

## **LASSILA & TIKANOJA PLC'S CORPORATE GOVERNANCE STATEMENT 2009**

Lassila & Tikanoja plc (L&T) complies with the Finnish Corporate Governance Code. The Code was issued by the Securities Market Association on 20 October 2008 and it is available on the website [www.cgfinland.fi](http://www.cgfinland.fi).

This Corporate Governance Statement is prepared in accordance with recommendation 51 of the Finnish Corporate Governance Code. The statement is issued separately from the report of the Board of Directors.

### **Description of the main features of internal control and risk management systems pertaining to Lassila & Tikanoja plc's financial reporting process in 2009**

The financial reporting principles represent an essential element of L&T's Integrated Management System (IMS). The Group's financial reporting process includes both financial accounting and management accounting. The internal control and risk management systems and procedures pertaining to the financial reporting process are explained in more detail below. Their purpose is to ensure the financial reports published by the company contain essentially correct financial information.

#### **Audit Committee**

The Audit Committee established in 2009 supervises and monitors the efficiency of L&T's financial reporting process and internal control systems. The duties and operating principles of the audit committee are defined in a charter approved by the Board of Directors. The Audit Committee has reviewed L&T's internal control policy and the Board of Directors has approved it.

The Audit Committee meets at least four times a year before the publication of interim reports and the financial statements release. In its meetings, the Audit Committee reviews the financial information presented by the Chief Financial Officer, as well as interim reports and financial statements releases. The auditor is also invited to attend the meetings. The members of the Audit Committee are introduced at L&T's company website.

#### **L&T's financial reporting process**

L&T conducts a significant proportion of its business in Finland. Functions having to do with accounting, sales invoicing, accounts payable and receivable, payments and financing in the financial reporting process in Finland are centralised. Organisation of these functions into different teams allows the separation of various finance-related tasks. To support the consistent process in Finland, L&T also runs a centralised accounting system and common account framework.

L&T's foreign subsidiaries each have independent financial management departments operating in compliance with the accounting principles and reporting instructions issued by the Group's financial management. Foreign subsidiaries submit a monthly reporting package to the Group according to the Group's instructions. Financial controllers supervise operations related to foreign subsidiaries' financial management, their financial reports and financial statements. They visit companies assigned to them on a regular basis and conduct inspections and prepare written inspection reports.

L&T's Group financial management is responsible for preparing and updating the Group accounting policies and instructions, and for preparing reporting schedules. The financial management department consolidates subsidiaries' financial statements into consolidated financial statements which include notes to the financial statements, and prepares interim reports and financial statement releases, official financial statements and the annual report.

#### **Internal control of financial reporting and risk management**

L&T's Group financial management has defined and documented the control objectives and control points associated with external financial reporting in 2009. Control points have been specified both for individual

companies and for Group accounting, and they represent a minimum requirement imposed by the Group on internal control of financial reporting. Foreign subsidiaries have been informed of the control points, and the financial controllers assess foreign subsidiaries' operations against the specified control points as part of their regular visits.

L&T's operations and financial reports are monitored and compared against budgets and forecasts on different organisational levels. Group management, divisional management and product line management as well as business unit management analyse the results and any nonconformities. Divisional business controllers and financial controllers responsible for foreign operations analyse the financial reports and prepare reports for management use.

The risks associated with financial management processes are assessed in the annual risk management process, which is part of L&T's Integrated Management System. Risks identified through risk assessment are prioritised, action plans and schedules are prepared, and persons responsible for implementing the action are named. Implementation of actions is monitored annually.

L&T has no internal audit organisation of its own. Executive management may invite external experts to conduct internal audit assignments when necessary.

## **Board of Directors**

### **Composition and term**

In accordance with the Articles of Association, the Board of Directors comprises a minimum of three members and a maximum of seven. The members of the Board of Directors are elected by the Annual General Meeting. The term of the members of the Board of Directors expires at the end of the next Annual General Meeting of Shareholders following his/her election. A person who has attained the age of 70 cannot be elected to the Board of Directors. The Board elects a Chairman and a Vice Chairman from among its members.

In 2009, the Board of Directors comprised the following persons:

Mr Juhani Maijala, born 1939, B.Sc. (Econ.), Master of Laws, Chairman

Mr Juhani Lassila, born 1962, M.Sc. (Econ.), Managing Director of Agros Oy, Vice Chairman

Mr Heikki Bergholm, born 1956, M.Sc. (Eng.)

Mr Eero Hautaniemi, born 1965, M.Sc. (Econ.), President and CEO of Oriola-KD Corporation

Mr Matti Kavetvuo, born 1944, M.Sc. (Eng.), B.Sc. (Econ.)

Mrs Hille Korhonen, born 1961, Licentiate of Technology, Vice President, Operations (responsible for manufacturing, sourcing and logistics strategies) at Fiskars Corporation and Group Director, Operations at Iittala Group

The biographical details of the director candidates will be available on the company website before the General Meeting.

The President and CEO is present at Board meetings presenting issues to the Board, and the CFO serves as secretary to the Board.

### **Duties**

The Board of Directors is responsible for the management of the company and for the proper arrangement of the company's operations as well as for the proper arrangement and supervision of the company's accounting and financial management. The Board of Directors decides upon matters, which, considering the scope and size of the operations of the company, are of major importance.

The duties of the Board are defined in a written charter adopted by the Board in 2009, which the Board complies in addition to the Articles of Association and the Finnish laws and regulations. According to the charter, the matters handled by the Board of Directors include:

- confirming the company's goals

- deciding on the corporate strategy and confirming divisional strategies
- establishing a dividend policy and being responsible for the development of the shareholder value
- deciding on group structure and organisation
- ensuring the operation of the management system
- handling and adopting interim report, consolidated financial statements and annual report
- confirming the company's operating plan, budget and investment plan
- deciding on strategically or financially significant investments, corporate acquisitions, disposals or other arrangements as well as financing arrangements and contingent liabilities
- confirming risk management and reporting practice, financing, disclosure and insurance policies as well as internal control policy
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- adopting the nominations of the President and CEO's immediate subordinates
- deciding on the salary, bonuses and other benefits of the CEO and his immediate subordinates as well as other terms of their employment.

### Meeting practice

The Board of Directors meets about 12 times a year. If necessary, the Board holds meetings over the telephone. The Chairman is responsible for convening the Board meetings and for the meeting practice. At the meetings, matters are presented by the President and CEO, who is responsible for ensuring that the Board is provided with sufficient information to assess the operation and financial situation of the company. He also supervises and reports to the Board on the implementation of the Board's decisions.

The Board of Directors met 18 times during 2009. The average attendance per cent of the members at the meetings was 96.3.

### Performance evaluation

The evaluation of the performance and working methods of the Board is conducted annually as an internal self-evaluation.

### Evaluation of independence

The Board has evaluated the independence of its members in accordance with item 15 of the Corporate Governance Code. The evaluation showed that all the members of the Board are independent of the company and of a significant shareholder.

### Audit committee

On 24 March 2009, the Board of Directors decided to establish an audit committee. The audit committee consists of the Chairman of the committee and at least two members, who all are elected annually by the Board of Directors from among its members. The members of the audit committee shall be independent of the company and of a significant shareholder. The members of the audit committee shall have the qualifications necessary to perform the responsibilities of the audit committee, in particular, sufficient knowledge of bookkeeping, accounting and financial statements practices.

In 2009, Juhani Lassila was Chairman of the audit committee and the members were Eero Hautaniemi and Hille Korhonen.

The duties and operating principles of the audit committee are defined in a charter approved by the Board of Directors.

The audit committee met three times during 2009. The average attendance per cent of the members at the meetings was 100.

Duties of the audit committee include:

- monitoring the financial position and financing
- monitoring the reporting process of financial statements

- supervising the financial reporting process
- monitoring the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the plans and reports of the company's internal audit
- reviewing the description of the main features of internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement
- monitoring the statutory audit of financial statements and consolidated financial statements
- evaluating the independence of the auditing company
- evaluating the provision of non-audit services to the company to be audited by the auditing company
- preparing the proposal for the Auditor of the company
- maintaining contact with the company's auditor and reviewing the reports prepared to the committee by the Auditor
- assessment of compliance with laws and provisions.

### **Managing Director**

Lassila & Tikanoja plc's Managing Director, known as the President and CEO, is appointed by the Board of Directors. The President and CEO is responsible for day-to-day operations in keeping with the instructions of the Board of Directors. He is also responsible for the strategy process. The present President and CEO is Jari Sarjo, Master of Laws, born 1957.

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is 12 months should the company terminate the contract, and 6 months should the President and CEO terminate the contract. In case the company terminates the contract the President and CEO's obligation to work ceases after 6 months but his salary will be paid until the end of the period of notice. The President and CEO may choose to retire at the age of sixty. The amount of pension is agreed in advance, and an index increase is made to the sum annually. The amount is less than the full amount of pension under the Employees' Pensions Act.