



**CORPORATE GOVERNANCE  
STATEMENT  
2014**

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### 1 Corporate governance statement

Corporate Governance Statement of Neo Industrial Plc has been drawn up in accordance with the recommendation 51 of the Finnish Corporate Governance Code. The statement has been issued as a separate report and the Group's Audit Committee has reviewed the statement. Furthermore, the statement is available on Neo Industrial's website at [www.neoindustrial.fi](http://www.neoindustrial.fi). Finnish Corporate Governance Code itself is publicly available on the website of the Securities Market Association, address [www.cgfinland.fi](http://www.cgfinland.fi).

KPMG Ltd, as the company's auditor has checked that the statement has been issued and that the description of the main features of the internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements.

Neo Industrial complies with the Finnish Corporate Governance Code with the exception that there are no female members in the company's Board of Directors. This is due to the fact that despite its efforts the company has not been able to propose female candidates to the Annual General Meeting. However, the company's long-term target is to have both genders represented in the Board composition.

### 2 Description of the composition and operations of the Board and Board committees

The 2014 Annual General Meeting of Neo Industrial appointed following people to the Board: Markku E. Rentto (Chairman), Jukka Koskinen (Vice Chairman), Matti Lainema, Taisto Riski and Raimo Valo.

The following list represents the people who have served as Neo Industrial Board members in 2014:

#### Composition of the Board

Markku E. Rentto

- Chairman
- Born 1963
- Education: M.Sc. (Economics)
- Main occupation: Businessman

Jukka Koskinen

- Vice Chairman
- Born 1954
- Education: M.Sc. (Eng.)
- Experienced professional in industry and technology

Matti Lainema

- Member
- Born: 1939
- Education: Ph.D. (Economics)
- Main occupation: Author

Taisto Riski

- Member
- Born 1947
- Education: M.Sc. (Econ)
- Main occupation: Board professional

Raimo Valo

- Member
- Born 1955

- Education: Master of Laws
- Main occupation: Managing Director, East Office of Finnish Industries Oy

The Board will evaluate its members' independence of the company according to the Corporate Governance recommendation. Board's evaluation from 3 April 2014 as follows: According to the Board's evaluation, the majority of the Board members Matti Lainema, Jukka Koskinen, Taisto Riski and Raimo Valo were independent of the company, and the company's significant shareholders.

### 2.1 Description of the Board's operations

The Board is responsible for proper organization of the administration and operations of the company, and considers and decides on all major matters concerning the company's operations. The Board appoints the company's Managing Director, who is not a member of the Board. Moreover, the Board of Directors is responsible for the following duties:

- The Board complies with the Recommendation for Finnish Corporate Governance Codes of listed companies and regulations and recommendations for listed companies issued by the NASDAQ OMX Helsinki and the Financial Supervisory Authority (FIN-FSA).
- The Board is responsible for submitting quarterly interim reports and the annual report. The auditors are given an opportunity to comment on the reports before the Board takes its decision and the reports are published.
- The Board decides on questions that concern the level of risk-taking in the company.
- The Board appoints the audit committee and decides on its charter. The committee has no autonomous authority. Responsibility for the functions allotted to the committee remains with the Board.
- The Board can establish other committees made up of Board members or give members of the Board special commissions. Such decisions must be entered in the minutes. Neither a Board committee, nor a member of the Board with a special commission has autonomous authority. Responsibility for the functions allotted remains with the Board.
- The Board annually conducts an evaluation of its performance and working methods.

In 2014, the Board convened 21 times. The participation activity of the members was 95%.

In 2014, the Board concentrated on risk management, securing funding and the strategical planning of the Group structure.

### 2.3 Board committees

#### Audit committee

The Group's Audit Committee in 2014 consists of Taisto Riski (Chairman) and Raimo Valo.

The Board annually appoints the chairman and members of the Audit Committee. The Audit Committee reports to the Board.

The duties of the Audit Committee are:

- to monitor the reporting process of financial statements;
- to supervise the financial reporting process;
- to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems;
- to review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the company's corporate governance statement;
- to monitor the statutory audit of the financial statements and consolidated financial statements;

- to evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the company to be audited;
- to prepare the proposal for resolution on the election of the auditor;
- to evaluate compliance with laws and regulations; and
- to keep in contact with the auditor.

In 2014, Neo Industrial Plc's Audit Committee focused on operational risks, balance values, financing and liquidity, test calculation and effects of different financial arrangements and structure changes to the reporting. Overseeing of internal control measures focused on the emphasises of the yearlier made risk assessment results and ICT risk management. During 2014, the Audit Committee convened three times. The participation activity of the members was 83%.

### **3 Information regarding the Managing Director and his duties**

Jari Salo, Neo Industrial Plc's Managing Director

- Born 1963
- M.Sc. (Eng.)

The Managing Director elected by the Board of Directors is responsible for the day-to-day management of the company according to instructions and orders issued by the Board. The Managing Director must ensure that the company's bookkeeping complies with the law and that financial matters are handled in a reliable manner. The Managing Director is in charge of the company's investment activities.

### **4 Internal control and risk management in Neo Industrial Plc**

#### **4.1 Internal control and risk management framework**

Internal control is a process effected by the Board of Directors, management and all levels of personnel. The goal of internal control is to ensure that management has reasonable assurance that the company's operations are effective, efficient and aligned with strategy; financial reporting and management information is reliable, complete and timely; and the Group is in compliance with applicable laws and regulations.

The roles and responsibilities of Neo Industrial's internal control and risk management framework are defined in the Group's internal control and risk management principles. The principles are based on the components of the common internal control frameworks as well as models for enterprise risk management.

The Group's governance and internal control framework consists of:

- the internal control and risk management principles set by the Board of Directors,
- management overseeing the implementation and application of the internal control and risk management principles
- enterprise risk management process identifying, assessing and mitigating risks threatening the realization of Neo Industrial's objectives
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values are adhered to
- the Group's employees and external specialists as needed basis monitoring of the efficiency and effectiveness of the operations of internal control
- effective internal control environment at all levels of the organisation, and
- shared ethical values and strong internal control culture among all employees.

Enterprise risk management in Neo Industrial is a continuous process which is integrated in the Group's monitoring operations. Risk management is designed to ensure that the most business relevant risks are identified, assessed and monitored on a continuous basis.

Neo Industrial Plc's risk management is based on Risk Management Principles set by the Board of Directors. The principles include a description of the Group's risk management framework and responsibilities regarding risk management in Neo Industrial. In addition, the Group's risk management process is described on a more detailed level. The process itself consists of risk identification, assessment, risk management actions, monitoring and risk reporting.

#### **4.2 Internal control and risk management pertaining to the financial reporting process**

Internal control and risk management systems in relation to the financial reporting process are a part of Neo Industrial Group's overall internal control and risk management framework. Systems are designed to provide reasonable assurance of the reliability of financial reporting. Reliable financial reporting process ensures that the financial information to the stakeholders is accurate, timely and complete and the financial statements are prepared in accordance with applicable laws and regulations.

The accounts of the Group's subsidiaries are prepared according to the local accounting standards. The financial reporting of the subsidiaries is operating in various systems and the information is consolidated on Group level. Neo Industrial applies IFRS standards in its consolidated interim reports and financial statements and the IFRS adjustments are booked on Group level.

##### **4.2.1 Internal Control environment**

Internal control in Neo Industrial is based on efficient control environment. It sets the tone of an organization, influencing the control consciousness of its people. Control environment factors include the integrity, ethical values and the way management assigns authority and responsibility.

Common working methods and policies form the basis for internal control in financial reporting process. The description of interim report and financial statement process guides the financial reporting in Neo Industrial. The description includes high level definitions of roles, responsibilities and timetables of the process. In Finland, the companies have a common chart of accounts, as well as several guidelines and listings of the working methods applied in financial reporting process. In addition, the Group is in process of creating a controller's manual to further unite the working methods.

##### **4.2.2 Risk management**

Risk management of financial reporting process is designed to identify financial reporting risks and to determine adequate risk management methods. The risk identification and assessment is a continuous process which is designed to detect the changes occurring in Neo Industrial's business environment, as well as in the Group's operations.

Neo Industrial Plc is currently developing the Group's risk management process. The risk identification and assessment will be conducted annually in business units, as well as on Management Group level. The business units will be identifying risks related to the unit's operations and the results of the assessments will be reported to the Management Group. On Management Group level, the risk identification and assessment will be carried out together with strategic planning. The results of the assessment shall be used as material for Neo Industrial's risk reporting in interim reports and financial statements releases.

##### **4.2.3 Control measures**

Control activities are the policies and procedures that help Neo Industrial's management to ensure the effectiveness and reliability of the company's operations. Controls also help to ensure that the risks threatening the achievement of the company's objectives are management adequately.

Besides Finland, Neo Industrial operates in Sweden, Denmark, Estonia, Russia and Norway. The subsidiaries report to the parent company monthly, quarterly and before closing of the accounts. The consolidated interim reports and financial statements are prepared at Group level.

Business controllers/ persons in charge of business unit finance activities as well the accounting manager of the Group review the figures of interim reports and financial statements before reporting them to the Group's Chief Financial Officer. CFO reviews the figures and analyses the reasons for possible deviations in order to assure the reliability of financial reporting.

After the CFO's review, the Audit Committee gives their comments on the figures and the text draft. The revised material is then commented by the Board of Directors, Managing Director, CFO and the auditors. In case the comments are incompatible, The Audit Committee gives the final statement on the matter.

Subsequent to the comment round, the final versions of the figures and the text are drafted and the Board handles them in its meeting. If changes are needed at this stage of the process, the changes will be taken into account in press releases and in printed versions of the reports. The material is published on the same day.

The Group's Audit Committee monitors the financial reporting of interim reports and financial statements by continuously evaluating the level of internal control and risk management pertaining to the reporting process. In addition, the Audit Committee analyses the reported figures and follows up the changes in IFRS standards.

#### **4.2.4 Information and communication**

In terms of internal control, external communication refers to authority reporting and financial reporting, whereas internal communication includes information provided to employees through e.g. Intranet and training.

External communication is meant to provide the market with information on Neo Industrial's business operations, finances and the changes happening of the Group's business environment.

#### **4.2.5 Monitoring**

The effectiveness of Neo Industrial's internal control is monitored with different activities. e.g. through ongoing follow-up activities, separate evaluations or internal audits.

Internal Audit is subordinated to Audit Committee. Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's systems of internal control and the quality of performance in carrying out assigned responsibilities. In practise, the Managing Director is responsible for initiating separate internal assignments. The audits are usually carried out with organization's own resources. The person performing the audit shall be independent of the audited business operation. Additionally, external specialists can be used as an internal auditor if required by the nature of the assignment

### **4.3 Development of internal control and risk management in financial reporting**

In 2014, the emphasis of the internal audit was on ICT related issues. Wide analyze was carried out to make future plans. Random tests were made to the processes that were focused in earlier years. Essential defects were not found.