

# CORPORATE GOVERNANCE STATEMENT 2018 (CG STATEMENT)

## Introduction

SRV Group Plc (hereinafter SRV or the Company) adheres to the Finnish Corporate Governance Code for listed companies, as approved by the Securities Market Association. This Corporate Governance Statement (CG Statement) has been drafted in accordance with the Corporate Governance Code that entered into force on 1 January 2016. The Company has also published a separate salary and remuneration report in accordance with the Corporate Governance Code. The Corporate Governance Code is available in its entirety at the Internet site of the Securities Market Association, [www.cgfinland.fi](http://www.cgfinland.fi).

This statement is published separately from the Report of the Board of Directors. The CG Statement has been reviewed by the Audit Committee and approved by the Board of Directors. The Company's auditor has verified that this statement has been issued and that the description of the main features of the internal control and risk management systems associated with the financial reporting process of the Company is consistent with the financial statements.

In its corporate governance and decision-making, the Company complies with the Finnish Companies Act, regulations concerning listed companies, SRV's Articles of Association, the standing orders of SRV's Board of Directors and its committees, and the rules and guidelines of Nasdaq Helsinki Oy.

## Descriptions concerning Corporate Governance

### Administrative structure

The administration, management and supervision of SRV are divided between the General Meeting of Shareholders, the Board of Directors, and the President & CEO. An internal auditing unit reporting to the Board of Directors is responsible for internal auditing, and external auditing is carried out by auditors. The President & CEO attends to line operations with the assistance of the Corporate Executive Team.

### General Meeting

The General Meeting of Shareholders is SRV's highest decision-making body. The Annual General Meeting is held once a year by the

end of June on a date determined by the Board of Directors. The AGM makes decisions on matters such as the election and remuneration of Board members, the Chair of the Board, the auditor and deputy auditor; the adoption of the financial statements and consolidated financial statements; the release of Board members and the President & CEO from liability; and the disposal of profits as shown in the balance sheet. In addition, the General Meeting can deal with other matters specified in the Companies Act as being the business of General Meetings and matters included on the agenda by shareholders as set out in the Companies Act. An Extraordinary General Meeting shall be held when the Board of Directors deems it necessary or when required by law.

The President & CEO, the Chair of the Board and the members of the Board of Directors are present at General Meetings in order to ensure dialogue between shareholders and the Company's administrative bodies, and so that shareholders can exercise their right to request information. Anyone nominated for the Board of Directors must be present at the General Meeting that will decide on their election.

Each SRV share confers its holder the right to one vote at a General Meeting. The Company's 2018 Annual General Meeting (AGM) was held on 20 March 2018. A total of 61 shareholders attended the meeting, representing about 60 per cent of the Company's shares and votes. The minutes of the AGM are available on the [Company's website](#).

## Board of Directors

### Election and composition of the Board of Directors

SRV's Board of Directors comprises five to eight members who are elected by the General Meeting. The General Meeting elects one of the Board members as its Chair. The Board of Directors' HR and Nomination Committee prepares a proposal to the General Meeting on the number of Board members to be elected, the candidates, and the Chair. The Board of Directors elects the Vice Chair from amongst its number. The term of office for Board members begins at the General Meeting at which they are elected and ends at the close of the next Annual General Meeting.



The following six members were elected to the Board of Directors at the 2018 AGM:

Name	Year of birth	Education	Main occupation
<b>Ilpo Kokkila (Chair)</b>	1947	MSc. (Tech.)	Pontos Oy, Chair of the Board
<b>Olli-Pekka Kallasvuo (Vice Chair)</b>	1953	Master of Laws, LL.D.h.c.	Investor
<b>Minna Alitalo</b>	1962	MSc. (Econ.)	Alko Oy, Executive Vice President, Purchasing and Logistics
<b>Juhani Elomaa</b>	1960	MSc. (Pol.), eMBA	Taaleri Plc, CEO and partner
<b>Juhani Hintikka</b>	1966	MSc. (Tech.)	LEE Capital, Chair of the Board
<b>Timo Kokkila</b>	1979	MSc. (Tech.)	Pontos Group, CEO

The General Meeting elected **Ilpo Kokkila** as Chair of the Board. The Board chose **Olli-Pekka Kallasvuo** as Vice Chair from among its members.

#### Independence of Board members

The Board of Directors conducts an annual assessment of the independence of its members. Each Board member submits sufficient information for this purpose and also self-evaluates their independence. The Board of Directors then evaluates the independence of its members and announces which of its members have been deemed to be independent of the Company and of its major shareholders.

The Board of Directors has evaluated that, of the members, **Minna Alitalo, Juhani Elomaa, Juhani Hintikka** and **Olli-Pekka Kallasvuo** are independent of both the Company and its major shareholders. **Ilpo Kokkila** and **Timo Kokkila** are major shareholders and are not independent of the Company.

#### Shareholdings of the Board of Directors, 31 Dec 2018.

Name	Holding, 31 Dec. 2018
<b>Ilpo Kokkila</b> Share ownership in a company under his control (Kolpi Investments Oy)	- 11,505,457
<b>Olli-Pekka Kallasvuo</b>	133,332
<b>Minna Alitalo</b>	-
<b>Juhani Elomaa</b>	10,000
<b>Juhani Hintikka</b>	-
<b>Timo Kokkila</b>	7,617,216

Shareholdings include the shares owned by the Board member and any shares owned by a company under their control. Board members do not own shares in any other company that is part of the same group as SRV.

Information on the remuneration of Board members is disclosed in a separate **salary and remuneration report** published at the same time as this statement.

#### Tasks and standing order of the Board of Directors

The Board of Directors has prepared written standing orders for its activities, specifying the key tasks and operating principles of the Board and its Chair. The Chair of the Board ensures and supervises that the Board efficiently and appropriately discharges the tasks set for it in legislation, the Articles of Association, and its rules of procedure.

The Board's task is to lead and supervise the Company's operations in accordance with the Companies Act, SRV's Articles of Association, and any other applicable legislation and regulations. The Board of Directors decides on matters of principle and far-reaching significance to the Group, including:

- approving and overseeing the Group's strategy;
- approving and overseeing the annual budget and action plan;
- approving and overseeing the principles for risk management and internal control;
- the most important business matters (such as acquisitions

and significant contract agreements, investments and divestments);

- appointing the President & CEO and other members of the Corporate Executive Team, and approving the terms and conditions of their service contracts and remuneration schemes; and
- approving remuneration schemes for other personnel.

The standing orders of the Board of Directors are available in their entirety on the Company's website.

#### Meetings of the Board of Directors

The Board of Directors meets regularly according to a preset schedule, and also when necessary. The Board of Directors is quorate when more than half of its members are present and one of them is the chair or the vice chair. The CEO and General Counsel, who serves as the secretary of the Board, participate in Board meetings. Other members of the Corporate Executive Team participate in Board meetings by invitation of the Board. The Board of Directors conducts an annual assessment of its activities and working procedures, and develops its activities based on the results.

The Board of Directors convened 19 times in 2018. Members had an average attendance rate of 97 per cent at Board meetings. The attendance record of Board members is as follows:

Nimi	Participation (%)	Present at
<b>Ilpo Kokkila (Chair)</b>	100	19/19
<b>Olli-Pekka Kallasvuo (Vice Chair)</b>	100	19/19
<b>Minna Alitalo</b>	100	19/19
<b>Juhani Elomaa</b>	89	17/19
<b>Juhani Hintikka</b>	95	18/19
<b>Timo Kokkila</b>	100	19/19

### Diversity of the Board of Directors

The Company has drafted diversity principles for the Board of Directors. The Board of Directors' HR & Nomination Committee prepares a proposal to the General Meeting on the number of Board members to be elected, the candidates, and their remuneration. The committee must take the diversity requirement into consideration when preparing this proposal. In its preparatory work, the committee must evaluate the requirements set for the qualifications of Board members in light of the company's situation. It must also assess how sufficiently diverse the Board is in terms of members' age and gender distribution, and other factors such as their experience, knowledge of the company's business functions, and education. Board members must have sufficient competence and the ability to devote enough time to Board work, considering the current and planned needs of the Company. There must be an adequate number of Board members.

Members must have a range of different areas of expertise that support the achievement of the Company's current strategic objectives. In addition to expertise in the field of industry, these areas of expertise include finance and funding, digitality, business management, strategy development and management, and international business operations. Board members must have sufficient education that supports the Company's operations and achievement of objectives. In future, the Company will seek to ensure a more gender-balanced Board, not only through the competences required from Board members, but also in the preparation of the Board candidate proposal.

The Company has met the requirements set for diversity in the composition of the Board of Directors. All Board members have a higher-education degree and are serving or have served in corporate managerial or Board positions in different fields of business. The Board has professional expertise in construction, property investments and digital data. In 2018, the ages of the Board members ranged from 39 to 71. Both genders are represented on the Board, with five men and one woman. No progress has yet been made in balancing gender representation on the Board.

### Board Committees

#### General

The Board of Directors has established two committees: an Audit Committee and an HR and Nomination Committee. The committees operate in accordance with the standing orders approved by the Board of Directors, and report to the Board. The committees do not have independent power of decision. Their task is to enhance the effectiveness of the Board of Directors by preparing matters for decision by the Board and the General Meeting.

#### Audit Committee

The Audit Committee assists the Board of Directors in its role in the preparation of financial reporting and supervision tasks as well as audit-related matters. The Audit Committee monitors the Company's financial reporting and prepares matters concerning financial reporting, assessments and risk management for the Board. In order to discharge its tasks, the Audit Committee follows trends in SRV's financial position, asks questions of the auditors, reviews drafts of the financial statements and interim reports, and monitors the effectiveness of internal control, internal auditing and risk management systems. In addition, the Audit Committee prepares a proposal on the choice of auditor for presentation to the General Meeting, and also monitors and evaluates both the independence of the auditor and the non-audit services provided by the auditor. The standing orders of the Audit Committee are available on the Company's website.

The Audit Committee is comprised of three members whom the Board of Directors elects from amongst its number. The 2018 Audit Committee consisted of Minna Alitalo, Juhani Elomaa and Timo Kokkila. Minna Alitalo chaired the Audit Committee, which convened five times during 2018 with an attendance rate of 100 per cent. The attendance rate at Committee meetings is shown below:

Name	Participation (%)	Present at
Minna Alitalo	100	5/5
Juhani Elomaa	100	5/5
Timo Kokkila	100	5/5

### HR and Nomination Committee

The HR and Nomination Committee prepares a proposal concerning the election and remuneration of members of the Board of Directors and its Chair for presentation to the General Meeting. The committee also considers matters relating to the appointment and remuneration of the CEO and other management, and remuneration and incentives for personnel. The committee assesses the activities of senior management, oversees successor planning, plans competence development for management and personnel, and monitors personnel satisfaction and working capacity. The standing orders of the HR and Nomination Committee are available on the Company's website.

The HR and Nomination Committee comprises three members whom the Board of Directors elects from amongst its number. The 2018 HR and Nomination Committee consisted of Ilpo Kokkila, Juhani Hintikka and Olli-Pekka Kallasvuo. Ilpo Kokkila chaired the HR and Nomination Committee, which convened six times during 2018 with an attendance rate of 100 per cent. The attendance rate at Committee meetings is shown below:

Name	Participation (%)	Present at
Ilpo Kokkila	100	6/6
Juhani Hintikka	100	6/6
Olli-Pekka Kallasvuo	100	6/6

## President & CEO

The President & CEO attends to the practical management of SRV's business operations and administration. The CEO is responsible for preparing matters to be dealt with and decided by the Board of Directors, implementing the Board's decisions, and ensuring that any goals set by the Board are attained. The CEO ensures that the Company's bookkeeping complies with applicable legislation, and that funds are managed in a reliable manner. The CEO also serves as the Chair of the Corporate Executive Team. The Board of Directors appoints the CEO and Deputy CEO, and relieves them of their duties.

Juha Pekka Ojala (1963–), BSc. (CE), has served as President & CEO of SRV Group Plc as from 1 January 2015. The holdings of the President & CEO are disclosed below with the holdings of the Corporate Executive Team members. Information on the President & CEO's agreement and his remuneration is disclosed in a separate **salary and remuneration report** published at the same time as this statement.

SRV's Deputy CEO is **Timo Nieminen** (1958–), MSc. (Tech.).

## Corporate Executive Team

The Corporate Executive Team assists the President & CEO in operational planning, line management, and decision-making. It also prepares matters to be dealt with by the Company's Board of Directors. The Corporate Executive Team handles matters concerning business operations and operational control and development.

The Corporate Executive Team does not have formal legal status. The Corporate Executive Team includes the President and CEO as the Chair and the members appointed by the Company's Board of Directors. Each member of the Corporate Executive Team has his or her own area of responsibility. The Vice President, Development Affairs acts as the secretary of the Corporate Executive Team.

The Corporate Executive Team consisted of the following members<sup>1</sup> in 2018:

Name	Year of birth	Education	Area of responsibility
Juha Pekka Ojala	1963	BSc. (CE)	President and CEO, Chair of the Corporate Executive Team
Timo Nieminen	1958	MSc. (Tech.)	Executive Vice President, Project Development in Finland, Deputy CEO <sup>2</sup> , Vice Chair of the Corporate Executive Team
Juha Toimela	1963	MSc. (Tech.), MBA	Executive Vice President, Business Operations in Finland <sup>3</sup>
Pirjo Ahanen	1958	MSc. (Econ.)	Senior Vice President, Human Resources
Maija Karhusaari (as of 4 December 2018)	1972	MSc. (Econ.)	Senior Vice President, Communications and Marketing
Päivi Kauhanen (until 24 September 2018)	1975	High-school graduate	Senior Vice President, Communications
Veli-Matti Kullas	1956	MSc. (Tech.)	Senior Vice President, International Operations
Johanna Metsä-Tokila	1977	LL.M. trained on the bench	Senior Vice President, General Counsel
Antero Nuutinen	1963	BSc. (CE)	Senior Vice President, Housing and Regional Offices
Ilkka Pitkänen	1966	MSc. (Econ.)	CFO

<sup>1</sup> SRV introduced new reporting segments as of 1 January 2019 and will now report on two business areas: Construction and Investments. In conjunction with this change, SRV also restructured the Corporate Executive Team as of 1 January 2019. Veli-Matti Kullas and Pirjo Ahanen left the Corporate Executive Team and Jarkko Rantala (1986–), MSc. (Econ.), joined the team on his appointment as Senior Vice President, Investments

<sup>2</sup> As of 1 January 2019, Executive Vice President, Deputy CEO and Senior Vice President, Property Development

<sup>3</sup> As of 1 January 2019, Executive Vice President and Senior Vice President, Construction

## Share ownership of the President & CEO and other Corporate Executive Team members at 31 Dec 2018

Name	Holding, 31 Dec. 2018
Juha Pekka Ojala	259,205
Timo Nieminen	676,310
Juha Toimela	17,158
Pirjo Ahanen	2,832
Maija Karhusaari	-
Veli-Matti Kullas	208,930
Johanna Metsä-Tokila	32,016
Antero Nuutinen	98,560
Ilkka Pitkänen	18,000

Shareholdings include the shares owned by the Corporate Executive Team member and any shares owned by a company under their control. Corporate Executive Team members do not own shares in any other company that is part of the same group as SRV.

Information on the remuneration of Corporate Executive Team members is disclosed in a separate [salary and remuneration report](#) published at the same time as this statement.

## **Descriptions of risk management, internal control procedures and the internal audit**

### **Risk management system**

SRV engages in systematic risk management, both to protect itself against factors that might hinder its business operations and to recognise new opportunities. The Company improves the profitability and stability of its operations by identifying and reacting to strategic and operational risks in time. Risk management is part of SRV's management system. It supports the Company's values, vision, strategy and the attainment of its earnings objectives.

To this end, SRV ensures that it has a systematic and comprehensive approach for identifying and assessing risks, and also for reporting on operations and implementing any required risk management measures. The annual Group-level risk management process comprises the identification of material risks related to the Company's operations, assessment of the status of risks, and the planning of measures to eliminate risks or mitigate their impacts. Risks identified during this process are rated in terms of their severity.

Overall responsibility for risk management rests with the Company's Board of Directors and the President & CEO. The Board of Directors approves SRV's risk management strategy and policy, and assesses its Group-wide framework for risk management. The Audit Committee reviews a quarterly report on operational risks and reports on them to the Board of Directors. Line management is in charge of implementing, leading and supervising day-to-day risk management for both business in general and individual projects. The Group's risk management function supports the application of risk management policies and develops Group-wide ways of working.

### **General description of internal control**

SRV continuously monitors its functions to ensure the reliability of its result. Internal control seeks to ensure that the Company's operations are efficient and productive, reporting is reliable, and laws and regulations are complied with. However, the internal control system cannot provide full certainty that risks will not be realised.

SRV's business operations are guided by consistent Group-wide business principles, decision-making authorisations and the Company's values. Internal control is founded on a healthy corporate and management culture, and on specified reporting and its fundamental principles. In particular, internal control is based on financial reports, management reports, risk reports and internal audit reports. The Company's main operations are controlled by means of written internal instructions, operating policies and procedures. The Board of Directors has approved the Group's internal decision-making authorisations.

### **Financial control**

The internal control system is the responsibility of SRV's Board of Directors and Audit Committee, the Corporate Executive Team, the executive teams of SRV's business areas, and financial administration. Management's monthly financial reporting is a key control process in ensuring the accuracy of the Group's financial reporting. It includes analyses of deviations between actual results, budgets and continuously updated forecasts. An external auditor audits financial reporting on a regular basis and reports directly to the Audit Committee.

The internal control system applied to business operations is the responsibility of the executive teams of SRV's business areas and the Group's controller function, in accordance with SRV's Group policies and instructions. Monthly financial reporting is a key control process in ensuring the effectiveness and efficiency of operations. It also includes analyses of deviations between actual results, budgets, and continuously updated forecasts for overall financial performance and individual construction projects.

Financial management and operational control are supported and coordinated by the Group's financial administration and the SRV's controller function. SRV has drafted Group-level reporting models for standardising the financial reporting of its business

functions. Their reports seek to ensure that control covers all the major aspects of SRV's business operations. This ensures that any deviations from financial objectives are identified, communicated and reacted to efficiently, in a harmonised and timely manner.

Financial control measures also include management's continual business control procedures. Financial reports define key control indicators that aim to measure and support business efficiency and consistency, and to monitor progress towards the attainment of SRV's objectives.

### **Reliability of financial reporting**

The monitoring of financial reporting reliability is based on the principles and guidelines SRV has defined for the financial reporting process. The interpretation and application of financial statement standards, including compliance with these standards, are centralised in the Group's financial administration, which is supervised by the Company's Audit Committee. Budgeting and reporting processes are based on SRV's internal instructions. The Group's financial administration is responsible for drafting and maintaining these instructions centrally. These principles are applied consistently throughout the Group.

### **Internal audit**

The internal audit is part of SRV's internal control framework. It is an independent, objective and consulting function that is designed to create added value and improve the functions of the Company. The internal audit is intended to support the Board of Directors and management in the monitoring of good administration, internal control the efficiency of risk management. This function carries out independent audits of business functions, Group companies, processes and especially of selected targets to ensure the functionality of internal control. The internal audit seeks to ensure compliance with internal policies, guidelines and regulations.

It operates under the supervision of the Audit Committee and reports on its observations to the Audit Committee, which in turn reports to the Board of Directors. The Audit Committee confirms the annual plan for the internal audit. The focus areas of the internal audit are identified risks in business operations. The Group's CFO has administrative responsibility for the functionality of the internal audit.

The 2018 internal audit was performed by an external service provider chosen by SRV, Ernst & Young Oy. Internal audits were carried out in 2018 in accordance with the annual plan for internal audits.

## Other information

### Insider administration

The Company complies with the insider guidelines approved by the Board of Directors. This insider policy describes essential rules, instructions and procedures concerning market abuse and, in particular, the prohibition on market manipulation and using insider information.

According to the Market Abuse Regulation (MAR), the Company's management includes the members of SRV's Board of Directors and the President & CEO. Management and their close circle must report all business transactions involving the Company's securities to both SRV and the Financial Supervisory Authority. The Company will issue a stock exchange release on all such transactions.

SRV's management may not trade in the Company's securities (either in person or through a third party) during a 30-day "closed window" before the publication of each of the Company's financial statement bulletins or interim reports, and not on the date of publication of the Company's interim reports or financial statement bulletins. This prohibition remains in force whether or not the person in question is in possession of any insider information at the time.

The Company maintains and updates a register of those who regularly receive unpublished financial information via their position or authorisations ("those who participate in the preparation of financial reviews"). The closed window and non-disclosure obligations also apply to these individuals, and they are also forbidden from providing information or advice to others for the purpose of trading in the Company's securities.

SRV draws up a list of individuals who have access to insider information and who have signed an employment contract with the Company, or who otherwise perform duties which grant them access to insider information. SRV does not maintain a permanent insider register. Instead, all individuals participating in insider projects are included in project-specific insider lists. Anyone whose

name appears on one of these lists may not trade in the Company's securities until they have been notified that any trading restrictions have been lifted.

SRV recommends that trading be restricted to situations in which the market is in possession of the most comprehensive information about factors affecting the Company's securities, that is, after the publication of an interim report or financial statement bulletin. SRV recommends that those who are in a management position or prepare financial reviews should make long-term investments rather than trading in securities belonging to or related to the Company. Insider policy forbids the aforementioned individuals from engaging in short-term trading and speculative activities with securities belonging to or related to the Company.

SRV's insider administration organisation consists of the General Counsel, the person responsible for insiders, and the insider register custodian. Insider administration is responsible for the daily management and supervision of compliance with the MAR and SRV's insider policy, which includes tasks such as maintaining insider registers, supervising insider issues, arranging training, giving advice, and sending notifications to management, insiders and other relevant organisations. SRV's insider administration function cooperates with the Company's communications, which handles the publication of management's business activities.

### Audit

The auditor is elected at the Annual General Meeting to a term of office that ends at the close of the next Annual General Meeting following the auditor's election. The Company's auditor must be a firm of Authorised Public Accountants approved by the Finnish Patent and Registration Office, and the chief auditor must be an Authorised Public Accountant.

The Annual General Meeting of 20 March 2018 elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the Company's auditor with **Samuli Perälä**, Authorised Public Accountant, as the chief auditor.

The auditor was paid auditing fees of EUR 282,000 in 2018. The auditor was paid an additional EUR 147,000 for other services (including all the companies belonging to the same group or chain).