



Corporate governance and remuneration report 2022





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Annual Report for 2022

Arctia Group’s Annual Report 2022 comprises the report of the Board of Directors, corporate governance and remuneration report, sustainability report as well as financial statements. The reports are posted on the company’s website at www.arctia.fi/en.

ANNUAL REVIEW



CORPORATE GOVERNANCE AND REMUNERATION REPORT



SUSTAINABILITY REPORT



FINANCIAL STATEMENTS







Reliable service in challenging conditions

Arctia is tasked with facilitating safe, smooth and environmentally sustainable waterborne transport operations.

The Group's three lines of operation are icebreaking, fairway maintenance and hydrographic surveying. Aside from the wealth of experience and expertise in these core areas,

Arctia engages in oil spill response, hydraulic engineering, pipe and cable laying, towage as well as the manufacture of plastic buoys and spar buoys.

Arctia Ltd is 100 % state-owned.





Governance and management

Arctia Ltd is a wholly state-owned limited company of national strategic interest. Arctia ensures winter navigation to meet the sea transport needs of Finnish business and industry as well as providing the hydrographic surveying services necessary for maintaining naval preparedness under all circumstances.

Ownership steering in respect of the Arctia Group is exercised by the Ownership Steering Department of the Prime Minister's Office. Provisions on the corporate governance of state-owned companies are set out in the State Shareholdings and Ownership Steering Act (1368/2007). As stated in the Government Resolution of 8 April 2020, the State, in its capacity as an owner and shareholder, seeks to maximise the overall financial and social benefit in the management of its assets.

Arctia's corporate governance is based on the Limited Liability Companies Act, the Articles of Association of the parent company and its subsidiaries, the owner's corporate governance guidelines, company policies as well as sound and sustainable corporate governance in accordance with the company's Code of Conduct. Sustainability and sound corporate governance principles contribute to the company's long-term

development, competitiveness and shareholder value.

The company's field of activity comprises icebreaking services; provision of specialised services by multi-purpose vessels and other activities related to waterborne transports; management and operation of waterways and canals; services related to environmental damage prevention; waterborne transport services; hydrographic surveying; hydraulic engineering; real estate services for waterways; as well as expert services related to fairway design and construction in Finland and abroad. Additionally, the company is engaged in ship management and chartering activities inside and outside Finland.

Aside from the registered office in Helsinki, the company operates over 20 sites along the Finnish coast and inland.

CORPORATE STRUCTURE

Arctia Group's parent company is Arctia Ltd with its wholly owned subsidiaries Arctia Icebreaking Ltd, Arctia Management Services Ltd and Arctia Meritaito Ltd. Additionally, Arctia Ltd owns 90% of Arctia Karhu Oy, the other shareholder being Kemi Satama Oy with a 10% interest.

Actual operations are carried out by three

subsidiaries: Arctia Meritaito Ltd provides fairway management and hydrographic surveying services and Arctia Icebreaking Ltd ice-breaking services on the Baltic Sea, while Arctia Karhu Oy delivers port icebreaking and towage services on the Baltic Sea.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Finnish State exercises its decision-making

powers at the Annual General Meeting of Shareholders which addresses the matters that fall within its remit under the Limited Liability Companies Act and Articles of Association. The Chair and members of the Board of Directors are appointed by the Annual General Meeting of Shareholders. The 2022 AGM was held on 23 March 2022.





ARCTIA'S BOARD OF DIRECTORS ON 31 DEC 2022



Mats Rosin
Chairman of the Board
Managing Director, Suomen Lauttaliikenne Ltd
Member of the Board since 2018
Year of birth 1958
Education B.Sc.



Matti-Mikael Koskinen
Deputy Chairman of the Board
Managing Director, ESL Shipping Ltd
Member of the Board since 2022
Year of birth 1972
Education M.Sc. (Econ.)



Regina Sippel
Member of the Board
Chief Financial Officer, Veikkaus Ltd
Member of the Board since 2022
Year of birth 1979
Education M.Sc. (Econ.)



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



Pirjo Kiiski
Member of the Board
Shareholder, Saari Partners Ltd
Member of the Board since 2018
Year of birth 1965
Education BBA, MBA



Kari Savolainen
Member of the Board
Member of the Board since 2018
Year of birth 1954
Education M.A.

ARCTIA'S BOARD OF DIRECTORS

The Board of Directors is responsible for the administration of the company and its appropriate organisation. According to the Articles of Association, the Board of Directors shall include a minimum of three and maximum of eight standing members. In 2022, the Board of Directors had six members. A quorum is present at the meetings of the Board of Directors when more than half of its members are in attendance.

The Board has its own rules of procedure in which board duties are defined in greater detail. The rules of procedure are updated by the Board annually. Every year the Board carries out self-assessment of its own performance using the findings as a basis for further development. The Ownership Steering Department of the Prime Minister's Office coordinates Arctia's board appointments in accordance with the existing corporate governance guidelines.

To support its work, the Board has established a Remuneration and Nomination Committee and an Audit Committee. The duties of the committees are defined in more detail in their respective rules of procedure, which are updated annually.

In 2022, the Board of Directors convened eight times, the attendance rate being 100 %.

**ARCTIA GROUP'S EXECUTIVE MANAGEMENT TEAM ON 31 DEC 2022****Maunu Visuri**

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

**Sari Kankkunen,**

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

**Janne Laitinen**

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

**Tero Hänninen**

Technical Director
Member of the Management Team since 2021
Year of birth 1972
Education M.Sc. (Tech.)

CHIEF EXECUTIVE OFFICER

The Board of Directors appoints the CEO and approves his/her terms of employment. The Chief Executive Officer attends to the day-to-day administration of the company in accordance with the instructions and orders issued by the Board of Directors, and ensures that the company accounts are in compliance with the law and that the management of its assets is organised in a reliable manner. The CEO is responsible for ensuring that the company achieves its objectives.

EXECUTIVE MANAGEMENT TEAM

The Executive Management Team is tasked with implementing the company operations in accordance with the strategy and guidelines issued by the Board of Directors and Group CEO. The Executive Management Team includes the CEO, Technical Director, CFO, and the Director of HR and Legal Affairs. As a rule, the team convenes once a month.

**INTERNAL CONTROL AND
INTERNAL AUDIT**

Internal Control is part of the management and governance system, the aim of which is to help the company achieve its objectives. Internal Control is tasked with ensuring an adequate standard of efficiency and relevance in company operations; the reliability of financial and other

management information; the proper management of operational risks; and compliance with laws and regulations. Internal Control is based on the ways of working and solutions integrated into corporate processes, such as policies and guidelines, approval authorisations, segregation of duties, in-service controls and an effective governance culture.

Responsibility for internal controls rests with the executive management. Ultimately, internal control is exercised by the entire organisation.

The effectiveness of internal control is regularly reviewed by means of in-house audits carried out by a third party, based on an audit plan approved by the Board of Directors. Additionally, internal control performance is assessed in audits. The Audit Committee and the Board of Directors receive regular reports on the implementation of the internal audit plan and the most significant risks, as well as the progress of actions related to audit findings.

RISK MANAGEMENT

Risk management is an integral part of Arctia's management system, embracing the day-to-day operations and decision-making of the business units, vessels and support functions. Risk management is based on the risk management policy adopted by the Board of Directors. Other Board-approved policies address the management of



specific risks, such as those related to financing and the exercise of decision-making powers. An essential part of Arctia Group's overall risk management regime is the Safety Management Systems (ISM) of shipping operations, a key element in Arctia's operational risk management. Additionally, Arctia's diversified subsidiary Meritaito Ltd has in place an ISO 45001

occupational health and safety management system, an ISO 14001 environmental management system and an ISO 9001 quality management system.

The procedures for identifying and assessing business risks and the measures to manage these risks are incorporated into Arctia's risk management model. A risk assessment is always

carried out in respect of major projects and business or operational changes.

Business units, vessels and support functions identify and assess risks and determine the measures to address them as part of the annual evaluation of risk management performance. The actual evaluation is carried out by risk assessment meetings or in connection with the processes related to business planning and management. The HSSEQ unit develops and evaluates the Group's risk management performance and safety management system and seeks to raise risk awareness within Arctia by providing risk management training, guidance and information.

The findings of risk assessments and the principal risks, including probabilities and management measures, are regularly reviewed by the Executive Management Team and reported to the Board of Directors.

FINANCIAL AUDITING

Under the Articles of Association of the parent company, the Annual General Meeting of Shareholders appoints an Auditor, who must be a certified public accountant or an auditing firm within the meaning of the Auditing Act. The Auditor's fee is determined by the Annual General Meeting.

The Auditor prepares an annual audit plan covering all the Group companies in consultation with the executive management. The Auditors prepare a report on the financial statements.

Arctia's 2022 Annual General Meeting

re-elected KPMG Oy Ab as Arctia Group's auditors with Ari Eskelinen, CPA, serving as the auditor in charge.

In 2022, the auditing fees totalled EUR 60,680. The fees for tax consultation and other services unrelated to the financial audit amounted to EUR 41,787.

The auditors' report for the financial period 1 Jan–31 Dec 2022 covers the accounting, the consolidated financial statements, the report of the Board of Directors, the administrative audit and the financial statements of the parent company Arctia Ltd. The auditors' report is included in the financial statements.

RELATED PARTY TRANSACTIONS

Arctia complies with the related party policy approved by the Group's Board of Directors, the purpose of which is to ensure the independence and arm's length nature of transactions involving parties related to the company. The company evaluates and monitors related party transactions to ensure that they are in the best interest of the company as a whole and that any conflict of interest issues are duly considered when decisions are made on such transactions. The principles set out in the related party policy are followed throughout the Arctia Group and in all decision making affecting the member companies.

Arctia maintains an up-to-date insider register of significant related party transactions between the company and its related parties, including the parties involved in these transactions and





their key terms. The information to be entered in the register is reported annually by the related parties themselves. In addition, persons related to the company are required to report any planned or known related party transactions to the company's Human Resources and Legal Affairs Director immediately upon learning of the transaction.

CORPORATE GOVERNANCE

Arctia complies with national laws and regulations in its activities. Additionally, Arctia complies with international laws and regulations as applicable. Applicable international legislation includes regulations issued by supranational maritime regulatory bodies, such as the International Maritime Organisation (IMO) and the International Association of Marine Aids to Navigation and Lighthouse Authorities (IALA).

A more detailed description of Arctia's governance and sustainability is provided in the sustainability report.

ARCTIA'S CODE OF CONDUCT

Arctia's Code of Conduct governs the activities of the company and each employee, director, the CEO and every member of the Board of Directors. The principles also apply to external players working for Arctia's account. Sustainability and compliance with laws and regulations constitute the very basis of Arctia's operations. The company is committed to continuous improvement and the promotion of ethically sustainable practices and solutions.

REGULATORY COMPLIANCE

Arctia is committed to operating in compliance with domestic and international authorities, supranational maritime regulators (e.g. IMO) and customer requirements. Additionally, the activities are governed by the requirements imposed by the internal management system. The Executive Management Team and business unit directors monitor the legislative policies, amendments and developments affecting Arctia's operational planning.

Compliance with laws and regulations is overseen by the executive management, managers, ship masters and other supervisors. The Auditors monitor the company's compliance with financial management legislation, such as the Accounting Act and Decree, and the Limited Liability Companies Act. Arctia's operations as a shipping line are audited by the authorities annually. The audits also cover Arctia's subsidiaries.

Finnish and EU-level health and safety, environmental and maritime legislation has been incorporated into a Group-wide electronic regulatory tracking system to develop compliance assessment and monitoring.





Remuneration Report

In the Arctia Group, remuneration is based on incentive rewards for improved profitability, long-term increase in the company's value and improved performance of the tasks involving national strategic interests. Incentive remuneration is designed to promote sustainable activities and business development through digitalisation and new technology, as well as environmentally friendly practices. Remuneration must be fair in relation to the attainment of the objectives and the financial performance of the company. The objectives need to be ambitious, yet attainable

with reasonable efforts.

Arctia Group's 2020–2022 remuneration system consists of a short-term incentive plan (STI, annual bonus scheme) and long-term incentive plan (LTI). In 2022, the performance-related pay system included a total of 21 key persons (executives and specialists).

The strategic interests that Arctia Group is required to protect include the assurance of winter navigation capabilities in order to serve the needs of Finnish business and industry and the provision of hydrographic surveying services

necessary for the maintenance of naval preparedness under all conditions. Due consideration must be given for the protection of these strategic interests in determining remuneration levels.

Incentive rewards and performance-based remuneration is based on the guidelines set out in the Government Resolution of State Ownership Policy dated 8 April 2020.

COMPENSATION PAID TO BOARD MEMBERS

The compensation payable to board members is determined by the Annual General Meeting of Shareholders. No changes to board fees were made in 2022 when total compensation amounted to EUR 112,200.

In accordance with the decision of the 2022 Annual General Meeting, the members of Arctia's Board of Directors were paid the following fees:

- Chair EUR 1,400 per month
- Deputy Chair EUR 950 per month
- Member EUR 850 per month
- Meeting fee for each meeting of the Board or Committee EUR 600

The board members received no other fees or perquisites.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER AND OTHER EXECUTIVE MANAGEMENT

The Nomination and Remuneration Committee determines the remuneration payable to the Chief Executive Officer, Deputy Chief Executive Officer, the members of the Executive Management Team and other executives reporting directly to the CEO, including performance-related remuneration schemes, and submits proposals regarding such remuneration to the Board of Directors for final decision-making.

The remuneration paid to Arctia Ltd's CEO and members of the Executive Management Team is based on a fixed monthly salary as well as the short-term (STI) and long-term incentive (LTI) plans. Aside from the above-mentioned remuneration systems, no other incentive schemes or supplementary pension arrangements are in place for the executive management. Key individuals are covered by the short-term incentive (STI) plan. Both the STI and LTI plans are based on the policy adopted by the Ownership Steering Department. The fees paid under the STI and LTI plans may not exceed 80% of the recipient's fixed annual salary.

The criteria, objectives and relative weights associated with the accrual periods under the STI and LTI plans are determined by Arctia's





Board of Directors as part of the regular process for defining the objectives applied by the Group. The STI criteria place special emphasis on strategy-based indicators related to financial performance, managed growth, creation of value added for customers as well as corporate social responsibility. The STI criteria may include group-level, business-unit-level or personal criteria.

The long-term LTI plan is designed to ensure long-term profitability and to retain key personnel through incentive remuneration. The first payments under the LTI scheme established in 2020 are scheduled for 2023.

REMUNERATION OF THE CHIEF EXECUTIVE OFFICER AND EXECUTIVE MANAGEMENT TEAM

Salaries and fees paid to the Chief Executive Officer and Executive Management Team in 2022 totalled EUR 785,416.52. The CEO's fixed annual salary was EUR 239,412.00, while the aggregate salaries earned by the other members of the Executive Management Team totalled EUR 546,005.00. No incentive rewards were paid out based on performance in 2021. In 2023, the CEO will receive an incentive bonus of EUR 29,938.31 and the members of the Executive Management Team EUR 35,001.00 based on the performance put in in 2022. No performance bonus was paid for the LTI program based on the results of 2020–2022.

CHIEF EXECUTIVE OFFICER'S TERMS OF EMPLOYMENT

Aside from the salary, the CEO has a company phone. The CEO's retirement age and the criteria for the determination of the amount of pension are based on the TyEL Employees Pensions Act. The CEO's employment may be terminated subject to 6 month's mutual notice. Upon termination, the CEO will not receive any special compensation in addition to the regular salary payable for the notice period.

REMUNERATION OF KEY INDIVIDUALS

No incentive rewards were paid out to the key individuals based on performance in 2021. In 2023, their incentive bonuses will amount to EUR 104,043.77 based on the performance put in in 2022.

REMUNERATION OF OTHER PERSONNEL

The Group has no other performance-based remuneration or incentive schemes in place for its personnel.

Total salaries and fees paid to Arctia's personnel amounted to EUR 27,991,541.

Arctia's remuneration policy is based on a comprehensive set of collective agreements. The remuneration of the Group's employees, salaried employees and senior executives is determined in accordance with the applicable collective agreement.

Arctia's pay system is being developed as a whole in accordance with the principles set out in the applicable collective agreement in order to

ensure fairness, provide incentives and support corporate strategy.





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