

## YIT CORPORATION'S CORPORATE GOVERNANCE STATEMENT FOR 2014

This Corporate Governance Statement by YIT Corporation has been prepared separately from the Board of Directors' report, pursuant to the Finnish Securities Markets Act and Recommendation 54 of the Finnish Corporate Governance Code. The Statement is available on YIT Corporation's website at [www.yitgroup.com/corporategovernance](http://www.yitgroup.com/corporategovernance).

The administration of YIT Corporation complies with valid legislation, the company's Articles of Association and the rules and regulations of bodies that regulate and supervise the operations of Finnish listed companies. YIT Corporation also complies with the recommendations of the Finnish Corporate Governance Code, issued by the Securities Market Association in June 2010, which took effect on October 1, 2010. The Code is publicly available on the Internet at [www.cgfinland.fi](http://www.cgfinland.fi).

YIT Corporation's auditor PricewaterhouseCoopers Oy has reviewed the description of the main features of the internal control and risk management systems in relation to the financial reporting process in this Statement and found it to be consistent with the financial statements. The Audit Committee of the Board of Directors reviewed the statement in its meeting held on February 2, 2015.

### Annual General Meeting

The Annual General Meeting is YIT's highest decision-making body, where the shareholders participate in the supervision and control of the company and exercise their right to speak and vote. The Annual General Meeting is held each year by the end of March on a date determined by the Board of Directors. Extraordinary General Meetings can be held when the Board of Directors deems it necessary or when required by legislation.

The Annual General Meeting makes decisions on matters falling within its scope of responsibilities by virtue of the Limited Liability Companies Act and the company's Articles of Association, such as:

- The approval of the financial statements
- The distribution of profits
- Discharging members of the Board of Directors and the President and CEO from liability
- The election of the Chairman of the Board of Directors, Vice Chairman and other members, and the remuneration paid to them;  
the election of the auditors and the auditors' fees
- Amendments to the Articles of Association
- Decisions leading to changes in the share capital
- The purchase and transfer of company shares
- Decisions on share options and share-based remuneration

### Board of Directors

The Board of Directors controls and supervises the management and operations of the company. The Board is tasked with promoting the interests of all shareholders and the Group by seeing to the Group's administration and the proper organisation of its operations.

The Board of Directors comprises the Chairman and the Vice Chairman and three to five members elected by the Annual General Meeting for one year at a time. The Articles of Association do not contain any special orders as regards the appointment of Board members. The majority of Board members must be independent of the company. In addition, at least two of the majority members must be independent of the company's significant shareholders. The President and CEO cannot be elected as Chairman of the Board. Both genders must be represented on the Board of Directors.

The Board of Directors convenes regularly at the invitation of the Chairman. The Board has quorum when more than half of its members are present. An opinion supported by more than half of the members present becomes a decision. In the case of a tie, the Chairman has the deciding vote. The President and CEO participates in Board meetings by presenting the items on the agenda, and the Chief Financial Officer as the secretary of the Board. Other Management Board members and heads of business units and functions attend the meetings when necessary. The President and CEO and the secretary of the Board prepare the meetings with the Chairman of

the Board. They also ensure that the Board is provided with the information on the structure, operations, markets and competitive situation that it needs to carry out its tasks. The meeting agendas and materials are delivered to Board members well in advance of meetings.

The Board of Directors and its committees have ratified standing orders. Board members evaluate the operation of the Board each year, and the results are taken into account in the Board's work and its development.

#### Key tasks of the Board of Directors

Among other tasks, the Board of Directors:

- Ensures that the supervision of accounting and asset management is organised appropriately
- Reviews and approves the company's financial statements and the Board of Directors' report as well as interim reports
- Supervises and controls operative management
- Appoints and discharges the President and CEO and his deputy, decides on their salary and agrees on the other terms of their service contracts
- Convenes the Annual General Meeting and makes proposals on matters to be included on the agenda
- Specifies the dividend policy and makes a proposal to the Annual General Meeting on the dividend to be paid annually
- Approves the Group's strategy, strategic goals and risk management principles
- Approves budgets and action plans and oversees their implementation
- Approves significant acquisitions and other investments
- Confirms the Group's functional structure
- Ensures the functioning of management systems
- Confirms the Group's values and management principles

#### *Members of the Board of Directors and Board meetings in 2014*

During the period from January 1 to March 18, 2014, YIT Corporation's Board of Directors was composed of Henrik Ehrnrooth as Chairman, Reino Hanhinen as Vice Chairman and Kim Gran, Satu Huber and Erkki Järvinen as members.

The Annual General Meeting held on March 18, 2014, elected four (4) ordinary members to YIT's Board of Directors in addition to the Chairman and the Vice Chairman. **Reino Hanhinen**, born 1943, M.Sc. (Eng.), D.Sc. (Tech.) h.c., was elected Chairman of the Board, **Kim Gran**, born 1954, B.Sc. (Econ.) was elected as Vice Chairman, and **Satu Huber**, born 1958, M.Sc. (Econ.), Deputy Chief Executive Officer of Elo Mutual Pension Insurance Company and **Erkki Järvinen**, born 1960, M.Sc. (Econ.), President and CEO of Tikkurila, continued as Board members. **Juhani Pitkääkoski**, born 1958, LL.M., Senior Vice President, Mergers & Acquisitions, Caverion Corporation, and **Teuvo Salminen**, born 1954, M.Sc. (Econ.), were elected to join the Board as new members.

During the period January 1 – March 18, 2014, all Board members, apart from Henrik Ehrnrooth, were independent of YIT and its significant shareholders. Henrik Ehrnrooth was not independent of a significant shareholder, given that he holds indirectly with his brothers Georg Ehrnrooth and Carl-Gustaf Ehrnrooth a controlling interest in Structor S.A., which is YIT Corporation's largest shareholder. In addition, the Annual General Meeting of 2014 elected Juhani Pitkääkoski as a member of the Board. Mr. Pitkääkoski is dependent of the company due to having worked as the President and CEO of YIT Corporation within the three years preceding the start of his membership of the Board of Directors. The Board of Directors convened 11 times during 2014. The members' total attendance rate was 96%. The Board of Directors conducted a self-evaluation of its work during the period, assessing matters such as the efficiency of its work, the quality of information and materials submitted to the Board, the focal areas of its work and the targets set for management. The results of the evaluation are to be used in developing the Board's work.

The Board's work focused on ensuring business operations after the partial demerger carried out in 2013, selecting strategic priorities, assessing the effects of changes in the operating environment and supervising the implementation of measures. Other focal areas of the Board's work in 2014 included monitoring the capital release programme, ensuring cash flow, and matters related to financing. Timo Lehtinen, the CFO of the Group, served as the secretary of the Board.

## Committees to the Board of Directors

The Board of Directors has two committees: the Personnel Committee and the Audit Committee.

The Board of Directors elects the members and chairmen of the committees from among its members in its annual constitutional meeting. The committees have written standing orders ratified by the Board of Directors. The committees report to the Board of Directors on the matters the committees have dealt with and the actions required on a regular basis, in the Board meeting following each committee meeting.

### Personnel Committee

The task of the Personnel Committee is to assist the Board of Directors in issues related to the nomination and remuneration of key personnel within YIT Group. Among other things, the Personnel Committee participates in the development of the Group's corporate culture and HR policy and the preparation of the remuneration and incentive schemes, the rules for performance-based bonuses and the proposals for performance-based bonuses paid to the management. The Committee's tasks furthermore include the identification of talent, the development of key personnel and management's succession planning.

The Committee convenes when necessary and at the invitation of its chairman. It is composed of three to five members who, in addition to the company's business and segments, are familiar with its HR and remuneration policies. The members of the Personnel Committee must be independent of the company as required by the Finnish Corporate Governance Code. The Group's Senior Vice President, Human Resources, serves as the Committee's secretary.

### Personnel Committee in 2014

From January 1 to March 18, 2014, YIT Corporation's Personnel Committee was composed of Henrik Ehrnrooth as Chairman and Kim Gran and Reino Hanhinen as members. At its constitutional meeting on March 18, 2014, the Board of Directors elected Reino Hanhinen as Chairman and Kim Gran and Erkki Järvinen as members of the Personnel Committee.

The Committee convened a total of five times in 2014. The members' total attendance rate was 100%. Pii Raulo, Senior Vice President, Human Resources, served as the Committee's secretary.

The main tasks of the Personnel Committee in 2014 were to prepare rules for performance-based bonuses and the terms, structure and key personnel categories of the long-term incentive scheme. The Personnel Committee also followed the implementation of the HR plan in accordance with strategy, monitored the remuneration levels of senior management and, in conjunction with organisational changes, presented appointments of key personnel for confirmation by the Board of Directors.

### Audit Committee

The Audit Committee assists the Board of Directors in the supervision of the Group's accounting and reporting processes. It is tasked with, for instance, overseeing the company's financial reporting process, the effectiveness of internal control, internal auditing and risk management systems, and with evaluating the audit. The Committee participates in the preparation of the Group's financing policy, financing plan and financing arrangements. The Committee reviews the company's financial statements and interim reports. It evaluates compliance with laws and regulations and follows the Group's financial position.

The Committee convenes four or five times per year and more often, if necessary. It comprises three members who must be independent of the company. In addition, at least one member must be independent of significant shareholders. Persons elected as members have extensive knowledge of the Group's business operations and business segments, and sufficient knowledge of accounting and the practices related to financial statements. The Group's CFO acts as the secretary of the Audit Committee.

## Audit Committee in 2014

The members of the Audit Committee between January 1 and March 18, 2014, were Reino Hanhinen as Chairman and Satu Huber and Erkki Järvinen as members. At its constitutional meeting on March 18, 2014, the Board of Directors elected from among its members Satu Huber as Chairman and Juhani Pitkääkoski and Teuvo Salminen as members of the Audit Committee.

In 2014, Recommendation 26 (Independence of the members of the audit committee) of the Finnish Corporate Governance Code was deviated from in the election of the members of the company's Audit Committee, when Juhani Pitkääkoski, who is not independent of the company, was elected as a member of the Audit Committee. Mr. Pitkääkoski was elected as a member of the Audit Committee due to his extensive knowledge of the company's business and finances as well as management, supervision and control systems as the company's former CEO.

In 2014, the Audit Committee convened five times. The members' total attendance rate was 100%. Group CFO Timo Lehtinen served as the secretary of the Committee. The Committee's meetings were also attended by the company's President and CEO Kari Kauniskangas. In addition, Ari Ladvelin, head of internal audit, also participated in the meetings. The chief auditor, Heikki Lassila (PricewaterhouseCoopers), also attended the meetings, as did members of the company's management and experts, depending on the matters dealt with at each meeting.

During the financial period, the Audit Committee focused on, for example, monitoring the capital release programme, the preparation of financing arrangements, and risk management. In conjunction with discussing Interim Reports, the Audit Committee expressed its views on management estimates, monitored the progress of disputes and legal proceedings, and discussed the Group's decision-making authorisations.

### *Board members' participation in meetings, January 1 – December 31, 2014*

	Board of Directors	Personnel Committee	Audit Committee
Henrik Ehrnrooth*	1/1	1/1	
Kim Gran	9/11	5/5	
Reino Hanhinen**	11/11	5/5	1/1
Satu Huber	10/11		5/5
Erkki Järvinen***	11/11	4/4	1/1
Juhani Pitkääkoski****	10/10		4/4
Teuvo Salminen*****	10/10		4/4
Board members' average attendance rate	96%	100%	100%

\*Henrik Ehrnrooth was a member of the Board of Directors and the Personnel Committee until March 18, 2014. Before March 18, 2014, the Board of Directors convened once.

\*\*Reino Hanhinen was a member of the Audit Committee until March 18, 2014. Before March 18, 2014, the Audit Committee convened once.

\*\*\* Erkki Järvinen was a member of the Audit Committee until March 18, 2014. Before March 18, 2014, the Audit Committee convened once.

\*\*\*\* Juhani Pitkääkoski was a member of the Board of Directors and the Audit Committee as of March 18, 2014. After March 18, 2014, the Board convened ten times and the Audit Committee four times.

\*\*\*\*\* Teuvo Salminen was a member of the Board of Directors and the Audit Committee as of March 18, 2014. After March 18, 2014, the Board convened ten times and the Audit Committee four times.

## **President and CEO and his deputy**

The President and CEO attends to the day-to-day administration of the company in accordance with the instructions and regulations laid down by the Board of Directors. The Board of Directors appoints and discharges the CEO and supervises his operation. It also decides on the President and CEO's salary and remuneration and other terms of the service contract. The President and CEO ensures that the company's accounting complies with legislation and that its asset management is organised in a reliable way. The President and CEO serves as the Chairman of the Group's Management Board.

Since July 2013, YIT Corporation's President and CEO has been Kari Kauniskangas, M.Sc. (Eng.), B.Sc. (Econ.) (born 1974), with Tero Kiviniemi, M.Sc. (Eng.), EMBA (born 1971) acting as his deputy.

## **The main characteristics of the internal control and risk management systems connected with the financial reporting process**

### *Control environment*

YIT Group's Management Board is the highest operational decision-making body and responsible for allocating resources to the business segments. The Group Management Board is also responsible for assessing the performance of the business segments.

YIT Corporation's financial reporting and supervision are based on budgets drafted and ratified every six months as well as on monthly performance reporting. The Groups' financial reporting is based on financial data on the profitability of business provided by each cost centre, combined with segment-level and Group-level data. YIT Corporation's business is characterised by project-type operations, due to which financial reporting applies the percentage of completion method (POC) in accordance with the degree of completion and sales, for example. Accurate information on the degree of completion and sale of the project and the final cost estimate are essential for the reliability of financial data in project business.

The aim of the internal control and risk management systems related to the financial reporting process is to ensure the harmonised and reliable reporting of the Group's financial results in a manner compliant with applicable laws and regulations and the reporting principles confirmed in YIT Group. The responsibilities of risk management and internal control are defined in the Group's risk management policy as well as in the standing orders of the Group and its business segments. The standing orders describe the key tasks, operations and responsibilities of the different administrative bodies. The Group's business reporting process has been decentralised to the segments that are responsible for business results, thus making internal control also a part of the segments' operations.

Group accounting, which works under the supervision of the Group's CFO, defines and communicates the principles related to financial reporting, maintains the tools required for accounting and reporting and prepares the official financial statements published by the Group. The financial management of the business segments are responsible for ensuring that reporting within segments is carried out according to instructions. The Group's financing, IT administration, investor relations and insurance matters as well as the preparation of its most significant corporate acquisitions are centralised.

### *Identification and assessment of risks related to financial reporting*

The Group's financial and financing management is responsible for identifying and assessing risks in relation to financial reporting. The processes and systems of financial reporting are developed continuously. The application of the uniform method for the identification and assessment of financial reporting risks was continued in 2014, on the level of both the Group and its business segments. Risks are assessed annually. These assessments are used as a basis for the further development of supervision and control measures and the control points of reporting, to prevent the materialisation of risks.

The most significant reporting risks were considered to include the reliability of projects' financial forecasts and the accounting based on them, resource issues in financial administration, risks related to the schedules of reporting, the reliability of cash flow forecasts and valuation issues related to plots, completed unsold residential units and business premises projects.

### *Management of risks related to financial reporting*

Risks related to financial reporting are managed with the help of the Group's accounting manual, financing policy, investment guideline, acquisition instructions and internal audit.

In 2014, the Group continued to revise and harmonise accounting and reporting systems, a significant replacement investment was initiated in Finnish business operations, and in Russia, the harmonisation of systems continued. Group financing controls were developed and verified further.

### *Communications*

The Group's CFO and Investor Relations are responsible for the publication and release of financial information and for the fulfilment of disclosure obligations concerning a listed company. Investor Relations are also responsible for the planning and implementation of investor communications and for daily contact with investors and analysts.

The aim of the company's Investor Relations is to support the appropriate valuation of YIT shares by providing all market parties with all essential information concerning YIT in a continuous and consistent manner.

Corporate Communications maintain YIT's communications policy, published on the Group's website, as well as the internal guidelines for external and financial communications, which define YIT's practices in relation to the disclosure of financial information. The instructions pertaining to financial reporting are available to personnel on YIT's intranet.

### *Monitoring*

YIT's business segments are responsible for the accuracy of the segment data presented in interim reports and financial statements. The Group's accounting department is responsible for the accuracy and scope of the Group-level numerical data as well as their compliance with rules and regulations. The Audit Committee reviews information that is to be published and submits them for the Board of Directors' approval.

The Group's financial management board convenes on a monthly basis. It is composed of the segments' chief financial officers as well as representatives from Group accounting, Group financing and IT administration. The Group's Corporate General Counsel, Tax Director and the head of internal audit can also participate in meetings of the financial management board. The financial management board addresses all process and development issues concerning the business segments.

YIT Group's internal audit organisation supports the management in the development and supervision of risk management, internal control and good corporate governance. The focus of the work of internal auditing is on business processes and risk management. The work is coordinated with auditing and corporate security. The Group's internal audit reports to the Board of Directors' Audit Committee and administratively to the President and CEO of YIT Corporation.

### **Board of Directors' report**

The Board of Directors issued its report for 2014 on February 4, 2015. The Board of Directors' report will be published simultaneously with the Corporate Governance Statement and the Remuneration Statement on the company's website at [www.yitgroup.com/corporategovernance](http://www.yitgroup.com/corporategovernance).