

Corporate Governance Statement 2015

Feb 05, 2016 08:54

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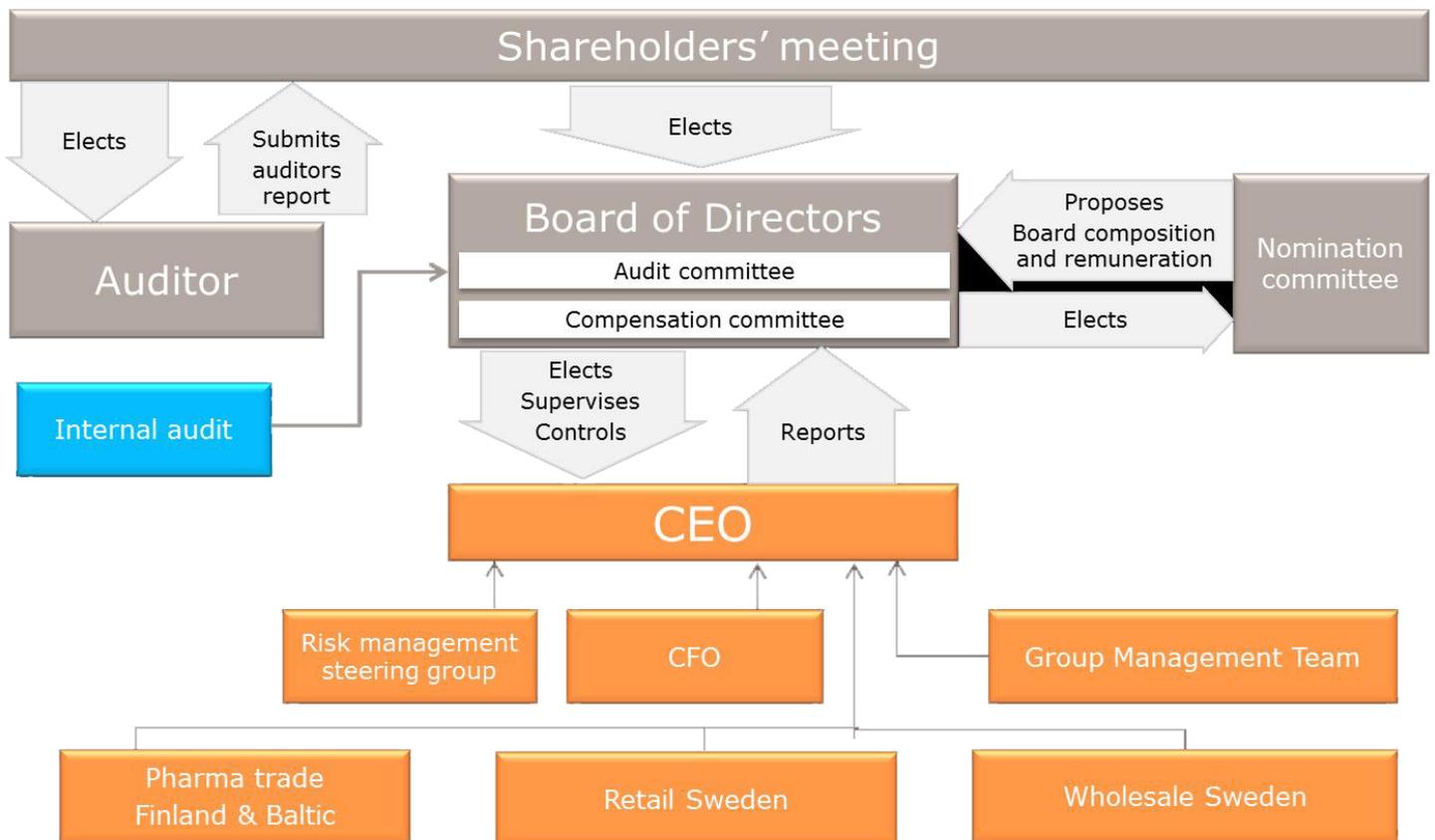
This Corporate Governance Statement has been prepared in accordance with Recommendation 54 of the Finnish Corporate Governance Code 2010 and chapter 7, section 7 of the Finnish Securities Markets Act. This Statement is not part of the Report of the Board of Directors.

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 Finland's 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 in 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 2015

The Annual General Meeting of Oriola-KD Corporation, held on 30 March 2014, 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 2014. According to the decision of the Annual General Meeting, no dividend was paid on the basis of the balance sheet adopted for the financial year ending 31 December 2014.

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 shares or to assign shares held by the company. The authorisation covers a combined maximum of 5,650,000 class A shares and 12,500,000 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 18 months following the decision of the Annual General Meeting.

The Board was also authorised to decide on a share issue against payment of class B shares to the company on one or more issues including the right to issue new class B shares or assign class B treasury shares held by the company. The authorisation covers a combined maximum of 18,000,000 class B shares of the company including the right to derogate from the shareholders' pre-emptive subscription right. The authorisation is in force for a maximum of 18 months following the decision of the Annual General Meeting.

The Annual General Meeting authorised the Board to decide on repurchasing up to 18,000,000 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 18 months following the decision of the Annual General Meeting.

All decisions of the Annual General Meeting 2015 are available on the company's website at www.oriola-kd.com.

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.

Board of Directors 2015-2016

The Annual General Meeting of Oriola-KD held on 30 March 2015 confirmed that the Board of Directors of Oriola-KD shall have eight members and elected the following persons as chairman and members of the Board of Directors:

Name	Year of birth	Education and independence	Attendance at Board Meetings	Attendance at Committee Meetings
Anssi Vanjoki (Chairman)	1956	M.Sc. (Economics), independent member of the Board	11/11	
Jukka Alho (Vice Chairman)	1952	M.Sc. (Eng.), independent member of the Board	16/16	Compensation Committee 2/2
Per Båtelson	1950	M.Sc. (Physics), independent member of the Board	13/16	Compensation Committee 2/2
Anja Korhonen	1953	M.Sc. (Economics), independent member of the Board	16/16	Audit Committee 7/7

Kuisma Niemelä	1958	M.Sc. independent member of the Board	16/16	Audit Committee 6/6
Eva Nilsson Bågenholm	1960	Physician, independent member of the Board	11/11	Compensation Committee 2/2
Matti Rihko	1962	M.Sc. (Economics), M.Sc. (Psychology), independent member of the Board	15/16	Compensation Committee 2/2 Audit Committee 1/1
Staffan Simberg	1949	MBA, independent member of the Board	11/11	Audit Committee 6/6

In its constitutive meeting held later the same day, the Board of Directors elected Jukka Alho as its Vice Chairman.

Members of Oriola-KD's Board of Directors 1 January - 30 March 2015:

Name	Year of birth	Education and independence	Attendance at Board Meetings	Attendance at Committee Meetings
Harry Brade	1969	M.Sc. (Eng.), MBA, CEFA, independent member of the Board	5/5	Audit Committee 1/1

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 assesment of its activities and working practises.

In 2015, the Board of Directors of Oriola-KD convened 16 times, two of which were conference call meetings and two per capsulam 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, the 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 30 March 2015, the Chairman of the Audit Committee is Anja Korhonen and the other members are Kuisma Niemelä, and Staffan Simberg. 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 four members. As of 30 March 2015, the Chairman of the Committee is Jukka Alho and the other members are Per Båtelson, Eva Nilsson Bågenholm and Matti Rihko. 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 the year following the appointment upon the appointment of the Committee members pursuant to the charter. 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 appointment 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 appointment of the new Committee members' appointment on 25 September 2015, convened 5 times and the attendance rate of the Committee's members was 96.7per cent.

On 25 September 2015, the Board of Directors elected the following persons to the Nomination Committee: Peter Immonen, Timo Leino, Mikko Mursula, Pekka Pajamo and Into Ylppö. Pekka Pajamo was elected as Chairman of the Committee. The members of the Committee are independent of the company.

President and CEO and 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 accounts of the company complies 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.

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 2015, 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 2015:

- Eero Hautaniemi, President and CEO
 - Sari Aitokallio, CFO (as of 9 April 2015)
 - Lars Birkeland, Vice President, Pharmaceutical Retail, Sweden
 - Thomas Gawell, Vice President, Pharmaceutical Wholesale, Sweden (as of 6 February 2015)
 - Jukka Mäkelä, Vice President, Development
 - Teija Silver, Vice President, Human Resources
 - Kimmo Virtanen, Executive Vice President, Pharmaceutical Wholesale, Finland, Sweden and Baltics
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- Tuomas Itkonen, CFO (until 1 April 2015)

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.

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.

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.

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.

The guidelines aim to ensure that all risks connected to the achievement of the company's objectives can be identified and prevented. The control measures cover all Group levels and functions. All new instructions and guidelines are published on the company's internal website and staff members can provide feedback to the management and anonymously report any questionable activities through the company intranet.

Risk management

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 in which the risk management operating model, principles, responsibilities and reporting are specified. The Board guides and supervises the planning and implementation of the risk management. The Board-appointed Audit Committee supervises risk management in the Group.

The President and CEO of Oriola-KD and the Group Management Team have 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 Group's CFO.

Oriola-KD's risk management policies are part of the Group's management and reporting process and its different components. The purpose of the policies is to ensure that risks that may threaten Oriola-KD's operations and the achievement of goals set can be comprehensively identified, assessed, managed and monitored throughout the Group. Risk management is an integral part of Oriola-KD's strategic process, governance and management system, decision-making, daily management, monitoring and reporting. Risk management is also a part of Oriola-KD's internal control system.

In its risk management system Oriola-KD classifies risks affecting its business to four different categories: strategic risks, operational risks, financial risks as well as health, safety and environmental (HSE) risks. The most significant strategic and operational risks recognised by the company have been described in the Report of the Board of Directors. The financial risks are described in Note no 24 to the Consolidated Financial Statements.

Internal audit

Oriola-KD uses an outsourced internal audit function for the purpose of fulfilling its internal audit requirements. The outsourced internal audit function is an independent and objective assurance activity reporting directly to the Audit Committee of the Board of Directors. The internal audit assignments are carried out on the basis of an Internal Audit Charter approved by the Board of Directors as well as an Internal Audit Plan annually reviewed and approved by the Audit Committee.

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 30 March 2015 re-elected PricewaterhouseCoopers Oy, a firm of authorised public accountants, as the company's auditor, with Kaj Wasenius, APA, as the principal auditor. The auditor of Oriola-KD Corporation as elected by the Annual General Meeting, PricewaterhouseCoopers Oy, designated Ylva Eriksson APA as the principal auditor as of July 16, 2015. The fees for the audit proper paid to the auditing firm PricewaterhouseCoopers Oy in 2015 totalled EUR 204,450. In addition, EUR 126,871 was paid for other consultation provided to Group companies.

Insider management

Oriola-KD complies with the insider holding guidelines issued by NASDAQ OMX Helsinki Ltd. The public insiders of Oriola-KD comprise the members of the company's Board, its auditor, President and CEO and other members of the management team and the secretary to the Board. Persons in the employment of the company who have regular access to insider information by virtue of their position or duties make up the company's company-specific insiders. The public and company-specific registers of insiders are kept in the Euroclear Finland SIRE system.

In addition, the company maintains a project-specific register of insiders. Persons privy to insider information concerning a specific project are entered in this register.

NEXT: Oriola as an Investment