



2020

Corporate governance and remuneration statement



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Picture: IB Frej

Reliable services in challenging conditions

Arctia enables safe, smooth and environmentally friendly water transport. We produce added value for our customers by combining different services into comprehensive service concepts in an innovative way.

The Group has three business areas: icebreaking, fairway maintenance, and hydrographic surveying. The business areas include a huge amount of experience and expertise, e.g. in oil spill preparedness and response, hydraulic engineering, pipe and cable laying, towing tasks, and the manufacture of plastic spar buoys and other buoys.

Arctia Ltd is a limited company wholly owned by the State.

The annual report of the Arctia Group consists of the annual review, the corporate governance and remuneration statement, the report on corporate responsibility, and the financial statements. The reports are published as PDF documents online at www.arctia.fi/en

ANNUAL REVIEW



CORPORATE GOVERNANCE AND REMUNERATION STATEMENT



RESPONSIBILITY REPORT



FINANCIAL STATEMENTS



Corporate governance and control system





Corporate governance and control system

Arctia Ltd is a fully state-owned company, which is subject to strategic interests. Arctia safeguards winter navigation serving the transport needs of the Finnish trade and industry, and it provides hydrographic surveying services related to the contingency planning and preparedness of the Finnish Navy under all conditions.

The ownership steering of the Arctia Group is the responsibility of the Ownership Steering Department of the Prime Minister's Office. Provisions on the governance of state-owned companies are laid down in the State Shareholdings and Ownership Steering Act (1368/2007). According to the Government Decision-in-Principle of 8 April 2020, in the management of its corporate assets, the State pursues economic and social overall results that are as high as possible.

Arctia's governance is based on the Limited Liability Companies Act, the Articles of Association of the Group and the subsidiaries, the owner's governance guidelines, and on good and responsible governance in accordance with the company's Code of Conduct. Responsibility and the compliance with good governance principles support the company's long-term development of competitiveness and growth of shareholder value.

The company's line of business is the provision of icebreaking services and special services by multi-purpose vessels, as well as other operations serving the water transport, management and operation services in fairways and canals, services related to the prevention of environmental damage, water transport services, hydrographic surveying, hydraulic engineering, waterways property services, as well as expert services related to their design and implementation in Finland and overseas. In addition, the company also engages in vessel management and chartering in Finland and overseas.

The company is domiciled in Helsinki, and it also has more than 20 places of business on the coast and in inland waterways in Finland.





CORPORATE STRUCTURE

The parent company of the Arctia Group is Arctia Ltd, which owns 100 per cent of its subsidiaries *Arctia Icebreaking Ltd*, *Arctia Management Services Ltd* and *Meritaito Ltd*. Arctia Ltd owns 90 per cent of *Arctia Karhu Ltd*, with Kemin Satama Ltd being the other shareholder in the company with a 10 per cent share. *Arctia Offshore Ltd* and *Jm Voima Ltd*, which were part of the Group, merged with Arctia Icebreaking Ltd on 31 December 2020. Also *Arctia Icebreaking Investment Ltd* and *Arctia Offshore Investment Ltd* closed down during 2020.

The Group's operational activities are divided between the three subsidiaries. Meritaito Ltd produces fairway maintenance and hydrographic surveying services, Arctia Icebreaking Ltd provides icebreaking services in the Baltic Sea, and Arctia Karhu Ltd offers harbour icebreaking and towing services in the Baltic Sea.

GENERAL MEETING

The state as the owner of the company has the power to take decisions in the general meeting. The general meeting decides on matters pertaining to it by virtue of the Limited Liability Companies Act and the Articles of Association. The Chairperson and the other members of the Board of Directors are elected by the general meeting. In 2020, the annual general meeting was held on 23 March 2020.

ARCTIA'S BOARD OF DIRECTORS

The Board of Directors sees to the administration of the company and the appropriate organisation of its

operations. According to the Articles of Association, the Board of Directors consists of a minimum of three and a maximum of eight ordinary members. In 2020, the Board of Directors had six members. The Board of Directors constitutes a quorum when more than half of its members are present in the meeting.

The Board of Directors has rules of procedure that specify the duties of the Board in further detail. The rules of procedure are updated annually by the Board. The Board of Directors performs an annual self-evaluation of its work and develops its

activities according to the results of this evaluation. The Ownership Steering Department of the Prime Minister's Office coordinates Arctia's board selections in accordance with the effective ownership steering principles.

The Board of Directors has established a Remuneration and Nomination Committee to support its activities. The Committee's duties are specified in further detail in its rules of procedure, which are updated on an annual basis.

Arctia's Board of Directors convened 13 times in 2020.



Picture: Arctia



BOARD OF DIRECTORS 31.12.2020



Pirjo Kiiski

BBA, MBA, year of birth 1965
Member of the Board since 2018
Shareholder Saari Partners Ltd



Pertti Saarela

LL.M., year of birth 1957
Chairman of the Board
Member of the Board since 2017
CEO Fintraffic Raide Ltd



Sinikka Mustakari

M.Sc. (Econ.), year of birth 1979
Member of the Board since 2018
Ministerial Adviser
Prime Minister's Office



Mats Rosin

B.Sc., year of birth 1958
Deputy Chairman of the Board
Member of the Board since 2018
Managing Director
Suomen Lauttaliikenne Ltd



Hanna Masala

M.Sc. (Econ.), year of birth 1976
Member of the Board since 2017
Vice President, Finance and Strategy
Fortum City Solutions



Kari Savolainen

M.A., Year of birth: 1954
Member of the Board since 2018



ARCTIA GROUP'S MANAGEMENT TEAM 31.12.2020



Maunu Visuri

M.Sc. (Tech.), year of birth 1968
President and CEO
Member of the Management Team
since 2019



Hannu Ylärinne

Master Mariner, EMBA, year of birth 1972
Chief Operating Officer
Member of the Management Team
since 2019



Sari Kankkunen

M.Sc. (Econ.), year of birth 1968
Chief Financial Officer
Member of the Management Team
since 2019



Janne Laitinen

LL.M., year of birth 1974
Director of HR and Legal Affairs
Member of the Management Team
since 2020

CHIEF EXECUTIVE OFFICER

The Board of Directors appoints the Chief Executive Officer of Arctia and decides on the terms of his or her employment. The CEO manages the company's day-to-day administration in accordance with the instructions and orders of the Board of Directors and ensures that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The CEO is responsible for the achievement of the company's targets.

MANAGEMENT TEAM

The Management Team is tasked with the implementation of the company's operational activities in line with the strategy and policies specified by the Board of Directors and the steering of the Group's CEO. In addition to the CEO, the members of the Group's Management Team are the Chief Operating Officer, the Chief Financial Officer and the Senior Vice President, Human Resources and Legal Affairs. In addition to the above, the company's operational management team consists of the vice presidents, and the directors of technical services, security, sales and operational IT. The management teams normally have a meeting once a month.

INTERNAL CONTROL AND INTERNAL AUDIT

Internal control is part of the management and governance system with an objective of helping the company reach its goals. The task of internal control is to ensure at a sufficient level the efficiency and appropriateness of the company's operations,



the reliability of financial and other management information, sufficient management of operational risks, and the compliance with laws and regulations. Internal control is built of the procedures and solutions included in the company's processes, for example, policies and guidelines, approval authorisations, segregation of duties, and the controls included in systems and a functioning steering culture.

Arctia's top management is responsible for internal control. Internal control in the company is implemented by the entire organisation.

The efficiency and effectiveness of internal control are reviewed regularly through internal audits carried out by an external body, based on the review plan approved by the Board of Directors. In addition, the efficiency and effectiveness of internal control are reviewed in audits. The implementation of the review plan for internal audits, the key risks, and the progress of measures related to observations made in the audits are reported regularly to the Board of Directors.

RISK MANAGEMENT

Arctia's risk management is part of Arctia's management system and the daily activities and decision-making of the business units, vessels and support functions. Risk management is based on the risk management policy approved by the Board of Directors. Other policies approved by the Board of Directors cover Arctia's management of special risks, for example, in relation to financing and competencies. The Group's safety management systems for shipping operations (ISM) are an essential part of the Arctia Group's risk management and Arctia's

operational risk management. In addition, the occupational health and safety management system ISO 45001, the environmental system ISO 14001 and the quality management system ISO 9001, which all include risk management, apply to the diversified subsidiary Meritaito Ltd.

In accordance with the operating model for Arctia's risk management, business-related risks and their management measures are identified and assessed on a regular basis. A risk assessment is always carried out in terms of key projects, business reorganisations or operational changes.

Risks are identified and assessed in the business operations, on vessels and in support functions, and the related means of risk management are defined in an annual assessment of the effectiveness of risk management. This takes place in risk assessment meetings or in connection with processes related to business planning and management. The HSSEQ unit develops and assesses the Group's risk management and safety management system and promotes risk awareness within Arctia through training, guidance and communication about risk management.

The results of the risk assessments and the key risks, their likelihood and management measures are assessed regularly in the Management Team and reported to the Board of Directors.

AUDIT

According to the parent company's Articles of Association, the Annual General Meeting elects the auditor who must be a KHT auditor or an audit firm in accordance with the Auditing Act. The fee payable to the auditor is decided by the Annual General Meeting.

The auditor together with the company's management draws up an annual audit plan for group undertakings. The auditors issue an audit report on the financial statements.

In the Annual General Meeting of 2020, certified public accountants KPMG Oy Ab was reappointed as auditor of the Arctia Group, with Ari Eskelinen, KHT auditor, as the key audit partner.

In 2020, EUR 75,526 was paid to the audit firm for the Group's auditing. A total of EUR 73,955 was paid for tax advice and other services unrelated to auditing.

The audit report for the accounting period 1 January – 31 December 2020 covers the accounts, consolidated financial statements, annual report, management audit and the financial statements of the parent company Arctia Ltd. The audit report is presented in connection with the financial statements.

RELATED PARTY TRANSACTIONS

Arctia complies with the related party guidelines approved by the Group's Board of Directors. The purpose of the related party guidelines is to ensure that transactions are made independently and that they comply with the arm's length principle with respect to transactions that include parties belonging to the company's related party. The company assesses and monitors that implemented related party transactions are in the interests of the company and that any conflicts of interests are taken into account in an appropriate way when deciding on a related party transaction. The principles of the related party guidelines are complied with in the entire Arctia



Group and in decision-making concerning all group companies.

Arctia keeps an up-to-date register of related parties concerning significant related party transactions by the company and its related parties, the parties to the transactions, and their key terms. The information entered in the register is collected from the persons belonging to the related parties themselves each year. In addition, persons belonging to the company's related parties are obliged to report any related party transactions that are planned or that the persons have been made aware of to the company's directors of human resources and legal affairs after learning about the matter.

GOOD GOVERNANCE

Arctia complies with the national laws and provisions in its operations. In addition, Arctia complies with international laws and provisions in the extent that is required by the operations. International, applicable legislation includes, for example, the regulations issued by the multinational maritime regulation bodies (e.g., the International Maritime Organisation IMO and the International Association of Marine Aids to Navigation and Lighthouse Authorities IALA).

Good governance and Arctia's corporate responsibility are described in further detail in the report on corporate responsibility.

ARCTIA'S CODE OF CONDUCT

The Arctia Group's Code of Conduct was updated in autumn 2020 to cover the entire Group. The Code of Conduct directs the activities of Arctia and its every

employee, director, managing director and member of the Board of Directors. The Code of Conduct also concerns outside operators who are working for Arctia. Arctia's operations are based on responsibility and the compliance with laws and regulations. The company is committed to constant development of operations and to the promotion of ethical sustainable practices and solutions.

COMPLIANCE

Arctia is committed to operating in accordance with the requirements of Finnish and international authorities, multinational maritime regulation bodies (e.g. IMO) and those of the customers. In addition, operations are guided by the requirements of the internal management system. The policies, amendments and development of legislation having an impact on Arctia's operations are monitored in the operation of the Management Team and by the management of the business units. The members of the operational management team are responsible for their own part for monitoring the statutory requirements and other binding provisions and for achieving compliance.

Compliance with legislation and regulations is monitored by the effective management, managers, ships' masters and other supervisors. The auditors monitor the company's compliance with legislation related to financial administration, such as the Accounting Act and Ordinance and the Limited Liability Companies Act. The authorities audit Arctia as a shipping company each year. The audits also include Arctia's subsidiaries.

Legislation governing occupational health and safety, environmental and maritime activities in Finland and at the EU level has been collected at the Group level into an electronic legislation monitoring system for developing the assessment and monitoring of compliance.



Picture: Arctia, Samu Palanen

Remuneration principles and the remuneration statement





Remuneration principles and the remuneration statement

Remuneration in the Arctia Group is based on remuneration for increased profitability, long-term development of the company's value, and greater performance of tasks in compliance with the strategic interest. Remuneration must encourage to responsible operations, to the development of the company's business operations through digitalisation and new technology and to environmentally friendly methods of operation. Remuneration must be fair and proportionate to achieving the targets and the company's financial result. The set targets must be challenging, but attainable through good performance.

The strategic interests confirmed for the Arctia Group are to safeguard winter navigation that serves the transport needs of the Finnish trade and industry and to provide hydrographic surveying < The implementation of these strategic interests must be taken into account in remuneration.

In spring 2020, the Group's Remuneration and Nomination Committee prepared for the Board of Directors a model that consists of a short-term incentive system (STI, annual bonus system) for 2020 and a long-term incentive system (LTI) for years 2020–2022.

The Board of Directors approved the performance bonus systems and they were introduced for 2020. In the same context, the existing LTI programme of the Group's subsidiary Meritaito for years 2018–2020 was terminated without paying out any bonuses. The old programme covered 4 employees.

The performance bonus system applied to a total of 24 key personnel (management and experts) in 2020.

The guidelines in the *Government Resolution on State Ownership Policy* issued by the Finnish Government on 8 April 2020 are complied with in remuneration and the performance bonus system.

REMUNERATION OF THE BOARD OF DIRECTORS

Arctia's Annual General Meeting decides on the remuneration of the members of the Group's Board of Directors. No changes were made to the remuneration paid to the members of Arctia's Board of Directors during 2020. In 2020, Arctia paid a total of EUR 115,800 in remuneration to the Group's Board of Directors.

The remuneration paid to the members of Arctia's Board of Directors

	(EUR/month)
Chairman	1 400
Vice Chairman	950
Member	850
Fee paid for each meeting of the Board of Directors and committee	600

No other remuneration or benefits were paid to the members of the Board of Directors.



Picture: Arctia, Samu Palarén



REMUNERATION OF THE PRESIDENT AND CEO AND OTHER MANAGEMENT

The Nomination and Remuneration Committee assesses the amounts of salaries and remuneration of the President and CEO and their deputy and the members of the Group's Management Team reporting directly to the President and CEO and other members of the company management reporting directly to the President and CEO, including the performance bonus systems, and makes proposals concerning these to the Board of Directors, which decides on the remuneration of management.

The remuneration of the President and CEO of Arctia Ltd and the members of the Group's Management Team and operational management team is based on a fixed monthly salary and the short-term (STI) and long-term (LTI) incentive system. The company's management does not have other remuneration systems or discretionary pension arrangements in addition to the above. The company's key personnel are covered by the short-term incentive system (STI). Both the STI and the LTI systems are based on the policy of the state ownership steering unit. Remuneration paid out of STI and LTI during one tax year must not exceed 80 per cent of the person's fixed basic annual salary.

The criteria and targets, and the weight of entitlement periods in the STI and LTI systems are decided by Arctia's Board of Directors in accordance with the Group's goal-setting process. The STI criteria emphasise the indicators based on the Group-level strategy in relation to profitability, managed growth, added value produced for the customer, and corporate

responsibility. The STI system may include Group-level criteria, profit centre-level criteria and personal criteria.

The target of the long-term LTI programme is to safeguard long-term profitability and strengthen employee commitment through remuneration. Based on the long-term LTI programme created in 2020, the performance bonus can be paid for the first time in 2023.

Remuneration of the Group's President and CEO and other management totalled EUR 641,150.

REMUNERATION OF THE PRESIDENT AND CEO AND THE MANAGEMENT TEAM IN 2020

In 2020, the President and CEO was paid a fixed salary of EUR 239,649, and the fixed salaries of the rest of the Management Team (3 people) totalled EUR 401,501.

Due to the integration of the group companies, Arctia did not have valid performance bonus systems in 2019, and therefore no performance bonuses were paid to the President and CEO, other management or key personnel in 2020.

INFORMATION CONCERNING THE SERVICE RELATIONSHIP OF THE PRESIDENT AND CEO

In addition to the salary, the President and CEO has a telephone benefit. The retirement age of the President and CEO and the basis for determining the amount of pension are in accordance with the Employees Pensions Act.

The period of notice of the President and CEO is 6 months. In addition to the salary for the period of notice, the President and CEO is not paid any separate compensation.

REMUNERATION OF OTHER PERSONNEL

The Group does not use other performance-related pay or incentive systems for the employees.

The wages and salaries paid to Arctia's employees totalled EUR 26,071,900.

The principles of remuneration of Arctia's employees are based on an extensive collective agreement system. The remuneration of the Group's workers, salaried employees and senior salaried employees complies with the pay system of the collective agreement applied at any given time.

The employees' remuneration is developed as a whole in a fair direction that provides incentives for work and supports the company strategy in accordance with the principles of the remuneration system of each collective agreement.

Picture: Arctia, Kai Valtari





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