

CORPORATE GOVERNANCE  
STATEMENT 2014



## **CORPORATE GOVERNANCE STATEMENT**

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# Corporate Governance Statement

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 recommendation 54 of the Finnish Corporate Governance Code 2010 for listed companies issued by the Securities Market Association on June 15, 2010, and which is referred to in Raute Corporation's 2014 Board of Directors' report.

## 1 GENERAL ADMINISTRATIVE PRINCIPLES

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

Raute complies with the Finnish Corporate Governance Code 2010 for listed companies issued by the Securities Market Association on June 15, 2010.

Raute deviates from recommendation 22 to elect members to the Appointments Committee in that one member to the Committee is elected from outside the Board of Directors, as per the company's Administrative Instructions, from among the representatives of major shareholders who have significant voting rights. The Board views this exception as justified, taking into consideration the company's ownership structure and the possibility to consider the expectations of major shareholders as early as in the preparation phase of selecting members of the Board of Directors.

Raute Corporation's administrative principles are based on the Finnish Companies Act and The Securities Markets Act and on 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.

Raute Corporation's Articles of Association, Administrative Instructions and other information related to the company's administration and investor relations are available on Raute's website, [www.raute.com](http://www.raute.com). Information concerning the Group'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 DESCRIPTION OF THE COMPOSITION AND ACTIVITIES OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES ESTABLISHED BY THE BOARD

### 2.1 Board of Directors

Raute Corporation's Board of Directors shall comprise no fewer than 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 during the Annual General Meeting and ends at the next Annual General Meeting. The Board members do not have a special order of appointment.

#### 2.1.1 Composition of the Board of Directors

Raute Corporation's Annual General Meeting on March 31, 2014 elected the Chairman of the Board, the Vice-Chairman and four members of the Board.

Chairman of the Board:

**Erkki Pehu-Lehtonen**, M.Sc. (Eng.)

- b. 1950,
- Chairman of the Board since 2009,
- independent of the company and of major shareholders,
- principal occupation: Senior Advisor to the Board, Pöyry Plc. 2008–2010; President and CEO, Pöyry Plc. 1999–2008, retired,
- main simultaneous positions of trust: Member of the Board, Valmet Corporation 2014–.

Vice-Chairman of the Board:

**Mika Mustakallio**, M.Sc. (Econ.)

- b. 1964,
- member of the Board since 2004,
- independent of the company, dependent on major shareholders,
- principal occupation: President, MORS Software Oy 2006–,
- no simultaneous positions of trust.

Members of the Board of Directors:

**Joni Bask**, M.Sc. (Eng.)

- b. 1975,
- member of the Board since 2012,
- independent of the company, dependent on major shareholders,
- principal occupation: Team Leader, Varian Medical Systems Oy 2011–,
- no simultaneous positions of trust.

**Risto Hautamäki**, M.Sc. (Eng.)

- b. 1945,
- member of the Board since 2009,
- independent of the company and of major shareholders,
- principal occupation: President, Metso Paper 2005–2007, retired,
- no simultaneous positions of trust.

**Päivi Leiwo**, Master of Laws, MBA

- b. 1964
- member of the Board since 2014,
- independent of the company and of major shareholders,
- principal occupation: Chair of the Board of Oilon Oy 2009–,
- main simultaneous positions of trust: member of the Boards of: The Federation of Finnish Technology Industries 2012–, Finpro 2014–.

**Pekka Suominen**, M.Sc. (Econ.)

- b. 1976,
- member of the Board since 2010,
- independent of the company, dependent on major shareholders
- principal occupation: Business Manager, Talentum Events Oy 2007–2012,
- main simultaneous positions of trust: member of the Boards of: Hakaniemen Metalli Oy 2014–, FBN Perheyrytyspalvelut Oy 2014–.

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

#### 2.1.2 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 requires a legal decision from the Board of Directors. The Board of Directors may handle any issue that concerns the Group's companies if the Board or 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 2014, in addition to statutory tasks and those defined in the Articles of Association, the Board discussed the company's strategy and annual plan for 2015. 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 and approved the financial statements of 2013 and the interim reports of 2014. In addition, the Board of Directors has made decisions on the most significant investments.

The Board has taken on the tasks of the Audit 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 include reviewing the company's financial statements and interim reports, verifying the in-

dependence of the auditors, estimating additional auditing services, updating risk management policy 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.

In 2014, the Board held 11 meetings. The Board members' attendance at meetings was 97.0 percent. The attendance of individual members was as follows: Erkki Pehu-Lehtonen 11/11, Mika Mustakallio 10/11, Joni Bask 11/11, Risto Hautamäki 11/11, Ilpo Helander 3/3, Päivi Leiwo 8/8, and Pekka Suominen 10/11.

#### 2.1.3 Board Committees

The Board of Directors appoints from among its members a Working Committee and Appointments Committee 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.

##### 2.1.3.1 Working Committee

For the preparation of matters of major importance, the Board of Directors appoints a Working Committee, which includes the Chairman of the Board of Directors, the Vice-Chairman and one Board member.

On April 28, 2014, Chairman Erkki Pehu-Lehtonen, Vice-Chairman Mika Mustakallio and Board member Risto Hautamäki were appointed to the Working Committee. The Working Committee did not convene in 2014.

##### 2.1.3.2 Appointments Committee

The Board elects an Appointments Committee, which includes the Chairman, Vice-Chairman and one member from outside the Board who is appointed from among the representatives of major shareholders who have significant voting rights. The task of the Appointments Committee is to prepare a proposal concerning Board members for the Annual General Meeting.

Named to the Appointments Committee on April 28, 2014 were: Chairman Erkki Pehu-Lehtonen, Vice-Chairman Mika Mustakallio and PhD Ville Korhonen (born 1974, independent of the company, dependent on major shareholders; principal occupation: analyst, Nordea Oyj 2002–, no simultaneous positions of trust), appointed from among the representatives of major shareholders who have significant voting rights. The Appointments Committee convened three times in 2014, with all committee members in attendance.

#### 2.2 President and CEO

Since March 16, 2004, Raute Corporation's President and CEO has been Tapani Kiiski (Licentiate in Technology, born 1962). Kiiski is independent of major shareholders.

Raute Corporation's President and CEO manages the company 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 Board and Group Administration.

### **3 DESCRIPTION OF THE MAIN PRINCIPLES OF THE INTERNAL CONTROL 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 also annually reviews the internal control plan and monitors its implementation. The 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 policy 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. The Group's Controller function oversees the annual internal control plan approved by the Board, develops internal control and risk management procedures together with the operative leadership, 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 Financial statements review and Financial Statements published on the 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 of 2014, including the Financial statements review, 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 on the following quarter and on 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 forecasting discrepancies that have occurred.

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 for every Group company. The controllers 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 entire Group. Upper management reviews and approves management's values, the Group's profit reporting and forecasts, and draws up a report for the Board of Directors.

A significant proportion of the Group's net sales is generated by the Parent company's long-term percentage of completion projects. The principles of percentage of completion are defined at the Group level and their adaptation is controlled by the Group Administration's financial department. The timing and accuracy of long-term project 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 management. The manager of the project department reports on the significant contractual risks and on changes in the forecasts of projects, and the reasons behind the changes, to management via the Business Reviews, by reporting period.

### 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.

### 3.2.3 2014

In 2014, Group reporting was developed with a focus on a project's financial management processes and tools and its further development in terms of growing international operations, particularly in the Chinese units.

### 3.2.4 Development areas in 2015

The objective for 2015 is to update the internal reporting and internal auditing practices to correspond better with the current operating environment.

## 4 PROCEDURES GOVERNING THE PUBLICATION OF INFORMATION

Raute Corporation follows the Guidelines for Insiders issued by NASDAQ OMX 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 Board of Directors has confirmed Raute's investor communications policy which defines the key principles and operating methods to be followed in Raute's investor communications. Raute's investor communications include not only financial reports and its internet site, but also meetings with investors, in which the senior management of the Group participates 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.

Nastola, on February 12, 2015

Raute Corporation  
Board of Directors



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