

# METSÄ GROUP

Corporate governance statement **2019**



**Metsä**

# Corporate governance statement 2019

## INTRODUCTION

This statement concerning Metsä Group's Corporate Governance has been given as a separate report and published simultaneously with Metsä Group's Financial Statements and the Report of the Board of Directors. Metsäliitto Cooperative is a Finnish cooperative and the parent company of Metsä Group. In this report, Metsäliitto Cooperative is referred to when a matter is being discussed solely from the parent company's point of view. The decision-making and governance of Metsä Group companies complies with the Cooperatives Act, the Limited Liability Companies Act, the Securities Markets Act, the rules of the cooperative, procedures approved by the governing bodies, and the policies and guidelines approved by Metsäliitto Cooperative's Board of Directors and the Group's Executive Management Team. The rules of Metsäliitto Cooperative are available in full on Metsä Group's website under "Metsä Group's corporate governance principles." Metsä Group prepares its financial statements and interim reports in accordance with International Financial Reporting Standards (IFRS). The financial statements are published in Finnish and English. Metsä Group's head office is located in Espoo, Finland. The registered office of the parent company Metsäliitto Cooperative is in Helsinki, Finland.

## CORPORATE GOVERNANCE CODE

Metsä Group's parent company Metsäliitto Cooperative complies with the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association; however, it takes into account the special characteristics of the cooperative form of incorporation and states the deviations from the recommendation, with rationale. In accordance with the opinion issued by the Finland Chamber of Commerce in January 2006, corporations with an extensive ownership base, extensive operations, or regional or national significance should comply with the corporate governance code for listed companies to the extent possible, taking their special characteristics into consideration in accordance with the "comply or explain" principle. The Finnish Corporate Governance Code is available on the website of the Securities Market Association at <https://cgfinland.fi/en/>.

The corporate governance system of Metsä Group's parent company Metsäliitto Cooperative deviates from the recommendations Corporate Governance Code as follows:

- According to the Corporate Governance Code, the members of the Board of Directors are elected by the Annual General Meeting. According to the rules of Metsäliitto Cooperative, the members of the Board of Directors are elected by the Supervisory Board. Thus, the election of Metsäliitto Cooperative's Board of Directors deviates from the recommendation of the Corporate Governance Code on the election of the Board of Directors. The competence regulations that deviate from the recommendation ensure that cooperative corporate governance is realised.
- According to the Corporate Governance Code, the members of the Board of Directors are elected for a term of office of one (1) year at a time. According to the rules of Metsäliitto Cooperative, the term of office of the members of the Board of Directors is three (3) years at a time. The Board members' three-year term of office has been deemed necessary in order to ensure the continuity of decision-making.

## MAIN GOVERNING BODIES

Metsäliitto Cooperative's governing bodies are the Representative Council, the Supervisory Board, the Board of Directors, the President and CEO, and the CEO. The bodies separately specified below in this statement assist the governing bodies in their decision-making and prepare their decisions. Currently, the CEO of Metsäliitto Cooperative acts as the President and CEO of Metsä Group. According to the rules of Metsäliitto Cooperative, the administrative personnel of Metsäliitto Cooperative must not work for companies or other organisations operating either directly or indirectly in the same sector as Metsäliitto Cooperative or its group companies, or participate in the governing of such companies or organisations.

## REPRESENTATIVE COUNCIL

The Representative Council uses the highest decision-making power belonging to the members of Metsäliitto Cooperative in the matters specified by law and regulations. The Representative Council substitutes for the meeting of the cooperative in Metsäliitto Cooperative. The meeting of the Representative Council discusses the matters specified in the Cooperatives Act and the rules of Metsäliitto Cooperative, as well as other matters mentioned in the invitation to the meeting.

The main tasks of the Representative Council are:

- to decide on adopting the financial statements;
- to decide on the distribution of profit to the members;
- to decide on discharging the Supervisory Board, Board of Directors and CEO/President and CEO from liability;
- to elect the members of the Supervisory Board and the auditors and to decide on their remuneration.

A full member of Metsäliitto Cooperative may be elected to the Representative Council. Persons who are employed by Metsäliitto Cooperative or a Group company and who are members of the Metsäliitto Cooperative Supervisory Board or Board of Directors are not eligible to stand for election to the Representative Council. The election of the Representative Council is carried out every four years by postal voting, a communications link or some other technical device. Each member has one vote. The election is carried out by election districts so that the number of representatives selected from each district equals the number of Metsäliitto Cooperative members on the list of voters for the district in question who are entitled to vote on 1 January of the election year, divided by 2,300. The election districts are confirmed by the Supervisory Board, and basically they are determined in accordance with Metsäliitto Cooperative's district organisations. In accordance with the rules, the Representative Council convenes once a year in the spring. The Representative Council, Supervisory Board or the Board Directors may decide to arrange an extraordinary meeting. An extraordinary meeting must also be convened if demanded by at least one tenth of the Representative Council members. Unless otherwise required by the Cooperatives Act for certain matters, the Representative Council is convened by the Supervisory Board no later than seven (7) days before the meeting with a written invitation to the meeting sent to every member of the Representative Council, which must include the matters to be dis-

cussed in the meeting. Each member of the Representative Council has one vote in the meeting. Amending the rules of Metsäliitto Cooperative requires the proposed amendment to be supported by a minimum of two thirds of the members present at the meeting. In addition to the members of the Representative Council, Metsä Group's President and CEO, the Chair of the Board of Directors and, as a general rule, the members of the Board of Directors and Supervisory Board are present at meetings of the Representative Council. Also in attendance in the Representative Council's annual meeting are the auditors. The composition of the Representative Council is presented on Metsä Group's website under "Metsäliitto Cooperative's governance and Metsä Group's management."

## DISTRICT COMMITTEES

In accordance with the rules of Metsäliitto Cooperative, there is a District Committee in each supply district. The District Committee comprises the members of the Representative Council, Supervisory Board and Board of Directors elected from the District's area, as well as candidates not elected in the election of the representative council, in the order of their personal number of votes. Each District has twice as many committee members as the number of representatives elected from the District's area, but always with a minimum of five (5) candidates not elected to the Representative Council in the election. The guidelines approved by the Supervisory Board specify the tasks of the District Committee. According to the guidelines, the main task of a District Committee is to promote communication and interaction between the members and Metsäliitto Cooperative's supply district in question.

## SUPERVISORY BOARD

The rules of Metsäliitto Cooperative specify that the Supervisory Board is a part of Metsäliitto Cooperative's administration model. This aims to ensure the realisation of sufficient corporate governance and the members' commitment to the decision-making of Metsäliitto Cooperative. Strategic and other far-reaching decisions, however, are in the scope of Metsäliitto Cooperative's Board of Directors, and operational management is the responsibility of the executive management. The rules of Metsäliitto Cooperative specify the tasks of the Supervisory Board. The main task of the Supervisory Board is to ensure that Metsäliitto Cooperative is managed in accordance with the rules and the decisions of the Representative Council and the Supervisory Board.

In addition to this, the Supervisory Board:

- elects and dismisses members of the Board of Directors and decides on their remuneration;
- gives the Board of Directors instructions on far-reaching matters and matters that are of importance in principle;
- provides the Representative Council with an opinion on the financial statements.

The Supervisory Board elects a chair and deputy chair from among its members for one (1) year at a time and invites a secretary. The Supervisory Board convenes as summoned by the chair as often as necessary, or as proposed by the Board of Directors. The Supervisory Board is quorate when more than half the members are present. The opinion favoured by the majority will be the decision. If the votes are even, the chair has the casting vote, and elections are decided by lot. The Supervisory Board comprises a minimum of twenty (20) and a maximum of thirty (30) members elected by the Representative Council from among the members of Metsäliitto Cooperative. Metsäliitto Cooperative's personnel may elect a maximum of five (5) members to the Supervisory Board. In addition, the Representative Council may, at the proposal of the Supervisory Board, elect a maximum of three (3) expert members to the Supervisory Board. The term of office of a member of the Supervisory Board begins at the closure of the annual meeting that elected him or her and runs until the annual meeting of the Representative Council three (3) years later. The aim of the three-year term of office is to ensure continuity in decision-making. Regional equality is considered when electing the members of the Supervisory Board. A member of the Board of Directors may not be a member of the Supervisory Board. The composition of the Supervisory Board is presented on Metsä Group's website under "Metsäliitto Cooperative's governance and Metsä Group's management."

#### NOMINATION COMMITTEE OF THE SUPERVISORY BOARD

A special Nomination Committee elected from among the members of the Supervisory Board prepares the election of the members of the Board of Directors in accordance with procedures approved for it. In addition, the Nomination Committee makes a proposal for the fees paid to the Board of Directors. The Nomination Committee comprises six (6) members of the Supervisory Board as well as the chair and the deputy chair of the Supervisory Board. The chair of the Supervisory Board acts as the chair of the Nomination Committee, and the secretary of the Supervisory Board acts as its

secretary. The Committee may invite the chair of the Board of Directors to attend their meeting as an expert member. The Supervisory Board elected the following persons to the Nomination Committee in its meeting held on 26 April 2019: Mats Brandt, Teuvo Hatva, Ville Hirvonen, Antti Isotalo, Timo Nikula and Jukka Vanhatalo. In addition, the Nomination Committee includes Juha Paajanen, Chair of the Supervisory Board, and Ahti Siponen, Deputy Chair of the Supervisory Board, due to their respective positions.

#### INFORMATION ON THE MEETINGS OF THE SUPERVISORY BOARD IN 2019

In 2019, there were 34 members on the Supervisory Board, four of them being personnel representatives elected by different personnel groups. There were no expert members on the Supervisory Board in 2019. The Supervisory Board convened four times, and the members' attendance rate was 95%.

#### BOARD OF DIRECTORS

According to the rules of Metsäliitto Cooperative and in accordance with legislation, the Board of Directors is charged with ensuring that Metsäliitto Cooperative and Metsä Group's operations and governance are appropriately arranged. The Board of Directors has drawn up a charter for its operations that specifies in greater detail the operating principles followed in the decision-making of the Board of Directors. The charter is available in full on Metsä Group's website under "Metsä Group's corporate governance principles."

The tasks of the Board of Directors include:

- appointing and dismissing a CEO, who also serves as the President and CEO of Metsä Group, unless otherwise decided by the Board of Directors;
- approving the tasks of the CEO/President and CEO and the terms of the service contract, and monitoring to ensure that they take care of the Cooperative's running administration in accordance with the instructions and orders of the Board of Directors;
- appointing and dismissing the directors immediately subordinate to the CEO and the possibly elected President and CEO;
- deciding on how shares are collected and the issue of additional shares and their terms and conditions;
- approving the strategy and annual budget of the Cooperative and the Group, and supervising compliance with them;

- signing the financial statements and consolidated financial statements, and presenting them to the Supervisory Board for audit;
- preparing matters to be processed at the meetings of the Supervisory Board;
- deciding on the remuneration and other benefits of the CEO/President and CEO and other senior management on the proposal of the Compensation Committee;
- deciding on other matters that, taking into account the extent and quality of the operations of the Cooperative, are unusual and far-reaching.

The Board of Directors elects a chair and a possible deputy chair from amongst its members for one year at a time. The chair of the Supervisory Board has the right to attend the Board of Directors' meetings. The Board of Directors convenes as summoned by the chair, as often as necessary. The President and CEO prepares the meetings of the Board of Directors. The Board of Directors is quorate when more than half the members of the Board are present. If the votes are equal, the chair has the casting vote. Minutes must be kept of the meetings of the Board of Directors. The Board of Directors regularly appraises its operation and procedures by conducting an annual self-assessment.

#### BOARD OF DIRECTORS' COMPOSITION AND TERM OF OFFICE

Metsäliitto Cooperative's Board of Directors is elected by the Supervisory Board. The Board of Directors comprises a minimum of five and a maximum of eight members. A Board member's term of office commences at the beginning of the calendar year following the meeting of the Supervisory Board that elected them and runs for three years at a time. When preparing the nominations of the members of the Board of Directors, the Supervisory Board's Nomination Committee considers their qualifications, experience and available time, and also ensures that the composition of the Board includes diverse expertise. In 2019, the Board of Directors' Chair was Martti Asunta. Jussi Linnaranta acted as Deputy Chair and the other members were Johan Björkenheim, Arto Hiltunen, Leena Mörntinen, Juha Parpala, Ilkka Salonen and Timo Saukkonen. In its meeting held in November 2019, Metsäliitto Cooperative's Supervisory Board re-elected the outgoing member Jussi Linnaranta for a new three-year term and elected Mikko Mäkimattila as a new member. In accordance with the decision made by the Board of Directors in January 2020, Jussi Linnaranta acts as the Chair and Timo Saukkonen as the Deputy Chair of the Board of Directors in 2020. More

detailed information on the members of the Board of Directors is presented on Metsä Group's website under "Metsäliitto Cooperative's governance and Metsä Group's management."

#### INDEPENDENCE OF BOARD MEMBERS AND DIVERSITY OF THE BOARD OF DIRECTORS

According to the overall evaluation by the Board of Directors, all members of the Board are independent of Metsäliitto Cooperative. Metsäliitto Cooperative does not have significant owner-members as referred to in the Corporate Governance Code whom the members of the Board of Directors would be dependent on. In December 2016, the Board of Directors of Metsäliitto Cooperative approved the principles concerning the diversity of the Board of Directors. According to the principles, the successful management of the tasks of the Board of Directors and its Committees requires a diverse composition, diverse competence and experience, as well as consideration of the personal qualities of individual members. Metsäliitto Cooperative has identified, in addition to a knowledge of the forest economy and industry sector, experience in demanding management tasks and international operating environments as essential in terms of the Board of Directors' diversity. Other factors identified as promoting diversity include Board members' mutually complementary educational backgrounds, management experience in various segments of business operations, and a diverse age and gender range. It is Metsäliitto Cooperative's goal that both genders be represented on the Board of Directors. The Supervisory Board's Nomination Committee observes these principles when preparing proposals for the Supervisory Board on the composition of the Board of Directors. The Board of Directors was composed of eight members, most of whom have an academic degree. The members of the Board of Directors have significant experience in demanding governance and management duties from a number of sectors, and of international business operations. Several Board members are distinguished members of society. Both genders are represented on the Board of Directors. The composition of the Board of Directors meets the principles of diversity, and the Supervisory Board's Nomination Committee will continue to account for the principles and objectives of diversity when preparing proposals on the composition of the Board of Directors in the future.

## METSÄLIITTO COOPERATIVE'S BOARD OF DIRECTORS, 31 DECEMBER 2019

Member of the Board of Directors	Member of the Board of Directors since	Year of birth	Education	Participation in Metsäliitto Cooperative own, under common ownership and owned by controlled corporations) on 31 December 2019 (EUR)	Shares (own and by controlled corporations) in Metsä Board Corporation on 31 December 2019 (number of)
Martti Asunta, Chair	2005, Chair since 2008, stepped down from the Board on 1 January 2020	1955	M.Sc. (Forestry)	98 925	55 903 (B share)
Jussi Linnaranta (Vice-Chair in 2019, Chair in 2020)	2017	1972	M.Sc. (Agriculture and Forestry), agronomist	101 071	14 187 (B share)
Johan Björkenheim	2018	1966	Entrepreneur in farming and forestry	298 248	14 280 (B share) 3 450 (A share)
Arto Hiltunen	2007	1958	M.Sc. (Econ.)	1 170	-
Leena Mörttinen	2016	1967	M.Sc. (Econ.), D.Soc.Sc.	975	-
Juha Parpala	2009	1967	Agrologist	30 754	1 087 (B share)
Ilkka Salonen	2018	1965	M.Sc. (Econ.)	82 650	-
Timo Saukkonen (Vice-Chair in 2020)	2007	1963	M.Sc. (Agriculture and Forestry), forester	128 923	4 600 (B share)

## BOARD COMMITTEES

To ensure that the Board of Directors' tasks are carried out effectively, Metsäliitto Cooperative's Board of Directors has an Audit Committee and a Compensation Committee. The Committees do not have the authority to make decisions independently; rather, the Board of Directors makes the decisions on matters based on the preparation of the Committees. The Board of Directors elects the members of the Committees from among its members.

**Audit Committee**

The Audit Committee assists the Board of Directors in performing its monitoring task. In this task, the Committee assesses and supervises matters related to financial reporting, auditing, internal auditing and risk management in accordance with procedures approved for it. The Audit Committee comprises a minimum of three (3) members, a majority of whom are independent of the company, elected by the Board of Directors from among its members annually. In addition, the chair of the Supervisory Board has the right to attend the Audit Committee's meetings. The President and CEO also attends the meetings of the Audit Committee, except for the times when the Audit Committee wishes to convene without the presence of the executive management. The Audit Committee regularly reports to the Board of Directors on its operations and observations. In 2019, the Audit Committee was chaired by Ilkka Salonen. The

Committee's other members in 2019 were Martti Asunta and Arto Hiltunen. Ilkka Salonen and Arto Hiltunen will continue as members of the Audit Committee in 2020, and Jussi Linnaranta will join the Committee as a new member.

**Compensation Committee**

The purpose of the Compensation Committee is to assist the Board of Directors in ensuring that Metsä Group has appropriate and competitive pay systems as well as successor and development planning in accordance with the procedure approved by the Board of Directors. In its task, the Committee presents e.g. the terms of the service contract of the CEO and the President and CEO, pay systems for the senior management, and the key principles in the senior management's contracts for the Board of Directors to decide on. In addition, the Compensation Committee presents the annual targets for the senior management to the Board of Directors and monitors their realisation. Furthermore, the Committee reviews matters related to the compensation systems of the senior management and proposes them for the Board of Directors to decide on. The Board of Directors annually elects three (3) members to the Compensation Committee from among its members. A majority of the Compensation Committee's members must be independent of Metsä Group. In addition, the President and CEO attends the meetings of the Compensation Committee, except for the times when the Committee wishes to convene without the presence of the executive management. The Compensation Committee reg-

**METSÄ GROUP'S EXECUTIVE MANAGEMENT TEAM, 31 DECEMBER 2019**

<b>Member of the Executive Management Team (as of)</b>	<b>Position in Metsä Group</b>	<b>Year of birth</b>	<b>Education</b>	<b>Participation in Metsäliitto Cooperative (own, under common ownership and owned by controlled corporations) on 31 December 2019 (EUR)</b>	<b>Shares (own and by controlled corporations) in Metsä Board Corporation on 31 December 2019 (number of)</b>
Ilkka Härmälä (2008)	President and CEO	1961	M.Sc. (Eng.)	-	218 797 (B share)
Vesa-Pekka Takala (2010)	CFO, Metsä Group Deputy Managing Director, Metsäliitto Cooperative	1966	M.Sc. (Econ.)	-	128 998 (B share)
Juha Mäntylä (2008)	COO Metsäliitto Cooperative	1961	M.Sc. (Agriculture and Forestry)	575 723	189 534 (B share)
Ismo Nousiainen (2018)	CEO Metsä Fibre	1966	M.Sc. (Eng.)	-	90 920 (B share)
Mika Joukio (2012)	CEO, Metsä Board Corporation	1964	M.Sc. (Eng.)	56 595	297 700 (B share)
Esa Kaikkonen (2008)	CEO, Metsä Tissue Corporation	1969	LL.M.	-	81 892 (B share)

ularly reports to the Board of Directors on its operations. In 2019, the Chair of the Compensation Committee was Arto Hiltunen and its members were Martti Asunta and Timo Saukkonen. Arto Hiltunen and Timo Saukkonen will continue as members of the Compensation Committee in 2020, and Jussi Linnaranta will join the Committee as a new member.

#### INFORMATION ON THE MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2019

The Board of Directors convened 11 times in 2019. Of the Board members, Asunta, Björkenheim, Hiltunen, Linnaranta, Mörttinen, Parpala and Saukkonen were present at all meetings. Ilkka Salonen attended nine meetings. The members' attendance rate was 98%. The Audit Committee convened four times. The attendance rate of the members of the Audit Committee was 100%. The Compensation Committee convened eight times and the members' attendance rate was 100%.

#### PRESIDENT AND CEO

Metsäliitto Cooperative has a CEO, who also acts as the President and CEO of Metsä Group, unless otherwise decided by the Board of Directors. Currently, the President and CEO of Metsä Group also acts as the CEO of Metsäliitto Cooperative. The President and CEO is appointed by the Board of Directors. The President and CEO is charged with the management of the operations of Metsä Group in accordance with the law and regulations, as well as the decisions and instructions of the governing bodies. The President and CEO is in charge of arranging the running administra-

tion of the cooperative and supervising its financial administration. President and CEO Ilkka Härmälä (M.Sc. (Eng.), born in 1961) has acted as the CEO of Metsäliitto Cooperative as of 1 January 2018 and as the President and CEO of Metsä Group since 1 April 2018. More detailed information on the President and CEO is presented on Metsä Group's website under "Metsäliitto Cooperative's governance and Metsä Group's management."

#### EXECUTIVE MANAGEMENT TEAM

Metsä Group has an Executive Management Team, with the Group's President and CEO as its chair. The Executive Management Team assists the President and CEO in the planning and operational management of business operations and prepares proposals for the Board of Directors, such as business strategies, budgets and significant investments. The Executive Management Team is composed of the President and CEO of Metsä Group, the Group's CFO, the COO of Metsäliitto Cooperative, as well as the CEOs of Metsä Fibre, Metsä Board and Metsä Tissue. The Executive Management Team convenes as summoned by the chair, primarily once a month, and additionally whenever necessary. Metsä Group's Executive Management Team is composed of President and CEO Ilkka Härmälä, Vesa-Pekka Takala (Metsä Group's CFO, Deputy Managing Director of Metsäliitto Cooperative), Juha Mäntylä (COO of Metsäliitto Cooperative), Ismo Nousiainen (CEO of Metsä Fibre), Mika Joukio (CEO of Metsä Board) and Esa Kaikkonen (CEO of Metsä Tissue Corporation). More detailed information on the members of the Executive Management Team is presented on Metsä Group's website under "Metsäliitto Cooperative's governance and Metsä Group's management."

## INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT

Profitable business requires that operations are monitored continuously and with adequate efficiency. Metsä Group's internal control covers all of Metsä Group's business areas and Group Services. Internal control produces transparency in the efficiency and appropriateness of internal operations as well as the reliability of financial reporting and compliance with valid laws and regulations. The functionality of internal control is evaluated by Metsä Group's internal audit. Internal control is implemented throughout the organisation. Internal control methods include internal guidelines and reporting systems that support control. The principles, objectives and responsibilities of Metsä Group's internal control and the principles of internal audits are described below. Metsä Group's executive management, risk management director and internal audit are in charge of composing the principles mentioned above, and the Board of Directors is responsible for their ultimate ratification.

### INTERNAL CONTROL

In Metsä Group, internal control covers the control of financial and business operations from a risk-oriented perspective. Internal control is implemented by the Board of Directors, the Audit Committee and the executive management, as well as the entire personnel. "Internal control" refers to those management activities that seek to ensure:

- achievement of the goals and objectives set for Metsä Group;
- economical, appropriate and efficient use of resources;
- adequate management of operational risks;
- reliable and correct financial and other management information;
- compliance with external regulations and internal policies;
- compliance with the appropriate procedures related to customer relationships;
- sufficient security of operations, information and property;
- arrangement of adequate and suitable manual and IT systems to support operations.

Internal control is divided into: (i) proactive control, such as defining Metsä Group's values and general operational and business principles, as well as its goals and strategy; (ii) daily control, such as general control and follow-up with operational systems and work guidelines, related to operational steering; and (iii) subsequent control, such as different management evaluations and inspections, comparisons and verifications, the aim of which is to ensure that the goals are met and that the agreed operational and control principles are followed. Metsä Group's corporate culture, governance and the approach to control together create the basis for the entire process of internal control.

### INTERNAL MONITORING OF THE FINANCIAL REPORTING PROCESS, CREDIT CONTROL AND AUTHORISATION RIGHTS

The financial organisations of the business areas and the Group are responsible for financial reporting. The units and business areas report the financial figures each month. Business area controllers check the monthly performance of units from each business area and report them further to the Group's financial administration. The profitability development and business risks and opportunities of business areas are discussed monthly at the meetings of Metsä Group's Executive Management Team attended by the senior management of Metsä Group and of each business area, as well as at financial management team meetings attended by the Group CFO and director of finance and the CFO of each business area, among others. The results are reported to the Board of Directors of Metsäliitto Cooperative each month. The results of the business areas are additionally reported to the Boards of Directors of their respective parent companies each month. Metsä Group's Controllers' Manual describes the reporting and control regulations and the reporting procedure in detail. Credit control in Metsä Group is carried out by each business area in accordance with the Group credit control policy and the business area-specific credit control policy based on it. Credit control is carried out by the Group's central credit control organisation in cooperation with the management of the business areas. Authorisation rights concerning expenses, significant contracts and investments have been continuously specified for different organisation levels, according to the decision-making order confirmed by the Board of Directors and the authority separately granted by the President and CEO and other management personnel. Investment approval and follow-up are carried out by the business areas and the Group's financial administration according to the decision-making order and investment policy approved by the Board of Directors. The most significant investments are prepared in cooperation with the Group's technology unit and, when the decision-making order so requires, they are separately reviewed by the Group's Executive Management Team and approved by the parent company's Board of Directors or the Board of Directors of the business area's parent company. The technology unit ensures that the final reporting and further monitoring of these projects are carried out in accordance with the investment policy.

### INTERNAL AUDIT

Metsä Group's internal audit assists the Board of Directors in performing its supervisory task by assessing the level of internal audit maintained in order to attain the targets of Metsä Group's operation. In addition, the department supports the organisation by assessing and ensuring the functioning of the business processes, risk management as well as management and governance. In its audit work, the internal audit function complies with the internal audit guideline ratified by the Board of Directors of Metsäliitto Cooperative. The internal audit unit operates under the supervision of the Group's President and CEO and the Audit Committee. An



internal audit action plan is prepared for one calendar year at a time. The audit focuses on areas that have particular significance for the risk assessed and the Group's objectives at the time. The action plan will be reviewed with the management every six months, with regard to how up to date and appropriate it is.

The extent and coordination of auditing will be ensured by regular contact and flow of information with other internal control functions and auditors. Internal audit uses, if necessary, external outsourced services for temporary additional resourcing or performing assessment tasks that require special expertise. In this case, the external service providers act under the supervision of the head of the internal audit. A report is written for each audit and distributed to the Group's President and CEO, the senior management of the affiliated group being audited and the management of the audited function or unit. The audit reports are submitted to the auditors for information and to the parties that are considered relevant based on the content of the report. The internal audit department composes a summary report to the Audit Committee every six months on the audits carried out, the most significant observations and the agreed measures. In addition, the half-year report states the most significant changes in carrying out the audits compared to the action plan and other main duties performed by the internal audit department, as well as any changes in resources. An annual report of the activity of the internal audit must be prepared for the Board of Directors.

## RISK MANAGEMENT

Risk management is an essential part of Metsä Group's standard business planning and leadership. Risk management is part of daily decision-making, operations follow-up and internal control, and it promotes the objectives set by the company and ensures that they are met. Linking business management effectively with risk management is based on the operational principles confirmed by Metsäliitto Cooperative's Board of Directors; the aim of the principles is to maintain risk management as a process that is well defined, understandable and sufficiently practical. Risks and their development are reported on a regular basis to the Board's Audit Committee. Centralised risk management also takes care of the coordination and competitive bidding for Metsä Group's insurance coverage. The most crucial objective of risk management is to identify and evaluate those risks, threats and opportunities that may have an impact on the implementation of the strategy and on the achievement of short-term and long-term objectives. The most significant investment proposals also include a separate risk review. The business areas regularly evaluate and monitor the risk environment and related changes as part of their annual and strategic planning. The risks identified and their means of control are reported to the company's management, Audit Committee and Board of Directors at least twice a year. Business risks also involve opportunities, and they can be utilised within the boundaries of the agreed risk limits. Conscious risk-taking decisions must always be based on an adequate evaluation of the risk-bearing capacity and the profit/loss potential, among other things.

## RISK MANAGEMENT RESPONSIBILITIES

Risk management responsibilities in Metsä Group are divided as follows:

- The Board of Directors is responsible for Metsä Group's risk management and confirms the company's risk management policy.
- The Audit Committee evaluates the adequacy of Metsä Group's risk management and the essential risk areas and provides the Board with related proposals.
- The President and CEO and the members of the Executive Management Team are responsible for the specification and adoption of the risk management principles. They are also responsible for ensuring that the risks are taken into account in the company's planning processes and that risk reporting is adequate and appropriate.
- The Group's risk management director is in charge of the development and coordination of the risk management process, the performance of the risk assessment and essential insurance decisions.
- Business areas and services functions identify and evaluate the essential risks related to their own areas of responsibility in their planning processes, prepare for them, take the necessary preventive action and report on the risks as agreed.

## RISK MANAGEMENT PROCESS

The essential elements of Metsä Group's risk management include implementing a comprehensive corporate risk management process that supports the entire business, protecting property and ensuring business continuity, Metsä Group's security and its continuous development, as well as crisis management and continuity, and recovery plans. According to the risk management policy and principles, adequate risk management forms a necessary part of the preliminary review and implementation stages of projects that are financially or otherwise significant.

The tasks of risk management are to:

- ensure that all identified risks with an impact on personnel, customers, products, property, information assets, corporate image, corporate responsibility or operational capacity are controlled according to applicable laws and on the basis of best available information and financial aspects;
- ensure that Metsä Group's objectives are met;
- fulfil the expectations of stakeholders;
- protect property and ensure disruption-free business continuity;
- optimise the profit/loss possibility ratio;
- ensure the management of Metsä Group's overall risk exposure and minimise the overall risks.

The most significant risks and uncertainties that Metsä Group is aware of are described in the report of the Board of Directors.

## INSIDER GUIDELINES

Metsä Group complies with the EU's Market Abuse Regulation (Regulation (EU) No 596/2014 of the European Parliament and of the Council; hereinafter referred to as the "MAR"), securities market legislation, and the insider guidelines of the parent company Metsäliitto Cooperative and the subsidiary Metsä Board Corporation, prepared in accordance with rules and instructions drawn up by the Helsinki stock exchange. Metsä Group requires every employee to follow the insider regulations. Pursuant to Article 14 of MAR and Chapter 51 of the Criminal Code of Finland, a person in possession of insider information may not: (i) engage or attempt to engage in insider dealing by acquiring or disposing of the company's financial instruments under their own or a third party's name; (ii) recommend that another person engage in insider dealing or induce another person to engage in insider dealing; or (iii) disclose inside information to another person unless this occurs as part of the normal performance of work, tasks or the profession. Insider guidelines aim to enable the people considered the company's insiders to hold shares in the company openly while maintaining public trust in trading and price formation with the company's securities. Metsä Group only recommends long-term investments and the use of purchase programmes. Insiders are provided with instructions and training at frequent intervals. Following MAR's entry into force on 3 July 2016, Metsä Group companies no longer have public insiders, nor do they maintain permanent company-specific insider registers, but rather only project- or event-specific insider lists. The lists include information on persons participating in insider projects who are not allowed to trade the financial instruments of the company in question during the project. Metsäliitto Cooperative has defined its managers, as referred to in MAR, to include the members of the Supervisory Board, the members of the Board of Directors, and the President and CEO. The managers in question and their related parties are obligated to inform the company and the Financial Supervisory Authority of their transactions in Metsäliitto Cooperative's financial instruments, and Metsäliitto Cooperative will publish such transactions as stock exchange releases. The aforementioned persons are subject to a closed period of 30 calendar days prior to the publication of Metsä Group's interim reports and financial statements, during which time the managers may not trade Metsäliitto Cooperative's financial instruments. In addition to the managers subject to the disclosure obligation, the company specifies such other persons who, in the course of their duties, participate in the preparation of interim reports and financial statements and may not trade Metsäliitto Cooperative's financial instruments during the closed period. Metsäliitto Cooperative did not have any financial instruments traded in regulated markets in issue on 31 December 2019. Metsä Board Corporation has defined its managers, as referred to in MAR, to include the members of the Board of Directors and the President and CEO. The managers in question and their related parties are obligated to inform the company and the Financial Supervisory Authority of their transactions concerning Metsä Board's shares and financial instruments, and Metsä Board will publish such transactions as stock exchange releases. The aforementioned persons are subject to a closed period of 30 calendar days prior to the publication of

Metsä Group's interim reports and financial statements, during which time the managers may not trade Metsä Board's financial instruments. In addition to the managers subject to the disclosure obligation, the company specifies such other persons who, in the course of their duties, participate in the preparation of interim reports and financial statements and may not trade Metsä Board's shares or financial instruments during the closed period.

## RELATED PARTY TRANSACTIONS

Metsäliitto Cooperative and its Group companies assess and monitor related party transactions. Related parties are determined in accordance with International Accounting Standards (IAS 24), and they include, among others, all Group companies and the members of the Board of Directors and the Executive Management Team, as well as their immediate family members. Any conflicts of interest are taken into account in decision-making and, in accordance with the Corporate Governance Code, each Group company maintains a list of the members of its related parties.

## AUDIT

According to the rules of Metsäliitto Cooperative, Metsäliitto Cooperative has one auditor, which must be an auditing firm authorised by the Finland Chamber of Commerce. The Representative Council elects the auditor to review the accounts for the year underway, and their task ends at the closure of the next annual meeting of the Representative Council. The task of the auditor is to audit the financial statements and accounting of the Group and the parent company and the administration of the parent company. The auditor provides a statutory auditor's report to the members of Metsäliitto Cooperative in connection with the annual financial statements, and regularly reports on their observations to the Board of Directors and the management of Metsä Group. In accordance with the resolution of the Representative Council meeting in the spring of 2019, Metsäliitto Cooperative's auditor for 2019 is KPMG Oy Ab, firm of authorised public accountants, with Kirsi Jantunen, APA, as the Auditor-in-Charge. In 2019, companies that belong to Metsä Group paid a total of EUR 1,205,000 (EUR 1,090,000 in 2018) in audit fees to KPMG in Finland and internationally and a total of EUR 249,000 (EUR 192,000 in 2018) to other accounting firms. In addition, the KPMG chain was paid EUR 337,000 (EUR 25,000 in 2018) for services not related to the actual audit, and other auditing firms were paid EUR 2,963,000 (EUR 960,000 in 2018).

**Make the most of Metsä**

