

Sponda Plc

Corporate Governance Statement

This Corporate Governance Statement has been reviewed by the Audit Committee of Sponda Plc's Board of Directors at its meeting on 30 January 2017.

Contents

I INTRODUCTION	3
Regulations and Corporate Governance Code adhered to by Sponda	3
II DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE	4
Sponda Group's Corporate Governance	4
Nomination Board	5
<i>The Nomination Board appointment process</i>	5
<i>Composition and operations of the Nomination Board</i>	6
Board of Directors	6
<i>Composition of the Board</i>	6
<i>Board operations</i>	8
<i>Principles concerning the diversity of the Board of Directors</i>	10
<i>Board Committees</i>	11
<i>Composition of Committees</i>	11
<i>Activities of the Structure and Remuneration Committee</i>	12
<i>Activities of the Audit Committee</i>	12
The President and CEO	13
<i>The President and CEO and his duties</i>	13
Other executive management	14
<i>Organisation, duties and responsibilities of other executive management</i>	14
<i>Members of the Executive Board and their shareholding in the company</i>	14
III DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES RELATED TO THE FINANCIAL REPORTING PROCESS AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS	15
General description of risk management in Sponda.....	15
Main principles for the organisation of risk management	15
Main features of internal control related to financial reporting	16
General description of internal control.....	17
Planning and reporting processes and assessing the fair value of property.....	17
IV OTHER INFORMATION TO BE PROVIDED IN THE CG STATEMENT	19
Internal audit (Description of the organisation of the company's internal audit and the main principles observed in the internal audit)	19
Insider administration	19
Auditors	20

CORPORATE GOVERNANCE STATEMENT

I INTRODUCTION

Regulations and Corporate Governance Code adhered to by Sponda

Sponda Plc is a public limited company registered in Finland and listed on the NASDAQ OMX Helsinki Stock Exchange. Sponda Plc and its subsidiaries constitute the Sponda Group.

In its decision-making and administration, Sponda complies with the Finnish Companies Act and other legal provisions governing public limited companies, and the company's articles of association. Sponda complies with the rules and regulations for listed companies issued by Nasdaq Helsinki Ltd and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association, which entered into force on 1 January 2016. The Corporate Governance Code 2015 is available online on the Securities Market Association's website at www.cgfinland.fi.

In 2016, Sponda did not depart from the recommendations of the Corporate Governance Code 2015.

This Corporate Governance Statement (CG Statement) has been prepared in accordance with the reporting requirements set out by the Corporate Governance Code 2015 and the structure of the CG Statement has been revised to correspond to the structure laid out in the Corporate Governance Code 2015.

This CG Statement is published separately from the Board of Directors' report.

This CG Statement was reviewed by the Audit Committee of Sponda's Board of Directors on 30 January 2017. The description of Sponda's governance and this CG Statement (as well as corresponding CG statements from previous years) are available to the public in the Governance section of the Sponda website at www.sponda.fi.

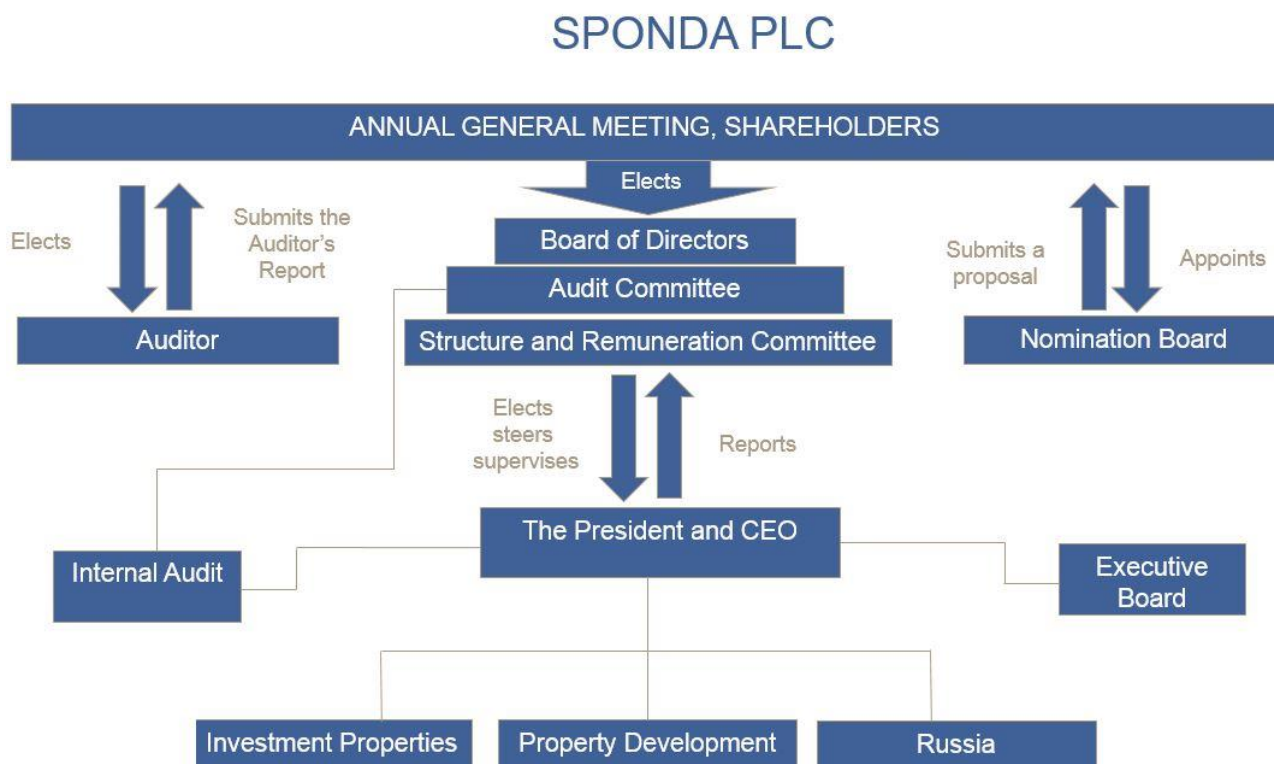
II DESCRIPTIONS CONCERNING CORPORATE GOVERNANCE

Sponda Group's Corporate Governance

As required by the Finnish Limited Liability Companies Act and Sponda's articles of association, control and governance of the company is divided between the shareholders represented at General Meetings, the Board of Directors and the President and CEO.

The highest decision-making power in Sponda is exercised by its shareholders in the General Meeting. Sponda Group is managed by the Board of Directors appointed by the Annual General Meeting (AGM) and the President and CEO. The President and CEO is assisted by an Executive Board.

Corporate Governance structure, Sponda Group (31 Dec 2016)



The company's AGM is held once a year on a date determined by the Board of Directors and within six (6) months of the end of the previous financial year. The AGM considers the matters stipulated in the Finnish Limited Liability Companies Act and Sponda's articles of association. These include confirmation, among others, of the financial statements, deciding on the use of the profit shown in the balance sheet, electing the members of the Board of Directors and deciding on their remuneration, and appointing the company's auditors and deciding on their fees.

Extraordinary general meetings are convened when deemed necessary by the Board of Directors or when required by law.

Sponda publishes the notice of the General Meeting in accordance with its articles of association on the company website and a notice of the General Meeting's time and place, as well as the website address where the notice of the General Meeting can be found, in at least one daily national newspaper determined by the Board of Directors. The notice of the General Meeting is also published as a stock exchange release. Shareholders wishing to attend the General Meeting are required to be registered before the General Meeting in the company's shareholder register and to inform the company of their intention to attend the meeting in the manner stipulated in the General Meeting notice.

Sponda held two General Meetings in 2016. An Extraordinary General Meeting was held on 29 February 2016. The Annual General Meeting was held on 21 March 2016. The minutes of the General Meetings and other General Meeting documentation presented on the company website are available in the Governance section of the website.

Nomination Board

The Nomination Board appointment process

The shareholders' Nomination Board, a permanent body established by the Annual General Meeting on 18 March 2013, assists the Annual General Meeting in nominating members to the Board of Directors and in preparing Board members' remuneration.

The Nomination Board prepares proposals concerning candidate members of the Board of Directors and their remuneration for the following Annual General Meeting.

The Nomination Board is composed of three members appointed by the shareholders. In addition, the Chairman of the Board of Directors shall act as an expert member of the Nomination Board. The three shareholders who are entered in the company's shareholders' register maintained by Euroclear Finland Ltd, and whose portion of the votes produced by all the shares in the company according to the shareholders' register are the greatest on 30 September of the calendar year preceding the Annual General Meeting, have the right to appoint members representing shareholders. If a shareholder does not wish to exercise their right to appoint a member to the Nomination Board, the right shall be transferred to the next largest shareholder according to the shareholders' register who otherwise would not have the right to appoint a member.¹

The Nomination Board is convened by the Chairman of the Board of Directors. The member appointed by the largest shareholder shall act as the Chairman of the Nomination Board, unless otherwise decided by the Nomination Board. The Nomination Board shall submit its

¹The Nomination Board has proposed to the company's Board of Directors on 25 January 2017 that the Board include a change in the Nomination Board's rules of procedure in the notice of the Annual General Meeting 2017. The primary content of the change to the rules of procedure is as follows: The right to appoint members to the Nomination Board is determined according to ownership on 31 August of the calendar year preceding the Annual General Meeting, and the term of office for a member of the Nomination Board will begin when the member is appointed and conclude annually as the new Nomination Board is appointed.

proposal to the company's Board of Directors by 30 January before the Annual General Meeting.

Composition and operations of the Nomination Board

The Nomination Board that submitted proposals to the Annual General Meeting 2016 concerning the members of the Board of Directors and their remuneration was comprised of the following members appointed by shareholders (the three largest shareholders on 30 September 2015):

- **Oy PALSK Ab**, 14.89% of the shares and votes, **represented by Kaj-Gustaf Bergh** (b. 1955), BSc (Econ.), LL.B., Managing Director, Föreningen Konstsamfundet r.f.;
- **Varma Mutual Pension Insurance Company**, 10.27% of the shares and votes, **represented by Pekka Pajamo** (b. 1962), MSc (Econ.), CFO, Varma Mutual Pension Insurance Company;
- **HC Fastigheter Holding Oy Ab**, 10.06% of the shares and votes, **represented by Ole Johansson** (b. 1951), BSc (Econ.), Chairman of the Board, Hartwall Capital Oy Ab.

All members of the Nomination Board are independent of the company. The Nomination Board submitted its proposal concerning the members of the Board of Directors and their remuneration to the Board of Directors on 25 January 2016.

The Nomination Board that submitted proposals to the Annual General Meeting 2017 concerning the members of the Board of Directors and their remuneration was comprised of the following members appointed by shareholders (the three largest shareholders that exercised their right to appoint members on 30 September 2016):

- **Mercator Invest Ab**, 15.66% of the shares and votes, represented by Kaj-Gustaf Bergh (b. 1955), BSc (Econ.), LL.B., Managing Director, Föreningen Konstsamfundet r.f.;
- **HC Fastigheter Holding Oy Ab**, 10.06% of the shares and votes, represented by Ole Johansson (b. 1951), BSc (Econ.), Chairman of the Board of Directors, Hartwall Capital Oy Ab;
- **Varma Mutual Pension Insurance Company**, 8.56% of the shares and votes, represented by Pekka Pajamo (b. 1962), MSc (Econ.), CFO, Varma Mutual Pension Insurance Company;

Oy Palsk Ab (12.41% of the shares and votes on 30 September 2016) notified the company that it will not exercise its right to appoint a member to the Nomination Board. As a result, the right to appoint a member was transferred to the next largest shareholder, Varma Mutual Pension Insurance Company. All members of the Nomination Board are independent of the company. The Nomination Board submitted its proposal concerning the members of the Board of Directors and their remuneration to the Board of Directors on 25 January 2017.

Board of Directors

Composition of the Board

Under Sponda Plc's articles of association, the company has a Board of Directors composed of five to nine (5–9) members. The AGM appoints the members of the Board of Directors based on the proposal of the shareholders' Nomination Board and their appointments are

valid until the conclusion of the next AGM. The Board of Directors elects a Chairman and Deputy Chairman from among its members.

Until the AGM of 21 March 2016, the members of the Board of Directors were **Kaj-Gustaf Bergh** (Chairman), **Arja Talma** (Deputy Chairman), **Christian Elfving**, **Paul Hartwall**, **Juha Laaksonen**, **Leena Laitinen** and **Raimo Valo**.

The AGM of 21 March 2016 decided to change the provision in the articles of association concerning the number of members on the Board of Directors to state that the Board of Directors is composed of five to nine members. The AGM then decided to elect eight members to the Board of Directors. **Kaj-Gustaf Bergh**, **Christian Elfving**, **Paul Hartwall**, **Leena Laitinen**, **Arja Talma** and **Raimo Valo** were re-elected to the Board of Directors, with **Outi Henriksson** and **Juha Metsälä** elected to the Board of Directors as new members. The term of office of the re-elected members of the Board of Directors began at the conclusion of the AGM on 21 March 2016, while the term of office of the new members, Outi Henriksson and Juha Metsälä, began on 23 March 2016 after the change to the articles of association concerning the number of members on the Board of Directors was registered in the Finnish Trade Register.

Members of the Board of Directors in 2015	Year of birth	Board membership	Education	Main occupation	Company of main occupation	Shareholding in Sponda* (31 Dec 2016)
Bergh Kaj-Gustaf (Chairman)	1955	Member and Chairman of the Board since 18 March 2013	B.Sc. (Econ.), LL.B.	Managing Director	Föreningen Konstsamfundet r.f.	89,675
Elfving Christian	1947	Member of the Board since 18 March 2013	M.Sc. (Econ.), MBA (Univ. of Chicago)	President and CEO	Sigrid Jusélius Foundation s.r.	13,339
Hartwall Paul	1981	Member of the Board since 19 March 2014	M.Sc. (Econ.)	CEO	Kusinkapital Ab	10,118
Henriksson Outi	1969	Member of the Board since 23 March 2016	M.Sc. (Econ.)	CFO	VR Group	3,421
Laaksonen Juha	1952	Member of the Board 18 March 2013–21 March 2016	B.Sc. (Econ.)	Member of the Directors' Institute of Finland		0
Laitinen Leena	1970	Member of the Board since 19 March 2014	M.Sc. (Econ.)	CEO	Oy Snellman Ab	10,781
Metsälä Juha	1967	Member of the Board since 23 March 2016	M.Sc. (Eng.), eMBA	President and CEO	Pohjola Rakennus Group PRG Oy	3,421
Talma Arja (Deputy Chairman)	1962	Member of the Board since 2007 and Deputy Chairman of the Board since 19 March 2014	M.Sc. (Econ.), eMBA	Member of the Directors' Institute of Finland		27,239
Valo Raimo	1955	Member of the Board since 2011	LL.M.	President and CEO	East Office of Finnish Industries Ltd	20,826

* (shares in the company held by the Board member and corporations over which he/she exercises control as of 31 December 2016)

Sponda's Board members represent broad experience in the real estate, industrial, financial and commercial sectors. The information on the members of the Board of Directors is also available in the Governance section of Sponda Plc's website at <http://investors.sponda.fi/en/governance/board-of-directors/members-of-the-board>.

The Board of Directors considers that, of its members, Outi Henriksson, Juha Laaksonen², Leena Laitinen, Juha Metsälä, Arja Talma and Raimo Valo are independent of both the company and its major shareholders, and that Kaj-Gustaf Bergh, Christian Elfving and Paul Hartwall are independent of the company. Kaj-Gustaf Bergh and Christian Elfving are considered not to be independent of a major shareholder due to their Board membership in Oy Mercator Invest Ab (and, correspondingly, their previous Board membership in Oy Palsk Ab), which is a major shareholder of Sponda. Paul Hartwall is considered not to be independent of a major shareholder due to his Board membership in Hartwall Capital Oy, whose subsidiary HC Fastigheter Holding Oy Ab is a major shareholder of Sponda.

In its constitutive meeting after the Annual General Meeting of 21 March 2016, the Board of Directors elected Kaj-Gustaf Bergh as its Chairman and Arja Talma as its Deputy Chairman.

Board operations

The Board of Directors is responsible for the company's governance and the appropriate organisation of its operations. The Board guides and supervises the company's executive management, appoints and discharges the President and CEO, approves the company's strategic objectives and the principles underlying its risk management function, and ensures the effective functioning of its management systems. The Board also ensures that the company reinforces in its operations the values it should observe. The Board convenes the Annual General Meeting and prepares draft resolutions for the AGM in keeping with the Limited Liability Companies Act and the company's articles of association.

The Board has approved its own written rules of procedure according to which it

- confirms its own rules of procedure
- confirms the company's operating principles and monitors how they are carried out
- determines the company's dividend policy
- approves the company's strategy and monitors how it is carried out
- approves annually a business plan and budget based on the strategy and monitors how they are carried out
- decides on investments, acquisitions and divestments that are significant and of strategic importance
- decides on donations within the framework of the Limited Liability Companies Act
- sets personal goals annually for the President and CEO and evaluates how those are achieved, and approves the targets for the members of the Executive Board and evaluates how those are achieved
- confirms the Group's organisational structure

² Member until 21 March 2016.

- appoints and discharges from their duties the President and CEO and the members of the Executive Board and decides on the terms of their service and employment contracts and on incentive schemes for them
- prepares draft resolutions as necessary for the AGM concerning remuneration schemes for management and personnel
- monitors management succession issues
- defines the operating principles for the risk management system and internal control
- considers and approves interim reports, the Board of Directors' report and the annual financial statements
- considers other matters that the Chairman of the Board or the President and CEO have submitted to the agenda. Members of the Board are also entitled to bring matters before the Board by informing the Chairman of this.

In 2016, key issues addressed by the Board included monitoring the implementation of Sponda's updated strategy, reacting to changes in the business environment and assessing and approving the capital structure and financing options. The Board also focused on property purchases, property sales, development projects and organisational development.

The general task of the Chairman of the Board is to manage the Board's activities so that its duties are handled as efficiently and adequately as possible.

The Board has a quorum when more than half of its members are present. Decisions are made by a simple majority of votes. In the event of a tie, the Chairman will have the deciding vote. The President and CEO attends Board meetings regularly. Sponda's Chief Financial Officer and the Senior Vice President, Corporate Planning and IR, acted as secretaries in Board meetings in 2016.

A Board member may not participate in the discussion or decision of a matter that has bearing on a company or other organisation in which he or she works or serves as a member of an administrative body.

The Board meets according to a pre-agreed schedule, 7–11 times per year, and holds additional meetings as necessary. In 2016, there were a total of 18 Board meetings with an average attendance rate of 91%.

Members of Sponda Plc's Board of Directors and its committees and members' attendance in meetings in 2016

Board membership	Committee membership	Attendance at Board meetings	Attendance at meetings of the Audit Committee	Attendance at meetings of the Structure and Remuneration Committee
Bergh Kaj-Gustaf (Chairman since 18 March 2013)	Structure and Remuneration Committee (Chair)	17/18	-	3/3
Elfvig Christian (from 18 March 2013)	Structure and Remuneration Committee (Deputy Chair)	17/18	-	3/3
Hartwall Paul (from 19 March 2014)	Audit Committee	16/18	2/4	-
Henriksson Outi ³ (from 23 March 2016)	Audit Committee	9/10	3/3	-
Laaksonen Juha ⁴ (18 March 2013–21 March 2016)	Audit Committee	6/7	1/1	-
Laitinen Leena (from 19 March 2014)	Structure and Remuneration Committee	18/18	-	3/3
Metsälä Juha ⁵ (from 23 March 2016)	Structure and Remuneration Committee	9/10	-	2/2
Talma Arja (Member since 2007 and Deputy Chairman since 19 March 2014)	Audit Committee (Chair)	16/18	4/4	-
Valo Raimo (from 2011)	Audit Committee (Deputy Chair)	15/18	4/4	-

Sponda's Board of Directors evaluates its own performance and working procedures once a year. The evaluation of performance was based on an external evaluation of the Board's performance carried out in November 2016. The Board addressed the results of the survey and considered further actions in its meeting in December 2016. Among other issues, the evaluation focused on the composition of the Board, its work and the material delivered to the Board. The results of the evaluation are used to improve the work of the Board of Directors.

Principles concerning the diversity of the Board of Directors

The diversity of the Board of Directors supports the company's business operations and development. Diversity of the knowhow, experience and opinions of the members of the Board of Directors promotes open discussion and independent decision-making, while also promoting the ability to have an open-minded approach to innovative ideas. Diversity also promotes good corporate governance, efficient supervision of the company's directors and executives, as well as succession planning.

Sponda has defined its principles concerning the diversity of the Board of Directors as follows: Factors to be taken into account when assessing the diversity of the Board of Directors include the members of the Board having complementary educational and professional backgrounds, international experience and the age and gender structure of the Board of Directors. Both genders shall be represented on the Board of Directors.

³ from 23 March 2016

⁴ until 21 March 2016

⁵ from 23 March 2016

The company's principles concerning diversity include the objective that both genders be represented on the Board of Directors. In preparing its proposal to the Annual General Meeting concerning the members of the Board of Directors, the shareholders' Nomination Board has taken into consideration the company's aforementioned diversity principles. The company's objective of having both genders be represented has been realised, as the gender breakdown of the Board of Directors elected by the Annual General Meeting of 21 March 2016 is 62.5% men and 37.5% women.

Board Committees

The Board has established two permanent committees to assist the Board by preparing matters for which the Board is responsible. These permanent committees are the Audit Committee and the Structure and Remuneration Committee. The Board is responsible for carrying out the duties it assigns to the committees. If required, the Board can appoint other committees and working groups from among its own members to prepare matters for the Board's consideration and decision-making.

Composition of Committees

The Board appoints the members and chairs of the committees from among its members. The committee members' term of office is one (1) year, ending at the conclusion of the Annual General Meeting following their election. Each committee has at least three (3) members. A committee meeting has quorum when the chair and at least one (1) other member are present.

The Audit Committee comprises at least three (3) Board members who are independent of the company and its subsidiaries and at least one member shall also be independent of major shareholders. Members shall have the qualifications required by the duties of the committee and at least one member shall possess expertise especially in the field of management accountancy, accounting or auditing. In 2016, the composition of the Audit Committee was as follows: from 1 January to 21 March 2016, the Audit Committee was comprised of Arja Talma as Chair, Raimo Valo as Deputy Chair, and Paul Hartwall and Juha Laaksonen as ordinary members, and from 21 March to 31 December 2016, Arja Talma as Chair, Raimo Valo as Deputy Chair, and Paul Hartwall and Outi Henriksson as ordinary members. The Chief Financial Officer of Sponda acted as secretary in the meetings of the Audit Committee.

The Structure and Remuneration Committee comprises at least three (3) Board members who are independent of the company. In 2016, the composition of the Structure and Remuneration Committee was as follows: from 1 January to 21 March 2016, the Structure and Remuneration Committee was comprised of Kaj-Gustaf Bergh as Chair, Christian Elfving as Deputy Chair and Leena Laitinen as an ordinary member, and from 21 March to 31 December 2016, Kaj-Gustaf Bergh as Chair, Christian Elfving as Deputy Chair, and Leena Laitinen and Juha Metsälä as ordinary members. Sponda's President and CEO also attended meetings of the Structure and Remuneration Committee. The company's President and CEO acted as secretary in the meetings of the Structure and Remuneration Committee.

Composition of the Audit Committee 1 January–21 March 2016	Composition of the Audit Committee 21 March–31 December 2016	Composition of the Structure and Remuneration Committee 1.1. –21 March 2016	Composition of the Structure and Remuneration Committee 21 March–31 December 2016
Talma Arja (Chair)	Talma Arja (Chair)	Bergh Kaj-Gustaf (Chair)	Bergh Kaj-Gustaf (Chair)
Valo Raimo (Deputy Chair)	Valo Raimo (Deputy Chair)	Elfving Christian (Deputy Chair)	Elfving Christian (Deputy Chair)
Hartwall Paul	Hartwall Paul	Laitinen Leena	Laitinen Leena
Laaksonen Juha	Henriksson Outi		Metsälä Juha

Activities of the Structure and Remuneration Committee

The Structure and Remuneration Committee is tasked with assisting the Board in the preparation of matters that fall under the Board's purview. The Committee does not have any independent decision-making power. The Committee is answerable to the Board for carrying out the tasks assigned to it by the Board. The Structure and Remuneration Committee reports regularly to the Board on its work.

The Board has laid out the rules of procedure for the Structure and Remuneration Committee in writing, dictating that the Committee prepares matters relating to the remuneration and financial benefits of company executives, executive remuneration and incentive schemes and the appointment of the President and CEO and other executive management in accordance with the one-over-one principle. The Committee is also responsible for preparing matters relating to Group strategy and structure and mergers and acquisitions.

In 2016, the Structure and Remuneration Committee focused on monitoring the implementation of the updated strategy, business development and the effectiveness and monitoring of remuneration systems.

The Structure and Remuneration Committee met three (3) times in 2016 and the average attendance rate was 100%.

Activities of the Audit Committee

The Audit Committee is tasked with preparing matters that fall under the Board of Directors' purview. The Committee does not have any independent decision-making power. The Committee is answerable to the Board for carrying out the tasks assigned to it by the Board. The Committee reports regularly to the Board on its work. The Audit Committee prepares matters relating to financial reporting, risk management, financial statements and interim reports, auditors, internal audit and compliance with laws and regulations.

The Board has laid out the rules of procedure for the Audit Committee, according to which the Committee is tasked with:

- monitoring the process of financial reporting
- supervising the financial reporting process

- monitoring the efficiency of the company's internal control, internal audit and risk management systems
- reviewing the description of the main features of the internal control and risk management systems in relation to the financial reporting process, which is included in the company's Corporate Governance Statement
- monitoring the statutory audit of the financial statements and consolidated financial statements
- evaluating the independence of the statutory auditor or audit firm, particularly the provision of related services to the company
- preparing the proposal for the resolution on the election of the auditors
- monitoring the company's financial position
- approving the operating instructions for internal audit
- reviewing the plans and reports of the internal audit function
- evaluating compliance with laws and regulations
- maintaining contact with the auditor and reviewing the reports that the auditor prepares for the Audit Committee.

In 2016, the Audit Committee reviewed the financial statement releases and interim reports before their disclosure and recommended that the Board approve them. The Audit Committee also discussed, as per its annual plan, the Group's financing, insurance policies and taxation and annual planning.

The Audit Committee consulted the company's auditors when reviewing financial statement releases and interim reports. The Committee also consulted an external expert that carried out Sponda's internal audit and an external property surveyor during the year.

In 2016, the Audit Committee held a total of four (4) meetings with an average attendance rate of 75%.

The President and CEO

The President and CEO and his duties

Sponda's President and CEO is appointed by the company's Board of Directors. The President and CEO manages the company's day-to-day operations in accordance with the instructions and regulations given by the Board of Directors. The President and CEO is responsible for ensuring that the company's accounting complies with legal provisions and that the company has sufficient capital funds for its purposes. The President and CEO is assisted by the Group's Executive Board, which the President and CEO also chairs.

Kari Inkinen (b. 1957), MSc (Eng.), has served as Sponda's President and CEO since 2005. At the end of the previous financial year (31 December 2016), the President and CEO held a total of 505,096 shares in Sponda. The terms of the President and CEO's service contract are set out in the written contract approved by the Board.

Other executive management

Organisation, duties and responsibilities of other executive management

Sponda's Board of Directors selects the members of the Executive Board at the President and CEO's proposal. The Executive Board assists the President and CEO in managing the company. The Executive Board prepares Group's business strategy and budget and monitors the results of operations. The Executive Board also considers investments and divestments of strategic significance to the whole Group, as well as the company's operational guidelines and reporting.

All members of the Executive Board report to the President and CEO. The Group's Executive Board does not have a formal legal status under the Finnish Limited Liability Companies Act.

As of 7 July 2015, the Executive Board⁶ has been composed of, in addition to the President and CEO, the CFO, the Senior Vice President, Corporate Planning and IR, and the Senior Vice Presidents in charge of the business units, six (6) people in all. In addition to the President and CEO **Kari Inkinen**, the company's Executive Board in 2016 comprised **Pia Arrhenius**, Senior Vice President, Corporate Planning and IR; **Ossi Hynynen**, Senior Vice President, Investment Properties; **Niklas Nylander**, Chief Financial Officer; **Sirpa Sara-aho**, Senior Vice President, Russia; and **Veli-Pekka Tanhuanpää**, Senior Vice President, Property Development.

Members of the Executive Board and their shareholding in the company

Executive Board members (31 Dec 2016)	Year of birth	Member of the Executive Board since	Education	Position in Sponda	Shareholding in Sponda* (31 Dec 2016)
Kari Inkinen	1957	2005	MSc (Eng.)	President and CEO	505,096
Pia Arrhenius	1968	2009	EMBA	Senior Vice President, Corporate Planning and Investor Relations	86,587
Ossi Hynynen	1955	2007	MSc (Eng.)	Senior Vice President, Investment Properties	226,661
Niklas Nylander	1973	2015	MSc (Econ.)	Chief Financial Officer	0
Sirpa Sara-aho	1963	2007	Commercial college graduate	Senior Vice President, Russia	147,445
Veli-Pekka Tanhuanpää	1967	2012	MSc (Eng.), CREM	Senior Vice President, Property Development	37,513

* (shares in the company held by the Executive Board member and corporations over which he/she exercises control as of 31 December 2016)

⁶ After the end of the 2016 financial year, effective from 1 January 2017, the composition of the Executive Board was changed to include seven members: in addition to the President and CEO **Kari Inkinen**, the Executive Board comprises **Pia Arrhenius**, Senior Vice President, Corporate Planning and IR; **Ossi Hynynen**, CIO, Property Investments; **Niklas Nylander**, Chief Financial Officer; **Joona Reunanen**, Senior Vice President, Office Properties; **Henrik Stadigh**, Senior Vice President, Shopping Centres; and **Veli-Pekka Tanhuanpää**, Senior Vice President, Property Development.

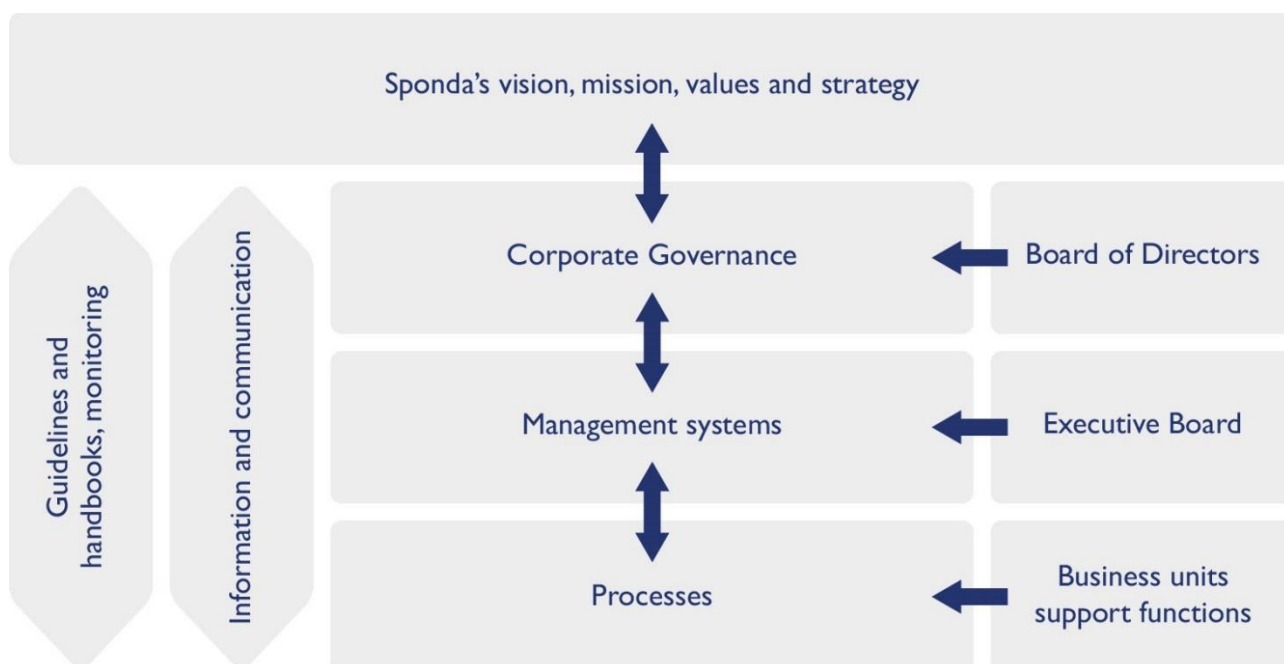
III DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES RELATED TO THE FINANCIAL REPORTING PROCESS AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

General description of risk management in Sponda

Sponda uses effective risk management to ensure the continuity of the company's business, capacity and the achievement of key objectives. Risk management is integrated into the company's planning system and day-to-day operations. Risk management takes into account the Group's risk-bearing capacity. Sponda manages the risks associated with its operations by identifying, measuring and preventing key uncertainties.

Risks are assessed in terms of their probability as well as their financial impact. Achieving financial targets is a sign that risk management has been successful. Sponda's key risks are classified as strategic risks, operational risks, damage and asset risks, and financing risks.

Main principles for the organisation of risk management



Sponda has adopted a systematic approach to risk management and one of the company's key strengths is its ability to integrate risk management into its strategy process, the enterprise resource planning system and business processes.

The responsibility for risk management is determined in accordance with business responsibility. The ultimate responsibility for risk management lies with the Board of

Directors, which sets risk management objectives, decides on risk management policy, organises risk management and monitors key risks. Business units and corporate functions are responsible for arranging for risk management to be monitored and reported as part of the company's other reporting activities. The company's internal audit function monitors the effectiveness of the risk management system.

Risk management is tied to the company's annual planning process and risks are assessed in a risk survey carried out twice a year. The risk survey identifies the company's key risks, assesses the probability of their occurrence and potential impacts thereof, and defines risk management procedures. The Group's risk management instructions and guidelines and the operations manual are updated according to the decisions concerning risk management made on the basis of the risk survey. The risk survey also includes an assessment of the company's approach to risks.

Sponda's toolbox of risk management includes risk aversion, risk elimination and reducing the probability of their materialisation. Risks can also be restricted and reduced. A business continuity and recovery plan has been prepared for the contingency that substantial risks materialise.

Key risks pertaining to the company's operations are described in the Board of Directors' report and on the Sponda website at sponda.fi, in the "Risks" subsection under the Investors section.

The executive management reports Group-level risks to the Board of Directors twice a year. Risk reporting at Executive Board and business unit levels takes place as part of enterprise resource planning.

Sponda's Audit Committee has reviewed the principles of internal control and the internal audit guidelines. The Audit Committee approves the internal audit plan annually.

Main features of internal control related to financial reporting

The risk management in Sponda's financial reporting process constitutes a part of the Group's overall risk management and internal control. The company has defined the main features of its internal control using the international COSO model. The model has been used in defining the control environment, risk assessment method and the applicable control measures. The internal control solutions adopted by the company also take into consideration its industry, the management of the Group as a single entity and the company form of ownership of properties.

The company's internal control is a Group-wide process that involves the Board of Directors, executive directors, other staff members and internal audit. Internal control aims to ensure the effectiveness and appropriateness of the company's operations, the reliability of financial information and reporting as well as compliance with laws and regulations.

General description of internal control

Internal control forms an essential part of the company's management and administration. Sponda's internal control covers all company policies, processes, practices and organisational models, which allow the company's executive management to ensure that Sponda's business operations are conducted in a sound and ethical manner and in full compliance with laws and regulations. The management also ensures that the company's property is responsibly managed and that its financial reporting is appropriate. Internal control is part of Sponda's way of working and it is conducted on all levels of the organisation.

The processes of generating financial information have been clearly defined and assessed. The processes are described in, among other documents, the operating manual, other guidelines and in separate process descriptions. The key processes are related to financial statement information, planning, resource planning and investor relations. Internal control pays special attention to the production of external and internal financial information and its communication as well as information system controls. The risks and critical points of financial information production processes have been identified and related control measures have been defined. Internal controls include executive or managerial assessments, performance indicators, control accounts, physical controls, the prevention of job combinations, which may pose risks, ICT controls and anomaly reports.

Planning and reporting processes and assessing the fair value of property

Business planning in Sponda is based on three-year Group strategies as well as annual action plans and monthly monitoring. The monitoring is complemented by monthly calendar-year forecasts and quarterly rolling 12-month forecasts. The Board of Directors approves the strategy and action plans that establish the targets for the company and each business unit. The annual targets concerning every Sponda employee are established in the personal performance reviews conducted each year. The Board of Directors reviews the monitoring and forecasts on a monthly basis. The Group Control unit under Finance and Treasury is in charge of verifying the accuracy of monitoring. Accuracy is also verified by other internal control methods. The monthly forecasts are produced by the business units. The Group Control unit is in charge of verifying the justifiability of forecasts. The forecasts are drawn up on the basis of the historical data prepared by the Group Control unit.

External financial reports are reviewed by the Board of Directors and Audit Committee prior to their publication. The Audit Committee regularly consults with the auditors and the internal auditor as well as an external expert on property valuation when processing the financial reports. The Board of Directors also receives the auditors' report and internal audit report for evaluation. The operative management analyses external financial reports prior to their review by the Board of Directors and Audit Committee. The business units evaluate the financial reports as far as their own unit is concerned. The Group Control unit under Finance and Treasury is in charge of verifying the accuracy of financial reporting. Various ICT controls and account reconciliation are also used to verify the accuracy of financial reporting.

The fair value of Sponda's investment property portfolio is determined in-house every three months, using the discounted cash flow method (DCF) with at least 10 years' worth of estimates. An external expert has audited Sponda's internal property valuation process as well as the calculation methods and reporting. In addition, Sponda has an external expert

review all property valuation material at least twice every year, to ensure that the parameters and values used are based on market observations. The rental income in cash flow calculations is based on data concerning valid lease contracts retrieved from the property management system and, upon their expiration, on the management's estimations concerning market rents, based on market information. Rental income is adjusted according to occupancy rates and actual maintenance costs estimated by the management. Risk factors pertaining to fair value assessments are taken into account when determining yield requirements.

IV OTHER INFORMATION TO BE PROVIDED IN THE CG STATEMENT

Internal audit (Description of the organisation of the company's internal audit and the main principles observed in the internal audit)

Sponda's operational efficiency, financial performance and risk management are audited internally. The internal audit is performed by an expert appointed from outside the company. The internal audit reports functionally to the Audit Committee and administratively to the President and CEO. The Audit Committee approves operating instructions for internal audit and reviews the annual plans and reports of the internal audit. The internal auditor carries out auditing in accordance with the annual plan and reports on the results of the audit at each Audit Committee meeting.

Insider administration

Sponda Plc's insider administration is based on applicable Finnish and EU legislation (particularly the Market Abuse Regulation 596/2014, "MAR"), on the orders and guidelines given by the authorities and on Nasdaq Helsinki Ltd's Guidelines for Insiders. Sponda Plc has insider and trading guidelines.

Sponda Plc's managers and their closely associated persons have an obligation to notify Sponda Plc and the Finnish Financial Supervisory Authority of their transactions conducted relating to Sponda's shares or other financial instruments as of 3 July 2016 according to the provisions of the Market Abuse Regulation. The company publishes such information as a stock exchange release. In Sponda Plc, the members of the Board of Directors, the President and CEO and the members of the Executive Board are included as persons having managerial responsibilities in the company.

The company maintains insider lists of persons who have access to inside information. These lists and the information contained in the lists are not public. The insider lists and the information contained therein are available to the Financial Supervisory Authority. The information in the public insider register maintained by Euroclear Finland Ltd based on former legislation (updated until 2 July 2016) is available on Sponda's website as required by the transitional provisions of the Securities Market Act.

A person discharging managerial responsibilities within the company may not execute transactions by company's shares or other financial instruments on his or her account or for the account of a third party during a closed period of 30 days before the disclosure of the company's financial statement release, the half-year financial report or the interim financial report. Persons who are entered in a project-specific insider list may not trade in company's shares or other financial instruments during the project on their account or for the account of a third party. Also persons covered by the company's extended trading restrictions are not allowed to trade in company's shares or other financial instruments during the closed period.

Auditors

The company has two (2) auditors: a firm of authorised public accountants and an auditor approved by the Central Chamber of Commerce. In accordance with the Finnish Auditing Act, the auditors are responsible for auditing the company and Group's financial statements, accounts and administration, and for submitting a report on their audit to the Annual General Meeting. The auditors' term of office is one financial year and their duties end at the conclusion of the next Annual General Meeting.

The company's auditors in 2016 were APA Esa Kailiala and authorised public accountants KPMG Oy Ab, with APA Lasse Holopainen as the principal responsible auditor and APA Petri Kettunen as the deputy auditor. APA Esa Kailiala has served as Sponda Plc's auditor from 2013, and Lasse Holopainen in 2003–2004 and again from 2013.

The auditing fees paid to the auditors in 2016 amounted to EUR 183,637.19. A further EUR 489,612.75 was paid to the auditors for other consulting services. These fees, totalling EUR 673,249.94, include all the fees paid to the auditors by Group companies.