

PIHLAJALINNA OYJ

CORPORATE GOVERNANCE STATEMENT

2020



**Pihlajalinna**

PIHLAJALINNA OYJ 2617455-1

# Corporate governance statement 2020

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## I Introduction

The Corporate Governance of Pihlajalinna Plc (the Company) is based on effective legislation, the Company's Articles of Association and the rules and regulations applied to companies listed on Nasdaq Helsinki Ltd. The Company complies with the Finnish Corporate Governance Code 2020 issued by the Securities Market Association. The Finnish Corporate Governance Code is available on the [www.cgfinland.fi/en](http://www.cgfinland.fi/en) website maintained by the Securities Market Association.

Pihlajalinna did not depart from the recommendations of the Corporate Governance Code in 2020.

This Corporate Governance Statement has been compiled as a separate statement from the annual report and will be published on the Company's website [http://investors.pihlajalinna.fi/corporate-governance.aspx?sc\\_lang=en](http://investors.pihlajalinna.fi/corporate-governance.aspx?sc_lang=en).

The Audit Committee and the Board of Directors of Pihlajalinna Plc have reviewed this Corporate Governance Statement.

## II Corporate Governance

### General Meeting

The General Meeting is Pihlajalinna's highest decision-making body. According to the Company's Articles of Association, the Annual General Meeting is held annually within six (6) months of the end of the financial year. The Annual General Meeting decides on the matters determined by the Limited Liability Companies Act and the Articles of Association. These matters include, among other things, the approval of the Financial Statements, the distribution of profit shown in the Balance Sheet and the election of members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting of Shareholders also decides upon discharge of the Board of Directors and of the CEO from liability.

The Board of Directors is responsible for the invitations to the General Meeting and decides its venue and timing.

According to the Company's Articles of Association, the notice of a General Meeting shall be delivered to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the date of the Meeting, but no later than nine (9) days prior to the record date of the Meeting. The notice shall be delivered to shareholders by sending the notice by post to their addresses registered in the Company's register of shareholders or by publishing a notice on the website of the Company or in at least one national daily newspaper determined by the Board of Directors. The notice of a General Meeting is published as a stock exchange release and on the Company's website. The Agenda, the proposals of the Board of Directors and other General Meeting material will be available on the Company's website at least three weeks prior to the General Meeting.

Each shareholder has the right to have a matter within the remit of a General Meeting, under the Limited Liability Companies Act, to be discussed by the General Meeting if he or she requests this in writing from the Board of Directors by the date announced on the Company website. The date will be

announced on the Company's website no later than by the end of the financial year preceding the Annual General Meeting. Any requests by shareholders to have a matter considered by the Annual General Meeting 2020 were to be delivered to the Company's Board of Directors as instructed on the Company's website and at the latest on Tuesday, 20 February 2020.

The Company's Chairman of the Board, members of the Board of Directors, the CEO and the Auditor attend the General Meeting. In addition, any candidates for the Board of Directors attend the General Meeting that decides on their election. If one or more members of the Board of Directors cannot attend the General Meeting, the Company informs the General Meeting of their absence at the beginning of the Meeting.

After the General Meeting, its decisions are published in a stock exchange release. The minutes of the General Meeting are published on the Company's website within two weeks of the General Meeting. The documents of the General Meeting must be kept on the Company's website for at least five years from the Meeting.

Pihlajalinna's Articles of Association are available on the Company's website at <http://investors.pihlajalinna.fi/corporate-governance/articles-of-association>. Any amendments to the Articles of Association require the decision of the General Meeting.

Pihlajalinna Plc's Annual General Meeting 2020 was held in Tampere on 15 April 2020. The General Meeting was attended by 30 shareholders in person or by proxy. Approximately 59 per cent of the Company's shares and votes were represented in the meeting.

### Board of Directors

#### The composition and election procedure of the Board of Directors

The Board of Directors is elected on an annual basis by the Annual General Meeting. According to the Company's Articles of Association, there are a minimum of four (4) and a maximum of ten (10) members on the Board of Directors.

The General Meeting shall elect the Chairman and Vice-Chairman of the Board of Directors. The term of office of a member of the Board of Directors shall expire at the close of the first Annual General Meeting following the election. In case the Chairman and Vice-Chairman of the Board of Directors resign or become otherwise unable to act as chairman during their term of office, the Board of Directors may elect a new Chairman from among its members for the remaining term of office.

#### The Nomination Board prepares proposals regarding the composition and remuneration of the Board of Directors

Pihlajalinna's Annual General Meeting resolved in 2017 to establish a Shareholders' Nomination Board, tasked with preparing future proposals on the election and remuneration of the members of the Board of Directors to the General Meetings. The Nomination Board was established for an indefinite period.

The Nomination Board consists of four members nominated by the shareholders of the Company. In addition, the Chairman of the Board of Directors of the Company participates in the work of the Nomination Board as an expert. The right to nominate members is vested with the four shareholders of the Company having the largest share of the votes represented by all the shares in the Company annually on 1 September based on the Company's shareholders' register held by Euroclear Finland Ltd. However, if a shareholder who has distributed his/her holdings e.g. into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in his/her share of ownership makes a written request to such effect to the Chairman of the Board of Directors no later than on 31 August. Such shareholder's holdings in several funds or registers will be combined when calculating the share of votes that determines the nomination right. Should a shareholder not wish to exercise his/her nomination right, the right shall be transferred to the next largest shareholder who otherwise would not be entitled to nominate a member.

The Chairman of the Board of Directors shall, on 1 September each year, request the four largest shareholders of the Company, based on their shareholding, to nominate one member each to the Nomination Board. The Nomination Board elects a Chairman from among its members. The term of office of the members of the Nomination Board expires annually when the new Nomination Board has been appointed.

In conjunction with establishing the Nomination Board, the Annual General Meeting also approved the Charter of the Shareholders' Nomination Board, which is available on the Company's website at <http://investors.pihlajalinna.fi/corporate-governance/general-meeting/shareholders-nomination-board>.

The four largest registered shareholders of Pihlajalinna Plc (based on the shareholders' register held by Euroclear Finland Ltd on 1 September 2020) appointed the following representatives to the Shareholders' Nomination Board:

- Juha Koponen, Chief Executive Officer and Chairman of the Boards, LocalTapiola General Mutual Insurance Company and LocalTapiola Mutual Life Insurance Company
- Mikko Wirén, Managing Director, appointed by MWW Yhtiö Oy
- Antti Kuljukka, CEO, appointed by Fennia Mutual Insurance Company
- Hanna Hiidenpalo, Director, Chief Investment Officer, appointed by Elo Mutual Pension Insurance Company

The Shareholders' Nomination Board elected Juha Koponen as its Chairman.

The Shareholders' Nomination Board convened five times. The attendance rate was 100%. The Nomination Board submitted its proposals to the Annual General Meeting on 29 January 2021. The proposals are available on the Company's website.

## The qualifications and independence of the Board members and the diversity of the Board of Directors

The Board of Directors shall have sufficient and versatile expertise and experience with respect to its duties. In preparing a proposal for the composition of the Board of Directors, attention shall be paid to the requirements placed by the Company's operations and its development stage. A person to be elected to the Board of Directors shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. The number of the members and the composition of the Board of Directors shall make it possible for the Board of Directors to fulfill its duties in an efficient manner.

For the versatile support and development of the Company's business, the composition of the Company's Board of Directors should be sufficiently diverse. Both genders shall be represented on the Board of Directors. The overall aim of the Board composition is to achieve sufficiently extensive qualifications, expertise and experience. The sufficient diversity of the Board of Directors, including age and gender, as well as educational and professional background, is taken into account in the preparation of a proposal for the composition of the Board of Directors. The aim of the Company is that there are at least two women and at least two men on the Board of Directors.

The majority of the members of the Board of Directors must be independent of the Company. In addition, at least two of the members representing this majority shall be independent of major shareholders of the Company. The members of the Board of Directors must provide the Board of Directors with sufficient information for the evaluation of their qualifications and independence and inform the Board of Directors about any changes in this information. The members of the Board shall not act as representatives of persons who have proposed them to the Board or who otherwise belong to their interest groups.

The duties and responsibilities of the Board of Directors are defined in the Limited Liability Companies Act, the Company's Articles of Association and the Charter of the Board of Directors. The Board of Directors conducts an annual evaluation of its operations and working methods and updates its Charter as needed.

Any matters that are far-reaching from the viewpoint of the Company's business shall be considered and decided by the Board of Directors. According to its Charter, the Board of Directors:

- considers and approves the Company's long-term strategic plan and goals;
- approves the Company's business plan, budget and financing plan and monitors their implementation;
- evaluates the use and presentation of alternative performance measures;
- confirms the principles of the Company's internal control and risk management;
- reviews the material risks affecting the Company's operations and their management, and supervises the adequacy, relevance and efficiency of the Company's administrative processes;

- processes and approves business acquisitions and arrangements and other significant decisions, such as large municipal outsourcings;
- elects the CEO and Deputy CEO, releases them from their duties and decides on the terms and conditions of their service;
- confirms, based on the CEO's proposal, the members of the Group's Management Team, the Heads of Business Operations and other direct subordinates of the CEO;
- approves the incentive schemes of the CEO and other management and the Company's remuneration principles;
- approves the Company's Corporate Governance Statement and statement of non-financial information;
- confirms the Company's Insider Guidelines and Guidelines on Related Party Transactions and defines the principles concerning the monitoring and assessment of transactions with insiders and related parties and supervises compliance with these principles;
- decides on the Company's disclosure policy and monitors compliance with it.

The members of the Board of Directors are provided with sufficient information on the Group's operations, operating environment and financial position, and new Board members must be introduced to the Company's operations at the beginning of their term. The Board of Directors is regularly informed of matters considered by Pihlajalinna Group's Management Team, receives profit and loss reports and auditor's reports and regularly (at least once a year) hears the auditor's opinions of the Company's financial situation and its developments.

The Board of Directors convenes regularly. The timing of the Board Meetings will be confirmed in advance for the Board's entire term of office. When necessary, the Board holds additional meetings that can be organised as conference calls. At least one of the meetings is a strategy meeting and in at least one meeting the Board meets the Company's auditor.

The proposal for the composition of the Board of Directors was prepared by the Company's largest shareholders in 2020. LocalTapiola Group, MWW Yhtiö Oy (Mikko Wirén), Fennia Mutual Insurance Company and Elo Mutual Pension Insurance Company participated in the preparation of the proposal for the composition of the Board of Directors. The shareholders who were involved in preparing the proposal for the composition of the Board of Directors represented approximately 48% of the shares in the Company.

The principles regarding the composition of the Board of Directors were observed in the Board of Directors elected in 2020. The Board of Directors has three female Board members and four male Board members. The members of the Board represent versatile experience from managerial and board duties. All members of the Board elected in 2020 hold a master's degree and one has a doctoral degree. The members of the Board of Directors have versatile industry-specific expertise as well as economic and business skills. Their age range is from 46 to 67 years.

## Members of the Board of Directors in the financial year 2020

The members of the Board of Directors up to the Annual General Meeting of 15 April 2020 were Mikko Wirén (Chairman), Leena Niemistö (Vice-Chairman), Matti Jaakola, Hannu Juvonen, Mika Manninen, Kati Sulin and Seija Turunen.

The Annual General Meeting 2020 decided that the number of members of the Board of Directors shall be seven (7) at a time. The following individuals were elected as members of the Board of Directors: Mikko Wirén, Matti Jaakola, Hannu Juvonen, Mika Manninen, Leena Niemistö, Kati Sulin and Seija Turunen.

The General Meeting elected Mikko Wirén as the Chairman of Pihlajalinna Plc's Board of Directors and Leena Niemistö as the Vice-Chairman.

During the financial year 2020, the Board of Directors convened 16 times. The average attendance rate during the period was 100%.

## Members of the Board of Directors

### MATTI JAAKOLA

Member of the Board since 2019

M.Sc. (Econ.)

Finnish citizen, b. 1955

Independent of the Company and its major shareholders

Principal occupation: Board Professional, management consultant

### HANNU JUVONEN

Member of the Board since 2019

Lic.Med., Specialist, MBA

Finnish citizen, b. 1955

Independent of the Company and its major shareholders

Principal occupation: Practitioner, management consultant

### MIKA MANNINEN

Member of the Board since 2019

M.Sc. (Econ.)

Finnish citizen, b. 1975

Independent of the Company, not independent of major shareholders

Principal occupation: Group CFO, Fennia Group

### LEENA NIEMISTÖ

Member of the Board since 2014

Vice-Chairman of the Board of Directors until 2018 and again since 2019

D.Med.Sc., Specialist in Physiatrics

Finnish citizen, b. 1963

Independent of the Company and its major shareholders

Principal occupation: Board Professional

**KATI SULIN**

Member of the Board since 2018

Master of Arts

Finnish citizen, b. 1974

Independent of the Company, not independent of major shareholders

Principal occupation: Managing Director, Ifolor Oy

**SEIJA TURUNEN**

Member of the Board since 2016

M.Sc. (Econ.)

Finnish citizen, b. 1953

Independent of the Company and its major shareholders

Principal occupation: Board Professional

**MIKKO WIRÉN**

Chairman of the Board of Directors since 2016

Lic.Med.

Finnish citizen, b. 1972

Not independent of the Company, not independent of major shareholders

Principal occupation: Chairman of Pihlajalinna Plc's Board of Directors

More information on the Members of the Board of Directors is available in the Investors section of the Pihlajalinna website at <http://investors.pihlajalinna.fi>.

Information on the remuneration of the members of the Board of Directors is presented in section VI Remuneration Report.

**Board Committees**

The Board of Directors may appoint committees, management groups and other permanent or temporary bodies to perform duties specified by the Board of Directors. The Board of Directors confirms the charters of the Company's committees and Management Team as well as the guidelines and authorisations of any other bodies appointed by the Board of Directors. The Board of Directors has established from among its members an Audit Committee and a Remuneration Committee. These committees have written charters approved by the Board of Directors.

**Audit Committee**

Pihlajalinna Plc's Board of Directors has established from among its members an Audit Committee which monitors the Company's reporting process of financial statements and the efficiency of the Company's internal control, potential internal audit and risk management systems. The Audit Committee also reviews the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the Company's Corporate Governance Statement, monitors the statutory audit of the financial statements and consolidated financial statements and evaluates the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company. The members of the Audit Committee

must have the expertise and experience necessary to perform the responsibilities of the Committee and at least one of the members must have special expertise in accounting or auditing.

The Audit Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the Audit Committee must be independent of the Company, and at least one member must be independent of major shareholders of the Company.

The Board of Directors has confirmed a written Charter for the Audit Committee, according to which the Committee has the following duties, among other things:

- to monitor the Company's financial standing and financing situation;
- to evaluate the effects of exceptional or extensive business transactions;
- to monitor the Company's financial statements reporting process;
- to monitor the Company's financial reporting process and M&A processes;
- to monitor the Company's internal control, potential internal audit and risk management systems, plans and reports as well as the efficiency of these functions;
- to review the Corporate Governance Statement, including the description of the main features of the internal control and risk management systems related to the financial reporting process;
- to monitor the statutory audit of the financial statements and consolidated financial statements;
- to evaluate the independence of the statutory auditor or audit firm and the provision of related services;
- to prepare a proposal for a resolution on the election of the auditor;
- to maintain communication with the auditor and review the reports prepared by the auditor for the Audit Committee; and
- to evaluate compliance with laws and regulations.

The Audit Committee regularly provides the Board of Directors with a summary of matters considered by the Committee.

Work on the committee is subject to remuneration as determined by the General Meeting.

On 15 April 2020, the Board elected Seija Turunen (chairman), Matti Jaakola, Hannu Juvonen and Mika Manninen as the members of the Audit Committee.

During the financial year 2020, the Audit Committee convened five times. The attendance rate of the Committee members was 95%.

**Remuneration Committee**

Pihlajalinna Plc's Board of Directors has established from among its members a Remuneration Committee (Nomination and Remuneration Committee until 4 April 2017) that assists the Board by preparing matters pertaining to the remuneration and nomination of the Company's CEO and other management, as well as the Company's remuneration principles.

The Remuneration Committee comprises three to five members who are elected from among the members of the Board of Directors. The majority of the members of the Remuneration Committee must be independent of the Company. The CEO or other executives of the Company may not be appointed to the Remuneration Committee.

The Board of Directors has confirmed a written Charter for the Remuneration Committee, according to which the Committee has the following duties, among other things:

- to prepare matters related to the remuneration and other financial benefits of the CEO and other management;
- to prepare proposals related to the Company's incentive plans;
- to evaluate the remuneration of the CEO and other management and to ensure the appropriateness of the Company's remuneration systems;

- to answer any questions related to the remuneration report at the General Meeting.
- to prepare matters related to the nomination of the CEO and other management and to look for prospective successors for them; and
- to plan the remuneration of other personnel and organisational development.

Work on the committee is subject to remuneration as determined by the General Meeting.

On 15 April 2020, the Board of Directors elected Mikko Wirén (Chairman), Leena Niemistö and Kati Sulin as the members of the Remuneration Committee.

During the financial year 2020, the Remuneration Committee convened two times. The attendance rate of the Committee members was 100%.

#### Attendance at Meetings by the Board of Directors and Committee Members in 2020:

| Name           | Position      | Board Meetings | Audit Committee Meetings | Remuneration Committee Meetings |
|----------------|---------------|----------------|--------------------------|---------------------------------|
| Mikko Wirén    | Chairman      | 16 / 16        | 1 / 5 *                  | 2 / 2                           |
| Leena Niemistö | Vice-Chairman | 16 / 16        | -                        | 2 / 2                           |
| Matti Jaakola  | Member        | 16 / 16        | 4 / 5                    | -                               |
| Hannu Juvonen  | Member        | 16 / 16        | 5 / 5                    | -                               |
| Mika Manninen  | Member        | 16 / 16        | 5 / 5                    | -                               |
| Kati Sulin     | Member        | 13** / 16      | -                        | 2 / 2                           |
| Seija Turunen  | Member        | 16 / 16        | 5 / 5                    | -                               |

\* Mikko Wirén is not a member of the Audit Committee

\*\* The absences were due to conflict of interest regulations

#### Pihlajalinna holdings of the members of Pihlajalinna Plc's Board of Directors on 31 December 2020

| Direct and indirect Pihlajalinna holdings of the Board of Directors | Number of shares on 31 December 2020 |
|---------------------------------------------------------------------|--------------------------------------|
| Mikko Wirén (MWW Yhtiö Oy)                                          | 2,309,010                            |
| Leena Niemistö                                                      | 703,475                              |
| Matti Jaakola (Capwell Oy)                                          | 1,000                                |
| Hannu Juvonen                                                       | -                                    |
| Mika Manninen                                                       | -                                    |
| Kati Sulin                                                          | -                                    |
| Seija Turunen                                                       | -                                    |

### CEO

The Board of Directors appoints the Chief Executive Officer and decides on the terms and conditions of his or her service contract. The CEO is in charge of the Company's operational management and Pihlajalinna Group's business in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that

the Company's accounting practices comply with the law and that the financial matters are handled in a reliable manner. The Management Team assists the CEO in leading the Company's operations.

Joni Aaltonen was the CEO of Pihlajalinna Plc during the financial year 2020.

### Management Team

Pihlajalinna Group's Management Team assists the CEO in the operative business management. The Management Team prepares and steers the development of the Group's business, processes and joint Group functions and promotes cooperation and the flow of information between the various parts of the organisation. It also prepares the Group's strategic planning and budgeting, monitors the implementation of plans and reporting and prepares acquisitions and other major investments. In addition, the Management Team monitors and evaluates the profitability of the Company's businesses as well as the functioning of its internal control and reporting systems. The

Management Team convenes regularly by invitation of the CEO. The Management Team conducts an annual evaluation of its operations and working methods.

### Group Management Team (31 December 2020)

#### JONI AALTONEN

b. 1970, BBA  
Employed by the Company since 2008  
CEO

#### TEIJA KULMALA

b. 1969, MD, eMBA, Specialist  
Employed by the Company since 2016  
Group COO, CEO of Jämsän Terveys Oy and  
Jokilaakson Terveys Oy

#### TARJA RANTALA

b. 1972, M.Sc. (Econ.)  
Employed by the company since 2014  
CFO

#### ELINA HELIÖ

b. 1972, Master of Laws with court training  
Employed by the Company since 2019  
Chief People and Culture Officer

#### SANNA MÄÄTTÄNEN

b. 1967, Specialist in geriatrics, eMBA  
Employed by the Company since 2012  
Chief Business Development Officer and Chief Information  
Officer

#### MARKO SAVOLAINEN

b. 1967, Master of Laws with court training  
Employed by the Company since 2017  
Chief Legal Officer

#### JUHA-PEKKA HALTTUNEN (since 25 June 2020)

b. 1969, Vocational Qualification in Business  
Employed by the Company since 2005  
Sales Director

From 1 September 2019 to 29 February 2020, the Group's interim Medical Director was Paula Arvilommi, Lic.Med., Specialist in Occupational Health. Since 1 March 2020, the Group's Medical Director has been Kimmo Saarinen, Lic.Med., Specialist. The Medical Director reports to the Group CEO.

On 17 December 2020, Pihlajalinna announced that medical specialist Sari Riihijärvi, PhD, had been appointed as Medical Director. The appointment will take effect on 2 July 2021, at which time Riihijärvi will take up her position and join the Management Team.

The Management Team has met regularly, on a weekly basis.

The table below presents the Pihlajalinna shareholdings of the members of Pihlajalinna Group's Management Team (31 December 2020).

| Direct and indirect shareholdings of Pihlajalinna shares by the Management Team | Number of shares<br>(31 December 2020) |
|---------------------------------------------------------------------------------|----------------------------------------|
| Joni Aaltonen                                                                   | 33,233                                 |
| Sanna Määttänen                                                                 | 15,300                                 |
| Tarja Rantala                                                                   | 14,055                                 |
| Teija Kulmala                                                                   | 11,460                                 |
| Marko Savolainen                                                                | 7,600                                  |
| Juha-Pekka Halttunen (since 25 June 2020)                                       | 4,725                                  |
| Elina Heliö                                                                     | 1,464                                  |

## III Internal control

The goal of internal control associated with the financial reporting process is to ensure that the financial reports published by the Company are reliable and compliant with laws and regulations, and that they provide materially correct information regarding the Company's finances.

The Group's financial development is monitored by Group-wide reporting systems. The systems cover financial information, the budget approved by the Board of Directors, monthly financial forecasts and operational performance indicators. The Group Management Team and the operations management team analyse the result and deviations, are responsible for budgeting and forecasting, monitor the integration and development of acquisitions made and monitor other investments. The business controller function and financial management analyse and produce financial reports as well as prepare separate analyses for use by the management, the Audit Committee and the Board of Directors. The Group has a centralised asset management function.

The Group's financial management issues guidelines and instructions on the preparation of the financial statements and interim financial statements and, together with the Group communications function, is responsible for the Group's regular disclosure obligations.

Pihlajalinna's financial and HR management functions have defined and documented control targets and control points (process-specific control catalogues) related to financial management, reporting and HR management processes. The appropriateness and effectiveness of control targets and control points are evaluated at least once a year. Internal control observations are analysed and, as a result, guidelines, practices and potentially also control points are updated.

The control measures consist of automated and manual reconciliation of processes, controls, analytical checks and instructions aimed at ensuring the accuracy of financial reporting. Further key control mechanisms include the administration of access rights to information systems and reporting systems as well as the controlled implementation of authorisations and changes to systems. The financial management function processes and regularly reports to the Board of Directors on

exceptional items and items subject to management judgment, and analyses the underlying reasons behind changes to forecasts.

The CEO and the chief executives of the subsidiaries are in charge of ensuring that accounting and administration in the areas they are responsible for comply with the law and that the Group's guidelines are adhered to. The Group's legal department is in charge of issuing operational guidelines and instructions in its area of responsibility. The auditors audit the accounting and administration of the parent company and the subsidiaries annually. In all Group companies, auditing is conducted by a firm of authorised public accountants. The auditor of the parent company is responsible for the coordination of audit focus areas, the analysis of audit observations from the point of view of consolidated financial statements and communication with the Group's financial management and the CEO. The detailed auditing results are reported annually to the Group management, the Audit Committee and the Board of Directors.

The Audit Committee verifies that accounting, financial administration, the internal audit and auditing are organised appropriately. The Board of Directors reviews and approves half-year reports, interim reports and financial statements bulletins.

The purpose of Pihlajalinna's internal audit is to assess the appropriateness and performance of the Company's internal control system, risk management, management processes and administrative processes. The internal audit supports organisational development and enhances the fulfilment of the Board of Directors' supervisory duty. Pihlajalinna's internal audit activities will continue in 2021 in accordance with the cooperation organised with PwC.

The internal audit assists the organisation in achieving its objectives by evaluating and surveying its functions and supervising compliance with Company guidelines and instructions. To this end, the internal audit produces analyses, estimates, recommendations and information for use by the Board of Directors and senior management. The assessments are reported upon completion to the CEO, the CFO and the management in charge of the function being assessed. They are also reported regularly to the Board's Audit Committee.

The internal audit function is based on internal standards (IIA). The internal audit function is independent of the rest of the organisation. The point of departure for the internal audit is primarily management-oriented, and the work is coordinated in cooperation with the external audit. The annual audit plan and audit report are presented to the Audit Committee. The internal audit function also audits other areas by request of the Board of Directors and Pihlajalinna's Management Team.

## IV Risk management

In risk management, Pihlajalinna's aim is to operate as systematically as possible and incorporate risk management in normal business processes. Furthermore, the Company invests in quality management systems and the management of information security, occupational safety and health risks.

Pihlajalinna's Risk Management Policy defines and categorises the Group's risks and describes the goals of risk management. In addition, it defines risk management principles, operating methods and responsibilities.

Internal risk reporting is included in the regular business reporting as well as in business planning and decision-making. The material risks and their management are reported to stakeholders regularly and, when necessary, on a case-by-case basis.

In 2020, Pihlajalinna applied the previously developed and implemented Enterprise Risk Management process. In the process, risks are categorised into:

- strategic
- operational
- financial and
- damage risks.

Strategic risks refer to uncertainty related to the implementation of the Group's short-term and long-term strategy. An example is structural changes in society. The role of the private sector as a provider of social and healthcare services as well as structural changes in the public sector have a material impact on the company's business.

Operational risks are risks that are caused by external factors, technology, actions of employees, the operations of the organisation or the functionality of processes. These risks are managed by, for instance, monitoring the competitive situation systematically and reacting to changes to it.

Financial risks refer to risks that are related to the Group's financial position, such as profitability, financing risk management, the functionality of financing processes and taxation. For instance, changes in tax legislation may have an impact on the Company's business.

Damage risks are related to accidents or other damage that may occur to the Group's assets, personnel, customers, stakeholders or environment. The Company has liability and patient insurance to cover any malpractice caused by the Company's own personnel.

A factor that links all risk categories together is the reputational risk that may affect the reputation of the Group's brands or the entire company.

The goal of Pihlajalinna's risk management is to promote the achievement the Group's strategic and operational targets, shareholder value, the Group's operational profitability and the realisation of responsible operating methods. Risk management seeks to ensure that the risks affecting the company's business operations are known, assessed and monitored.

The Group and operative management are responsible for risk management according to reporting responsibilities. In addition, risk management specialists guide and develop the group's risk management. Everyone working at Pihlajalinna must also be aware of and manage risks related to their responsibilities. The internal audit function evaluates the appropriateness and performance of the Company's risk management as part of its annual audit plan.

## V Other information required

### Insider administration and principles

Pihlajalinna Plc complies with the Nasdaq Helsinki Ltd Guidelines for Insiders in effect at any given time, subject to the additional specifications concerning Pihlajalinna and referred to in Pihlajalinna's Insider Guidelines.

The Company's insider information and the managers' and their close associates' transactions in Company's financial instruments are administered according to applicable legislation and the Insider Guidelines of the Company. When necessary, the Company sets up project-specific insider lists which includes every person who receives project-specific inside information.

The insider lists are not public. The Company's insider lists are maintained in the SIRE register of Euroclear Finland Ltd.

In addition to the insider lists, the Company creates and maintains a list of persons discharging managerial responsibilities and related parties (natural or legal persons) who have the duty to notify their transactions related to Company's financial instruments to the Company and the Financial Supervisory Authority within three business days after the transaction. The Company publishes transactions notified to it with a release within the same time limit. Persons discharging managerial responsibilities include Pihlajalinna's members of the Board of Directors and members of the Management Team.

Executives at Pihlajalinna and non-executive persons defined by the Company are prohibited from all trading in the Company's securities or related derivatives and other financial instruments on their own account or for the account of a third party during the period of 30 calendar days before the publication of the Company's annual financial statements, interim report and half year financial report (closed window).

Pihlajalinna Plc has published its insider principles (insider and related party principles) on the Company's website.

### Related parties and principles for related party transactions

Pihlajalinna complies with the legislation pertaining to related party transactions and, in accordance with the Corporate Governance Code for listed companies, ensures compliance with the requirements for the monitoring, assessment, decision-making and disclosure of related-party transactions. Pihlajalinna's Guidelines on Related Party Transactions, which describe the principles for the monitoring and assessment of related party transactions, was approved on 13 January 2021 by Pihlajalinna's Board of Directors, which is responsible for monitoring and assessing related party transactions.

The purpose of Pihlajalinna Plc's Guidelines on Related Party Transactions is to ensure that any business transactions involving persons belonging to the Company's related parties are made independently and based on market terms. The Company assesses and verifies that any related party transactions are in the best interests of the Company overall and that any conflicts of interest are duly taken into account when making decisions on related party transactions. The principles of the Guidelines on Related Party Transactions are observed throughout the

Group and in the decision-making concerning all of the Group companies.

Pihlajalinna Plc's related parties include the Group's executives, such as the members, deputy members (if any) and secretary of the Board of Directors, the CEO, Deputy CEO and members of the Management Team, and the aforementioned persons' spouses and common-law spouses and other people living in the same household. In addition, related parties include organisations in which an above-mentioned related party, either alone or together with other related parties, exercises significant influence or control. Related parties also include the Company's subsidiaries, associated companies and joint ventures and their CEOs, Board members and potential deputy members, as well as any organisations in which the above-mentioned parties exercise significant influence or control. Furthermore, related parties include the Company's shareholders holding at least 10 per cent of the Company's shares or the total votes carried by the Company's shares.

Pihlajalinna Plc maintains a related party register of major business transactions between the Company and its related parties, the parties involved and the key terms of such transactions. The information entered in the register is collected annually from the persons belonging to the Company's related parties by means of control surveys. The Company's related party register is not public, and any information entered in it will not be disclosed to third parties, with the exception of any authorities and the auditor entitled to receive such information. Persons considered as related parties are obliged to notify the Company's related party administration of any related party transactions which are being planned or which have come to their knowledge. Such notification must be made without delay after receiving such information. The results of the monitoring of related party transactions are regularly reported to the Board's Audit Committee.

Pihlajalinna may carry out transactions with related parties provided that the transactions are part of Pihlajalinna's ordinary course of business and implemented under arms-length terms in compliance with the decision-making procedure specified in Pihlajalinna's internal policies and guidelines. Related party transactions that are not part of Pihlajalinna's ordinary course of business or are not implemented under arms-length terms are decided on by Pihlajalinna's Board of Directors, with due consideration given to the regulations concerning conflicts of interest.

Any related party transactions will be processed in accordance with the Guidelines on Related Party Transactions approved by Pihlajalinna's Board of Directors. Any major transactions to be executed with Pihlajalinna's management and its related parties shall always be approved by the Board of Directors.

Pihlajalinna reports on related party transactions annually in its financial statements. Related party transactions that are of material significance from the shareholder's perspective and are not part of the Company's ordinary course of business or are not implemented under arms-length terms are disclosed in accordance with the Securities Markets Act and the rules of the Nasdaq Helsinki Ltd stock exchange.

Pihlajalinna Plc has published its principles concerning related party transactions (insider and related party principles) on the Company's website.

## Auditors and auditing

According to the Articles of Association, the Company shall have one (1) Auditor that shall be a firm of authorised public accountants with an APA-certified Auditor acting as the Auditor with principal responsibility.

The auditor will annually submit an auditor's report to Pihlajalinna's Annual General Meeting. When the Company's Board of Directors reviews the financial statements, the principal auditor provides a statement on the implementation of the audit and on their audit observations.

Pihlajalinna Plc's Annual General Meeting on 15 April 2020 resolved, in accordance with the Board's proposal, to appoint KPMG Oy Ab as the Company's auditor for a term ending at the conclusion of the Annual General Meeting 2021. The responsible auditor appointed by KPMG Oy Ab was Lotta Nurminen, APA.

During the 2020 financial year, the Group companies' auditors have included BDO in addition to KPMG Oy Ab.

The following fees have been paid to the auditors (amounts in thousands of euros):

| Auditor's fees             | 2020       | 2019       |
|----------------------------|------------|------------|
| Auditing, BDO              | 92         | 100        |
| Auditing, KPMG Oy Ab       | 225        | 244        |
| Other services, KPMG Oy Ab | 23         | 3          |
| <b>Total</b>               | <b>340</b> | <b>347</b> |

## VI Remuneration report

Pihlajalinna's Annual General Meeting decides on the remuneration paid to the members of the Board of Directors. The proposal for the remuneration of the Board members is prepared by the Shareholders' Nomination Board.

Assisting the Board of Directors, the Remuneration Committee prepares the principles applied to the remuneration of the CEO and the Company's other executives.

The Company's Board of Directors elects the CEO and Deputy CEO and decides on the terms and conditions of their service.

The Board of Directors confirms the salaries and other benefits of the members of the Management Team on the basis of the CEO's proposal and decides on the remuneration principles for other executives.

In 2020, the proposal for the remuneration of the Board members was prepared by the Shareholders' Nomination Board. Members nominated by the largest shareholders — LocalTapiola Group, MWW Yhtiö Oy (Mikko Wirén), Fennia Mutual Insurance Company and Elo Mutual Pension Insurance Company

— participated in the preparation of the proposal. The shareholders who were involved in preparing the proposal for the composition of the Board of Directors represented approximately 48% of the shares in the Company.

## Remuneration of the Board of Directors

The Annual General Meeting 2020 decided that remuneration shall be paid to the members of the Board of Directors as follows: to the Chairman EUR 250,000, to the Vice-Chairman EUR 36,000 and to the other members EUR 24,000 per year.

In addition, the AGM decided that each Board member shall be paid a meeting fee of EUR 500 for each Board and Committee meeting. Reasonable travel expenses will also be reimbursed to the members of the Board in accordance with the Company's travel policy.

In 2020, the fees paid to Pihlajalinna Plc's Board members for Board and Committee work totalled EUR 473,000 (2019: EUR 486,500). This amount consists of annual and meeting fees related to Pihlajalinna Plc's Board of Directors and its Committees.

The Company did not have any share-based incentive schemes in place for the members of the Board of Directors in 2020.

The Shareholders' Nomination Board proposes to the Annual General Meeting 2021 that the remuneration of the Board of Directors be kept unchanged, except for the remuneration of the Chairman of the Audit Committee, and that the following annual remuneration be paid to the members of the Board of Directors to be elected at the Annual General Meeting for the term of office ending at the close of the Annual General Meeting 2022: to the full-time Chairman of the Board of Directors EUR 250,000 per year; to the Vice-Chairman and the Chairman of the Audit Committee EUR 36,000 per year, and to the other members of the Board of Directors EUR 24,000 per year.

The proposal is that the annual remuneration to be paid in company shares and cash so that about 40 per cent of the remuneration is used to purchase the company's shares on behalf of the members and the remaining share of the remuneration is paid in cash. The remuneration can be paid either entirely or partially in cash if the member of the Board of Directors has, on the day of the General Meeting, 15 April 2021, been in possession of over EUR 1,000,000 worth of company shares. The company is responsible for the expenses and transfer tax arising from the acquisition of the shares. The remuneration to be paid in shares can be paid by transferring company shares in possession of the company to the members of the Board of Directors or by purchasing shares directly on behalf of the Board members within three weeks after the interim report for the period of 1 January–31 March 2021 has been published. If, due to legal or other regulatory reasons, such as insider regulations, this is not possible at the first available time after this, the alternative is to pay the remuneration in cash. If the term of a Board member ends before the Annual General Meeting of 2022, the Board is entitled to decide on the possible recovery of the remuneration in a manner it deems appropriate.

## Remunerations paid to the Board of Directors in 2020, EUR

| Name           | Position      | Board members'<br>monthly/annual<br>fees | Board<br>Members'<br>meeting fees | Audit<br>Committee<br>fees | Remuneration<br>Committee<br>fees | Total          |
|----------------|---------------|------------------------------------------|-----------------------------------|----------------------------|-----------------------------------|----------------|
| Wirén Mikko    | Chairman      | 250,000                                  | 8,000                             | 500                        | 1,000                             | 259,500        |
| Niemistö Leena | Vice-Chairman | 36,000                                   | 8,000                             |                            | 1,000                             | 45,000         |
| Jaakola Matti  | Member        | 24,000                                   | 8,000                             | 2,000                      |                                   | 34,000         |
| Juvonen Hannu  | Member        | 24,000                                   | 8,000                             | 2,500                      |                                   | 34,500         |
| Manninen Mika  | Member        | 24,000                                   | 8,000                             | 2,500                      |                                   | 34,500         |
| Suli Kati      | Member        | 24,000                                   | 6,000                             |                            | 1,000                             | 31,000         |
| Turunen Seija  | Member        | 24,000                                   | 8,000                             | 2,500                      |                                   | 34,500         |
|                |               | <b>406,000</b>                           | <b>54,000</b>                     | <b>10,000</b>              | <b>3,000</b>                      | <b>473,000</b> |

## Remuneration of the CEO

The Company's Board of Directors elects the CEO and Deputy CEO and decides on the terms and conditions of their service.

In 2020, the Management Team's statutory and additional pension costs amounted to approximately EUR 223,000 (2019: approximately EUR 300,000).

CEO Joni Aaltonen's salary and other taxable benefits for the financial year that ended on 31 December 2020 amounted to EUR 433,253 (in 2019, Joni Aaltonen's salary and other taxable benefits amounted to EUR 284,725).

CEO Joni Aaltonen's director agreement can be terminated by either party with a three-month (3) notice period. If the Company terminates the agreement, the Company shall pay the CEO a one-time monetary compensation for termination corresponding to six (6) months' total salary effective at the time of termination.

Joni Aaltonen is committed to a fifteen-month (15) non-competition and non-solicitation period. In the event of a breach of this condition, the CEO shall be obliged to pay the Company compensation corresponding to his salary for twelve (12) months. The CEO is entitled to rectify such a breach within 30 days of being notified by the Company. If the loss or damage caused to the Company exceeds the contractual penalty mentioned above, the CEO must compensate for the loss or damage in its entirety. The director agreement will expire at the latest when Joni Aaltonen retires. The CEO's retirement age is statutory.

## Remuneration of the Management Team

The Board of Directors confirms the salaries and other benefits of the members of the Management Team on the basis of the CEO's proposal and decides on the remuneration principles for other executives.

The notice period for the members of the Management Team is six months. They are entitled to the salary for the notice period and, in certain cases where the employer terminates the employment, they are entitled to compensation for termination. In addition, the members of the Management Team have non-competition and non-solicitation commitments for certain periods, during which compensation may be paid. In 2019, the members of the Management Team joined the Company's share-based incentive programme.

The salary and other taxable benefits paid to the other members of the Management Team for the financial year that ended on 31 December 2020 were approximately EUR 1,526,119, including benefits paid after the termination of employment. In 2019, the salary and other taxable benefits paid to the other members of the Management Team were approximately EUR 1,459,814. The remuneration paid consists of a fixed monthly salary, fringe benefits and a share-based incentive bonus.

## Long-term incentive programme

At its meeting on 14 February 2019, the Board of Directors approved the terms of a share-based long-term incentive programme for Pihlajalinna Group's senior management (LTIP 2019). The incentive programme is effective from 1 January 2019 onwards and it is aimed at the CEO, the Management Team and other key employees selected for inclusion in the programme. LTIP 2019 includes an overall five-year plan period and none of the share rewards received by the key employees thereunder may be sold or transferred prior to the year 2022 and, as a rule, they also include a restriction period of the same duration. In the event that a beneficiary's employment ends during the restriction period, shares that have already been received must be returned. The key employee is required to have made an investment in Pihlajalinna shares as a precondition for participation in the programme. At the end of the financial year, the incentive programme included 20 key employees.

The fixed matching share programme (commitment shares) consisted of a commitment period from the beginning of 2019 to the payment of the fixed share reward at the end of 2020. In this scheme, the company matched each key employee's share investments with additional shares at a fixed rate. A total of 97,000 matching shares were awarded. This figure is the gross reward, from which the applicable taxes were deducted, leaving a net amount of 45,105 shares that were transferred to the participants on 28 December 2020. The shares are subject to a transfer restriction but not a restriction period.

The performance- and quality-based matching share plan includes three one-year performance periods (the calendar years 2019–2021), during which the participants can earn performance-based additional shares, provided that the company reaches the performance objectives set by the Board of Directors. Based on each individual performance period, the

participant can earn a maximum of two additional shares for three shares invested without consideration (gross before the deduction of the applicable payroll tax). The performance-based share rewards will be delivered after the respective performance periods in the spring of 2020, 2021 and 2022.

No performance- and quality-based share rewards materialised for the first performance period 2019 pursuant to the matching share plan, as the minimum objectives set for the programme were not achieved.

For the second performance period of 2020 under the performance- and quality-based matching share plan, the gross reward for the Group's management is 56,583 shares. The shares will be paid to the participants after the financial statements have been completed. The shares are subject to the normal transfer restriction but not a restriction period.

### Currently valid Board authorisations and Board decisions pertaining to remuneration

The Annual General Meeting 2020 resolved to authorise the Board of Directors to repurchase the Company's own shares. The authorisation is valid until the Annual General Meeting 2021 and no longer than until 30 June 2021. Pursuant to the authorisation, the Board of Directors may resolve to repurchase an aggregate maximum of 2,061,314 of the Company's own shares in one or more tranches, which corresponds to approximately 9 per cent of all existing shares in the Company. Pursuant to the authorisation, shares can be repurchased for, among other purposes, the implementation of the Company's share-based incentive schemes. The authorisation was exercised during the period 31 March–17 April 2020 when the Company acquired a total of 47,399 of its shares at an average price of EUR 14.56 for the purpose of implementing the incentive scheme.

The Annual General Meeting 2020 decided to authorise the Board of Directors to resolve on the issuance of shares and other special rights conveying entitlement to shares as referred to in Chapter 10, section 1 of the Companies Act. The amount of shares to be issued cannot exceed 3,091,971 shares, which corresponds to approximately 14 per cent of all the shares in the Group. The authorisation concerns both the issuance of new shares and the sale or transfer of the Group's own shares. The authorisation is in force until the end of the Annual General Meeting 2021, but no later than 30 June 2021. The authorisation may be exercised, among other purposes, in order to carry out a directed share issue as part of the implementation of the Company's share-based incentive schemes. The authorisation to transfer the Company's own shares was exercised for the purpose of making payments in accordance with the incentive scheme in late 2020.