

**Caverion**

# Caverion Corporation's Corporate Governance Statement 2016

Public

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## 1 Introduction

This Caverion Corporation's Corporate Governance Statement ("the Statement") has been prepared pursuant to the Securities Market Act (chapter 7, 7 §), the decree (1020/2012 as amended) of the Ministry of Finance and recommendations of the Finnish Corporate Governance Code 2015 as an independent document from the Report of the Board of Directors. This statement is published on Caverion Corporation's website [http://www.caverion.com/investors/Corporate\\_Governance](http://www.caverion.com/investors/Corporate_Governance).

The administration of Caverion Corporation complies with legislation, the company's Articles of Association and the rules and regulations of bodies that regulate and supervise the operations of Finnish listed companies. Unless otherwise stated hereinafter Caverion Corporation has complied during the year 2016 with the recommendations of the Finnish Corporate Governance Code 2015 issued by the Securities Market Association. The Code took effect on January 1, 2016 and is publicly available on the website [www.cgfinland.fi/en](http://www.cgfinland.fi/en).

The Audit Committee of the Board of Directors considered the Statement in its meeting on 6 February 2017 and on the same day the Board of Directors reviewed and approved it.

Caverion Corporation's statutory auditor, PricewaterhouseCoopers Oy, has checked that this Statement has been issued and that the description of internal control and main features of risk management systems included in this Statement are consistent with the company's Financial Statements.

## 2 Descriptions concerning Corporate Governance

### General Meeting

Caverion Corporation's highest decision-making body is the General Meeting of the Shareholders. The matters to be considered at the General Meeting are determined in the Articles of Association and the Finnish Limited Liability Companies Act.

The Annual General Meeting makes decisions on adopting the financial statements, the payment of dividends, discharging the members of the Board of Directors and the President and CEO from liability, the election of the members of the Board of Directors, Chairman and Vice-Chairman and auditor and their remuneration and other matters presented to and requiring resolutions by the Annual General Meeting under the Limited Liability Companies Act.

The General Meeting is convened at least once a year. According to the Articles of Association of Caverion Corporation the Annual General Meeting shall be held annually by the end of March and it is convened by the Board of Directors.

### Board of Directors

According to the Articles of Association of Caverion Corporation, the Board of Directors consists of the Chairman, Vice Chairman and three to five (3–5) members elected by the General Meeting of Shareholders.

According to the Companies Act, the Board of Directors is responsible for overseeing that the management and operations, and the supervision of accounting and financial matters of the company are appropriately organised. The Board of Directors has adopted for itself a charter, which was updated along with Board Committee charters in July 2016. In addition to regulative tasks the charter describes Board's other key activities and duties. These include i.a. the approval of company's strategic goals and the principles of risk management and governance. The board also monitors the management system and ensures its appropriate functionality.

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The Board of Directors convenes approximately once a month according to a pre-determined schedule, or whenever it deems it necessary. The Board of Directors assesses its work annually.

The term of office of the members of the Board of Directors is the time period between the end of the General Meeting in which the member is elected and the end of the next Annual General Meeting.

The Board approved diversity principles in its meeting in March 2016. The Board applies the following principles when identifying and suggesting candidates to be elected as members of the Board:

1. consider candidates who are highly qualified based on their international business experience, leadership, functional expertise, cultural understanding and personal skills and qualities;
2. consider board composition that supports Caverion Group's business now and in the future; consider diversity criteria including gender, age, ethnicity, experience, education and geographic background aiming at the increased diversity of thinking; and
3. in addition to its own search, when needed, engage qualified independent external advisors to conduct a search for candidates that meet the board's skills and diversity criteria to help achieve its diversity aspirations.

The Board aspires towards board composition in which each gender comprises at least one-third of the independent Board members.

## **Board members and meetings in 2016**

The members of Caverion Corporation's Board of Directors during the financial year that ended 31 December 2016, were:

**Ari Lehtoranta** (Chairman), born 1963, M.Sc. (Eng.), President and CEO of Nokian Tyres Plc;

**Michael Rosenlew** (Vice Chairman), born 1959, M.Sc. (Econ);

**Markus Ehrnrooth**, born 1985, M.Sc. (Tech), B.Sc. Political Science (Econ);

**Anna Hyvönen**, born 1968, Tech. Lic., Managing Director, Vianor Holding Oy;

**Eva Lindqvist**, born 1958, M.Sc. (Eng.) and

**Ari Puheloinen**, born 1951, General Staff Officer.

The proposal of the candidates to be elected to the Board of Director's was prepared by the Human Resources Committee. As the diversity principles were confirmed only after the members of the board were elected, the principles did not yet formally apply. However, the aspiration of each gender's proportion in the Board was met even during 2016.

Ari Lehtoranta resigned from the membership of the Board of Directors as of 15 November 2016. Vice Chairman Michael Rosenlew chaired the board as from Ari Lehtoranta's resignation. Otherwise the composition of the Board remained unchanged during 2016.

According to the Board of Director's assessment of independency all members were considered as independent of Caverion Corporation and, excluding Markus Ehrnrooth, also of its major

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shareholders. The independency assessment outcome regarding Markus Ehrnrooth was based on overall consideration.

As of December 31, 2016 Eva Lindqvist held 1,500 shares and a related party to Michael Rosenlew held 45,200 shares in Caverion Corporation. Other members of the board did not have share ownership in Caverion Corporation as of December 31, 2016.

The Board of Directors convened eighteen (18) times in 2016. The secretary to the Board was the Corporate General Counsel.

In addition to its regulatory tasks the focus areas of the Board's work in 2016 included the nomination of new president and CEO of Caverion Group, close monitoring and enhancement of occupational safety procedures, project business development, review of project write-downs, working capital management and enhancement and monitoring of compliance in Caverion Group. The Board also reviewed the business and the development of Division Sweden and Germany as well as executed reorganizations in the Group Management Board.

## **Committees to the Board of Directors**

In accordance with its charter, the Board of Directors established two committees in its meeting on 21 March 2016, the Audit Committee and the Human Resources Committee.

### *Audit Committee in 2016*

The Audit Committee assists the Board of Directors of Caverion Corporation in its oversight responsibilities related to the Group's financial reporting process, internal control system and risk management of the Caverion Group as well as external auditing and internal audit activity in accordance with its charter and the Finnish Corporate Governance Code. The Charter of the committee was updated in June 2016.

According to its charter the Audit Committee consists of three to five (3-5) members. The Board appoints annually the Chairman and the members. The committee convenes at least four times per calendar year as stated in its charter.

The members of the Audit Committee of Caverion Corporation during the entire year 2016 were Michael Rosenlew (Chairman), Markus Ehrnrooth and Eva Lindqvist. The secretary to the committee was Chief Financial Officer of Caverion Group.

The Audit Committee convened four times during 2016 and it considered, besides reviewing financial statements and interim reports, internal audit matters, Group's financing and working capital management, legal disputes and issues related to risk management, status and development of compliance in Caverion Group and external auditor's reports on various matters.

### *Human Resources Committee in 2016*

Instead of a separate Remuneration Committee and Nomination Committee as mentioned in Recommendations 17 and 18a, respectively, of the Finnish Corporate Governance Code, Caverion Corporation shall have a Human Resources Committee. The Human Resources Committee at Caverion carries out the duties set in the above mentioned Recommendations. The Human Resources Committee assists the Board of Directors in developing and monitoring effective remuneration principles that are line with the value creation for shareholders and with the overall external remuneration market. Committee makes proposals to the Board on compensation and incentive systems for key personnel and evaluates the appropriate performance management,

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succession planning and talent development processes and programs. Furthermore the tasks of the Human Resources Committee include preparing and proposing to the Board the appointments of the President & CEO and the members of the Group Management Board, and the terms and conditions of their employment, and monitoring and evaluating their performance. Finally the Committee helps the Board in preparing a proposal for the appointment of Board members and their remunerations to be presented to the annual general meeting.

The committee consists of three to five (3 - 5) members. The Board of Directors decides on the number of committee members and appoints the Chairman and the members annually.

The members of Caverion Corporation's Human Resources Committee during the period starting January 1, 2016 and ending November 15, 2016 were Ari Lehtoranta (Chairman), Anna Hyvönen and Ari Puheloinen. Because of Ari Lehtoranta's resignation from the membership of the Board of Directors, the Board elected Michael Rosenlew to chair the Human Resources Committee as of November 15, 2016. The secretary to the committee was the Group Senior Vice President, Human Resources and People.

The Human Resources Committee convened in 2016 three times and it focused in its work to support the Board of Director's in seeking of a new President and CEO as well as CFO for the Group, remuneration of top management and development of short and long term incentive plans. In the beginning of 2016 the Committee conducted preparation work for the suggestion of candidates to be proposed for Annual General Meeting as members of the Board of Directors as well as their remuneration.

#### *Attendance of the Board members in the meetings held 2016*

	<b>Board of Directors</b>	<b>Audit Committee</b>	<b>Human Resources Committee</b>
Ari Lehtoranta	15/15	-	3/3
Michael Rosenlew	18/18	4/4	-
Markus Ehrnrooth	17/18	4/4	-
Anna Hyvönen	16/17	-	3/3
Eva Lindqvist	17/18	4/4	-
Ari Puheloinen	16/18	-	3/3
Average meeting attendance rate, %	95	100	100

#### **President and CEO**

The President and CEO is in charge of the day-to-day management of the company in accordance with the instructions laid down by the Board of Directors. He also ensures that the company's accounting practices comply with the law and that financial matters are handled in a reliable manner. The President and CEO chairs the Group Management Board and acts as a primary presenter of matters considered in the meetings of the Board of Directors.

The Board of Directors decides upon the President and CEO's remuneration and other terms of employment.

The President and CEO of Caverion Corporation until May 16, 2016 was Fredrik Strand (born 1964), Regiment S1 Enköping (Sweden), Military Officer (Schools and Service), 1984–1989.

The Board of Directors nominated Sakari Toikkanen, born 1967, Lic. (Tech.), as an interim President and CEO in its meeting held on May 16, 2016. Sakari Toikkanen held 23,382 shares in Caverion as of December 31, 2016.

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In its meeting on September 26, 2016 the Board of Directors nominated Ari Lehtoranta (born 1963, M.Sc. (Eng)) as the President and CEO of Caverion Corporation. The nomination was decided to take effect as of January 1, 2017. Both Ari Lehtoranta and Anna Hyvönen disqualified themselves from participating in the nomination of Mr. Lehtoranta. Ari Lehtoranta and persons closely associated to him held 553,323 Caverion Corporation's shares as of December 31, 2016.

## Other Executives

The President and CEO and other members appointed by the Board of Directors constitute Caverion Group's Management Board. In its operational tasks the Management Board assists the President and CEO with operational planning and management and prepares also matters which are to be processed by the Board of Directors. Among other duties, the Management Board prepares the Group's strategic and annual planning, monitors and supervises the implementation of plans and financial reporting and prepares major investments and acquisitions. Development of cooperation within the Group functions and promoting common development projects are also among the Management Board's key duties.

Group Management Board meets on a regular basis, approximately once a month. The President and CEO is responsible for the decisions made by the Management Board, whereas the Management Board members implement the decisions in their own areas of responsibility.

Management Board consisted during 2016 of the following executives in addition to the President and CEO:

Carina Qvarngård <sup>1</sup>	Born 1959, M.Sc. (Eng), Senior Vice President, Group Business Development & Marketing
Matti Malmberg	Born 1960, M.Sc. (Eng.), Senior Vice President, Group Delivery & Operations Development
Antti Heinola <sup>2</sup>	Born 1973, M.Sc. (Econ.), eMBA, CFO, Finance and Governance
Martti Ala-Härkönen <sup>3</sup>	Born 1965, Dr. Sc. (Econ.), Lic. Sc. (Tech.), CFO, Finance & Governance
Sakari Toikkanen <sup>4</sup>	Born 1967, Lic. (Tech.), Senior Vice President, Group Strategy & Development
Merja Eskola	Born 1961, MBA (E-business), BBA (Foreign Trade), Senior Vice President, Human Resources
Thomas Lundin <sup>5</sup>	s. 1960, Stockholm School of Economics, International Executive Program IHM Business School in Sweden, Business Administration and Economics, Swedish National Police Academy, Law Enforcement, Political Science and General Law, Executive Vice President & CEO, Division Sweden
Klas Tocklin <sup>6</sup>	Born 1963, B. Sc (Eng), Executive Vice President & CEO, Division Sweden

<sup>1</sup> Until June 14, 2016

<sup>2</sup> Until September 19, 2016

<sup>3</sup> As of September 19, 2016

<sup>4</sup> Until March 1, 2016 and as of May 17, 2016 as interim President and CEO

<sup>5</sup> Until August 10, 2016

<sup>6</sup> As of August 10, 2016

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Knut Gaaserud	Born 1967, M.Sc. (Technology), Executive Vice President & CEO, Division Norway
Werner Kühn	Born 1959, Post Graduate Degree in Business Informatics, Executive Vice President & CEO, Division Germany
Jarno Hacklin	Born 1978, Engineer, Executive Vice President & CEO, Division Finland
Manfred Simmet	Born 1966, Engineer, Senior Vice President & CEO, Division Austria
Juhani Pitkäkoski	Born 1958, LL.M., Executive Vice President & CEO, Division Industrial Solutions
Niclas Sacklén	Born 1969, Bachelor of Science (Eng.), MBA, Group Senior Vice President and CEO of Division Eastern Europe

Management Board members' share ownership in Caverion Corporation 31 December 2016:

Martti Ala-Härkönen	15,000
Merja Eskola	1,500
Knut Gaaserud	506
Jarno Hacklin	6,586
Werner Kühn	38,500
Matti Malmberg	3,804
Juhani Pitkäkoski	53,100
Niclas Sacklén	0
Manfred Simmet	2,377
Klas Tocklin	771

### 3 Descriptions of internal control procedures and the main features of risk management systems

#### Internal Control

Under the supervision of Audit Committee and guidance by the President and CEO, Caverion Group's Finance and Governance function defines and communicates the principles related to financial reporting, maintains the common tools for accounting and reporting and prepares the financial information to be disclosed. The financial management of subsidiaries is responsible for ensuring that subsidiary reporting is carried out in accordance with the Group's policies, guidelines and instructions and applicable law.

The main internal control procedures at Caverion Group include, with reference to financial reporting, the Code of Conduct, the decision authorisation rules, the Group's Accounting Manual and the Treasury Policy. The control processes are based on common chart of accounts, common accounting tool (SAP) and appropriately automated interfaces between different systems in the monthly reporting process. An essential process of internal control is the quarterly held follow-up meetings during which Group management reviews every division's financial position and business outlook in detail. Financial planning and reporting covers annual budgeting and quarterly business reviews by Group management including a review of the forecast. Treasury operations, IT operations and mergers and acquisitions (M&A), as an example, are centralised functions in the Group.



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Any person employed by Caverion is supposed to abide legislation as well as Caverion's policies and guidelines (like the Code of Conduct). Every person who notices breaches with this respect is encouraged to report them by contacting his/her line manager or using a specific e-mail account. Caverion also maintains a web-based whistle blowing system through which individuals can also anonymously report on observed breaches or misconduct. The Group's compliance and ethics team supervises and monitors the investigation process.

## **Risk Management**

Risk management is an integral part of the Group's management, supervision and reporting systems. Risk management covers the identification and assessment of risks as well as contingency planning for all significant risks. During 2016 the following principles of Caverion's Risk Management policy were observed:

1) A Group-wide strategic risk assessment is carried out annually. As a result of the assessment, the most important risks are handled in Caverion's Board of Directors and in the Group Management Board. The division level risks are reported as part of the normal monitoring of financial performance. The risks related to the financial reporting process are identified and assessed annually.

The Board of Directors guides and supervises the planning and implementation of risk management. The Audit Committee assists the Board in the supervision of the reporting and accounting processes of the Group, including internal control, risk management and internal audit.

The President and CEO has the overall responsibility for risk management. Group Finance and Governance function organises and plans, develops, coordinates and supervises the risk management as well as its implementation and communication in the entire Group.

2) Divisional management identifies, assesses and monitors the most significant risks in their own fields of business and draws up plans on how to prepare for such risks. In addition, division management is in charge of the implementation and supervision of risk management in their area of responsibility and it reports on risk management to the President and CEO.

3) The Group's financial management is in charge of the identification and assessment of financial risks and reporting to the Group management.

## **4 Other information**

### **Internal Audit**

The Group Internal Audit reported functionally to the Audit Committee of the Board of Directors and administratively to the Group CFO. The purpose, authority and responsibility of the Group Internal Audit is defined in a charter approved by the Board. The Audit Committee confirms the internal audit plan periodically. The Group Internal Audit assesses the adequacy and efficiency of risk management, internal control systems and governance. In addition, Group Internal Audit promotes developments in those areas. The scope of the Group Internal Audit covers all organisational levels and businesses.

In 2016, the Group's internal audit work focused on assessing the following matters: the Group's variable pay principles and process including short-term incentives and the Group's execute projects process. The review of both processes led to a number of recommendations and actions to be implemented by different members of the Group Management Board. Implementation of the

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actions started in 2016 and will continue during 2017. The Group used also external services in its internal audit work during 2016.

## **Related Party Transactions**

The Board of Directors has adopted a policy to be followed in evaluating and monitoring transactions eventually concluded between the company and its related parties. The policy aims to ensure that any conflicts of interest are taken into account appropriately in the decision-making process of the company. The company keeps a list of parties that are related to the company. During 2016 no related party transactions were concluded between the Caverion Group entities and related parties with reference to the recommendation 28 of the Finnish Corporate Governance Code.

## **Main procedures relating to insider administration**

In 2016, Caverion Group's Finance and Governance function was responsible for managing insider matters within the Group. During 2016 Corporate General Counsel was appointed as a person responsible for keeping of insider registers and lists, training and advising in insider matters and organising internal monitoring of Caverion Corporation's securities eventually traded by insiders. Insider management monitors regularly that insiders have not traded on the company's securities during restricted periods. Caverion Corporation's Board of Directors adopted up-dated Insider Guidelines in August 2016. Guidelines are published on the company's website.

## **Auditor**

The Annual General Meeting elected on 21 March 2016 PricewaterhouseCoopers Oy, Authorised Public Accountants, as the auditor of the company. The auditor with the main responsibility is Heikki Lassila, Authorised Public Accountant.

During 2016 Caverion has paid EUR 0,7 million for audit services and EUR 0,4 million for non-audit services to PricewaterhouseCoopers -companies.

## **The Report of the Board of Directors**

The Board of Directors' Report for the year 2016 was approved by the Board in its meeting on February 6, 2017. The Board of Directors' Report, the Corporate Governance Statement and the Remuneration Statement will be published on the company's website [www.caverion.com/investors](http://www.caverion.com/investors) during week 8 of 2017 at the latest.