

Corporate Governance Statement 2013

Nov 12, 2015 10:31

[LINKEDIN](#)

[TWEET](#)

[FACEBOOK](#)

This Corporate Governance Statement has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code and chapter 7, section 7 of the Finnish Securities Markets Act. This Statement is not part of the Report of the Board of Directors.

Oriola-KD Corporation (hereinafter “Oriola-KD” or “the company”) complies with the provisions of its Articles of Association, the Finnish Companies Act, the Finnish Securities Markets Act and other similar legislation. The company also complies with the rules and regulations applying to listed companies issued by NASDAQ OMX Helsinki Ltd (Helsinki Exchange) and the Finnish Financial Supervisory Authority. The company’s head office is located in Espoo, Finland.

Oriola-KD applies the Finnish Corporate Governance Code, with the exception that the company’s Nomination Committee may also have members, who are not members of the company’s Board of Directors. This exception is explained below in the section on the Nomination Committee. The information required by the Finnish Corporate Governance Code is also available on the company’s website www.oriola-kd.com. An unofficial English translation of the Finnish Corporate Governance Code 2010 is in the public domain and available on the Securities Market Association’s website at www.cgfinland.fi.

Oriola-KD prepares its consolidated financial statements and interim reports in accordance with the EU-approved IFRS reporting standards, the Securities Markets Act, applicable Financial Supervisory Authority standards and the rules issued by NASDAQ OMX Helsinki Ltd. The Report of the Board of Directors and the parent company’s financial statements have been prepared in accordance with the

Finnish Accounting Act and the guidelines and statements of the Accounting Board. The auditors' report covers the Report of the Board of Directors, the consolidated financial statements and the parent company's financial statements.

Governing structures of Oriola-KD



General Meeting of Shareholders

The General Meeting of Shareholders decides on the matters that under the Companies Act and the Articles of Association of Oriola-KD are within its purview. Each shareholder is entitled to attend General Meetings. Each class A share carries 20 votes and each class B share one vote at General Meetings. According to the Articles of Association, no shareholder may vote using an amount of votes that exceeds 1/20 of the total number of votes carried by the shares of different share classes represented at the General Meeting.

The Board of Directors convenes a General Meeting of Shareholders. The Notice of General Meeting is published in one daily newspaper in the capital city no earlier than two months and no later than twenty one days prior to the meeting. Oriola-KD also publishes the Notice of General Meeting as a stock exchange release and on its website. The documents to be submitted to the General Meeting and the draft resolutions to the General Meeting are also available on the company's website. The Notice of the General Meeting contains the proposed agenda for the meeting.

A shareholder has the right to have matters that under the Companies Act falls within the competence of the General Meeting dealt with by the General Meeting, if the shareholder so demands in writing to the Board of Directors well in advance of the meeting so that the matter can be

included in the Notice of General Meeting. The demand shall be considered to have arrived on time, when the Board of Directors has been informed about the demand at the latest four weeks in advance of the publication of the Notice of the General Meeting.

The Chairman of the Board of Directors, a sufficient number of members of the Board of Directors and its committees, the President and CEO, and the auditor attend the General Meeting. A person proposed for the first time as member of the Board of Directors shall be present at the General Meeting that decides on his or her election unless there are well-founded reasons for absence.

General Meeting of Shareholders

The shareholders shall based on law and the Articles of Association exercise their power of decision at the General Meeting. The Annual General Meeting is held by the end of May each year. The duties of the Annual General Meeting include:

- adoption of the financial statements
- use of the profit shown on the balance sheet
- election of the members of the Board of Directors and the decision on their fees
- discharging from liability for the members of the Board of Directors and the President and CEO
- election of the auditor and the decision on compensation
- proposals made by the Board of Directors and shareholders to the Annual General Meeting (e.g. amendments to the Articles of Association, repurchase of the company's own shares, share issue, giving special authorizations)

Annual General Meeting 2013

The Annual General Meeting of Oriola-KD Corporation, held on 20 March 2013, adopted the financial statements and discharged the members of the Board of Directors and the President and CEO from liability for the financial year ending 31 December 2012. According to the decisions of the Annual General Meeting, the company paid a dividend of EUR 0.05 per share for the financial year ending 31 December 2012, and distributed EUR 0.04 per share as repayment of equity.

The Annual General Meeting authorised the Board to decide on repurchasing up to fifteen million of the company's own class B shares. Shares may be repurchased also in a proportion other than in which shares are owned by the shareholders. The authorisation is in force for a maximum of eighteen

months following the decision of the Annual General Meeting.

The Annual General Meeting authorised the Board to decide on a share issue against payment in one or more issues, including the right to issue new class B shares or to assign class B shares held by the company. The authorisation covers a combined maximum of thirty million class B shares of the company and includes the right to derogate from the shareholders' pre-emptive subscription right. The authorisation is in force for eighteen months following the decision of the Annual General Meeting.

The Board was also authorised to decide on a bonus issue of class B shares to the company on one or more issues, and on a directed issue of class B shares to implement the new share incentive scheme for the Oriola-KD Group's management and the share savings plan for its key employees. The maximum amount of the company's new class B shares issued under this authorisation is 1,715,000, which is 1.13 per cent of the company's total shares. The authorisation will remain in force for a maximum of five years following the decision of the Annual General Meeting.

All decisions of the Annual General Meeting 2013 are available on the company's website at www.oriola-kd.com.

The Board of Directors

The Board of Directors is responsible for the administration of the company and the appropriate organisation of its operations. The Board of Directors is responsible for managing and supervising the company's operations in accordance with the law, governmental regulations and the Articles of Association. The Board also ensures that good corporate governance is complied with throughout the Oriola-KD Group.

The members of the Board of Directors are elected by the General Meeting of Shareholders. The Board of Directors uses the highest decision making power in the Oriola-KD Group between the General Meetings of Shareholders. Pursuant to the Articles of Association, the Board of Directors consists of no fewer than five and no more than eight members. The term of the members of the Board of Directors expires at the end of the next Annual General Meeting following their election. Persons aged 67 and above may not be elected to the Board of Directors. The Chairman of the Board of Directors is elected by the General Meeting of Shareholders. The Vice Chairman of the Board is elected by the Board of Directors from among its members.

The Nomination Committee's recommendation to the Board for the Board's proposal on the composition and remuneration of the Board is given in the Notice of the Annual General Meeting. The biographical details of the proposed Board members are presented on the company's website.

The Board of Directors convenes in accordance with a timetable agreed in advance and also convenes as required. In addition to making decisions, the Board of Directors also receives during its meetings current information about the operations, finances and risks of the Group. Board meetings are also attended by the President and CEO, the CFO and the General Counsel (who acts as secretary to the Board). Members of the Group Management Team attend Board meetings at the invitation of the Board. Minutes are kept of all meetings.

Main tasks of the Board of Directors

The main tasks to be dealt with by the Board of Directors are listed in the Board's rules of procedure. Accordingly, these are among others:

- approving the company's strategy
- approving financial targets, budgets, major investments and risk management principles
- appointment and dismissal of the company's President and CEO
- consideration and decision of all significant matters concerning the operations of the Group and the business segments
- approving the charters of the Audit Committee, the Compensation Committee and the Nomination Committee

The Board of Directors 2013-2014

The Annual General Meeting of Oriola-KD held on 20 March 2013 confirmed that the Board of Directors of Oriola-KD shall have six members and elected the following persons as chairman and members of the Board of Directors:

Name	Year of birth	Education and main occupation	Attendance at Board Meetings	Attendance at Committee Meetings
-------------	----------------------	--------------------------------------	-------------------------------------	---

Jukka Alho (Chairman)	1952	M.Sc. (Eng.), independent member of the Board	23/24	Compensation Committee 2/2
Outi Raitasuo (Vice Chairman)	1959	Advocate, Master of Laws, LL.M., partner (Hannes Snellman Attorneys Ltd), independent member of the Board	23/24	Audit Committee 4/4
Harry Brade	1969	M.Sc. (Eng.), MBA, Investment Director (Lamy Corporation), independent member of the Board	24/24	Audit Committee 4/4 Compensation Committee 3/3
Per Bätelson	1950	M.Sc. (Physics), independent member of the Board	20/24	Compensation Committee 1/3
Karsten Slotte	1953	M.Sc. (Econ.), independent member of the Board	19/19	Audit Committee 2/3
Mika Vidgrén	1960	Doctor of Pharmacy, Adjunct Professor, pharmacy owner (Espoonlahden Apteekki pharmacy), independent member of the Board	22/24	Audit Committee 3/4

In its constitutive meeting held later the same day, the Board of Directors re-elected Outi Raitasuo as its Vice Chairman.

Members of Oriola-KD's Board of Directors 1 January - 20 March 2013:

Name	Year of Birth	Education and main occupation	Attendance at Board Meetings	Attendance at Committee Meetings
Olli Riikkala	1951	M.Sc. (Eng.), M.Sc. (Econ.), MBA, independent member of the Board	5/5	Compensation Committee 1/1

Pauli Kulvik	1951	M.Sc (Eng.), MBA, independent member of the Board	5/5	Compensation Committee 1/1
Ilkka Salonen	1955	M.Pol.Sc., CEO (OAO URALSIB), independent member of the Board	3/5	Audit Committee 0/1

The Board of Directors has evaluated the independence of its members and determined that all members are independent of the company and its major shareholders. The Board has also conducted an assessment of its activities and working practices.

In 2013, the Board of Directors of Oriola-KD convened 24 times, eight of which were conference call meetings.

Board Committees

The Board of Directors has an Audit Committee and a Compensation Committee. In addition, the company has a Nomination Committee. The Committees' charters are confirmed by the Board. The Committees are preparatory bodies that submit proposals to the Board on matters within their purview. Minutes are kept of the Committees' meetings. The Committees report to the Board at regular intervals. The Committees do not have independent decision-making powers. Their task is to submit recommendations to the Board on matters under consideration.

In its constitutive meeting, held after the Annual General Meeting, the Board of Directors appoints, from among its members, the members and chairman of the Audit Committee and the Compensation Committee. The process of appointing the members of the Nomination Committee is presented below in the section on the Nomination Committee.

In addition to the Audit, Compensation and Nomination Committees, the Board of Directors may appoint ad hoc committees for preparing specific matters. Such committees do not have Board-approved charters and the Board does not release information on their term, composition, number of meetings or the members' attendance rates.

Audit Committee

The task of the Audit Committee is to enhance the control of the company's operations and financial reporting. According to the charter, the following in particular shall be addressed and prepared by the Audit Committee:

- reviewing the consolidated financial statements and interim reports, together with the auditor
- reviewing together with the auditor any deficiencies in the supervision systems observed in control inspections and any other deficiencies reported by auditors
- reviewing any deficiencies in the control system observed in internal audit and other observations and recommendations made
- reviewing the plans of action for the control inspection and internal audit and giving recommendations to company management on focus areas for internal audits
- evaluating the appropriateness of the supervision of company administration and risk management, and reviewing changes in the principles of company accounting and external reporting prior to their introduction.

In addition, the Audit Committee's duties include preparatory work on the decision on electing the auditor, evaluation of the independence of the auditor, taking into account particularly the effect of the provision of related services on the independence, and carrying out any other tasks assigned to it by the Board. The Audit Committee has at least three members.

As of 20 March 2013, the Chairman of the Audit Committee is Outi Raitasuo and the other members are Harry Brade, Karsten Slotte and Mika Vidgrén. The members of the Audit Committee are independent of the company and its major shareholders.

Compensation Committee

According to the charter, the Compensation Committee reviews management and personnel remuneration policies and issues related to management appointments, and makes proposals on such matters to the Board of Directors. The Committee's responsibilities include:

- reviewing, evaluating and making proposals on the remuneration structure and incentive schemes of management and the personnel of the Oriola-KD Group
- monitoring the effectiveness of these systems to ensure that incentive schemes of the management promote achievement of the company's short term and long term goals
- reviewing and preparing other matters relating to the remuneration of management and personnel, and submitting proposals on these to the Board
- considering and preparing appointments of top management to be decided by the Board.

The Compensation Committee has three members.

As of 20 March 2013, the Chairman of the Committee is Jukka Alho and the other members are Per Båtelson and Harry Brade. The members of the Compensation Committee are independent of the company and its major shareholders.

Nomination Committee

The Nomination Committee of Oriola-KD is a body established by the Board of Directors for the purpose of preparing and presenting to the Board a recommendation for the proposal to be put by the Board to the Annual General Meeting concerning the composition and remuneration of the Board. The Board has approved the charter of the Nomination Committee.

The Committee members are appointed by the Board of Directors, which also appoints one of the members as Chairman. The term of office for the committee members' expire at the end of the Annual General Meetings following their appointment. Members of the Committee need not be members of the Board of Directors. The purpose of this deviation from the Corporate Governance Code is to allow the election of major shareholders of the company to the Nomination Committee and thus to ensure that their opinions are heard well before the Annual General Meeting.

Prior to appointing the Committee members, the Chairman of the Board arranges a meeting to which the Chairman invites the Company's twenty largest shareholders, by votes, registered by the 31st of August preceding the Annual General Meetings as shareholders in the company's shareholders register maintained by Euroclear Finland Ltd. The purpose of the meeting is to hear the major shareholders on their views as to the composition of the Committee.

Not later than on the 1st of February preceding the Annual General Meeting, the Committee presents to the Board its recommendation on the proposal to be put before the Annual General Meeting concerning the composition and remuneration of the Board. The Nomination Committee evaluates the independence of the proposed Board members it has recommended. The Committee's recommendation does not affect the Board's independent decision-making authority or its right to put proposals before the General Meeting.

The Nomination Committee appointed for the term of office ending at the Annual General Meeting held on 20 March 2013, convened five times and the attendance rate of the Committee's members was 93,3 per cent.

On 2 October 2013, the Board of Directors elected the following persons to the Nomination Committee for a term of office, which expires at the end of the Annual General Meeting 2014: Jukka Alho, Harry Brade, Matti Kavetvuori, Pekka Pajamo, Timo Ritakallio and Into Ylppö. Pekka Pajamo was elected as Chairman of the Committee. The members of the Committee are independent of the company.

The President and CEO and the deputy to CEO

The Board of Directors appoints the President and CEO of Oriola-KD and decides on the terms of his/her employment. The current President and CEO of the company is Eero Hautaniemi, M.Sc. (Econ.), born in 1965. In accordance with the Companies Act, the President and CEO is responsible for the day to day executive management of the company in accordance with the instructions and orders given by the Board of Directors. In addition, the President and CEO also ensures that the accounts of the company comply with Finnish law and that its financial affairs have been arranged in a reliable manner. The terms and conditions of the President and CEO's employment are specified in a written service contract approved by the Board.

The Board of Directors also appoints, as necessary, a deputy to CEO. The company's deputy to CEO is Kimmo Virtanen, Executive Vice President, Pharmaceutical Wholesale Finland, Sweden and the Baltics and Managing Director of Oriola Oy, M.Sc. (Econ.), born in 1968.

The Group Management Team

The Group Management Team consists of the President and CEO of Oriola-KD as Chairman and persons appointed by the Board. At the end of year 2013, the Group Management Team consisted of seven members, including the President and CEO, to whom the other Group Management Team members report. The Group Management Team meets regularly to address matters concerning the entire Group. The Group Management Team is not a decision-making body. It assists the President and CEO in the implementation of Group strategy and in operational management, and facilitates the Group-wide distribution of information concerning the entire Group.

The following persons were members of Oriola KD's Group Management Team in 2013:

- Eero Hautaniemi, President and CEO
 - Lars Birkeland, Vice President, Pharmaceutical Retail, Sweden
 - Tuomas Itkonen, CFO
 - Konstantin Minin, Vice President, Pharmaceutical Retail and Wholesale, Russia
 - Jukka Mäkelä, Vice President, Development
 - Teija Silver, Vice President, Human Resources
 - Kimmo Virtanen, Executive Vice President, Pharmaceutical Wholesale, Finland, Sweden and Baltics
-
- Henry Fogels, Vice President, Pharmaceutical Wholesale, Russia (until 20 November 2013)

External audit

The company has one auditor, which must be a firm of authorised public accountants. The auditor is elected annually by the Annual General Meeting for a term that expires at the end of the next Annual General Meeting following the election. The task of the auditor is to audit the consolidated financial statements, the financial statements of the parent company, the accounting of the Group and the parent company and the administration of the parent company. The company's auditor submits the auditors' report to the shareholders in connection with the annual financial statements, as required by law, and submits regular reports on its observations to the Board's Audit Committee.

The Annual General Meeting of Oriola-KD Corporation held on 20 March 2013 re-elected PricewaterhouseCoopers Oy, a firm of authorised public accountants, as the company's auditor, with Heikki Lassila, APA, as the principal auditor. The fees for the audit proper paid to the auditing firm PricewaterhouseCoopers Oy in 2013 totalled EUR 369,000. In addition, EUR 262,000 was paid for other consultation provided to Group companies.

Internal audit

In Russia Oriola-KD has its own internal audit department. For other parts of the Group the internal audit function has been included in the duties of the finance function under the supervision of the CFO. In addition to this Oriola-KD meets its internal audit requirements by assigning reporting and audit tasks to the company's auditing firm in accordance with an audit plan approved each year by the Audit Committee of the Board of Directors.

The risk management and internal supervision systems connected with financial reporting

The internal control and risk management systems related to Oriola-KD's financial reporting aim to ensure a reasonable certainty of the reliability of the company's financial statements and financial reporting, as well as the company's compliance to legislation and generally approved accounting principles.

Internal control

Internal control forms an essential part of the company's governance and management systems. It covers all of the Group's functions and organisational levels. The purpose of internal control is to ensure a sufficient certainty that the company will be able to carry out its strategy. Internal control is not a separate process but a procedural measure covering all Group-wide operating principles, guidelines and systems.

Financial reporting

The Board of Directors and the President and CEO have the overall responsibility for organising the internal control and risk management systems pertaining to financial reporting. The President and CEO, the members of the Group Management Team and the heads of the business units are responsible for the accounting and administration of the areas within their spheres of responsibility complying with legislation, the Group's operating principles, and the guidelines and instructions issued by Oriola-KD

Corporation's Board of Directors. The organising and leading of the financial reporting in the Group has been centralized under the subordination of the CFO.

Oriola-KD Group follows the International Financial Reporting Standards (IFRS) approved for application within the European Union. Instructions and accountancy principles for financial reporting are collected in an accounting manual that is updated as soon as standards change, as well as in the financial department's instructions that are followed in all Group companies. Group Accounting is responsible for following and keeping up to date with financial statement standards, upholding the principles concerning financial reporting and distributing information about these to the business units.

Measurement and follow-up

The performance of the Group is monitored in the Group Management Team with monthly reports as well as in the monthly operational reviews of the business segments. The financial situation of the Group is also monitored in the meetings of the Board of Directors. The Audit Committee and the Board of Directors examine the interim reports and financial statements before their publication. Monitoring of the monthly reports also ensures the effectiveness of the internal supervision. Each business segment must ensure effective supervision of its own operations as part of Group-level internal supervision. The business segments and the Group Finance organisation are responsible for the evaluation of the processes covering financial reporting. The evaluations must contain balances and analyses, which are compared with budgets, assessments and various economic indicators.

Risk management system

The purpose of risk management is to help the Group to achieve its objectives. The risks threatening the achievement of the objectives can only be managed if they are identified and assessed.

The Board of Directors of Oriola-KD Corporation approves the company's risk management policy and the risk management objectives and guides and supervises the planning and implementation of the risk management. The Board-appointed Audit Committee supervises risk management in the Group.

The management of the Oriola-KD Group has the operative responsibility for risk management. Risk management and the principles governing risk management and their development, coordination and monitoring are the responsibility of the Risk Management Steering Group, which is chaired by the Oriola-KD Group's CFO.

Oriola-KD's risk management policies are part of the Group's management process and its different components. The purpose of the policies is to ensure that risks can be comprehensively identified, assessed, managed and monitored throughout the Group. Risk management is an integral part of Oriola-KD's planning and management system, decision-making, daily management, monitoring and reporting.



A model for coordinated risk management

The principle governing the risk management policy is illustrated above. The risks that may interfere with the achievement of the objectives in the sector in question are identified and assessed as part of business operations planning. Risk management is also an integral part of the Group strategy process.

The first steps in the risk management process are:

1. Risk identification
2. Evaluation of the likelihood of the risks occurring if the risks are not accounted for
3. Evaluation of the consequences of the risks occurring, by calculating the cumulative financial losses during the strategy period
4. Preparation of a risk management plan (measures helping to avoid risks, to make them less likely or to mitigate the consequences)
5. Risk management is incorporated into the monitoring reports regularly submitted to the management

The Group Management Team and the Board of Directors receive yearly reports on the risk management situation.

Supervision environment

The purpose of Oriola-KD's internal supervision system is to support the implementation of the Group strategy and to ensure that rules and regulations are observed. The company's internal supervision is based on a Group structure, in which the Group's operations are organised into business segments

and Group functions. Group functions issue Group-level guidelines laying down the operational framework and the persons responsible for the process. The guidelines cover such areas as accounting, reporting, financing, investments and business principles.

Supervisory measures

The supervisory measures are instructions and guidelines that help to ensure the proper management of all functions. They help to ensure that all risks that are connected with the achievement of the company's objectives can be identified and prevented. The measures cover all Group levels and functions and information systems play an important role in them. Information systems are of vital importance to effective internal supervision as many of the supervisory measures rely on information technology.

Communication and distribution of information

Effective communication and distribution of information help to ensure the reliability and correct timing of financial reporting, for example by making instructions and guidelines on financial reporting as widely known as possible. Oriola-KD's accounting manual contains instructions and guidelines on accounting and financial reporting that must be observed in the Group. The instructions are based on the international IFRS standards. Changes in IFRS standards are monitored in the Group and the manual is updated whenever changes are introduced. The manual helps to ensure that the Group can meet all reliability requirements concerning its financial reporting.

In addition to a Group-level accounting manual, individual business segments also have as needed their own sets of instructions that have been drawn up in accordance with their needs. These instructions are consistent with the Group-level accounting manual.

New instructions are regularly published on the company's internal website. Staff members can provide feedback to the management and anonymously report any questionable activities through the company intranet. Corporate Communications is responsible for all external communications, as laid down in the Group's communications policy.

NEXT: Oriola as an Investment