



Biotie Therapies Corp.

Corporate Governance Statement 2013

CONTENTS

1. Corporate Governance Statement

2. Board of Directors

2.1. Board composition

2.2. The operation of the Board of Directors

2.3. Board committees

2.3.1. Audit Committee

2.3.2. Nomination and Remuneration Committee

3. Managing Director

3.1. The duties of the Managing Director

4. Management Team

5. Internal control and risk management in Biotie

5.1. Main features of the internal control and risk management systems pertaining to the financial reporting process

1. Corporate Governance Statement

Biotie Therapies Corp. (Biotie or the Company, or together with its subsidiaries the Group) complies with the Finnish Corporate Governance Code for listed companies issued by the Securities Market Association. Furthermore, Biotie's corporate governance is in line with the laws of Finland, the rules of NASDAQ OMX Helsinki Ltd and Biotie's Articles of Association.

Following an acquisition completed in February 2011, the Company departs from the recommendations of the Finnish Corporate Governance Code as follows:

- in deviation from recommendation 43 of the Code, Guido Magni, a member of the Board of Directors, holds options entitling him to shares in the Company. The options relate to Synosia Therapeutics Holding AG's (currently Biotie Therapies AG) option program and were granted prior to the acquisition of Synosia Therapeutics Holding AG by Biotie.

The Corporate Governance Statement of Biotie has been drawn up in accordance with the recommendation 54 of the Finnish Corporate Governance Code. The statement has been issued as a separate report and the Group's Audit Committee has reviewed the statement.

The statement is available on Biotie's website at www.biotie.com. The Finnish Corporate Governance Code itself is publicly available on the website of the Securities Market Association on the address www.cgfinland.fi.

PricewaterhouseCoopers Oy's role as the Company's statutory auditor is to review that this statement has been issued and that the description of the main features of the internal control and risk management systems in relation to the financial reporting process are consistent with the financial statements.

2. Board of Directors

2.1. Board composition

Under the Articles of Association, the Board of Directors consists of at least three (3) and at most ten (10) members. The members of the Board are

4.3.2014

elected by the Annual General Meeting of the shareholders and the term of office of the members of the Board of Directors expires at the end of the Annual General Meeting following their election.

Annual General Meeting 4 April 2013

The number of members of the Board of Directors was resolved to be six. Peter Fellner, William Burns, Merja Karhapää, Bernd Kastler, Ismail Kola and Guido Magni were elected as the members of the Board of Directors for a new term.

At the organization meeting of the new Board of Directors, which convened immediately after the Annual General Meeting, Peter Fellner was elected as the Chairman of the Board of Directors and William Burns as the Deputy Chairman.

Bernd Kastler was elected as the Chairman and Merja Karhapää and Guido Magni as the members of the Board's **Audit Committee** and, in addition, Peter Fellner was elected as the Chairman and William Burns and Ismail Kola as the members of the **Nomination and Remuneration Committee**.

The following table represents the persons who have served as Biotie's Board members in 2013:

| Name | Born | Education | Main occupation | Board member since | Independent from company | Independent from major shareholders |
|---|-------------|---|---|---------------------------|---------------------------------|--|
| Peter Fellner; Chairman of the Board from 15 April 2010 Board member from 29 October 2009 | 1943 | Ph.D. in molecular biology | Company Director | 2009 | X | X |
| William Burns Deputy Chairman from 29 March 2012 Board member from 7 February 2011 | 1947 | Bachelor of Art, Honours Degree | Member of the Board of Directors Roche, Shire PLC | 2011 | X | X |
| Merja Karhapää Board member from 15 April 2010 | 1962 | LL.M. (Helsinki University) and Postgraduate IPR Diploma (Bristol University) | Chief Legal Officer and Company Secretary Sanoma Corporation | 2010 | X | X |
| Bernd Kastler Board member from 14 November 2008 | 1949 | Doctorate in Law in 1980 from the University of Giessen (Germany) | Managing Director, Kastler GmbH | 2008 | X | X |
| Ismail Kola Board member from 7 February 2011 | 1957 | Doctor of Medicine | Executive Vice President of UCB Pharma and President of New Medicines TM UCB Pharma | 2011 | X | X |
| Guido Magni Board member from 7 February.2011 | 1953 | Doctor of Medicine, Doctor of Philosophy | Managing Director of Versant Euro Ventures | 2011 | X | X |

2.2. The operation of the Board of Directors

The duties of the Company's Board of Directors are set forth in the Companies Act and other applicable legislation. The Board of Directors is responsible for the management of the Company. Its responsibilities include, *inter alia*, to:

- decide on the strategy
- confirm the business plan and budget as well as financing transactions (as far as not falling into the responsibility of the shareholders)
- deliberate on and approve interim reports, the annual accounts and the Board's reports
- deliberate on and approve the corporate governance statement, as well as statements on remuneration, internal control policies and certain business principles
- decide on all mergers, acquisitions and divestments (as far as not falling into the responsibility of the shareholders)
- decide on major capital expenditures, entering into significant commitments or contracts, and on all other creations of significant actual or potential liabilities, such as loans, guarantees and mortgages
- confirm internal control and risk management systems and reporting procedures, as well as confirm the general operating principles and policies
- settling any material action, suit or proceeding to which the Company is a party
- decide on bonus and incentive schemes for the management and pension schemes for employees and management
- decide on the structure of the Group, organisation of the Company (as far as not falling into the responsibility of the shareholders)
- decide on any related party transactions and
- appoint the Managing Director and the other senior members of the executive management, as well as to decide on their perquisites.

The Board of Directors held 10 meetings during 2013. The average ratio of attendance at the meetings was 83%.

Biotie does not have a supervisory board.

In addition to its regulatory duties, the Board:

- completed the planned portfolio review and established the best way for Biotie to maximise value from its current products, which introduced an evolution of the strategy under which the Company will use its relatively strong financial position to seek additional pipeline opportunities, including those that it could potentially develop itself through to regulatory approval and beyond
- approved the purchase of the option to acquire Neurelis Inc and
- approved the recommendations received from the Audit Committee and the Nomination and Remuneration Committee, including the new and revised policies proposed by the Audit Committee.

Board member participation in 2013

| | <i>Participation in Board meetings (total number of meetings)</i> | <i>Board meeting attendance percentage</i> | Member of Audit Committee / participation in Audit Committee meetings (total number of meetings) | Member of Nomination and Remuneration Committee / participation in Nomination and Remuneration Committee meetings (total number of meetings) |
|---|---|--|---|---|
| Peter Fellner; Chairman of the Board | 10 (10) | 100% | | X(Chairman) / 3 (3) |
| William Burns | 8 (10) | 80% | | X / 3 (3) |
| Merja Karhapää | 10 (10) | 100% | X / 4 (4) | |
| Bernd Kastler | 10 (10) | 100% | X (Chairman) / 4 (4) | |
| Ismail Kola | 5 (10) | 50% | | X / 1 (3) |
| Guido Magni | 7 (10) | 70% | X / 3 (4) | |

2.3. Board committees

Biotie has two Board committees, the Audit Committee and the Nomination and Remuneration Committee.

2.3.1. Audit Committee

The Audit Committee has been established by the Board to ensure the overseeing of the accounting, auditing and financial reporting processes.

The Audit Committee consists of the Committee's Chairperson and at least two (2) additional members, who are all annually appointed after the Annual General Meeting by the Board among its members. The Committee members shall be independent of the Company and at least one member shall be independent of significant shareholders.

The Audit Committee shall:

- monitor the reporting process of financial statements
- supervise the financial reporting process
- monitor the efficiency of the Company's internal control and risk management systems
- initiate and oversee internal financial audits
- review the description of the main features of the internal control and risk management systems pertaining to the financial reporting process, which is included in the Company's corporate governance statement
- monitor the disclosure controls and procedures
- evaluate and monitor arrangements for the employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters ("whistle blowing") and respond to any requests by employees and third parties in relation to the Company's disclosure policy
- monitor the statutory audit of the financial statements and audit of consolidated financial statements
- evaluate the independence of the statutory auditor or audit firm, particularly the provision of related services to the Company to be audited and
- prepare the proposal for resolution on the election of the auditor.

In 2013, The Audit Committee held 4 meetings. The average ratio of attendance at the meetings was 92%.

The Audit Committee members in 2013 were Bernd Kastler (Chairman), Merja Karhapää and Guido Magni.

In addition to its regulatory duties, the Audit Committee also:

- discussed with the CEO, the CFO and the auditors significant accounting policies and the estimates and judgements that were applied in preparing the interim and year-end reports
- ran a tender process for the external auditing services, which resulted in a recommendation to the 2014 Annual General Meeting that PricewaterhouseCoopers Oy should continue as auditors
- reviewed the Group's financial policies and procedures, including recommendation to the Board for approval a revised delegation of the decision-making authority approval, a revised Whistle blowing policy and a new policy for the approval of non-audit services and
- further developed its working practices taking into account best practice guidelines.

2.3.2. Nomination and Remuneration Committee

The Nomination and Remuneration Committee has been established to ensure the efficient preparation of nomination and remuneration matters.

The Committee consists of the Committee's Chairperson and at least two (2) additional members who all are annually appointed after the Annual General Meeting by the Board among its members. The majority of the members of the Committee shall be independent of the Company. The Managing Director or other executives of the Company may not be appointed to the Committee.

When carrying out its duties, the Nomination and Remuneration Committee shall act independently. If the Committee uses an external advisor, the Committee must see to it that the advisor does not advise the human resources department or the operative management at the same time.

The Nomination and Remuneration Committee shall:

- prepare and present a recommendation to the Board for proposal to the Annual General

Meeting concerning the composition and compensation of the Board

- prepare for the Board the appointment of any executive directors or other senior members of the executive management. When considering the appointment of the other members of the executive management, the Managing Director of the Company shall participate to the handling of such matters
- prepare the framework for remuneration of the Company's Managing Director, the executive directors and such other members of the executive management as it is designated to consider. No Board member, director or manager shall be involved in any decisions as to their own remuneration
- assess the need for bonus or other incentive programs as well as to review design of and determine targets for any performance related compensation schemes
- prepare the policy for authorising claims for expenses from the Managing Director and Chairperson of the Board and
- prepare the annual self-evaluation, including its nature and manner, to be conducted in accordance with the rules and procedure of the Board of Directors.

In 2013, the Nomination and Remuneration Committee held 2 meetings. The average ratio of attendance at the meetings was 78%.

The Nomination and Remuneration Committee members in 2013 were Peter Fellner (Chairman), William Burns and Ismail Kola.

In addition to its regulatory duties, the Nomination and Remuneration Committee also:

- reviewed and prepared for approval new equity based long-term incentive programs for employees of the Company for the period 2014 to 2016 to replace the expiring 2011 to 2013 plans; these were subsequently approved on 2 January 2014 and
- reviewed and approved a revised short-term bonus scheme for all employees, including executive management.

3. Managing Director

The Managing Director is responsible for the day-to-day management of the Group in accordance with the instructions and guidance given by the Board of Directors and ensuring that the accounting practices of the Group comply with the law and that the financial management of the Group has been arranged in a reliable manner.

4.3.2014

3.1. The duties of the Managing Director

The Managing Director primarily presents the matters handled in Board meetings and is responsible for preparing draft resolutions. The Board of Directors elects the Managing Director and decides on the remuneration of the Managing Director and on other terms of the Managing Director's contract on the basis of the recommendations by the Nomination and Remuneration Committee of the Board. The terms of duty of the Managing Director have been agreed on in writing. The Managing Director is elected for an indefinite term until further notice.

Timo Veromaa (born 1960), M.D., Ph.D., special competence in pharmaceutical medicine, has been Biotie's President and CEO since 2005.

4. Management Team

Biotie has a Management Team, consisting of the President and CEO acting as the Chairman of the Management Team, the Chief Financial Officer, the Chief Operating Officer and the Chief Medical Officer.

On 2 January 2013 David Cook was appointed Chief Financial Officer (CFO) and member of the Management Team of Biotie, effective 25 February 2013. In addition to his CFO role David Cook is also be responsible for Biotie's business development activities.

On 31 August 2013 Ian Massey, the Company's Chief Operating Officer, left the Company. After the reporting period on 6 January 2014 Mehdi Paborji, Ph.D. was appointed Chief Operating Officer and a member of the Company's Management Team.

The Management Team handles the issues that concern managing to the Group, such as issues related to strategy, budget, interim reports and issues related to drug development programs.

5. Internal control and risk management in Biotie

Internal control is a process effected by the Board of Directors, management and all levels of personnel in the Group.

The aim of the internal control framework in Biotie is to ensure that:

- operations are managed effectively and efficiently, as well as being aligned with the Company's strategy
- financial reporting and management information are reliable, complete and timely and

- all Group companies are in compliance with all applicable laws and regulations.

Enterprise risk management in Biotie is a continuous process. It is integrated in the Group's strategy setting process, operative planning, daily decision making and monitoring of its operations. As such, it is also part of the Company's internal control environment.

Moreover, risk management is an integral part of the Group's management, monitoring and reporting systems. Regular reporting and monitoring is performed both at the Group and local company levels. The Board of Directors approves the risk management policy and objectives. It guides and monitors the planning and implementation of risk management.

The Group management holds the highest operational responsibility for the implementation of the risk management policy. The Group management is responsible for organisation and the planning, implementation, development, coordination and monitoring of risk management policies as approved and implemented by the Board of Directors.

5.1. Main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control and risk management systems in relation to the financial reporting process are a part of the Group's overall internal control and risk management framework. Systems are designed to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements in accordance with applicable laws and regulations, generally accepted accounting principles and other requirements concerning listed companies.

The Board of Directors is ultimately responsible for the appropriate arrangement of the control of the Company accounts and finances, whereas the Audit Committee's duties include the overseeing of the accounting and financial reporting process, monitoring the financial reporting (such as financial statements and interim reports), and review of internal control procedures. The Audit Committee is also responsible for the communication with the Company's auditors.

The Managing Director is responsible for the implementation of internal control and risk management processes and ensuring their operational effectiveness. The Managing Director is also responsible for ensuring that the Group's accounting practices comply with the law and that financial matters are handled in a reliable manner.

4.3.2014

The Group's management assigns responsibility for the establishment of more specific internal control policies and procedures to personnel responsible for the units' functions. Management and employees are assigned with appropriate levels of authority and responsibility to facilitate effective internal control over financial reporting.

Separate internal audit assignments may be initiated by the Board, Audit Committee or the Management as deemed necessary. The scope and frequency of separate audits depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to management and the Board of Directors.

Biotie applies IFRS standards to its consolidated financial statements and follows the standards and regulations set by NASDAQ OMX Helsinki Ltd and the Finnish Supervisory Authority. The Company's financial reporting complies with the Finnish Securities Markets Act and Companies Act. The financial statements of the parent company are prepared in accordance with the Finnish Accounting Act and opinions and ordinances of the Finnish Accounting Board.

Biotie has established objectives for reliable financial reporting in order to identify financial reporting risks. The Group has an integrated risk management process which is a part of the Group's management, monitoring and reporting systems. Regular reporting and monitoring is performed both at the Group and single Company level. The identification of risks and preparations for them is primarily carried out in the finance and administration unit.

Risk management procedures cover the identification and assessment of the risks that may arise in different levels of the financial reporting process. Risk identification and assessment is continual, meaning that the assessment is updated on a continuous basis through taking into account changes in the business environment and in the operation of the corporation.

The monitoring and follow-up of internal control systems is conducted to ensure that the financial information is reliable, complete and timely for the decision making and that internal control is operating efficiently.

Control activities are linked to risk assessment and specific actions are taken to address risks to the achievement of financial reporting objectives. The identified risks related to financial reporting are managed through control activities that are set throughout the organisation, at all levels and in all functions. In financial reporting, the Group

Finance assists the single companies in setting up adequate control activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, safeguarding of assets and segregation of duties. The Board of Directors is ultimately responsible for ensuring that external financial reporting is correct, timely and in compliance with applicable regulations.

In 2013, Biotie identified the key controls that aim to respond to the financial reporting risks identified in the risk assessment process. Through the control activities, a reasonable assurance can be reached to make sure that the financial reporting of the Group is accurate, timely and complete. The identified common controls are implemented at Group and unit level. The focus has also been on follow-up of the adequacy and effectiveness of control activities.

The local companies report the results on a monthly, quarterly and yearly basis to the Parent Company and it is responsible for preparing the consolidated financial statements and monitoring the performance of the Group at a consolidated level.

In Biotie, the monitoring has been embedded in the work performed by the Board of Directors, Managing Director and group management. The monitoring contains analysing the monthly, quarterly and annual performance of the Company at the various levels of the organisation as well as reviews and procedures.