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2018

**Corporate Governance  
Statement**

## CORPORATE GOVERNANCE STATEMENT 2018

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Published on February 14, 2019

## 1 PREFACE

**This is Raute Corporation's Corporate Governance Statement, which has been drafted in accordance with Chapter 7, Section 7 of the Finnish Securities Markets Act and with the Finnish Corporate Governance Code 2015 for listed companies issued by the Securities Market Association on October 1, 2015, and which is referred to in Raute Corporation's 2017 Report of the Board of Directors.**

The operations of Raute Corporation and its subsidiaries (Raute Group, Raute) are based on compliance with the legislation in effect, the regulations covered by the legislation, and ethically acceptable operating methods.

Raute Corporation complies with the Finnish Corporate Governance Code 2015 for listed companies issued by the Securities Market Association on October 1, 2015.

Raute Corporation's administrative principles are based on the Finnish Companies Act, the Securities Markets Act and Raute Corporation's Articles of Association. The Board of Directors has issued Administrative Instructions for the company, comprising a charter for the decision-making bodies, instructions on the division of responsibilities between the Board of Directors, the President and CEO and the Executive Board, and guidelines for organizing internal control and risk management. In addition, the company has in place a Board-approved Code of Conduct, which explains to personnel, partners and other stakeholders what Raute's demands and expectations are in terms of responsible and ethical operations.

Raute Corporation's Articles of Association, Administrative Instructions, Code of Conduct and other information related to the company's governance and investor relations are available on Raute's website ([www.raute.com](http://www.raute.com)). Information concerning the company's administration and risk management is also included in the Annual Report and Financial Statements published on the company's website.

The Finnish Corporate Governance Code is also available to the public, for example on the Finnish Securities Market Association's website ([www.cgfinland.fi](http://www.cgfinland.fi)).

## 2 DESCRIPTIONS OF CORPORATE GOVERNANCE

### 2.1 Composition and activities of the Board of Directors

#### 2.1.1 Election of Board members

Board members are elected annually at the Annual General Meeting. According to the Articles of Association, the company's Board of Directors must have at least five and no more than seven members. The Annual General Meeting elects the Chairman of the Board of Directors, the Vice-Chairman and the members of the Board for the next term of office, which begins when the Board members are elected at the Annual General Meeting and ends at the following Annual General Meeting. The Board members do not have a special order of appointment.

#### 2.1.2 Planning the composition of the Board of Directors

The Appointments Committee prepares and presents for the Annual General Meeting a proposal on the number of Board members and the Board's composition.

When planning the Board's composition, the Appointments Committee of Raute's Board of Directors takes into account:

- the company's development stage and needs
- the areas of competence required by the tasks of the Board of Directors and its committees
- long-term needs and successor planning
- the company's ownership structure

Key factors, in addition to the Board members' personal characteristics, are:

- the members' mutually complementary educational backgrounds and competence
- experience of an international operating environment and Raute's key sectors, project business, management and different business cultures

A person nominated as a member of Raute's Board of Directors must have the required competence for the tasks, must match the Board's competence profile and have sufficient time at their disposal for Board work. Raute aims for both genders to be represented in the Board's nomination and evaluation process.

#### 2.1.3 Description of the Board's activities

The Board of Directors of Raute Corporation administers the company's operations in accordance with the regulations laid down in the law and the Articles of Association. The Board of Directors also acts as the Board for Raute Group, which handles and decides on all important issues that affect the entire Group or the operations of its units, regardless of whether the issue legally requires a decision from the Board of Directors. The Board of Directors may handle issues that concern any of the Group companies if the Board or President and CEO of the parent company deems it appropriate to do so.

The Board of Directors annually approves the charter, which contains the schedule of meetings and the most important themes of each meeting. The Chairman of the Board of Directors and the Group's President and CEO prepare an agenda of items to be discussed at the meeting.

In 2018, in addition to statutory tasks and those defined in the Articles of Association, the Board discussed the company's strategy for the 2019–2021 period and the annual plan for 2019. On the basis of regular reporting by the company management, the Board has followed the development of the market and sales situation, the Group's profitability and the development of the balance sheet situation, and has reviewed profit and financial forecasts, approved the financial statements of 2017 and the interim reports of 2018, and discussed issues linked to remuneration. In addition, the Board of Directors has decided on key investments and met with the rest of the company's management.

The Board has taken on the tasks of the Supervisory Committee. In this capacity, the Board has met with the external auditor three times. In the capacity of the Audit Committee, the Board's responsibilities also include reviewing the company's financial statements and interim reports, verifying the independence of the auditors, estimating additional auditing services, and monitoring the internal control system, as well as the plans for internal and external audits. The Board also carried out a self-evaluation of the work of the Board members and the Chairman of the Board.

The Board held 12 meetings in 2018, with 100 per cent of the Board members present. The attendance of individual members was as follows: Erkki Pehu-Lehtonen 12/12, Mika Mustakallio 12/12, Joni Bask 12/12, Laura Raitio 12/12, Pekka Suominen 12/12, and Patrick von Essen 12/12.

## 2.1.4 Details of Board members

On March 22, 2018, Raute Corporation's Annual General Meeting elected the Chairman, Vice-Chairman and four Board members to the Board of Directors.

### Chairman of the Board: Erkki Pehu-Lehtonen

- b. 1950, M.Sc. (Eng.)
- Chairman of the Board of Directors as of 2009
- independent of the company and of major shareholders
- Senior Advisor to the Board, Pöyry Corporation 2008–2010; President and CEO, Pöyry Corporation 1999–2008, retired
- No simultaneous positions of trust
- Raute shares December 31, 2018: 1,000 Raute series A shares



### Vice-Chairman of the Board: Mika Mustakallio

- b. 1964, M.Sc. (Econ.)
- member of the Board since 2004
- dependent on the company, dependent on major shareholders
- President, MORS Software Oy 2006–
- No simultaneous positions of trust
- Raute shares December 31, 2018: 62,100 Raute series K shares and 21,170 Raute series A shares



### Members of the Board of Directors:

#### Joni Bask

- b. 1975, M.Sc. (Eng.)
- member of the Board since 2012
- independent of the company, dependent on major shareholders
- Manager, Varian Medical Systems Finland Oy 2013–
- No simultaneous positions of trust
- Raute shares December 31, 2018: 17,790 Raute series K shares and 4,450 Raute series A shares



#### Laura Raitio

- b. 1962, Licentiate in Technology
- member of the Board since 2017
- independent of the company and of major shareholders
- CEO, Diacor terveyspalvelut Oy 2014–2017, executive positions at Ahlstrom Oyj 1990–2014,
- main simultaneous positions of trust: member of the Board, Neste Oyj 2011–, Suominen Oyj 2015–; Chair of the Board of Directors, Helsinki Deaconess Institute 2017–
- Raute shares December 31, 2018: 1,000 Raute series A shares



#### Pekka Suominen

- b. 1976, M.Sc. (Econ.)
- member of the Board since 2010
- independent of the company, dependent on major shareholders
- Business Manager, Talentum Events Oy 2007–2012
- main simultaneous positions of trust: member of the Board, FBN Perheyrityspalvelut Oy 2014–, member of Perheyritysvaltuuskunta 2015–, Chairman, Next Level successor activity working group 2016–, member of the working group Verkotu of Perheyritysten liitto 2018–
- Raute shares December 31, 2018: 48,000 Raute series K shares and 62,429 Raute series A shares



#### Patrick von Essen

- b. 1963, M.Sc. (Eng.)
- member of the Board since 2016
- independent of the company and of major shareholders
- Managing Director, Neste Engineering Solutions Oy 2018–, President and CEO, Dovre Group Plc 2014–2018
- main simultaneous positions of trust: member of the Board, Etteplan Oyj 2014–
- Raute shares December 31, 2017: 100 Raute series A shares



More detailed information on the acting Board of Directors and up-to-date member shareholder information can be found on Raute's website.

## **2.1.5 Board of Directors' diversity principles**

The Appointments Committee strives to achieve a diverse Board composition that supports the achievement of strategic targets and development of the business.

Diversity is examined through a variety of factors that include the Board's age and gender distribution, the educational and professional backgrounds of the members, experience that is significant in terms of the position and personal characteristics. The purpose of the principles concerning diversity is to contribute to ensuring that the competence and experience of the Board as a whole, as well as the diversity of its composition are sufficient to meet the needs of Raute's business model and ownership structure. In terms of the gender distribution, the goal is for at least one member of each gender to be represented.

The Board of Directors assesses the achievement of diversity in its self-evaluation.

## **2.2 Board Committees**

The Board of Directors appoints an Appointments Committee and temporary Working Committees from amongst its members to support the Board's work. The Board approves the key contents of the committees' Charter, and the committees regularly report on their work at the Board meetings. The Audit Committee's tasks are handled by the Board of Directors. The Board of Directors can also establish other committees.

### **2.2.1 Appointments Committee**

The Board of Directors appoints an Appointments Committee, which includes the Chairman of the Board of Directors, the Vice-Chairman and one Board member. The task of the Appointments Committee is to prepare a proposal concerning Board members for the Annual General Meeting.

On April 26, 2018, Chairman Erkki Pehu-Lehtonen, Vice-Chair Mika Mustakallio and Board member Pekka Suominen were appointed to the Appointments Committee. The Appointments Committee convened three times in 2018, with all committee members in attendance.

### **2.2.2 Working Committee**

For the preparation of matters of major importance, the Board of Directors can appoint a permanent Working Committee, which includes the Chairman of the Board of Directors, the Vice-Chairman and one Board member. The tasks of the Working Committee were handled by the Board of Directors in 2018.

## **2.3 President and CEO**

Mr. Tapani Kiiski, born in 1962, Licentiate in Technology, has served as Raute Corporation's President and CEO since March 16, 2004. Kiiski is independent of major shareholders. At the end of 2018, Tapani Kiiski owned 25,626 series A shares.



Raute Corporation's President and CEO manages the tasks assigned to Presidents and CEOs in accordance with the Finnish Companies Act, and also serves as the President and CEO of the Group and as Chairman of the Group's Executive Board. The President and CEO ensures that the accounting of the company is in compliance with the law and that its assets are managed reliably. The President and CEO represents the Group at the shareholders' meetings of subsidiaries and associates and acts as Chairman of the subsidiaries' Boards of Directors, unless the Board decides otherwise in individual cases.

The President and CEO steers the Group's business operations via the Executive Board and the operative units. The directors and managers who oversee the operative units report to the President and CEO. The President and CEO implements the steering and monitoring of the operative units' tasks, with the assistance of the operations of the Executive Team and Group Administration.

## **2.4 Other management**

The task of the members of Raute's Executive Board is to manage, within their area of responsibility, the operative organization in accordance with the approved business strategy and set targets. The purpose of the Group's Executive Board is to support the President and CEO in business-related decision-making. The President and CEO functions as the Chairman of the Executive Board.

The Group's Executive Board members' areas of responsibility were:

Name	Area of responsibility	Raute shares at December 31, 2018
Tapani Kiiski, President and CEO, Chairman	Sales and technology services	25,626 series A shares
Arja Hakala, Group Vice President, Strategy as of March 27, 2018 Group Vice President, Finance, CFO until March 26, 2018	Business development, Deputy to President and CEO Finance and administration	3,880 series A shares
Marko Hjelt, Group Vice President, Human Resources	Human resources and competence development	1,150 series A shares
Mika Hyysti, Group Vice President, Technology	Technology, products and R&D	4,176 series A shares
Timo Kangas, Group Vice President, EMEA	Market area EMEA	1,910 series A shares
Antti Laulainen, Group Vice President, Technology Services and Sales Management until November 12, 2018	Technology services and sales management	
Petri Strengell, Group Vice President, Supply Chain	Sourcing and production	4,777 series A shares
Olli-Pekka Vanhanen, Group Vice President, Finance, CFO as of March 27, 2018	Finance and administration	No shares

Olli-Pekka Vanhanen left the CFO position on February 1, 2019 to join another employer. On the same date, Ms. Tarja Järvinen started as the Group Vice President, Finance, CFO.

### 3 DESCRIPTION OF THE MAIN PRINCIPLES OF THE INTERNAL CONTROL PROCEDURES AND RISK MANAGEMENT SYSTEMS RELATED TO THE FINANCIAL REPORTING PROCESS

#### 3.1 General description of risk management and internal control

Raute's risk management policy is approved by the Board of Directors. The Board of Directors has determined the Group's general attitude to risk and has approved the risk management policy on a general level. In addition, the Board has approved the financing policy for the company and handles the tasks of the Audit Committee. In that role, the Board is responsible for organizing internal control and risk management, and for monitoring their efficiency. The Board of Directors monitors the implementation of internal control. The Group's Executive Board has defined the Group's general risk management policy and operating policies, and defined the boundaries of the organization's powers.

The Group's President and CEO controls the implementation of the risk management principles in the entire Group, while the Presidents of the Group companies are responsible for risk management in their respective companies. The members of the Group's Executive Board are responsible for their own areas of responsibility across company boundaries. The Chief Financial Officer is responsible for the coordination of risk management. The President and CEO and the CFO regularly report significant risks to the Board.

There is no separate internal auditing organization in the Raute Group. Raute's Controller function oversees internal control, develops internal control and risk management procedures together with the rest of the organization, and monitors compliance with risk management principles, operational policies and powers. The absence of a separate internal auditing organization is taken into account in the planning of the annual internal control plan, the contents of Group reporting, audits based on quality control systems and the monitoring of subsidiaries.

The key risks associated with the company's international business are discussed in more detail in the company's financial statements release and financial statements published on its website.

## 3.2 Internal control and risk management related to the financial reporting process

Internal control and procedures related to Raute's financial reporting process have been developed to ensure that the financial reports published by the company present an essentially accurate and sufficient description of Raute's finances.

Raute's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, IFRS. The interim reports for 2018, including the financial statements release, were prepared according to the IAS 34 Interim Financial Reporting standard.

### 3.2.1 Key control procedures

The Board controls the preparation of the Financial Statements via regular reporting from the management. In addition to the annual budget, the Group makes use of forecasts, which are drawn up regularly for each month of the next quarter and for the entire year, against which exceptions are analyzed and reported to the Board. The Board also controls Raute's financial situation on a quarterly basis, using risk management reporting, cash flow forecasts, and finance and balance sheet stress tests.

The financial department of Group Administration prepares the consolidated financial statements, under the control and steering of the CFO, who ensures that set schedules are kept, and goes over separate reports concerning control points and analyses which indicate any discrepancies with the forecast.

The consolidated financial statements are prepared on the basis of the data in the financial statements provided by other Group companies. The individuals responsible for the accounting of the other Group companies prepare those companies' financial statements according to local accounting practices and convert them according to the joint account charts of the Group reporting, and then report the information to Group Administration according to the schedule set for other Group companies. The discrepancies between the local procedures of the other Group companies and the Group's IFRS accounting principles are entered into the Group-level accounting system. Controllers within Group Administration are named to oversee the reporting schedule, analyze the reported data, control the conversion of the reported data

to the Group reporting, and ensure that the business accounting and the management's reporting are consistent with one another.

The Group uses Business Reviews, in which the management of various operative units and line organizations report to the President and CEO on the factors, forecasting changes and significant risks affecting the financial results of their area of responsibility. The information compiled in the Business Reviews is used by the financial department of Group Administration in their preparation of forecasts for the Group. Senior management reviews and approves the management's values, the Group's profit reporting and forecasts and draws up reports for the Board of Directors.

A significant share of the Group's net sales is generated by the parent company's performance obligations to be satisfied over time. The principles of percentage of completion are defined at the Group level and their application is controlled by the Group Administration's specified controllers. The timing and accuracy of performance obligation forecasts is the responsibility of the project manager named to the project or another appointed person. The risk management procedures that are applied in projects are included in the parent company's quality system and are adapted, where applicable, to other Group companies. Internal control is carried out through the use of regular financial administration project reviews, which involve the controller as well as the head of project implementation. The head of project implementation reports the key contractual risks and changes in the project-specific forecasts and their causes at Executive Board meetings.

### 3.2.2 Control activities

Internal control related to the financial reporting process and risk management procedures are developed and managed together by the CFO and the controller organization. The controller function monitors the efficiency of internal control and risk management during the reporting process, and reports on anomalies and insufficient control to the CFO. The CFO decides on whether corrective operative measures related to the anomalies will be taken, and also reports on the problems and development needs to the President and CEO and the Board of Directors, as well as to the manager who holds operative responsibility.

The management of the operative units ensures that the Group's internal control and risk management procedures are abided by in their area of responsibility and that the information produced by the financial reporting of their organization is timely, comprehensive and correct.

## 4 KEY PROCEDURES FOR INSIDER MANAGEMENT

### 4.1 Insider management

Raute Corporation follows the Guidelines for Insiders issued by Nasdaq Helsinki Ltd, the Central Chamber of Commerce, and the Confederation of Finnish Industries EK. In addition, the company applies separate insider instructions approved by the Board of Directors. The Chief Financial Officer is in charge of insider issues in the company.

Raute's insider management changed on July 3, 2016 when the so-called MAR directive and revised insider guidelines of the Helsinki Stock Exchange entered into force in Finland.

- The obligations concerning the reporting and publication of the management's business transactions (management under the notification obligation) apply to the company's Board of Directors, President and CEO and CFO.
- A Confidential Information Recipient (CIR) list, corresponding to the previous, more detailed insider register, was created for insider management, which allows continuous access to insider information. The CIR group includes persons who are committed to abiding by the company's closed period. The CIR list is not public.

The insider trading prohibition of persons under the notification obligation and in the CIR group begins at the end of the reporting period, however at least 30 days before the publication of an interim report or financial statements and ends two hours after the publication of a corresponding stock exchange release. The company avoids investor communication meetings during the closed period.

In addition to what is mentioned above, the company maintains a list of projects. A project means an identifiable set of measures or an arrangement that is to be confidentially prepared by Raute, which is, according to Raute, insider information and whose publication Raute has decided to delay.

The company has an internal reporting channel (whistle-blower) in case of any abuse observations. Either the company's management or Chairman of the Board of Directors, depending on what the observation pertains to, investigates and handles any reports received through the whistle-blower channel.

#### **4.2 Procedures governing the publication of information**

Raute's Board of Directors has approved for the company an investor communications policy that defines the key policies and practices for Raute's investor communications. Raute's investor communications include financial reports, websites, and various meetings with investors in which the Group's senior management participate actively. Raute has organized briefings in Helsinki in connection with the publication of the Financial Statements Review and Interim Reports in which analysts and investors are given the opportunity to meet the President and CEO and the CFO in person. The company avoids investor communication meetings during insider trading prohibitions.

More information on the management of insider issues is available on the company's website.

#### **5 INSIDER TRANSACTIONS**

The company's management assesses and monitors the transactions carried out with related parties and ensures that any conflicts of interest are taken into account appropriately in the company's decision-making. In 2018, the Group companies and Raute's sickness fund belonged to the company's related parties. The principles for transactions concerning the Group companies' continuous business are guided by the company's management and implemented by the operative organization. Transactions linked to long-term financing are approved by the company's Board of Directors. Atypical transactions are handled by the Group's Executive Board or the company's Board of Directors, depending on the nature of the issue at hand.

#### **6 AUDITING**

At Raute Corporation's Annual General Meeting on March 22, 2018, the authorized public accounting company PricewaterhouseCoopers was chosen as auditor with Authorized Public Accountant Markku Launis as the principal auditor.

The remuneration paid to the auditor in 2018 for auditing was EUR 54 thousand and for services unrelated to auditing EUR 9 thousand.

Lahti February 14, 2019

Raute Corporation  
Board of Directors





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