



Corporate Governance Statement of Lännen Tehtaat plc 2011

This Corporate Governance Statement of Lännen Tehtaat plc has been drawn up in accordance with recommendation 54 of the Finnish Corporate Governance Code. The Corporate Governance Statement has been considered by Lännen Tehtaat plc's Board of Directors and is issued separately from the Board of Directors' report. The company's auditors have confirmed that the Corporate Governance Statement is issued and that the description it contains of the main features of the internal control and risk management systems pertaining to the financial reporting process are consistent with the financial statements.

Lännen Tehtaat plc complies with the Corporate Governance Code published by the Securities Market Association and effective from 1 October 2010.

The company deviates from recommendation 8 of the Code concerning election of the Board of Directors. According to the recommendation the general meeting shall elect the Board of Directors. Under the Lännen Tehtaat plc Articles of Association the company's Supervisory Board elects, in accordance with the proposals of the Nomination Committee, the members of the Board of Directors and decides on the remuneration payable to them.

The company has chosen to deviate from the recommendation because the Supervisory Board, as the body that oversees the company's Board of Directors, is best placed to assess the composition of the Board of Directors and the attributes required of Board members.

The Corporate Governance Code is publicly available on the website of the Securities Market Association, at www.cgfinland.fi.

Board of Directors

1. Board of Directors election procedure laid down in the Articles of Association

Under the Lännen Tehtaat plc Articles of Association the company's Supervisory Board decides, in accordance with the proposals of the Nomination Committee, on the number of members of the Board of Directors and the remuneration payable to them, and elects the members of the Board of Directors.

Under the Articles of Association, Lännen Tehtaat plc's Board of Directors comprises a minimum of five and a maximum of seven members. Persons who have attained the age of 68 are ineligible for election to the Board of Directors. The Articles of Association do not limit the number of terms served by members of the Board of Directors nor is the Supervisory Board's decision-making power in the election of members of the Board of Directors restricted in any other way.

2. Composition of Board of Directors

Members

Until 14 April 2011 Lännen Tehtaat plc's Board of Directors comprised six members elected by the Supervisory Board on 13 April 2010. The Board members during 1 January - 14 April 2011 were Harri Eela, Heikki Halkilahti, Aappo Kontu, Matti Lappalainen, Hannu Simula and Soili Suonoja.

At a meeting held on 14 April 2011, Lännen Tehtaat plc's Supervisory Board decided further to elect six members to Lännen Tehtaat plc's Board of Directors. The Board members elected were Heikki Halkilahti, Aappo Kontu, Matti Lappalainen, Hannu Simula, Jorma J. Takanen and Helena Walldén.

Information on members of the Board of Directors

Matti Lappalainen, b. 1948, M.Sc. (Econ. & Bus. Adm.)

Senior Advisor

Lännen Tehtaat plc Board chairman

Hannu Simula, b. 1947, M.Sc. (Agric.)

Farmer

Lännen Tehtaat plc Board deputy chairman

Harri Eela, b. 1960, wood-products industries technician

Principal occupation: DSTP-Engineering Oy,

Managing Director

Board member until 14 April 2011

Heikki Halkilahti, b. 1947, LL.M., M.Sc. (Econ. & Bus. Adm.)

Principal occupation: Valio's Pension Fund and Valio's Mutual Insurance Company,

Managing Director

Aappo Kontu, b. 1952, M.Sc. (Tech.)

Principal occupation: Empower Group Oy, President

Soili Suonoja, b. 1944, home economics teacher, MBA

Principal occupation: professional board member

Board member until 14 April 2011

Jorma J. Takanen, b. 1946, Chemical Engineer

Principal occupation: Sievi Capital Plc, President and CEO

Board member since 14 April 2011

Helena Walldén, b. 1953, M.Sc. (Tech.)

Board member since 14 April 2011

Evaluation of independence

The company's Board of Directors has performed an evaluation of the independence of the Board's members in relation to the company and in relation to the major shareholders, in accordance with recommendation 15 of the Corporate Governance Code.

The evaluation found that all the Board members are independent of the company and of significant shareholders as referred to in the Corporate Governance Code recommendation.

3. Description of the operation of the Board of Directors

The main elements of the Board of Directors' rules of procedure

The rules of procedure of the Board of Directors describe the following

- functions of the Board of Directors and the Board's chairman
- planning and assessment of the Board's operation
- establishment of Board committees and temporary working groups, and
- practices for approving the expenses of Board members and the Chief Executive Officer (CEO).

Functions of the Board of Directors

The general function of the Board of Directors is to direct the operations of the company in such a way that in the long run the amount of added value for the capital invested is maximised, taking into account at the same time the expectations of the different stakeholders. The Board of Directors also monitors on a continuous basis the demands placed by shareholders on the Board of Directors and the general development of ownership policy.

For the purpose of performing its functions the Board of Directors:

- monitors the financial statements reporting process and the statutory auditing of the financial statements and consolidated financial statements
- supervises the financial reporting process
- considers the corporate governance statement's description of the main features of the internal control and risk management systems pertaining to the financial reporting process
- appoints and releases from duties the CEO and Deputy CEO, determines their duties and decides on their terms of service and their incentive schemes
- sets personal targets for the CEO annually and assesses their realisation
- convenes at least once a year without the operating organisation's management in attendance
- holds a meeting with the auditors at least once a year
- assesses the independence of the auditor and of the auditing firm, and the additional services provided for the companies to be audited
- prepares a draft resolution on the choice of auditors for submission to the Annual General Meeting
- assesses its own performance once a year
- confirms its rules of procedure, which are reviewed annually
- discusses other matters proposed by the Board of Directors chairman or the CEO for inclusion in the meeting agenda. Members of the Board of Directors are also entitled to have a matter of their choosing discussed by the Board by first notifying the chairman of this.

Based on proposals presented by the CEO, the Board of Directors:

- confirms the company's ethical values and operating policies, and supervises their implementation
- confirms the company's basic strategy and continuously monitors its validity
- defines the company's dividend policy
- approves the annual operating plan and budget on the basis of the strategy, and supervises their implementation
- approves the total annual investment and its distribution among the business areas, and decides on large and strategically important investments, acquisitions and divestments
- confirms the operating guidelines for the company's internal control, ensuring annually that they are kept up-to-date, and monitors the effectiveness of internal control
- confirms the company's risk management policy and principles as well as the risk limits to be confirmed annually, and monitors the effectiveness of the risk management systems

- reviews quarterly the main risks associated with the company's operations and the management of these risks
- discusses and approves interim reports, the Board of Directors' report and the financial statements
- confirms the Group's organisational structure
- submits proposals to the Annual General Meeting concerning the remuneration systems for management and personnel
- annually monitors issues associated with management successors and draws up the necessary conclusions
- confirms the decisions of the CEO about the choice of the CEO's immediate subordinates, their duties, terms of employment and incentive schemes, and
- monitors the company's working atmosphere and the way in which personnel cope with their tasks.

Planning and assessment of the Board's operation

The Board of Directors draws up an operating plan for itself for the ensuing 12 months. The plan includes a schedule of meetings and, for each meeting, the most important issues for discussion.

The Board of Directors assesses its performance annually through a self-evaluation, and the evaluation results are submitted to the Supervisory Board for its information. The evaluation results are taken into consideration in the preparation of proposals for the composition of the new Board of Directors.

Committees of the Board of Directors

The Board of Directors has not elected any committees from among its members.

As the Board of Directors has not elected an audit committee from among its members, the Board is managing the duties of audit committee in accordance with the Corporate Governance Code 27 itself.

Board of Directors' meetings in 2011

Lännen Tehtaat plc's Board of Directors convened 15 times in 2011. Five of the meetings were telephone conferences. The average participation rate of all Board members was 95.6%.

Supervisory Board

1. Composition and term

In accordance with the Articles of Association, the Supervisory Board comprises a minimum of 15 and a maximum of 20 members chosen by the shareholders' meeting. In addition, the Supervisory Board has a maximum of four members at a time, chosen by the personnel from among themselves, and each of these members has a personal deputy.

Persons who have attained the age of 68 are ineligible for election to the Supervisory Board. The members' term of office ends at the close of the third Annual General Meeting following their election.

2. Functions

The Supervisory Board elects, in accordance with the proposals of the Nomination Committee, the members of the Board of Directors, a chairman and a deputy chairman from among the members of the Board, and decides on the remuneration payable to them.

The Supervisory Board is also responsible for supervising the corporate administration, issuing instructions to the Board of Directors, issuing an opinion on the financial statements, Board of Directors' report and auditor's report, and other duties that are laid down in the Limited Liability Companies Act.

3. Information on members of the Supervisory Board

Until 31 March 2011 the Supervisory Board consisted of 20 members chosen by the shareholders' meeting. On 31 March 2011, the Annual General Meeting decided to select 19 members to the Supervisory Board.

The following were members of the Supervisory Board during 2011:

Members elected by the Annual General Meeting

Timo Miettinen, b. 1955, M.Sc. (Eng.)

Principal occupation: EM Group Oy, Chairman of Board Chairman of the Supervisory Board since 14 April 2011

Member since 31 March 2011

Marja-Liisa Mikola-Luoto, b. 1971, M.Sc. (Agric.)

Principal occupation: Farmer

Deputy Chairman of the Supervisory Board since 14 April 2011

Heikki Aaltonen, b. 1956

M.Sc. (Agric.), farmer

Matti Eskola, b. 1950

B.Sc. (Agric.), farmer

Jaakko Halkilahti, b. 1967

Farmer

Member since 31 March 2011

Jussi Hantula, b. 1955

Farmer

Börje Helenelund, b. 1951

B.Sc. (Agric.), farmer

Laura Hämäläinen, b. 1975

M.Sc. (Agric.), farmer

Pasi Jaakkola, b. 1941

Farmer

Timo Kaunisto, b. 1963

M.Sc. (Agric.), farmer

Risto Korpela, b. 1949

M.Sc. (Econ. & Bus. Adm.), Managing Director

Mikko Kurittu, b. 1966
B.Sc. (Agric.), farmer

Mika Leikkonen, b. 1963
B.Sc. (Agric.), farmer

Markku Länninki, b. 1949
Farmer

Ilkka Markkula, b. 1960
B.Sc. (Agric.), farmer

Juha Nevavuori, b. 1942
Farmer
Deputy Chairman of the Supervisory Board and Member until 31 March 2011

Samu Pere, b. 1968
Administrative Director

Tuomo Raininko, b. 1966
Farmer

Esa Ruohola, b. 1946
Farmer

Esko Suomala, b. 1959
M.Sc. (Agric.), farmer
Member until 31 March 2011

Helena Walldén, b. 1953
M.Sc. (Tech.)
Chairman of the Supervisory Board and
Member until 31 March 2011

Mauno Ylinen, b. 1965
M.Sc. (Agric.), farmer

Personnel representatives

Pauli Juutinen, b. 1951
Personal deputy member **Timo Kaila**

Aila Koivuniemi, b. 1944
Personal deputy member **Pia Rantanen**

Veijo Kukkonen, b. 1981
Personal deputy member **Maarit Tammelin**

Kirsi Roos, b. 1972
Personal deputy member **Pauli Paavola**

4. Meetings of the Supervisory Board in 2011

The Supervisory Board convened four times during 2011. The average participation rate of all the members was 76.3%.

Supervisory Board Nomination Committee

1. Composition and tasks

Under the Articles of Association the Supervisory Board's Nomination Committee, which prepares the selection of members to the Board of Directors, consists of two members chosen by the Annual General Meeting, the chairman of the Supervisory Board, the deputy chairman of the Supervisory Board and the chairman of the Board of Directors. The Nomination Committee is chaired by the Supervisory Board's chairman, and in his/her absence, by the Supervisory Board's deputy chairman.

The Nomination Committee has the task of preparing proposals for the Supervisory Board on the number of members of the Board of Directors, the names of the members, chairman and deputy chairman of the Board of Directors and the remuneration payable to them. The Committee's tasks also include searching for successor candidates to replace members of the Board of Directors, as necessary. The Committee asks shareholders with significant voting power for their views concerning the proposals being put to the Supervisory Board.

2. Activity

In 2011 the Nomination Committee convened four times to discuss matters falling within its sphere of responsibility. The meeting attendance rate of Committee members was 95%.

3. Information on members of the Nomination Committee

Matti Lappalainen, b. 1948

M.Sc. (Econ. & Bus. Adm.), Senior Advisor

Chairman of the Board of Directors

Heikki Laurinen, b. 1967

M.Sc. (agric.), Managing Director

Member chosen by AGM since 31 March 2011

Timo Miettinen, b.1955

M.Sc. (Tech.), Chairman of the Board of EM Group Oy

Chairman of the Supervisory Board

Member since 30 March 2010

Marja-Liisa Mikola-Luoto, b. 1971

M.Sc. (agric.), farmer

Deputy Chairman of the Supervisory Board

Member since 14 April 2011

Juha Nevavuori, b. 1942,

Farmer

Deputy Chairman of the Supervisory Board and

Member until 31 March 2011

Antti Rauhamaa, b. 1952
B.Sc. (Nat. Res.), farmer
Member until 31 March 2011

Tauno Uitto, b. 1948
Farmer
Member chosen by AGM since 31 March 2011

Helena Walldén, b. 1953,
M.Sc. (Tech.),
Chairman of the Supervisory Board and
Member until 31 March 2011

CEO

Chief Executive Officer (CEO)
Matti Karppinen, b. 1958, M.Sc. (Econ. & Bus. Adm.)

Description of CEO's duties

The CEO's duty is to direct the operations of the company according to the instructions and provisions issued by the Board of Directors and to inform the Board about the development of the company's business operations and financial situation.

The CEO is also responsible for arrangement of the day-to-day management of the company and for seeing that the company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

1. Internal control operating principles

Lännen Tehtaat plc's Board of Directors confirms the operating principles for the Lännen Tehtaat Group's internal control and assesses the state of internal control at least once a year.

Internal control refers to all the operating methods, systems and procedures with which the company's management seeks to ensure efficient, economical and reliable operations. Internal control comprises financial and other control. At Lännen Tehtaat, internal control is performed by the company's management and by all other personnel.

Risk management as part of internal control refers to the identification, assessment, restriction and monitoring of risks arising in business activities and risks that are materially related to this.

2. Role of company boards in arranging internal control

Lännen Tehtaat plc's Board of Directors is responsible for arranging and maintaining sufficient and effective internal control within the Lännen Tehtaat Group.

As part of the arrangement of internal control and risk management, the company's Board of Directors regularly monitors the results and operating risks of the Group and its business units, and decides on the reporting, the procedures and the qualitative and quantitative indicators for assessing the efficiency and profitability of operations. The Board of Directors of Lännen Tehtaat plc confirms annually the Group's risk policy, risk management principles and key risk limits.

To ensure implementation of the Group's ownership policy towards the Group companies and to monitor the effectiveness of internal control, the boards of directors of the main Group companies include one or more members of the Group's Corporate Management. Group-level risk management and financial reporting are performed on a centralised basis in the Group Administration, independent of the different business activities.

The boards of directors of the Group companies are responsible for the highest level of management duties related to the internal control of their respective companies. The operating organisation's management in each of the Group companies is responsible for the implementation of internal control and risk management in line with the pre-determined principles and operating guidelines, and for reporting on the company's operations, risk-bearing ability and risk situation in accordance the Group's management system.

3. Implementation of internal control within Lännen Tehtaat plc and the Group companies

The main principles of internal control observed within Lännen Tehtaat plc and the Group companies are:

Organisational structure and division of tasks

The basis for internal control is the function-specific line organisation that is further divided into departments, units and teams, as necessary. The organisational units are allotted defined tasks and responsibilities required for the company's operations. The task of the operating organisation's management, i.e. the managers of the Group's business areas and operations, is to set quantitative and qualitative targets for the various areas of the business in accordance with the business plan approved by the Board of Directors. For the units, decision-making bodies and people operating within the framework of the organisation there are separately defined decision-making and operating powers set out in work and job specifications, as well as obligations to report to one's superiors or otherwise to a higher organisational level. The task of the operating organisation's management is to ensure that those working under them are familiar with their own duties, and the management are required to create the right conditions for their personnel to be able to perform their work and achieve the targets.

Decision-making and monitoring

Significant commitments or other actions deemed to carry certain risks are subject to the approval of the Board of Directors of Lännen Tehtaat plc. Business units are responsible for formulating proposed decisions and for putting decisions into effect. Reporting on the implementation of decisions is made in connection with the management reporting.

Business activities and processes are guided within the confines of operating guidelines and descriptions, which are monitored to ensure they are complied with and kept up-to-date. All decisions taken are documented and archived. An essential aspect of risk management is the performance of daily controls in the operating chains and processes.

Risk management

The internal and external risks of Lännen Tehtaat plc and the Group companies that could have an adverse effect on achieving business targets are identified, assessed regularly and reported quarterly to the Board of Directors. The risks are contained and the confining limits are monitored.

The Group Administration's risk management has the task of monitoring, measuring and reporting risks and of maintaining, developing and preparing risk management principles for the Board of Directors' approval, and of drafting procedures for use in risk assessment and measurement. Roles and responsibilities are defined in Lännen Tehtaat's risk management policy and risk management principles, which are approved by the Board of Directors of Lännen Tehtaat plc.

Data systems

The basis for business and other activities is provided by the accounting, information and business IT systems. The parent company and the Group companies have an IT strategy in accordance with currently assessed needs and sufficient and appropriately organised IT systems. The IT function ensures that the company's data resources can be utilised in the planning, management, execution and monitoring of the company's business.

Responsibility for the effectiveness of internal control

The operating organisation's management has the primary responsibility for ensuring the implementation of practical measures for internal control. The management must constantly monitor operations and must take the necessary development measures if action contrary to guidelines or decisions or action that is otherwise ineffective or inappropriate is observed. In a transparent and effective organisation the entire personnel are all responsible not only for the appropriate discharging of their own duties but also for the fluency of operations with the rest of the organisation.

4. Reporting and management systems

Internal control is supported by appropriate reporting that allows monitoring of operations, results and risks. Achievement of the business targets and developments in the Group's financial situation are monitored with the aid of a Group-wide management system. The Group's accounting principles, controls and responsibilities are described in the Lännen Tehtaat Group's accounting manual. Reporting guidelines and timetables have been drawn up in writing for monthly reporting and preparation of interim reports and annual financial statements. The parent company's financial management unit constantly monitors the business units' reporting and develops and produces guidelines on the content of reporting, taking into account the needs of internal control. The Group prepares financial information for publication, complying with the international financial reporting standards (IFRS). Interim reports and the annual financial statements are reviewed by the Board of Directors of Lännen Tehtaat plc and are subject to its approval.

The business units update the long-term financial estimates each year. The annual budgets are prepared on the basis of these strategic figures. The Board of Directors of Lännen Tehtaat plc assesses and approves the business units' annual budgets. In addition, on a quarterly basis or more often, the business units update the profit and balance sheet estimates to cover at least the ensuing 12 months.

The monthly reporting and the related analysis for budgets and estimates constitute a key element of Lännen Tehtaat's management system and internal control. Financial figures are

assembled from the business units' data systems every month for the Group's joint accounting system.

The outturn information and up-to-date estimates are reviewed monthly in Group-level results meetings, which are attended by the CEO, the Chief Financial Officer (CFO) and those in charge of the Group's accounting. The monthly reporting system comprises the actual profit and balance sheet information, the key figures and the written management report of those responsible for the businesses. The management report covers the factors affecting the results given in the month's report, the measures planned for the immediate term and an assessment of the operating profit for the current quarter and the full year, consisting of best case, probable and worst case scenarios.

The Group CEO and members of the Corporate Management are issued with the reports, and the Board of Directors of Lännen Tehtaat plc is issued with a summary for the Group and summaries of the data for each business unit.

The business units' management groups examine their own financial outturn data at least once a month for budgets and estimates and also the various units' monitoring measurements for estimates and targets used for business management purposes, and the reasons for any significant discrepancies between these.

5. Internal audit

The internal audit unit functions objectively and independently supporting the Board of Directors, the CEO and Group Administration, for the purpose of assessing and developing the level of internal control by providing an independent and objective assessment and advisory service for risk management and monitoring processes within the organisation.

Internal audit is performed on the basis of a pre-determined plan. The internal audit is overseen by the Group's CFO, who submits the annual audit plan to the parent company's Board of Directors for its approval.

Lännen Tehtaat's internal audit is independent of all operating units in Finland and abroad. The internal audit is performed by an employee who is part of the Group Administration and whose job description also includes group accounting and other group-level tasks. The manager-employee relationship in Group Administration regarding these other tasks leads to a situation where the internal auditor is unable to independently audit the areas of responsibility covered by Lännen Tehtaat's Group Administration.

Internal audit reports annually in writing to the Lännen Tehtaat plc Board of Directors on the audit findings and areas for improvement in internal control. Where necessary, the internal audit also reports on individual audit findings during the annual planning period to the Board of Directors.

