

CORPORATE GOVERNANCE STATEMENT 2017

SUOMEN HOIVATILAT OYJ

27 February 2018

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1 INTRODUCTION

The corporate governance system of Suomen Hoivatilat Oyj (“**Hoivatilat**” or “**the Company**”) is based on the valid legislation and the Company’s articles of association. The Company complies with the rules of Nasdaq Helsinki Ltd (“**Nasdaq**”) and the Finnish Corporate Governance Code 2015 recommendation by the Securities Market Association (“**the Corporate Governance Code**”). The Company adheres to the Corporate Governance Code in its entirety. The Corporate Governance Code is publicly available on the website of the Securities Market Association at www.cgfinland.fi.

The Board of Directors of the Company has approved this Corporate Governance Statement on 27 February 2018, and the Statement forms a separate clarification from the annual report. The CG Statement will be published on the Company’s website: www.hoivatilat.fi.

2 DESCRIPTIONS RELATING TO GOVERNANCE

In accordance with the Finnish Limited Liability Companies Act (624/2006), governance of the Company is divided between the general meeting, the Board of Directors and the Chief Executive Officer. The shareholders exercise their rights mainly in the general meeting, which is normally convened by the Company’s Board of Directors. In addition, a general meeting must be held if the Company’s auditor or shareholders, whose shares represent at least one-tenth of all issued shares of the Company, demand in writing that a general meeting be held.

2.1 General meeting

The general meeting is the highest decision-making body of Hoivatilat. In accordance with the Limited Liability Companies Act, shareholders will exercise their power of decision at the general meeting. The annual general meeting decides on the matters required by the aforementioned Act and the articles of association. The Company’s owners participate in the annual general meeting either personally or through a representative. Each share confers one vote in the annual general meeting.

The ordinary general meeting will be held annually on a date set by the board of directors, within six (6) months of the end of the financial year. In accordance with the Limited Liability Companies Act and the articles of association, the annual general meeting must resolve matters belonging to it, such as the approval of the financial statements and consolidated financial statements, the use of profit indicated by the balance sheet, the election of Board members and auditors and their remuneration as well as the number of Board members. The ordinary general meeting will also resolve to discharge the Board members and the CEO from liability. In addition, an extraordinary general meeting must be held when the board deems it necessary, or when the Company’s auditor or shareholders whose shares represent at least one tenth (1/10) of all shares issued by the Company request it in writing for the consideration of a specified matter.

According to the Company’s articles of association, the notice of the general meeting will be delivered to the shareholders by publishing it on the Company website or in an otherwise verifiable manner no earlier than three (3) months and no later than three (3)

weeks before the general meeting, but at least nine (9) days prior to the record date of the general meeting as referred to in the Limited Liability Companies Act.

2.2 Board of Directors

The Company's Board of Directors is responsible for the management of the Company and the appropriate organisation of its activities. The Board of Directors is responsible for ensuring that the supervision of the Company's accounting and financial management has been appropriately organised. The Board of Directors and individual board members must not comply with any decisions made by the general meeting or the Board of Directors that are invalid due to being contrary to the Limited Liability Companies Act or the Company's articles of association. The general meeting elects the members of the Board of Directors.

The Board of Directors is elected annually at the annual general meeting. Shareholders' Nomination Board (see section 2.4) annually prepares proposals for the annual general meeting concerning the election and remuneration of the Board members. In accordance with to the Company's articles of association, the Company has a Board of Directors consisting of 3–7 ordinary members. The term of office of the Board members ends at the conclusion of the annual general meeting following their election. The chair of the Board of Directors, the Chief Executive Officer and any individuals authorised by the Board of Directors to represent the Company will have the right to represent the Company. The Board of Directors will decide on the granting of the right of representation and the right to sign on behalf of the Company.

2.2.1 The composition and activities of the Board of Directors

The Board of Directors has prepared written rules of procedure for its operations, which include a specification of the Board's tasks and responsibilities.

Among the actions that can be taken by the Board in accordance with the rules of procedure are supervision of the Company's executive management, appointment and dismissal of the CEO, approval of strategic goals and risk management principles for the Company and its business operations, and ensuring the operation of the management system. The Board of Directors also ensures that the principles for internal control of the Company have been specified, and that the effectiveness of these controls is monitored within the Company.

The Board's most important task is to guide the Company's strategy and operations in accordance with the expectations of key stakeholders, so as to produce the greatest possible added value over the long term for the capital that has been invested in the Company. It is the duty of the Board of Directors to promote the interests of the Company and all of its shareholders.

The Board is also responsible for approving the policies and guidelines for internal control, risk management and method of governance, as well as for approving the Company's disclosure policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and monitors their implementation. The Board of Directors also approves annually the investment priorities in the Company's business operations, and in conjunction with this, decides annually on large and strategically significant investments,

acquisitions and divestments. The Board of Directors confirms the Group's corporate structure and the Company's ethical values and operating methods, and monitors their implementation. The Board also monitors the working atmosphere at the Company and the work performance of the staff. In addition, the Board determines the Company's dividend policy, and based on this, submits the dividend proposal to the annual general meeting for approval.

The proposal for the composition of the Board of Directors is prepared by the Shareholders' Nomination Board. In drafting this proposal, the Nomination Board takes into account the Corporate Governance Code's provisions on the independence and competence of the Board members and the Board's principles concerning the diversity of the Board.

A majority of the members of the Board of Directors must be independent of the Company, and at least two members of this majority must be independent of any such shareholders. The Board of Directors assesses the independence of its members in each case.

It is important for the effective functioning of the Board and for the performance of its tasks that the Board membership is diverse, so as to ensure a broad and mutually complementary range of experience and expertise. To be eligible for appointment to the Board of Directors, a candidate must have the qualifications required for the task, and must be able to devote the amount of time needed for carrying out the duties of membership. The performance of the Board and its individual members is assessed regularly every year. The results of these assessments will be taken into account when preparing the proposal for the composition of the new Board.

To ensure diverse support for and development of the Company's business operations, the composition of the Board of Directors must be sufficiently diverse. The Board must consist of both men and women. The membership of the Board of Directors, when assessed as a whole, must have a sufficiently broad range of qualifications, skills and experience. In preparing the proposal on the composition of the Board of Directors, consideration will be given to ensuring adequate diversity of the Board, such as gender equality and diversity of age as well as educational and professional background. To evaluate the diversity and composition of the Board, each candidate for membership of the Board must provide, in confidence and in accordance with the instructions given by the Company, the information that is necessary for evaluating the competence of the candidate and the amount of time the candidate can devote to the task of serving on the Board. This information is used for preparing the proposal for the composition of the Board of Directors.

For the period from 1 January 2017 until 23 February 2017, the Company board members were Pertti Huuskonen, Kristiina Hautakangas, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. Members of the Board of Directors elected in the ordinary general meeting held on 23 February 2017 are Pertti Huuskonen, Satu Ahlman, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. The chairman of the Board of Directors has been Pertti Huuskonen. For the financial year 2017, the Company's Board of Directors convened a total of 12 meetings. Three of these meetings were conducted by email or

telephone. The attendance rate of the members of the Board of Directors was 100%. Basic information on the Board members, their independence, remuneration, shareholdings and attendance at Board meetings is provided in the following tables.

BOARD MEMBERS

Name	Position	Year of birth	Education	Independence from the Company	Independence from significant shareholders in the Company
Pertti Huuskonen	Chair of the Board of Directors	1956	M.Sc. (Eng.), eMBA, marketing degree	Yes	Yes
Satu Ahlman	Board member	1978	Degree in education (early childhood education)	Yes	Yes
Mammu Kaario	Board member	1963	LL.B., MBA	Yes	Yes
Timo Pekkarinen	Board member	1973	Construction engineer, licensed real estate agent	No ¹	Yes
Reijo Tauriainen	Board member	1956	M.Sc. (econ.)	Yes	Yes

¹ Timo Pekkarinen is a shareholder of Rakennusliike Lapti Oy, which is a significant construction operations partner of the Company. He is also the managing director of Lapti Group Oy, which is the parent company of Rakennusliike Lapti Oy.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE BOARD OF DIRECTORS

	31 December 2017	31 December 2017
Name	Quantity of shares	Percentage of stock
Pertti Huuskonen	352,486	1.39%
Satu Ahlman	—	—
Mammu Kaario	—	—
Timo Pekkarinen	1,111,165	4.39%
Reijo Tauriainen	12,300	0.05%
Board of directors total	1,475,951	5.84%

BOARD MEMBERS' REMUNERATION, SERVICES SOLD TO THE COMPANY, AND PARTICIPATION IN BOARD MEETINGS

Name	Remuneration for the Board membership 2017, EUR	Sales of services to the Company 2016, EUR	Participation in board meetings
Pertti Huuskonen	47,500	—	12/12
Satu Ahlman	22,400	—	9/9
Mammu Kaario	26,000	—	12/12

Timo Pekkarinen	21,300	–	12/12
Reijo Tauriainen	27,500	–	12/12
Kristiina Hautakangas	2,100	–	3/3

2.2.2 Presentation of the Board members

Pertti Huuskonen has been the chair of the Board of Directors of Hoivatilat since 2011. Huuskonen has worked at Lunacon Oy since 2011 as an adviser and investor for high-growth enterprises in Finland and the Baltic countries, and as the company's CEO and chair of the board of directors. Huuskonen has been the chair of the board of directors of Lehto Group Oyj since 2014, prior to which he was a board member in 2013–2014. Since 2017, Huuskonen has served as deputy chair of A. Ahlström Kiinteistöt Oy. Huuskonen has also served as a board member in the Estonian residential and retail property development company AS Pro Kapital Grupp and in Kaleva Oy since 2012. Huuskonen was the chair of the board of directors of Technopolis Oyj in 2008–2012, a member of the board in 2012–2013 and the company's CEO in 1985–2008. Before joining Technopolis, Huuskonen was an entrepreneur and managing director at Vakote Oy in 1979–1985. Huuskonen has worked as an academic adviser and working life lecturer at Oulu Business School at the University of Oulu since 2011. He was the Honorary Consul of Sweden in Oulu Province in 1997–2013. Huuskonen's academic qualifications include a M.Sc. degree in Engineering from the University of Oulu in 1983, a marketing degree from the Institute of Marketing in 1986 and an eMBA from the University of Oulu in 1991.

Satu Ahlman has been a member of the Board of Directors of Hoivatilat since 2017. Since 2012, Ahlman has worked as the founder shareholder and since 2015 as the CEO of Ahlman & CO Development Oy, which provides business development services to service providers in the social and healthcare field. Ahlman graduated from the University of Jyväskylä with a bachelor's degree in education and a degree in early childhood education in 2002. In addition, she has undertaken studies at the University of Jyväskylä for a master's degree in economics.

Mammu Kaario has been a member of the Board of Directors of Hoivatilat since 2016. Kaario serves as a board professional in several companies. Among the companies in which she is currently a board member are Robit Oyj, Capman Oyj, Aspo Oyj, Ponsse Oyj and Kastelli Group Oy. Kaario is also chair of the board of two companies, Perusterveys Suomi Oy and SstatzZ Oy. Kaario was a member of the board of directors of Enfo Oyj in 2010–2016, a member of the board of directors of Invalidiliiton Asumispalvelut Oy in 2012–2015 and the chair of the board of directors of the day care centre chain Pilke päiväkodit Oy in 2012–2016. Kaario was the CEO of the investment company Partnera Oy in 2016 and 2017, and before joining Partnera, was an investment director at Korona Invest Oy in 2011–2016. From 2005–2010, Kaario was a Partner at Unicus Oy and from 2006–2010 she was a member of the board of directors of Esperri Care Oy. Kaario has been a member of the board of directors of the Sibelius Academy Foundation since 2015. She is also a founding member of the Finnish Business Angels Network, and served on its board of directors from 2011–2012. In addition, Kaario worked as a Director and Partner at Conventum Corporate Finance Oy in 1998–2004 and an Assistant Director at Prospectus Oy in 1994–1998 and at Kansallis-Osake-Pankki in 1990–1994. She graduated from the University of Helsinki with a bachelor's degree in law 1988, and in 1999 she received an MBA from the Georgia Institute of Technology in Atlanta.

Timo Pekkarinen has been a member of the Board of Directors of Hoivatilat since 2008 and he also served as the Company's CEO from 2008–2010. Pekkarinen is a member of the board of directors of Rakennusliike Lapti Oy, Nuotek Oy and of Tirinom Oy. Pekkarinen has also served as the chair of the board of directors of LapWall Oy. Pekkarinen's membership in the board of directors of LapWall Oy ended 11 January 2018. Pekkarinen has been CEO of Kastelli Group Oy since 1 September 2017, after having served as Vice President of Kastelli Group Oy since 1 March 2017. Pekkarinen was CEO of Rakennusliike Lapti Oy until 31 July 2017. Since 1 January 2018 Pekkarinen has served as CEO of Lapti Group Oy. Timo Pekkarinen studied construction engineering at Sheffield Hallam University from 1995 to 1996 and graduated from the Applied Technical University of Oulu with a construction engineer's degree in 1997. He is also a licensed real estate agent.

Reijo Tauriainen has been a member of the Board of Directors of Hoivatilat since 2015. Tauriainen serves as a board professional in several companies. Tauriainen serves as the chair of the board of directors of MekaPro Oy, Osuuskunta PPO, and Arvo Invest Nordic Oy. He is a member of the board of directors of Nordic Option Oy, LapWall Oy, Propria Oy, Temotek Oy and Temotek Services Ltd. In addition, Tauriainen has been a member of the board of directors of Uros Oy until 13 February 2018. Tauriainen resigned from CFO position of Uros Oy 13 February 2018 and his contract of employment will end 13 April 2018. Tauriainen has extensive and diverse experience of senior roles in strategic and operational management, finance, financial management and human resources management in the property sector, the banking sector and the mobile phone ODM business. Tauriainen was CFO and deputy managing director of Technopolis Oyj until 31 July 2017. Prior to joining Technopolis, Tauriainen worked as CFO at Flextronics ODM Finland Oy in 2001–2004. Tauriainen was also in charge of property leasing, sales, development and maintenance at Kapiteeli Oy as the Regional Manager for the Oulu Regional Unit in 1999–2000, and was Property Manager at Arsenal Oy in 1994–1999. He was a Bank Manager at Suomen Säästöpankki – SSP Oy in 1992–1994 and at Oulun Aluesäästöpankki in 1990–1992. Tauriainen graduated from the University of Oulu with a Master's degree in Economics in 1982

2.3 Board committees

Board committees are set up for improving the preparation process for matters that are the responsibility of the board, by enabling matters to be handled in greater detail. To make their working more effective, the Board has established two permanent committees from among its members: an Audit Committee, and a Compensation Committee. The Committees report to the Board of Directors, and they have confirmed rules of procedure.

The Committees do not have an independent decision-making power but they function as preparatory bodies and bring the matters subject to consideration to be concluded by the Board of Directors. The Board of Directors is responsible for the tasks assigned to the committees. The Committees must report regularly to the Board of Directors. The reports must contain, at the very least, a summary of the matters discussed and actions proposed by the Committees. The ordinary general meeting determines the remuneration of the committee members.

2.3.1 Audit Committee

The Audit Committee prepares matters concerning the Company's financial supervision and reporting. The Board of Directors decided, on 23 February 2017, to appoint Reijo Tauriainen (chair), Mammu Kaario and Timo Pekkarinen as members of the Audit Committee.

The Audit Committee convened five times in the financial year 2017. The attendance rate of the committee members was 93% (Reijo Tauriainen 5/5, Mammu Kaario 5/5 and Timo Pekkarinen 4/5).

In accordance with the Rules of Procedure, the key tasks and operating principles of the Audit Committee are described below.

The basic task of the audit committee is to:

- monitor the financial statements reporting process
- control the financial reporting process
- monitor the efficiency of the Company's internal control, internal audits, if any, and risk management systems
- process the description of the outline of the internal control and risk management systems relating to the Company's financial reporting process included in the Company's Corporate Governance Statement
- monitor the statutory audit of the financial statements and the consolidated financial statements
- assess the independence of the statutory auditor or the authorised public accountants and especially the provision of ancillary services to the Company, and
- prepare the draft resolution concerning the election of the auditor.

The Board of Directors of the Company will appoint the chairman and the members of the Audit Committee. The Audit Committee consists of three (3) board members, of which at least one (1) must have expertise in the field of accountancy, bookkeeping or auditing. The members of the committee are independent of the Company.

The Audit Committee convenes at least four times a year, and besides the Committee members, the CEO and the CFO of the Company will also regularly participate in the Committee meetings. It will also be possible for the auditors of the Company to participate in these meetings. The Committee members may also meet with external auditors without the representatives of the executive management being present at the meeting.

2.3.2 Compensation Committee

The Compensation Committee prepares the matters concerning the compensation of the CEO and the Company's other management as well as the compensation systems for other personnel. On 23 February 2017, the Board of Directors decided to appoint Pertti

Huuskonen (chair), Mammu Kaario and Satu Ahlman as members of the Compensation Committee.

The Compensation Committee convened four (4) times in the financial year 2017. The attendance rate of the Committee members was 100% (Pertti Huuskonen 4/4, Mammu Kaario 4/4 and Satu Ahlman 4/4).

In accordance with the Rules of Procedure, the key tasks and operating principles of the Compensation Committee are described below.

The principal tasks of the Compensation Committee are to:

- prepare matters related to the salaries and other financial benefits of the senior management
- prepare matters concerning the Company's remuneration systems
- assess the remuneration of the CEO and other senior management as well as to ensure the adequacy of the remuneration systems
- answer questions relating to the salary and remuneration report at the general meeting
- prepare matters related to the nomination of the CEO and other senior management as well as survey their potential successors, and
- plan the remuneration of other personnel and the development of the organisation.

The Board of Directors of the Company will appoint the chairman and the members of the Compensation Committee. The members of the Committee must be independent of the Company, and the CEO or other Board members belonging to the senior management may not become a member of the committee.

The Compensation Committee convenes at least twice a year. The Compensation Committee may, if necessary, use external experts. In that case, the Committee makes sure that the advisor is not also an advisor to the operating senior management in any capacity that might cause a conflict of interest.

2.4 Shareholders' Nomination Board

The main task of the Nomination Board is to ensure that the Board of Directors and its members have sufficient expertise and knowledge for the needs of the Company, and in this regard prepare well-founded proposals to the annual general meeting related to the election and remuneration of the Board members. The Nomination Board will also prepare the draft resolution concerning the election of the auditor at the general meeting.

The Shareholders' Nomination Board convened two (2) times in the financial year 2017.

The Shareholders' Nomination Board consists of three members appointed by shareholders:

- Minna Åman-Toivio (chair), who is a member of the Board of Partnera Oy that owns the shares of Nurture Property Holding Oy and Nurture Real Estate Holding Oy
- Kalle Saariaho, CEO of OP Rahastoyhtiö Oy, which manages OP funds
- Johannes Wingborg, Corporate Governance Manager, Länsförsäkringar Fondförvaltning AB

In addition, the chair of the Company's Board of Directors will participate in the work of the shareholders' nomination board as an expert.

The right to nominate members who represent the shareholders rests with the three shareholders whose share of the votes conferred by all the Company's shares is the largest on 1 September. The largest shareholders are determined based on the shareholder register maintained by Euroclear Finland Ltd and the notifications on major shareholdings received by the Company. Shares owned by a shareholder will be deemed to include shares owned by a controlled entity as referred to in section 2, subsection 4 of the Securities Markets Act (746/2012, as amended). Similarly, shareholders who are controlled by the same entity are considered as a single shareholder. If a shareholder does not wish to exercise its nomination right, the right will be transferred to the next largest shareholder who would otherwise not be entitled to nominate a member.

The chair of the Board of Directors will be responsible for requesting the three largest shareholders, based on shareholdings on 1 September of each year, to nominate one member each to the Shareholders' Nomination Board. The Nomination Board will elect a chair from among its members. The term of office of the members of the Nomination Board will end each year once the new Shareholders' Nomination Board has been appointed. The Shareholders' Nomination Board convenes at least once a year.

2.5 Chief Executive Officer

The Chief Executive Officer (CEO) will be in charge of the Company's day-to-day management in accordance with the instructions and orders of the Board of Directors. The CEO will be responsible for ensuring that the Company's accounting complies with law, and that its financial management is organised reliably. The CEO must provide the Board of Directors and its members with the information necessary for carrying out its duties.

The CEO may undertake measures that are unusual or extensive in view of the scope and nature of the Company's operations only if authorised to do so by the Board of Directors, or if it is not possible to wait for a decision by the Board of Directors without causing significant harm to the Company's operations. In the latter case, the Board of Directors must be notified of the actions taken as soon as possible.

Jussi Karjula, born 1975, has been the CEO of Hoivatilat since 2010. Karjula has been a member of the Board of Directors of Lännentila Oy since 2013 and a member of the Board of Directors of Perunakauppa Luonnosta Oy between 2005-2016. Karjula was a member of the Board of Directors of Rakennusliike Lapti Oy in 2008–2012. Prior to joining Hoivatilat, Karjula was the CEO of Pohjoisen Kantaperuna Oy (now Perunamestarit Oy)

in 2004–2010. Karjula was the chair of the industry association Pro Peruna in 2008–2010 and a member of the Board of Directors of the Swedish company HZPC Kantaperuna AB in 2007–2010. Karjula received a BBA in marketing and economics from the Oulu University of Applied Sciences in 1999.

2.6 Other management of the Company

In addition to the CEO, an executive team has been a part of the other management of the Company since 1 February 2017. The executive team meets on average once a month, and at other times as needed. The task of the executive team is to support the CEO in preparing and implementing strategies, action plans and other important and principle-related matters. In addition, the executive team supports the CEO in ensuring internal cooperation and information flow.

In 2017, the members of the Hoivatilat executive team were:

Tommi Aarnio, born 1983, M.Sc.(econ.), CFO. Employed by Hoivatilat since 2015.

Antti Kurkela, born 1972, construction engineer, Sales Director. Employed by Hoivatilat since 2014.

Riikka Säkkinen, born 1979, M.Sc.(econ.), Communications Manager. Employed by Hoivatilat since 2014.

Juhana Saarni, born 1988, BBA, Real Estate Director. Employed by Hoivatilat since 2011.

In addition, Timo Tanskanen was a member of the executive team until 11 September 2017.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE CEO AND THE EXECUTIVE TEAM

	31 December 2017	31 December 2017
Name	Quantity of shares owned	Shares owned as percentage of stock
Jussi Karjula	292,515	1.16%
Tommi Aarnio	36,000	0.14%
Antti Kurkela	2,283	0,01%
Riikka Säkkinen	15,348	0.06%
Juhana Saarni	9,486	0.04%
Total	355,632	1.41%

3 DESCRIPTION OF THE OUTLINE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATING TO THE COMPANY'S FINANCIAL REPORTING PROCESS

3.1 Risk management

The aim of risk management is to manage risks relating to the Company's operations in a proactive and comprehensive manner. The Board of Directors and the CEO of the Company are responsible for ensuring that the Company's risk management is organised appropriately and effectively.

The aim of risk management is to secure the efficiency of the Company's operations and its performance as well as to ensure business continuity. Risk management also secures the reliability of the information concerning the Company as well as compliance with the operating principles applied in the Company.

Risk management is implemented cost-efficiently and systematically throughout the Company. Risk management belongs to the Company's strategic and operative planning and is a part of daily decision-making and the Company's internal control. Risk management is a comprehensive approach formed by the objectives and risks of business operations and the associated risk management measures. Risk management consists of all actions that relate to goal setting, risk recognition, measurement, assessment, handling, reporting, monitoring, control and reaction.

Risk management is aimed at:

- identifying and assessing systematically and comprehensively all significant risks threatening the achievement of goals, including risks relating to business, assets, agreements, expertise, currencies, finance and strategy
- using business opportunities to the greatest extent possible and ensuring business continuity even in exceptional situations
- foreseeing and recognising significant uncertainties and hence developing risk prediction and measures required by the risks
- taking only conscious and carefully assessed risks in, for example, expanding the business, improving market position and creating new business
- avoiding or minimising risk of accidents
- ensuring the safety of products, solutions and services
- creating a safe working environment for the personnel
- minimising the occurrence of harmful practices, crime or malpractice by having clear operating principles and adequate supervision
- providing information about risks and risk management to stakeholders, and
- ensuring cost efficiency.

Risk management does not attempt to:

- remove risks in their entirety
- create unnecessary or inefficient processes or control measures, or
- create additional administrative burden.

3.2 Internal control

The task for internal control is to assess the appropriateness, sufficiency and efficiency of the Company's internal control system and risk management as well as the management and administration processes. Internal control is based on a healthy corporate and leadership culture. The Board of Directors, senior management and entire personnel of the Company apply internal control so that the senior management can be reasonably convinced that

- The different functions of the Company are efficient and effective and comply with the strategy so that the Company optimally promotes the implementation of its business aims and strategy and secures sufficient resources
- The Company's financial reporting and information provided to the senior management are reliable, complete and timely, i.e. the preparation of financial reporting, such as the financial statements, business reviews and half-year reports and information derived from them is reliable
- The Company adheres to applicable laws and regulations as well as the Company's internal guidelines, practices and values.

3.2.1 Hoivatilat's internal control includes the following elements:

- Guidelines and principles of internal control, risk management and administration set by the Board of Directors;
- Introduction and application of guidelines and principles in the control of senior management;
- Monitoring by the finance department of the efficiency and effectiveness of the Company's operations and the reliability of financial and management reporting;
- The Company's risk management process, which is designed to identify, evaluate and reduce risks that threaten the Company's goals;
- Compliance processes to ensure that all applicable laws, regulations, internal guidelines and ethical considerations are respected and upheld;
- Effective control environment at all levels of the organisation, including tailored control measures for specific processes;
- Shared ethical values and a strong culture of internal control among all employees; and
- Where necessary, internal audits to evaluate the effectiveness of internal controls.

3.3 Internal control of financial reporting

With the internal control of the financial reporting, the aim is to ensure the accuracy, reliability, timeliness and appropriateness of financial information.

3.3.1 The financial reporting organisation and its tasks

The Group's financial management is centralised in the parent company. The parent company's organisation, together with an external service provider, provides financial management services to all Group companies. The Group's financial data is jointly produced by the parent company and the external service provider. The key tasks of the financial management are:

- Accounting and Group accounting
- Sales invoicing and handling of accounts receivable
- Management of accounts payable
- Payment transactions
- Calculation of salaries
- Creating financial reports to support monthly business operations
- Cash management and coordination of financial operations
- Control of forecasting and budget process
- Taxation matters
- Company law duties

The Company's Chief Financial Officer is responsible for the Company's financial operations. The CFO is responsible for the operational monitoring of financial operations together with the CEO. The CFO and the CEO report their monitoring observations to the Audit Committee. Financial administration tasks are shared between the parent company and the external service provider on a personal level, and the tasks are included in the job descriptions of the respective teams and persons.

3.3.2 Financial reporting systems

Accounting and the calculation of salaries for the Group companies are carried out using the Tikon system. Group consolidations are made in the Tikon system and IFRS adjustments related to these consolidations are made in Excel format. Management accounting reports are compiled in Excel format. Sales invoicing and invoice processing are arranged in external service provider systems.

3.3.3 Control of financial reporting

The correctness of financial reporting is ensured by guidelines, accreditation and authorisation policies for both internal and external service providers, as well as through distribution of the obligations and tasks related to the general ledger.

The professional skills of the financial management personnel are maintained through regular training. The Company's auditors evaluate the correctness of the reporting, for

example when preparing financial reports, and in the course of the audit work carried out during the financial year. The auditors report their findings to the Board of Directors.

3.4 Areas of responsibility and roles of risk management and internal control

The primary roles and areas of responsibility in respect of the Company's internal control and risk management have been determined as follows:

3.4.1 Board of Directors

The Board of Directors is ultimately responsible for the Company administration and the appropriate arrangement of its operations. The task of the Board of Directors is to ensure, in accordance with the principles of good governance, that the Company has appropriately applied its values in its operations. The Board of Directors determines the risk-taking level and the risk-bearing ability of the Company and regularly re-assesses them as a part of the Company's strategy and goal-setting procedures. The Board of Directors reports to the shareholders.

3.4.2 Audit Committee

The Audit Committee of the Board of Directors is responsible for the following tasks relating to internal control:

- supervision of the financial reporting process;
- assessment of the Group's accounting practices;
- evaluation of the auditor's activities and preparation of a proposal for a decision relating to the auditor;
- assessment of the Group's risk management and interest rate hedging policies.

The Audit Committee reports separately to the Board of Directors.

3.4.3 Chief Executive Officer

The Chief Executive Officer is in charge of the Company's day-to-day management in accordance with the instructions and orders issued by the Board of Directors. The CEO creates the foundation for the internal control environment by demonstrating leadership, providing guidelines to the senior management and estimating their methods of controlling the business.

Only if the Board of Directors has separately given the CEO the authority to do so, the CEO has the right to take action that, given the nature and scope of the Company's operations, is of an exceptional nature or has far-reaching consequences. The CEO must immediately notify the chair of the Board of Directors for the purpose of convening the Board in the event of any exceptional or far-reaching actions that the CEO is not authorised to undertake without the express permission or authorisation of the Board. In connection with the Company's business operations, the sales decisions of completed facilities, the decisions to begin new real estate projects and the selection of main contractors are made by the Board of Directors.

The CEO is under the obligation to report regularly and on his or her own initiative to the Board of Directors on relevant matters and events related to the Company's business operations. The CEO reports on the Company's key events and on irregularities to the Board of Directors at each Board meeting. In addition, the CEO will regularly discuss and report on Company events to the chair of the Board.

The entire personnel of the Company is responsible for regularly monitoring such matters as the state of the real estate projects that are under construction and any irregularities that are observed. In this connection, considerations related to risk management and security must also be taken into account.

3.4.4 Chief Financial Officer and financial management

The task of the CFO is to ensure and supervise that the Company's accountancy and financial reporting practices comply with law and that both the external and internal financial reporting is reliable.

The financial management is responsible for:

- operational monitoring to ensure the appropriateness, adequacy and efficiency of control activities; and
- ensuring that external reporting is reliable, error-free, and timely, and that it complies with the applicable laws and regulations.

4 OTHER REQUIRED INFORMATION

4.1 Insider management

The guidelines for insiders at Hoivatilat will complement the obligations set by EU regulations, domestic regulations (especially the Finnish Securities Markets Act (746/2012) and the Criminal Code of Finland (39/1889)), the instructions of the Finnish Financial Supervisory Authority, and the insider guidelines of Nasdaq Helsinki. The guidelines for insiders are available for the entire personnel of the Company. The Board of Directors of Hoivatilat has approved the Company's guidelines for insiders.

As a result of the entry into force of EU Market Abuse Regulation 596/2014 (MAR), the Company no longer maintains a public insider register, nor does it maintain a permanent Company-specific insider register. Hoivatilat maintains project and event-specific insider lists, which are not public.

The Company is required to disclose insider information related to the Company as soon as possible. However, the Company may decide to postpone disclosure of insider information if the grounds for postponement of disclosure are met. Any such decisions are made at the Company's own risk. In this case, a project-specific insider list must be established by the Company.

The persons to be listed on the project-specific insider list are any persons to whom the Company issues insider information on a specific project. Project-specific insiders are all persons within the Company who have access to inside information and who work for the Company under a contract of employment, or who otherwise carry out work duties through

which they have access to inside information pertaining to the Company. An insider manager is responsible for setting up a project-specific insider list, and for deciding who is to be included on the project-specific insider list at any given time.

The MAR requires the issuer's executives and their related parties to inform the issuer and the Finnish Financial Supervisory Authority on any business operations they conduct with the shares, debt instruments, derivatives or other financial instruments of that issuer. The following executives of the Company are under the obligation to disclose their business operations with the Company's financial instruments:

- Chair and vice chair of the Board of Directors
- Board members and deputy members, if any
- CEO and deputies for the CEO, if any, and
- members of the executive team.

The executives and their related parties are obligated, without delay and at the latest within three business days from the date of the business operation in question, to notify the Company and the Financial Supervisory Authority of any business operations conducted using the Company's financial instruments that exceed the annual limit of EUR 5,000.

The Company must publish the business operations reports made by the notifying executives and their related parties as a stock exchange release as soon as possible, and within three (3) business days of the conducted business operation. The Company maintains a list of the executives and their related parties. The list is not public.

The aforementioned executives who are obligated to disclose their business operations may not, whether on their own behalf or on behalf of a third party, carry out transactions using the companies financial instruments before the publication of the Company's half-year report and the financial statements release during a period that starts 30 days before the release of the business review, half-year report or the financial statements release, and ends at the end of the publication date (i.e. a closed period). If the financial statements contain material information previously undisclosed in the financial statements release, such as future prospects, the closed window will also apply to the financial statements.

The Company recommends that executives who are under the obligation to disclose business operations with Company shares or other financial instruments of the Company, should time these transactions so that they will not weaken trust in the securities market. The Company recommends that the executives who are under an obligation to disclose business operations and who conduct long-term investments in the Company's financial instruments, should choose for their transactions the periods during which the market information is as complete as possible with regard to the matters affecting the price of the Company's financial instruments.

4.2 Management of the related parties

Hoivatilat's related parties consist are the Company's subsidiaries, Board members, CEO, CFO, and shareholders who have significant influence over the Company. In addition, the

Company's related parties include the immediate family of these persons as well as their controlled companies.

The Company has no separate guidance for the related parties. When preparing transactions with a party belonging to the Company's related parties or when deciding on such transactions, the persons who belong to a related party of the Company's contractual partner or counterparty or persons to whom or to whose related party a material benefit could be expected from a transaction carried or not carried out, must participate in decision-making or other handling of the matter. Transactions with the Company's related parties will be executed at fair market prices. The Company has not loaned funds to the senior management and the Company does not have business operations outside the service relationship with the senior management.

4.3 Internal control

The Company does not have a separate internal control organisation. This has been taken into account in determining the content and scope of the annual audit plan. The audit focuses on specific topics at different times and on separately agreed priorities.

4.4 Auditing of accounts

According to section 6 of the Company's articles of association, the auditor selected for the Company will be an auditing firm that has the approval of the Central Chamber of Commerce. The auditor's term of office ends upon conclusion of the Company's ordinary general meeting following the appointment of the auditor. The Company's auditor for the financial year 2017 was the auditing firm KPMG Oy Ab, which appointed Tapio Raappana, APA, as the main auditor of the Company. The total fees paid for auditing during the financial year 2017 were approximately EUR 26,955. In addition, the auditor was paid a total of approximately EUR 35,024 for non-audit services.

4.5 Salary and remuneration statement

Salary and remuneration statement is available at the Company's website at www.hoivatilat.fi/en. The statement is updated regularly.