

CORPORATE GOVERNANCE STATEMENT 2018

SUOMEN HOIVATILAT OYJ

20 January 2019

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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.

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 2.3.2) 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.

From 1 January to 27 March 2018, the Board of Directors consisted of Pertti Huuskonen, Satu Ahlman, Mammu Kaario, Timo Pekkarinen and Reijo Tauriainen. The Board of Directors elected at the Annual General Meeting on 27 March 2018 consisted of Pertti Huuskonen, Satu Ahlman, Harri Aho, Kari Nenonen, Timo Pekkarinen and Reijo Tauriainen, with Pertti Huuskonen as Chairman of the Board. During the 2018 financial year, the Board had seventeen (17) meetings, of which seven (7) were email meetings or teleconferences. The meeting attendance rate among the members of the Board was 97%.

Basic information about 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	Chairman of the Board of Directors	1956	M.Sc. (Tech.), eMBA, marketing degree	Yes	Yes
Satu Ahlman	Board member	1978	Degree in education (early childhood education)	Yes	Yes
Harri Aho	Board member	1969	MBA	Yes	Yes
Kari Nenonen	Board member	1953	MA	Yes	Yes
Timo Pekkarinen	Board member	1973	Construction engineer, licensed real estate agent	No ¹	Yes
Reijo Tauriainen	Board member	1956	MA	Yes	Yes

¹ Timo Pekkarinen is the CEO of Lapti Group Oy, which is the parent company of Rakennusliike Lapti Oy, one of the company's significant construction partners. Pekkarinen is also a member of the Board of Directors of Rakennusliike Lapti Oy and one of its shareholders.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE BOARD OF DIRECTORS

	31 Dec 2018	31 Dec 2018
Name	Quantity of shares	Percentage of stock
Pertti Huuskonen	152,486	0.60%
Satu Ahlman	2,540	0.01%
Harri Aho	—	—
Kari Nenonen	—	—
Timo Pekkarinen	896,489	3.52%
Reijo Tauriainen	12,300	0.05%
Board of Directors total	1,063,815	4.18%

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

Name	Board and committee members' fees 2018, EUR	Sales of services to the company 2018, EUR	Participation in Board meetings
Pertti Huuskonen	58,350	—	16/17
Satu Ahlman	28,753	—	16/17
Harri Aho	23,603	—	12/12
Kari Nenonen	24,303	—	12/12
Timo Pekkarinen	26,753	—	17/17
Reijo Tauriainen	28,953	—	17/17
Mammu Kaario	7,950	—	4/5

2.2.1 Presentation of the Board members

Pertti Huuskonen has served as the Chairman 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 Chairman of the Board of Directors. Since 2017, Huuskonen has served as Deputy Chairman of the Board of Directors of A. Ahlström Kiinteistöt Oy. Huuskonen has also served as a Board member of AS Pro Kapital Grupp, an Estonian residential and commercial development company, since 2012. Huuskonen served as Chairman of the Board of Directors of Lehto Group Oyj from 2014 to 2018 and as a Board member from 2013 to 2014. He also served as a Board member of Kaleva Oy from 2014 to 2018. Huuskonen has served as the Chairman of the Board of Directors of Technopolis Oyj (2008–2012), a member of the Board (2012–2013) and the company's CEO (1985–2008). Before joining Technopolis, Huuskonen was an entrepreneur at Vakote Oy and also served as its managing director (1979–1985). Huuskonen has worked as an academic adviser and a lecturer on working life at Oulu Business School at the University of Oulu since 2011. He was the Honorary Consul of Sweden in Oulu Province from 1997 to 2013. Huuskonen graduated with a Master's degree in technology from the University of Oulu in 1983. He completed a marketing degree at the Institute of Marketing in 1986 and an eMBA at the University of Oulu in 1991.

Satu Ahlman has served as a member of the Board of Directors of Hoivatilat since 2017. Ahlman is the founding partner of Ahlman & CO Development Oy, established in 2012, and has served as its CEO since 2015. The company offers business development and restructuring services for service providers in the social and healthcare sector. Ahlman graduated with a Bachelor's degree in education and a degree in early childhood education from the University of Jyväskylä in 2002. In addition, she has pursued studies towards a Master's degree in economics at the University of Jyväskylä.

Harri Aho has served as a member of the Board of Directors of Hoivatilat since 2018. Aho works as Development Director at LocalTapiola. He served as the CEO of Omasairaala Oy (Pohjola Sairaala) from 2011 to 2016. He has also served as the Deputy CEO of Fonecta Oy (2009–2011), CEO of Academica Oy (2006–2009) and CEO of Suomen Terveystalo Oy (2001–2006). He holds an MBA.

Honorary City Councillor *Kari Nenonen* has served as a member of the Board of Directors of Hoivatilat since 2018. Nenonen served as the Mayor of Vantaa from 2012 to 2018. He has also served as the Deputy CEO of the Association of Finnish Local and Regional Authorities (2010–2011), CEO of the Hospital District of Helsinki and Uusimaa (2007–2009) and the Mayor of Oulu (1999–2006). Nenonen has served as Deputy Chair of the Board of Directors of Keva (Local Government Pensions Institution) since 2013. He served as Chair of the Board of Directors of Technopolis Oyj from 2000 to 2005. Nenonen holds a Master of Arts degree.

Timo Pekkarinen has been a member of the Board of Directors of Hoivatilat since 2008, and he served as the company's CEO from 2008 to 2010. Pekkarinen serves as Chair of the Board of Directors of Rakennusliike Lapti Oy and as a Board member at Tirinom Oy. Pekkarinen has served as the CEO of Lapti Group Oy since 1 January 2018. He also served as Chair of the Board of Directors of LapWall Oy from 2011 to 2018. Pekkarinen

served as the Deputy CEO and CEO of Kastelli Group Oy from 2017 to 2018. Pekkarinen served as the CEO of Rakennusliike Lapti Oy from 2000 to 2017. He studied construction technology at Sheffield Hallam University in 1995–1996 and holds a degree in construction engineering from the Oulu Institute of Technology (1997).

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 temporary CEO of the Pohjanmaan Arvo investment cooperative as of 1 January 2019, until its new CEO assumes their position. Tauriainen serves as Chairman of the Board of Directors of MekaPro Oy, Arvo Invest Nordic Oy ja Sanerall Group Oy and as a Board member at Nordic Option Oy, Lapwall Oy, Propria Oy, Temotek Oy and Temotek Palvelut Oy. Tauriainen has extensive and varied experience in senior roles in strategic and operational management, finance, financial management and human resources management in the real estate sector, the banking sector and the mobile phone ODM business. Tauriainen served as the CFO and Deputy CEO of Technopolis Oyj until 31 July 2017. Prior to joining Technopolis, Tauriainen worked as CFO at Flextronics ODM Finland Oy from 2001 to 2004. Tauriainen graduated with a Master of Arts degree from the University of Oulu in 1982.

2.3 Board committees

The preparation of proposals to the Board of Directors can be improved by establishing Board committees to study matters more extensively. To make its work 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 have no independent decision-making power, but they serve as preparatory bodies and prepare matters to be decided on by the Board. 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 measures proposed by the Committees. The Annual 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. From 1 January to 27 March 2018, the Audit Committee consisted of Reijo Tauriainen (Chair), Mammu Kaario and Timo Pekkarinen. On 27 March 2018, the Board of Directors elected Reijo Tauriainen (Chair), Harri Aho and Kari Nenonen as the members of the Audit Committee.

The Audit Committee convened six (6) times during the 2018 financial year. Its members' meeting attendance rate was 94% (Reijo Tauriainen 6/6, Harri Aho 4/4, Kari Nenonen 4/4, Mammu Kaario 2/2 and Timo Pekkarinen 1/2).

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

The main duties of the Audit Committee include:

- Monitoring the financial statements reporting process
- Controlling the financial reporting process
- Monitoring the efficiency of the company's internal control, internal audits and risk management systems
- Discussing the general description of the internal control and risk management systems related to the company's financial reporting process that is included in its Corporate Governance Statement
- Monitoring the statutory audit of the financial statements and the consolidated financial statements
- Assessing the independence of the statutory auditor or the authorised public accountants, and the provision of supplementary services to the company in particular
- Preparing the draft resolution concerning the election of the auditor.

The Board of Directors of the company appoints the Chair and the members of the Audit Committee. The Audit Committee consists of three (3) Board members, of whom at least one (1) must have expertise in accountancy, bookkeeping or auditing. The members of the Committee are independent of the company.

The Audit Committee convenes at least four (4) times a year, and the CEO and the CFO of the Company also regularly participate in its meetings. The auditors of the company may also attend the Audit Committee's meetings. The Committee members may also meet with external auditors without representatives of the executive management being present at the meeting.

2.3.2 Compensation Committee

The Compensation Committee prepares matters concerning the remuneration of the CEO and the company's other management, as well as compensation systems for other personnel. From 1 January to 27 March 2018, the Compensation Committee consisted of Pertti Huuskonen (Chair), Satu Ahlman and Mammu Kaario. On 27 March 2018, the Board of Directors elected Pertti Huuskonen (Chair), Satu Ahlman and Timo Pekkarinen as the members of the Compensation Committee.

The Compensation Committee convened six (6) times during the 2018 financial year. Its members' meeting attendance rate was 100% (Pertti Huuskonen 6/6, Satu Ahlman 6/6, Mammu Kaario 2/2 and Timo Pekkarinen 4/4).

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

The main duties of the Compensation Committee include:

- Preparing matters related to the salaries and other financial benefits of the senior management

- Preparing matters concerning the company's remuneration systems
- Assessing the remuneration of the CEO and other senior management, as well as ensuring the adequacy of the remuneration systems
- Answering questions related to the salary and remuneration statement at the Annual General Meeting
- Preparing matters related to the nomination of the CEO and other senior management, as well as surveying their potential successors
- Planning the remuneration of other personnel and the development of the organisation.

The Board of Directors of the Company appoints the Chair and the members of the Compensation Committee. The majority of the members of the Committee must be independent of the company, and the CEO or other Board members included in senior management may not become members of the Committee.

The Compensation Committee convenes at least two (2) times a year. The Compensation Committee may use external experts, if necessary. In such a case, the Committee must ensure that the advisor is not serving as an advisor to the operative management in any manner that might lead to a conflict of interest.

2.4 Shareholders' Nomination Board

The main duty 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 prepare well-founded proposals related to the election and remuneration of the Board members to the Annual General Meeting. The Shareholders' Nomination Board was established to operate until further notice. Its members' term of office will end once a new committee has been appointed. The Shareholders' Nomination Board consists of three members appointed by shareholders. The Chair of the company's Board of Directors participates in the Nomination Board's work as an expert.

The three shareholders who hold the largest proportions of voting rights based on shares in the company on 1 September are entitled to appoint members to the Nomination Board. The largest shareholders are determined based on the shareholder register maintained by Euroclear Finland Ltd and flagging notifications received by the company. Shares owned by a shareholder will be deemed to include shares owned by a controlled entity in accordance with chapter 2, section 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 is 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 elects a Chair from among its members. The term of office of the members of the Nomination

Board ends once the new Shareholders' Nomination Board has been appointed annually. The Shareholders' Nomination Board convenes at least once a year.

Based on shareholdings on 1 September 2018, the following shareholders' representatives were elected to the Nomination Board:

- Minna Åman-Toivio (Chair), Deputy Chair of the Board of Directors of Partnera Oy, which owns the share capital of Nurture Property Holding Oy and Nurture Real Estate Holding Oy;
- Timo Leskinen, Chief Investment Officer of OP Asset Management at OP Financial Group, which manages OP mutual funds; and
- Johannes Wingborg, Corporate Governance Manager, Länsförsäkringar Fondförvaltning AB.

Minna Åman-Toivio, who served as Partnera Oy's representative on the Shareholders' Nomination Board, announced that she would resign her memberships of the board on 11 December 2018, as Partnera had sold almost all of its shares in Hoivatilat.

Konstsamfundet r.f. and Kusinkapital Ab announced on behalf of a company to be established (2Care Capital Ab) on 13 November 2018 that the company's total number of shares in Hoivatilat had increased to 14.81%, making 2Care Capital Ab the largest shareholder of Hoivatilat. 2Care Capital announced on 17 January 2019 that Stefan Björkman, CEO of Föreningen Konstsamfundet r.f., would serve as 2Care Capital's representative on the Shareholders' Nomination Board.

2.5 CEO

The Chief Executive Officer (CEO) is in charge of the company's day-to-day management in accordance with the instructions and orders of the Board of Directors. The CEO is responsible for ensuring that the company's accounting practices comply with the 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 measures taken as soon as possible.

Jussi Karjula, born 1975, has served as 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 since 2005. Karjula was a member of the Board of Directors of Rakennusliike Lapti Oy from 2008 to 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 from 2007 to 2010. Karjula graduated with 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, other management of the company includes the Executive Team. The Executive Team meets once a month on average, and at other times as needed. The Executive Team supports 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 Hoivatilat Executive Team consisted of the following members:

Riku Patokoski, b. 1973, Deputy CEO. Joined Hoivatilat in 2018.

Tommi Aarnio, b. 1983, M.Sc. (Econ.), CFO. Joined Hoivatilat in 2015.

Riikka Säkkinen, b. 1979, M.Sc. (Econ.), Communications Director. Joined Hoivatilat in 2014.

Juhana Saarni, b. 1988, BBA, Real Estate Director. Joined Hoivatilat in 2011.

Antti Kurkela served as a member of the Executive Team until 4 December 2018.

DIRECT AND INDIRECT SHAREHOLDINGS OF THE CEO AND THE EXECUTIVE TEAM

	31 Dec 2018	31 Dec 2018
Name	Number of shares owned	Shares owned as percentage of stock
Jussi Karjula	361,916	1.42%
Riku Patokoski	1,200	0.00%
Tommi Aarnio	70,000	0.28%
Juhana Saarni	21,053	0.08%
Riikka Säkkinen	26,915	0.11%
Total	481,084	1.89%

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.