



**Securities Market Association**

**Finnish  
Corporate  
Governance Code  
2008**



# Finnish Corporate Governance Code



Securities Market Association

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N.B. This is an unofficial translation. In case of any discrepancy between the Finnish version and the English version, the Finnish version shall apply.

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## Corporate governance working group of the Securities Market Association

The Securities Market Association is a cooperation body established in December 2006 by the Confederation of Finnish Industries EK, the Central Chamber of Commerce of Finland and NASDAQ OMX Helsinki Ltd (hereinafter “Helsinki exchange”). 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 is to promote good corporate governance. Among its other duties, the association administers, develops and, when necessary, updates the Finnish Corporate Governance Code (hereinafter the “Code”).

The task of the corporate governance working group appointed by the Board of the Securities Market Association was to review the need to update the Corporate Governance Recommendation for Listed Companies issued on 2 December 2003 and to develop it.

**Anne Leppälä-Nilsson**, General Counsel, Legal Affairs, was Chairman of the working group.

The other members were

**Iiona Ervasti-Vaintola**, Chief Counsel, Executive Vice President,

**Jyrki Kurkinen**, Senior Vice President, Legal Affairs,

**Leena Linnainmaa**, Director,

**Timo Löyttyniemi**, Managing Director,

**Jaakko Raulo**, Assistant General Counsel, and

**Kaarina Ståhlberg**, Assistant General Counsel.

**Tytti Peltonen**, Chief Policy Advisor, was permanent advisor to the working group.

The secretariat of the working group consisted of **Anne Horttanainen**, Legal Counsel, **Anna Santti**, Legal Counsel, **Sanna Suni**, Legal Counsel, **Ari Syrjäläinen**, Legal Counsel, and **Piia Vuoti**, Advisor. **Päivi Rätty**, expert in financial reporting, compiled background material for the working group.

The working group convened 27 times. It has extensively heard different interest groups: board members of listed companies, executives, domestic and international investors, investment firms, auditors, authorities, and other market parties. The working group has also been in contact with other actors that maintain the codes in the Nordic countries and the Combined Code in London in order to review the practices and developments in different countries.

The Corporate Governance Recommendation for Listed Companies issued in 2003 has been seen to work well and to meet high standards internationally. All listed companies and many companies not listed on the Helsinki exchange apply it to their operations. The recommendation has materially improved the corporate governance practices of Finnish companies. However, new regulation and international developments have created a need to update the recommendation. In addition, it has become necessary to improve international investors’ access to information about the Finnish corporate governance system as a whole and, above all, the rights of shareholders.

The Board of the Securities Market Association approved this Finnish Corporate Governance Code in October 2008. The Code will replace the Corporate Governance Recommendation for Listed Companies issued in 2003. Corporate Governance practices develop constantly. Therefore, domestic and international developments must be monitored and the Code must be updated when necessary.

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# 1. INTRODUCTION

## Aims of the Code

The aim of the Code is that Finnish listed companies apply corporate governance practices that are of a high international standard. The Code will harmonise the practices of listed companies as well as the information given to shareholders and other investors. It will also improve the transparency of administrative bodies, management remuneration and remuneration policies. The Code also provides an overall picture of the central principles of the corporate governance system of Finnish listed companies. Good corporate governance will enhance the success of Finnish listed companies.

The ownership structures, areas of business and extent of operations of listed companies vary. There are also differences in the governance structures of listed companies. Most Finnish listed companies are medium or small-sized companies in international terms. The level of foreign shareholding in Finnish listed companies is one of the highest in Europe.

The corporate governance system of Finnish listed companies is based on Finnish legislation, and this Code complements the statutory procedures.

## Structure of the Code

Section 1 presents the goals, structure and scope of application of the Code and a general description of the rights of shareholders based on law. Sections 2 to 11 present the individual recommendations and section 12 deals with the entry into force.

The section introductions present the general principles concerning the subject matter of each section. The recommendations are presented in bold text and marked with running numbers. Any departure from the recommendation must be accounted for and explained. An explanatory section including the justifications of the recommendation and some specifying aspects follows each recommendation.

The Code uses the terms “describe”, “report” and “make available” to describe the dissemination of information to shareholders. Unless otherwise provided, the company shall present the information on the company website in all such cases. The term disclosure means the distribution of information in the form of a stock exchange release.

## Application of the Code

The Code is aimed at companies listed on the Helsinki exchange, provided that it is not in conflict with the compelling regulation applicable in the domicile of the company. In the recommendations, the term company is used for listed companies.

Most recommendations apply to the parent company of a group. It should, however, be noted that many recommendations on supervision, control, reporting and disclosure of information, including explanations, cover the entire group of a company. Some items of the Code mention the group or companies belonging to the group separately in order to clarify the recommendation.

## Comply or Explain principle

The Code has been prepared in accordance with the so-called Comply or Explain principle. This means that the company shall comply with all recommendations of the Code. A company may depart from an individual recommendation, however, but in this case, it must account for such a departure and provide an explanation for doing so. The company complies with the Code even if it departs from an individual recommendation provided that the company accounts for and explains the departure. A company must state that it complies with this Code in its corporate governance statement (see recommendation 51).

The Comply or Explain principle gives the company more flexibility in the application of the Code. The company may depart from an individual recommendation of the Code due to, e.g. the ownership or company structure or the special characteristics of its area of business. A clear and comprehensive explanation will consolidate the trust in the decision made by the company and make it easier for the shareholders and investors to evaluate the departure.

Several recommendations of this Code are based on legislation or other regulation. A company may not depart from the recommendations as far as they describe the obligations set by compulsory regulation. The Rules of the Helsinki exchange also contain obligations related to good governance practices of listed companies, above all regarding disclosure of information.



## **Rights of shareholders**

The Finnish Limited Liability Companies Act contains provisions on share-related rights, e.g. exercising voting rights, the shareholder's right to request information, the right of shareholders to put items on the agenda of a general meeting, as well as on participation in a general meeting and the way of giving notice of a general meeting.

The Act also contains the requirement on the equal treatment of shareholders. All shares carry equal rights in a company, unless otherwise provided in the articles of association. The general meeting, board of directors and managing director do not have the right to make a decision that could give undue benefit to a shareholder or another person at the expense of the company or another shareholder.

The main purpose of the principle of equal treatment is to protect minority shareholders. Compliance with the principle does not prevent the use of majority rule, but it prevents favouring majority shareholders at the expense of other shareholders.

The ownership structure of Finnish listed companies varies; in some companies, the ownership structure is decentralised, while other companies have shareholders with significant voting rights. In matters within the competence of the general meeting, it may be in the interest of the company and all its shareholders that the board is aware of the opinion of shareholders with significant voting rights on a matter under preparation for the general meeting. In such cases, e.g. insider regulations must be taken into consideration.

### ***Convocation of the general meeting***

The board shall convene the general meeting. The annual general meeting must be held within six months of the end of the financial period. An extraordinary general meeting must be convened if shareholders with at least 10 % of the shares so demand in writing in order to deal with a given issue.

### ***Right to put items on the agenda of the general meeting***

A shareholder has the right to put items falling within the competence of the general meeting by virtue of the Limited Liability Companies Act on the agenda of the general meeting, if the shareholder so notifies the board of directors in writing well in advance of the general meeting so that the item can be added to the notice of the general meeting.

### ***Proxy document and proxy representative***

A shareholder may authorise a representative to act on his or her behalf at a general meeting. If the shares are nominee-registered, the representative may be, e.g. the custodian bank. The representative shall produce a proxy document or otherwise provide reliable evidence of the right to represent the shareholder.

### ***Voting rights and forms of decision-making***

At a general meeting, a shareholder may exercise all the votes carried by the shares that he or she held on the record date. The articles of association of some listed companies have, however, stipulations that restrict voting rights.

One share shall carry one vote in all matters that the general meeting deals with. However, the articles of association may state that different shares of the company carry different voting rights.

The decisions of a general meeting shall be made by majority or by qualified majority, in accordance with applicable law and the articles of association.

### ***Shareholder's right to request information and right to table proposals for resolutions***

At a general meeting, every shareholder has the right to request information about an item on the agenda of the meeting. The shareholder may send the question to be presented at the meeting to the company in advance. A shareholder also has the right to table proposals for resolutions at the meeting in matters that fall within the competence of the general meeting and that are on the agenda.

### ***Election of the board and auditor***

The right to elect the directors and auditors at the general meeting is one of the most important rights of the shareholders.

## **Governance model**

As a rule, Finnish listed companies use a so-called one-tier governance model, which, in addition to the general meeting, comprises the board of directors and the managing director. According to the Limited Liability Companies Act, a company may also have a supervisory board. Very few listed companies have supervisory boards.

## 2. GENERAL MEETING

The general meeting is the highest decision-making body of a limited company, where the shareholders participate in the supervision and control of the company. The company shall convene one annual general meeting each financial period. An extraordinary general meeting shall be convened when necessary. The shareholders exercise their rights to speak and vote at the general meeting.

### Recommendation 1 – Information on general meetings to shareholders

**Before a general meeting, sufficient information on the items to be dealt with shall be made available to the shareholders, and the information shall be kept available at least to the close of the general meeting.**

**The notice of the general meeting and the following information shall be made available on the company website at least 21 days before the general meeting:**

- **the total number of shares and voting rights according to classes of shares at the date of the notice**
- **the documents to be submitted to the general meeting**
- **a proposal for a resolution by the board or another competent body**
- **an item on the agenda of the general meeting with no proposal for a resolution.**

**In addition, the minutes of the general meeting including the voting results and the appendices of the minutes that are part of a decision made by the meeting, shall be posted on the company website within two weeks of the general meeting.**

The advance information allows the shareholders to evaluate whether they wish to attend the general meeting, present questions at the meeting and decide how they intend to vote. Shareholders who will not attend the meeting can thus also obtain information about the company. Recommendation 11 also deals with advance information.

An item on the agenda of the general meeting on which no decision is proposed may be, e.g. the report of the managing director.

The preparations of a general meeting start well in advance of the publication of the notice. The decision-making related to the notice and the practical measures related to the publi-

cation of the notice require that the company have sufficient time to deal with the proposals by the shareholders on items to be included in the notice. In practical terms, a shareholder must notify the company in writing of an item that he or she proposes for the agenda of an annual general meeting including justifications or a proposal for a resolution well in advance of the meeting, so that the company will have time to prepare the matter. The company gives on its website the mail or e-mail address to which shareholders should send such proposals. In addition, the company makes available on its website the proposals for resolutions on items included in the agenda that shareholders have sent to the company as soon as this is possible in practice.

According to the Rules of the Helsinki exchange, the notice of a general meeting and proposals of the board to the general meeting that have a material effect on the value of the securities shall be disclosed.

The notice of the general meeting shall contain the following information:

- the time and place of the general meeting
- the proposed agenda for the general meeting
- a description of the procedures that shareholders must comply with in order to be able to participate and to cast their vote at the general meeting
- the date on which a shareholder entered in the shareholder register has the right to participate in the general meeting and to cast his or her vote (so-called record date)
- where the documents and proposals for resolutions of the general meeting are available
- the address of the company website.

As the minutes of a general meeting and the voting results are presented on the company website, the shareholders who were not present at the general meeting also obtain information on the meeting and the voting results. However, the minutes and voting results presented on the company website shall not contain any lists of participants or voting instructions given by shareholders.

### Recommendation 2 – Organisation of the general meeting

**The general meeting shall be organised in a manner that permits shareholders to exercise their ownership rights effectively.**

When organising a general meeting, the company should strive to offer the shareholders a possibility to participate in the decision-making of the general meeting as extensively as possible.

## 3. BOARD

Especially in companies with an international ownership structure, the opportunities of shareholders to participate in general meetings vary. The company should use reasonable means to promote the participation possibilities of shareholders.

### Recommendation 3 – Attendance of directors, the managing director and auditor at a general meeting

**The managing director, the chairman of the board and a sufficient number of directors shall attend the general meeting. In addition, the auditor shall be present at the annual general meeting.**

The presence of the directors and the managing director at the general meeting is necessary to guarantee interaction between the shareholders and the management bodies of the company as well as the shareholders' right to present questions.

By exercising their right to present questions, the shareholders can obtain detailed information about matters that may have an impact on the evaluation of the financial statements, the financial position of the company or other issues on the agenda of the general meeting. It is particularly important that the managing director and the directors attend the annual general meeting. In case of an extraordinary general meeting, it may be sufficient, taking into account the nature of the issue to be dealt with, that the managing director, the chairman of the board and only some of the directors attend the meeting.

The presence of the auditor at the annual general meeting 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 some other issue on the agenda of the meeting.

### Recommendation 4 – Attendance of a prospective director at a general meeting

**A person proposed for the first time as director shall participate in the general meeting that decides on his or her election unless there are well-founded reasons for the absence.**

As a rule, a person proposed for the first time as director should attend the general meeting that decides on his or her election, in order to be introduced to the shareholders.

The board is responsible for the administration and the proper organisation of the operations of the company. The board supervises and controls the operative management of the company, appoints and dismisses the managing director, approves the strategic goals and the principles of risk management for the company and ensures the proper operation of the management system. According to good corporate governance, the board also ensures that the company has duly endorsed the corporate values applied to its operations.

The duty of the board 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 director.

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

The recommendations regarding the board are also applied to any deputy members.

### Recommendation 5 – Charter of the board

**The board shall draw up a written charter for its work and describe its essential contents.**

Efficient board work requires that the main duties and working principles of the board are defined in a written charter. The information that is obtained from the charter permits the shareholders to evaluate the operations of the board.

### Recommendation 6 – Meetings of the board

**The company shall report the number of board meetings held during the financial period as well as the attendance of the directors at the board meetings.**

The information on the number of board meetings and attendance of the directors permits the shareholders to evaluate the efficiency of board work. The attendance of the directors at the board meetings can be presented as the attendance of individual directors or the average attendance of all directors.

## Recommendation 7 – Performance evaluation of the board

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

To ensure the efficiency of board work, the operations and working methods of the board shall be subject to regular evaluation. This may be done as internal self-evaluation or by using an external evaluator.

## Recommendation 8 – Election of directors

**The general meeting shall elect the directors.**

By electing the directors, the shareholders contribute to the administration of the company, and thereby to the operations of the entire company, directly and efficiently. The recommendation is also applicable when the company has a supervisory board.

## Recommendation 9 – Number, composition and competence of the directors

**The number of the directors and the composition of the board shall make it possible for the board to discharge its duties in an efficient manner. The composition shall take into account the needs of the company operations and the development stage of the company. A person to be elected to the board shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. Both genders shall be represented on the board.**

With regard to the duties and efficient operations of the board, it is important that the board has a sufficient number of members and that the members have sufficient and versatile expertise as well as mutually complementing experience. The successful discharge of board duties requires knowledge of business operations or their different sections.

A director must have the possibility to engage in the company matters in a sufficiently extensive manner. Directors, and the chairman in particular, are often required to perform a considerable amount of work, both at board meetings and outside the meetings. When assessing the sufficiency of the time an individual director is able to devote, e.g. the director's main occupation, secondary occupations and simultaneous board memberships must be taken into account.

One element of a diverse composition of the board is to have both genders represented on the board. The board composition of many smaller companies does not meet the recommendation in this respect, and for these companies this will be a long-term goal.

## Recommendation 10 – Term of the directors

**The directors shall be elected for a term of one year.**

The shareholders shall have the possibility to evaluate the operations of the directors on a regular basis. Good corporate governance requires that the directors are evaluated and elected at the annual general meeting. Since the shareholders decide on the election and re-election of directors, it is not necessary to restrict the number of their successive terms of office.

## Recommendation 11 – Informing the shareholders of director candidates

**The proposal of the nomination committee for board composition shall be included in the notice of the general meeting. The same applies to a proposal for the composition of the board made by shareholders with at least 10 % of the votes carried by the company shares, provided that the candidates have given their consent to the election and the company has received information on the proposal sufficiently in advance so that it may be included in the notice of the general meeting. The candidates proposed in corresponding order thereafter shall be disclosed separately.**

**The company shall report the biographical details of the candidates for the board on its website.**

Since the election of directors is one of the most important decisions of the general meeting, the shareholders must be informed of the director candidates in a timely manner before the general meeting. Before disclosing the candidates, the company must make sure, however, that the candidates have given their consent to the election.

The presentation of biographical details about the candidates on the company website promotes the possibility of the shareholders to take a stand on the election, especially with regard to new director candidates. In this connection, the company may also present information on the independence of the can-

didates, if such information can be presented in an appropriate manner.

### **Recommendation 12 – Special order of appointment of the directors**

**If directors are to be appointed according to a specific order, in accordance with the articles of association, the company shall describe such appointment order in the notice of the general meeting.**

The articles of association may provide that less than half of the directors be appointed following another procedure than election by the general meeting. The special appointment procedure may concern the employees' right to appoint directors to the board, for instance. The provision of the articles of association concerning the appointment procedure shall be described in the notice of the general meeting so that shareholders are aware of the procedure of appointing directors.

### **Recommendation 13 – Right of the board to receive information**

**The company shall provide the board with sufficient information on the company operations.**

In order to discharge its duties, the board needs information about the structure, business operations and market of the company, and the company must provide the board with information on its operations according to company practice. In addition, a new director must be introduced to the operations of the company.

### ***Independence of directors***

### **Recommendation 14 – Number of independent directors**

**The majority of the directors shall be independent of the company. In addition, at least two of the directors representing this majority shall be independent of significant shareholders of the company.**

It is the duty of the board to supervise and control the operative management of the company. In order to avoid conflicts of interest, the majority of the directors should not have interdependent relationship with the company. Although it is recom-

mended that directors hold shares in the company, the majority 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 supports the objective that the board shall act in the interests of the company and all of its shareholders.

### **Recommendation 15 – Evaluation of independence**

**The board shall evaluate the independence of the directors and report which directors it determines to be independent of the company and which directors it determines to be independent of significant shareholders.**

**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 prior to the commencement of board membership;**
- c) the director receives from the company or from members of its operative management not insignificant remuneration for services or other advice not connected with the duties of the board, e.g. consulting assignments with the company;**
- d) the director belongs to the operative management of another company, and the two companies have, or have had in the past year, a customer, supplier or cooperation relationship significant to the other company;**
- e) the director belongs to the operative management of a company whose director is a member of the operative management of the first-mentioned company (interlocking control relationship); or**
- f) 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 the director is a partner or an employee in an audit firm that has been the company's auditor in the past three years.**

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**A director is not independent of a significant shareholder, if**

- g) the director exercises control in the company or has a relationship such as referred to in sub-sections a) to b) above to a party who exercises control in the company; or**
- h) the director is a significant shareholder of, or has a relationship such as referred to in sub-sections a) to b) above to a significant shareholder of the company. In this recommendation, a significant shareholder is defined as a shareholder who holds at least 10 % of all company shares or of the votes carried by all the shares.**

In addition, the board may, based on its overall evaluation, determine that a director is not independent of the company or a significant shareholder. E.g., the following circumstances shall be taken into account when making the overall evaluation of independence:

- i) the director participates in the same performance-related or share-related remuneration scheme as the management of the company, which may be of substantial financial significance to the director;**
- j) the director has been a non-executive director for more than 12 consecutive years;**
- k) private or legal persons who are related parties of the director have such circumstances 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.**

The above-mentioned criteria are divided into three categories. The existence of even one of the circumstances cited in sub-sections a) to f) above means that the director cannot be regarded as being independent of the company. Sub-sections g) to h) present the criteria based on which a director is determined not to be independent of a significant shareholder of the company. Sub-sections i) to l) deal with issues based on which the board may, after an overall evaluation, determine that the director is not independent of the company or a significant shareholder.

A shareholder who does not have the right to exercise at least 10% of the votes carried by the company shares or who does not hold at least 10 % of the company shares is, however, not

regarded as significant shareholder referred to in sub-section h) above, even though said shareholder is obliged to make a flagging announcement.

Companies belonging to the same group as the company are considered equal with the company. A company and another person are deemed related parties, if the person is able to exercise significant influence in the company's decision-making regarding its finances and business operations.

## **Recommendation 16 – Information reported on directors**

**The company shall report the following biographical details and information on the holdings of directors:**

- name
- year of birth
- education
- main occupation
- primary working experience
- date of commencement of board membership
- key positions of trust
- shares and share-related rights of the director and corporations over which he or she exercises control in the company and in companies belonging to the same group as the company.

Shareholders can, on the basis of information obtained about the board members, evaluate the operating preconditions of the directors and their relationship with the company.

## **Recommendation 17 – Obligation of directors to provide information**

**Each director shall provide the board with sufficient information that will allow the board to evaluate his or her qualifications and independence and notify the board of any changes in such information.**

The independence evaluation referred to in recommendation 15 requires that the company receive the necessary information from the directors. Each director must also supply the biographical details and information on holdings referred to in recommendation 16. In addition, a director must inform the company of any essential changes in the information supplied.

## 4. BOARD COMMITTEES

The proper function of the corporate governance of a company requires that board work be organised as efficiently as possible. The establishment of board committees may enhance the efficient preparation of matters within the competence of the board. The directors on the committees can concentrate on the matters delegated to the committee more extensively than the entire board.

The recommendations on board committees are applicable only if the company establishes a committee. If a company establishes a committee and departs from an individual recommendation on the committee, the company shall report and explain the departure. However, a company shall establish an audit committee, if the extent of the company's business requires it (recommendation 24). In addition, even companies that do not establish an audit committee shall carry out the duties assigned for the audit committee in recommendation 27.

### Recommendation 18 – Establishment of a committee

**Effective discharge of the duties of the board may require that board committees are established. Generally, the committees shall have at least three members.**

It may be necessary to establish board committees, in particular for the supervision of the company's reporting and control systems, the nomination of the management and the development of the company's remuneration policy. Especially in companies with extensive business operations, board committees improve the efficiency of board work.

The committees assist the board by preparing matters falling within the competence of the board. The board remains responsible for the duties assigned to the committees. The committees have no autonomous decision-making power, and thus the board makes the decisions within its competence collectively.

A committee may exceptionally consist of two members in companies with a board that has only a few members.

If necessary, the board may also establish other committees than those mentioned below, combine tasks assigned to various committees or decide that the entire board shall prepare a specific issue.

### Recommendation 19 – Reporting by a committee to the board

**A committee shall regularly report on its work to the board.**

The company may internally determine the reporting details and schedule. The reports shall include at least a summary of the matters addressed and the measures taken by the committee.

### Recommendation 20 – Charter of a committee

**The board shall confirm the central duties and operating principles of a committee in a written charter, the essential contents of which shall be described.**

A written charter determines the role of the committee in the company. The duties and operating principles must be defined in such a manner that the committee can operate efficiently.

### Recommendation 21 – Committee meetings

**The company shall report the number of committee meetings held during the financial period and the attendance of committee members at the meetings.**

The information on the number of committee meetings and attendance of the members permits the shareholders to evaluate how active the committee has been and subsequently also the efficiency of board work. The attendance of the members at committee meetings may be reported as attendance of individual members or as the average attendance of the members.

### Recommendation 22 – Appointment of members to the committees

**The board shall appoint from among the directors the members and the chairman of the committee.**

In view of the fact that the committees work to render assistance to the board and prepare matters falling within the competence of the board, the board shall appoint the members of the committees from among its members.

## Recommendation 23 – Describing the composition of a committee

**The company shall describe the composition of a committee.**

The information on committee members permits the shareholders to evaluate the relationship of the committee members with the company and the preconditions for efficient committee work.

### *Audit Committee*

## Recommendation 24 – Establishment of the audit committee

**The company shall establish an audit committee, if the extent of the company's business requires that a group with a more compact composition than the board deals with the preparation of matters pertaining to financial reporting and control.**

The extent of the company's business may require that some directors concentrate particularly on matters pertaining to financial reporting and control. The audit committee has better possibilities than the entire board to review questions pertaining to company finances and control and take care of the contacts with the auditors and the internal audit function.

## Recommendation 25 – Appointment of the members of the audit committee

**The audit committee shall comprise at least three members. The members shall have the qualifications necessary to perform the responsibilities of the audit committee, and at least one member shall have expertise specifically in accounting, bookkeeping or auditing.**

To ensure the efficient discharge of the duties of the audit committee, the committee shall have at least three members. The committee shall have sufficient expertise in accounting, bookkeeping, auditing, internal audit or practices related to financial statements, as the committee deals with matters pertaining to the financial reporting and control of the company. The expertise may be based on, e.g. experience in corporate management.

## Recommendation 26 – Independence of the members of the audit committee

**The members of the audit committee shall be independent of the company and at least one member shall be independent of significant shareholders.**

Due to the nature of the matters that the audit committee deals with, its members must be independent of the company as specified in recommendation 15 above, and at least one member must be independent of significant shareholders of the company.

## Recommendation 27 – Duties of the audit committee

**The board shall define the duties of the audit committee in the charter confirmed for the committee, based on the circumstances of the company.**

**The audit committee shall have at least the following duties:**

- **to monitor the reporting process of financial statements;**
- **to supervise the financial reporting process;**
- **to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems;**
- **to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement;**
- **to monitor the statutory audit of the financial statements and consolidated financial statements;**
- **to evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited; and**
- **to prepare the proposal for resolution on the election of the auditor.**

**If the company does not have an audit committee, the board shall discharge these duties or assign them to some other committee.**



In addition, the duties of the audit committee may comprise, e.g.

- monitoring the financial position of the company
- approval of the operating instructions for internal audit
- revision of the plans and reports of the internal audit function
- evaluation of compliance with laws and regulations
- contacts with the auditor and revision of the reports that the auditor prepares for the audit committee.

The duties of the audit committee shall be described in accordance with recommendation 20.

### ***Nomination Committee***

#### **Recommendation 28 – Establishment of the nomination committee**

**The board may establish a nomination committee to improve the efficient preparation of matters pertaining to the nomination and remuneration of directors.**

Identification of individuals suitable as directors and analysing the experience and skills of candidates prior to a proposal for a resolution to be presented to the general meeting is important with regard to ensuring and balancing the competence of the board. The preparation of the composition of the board and the identification of director candidates is an ongoing and long-term process. The evaluation of the independence of director candidates is part of this process. The board may improve the efficiency of the preparation of the election of directors by establishing a nomination committee. The establishment of a nomination committee promotes the transparency and systematic function of the election process.

It may be in the interest of the company and all its shareholders that the nomination committee is aware of the opinion of shareholders holding significant voting rights on the proposal for the appointment of directors under preparation.

If the board does not appoint a nomination committee from among the directors in accordance with recommendation 22, the company must describe the appointment process and explain its decision.

Proposals for directors shall be reported in accordance with recommendation 11.

#### **Recommendation 29 – Members of the nomination committee and appointment of members**

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

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

#### **Recommendation 30 – Duties of the nomination committee**

**The board shall define the duties of the nomination committee in the charter of the committee.**

The duties of the nomination committee shall be defined in the charter confirmed for the committee and they shall reflect the requirements of the company. The duties of the nomination committee may include, e.g.:

- to prepare the proposal for the appointment of directors to be presented to the general meeting
- to prepare the proposal to the general meeting on matters pertaining to the remuneration of directors
- to take care of the succession planning of directors
- to present the proposal for the appointment of directors to the general meeting.

In connection with the proposal for the appointment of directors, information on the independence of the candidates may also be presented, if the information can be given in an appropriate manner.

The duties of the nomination committee shall be described in accordance with recommendation 20.

## Remuneration Committee

### Recommendation 31 – Establishment of the remuneration committee

**The board may establish a remuneration committee to improve the efficient preparation of matters pertaining to the appointment and remuneration of the managing director and other executives of the company as well as the remuneration policy of the personnel.**

The remuneration committee can focus on the development of the remuneration policy of the managing director and other executives more efficiently than the entire board. The establishment of a remuneration committee promotes the transparency and systematic function of the company's remuneration policy.

### Recommendation 32 – Members of the remuneration committee

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

Due to the nature of the matters that the remuneration committee deals with, neither the managing director nor executive directors may be members of the committee.

### Recommendation 33 – Duties of the remuneration committee

**The board shall define the duties of the remuneration committee in the charter of the committee.**

The duties of the remuneration committee shall be defined in the charter confirmed for the committee, and they shall reflect the requirements of the company. The duties of the remuneration committee may include, e.g.:

- preparation of matters pertaining to the remuneration and other financial benefits of the managing director and deputy managing director
- preparation of matters pertaining to the remuneration of the persons belonging to the company management team and other company executives

- preparation of matters pertaining to the appointment of the managing director, deputy managing director and other executives of the company as well as the identification of their possible successors
- preparation of matters pertaining to the remuneration policy of the company.

The duties of the remuneration committee shall be described in accordance with recommendation 20.

## 5. MANAGING DIRECTOR

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. The board appoints and discharges the managing director and supervises his or her operations.

The managing director may undertake acts which, considering the scope and nature of the operations of the company, are unusual or extensive, only with the authorisation of the board. The managing director is responsible for ensuring that the company accounting practices comply with the law and that the financial matters are handled in a reliable manner.

### Recommendation 34 – Managing director's service contract

**The managing director's service terms and conditions shall be specified in writing in the managing director's service contract, which is approved by the board, and the financial benefits included in which shall be described.**

The position of the managing director in the company requires that the service terms and conditions of the managing director be specified in a written agreement approved by the board. The financial benefits included in the managing director's service contract shall be described in accordance with recommendation 44.

## 6. OTHER EXECUTIVES

### Recommendation 35 – Information on the managing director

**The company shall report the biographical details and information on the holdings of the managing director.**

In connection with the nomination, the company shall report the same biographical details and information on the holdings of the managing director as for the directors (see recommendation 16).

### Recommendation 36 – Managing director and chairman of the board

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

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

The company should clearly divide the areas of responsibility of the managing director and the chairman of the board to ensure that all the decision-making powers of the company are, in practice, not vested in a single individual. Generally, this means that the managing director cannot be elected board chairman. However, some special circumstances, such as the business area of the company, the extent or development phase of the operations or the ownership structure may justify the combination of these two roles.

If the company decides to appoint the same person as managing director and board chairman, it must report and explain the departure from the recommendation.

The operative management of the company is based on the management organisation adopted for the company. The management organisation is an important element of the company's corporate governance system. The organisation often comprises a management team, which assists the managing director in the performance of his or her duties. The management team has no official statutory position but, in practice, it has a significant role in the organisation of the company management.

The term other executives refers to the members of the company management team or, if the company has no management team, to the executives specified by the company.

### Recommendation 37 – Management organisation

**The company shall describe the organisation of the management. If the company has a management team, the company shall describe the composition and duties of the management team as well as the areas of responsibility of its members.**

The description of the management organisation must underline the operative nature of the management activities to make a distinction from the statutory management bodies of the company.

The management team refers to the company management team or a similar body that convenes regularly. The management team usually consists of executives of the company's operative business. The main duty of the management team is to assist the managing director.

### Recommendation 38 – Information on the members of the management team

**The company shall report the biographical details and information on the holdings of each member of the management team. If the company has no management team, the company shall define the other executives about whom the corresponding data shall be reported.**

The company shall report the same biographical details and information on the holdings of the other executives as for the directors (see recommendation 16).

## 7. REMUNERATION

A well-functioning remuneration policy is an essential tool for the implementation of good corporate governance. The purpose of the remuneration policy is to increase the commitment of the board, the managing director and other executives to promote the interests of the company and its shareholders.

In addition to the basic salary, the remuneration policy covers, e.g. performance-related remuneration schemes, pension schemes, and share and share-related remuneration schemes. In the share-related remuneration schemes, the remuneration is based on the development of the share value, or the remuneration scheme leads to shareholding. Such schemes are, e.g. bonus schemes based on the development of the share value, synthetic options and option rights.

The general meeting shall decide on the remuneration paid for board and committee work and on the basis for its definition.

A salary and remuneration report shall be issued on remuneration in accordance with recommendations included in this section 7.

### *Remuneration of the directors*

#### **Recommendation 39 – Remuneration and other benefits of the directors**

**The company shall describe the remuneration and other financial benefits of the directors for the financial period.**

**The company shall describe any financial benefits of the chairman of the board and the directors pertaining to their employment relationship or service contract, if applicable, in accordance with recommendation 44.**

The company shall describe the remuneration and other financial benefits of each director for board and committee work and other duties, if any, for the financial period. If the chairman of the board or a director has an employment relationship or service contract with the company (executive chairman; executive director) or acts as advisor of the company, the company shall describe the salaries and fees as well as other financial benefits paid for this duty during the financial period.

The payments by all companies belonging to the same group as the company are included in the salaries, fees and other financial benefits.

The information on the remuneration and benefits of the directors permits the shareholders to evaluate the amount of remuneration in relation to the contribution of the board to the achievement of the company goals. Open communication will also facilitate comparison of the remuneration and other benefits paid by different companies.

#### **Recommendation 40 – Payment of the remuneration of the directors in shares**

**The remuneration for board and committee work or part of the remuneration may be paid in the form of company shares.**

Shareholdings of the directors in the company promote good corporate governance. A good way of increasing the directors' shareholdings is to pay the remuneration or part of the remuneration for their board and committee work in the form of shares. On the other hand, the company must ensure compliance with insider regulations.

#### **Recommendation 41 – Participation of the directors in a share-related remuneration scheme**

**It is not recommended that a non-executive director participate in a share-related remuneration scheme.**

The use of share-related remuneration schemes to remunerate non-executive directors is, as a rule, not justified from the perspective of the interests of shareholders. This is because the participation of the board in the same share-related remuneration scheme as the other executives or personnel may deteriorate the implementation of the board's supervision duty and lead to conflicts of interest.

#### **Recommendation 42 – Information on share and share-related remuneration of directors**

**The company shall describe the number of shares and share-related rights granted to the directors as remuneration during the financial period.**

The company shall describe the number of shares granted to each of the directors as remuneration for board and committee work in the same manner as the other remuneration and financial benefits. If directors participate in share-related remuneration schemes, the fees based on such schemes shall also be described.

Information on the shareholdings of the directors is available in the company's insider register.

### **Remuneration of the managing director and other executives**

#### **Recommendation 43 – Remuneration policy and the principles and decision-making process regarding remuneration**

The company shall describe the principles and decision-making process concerning the remuneration policy covering the managing director and other executives, e.g. the division of the salaries and fees into a fixed and variable part, as well as main information on how the variable parts of the salary and fees are defined, on share and share-related remuneration schemes and additional pension schemes.

The information on the remuneration policy and the principles governing it permits the shareholders to evaluate the incentive effect of the policy from the perspective of enhancing the performance and shareholder value of the company. The transparency of the remuneration policy promotes the creation of schemes that are more competitive and motivate to the achievement of targets.

The board shall decide on the remuneration of the managing director. The company shall specify the body that determines the remuneration of the other executives. It is generally appropriate that the body that appointed the person also decides on the remuneration. The preparation of remuneration matters may be delegated to the remuneration committee of the board.

Pursuant to the Limited Liability Companies Act, the general meeting shall decide on the issue of shares or option rights or authorise the board to do so.

#### **Recommendation 44 – Information on the service contract**

The company shall describe the following financial benefits based on the service contract of the managing director:

- salaries and other benefits for the financial period
- shares and share-related rights granted as remuneration during the financial period
- retirement age and the criteria for the determination of pension, and
- period of notice, salary for the period of notice and the terms and conditions of other possible compensation payable based on termination.

Due to the significant position of the managing director, it is important to give the shareholders detailed information on his or her financial benefits. The information permits the 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 or her. Open communication also facilitates comparison of the financial benefits granted to the managing directors of different companies.

## 8. INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

The purpose of internal control and risk management is to ensure the effective and profitable operations of the company, reliable information and compliance with the relevant regulations and operating principles. Another aim is to be able to identify, evaluate and monitor risks related to the business operations. Internal control helps to improve the efficient fulfilment of the board's supervision obligation. Recommendation 51 deals with the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement.

### Recommendation 45 – Operating principles of internal control

**The company shall define the operating principles of internal control.**

To ensure its profitable operations the company must regularly control its activities. The board ensures that the company has defined the operating principles of internal control and monitors the function of such control.

### Recommendation 46 – Organisation of risk management

**The company shall describe the major risks and uncertainties that the board is aware of and the principles along which risk management is organised.**

Risk management is part of the company's control 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 definition of the risk management principles. For the evaluation of the operations of the company, it is important to provide sufficient information on risk management. Legislation requires that the report by the board of directors contain an evaluation of the major risks and uncertainties. In addition, the interim reports and financial statements releases shall describe major short-term risks and uncertainties related to the business operations.

### Recommendation 47 – Internal audit

**The company shall describe the manner in which the internal audit function of the company is organised.**

The description must include the organisation of the internal audit function and the central principles applied to internal audits, such as the reporting principles. The organisation and working methods of the internal audit function depend on, e.g. the nature and scope of the company's operations, the number of personnel and other corresponding factors.

## 9. INSIDER ADMINISTRATION

The transparency of the shareholding and trading of insiders promotes the trust in the securities market. The efficient administration of insider matters in a listed company requires that the insider administration is systematically and reliably organised.

### Recommendation 48 – The company's insider administration

**The company shall comply with the Guidelines for Insiders issued by the Helsinki exchange and describe its essential insider administration procedures.**

Compliance with the Guidelines for Insiders issued for listed companies by the Helsinki exchange harmonises and improves the administration of insider matters. The information on the insider administration procedures permits the shareholders to evaluate the insider administration of the company.

## 10. AUDIT

The auditor has an important role as a controlling body appointed by the shareholders. The audits give shareholders an independent opinion on how the financial statements and report by the board of directors of the company have been drawn up and the accounting and administration of the company have been managed. Placing the audit under competition may increase the efficiency and independence of the audit.

### Recommendation 49 – Information on auditor candidates

**The proposal for the auditor by the audit committee or board shall be included in the notice of the general meeting. The same applies to a proposal made by shareholders with at least 10 % of the votes carried by the company shares, provided that the candidate has given his or her consent to the election and the company has received information on the proposal sufficiently in advance so that it may be included in the notice of the general meeting. If the board is not aware of a prospective auditor when the notice is published, a candidate proposed in corresponding order shall be disclosed separately.**

Since the election of the auditor is one of the most important decisions of the general meeting, the shareholders must be informed of the auditor candidate in a timely manner before the general meeting. The preparation of the election of the auditor shall be delegated to the audit committee, if the company has an audit committee (see recommendation 27).

When electing the auditor, it must be taken into account that the aggregate duration of the consecutive terms of an auditor may not exceed seven years. The seven-year rule applies only to the auditor with main responsibility, not to an audit firm.

### Recommendation 50 – Auditor's fees and fees for non-audit services

**The company shall report the fees of the auditor for the financial period. If the auditor has received fees for non-audit services, such fees shall be reported separately.**

The information on the fees of the auditor permits the shareholders to evaluate the operations of the auditor. Since the auditor controls the company on behalf of the shareholders, the shareholders must also be given information on fees paid to the auditor for non-audit services.

Companies belonging to the same group or chain as the audit firm as well as companies controlled by the auditor are considered equal with the auditor.

The fees paid by all companies belonging to the same group as the company are reported as fees.

## 11. COMMUNICATIONS

The good corporate governance of a listed company requires a reliable, up-to-date distribution of information. This supports the well-founded price development of the shares and promotes trust in the securities market. The information given by the company makes it possible to evaluate the function of the company's corporate governance system and to make decisions on holdings.

In addition to the contents of the information distributed, the clarity of presentation and electronic distribution of information promote transparency and improve the possibilities to obtain information.

### Recommendation 51 – Corporate governance statement

**In connection with the financial statements and report by the board of directors, the company shall issue a separate corporate governance statement.**

**The company shall present at least the following entities in the statement:**

- **information on compliance with this Code**
- **if the company has departed from an individual recommendation, information on this as well as the explanation for the departure**
- **the address of the website on which this Code is publicly available**
- **a description of the main features of the internal control and risk management systems pertaining to the financial reporting process**
- **a description of the composition and operations of the board and board committees**
- **a description of the body that is responsible for the duties of the audit committee**
- **information on the managing director and his or her duties**
- **a description of the composition and operations of the supervisory board, where applicable.**

The law requires the company to present its corporate governance statement in the report by the board of directors or as a separate report. The separate report shall be disclosed together with the report by the board of directors or made available on the company website simultaneously. The contents of the report are also based on legislation.

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 easily be found in a separate report.

The audit committee or some other competent committee shall review the corporate governance statement. If the company has no audit committee or other competent committee, the board shall review the statement. The auditor shall check that the statement has been issued and that the description of internal control and risk management is consistent with the financial statements.

The description of the main features of the internal control and risk management systems pertaining to the financial reporting process outlines the manner in which the company's internal control and risk management function is organised in order to ensure that the financial reports disclosed by the company give essentially correct information about the company finances. The description is given at group level.

The description of the composition and operations of the board and the board committees shall contain the following information:

- composition of the board and biographical details
- number of board meetings during the previous financial period and the attendance of the members at the meetings
- special order of appointment of directors, if applicable
- board members who are independent of the company and significant shareholders
- committees appointed by the board, if any
  - composition of the committees
  - number of committee meetings during the previous financial period and the attendance of the committee members at the meetings.

The description of the composition and operations of a supervisory board, where there is one, shall contain corresponding information for applicable parts.

In addition to the biographical details of the managing director, the description shall contain information on his or her duties.



## **Investor information on the company website**

The investor information on the company website provides information about the company to shareholders and other investors. This recommendation presents a summary of the information that shall be made available on the company website in accordance with the different recommendations of this Code, information required by law or other regulation as well as other information that promotes the investors' ability to obtain information about the company.

## **Recommendation 52 – Investor information on the company website**

The company shall present the information mentioned below on its website:

**Corporate governance statement**  
(see recommendation 51)

### **General meeting**

- notice of the general meeting and the following information prior to the meeting:
  - the total number of shares and voting rights according to classes of shares at the date of the notice
  - the documents to be submitted to the general meeting
  - a proposal for a resolution by the board or another competent body
  - an item on the agenda of the general meeting with no proposal for a resolution
- the minutes of the general meeting including the voting results and the appendices of the minutes that are part of a decision made by the meeting

### **The board and its committees, if any**

- the information mentioned in recommendation 51
- biographical details of the director candidates
- biographical details of the directors
- shares and share-related rights of the director and corporations over which he or she exercises control in the company and in companies belonging to the same group as the company
- essential contents of the charter of the board
- essential contents of the charters of the committees

### **Managing director and other executives**

- biographical details of the managing director
- shares and share-related rights of the managing director and corporations over which he or she exercises control in the company and in companies belonging to the same group as the company
- financial benefits included in the managing director's service contract (see remuneration below)

- organisation of the management as well as the composition, duties and areas of responsibility of the members of the management team
- biographical details of the other executives
- shares and share-related rights of other executives and corporations over which they exercise control in the company and in companies belonging to the same group as the company

### **Remuneration**

- remuneration and other financial benefits of a director
- the number of shares and share-related rights granted to a director as remuneration
- remuneration policy of the managing director and other executives
  - principles
    - > division of the salaries and fees into a fixed and variable part
    - > main information on how the variable parts of the salary and fees are defined
    - > main information on share and share-related remuneration schemes
    - > main information on additional pension schemes
  - decision-making process
- financial benefits pertaining to the employment relationship or service contract of the managing director and the chairman of the board as well as a director, if applicable, e.g.
  - salaries and other benefits
  - shares and share-related rights granted as remuneration
  - retirement age and criteria for the determination of pension
  - period of notice, salary for the period of notice and the terms and conditions of other possible compensation payable based on termination
- for a member of the supervisory board, where there is one
  - principles of remuneration
  - remuneration and other financial benefits
  - shares and share-related rights granted as remuneration

### **Risk management and control**

- a description of the main features of the internal control and risk management systems pertaining to the financial reporting process mentioned in recommendation 51
- the principles along which risk management is organised
- the major risks and uncertainties that the board is aware of

>>>

- organisation of the internal audit function
- essential procedures of the insider administration

#### Audit

- auditor
- auditor's fees
- fees paid to the auditor for non-audit services

#### Other matters to be presented

- information that the company has disclosed based on the disclosure obligation of a listed company
- articles of association
- redemption clauses included in the articles of association, if any
- shares, share capital and major shareholders as well as the flagging announcements for the past 12 months
- shareholder agreements that the company is aware of
- financial statements and the report by the board of directors as well as the auditors' report and annual report for the previous financial period, if any
- a calendar of events, including
  - the date of disclosure of the financial statements release
  - the date of disclosure of interim reports
  - the date of disclosure of interim management statements, if any
  - the date of the annual general meeting
  - the week during which the financial statements and report by the board of directors are disclosed
- the information mentioned in recommendation 51 on the supervisory board, where there is one

The open and clear presentation of investor information makes it easier to get an overall picture of the operations of the company. It is of central importance that the entities are clearly defined and can easily be found on the company website in an investor-friendly manner. The information may be presented on the company website by using technical solutions of various kinds.

The company shall update the information on its website at certain intervals, in accordance with its own practices, so that the information on the website is up to date. It is practicable to present most of the information required as of the end of the previous financial period. After the annual general meeting, the company should, however, update the information on its website, when necessary.

## 12. EFFECTIVE DATE

### Main rule

The Code shall replace the Corporate Governance Recommendation for Listed Companies issued in December 2003. The Code will enter into force on 1 January 2009. The Code may, however, be applied immediately after it has been issued.

### Deviations

#### General

The decisions by a general meeting possibly required by the application of the Code can be made at the first annual general meeting after the effective date of the Code. A company does not have to account for or explain a practice in accordance with the recommendation issued in 2003 that departs from this Code regarding, e.g. the independence of board committees or the directors before said annual general meeting.

#### Recommendation 1

Recommendation 1 contains obligations set by the directive on the exercise of certain rights of shareholders (2007/36/EC), which the member states must bring into force by 3 August 2009. Recommendation 1 will become effective on 3 August 2009. Companies must follow said recommendation regarding general meetings held after the recommendation has become effective. Before recommendation 1 has become effective, companies shall see to it that sufficient information on the issues on the agenda is made available to shareholders before a general meeting.

#### Recommendation 9

The requirement in recommendation 9 according to which both genders shall be represented on the board becomes applicable from the first annual general meeting held after 1 January 2010.

#### Recommendation 51

Recommendation 51 deals with the corporate governance statement, the issue of which is based on the Act on the Amendment of the Securities Markets Act (392/2008). The contents of the corporate governance statement are based on the Decree of the Ministry of Finance on the amendment of the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security (393/2008). According to the act and decree, the corporate governance statement shall be issued for the first time for a financial period commencing after 1 September 2008. Consequently, the corporate governance statement in accordance with recommendation 51 shall be issued for a financial period commencing on 1 September 2008 or later.



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