



December 2003

# Corporate Governance Recommendation for Listed Companies



## Corporate Governance working group

HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers appointed a working group on 17 February 2003 to clarify the need of reviewing the corporate governance recommendation for listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in 1997. The parties that had appointed the working group noted that the appointment of the corporate governance working group was necessary due to the increased importance of the effectiveness of the corporate governance of listed companies and that of disclosure practices. In recent years, a number of international corporate governance codes have also been updated, and the Finnish practices needed to be examined also from this perspective.

Mr. Pekka Merilampi, Attorney-at-law, was appointed Chairman of the working group.

The following persons acted as members of the working group:

Mr. Lars Blomquist, B.Sc. (Econ.), APA

Ms. Ilona Ervasti-Vaintola, Chief Counsel, Executive Vice President

Mr. Jyrki Kurkinen, Senior Vice President, Legal Affairs

Ms. Anne Leppälä-Nilsson, Vice President, Legal Affairs

Mr. Elmar Paananen, Executive Vice Chairman

Ms. Ursula Ranin, Vice President, General Counsel

Mr. Jukka Ruuska, President

Mr. Matti Vuoria, Executive Chairman

The Secretariat of the working group consisted of Mr. Jaakko Raulo, Director, and Ms. Tiina Kairinen, Legal Counsel,

HEX Plc; Ms. Leena Linnainmaa, Deputy Director, the Central Chamber of Commerce of Finland; and Mr. Antti Maijala, Head of Department, Confederation of Finnish Industry and Employers. Ms. Salla Tuominen, Legal Counsel, and Ms. Sari Suvanto, Specialist, HEX Plc, and Ms. Anne Horttanainen, Legal Counsel, the Central Chamber of Commerce of Finland, prepared documentary underlay for the working group.

The working group convened 19 times during March – November 2003. For the purpose of drafting the Recommendation, the working group has studied recent corporate governance developments particularly within the European Union and in the United States. In addition, the working group has analysed the practices applied in Finnish listed companies. In the course of its work, the working group has sought the opinions of Ms. Anna-Maija Simola, Chairman of the Finnish Association of Authorized Public Accountants; Mr. Petri Kuusisto, Director Investments, Varma Sampo Mutual Pension Insurance Company; and Mr. Pekka Timonen, Chief Counsellor, Ministry of Trade and Industry.

The working group decided to propose the following Corporate Governance Recommendation for Listed Companies (“Recommendation”). In this connection, the working group also notes that corporate governance practices have no internationally defined form and that they will continue to evolve also in the future. The local and international developments should therefore be monitored and the Recommendation updated accordingly.



THE CENTRAL CHAMBER OF COMMERCE OF FINLAND



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# 1 Introduction

## Goals of the Recommendation

The high quality of corporate governance as well as transparent disclosure practices of listed companies are increasingly important selection criteria for investors. From the perspective of investors, clearly defined procedures consistent with international practices are facilitating factors for their reasoned investment decisions. This is of major importance in Finland where shares of listed companies are by international standards exceptionally widely held by foreign investors.

The corporate, accounting and securities markets laws as well as the rules of the Helsinki Exchanges contain regulations concerning the governance and disclosure practices of Finnish listed companies. The regulations on protection of minority shareholders and exercise of the rights of ownership and possession are embedded in the Companies Act. In other words, the law includes detailed compelling regulations on the right to vote, obtain information and submit proposals as well as general meetings of shareholders. The Companies Act also provides for non-discriminating treatment of shareholders.

Since the corporate governance of listed companies in Finland is primarily based on compelling legislation and self-regulation, this Recommendation is designed to complement the statutory procedures.

The goal of the Recommendation is to harmonise the practices of listed companies, improve transparency of their operations, harmonise the information given to shareholders and improve the quality of disclosure. This will help increase local and international investors' interest in Finnish listed companies and promote trust in the functioning of the securities markets.

## Structure of the Recommendation

The goals, structure and scope of implementation of the Recommendation as a whole are presented in Section 1. The individual recommendations are presented in Sections 2–12 and the specifics concerning entry into force in Section 13.

The general principles of the main subject of each section are presented in the respective introduction. The individual recommendations are presented in bold text and marked with running numbers. An explanatory section including the justifications of the recommendation and some specifying aspects follows each recommendation. The explanations also present examples of situations where it may be reasonable to deviate from the relevant recommendation.

## Implementation of the Recommendation

The Recommendation is intended to be complied with by companies listed on the Helsinki Exchanges, provided that it is not in conflict with the compelling regulations applicable in the domicile of the company. The term “company” is used in the recommendations and explanatory sections, and the terms “listed company” or “limited company” are used only where the context so requires.

Listed companies vary from each other in their ownership structure, area of business and extent of their operations. There are also significant differences in their administrative structures. A major part of the listed Finnish companies are medium or small-sized companies in international terms. It is, however, important that the Recommendation reflects the international developments of corporate governance.

The Recommendation uses the terms “describe” or “report” to describe the dissemination of information to shareholders. Unless otherwise provided, the information shall in all such cases be disclosed at least in the annual report and on the Internet website of the company. If the company does not issue an annual report, the information must be given in connection with the notes to the financial statements.

The Recommendation has been prepared in accordance with the “Comply or Explain” principle, i.e. the company should comply with the entire Recommendation, and if it wishes to deviate from the Recommendation, it should account for such deviation and provide the explanation for doing so. The company must give information on compliance of this Recommendation both in its annual report and on its website.

## 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 must summon one annual general meeting during each financial year. An extraordinary general meeting is to be convened when necessary. The shareholders exercise their rights of vote and action at the general meetings.

### Recommendation 1

#### Advance information to shareholders

**Before general meeting, sufficient information of the matters to be dealt with at the general meeting shall be made available to the shareholders.**

The advance information permits the shareholders to evaluate whether they need to attend the general meeting, decide how they wish to vote and whether they wish to present further questions at the meeting. Shareholders unable to attend the meeting can thus also obtain information on the company and take decisions concerning their shareholdings. The company provides advance information in the invitation to the general meeting and other listed company releases as well as on its websites.

### Recommendation 2

#### Organisation of the general meeting

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

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

### Recommendation 3

#### Attendance of directors and the managing director in the general meeting

**The managing director, the chairman of the board and a sufficient number of directors shall attend the general meeting.**

The presence of the directors and the managing director 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 attain more detailed information about matters that may impact the evaluation of the financial statements, the financial position of the company or other matters to be dealt with by the general meeting. Participation of the managing director

and the directors in the annual general meeting is particularly important. 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 and only a part of the directors attend the meeting.

### Recommendation 4

#### Attendance of a prospective director in a general meeting

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

A person proposed for the first time as director shall in principle participate in the general meeting that decides on his/her election, in order to be introduced to the shareholders.

## 3 Supervisory board

In accordance with the Companies Act, a company may have a supervisory board that supervises the management of the company and presents its opinion on the financial statements and on the auditor's reports to the general meeting. The supervisory board may also issue instructions for the purposes of advising the board in matters, which are extensive or important in principle.

The practice of using supervisory boards has been on the decline in recent years. One possible reason for this may be that the practical possibilities of a supervisory board to supervise the management of the company are of minor significance.

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### Recommendation 5

#### Limitation of the powers of the supervisory board

**If the company has a supervisory board, its powers shall be restricted to supervision of the management and issuing of instructions.**

A one-tier management model where the management of the company consists of the board and the managing director facilitates the effective operation of the company. In the one-tier management model, the duties and areas of responsibility of the board and the managing director are clear.

In a two-tier management model, the shareholders delegate part of their decision-making power vested in the general meeting to the supervisory board. Consequently, ownership control is implemented more directly and effectively through the one-tier management model.

If the company opts for a two-tier management model including a supervisory board, the powers of the supervisory board should be restricted in the articles of association to the permitted minimum. Thereby the general meeting will elect the board, and the board will appoint the managing director. The supervisory board must, however, always discharge the duties pertaining to it pursuant to compelling legislation.

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### Recommendation 6

#### Information on the supervisory board

**The company shall describe the duties and the operation principles of the supervisory board as well as the criteria for compensation of the members of the supervisory board.**

The information of the duties, operating principles and compensation criteria of the supervisory board permits the shareholders to evaluate the effectiveness of the operations of the supervisory board.

## 4 Board

The board is responsible for supervising the management and the proper organisation of the operations of the company. The board gives orders and instructions to 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 must also ensure that the company has duly endorsed the corporate values applied to its operations.

The duty of the board is to promote the interests of the company and those of all of its shareholders. The directors do not represent the interests of the parties who have proposed their election as members of the board.

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### Recommendation 7

#### Charter of the board

**The company shall adopt a written charter for its work and describe its essential content.**

Efficient operation of the board requires, that the essential duties and working principles of the board be defined in a written charter. The information that can be obtained from the charter permits the shareholders to evaluate the operation of the board.

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### Recommendation 8

#### Meetings of the board

**The company shall report the number of board meetings held during the reporting year as well as the average attendance of directors at the board meetings.**

The information on the number of board meetings and attendance frequency permits the shareholders to evaluate the effectiveness of board work. The average attendance of directors at the board meetings can be presented as a percentage figure calculated on the basis of the meetings held and the number of attending directors.

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### Recommendation 9

#### Performance evaluation of the board

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

To ensure the effectiveness of board work, the performance and working methods of the board shall be evaluated regularly. This can be done as an internal self-evaluation or by using an external evaluator.

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### Recommendation 10

#### Election of the directors

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

According to the main rule of the Companies Act, the general meeting shall elect the directors. By electing the directors, the

shareholders can contribute to the management and thereby to the operation of the entire company.

If the company has a supervisory board, it elects the directors pursuant to the Companies Act unless otherwise provided in the articles of association. However, to ensure effective and direct ownership control, the directors should be elected by the general meeting even if the company has a supervisory board. The working group that has prepared the reform of the Companies Act suggests also that the general meeting should elect the directors.

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### Recommendation 11

#### Number of the directors

**The board shall comprise at least five directors.**

To ensure the effective implementation of the duties of the board, it should comprise at least five directors.

In some circumstances, however, it may be justified to elect less than five directors. In a relatively small company, a board consisting of three directors may be able to adequately discharge the duties pertaining to the board.

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### Recommendation 12

#### Term of the directors

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

The shareholders should have the possibility to regularly evaluate the activities of the directors. To ensure effective ownership control, the directors should be evaluated and elected annually at the 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.

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### Recommendation 13

#### Notification of proposed director candidates to shareholders

**The prospective director candidates notified to the board shall be disclosed in the invitation to the general meeting, provided that the proposal has been made by the nomination committee or if the candidate is supported by at least 10 % of the total votes of all the shares of the company and the candidate has given his/her consent to the election. The candidates proposed after the delivery of the invitation shall be disclosed separately.**

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

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### Recommendation 14

#### Special order of appointment of the directors

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

The articles of association can provide that less than half of the directors are appointed following another procedure instead of election by the general meeting. A special appointment procedure can for example concern the employees' right to appoint directors to the board. The relevant provision concerning the appointment procedure must be disclosed in the invitation to the general meeting to ensure that shareholders are informed of the procedure for appointment of directors.

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### Recommendation 15

#### Qualifications of the directors

**A person elected as director shall have the qualifications required to discharge directors' duties and the possibility to devote sufficient time for the work.**

Successful board work requires knowledge of the business operations. It is imperative for the board work and its effective functioning that the board is composed of directors with versatile and mutually complementing capabilities and skills. The age mix and the proportion of both sexes can also be taken into account in the composition of the board.

Every director should have the possibility to pay sufficient attention to the matters of the company. Directors, in particular the board chairman, are often required to render significant input for the benefit of the company even outside the board meetings. Factors that impact the sufficiency evaluation of the time available to the director for this work include among other things the director's main occupation, secondary occupations and other simultaneous board memberships.

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### Recommendation 16

#### Right of directors to receive information

**The company shall provide sufficient information of the operations of the company to the directors.**

In order to discharge their duties the directors need information about the structure, business operations and markets of the company. A new director must be introduced to the operations of the company, and the directors must be provided with necessary information on the operations of the company on a regular basis.

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### Recommendation 17

#### Independence of directors

**The majority of all 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.**

The duties of the board consist of supervision and control of the operative management of the company. This task requires that the majority of directors should have no interdependent relationship to the company. Although it is recommended that directors hold shares in the company, the majority consisting of independent directors should include at least two directors independent of significant shareholders of the company. Such composition of the board supports the objective that the board should act in the interests of the company and all of its shareholders.

## **Recommendation 18**

### **Evaluation of independence**

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

**A director is not independent of the company if**

- a) the director has an employment relationship with, or holds a position in, the company;**
- b) the director has had an employment relationship with, or held a position in, the company during the last three years prior to the inception of the board membership;**
- c) the director receives from the company or from a member of its operative management not insignificant compensation for services or other advice not connected with the duties of the board, e.g. if the director works on consulting assignments for the company;**
- d) the director belongs to the operative management of another company, and the two companies have a customer, supplier or cooperation relationship significant to the other company; or**
- e) the director belongs to the operative management of another company whose director is a member of the operative management in the first company (interlocking control relationship).**

**In addition, the board can on the basis of its overall evaluation determine that a director is not independent of the company if**

- f) the director participates in a performance-based or share-related compensation system of the company. The financial significance of the compensation system shall be taken into account; or**
- g) the company is aware of other factors that may compromise the independence of the director and the directors ability to impartially represent all shareholders.**

**A director is not independent of a significant shareholder of the company if**

- h) the director exercises dominant influence such as referred to in Chapter 1, Section 3 of the Companies Act<sup>1)</sup>, in the company, or has a relationship such as**

**referred to in sub-sections a) – b) above to a party who exercises dominant influence in the company; or**

- i) the director is a significant shareholder of, or has a relationship such as referred to in sub-sections a) – b) above to, a significant shareholder of the company. Significant shareholder means a shareholder who holds at least 10 % of all the shares or of the aggregate votes in the company.**

**In all situations, when evaluating independence, also the circumstances of private individuals or legal entities closely affiliated to the member, such as referred to in Chapter 1, Section 4 of the Companies Act<sup>2)</sup>, shall be taken into consideration. Companies belonging to the same group with the company are comparable to the company.**

There is no internationally prescribed form for the independence criteria. The above-mentioned criteria are divided into three categories. In the first category, the existence of even one of the circumstances cited in sub-sections a) – e) above means that the director cannot be determined to be independent of the company. Sub-sections f) – g) deal with issues on the basis of which the board may after the evaluation determine that the director is not independent. Sub-sections h) – i) present the criteria on the basis of which board members are determined not to be independent of significant shareholders of the company.

## **Recommendation 19**

### **Biographical details and holdings of directors**

**The company shall report the following information on directors:**

- name**
- year of birth**
- education**
- main occupation**
- primary working experience**
- date of inception of the board membership began**
- other simultaneous key positions of trust**
- shareholdings in the company**
- holdings and rights based on a share-related compensation system of the company**

The information on the board members and their holdings permits the shareholders to evaluate the operating capabilities of board members and their relationships to the company.

## **Recommendation 20**

### **Obligation to provide information to directors**

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

The independence evaluation referred to in recommendation 18 requires that the company receive the necessary information from the directors. Each director must also supply the biograph-



ical details and ownership information referred to in recommendation 19. Directors must inform the company of any essential changes in the information supplied by them.

#### 1) Chapter 1, Section 3 of the Companies Act:

If a limited liability company exercises dominant influence over another domestic or foreign organisation, the former shall be a parent company and the latter shall be a subsidiary organisation. A parent company together with its subsidiary/ies forms a group.

A limited liability company shall be deemed to exercise dominant influence over another organisation, when it has:

1. a majority of the voting rights attached to all the shares, memberships or participants and this majority of voting rights is based on ownership, membership, Articles of Association, company agreement or rules corresponding thereto or other contract; or
2. the right to appoint the majority of the members of the Board of Directors or other corresponding body of the other organisation or of a body with such power of appointment and the right of appointment is based on the same facts as the majority of voting rights referred to in paragraph 1.

When calculating the portion of voting rights in a limited liability company referred to in paragraph 2, a voting restriction based on the law, Articles of Association, company agreement or rules corresponding thereto shall not be taken into account. When calculating the total numbers of votes in an organisation, the votes attaching to shares, memberships or participations belonging to the organisation itself or its subsidiary organisation or to a foundation under the influence of the organisation or its subsidiary organisation in the manner referred to in this section shall not be taken into account.

A limited liability company shall exercise dominant influence over another organisation also when the limited liability company together with one or more of its subsidiary organisations or a subsidiary organisation either alone or together with other subsidiary organisations exercises the influence referred to in paragraph 2.

If a foreign company corresponding to a limited liability company exercises the influence referred to above over a Finnish limited liability company, the foreign company shall be deemed a parent company and the Finnish company subsidiary organisation in the application of the provisions chapter 11, sections 7 and 11, paragraph 3 as well as chapter 12, section 7, paragraphs 1 and 2.

#### 2) Chapter 1, Section 4 of the Companies Act

The related entities of a company shall consist of:

1. anyone who exercises the dominant influence referred to in section 3, paragraphs 2-4 in the company or who is under the control of anyone exercising dominant influence over the company or who belongs to the same group as company;
2. anyone who, on the bases of ownership, an option right or a convertible loan, holds or may hold at least one percent of the shares of the company or of the voting rights attached to shares of the company or a corresponding holding or corresponding voting rights in an organisation belonging to the group of the company or in an organisation or foundation exercising dominant influence over the company;
3. the Managing Director, member of the Board of Directors or Supervisory Board of the company and the auditor of the company as well as a person in a corresponding position in an organisation or foundation referred to in paragraph 1;
4. the spouse of a person referred to in subparagraphs 1-3 or a person having a common-law marital relationship with him, his sibling, half-sister or half-brother, a direct ascendant or descendant of a person referred to in paragraphs 1-3 and of his spouse or a person with a common-law marital relationship with him as well as the spouses or common-law spouses of the persons referred to ; as well as
5. an organisation or foundation over which a person referred to in subparagraphs 2-4 either alone or together with another person exercises the dominant influence referred to in section 3, paragraphs 2-4.

When calculating the holding or voting rights referred to in paragraph 1, subparagraph 2, the provisions of section 3, paragraph 3 shall be applied, and holdings and voting rights of a shareholder or member of the company shall include the holdings and voting rights of a person having him a relationship referred to in paragraph 1, subparagraph 4 as well as those of an organisation and foundation having with him a relationship referred to in subparagraph 5.

## 5 Board Committees

The proper functioning of the management and proper organisation of the operations of a limited company requires an effective organisation of the duties of the board. Establishing committees composed of some directors can enhance the effectiveness of preparation of matters belonging to the competence of the board. Directors working in the committees have the possibility to concentrate on the matters delegated to them more extensively than the entire board.

### Recommendation 21

#### Establishment of a committee

**Effective organisation of the duties of the board may require establishment of board committees.**

It may be necessary to establish board committees in particular for the supervision of the reporting and control systems, nomination of the management and the development of compensation systems of the company. Especially in companies that have extensive business operations, board committees increase the effectiveness of board work.

The committees assist the board by preparing matters belonging to the competence of the board. The entire board remains responsible for the duties assigned to the committees. The committees have no autonomous decision-making power and thus the board makes collectively the decisions pertaining to it.

If necessary, the board can also establish other committees in addition to those mentioned below in this Recommendation, and combine tasks assigned to various committees and decide that the entire board shall prepare a specific issue.

### Recommendation 22

#### Reporting by the committees to the board

**Each committee shall regularly report on their work to the board.**

The company can internally determine the reporting details and schedule. As a minimum, the report shall include a summary of the matters addressed and the measures undertaken by the committee.

### Recommendation 23

#### Charter of the committee

**The board shall approve a written charter for the committee's work and describe its essential content.**

A written charter helps to clarify the role of the committee in the company. Its duties and operating principles must be defined in a way enabling the effective function of the committee.

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## Recommendation 24

### Committee meetings

**The company shall report the number of committee meetings held during the reporting year.**

The information regarding the number of meetings permits the shareholders to evaluate the activities of the committee and subsequently also the effectiveness of board work.

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## Recommendation 25

### Election of members to the committees

**The board shall elect 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 belonging to the competence of the board, the board should elect from among the directors the members of the committees.

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## Recommendation 26

### Composition of the committees

**The company shall report the composition of each committee.**

The information on the committees permits the shareholders to evaluate the effectiveness of committee work and the relationships of the committee members to the company.

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## Audit committee

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## Recommendation 27

### Establishment of the audit committee

**The audit committee shall be established, if the extent of the company's business requires preparation of matters relating to financial reporting and control to be dealt with by a group with more compact composition than the entire board.**

The extent of the operations of the company may require some directors to concentrate particularly on matters relating to financial reporting and control. The audit committee has better possibilities than the entire board to review questions connected with the financial administration and control of the company and ensure contacts with auditors and the internal audit function.

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## Recommendation 28

### 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.**

To ensure the effective implementation of the duties of the audit committee, it shall comprise at least three members. The members must have sufficient knowledge of the accounting practices and preparation of financial statements, because the audit com-

mittee deals with matters relating to the financial reporting and control of the company.

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## Recommendation 29

### Independence of the members of the audit committee

**The members of the audit committee shall be independent of the company.**

Due to the nature of the matters dealt with by the audit committee, its members must be independent of the company as specified in Recommendation 18.

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## Recommendation 30

### Duties of the audit committee

**The board shall define the duties of the audit committee.**

The duties of the audit committee shall be defined in the charter approved for the committee and tailored to the particular circumstances of the company. The duties of the audit committee may include e.g.:

- follow-up of the financial position of the company
- supervision of financial reporting (financial statements, interim reports)
- evaluation of the adequacy and appropriateness of internal control and risk management
- handling of internal audit plans and reports
- evaluation of compliance with laws and regulations
- preparation of the decision concerning appointment of external auditor
- contacts with the auditor, and examination of the auditor's reports
- evaluation of the advisory services supplied by the external auditor

The duties of the audit committee shall be disclosed in accordance with recommendation 23.

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## Nomination committee

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## Recommendation 31

### Establishment of the nomination committee

**The board may establish a nomination committee to improve the effective handling of matters relating to the nomination and compensation of directors.**

Identification of individuals suitable as directors and analysing the experience, knowledge and skills of candidates prior to election is critical to ensure and balance of the competences of the board. The board may improve the effectiveness of the preparation for election of directors by establishing a nomination committee. The nomination committee promotes the transparency and systematic functioning of the election process.

### Recommendation 32

#### Members of the nomination committee

**The managing director and other executive directors shall not be members of the nomination committee.**

Due to the nature of the matters dealt with by the nomination committee, neither the managing director nor any other executive director can be a member of the committee.

### Recommendation 33

#### Duties of the nomination committee

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

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

- preparation of a proposal for election of directors to be presented to the general meeting
- preparation of matters relating to the compensation of directors
- succession planning of directors

The duties of the nomination committee must be described in accordance with Recommendation 23.

## Compensation committee

### Recommendation 34

#### Establishment of the compensation committee

**The board may establish a compensation committee to improve the effective handling of matters relating to the appointment and compensation of the managing director and other executives of the company as well as the handling of other employee compensation systems.**

The compensation committee can more efficiently than the entire board focus on the development of compensation systems concerning the managing director and other executives. The compensation committee promotes the transparency and systematic functioning of the compensation systems of the company.

### Recommendation 35

#### Members of the compensation committee

**The managing director and other executives shall not be members of the compensation committee.**

Due to the nature of the matters addressed by the compensation committee, neither the managing director nor other executive directors can be members of the committee.

### Recommendation 36

#### Duties of the compensation committee

**The board shall define the duties of the compensation committee.**

The duties of the compensation committee shall be defined in the rules of procedure approved for the committee and they shall reflect the requirements of the company. The duties of the compensation committee can include e.g.:

- preparation of matters relating to the compensation and other benefits of the managing director and his/her deputy
- preparation of matters relating to the compensation of other management
- preparation of matters relating to the appointment of the managing director and his/her deputy and identification of their possible successors
- preparation of matters pertaining to the compensation systems of the company

The duties of the compensation committee must be described in accordance with Recommendation 23.

## 6 Managing director

The managing director is in charge of the day-to-day management of the company in accordance with the instructions and orders given by the board. 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 authorization of the board. The managing director must also ensure that the accounting practices of the company comply with law and that the financial matters are handled in a reliable manner.

### Recommendation 37

#### Appointment of the managing director

**The board shall appoint the managing director.**

The board appoints the managing director of the company pursuant to the Companies Act, unless the task has been delegated to the supervisory board pursuant to the articles of association.

To ensure the essential role of the managing director and an effective implementation of ownership control, it is justified that the board should appoint the managing director also in companies that have a supervisory board. This ensures the clear division of duties and responsibilities between the management bodies of the company. The working group that has prepared the reform of the Companies Act suggests also that the board should appoint the managing director.

### Recommendation 38

#### 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 approved by the board.**

The position of the managing director in the company requires that the service terms and conditions are specified in writing in the form of an agreement approved by the board. The main items of the managing director's service contract are described in accordance with Recommendation 48.

### Recommendation 39

#### Information on the managing director

**The company shall disclose the biographical details and the holdings of the managing director.**

In connection with the appointment of the managing director, the company shall disclose the same biographical details as for directors (see recommendation 19). The information on the holdings of the managing director shall be disclosed upon commencement of the post.

### Recommendation 40

#### Managing director and chairman of the board

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

According to the Companies Act, the managing director may be elected board chairman only provided that the company has a supervisory board. The possibility to appoint the managing director as board chairman has been restricted, because the duty of the board is to supervise the activities of the managing director.

The company should clearly define the areas of responsibility of the managing director and that of the board chairman 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 extensive international operations, the company's special development phase or the ownership structure of the company may justify the combining of these two positions.

If the company determines to appoint the same person as managing director and board chairman, it must explain its decision.

## 7 Other management

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 corporate governance of the company. The organisation often includes a management team. The management team has no official statutory position but has in practice a significant role in the management system of the company.

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

### Recommendation 41

#### Management organisation

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

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

The management team means a corporate management group or another similar body that convenes regularly. The management team normally consists of executives of the operative business divisions. The principal duty of the management team is to assist the managing director.

### Recommendation 42

#### Information on the management team

**The company shall report the biographical details and holdings of the members of the management team. If the company has no management team, the company shall define the other executives whose biographical details and holdings are subject to disclosure obligation.**

The company must report the same biographical details and ownership information concerning the members of the management team as for the directors of the company (see Recommendation 19).

## 8 Compensation

An effective compensation system is an essential tool for implementation of ownership control. The purpose of the compensation system is to increase the commitment of the board, the managing director and other executives to promoting the interests of the company and its shareholders. In addition to basic salary, the compensation system covers among other things performance-related incentive schemes, pension schemes, rewarding in the form of shares, and share-related compensation systems.

### Compensation of the directors

#### Recommendation 43

##### Fees and other benefits of the directors

**The company shall report the fees and other benefits of the directors for their board and committee work during the reporting year.**

The information on the fees and other benefits granted to the directors permits the shareholders to evaluate the amount of compensation in relation to the contributions of the board to promoting the interests of the company. Open communication will also facilitate comparison with the fees and other benefits paid by other companies.

#### Recommendation 44

##### Payment of the fees of the directors in shares

**The shareholdings of the directors can be increased by paying the fees or part of the fees for board and committee work in the form of shares of the company.**

Shareholdings of the directors improve efficient ownership control. A good way to increase directors' shareholdings is to pay the fees or part of the fees for their board and committee work in the form of shares. However, the company must ensure the compliance of insider regulations.

#### Recommendation 45

##### Participation of the directors in a share-related compensation system

**It is not recommended that a non-executive director should participate in a share-related compensation system.**

The term “non-executive director” refers to a person who has no employment relationship with, or position in, the company. Use of share-related compensation systems to remunerate non-executive directors is in principle not justified from the perspective of the interests of shareholders.

## Recommendation 46

### Information on shares and share-related rights granted to the directors

**The company shall report the number of shares and share-related rights granted to the directors in compensation during the reporting year.**

The company must report the number of shares granted to directors in compensation in the same way as other fees and benefits are reported. If a director participates in share-related compensation systems also the share-related compensation granted on the basis of such systems shall be reported.

## Compensation of the managing director and other executives

## Recommendation 47

### Compensation system and the relating decision-making procedure

**The company shall describe the criteria and decision-making procedure concerning the compensation system covering the managing director and other executives.**

The information on the compensation system permits the shareholders to evaluate the incentive effect of the system from the perspective of enhancing the performance and shareholder value of the company. Transparency of the compensation systems promotes the creation of systems that are more competitive and motivating and contributing to achieving of targets. The information to be reported includes among other things the total number of shares and share-related rights granted to the managing director and other executives.

The company must specify the body that determines the compensation of the managing director and other executives. It is generally appropriate that the body that appointed the person also decides on the compensation. The preparation of compensation matters can be delegated to the compensation committee of the board (see recommendation 34).

## Recommendation 48

### Information on service contracts

**The company shall report the economic benefits based on the service contracts of the managing director and a full-time chairman of the board:**

- **salaries and other benefits granted during the reporting year**
- **shares and share-related rights granted by way of compensation**
- **retirement age and criteria for determination of pension**
- **terms and conditions of the period of notice, salary for the period of notice and other possible compensation payable on the basis of termination.**

Due to the significant position of the managing director and a possible full-time board chairman, it is important to give the shareholders detailed information on their economic benefits. The information permits the shareholders to evaluate the amount and substance of the compensation of the managing director and the full-time board chairman in relation to the achievement of their set objectives. Open communication also facilitates comparison with the benefits granted to the management of other companies.

# 9 Internal control, risk management and internal audit

The purpose of internal control and risk management is to ensure the effective and successful operation of the company, reliable information and compliance with the relevant regulations and operating principles. Internal control helps improve the effective fulfilment of the board's supervising obligation.

## Recommendation 49

### Operating principles of internal control

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

To ensure its successful operations the company must regularly control its activities. The board ensures that the company has defined the internal control procedures and monitors the effectiveness of such control.

## Recommendation 50

### Organisation of risk management

**The company shall describe the criteria according to which the risk management is organised.**

Risk management is part of the control system of the company. The purpose of risk management is to ensure that the risks related to the business operations of the company are identified and monitored. Effective risk management requires definition of the risk management guidelines. For the evaluation of the operation of the company it is important to provide shareholders with sufficient information on risk management. It is also recommended that the significant risks that have come to the knowledge of the board are described.

## Recommendation 51

### 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 essential guidelines applied to internal audits. The organisation and working methods of internal audit depend on the nature and scope of the company's operations, the number of personnel and other similar factors.

## 10 Insider administration

The transparency of the holdings of insiders and the publicity of trading increase trust in the securities markets. An effective administration of insider matters in a listed company requires that the administration is systematically and reliably organised.

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### Recommendation 52

Compliance with the Guidelines for Insiders issued by Helsinki Exchanges

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

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

## 11 External audit

The external auditor has an important role as a controlling body appointed by the shareholders. The external audits give shareholders an independent opinion of how the accounting, financial statements and administration of the company have been arranged.

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### Recommendation 53

Notification of prospective external auditors

**A proposal for the election of external auditor prepared by the board or the audit committee shall be disclosed in the invitation to the general meeting. If the prospective auditor has not been notified to the board, the candidacy 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 notified of the appointee in a timely manner before the meeting. The preparation for the election of the external auditor can be delegated to the audit committee.

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### Recommendation 54

External auditor's fees; fees for non-audit services

**The company shall report the fees of the external auditor during the financial year. If the external auditor has been paid fees for non-audit services, such fees shall be reported separately.**

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

Companies belonging to the same group as the firm of external auditors, other companies belonging to the same chain of companies as well as companies controlled by the external auditor are equated with external auditors.



## 12 Communication and disclosure

The good corporate governance of a listed company requires a reliable, up-to-date disclosure practise. This supports well-founded price development of securities subject to public trade and promotes trust in the securities markets. The information published by the company permits shareholders to evaluate the functioning of the corporate governance of the company and make reasoned decisions concerning their holdings.

Both the content of information and the clarity of its presentation as well as electronic dissemination of information promote transparency and increase the shareholders' possibilities to obtain information.

### Recommendation 55

**Presentation of information on corporate governance (Corporate Governance Statement)**

**The company shall ensure that at least the following matters are presented on the website of the company:**

- **information on compliance with the Corporate Governance Recommendation as well as possible deviations and their explanations**
- **general meeting**
- **articles of association**
- **board of directors; supervisory board**
- **managing director and other executives**
- **auditor**
- **shares, share capital, principal shareholders and disclosed notifications on major holdings for the past 12 months**
- **redemption clauses of the articles of association**
- **shareholder agreements known to the company**
- **annual report**
- **other circumstances to be reported in accordance with this Recommendation**

Clear presentation of the corporate governance matters permits the shareholders to get an overall picture of the operations of the company. An essential requirement is that the presentation of the company's corporate governance is clear and easy-to-find. It is recommended that the subject matters are described both on the website and in the annual report of the company. The presentation may include references to information presented elsewhere in the annual report or on the website of the company.

### Recommendation 56

**Electronic investor information**

**The company shall have a website on Internet**

The company can improve the effectiveness of its disclosure practise by means of Internet. Use of Internet websites is quick and convenient for shareholders. Electronic information is easier to update than hard copy versions, permitting the shareholders to obtain the most recent information available about the company.

### Recommendation 57

**Publication of information on Internet website**

**The company shall disclose on its website all the information that has been published pursuant to the statutory obligation of listed companies to provide information.**

Publication of all investor information of the company in one place facilitates distribution of such information to the shareholders. When all the listed company releases and other information on the company are made available in Internet, the shareholders can get a good overall picture of the operations and financial position of the company.

## 13 Effective date

This Recommendation enters into force on 1 July 2004. If the company so wishes, it may, however, implement the Recommendation immediately after publication.

Decisions that need to be submitted to the general meeting and the changes to the articles of association that are necessary in order to comply with the Recommendation can be made in the annual general meeting following the effective date of the Recommendation, before which date the company does not need to explain its practices that may deviate from the Recommendation.



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