

# Corporate Governance Statement 1.1.2017-31.3.2018



## Corporate Governance Statement

This statement has been reviewed by PKC Group Ltd's Board of Directors on 25 May 2018.

This statement on corporate governance is issued separately from the report of the Board of Directors. Both the report and this statement are published separately on the website.

### Governance Structure

#### 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.

#### Board of Directors

The Board of Directors is responsible for the company's administration and the due organisation of operations.

The Annual General Meeting held on 5 April 2017 resolved to re-elect Robert Remenar and Matti Ruotsala as Board members and Vivek Chaand Sehgal, Andreas Heuser, Pankaj Mital and Gaya Nand Gauba as new members. In the Board of Directors' organisation meeting Matti Ruotsala was elected as the chairman of the Board.

The Board of Directors has established two committees. 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. Remuneration Committee assists the Board by concentrating on matters pertaining to the appointment and remuneration of the managing director and other executives of the company as well as the remuneration schemes of the personnel. In the Board of Directors' organisation meeting held after the Annual General meeting, Matti Ruotsala was elected as the chairman of the Audit Committee and Gaya Nand Gauba and Pankaj Mital as members. The Board elected Andreas Heuser as chairman of the Remuneration Committee and Robert Remenar and Pankaj Mital as members.

#### President and Executive Board

The company's President & CEO until 24 October 2017 has been Matti Hyytiäinen. As of 24 October 2017, the President & CEO has been Pankaj Mital.

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. At the end of March 2018 the Group's Executive Board consists of the following persons: Pankaj Mital, Chairman (President & CEO), Julie Bellamy (Group Senior Vice President, Human Resources), Andre Gerstner (President, Rolling Stock Business), Jyrki Keronen (President, Wiring Systems, APAC), Jani Kiljala (President, Wiring Systems, Europe and South America), Frank Sovis (President, Wiring Systems, North America), Juha Torniainen (CFO), Deepak Tyagi (Chief Technical Officer) and Vesa Vähämöttönen (Group Senior Vice President, Business Development).

#### Auditor

In the Annual General Meeting held on 5 April 2017, Audit firm Ernst & Young Oy, which has announced Jari Karppinen, Authorized Public Accountant, to be the Auditor with principal responsibility, was selected as auditor.

### Description of the Main Features of the Internal Control and Risk Management Systems Relating to the Financial Reporting Process

#### Control Environment

The main responsibility for the internal control and risk management systems relating to the PKC Group companies' financial reporting process lies with the Board of PKC Group Ltd. 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 Ltd 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 manner. 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.

### Internal Control

The Board is responsible for internal control and Board's Audit Committee assists the Board in this task. 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 Ltd 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, key control requirements, reporting, various technical systems and procedures relating to operations.

A Key Control Manual has been formulated for the key control requirements which identifies the minimum control objectives to cover operational risks, compliance risk and financial reporting related risks. Each risk area in the Manual identifies the task or procedure that is required to offset the risks. All operating units have been instructed to implement the controls requiring "in compliance statements" to be submitted on an annual basis signed by the general manager. The compliance certificates and inherent controls are subject to future internal audits.

### 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 strate-

gic 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 CFO and Group finance are 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 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.

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 half-year and annual financial statement bulletins. In the Group financial statements, the main principles of preparation of these financial statements are described.

### 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, the Audit Committee, the President & CEO, the CFO and the 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.