

# EFORE PLC'S CORPORATE GOVERNANCE STATEMENT 2018

The obligations of Efore's decision-making bodies are defined in accordance with Finnish legislation and the principles established by the Board of Directors. Efore's corporate governance complies with the provisions of the Companies Act. In addition, Efore complies with the Insider Guidelines issued by Nasdaq Helsinki Ltd and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association. This Corporate Governance Statement has been prepared in accordance with the Finnish Corporate Governance Code 2015. This statement has been issued separately from the report by the Board of Directors. The Corporate Governance Code is publicly available at [www.cgfinland.fi](http://www.cgfinland.fi). This statement was approved for publication by the Board of Directors of Efore Plc on February 13, 2019. It is included in the Annual Report and also available on the company website at [www.efore.com](http://www.efore.com).

## COMPOSITION AND OPERATIONS OF THE BOARD OF DIRECTORS

As set out in Efore's Articles of Association, the Board of Directors shall have no fewer than three and no more than ten ordinary members. The company's President and CEO is not a member of the Board of Directors. The composition shall take into account the company's operational needs and stage of development. A person to be elected to the Board shall have the qualifications required by the duties as well as sufficient knowledge of financial matters and business operations. A person to be elected to the Board shall have the possibility to devote a sufficient amount of time to the work.

The majority of the members of the Board shall be independent of the company. In addition, at least two of the members representing this majority shall be independent of the company's significant shareholders.

The Annual General Meeting held on April 12, 2018, re-elected Marjo Miettinen, Antti Sivula and Tuomo Lähdesmäki to the Board of Directors and elected Taru Narvanmaa and Matti Miettunen as new members. Jarmo Simola served as a Board member until March 28, 2018.

## Composition of the Board of Directors on December 31, 2018:

### Tuomo Lähdesmäki, b. 1957

- Education: M.Sc. (Eng.), MBA
- Board member and Chairman since January 31, 2017
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: 4,828 Efore shares\*

### Marjo Miettinen, b. 1957

- Education: M.A. (Education)
- Board member since 2013
- Vice Chairman of the Board since 2015
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: 99,720 Efore shares\*

### Matti Miettunen, b. 1963

- Education: M.Sc. (Econ.)
- Board member since April 12, 2018
- Primary occupation: Professional investor, management consultant
- Independent of the company and its significant shareholders

- Share ownership: 460,005 Efore shares, including shares held by a company controlled by him\*

### Taru Narvanmaa, p. 1963

- Education: M.Sc. (Econ.)
- Board member since April 12, 2018
- Primary occupation: Board professional
- Independent of the company and its significant shareholders
- Share ownership: no Efore shares\*

### Antti Sivula, b. 1961

- Education: M.Sc. (Eng.)
- Board member since 2016
- Primary occupation: Mekitec Group, Managing Director
- Independent of the company and its significant shareholders
- Share ownership: no Efore shares\*

\*Share ownership information as of December 31, 2018

## Remuneration of the Board of Directors in 2018

The Chairman of the Board was paid a fee of EUR 3,500 per month and the members EUR 1,750 per month.

## **DUTIES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

The Board of Directors has general decision-making authority in all company matters that are not stipulated (by law or under the Articles of Association) to be decided or acted on by another party. The Board is responsible for the governance of the company and for duly organizing its operations. It also approves the corporate strategy, the risk management principles, the Group's corporate values, the operating plan and related annual budget, and decides on major investments.

The main duties and operating principles of the Board of Directors are laid out in a separate Charter, which covers the declaration of a quorum at Board meetings, the writing and approval of minutes, and the preparations needed on matters for decision.

More specifically, the Board:

- approves the company's values and strategy
- approves annually the company's main targets of business operations and monitors the Group's profit performance
- decides on the Group's major investments and reorganization measures
- reviews and approves interim reports and financial statements
- appoints and discharges the President and CEO and decides on the conditions of the President and CEO's service contract and remuneration principles

- decides on the compensation scheme of the management and personnel
- monitors the major risks and their management as well as approves the principles of risk management

The Board of Directors reviews its own working procedures by means of an annual self-evaluation process or in co-operation with an external party.

## **BOARD MEMBERS' ELECTION PROCEDURES AND THE BOARD'S DIVERSITY PRINCIPLES**

The Annual General Meeting elects the members of the Board of Directors by a simple majority vote for a term of office that ends at the close of the next Annual General Meeting following their election. The Board of Directors elects a Chairman and a Vice Chairman from among its members.

The composition of the Board of Directors must take into account the company's operational objectives and stage of development. The diversity of the Board of Directors supports the development of the business. When preparing the composition of the Board of Directors, the way in which the members' skills, education and experience complement each other is also assessed. The objective is that both genders are represented on the Board as well as the members at different ages and with a different educational background and experience. As of December 2018, two of the five

members of Efore's Board of Directors were women.

## **BOARD COMMITTEES**

The Board of Directors decides on establishing committees as necessary and appoints the members and chairmen of committees from among its members. The committees regularly report to the Board of Directors on their work.

### **Audit Committee 2018**

The Audit Committee shall consist of at least three Board members who are independent of the company. In addition, at least one member shall be independent of the company's significant shareholders. The members shall have the qualifications required for the performance of the responsibilities of the committee, and at least one member shall have special expertise in accounting, bookkeeping or auditing.

During the financial year 2018, the Audit Committee consisted of the entire Board of Directors until April 12, 2018. In its constitutive meeting held after the Annual General Meeting on April 12, 2018, the Board of Directors decided to establish a separate Audit Committee and appointed Taru Narvanmaa (Chairman), Tuomo Lähdesmäki and Matti Miettunen as its members.

The Audit Committee assists the Board of Directors by preparing the tasks assigned to the Board of Directors. The Committee regularly reports to the Board of Directors on the mat-

ters it has discussed and the measures it has taken. The Committee submits decisions proposals to the Board of Directors when appropriate. The primary tasks of the Audit Committee are to review the company's financial reporting and supervise compliance with laws and regulations.

- monitor the financial statements reporting process
- supervise the financial reporting process
- monitor the effectiveness of the company's internal control, internal auditing and risk management systems
- review the description of the main features of the internal control and risk management systems related to the financial reporting process, which is included in the company's Corporate Governance Statement
- monitor the statutory audit of the financial statements and consolidated financial statements
- evaluate the independence of the statutory audit or auditing firm and, in particular, the auditor's provision of supplementary services to the company
- prepare a draft resolution regarding the election of the auditor
- evaluate compliance with laws and regulations as well as the company's operating procedures and monitor significant legal processes involving Group companies, and
- exercise other duties as authorized by the Board of Directors.

In its first meeting following the Annual General Meeting, the Board of Directors shall appoint the members of the Audit Committee from among its members and appoint one of them to be the Chairman of the Audit Committee. The members' term of office shall be one year, ending at the conclusion of

the Annual General Meeting following their appointment.

#### **Attendance in Board and Audit Committee meetings in 2018**

A total of 33 Board meetings and 7 Audit Committee meetings were held during the financial year 2018.

	<b>Board meetings</b>	<b>Audit Committee meetings</b>
Tuomo Lähdesmäki	33/33	7/7
Marjo Miettinen	33/33	2/2
Matti Miettunen (member of the Board of Directors and the Audit Committee since April 12, 2018)	23/23	5/5
Taru Narvanmaa (member of the Board of Directors and the Audit Committee since April 12, 2018)	22/23	5/5
Jarmo Simola (member of the Board until March 28, 2018)	7/7	2/2
Antti Sivula	33/33	2/2

## **SHAREHOLDERS' NOMINATION BOARD**

### **Shareholders' Nomination Board 2018**

The Annual General Meeting 2017 decided to establish a permanent Shareholders' Nomination Board to prepare proposals concerning the election and remuneration of the members of the Board of Directors to the General Meetings. The Annual General Meeting 2017 also adopted the charter of the Shareholders' Nomination Board.

The Nomination Board consists of four (4) members, with the company's three (3) largest shareholders each hav-

ing the right to nominate one member. The Chairman of the Board of Directors of the company shall serve as the fourth member. The company itself cannot be a member of the Shareholders' Nomination Board.

On September 22, 2017, the following shareholders of Efore Plc appointed the following members to the Nomination Board that submitted proposals to the Annual General Meeting 2018:

- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jari Suominen
- Jaakko Heininen and related parties: Jaakko Heininen

- Tuomo Lähdesmäki, Chairman of the Board of Directors, served as the fourth member.

The Nomination Board submitted its proposal regarding the composition and remuneration of the Board of Directors on January 12, 2018, and amended the proposal on March 29, 2018, following Jarmo Simola's notice of resignation.

The Nomination Board convened twice in 2018, with all of the members attending both meetings.

### **Shareholders' Nomination Board 2019**

The following persons were appointed as members of Efore Plc's Shareholders' Nomination Board on January 14, 2019:

- Jussi Capital Oy: Jarkko Takanen
- Rausanne Group: Jarmo Malin
- Jaakko Heininen and related parties: Jaakko Heininen
- In addition, Tuomo Lähdesmäki, Chairman of the Board of Directors of Efore Plc, serves as a member of the Nomination Board.

In its constitutive meeting, the Nomination Board elected Jarkko Takanen as its Chairman.

## THE PRESIDENT AND CEO AND HIS DUTIES

The Board of Directors appoints the company's President and CEO and supervises his actions. The main terms and conditions governing the President and CEO's appointment are detailed in a written contract approved by the Board of Directors. The President and CEO manages and supervises the Group's business operations within the guidelines and directives issued by the Board of Directors, and ensures that the company's accounting accords with the law and that the financial management system is reliable.

Jorma Wiitakorpi served as Efore Plc's President and CEO until December 31, 2018. Vesa Leino, who had previously served as the Group CFO since summer 2017, was appointed as Efore Plc's new President and CEO effective from January 1, 2019.

## OTHER MANAGEMENT

Efore's corporate management consists of the Chief Executive Officer (CEO), the members of the Efore's Executive Management Team, as well as managers and experts from the global functions who assist the CEO and members of the Management Team.

The Executive Management Team has no powers based on law or the Articles of Association. The Executive Management Team assists the CEO in the development of Efore's business. The Executive Management Team's

duty is to prepare strategy proposals for the Board and execute the approved strategy. The Executive Management Team members are accountable for the performance and development of their respective areas of responsibility and they supervise the operations of the units belonging to their areas.

Members of the Executive Management Team and their areas of responsibility on December 31, 2018:

Jorma Wiitakorpi, b. 1957, M. Sc. (Eng.)

- President and CEO
- No Efore shareholdings or stock options\*

Vesa Leino, b. 1969, M.Sc. (Econ.)

- CFO
- No Efore shareholdings or stock options\*

Ari Kemppainen, b. 1964, Lic. Sc. (Tech.)

- Executive Vice President, Telecom Business Line
- No Efore shareholdings or stock options\*

Carlo Rosati, b. 1966, M. Degree in Business and Economics

- Executive Vice President, Digital Power and Light Business Line
- No Efore shareholdings or stock options\*

Samuli Räisänen, b. 1968, M. Sc. (Eng.)

- Executive Vice President, Systems Business Line

- No Efore shareholdings or stock options\*

Ruben Tomassoni, b. 1974, LL.M.

- Vice President, Operations
- No Efore shareholdings or stock options\*

Alessandro Leopardi, Executive Vice President of Efore's Digital Light and Digital Power business lines, left the company on October 26, 2018.

\* shareholding information as of December 31, 2018

## AUDITORS

The principal auditor of Efore Plc is responsible for the Group's audit and the related directions and coordination. The principal auditor prepares an annual audit plan and presents it to the Board of Directors. The plan specifies the focus areas of the audit and is subject to approval by the Audit Committee. The auditor issues an auditor's report on the consolidated financial statements and the report of the Board of Directors to the company's shareholders as required by law. Furthermore, the auditor reports their findings to the Audit Committee.

The Annual General Meeting held on April 12, 2018 re-elected KPMG Oy Ab as the company's auditor. Authorized Public Accountant Henrik Holmbom served as the responsible auditor during the financial year 2018.

The fees for auditing the official financial statements amounted to EUR 26,500 in 2018. The auditing company charged Efore Plc a total of EUR 115,800 for other services during the financial year.

## THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

### Internal control systems

The Board of Directors is responsible for ensuring that the internal control and risk management are adequately and effectively arranged. In addition, it is the responsibility of the Board to ensure that the internal control of the company's accounting and financial management is appropriately arranged. The Audit Committee is responsible for the control of the financial reporting process. The financial management function communicates its findings to the relevant members of the management.

The Group has financial reporting systems for monitoring business operations, financial management and risks. The Board of Directors has approved the management organization and principles, decision-making authorizations and approval procedures, operating policies of the various areas of the company's administration, financial planning and reporting as well as remuneration principles.

The Group does not have a separate internal audit function. Instead, the internal audit is part of the Group's financial administration. Representatives of the Group's financial administration perform certain control functions when they visit the subsidiaries. The financial management reports the findings to the President and CEO and the Audit Committee which, in turn, report to the Board.

The Group's financial management, together with the other management, prepares a monthly financial report. The report contains a summary of the net sales, gross profit, costs level, results, net working capital, cash flow and personnel development for the previous month, the year to date and a forecast for the remainder of the year. The report also includes the company's key risks and opportunities. The report is delivered to the Board of Directors, Executive Management Team and the financial management of the largest subsidiaries. It is also delivered to the auditors when it concerns interim reports. In addition to the monthly reporting, the management follows certain items more actively in weekly meetings. Efore aims to further simplify its financial processes and main business processes as well as reduce risks related to maintaining several parallel systems.

The Group's financial management oversees the centralized interpretation and application of accounting standards (IFRS). The Group's financing and hedg-

ing against currency risks are centralized in the head office in Finland. The Board's Audit Committee evaluates the financial statements and interim statements as well as certain other areas that are of significance to the result of the Group's business operations. The Audit Committee reports its findings to the Board, which monitors that the necessary measures are taken.

### **Risk management**

The aim of Efore's risk management system is to identify the Group's strategic, operational and financing risks as well as any conventional risks of loss. In its operations, the Group takes risks related to the pursuit of its strategy and goals. Risk management seeks to control these risks in a proactive and comprehensive manner. The measures taken can include risk avoidance, risk reduction or risk transfer by insurance or agreement.

Risk management forms an integral part of the Group's business processes in all of its operational units. In this way, the risk management process is tied to internal controls. The Group and its operational units assess the risks of their operations, prepare risk management plans and report risks in accordance with the organizational structure.

The Group CFO oversees that risk management is arranged efficiently and that the effectiveness of its performance is ensured. The CFO is responsible for the general development of

Efore's risk management. The CFO reports the Group's risk status to the Audit Committee and acts as a representative of the Executive Management Team in Audit Committee meetings.

The Audit Committee and the Board of Directors address risks in connection with addressing other business operations. Risk management is taken into consideration in the Group's quality systems, which also include contingency plans. A more detailed statement on the Group's risks and their management is available in the Investors section of the Efore website.

### **RELATED PARTY TRANSACTIONS**

Efore maintains a list of its related parties. The company evaluates and monitors transactions carried out between the company and its related parties and ensures that it identifies, decides on, approves, reports, and monitors related party transactions in accordance with appropriate procedures. Related party transactions are reported in accordance with the Finnish Limited Liability Companies Act and regulations concerning the drawing up of financial statements and published, when certain conditions are satisfied, in accordance with the rules of the Helsinki Stock Exchange.

In decision-making pertaining to potential related party transactions, the company ensures that decisions are based on exceptionally careful preparatory work and appropriate reports, opinions and/or assessments. In arrang-

ing preparatory work, decision-making, and the evaluation and approval of individual transactions, the company takes into account all relevant disqualification provisions and the appropriate decision-making body in each individual matter to ensure that a representative of a related party does not participate in the decision-making.

An absolute guarantee issued for a loan in 2016 by Jussi Capital Oy is still valid. As a counter guarantee for the absolute guarantee issued by Jussi Capital Oy, the company has pledged its own shares. The guarantee arrangement was conducted on market equivalent terms.

During the financial year 2018, the company agreed on short-term financing of EUR 4.4 million with several of the company's shareholders. Jussi Capital Oy and the Rausanne Group granted part of the loans. The loan arrangement was conducted on market equivalent terms. The loan was fully repaid as part of the rights issue carried out in December 2018.

### **INSIDER ADMINISTRATION**

Efore has drawn up Group-level Insider Guidelines, which cover topics including the prohibition on unlawful disclosure and the abuse of inside information, insider lists, notification requirements and trading restrictions. The Insider Guidelines have been confirmed by Efore's Board of Directors. The Group

CFO is responsible for insider administration.

Efore does not maintain a list of permanent insiders. A project-specific insider list according to the Nasdaq Helsinki Guidelines for Insiders is prepared when Efore has an ongoing project.

The persons discharging managerial responsibilities at Efore are the members of the Board of Directors, the President and CEO and the CFO. The persons discharging managerial responsibilities at Efore and persons closely associated with them have an obligation to notify Efore and the FIN-FSA about transactions relating to Efore's financial instruments. Efore then discloses the information as a separate stock exchange release.

Efore has organized regular supervision of the trading and the notification requirement concerning persons included in insider lists as well as persons discharging managerial responsibilities and persons closely associated with them in such a way that the company annually checks the information to be notified with the persons discharging managerial responsibilities and the persons closely associated with them. Efore's duty of supervision also extends

to any external advisors registered in the insider list who have taken on the duty of drawing up and maintaining the insider list. It is therefore recommended that the company agree in writing (e.g. by e-mail) with such external advisors on the maintenance of the insider list and assure that such parties are aware of the obligations and duties under MAR and Efore's Insider Guidelines.

The persons discharging managerial responsibilities at Efore are not allowed to trade in Efore's financial instruments for their own account or for the account of a third party during the closed period, which begins 30 days before the disclosure of financial statement releases and half-year financial reports and ends on the day following the disclosure of such information. In the exceptional event that the financial statements release does not include all of the relevant information regarding the financial position of the company, in which case the closed period also applies during the 30 days prior to the publication of the financial statements, the company will separately inform the parties concerned.

Trading in Efore's financial instruments is allowed outside closed periods,

provided that the person in question is not entered into a project-specific insider list and they do not otherwise possess inside information at the time. Prior to trading, the person in question also needs to have received a statement, in writing by e-mail, from the person responsible for insider administration at Efore, indicating that there is no obstacle to trading.

Persons in the service of Efore Plc may, via an independent channel, report any suspected infringements of rules and regulations concerning the financial market, including violations of the company's Insider Guidelines and the Nasdaq Helsinki Guidelines for Insiders. Such reports are made by a free-form letter (anonymously, if necessary) addressed to the President and CEO.