



**ANNUAL REPORT**

**2017**

# CORPORATE GOVERNANCE STATEMENT 2017

The governance of SATO Corporation (hereinafter "SATO" or "the Company") is based on Finnish legislation and SATO's articles of association. The Company also complies with the Corporate Governance Code 2015, issued by the Finnish Securities Market Association. The Corporate Governance Code is available on the website of the Finnish Securities Market Association [www.cgfinland.fi](http://www.cgfinland.fi).

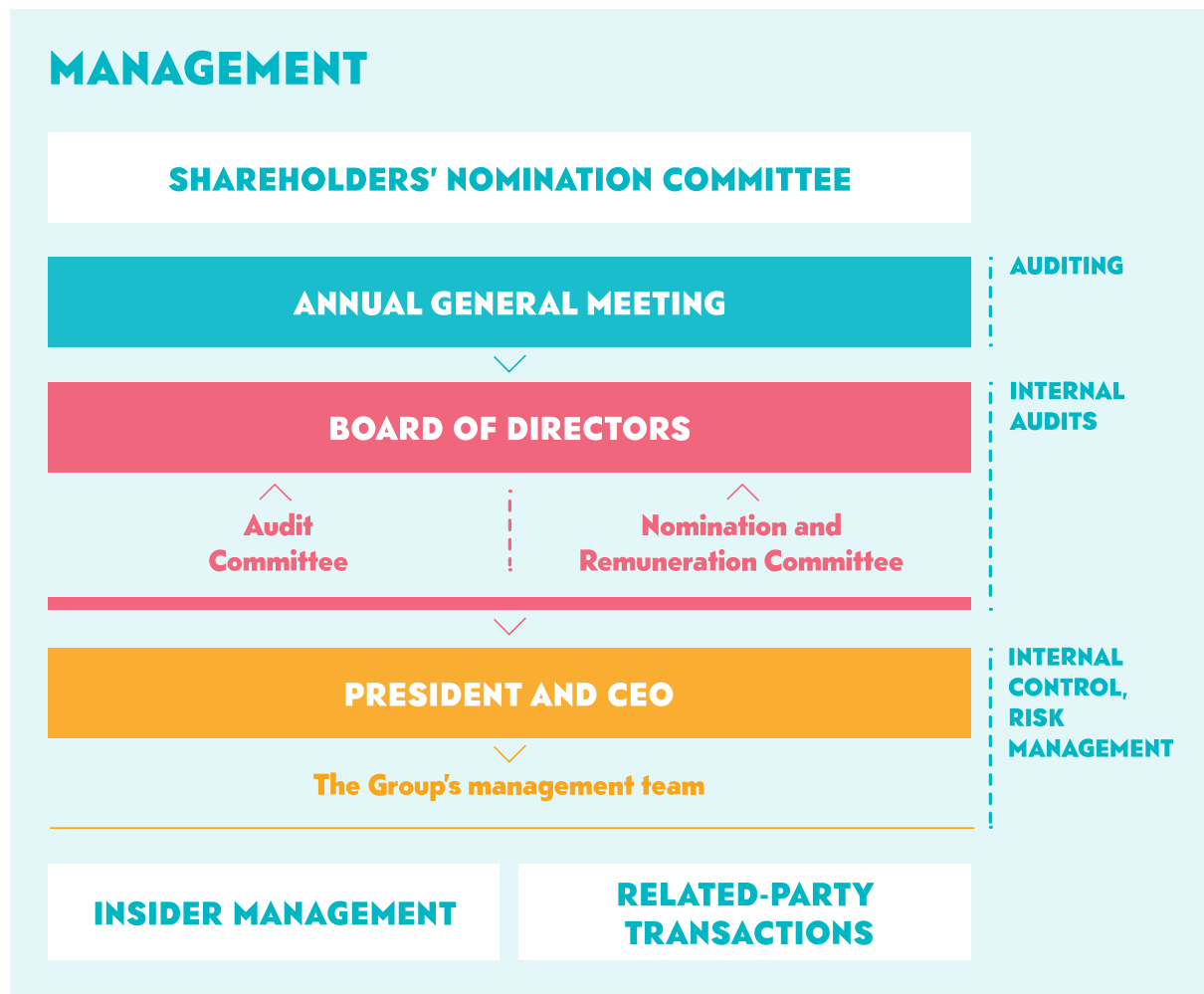
SATO's shares are not publicly listed. SATO has issued corporate bonds, which are listed on the Helsinki stock exchange or Irish stock exchange, and the Company complies with their rules and regulations for listed bonds as well as EU's Market Abuse Regulation, securities markets legislation and the regulations of supervisory authorities.

SATO draws up its consolidated financial statements as well as interim reports and half year financial reports in accordance with international, IFRS reporting standards approved in EU. The report of the Company's Board of Directors and the parent company's financial statements have been drawn up in accordance with Finnish accounting legislation. An independent external appraiser gives a statement about the values of SATO's housing portfolio and building land inventory and the appropriateness of the methods used to assess them.

This report is being published separately from the annual report of the Board of Directors.

## GOVERNING BODIES

The authority and governance of the Company are divided among the annual general meeting, the Board of Directors, and the President and CEO. The President and CEO implements the operative business with the assistance of the Corporate Management Group. Internal audit subordinate to the Board of Directors is responsible for internal auditing and auditors are responsible for external auditing.



**The general meeting**

The general meeting of the shareholders is SATO's supreme decision-making body. The annual general meeting is to be held once a year within six months of the end of the financial year. An extraordinary general meeting is held when it is necessary according to the consideration of the Board of Directors or the Finnish Limited Liability Companies Act.

The annual general meeting decides on the matters due to it under the Finnish Limited Liability Companies Act and the articles of association. These include the adoption of the Company's financial statements and consolidated financial statements, the use of profit indicated on the balance sheet, discharging the members of the Board of Directors and the President and CEO from liability, electing the members and Chair of the Board of Directors and an auditor, and determining the remuneration to be payable to them. The meeting may also handle other matters to be dealt with at a general meeting in accordance with the Finnish Limited Liability Companies Act, such as share issues, acquisition of the Company's own shares and amendments to the articles of association. The meeting also deals with matters which a shareholder has requested to be dealt with at a general meeting in accordance with the Finnish Limited Liability Companies Act.

SATO has a single series of shares. Each share confers entitlement to one vote at a general meeting. Entitlement to attend the general meeting is held by a shareholder who has been entered in the register of shareholders maintained by Euroclear Finland eight working days before the general meeting. The Finnish Limited Liability Companies Act also contains regulations concerning nominee-registered shareholders.

In order to ensure the dialogue between shareholders and Company bodies and to fulfil shareholders' entitlement to ask questions, the President and CEO, Chair of the Board of Directors and the Board members must attend the general meeting. Persons proposed as Board members must be present at a general meeting deciding on their election.

The Company's annual general meeting was held on 8 March 2017. A total of 18 shareholders attended the meeting, representing 96.95 % of the Company's shares and votes. The minutes of the annual general meeting can be found on the [Company's website](#).

## Shareholders' Nomination Committee

On 3 March 2015, the annual general meeting decided to establish a shareholders' Nomination Committee and approved its rules of procedure. The Committee's task is to prepare proposals concerning the Board's composition and the remuneration of its members to the annual general meeting. The committee's rules of procedure can be found on the [Company's website](#).

The Committee's term of office begins in October each year, when the largest shareholders have nominated their representatives, and ends at the closing of the next annual general meeting. A shareholder shall name as a member of the Committee a person independent of the Company.

The shareholders' Nomination Committee consists of the representatives of SATO's four largest shareholders, which have been registered in the book-entry system on 1 October and which accept the position. If a shareholder does not use its right of nomination, the right transfers to the next largest shareholder. The fourth largest shareholder of the Company, State Pension Fund, has not used its nomination right so the nomination right has transferred to the fifth largest shareholder, Finnish Construction Trade Union.

The Chair of the Company's Board of Directors serves as a specialist member of the Committee. The Committee elects one of its members to serve as Chair.

The representatives of the following shareholders have been nominated as members of the Committee: Balder Finska Otas AB (Erik Selin, chairman), Stichting Depository APG Strategic Real Estate Pool (Hans Spikker), Elo Mutual Pension Insurance Company (Hanna Hiidenpalo) and Finnish Construction Trade Union (Matti Harjuniemi).

## Board of Directors

The general meeting elects between five and nine members of the Board of Directors and one member of the Board of Directors to serve as Chair of the Board. The Board of Directors elects one of its members to serve as Deputy Chair. The term in office of the members of the Board of Directors lasts until the closing of the annual general meeting following the one at which they were elected. The Board of Directors assesses the independence of its members and declares which of the members of the Board of Directors are considered independent of the Company, and which independent of the significant shareholders.

**The annual general meeting on 8 March 2017 elected seven members to the Board of Directors. Elected as Board members were**

Chair

Erik Selin                      degree in business economics  
    b. 1967, Managing Director, Fastighets Ab Balder  
    - no shareholdings  
    - no shareholdings in controlled corporations

Re-elected as  
 members were

Marcus Hansson	degree in business economics b. 1974, CFO, Fastighets Ab Balder - no shareholdings - no shareholdings in controlled corporations
Jukka Hienonen	M.Sc. (Econ.) b. 1961, professional board member - no shareholdings - no shareholdings in controlled corporations
Esa Lager	LL.M., M.Sc.(Econ.) b. 1959, professional board member - no shareholdings - no shareholdings in controlled corporations
Tarja Pääkkönen	D.Sc. (Corporate strategies), M.Sc. (Construction) b. 1962, professional board member - no shareholdings - no shareholdings in controlled corporations
Timo Stenius	M.Sc. (Constr. Eng.) b. 1956, Director, Unlisted investments (real estate, infrastructure, private equity and private debt Elo Mutual Pension Insurance Company - no shareholdings - no shareholdings in controlled corporations

and elected as a new member

Johannus (Hans) Spikker	Economic Geography, University of Amsterdam b. 1959, Senior Portfolio Manager Real Estate Europe, APG Asset Management, The Netherlands - no shareholdings - no shareholdings in controlled corporations
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The Board of Directors elected Jukka Hienonen as its Deputy Chair.

All Board members are independent of the Company, and Jukka Hienonen, Esa Lager and Tarja Pääkkönen are also independent of the significant shareholders.

The Company's Board of Directors is responsible for the proper organisation of the Company's governance and its operations. It is the duty of the Board of Directors to promote the interests of the Company and all its shareholders.

In 2017, the Board of Directors convened on 8 meetings. An average of 92.6 % of the members of the Board of Directors attended the Board meetings. Members of the Board of Directors participated in the meetings as follows: Erik Selin 7/8, Marcus Hansson 6/8, Jukka Hienonen 8/8, Esa Lager 8/8, Tarja Pääkkönen 8/8, Hans Spikker 5/6 and Timo Stenius 8/8.

SATO's Board of Directors has confirmed the rules of procedure applied to the duties, meeting procedures and decision-making practices of the Board of Directors. These rules of procedure are explained on the [Company's website](#). In addition to matters for decision, the Board of Directors receives up-to-date information on the Company's operations, economy and risks at its meetings.

In addition to the duties specified by the Companies Act, the Board of Directors decides on matters which, taking into account the extent and size of the Group's operations, have considerable importance for the Group's business. The duties of the Board of Directors include the following:

- confirmation of the Group's business strategy and monitoring its implementation
- confirming and monitoring the annual budget and the business plan
- dealing with the financial statements and report of the Company's Board of Directors as well as the interim reports and half year financial reports
- confirming the Company's dividend policy
- organization and supervision of risk management, internal control and internal audit.

The Board of Directors also appoints the Company's President and CEO and, when necessary, his/her deputy, as well as the members of the Corporate Management Group, and determines the terms of their employment and of their posts as well as their remuneration schemes.

The Board of Directors performs an annual, internal self-assessment of its activities and its working methods. The purpose of the self-assessment is to verify how the Board's activities have been performed during the year and to serve as a basis for assessing the Board's method of operating.

## Diversity of the Board of Directors

### Purpose of the diversity of the Board of Directors

The diversity of the Board of Directors supports the Company's business and its development. Diversity strengthens the work of the Board of Directors by emphasising the views of people of different ages, different educational backgrounds and different experience concerning the Company's development and the steering of its operations. Diversity increases open discussion and strengthens the decision-making of the Board members.

### Taking diversity into account in the election of Board members

The shareholders' Nomination Committee prepares a proposal for the annual general meeting concerning the number of Board members, the persons to be elected as members and Chair, and the remuneration to be paid to Board members. The Nomination Committee must take the requirement for diversity into account when preparing its proposal for the general meeting. In this preparation, the committee must evaluate the requirements set for the competence of Board members in any given situation in the Company, and must also evaluate what sufficient diversity in the Board of Directors is, taking into account, among other things, the experience of the Board members, their knowledge of SATO's business, their education and their distribution of age and gender. A member of the Board of Directors must have sufficient education to support SATO's operations and the achievement of its objectives, competence and the possibility to spend sufficient time on Board work, taking into account the Company's present and planned needs. There must be a sufficient number of Board members. Board members must have different skills, which support the implementation of the Company's current strategic targets.

The majority of the Board of Directors must be independent of the Company. At least two Board members who are independent of the Company must also be independent of significant shareholders in the Company.

### Realising diversity in SATO

The requirement for diversity has been implemented in the composition of SATO's Board of Directors. Each member of Sato's Board either has a Finnish or foreign higher education degree or a degree in business economics taken somewhere other than Finland. Of the members, two have a degree in the field of technology, four in business or economics and one of the members is both a Master of Laws and a Master of Economics. The Chair of the Board is the main shareholder and CEO of a property investment company quoted on the Stockholm Stock Exchange and operating in many countries. Several

of the Board members have experience of management functions in significant Finnish companies, and most of the members have experience of companies operating internationally. Both genders are represented on the Board of Directors and the span of ages ranges from 43 to 61. The term of office of the Board members has lasted three years on average.

## The committees of the Board of Directors

At the organisational meeting held after the annual general meeting, the Board of Directors appoints annually an Audit Committee and a Nomination and Remuneration Committee. The Audit Committee and the Nomination and Remuneration Committee comprise three to five members elected by the Board of Directors, one of whom serves as Chair.

The Board of Directors has confirmed the rules of procedure for the committees. The committees have no independent decision-making authority. Their mission is to prepare matters for decision by the Board of Directors and the annual general meeting and they report constantly on their actions to the Board of Directors. The rules of procedure can be seen on the [SATO's website](#).

Until 8 March 2017, serving on the Audit Committee were Chair Marcus Hansson as Chair and members Esa Lager and Timo Stenius. Since 8 March 2017, Marcus Hansson has served as Chair with members being Esa Lager, Hans Spikker and Timo Stenius. All members have been independent of the Company. Esa Lager is also independent of the significant shareholders. An average of 93,75 % of the members of the Audit Committee attended the committee meetings. Members of the Audit Committee participated in the meetings as follows: Marcus Hansson 4/4, Esa Lager 4/4, Hans Spikker 2/3 and Timo Stenius 4/4.

Serving on the Nomination and Remuneration Committee in 2017 were Chair Erik Selin and members Jukka Hienonen and Tarja Pääkkönen. All the members are independent of the Company and Esa Lager and Jukka Hienonen are also independent of the significant shareholders. The members of the committee attended all the committee meetings, six meetings in the total.

## President and CEO

The President and CEO is responsible for managing the Group's business operations, their planning, and the attainment of its goals. He/she is responsible for preparing matters for the Board of Director's attention and for executing the decisions of the Board. The President and CEO is responsible for the ongoing management of the Company in accordance with the rules and regulations supplied by the Board of Directors. The President and CEO serves as Chair of the Corporate Management Group.

The Board of Directors appoints and discharges the Company's President and CEO (and his/her deputy).

SATO's President and CEO is Saku Sipola (b. 1968), M.Sc. (Tech.).

## The Corporate Management Group

The Corporate Management Group assists the President and CEO in the planning and management of operations and decision-making. The Corporate Management Group deals with all key issues for the management of SATO Group, such as matters related to the strategy, budgeting, investments, business planning, and financial reporting. The Corporate Management Group's duties include the implementation of the decisions of the Board of Directors under the leadership of the President and CEO. The Corporate Management Group has no authority under law or the articles of association; it serves as a body to assist the President and CEO.

### In 2017, the Corporate Management Group has consisted of

Saku Sipola  
 President and CEO, Chair of the Management Group  
 b. 1968, M.Sc. (Tech.)  
 - no shareholdings  
 - no shareholdings in controlled corporations

Antti Aarnio  
 Vice President, Investments  
 b. 1972, M.Sc. (Tech.)  
 - no shareholdings  
 - no shareholdings in controlled corporations

Monica Aro  
 Vice President, Development  
 b. 1954, B.Sc. (Econ.), LL.M., MBA  
 - shareholdings 44,000  
 - no shareholdings in controlled corporations

Antti Asteljoki  
 Vice President, Rental Housing Business  
 b. 1974, M.Sc. (Econ.)  
 - no shareholdings  
 - no shareholdings in controlled corporations

Miia Eloranta  
 Director, Marketing and Communications  
 b. 1973, M.Pol.Sc.  
 - no shareholdings  
 - no shareholdings in controlled corporations

Markku Honkasalo  
 CFO  
 b. 1964, LL.M., eMBA  
 - no shareholdings  
 - no shareholdings in controlled corporations

The Corporate Management Group convenes once a week. The Corporate Management Group convened 44 times in 2017.

## DESCRIPTION OF THE PROCEDURES FOR INTERNAL CONTROL AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

### Internal control

The aim of internal control is to help to verify the efficiency, productiveness and reliability of the Group's operations, and to confirm the compliance of operations with the law and other regulations. The Group's internal control systems serve to verify that the financial reports issued by the Company give essentially correct information on the financial standing of the Group. The Group has determined for the key spheres of its operations Group-wide principles which form the basis for internal control.

Responsibility for the arrangement of internal control is held by the Board of Directors and by the President and CEO who implement the resolutions of the Board. Each member of the Board of Directors is sent a monthly report on the Group's financial position and operating environment. The Audit Committee of the Board of Directors oversees the effectiveness of internal control and the accuracy of the financial reporting. Responsibility for the performance of internal control is held by the operational organisation of the entire Group, in such a way that each Group employee is responsible to his or her supervisor at all times for the supervision of his or her sphere of responsibility.



The content of the reporting process and compliance with regulations are the responsibility of the Group's financial administration. The Group's financial reporting process complies with the Group's operational guidelines and process descriptions as well as control measures for ensuring the quality of reporting. The controls on the reporting process have been specified on the basis of a control risk assessment matrix for the process. The types of controls are, for example, system controls, specifications, or audits or actions carried out by management or another party. Responsible parties have been allocated for controls which are in charge of the implementation and effectiveness of the controls.

The interpretation and application of accounting standards has been consolidated in the hands of the Group's financial administration, which maintains operating guidelines on financial reporting, process descriptions, calculation manuals and control mechanism descriptions, and which attends to the associated in-house communications. The Group's financial administration also oversees compliance with these instructions and procedures. The monitoring of the budgeting and reporting processes is based on the Group's reporting principles, for which the definition and centralised maintenance is the responsibility of the Group's financial administration. The principles are applied uniformly throughout the Group and a standardised Group reporting system is in use.

### **Risk management**

SATO's risk management is based on the risk assessment embodied in the strategic and annual planning process. Risk assessment also covers the risks of the financial reporting process. Business risks are categorised as strategic and operative risks as well as financing and market risks. The controls on the financial reporting process are specified on the basis of a separate survey of reporting process risks.

Responsibility for the arrangement of risk management is held by the Company's Board of Directors and the CEO. The internal audit and internal control support the Board of Directors in performing its duty of supervision. The mission of the Audit Committee elected by the Board of Directors from among its membership is to assess the adequacy and appropriateness of risk management processes and risk management. The Audit Committee reports to the Board of Directors, which supervises the risk management.

### **Internal audit**

Internal audit supports the Board of Directors in performing its duty of supervision.

The internal audit assesses, independently and systematically, the functionality, efficiency and appropriateness of the Group's management and governance systems, as well as the business processes and risk management. In its reports, the internal audit makes recommendations for the improvement of systems and processes.

The aim of the internal audit is to give reasonable reliability of the correctness of financial and business reporting, the appropriate management of Company's assets and the legality of Company's activities. In addition, the internal audit aims to promote the development of the risk management. The person liable for the internal audit reports to the Chief Financial Officer (as the member of the organisation) and the findings of internal audit to the President and CEO as well as to the Audit Committee of the Board. The Audit Committee deals with the annual plan for internal auditing and the Board of Directors approves them. The subjects for auditing are selected in accordance with the Group's strategic goals, estimated risks and priorities.

### **Audit**

The annual general meeting elects a single auditor for the Company, which must be an auditing firm approved by the Central Chamber of Commerce. The auditor's term in office is the financial year and their duties end at the closing of the annual general meeting following the one at which they were elected.

The auditor for the financial year 1 January to 31 December 2017 was KPMG Oy Ab with Lasse Holopainen, M.Sc. (Econ.), APA as the auditor in charge. The audit checks the accounts, financial statements and administration of the Company and Group.

In 2017, the auditor was paid auditing fees of EUR 124 808. The auditor was also paid EUR 71.158 for other services (including all companies belonging to the same group or chain).

## Related party transactions

A key employee included in the management of SATO Corporation is obligated to report in writing to the person in charge of related party issues any related party transaction that involves the key employee in question, their close family member or corporation in which said employee or their close family member hold control or have prominent influence.

The report must be submitted for approval before completing the related party transaction. In the case of major transactions, the Board of Directors will make a decision on whether to accept the reported related party transaction. In the case of transactions that are part of SATO's regular business, or minor transactions valued less than EUR 10,000, the decision can be made by the Chair of the Board, the President and CEO or the CFO. Regulations concerning recusal due to the likelihood of bias are observed in decision making.

The closeness of the related party relations and the size of the transaction are taken into account, as well as any exceptions from market conditions, whether the transaction is part of SATO Group's daily business, whether there are financial grounds for the transaction and whether it is acceptable from the viewpoint of SATO Group.

## Insider trading management

SATO's rules concerning insider trading are based on the EU's Market Abuse Regulation (596/2014), the Finnish Securities Markets Act and they comply with the standards of the Financial Supervisory Authority and the guidelines of the Helsinki and Irish stock exchanges where these apply to a party issuing listed bonds. The insider guidelines include, among other things, guidelines concerning SATO's financial instruments. SATO does not keep a list of insiders. A project-specific list of insiders is based on a decision by the President and CEO or, if he/she is recused, the CFO. Insider information is in particular information that concerns the ability of SATO and the SATO Group to fulfil their commitments in respect of bond issues.