

CORPORATE GOVERNANCE STATEMENT

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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 cgfinland.fi.

SATO's shares are not publicly listed. SATO has issued corporate bonds, which are listed on the Finnish or Irish stock exchanges, and the Company complies with their rules and regulations for listed bonds as well as the Securities Markets Act and the regulations of supervisory authorities. SATO's home exchange is the Nasdaq Helsinki.

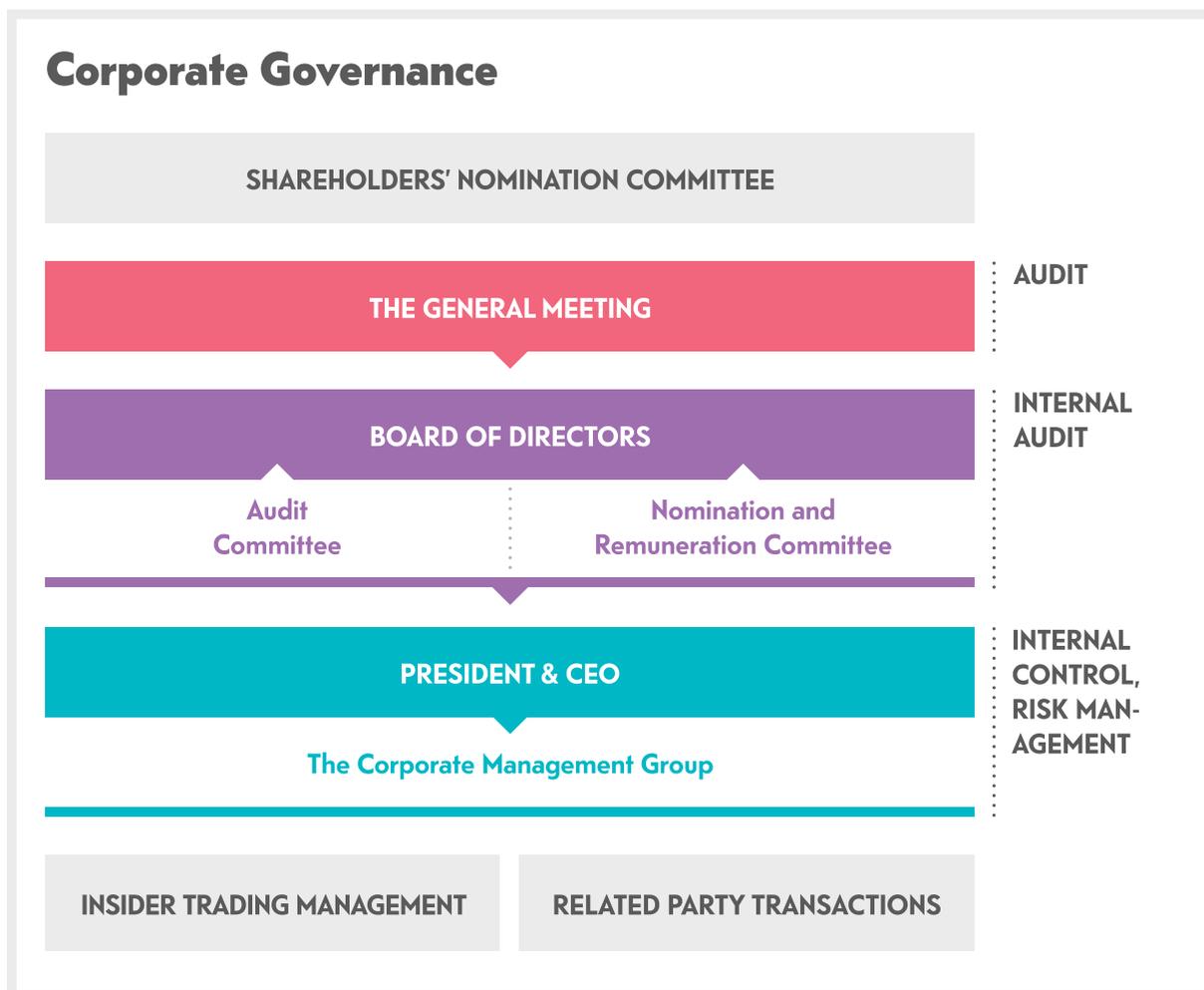
SATO draws up its consolidated financial statements and interim reports in accordance with international, IFRS reporting standards approved in EU. The report of the Company's Board of Directors and the parent company's financial statements have been drawn up in accordance with Finnish accounting legislation. 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

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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 help 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 Companies Act.

The annual general meeting decides on the matters due to it under the Finnish 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 Companies Act, such as share issues, acquisition of the Company's own shares

and changes 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 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 Companies Act also contains regulations concerning nominee-registered shareholders.

In order to ensure dialogue between shareholders and Company bodies and 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 March 2016. A total of 14 shareholders attended the meeting,

representing 95.7 per cent 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 shareholders' Nomination Committee includes representatives of SATO's four largest shareholders, which had been entered in the book-entry system on 1 October and which accept the position. The Chair of the Company's Board of Directors serves as an expert member of the Committee. The Committee elects one of its members to serve as Chair.

The Committee's term of office begins in October each year, when the largest shareholders have named 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 composition of the Committee is determined based on ownership on 1 October and includes Erik Selin (Balder), Hans Spikker (APG), Hanna Hiidenpalo (Elo) and Matti Harjuniemi (Finnish Construction Trade Union). The composition of the Nomination Committee responsible for preparing the 2016 general meeting included Erik Selin (Balder), Andrea Attisani (APG), Hanna Hiidenpalo (Elo) and Reima Ryttsölä (Varma). Chair of the Board of Directors, Esa Lager, also participated in the work of the committee.

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 Board members elected in the annual general meeting on 3 March 2016

Chair

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

Members

Andrea Attisani Snr Portfolio Manager, APG Asset Management B.V.
 b. 1971, degree in business economics
 - no shareholdings
 - no shareholdings in controlled corporations

Marcus Hansson CFO, Fastighets AB Balder
 b. 1974, degree in business economics
 - no shareholdings
 - no shareholdings in controlled corporations

Jukka Hienonen professional board member
 s. 1961, M.Sc. (Econ.)
 - no shareholdings
 - no shareholdings in controlled corporations

Esa Lager professional board member
 b. 1959, LL.M., M.Sc.(Econ.)
 - no shareholdings
 - no shareholdings in controlled corporations

Tarja Pääkkönen professional board member
 b. 1962, D.Sc. (Corporate strategies), M.Sc. (Construction)
 - no shareholdings
 - no shareholdings in controlled corporations

Timo Stenius Director, Unlisted investments (real estate, infrastructure, private equity and
 private debt), Elo Mutual Pension Insurance Company
 b. 1956, M.Sc. (Constr. Eng.)
 - no shareholdings
 - no shareholdings in controlled corporations

Until the general meeting held on 3 March 2016, Chief Investment Officer Ilkka Tomperi, D.Econ. (b. 1975) was a member of the Company's Board of Directors. On 11 July 2016, Andrea Attisani has announced his resignation from his position on the Board of Directors.

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 major 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 2016, the Board of Directors convened on 13 meetings. An average of 96.5 per cent 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 12/13, Andrea Attisani 8/8, Marcus Hansson 10/10, Jukka Hienonen 11/13, Esa Lager 13/13, Tarja Pääkkönen 13/13, Timo Stenius 13/13 and Ilkka Tomperi 3/3.

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 2016, the Board of Directors convened on 13 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
4. confirming the Company's dividend policy
5. supervision of risk management and internal control as well as supervising the effectiveness of the internal audit.

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

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 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, three 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 42 to 60. The term of office of the Board members has lasted two years on average.

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The committees of the Board of Directors

At the organisational meeting held annually after the annual general meeting, the Board of Directors appoints 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 Group's website.

Until 3 March 2016, serving on the Audit Committee were Ilkka Tomperi as Chair and members Tarja Pääkkönen and Timo Stenius. Since 3 March 2016, Marcus Hansson has served as Chair with members being Esa Lager and Timo Stenius. All members have been independent of the Company. Ilkka Tomperi, Tarja Pääkkönen, Esa Lager and Timo Stenius are also independent of the significant shareholders.

Serving on the Nomination and Remuneration Committee in 2016 were Chair Erik Selin and members Andrea Attisani (until 11 July 2016), Jukka Hienonen and Tarja Pääkkönen. All the members are independent of the Company and Esa Lager and Jukka Hienonen are also independent of the major shareholders.

The Audit Committee convened three times and the Nomination and Remuneration Committee convened twice during the 2016 financial year. The members of both committees participated in all committee meetings.

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.) and his deputy is Tuula Entelä (b. 1955), LL.M., B.Sc. (Econ.) (until the expiry of her employment 31 December 2016).

The Corporate Management Group

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

The Corporate Management Group in 2016

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 (since 17 February 2016)
 b. 1972, M.Sc. (Tech.)
 - no shareholdings
 - no shareholdings in controlled corporations

Monica Aro Director, Marketing and Communications (until 28 November 2016)
 Vice President, Development (since 28 November 2016)
 b. 1954, B.Sc. (Econ.), LL.M., MBA
 - shareholding 44 000 shares
 - no shareholdings in controlled corporations

Antti Asteljoki Vice President, Rental Housing Business (since 16 May 2016)
 b. 1974, M.Sc. (Econ.)
 - no shareholdings
 - no shareholdings in controlled corporations

Miia Eloranta Director, Marketing and Communications (since 28 November 2016)
 b. 1973, M.Pol.Sc.
 - no shareholdings
 - no shareholdings in controlled corporations

Tuula Entelä Vice President, Business Development (until 28 November 2016)
 Member of the Corporate Management Group (until 31 December 2016)
 Deputy to President and CEO
 b. 1955, LL.M., B.Sc. (Econ.)
 - shareholding 179,000 shares
 - no shareholdings in controlled corporations

Markku Honkasalo CFO (since 1 December 2016)
 b. 1964, LL.M., eMBA
 - no shareholdings
 - no shareholdings in controlled corporations

M.Sc. (Tech.) Pasi Suutari (b. 1969) has conducted as Vice President, Regional Operations, Construction and Renovations until 16 February 2016 and M.Sc. (Econ.) Esa Neuvonen (b. 1967) as CFO until 6 November 2016.

The Corporate Management Group convenes once a week. The Corporate Management Group convened 45 times in 2016.

INTERNAL CONTROL

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. Each member of the Board of Directors is sent a monthly report on the Group's financial situation 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.

Responsibility for the arrangement of internal control is held by the Board of Directors and by the President and CEO.

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 systematic 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 duties of the internal audit were carried by Ernst & Young Oy. A review of the internal audit is sent once or twice a year to the Audit Committee and management. The internal audit reports are sent not only to the executive management but also to the Chairs of the Board of Directors and Audit Committee. 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 2016 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 2016, the auditor was paid auditing fees of EUR 139 588. The auditor was also paid EUR 169 424 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 business that involves the key employee in question, their close family member or corporation in which said employee or their close family member hold authority 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 Market Abuse Regulation, the Finnish Securities Markets Act and they comply with the standards of the Financial Supervisory Authority and the guidelines of the Finnish 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.