

# Q1 INTERIM REPORT 1.1.–31.3.2019



# CONTENTS

<b>Key figures</b> .....	<b>3</b>
<b>SATO Corporation's Interim Report 1 Jan–31 Mar 2019</b> .....	<b>4</b>
CEO Saku Sipola .....	4
Operating environment .....	4
Net sales and profit .....	4
Financial position and financing .....	5
Housing business .....	5
Investment properties .....	5
Personnel .....	6
Annual General Meeting on 3 April 2019 .....	6
Organisation of the Board of Directors .....	6
Events after the review period .....	6
Future risks and uncertainties .....	6
Outlook .....	7
SATO Corporation's shareholders on 25 April 2019 .....	7
<b>Financial trend</b> .....	<b>8</b>
<b>Consolidated income statement, IFRS</b> .....	<b>11</b>
<b>Consolidated statement of comprehensive income, IFRS</b> .....	<b>12</b>
<b>Consolidated statement of financial position, IFRS</b> .....	<b>13</b>
<b>Consolidated statement of cash flows, IFRS</b> .....	<b>14</b>
<b>Consolidated statement of changes in shareholders equity, IFRS</b> .....	<b>15</b>
<b>Notes to the interim report</b> .....	<b>16</b>
<b>Key indicators, group</b> .....	<b>25</b>
<b>Formulas used in calculation</b> .....	<b>26</b>

## KEY FIGURES



Key figure	1-3/2019	1-3/2018	1-12/2018
Net sales	€73.1 million	€72.0 million	€290.4 million
Number of rental apartments	25,879 homes	25,769 homes	25,893 homes
Investment properties	€3.97 billion	€3.70 billion	€3.88 billion
Housing investments	€30.4 million	€18.3 million	€143.5 million
Under construction Finland	1,221 pcs	1,094 pcs	1,116 pcs
Average rent in Finland at the end of review period	17.00 €/m <sup>2</sup> /month	16.68 €/m <sup>2</sup> /month	16.86 €/m <sup>2</sup> /month
Cash earnings	€14.4 million	€13.2 million	€97.9 million
Shareholders' equity at the end of review period	€1,585.2 million	€1,404.8 million	€1,554.5 million

# SATO CORPORATION'S INTERIM REPORT I JAN–31 MAR 2019

## SATO'S POSITIVE DEVELOPMENT CONTINUES SUMMARY FOR I JAN–31 MAR 2019 (JANUARY–MARCH 2018)

- Net sales were EUR 73.1 (72.0) million.
- Profit before taxes was EUR 46.6 (41.7) million.
- Earnings per share were EUR 0.65 (0.58).
- The change in the fair value of investment properties included in the result was EUR 22.7 (17.1) million.
- Equity was EUR 1,585.2 (1,404.8) million, or EUR 28.00 (24.81) per share.
- Investments in rental apartments were EUR 30.4 (18.3) million.
- A total of 0 (15) rental apartments were acquired or completed.
- The occupancy rate in Finland was 98.1 (97.3) per cent.
- A total of 1,090 rental apartments are under construction.

## SATO'S POSITIVE DEVELOPMENT CONTINUES CEO SAKU SIPOLA:

– The first quarter proved to be a strong start to the year. The positive development of customer satisfaction continued during the review period and is an indication of our success across a wide array of activities. This positive development has been impacted, for its part, by the systematic employment of the Customer First strategy on a number of fronts.

– Customer satisfaction also significantly impacted the economic occupancy rate, which continued to improve during the review period, amounting to 98.1 per cent (Q1/2018 97.3%). The external tenant turnover rose slightly to 27.6 per cent (Q1/2018 27.1%).

– During the review period we focussed on deepening the Customer First service model in our partners' customer encounters. At the start of the review period, we announced our fourteenth Partner of the Year. This year the honour went to Unce Kiinteistöpalvelut Oy, which has been especially successful in ensuring that things run smoothly every day. As part of our process to ensure smoother services for customers, we focused also on developing the digital OmaSATO service launched in August of last year.

## OPERATING ENVIRONMENT

Finland's economic growth will continue, but at a slowing rate. Growth is projected to fall to below two per cent in 2019. Inflation has been increasing owing to the rise in raw material prices, while base inflation remains muted. Europe's weak economic development and the resulting loose monetary policy of the European Central Bank is maintaining short-term interest rates

at an exceptionally low level. The confidence of consumers in their own finances has remained at a high level, and consumers' assessment of employment development is optimistic, but their confidence in Finland's economy has declined.

Demand for rental apartments has remained good, and urbanisation continues to be strong. In construction, the number of new construction permits has fallen dramatically but the number of completed apartments is still on the rise.

## REVIEW PERIOD I JANUARY–31 MARCH 2019 (I JANUARY–31 MARCH 2018) NET SALES AND PROFIT

Between January and March 2019, consolidated net sales were EUR 73.1 (72.0) million, showing a change of 1.5 per cent from the reference period. Growth is based on an improvement in the economic occupancy rate and rent development.

Operating profit was EUR 57.8 (52.6) million. The operating profit without the change in the fair value of investment properties was EUR 35.0 (35.6) million. The operating profit was lower than during the comparison period. This was due to a reduction in other operating income of EUR 1.7 million, which was affected, in particular, by the sale of SATO HotelliKoti Oy in the first quarter of 2018. The change in fair value was EUR 22.7 (17.1) million. The adoption of the IFRS 16 *Leases* standard improved the review period's operating profit by EUR 0.7 million. The Group applies IFRS 16 using the modified retrospective application, without restatement of comparatives.

Financial income and expenses totalled EUR -11.2 (-10.9) million. The adoption of the IFRS 16 standard increased the review period's financial expenses by EUR 0.8 million.

Profit before taxes was EUR 46.6 (41.7) million. Cash flow from operations (free cash flow after taxes excluding the change in fair value) between January and March amounted to EUR 14.4 (13.2) million.

## FINANCIAL POSITION AND FINANCING

The consolidated balance sheet totalled EUR 4,030.0 (3,720.0) million at the end of March. Equity was EUR 1,585.2 (1,404.8) million. Equity per share was EUR 28.00 (24.81).

The Group's equity ratio was 39.3 (37.8) per cent at the end of March. The adoption of the IFRS 16 had an impact of -0.5 per cent to the equity ratio. In December 2018, the Board of Directors updated the equity ratio target, raising it to 40 per cent from 35 per cent. EUR 20.1 million in new long-term financing was withdrawn and the solvency ratio was 49.2 (51.6) per cent at the end of March. The strengthening of the equity ratio target and the solvency ratio is the result of a rise in the value of investments properties and a long period of good earnings performance. On 3 April 2019, SATO's Annual General Meeting decided that EUR 0.50 per share be paid in dividends for the 2018 result.

The Group's annualised return on equity was 9.4 (9.4) per cent. Return on investment was 6.5 (6.3) per cent.

Interest-bearing liabilities at the end of March totalled EUR 1,986.9 (1,919.5) million, of which loans subject to market terms accounted for EUR 1,659.3 (1,544.7) million. The average loan interest rate was 2.0 (2.1) per cent. Net financing costs totalled EUR -11.2 (-10.9) million, of which the impact of the adoption of the IFRS 16 standard was -0.8 million. The average maturity of loans was 4.0 (4.5) years.

The calculated impact of changes in the market value of interest hedging on equity was EUR -6.1 (2.6) million.

## HOUSING BUSINESS

*Our housing business includes rental activities, customer service, lifecycle management and maintenance. Effective rental activities and digital services provide home-seekers with quick access to a home, and the Group with a steadily increasing cash flow. High-quality maintenance operations ensure the comfort of residents and that the apartments stay in good condition and maintain their value. We serve our customers in daily housing issues through our customer-oriented service organisation.*

Due to an improved economic occupancy rate, rental income rose by 1.5 per cent and were EUR 73.1 (72.0) million. The economic occupancy rate of apartments in Finland was 98.1 (97.3) per cent on average, and the external tenant turnover was 27.6 (27.1) per cent. The rise in the economic occupancy rate was partly the result of measures based on the Customer First strategy. External tenant turnover rose slightly compared to the corresponding period last year as a result of renova-

tions started during the review period.

The average monthly rent of SATO's rental apartments in Finland at the end of the review period was EUR 17.00 (16.68) per m<sup>2</sup>.

Net rental income from apartments stood at EUR 43.5 (42.1) million, and the net rental income rate was 4.6 (4.7) per cent.

## INVESTMENT PROPERTIES

On 31 March 2019, SATO owned a total of 25,879 (25,769) apartments. Altogether 0 rental apartments were acquired or completed. The total number of divested rental apartments and shared ownership apartments redeemed by the owner-occupants was 14.

### Fair value

*The development of the value of rental apartments is a key factor for SATO. Its housing stock is concentrated in areas and apartment sizes which are expected to be the focus, in the long term, of increasing rental apartment demand. The allocation of building repairs is based on life-cycle plans and repair need specifications.*

At the end of March, the fair value of investment properties in Finland and St. Petersburg came to a total of EUR 3,971.6 (3,669.4) million. The change in the value of investment properties, including the rental apartments acquired and divested during the review period, was EUR 96.5 (39.0) million. In addition to investments and divestments, the change in value was affected by the development of market prices and change in the value of rouble.

Of the value of apartments, the Helsinki metropolitan area accounted for some 80 per cent, Tampere and Turku made up 14 per cent, Jyväskylä and Oulu 3 per cent and St. Petersburg covered 3 per cent at the end of March.

### Investments, divestments and property development

*Investment activities are used to manage the housing portfolio and prepare the ground for growth. Since 2000, SATO has invested more than EUR 2.0 billion in non-subsidised rental apartments. SATO acquires and builds entire rental buildings and single rental apartments. Property development allows for new investments in rental apartments in Finland. The rental potential and value of rental apartments owned by SATO are developed through renovation activities.*

Investments in rental apartments stood at EUR 30.4 (18.3) million. Investments in the Helsinki metropolitan area represented 95 per cent and investments in new apartments represented 72 per cent of all investments in the review period. On 31 March 2019, binding purchase agreements in Finland totalled EUR 103.5 (133.9) million.

During the review period, 14 (6) rental apartments were divested in Finland. Their total value was EUR 2.6 (0.7) million.

The book value of plot reserves totalled EUR 36.8 (50.7) million at the end of March. The value of new plots acquired by the end of March totalled EUR 0.0 (0.0) million.

The permitted building volume for approximately 2,500 apartments is being developed for the plots in the company's housing portfolio. This allows SATO to utilise existing infrastructure, create a denser urban structure and thus bring more customers closer to services and public transport connections.

In Finland, a total of 0 (15) rental apartments and 0 (0) apartments for sale were completed. On 31 March 2019, a total of 1,090 (1,062) rental apartments and 131 (32) owner-occupied apartments were under construction.

A total of EUR 14.1 (9.1) million was spent on repairing apartments and improving their quality.

At the end of March, SATO owned 534 (534) completed apartments and 0 (0) apartments under construction in St. Petersburg. The economic occupancy rate of rental apartments in St. Petersburg was 93.6 (92.2) per cent on average. For the time being, SATO will refrain from making new investment decisions in Russia. The share of investments in Russia is limited to a maximum of 10 per cent of the Group's housing assets.

## PERSONNEL

At the end of March, the Group employed 219 (207) people, of whom 204 (195) had a permanent employment contract. The average number of personnel was 218 (209) between January and March.

## ANNUAL GENERAL MEETING ON 3 APRIL 2019

The Board of Directors of SATO Corporation was confirmed to consist of seven members. The Annual General Meeting elected Erik Selin as Chairman of the Board. Marcus Hansson, Jukka Hienonen, Esa Lager, Tarja Pääkkönen, Johannus (Hans) Spikker and Timo Stenius will continue as Board members.

Audit firm Deloitte Oy were selected as the company's auditor.

The Annual General Meeting decided that SATO Corporation will distribute EUR 0.50 per share in dividends for the financial period ending on 31 December 2018. The date of record for dividend distribution is 5 April 2019 and the dividends were paid on 12 April 2019.

## ORGANISATION OF THE BOARD OF DIRECTORS

At its organisation meeting on 3 April 2019, the company's Board of Directors elected Jukka Hienonen as the Deputy Chairman of the Board of Directors from among its members.

The Board of Directors elected Erik Selin as Chairman of the Nomination and Remuneration Committee, and Jukka Hienonen and Tarja Pääkkönen as its members.

The Board of Directors elected Marcus Hansson as Chairman of the Audit Committee, and Esa Lager, Johannus (Hans) Spikker and Timo Stenius as its members.

## EVENTS AFTER THE REVIEW PERIOD

In April, a winner was selected in the architectural design competition for the Myyrmäki MyyrYork Downtown area.

SATO is one of the land owners in the area and the design competition was realised together with three partners and the City of Vantaa. Our objective is to develop 62,000 floor square metres of homes and 14,000 floor square metres of commercial space in an area where the current buildings, such as the Isomyyri shopping centre, will be demolished. Myyrmäki is a major regional centre where SATO wishes to increase its supply of rental apartments and develop new rental homes that are located optimally in terms of traffic and services. Development of the area will continue as plan alterations, based on the winning entry "Muree Myrtsi". Construction is estimated to begin in 2021.

## FUTURE RISKS AND UNCERTAINTIES

Risk management is used to ensure that risks impacting the company's business are identified, managed and monitored. The main risks of SATO's business are risks related to the business environment and financial risks.

The most significant risks in the renting of apartments are related to economic cycles and fluctuations in demand. A clear weakening in the housing market could have a negative impact on the market value of SATO's housing portfolio. In accordance with its strategy, SATO focusses its investments on growth centres, thus ensuring the rental potential of its apartments and the development of their value.

Changes in official regulations and legislation and uncertainty stemming from them can have a significant impact on the reliability of the investment environment and thus on SATO's business. SATO monitors and anticipates these changes and also calls attention to what it considers to be negative impacts of regulation.

The management of financial risks is steered by the Group's financial policy. Our risk management principles have been defined in the treasury policy approved by SATO's Board of Directors. Our most significant financial risks relate to liquidity, refinancing and interest rates. We manage our liquidity and refinancing risks by diversifying the financing sources and maturity of our loan portfolio, and by holding sufficient liquidity reserves in the form of committed credit facilities and other financing commitments.

The means for managing the liquidity risk at SATO include cash assets, a bank account limit, committed credit facilities of EUR 400 million, and a commercial paper programme of EUR 400 million. We increase the amount of reserves as the funding requirements grow. Our objective is to keep the liquidity requirements of the next 12 months covered by committed agreements.

Floating rate loans form an interest rate risk which we manage by balancing the share of fixed and floating rate loans either by issuing fixed rate loans or by interest rate hedges. According to our treasury policy, our objective is to keep the ratio of fixed rate loans at over 60 per cent of debt portfolio after interest hedging.

There are risks related to the business environment in our St. Petersburg operations, including currency risk. The consolidation of foreign currency-denominated assets in the

consolidated financial statements also involves a translation risk. Possibilities of hedging the translation risk are evaluated in accordance with our treasury policy. For the time being, SATO will refrain from making new investments in Russia.

A more detailed description of risks and risk management is available in the Group's annual report for 2018 and on the website [www.sato.fi](http://www.sato.fi).

## OUTLOOK

In the operating environment, SATO's business activities are mainly affected by consumer confidence, the development of purchasing power, rent and price development for apartments, general competition and interest rates.

The Finnish economy is expected to continue its solid growth path, but growth is expected to slow down. Due to Europe's weak economic development, interest rates are expected to remain low in 2019, which will have a positive impact on SATO's financing costs.

Continuous urbanisation provides good long-term conditions for sustained investments in SATO's main operating areas in Finland. Net migration is expected to be the highest form of population increase in SATO's operating areas. Some 80 per cent of SATO's housing stock is located in the Helsinki metropolitan area, where price development is expected to

be more positive than in the rest of Finland.

According to estimates by Pellervo Economic Research (PTT), prices and rents will continue to rise, demand for owner-occupied apartments will grow, and a pick-up in housing sales will somewhat alleviate the pressure on the rental market.

The number of construction permits applied for has fallen dramatically, due to which the historically high rate of housing construction is expected to decrease in the coming years.

According to the Bank of Finland's forecast, global economic growth will slow down. Loose financing conditions will support the positive development of the eurozone, even though this growth outlook is overshadowed by the uncertainties related to the Brexit negotiations, other political events that may slow down economic growth, and concerns related to the state of the banking sector in certain countries in the eurozone and to the public finances outlook.

Serious threats, such as an increase in protectionism and geopolitical tensions, are casting a shadow on the global economic outlook. The risk of weaker financial performance will also increase due to possible global corrections in asset prices and the deceleration of the reform rate in both China and the eurozone, while the volume of debt remains large (Source: Bank of Finland).

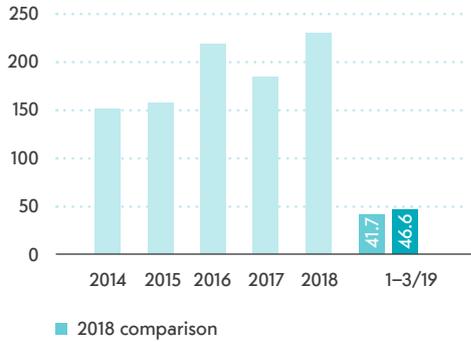
## SATO CORPORATION'S SHAREHOLDERS ON 25 APRIL 2019

Largest shareholders and their holdings	pcs	%
Balder Finska Otas AB (Fastighets AB Balder)	30,892,806	54.4%
Stichting Depository APG Strategic Real Estate Pool	12,811,647	22.6%
Elo Mutual Pension Insurance Company	7,233,081	12.7%
The State Pension Fund	2,796,200	4.9%
The Finnish Construction Trade Union	619,300	1.1%
Valkila Erkkä	390,000	0.7%
Hengityssairauksien tutkimussäätiö	227,000	0.4%
Rausanne Oy	194,920	0.3%
Entelä Tuula	179,000	0.3%
SATO Corporation	160,000	0.3%
Others (106 shareholders)	1,279,113	2.3%

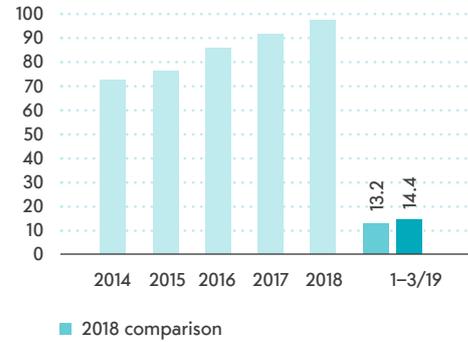
On 25 April 2019, SATO had 56,783,067 shares and 116 shareholders registered in the book-entry system. The share turnover rate was 0.02 per cent for the period 1 January–25 April 2019.

# FINANCIAL TREND

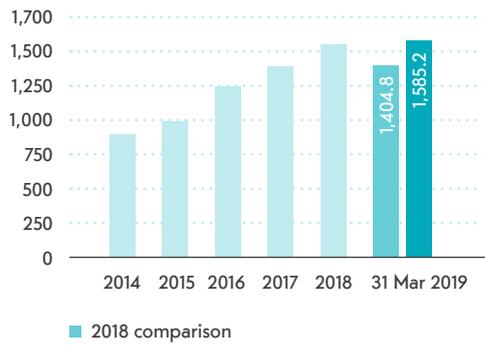
Profit before taxes, MEUR



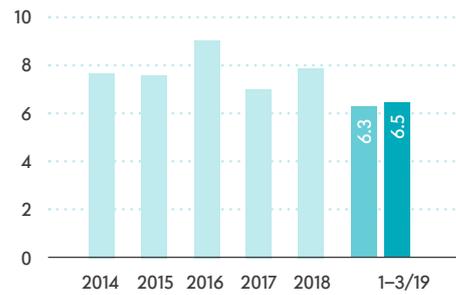
Cash earnings (CE), MEUR



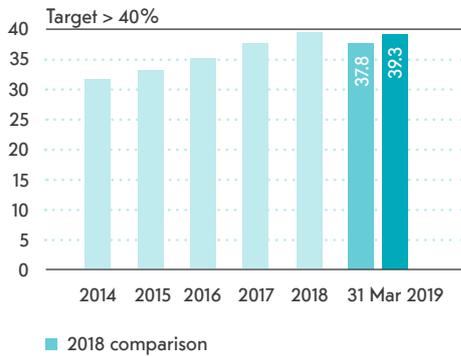
Shareholders' equity, MEUR



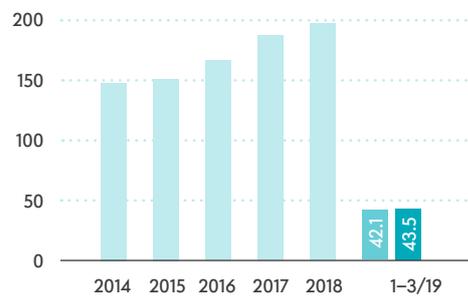
Return on invested capital, %



Equity ratio, %



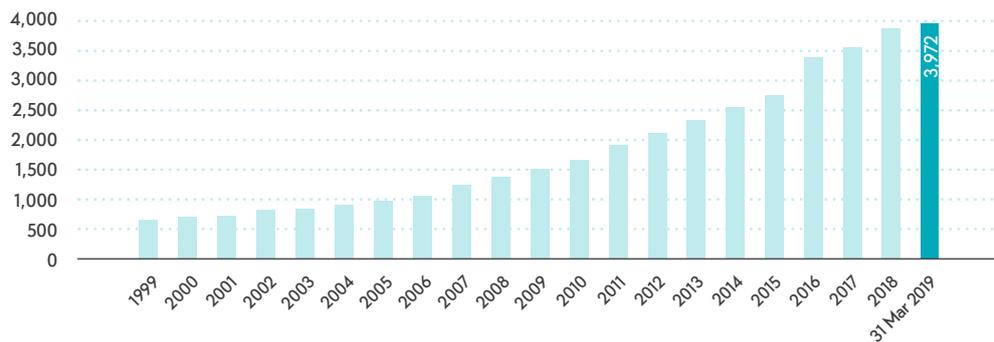
Net rental income, MEUR



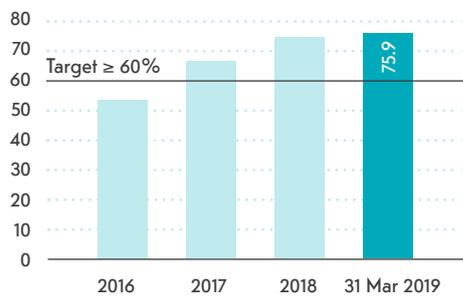
### Housing investments and divestments, MEUR



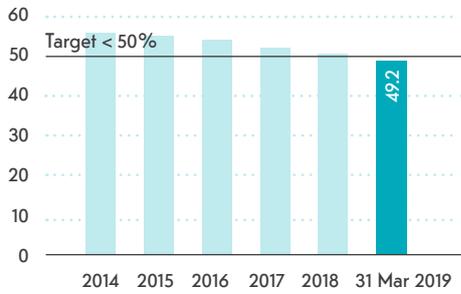
### Trend in the investment property portfolio value, MEUR



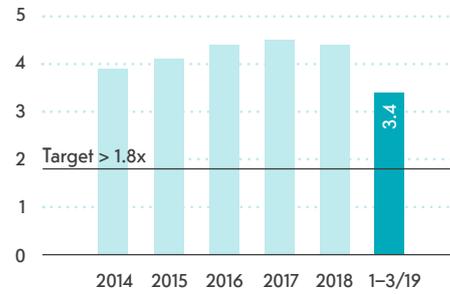
### Unencumbered assets, %



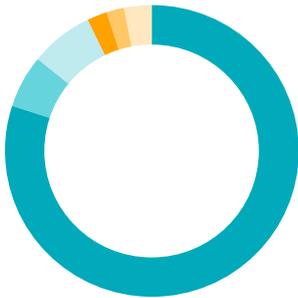
Solvency ratio, %



Interest coverage ratio



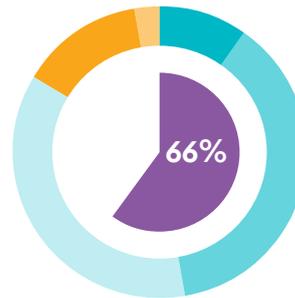
Regional distribution of the housing portfolio, 31 March 2019



- Helsinki Metropolitan Area 80%
- Turku region 6%
- Tampere region 7%
- Jyväskylä region 2%
- Oulu region 2%
- St. Petersburg 3%

Total housing portfolio MEUR 3,819.0

Debt portfolio, Nominal values 31 March 2019, total MEUR 2,003



- Commercial papers 199
- Corporate bonds 749
- Bank loans 727
- Interest subsidised 274
- State subsidised (ARAVA) 53
- 66% of loans without asset based securities

## CONSOLIDATED INCOME STATEMENT, IFRS

MEUR	1 Jan–31 Mar 2019	1 Jan–31 Mar 2018	1 Jan–31 Dec 2018
Net sales	73.1	72.0	290.4
Property maintenance expenses	-29.6	-29.9	-91.9
<b>Net operating income</b>	<b>43.5</b>	<b>42.1</b>	<b>198.5</b>
Fair value change of investment properties, realised	-0.5	0.0	3.8
Fair value change of investment properties, unrealised	22.7	17.1	102.0
Sales, marketing and administrative expenses	-7.8	-7.9	-33.4
Other operating income	0.0	1.7	3.8
Other operating expenses	-0.1	-0.3	-1.3
<b>Operating profit</b>	<b>57.8</b>	<b>52.6</b>	<b>273.3</b>
Financial income	0.2	0.2	0.9
Financial expenses	-11.4	-11.1	-43.5
	<b>-11.2</b>	<b>-10.9</b>	<b>-42.5</b>
<b>Profit before tax</b>	<b>46.6</b>	<b>41.7</b>	<b>230.8</b>
Income tax expenses	-9.8	-8.7	-46.5
<b>Profit for the period</b>	<b>36.7</b>	<b>33.0</b>	<b>184.3</b>
<b>Profit for the period attributable to</b>			
Equity holder of the parent	36.7	33.0	184.3
Non-controlling interests	0.0	0.0	0.0
<b>Profit for the period</b>	<b>36.7</b>	<b>33.0</b>	<b>184.3</b>
<b>Earnings per share attributable to equity holders of the parent</b>			
Basic, EUR	0.65	0.58	3.26
Diluted, EUR	0.65	0.58	3.26
Average number of shares, million	56.6	56.6	56.6

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

MEUR	1 Jan–31 Mar 2019	1 Jan–31 Mar 2018	1 Jan–31 Dec 2018
<b>Other comprehensive income</b>			
Remeasurement of defined benefit liability, net of tax	0.0	0.0	0.0
Related tax	0.0	0.0	0.0
<b>Items that will never be reclassified to income statement</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Cash flow hedges	-7.6	3.2	1.2
Translation differences	0.0	0.0	-0.1
Related tax	1.5	-0.6	-0.2
<b>Items that may be reclassified subsequently to income statement</b>	<b>-6.1</b>	<b>2.5</b>	<b>0.9</b>
<b>Other comprehensive income, net of tax</b>	<b>-6.1</b>	<b>2.5</b>	<b>0.9</b>
<b>Total comprehensive income</b>	<b>30.7</b>	<b>35.5</b>	<b>185.2</b>
<b>Comprehensive income attributable to</b>			
Equity holders of the parent	30.7	35.5	185.2
Non-controlling interest	0.0	0.0	0.0
	<b>30.7</b>	<b>35.5</b>	<b>185.2</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	3,971.6	3,669.4	3,875.1
Tangible assets	2.4	2.2	2.4
Intangible assets	2.7	1.9	2.6
Investments in associated companies	0.0	0.0	0.0
Other non-current investments	1.9	1.7	1.9
Right-of-use assets	7.1	0.0	0.0
Non-current receivables	7.0	10.9	8.5
Deferred tax assets	14.4	13.6	12.9
<b>Total</b>	<b>4,007.0</b>	<b>3,699.6</b>	<b>3,903.4</b>
<b>Current assets</b>			
Account and other receivables	9.6	13.3	11.9
Current tax assets	8.1	3.7	1.7
Cash and cash equivalents	5.3	3.4	5.4
<b>Total</b>	<b>23.0</b>	<b>20.4</b>	<b>19.0</b>
<b>TOTAL ASSETS</b>	<b>4,030.0</b>	<b>3,720.0</b>	<b>3,922.4</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	4.4	4.4	4.4
Fair value and other reserves	-30.5	-22.9	-24.4
Reserve fund	43.7	43.7	43.7
Reserve for invested non-restricted equity	114.8	114.8	114.8
Retained earnings	1,452.9	1,264.8	1,416.1
<b>Total</b>	<b>1,585.3</b>	<b>1,404.9</b>	<b>1,554.6</b>
<b>Non-controlling interests</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.1</b>
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,585.2</b>	<b>1,404.8</b>	<b>1,554.5</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	279.3	256.4	273.2
Provisions	1.9	2.5	2.0
Lease liabilities	49.2	0.0	0.0
Derivative liabilities	48.5	39.8	39.7
Long-term non-interest bearing liabilities	0.0	0.0	1.3
Long-term interest bearing liabilities	1,617.0	1,709.9	1,635.0
<b>Total</b>	<b>1,996.0</b>	<b>2,008.7</b>	<b>1,951.3</b>
<b>Current liabilities</b>			
Accounts payable and other liabilities	66.2	92.6	64.4
Provisions	2.9	3.4	2.7
Lease liabilities	5.3	0.0	0.0
Current tax liabilities	4.5	0.9	2.3
Short-term interest bearing liabilities	369.9	209.6	347.2
<b>Total</b>	<b>448.8</b>	<b>306.5</b>	<b>416.6</b>
<b>TOTAL LIABILITIES</b>	<b>2,444.8</b>	<b>2,315.2</b>	<b>2,367.9</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>4,030.0</b>	<b>3,720.0</b>	<b>3,922.4</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

MEUR	1 Jan–31 Mar 2019	1 Jan–31 Mar 2018	1 Jan–31 Dec 2018
<b>Cash flow from operating activities</b>			
Profit for the period	36.7	33.0	184.3
Adjustments:			
Non-cash items included in the profit	-21.7	-16.9	-102.1
Profit and loss on sales of investment properties and fixed assets	0.5	-1.4	-3.9
Other adjustments	0.4	0.4	0.0
Interest expenses and other financial expenses	11.4	11.1	43.5
Interest income	-0.2	-0.2	-0.9
Dividend income	0.0	0.0	0.0
Income taxes	9.8	8.7	46.5
<b>Cash flow before change in net working capital</b>	<b>36.9</b>	<b>34.6</b>	<b>167.4</b>
Change in net working capital:			
Changes in accounts receivable and other receivables	2.3	-2.1	0.9
Change in accounts payable and other liabilities	5.8	8.6	5.7
Interest paid	-13.9	-15.4	-45.2
Interest received	0.1	0.2	1.0
Taxes paid	-7.9	-12.6	-29.2
<b>Net cash flow from operating activities</b>	<b>23.3</b>	<b>13.3</b>	<b>100.6</b>
<b>Cash flow from investing activities</b>			
Disposals of subsidiaries, net of disposed cash	0.0	1.5	1.6
Investments in investment properties	-37.6	-17.6	-153.2
Net investment in tangible and intangible assets	-0.5	0.1	-2.4
Repayments of loans receivable	0.0	0.8	2.3
Payments of granted loans	0.0	0.0	0.0
Disposals of investment property	8.8	0.8	20.5
<b>Net cash flow from investing activities</b>	<b>-29.2</b>	<b>-14.4</b>	<b>-131.2</b>
<b>Cash flow from financing activities</b>			
Repayments (-) / withdrawals (+) of current loans	16.0	0.0	42.0
Withdrawals of non-current loans	20.1	109.3	257.1
Repayments of non-current loans	-29.7	-118.9	-249.0
Repayments of lease liabilities	-0.6	0.0	0.0
Repayment of capital and dividends paid	0.0	0.0	-28.3
<b>Net cash flow from financing activities</b>	<b>5.7</b>	<b>-9.7</b>	<b>21.9</b>
<b>Change in cash and cash equivalents</b>	<b>-0.2</b>	<b>-10.8</b>	<b>-8.8</b>
Cash and cash equivalents at the beginning of period	5.4	14.2	14.2
Effect of exchange rate fluctuations on cash held	0.0	0.0	0.0
Cash M&A	0.0	0.0	0.0
Cash and cash equivalents at the end of period	5.3	3.4	5.4

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY, IFRS

MEUR	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings				
Shareholders' equity 1 Jan 2018	4.4	-25.4	43.7	114.8	1,260.1	1,397.7	-0.1	1,397.6	
Comprehensive income:									
Cash flow hedges, net of tax	-	2.6	-	-	-	2.6	-	2.6	
Translation differences	-	-	-	-	0.0	0.0	-	0.0	
Profit for the period	-	-	-	-	33.0	33.0	0.0	33.0	
<b>Total comprehensive income</b>	<b>0.0</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>32.9</b>	<b>35.5</b>	<b>0.0</b>	<b>35.5</b>	
Transactions with shareholders:									
Dividend	-	-	-	-	-28.3	-28.3	-	-28.3	
<b>Transaction with shareholders, total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-28.3</b>	<b>-28.3</b>	<b>0.0</b>	<b>-28.3</b>	
Other adjustments	0.0	-	-	-	-	0.0	-	0.0	
<b>Total of equity movements</b>	<b>0.0</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>4.6</b>	<b>7.2</b>	<b>0.0</b>	<b>7.2</b>	
Shareholders' equity 31 Mar 2018	4.4	-22.9	43.7	114.8	1,264.8	1,404.9	-0.1	1,404.8	

MEUR	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings				
Shareholders' equity 1 Jan 2019	4.4	-24.4	43.7	114.8	1,416.1	1,554.6	-0.1	1,554.5	
Comprehensive income:									
Cash flow hedges, net of tax	-	-6.1	-	-	-	-6.1	-	-6.1	
Translation differences	-	-	-	-	0.0	0.0	-	0.0	
Profit for the period	-	-	-	-	36.7	36.7	0.0	36.7	
<b>Total comprehensive income</b>	<b>0.0</b>	<b>-6.1</b>	<b>0.0</b>	<b>0.0</b>	<b>36.8</b>	<b>30.7</b>	<b>0.0</b>	<b>30.7</b>	
Transactions with shareholders:									
Dividend	-	-	-	-	-	0.0	-	0.0	
<b>Transaction with shareholders, total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Other adjustments	-	-	-	-	-	0.0	-	0.0	
<b>Total of equity movements</b>	<b>0.0</b>	<b>-6.1</b>	<b>0.0</b>	<b>0.0</b>	<b>36.8</b>	<b>30.7</b>	<b>0.0</b>	<b>30.7</b>	
Shareholders' equity 31 Mar 2019	4.4	-30.5	43.7	114.8	1,452.8	1,585.3	-0.1	1,585.1	

# NOTES TO THE INTERIM REPORT

## I. GENERAL INFORMATION

SATO Corporation is a Finnish public limited company domiciled in Helsinki, Finland. The registered address of the company is Panuntie 4, 00600 Helsinki. SATO Corporation and its subsidiaries together form the consolidated SATO Group ("SATO" or "the Group"). SATO provides housing solutions and its operations consists of investments in housing properties. The focus of the Group's operations is in the largest growth centers, and approximately 80 per cent of the investment property is located in the Helsinki region. The rest of the operations are located in Tampere, Turku, Oulu, Jyväskylä and St. Petersburg.

## 2. BASIS OF PREPARATION AND NEW ACCOUNTING STANDARDS

SATO's interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* -standard. Figures presented in this interim report have been rounded from exact figures and therefore the sum of figures presented individually may deviate from the presented sum figure. The preparation of the interim report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The figures in the interim report are unaudited.

### Implementation of IFRS 16 Leases

IFRS 16 *Leases* standard replaced the previous IAS 17 *Leases* standard and related interpretations from 1 January 2019. SATO applies the new standard from the beginning of the 2019 financial period.

Due to the new standard, lessees recognise most of their leases on the balance sheet and a distinction between operating and finance leases is no longer made. Under IFRS 16, a lease asset (i.e. right-of-use asset), representing the right to use the underlying item, and a lease liability, representing an obligation to make lease payments, are recognised. The new standard includes certain optional exemptions in respect of short-term leases and leases of low-value items. Lessor accounting has remained similar compared to the current IAS 17 standard.

SATO has recognised right-of-use assets from leases in the scope of the standard in the balance sheet item "Investment property" and in the new balance sheet item "Right-of-use assets". The right-of-use assets recognised in investment property consist entirely of land lease agreements related to a number of its residential investment properties. Other right-of-use assets include lease agreements of premises in SATO's own use and they are presented under item "Right-of-use assets" in the statement of financial position. The liabilities arising from the lease agreements under IFRS 16 are presented in the item "Lease liabilities" under non-current and current liabilities. These liabilities are measured at their present value by discounting the future lease payments of the recognised lease agreements, using a discount rate that the management's view of the cost of the Group's incremental borrowings at the date of initial application.

The fair value change of the right-of-use assets recognised in investment property is presented in the income statement item "Fair value change of investment properties, unrealised". The depreciation of other right-of-use assets is included in the sales, marketing and administration expenses. The financing component of lease payments, arising from the effect of discounting of the lease liabilities, is included in financial expenses.

The Group applies IFRS 16 using the modified retrospective application, without restatement of comparatives. The lease liabilities and the right-of-use assets are recognised at the date of initial application for leases classified as an operating lease under the previous standard. The right-of-use assets are measured at the same amount as the related lease liabilities at the date of initial application. The Group has also applied the optional exemptions in respect of accounting for short-term lease agreements and lease agreements of low-value assets, which are not recognised in the statement of financial position.

The effects of application of the standard on SATO's financial reporting in the period 1 January–31 March 2019 were as follows:

## CONSOLIDATED INCOME STATEMENT

MEUR	1–3/2019
Property maintenance expenses	0.9
<b>Net operating income</b>	<b>0.9</b>
Fair value change of investment properties, unrealised	-0.2
Sales, marketing and administrative expenses	0.0
<b>Operating profit</b>	<b>0.7</b>
Financial expenses	-0.8
<b>Profit before tax</b>	<b>0.0</b>
Deferred taxes	0.0
<b>Profit for the period</b>	<b>0.0</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MEUR	31 Mar 2019
Investment property	47.2
Right-of-use assets	7.1
Deferred tax assets	0.0
<b>Non-current assets</b>	<b>54.3</b>
<b>Total assets</b>	<b>54.3</b>
Lease liabilities	49.2
<b>Non-current liabilities</b>	<b>49.2</b>
Accounts payable and other liabilities	-0.2
Lease liabilities	5.3
<b>Current liabilities</b>	<b>5.1</b>
<b>Total liabilities</b>	<b>54.3</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

The effect of application of IFRS 16 Leases to the Group's net cash flows from operating and financing activities, respectively, amounted to EUR 0.6 million and EUR -0.6 million in the current period.

### Other new accounting standards and changes in accounting principles

From the beginning of the year 2019, the Group has adopted new or amended IFRS's and IFRIC interpretations, as described in the financial statements 2018. The changes have been applied to the comparison periods.

SATO changed its accounting principle in respect of recording of property taxes from the beginning of 2019. According to the amended principle, property tax is expensed at its full amount when the obligation for payment arises, based on the IFRIC 21 *Levies* interpretation. The change has been applied to the comparison periods, and it increased the property maintenance expenses for the period 1 January–31 March 2018 by EUR 5.3 million. The change did not affect the Group's profit for the full financial year 2018.

Otherwise, the interim financial report has been prepared according to the same accounting principles as the consolidated financial statements for the year ended 31 December 2018.

## 3. SEGMENT INFORMATION

SATO has one operating segment. Significant operational decisions are done by SATO's Board of Directors, which reviews the operating results and profitability as a single operating segment. The Group operates in two geographic regions, Finland and Russia. SATO does not have any single external customers that would account for 10% or more of SATO's revenues.

### NET SALES BY GEOGRAPHICAL REGION

MEUR	1-3/2019	1-3/2018	1-12/2018
Finland	71.6	70.4	284.4
Russia	1.5	1.6	6.0
<b>Total</b>	<b>73.1</b>	<b>72.0</b>	<b>290.4</b>

### NON-CURRENT ASSETS BY GEOGRAPHICAL REGION

MEUR	31 Mar 2019			31 Mar 2018		
	Finland	Russia	Total	Finland	Russia	Total
Investment property	3,854.9	116.7	3,971.6	3,552.2	116.8	3,669.0
Tangible assets	2.4	0.0	2.4	2.2	0.0	2.2
Intangible assets	2.7	0.0	2.7	1.8	0.0	1.9
Investments in associated companies	0.0	-	0.0	0.0	-	0.0
<b>Total</b>	<b>3,859.9</b>	<b>116.7</b>	<b>3,976.7</b>	<b>3,556.2</b>	<b>116.8</b>	<b>3,673.0</b>

MEUR	31 Dec 2018		
	Finland	Russia	Total
Investment property	3,770.3	104.8	3,875.1
Tangible assets	2.3	0.0	2.4
Intangible assets	2.6	0.0	2.6
Investments in associated companies	0.0	-	0.0
<b>Total</b>	<b>3,775.3</b>	<b>104.8</b>	<b>3,880.1</b>

#### 4. GAINS AND LOSSES ON DISPOSAL OF INVESTMENT PROPERTIES

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Sale of residential investment properties</b>			
Proceeds from disposal of residential investment properties	2.6	0.7	15.4
Carrying value of investment properties sold	-2.6	-0.6	-14.9
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>
<b>Sale of land plots</b>			
Sales income, land plots	5.3	0.0	10.0
Carrying value of land plots sold	-5.8	0.0	-6.7
<b>Total</b>	<b>-0.5</b>	<b>0.0</b>	<b>3.4</b>
<b>Total</b>	<b>-0.5</b>	<b>0.0</b>	<b>3.8</b>

Proceeds from the disposal of investment properties include the disposal price received net of disposal costs. The carrying value of disposed-of assets includes the fair value recognised on the prior period statement of financial position and any capitalised expenses for the period.

From the first quarter of 2018, SATO reports the income from sales of land plots, net of attributable expenses, in the income statement item Fair value change of investment properties, realised. Previously, these were presented in other operating income.

#### 5. OTHER OPERATING INCOME

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Other operating income</b>			
Sales income, new production	0.0	1.0	1.0
New production expenses	-0.1	-0.8	-0.1
Proceeds from disposal of subsidiaries	0.0	1.6	1.7
Carrying value of subsidiaries divested	0.0	-0.2	-0.2
Other income	0.1	0.1	1.5
<b>Total</b>	<b>0.0</b>	<b>1.7</b>	<b>3.8</b>

Proceeds from disposal of subsidiaries are related to the divestment of SATO HotelliKoti Oy in February 2018.

#### 6. FINANCIAL INCOME AND EXPENSES

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Financial income</b>			
Interest income on loans and other receivables	0.1	0.2	1.0
Dividend income from other non-current investments	0.0	0.0	0.0
Foreign exchange gains	0.1	0.0	-0.1
<b>Total</b>	<b>0.2</b>	<b>0.2</b>	<b>0.9</b>

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Financial expenses</b>			
Interest expense on financial liabilities measured at amortised cost	-6.7	-7.0	-27.3
Interest expense on effective cash flow hedges	-2.7	-2.9	-11.6
Interest expense on lease liabilities*	-0.8	0.0	0.0
Other financial expenses	-1.2	-1.2	-4.6
<b>Total</b>	<b>-11.4</b>	<b>-11.1</b>	<b>-43.5</b>
<b>Total</b>	<b>-11.2</b>	<b>-10.9</b>	<b>-42.5</b>

\* Includes the financial expense component from lease agreements recognised in accordance with IFRS 16 *Leases*. See note 2 for further information.

## 7. INVESTMENT PROPERTIES

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Fair value of investment properties at start of period</b>	3,875.1	3,632.5	3,632.5
Effect of initial application of new IFRS standards*	47.3	0.0	0.0
Acquisitions of properties	0.0	0.0	5.6
New construction and other investments in properties	34.2	20.7	155.0
Disposals of investment properties	-8.5	-1.4	-21.7
Capitalised borrowing costs	0.6	0.4	1.7
Reclassified from other items	0.1	0.1	0.1
Gains and losses from changes in fair value**	22.7	17.1	102.0
<b>Fair value of investment properties at end of period</b>	<b>3,971.6</b>	<b>3,669.4</b>	<b>3,875.1</b>

\* Includes land lease contracts accounted for as right-of-use assets under IFRS 16, which are recognised in investment property and measured at fair value in accordance with IAS 40 from 1 Jan 2019.

\*\* Gains and losses from changes in fair value include foreign exchange gains and losses of EUR 2.0 (-2.5) million.

### Investment property valuation principles

SATO's investment properties mainly comprise of residential properties. In addition, the investment properties include commercial and parking space unbuilt land and development projects as well as right-of-use investment properties.

The housing properties are located in the largest growth centres, with approximately 80.0 per cent of them located in the Helsinki region. The quality of investment properties is maintained by renovation and repair activities based on their lifecycle and repair plans. Change in the fair value of SATO's owned investment property was mainly due to market price levels, reclassifications from measurement group to another when legal restrictions have ended and changes in parameters used in valuation.

Some of the residential investment properties are subject to legislative and usage restrictions. The so-called non-profit restrictions apply to the owning company and the so-called property-specific restrictions apply to the investment owned. The non-profit restrictions include, among other things, permanent limitations on the company's operations, distribution of profit, lending and provision of collateral, and the divestment of investments. The property-specific restrictions include the use of apartments, the selection of residents, the setting of rents and divestment of apartments, and they are fixed-term.

The valuation of investment properties in SATO's ownership is based on a method which has been prepared by SATO in co-operation with a third party expert (currently: JLL (Helsinki office)). The external expert quarterly issues a statement on the applicability of SATO's valuation methods, the appropriateness of sources of information used and the credibility of the valuation. As part of the valuation process, the external expert also reviews each SATO's property on site every three years. Existing properties located in St. Petersburg are valued by third party expert (currently JLL, St. Petersburg office). The principles and methods used in the fair value measurement are approved by the Corporate Management Group. During the valuation process all the periodical changes are analysed. The result of the valuation and the periodic change in fair value recorded through profit and loss are reported to the Corporate Management Group and Board of Directors.

At inception, owned investment properties are recognised at acquisition value, which includes transaction costs. Thereafter, they are recorded at fair value. Gains and losses from changes in fair value are recorded through profit and loss in the period when they are incurred. Fair value of an investment property represents the price that, according to the Group's estimate, would be received for the property in an orderly transaction taking place in the local (principal) market at the reporting date, considering the condition and location of the property. Unbuilt land and development projects, whose realization is uncertain, are valued at cost or probable value, whichever is lower, if their fair value cannot be determined reliably. The valuation methods for SATO's owned investment properties are sales comparison method, income value method and acquisition cost method.

SATO's right-of-use investment properties include land plots leased for residential construction. From 1 January 2019, the land lease agreements, which were previously treated as other lease agreements, are accounted for as right-of-use assets classified as investment property and measured at fair value in accordance with the IFRS 16 *Leases* and IAS 40 *Investment property* standards. They are valued at the present value of future lease payments of the underlying agreements, which is considered to be equivalent to their fair value.

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>Investment property classified by valuation method</b>			
Sales comparison value	3,216.3	2,982.1	3,138.0
Income value	484.7	469.8	516.2
Acquisition cost	223.3	217.4	220.9
<b>Owned investment property, total</b>	<b>3,924.3</b>	<b>3,669.4</b>	<b>3,875.1</b>
Right-of-use investment properties	47.2	0.0	0.0
<b>Total</b>	<b>3,971.5</b>	<b>3,669.4</b>	<b>3,875.1</b>

### Sensitivity analysis of investment properties

Sensitivity analysis of investment properties has been presented in the 2018 financial statements. Quarterly changes are not significant. All SATO's investment properties are classified to hierarchy level 3 under IFRS 13. Items which are included in the hierarchy level 3 are measured using input data which is not based on observable market data.

## 8. TANGIBLE ASSETS

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Balance at the start of the period</b>	2.4	2.2	2.2
Additions	0.2	0.2	0.8
Disposals	0.0	0.0	-0.4
Accumulated depreciation of disposals	0.0	0.0	0.4
Transfers between items	0.0	-0.1	-0.1
Depreciation	-0.1	-0.1	-0.5
<b>Balance at the end of the period</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>

## 9. INTANGIBLE ASSETS

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Balance at the start of the period</b>	2.6	1.8	1.8
Additions	0.3	0.2	1.7
Disposals	0.0	-0.2	-0.7
Accumulated depreciation of disposals	0.0	0.0	0.3
Transfers between items	0.0	0.1	0.2
Depreciation	-0.2	-0.1	-0.8
<b>Balance at the end of the period</b>	<b>2.7</b>	<b>1.9</b>	<b>2.6</b>

## 10. SHAREHOLDERS' EQUITY

The total number of SATO's shares as at 31 March 2019 was 56,783,067 (56,783,067) and the number of own shares held was 160,000 (160,000).

The following dividends was declared by the company during the period:

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>The following dividend was declared by the company:</b>			
Dividend 0.00 (0.50) per share, EUR	0.0	-28.3	-28.3
<b>Total</b>	<b>0.0</b>	<b>-28.3</b>	<b>-28.3</b>

The Annual General Meeting of SATO Corporation resolved on 3 April 2019 that EUR 0.50 per share, EUR 28.3 million in total, be paid out in dividends for the financial period ending 31 December 2018. The dividend was paid on 12 April 2019 and is recorded in the second quarter. The dividend for the financial year 2017 was paid on 5 April 2018.

## II. FINANCIAL LIABILITIES

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>Financial liabilities</b>			
Commercial papers	198.9	140.9	182.9
Corporate bonds	747.3	746.2	747.0
Bank loans	713.0	657.6	720.2
Interest-subsidised loans	274.2	313.1	275.4
State-subsidised ARAVA loans	53.5	61.7	56.7
<b>Total</b>	<b>1,986.9</b>	<b>1,919.5</b>	<b>1,982.2</b>

On the reporting date, the average interest of SATO's debt portfolio was 2.0 (2.1) per cent.

For purposes of short-term financing, SATO has a commercial paper program of EUR 400 (400) million, committed credit limits of EUR 400 (400) million, of which EUR 400 (400) million were unused, and a non-committed current overdraft limit of EUR 5.0 (5.0) million, of which EUR 5.0 (4.2) million were unused.

## 12. DERIVATIVES

MEUR	31 Mar 2019			31 Mar 2018	31 Dec 2018
	Positive	Negative	Net	Net	Net
<b>Fair values of derivative instruments</b>					
Interest rate swaps, cash flow hedge	-	-34.2	-34.2	-22.6	-26.8
Cross-currency and interest rate swaps, cash flow hedge	-	-15.0	-15.0	-20.4	-14.0
<b>Total</b>	<b>0.0</b>	<b>-49.3</b>	<b>-49.3</b>	<b>-42.9</b>	<b>-40.8</b>

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>Nominal values of derivative instruments</b>			
Interest rate swaps, cash flow hedge	755.3	706.3	775.5
Cross-currency and interest rate swaps, cash flow hedge	73.4	103.8	73.4
<b>Total</b>	<b>828.7</b>	<b>810.1</b>	<b>848.9</b>

Change in fair value of designated interest rate hedges, booked to hedge reserve in other comprehensive income, totalled EUR -6.1 (2.6) million. Interest rate swaps are used to hedge interest cash flows against fluctuation in market interest rates. Cross-currency and interest rates swaps additionally hedge the currency risks of interest and repayment cash flows of loan contracts denominated in foreign currency. Interest rate hedges have maturities ranging between 1–10 years. Typically netting agreements are applied to derivative contracts, however the contracts are represented in gross value in financial statements. The method of presentation has no significant impact on figures on reporting or comparative period.

### 13. FAIR VALUES OF FINANCIAL INSTRUMENTS

MEUR	31 Mar 2019			31 Mar 2018		
	Level 1:	Level 2:	Level 3:	Level 1:	Level 2:	Level 3:
<b>Assets</b>						
Other non-current investments	-	1.9	-	-	1.7	-
Loans receivable	-	7.0	-	-	10.0	-
Derivative assets	-	0.0	-	-	1.0	-
Accounts receivable and other non-interest-bearing receivables	-	7.7	-	-	10.6	-
Cash and cash equivalents	-	5.3	-	-	3.4	-
<b>Liabilities</b>						
Corporate bonds	743.4	24.0	-	759.2	24.0	-
Other loans	-	1,244.9	-	-	1,178.4	-
Derivative liabilities	-	49.3	-	-	43.9	-
Accounts payable and other non-interest-bearing payables	-	29.2	-	-	51.3	-

MEUR	31 Dec 2018		
	Level 1:	Level 2:	Level 3:
<b>Assets</b>			
Other non-current investments	-	1.9	-
Loans receivable	-	8.4	-
Derivative assets	-	0.0	-
Accounts receivable and other non-interest-bearing receivables	-	11.0	-
Cash and cash equivalents	-	5.4	-
<b>Liabilities</b>			
Corporate bonds	744.3	24.0	-
Other loans	-	1,239.0	-
Derivative liabilities	-	40.8	-
Accounts payable and other non-interest-bearing payables	-	23.6	-

Fair values of assets and liabilities at fair value hierarchy level 1 are quoted on operational markets. Level 2 assets and liabilities fair values are based on verifiable input data and level 3 asset and liabilities are based on unverified input data.

SATO fair values of assets and liabilities level 1 are quoted market prices. Values on hierarchy level 2 are based on discounted cash flows, with market rates as calculation input. Loans are presented at acquisition cost.

### 14. PROVISIONS

MEUR	Provision for refund claim	Other provisions	Total
<b>Provision at the beginning of the period 1 Jan 2019</b>	2.9	1.8	4.7
Increases	0.4	0.0	0.4
Provisions used	-0.1	0.0	-0.1
Reversals	-0.1	0.0	-0.1
<b>Provision at the end of the period 31 Mar 2019</b>	<b>3.1</b>	<b>1.8</b>	<b>4.9</b>

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
Non-current provisions	1.9	2.5	2.0
Current provisions	2.9	3.4	2.7
<b>Total</b>	<b>4.9</b>	<b>5.9</b>	<b>4.7</b>

The provision for refund claim includes guarantees related to new construction business and 10 year warranty period after completion of the work. Provision for refund claim is measured based on previous claims and assessment of previous experience. The provision for refund claim will be used, if applicable, within ten years from the reporting date.

## 15. NOTES TO THE CASH FLOW STATEMENT

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Non-cash items included in the profit</b>			
Depreciation and amortization	0.9	0.3	1.3
Gains and losses from changes in fair value of investment properties	-22.7	-17.1	-102.0
Changes in provisions	0.1	-0.2	-1.4
<b>Total</b>	<b>-21.7</b>	<b>-16.9</b>	<b>-102.1</b>

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Changes in interest-bearing debt during the period</b>			
<b>Interest-bearing debt, beginning of period</b>	<b>1,982.2</b>	<b>1,931.7</b>	<b>1,931.7</b>
Cash changes in interest-bearing debt during the period, total	6.3	-9.7	50.2
Non-cash changes:			
Change in foreign exchange rates	-0.9	-4.0	0.1
Interest accrued by the effective interest rate method	0.5	0.5	0.7
Transfer of debt to buyers upon disposal of investment property and other adjustments	-1.3	1.0	-0.5
<b>Interest-bearing debt, end of period</b>	<b>1,986.9</b>	<b>1,919.5</b>	<b>1,982.2</b>

## 16. COLLATERAL, COMMITMENTS AND CONTINGENCIES

MEUR	31 Mar 2019	31 Mar 2018	31 Dec 2018
<b>Mortgages and pledges for secured borrowings</b>			
Secured borrowings	659.7	781.2	671.2
Pledges and mortgages provided, fair value	954.2	1,127.5	999.8
<b>Guarantees for others</b>			
Shared ownership apartment purchase commitments	7.8	10.4	7.8
Rs-guarantees	4.8	2.4	4.8
<b>Other collateral provided</b>			
Mortgages provided to secure payment of rent and street maintenance	4.8	4.8	4.8
Guarantees and mortgages provided to secure payments of land use contracts	8.1	7.3	9.1
<b>Binding purchase agreements</b>			
For acquisitions of investment properties	103.5	133.9	107.9
Pledges for land use payments on zoned plots	0.8	3.5	0.8
Commitments to cleaning and removal charges	0.0	0.0	0.0
Letters of intent on land for which there is a zoning condition	39.3	45.1	39.3

Housing companies which hold so-called shared ownership apartments are treated as structured entities, which are established for a fixed period, and are not included in the consolidation. On the report date, the loans of such housing companies included in the shared ownership systems, totalled EUR 21.8 (31.7) million.

## 17. RELATED PARTY TRANSACTIONS

SATO's related parties consist of SATO Corporation, its parent company, sister companies, subsidiaries, joint ventures and associated companies. SATO's related parties include shareholders that have direct or indirect control, joint control or significant influence in the reporting entity and persons who are members of the key management personnel of SATO or its parent, or are close family members of the key managements personnel. Shareholders whose holding is 20 per cent or more are automatically considered as related party of SATO. When ownership is below 20 per cent, shareholders are considered as related parties when they have significant influence in the reporting entity, for example, through position in the Board of Directors.

Shareholders that are considered as SATOs related party in 2019 and 2018 are Balder Finska Otas AB (owner: Balder Group, whose parent company is Fastighets Ab Balder, 100 per cent), Stichting Depositary APG Strategic Real Estate Pool (owner: Stichting Pensioenfonds ABP, >95 per cent; manager: APG Asset Management NV) and Elo Mutual Pension Insurance Company.

The members of the Board of Directors of SATO, CEO and the members of the Corporate Management Group and their close family members and the entities controlled or jointly controlled by them and joint venture SV-Asunnot Oy are considered as SATO's related party. The Corporate Management Group comprises of SATO Corporation's President and CEO, Vice Presidents, Director of Marketing and Communications and the Chief Financial Officer.

The terms and conditions used in the potential related party transactions are equivalent to the terms used in transactions between independent parties.

MEUR	1-3/2019	1-3/2018	1-12/2018
<b>Management employee benefits</b>			
Salaries and other employee benefits	0.5	0.8	2.1
<b>Total</b>	<b>0.5</b>	<b>0.8</b>	<b>2.1</b>

### Management remuneration

Persons employed by the Group are not paid separate remuneration when serving as a member of the Board of Directors or as a President of a Group company. The members of SATO's Corporate Management Group and SATO's management are covered by an annual incentive scheme based on the SATOs profit and fulfilment of the targets for their respective area of responsibility. The Board of Directors approves the payment of bonuses.

## 18. SUBSEQUENT EVENTS

The Annual General Meeting ("AGM") of SATO Corporation was held in Helsinki on 3 April 2019.

The AGM adopted the company's financial statements and discharged the members of the Board of Directors and the President and CEO from liability for the financial period 1 January–31 December 2018.

The number of members of the Board of Directors was resolved by the AGM to be seven. Erik Selin was elected to serve as Chairman of the Board, whereas Marcus Hansson, Jukka Hienonen, Esa Lager, Tarja Pääkkönen, Johannes (Hans) Spikker and Timo Stenius were re-elected as the other members of the Board of Directors. Deloitte Oy, authorised public accountants, was elected as the auditor. Deloitte Oy has notified that Eero Lumme, APA, will serve as the auditor with principal responsibility.

The AGM resolved that EUR 0.50 per share, EUR 28.3 million in total, be paid out in dividends by SATO Corporation for the financial period ending 1 December 2018. The record date for dividend distribution was 5 April 2019 and the dividend was paid on 12 April 2019.

## KEY INDICATORS, GROUP

Key financial indicators	1-3/2019	1-3/2018*	1-12/2018*	1-12/2017*	1-12/2016**	1-12/2015**	1-12/2014**
Net sales, MEUR	73.1	72.0	290.4	280.1	262.7	249.4	243.2
Net rental income, MEUR	43.5	42.1	198.5	188.4	167.1	151.8	146.2
Net rental income, %	4.6%	4.7%	5.5%	5.6%	5.6%	6.0%	6.3%
Operating profit, MEUR	57.8	52.6	273.3	230.1	267.2	196.5	191.3
Net financing expenses, MEUR	-11.2	-10.9	-42.5	-45.8	-47.8	-37.0	-39.1
Profit before taxes, MEUR	46.6	41.7	230.8	184.4	219.4	159.4	152.2
Balance sheet total, MEUR	4,030.0	3,720.0	3,922.4	3,693.1	3,562.2	2,979.6	2,801.6
Shareholders' equity, MEUR	1,585.2	1,404.8	1,554.5	1,397.6	1,252.6	993.2	892.3
Interest bearing liabilities, MEUR	1,986.9	1,931.7	1,982.2	1,931.7	1,943.0	1,676.2	1,584.9
Return on invested capital, % (ROI)	6.5%	6.3%	7.9%	7.1%	9.1%	7.6%	7.7%
Return on equity, % (ROE)	9.4%	9.4%	12.4%	11.0%	15.6%	13.5%	14.0%
Equity ratio, %	39.3%	37.8%	39.6%	37.8%	35.2%	33.3%	31.8%
Personnel, average**	218	209	215	206	170	172	165
Personnel at the end of period	219	207	218	212	175	170	169
<b>Key indicators per share</b>							
Earnings per share, EUR	0.65	0.58	3.26	2.55	3.22	2.49	2.37
Equity per share, EUR***	28.00	24.81	27.46	24.68	22.12	19.53	17.55
Number of shares, million****	56.6	56.6	56.6	56.6	56.6	50.8	50.8
<b>Operational key figures and net asset value</b>							
Operational earnings, MEUR	18.9	19.1	98.7	82.8	69.5	64.5	65.1
Operational earnings per share, EUR	0.33	0.34	1.74	1.46	1.28	1.27	1.28
Net asset value, MEUR	1,899.4	1,690.7	1,855.7	1,678.7	1,517.5	1,227.8	1,120.3
Net asset value per share, EUR	33.55	29.86	32.77	29.65	26.80	24.15	22.04
Cash earnings, MEUR	14.4	13.2	97.9	92.4	86.2	78.1	72.9
Cash earnings per share, EUR	0.25	0.23	1.73	1.63	1.59	1.54	1.43
<b>Key financial indicators per quarter</b>							
	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018		
Net sales, MEUR	73.1	73.2	73.1	72.2	72.0		
Net rental income, MEUR	43.5	49.9	54.0	52.4	42.1		
Net rental income, %	4.6%	5.3%	5.8%	5.8%	4.7%		
Operating profit, MEUR	57.8	58.8	60.0	101.9	52.6		
Profit and losses from changes of fair value	17.1	15.3	19.2	50.3	17.1		
Net financing expenses, MEUR	-11.2	-10.8	-10.2	-10.6	-10.9		
Profit before taxes, MEUR	46.6	48.0	49.8	91.3	41.7		
Earnings per share, EUR	0.65	0.68	0.68	1.32	0.58		
Average number of shares, million*	56.6	56.6	56.6	56.6	56.6		
Housing investments, MEUR	30.4	47.3	31.5	46.8	18.3		
As percentage of net sales	41.6%	64.7%	43.1%	64.8%	25.4%		
<b>Operational key figures per quarter</b>							
Operational earnings, MEUR	18.9	24.8	22.5	32.5	19.1		
Operational earnings per share, EUR	0.33	0.44	0.40	0.57	0.34		
Cash earnings, MEUR	14.4	29.8	26.4	28.5	13.2		
Cash earnings per share, EUR	0.25	0.53	0.47	0.50	0.23		

† Key figures of 2017 and more recent periods include the effects of adoption of IFRS 9 *Financial Instruments*. The figures of prior years are unadjusted.

\* Key figures of 2019 include the effects of adoption of IFRS 16 *Leases*. The figures of prior years are unadjusted.

\*\* Including summer trainees.

\*\*\* Equity excluding non-controlling interests.

\*\*\*\* The 160,000 shares held by the Group have been deducted from the number of shares.

## FORMULAS USED IN CALCULATION

<b>Net rental income, EUR</b>	Rental income – Property, maintenance and reparation expenses – Ground rents	
<b>Net rental income, %</b>	$\frac{\text{Net rental income}}{(\text{Fair value of investment property} - \text{property under construction}) \text{ average during the financial year}}$	x 100
<b>Return on investment, %</b>	$\frac{(\text{Profit or loss before taxes} + \text{interest expense and other financing expenses})}{\text{Balance sheet total} - \text{non-interest-bearing debts (average during the financial year)}}$	x 100
<b>Return on equity, %</b>	$\frac{(\text{Profit or loss after taxes})}{\text{Shareholders' equity (average during the financial year)}}$	x 100
<b>Equity ratio, %</b>	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} - \text{advances received}}$	x 100
<b>Earnings per share, EUR</b>	$\frac{\text{Profit for the period attributable to owners of the parent}}{\text{Adjusted number of shares (average during the financial year)}}$	
<b>Equity per share, EUR</b>	$\frac{\text{Shareholders' equity attributable to owners of the parent}}{\text{Adjusted number of shares (at the end of the reporting period)}}$	
<b>Operational earnings</b>	Profit for the period, IFRS –/+ Gains and losses from valuation of investment properties – Profit on sales of investment properties + Loss on sales of investment properties –/+ Profit on sales of new apartments adjusted with sales and marketing expenses –/+ Fair value change of financial instruments –/+ Deferred taxed of above items – Non-controlling interests	
<b>Net asset value</b>	Shareholders' equity attributable to owners of the parent –/+ Fair value of financial instruments (net), net of tax –/+ Deferred tax assets and liabilities (net)	
<b>Cash earnings</b>	Operating profit +/- Gains and losses from valuation of investment properties + Depreciations +/- Change of provisions +/- Defined benefit plans – Cash based financial income and expenses – Cash based taxes +/- Other items	

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