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## Corporate Governance Statement 2020

### 1. Introduction

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 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. 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 either the remuneration policy or 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 ultimate 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 financial statements of the parent company of SATO Group 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 board of directors has handled the statement in its meeting.

### 2. Descriptions concerning corporate governance

The authority and governance of the Company are divided between 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.

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

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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 when participating in a general meeting.

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 23 June 2020. A total of eight shareholders attended the meeting, representing 90,1 % 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 on 1 October 2020, 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 (holdings on 1 October 2020: 31,055,003 shares, 54,7 %)

Erik Selin, chairman

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

Stichting Depository APG Strategic Real Estate Pool (holdings on 1 October 2020: 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 (holdings on 1 October 2020: 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 (holdings on 1 October 2020: 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 23 June 2020 elected six members to the Board of Directors. All the elected members also acted as members of the Board prior to the annual general meeting. Marcus Hansson's, M.Sc. (Econ) task as member of the Board of Directors expired at the annual general meeting 23 June 2020. The shareholdings of the members of the Board are presented as on 31 December 2020.

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 holds 10,500 B-shares in Fastighets AB Balder. Erik Selin Fastigheter AB (100 % controlled by Erik Selin) owns 57,200,400 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

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- 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
  
- Johannes (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.

In 2020, the Board of Directors convened on 14 meetings. An average of 96.4 % 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 14/14, Marcus Hansson 7/7, Jukka Hienonen 13/14, Esa Lager 14/14, Tarja Pääkkönen 14/14, Hans Spikker 13/14 and Timo Stenius 14/14.

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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, considering 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 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 have 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

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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 five men) are represented on the Board of Directors and the span of ages ranges from 53 to 64. The term of office of the Board members has lasted six years on average.

### **The committees of the Board of Directors**

At the organisational meeting held after the annual general meeting, the Board of Directors has appointed annually an Audit Committee and a Nomination and Remuneration Committee. The Audit Committee and the Nomination and Remuneration Committee have comprised three to five members elected by the Board of Directors, one of whom serves as Chair. The Board of Directors has decided to abolish the Audit Committee as of 23 February 2020.

The Board of Directors confirms the rules of procedure for the current 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 until 23 February 2020 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. All the members of the Audit Committee participated in its meeting held on 23 February 2020.

Serving on the Nomination and Remuneration Committee in 2020 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, four 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.

Until 18 December 2020 Sharam Rahi served as SATO's President and CEO. Mr Rahi is also the Vice CEO of Fastighets AB Balder. As of 18 December 2020 M.Sc: (Tech.) Antti Aarnio was appointed as SATO's President and CEO.

### **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

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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 2020.

31 December 2020 the Corporate Management Group consisted of

- Antti Aarnio                      President and CEO, Chair of the Management Group (as of 18 2020)  
also Executive Vice President, Rental Housing Business  
b. 1972, M.Sc. (Tech.)
  - 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

In addition, during year 2020 President and CEO Sharam Rahi (until 18 December 2020); EVP, Rental Housing Business, M.Sc. (Econ.) Antti Asteljoki (until 4 February 2020) and Director, Marketing and Communications, M.Soc.Sc. Miia Eloranta (until 3 December 2020) served as members of the Corporate Management Group.

The Corporate Management Group convened once every two weeks in January - March 2020. In addition convened the Wide Corporate Management Group consisting of VP, General Counsel; VP, Human Resources, Chief Digital Officer (CDO) and as of 18 December Commercial Director and VP, Investments. The Wide Corporate Management Group has convened once every two weeks and 3-5 times a week starting in March 2020. The focus areas of the Corporate Management Groups were in year 2020 the matters related to the Corona virus pandemic: the cost efficiency and occupancy rate, the improvement of customer satisfaction, as well as the development of digital operational environment. 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 and supervision is held by the Company's Board of Directors and the President and CEO. The internal audit and internal control support the Board of Directors in performing its duty of supervision.

#### **Overview of internal control**



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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 business units has its own controller function to assure that the financial reporting meets with regulation and 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 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.

#### **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 Board of Directors. Audit objects are elected in accordance with the Group's strategic targets, estimated risks and focus areas. In year 2020 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



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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 Board of Directors.

### **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 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.

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**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 2020 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 235,067, fees for other assignments related to auditing EUR 87,815 and for other services EUR 8,073 (including all companies belonging to the same group or chain).