

The Federation of Professional and Managerial Staff YTN

Managing Director Agreement Template





Managing Director Agreement Template

1. Parties

Company Ltd (Business ID)
Address
(hereinafter “Company”) and

Name of the Managing Director (personal ID)
(hereinafter “Managing Director”)

2. Background and purpose of the agreement

The purpose of this agreement is to agree upon the responsibilities of the Managing Director to act for the good of the Company, the remuneration provided to the Managing Director and other rights and obligations existing between the Company and the Managing Director.

3. Duties and responsibilities

Managing Director shall be responsible for the management and supervision of the Company’s business activities and day-to-day administration in accordance with the Limited Liability Companies Act and the guidelines laid down by the Board of Directors of the Company.

The Managing Director is allowed to take actions beyond the normal scope and quality of the Company’s activities only in accordance with the decisions of the Board of Directors of the Company. The allocation of duties of the Company’s Board of Directors and the duties of the Managing Director are detailed in a separate annex to this document [annex].

4. Term

The service based on this agreement shall enter into force on _____.

The contractual relationship is effective until further notice. [Alternatively: “The contractual relationship is effective for the duration _____.”]

5. Place of work

The primary place of work of the Managing Director is _____.

6. Working hours

Based on the duties and position, the Managing Director is not in the scope of the Working Hours Act.

The working hours of the Managing Director are approximately 8 hours per day and 40 hours per week.

7. Salary

The salary shall be EUR _____ per month and shall be paid by the _____ day of each month to a bank account specified by the Managing Director.

The salary of the Managing Director is reviewed annually in connection with the closing of the books at least with the same general increase that is applied to the senior salaried employees of the Company.

In addition, to the previously mentioned monetary salary the Managing Director is entitled to the following fringe benefits:

- Unlimited car benefit, the value of the purchase price max. _____ EUR
- Limited car benefit, the value of the purchase price max. _____ EUR
- Phone benefit
- Lunch benefit
- Housing benefit
- Other

8. Bonuses, performance bonuses etc.

The Managing Director shall be paid an annual bonus/performance bonus within one month of the date when the final accounts are approved by the General Meeting of Shareholders.

The bonus/performance bonus is determined as follows:

[Alternatively: “The determination of the bonus/performance bonus has been agreed upon with a separate attachment.”]

Upon termination of this agreement, regardless of the reason, the Company shall pay the Managing Director a share of the bonus/performance bonus corresponding to the number of full months that she/he has worked for the Company during the fiscal year concerned. The annual bonus/performance bonus shall be paid immediately after the final accounts have been adopted.

For other profit-based remuneration, the Company policy in place shall be applied.

9. Options

Options have been agreed on between the Company and the Managing Director as follows:

[Alternatively: “The determination of the options have been agreed upon with a separate attachment.”]

10. Pension benefits

In addition to the compulsory pension set forth in the Employees Pensions Act, the Company shall subscribe an individual supplementary pension insurance from the company _____ for the Managing Director.

The additional terms of the supplementary pension shall be agreed separately in writing between the pension insurance company, the Company and the Managing Director. In the end of the director agreement, the Managing Director will receive a so-called paid-up policy for the pension. The Company has no right to cancel or redeem the supplementary pension without the consent of the Managing Director.

At the beginning of the employment relationship the supplementary pension payment made by the employer is EUR _____.

11. Insurances

In addition to the normal accident insurance, the Company shall provide the Managing Director

leisure time accident insurance and travel insurance. The Company shall provide the Managing Director a life insurance policy of EUR _____ in accordance with the terms and conditions of such policy.

The Company shall undertake to acquire and maintain the Managing Director's liability insurance. The liability insurance also covers the actions of the Managing Director in the boards of companies controlled by the Company.

The terms of the above mentioned insurances shall be agreed separately in writing between the pension insurance company, the Company and the Managing Director.

12. Holiday Entitlement

The Managing Director shall be entitled to holiday in accordance with the Finnish Annual Holidays Act. In addition to the statutory holiday entitlement, the Managing Director shall be entitled to an additional paid holiday week per holiday credit year.,

For the first year of service, the Managing Director shall be provided _____ weekdays of paid summer holiday and _____ weekdays of paid winter holiday.

The Managing Director shall receive, in connection with the holiday pay, a holiday bonus that is 50% of the monetary value of the holiday pay. Holiday pay and holiday bonus are paid to the Managing Director also in such case the Managing Director is not able to keep the accrued and the agreed holiday days during the term of this agreement.

The Managing Director has the right to determine the timing of his/her holiday and freely divide the holiday as far as it does not cause any harm to Company's business.

13. Sick pay

If the Managing Director is absent from work due to illness or accident, he/she shall be entitled to same salary with fringe benefits as he/she would have received if he/she had been normally at work. The salary shall be paid per each illness or accident for the maximum duration of three months.

The Managing Director is entitled to occupational healthcare in accordance with the Company policy. In addition the Managing Director is entitled to:

14. Family Leave

Managing Director is entitled to family leaves in accordance with Chapter 4 of the Finnish Employment Contracts Act. Managing Director shall be paid full salary of three months for the duration of maternity leave or full salary of one month for paternity leave.

When an under 10-year-old child of the Managing Director or other under 10-year-old child living permanently in the same household suddenly falls ill, the Managing Director is provided necessary, short-term paid leave for up to four calendar days, in order to arrange child care or care for the child.

15. Travel

The Managing Director's expenses for travel and accommodation shall be paid according to vouchers submitted.

The Managing Director shall be entitled from both domestic and international travels the per diem and kilometer allowances in accordance with the tax-free maximum amounts established by the tax authorities.

16. Representation

The Managing Director shall be fully compensated for representation expenses. The following has been agreed on the representation expenses:

17. Confidentiality obligation

During the service, the Managing Director undertakes not to exploit, or disclose to any third parties, any business or trade secrets that are entrusted to the Managing Director by the Company or its subsidiaries or that otherwise may come to the Managing Director's knowledge.

Information published by the Company itself or otherwise being common knowledge are not to be considered business or trade secrets.

For the sake of clarity, it is noted that the previously mentioned confidentiality obligation does not prevent the Managing Director from utilising his/her education, experience or professional skills in the future or, after the termination of this agreement from being employed by another employer. The confidentiality obligation shall continue for _____ months after the end of this agreement.

18. Non-Competition

The Managing Director undertakes to refrain, for a period of _____ months following the termination of this agreement, from entering the employment of a competitor, from setting up a company to compete with the Company or from acquiring shares in a company that can, on the basis of the nature of its operations and business, be regarded as a competitor of the Company.

The business covered by this non-competition restriction is considered to be:

The non-competition restriction shall not be applied if the Company terminates the agreement.

Should the Managing Director breach the non-competition obligation agreed in this agreement, the Managing Director shall be liable to compensate the damage caused to the Company, up to a maximum of Managing Director's 6 month's salary.

19. Secondary Occupation

The Managing Director can continue holding current secondary occupations/positions of trust [list of positions].

Any new secondary occupations/positions of trust outside the Company shall require the consent of the Board of Directors or the Chairman of the Board of Directors.

20. Training

The Managing Director has the right to obtain necessary supplemental, further and re-training at the Company's expense.

21. Employee inventions/Copyright

Any inventions made by the Managing Director shall be subject to the provisions of the Finnish

Act on the Right in Employee Inventions. Any compensation payable for such inventions shall be agreed on a case-by-case basis.

Copyright to works that are protected by copyright and produced as a result of any works made by the Managing Director shall belong to the Managing Director. The Company shall have a right of exploitation to the aforementioned works for the duration of this agreement. The transfer of the right of exploitation of the copyright following the end of the contractual relationship shall be agreed separately by the Parties.

22. Termination of Managing Director Agreement

Both Parties (Company and Managing Director) shall have the right to terminate this agreement without a cause. The notice period for the Company shall be _____ months and for the Managing Director _____ month(s). The Managing Director shall not have working obligation during the notice period should the Company terminate this agreement. This agreement may only be cancelled on grounds specified in Chapter 8 Section 1 of the Employment Contracts Act.

23. Severance Pay

If this agreement is terminated by the Company, the Managing Director shall be paid _____ months' total salary in addition to his/her normal salary from the notice period. The severance pay and the salary from the notice period shall be paid to the Managing Director at latest at the end of the contractual relationship, unless otherwise agreed by the Parties.

In the event of death of the Managing Director, the salary from the notice period and/or the severance pay shall be paid to the estate of the Managing Director.

The Managing Director has the right to reschedule the payment date of the severance pay by informing the Company of the date rescheduling no later than _____ day(s) before the end of this agreement.

24. Settlement of Disputes

Any disputes arising out of this agreement, its provisions or termination thereof shall be

settled by negotiations of the Parties. As a last resource, disputes shall be settled by the court of jurisdiction.

25. Other provisions

Upon end of this agreement the Managing Director shall return to the Company all Company's property in his/her possession in return for an acknowledgement of receipt.

In connection with the end of this agreement the Managing Director has the right to receive a reference letter in accordance with Chapter 6 Section 7 of the Finnish Employment Contracts Act. In addition, in connection with the end of this agreement the Managing Director has the right to receive an appropriately filled certificate of pay in accordance with requirements of the Federation of Unemployment Funds in Finland.

To the extent the Parties have not agreed in this agreement on better terms, the following collective agreement shall be applied. This agreement revokes all the previous agreements made between the Parties which concern the service relationship of the Managing Director or the conditions thereof.

This agreement can be amended in writing only with the consent of both Parties.

26. Counterparts

This agreement has been drawn up as two identical copies, one for each Party.

Date and signatures

Date and place

Company Ltd

Managing Director

Instructions for application

1. Parties

THE PARTIES in the managing director/substitute of managing director agreement template are the company and the managing director. While the managing director serves in his/her own position, the Employment Contracts Act and the normal employment security is applied to the other executive employee who is a substitute of the managing director in addition to his/her other duties. The situation may change during the time in which the substitute of managing director serves in the place of and tends to the duties of the actual managing director.

The substitute of the managing director operates in place of the managing director while the latter is prevented from serving in the duties of the managing director.

Therefore, it is recommended to draw up a separate written annex in the current employment or director agreement of the person working as substitute of the managing director. The annex shall define the rights and obligations of the substitute of the managing director, which shall be applied for the duration that the person in question tends to the duties of the managing director.

Other directors

OTHER EMPLOYEES titled as directors are normal employees, and therefore the Finnish Employment Contracts Act and other provisions of employment legislation are applied to them. Clauses that contradict the mandatory labour legislation provisions cannot be effectively included in their employment agreements. (Please refer to the section Director Contracts of this manual.)

2. Background and purpose of the agreement

The Board of Directors of the Company is committed to the managing director agreement from the moment such agreement is approved in Company Board's meeting.

The main purpose of the managing director agreement template is, by way of agreement, to provide the managing director with the employment security that the legislation does not include. A good agreement secures the interests of the company and the managing director while also preventing disputes.

It is preferable to annex the managing director agreement to the Board meeting minutes and,

correspondingly, annex the Board meeting minutes to the managing director agreement.

3. Duties and responsibilities

THE RESPONSIBILITIES, rights and obligations of the managing director should be defined between the parties before concluding the managing director agreement. The premise for the duties of the managing director is that the managing director controls and supervises the business activities of the company and manages the day-to-day business of the company in accordance with the Limited Liability Companies Act and in line with the instructions given by the board of directors of the company. It is advisable to attach to the managing director agreement a detailed written description of duties and responsibilities of the Board of Directors and the Managing Director, indicating, among other things, the limitations of the authority of the Managing Director. Defining for example the situations when the Managing Director's decisions require a confirmation from the Board of Directors is sensible.

Considering the responsibility of the Managing Director, the Finnish Limited Liability Companies Act Chapter 6 Section 17 requires that the Managing Director provides the Board and Board Members with the information necessary to carry out the board duties.

In order to avoid the liability for damages in accordance with the Limited Liability Companies Act, the decisions of the Board of Directors should be carefully documented in meeting minutes or other documentation at the time of decision making (so-called Business Judgement Rule).

4. Duration of the agreement

The main rule is that the managing director agreements and employment agreements are in force until further notice. However, fixed-term managing director agreements do not have the same prerequisites as employment agreements.

Both parties are bound by the fixed-term agreement. Fixed-term agreements cannot be terminated with notice unless such a possibility has been expressly agreed upon. The Board of Directors has the right to relieve the managing director of their duties even though the salary payments continue until the end of the fixed-term agreement.

The agreement should include the date the managing director starts working in the position.

5. Place of work

DETERMINING THE place of work of the Managing Director is important especially for tax reasons.

6. Working hours

THE WORKING Hours Act excludes managing directors and other company executives in accordance with legislative drafts and the prevailing view adopted in legal praxis.

Even though the Working Hours Act is not applied to managing director, the average working hours of the managing director should be determined. Then the contractual obligations of the managing director and the time of attendance at the workplace can also be determined. By determining average working hours, the relationship between the available working hours and the managing director's monthly salary can be assessed.

7. Salary

MATTERS AFFECTING personal salary include, inter alia, experience, size and cost-effectiveness of the company, competition in the field and responsibility of the managing director position.

8. Bonuses, performance bonuses etc.

COMPENSATION AWARDED to the managing director may be based on the company's results, personal performance of the managing director or both.

A bonus, tantieme or other similar performance bonus that is often agreed upon to be awarded to the managing director should not be confused with the production bonuses and profits payable to all staff members but may be purely a personal bonus paid in addition to the above mentioned ways of compensation.

Usually the managing director's bonus is tied to fiscal profit or operating margin. For the benefit of the managing director it is essential to tie the bonus to a condition that is easily defined and calculated in order to avoid any disagreements in interpretation.

It is also important to adequately define the payment time of the bonus, especially in such cases when the rservice is terminated during fiscal year.

9. Options

EMPLOYEE STOCK option (an ESO scheme, an option based on an employment relationship) means the managing director's relationship-based right to receive or obtain shares or stakes in a pre-defined price below the market price (convertible bond,

bond with warrants, option right or other such agreement or other commitment).

When assessing the taxation of the options, the value of the benefit is the fair market value of the shares or stakes when the employee stock options are exercised, minus the price the taxpayer has paid for the shares or stakes and the employee stock options in total. The benefit is regarded as income for the tax year during which the stock options are exercised.

The right to participate in an ESO scheme is usually tied to an ongoing employment relationship (service relationship) and if the managing director relationship is terminated, the option rights that have not been exercised are lost. In some termination contracts it is agreed that the employee stock option is preserved even after the termination of the service or employment relationship.

10. Pension benefits

IN ADDITION to statutory pension, a managing director agreement often contains voluntary supplementary pensions with the aim of lowering the pension age or increasing the pension. The costs of the supplementary pension are borne by the employer. The supplementary pension is tailored to the needs of the company and the managing director by drawing up a contract between the insurance company, managing director and the company. The managing director shall also ensure that the employer is restricted from cancelling the supplementary pension (so-called agreement of irrevocability (transl. here)). To execute this, an agreement of irrevocability of the pension may be made with the employer.

A personal retirement pension provides a variety of options for flexible retirement: the position may be partly or completely given up before retirement age or the pension may be raised.

The duration of the supplementary pension can be defined as lifetime or a fixed time. The insurance is specific to the person insured, and pension is only paid to this person. In case of death of the insured before the start of the pension payment, the insurance-based pension shall not be paid. Complementing the voluntary supplementary pension with a life insurance or survivor's pension secures the situation in case of death of the insured.

The employer should be marked as the policy holder for taxation reasons, which means that the employer's power of decision regarding the use of the insurance has a wide scope. The managing

director's right to a paid-up policy should be explicitly guaranteed by way of managing director agreement or other agreement in cases where the service relationship ends before reaching retirement age. The paid-up policy means that the managing director is entitled to receive the accumulated insurance assets when eventually retiring even if the service relationship of managing director has ended before reaching retirement age.

If the company is the policy holder of the supplementary pension, managing director's pension income is subtracted from his/her unemployment benefit. If the managing director himself/herself is the policy holder of the supplementary pension, the pension does not reduce the unemployment benefit. The supplementary pension can often be postponed for example to start after a period of unemployment.

Because laws and their interpretations are subject to change, anyone receiving pension and planning retirement should take legislation into account, especially the Unemployment Security Act.

11. Insurances

MANAGING DIRECTOR contracts usually contain clauses on leisure time accident insurance and travel insurance. Often the individual pension insurance is accompanied with an individual life insurance.

The managing director is a key employee of the company. The company may suffer remarkable financial damage if a key employee is unable to perform his/her work duties because of illness or other reason. Companies may acquire various insurances as a part of their risk management measures.

The company should have a liability insurance covering the managing director's operations in order to control the liability of both the managing director and the company. This protects both the personal position of the managing director and the continued operations of the company.

12. Holiday Entitlement

ACCORDING TO the current practice, the Finnish Annual Holidays Act does not apply to the managing director. Therefore, the agreement should include a clause regarding the applicability of the Annual Holidays Act. Agreeing only upon the duration of annual holiday does not, for example, protect the right of the managing director to holiday compensation for the holiday entitlement days that are unused at the termination of the service relationship.

In case the contract states "the annual holiday is determined by the Annual Holidays Act", the right to holiday compensation is not necessarily in effect.

In addition to applying the Annual Holidays Act the contract must refer to the holiday benefits beyond the amount of days in the Annual Holidays Act. One week of additional annual holiday is often agreed for the managing director. The basis for it is usually the substantial workload and time-demanding nature of the position of managing director.

When the Annual Holidays Act applies, the maximum total annual holiday is 30 weekdays, of which a holiday of 24 weekdays shall be used in the time period from 2 May to 30 September. The remaining 6 workdays shall be used from 1 October to 30 April as so called winter holiday. Usually a fully paid holiday is agreed already on the first year of service, in other words, the managing director is allowed better holiday benefits than in the Annual Holidays Act.

Holiday bonus

THE AGREEMENT must include provisions on holiday bonus. The law does not contain provisions on holiday bonus. Instead holiday bonus is usually based on the provisions of collective agreements. With the term holiday bonus the agreement template refers to a compensation paid in connection with the holiday pay before the start of holiday or its part. Holiday bonus is usually not paid for the holiday compensation paid at the end of the service relationship, and therefore the holiday bonus paid with holiday compensation must be agreed upon separately.

13. Sick pay

THE MANAGING director is not entitled to sick pay of 1 + 9 days as regulated in the Employment Contracts Act or to a longer sick pay agreed upon in a collective agreement, and therefore compensation for sick days must be agreed upon separately. For example, a fixed right to 3–6 months of salary can be entered into the managing director's agreement. In case the managing director agreement does not include clauses for salary of sickness periods, the managing director is not entitled to the aforementioned benefit. Unless otherwise agreed, if the sick pay paid by the company is greater than the sickness allowance, the company will receive the daily allowances in accordance with the Health Insurance Act.

14. Family Leave

UNLESS OTHERWISE agreed, the managing director does not have a right to family leaves defined in the

Employment Contracts Act, such as maternity or paternity leave or a temporary child care leave.

The contract template includes a provision on applying the Chapter 4 of the Employment Contracts Act. The Chapter 4 of the Employment Contracts Act regulates maternity, special maternity, paternity and parental leave, partial parental leave, temporary parental leave, absence from work due to compelling family reasons or for taking care of a family member or someone close to the employee. The Act does not only regulate the option for these leaves but also the processes in connection with the absences mentioned in this section. These provisions also apply to the managing director according to the agreement entry. For example, the employer must be informed of maternity-, paternity-, parental- and child care leave at least two months prior to the beginning of the leave. Entitlement of the managing director to salary for the period of family leave or a part of it should be entered in the agreement.

15. Travel

Kilometer and per diem allowances are contractual agreements of the managing director and the company, and they are not payable by law. The Tax Administration decision only specifies the annual tax-exempt maximum amounts of per diem- and kilometer allowances. Practically companies agree to pay kilometer- and per diem allowance according to the tax-exempt maximum amounts specified in the Tax Administration guidelines.

If the position of the managing director requires more travel than normal, the managing director should consider how the agreement takes leisure travel into account and how the possible extra burden can be compensated.

16. Representation

According to the agreement template the representation expenses paid by the managing director shall be compensated to him/her. For example, agreeing on a certain amount of representation budget in cooperation with the Board of Directors is a good way to avoid disagreements.

17. Confidentiality obligation

INFORMATION SUBJECT to confidentiality shall be defined as carefully as possible, or at the minimum the issues outside of confidentiality should be determined. Confidentiality obligation shall not be extended to the professional skills or experience of the managing director. The duration of the confidentiality

obligation shall be defined, and the recommended duration is no more than two years from the end of the service relationship.

In comparison, the confidentiality requirement referred to in the Chapter 3 Section 4 of the Employment Contracts Act only pertains to the duration of the employment relationship. According to the Employment Contracts Act the employee may not, during the employment, disclose the business or trade secrets of the employer to others or use them to his/her own advantage. Disclosure and misuse of business or trade secrets is punishable by the Criminal Code of Finland.

Often the managing director agreement strives to confirm the managing director's confidentiality obligation as well even though the managing director is not bound by the Employment Contracts Act. However, the confidentiality obligation should also be limited to the duration of the contractual relationship of the managing director, and it is not advised to unnecessarily commit or have someone commit to a confidentiality obligation, at least for a long period of time after the end of the contractual relationship. A reasonable time is considered to vary between 6 to 24 months.

The confidentiality obligation can be included in the managing director agreement, for example, according to its specification in the Chapter 3 Section 4 of the Employment Contracts Act. The consequence of violating the confidentiality obligation may be compensation for damage or a contractual penalty specified separately. The contractual penalty is a matter of careful consideration, because contractual penalty does not require actual damage to be done. A breach of contract alone creates the obligation to pay.

It is advisable to agree upon a maximum compensation/penalty payment.

Some special issues

DISCLOSING A trade secret may be punishable under the Unfair Business Practices Act. This action may also be punishable by the Criminal Code.

Violation of business secrecy

CHAPTER 30 of the Criminal Code regulates violating business secrecy during a service relationship. In accordance with the legislation the managing director may be liable, on sentence, to a fine or imprisonment for up to two years in case she/he has, in order to obtain financial benefit for himself/herself or another, or to injure another, unlawfully

disclosed or utilised the business secret of another. Even though the legislation referred to primarily concern the duration of the service relationship, the managing director should act responsibly when starting a competing business or entering into a service relationship with a competitor. The managing director should take care not to operate in a competing manner, such as marketing, solicitation of customers or other activities while still under the managing director relationship. The Chapter 30 Section 5 of the Criminal Code of Finland refers to actions that are carried out within two years since a person's service relationship has ended. An attempt at violating a business secret is punishable.

18. Non-competition

The company may have an interest in restricting competing operations even after the termination of the managing director relationship. However, the agreement of non-competition shall not limit the director's operations in an unreasonable manner or with respect to time, content or region. The content of the agreement of non-competition shall always be detailed in the most careful manner. The agreement shall define the kind of operations that constitute competition, who are the competitors, what kind of geographical boundaries are observed etc. A non-compete agreement may be considered reasonable when it fulfills the following requirements:

- competing operations/competitors are defined in detail
- in case the managing director relationship is terminated due to reasons attributable to the company, the non-competition agreement is not applicable;
- the agreement's compensation to the managing director is adequate (for example, compensation may constitute of monthly salary multiplied with the duration of the agreement's time of obligation);
- the duration is of reasonable length. The recommended maximum duration based on the Employment Contracts Act is 6–12 months after the end of the working obligation.

A **CONTRACTUAL** penalty is often agreed upon in connection with non-compete restriction, non-solicitation obligation and confidentiality obligation in preparation of the managing director violating any of them. Demanding a contractual penalty does not

require the company to be able to indicate the amount of financial damage. It is preferable for the parties to agree on a liability for damages according to the Finnish Tort Liability Act, in which case the damage shall be compensated according to the damage caused and the company must first prove the damage caused. It is advisable to agree upon a maximum compensation on liability for damages.

If the parties agree on a contractual penalty, the agreement shall state that the amount of contract penalty is the compensation maximum and therefore the company may no longer claim further compensation under the Tort Liability Act. If the parties have not agreed on contractual penalty, the Tort Liability Act applies.

If the managing director's salary also consists of a variable remuneration (for example, performance bonuses), the contractual penalty is recommended to be tied to a fixed monthly salary.

It should be noted that the contractual relationship with the company is still valid during the notice period, even if there is no obligation to work. Similarly, as a principle, the contractual relationship and the aforementioned non-compete restrictions are in force during the annual holiday.

Regarding non-competition and confidentiality obligations it is advisable to read the guide Employment-related competing restrictions and confidentiality (original title "Työsuhteeseen liittyvät kilpailunrajoitukset ja salassapito") created by lawyers of The Finnish Federation of Professional and Managerial Staff (YTN).

19. Secondary occupations

THE PERMISSION granted for secondary occupations or permission for existing secondary occupations or positions of trust should be noted in the managing director agreement and minutes of the Board of Directors.

20. Training

THE MANAGING DIRECTOR agreement may include provisions on training arranged by the company. It can also detail, whether or not the managing director can participate in company-paid training not arranged by the company while receiving full salary.

If the Managing Director wishes to take part in training with unusually large scope, the participation should be agreed upon with the Board of Directors in writing before the start of the training.

21. Employee inventions/Copyright

IN LEGAL literature and opinions of the Finnish Employee Invention Committee, managing director is considered to be in the scope of the Act on the Right in Employee Inventions. (e.g. opinions 1/2001 and 5/1996 of the Employee Invention Committee). Since the opinions of the Employee Invention Committee state that the law is applied based on the tasks, authorities, share of ownership and power of decision of the managing director, to avoid any problems the managing director agreement should include clauses on applying the Act on the Right in Employee Inventions. (See also opinions 5/1998 and 2/2007.)

In most cases if the managing director creates a patentable invention while serving a company, the company is entitled to secure the rights related to the invention.

The specific rights of the company to each invention are specified in the Finnish Act on the Right in Employee Inventions.

The managing director shall inform the company of the employee invention and provide information about the invention's content that allows the company to understand it. If the company wishes to secure the rights to the invention the managing director must be notified of this within four months of the inventor's original notification of invention. If the company secures a right to the invention made by the managing director, the managing director is entitled to a reasonable compensation. In case of a dispute about the invention being an employee invention or the value of the invention the parties may refer the matter to the Employee Invention Committee or to court with jurisdiction.

The managing director agreement may detail the grounds of compensations for inventions. The lawful procedures of notifying the inventor, payment of compensation and applying for patent should be carefully established after or during the making process of an employee invention.

If the company has a policy on inventions, it should be agreed that such policy is applied in addition to the Act on the Right in Employee Inventions.

Copyright

ORIGINALLY THE right to a work lies with its author. As a rule, the employer is entitled to obtain a right of exploitation to an employee-made invention that falls within the scope of the employer's usual industry. Any extensive transfer of copyright to

the employer has to be evaluated case by case. The evaluation considers the meaning of the employment relationship and nature of the work duties, regular use of the work in the employer's field and common practice in the field.

The prerequisite for applying regulations and principles of employment relationship copyright legislation is that a work is created under employment relationship. In principle, the regulations do not apply to the managing director, who is not in an employment relationship. Thus, the managing director is in possession of all copyrights and user rights of his/her work. In this regard, this practice differs from the definition of employment relationship of the Act on the Right in Employee Inventions. In case creating a certain work is explicitly a part of the duties of the managing director, employee invention copyright regulation may apply (see Supreme Court precedent KKO:1996:43).

22. Termination of Managing Director Agreement

Dismissal of managing director agreement

SINCE THE Employment Contracts Act is not applicable to the managing director of a limited liability company, the company does not need any grounds as laid down in the Employment Contracts Act to dismiss the managing director. However, the agreement may contain dismissal grounds that bind the company, such as "Dismissal of the contract shall have a particularly weighty reason in accordance with the Employment Contracts Act" or "A substantial change in the operational conditions or ownership of the company" or "A substantial diminishing or termination of the operation of the company".

The period of notice can be agreed upon freely. In this agreement template the notice periods are left to be agreed by the parties. It is quite usual that the notice period of the company and the managing director differ from each other. In most cases when employment is terminated by the company, the notice period is six months, while when the managing director gives his/her notice, the notice period is three months.

Cancellation of managing director agreement

A violation of agreement may, in some cases, create grounds for cancelling the agreement (see also Employment Contracts Act Chapter 8 Section 1). These situations are assessed by the usual contractual principles and considered to be exceptional. It

can, however, be agreed that if a company commits a substantial breach of contract, the severance pay shall still be payable to the managing director.

Other situations

MANAGING DIRECTOR contract may be drawn up as fixed-term agreement. A fixed-term managing director agreement can be terminated during the contract period only if such possibility has been explicitly agreed upon. If one party commits a substantial breach of the managing director agreement, even a fixed-term managing director agreement may be cancelled on normal contractual grounds.

If the company is declared bankrupt, the estate shall operate as contract party in the company's stead for the duration of the bankruptcy. The estate is responsible, inter alia, for paying salaries during the bankruptcy process. In this situation the status as the managing director as laid down in the Limited Liability Companies Act ceases to exist and thus, the contractual relationship of the managing director automatically ends without a notice period.

However, the Insurance Court has in its practice evaluated that the managing director is not eligible for unemployment benefits for the duration of notice period that is agreed upon in the director agreement even if the managing director does not receive salary or other remuneration for the period in question.

The contract ceases to be in effect when the managing director retires. Should the managing director die, the agreement ceases to be in effect at the moment of death.

Nevertheless, the parties may have agreed in the managing director contract of the obligations of the company in case of death of the managing director, such as payment of salary for the notice period to the managing director's estate.

23. Severance Pay

USUALLY MANAGING director agreements state that the company commits to pay the managing director a severance pay of a certain amount in money in addition to the salary of the notice period for the purpose of ending the agreement. The amount of severance pay can be agreed upon freely. Usually it varies between six months of salary and three years of salary.

In case the salary of the managing director contains variable remuneration, and severance pay refers to the salary received by the managing

director during the contract period, it is advisable to agree that the variable remuneration is taken into account when defining severance pay. It is advisable to see the Supreme Court precedent KKO:2006:42 which considers the income accrued from an ESO scheme as salary in connection with assigning a compensation for wrongful dismissal of the employment relationship of the employment contract.

If the managing director dies, the company may agree to pay the estate a sum corresponding to the notice period salary including possible benefits, tantiemes etc. In case the managing director also leaves behind a widow and/or underage children, the company may agree by way of contract to pay them a sum corresponding to severance pay in addition to the salary of the notice period.

For taxation reasons it might be necessary or beneficial to the managing director to postpone the payment of the severance pay until next tax year, and thus, it might be good that the agreement enables it.

Impact on unemployment security

UNEMPLOYMENT SECURITY should be cleared up before terminating the managing director agreement. In case the managing director terminates the agreement without a cause or the managing director's actions are the grounds for terminating the agreement, a three month suspension period may be imposed on the managing director before he/she is entitled to the unemployment allowance. Because of the aforementioned, managing director agreements should always include a minimum of three months of severance pay. Interpretations may vary depending on TE-office and the details of each case..

According to Finnish Unemployment Security Act, managing director is not entitled to unemployment allowance during the time he/she receives severance pay.

Nevertheless, it is important to register to the TE-office on the first day of unemployment after termination of the service relationship in order to secure the unemployment allowance.

24. Settlement of Disputes

THE MAIN route of settling disputes should be by negotiations between the managing director and company.

The lawyers of your trade union will help you in the negotiations.

If dispute cannot be settled by negotiations, the managing director may refer the matter to court of jurisdiction.

In most such situations the legal expenses insurance of the union is available to the member. However, the law proceedings should not be initiated before negotiations with the union lawyer.

The best solution for the managing director is to agree that any eventual disputes about the interpretation of the managing director agreement or its termination are solved in the court with jurisdiction.

However, if disagreements are going to be settled by way of arbitration proceeding, the chosen method shall be a one-man arbitration process, and that the company shall pay the costs incurred by the arbitration. As a rule, the possibly considerable expenses of the arbitrator are not covered by unions' legal expenses insurance.

It should be noted that the decision of the arbitration is not subject to appeal.

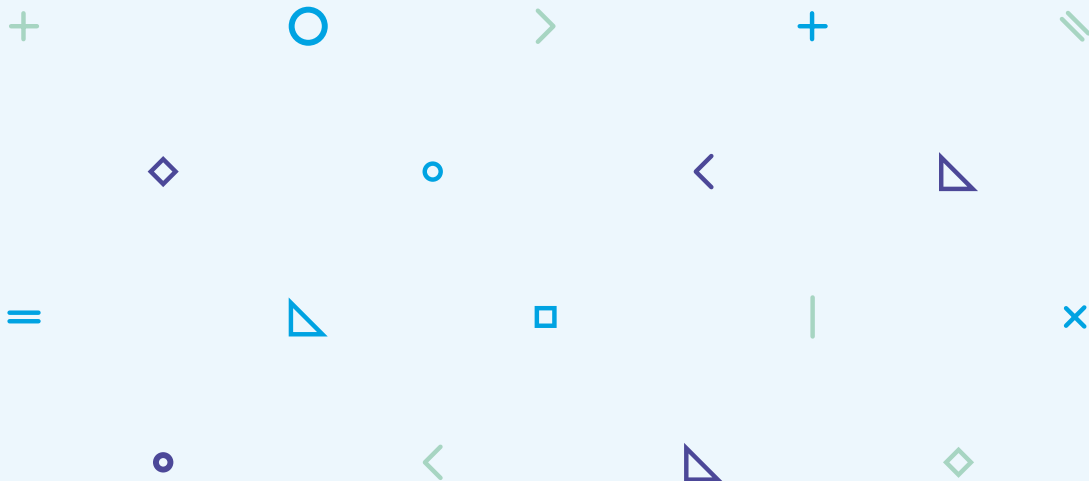
25. Other provisions

The section "Other provisions" includes practical provisions which are advised to be left unchanged.

If the managing director is subject to the terms of some collective agreement, the name of such collective agreement should write into the managing director agreement.

26. Counterparts

THE MANAGING director agreement should include the place and date of its conclusion with the signatures of the parties. Both parties should have their own copies of the agreement.







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