

# CORPORATE GOVERNANCE

Lassila & Tikanoja plc is a public limited liability company that is registered in Finland and listed on NASDAQ OMX Helsinki Oy. In its decision-making and administration, Lassila & Tikanoja complies with the Finnish Companies Act, other regulations governing listed companies and the Articles of Association of Lassila & Tikanoja plc.

In addition, Lassila & Tikanoja complies with the Guidelines for Insiders issued by NASDAQ OMX Helsinki Oy and the Corporate Governance recommendations for Finnish listed companies.

## CORPORATE GOVERNANCE STATEMENT 2014

Lassila & Tikanoja plc (L&T) complies with the Finnish Corporate Governance Code issued by the Securities Market Association on 15 June 2010. L&T has not deviated from the recommendations of the Code. The Code is available on the website of the Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

This statement was prepared in accordance with recommendation 54 of the Corporate Governance Code and is issued separately from the Report of the Board of Directors. L&T's Audit Committee has reviewed this statement.

The consolidated financial statements and interim reports have been prepared in accordance with the IFRS reporting standards approved for use in the EU, the Securities Market Act, the standards imposed by the Financial Supervisory Authority, and the rules of NASDAQ OMX Helsinki. The Report of the Board of Directors and the parent company's financial statements have been prepared in accordance with the Accounting Act and the instructions and statements issued by the Accounting Board.

The Annual General Meeting, the Board of Directors and its two committees, and the President and CEO, assisted by the Group Executive Board, are responsible for company administration and operations.

# GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting is the supreme decision-making body of Lassila & Tikanoja plc. The Annual General Meeting decides on the matters stipulated in the Companies Act, such as the acceptance of the financial statements and proposed dividend, the release from liability of members of the Board of Directors and the President and CEO, the election of the members of the Board of Directors and the auditors, and the compensation paid to them.

The Annual General Meeting is held by the end of April. When considered necessary, an Extraordinary General Meeting is convened to deal with a specific proposal made to a General Meeting. General Meetings are convened by the Board of Directors.

Each share of Lassila & Tikanoja plc entitles the holder to one vote. According to the Articles of Association, at a General Meeting no shareholder may cast more than one fifth of the total number of votes represented at the meeting.

Shareholders are convened to a General Meeting by a notice published on the company's website. The Board of Directors' proposals and the notice to the meeting are also disclosed in a stock exchange release. In addition, if the Board of Directors so decides, the company may also announce the date and venue of the General Meeting and the address of the company's website in a newspaper during the same timeframe. The prospective director candidates and the proposed auditor are disclosed in the notice or in a separate stock exchange release before the General Meeting.

The notice of the General Meeting and the related documents will be available on the company's website [http://www.lassila-tikanoja.fi/en/company/investors/Annual\\_General\\_Meeting/](http://www.lassila-tikanoja.fi/en/company/investors/Annual_General_Meeting/) no later than 21 days before the General Meeting.

The members of the Board of Directors, President and CEO, principal auditor and prospective directors attend a General Meeting, unless there are well-founded reasons for their absence.

The minutes of the General Meeting will be available on the company's website within two weeks of the General Meeting.

## GENERAL MEETING IN 2014

The Annual General Meeting was held in Helsinki on 19 March 2014. The meeting was attended by shareholders representing 46.1 per cent of the votes. All Board members, the President and CEO, and the principal auditor attended the meeting.

# BOARD OF DIRECTORS

In accordance with the Articles of Association, the Board of Directors of Lassila & Tikanoja plc 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 a member of the Board of Directors expires at the end of the next Annual General Meeting 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.

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

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

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

The Board of Directors has evaluated the independence of its members in accordance with recommendation 15 of the Corporate Governance Code. All of the members of the Board of Directors are independent of both the company and its major shareholders.

## DUTIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the management of the company, the proper arrangement of the company's operations, and the proper arrangement and supervision of the company's accounting and financial management. The Board of Directors decides upon matters that are of major importance, in view of the scope and size of the operations of the company. The Board of Directors is also responsible for the duties specified in the Companies Act and the Articles of Association, and in other regulations.

The duties of the Board are defined in a written charter adopted in 2014, which the Board complies with in addition to the Articles of Association and Finnish laws and regulations.

Duties of the Board of Directors:

- 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 the Group structure and organisation
- ensuring the operation of the management system
- handling and adopting interim reports, consolidated financial statements and annual reports

- confirming the Group'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 treasury, disclosure and risk management and insurance policies as well as internal control policy
- nominating and dismissing the President and CEO and monitoring and evaluating his work
- deciding on the nomination, remuneration and other financial benefits of the President and CEO's immediate subordinates

## **MEETING PRACTICE**

The Board of Directors convenes as often as its tasks require. It confirms its annual, regular meetings. Meetings held annually prior to the publication of the financial statements and each interim report as well as strategy, budget and other meetings confirmed in the annual programme of the Board are considered regular meetings. In addition to regular meetings, the Board can hold extraordinary meetings, which can be arranged as telephone conferences.

Minutes are prepared of Board meetings, subject to the signature of members of the Board of Directors participating in the meeting as well as the President and CEO of the company and secretary to the Board. These minutes are kept at the company's headquarters.

The President and CEO is responsible for ensuring that the Board is provided with sufficient information for assessing the operations 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 IN 2014**

The Board of Directors comprises the following persons: Mr Heikki Bergholm, Chairman, Mr Eero Hautaniemi, Vice Chairman, Mrs Hille Korhonen, Ms Laura Lares, Mr Sakari Lassila and Mr Miikka Maijala. Information on their holdings in the company and their remuneration is provided in the Remuneration Statement in the Annual Report in the section Remuneration and shareholding of the Board members.

The Board of Directors met 13 times during 2014. The average attendance rate of the members at the meetings was 97.3 per cent.

Key themes in Board work included strategy and directing and supporting the implementation of it, monitoring strategic projects, clarifying the business portfolio and directing risk management.

## BOARD MEMBER MEETING PARTICIPATION 1 JAN.-31 DEC. 2014

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	Board	Audit Committee	Remuneration Committee
Heikki Bergholm	13/13		4/4
Eero Hautaniemi	11/13	5/5	
Hille Korhonen	13/13		4/4
Laura Lares*	10/10	4/4	
Sakari Lassila	13/13	5/5	
Miikka Maijala**	13/13	1/1	3/3

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The Board of Directors met three times before 19 March 2014 and 10 times thereafter. The Audit Committee met once before 19 March 2014 and four times thereafter. The Remuneration Committee met once before 19 March 2014 and three times thereafter.

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\* Member of the Board of Directors and the Audit Committee since 19 March 2014

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\*\* Member of the Audit Committee until 19 March 2014 and member of the Remuneration Committee since 19 March 2014

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# BOARD MEMBERS

## **Heikki Bergholm**

born 1956, M.Sc. (Eng.)

Chairman of the Board since 2011 and member since 2008, Chairman of the Remuneration Committee since 2011 and member since 2010, independent member

Work experience:

Suominen Corporation Oyj: President and CEO 2002–2006

The former Lassila & Tikanoja Group: President and CEO 1998–2001, Vice President 1997–1998, President of business units 1986–1997

Lassila & Tikanoja Oy: CFO 1985–1986

Industrialisation Fund of Finland Ltd: Researcher and development manager 1980–1985

Other key positions:

Solidium Oy (2013–), Lakan Betoni Oy (1986–, COB), Maillefer International Oy (2010–2014), Seniorirahasto Oy (2010–), Finnish Foundation for Cardiovascular Research (2013–), Yrjö-Koskinen Family Association (2013–), Duckies Kindergarten (2012–), Institutum Romanum Finlandiae (2011–), Etua Oy (2008–), Association for the Foundation for Economic Education (2005–), Henna and Pertti Niemistö Ars Fennica Art Foundation (2005–), Tehokkaan Tuotannon Tutkimussäätiö (2003–), MB Funds (2002–), Spa Hotel Ikaalinen Holding Oy (2010–2014), Forchem Oy (2007–2013), Componenta (2003–2012, COB), L&T Recoil Ltd (2010–2012, COB), Helsinki Bourse Club (2003–2010), Kemira Oyj (2004–2007), Pohjola-Yhtymä Oyj (2003–2005), Sponda Oyj (1998–2004) and Suominen Corporation (2006–2011)

## **Eero Hautaniemi**

born 1956, M.Sc. (Econ.)

President and CEO of Oriola-KD Corporation 2006–

Vice Chairman of the Board since 2011 and member since 2007, Chairman of the Audit Committee since 2011 and member since 2009, independent member

Work experience:

GE Healthcare Finland Oy: President 2004–2005

GE Healthcare IT: General Manager, Oximetry, Supplies and Accessories business area 2003–2004

Instrumentarium Corporation: positions in financial and business management 1990–2003

Other key positions:

Finnish Commerce Federation (2014–), EcoStream Oy (2012–2013), L&T Recoil Oy (2010–2012), Nurminen Logistics Oyj (2009–2012)

**Hille Korhonen**

born 1961, Lic. Tech.

President and CEO of Alko Oy 2013–

Member of the Board since 2009, member of the Remuneration Committee since 2010, independent member

Work experience:

Fiskars Corporation: Vice President, Operations (responsible for manufacturing, sourcing and logistics strategies) 2008–2012; Iittala Group: Group Director, Operations 2003–2009

Executive positions within worldwide delivery chain strategies and processes at Nokia Corporation 2000–2003, Nokia Networks 1998–2000 and Nokia Mobile Phones 1996–1997

Outokumpu Copper: positions in logistics and marketing development 1993–1996

Other key positions:

Nokian Tyres plc (2006–), Ilmarinen Mutual Pension Insurance Company, Supervisory Board (2014–), Federation of Finnish Commerce (2014–), Mint of Finland Group (2008–2010)

**Laura Lares**

born 1966, Ph.D in Technology

Managing Director of Woimistamo Oy 2012–

Member of the Board and the Audit Committee since 2014, independent member

Work experience:

Kalevala Koru Oy & Lapponia Jewelry Oy: Managing Director 2007–2012

UPM Kymmene Corporation: Director of Wood Products Division, Director of Business Development & Human Resources 2004–2006

Other key positions:

Lappeenranta University of Technology (2009–), Woikoski Oy (2012–), Aalef Oy (2013–), Kriitiimi Oy (2013–), Kinkaronkka Oy (2014–)

**Sakari Lassila**

born 1955, M.Sc. (Econ.)

Managing Director and partner of Indcrea Oy

Member of the Board and the Audit Committee since 2011, independent member

Work experience:

Cupori Group Oy: member of the Management Board (2008–2014), Managing Director of Cupori AB (2012–2014)

Carnegie Investment Bank AB, Finland Branch: executive positions 2002–2005

Alfred Berg Finland Oyj: executive positions within investment banking 1994–2002

Citibank Oy: head of corporate bank 1991–1994

Union Bank of Finland: supervisory and executive positions 1983–1991

Other key positions:

Evald and Hilda Nissi Foundation, Vice Chairman of the Board (member 1987–), Aplagon Oy, Chairman of the Board (2009–)

**Miikka Maijala**

born 1967, M.Sc. (Eng.)

CEO of Clinius Ltd 2006–

Member of the Board since 2010, member of the Audit Committee 2010–2014, member of Remuneration Committee since 2014, independent member

Work experience:

GE Healthcare Finland Oy: Business Segment Manager 2004–2006

Instrumentarium Corporation (now GE Healthcare Finland Oy): Director, Business Development 2000–2004

Instrumentarium Corporation: supervisory and executive positions within sales, marketing and financial management 1992–2000

# BOARD COMMITTEES

The Board has an Audit Committee and a Remuneration Committee.

## AUDIT COMMITTEE

The Audit Committee consists of at least three members, who are all elected annually by the Board of Directors from among its members for the duration of the Board's term. The members of the Audit Committee shall be independent of the company and at least one member shall be independent of any major shareholders of the company. On an annual basis, the Board of Directors shall likewise select one member as Chairman of the Committee, for the term of the Board. The members of the Audit Committee shall have the qualifications necessary to perform the responsibilities of the committee, in particular, sufficient knowledge of bookkeeping, accounting and financial statements practices.

The duties and operating principles of the audit committee are defined in a charter approved by the Board of Directors. The Audit Committee will convene at least four times a year.

The duties of the Audit Committee include:

- monitoring the financial position and financing of the Group
- 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 operating principles of the company's internal control
- reviewing the plans and reports of the company's internal audit
- reviewing the company's corporate governance statement, including the description of the main features of internal control and risk management systems pertaining to the financial reporting process
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the auditing company
- evaluating the provision of non-audit services to the company by the auditing firm
- preparing the proposal and/or recommendation concerning the auditor of the company
- maintaining contact with the company's auditor and reviewing the reports prepared for the committee by the auditor
- assessment of compliance with laws and provisions.

As from 19 March 2014, the members of the Audit Committee are Eero Hautaniemi, Chairman, and members Laura Lares and Sakari Lassila. The Audit Committee met five times in 2014. The attendance rate of the members at the meetings was 100 per cent.

## REMUNERATION COMMITTEE

The Remuneration Committee has at least two members, who are elected annually by the Board of Directors from among its members for the duration of the Board's term. In compliance with the Corporate Governance Code for listed companies in Finland, the members must be independent of the company. On an annual basis, the Board of Directors shall likewise select one member as Chairman of the committee, for the term of the Board. The committee will convene at least twice a year.

The duties of the Remuneration Committee include:

- handling, evaluating and making statements on the salary structure of the Group management and personnel as well as remuneration and incentive schemes
- monitoring the functionality of the remuneration systems to ensure that the management's incentive schemes promote the achievement of the company's targets and are based on personal performance
- handling and preparing other questions related to management and personnel remuneration and drafting statements to the Board regarding them
- handling and preparing executive appointment issues for consideration by the Board of Directors

As from 19 March 2014, the Remuneration Committee comprises Heikki Bergholm, Chairman and Hille Korhonen and Miikka Maijala as members. The Remuneration Committee met four times in 2014. The attendance rate of the members at the meetings was 100 per cent.

# CEO AND GROUP EXECUTIVE BOARD

Lassila & Tikanoja plc's 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 President and CEO is Pekka Ojanpää.

The Group Executive Board assists the President and CEO in the management of the company. Information on the Group Executive Board members' holdings in the company and their remuneration is provided in the Remuneration Statement in the Annual Report in the section Remuneration and shareholding of the Group Executive Board members.

## BOARD MEMBERS



### PEKKA OJANPÄÄ

born 1966, M.Sc. (Econ.)

#### **President and CEO since 2011**

Kemira Oyj: President, Municipal & Industrial segment 2008–2011, President, Kemira Specialty business area 2006–2008, Executive Vice President of Procurement & Logistics 2005–2006  
Nokia Oyj: Vice President, Electromechanics Supply Line Management 2001–2004, Managing Director of Nokia Hungary 1998–2001, sales and logistics managerial positions in Nokia Mobile Phones 1994–1998

Other key positions:

Ilmarinen Mutual Pension Insurance Company: Supervisory Board member (2012–), Kiinteistöyönantajat ry: Board member (2013–), Technopolis Oy: Board member (2014–)



### TIMO LEINONEN

born 1970, M.Sc. (Admin.)

#### **Chief Financial Officer since 2013**

Ixonos Plc: CFO 2008–2012  
Suomen Terveystalo Plc: CFO 2006–2008  
Tieto-X Plc: CFO 2002–2006, business controller 2000–2002 APT  
Sijoitus Ltd: Financial Advisor 1999–2000  
Uusimaa Regional Tax Office: Tax Auditor 1998–1999



## PETRI SALERMO

born 1970, QBA

### **Vice President, Environmental Services since 2013**

Lassila & Tikanoja plc: Business Director, Environmental Services 2009–2012, Sales Director, Environmental Services 2003–2009, Sales Manager, Environmental Services 2001–2003

Europress Oy: Sales Director 1998–2001, sales managerial positions 1995–1998



## ANTTI TERVO

born 1978, M.Sc. (Econ.)

### **Vice President, Industrial Services since 1 January 2015**

Lassila & Tikanoja plc: Chief Officer responsible for procurement and supply chain, 2012–2014

Siemens, North West Europe: Head of Commodity Management 2009–2012, Work Stream Lead, Procurement & Supply Chain Management 2008–2009

Siemens Oy: Director, Procurement 2005–2009, Procurement Manager 2003–2005, Supply Chain Consultant 2001–2003



## PETRI MYLLYNIEMI

born 1964, M.Sc. (Econ.)

### **Vice President, Facility Services since 2013**

ISS Palvelut Oy: Business Director, Uusimaa region customer accounts 2011–2012, Business Director, Technical Service and Building Management 2005–2011

Are Oy: Executive Vice President and Vice President, Maintenance and Service Business 1999–2005, Service Manager 1995–1999, managerial and planning positions at Onninen-Termo Oy 1989–1994



## KIRSI MATERO

born 1968, M.Sc. (Econ.)

### **HR Director since 2012**

Atria plc: Group Vice President, Human Resources 2010–2011

Pfizer Oy: HR Director 2007–2010

Nokia Mobile Phones: Senior Business HR Manager 2004–2007 Nokia Mobile Phones and Nokia Networks: Business HR Manager and

Competence Development Manager 1998–2003

Adulta Oy: Program Manager 1996–1998

Shell Oil Products: Product Manager 1994–1995



## TUOMAS MÄKIPESKA

born 1978, M.Sc. (Econ.)

**Business Development Director since 2012 and Vice President, Renewable Energy Sources since 1 January 2015**

Deloitte: Management Consultant, Strategy & Operations 2005–2012

Fiskars Corporation: Project Manager 2004–2005

Rieter Automotive Management AG: Market Analyst 2003

Tapiola Group: Finance Assistant 2000–2002



## TUTU WEGELIUS-LEHTONEN

born 1970, Lic. Tech.

**Director, Supply Chain since 16 February 2015**

Hartwall Oy: Operations and Supply Chain Director 2014

Rexel Finland Oy: Director of Marketing and Business Development 2011–2014

YIT: managerial positions in procurement and logistics 2004–2008 and in YIT's

Building Services and Building and Industrial Services divisions 2009–2011

Ensto: Director, Production and Logistics 1998–2004

## AUDITOR

The statutory audit of the financial statements of Lassila & Tikanoja is carried out by KPMG Oy Ab, Authorised Public Accountants, elected by the Annual General Meeting. The principal auditor is Lasse Holopainen, Authorised Public Accountant.

The auditors and the Board agree on the audit plan annually and discuss the audit's findings. The principal auditor and the auditor manager attend at least one meeting of the Board of Directors annually.

In 2014, the fees paid for statutory auditing to KPMG group totalled EUR 102,761. The fees paid to the auditing company and companies belonging to the same group for non-audit services such as tax, IFRS and due diligence services totalled EUR 43,488.

## INSIDER GUIDELINES

Lassila & Tikanoja plc's Board of Directors has taken a decision that the Group observes the Guidelines for Insiders issued by NASDAQ OMX Helsinki. In addition, the Board has issued complementary guidelines that are in some respects more stringent.

The insider register is maintained in the SIRE service of Euroclear Finland Ltd. Insiders with a duty to declare include the members of the Board of Directors, the President and CEO, the principal auditor and the Group Executive Board. Persons included in the company-specific permanent insider register based on their position include the General Counsel, Internal Auditor, Chief Information Officer, Director of Corporate Relations and Responsibility, Communications Manager and persons designated by them, divisional management teams, executive assistants and persons participating in group accounting, persons preparing stock exchange releases, as well as other separately designated persons. Separate project-specific sub-registers are kept for extensive or otherwise significant projects. The General Counsel is the person responsible for insider issues.

Lassila & Tikanoja's insiders are not permitted to engage in trading in company shares during the period between the end of the financial period and the disclosure of the result.

The shareholdings and option holdings of the public insiders are listed on the company's website.

# FINANCIAL REPORTING

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 that the information disclosed in the financial reports published by the company is essentially correct.

## AUDIT COMMITTEE

The Audit Committee 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 Audit Committee is presented in more detail in the Committees section.

## L&T'S FINANCIAL REPORTING PROCESS

L&T conducts a significant proportion of its business in Finland. Functions related to 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

## **INTERNAL CONTROL**

The financial development of the company is monitored monthly by an operational reporting system covering the whole Group. In addition to actual data, the system provides budgets, forecasts and investment reports. L&T's operations and financial reports are monitored and compared against budgets and forecasts at different organisational levels. Group management, divisional management and area management as well as business unit management analyse the results and any nonconformities. Divisional business controllers also analyse the financial reports and prepare reports for management use. The duties of controllers also include supervision of the accuracy of financial reports and analysis of results.

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 Group's financial management assesses foreign subsidiaries' operations against the specified control points as part of their regular visits.

The company has financing, disclosure and risk management and insurance policies as well as an internal control policy confirmed by the Board of Directors.

## **RISK MANAGEMENT**

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 actions are named. Implementation of actions is monitored annually. The risk management process is described in more detail in the next section, Key Risk Management Principles.

# KEY RISK MANAGEMENT PRINCIPLES

Risk management aims to identify significant risk factors, prepare for them and manage them in an optimal way so that the company's objectives are achieved. Comprehensive risk management endeavours to manage the Group's risk as a whole and not just individual risk factors.

## RESPONSIBILITIES

The principles of L&T's risk management are approved by the company's Board of Directors. The Board monitors the implementation of risk management and assesses the efficiency of the methods employed. The President and CEO is responsible for the organisation and implementation of risk management. The principles for financial risk management are defined in the Group's Financial Policy. The principles for insurance risk management are specified in the Insurance Policy.

## IDENTIFICATION, ASSESSMENT AND REPORTING OF RISKS

The risk management process is defined in L&T's Integrated Management System. As part of the annual strategy process, risks are assessed at the Group and division levels, in units outside Finland as well as within centralised functions defined as critical. In each responsibility area, the executive management assesses its strategic, financial, operational and accident risk factors. L&T evaluates risks using a risk matrix, thereby also assigning monetary values to risks. Contingency plans are prepared for significant risks. Responsibility for the risk management measures is assigned to the relevant parties. The most significant risks identified and preparations for them are reported to the President and CEO and the Board of Directors.

## INTERNAL AUDIT

The company's own internal audit organisation started its operations in early 2014. Its task is to support the company and its senior management in the achievement of goals by providing a systematic approach to assessing and developing the effectiveness of the organisation's internal control, risk management and governance system. In its operations, the internal audit complies with generally accepted international professional standards concerning internal audit and ethical principles, as well as the operating guidelines confirmed by L&T's Board of Directors.

The internal audit operates under the supervision of the Audit Committee of L&T's Board of Directors and the company's President and CEO. It may also utilise external experts in internal audit assignments when necessary.

# REMUNERATION STATEMENT

The Finnish Corporate Governance Code requires the disclosure of a remuneration statement. This statement was prepared in accordance with recommendation 47 of the Corporate Governance Code.

## REMUNERATION AND SHAREHOLDING OF THE BOARD MEMBERS

The Annual General Meeting determines the emoluments payable to the members of the Board of Directors in advance, for one year at a time.

In 2014, the following annual fees were decided to be paid: Chairman EUR 46,250, Vice Chairman EUR 30,500 and each member EUR 25,750. The fees are paid so that 40% of the annual fee is in Lassila & Tikanoja's shares held by the company or, if this is not feasible, shares acquired from the markets, and 60% in cash. Shares are to be issued to Board members and, where necessary, acquired directly from the markets on behalf of Board members within the next 14 trading days, free from restrictions on trading, from the Annual General Meeting. In addition, meeting fees are paid to the members of the Board of Directors as follows: EUR 1,000 to the Chairman, EUR 700 to the Vice Chairman and EUR 500 to each member for each meeting. Meeting fees are also paid to the Chairmen and members of committees established by the Board of Directors: EUR 700 to the Chairman of a committee and EUR 500 to each member for each meeting.

The members of the Board are not included in the company's share-based incentive schemes and they do not have any pension contracts with the company.

In 2014, the Board of Directors met 13 times, the Audit Committee five times and the Remuneration Committee four times.

Heikki Bergholm is the Chairman of the Board of Directors. The Vice Chairman is Eero Hautaniemi. Eero Hautaniemi is the Chairman of the Audit Committee and the members are Laura Lares and Sakari Lassila. Heikki Bergholm is the Chairman of the Remuneration Committee and the members are Hille Korhonen and Miikka Maijala.

In 2014, the fees decided by the Annual General Meeting were paid to the Board of Directors.

## REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS 1 JAN.-31 DEC. 2014

	Annual fee, EUR*	Meeting fee, EUR	2014 total, EUR	2013 total, EUR
Heikki Bergholm	46 250	15 800	<b>62 050</b>	64 050
Eero Hautaniemi	30 500	11 200	<b>41 700</b>	45 000
Hille Korhonen	25 750	8 500	<b>34 250</b>	34 250
Laura Lares	25 750	7 000	<b>32 750</b>	-
Sakari Lassila	25 750	9 000	<b>34 750</b>	36 450
Miikka Maijala	25 750	8 500	<b>34 250</b>	36 250

## SHARES HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS

	31 Dec. 2014	Percentage of shares and voting power	1 Jan. 2014
Heikki Bergholm	<b>824 800</b>	<b>2,13 %</b>	796 247
Eero Hautaniemi	<b>11 620</b>	<b>0,03 %</b>	9 268
Hille Korhonen	<b>5 033</b>	<b>0,01 %</b>	4 314
Laura Lares	<b>719</b>	<b>0,00 %</b>	-
Sakari Lassila	<b>10 002</b>	<b>0,03 %</b>	9 283
Miikka Maijala	<b>71 906</b>	<b>0,19 %</b>	71 187

# REMUNERATION AND SHAREHOLDING OF THE GROUP EXECUTIVE BOARD MEMBERS

The Board of Directors determines the salaries, bonuses and other benefits of the President and CEO and the direct subordinates of the President and CEO. The Board has established a Remuneration Committee. The duties of the committee include handling and preparing questions related to management and personnel remuneration and drafting statements to the Board regarding them.

The remuneration of the President and CEO and the other members of the Group Executive Board consists of a fixed monthly salary and benefits, a compensation scheme and a share-based incentive programme.

The President and CEO and the other members of the Group Executive Board are included in the share-based incentive programmes directed to the key personnel of the company. The basis for the determination of the reward is decided annually by the Board of Directors. Rewards to be paid for the year 2015 will be based on the Group's EVA result. The maximum share-based payment may equal 4–12 months' salary depending on the responsibilities of the member of the Group Executive Board. The decision on the remuneration is made by the Board of Directors based on the statement drafted by the Remuneration Committee.

The company has also provided a bonus scheme, the criteria of which are determined annually in advance by the Board of Directors. The bonus is based on operating profit excluding non-recurring items and it may equal 3–6 months' salary, at maximum, depending on the responsibilities of the member of the Group Executive Board. The decision on the remuneration is made by the Board of Directors based on the statement drafted by the Remuneration Committee.

Separate emoluments are not paid to the President and CEO and other members of the Group Executive Board for the memberships of Boards of Directors of the subsidiaries.

The President and CEO and other members of the Group Executive Board are not covered by any supplementary pension scheme.

## SERVICE CONTRACT OF THE PRESIDENT AND CEO

A written service contract has been drawn up for the President and CEO. According to the contract, the period of notice is six months should the company terminate the contract, and six months should the President and CEO terminate the contract. In the event that the company terminates the contract, the President and CEO will be paid compensation

amounting to twelve (12) months' salary. The company has taken out statutory pension and accident insurance for the President and CEO.

## REMUNERATION OF THE PRESIDENT AND CEO AND OTHER MANAGEMENT IN 2014

In 2014 the salary of the President and CEO totalled EUR 858,000, which includes EUR 742,000 in salaries and benefits and EUR 116,000 in bonuses. The salary and fringe benefits of the President and CEO include EUR 318,000 in share rewards.

The salaries paid to the other members of the Group Executive Board totalled EUR 2,017,000, which includes EUR 1,807,000 in salaries and benefits and EUR 210,000 in bonuses. The salaries and fringe benefits of the Group Executive Board include EUR 642,000 in share rewards. The figures include salaries for the period during which the persons in question were members of the Group Executive Board.

Share-based payments of 6,965 shares will be paid to the President and CEO and a total of 10,885 shares to other members of the Group Executive Board for the year 2014.

In 2014, EUR 12,000 arising from the pension agreement of Jari Sarjo, who served as the President and CEO until 13 June 2011, was recognised in the income statement.

## SHARES HELD BY THE GROUP EXECUTIVE BOARD

	31 Dec. 2014	1 Jan. 2014
Pekka Ojanpää	23 527	12 775
Timo Leinonen	2 821	200
Petri Salermo	6 550	2 182
Antti Tervo	2 664	984
Petri Myllyniemi	4 368	0
Kirsi Matero	3 384	763
Tuomas Mäkipeska	2 964	1 284

# LONG AND SHORT-TERM INCENTIVE PROGRAMMES

Lassila & Tikanoja has a one-year share-based incentive programme that was initiated in 2015. The one-year share-based incentive programme that started in 2014 ended at the close of the financial year. The company also has a bonus scheme, which is described in greater detail under Remuneration and Shareholdings of the Group Executive Board.

## SHARE-BASED INCENTIVE PROGRAMME 2015

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 17 December 2014 on a new one-year share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel.

The earnings period began on 1 January 2015 and ends on 31 December 2015. Potential rewards will be paid during the year following the earnings period partly as shares and partly in cash. Rewards to be paid for the year 2015 will be based on the Group's EVA result.

No reward will be paid if a key person's employment ends before the reward payment. Any shares earned through the incentive programme must be held for a minimum period of two years following the payment. After that, the members of the Group Executive Board are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company.

A maximum total of 37,560 Lassila & Tikanoja plc shares may be paid out on the basis of the programme.

The shares to be paid out as potential rewards will be transferred from the shares held by the company, and therefore the incentive programme will have no diluting effect on the share value. The programme covers 10 persons.

## SHARE-BASED INCENTIVE PROGRAMME 2014

Lassila & Tikanoja plc's Board of Directors decided at a meeting held on 18 December 2013 on a one-year share-based incentive programme to form a part of the incentive and commitment scheme for the company's key personnel.

The earnings period began on 1 January 2014 and ended on 31 December 2014. Potential rewards will be paid during the year following the earnings period partly as shares and partly in cash. Any rewards to be paid for 2014 will be based on the Group's EVA result.

No reward will be paid if a key person's employment ends before the reward payment. Any shares earned through the incentive programme must be held for a minimum period of two years following the payment. After that, the members of the Group Executive Board are still required to hold company shares with a value equal to their gross salary for six months and the other programme participants with a value equal to their gross salary for three months as long as they are employed by the company.

A maximum of 39,105 Lassila & Tikanoja plc shares may be paid out on the basis of the programme.

The shares to be paid out as potential rewards will be transferred from the shares held by the company, and therefore the incentive programme will have no diluting effect on the share value. The programme covers 10 persons.

A total of 17,850 shares for 2014 were transferred within the programme.