

# Corporate Governance Statement 2015



## Corporate Governance Statement

This statement has been reviewed by the Audit Committee of PKC Group Plc's Board of Directors on 9 February 2016 and by Board of Directors on 10 February 2016.

This statement on corporate governance is issued separately from the report of the Board of Directors. Both the report and this statement are included in the annual report which is available on PKC's website. This statement is also published separately on the website.

PKC Group Plc complies with the Finnish Corporate Governance Code 2015. The Code is publicly available from, for example, the website of the Finnish Securities Market Association, [www.cgfinland.fi](http://www.cgfinland.fi). The company's Corporate Governance Guidelines and a regularly updated report on corporate governance are published on the company's website.

### Deviations from the guidelines

There were no deviations.

### General Meeting of Shareholders

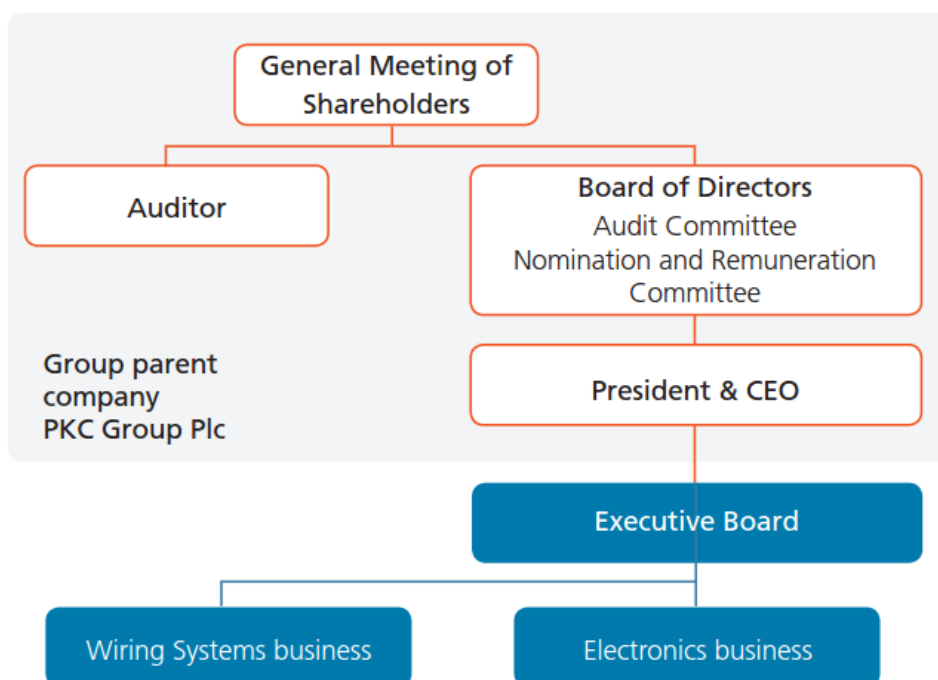
The highest power of decision is vested in the General Meeting, which resolves the issues stipulated in the Companies' Act and Articles of Association.

The Annual General Meeting is held, upon completion of the financial statements, on the day specified by the Board of Directors, no later than the end of June, at the company's domicile in Helsinki. At the Annual General Meeting, matters relating to the meeting are dealt with in accordance with the Articles of Association as are any other proposals to the meeting.

A shareholder is entitled to attend the meeting if he or she is listed as a shareholder in the company's shareholder register at Euroclear Finland Ltd on the record date indicated in the notice of the meeting and has confirmed his or her attendance in the manner specified in the notice of the meeting and by the deadline specified.

In 2015, the Annual General Meeting was held in Helsinki on 1 April 2015.

## Group Management Structure



## Board of Directors

The Board of Directors is responsible for the company's administration and the due organisation of operations. The Board of Directors has drafted a written charter for its operations, which defines the key tasks and operating principles of the Board. The charter is published in its entirety on the company's website and its key content is described herein.

The Board's main duties include confirming the company's strategy and budget, approving the principles of risk management and ensuring the functioning of the management system. The Board shall decide on matters that are unusual or that have far-reaching consequences in light of the scope and quality of the company's operations and the framework of its field of business. These matters include the following, among others:

- to decide on acquisitions, mergers and other re-organisations that affect the structure of the Group and on strategically important expansions of the business and equity investments,
- to decide on the development of investments and significant individual investments,
- to approve incentive schemes and remuneration systems relating to the whole group.

The Annual General Meeting elects, in accordance with the Articles of Association, 5–7 members to the Board for a term that expires at the end of the next Annual General Meeting. The nomination proposals to the general meeting are prepared by the Board's Nomination and Remuneration Committee. Board members are elected such that they have the required competence for the task and the ability to devote a sufficient amount of time to the work. Both genders shall, when possible, be represented on the Board. The principles concerning the diversity of the Board shall be defined in 2016. The majority of the Board members must be independent of the company, and at least two of the said majority must be independent of the company's significant shareholders. The Board of Directors evaluates the independence of its members annually. The Board elects from among its members a Chairman, who according to the Articles of Association cannot be the company's President. The duties and responsibilities of the Chairman and other Board members have not been designated specifically.

The Board independently evaluates, on an annual basis, its performance and working methods with an eye on development opportunities. The first time such an evaluation was performed was for the year 2004.

The Board performs a self-evaluation via a questionnaire, which the President and all Board members must complete.

### Board of Directors 31.12.2015

In 2015, the Annual General Meeting elected seven people to the Board. Reinhard Buhl, Wolfgang Diez, Shemaya Levy, Mingming Liu, Robert Remenar, Matti Ruotsala and Jyrki Tähtinen were re-elected as Board members. After the 2015 Annual General Meeting, the Board of Directors elected Matti Ruotsala Chairman and Robert Remenar Vice Chairman.

#### **Matti Ruotsala (b. 1956)**

- Chairman of the Board of Directors
- Chairman of the Nomination and Remuneration Committee
- M.Sc.(Eng.)
- Chief Operating Officer and Deputy to CEO, Fortum Corporation
- Independent of the company and of its significant shareholders
- own and controlled corporation's ownership: 0

#### **Reinhard Buhl (b. 1952)**

- Member of the Nomination and Remuneration Committee
- M.Sc. (Mechanical Engineering)
- Member of the Board of Management, ZF Friedrichshafen AG
- Independent of Company and of its significant shareholders
- own and controlled corporation's ownership: 0

#### **Wolfgang Diez (b. 1953)**

- Member of the Audit Committee
- Diplom-Kaufmann in Business Administration
- Independent consultant in automotive and supplier industry
- Independent of the company and of its significant shareholders
- own and controlled corporation's ownership: 0

#### **Shemaya Levy (b. 1947)**

- Chairman of the Audit Committee
- Graduate of ENSAE (Ecole Nationale de la Statistique et de l'Administration Economique)
- Board professional
- Independent of the company and of significant shareholders
- own and controlled corporation's ownership: 0

### Mingming Liu (b. 1951)

- Member of the Audit Committee
- C-MBA
- Executive Director of Technology Centre and Business Development, Sinar Mas Group-App China
- Independent of Company and of its significant shareholders
- own and controlled corporation's ownership: 0

### Robert J. Remenar (b. 1955)

- Vice-Chairman of the Board of Directors
- Member of the Nomination and Remuneration Committee
- Master's Degree – Business and Professional Accountancy
- Consultant, Advisor and Board Professional
- Independent of the company and of significant shareholders
- own and controlled corporation's ownership: 0

### Jyrki Tähtinen (b. 1961)

- Member of the Audit Committee
- LL.M, MBA, Attorney at Law
- Borenus Attorneys Ltd's Chairman of the Board of Directors
- Independent of the company and of its significant shareholders
- own and controlled corporation's ownership: 10,892 shares

### Meetings of the Board in 2015

On average, the Board meet on a monthly basis and also on other occasions as necessary. In 2015, the Board held 13 meetings, of which 7 were telephone meetings, in addition to which 3 decision minutes were drafted without holding a meeting.

### Attendance of Board members at the meetings

	meetings	attendance-%
Reinhard Buhl	13/13	100
Wolfgang Diez	13/13	100
Shemaya Levy	12/13	94
Mingming Liu	12/13	94
Robert Remenar	13/13	100
Matti Ruotsala	13/13	100
Jyrki Tähtinen	13/13	100
<b>Average attendance</b>		<b>98</b>

### Committees of the Board

The Board has established from among its members the Audit Committee and the Nomination and Remuneration Committee. It has not been deemed necessary to establish other committees, as, taking into account the scope and nature of the company's operations as well as the Board's working methods, the Board is able to handle matters effectively without such committees.

### Audit Committee

Audit Committee assists the Board by concentrating on issues relating to financial reporting and control, as well as preparing the proposal for resolution on the election of the auditor. The Board of Directors has drafted a written charter for the Audit Committee, which defines the key tasks and operating principles of the Audit Committee. The charter is published in its entirety on the company's website.

The Board elects the members and Chairman of the Committee from among its members at the organisation meeting. In 2015, Shemaya Levy was elected as Chairman of the Audit Committee and Wolfgang Diez, Mingming Liu and Jyrki Tähtinen as members.

The members must have the qualifications required for fulfilment of the Committee's role, and at least one member shall have expertise either in accounting or bookkeeping or in auditing. The Committee must have sufficient expertise in accounting, bookkeeping, auditing, internal audit or practices related to financial statements, as the Committee deals with matters relating to the financial reporting and control of the company. The expertise may be based, for example, on experience in corporate management.

The members of the Audit Committee must be independent of the company, and at least one member must be independent of significant shareholders. If the Audit Committee has only two members, both must be independent of significant shareholders. In case the Audit Committee consists of more than three members, of which three are independent of the company, additional one member not independent of the company may be appointed to the Audit Committee for good reasons.

### Meetings of the Audit Committee in 2015

The Audit Committee convenes at least four times a year before publication of the financial results and



whenever necessary. In 2015, the Audit Committee held 7 meetings, of which 5 were telephone meetings.

#### Attendance of Committee members at the meetings

	meetings	attendance-%
Wolfgang Diez	7/7	100
Shemaya Levy	7/7	100
Mingming Liu	6/7	86
Jyrki Tähtinen	7/7	100
<b>Average attendance</b>		<b>96</b>

#### Nomination and Remuneration Committee

Nomination and Remuneration Committee assists the Board by concentrating on matters pertaining to the nomination and remuneration of Board members, the appointment and remuneration of the managing director and other executives of the company as well as the remuneration schemes of the personnel. The Board of Directors has drafted a written charter for the Nomination and Remuneration Committee, which defines the key tasks and operating principles of the Nomination and Remuneration Committee. The charter is published in its entirety on the company's website.

The Board elects the members and Chairman of the Committee from among its members at the organisation meeting. In 2015, Matti Ruotsala was elected as Chairman of the Committee and Reinhard Buhl and Robert Remenar as members.

The members must be independent of the company. The President or any other executive of the company may not be appointed to the Nomination and Remuneration Committee.

#### Meetings of the Nomination and Remuneration Committee in 2015

The Nomination Committee convenes at least once a year in order to prepare the proposals to be presented to the general meeting and whenever necessary. In 2015, the Nomination Committee held 3 meetings, all as telephone meetings.

#### Attendance of Committee members at the meetings

	meetings	attendance-%
Reinhard Buhl	3/3	100
Robert Remenar	3/3	100
Matti Ruotsala	3/3	100
<b>Average attendance</b>		<b>100</b>

## President and Executive Board

### President

The Board appoints the company's President, who is also the Group CEO. The President supervises the operations and administration of the whole group in accordance with the Companies' Act, the Articles of Association, the directions of the Board as well as the company's Corporate Governance Guidelines and other internal guidelines. The President's service contract has been prepared in writing and shall remain valid until further notice. The President operates as the Chairman of the Executive Board. The company's President & CEO since April 4, 2012 has been Matti Hyytiäinen. In 2013, President & CEO Matti Hyytiäinen has relocated to Hong Kong on an interim basis in order to further grow Group's business in Asia and China.

### Executive Board

The Executive Board supports the President & CEO in managing the Group, but it does not have any authority based on legislation or the Articles of Association. The tasks of the Executive Board are to improve operations, carry out strategic work, monitor the realisation of the objectives and action plans set in strategic work, and deal with other matters of vital importance to operations. The Executive Board comprises the President & CEO (Chairman) and persons appointed at the proposal of the President.

#### President and Executive Board 31.12.2015

##### Matti Hyytiäinen (b. 1960)

- President & CEO
- M. Sc. (Economics)
- own and controlled corporation's ownership: 14,527 shares, 60,000 2009C options, 36,000 2012B(i) options, 14,000 2012C(i) options

##### Julie Bellamy (b. 1962)

- Group Senior Vice President, Human Resources
- Bachelor of Arts (Business/HR)
- own and controlled corporation's ownership: 2,800 shares, 5,000 2012B(i) options and 5,000 2012C(i) options

##### André Gerstner (b. 1976)

- President, Rolling Stock Business
- Industrial Engineering studies
- own and controlled corporation's ownership: 0

**Jyrki Keronen (b.1966)**

- President, Wiring Systems, APAC
- BSc. Eng., EMBA
- own and controlled corporation's ownership: 5,500 shares, 15,800 2012B(i) options, 8,200 2012C(i) options

**Jani Kiljala (b. 1975)**

- President, Wiring Systems, Europe and South America
- M.Sc. (Tech.)
- own and controlled corporation's ownership: 10,410 shares, 10,000 2009C options, 17,800 2012B(i) options, 8,200 2012C(i) options

**Frank Sovis (b. 1961)**

- President, Wiring Systems, North America
- MBA, BBA
- own and controlled corporation's ownership: 11,000 shares, 15,000 2012B(i) options, 15,000 2012C(i) options

**Juha Tornainen (b. 1966)**

- CFO
- M.Sc. (Econ.)
- own and controlled corporation's ownership: 7,500 shares, 17,800 2012B(i) options, 8,200 2012C(i) options

**Vesa Vähämöttönen (b. 1966)**

- Group Senior Vice President, Business Development
- M.Sc. (Eng), Lic.Sc. (Tech.)
- own and controlled corporation's ownership: 0

**Organisation of the business and group companies**

The Group's operations and ownership of subsidiaries are divided into two business areas corresponding to the core competence areas: Wiring Systems and Electronics.

The Executive Board and specifically the Executive Board members with business unit responsibility are responsible for the organisation and development of the business. The Executive Board shall decide on policies and strategies relating to the business within the framework approved by PKC's Board.

The board or an equivalent body and the managing director of the group companies are elected, and conditions of service are decided, by the parent company President & CEO and/or the responsible Executive

Board member in accordance with the general principles approved by the Board. The boards and equivalent governing bodies of the business areas largely comprise of representatives of PKC's management. The boards and equivalent governing bodies of the group companies are also responsible for the tasks falling within the remit of the board and specified by the legislation and regulations of the relevant countries.

**Audit**

The Annual General Meeting elects an auditor approved by the Finnish Central Chamber of Commerce as the company's auditor. In 2015, KPMG Oy Ab was elected as the company's auditor, and KPMG declared Virpi Halonen, Authorised Public Accountant, as the principal auditor. The auditor's term expires after the conclusion of the next Annual General Meeting following the election. In 2015, auditor was paid remuneration for audit services 59,464 euros and for non-audit services 261,023 euros.

**Insider Issues**

The company complies with the Insider Guidelines of Nasdaq Helsinki. The company's public insider register has been presented in its entirety on the company's website. The company's internal, non-public, company-specific insiders include persons who regularly handle insider information during the performance of their duties. When major projects are on-going, project-specific insider registers are also used.

The company recommends that the insiders acquire the company's shares as long-term investments and do not participate in active trading. It is also recommended to schedule the trading within 30 days after the publication of financial reports, whilst taking into account the restrictions that possible insider information imposes. The insiders may not trade in the company's shares or share-related rights within the 30-day period prior to the publication of the company's Q1 and Q3 interim statements and Q2 half-yearly report or the financial statement bulletins, and this closed window ends on the day following the publication of financial results.

## Description of the main features of the internal control and risk management systems relating to the financial reporting process

### Control environment

PKC Group Plc is the parent company for the whole group, so it manages and directs the operations for the whole group. The main responsibility for the internal control and risk management systems relating to the financial reporting process lies with the Board of PKC Group Plc. In this task the Board is assisted by the Audit Committee, whose main tasks include supervising the financial reporting process, monitoring the efficiency of the company's internal control, internal audit, and risk management systems as well as monitoring significant economic risks and the measures to manage them.

The Board of PKC Group Plc has approved the internal control guidelines for the whole group, in which the general principles for the division of responsibilities, rights and control are determined at Group level. The Board has also approved a Treasury Policy, which defines the main activities, common management principles, division of responsibilities as well as control environment for Treasury and related financial risk management processes to be applied throughout PKC Group.

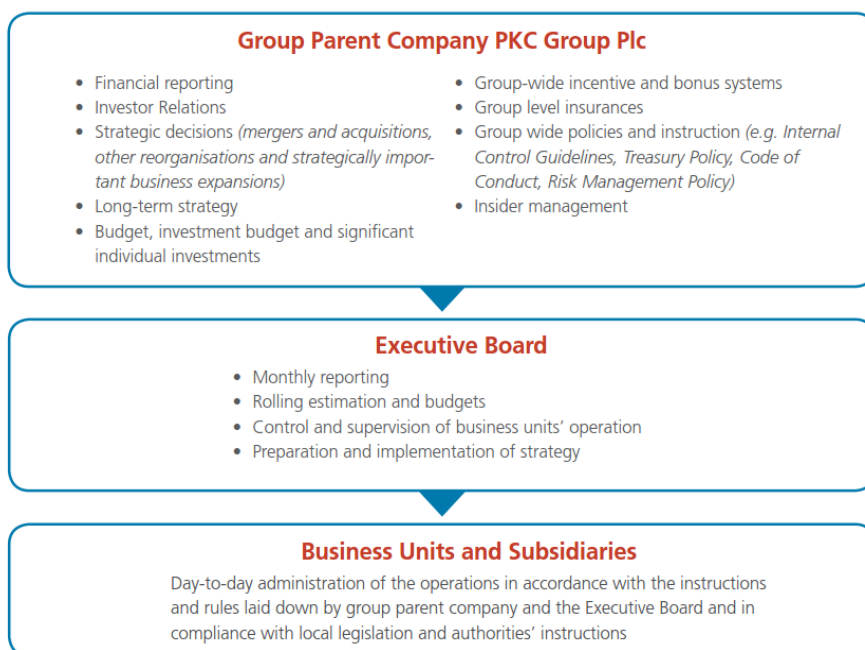
The President shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable man-

ner. The CFO manages PKC Group's financial operations and is responsible for practical arrangement of financial reporting as well as creation and maintenance of adequate and practical internal control and risk management. The CFO and Group Finance are responsible for maintaining necessary reporting and accounting processes and providing instructions to subsidiaries in relation to financial reporting and reporting schedule and content.

Business responsible Executive Board members are responsible for the financial reporting in their responsibility area and for the implementation of practical measures for internal control and for ensuring that the organisational structure of their own responsibility area is maintained so that authority, responsibilities and reporting relationships are clearly and thoroughly defined. Business areas' general managers, financial managers and chief accountants are responsible for that financial reporting is adequate to meet the requirements of local legislation and instruction received from PKC Group Plc.

The subsidiaries are responsible for the daily management of operations, accounting and financial reporting in accordance with the guidelines and regulations established by the parent company as well as local legislation and the regulations issued by authorities.

The Audit Committee monitors financial reporting process.



### Internal control

The Board is responsible for internal control and Board's Audit Committee is responsible for monitoring the efficiency of the company's internal control, internal audit, and risk management systems. The Board shall ensure that the company has determined operating principles for internal control and that the company monitors the effectiveness of control procedures. Moreover, it shall ensure that planning, information and control systems used for risk management are sufficient and support the business objectives. The Board of PKC Group Plc has approved the group-wide internal control guidelines and the Treasury Policy. The President and the CFO are responsible for the practical arrangement of control procedures.

The aim of internal control and risk management is to ensure that the company's operations are efficient and productive, that information is reliable and that regulations and operating principles are followed throughout the Group. The aims of internal control include the following, among others:

- the clear definition of responsibilities, authority and reporting relationships
- the promotion of an ethical environment and honesty
- the achievement of the aims and objectives set and the economical and effective use of resources
- appropriate management of risk
- validity and reliability of financial data and other management information
- separation of the functions relating to commitments, payments and bookkeeping for assets and liabilities, and the reconciliation of these processes
- the safeguarding of operations, data and assets
- ensuring information flows
- ensuring that external regulations as well as internal operating procedures and standards are followed.

Internal control is an essential part of all Group operations at all levels of the organisation. Control procedures are carried out at all levels and in all functions of the whole organisation. The internal control processes include internal guidelines, reporting, various technical systems and procedures relating to operations. They help ensure that management directives are followed and that there is an appropriate response to risks that threaten achievement of the Group's objectives. The daily tasks include management reviews and audits and operational reviews and audits, carrying out checks that are suitable for each line of business, phys-

ical controls, monitoring compliance with agreed acceptance limits and operating principles and monitoring of deviations, a system of approvals and mandates, and various checks and reconciliation arrangements.

### Internal audit

The purpose of Internal Audit is to provide independent, objective assurance and consulting services that are designed to add value and improve PKC Group's operations. Internal Audit work is expected to cover risks that threaten PKC Group's strategic, operational, compliance and reporting related objectives. By bringing a systematic, disciplined and objective approach Internal Audit helps PKC Group to improve the effectiveness of governance, risk management and control processes. Internal audit work supports the achievement of the defined objectives. Internal Audit has complete and unrestricted access to all PKC activities. In order to ensure the independence of the Internal Audit, Internal Audit reports to the Audit Committee and administratively to the Group CFO. Internal Audit conducts regular audits at plants, subsidiaries and other functions, implementing an annual audit plan approved by the Audit Committee, including any special tasks requested by the management and Audit Committee. Internal Audit and Quality & Risk management organizations cooperate and take into account the other organisation's results of work in their own plans. Internal Audit Plan is also coordinated with external auditor.

### Risk management

Risk management is an integral part of internal control. Risk management refers to the identification, assessment, measurement, limitation and monitoring of risks that are fundamentally related to the business or are part of it. The aim of risk management is to identify the risks relevant to business operations and to determine the measures, responsibilities and schedules required for effective risk management. Risk management processes go hand-in-hand with internal audit and strategic processes, and the results achieved are used systematically in the annual plan. Risk management is carried out and risks are reported in accordance with the risk management policy, risk management guidelines, the risk management annual plan and the Group's risk management process. The evaluations are performed regularly, according to the schedule arranged by the parent company, in all the units belonging to the Group by function. The Group-level risk management report is reviewed by the Audit Committee and the Board of Directors at least once a year.



The CFO and group financing is responsible for the management of financial risks and risks relating to financial reporting. For the management of financial risks, the Board of the parent company has confirmed the Group's Treasury Policy. Financial risks are identified, evaluated and controlled in the context of the Group's general risk management process and separately as part of financial management's own operational processes.

### Financial reporting

It is necessary to provide adequate and comprehensive information for decision making. The information must be reliable, relevant and timely, and it shall be supplied in the format agreed. The information to be supplied includes financial and operational data sourced internally, data on compliance with external regulations and internal procedures, and external data on the business environment and market developments. The Board of PKC shall ensure that the company's financial statements provide adequate and accurate information about the company. The Board of Directors is assisted by the Audit Committee in these tasks. The duties of the Audit Committee include, amongst others

- monitoring the reporting process for financial statements;
- supervising the financial reporting process;
- monitoring the financial position and financing of the Group;
- reviewing the budget, forecast and assumptions related thereto;
- reviewing financial statements, reports by the Board of Directors, Q1 and Q3 interim statements and Q2 half-yearly reports and financial bulletins before approval by the Board, as well as reviewing the annual reports, including, e.g.:
  - ensuring the correctness of the company's financial results together with the company's management and auditors;
  - examining the bases of preparation, and the management estimates used in the preparation work;
  - reviewing short-term risks and uncertainties as well as the prospects for the future;
  - reviewing the description of the main features of the internal control and risk management systems relating to the financial reporting process, which is included in the company's corporate governance statement issued in connection with the financial statements and report by the Board of Directors.

The President is responsible for ensuring that the company's accounting complies with legislation and that the financial administration has been organised in a reliable way. The CFO and the Group finance department determine, support and co-ordinate the financial management for the whole group and the control of operations. The Group finance department is responsible for the monitoring of and compliance with financial reporting standards, the maintenance of bases relating to financial reporting, and providing information and training to units. The duties of the Group finance department also include the financing of Group companies, hedging against foreign exchange and commodity rate risks, investments, the administration of external debt and transfer pricing.

Business responsible Executive Board members are responsible for the financial reporting in their responsibility area. The managing directors, CFO's, financial managers and chief accountants of the Group companies are responsible for ensuring that reporting by the companies fulfils the requirements of the Group and those of local legislation. Each business unit, Group company and function is responsible for the accuracy of the figures reported by it and the realism of its forecasts. The data provided by the units' financial management and ERP systems is standardised and transferred to the Group reporting system so that it can be consolidated via automated interfaces.

The Group finance department, managed by the Group CFO, prepares the financial statements specified by IFRS standards and Finnish accounting act as well as the forecasts, analyses and reports for internal accounting prepared in accordance with the guidelines specified in the Group, for both the Executive Board and the Board of Directors. Short-term financial planning for the Group is based on rolling business-area forecasts that are updated monthly. Financial results, the achievement of objectives and forecasts are reviewed monthly by the management of each business area and unit, by the Group Executive Board and by the Board of Directors. Information on the Group's financial situation is published via Q1 and Q3 interim statements and Q2 half-yearly reports and financial statement bulletins. In the Group financial statements published in the annual report, the main principles of preparation of these financial statements are described.

### Audit

The audit shall be performed by an auditing association authorized by the Central Chamber of Commerce. The parent company is responsible for selecting the

audit firm. The audit firm selected by PKC Group has overall responsibility for co-ordination of audits for the whole group (audit plans for each Group company) and their cost, together with the CFO of PKC Group Plc and the management of the subsidiaries. Moreover, if required, a local authorised audit firm can be selected to carry out the audit required by local legislation with a prior approval by the CFO.

#### Monitoring

The effectiveness of financial reporting, internal control and risk management is continually monitored as part of the daily management of the Group. The Board of Directors, the Audit Committee, the President & CEO, the CFO and the Group Executive Board, and the Group companies participate in the internal control of financial reporting via monitoring of monthly financial reports and regular forecasts and via reviews of processes and external auditor's reports. The financial department and external auditor hold regular meetings where the areas of focus for the inspections are chosen.

## Year 2015 Hihglights

### Group finance and reporting

During 2015 the focus has been on integration and development of finance functions in acquired entity in Poland and established joint venture in China. Furthermore, besides strengthening of established processes and practices, the development initiatives have been directed into tax management, compliance and reporting, liquidity management and cash planning enhancements.

### Internal Audit

Internal audits focused mainly on internal control of processes, compliance and information security.

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