

## Corporate Governance Statement 2019

### 1. Introduction

The governance of SATO Corporation (hereinafter "SATO" or "the Company") is based on Finnish legislation and SATO's articles of association. As of 1 January 2020, the Company also complies with the recommendations of Corporate Governance Code 2020 issued by the Finnish Securities Market Association (excluding the procedure for the remuneration of President and CEO as defined in recommendation 22) as well as SATO's internal instructions. This statement concerns year 2019 when the Corporate Governance Code 2015 was in force. The Corporate Governance Code is available on the website of the Finnish Securities Market Association [www.cgfinland.fi](http://www.cgfinland.fi).

Since SATO's shares are not publicly listed, the legislation does not require that SATO has neither the remuneration policy nor the remuneration report as further defined in the Corporate Governance Code. SATO will not compose the abovementioned documents, but it drafts a remuneration statement in accordance with Corporate Governance Code 2015. The parent company of SATO, Fastighets AB Balder, is a listed company in the Stockholm Stock Exchange and it will draft the instructions, policies and reports regarding the remuneration required by the Swedish legislation and Corporate Governance Code from time to time. Those documents may include also information regarding the remuneration of SATO's governing bodies.

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 the appropriateness of the methods used to assess the values.

This statement is being published separately from the annual report of the Board of Directors. The audit committee of the board has handled the statement in its meeting.

### 2. Descriptions concerning corporate governance

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 the 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.

26.2.2020

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 3 April 2019. A total of 16 shareholders attended the meeting, representing 91.3% of the Company's shares and votes. The minutes of the annual general meeting can be found on the Company's website, <https://www.sato.fi/en/sato-company/general-meeting-of-shareholders>.

### **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 <https://www.sato.fi/en/sato-company/rules-of-procedure>.

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 (30,992,806 shares, 54.6 %)

26.2.2020

Erik Selin, chairman

See further information about the member below in section "Board of Directors"

Stichting Depository APG Strategic Real Estate Pool (12,811,647 shares, 22.6 %)

Hans Spikker

See further information about the member below in section "Board of Directors"

Elo Mutual Pension Insurance Company (7,233,081 shares, 12.8 %)

Hanna Hiidenpalo, Master of Economics, born 1966

Chief Investment Officer, Elo Mutual Pension Insurance Company

No shareholdings in SATO Group companies

Finnish Construction Trade Union (619,300 shares, 1.1 %)

Matti Harjuniemi, Bachelor of Arts, born 1958

Chairman, Finnish Construction Trade Union

No shareholdings in SATO Group companies

### 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 of 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 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. 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 3 April 2019 elected seven members to the Board of Directors. All the elected members also acted as members of the Board prior to the annual general meeting. The shareholdings of the members of the Board are presented as on 31 December 2018.

Elected as chairman of the Board of Directors was

- Erik Selin
  - degree in business economics
  - b. 1967, Managing Director, Fastighets Ab Balder
  - Swedish citizen
  - no shareholdings in SATO Group companies
  - no shareholdings in SATO Group companies in by Erik Selin controlled corporations
    - Erik Selin Fastigheter AB (100 % controlled by Erik Selin) owns 57,210,900 B-shares and 8,309,328 A-shares in Fastighets AB Balder which represents 36,4 % of the share capital and 49,9 % of votes. Erik Selin is the member of the Board of Directors and CEO in Fastighets AB Balder. Fastighets AB Balder is the ultimate parent company of SATO Corporation.

Elected as members of the Board of Directors were

- Marcus Hansson
  - M.Sc. (Econ)
  - b. 1974, CFO, Fastighets Ab Balder
  - Swedish citizen

26.2.2020

- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
    - Marcus Hansson owns 156,500 B-shares in Fastighets AB Balder.
- Jukka Hienonen M.Sc. (Econ.)  
b. 1961, professional board member  
Finnish citizen
- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
- Esa Lager LL.M., M.Sc. (Econ.)  
b. 1959, professional board member  
Finnish citizen
- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
- Tarja Pääkkönen D.Sc. (Corporate strategies), M.Sc. (Construction)  
b. 1962, professional board member  
Finnish citizen
- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
- Johannus (Hans) Spikker Economic Geography, University of Amsterdam  
s. 1959, Senior Portfolio Manager Real Estate Europe, APG Asset Management, The Netherlands  
Dutch citizen
- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
- Timo Stenius M.Sc. (Constr. Eng.),  
b. 1956, Director, Unlisted investments (real estate, infrastructure, private equity and private debt Elo Mutual Pension Insurance Company  
Finnish citizen
- no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies

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.

26.2.2020

In 2019, the Board of Directors convened on ten meetings. An average of 92.9 % 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 10/10, Marcus Hansson 10/10, Jukka Hienonen 10/10, Esa Lager 10/10, Tarja Pääkkönen 9/10, Hans Spikker 8/10 and Timo Stenius 8/10.

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, <https://www.sato.fi/en/sato-company/rules-of-procedure>. In addition to matters for decision, the Board of Directors receives up-to-date information on the Company's operations, financial position 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:

1. confirmation of the Group's business strategy and monitoring its implementation
2. confirming and monitoring the annual budget and the business plan
3. 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
4. confirming the Company's dividend policy
5. organization and supervision of risk management, internal control and internal audit
6. decisions regarding SATO Group's financing
7. decisions on significant investments and divestments.

The Board of Directors also appoints and dismisses 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 term of office 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**

The diversity of the Board of Directors supports the Company's business, its development and thus the success of the Company. 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.

While preparing a proposal for the annual general meeting concerning the number of Board members and the persons to be elected as members and Chair the Nomination Committee must take into account the requirement for diversity. The Committee must evaluate the requirements set for the number of the members of the Board, their competence in any given situation and must also evaluate the experience of the Board members, their knowledge of SATO's business, education and distribution of age and gender. A member of the Board of Directors must have the possibility to spend sufficient time on Board work. The number of Board members must be a sufficient. Board members must have different skills to

26.2.2020

support the implementation of the Company's current strategic targets. To support and challenge SATO's management from various perspectives is also one of Board's key tasks.

The requirements for diversity has been implemented in the composition of SATO's Board of Directors. The education and experience of the members of SATO's Board supplement and support that of other members. Each member of Sato's Board has a degree in technology, in business or economics or a Master of Laws degree. Board members have experience in management functions and board memberships in significant companies and of companies operating internationally. A wide experience in housing investment, financing and consumer business is represented in SATO's Board. Both genders (one woman and six men) are represented on the Board of Directors and the span of ages ranges from 45 to 63. The term of office of the Board members has lasted five 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 <https://www.sato.fi/en/sato-company/rules-of-procedure>.

Serving on the Audit Committee in 2019 were Marcus Hansson as Chair and members 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 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 3/3, Esa Lager 3/3, Hans Spikker 2/3 and Timo Stenius 1/3.

Serving on the Nomination and Remuneration Committee in 2019 were Chair Erik Selin and members Jukka Hienonen and Tarja Pääkkönen. All the members are independent of the Company and Tarja Pääkkönen and Jukka Hienonen are also independent of the significant shareholders. The members of the committee attended all the committee meetings, three 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.

As of 1 September 2019, SATO's President and CEO is Sharam Rahi, who is also the Vice CEO of Fastighets AB Balder. Until 31 August 2019 SATO's President and CEO was Saku Sipola, M.Sc. (Tech.).

26.2.2020

## 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. The shareholdings of the members of the Corporate Management Group are presented as on 31 December 2019.

31 December 2019 the Corporate Management Group consisted of

- Sharam Rahi                      President and CEO, Chair of the Management Group  
(as of 1 September 2019)  
b. 1973 (Swedish citizen)
  - no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
    - Sharam Rahi owns 737,822 B-shares in Fastighets AB Balder. His controlled corporation owns 788,879 B-shares in Fastighets AB Balder
  
- Antti Aarnio                      Vice President, Investments  
b. 1972, M.Sc. (Tech.)
  - no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
  
- Antti Asteljoki                      Vice President, Rental Housing Business  
b. 1974, M.Sc. (Econ.)
  - no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
  
- Miia Eloranta                      Director, Marketing and Communications  
b. 1973, M.Pol.Sc.
  - no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies
  
- Markku Honkasalo                      CFO  
b. 1964, LL.M., eMBA
  - no shareholdings in SATO Group companies
  - in controlled corporations no shareholdings in SATO Group companies

The Corporate Management Group convenes once every two weeks. In addition convenes the Wide Corporate Management Group when also the VP, General Counsel; VP, Human Resources and CDO attend the meetings. The focus areas of the Corporate Management Group were in year 2019 the improvement of customer satisfaction, occupational health and safety as well as development of digital operational environment. The Corporate

26.2.2020

Management Groups convened 29 times in 2019. In addition, management groups operate in different areas of business and financing having focus on the monitoring, development and supervision of its own field of business.

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

#### **Overview of the risk management systems**

SATO's risk management is based on the risk assessment embodied in the strategic and annual planning process which assessment also covers the risks of the financial reporting process. Risk assessment includes actions to mitigate the risks. As business risks are considered strategic and operative risks as well as financing and market 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 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.

#### **Overview of 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. In addition, SATO's activities are steered by SATO's internal instructions such as Code of Conduct. SATO's priority is that each person working for SATO Group is acquainted with rules and regulations regarding his/her own tasks and follows them. SATO organizes regularly training about internal instructions and it is an essential part of introduction for work.

The Group's internal control systems serve i.a. 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. Each of SATO's units has its own controller function to assure that the financial reporting meets with Group's instructions.

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. Board members are sent regularly 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.

26.2.2020

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.

#### **4. Other information to be provided in the CG Statement**

##### **Internal audit**

Internal audit supports the Board of Directors in performing its duty of supervision. Internal audit acts in accordance with the annual plan approved by the Audit Committee of the Board. Audit objects are elected in accordance with the Group's strategic targets, estimated risks and focus areas. In year 2019 the internal audit conducted four wide audits.

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.

##### **Related party transactions**

Persons as defined in detail in the SATO Corporation Related Party Instructions must report the related party transactions to the Company in writing.

The report must be submitted for approval prior to completing the related party transaction. In the case of major transactions, the Board of Directors will decide 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. No approval is required in case of ordinary contracts concerning lease of apartments.

In consideration 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, "MAR"), the Finnish Securities Markets Act and they comply with the standards

26.2.2020

of the Financial Supervisory Authority and the guidelines of the Helsinki and Irish stock exchanges where these apply to an issuer of listed bonds.

The insider guidelines include, among other things, guidelines concerning trading in SATO's financial instruments. SATO has no permanent insiders and it does not maintain a list of permanent 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 issued bonds.

In SATO managers (as specified in MAR) are the members of the Board of Directors and the President and CEO. SATO maintains a list of them and persons closely associated to them according to MAR. SATO's managers are prohibited from trading in SATO's financial instruments during the closed period starting 30 days prior to the publication of SATO's financial statement or interim report and ending at the closing of the publication day. Also persons who participate in the preparation of the financial statements or interim reports or their publication are prohibited from trading in SATO's financial instruments during the closed period. A separate record is maintained of these persons. Managers and their closely associated persons must notify SATO and Finnish Financial Supervision Authority of all transactions conducted by SATO's financial instruments within three working days of the transaction.

#### **Audit**

The annual general meeting elects a single auditor for the Company, which must be an audit firm approved by the Finnish Patent and Registration Office. The auditor's term of office is the financial year and its duties end at the closing of the annual general meeting following the one at which it was elected.

The auditor for the financial year 1 January to 31 December 2019 was Deloitte Oy with Eero Lumme, M.Sc. (Econ.), APA as the auditor in charge. The audit examines the accounts, financial statements and administration of the Company and group.

In 2019, the auditor Deloitte Oy was paid auditing fees of EUR 199,000, fees for other assignments related to auditing EUR 82,000 and for other services EUR 9,000 (including all companies belonging to the same group or chain).