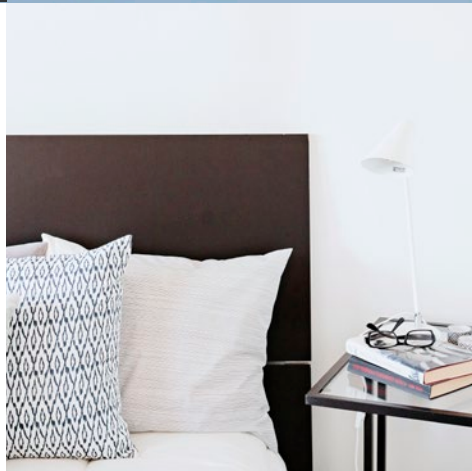


VVO Group plc  
**Corporate Governance  
Statement 2016**

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# Corporate Governance Statement 2016

This Corporate Governance Statement has been discussed at the Audit Committee of VVO Group plc's Board of Directors on 2 March 2017.

## Corporate Governance

VVO Group plc is a public limited company registered in Finland that operates as VVO Group's parent company. The bond issued by VVO Group plc was listed on Nasdaq Helsinki Ltd's Helsinki Stock Exchange ("Nasdaq Helsinki Ltd") on 21 October 2016.

VVO Group plc has prepared its insider guidelines so that they correspond with the regulations that govern insider regulation and trading restrictions and that are set out in the Market Abuse Regulation (EU) No 596/2014 (MAR or the Market Abuse Regulation), the application of which began in Finland on 3 July 2016.

In its disclosure policy, VVO adheres to Finnish legislation, the EU's Market Abuse Regulation ("MAR"), the rules of Nasdaq Helsinki Ltd as well as the guidelines of the European Securities and Markets Authority (ESMA) and the Financial Supervisory Authority.

Pursuant to the Finnish Limited Liability Companies Act and VVO Group plc's Articles of Association, control and administration in the company is divided among

the shareholders presented at the Annual General Meeting, the Board of Directors and the CEO. The CEO is assisted by the Management Group. In its decision-making and administration, VVO Group adheres to Finnish laws and decrees, regulations and VVO Group plc's Articles of Association. In addition, the Group complies with the administrative principles laid down by the Board of Directors.

VVO Group's corporate governance and this Corporate Governance Statement are publicly available on the website [www.vvokonserni.fi/en/](http://www.vvokonserni.fi/en/).

This description is presented separately from the Board of Directors' report.

## Administrative bodies

### Annual General Meeting

The General Meeting is VVO Group plc's highest decision-making body. General Meetings are arranged so that shareholders can exercise their rights as owners effectively. The Annual General Meeting must, as per the Articles of Association, be arranged

once a year on a date defined by the Board of Directors, at the latest six months after the financial year has ended.

The Annual General Meeting decides on the matters specified in Section 12 of the Articles of Association and any other business proposed for the agenda of the AGM. Sufficient information concerning the issues to be discussed at a General Meeting must be made available to shareholders before the meeting.

Shareholders must be invited to a General Meeting at least two weeks before the meeting or the last day of registration for the meeting, by means of a registered letter of invitation. The invitation is sent to the address recorded in the share register for the shareholder in question. The earliest possible registration deadline is ten days before the meeting.

### Nomination Board

The Annual General Meeting appoints the Nomination Board, consisting of four members elected at the Annual General Meeting and the Chairman of the Board of Directors

in an advisory capacity. The Annual General Meeting is where members of the Board of Directors and/or the chairman of the Board are elected and/or the fees and/or number of Board members are determined. Therefore, the task of the Nomination Board is to prepare a proposal for these decisions before the meeting, to be submitted to the next Annual General Meeting.

As of 17 March 2016, the Nomination Board was chaired by Jarkko Eloranta and included Ville-Veikko Laukkanen, Pasi Pesonen and Esko Torsti as members.

The Nomination Board met twice during the financial year, with an attendance rate of 100 per cent.

## Board of Directors

The Board of Directors of VVO Group plc is elected by the Annual General Meeting, based on the Nomination Board's proposal. The Board of Directors consists of a minimum of five and a maximum of eight members who are elected for a one-year term.

A majority of the Board members must be independent of the company. At least

two of the members belonging to the aforementioned majority must be independent of the company's major shareholders.

The term of the Board of Directors is one year and ends at the close of the next Annual General Meeting following the election.

At the Annual General Meeting on 17 March 2016, Riku Aalto was elected Chairman of the Board of Directors, and Mikko Mursula (Vice Chairman), Matti Harjuniemi, Olli Luukkainen, Jorma Malinen, Reima Rytsölä, Jan-Erik Saarinen and Ann Selin were elected members.

The Board of Directors convened nine times in 2016, with an average attendance rate of 93.5 per cent.

The Board oversees the management and operations of the company in accordance with the Limited Liability Companies Act. The Board of Directors guides and supervises the operational management. The Board's tasks include the approval of financial statements, consolidated financial statements and interim reports; approval of the Group's strategic plans, annual budget and investment and divestment plans; and making appropriate arrangements for the Group's risk management and internal auditing. The Board also nominates the CEO, Deputy CEO and the members of the Management Group.

The Board of Directors has compiled a written working order for its operations,

defining the main tasks and operating principles of the Board.

The Board of Directors evaluates its operations and working methods annually.

### **Board committees**

The company has two committees appointed by the Board of Directors: the Audit Committee and the Remuneration Committee. The Committees have no decision-making authority in themselves; their purpose is to prepare issues within their remit to the Board of Directors or the General Meeting for a decision. The Committees report regularly to the Board of Directors.

The Board of Directors appointed an Audit Committee and a Remuneration Committee for 2016 from among its members. These committees have four members each.

The main task of the Audit Committee is to monitor the company's financial position and oversee its financial reporting. The committee also assesses the sufficiency and adequacy of internal control and risk management.

As of 17 March 2016, the Audit Committee was chaired by Mikko Mursula and included Matti Harjuniemi, Jorma Malinen and Jan-Erik Saarinen as members.

The Audit Committee convened four times during the financial year, with an attendance rate of 94 per cent.

The main task of the Remuneration

Committee is to prepare matters concerning the remuneration and benefits of the company CEO and Deputy CEO, and other matters concerning the company's reward systems.

As of 17 March 2016, the Remuneration Committee was chaired by Riku Aalto and included Olli Luukkainen, Reima Rytsölä and Ann Selin as members.

The Remuneration Committee convened twice during the financial year, with an attendance rate of 100 per cent.

The Board of Directors has confirmed written working orders for the committees, defining their tasks.

### **CEO**

The Board of Directors appoints the CEO and Deputy CEO. The CEO is responsible for running the operating activities of VVO Group in accordance with the Limited Liability Companies Act and the administrative regulations and as instructed and ordered by the Board of Directors.

The CEO is responsible for the company's business in general, and for ensuring that its operations are properly organised and its objectives achieved. The CEO reports to the Board of Directors on the company's financial position and business environment, and on other significant matters relating to the company's business operations. The CEO also chairs the Management Group.

Jani Nieminen, M.Sc. (Tech.), MBA was

CEO during the review period. The CEO's deputy was CFO Erik Hjelt, Licentiate in Laws, EMBA.

The terms of the CEO's service are specified in writing in the CEO's service contract approved by the Board of Directors.

### **Management Group**

The Management Group helps the CEO in the preparation of Group strategy issues, in the handling of significant and fundamental operational issues, and in facilitating internal communications.

The Management Group is responsible for implementing the Board of Directors' decisions under the leadership of the CEO.

The VVO Group Management Group was composed of CEO Jani Nieminen (Chairman), CFO Erik Hjelt, Director of Customer Relations Juha Heino, Investment Director Mikko Suominen, Real Estate Development Director Kim Jolkkonen, Marketing and Communications Director Irene Kantor, and ICT and Development Director Mikko Pöyry. At the CEO's discretion, Jouni Heikkinen, the company's internal auditor, may also attend Management Group meetings.

### **Auditing the accounts**

Audits are completed by the auditors elected at the Annual General Meeting. The company has one to three auditors and their deputies. If an auditing firm is selected as an auditor, no deputy is required. All audi-

tors and deputy auditors must be chartered accountants or accounting firms as stipulated in the Auditing Act. In addition, one (1) auditor and one (1) deputy auditor must be an Authorised Public Accountant (KHT) or an Authorised Public Accounting Firm, approved by the Central Chamber of Commerce.

The term of the auditors is one (1) year and ends at the close of the Annual General Meeting.

The auditor for the financial year 1 January–31 December 2016 was KPMG Oy Ab. The auditor with principal responsibility for the auditing firm has been Esa Kailiala, KHT.

During the statutory annual audit, the auditor inspects the company's accounts, annual report, financial statements, and governance for the period under review. The auditor of the parent company also inspects the consolidated financial statements and relationships between Group companies.

### **Internal control of the financial reporting process and the main features of the risk management systems**

#### **Risk management**

VVO Group's risk management is based on the company's risk management and financing policy, corporate governance and ethical guidelines, and the risk assess-

ments carried out in connection with the strategy and annual planning process. Risk management forms part of the company's internal control, its purpose being to ensure that the company achieves its business objectives. Responsibility for arranging risk management rests with the Board of Directors. Risk management is based on the risk assessments carried out in connection with the strategy and annual planning process, which involve identifying the most notable risks, evaluating their likelihood and potential impacts, and defining means to manage them. Any significant changes in risks in business operations and the business environment are evaluated regularly and reported to the Board of Directors as part of quarterly interim reporting.

#### **Control environment**

Principal responsibility for the internal control of financial reporting rests with the Board of Directors. The working order of the Board of Directors outlines the responsibilities of the Board and the division of duties within the Board and among its committees. The principal task of the Audit Committee appointed by the Board of Directors is to ensure that the principles outlined for financial reporting, risk management and internal control are complied with, and that appropriate contact is kept with the company's auditors. It is the duty of the CEO to maintain an organisational structure in

which responsibility, authority and reporting relationships are clearly and comprehensively defined in writing, and to ensure that the internal control environment is adequately resourced.

In its disclosure policy, VVO adheres to Finnish legislation, the EU's Market Abuse Regulation ("MAR"), the rules of Nasdaq Helsinki Ltd as well as the guidelines of the European Securities and Markets Authority (ESMA) and the Financial Supervisory Authority. Financial reporting is also governed by VVO Group's operating principles, HR policy, financing policy, data security policy, accounting principles, and reporting instructions.

#### **Control measures**

VVO Group's financial and operational reporting process complies with the Group's operating instructions and current process descriptions. VVO Group's financial management is responsible for the content of the reporting process and for compliance with instructions. The quality of reporting is ensured through process control measures. These include the reconciliation of accounts, system-generated controls, and inspections and other measures undertaken by management or others. Control functions have designated managers who are responsible for their sufficiency and the efficacy of their execution.

Control of the reporting and budgeting

processes is based on VVO Group's standardised reporting principles drawn up and maintained by the Group's financial management.

#### **Internal control**

Internal control seeks to ensure that VVO Group's operations comply with current legislation and regulations and the company's operating principles, and that the company's financial and business reporting is reliable. Internal control also seeks to safeguard VVO Group's assets and ensure that its operations are efficient and reliable, thereby enabling its strategic goals to be achieved.

The internal control and risk management operating model for financial reporting is designed so as to gain sufficiently dependable information on the reliability of financial reporting and to ensure that the financial statements are drawn up according to current legislation and regulations.

VVO Group's internal control system is based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Organisation of internal control is the responsibility of the Board of Directors and the CEO. However, responsibility for carrying out internal control is shared by the entire organisation: each individual Group employee is responsible to his/her supervisor for internal control in his/her area of responsibility.

## Insiders

VVO Group plc has prepared its insider guidelines so that they correspond with the regulations that govern insider regulation and trading restrictions and that are set out in the Market Abuse Regulation (EU) No 596/2014 (MAR or the Market Abuse Regulation), the application of which began in Finland on 3 July 2016.

The insider guidelines shall be applied to persons discharging managerial responsibilities within VVO Group as well as to persons who have access to inside information. These Guidelines shall also be applied to any persons otherwise acting on behalf of the company or on its account when they perform tasks through which they have access to inside information.

In addition to event-based insider lists, VVO Group draws up a list of its permanent insiders and keeps them up to date in an electronic format.

All persons who have access to project-related inside information and who work for the company or perform tasks for the company through which they have access to project-related inside information, including any external consultants and auditors, are entered in the event-based insider list. In addition, permanent insiders who have project-related inside information are also entered in the event-based insider list.

The permanent insider list includes persons who are considered, on the basis of their tasks, to have regular access to VVO-related inside information. Permanent insiders are the members of VVO Group plc's Board of Directors, the CEO, the members of the Management Group, the principal auditor and other persons determined by the CEO, such as persons participating in the preparation of financial reports.

The insider guidelines are published on the website [www.vvokonserni.fi/en/](http://www.vvokonserni.fi/en/).

## Monitoring

The effectiveness of internal financial reporting control is monitored by the Board of Directors, the Audit Committee, the CEO, Group management, the internal auditing department, and the managers of the various units and departments. Internal control encompasses monitoring monthly financial and business reports, reviews of prognoses and plans, reports prepared by internal auditing, and quarterly interim reports from the external auditors.

Any significant changes in risks in business operations and the business environment are regularly evaluated as part of quarterly interim reporting.

Internal auditing submits a summary report to the Audit Committee every six months concerning the inspections conducted, principal observations made, and actions agreed upon.

## Internal auditing

Internal auditing supports the organisation by providing independent and systematic evaluation of the efficiency and appropriateness of business processes. It also monitors the effectiveness of internal control and risk management. Internal auditing seeks to ensure that the company's financial and business reporting is correct, its business operations are legal, and its assets are being appropriately managed. On the basis of its inspections, internal auditing issues recommendations for improving the company's operations. Internal auditing seeks to support and promote risk management development in the company's various functions.

The internal auditing action plan is drawn up for one calendar year at a time. Each year, inspections are carried out in areas considered important to the risks at hand and the Group's objectives. The relevance and feasibility of the action plan are reviewed with management at six-month intervals.

The internal auditing officer reports administratively to the CEO.

In 2016, internal audits focused on operational and supervisory process inspections of principal and support processes.

## Description of salaries and fees

### Board of Directors and auditors

The Annual General Meeting decides on the remuneration of the Board of Directors and the auditor. The Annual General Meeting held on 17 March 2016 confirmed the attendance allowance for Board meetings as EUR 600 per meeting and set the following annual fees for the term beginning 17 March 2016: EUR 20,000 for the Chairman, EUR 11,000 for the Deputy Chairman, and EUR 8,000 for each of the members.

	<b>Board of Directors</b>	<b>Comittee</b>
Riku Aalto	26,000.00	2,400.00
Matti Harjuniemi	14,000.00	2,400.00
Olli Luukkainen	14,000.00	1,200.00
Jorma Malinen	13,400.00	2,400.00
Mikko Mursula, from 17 March 2016	15,800.00	1,800.00
Reima Rytsölä	13,400.00	600.00
Jan-Erik Saarinen	14,000.00	2,400.00
Ann Selin	12,800.00	600.00
Tomi Aimonen, until 17 March 2016	600.00	600.00
Eloranta Jarkko		1,200.00
Laukkanen Ville-Veikko		1,200.00
Pesonen Pasi		1,200.00
Torsti Esko		1,200.00
<b>Total</b>	<b>124,000.00</b>	<b>19,200.00</b>

It was decided that the auditors' fee will be paid to invoice.

### **CEO and other management**

The company's Board of Directors decides on the pay received by the CEO and members of the Management Group, and on the principles and disbursement of their performance bonuses. Group employees do not receive additional compensation for serving as Board members or the CEO of a Group company.

The salaries and other benefits paid to the CEO in 2016 came to EUR 738,286, of which EUR 379,351 was fixed pay and EUR 358,935 was variable pay. The salaries and other benefits paid to the members of the Management Group in 2016 came to EUR 939,900, of which EUR 622,996 was fixed pay and EUR 316,904 was variable pay.

The retirement age for members of the Management Group is 63 years. Members of the Management Group belong to a contribution-based pension system in which an insurance premium corresponding to two months' taxable income is paid annually into a group pension insurance plan.

The period of notice for terminating the CEO's employment relationship is twelve months.

Members of the Management Group have been part of a long-term incentive plan since the beginning of 2010. The incentive plan is based on the Group's profit performance and is divided into three-year earning periods, starting each year.

**VVO Group plc**

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