

# Corporate Governance Statement

## February 14, 2012

Huhtamäki Oyj (Huhtamäki or the Company) complies with the Finnish Corporate Governance Code adopted by the Securities Market Association and effective from October 1, 2010. The Code is available in internet at [www.cgfinland.fi](http://www.cgfinland.fi). This separate Corporate Governance Statement has been issued and published in connection with the Directors' Report.

Huhtamäki's corporate governance comprises the General Meeting of Shareholders, the Board of Directors (Board) and committees founded by it, the Chief Executive Officer (CEO) and the Group Executive Team (GET), laws and regulations applicable in the Group's operations as well as the Group's internal policies, guidelines and practices.

### General Meeting of Shareholders

The General Meeting of Shareholders is the Company's highest decision-making body. Its tasks and procedures are defined in the Finnish Companies Act and the Company's Articles of Association. The Annual General Meeting of Shareholders (AGM) shall be held annually in Espoo or Helsinki before the end of June on a date set by the Board of Directors. In 2011, the AGM was held on April 20, 2011 at Finlandia Hall, Helsinki.

The AGM resolves i.a. upon adoption of financial statements including the consolidated financial statements, distribution of profits, granting the members of the Board and the CEO discharge from liability as well as election of the members of the Board and the Auditor. The AGM decides also on the Board members' and the Auditor's remuneration. A General Meeting of Shareholders may also resolve upon, for example, amendments to the Company's Articles of Association, issuance of new shares and option rights and repurchase of the Company's own shares. The General Meeting of Shareholders may authorize the Board to decide, for example, on issuances of new shares or share repurchases.

An Extraordinary General Meeting of Shareholders (EGM) shall be held when considered necessary by the Board. An EGM shall also be held, if requested in writing, for the handling of a specified matter by the Auditor or shareholders holding altogether a minimum of one-tenth of all Company shares.

### Shareholder rights

According to the Companies Act, a shareholder may request that a matter falling under the authority of the General Meeting of Shareholders shall be placed on the agenda of the meeting. To this effect, a written request should be sent to the Board well before the publication of the notice to convene the meeting. A shareholder has a right to make proposals and questions on matters handled in the General Meeting of Shareholders.

A shareholder who has been entered in the shareholders' register of the Company eight business days before a General Meeting of Shareholders has the right to participate in the meeting. The holder of a share registered under the name of a nominee may be temporarily entered in the shareholders' register for the purpose of participating in a General Meeting of Shareholders.

A shareholder may participate in a General Meeting of Shareholders either in person or by proxy. A shareholder may also employ the services of an assistant in a General Meeting of Shareholders.

### Board of Directors

The Board of Directors is responsible for the management and the proper arrangement of the operations of Huhtamäki. The Board has a general authority regarding matters not specifically designated by law or Articles of Association to any other governing body of the Company. In addition to the powers vested in the Board by the Companies Act and the Articles of Association, the essential duties and working principles of the Board are defined in the Code of Governance for the Board of Directors. The Board decides on long-term strategic and financial targets as well as on dividend policy. The Board approves the strategic plans, annual plans and budget as well as monitors their implementation. The Board resolves upon acquisitions and divestments as well as other corporate transactions, annual investment plan and individual capital expenditures exceeding EUR 6 million. In order to discharge its duties, the Board requires information on the structure, business operations and markets of the Group. Each member of the Board is provided with a monthly report on the financial situation and markets of the Group. The Board elects the CEO, approves GET members' appointments, decides on executive compensation and annually reviews the management performance. The Board also conducts an annual evaluation of its own performance and working methods. The evaluation may be conducted as an internal self-evaluation or by using an external evaluator. In 2011, the evaluation was done as an internal self-evaluation without an external evaluator.

### Composition of the Board of Directors

The number of the members of the Board and the composition of the Board shall make it possible for the Board to discharge its duties in an efficient manner. The composition shall take into account the needs of the Group operations and the development stage of the Group. Both genders shall be represented in the Board. The Board shall consist of a minimum of six and a maximum of nine members. There are no limitations as to the number of terms a person may be elected as member of the Board or as to the maximum age of a Board member. The AGM elects the Board members for the term of office expiring at the close of the AGM following the election. The Board shall elect from among its members the Chairman and the Vice-Chairman. The AGM 2011 elected the following eight individuals to the Board:



Mikael Lilius



Jukka Suominen



Eija Ailasmaa



William R. Barker

### **Mikael Lilius**

Chairman (1949)

Date of election: March 30, 2005

Education: B.Sc. (Econ)

Primary working experience: Fortum Oyj, CEO; Gambro AB, CEO; Incentive AB, CEO; KF Industri AB, CEO; Huhtamäki Oyj, President of the Packaging Division

Key positions of trust: Wärtsilä Oyj Abp, Chairman of the Board; Evli Pankki Oyj, Board; Aker Solutions ASA, Deputy Chairman of the Board; Ambea AB, Chairman of the Board; East Office of Finnish Industries, Chairman of the Board; Ab Kelonia Oy, Supervisory Board

Shares on December 31, 2011: 50,000

### **Eija Ailasmaa**

(1950)

Date of election: March 22, 2004

Education: M.Pol.Sc.

Primary working experience: Sanoma Media B.V., President and CEO; Sanoma Group, executive roles in magazine publishing subsidiaries, including Helsinki Media and Sanoma Magazines Finland, President; Kodin Kuvalehti magazine, Editor-in-chief

Key positions of trust: Outotec Oyj, Board; Solidium Oy,

Vice-Chairman of the Board

Shares on December 31, 2011: 1,000

### **Jukka Suominen**

Vice-Chairman (1947)

Date of election: March 30, 2005

Education: M.Sc. (Eng), B.Sc. (Econ)

Primary working experience: Silja Oyj Abp, Group CEO

Key positions of trust: Fiskars Oyj Abp, Board; Rederiaktiebolaget

Eckerö, Chairman of the Board; Lamor Corporation Ab,

Chairman of the Board; Arctia Shipping Oyj, Board

Shares on December 31, 2011: 3,000

### **William R. Barker**

(1949)

Date of election: March 24, 2010

Main occupation: Mold-Masters (2007) Limited, Board, President & CEO

Education: MBA and B.Sc. (Chemical Engineering)

Primary working experience: Rexam PLC, Board and Rexam Beverage Can, Group Executive Director (2005–2009); Rexam Beverage Can Americas, President & CEO (2001–2004); Textron Inc.; OEA Inc.; Bosal International N.V.; Gates Rubber Company

Key positions of trust: Leeds School of Business, University of Colorado, Board

Shares on December 31, 2011: –



Rolf Börjesson

### **Rolf Börjesson**

(1942)

Date of election: March 31, 2008

Education: M.Sc. (Chemical Engineering)

Primary working experience: Rexam PLC, Chairman of the Board (2004–2008) and the CEO and Board member (1996–2004)

Key positions of trust: Ahlsell AB, Chairman of the Board; Biolight AB, Chairman of the Board; Svenska Cellulosa Aktiebolaget SCA (publ), Board; Avery Dennison Corporation, Board

Shares on December 31, 2011: 3,000



Siaou-Sze Lien

### **Siaou-Sze Lien**

(1950)

Date of election: April 3, 2009

Main occupation: Mobley Group Pacific Ltd., Senior Executive Coach

Education: M.Sc. (Computer Science)

Primary working experience: Hewlett-Packard, several different roles, latest position as Senior Vice President, Hewlett-Packard Services Asia-Pacific

Key positions of trust: Nanyang Technological University Singapore, Board of Trustees; Republic Polytechnic Singapore, Board of Governors; Luvata Ltd., Board

Shares on December 31, 2011: 1,000



Sandra Turner

### **Sandra Turner**

(1952)

Date of election: April 20, 2011

Education: BA (Marketing) Honours

Primary working experience: Tesco PLC, several different roles in United Kingdom and Ireland (1987–2009), latest position Commercial Director, Tesco Ireland Limited (2003–2009)

Key positions of trust: Carpetright PLC, Board; McBride PLC, Board; Berkhamsted School, School Governor

Shares on December 31, 2011: 1,000

### **George V. Bayly**

(1942)

George V. Bayly resigned from the Board of Directors on September 12, 2011.

Anthony J.B. Simon acted as a member of the Board of Directors until the AGM held on April 20, 2011.

## Board meetings

Most of the meetings of the Board are held at the Company's headquarters in Espoo. The Board is annually visiting other Group locations and holds meetings there. The Board may also hold its meetings by telephone. The Board shall hold at least six regular meetings each year, with one session entirely dedicated to Group strategy. In 2011, the Board held 11 meetings, four of which were telephone meetings. The average attendance of the members at the Board meetings was 95%. The CEO and the Chief Financial Officer of the Company are usually attending the Board meetings. When necessary, e.g. in connection with deliberation of strategy or annual plans, the meetings are attended also by other members of the Group Executive Team. The Auditor is participating in the meeting deliberating the annual accounts. The Senior Vice President, Administration and Legal of the Company acts as the secretary to the Board.

## Board members' attendance at the meetings

	Attendance (%)	Number of meetings attended
Mikael Lilius	100	11/11
Jukka Suominen	100	11/11
Eija Ailasmaa	91	10/11
William R. Barker	100	11/11
George V. Bayly*	100	7/7
Rolf Börjesson	100	11/11
Siaou-Sze Lien	82	9/11
Anthony J.B. Simon**	67	2/3
Sandra Turner***	100	8/8

\* George V. Bayly resigned from the Board of Directors on September 12, 2011

\*\* member of the Board until April 20, 2011

\*\*\* member of the Board since April 20, 2011

## Remuneration of the Board members

The AGM is resolving upon remuneration for the Board of Directors. In accordance with the resolution passed by the AGM held on April 20, 2011, the annual compensation for the Chairman of the Board is EUR 100,000, for the Vice-Chairman EUR 60,000 and for other members EUR 50,000. In addition, a meeting fee of EUR 600 per meeting is paid to all members for Board and Board Committee meetings they attend. Traveling expenses are compensated in accordance with the Company policy. In addition, the Chairman of the Board of Directors has a mobile phone benefit. None of the Board members receives any other remuneration from the Company than that based on Board membership. The Company performance share or option rights plans do not extend to the Board members. There is no pension scheme for the Board members.

## Remuneration paid to the members of the Board of Directors in 2011 (EUR)

	Annual compensation	Meeting fees	Total
Mikael Lilius	97,680*	11,600	109,280
Jukka Suominen	58,750	12,800	71,550
Eija Ailasmaa	48,750	11,200	59,950
William R. Barker	48,750	8,500	57,250
George V. Bayly**	36,250	7,000	43,250
Rolf Börjesson	48,750	11,100	59,850
Siaou-Sze Lien	48,750	8,900	57,650
Anthony J.B. Simon***	11,250	2,000	13,250
Sandra Turner****	37,500	5,400	42,900
<b>Total</b>	<b>436,430</b>	<b>78,500</b>	<b>514,930</b>

\* annual compensation for Mikael Lilius includes a mobile phone benefit

\*\* George V. Bayly resigned from the Board of Directors on September 12, 2011

\*\*\* member of the Board until April 20, 2011

\*\*\*\* member of the Board since April 20, 2011

## Independence of the Board members

All members of the Board are non-executive. The Board considers all members of the Board independent of the Company. The Board also considers all members except Jukka Suominen independent of the significant shareholders of the Company.

## Board Committees

In order to focus on certain responsibilities, the Board may appoint permanent Committees consisting of three to five Board members each. The Committees assist the Board by preparing matters belonging to the competence of the Board. Each Committee regularly reports on its work to the Board. The Committees have no autonomous decision-making power and, thus, the Board passes its resolutions collectively. The entire Board remains responsible for the duties assigned to the Committees.

The Board currently has three committees: the Nomination Committee, the Human Resources Committee and the Audit Committee. Each Committee has a written charter summarizing its tasks.

The Nomination Committee prepares proposals to the AGM concerning election of Board members and their remuneration. It may also conduct succession planning of the Board members. The Committee meets once a year as a minimum, prior to the AGM. The following individuals comprised the Nomination Committee during 2011: Mikael Lilius (Chairman), Rolf Börjesson and Jukka Suominen. In 2011, the Nomination Committee held three meetings. The average attendance of the Nomination Committee members at the meetings was 100%.

The Human Resources Committee prepares and discusses organizational and human resource issues, as well as principles of remuneration of senior executives and their compensation. The following individuals comprised the Human Resources Committee during 2011: Mikael Lilius (Chairman), William R. Barker and Rolf Börjesson. In 2011, the Human Resources Committee held four meetings. The average attendance of the Human Resources Committee members at the meetings was 92%.

The Audit Committee assists the Board in its responsibility to supervise that the book-keeping and financial administration of the Company are appropriately arranged as well as to monitor the financial status of the Company and compliance of the Group policies. It monitors and supervises matters relating to financial statements

and consolidated financial statements, interim reports, accounting principles and policies as well as internal reporting systems. Additionally, the Audit Committee monitors the efficiency of the Company's internal control, internal audit as well as risk assessment and risk management mechanisms. It reviews the description of the main principles of the Company's internal control and risk management systems pertaining to the financial reporting process which is included in the Company's Corporate Governance Statement. The Audit Committee prepares to the AGM the resolution concerning appointment of the Auditor. It also evaluates the independence of the Auditor and provision of other consultancy services by the Auditor to the Company. In addition to the members of the Audit Committee, the Chief Financial Officer participates in the Committee's meetings. The Auditor participates in the meeting deliberating the financial statements and also other meetings, if considered necessary. The following individuals comprised the Audit Committee during 2011: Jukka Suominen (Chairman), Eija Ailasmaa and Siau-Sze Lien. In 2011, the Audit Committee held six meetings. The average attendance of the Audit Committee members at the meetings was 94%.

### Chief Executive Officer

The CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders given by the Board. The CEO is responsible for the achievement of the goals, plans and objectives set by the Board. The CEO is responsible for ensuring that the book-keeping of the Company complies with the law and that the financial administration is arranged in a reliable manner. The CEO is the Chairman of the Group Executive Team.

M.Sc. (Econ), MBA Jukka Moisio (1961) has acted as the Company's CEO since April 1, 2008. Before joining the Company, Jukka Moisio acted during 1991–2008 in several different roles in Ahlstrom Corporation, latest position being the CEO.

In 2011, Jukka Moisio's non-variable annual base salary and benefits amounted to EUR 581,600 and the short-term incentive, based on the performance in 2010, amounted to EUR 413,231. Based on the performance in 2010, the CEO received under the Performance Share Incentive Plan 2008–2010 a total of 30,000 shares with an aggregate value of EUR 296,700 at the time of the transfer and a cash payment of EUR 296,700 relating to the amount of income taxes arising based on the received shares. This reward with a total value of EUR 593,400 was paid in March 2011. Thus, the CEO's total remuneration amounted to a total of EUR 1,588,231 in 2011. No option rights were allocated to him during 2011.

According to the Service Agreement between the Company and the CEO, either party may terminate the Service Agreement with six months' prior notice. During the notice period, the CEO is entitled to normal salary payments. If the Company terminates the Service Agreement, the CEO is entitled to a termination compensation amounting to 18 months' base salary. The retirement and resignation age of the CEO is 60 years, unless otherwise agreed upon. In addition to statutory employment pension contribution, the early retirement possibility is covered by an arrangement under which the Company contributes annually to a supplementary pension arrangement an amount which shall not exceed the CEO's monthly base salary. However, the contribution is subject to the CEO contributing the same amount to the supplementary pension arrangement. In case the Service Agreement is terminated prior to the retirement and resignation age, the CEO maintains the right to the funds in the

supplementary pension arrangement. The amount of the supplementary pension is determined based on funds contributed to the arrangement by the Company and the CEO as well as the returns on these funds.

### Group Executive Team

The following persons form the Group Executive Team:

#### Mr. Jukka Moisio (1961)

Chairman, Chief Executive Officer (CEO)

GET member since: April 1, 2008

Joined the company: 2008

Education: M.Sc. (Econ), MBA

Primary working experience: Ahlstrom Corporation (1991–2008), several different roles, latest position as CEO

Key positions of trust: –

Shares on December 31, 2011: 85,900

Option rights on December 31, 2011: 2006 B 80,000,

2006 C 80,000

#### Mr. Timo Salonen (1958)

Chief Financial Officer (CFO)

GET member since: October 8, 1999

Joined the company: 1991

Education: M.Sc. (Econ), LL.M.

Primary working experience: Huhtamäki Oyj (1991–), several different roles, previous positions as Executive Vice President, Strategy and Development, Executive Vice President, Europe Rigid Packaging as well as CFO; Partek Corporation (1983–1991), several different roles, latest position as Division Controller, Partek Concrete International, Belgium

Key positions of trust: –

Shares on December 31, 2011: 60,000

Option rights on December 31, 2011: 2006 B 40,000,

2006 C 50,000

#### Mr. Juha Salonen (1949)

Senior Vice President, Administration and Legal,  
Secretary of the Board of Directors

GET member since: April 22, 2008

Joined the company: 1983

Education: LL.M., B.Sc. (Econ)

Primary working experience: Huhtamäki Oyj (1983–), several different roles, previous positions as Senior Vice President, Administration and General Counsel; Finnish Employers' Association (1979–1982), Legal Advisor; Attorney (1977–1979); several different positions in courts (1974–1977)

Key positions of trust: Member of the Finnish Takeover Panel

Shares on December 31, 2011: 35,000

Option rights on December 31, 2011: 2006 B 25,000,

2006 C 35,000

### **Ms. Sari Lindholm (1969)**

Senior Vice President, Human Resources

GET member since: September 22, 2011

Joined the company: 2003

Education: M.Pol.Sc

Primary working experience: Huhtamäki Oyj (2003–), several different roles, previous position as Group Vice President, Human Resources; Nokia Oyj (2000–2003), Senior Manager, Compensation & Benefits; Elcoteq Network Oyj (1995–2000), several different roles

Key positions of trust: –

Shares on December 31, 2011: 6,000

Option rights on December 31, 2011: 2006 B 10,000, 2006 C 12,000

### **Mr. Clay Dunn (1957)**

Executive Vice President, North America

GET member since: June 1, 2005

Joined the company: 2005

Education: BBA (Marketing and Management)

Primary working experience: Dow Chemical Company (1979–2005), several different roles, latest position as Vice President, Global Sourcing

Key positions of trust: –

Shares on December 31, 2011: 35,000

Option rights on December 31, 2011: 2006 B 41,703, 2006 C 50,000

### **Mr. Suresh Gupta (1952)**

Executive Vice President, Flexible Packaging

GET member since: January 1, 2009

Joined the company: 1999

Education: M.M.S. (Management)

Primary working experience: Huhtamäki Group (1999–), previous position as Senior Vice President, Flexibles and Films Asia-Oceania; The Paper Products Ltd. (1987–), Deputy Managing Director, Managing Director and CEO; Alman Group (1983–1987), Executive Director

Key positions of trust: Paper, Film & Foil Convertors Association, India, President

Shares on December 31, 2011: 30,000

Option rights on December 31, 2011: 2006 B 20,000

### **Mr. Olli Koponen (1959)**

Executive Vice President, Molded Fiber

GET member since: January 1, 2011

Joined the company: 1990

Education: M.Sc. (Eng., Automation & Information Technology), B.Sc. (Eng., Automation Technology)

Primary working experience: Huhtamäki Oyj (1990–), several different roles, previous positions as Senior Vice President, Molded Fiber Europe, General Manager positions in Hämeenlinna, Finland, Turkey, Hong Kong and Russia; Systecon Oy (1984–1990), several different roles, latest position as Product Manager

Key positions of trust: –

Shares on December 31, 2011: 15,000

Option rights on December 31, 2011: 2006 C 20,000

### **Mr. Eric Le Lay (1962)**

Executive Vice President,

Foodservice Europe-Asia-Oceania

GET member since: March 12, 2008

Joined the company: 2008

Education: MBA

Primary working experience: Amcor Limited (1997–2008), several different roles, latest position as Managing Director, Chilled Foods Europe; Amcor United Biscuits (1996–1997); Johnson & Johnson International S.A. (1994–1996); Kraft General Food France S.A. (1986–1994)

Key positions of trust: –

Shares on December 31, 2011: 30,000

Option rights on December 31, 2011: 2006 B 30,000, 2006 C 40,000

### **Mr. Peter Wahsner (1962)**

Executive Vice President, Films

GET member since: January 1, 2009

Joined the company: 2008

Education: M.Sc. (Business Management)

Primary working experience: Huhtamäki Group (2008–), previous position as Senior Vice President, Films Global; Chesapeake (2006–2007), Director, Pharmaceuticals & Healthcare Division; Huhtamäki Group (2004–2005), Division President, Molded Fiber Europe; Rexam PLC (2001–2004), Managing Director, Healthcare Flexibles Division, Europe & Asia

Key positions of trust: –

Shares on December 31, 2011: 31,500

Option rights on December 31, 2011: 2006 B 20,000, 2006 C 25,000

## **Internal control, internal audit and risk management systems**

### **Internal control**

Successful business requires continuous monitoring of the Group's operations. Internal control is an essential part of the corporate governance and management of the Group. The Board of Directors and the CEO are responsible for adequate internal control. The Audit Committee of the Board of Directors is monitoring the efficiency of the internal control systems and the correctness of the financial reporting.

Internal control is a process aiming at providing reasonable assurance on achievement of Group's strategic and financial objectives. The responsibility for arranging the internal control process and function belongs to the executive management of the Group and is being carried out by the whole organization. The aim of the internal control is to ensure reliability of financial reporting, effectiveness and efficiency of operations as well as compliance with laws and regulations.

Control of financial reporting assures that financial statements are prepared in a reliable manner. The aim is also to ensure that all financial reports published and other financial information disclosed by the Company provide a fair view on the Group's financial situation.

Control of operations is aiming to ensure effectiveness and efficiency of operations and achievement of the Group's strategic and financial objectives.

Compliance with applicable laws and regulations related controls ensures that the Group complies with applicable laws and regulations.

Foundation of all Group's activities lies with common values and principles providing discipline and structure for the operations formalized in guidelines on integrity, ethical behavior and management of personnel. Allocation of authorities and responsibilities as well as segregation of duties allow efficient and proper decision-making procedures.

Group policies, standards and guidelines are deployed in all segments and units. Policies, standards and guidelines on financial, human resources, environmental, legal and compliance as well as risk management related matters have been issued in the Group.

#### Reliability of financial reporting

The Group's finance function and the network of segment and unit controllers are supporting and coordinating the financial management and financial control of operations in the Group. The Group's financial reporting guidelines and standards are applicable throughout the financial reporting process of the Group. The interpretation and application of accounting standards are centralized in the Group finance function which maintains the financial reporting guidelines and standards and takes care of communicating such throughout the Group. The Group's finance function also supervises the compliance of such guidelines and standards. Supervision of reporting and budgeting processes is based on the Group's reporting standards which are determined and updated by the Group's finance function. The reporting standards are uniformly applied in the whole Group and a unified Group reporting system is used.

#### Effectiveness and efficiency of operations

Group's strategic direction, objectives and related actions are deployed and communicated throughout the Group. Annual targets and key performance indicators are agreed, approved and communicated as part of the annual planning process. Achievements are followed monthly and quarterly in business review meetings that are held with line management in all business units and segments.

Key operational performance indicators are monitored continuously. Key process controls aim at identifying risks and controlling deficiencies. Corrective actions are implemented and monitored by segment and unit management. These activities need to be in compliance with Group policies and standards. Internal controls related to quality, safety and environmental processes and procedures are audited internally and by external service providers.

The Group is applying Lean Six Sigma process in all segments to identify and implement continuous improvement projects.

#### Compliance with laws and regulations

Group-wide policies on corporate governance for subsidiaries, competition compliance, contracts and agreements, management of claims, disputes and proceedings as well as insider matters have been issued. Compliance with the policies is facilitated through communication, trainings and internal auditing.

#### Internal audit

The objective of the internal audit is to improve the effectiveness of supervising obligation of the Board of Directors. Internal audit aims at ensuring that the Group's operations are efficient, information is adequate and reliable and that set policies and procedures are properly followed by the organization.

The Group has an internal audit function and internal audits have been managed in the year 2011 in coordination with internal audit co-sourcing partner Deloitte & Touche Oy and its international network. Internal audits have been conducted on a monthly basis according to approved annual internal audit plan in various Group and segment level processes as well as in business units.

Group internal audit function evaluates independently and systematically Group's management and governance systems as well as the effectiveness, efficiency and appropriateness of the Group's business processes and risk management. The internal audit function provides in the internal audit reports development recommendations for the aforementioned systems and processes. Main purpose of these activities is to assure achievement of strategic and financial objectives of the Group.

The Audit Committee of the Board approves the annual internal audit plan. Audit engagements are included in the plan in accordance with the Group's strategic objectives, assessed risks and focus areas defined by the Board and the executive management of the Group. Audit engagements are selected according to a rotation principle. The internal audit function reports to the Audit Committee. Additionally, the CEO, the Chief Financial Officer and management of the segment and business unit where the audit has been conducted are informed of the results of the audit.

#### Risk management

Risk management is an essential part of the internal control system of the Group. The purpose of risk management is to ensure that the risks related to business objectives and operations are identified, managed and monitored. The risk management procedures are set forth in the risk management process description and instructions. The risk management process of the Group is based on Enterprise Risk Management (ERM) framework of Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Group's risk management focuses on risks relating to business opportunities and risks potentially jeopardizing achievement of Group objectives in the changing business environment. Risks are categorized as strategic, operational, financial and information risks.

The Huhtamäki Group Enterprise Risk Management (ERM) Policy defines the risk management guidelines for the Group. The risk management policy sets forth the risk management process and responsibilities as well as the risk categories that are used to categorize identified risks. Compliance with the risk management policy assures timely identification and recording of risks and the application of relevant risk management measures to address these risks.

The Audit Committee is monitoring the implementation of risk management activities, and it evaluates the adequacy and appropriateness of the process and activities. The Audit Committee reports regularly to the Board of Directors, which is responsible for reviewing the Group's strategic, operational, financial and information risks. The Board of Directors approves acceptable risk levels and the extent to which these risks have been properly identified, addressed and followed up.

The executive management of the Group is responsible for the adoption and deployment of the Group's internal control principles and procedures relating to risk management. The risk management process includes systematic identification and assessment of risks in each business segment and their business units as well as at Group level. Each of these defines risk mitigation measures that are needed to reach acceptable risk level. Risks are consolidated from the business unit level to the segment level and from the segment level to the Group level. At each level risk mitigation measures are defined in order to reach acceptable risk levels. Execution and supervision of these risk mitigation actions is a task of line management. Upper level line management always approves lower level risk mitigation measures and the risk level reached after implementation of such measures. Internal audit function monitors and reports achievement of these measures. The purpose is to verify that risk mitigation actions support achievement of Group's strategic and financial objectives.

The Group risk management function is organizing, instructing, supporting, supervising and monitoring risk management activities. The function also analyzes changes in impact, likelihood and level of control for each identified business risk. It reports annually results of the risk management process to the Audit Committee. The Group risk management function also prepares reports to the executive management of the Group and the Auditor.

Business unit, segment and Group level risk management process and activities are engaged with the Group's annual planning cycle. Risk management process may be commenced any time in the course of the financial year should a certain business area encounter essential strategic changes requiring initiation of the risk management process.

## **Audit**

The Company shall have one Auditor, which is an accounting firm approved by the Finnish Central Chamber of Commerce (APA). The AGM elects the Company's Auditor. The AGM 2011 elected the Authorized Public Accounting firm Ernst & Young Oy as the Auditor of the Company. Harri Pärssinen, APA, has acted as the auditor with principal responsibility. Each subsidiary is subject to local auditing under the local regulations, which is conducted by representatives of the Ernst & Young network in each country.

In 2011, total auditing costs of the Group amounted to EUR 1.2 million. The Ernst & Young network has also provided other consultancy worth EUR 0.5 million.