

**RATIONALE**

The position of the managing director in the company requires that the terms of the managing director’s service be specified in a written agreement approved by the board of directors.

The board of directors also approves the financial benefits of the service, including the managing director’s severance package and any other compensation. Compensation payable due to the termination of the managing director’s service contract includes salary for the period of notice as well as all other compensation that is based on the termination of the service contract.

The board of directors is responsible for ensuring that any financial benefits payable on the basis of the managing director’s service are acceptable from the company’s perspective. With regard to compensation payable due to the termination of the managing director’s service contract, it is rarely justified for the aggregate amount to exceed the fixed salary and benefits in kind from a two-year period.

Remuneration and benefits that have been agreed upon at the beginning or during the managing director’s service and that are based on the managing director’s work contribution prior to the end of the service are not considered to constitute compensation payable due to the termination of the service contract unless the payment of such compensation is expressly contingent on the termination of the service contract. Thus, for example, pension benefits agreed upon before the termination of the service contract are not included in compensation payable due to the termination of the service contract.

Financial benefits pursuant to the managing director’s service contract shall be disclosed in the Remuneration Statement.

*>> See Remuneration Reporting, Section B – Main Principles of Remuneration*



**RECOMMENDATION 20 – Restriction Concerning the Managing Director**

The managing director shall not be elected chairman of the board of directors.

**RATIONALE**

The election of the managing director as the chairman of the board of directors has been restricted, as it is the duty of the board of directors to supervise the managing director.

The company should clearly divide the areas of responsibility of the managing director and the chairman of the board of directors so as to ensure that all the decision-making powers of the company are not, in practice, vested

in a single individual. In general, this means that the managing director cannot be elected chairman of the board of directors. However, the combination of these two roles may be justified due to certain special circumstances, such as the business area of the company, the extent or special development phase of the operations, or the ownership structure of the company.

**RECOMMENDATION 21 – Organisation of the Other Executives**

The company shall specify the composition, duties, and areas of responsibility of the other executives.

**RATIONALE**

The term 'other executives' refers to the management team of the company or its group or to a similar body that convenes regularly. If the company does not have a designated management team, the company shall appoint the persons who, on the basis of their duties and responsibilities, are deemed to belong to the other executives of the company.

The management team is not an official corporate body in terms of corporate law but, in practice, it has a significant role in the organisation of the company's executives. The management team usually consists of the executives of the company's operative business and the chief financial officer and, where applicable, managers of support functions. The main duty of the management team is to assist the managing director.

The specification concerning the organisation of the directors and executives should state the operative nature of the operations of the other executives so as to make a distinction from the statutory bodies of the company, such as the board of directors and the managing director.

Information to be provided with regard to the other executives is specified in the Reporting section.

>> *See Corporate Governance Reporting, Sections A and B and Remuneration Reporting, Sections A, B, and C*



## V REMUNERATION

*Well-functioning and competitive remuneration is an essential tool for engaging competent directors and executives for the company. This, in turn, contributes to the financial success of the company and the implementation of good corporate governance. In addition to supporting the company's long-term profitability and results, remuneration supports the implementation of the objectives set by the company and the company's strategy.*

*The remuneration must be in proportion to the development and long-term enhancement of the value of the company. The fact that remuneration is linked to the performance and result criteria, and the fact that the materialisation thereof is monitored, increases trust in the functioning of the remuneration.*

*In addition to fixed salary, remuneration may consist of other fixed and variable salary and remuneration components, such as share-based remuneration schemes, pension schemes, and compensation payable due to the termination of an employment or a service contract. The variable salary and remuneration components also comprise various short-term and long-term remuneration schemes, which may be linked to the development of the company's result or share price.*

*The transparency of the content of remuneration and the associated decision-making process allows the shareholders to evaluate the appropriateness of the company's remuneration policy and its effectiveness in achieving the set objectives. Transparent reporting also facilitates the comparison of remuneration policies. Remuneration reporting is specified in the Reporting section.*

*>> [See Remuneration Reporting](#)*

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

**RECOMMENDATION 22 – Decision-Making Relating to Remuneration**

The general meeting shall decide on the remuneration payable for board and committee work as well as on the basis for its determination. The board of directors shall decide on the remuneration of the managing director as well as on the other compensation payable to him or her. The company shall specify the decision-making procedure for the remuneration of the other executives.

**RATIONALE**

The remuneration of a person is generally decided on by the body responsible for the appointment of said person. The general meeting decides on the remuneration of the board of directors. The preparation relating to the remuneration of the board of directors may be carried out together with the proposal for the composition of the board of directors as provided for in **RECOMMENDATION 7**.

As the board of directors appoints the managing director, it also decides on his or her remuneration. In addition, the board of directors decides on the compensation payable to the managing director due to the termination of the managing director's service contract. If the company has a remuneration committee, it may be assigned the duty of conducting the preparatory work of the remuneration of the managing director. The remuneration committee may also prepare the remuneration of the other executives. Remuneration committees are discussed in **RECOMMENDATION 17**.

The company shall specify the decision-making procedure concerning the remuneration of the other executives. Pursuant to the Limited Liability Companies Act, the general meeting shall decide, or it may authorise the board of directors to decide, on the issue of shares or option rights.

The company shall disclose the decision-making procedure concerning the remuneration of the company's managing director and the other executives in the Remuneration Statement.

>> *See Remuneration Reporting, Section A – Decision-Making Procedure Concerning the Remuneration*

**RECOMMENDATION 23 – Remuneration and Shareholdings of the Board of Directors**

Remuneration for board and committee work may be paid, either fully or in part, in the form of company shares. Remuneration of a non-executive director shall be arranged separately from the share-based remuneration scheme applicable to the company's managing director, other executives, or personnel.

**RATIONALE**

Directors' shareholding in the company promotes good corporate governance. A good way to increase the shareholding of directors is to pay the remuneration for their board and committee work, or a part thereof, in the form of shares. In such case, the company must ensure compliance with insider regulations.

The company may require that a director retain the shares or a part of the shares received as remuneration or acquired otherwise at least for the duration of his/her term as a director.

*>> See Remuneration Reporting, Section A–  
Decision-Making Procedure Concerning the  
Remuneration*

The payment of a fixed remuneration in shares instead of payment in cash differs from share-based remuneration schemes, where the amount of the remuneration is not fixed in advance, but is determined on the basis of the development of the company's financial position or share price.

The use of share-based remuneration schemes to remunerate non-executive directors is not, as a rule, justified from the perspective of the interests of the shareholders. If the board of directors participates in the same share-based remuneration scheme as the other executives or personnel, the implementation of the supervisory duty of the board of directors may be hindered, and it may also lead to conflicts of interest.

**RECOMMENDATION 24 – Structure of the Remuneration**

The objective of remuneration is to promote the long-term financial success and competitiveness of the company and the favourable development of shareholder value. Remuneration must be based on predetermined and measurable performance and result criteria.

**RATIONALE**

Remuneration may consist of fixed and variable salary and remuneration. The fixed and variable components of salary and remuneration must be, considering the objectives of remuneration, appropriately proportionate to each other. It may be justified to set limits to the variable components of salary and remuneration.

The variable components of salary and remuneration may be based on long-term and/or short-term performance and results. The financial and non-financial performance and result criteria, which must be measurable in a manner that is as unambiguous as possible, may be used as the basis for the remuneration.

With regard to the variable components of the salary and remuneration, the period for which the fulfilment of the set performance and result criteria are evaluated (**earning period**) must be specified. In addition, the company may require that the remuneration for the earning period be disposable only after a certain predetermined period of time after the earning period (**restriction period**).

With regard to remuneration in shares, the company may require that the shares received as remuneration must be retained by the recipients for the entire duration of service.

Remuneration that has been paid out without grounds shall be reclaimed in accordance with the regulations on returning an unjust enrichment.

## VI OTHER GOVERNANCE

*The purpose of internal control and risk management is to ensure the effective and profitable operations of the company, the reliability of information, and compliance with the relevant regulations and operating principles. Another objective is to be able to identify, evaluate, and monitor risks related to the business operations. The internal audit of the company evaluates aspects such as the internal control of the company and risk management.*

*The procedure concerning related party transactions is also a part of good corporate governance. Whenever the company conducts business transactions with related parties, the company must ensure that the transactions are appropriate from the perspective of both the company and the shareholders. The regulatory requirements concerning the content and terms of related party transactions as well as the sufficient supervision of conflicts of interest shall be taken into account in the company's corporate governance practices.*

*The Reporting section sets out in more detail how these matters need to be reported in the company's Corporate Governance Statement.*

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

*This is an unofficial translation from the original Finnish language document. In case of any discrepancy between the Finnish version and the English translation, the Finnish version shall prevail.*

**RECOMMENDATION 25 – Internal Control**

The company shall define the operating principles for internal control.

**RATIONALE**

The company must regularly control and monitor its activities to ensure the efficiency and results of its business operations. The board of directors shall ensure that the company has defined the operating principles for internal control and that the company monitors the functioning of the internal control.

The purpose of the operating principles for internal control is to ensure that the company's objectives relating to matters such as the company's strategy, operations, practices, and especially financial reporting, are achieved. The operating principles for internal control also help to ensure that the company complies with all applicable laws and regulations.

Each company shall define its methods and operating principles for internal control on the basis of its own circumstances taking into account, *inter alia*, the size of the company, its line of business, the geographical scope of its operations, and its group structure.

The operating principles for internal control shall be reported in the Corporate Governance Statement.

>> See *Corporate Governance Reporting, Section A – Corporate Governance Statement*

**RECOMMENDATION 26 – Risk Management**

The company shall define the principles applied in the organisation of the company's risk management.

**RATIONALE**

Risk management is a part of the company's control and monitoring system. The purpose of risk management is to ensure that the risks related to the business operations of the company are identified, evaluated, and monitored. Well-functioning risk management requires that the principles of risk management are specified. In order to evaluate the operations of the company, sufficient information on risk management must be provided. Risk management principles relating to financial reporting processes shall be reported in the Corporate Governance Statement.

>> *Corporate Governance Reporting, Section A – Corporate Governance Statement*

Legislation requires that the report by the board of directors contains an evaluation of the material risks and uncertainties. In addition, the company's regular reporting must describe the material short-term risks and uncertainties related to the business operations. The company may refer to this information in its corporate governance reporting.

>> See *Corporate Governance Reporting, Section B – Other Information to Be Provided on the Company's Website*



**RECOMMENDATION 27 – Internal Audit**

The company shall define the organisation of the company's internal audit.

**RATIONALE**

The purpose of the internal audit is to evaluate, among other things, the appropriateness and success of the company's internal control system and risk management as well as the management and corporate governance processes. The internal audit supports the development of the organisation and improves the efficient fulfilment of the supervision obligation of the board of directors.

The organisation and methods of the company's internal audit depend, for example, on the nature and scope of the company's business operations, the number of personnel, and other corresponding factors. It is not always expedient for the company to organise internal audit as a separate function.

The organisation of the internal audit and the main principles applied in the internal audit, such as the reporting principles, shall be disclosed in the Corporate Governance Statement.

*>> See Corporate Governance Reporting, Section A – Corporate Governance Statement*

### RECOMMENDATION 28 – Related Party Transactions

The company shall evaluate and monitor transactions concluded between the company and its related parties and ensure that any conflicts of interest are taken into account appropriately in the decision-making process of the company. The company shall keep a list of parties that are related to the company.

The company shall report the decision-making procedure applied in connection with related party transactions that are material to the company and that either deviate from the company's normal business operations or are not made on market or market equivalent terms.

#### RATIONALE

##### **General Information About Related Party Transactions**

The company's business activities may include regular or less frequent transactions with parties that are related to the company. Transactions between the company and related parties are allowed, provided that they promote the purpose of the company and are conducted on acceptable terms and in the interests of the company from the company's business perspective, as well as in compliance with effective regulations.

A related party transaction involves a transfer of resources, services, or obligations between a company and its related party, regardless of whether a consideration is charged. In some companies the group structure and/or partnership agreements are such that the company's normal business operations involve buying or selling raw materials, components, commodities, or services from or to business entities or individuals who are related to the company.

##### **Definition of Related Parties**

In this recommendation, 'related parties' include the parties that the company has identified as related parties for its financial statements.<sup>1</sup> The Limited Liability Companies Act and regulations concerning the drawing up of financial statements<sup>2</sup> stipulate that information concerning related party transactions must be disclosed in the report by the board of directors and in the notes to the financial statements. Moreover, the Rules of the Helsinki Stock Exchange stipulate that related party transactions must be published when certain conditions are satisfied.<sup>3</sup> The company shall establish and identify the parties that

are related to the company and the transactions that are considered to constitute related party transactions. If the company's related parties have not been identified appropriately and the information has not been kept up to date, related party transactions can go unnoticed. In the context of this recommendation, related party transactions do not include transactions with subsidiaries that are fully owned by the company either directly or indirectly.

##### **Legislation Applicable to Related Party Transactions**

The general principles of the Limited Liability Companies Act, which include, *inter alia*, the purpose of a limited liability company to generate a profit for its shareholders, the principle of equal treatment of shareholders, and the duty of executives to act with due care and to promote the interests of the company, shall always be observed in related party transactions. In practice, these principles mean that when conducting any related party transactions, companies must ensure that they are useful to the company on the whole and serve the interests of the company. Particular care must be taken in connection with related party transactions that are subject to terms that differ from those applied to transactions with independent parties.

The Limited Liability Companies Act imposes a reverse burden of proof for any liability of the company's governing bodies that arises from related party transactions. A loss is deemed to have been caused by negligence unless the party responsible for the procedure can prove that it acted with due care. This helps to prevent abuses relating to related party transactions and losses arising from the

<sup>1</sup> IAS 24.9–12

<sup>2</sup> International Accounting Standard IAS 24 Related Party Disclosures and IAS 34.15B(j); Accounting Decree, Section 8 of Chapter 2; Opinion of the Accounting Board of 11 November 2008; Limited Liability Companies Act, Section 6 of Chapter 8

<sup>3</sup> Rules of the Helsinki Stock Exchange (6 October 2014), 2.3.3.6

same. In addition to the general principles of the Limited Liability Companies Act, the disqualification provisions and provisions on the illegal distribution of assets of the Limited Liability Companies Act, as well as the provisions on recovery and transfer pricing also help to prevent inappropriate related party transactions.

### **Company Procedures**

The company shall evaluate and monitor any transactions conducted with related parties and ensure that it identifies, decides on, approves, reports, and controls related party transactions in accordance with appropriate procedures that take account of the aforementioned principles and any conflicts of interest.

### **Obligation to Report the Decision-Making Procedure Applied in Related Party Transactions**

The recommendation imposes the obligation to report the decision-making procedure applied in related party transactions only on companies whose related party transactions are material from the perspective of the company and where such transactions deviate from the company's normal business operations or are not made on market or market equivalent terms.

The recommendation does not require companies to report their decision-making procedure for related party transactions if, for example, the companies only have insignificant related party transactions. Furthermore, transactions that are subject to market or market equivalent terms need not be reported. Evaluation on whether transactions constitute normal business operations and whether they are subject to market or market equivalent terms may take into account the market practices generally observed and accepted within the industry.

Matters to be taken into account in the decision-making procedure for related party transactions include, *inter alia*, the following:

- decisions shall be based on exceptionally careful preparatory work and appropriate reports, opinions and/or assessments;
- preparatory work, decision-making, and the evaluation and approval of individual transactions must be arranged taking into account all relevant disqualification provisions and the appropriate decision-making body in each individual matter; and/or
- transactions must be appropriately identified, reported, and controlled, for example by having the audit committee or independent and impartial directors monitor the company's related party transactions in accordance with the company's reporting practices.

If applicable, the company shall report its decision-making procedure once a year in the Corporate Governance Statement. A transparent decision-making procedure provides the shareholders and investors an opportunity to evaluate the company's practices with regard to the related party transactions referred to in the recommendation.

>> See *Corporate Governance Reporting, Section A – Corporate Governance Statement*

# CORPORATE GOVERNANCE REPORTING

## A. Corporate Governance Statement

Listed companies shall issue a Corporate Governance Statement once a year. This obligation is based on legislation, and it cannot be departed from on the basis of the 'comply or explain' principle.

High-quality corporate governance reporting increases the company's transparency and investors' trust in the company. A well-drafted Corporate Governance Statement promotes the investors' possibilities to obtain information by providing the investors with the most important information relating to the corporate governance in a compiled manner.

The audit committee or another competent committee shall review the Corporate Governance Statement. If there is no such committee, the entire board of directors shall review the statement. A note of the review must be entered into the minutes of the relevant meeting of the audit committee, another competent committee, or the board of directors. The Corporate Governance Statement need not be signed separately.

### **Issuance of a Separate Corporate Governance Statement or Incorporation of a Corporate Governance Statement into the Report by the Board of Directors**

The law requires that the company present its Corporate Governance Statement in the report by the board of directors or as a separate report. The Securities Market Association recommends that the Corporate Governance Statement be issued separately. By presenting the Corporate Governance Statement as a separate report, the company may emphasise the information given to shareholders and other investors. The information can also be found more easily in a separate report.

If the company issues a separate Corporate Governance Statement, the Corporate Governance Statement and the report by the board of directors must be referenced to each other. The company's auditor shall verify that the Corporate Governance Statement has been issued and issue a statement regarding it in case the description of the main features of the internal control and risk management systems relating to the company's financial reporting process is inconsistent with the description included in the company's financial statements. If the company presents its Corporate Governance Statement in the report by the board of directors, the Corporate Governance Statement is audited as a part of the report by the board of directors, which affects the extent of the audit.

### **Presenting Corporate Governance Statement on the Company's Website**

The company shall publish the entire Corporate Governance Statement in the corporate governance / investors section of its website. The company may structure the Corporate Governance Statement in accordance with the format presented below, but it may also present the required information in an order chosen by it.

The company cannot depart from the obligation to disclose the information required of the Corporate Governance Statement. However, information regarding the items marked below with an asterisk need not be included insofar as the company has informed in its Corporate Governance Statement that it has departed from the recommendation in question and provided an appropriate explanation for the departure.

The Corporate Governance Statement shall be made available in an investor-friendly manner, such as in PDF format. The company shall keep its Corporate Governance Statements on its website for at least 10 years.

The Corporate Governance Statement shall be published together with the report by the board of directors or be made available on the company's website at the same time as the report by the board of directors is published. If the company publishes its financial statements and report by the board of directors in a stock exchange release, the release must include a note about the availability of the Corporate Governance Statement on the company's website. The company shall also ensure that the Corporate Governance Statement is submitted to the Central Storage Facility of Regulated Information maintained by Nasdaq Helsinki Ltd.

In effect, it is practical for the company to issue a single stock exchange release stating that the company's financial statements, report by the board of directors, and Corporate Governance Statement have been published and that they are available on the company's website and also appended to the release. Provided that the stock exchange release is accompanied by the aforementioned documents, the documents are automatically filed in the Central Storage Facility of Regulated Information referred to in Section 3 of Chapter 10 of the Securities Markets Act.

## I. INTRODUCTION

- Corporate Governance Code(s) to which the company is subject or which the company has decided to apply
- Website where the Corporate Governance Code is publicly available
  - e.g. the website of the Securities Market Association, [www.cgfinland.fi/en](http://www.cgfinland.fi/en)
- Specific recommendations of the Corporate Governance Code from which the company departs, if any
- Details of any departures from the individual recommendations and the reasons therefor
  - an explanation of the manner in which the company has departed from a recommendation
  - a description of the reasons for the departure
  - a description of how the decision to depart from the recommendation was taken within the company
  - where the departure is limited in time, an explanation of when the company envisages complying with a particular recommendation
  - where applicable, a description of the measure taken instead of compliance and an explanation of how that measure achieves the underlying objective of the specific recommendation or of the code as a whole, or a clarification of how it contributes to good corporate governance of the company

## II. DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

### Composition and Operations of the Board of Directors

- Biographical details of the directors
  - name, year of birth, education, and main occupation
  - assessment by the board of directors of each director's independence of the company and of any significant shareholders
  - shares and share-based rights of each director and corporations over which he/she exercises control in the company and its group companies at the end of the previous financial period
- Description of the operations of the board of directors
  - description of the main contents of the charter of the board of directors or a direct link to the charter (RECOMMENDATION 11)\*
  - number of the meetings of the board of directors held during the previous financial period
  - each director's attendance in the meetings (detailed by director)
- Information on any specific order according to which the directors are to be appointed
- Principles concerning the diversity of the board of directors, disclosed to the extent chosen by the company (RECOMMENDATION 9)\*
  - including at least the objectives relating to both genders being represented in the company's board of directors, an account of the progress in achieving these objectives, as well as the means to achieve the objectives

### Composition and Operations of the Committees of the Board of Directors

- Composition of the committees
  - biographical details provided in the context of the above (Composition and operations of the board of directors) need not be repeated.
- Description of the operations of the committees
  - description of the main contents of the committee charter approved by the board of directors or a link to the charter
  - number of the meetings held during the previous financial period
  - each member's attendance in the meetings (detailed by member)

- Details of the body responsible for the mandatory duties of the audit committee
  - if the company does not have an audit committee or if some of the mandatory duties of the audit committee have been delegated to a body other than the audit committee

### Shareholders' Nomination Board

- If the company's general meeting has established a shareholders' nomination board to carry out preparatory work on the election of directors, the company shall describe the election process, composition, and operations of the nomination board.
- The composition and operations of the shareholders' nomination board shall be described, for the applicable parts, in accordance with the explanation given above for the board of directors and its committees.

### Supervisory Board

- The composition and operations of a supervisory board, if any, and the committees and commissions set up by it shall be described, for the applicable parts, in accordance with the explanation given above for the board of directors and its committees.

### Managing Director and His/Her duties

- Biographical details of the managing director
  - name, year of birth, and education
  - shares and share-based rights of the managing director and corporations over which he/she exercises control in the company and its group companies at the end of the previous financial period
- Description of the managing director's duties
  - description of the duties arising from the Limited Liability Companies Act and any other duties

## CORPORATE GOVERNANCE STATEMENT

**Other Executives**

- Organisation of the other executives (**RECOMMENDATION 21**)\*
  - if the company has a management team, the company shall describe the composition and duties of the management team and the responsibilities of its individual members
  - if the company does not have a management team, the company must identify the other executives of the company
  - the description of the company's other executives must highlight the operative nature of other executives in contrast to the company's statutory governing bodies
- Biographical details and shareholdings of the other executives
  - the corresponding biographical details and information about the shareholdings shall be disclosed in respect of the other executives in the same manner as in respect of the managing director, along with the information on each individual's role in the company's organisation

**III. DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS**

The Corporate Governance Statement shall include descriptions of the main features of the internal control and risk management systems relating to the financial reporting process, i.e. information on how the company's internal control and risk management systems ensure that financial reports published by the company provide in all material respects true and accurate information about the company's financial position. The scope of the description depends on the size of the company and the structure of its business operations.

All descriptions shall cover the following issues:

- Overview of the risk management systems
  - general principles of risk management
  - main features of the risk management process and its connection to internal control
- Overview of the internal control
  - main features of the company's internal control framework

- description of the main features of the monitoring mechanisms for the company's operations and controls
- description of the operating principles for internal control
- main features of the practical application of the company's internal control

The aforementioned information shall be issued at the group level, i.e. the Corporate Governance Statement shall describe how the reliability of the financial reporting of group companies is ensured at the group level. The intention is not to give a description of the financial reporting process or the details of the related internal control and risk management systems.

The company may issue more extensive descriptions of the main features of the internal control and risk management systems relating to the financial reporting process. In that case, the company can make use of the COSO 2013 or other similar framework it applies.

**IV. OTHER INFORMATION TO BE PROVIDED IN THE CG STATEMENT**

The Corporate Governance Statement shall also include the following information:

- description of the organisation of the company's internal audit and the main principles observed in the internal audit, such as the reporting principles (**RECOMMENDATION 27**)\*
- where applicable, information about a specific decision-making procedure for related party transactions (**RECOMMENDATION 28**)\*
- main procedures relating to insider administration<sup>1</sup>
- name of the company's auditor
- remuneration paid for audit services
- remuneration paid to the company's auditor for non-audit services

<sup>1</sup> *Transparency of insider holdings and insider trading promotes trust in the securities market. Efficient insider administration in listed companies requires that insider administration is organised in a consistent and reliable manner. Obligations relating to insider administration are binding on listed companies, and the main insider administration procedures shall be described in the Corporate Governance Statement.*

**\* Please note: When the information relates to a specific recommendation and information required thereunder, the company may also need to inform of a possible departure from the recommendation and reasons for the departure.**

## B. Other Information to Be Provided on the Company's Website

In addition to the duty to publish the CG Statement once a year, the company shall also update any essential information relating to its corporate governance on the company's website. The investor information on the company's website provides shareholders and other investors with up-to-date information about the company and its corporate governance.

The company shall regularly update the information on its website so as to ensure that the information is as up to date as possible. For example, the company shall make any necessary updates to the information on its website after each general meeting.

A transparent and clear presentation of the investor information helps create an overall picture of the operations of the company. Various technical solutions may be used to present the information on the company's website. It is of essential importance that each subject matter is clearly defined and easy to find. If information is presented, for example, by providing links to other documents, the links must lead directly to the information concerned.

In addition to the information required by the recommendations of the Corporate Governance Code, the company shall also consider the objectives of the Corporate Governance Code when planning the corporate governance / investor information provided on its website. For example, any information included in the annual Corporate Governance Statement that may materially change in the course of the year should be separately maintained and updated on the company's website.

The following list includes other information to be presented and kept up to date on the company's website. More detailed provisions on the information to be presented on the company's website are included in Chapter 2 of the Rules of Nasdaq Helsinki and in Chapter 10 of the Securities Markets Act.



**Information Pertaining to General Meetings**

- Notice of the general meeting  
(RECOMMENDATION 1)\*
- Proposals concerning the composition of the board of directors, remuneration of the directors, and auditors  
(RECOMMENDATION 1)\*
- Procedure applied to prepare proposals on the composition of the board of directors  
(RECOMMENDATION 7)\*
- Biographical details of the director candidates and the evaluation of the candidates' independence  
(RECOMMENDATIONS 1 and 10)\*
- Other proposals submitted by the shareholders that fall within the competence of the general meeting  
(RECOMMENDATION 1)\*
- Date by which the board of directors shall be notified of items that shareholders demand to be included in the agenda of the annual general meeting and the instructions regarding the postal or email address to which the shareholders must send their demands  
(RECOMMENDATION 2)\*
- General meeting documents covering the past five years  
(RECOMMENDATION 4)\*

*\* Please note: When the information relates to a specific recommendation and information required thereunder, the company may also need to inform of a possible departure from the recommendation and reasons for the departure.*

**Board of Directors and Its Committees**

- Biographical details of the directors
  - name, year of birth, education, and main occupation
  - date on which the individual became a director in the company
  - relevant work experience
  - most important positions of trust
  - assessment by the board of directors of each director's independence of the company and of any significant shareholders

**Managing Director and Other Executives**

- Biographical details and duties of the managing director
- Organisation of the executives in the company and the composition and duties of the management team, as well as the responsibilities of each member
- Biographical details of the other executives

**Auditing**

- Auditor

**Other Essential Information Pertaining to the Company's Corporate Governance, Such as the Following:**

- Articles of association and information on any redemption clauses
- Shares and share capital
- Major shareholders and flagging notifications made during the past 12 months, presented in an investor-friendly manner
- Any shareholder agreements that the company is aware of
- Events calendar, including events such as the following:
  - publication date for the financial statements release
  - publication dates for the half-year review and any other possible financial reports published by the company
  - period of time determined by the company during which permanent insiders may not trade in the securities issued by the company (closed window)
  - publication week for the financial statements and the report by the board of directors
  - date of the annual general meeting
  - date until which shareholders can make demands for items to be included to the agenda of the general meeting



# REMUNERATION REPORTING

**The company shall issue a Remuneration Statement, which is a consistent description of the remuneration of the directors and executives containing the following information:**

- A. Up-to-date description of the decision-making procedures concerning the remuneration of the directors, the managing director, and the other executives; and
- B. Up-to-date description of the most important principles regarding the remuneration of the directors, the managing director, and the other executives; and
- C. Remuneration report, providing information on the remuneration paid during the previous financial period.

The company shall publish its Remuneration Statement in the corporate governance / investors section of the company's website. Links may be used to provide the statement, but any links must lead directly to the information concerned. The Remuneration Statement can also be incorporated into the Corporate Governance Statement.

**Companies cannot depart from the obligation to issue a Remuneration Statement.**

## REMUNERATION STATEMENT

## A. Decision-Making Procedure Concerning the Remuneration

The Remuneration Statement shall describe the procedure concerning the remuneration of the directors, the managing director, and any other executives. The corresponding information must also be provided for the members of the supervisory board, committees, and commissions, if any.

Decisions on the remuneration are usually made by the body that appointed the individual in question:

- Decisions concerning the remuneration of the **directors** are made in general meetings. Preparatory work relating to the remuneration can also be delegated to the company's nomination committee or shareholders' nomination board. The company shall describe the procedures used in preparatory work relating to the remuneration.
- Decisions concerning the remuneration of the company's **managing director** are made by the company's board of directors. The board of directors also makes decisions concerning the compensation payable to the managing director upon the termination of his/her service contract. Preparatory work relating to the remuneration of the company's managing director and other executives can also be delegated to the company's remuneration committee. The company shall describe the procedures used in the preparatory work relating to the remuneration.
- The company shall establish and describe the decision-making process relating to the remuneration of the **other executives** and procedures relating to the preparatory work.

Pursuant to the Limited Liability Companies Act, decisions concerning the distribution of the company's shares, options or other special rights entitling to shares shall be made in the general meeting or by the company's board of directors pursuant to an authorisation from the general meeting. In the Remuneration Statement, the company shall provide information about the valid authorisations of the board of directors concerning the remuneration, as well as any decisions made at a general meeting or by the board of directors as part of remuneration.

## B. Main Principles of Remuneration

The Remuneration Statement must describe the main principles of remuneration relating to the remuneration of the directors, the managing director, and any other executives.

The information regarding the main principles of remuneration enables the shareholders to evaluate the incentive effect of the scheme from the perspective of enhancing the performance and the shareholder value of the company. The transparency of the remuneration encourages the creation of schemes that are more competitive and that motivate the achievement of targets.

With regard to the directors, the principles concerning the remuneration shall include the main elements of the following:

- remuneration and the basis for its determination
- other financial benefits
- shares and share-based rights given as remuneration
- principles applied to the ownership of and restrictions on selling the shares given to the directors as remuneration
- any financial benefits pertaining to a possible employment relationship or service contracts of the chairman of the board of directors and directors shall also be disclosed in the same manner as the financial benefits of the managing director.

The corresponding information shall also be provided for the members of the supervisory board, committees, and commissions, if any.

With regard to the **managing director**, the principles concerning the remuneration shall include the main elements of the entire remuneration of the managing director, including the following (where applicable):

- annual salary
- division of the remuneration into fixed and variable components (short-term and long-term incentives)
- information on the determination of the variable components of the remuneration and the limits set on them
- criteria on the basis of the remuneration, the impact of the criteria on the company's long-term financial success, and the manner in which the implementation of the criteria is monitored
- information on the remuneration schemes that are based on shares, options, or other special rights entitling to shares
- earning and restriction periods included in the remuneration
- principles applied to the ownership of shares or options (or other special rights entitling to shares) given to the managing director as remuneration
- retirement age and the basis for the determination of the managing director's pension, information about any supplementary pensions, and whether the managing director's pension agreement is contribution-based or benefit-based
- information on any signing bonuses or stay bonuses
- notice period, severance package, and terms applicable to any other compensation payable upon the termination of the service contract of the managing director

With regard to the **other executives**, the remuneration principles shall include the main points of the corresponding information as in the case of the managing director. However, personal benefits do not need to be reported, aggregated information is sufficient.

## REMUNERATION STATEMENT

**C. Remuneration Report**

The company shall issue a remuneration report, in which it discloses the remuneration and other financial benefits paid to the directors, the managing director, and any other executives during the previous financial period. The remuneration report shall be published no later than simultaneously with the release relating to the publication of the financial statements, report by the board of directors, and the Corporate Governance Statement for the previous financial period.

The remuneration report shall be incorporated into the company's Remuneration Statement. Links may be used to provide the remuneration report, but all links must lead directly to the information concerned.

**BOARD OF DIRECTORS**

The remuneration report shall explain the remuneration and other financial benefits paid to each director as remuneration for board and committee work, as well as for any other tasks undertaken during the financial period. Salaries, remuneration, and other financial benefits include payments from all group companies.

If the chairman or a director has an employment or service contract with the company (executive chairman; executive director) or if he/she acts as an advisor for the company, all salaries and remuneration, as well as other financial benefits paid as remuneration for this role during the financial period, must be reported.

The remuneration report shall include information on the number of shares and share-based rights given as remuneration to each director as remuneration for board or committee work, similarly to any other remuneration and financial benefits. If the directors belong to share-based remuneration schemes, any remuneration paid on the basis of these schemes shall also be reported.

The information about the remuneration and benefits of directors permit shareholders to evaluate the proportionality of the remuneration relative to the contribution of the board of directors in achieving the goals of the company. Transparent disclosure also facilitates the comparison of the remuneration and other benefits paid by different companies.

What has been stated in reference to the board of directors above also applies to the supervisory board, as well as committees and commissions, if any.

**MANAGING DIRECTOR**

Due to the significant position of the managing director, it is important to give the shareholders detailed information about his/her financial benefits. The information permits shareholders to evaluate the amount and substance of the remuneration of the managing director in relation to the achievement of the goals set for him/her. Transparent disclosure also facilitates the comparison of the financial benefits granted to managing directors in different companies.

The Remuneration Statement shall detail all benefits granted to the managing director during each financial period, such as the following:

- salaries
- shares, options, and other share-based rights given as remuneration
- supplementary pension contributions
- other benefits, such as signing bonuses and stay bonuses
- severance package
- other compensation payable upon the termination of the managing director's service contract (including any increases to previously agreed benefits)

Payments by all group companies shall be reported as remuneration. Remuneration, pensions, and other benefits paid shall be reported on a cash basis, unless the company considers performance-based reporting more appropriate.

What has been stated in reference to the managing director above also applies to the deputy managing director with regard to any remuneration paid on the basis of his/her role as the managing director.

**OTHER EXECUTIVES**

Benefits of the other executives must be reported similarly to those of the managing director, except that the amounts of personal benefits may be reported at an aggregate level.





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