

**Corporate Governance Statement 2016**

**FINNLINES**

## **FINNLINES PLC CORPORATE GOVERNANCE STATEMENT**

Finnlines Plc applies the guidelines and provisions of the Finnish Limited Liability Companies Act and its own Articles of Association. Finnlines also applies the Finnish Corporate Governance Code for listed companies entered into force on 1 January 2016 with regard to Finnlines' Corporate Governance Statement for the financial period ended on 31 December 2016. The Code is publicly available on [www.cgfinland.fi](http://www.cgfinland.fi). This Corporate Governance Statement has been approved by Finnlines' Board.

### **TASKS AND RESPONSIBILITIES OF GOVERNING BODIES**

Management of the Finnlines Group is the responsibility of the Board of Directors elected by the General Meeting as well as of the President and CEO. Their duties are for the most part defined by the Finnish Limited Liability Companies Act. Day-to-day operational responsibility lies with the members of the Extended Board of Management supported by relevant staff and service functions.

### **GENERAL MEETING OF SHAREHOLDERS**

The ultimate decision-making body in the Company is the General Meeting of Shareholders. It resolves issues as defined for the General Meeting in the Finnish Limited Liability Companies' Act and the Company's Articles of Association. These include approving the financial statements, deciding on the distribution of dividends, discharging the Company's Board of Directors and CEO from the liability for the financial year, appointing the Company's Board of Directors and auditors and deciding on their remuneration.

A General Meeting of Finnlines Plc is held at least once a year. The Annual General Meeting (AGM) must be held no later than the end of June. The notice to the Shareholders' Meeting shall be given no earlier than three (3) months before the Shareholders' Meeting and no later than one (1) week before the Shareholders' Meeting.

### **ANNUAL GENERAL MEETING 2016**

The Annual General Meeting of Finnlines Plc approved the Financial Statements and discharged the members of the Board of Directors and the Company's President and CEO and the Company's officers from liability for the financial year 2015.

The Meeting approved the Board of Directors' proposal not to pay any dividend.

AGM decided that the Board of Directors shall have seven members. The following were re-elected to the Board: Mr Christer Backman, Ms Tiina Bäckman, Mr Emanuele Grimaldi, Mr Gianluca Grimaldi, Mr Diego Pacella, Mr Olav K. Rakkenes and Mr Jon-Aksel Torgersen. The Board elected Mr Jon-Aksel Torgersen Chairman and Mr Diego Pacella Vice Chairman.

The firm of authorised public accountants KPMG Oy Ab was appointed as the Company's auditors for 2016.

AGM decided to authorise the Board of Directors to resolve on the issuance of shares in one or several tranches. The Board of Directors may, on the basis of the authorisation, resolve on the issuance of shares in one or several tranches, so that the aggregate number of shares to be issued shall not exceed 10,000,000 shares. The Board of Directors decides on all the conditions of the issuance of shares. The issuance of shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue). The authorisation is valid until the next Annual General Meeting. The authorisation replaces the Annual General Meeting's authorisation to decide on a share issue of 14 April 2015.

All related documents can be found on Finnlines' website:

[www.finnlines.com/company](http://www.finnlines.com/company) > About us > Corporate Governance > General Meeting

## **DECISIONS TAKEN BY THE EXTRAORDINARY GENERAL MEETING**

Finnlines Plc's Extraordinary General Meeting was held on 20 December 2016. The Extraordinary General Meeting decided, in accordance with the proposal of the Board of Directors, to distribute a dividend of EUR 0.80 per share. The dividend was paid to shareholders on 30 December 2016.

## **BOARD OF DIRECTORS**

Responsibility for the management of the Company and proper organisation of its operations lies with the Company's Board of Directors, which has at least five (5) and at most eleven (11) members. The members of the Board are appointed by AGM for one year at a time.

The majority of the directors shall be independent of the Company and at least two of the directors representing this majority shall be independent from significant shareholders of the Company. Information on the Board composition, Board members and their independence can be found on Finnlines' website. The President and CEO is a member of the Board.

The proposal for the Board composition shall be included in the notice of AGM. The names of candidates for membership of the Board of Directors, put forward by the Board of Directors or by shareholders with a minimum holding of 10 per cent of the Company's voting rights, are published in the notice of the AGM, provided that the candidates have given their consent to the election. The candidates proposed thereafter shall be disclosed separately.

The Board elects a chairman and a deputy chairman from among its members. The Board steers and supervises the Company's operations, and decides on policies, goals and strategies of major importance. The principles applied by the Board in its regular work are set out in the Rules of Procedure approved by the Board. The Board handles all issues in the presence of the entire Board. The Board does not have any separate committees. The Board considers all the matters stipulated to be the responsibility of a board of directors by legislation, other provisions and the Company's Articles of Association. Due to the limited extent of the Company's business, it is considered effective that the entire Board also handles the duties of the audit committee, the nomination committee as well as those of the remuneration committee.

## **THE MAIN DUTIES AND WORKING PRINCIPLES DRAWN UP BY THE BOARD ARE:**

- the annual and interim financial statements
- the matters to be put before General Meetings of Shareholders
- the appointment and dismissal of the President and CEO, the Deputy CEO, if any, and the members of the Executive Committee
- approval of internal supervision and organisation of the Company's financial supervision
- other matters related to the duties of the audit committee mentioned in the Finnish Corporate Governance Code
- approval of the Group's strategic plan and long-term goals
- approval of the Group's annual business plan and budget
- decisions concerning investments, acquisitions, or divestments that are significant or that deviate from the Group's strategy
- decisions on raising long-term loans and the granting of security or similar collateral commitments
- risk management principles
- the Group's organisational structure
- approval of the remuneration and pension benefits of the President and CEO, the Deputy CEO, if any, and the members of the Executive Committee
- monitoring and assessment of the performance of the President and CEO.

In addition to matters requiring decisions, Board meetings are given updates on the Group's operations, financial position and risks.

The Board of Directors reviews its operations and working methods annually. The Board convenes 6–8 times a year following a predetermined schedule. In addition to these meetings, the Board convenes as necessary.

## **BOARD OF DIRECTORS 2016**

In 2016, the Board consisted of 7 members:

- Mr Jon-Aksel Torgersen, Chairman of the Board, born 1952, MBA, CEO of Astrup Fearnley AS, attended meetings: 12/12
- Mr Diego Pacella, Vice Chairman of the Board, born 1960, Degree with honours in Mech. Eng., Managing Director of Grimaldi Deep Sea S.p.A., attended meetings: 12/12
- Mr Christer Backman, born 1945, M.Pol.Sc., attended meetings: 12/12
- Ms Tiina Bäckman, born 1959, Master of Laws, Chairman of the Board of Pension Foundation of Rautaruukki, attended meetings: 12/12
- Mr Emanuele Grimaldi, born 1956, Degree in Economics and Commerce, Managing Director of Grimaldi Group S.p.A., President and CEO of Finnlines Plc, attended meetings: 12/12
- Mr Gianluca Grimaldi, born 1955, Degree in Economics and Commerce, Managing Director of Grimaldi Euromed S.p.A., attended meetings: 12/12
- Mr Olav K. Rakkenes, born 1945, Master's License, former CEO of Atlantic Container Line AB, attended meetings: 11/12

During 2016, Finnlines Plc's Board of Directors held 12 meetings.

The present Board of Directors can be found on Finnlines' website:

[www.finnlines.com/company](http://www.finnlines.com/company) > About us > Corporate Governance > Board of Directors

## **INDEPENDENCE OF THE BOARD OF DIRECTORS**

Four Members, Mr Christer Backman, Ms Tiina Bäckman, Mr Olav K. Rakkenes and Mr Jon-Aksel Torgersen, are independent of the Company and of the major shareholders. Mr Gianluca Grimaldi and Mr Diego Pacella are independent of the Company. Mr Emanuele Grimaldi is dependent of the Company and the shareholders.

## **PRESIDENT AND CEO AND DEPUTY CEO**

The Board of Directors appoints a President for the Group who is also its Chief Executive Officer. The President and CEO is in charge of the day-to-day management of the Company and its administration in accordance with the Company's Articles of Association, the Finnish Limited Liability Companies Act and the instructions of the Board of Directors. He is assisted in this work by the Executive Committee. The current President and CEO of the Company is Mr Emanuele Grimaldi (born 1956, Degree in Economics and Commerce, University of Naples, Italy). He does not receive any compensation or other benefit in the form of salary, bonus or pension benefit from the Company.

The Board of Directors appoints, if necessary, a Deputy CEO. The Company has no Deputy CEO at present.

## EXECUTIVE COMMITTEE AND BOARD OF MANAGEMENT

The members of the Executive Committee are appointed by the Board of Directors. The Executive Committee convenes regularly, and is chaired by the President and CEO. The Executive Committee supports the President and CEO in his duties in implementing Group-level strategies and guidelines, in coordinating the Group's management, in finding practical solutions for reaching the targets determined by the Board, and in supervising the Company's operations.

The Company has a Board of Management, headed by the President and CEO, which consists of the members of the Executive Committee and the heads of functions and Line Managers as well as heads of the main agencies. The heads of functions are responsible for the sales volumes and profitability of their respective units. The Board of Management supports the Executive Committee in their work upon request.

The Company has an Extended Board of Management, headed by the President and CEO, which comprises, in addition to the Board of Management, heads of other agencies, the Company's internal auditor, as well as Junior Managers. The Extended Board of Management convenes regularly to discuss operative issues related to the Group business and service products.

The retirement age of the members of the Extended Board of Management is based on local laws and there are no special pension schemes in place.

Information on the members of the Executive Committee, the Board of Management, and the Extended Board of Management, including their areas of responsibility, is given on Finnlines' website: [www.finnlines.com/company](http://www.finnlines.com/company) > About us > Corporate Governance > Management

## COMPENSATION

The remunerations paid to the members of the Board of Management, and the principles underlying it, are determined by the Board of Directors.

The members of the Extended Board of Management are included in a bonus scheme which is decided by the Board of Directors on a yearly basis. The Board of Directors also decides on any separate performance-based compensation schemes for the management.

The bonuses are paid in cash. There are no other bonus schemes.

## REMUNERATION IN 2016

The annual remuneration for the Board of Directors in 2016 was EUR 50,000 for the Chairman, EUR 40,000 for the Vice Chairman and EUR 30,000 for the other Board members. The remuneration of the Board of Directors has remained the same as from 2008.

A detailed specification of the management contracts, salaries, remuneration and benefits paid in 2016 is given in the Financial Statements of 2016, Transactions with Related Parties, and in Finnlines' Remuneration Statement 2016 on Finnlines' website:

[www.finnlines.com/company](http://www.finnlines.com/company) > About us > Corporate Governance > Compensation

## INTERNAL AUDIT

The Group's internal audit is handled by the Company's Internal Audit unit, which reports to the Chairman and the President and CEO.

The purpose of the Internal Audit is to analyse the Company's operations and processes and the effectiveness and quality of its supervision mechanisms. The unit assists Finnlines to accomplish its

objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the internal control and governance processes. The Internal Audit unit carries out its task by determining whether the Company's risk management, internal control and governance processes, as designed and represented by the management, are adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programs and plans are properly implemented and objectives are achieved.
- Quality and continuous improvement are fostered in the Company's internal control processes.
- Significant legislative or regulatory issues impacting the Company's internal controls are recognised and addressed appropriately.

The head of the Internal Audit unit prepares an annual plan using an appropriate risk-based methodology and taking into consideration potential risks or control concerns identified by the management. The scope of the audits within a fiscal year is planned so that it is representative and the focus is set on the business areas with the biggest risk potentials. The plan is approved by the President and CEO. The internal auditor also carries out special tasks assigned by the Chairman, the President and CEO or the Board of Directors.

The internal auditor conducts the internal audits independently from operational units. In his auditing work the auditor complies with the corporate governance, ethical principles, policies and other guidelines of the Company as well as generally accepted standards for the professional practice of Internal Auditing.

The audit reports are sent to the President and CEO, the CFO and also to the Chairman. The President and CEO and the CFO have at least once a year a closed session with the head of Internal Audit unit about the results of the conducted audits and the plans for the next period. Relevant issues are also brought to the attention of the Board of Directors.

## **RISK MANAGEMENT**

Internal control in Finnlines is designed to support the Company in achieving its targets. The risks related to the achievement of the targets need to be identified and evaluated in order to be able to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in Finnlines.

Internal control mechanisms and procedures provide management assurance that the risk management actions are carried out as planned. Conscious and carefully evaluated risks are taken in selecting strategies, e.g. in expanding business operations, in enhancing market position and in creating new business.

Financial, operational and damage/loss risks are avoided or reduced. The continuity of operations is ensured by safeguarding critical functions and essential resources. Crisis management, continuity and disaster recovery plans are prepared. The costs and resources involved in risk management are in proportion to the obtainable benefits.

The Board of Directors of Finnlines is responsible for defining the Group's overall level of risk tolerance and for ensuring that Finnlines has adequate tools and resources for managing risks. The President and CEO, with the assistance of the Executive Committee, is responsible for organising and ensuring risk management in all Finnlines' operations.

Responsibilities for the Group's working capital, investments, financing, finances, human resources, communications, information management and procurement are centralised to the head office of the Company. The Group's payment transactions, external and internal accounting are managed centrally by the Financial Department, which reports to the CFO. The Group's foreign exchange and interest exposure is

reviewed by the Board of Directors in each budgeting period. External long-term loan arrangements are submitted to the Board of Directors for approval.

The Corporate Legal Affairs and Insurance unit is responsible for risks associated with the Company's noncurrent assets and any interruptions in operations, as well as for the management and coordination of the Group's insurance policies. The majority of the Group's non-current assets consist of its fleet. The fleet is always insured to its full value. The financial position and creditworthiness of the Group's customers are monitored continuously in order to minimise the risk of customer credit losses.

Each business unit has a responsible controller who reports to the head of the relevant business unit and to the Group CFO. The heads of Finnlines' business units are responsible for the profit and working capital of their units. They set the operational targets for their units and ensure that resources are used efficiently and that operations are evaluated and improved.

[Finnlines' most important strategic, operative and financial risks are described in the Financial Statements 2016, Financial Risk Management.](#)

## **INTERNAL CONTROL OVER THE FINANCIAL REPORTING**

Monitoring is a process that assesses the quality of Finnlines' system of internal control and its performance over time. Monitoring is performed both on an ongoing basis, and through separate evaluations including internal, external and quality audits. The business unit is responsible for ensuring that relevant laws and regulations are complied with in their respective responsibility areas.

The Internal Audit function assists the President and CEO and the Board of Directors in assessing and assuring the adequacy and effectiveness of internal controls and risk management by performing regular audits in the Group's legal entities and support functions according to its annual plan. Finnlines' external auditor and other assurance providers such as quality auditors conduct evaluations of the Company's internal controls.

The Company's financial performance is reviewed at each Board meeting. The Board reviews all interim and annual financial reports before they are released. The effectiveness of the process for assessing risks and the execution of control activities are monitored continuously at various levels. This involves reviews of results in comparison with budgets and plans. Responsibility for maintaining an effective control environment and operating the system for risk management and internal control of financial reporting is delegated to the President and CEO. The internal control in the Company is based on the Group's structure, whereby the Group's operations are organised into two segments and various business areas and support functions. Group functions issue corporate guidelines that stipulate responsibilities and authority, and constitute the control environment for specific areas, such as finance, accounting, and investments, purchasing and sales.

The Company has a compliance program. Standard requirements have been defined for internal control over financial reporting. The management expects all employees to maintain high moral and ethical standards and those expectations are communicated to the employees through internal channels.

The Group Finance & Control unit monitors that the financial reporting processes and controls are being followed. It also monitors the correctness of external and internal financial reporting. The external auditor verifies the correctness of external annual financial reports.

The Board monitors the statutory audit of the financial statements and consolidated financial statements, evaluates the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company and prepares the proposal for resolution on the election of the auditor.

The Board reviews annually the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in this Corporate Governance Statement.

## **INFORMATION MANAGEMENT**

An effective internal control system needs sufficient, timely and reliable information to enable the management to follow up the achievement of the Company's objectives. Both financial and non-financial information is needed, relating to both internal and external events and activities.

Information management plays a key role in Finnlines' internal control system. Information systems are critical for effective internal control as many of the control activities are programmed controls.

The controls embedded in Finnlines' business processes have a key role in ensuring effective internal control in Finnlines. Controls in the business processes help ensure the achievement of all the objectives of internal control in Finnlines, especially those related to the efficiency of operations and safeguarding Finnlines' profitability and reputation. Business units and IT management are responsible for ensuring that in their area of responsibility the defined Group level processes and controls are implemented and complied with. Where no Group level processes and controls exist, business units and IT management are responsible for ensuring that efficient business level processes with adequate controls have been described and implemented.

The proper functioning of Finnlines' information systems is guaranteed through extensive and thorough security programs and emergency systems.

## **INSIDER MANAGEMENT**

Finnlines' shares or other securities are not listed. Therefore, Finnlines does not apply MAR or other regulations applicable to inside information relating to listed issuers.

## **RELATED PARTY TRANSACTIONS**

The Company will assess and monitor transactions carried out with related parties and ensure that any conflicts of interests will be appropriately considered in the Company's decision-making. The Company maintains a list of related parties in its Group administration.

The Company provides information on related party transactions according to the Limited Liability Companies Act and regulations governing the preparation of the financial statements in the review by the Board of Directors and notes to the financial statements.

## **EXTERNAL AUDIT**

The Company has one auditor which shall be an auditing firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting to audit the accounts for the ongoing financial year and its duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company's financial statements and accounting records, and the administration of the parent company. On closing of the annual accounts, the external auditor submits the statutory auditor's report to the Company's shareholders, and also regularly reports the findings to the Board of Directors. An auditor, in addition to fulfilling general competency requirements, must also comply with certain legal independence requirements guaranteeing the execution of an independent and reliable audit.



## **AUDITOR IN 2016**

In 2016, the Annual General Meeting elected KPMG Oy Ab as the Company's auditor for the fiscal year 2016. Mr Kimmo Antonen, APA, has been appointed the head auditor. It was decided that the external auditors will be reimbursed according to invoice. In 2016, EUR 150 thousand was paid to the auditors in remuneration for the audit of the consolidated, parent company and subsidiary financial statements. During the same year, EUR 58 thousand was paid for consulting services not related to auditing.

## **COMMUNICATIONS**

The principal information on Finnlines' administration and management is published on the Company's website. All press releases are published on the Company's website as soon as they are made public.