

# Home is where the heart is

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**Q3 INTERIM REPORT**  
**1 JAN-30 SEP 2017**

**sato**

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# KEY FIGURES



Key figure	Q3 2017	Q2 2017	Q1 2017	Q3 2016	Q2 2016	Q1 2016
Net sales	€70.6 million	€69.5 million	€68.1 million	€68.3 million	€65.4 million	€61.1 million
Housing portfolio	25,731 homes €3.51 billion	25,487 homes €3.43 billion	25,499 homes €3.41 billion	25,681 homes €3.34 billion	25,437 homes €3.25 billion	23,365 homes €2.82 billion
Investments	€59.1 million	€36.2 million	€26.4 million	€64 million	€407.6 million	€37.2 million
Under construction Finland	1,151 pcs	1,298 pcs	1,392 pcs	1,428 pcs	1,446 pcs	1,172 pcs
Under construction St Petersburg	0 pcs	0 pcs	0 pcs	0 pcs	74 pcs	74 pcs
Average rent in Finland at the end of the review period	16.65€/m <sup>2</sup> /month	16.61€/m <sup>2</sup> /month	16.54€/m <sup>2</sup> /month	16.25€/m <sup>2</sup> /month	16.12€/m <sup>2</sup> /month	16.06€/m <sup>2</sup> /month
Cash Earnings	€29.8 million	€14.5 million	€19.2 million	€23.3 million	€13.8 million	€21.0 million
Shareholders' equity at the end of the review period	€1.37 billion	€1.32 billion	€1.30 billion	€1.21 billion	€1.16 billion	€1.01 billion
Customers' Net Promoter Score	25	27	29	27	28	24

# SATO CORPORATION'S INTERIM REPORT 1 JANUARY–30 SEPTEMBER 2017

## **SATO's occupancy rate continued its strong growth**

### **Summary of 1 January 2017–30 September 2017 (1 January 2016–30 September 2016)**

- Profit before taxes was EUR 130.0 (172.9) million.
- Earnings per share were EUR 1.83 (2.57).
- The change in the fair value of rental apartments included in the result was EUR 48.2 (101.5) million.
- Equity was EUR 1,367.1 (1,206.6) million, or EUR 24.14 (21.31) per share.
- Return on equity was 10.6 (16.7) per cent.
- Return on investment was 6.8 (9.5) per cent.
- Net sales were EUR 208.2 (194.8) million.
- Investments in rental apartments were EUR 121.7 (508.8) million.
- A total of 802 (3,061) rental apartments were acquired or completed.
- The occupancy rate in Finland was 96.6 (95.3) per cent.
- A total of 1,151 rental apartments are under construction.

### **Summary of 1 July–30 September 2017 (1 July–30 September 2016)**

- Profit before taxes was EUR 54.8 (64.0) million.
- Earnings per share were EUR 0.77 (0.90).
- The change in the fair value of rental apartments included in the result was EUR 24.3 (38.5) million.
- Net sales were EUR 70.6 (68.3) million.
- Investments in rental apartments were EUR 59.1 (64.0) million.
- A total of 297 (776) rental apartments were acquired or completed.
- The occupancy rate in Finland was 97.2 (96.0) per cent.
- A total of 1,151 rental apartments are under construction.



## Operating environment

The Finnish economy grows rapidly, and it is estimated that growth will be approximately 3 per cent in the near future. Growth has spread to all areas of economy. However, inflation has returned to a low level after being higher at the beginning of the year. The light financial policy from central banks continues to keep the short-term reference rates at an exceptionally low level. Economic growth and expectations of inflation will probably cause the European Central Bank to apply a stricter financial policy in the near future. Longer-term rates are expected to increase first. Consumer trust in their own finances and in the Finnish economy has remained at a record high level, and consumers are optimistic about the development of employment.

Demand for rental apartments has remained high, as urbanisation continues to be strong. According to the Confederation of Finnish Construction Industries, housing construction is at a record high level in SATO's main operating areas, where construction-related costs are also high. These high costs, combined with expectations of higher interest rates, may result in an increase in rents or a decrease in general interest in housing investments.

The activity in the real estate investment market is record high (KTI). The number of apartments purchased by investors has remained high, and consumers also picked up the pace during the beginning of the year. This has been reflected in the considerable increase in loan applications, among other aspects.

The Russian economy is expected to grow slightly.

## CEO Saku Sipola:

– The occupancy rate continued to increase, from 96.6 per cent in June to 97.6 per cent in September. This was supported by a decrease in the external tenant turnover rate. Improvements in our customer service on several fronts, in line with our “Customer first” strategy, have contributed to the positive development of the figures. To continue our progress, we have implemented “Customer first” service model deeper into our partnerships. A good example of this is the bidding process carried out during the review period for maintenance companies. One of the key criteria for selecting partners was the ability of maintenance companies to implement the service model in the everyday lives of tenants.

– For the strategy period 2017–2020 we have set as a target that 60 per cent or more of our assets shall be unencumbered. We were already able to reach this goal during the third quarter of 2017. During the review period, the continued changes in the financing structure were boosted by the EUR 100 million loan agreement signed with Swedbank without any asset-based security. Previously similar loan agreements were signed with OP Corporate Bank, Aktia and EIB. At the same time, our company's solvency ratio decreased. This, together with the changes in the financing structure, will give us more opportunities to use diverse funding base.

– The success of urbanisation is a significant factor in terms of Finland's competitiveness. During the review period, we accelerated urbanisation, for example, in areas planned together with the City of Vantaa in Martinlaakso, Vantaa, by starting the construction of 288 new rental apartments in Raivosuonmäki, by opening 110 new rental apartments in Kukinkuja, and by beginning the completion work on 68 apartments in our StudioHome in Raikukuja. At the same time, a design competition is ongoing in cooperation with the City of Helsinki, VR Group, the Finnish Association of Architects and SATO. The aim of the competition is to develop new apartments alongside the Jokeri Light Rail Line in Helsinki. In Espoo, plans for development projects proceeded in Niittykumpu, Suomenoja and Soukka. In Turku and Tampere, we are negotiating with the cities over complementary planning projects to be launched later this autumn and next spring.

– The SATO StudioHome to be completed this December in Martinlaakso, Vantaa, has raised significant interest, and we received more than 700 apartment applications. We believe that, through its functional design and shared facilities, the SATO StudioHome offers an excellent alternative for an increasing demand for small apartments in an environment with a high cost of construction. We have invited representatives of cities, media and active social media parties in November to see our StudioHome project and share our thoughts on communality.

– An increase in property tax, changes in district heating rates, stricter taxes on energy and also an increase in the price of water have significantly raised property maintenance costs since 2014. For SATO, costs have increased almost 40%. If a similar trend continues, there will be more pressure to increase rents and the housing market may become less attractive to investors.

## REVIEW PERIOD

### 1 January 2017–30 September 2017 (1 January 2016–30 September 2016)

#### Net sales and profit

In January–September, consolidated net sales were EUR 208.2 (194.8) million, showing a change of 6.9 per cent from the reference period. This growth was mainly based on the positive development of the occupancy rate and the apartments acquired.

Operating profit was EUR 164.8 (208.0) million. Operating profit without the change in the fair value of investment apartments was EUR 116.7 (106.4) million. The change in fair value was EUR 48.2 (101.5) million. The increase in fair value was mainly driven by an increase in the prices of apartments in SATO's operating areas and the deregulation of some properties from restrictions regarding state subsidised housing property. Changes in the exchange rate of the Russian rouble had a positive effect on the operating profit in the first quarter, but a negative effect in the second quarter and a slightly negative effect in the third quarter.

Profit before taxes was EUR 130.0 (172.9) million. Income taxes for the period amounted to EUR -26.2 (-35.2) million, including the change in deferred taxes. Cash flow from operations (free cash flow after taxes excluding the change in fair value) in January–September amounted to EUR 63.5 (58.1) million.

## Financial position and financing

The consolidated balance sheet total was EUR 3,646.3 (3,540.6) million at the end of September. Equity was EUR 1,367.1 (1,206.6) million. Equity per share was EUR 24.14 (21.31).

At the end of September, the Group's equity ratio was 37.5 (34.1) per cent. The goal is to have an equity ratio of at least 35 per cent. EUR 174.1 million of new long-term financing was withdrawn during the review period, and the solvency ratio was 52.7 (55.2) per cent at the end of September. The improvement in key figures representing the equity ratio and the solvency ratio is based on an increase in the value of housing assets and the extended positive profit development. On 8 March 2017, SATO's Annual General Meeting decided that no dividends be paid for 2016.

The Group's annualised return on equity was 10.6 (16.7) per cent. The return on investment was 6.8 (9.5) per cent.

Interest-bearing liabilities at the end of September totalled EUR 1,921.8 (1,971.6) million, of which loans subject to market terms accounted for EUR 1,511.8 (1,469.5) million. The average interest rate was 2.3 (2.6) per cent. Net financing costs totalled EUR -34.8 (-35.1) million.

The calculated impact on equity of changes in the market value of interest hedging was EUR 10.7 (-12.4) million.

## Housing assets and fair value

The development of the value of rental apartments is a key factor for SATO. Its housing assets are located in areas and apartment sizes, demand for which will increase in the long term. The allocation of building repairs is based on lifecycle plans and repair need specifications.

On 30 September 2017, SATO owned a total of 25,731 (25,681) apartments. A total of 802 rental apartments were acquired or completed. The total number of divested rental apartments and shared ownership apartments redeemed by the owner occupants was 322. In September, SATO purchased 150 rental apartments from Veritas Pension Insurance. The properties have central locations in Espoo, Vantaa and Turku.

The fair value of rental apartments was EUR 3,508.8 (3,335.7) million at the end of September. From the beginning of 2017, the change in the value of investment apartments was EUR 125.5 million, including rental apartments acquired and divested during the review period.

Of the value of apartments, the Helsinki metropolitan area accounted for approximately 80 percent, Tampere and Turku made up 13 percent, Jyväskylä and Oulu represented 4 per cent, and St Petersburg covered 3 percent at the end of September.

## Investments and divestments

Investment activities prepare the ground for growth. Since year 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.

Investments in rental apartments were EUR 121.7 (508.8) million. Investments in the Helsinki metropolitan area represented 83 (66) per cent. New apartments accounted for 62 (21) per cent of all investments.

On 30 September 2017, binding apartment purchase agreements in Finland totalled EUR 87.5 (125.7) million.

During the review period, 281 (662) rental apartments were divested in Finland. Their total value was EUR 44.6 (31.4) million.

## Rental activities

Effective rental activities provide home-seekers with quick access to a home and the Group with a steadily developing cash flow. Rental services are mainly offered by SATO's rental offices. In addition, SATO's electronic channels make finding a home easy for customers.

Following the apartments acquired and the increase in the occupancy rate, rental income increased by 6.9 per cent to EUR 208.2 (194.8) million. The economic occupancy rate of apartments in Finland was 96.6 (95.3) per cent on average, and the external tenant turnover rate was 28.9 (33.7) per cent. SATO has changed its reporting practices and reports external tenant turnover instead of total tenant turnover. External tenant turnover reflects better the customer loyalty and its impact on SATO's business. During the past 12 months, the decrease in the turnover rate and the increase in the occupancy rate have been affected by activities carried out in accordance with the "Customer first" strategy programme, closer communication with customers, improved quality and more effective rental activities.

The average rent per square metre of SATO's rental apartments in Finland was EUR 16.65 (16.25) per m<sup>2</sup> per month at the end of the review period. The average rent increased by investments in small apartments in growth centres. Rent increases remained moderate.

Net rental income from apartments was EUR 139.5 (126.1) million, and the net rental income rate was 5.6 (5.8) per cent at an annual level.

## Property development

Property development allows for new investments in rental apartments in Finland. The rental capacity and value of rental apartments owned by SATO are developed through renovation activities.

The book value of owned plot reserves totalled EUR 55.8 (65.4) million at the end of September. The value of new plots acquired by the end of September totalled EUR 0.0 (13.5) million.

The permitted building volume for 2,350 apartments is being developed for the plots of the company's own stock of buildings. As a result, SATO can make use of the existing infrastructure, and it allows for a denser urban structure and, thereby, serves to ensure the availability of services.

In Finland, a total of 635 (421) rental apartments and 57 (0) apartments for sale were completed. On 30 September 2017, a total of 1,151 (1,428) rental apartments and 0 (76) owner-occupied apartments were under construction.

A total of EUR 31.2 (30.4) million was spent on repairing apartments and improving their quality.

In January–September, 26 (95) new apartments were sold. At the end of the review period, 1 (6) completed apartments and 0 (8) apartments under construction remained unsold. The total purchase value of these unsold apartments amounted to EUR 0.7 (6.1) million. SATO has made a strategic decision to discontinue the production of owner-occupied apartments and focus on business operations related to rental apartments.

## Business operations in St Petersburg

At the end of September, SATO's housing assets in St Petersburg totalled EUR 121.4 (116.9) million. The total amount of binding apartment purchase agreements was EUR 0.0 (0.0) million.

At the end of September, SATO owned 534 (534) completed apartments and 0 (0) apartments under construction in St Petersburg.

The economic occupancy rate of rental apartments was 88.3 (80.0) per cent on average. The increase in the occupancy rate from the previous year was mainly attributable to the positive development of the occupancy rate in the newest buildings.

For the time being, SATO will refrain from making new investment decisions in Russia.

## Personnel

At the end of September, the Group employed 211 (170) people, of whom 198 (157) were full-time employees. The average number of personnel was 203 (170) in January–September. The number of personnel has increased remarkably due to

the implementation of Customer first model and the transfer of customer interface from partners to SATO.

## PERIOD I July 2017–30 September 2017 (1 July–30 September 2016) Net sales and profit

In July–September, consolidated net sales were EUR 70.6 (68.3) million, showing a change of 3.3 per cent from the reference period.

Operating profit was EUR 66.3 (76.1) million. Operating profit without the change in the fair value of investment apartments was EUR 42.0 (37.6) million. The change in fair value was EUR 24.3 (38.5) million. This positive development was mainly driven by an increase in the prices of apartments in SATO's operating areas and the deregulation of some properties from restrictions regarding state subsidised housing property. Changes in the exchange rate of the Russian rouble had a slightly negative impact on the value of housing assets in St Petersburg.

Profit before taxes was EUR 54.8 (64.0) million. Cash flow from operations (free cash flow after taxes excluding the change in fair value) in July–September amounted to EUR 29.8 (23.3) million.

## Housing assets and fair value

On 30 September 2017, SATO owned a total of 25,731 (25,681) apartments. A total of 297 rental apartments were acquired or completed. The total number of divested rental apartments and shared ownership apartments redeemed by the owner occupants was 53.

The fair value of rental apartments was EUR 3,508.8 (3,335.7) million at the end of September. From the beginning of the third quarter of 2017, the change in the value of investment apartments was EUR 78.2 million, including rental apartments acquired and divested during the review period.

## Investments and divestments

Investments in rental apartments were EUR 59.1 (64.0) million. Investments in the Helsinki metropolitan area represented 92 per cent. New apartments accounted for 45 per cent of all investments.

On 30 September 2017, binding apartment purchase agreements in Finland totalled EUR 87.5 (125.7) million.

During the review period, 53 (534) rental apartments were divested in Finland. Their total value was EUR 5.4 (19.2) million.

## Rental activities

Following the apartments acquired and the increase in the occupancy rate, rental income increased by 3.3 per cent to EUR 70.6 (68.3) million. The economic occupancy rate of

apartments in Finland was 97.2 (96.0) per cent on average, and the external tenant turnover rate was 26.6 (35.3) per cent.

The average rent of SATO's rental apartments in Finland was EUR 16.65 (16.25) per m<sup>2</sup> per month at the end of September. Net rental income from apartments was EUR 51.0 (44.7) million, and the net rental income was 6.0 (5.7) per cent at an annual level.

### Property development

The book value of owned plot reserves totalled EUR 55.8 (65.4) million at the end of September. The value of new plots acquired by the end of September totalled EUR 0.0 (4.0) million.

The permitted building volume for 2,350 apartments is being developed for the plots of the company's own stock of buildings.

In Finland, a total of 147 (323) rental apartments and 0 (0) apartments for sale were completed. On 30 September 2017, 1,151 (1,428) rental apartments and 0 (76) owner-occupied apartments were under construction.

A total of EUR 11.3 (11.0) million was spent on repairing apartments and improving their quality.

In July–September, 5 (19) new apartments were sold. At the end of the period, a total of 1 (6) completed apartments and 0 (8) apartments under construction remained unsold. The total purchase value of these unsold apartments amounted to EUR 0.7 (6.1) million.

### Business operations in St Petersburg

At the end of September, SATO's housing assets in St Petersburg totalled EUR 121.4 (116.9) million. The total amount of binding apartment purchase agreements was EUR 0.0 (0.0) million.

At the end of September, 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 89.8 (83.7) per cent on average.

### Personnel

At the end of September, the Group employed 211 (170) people, of whom 198 (157) were full-time employees. The average number of personnel in July–September was 213 (173).

### Events after the review period

Upon assignment from SATO, Finnish Tenants and the City of Espoo, Pellervo Economic Research PTT conducted a survey

called *Asumisen tuet vuokralaisen näkökulmasta* ("Housing subsidies from tenant's point of view") to extensively clarify questions related to housing subsidies, particularly from the consumers' point of view. The survey was published on 26 October 2017.

On 30 October, the Board of Directors of SATO made an investment decision to start construction in Atlantinkatu, Helsinki. This is a plot SATO received from the City of Helsinki for its 75th anniversary.

A design from SATO, Skanska and ALA Architects was selected for the next round in the Helsinki High-Rise architectural competition on 5 October 2017. The aim of the competition, which emphasises quality, is to find a design and developer for a high-rise area in central Pasila. SATO considers the development of central Pasila to offer significant means to respond to the challenges in urbanisation in Helsinki by using various urban development and housing solutions.

### Future risks and uncertainties

The most significant risks in the rental of apartments are related to economic cycles, demographic factors and resulting fluctuations in demand. The positive development of the value of SATO's housing assets and possibility to rent the apartments are managed by focusing on growth centres.

Changes in energy-efficiency and environmental requirements may increase the repair costs of apartments owned by SATO.

Risks in housing investments in St Petersburg are associated with the operating environment and exchange rate risks. Approximately 3 per cent of SATO's housing assets are located in St Petersburg. For the time being, SATO will refrain from making new investment decisions in Russia.

The management of the financing risk is defined in the Group's financing policy. In accordance with the Group's financing policy, the aim is to ensure that at least 60 per cent of all loans are fixed-rate loans. The Group has set an equity ratio target of at least 35 per cent.

Economic growth and expectations of inflation will probably cause the European Central Bank to apply a stricter financial policy in the near future. Longer-term rates are expected to increase first. The high cost of construction, combined with expectations of higher interest rates, will result in an increase in rents or a decrease in general interest towards housing investments.

A more detailed description of SATO's risks and risk management is available in the Group's annual report for 2016 and on the company's website at [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, the rent and price development for apartments, general competition and interest rates.

The Finnish economy is expected to continue its growth, and general confidence is estimated to be higher than on average. Interest rates are expected to remain low in 2017, which will have a positive impact on SATO's financing costs. Longer rates are expected to increase.

According to the Bank of Finland, steady growth in the global economy and the light financing conditions will support the positive development of the eurozone in the near future, even though these expectations are shadowed by the uncertainties related to Brexit, 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 outlook on public economy.

Continuing urbanisation provides good long-term conditions for continued investments in Finland. Net immigration is expected to be the highest form of population increase in SATO's operating areas. Some 80 per cent of SATO's housing assets are located in the Helsinki metropolitan area, where price development is expected to be stronger than in the rest of Finland.

According to estimates of Pellervo Economic Research PTT, prices and rents will continue to increase, demand for owner occupied apartments will grow higher, and the acceleration of housing sales will alleviate the pressure in the rental market.

It will take several years to fulfil the estimated lack of 20,000 apartments in the Helsinki metropolitan area and 3,000 apartments in Tampere. There is constant demand for new housing investments. According to the Technical Research Centre of Finland (VTT), Finland will require 25,000–30,000 new apartments every year in its growth centres by 2040.

The Russian economy is expected to develop slowly.

SATO's net rental income percentage is expected to remain at the 2016 level.

## SATO Corporation's shareholders on 16 October 2017

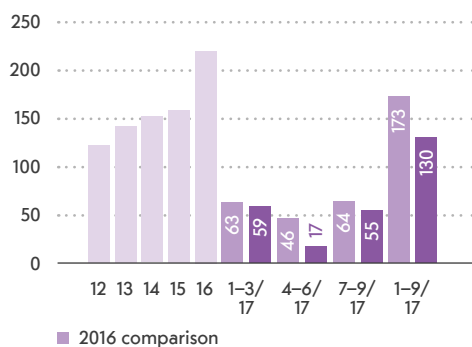
### Largest shareholders and their holdings

	shares	%
• Balder Finska Otas AB (owner: Fastighets Ab Balder, 100%)	30,485,686	53.7%
• Stichting Depository APG Strategic Real Estate Pool (owner: Stichting Pensioenfond ABP, >95%; manager: APG Asset Management NV)	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 Erkka	390,000	0.7%
• Unemployment Fund of the Construction Sector	330,000	0.6%
• The Research Foundation of the Pulmonary Diseases	227,000	0.4%
• Rausanne Oy	194,920	0.3%
• Entelä Tuula	179,000	0.3%
• Others (100 shareholders)	1,516,233	2.7%

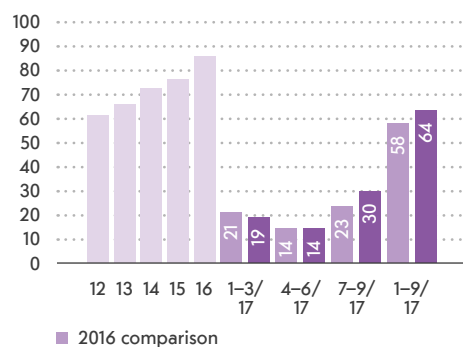
On 16 October 2017, SATO had 56,783,067 shares and 110 shareholders registered in the book-entry system. The share turnover rate was 0.13 per cent for the period 1 January–16 October 2017.

# FINANCIAL TREND

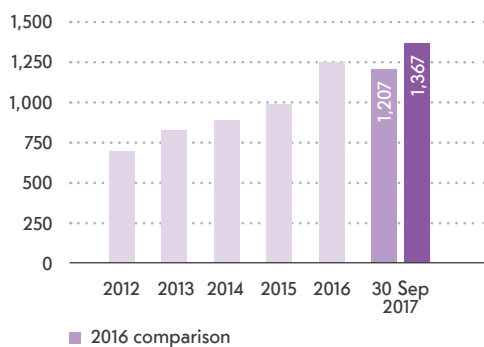
Profit before taxes, MEUR



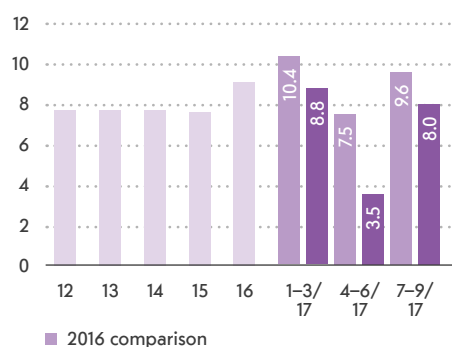
Cash earnings (CE), MEUR



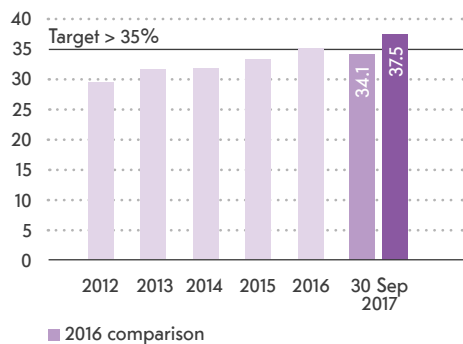
Shareholders' equity, MEUR



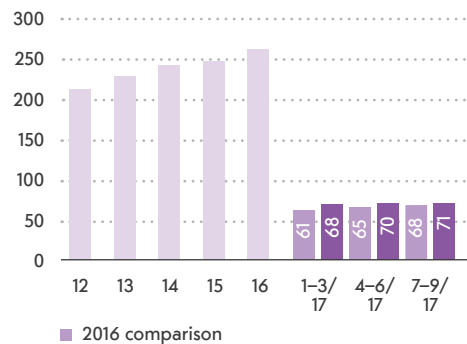
Return on invested capital, %



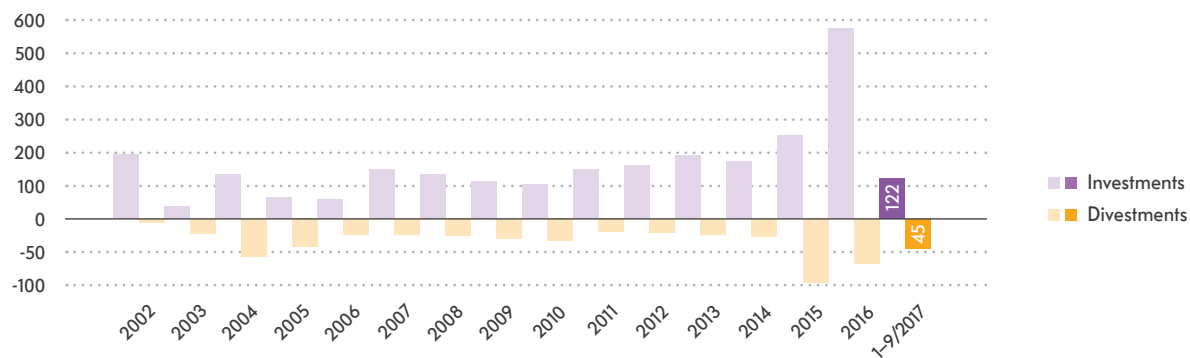
Equity ratio, %



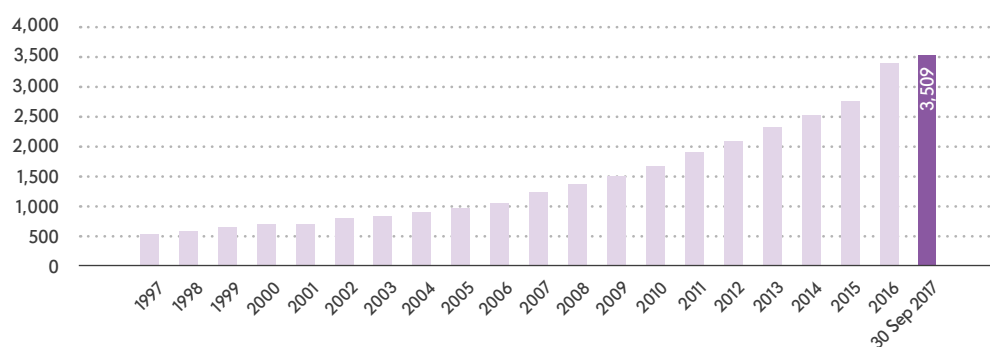
Net sales, MEUR



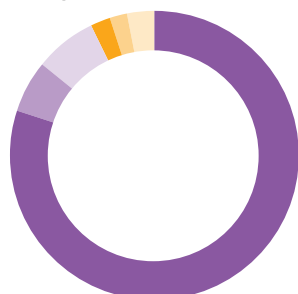
### Housing investments and divestments, MEUR



### Trend in the housing portfolio, fair values, MEUR



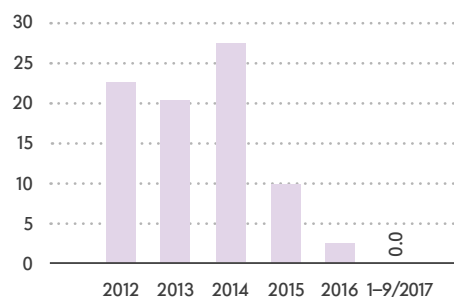
### Regional distribution of the housing portfolio, 30 September 2017



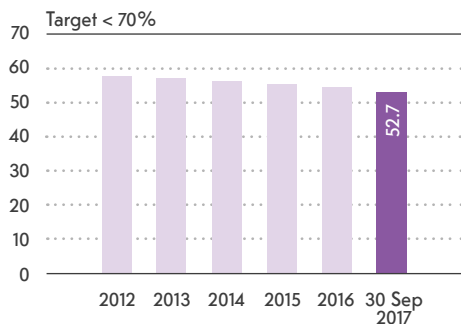
- Helsinki Metropolitan Area 80%
- Turku region 6%
- Tampere region 7%
- Jyväskylä region 2%
- Oulu region 2%
- St. Petersburg 3%

Total housing portfolio MEUR 3,509

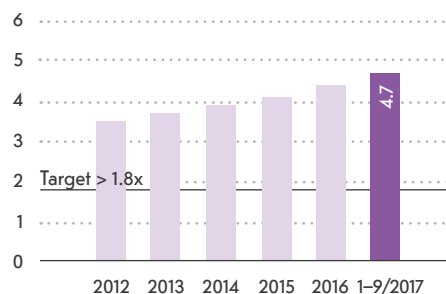
### Housing investments in St. Petersburg, MEUR



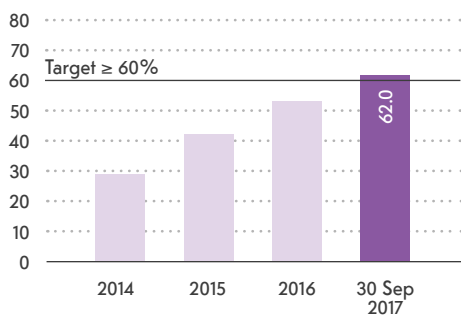
**Solvency ratio, %**



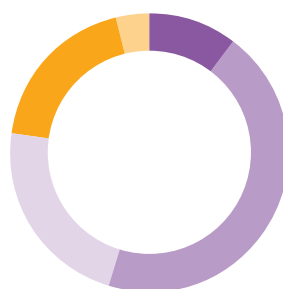
**Interest coverage ratio**



**Unencumbered assets, %**



**Debt portfolio, Nominal values 30 September 2017, total MEUR 1,937**



- Commercial papers 176
- Corporate bonds 849
- Bank loans 502
- Interest subsidised 345
- State subsidised (ARAVA) 65

## CONSOLIDATED INCOME STATEMENT, IFRS

MEUR	1 Jul-30 Sep 2017	1 Jul-30 Sep 2016	1 Jan-30 Sep 2017	1 Jan-30 Sep 2016	1 Jan-31 Dec 2016
Net sales	70.6	68.3	208.2	194.8	262.7
Property maintenance expenses	-19.5	-23.6	-68.7	-68.7	-95.7
<b>Net operating income</b>	<b>51.0</b>	<b>44.7</b>	<b>139.5</b>	<b>126.1</b>	<b>167.1</b>
Fair value change of investment properties, realised	0.2	-0.2	-0.5	0.4	0.7
Fair value change of investment properties, unrealised	24.3	38.5	48.2	101.5	124.3
Sales, marketing and administrative expenses	-9.6	-6.7	-27.1	-22.1	-30.0
Other operating income	0.4	0.4	8.8	4.2	7.7
Other operating expenses	0.0	-0.7	-4.0	-2.1	-2.6
<b>Operating profit</b>	<b>66.3</b>	<b>76.1</b>	<b>164.8</b>	<b>208.0</b>	<b>267.2</b>
Financial income	0.2	0.2	0.5	0.4	0.6
Financial expenses	-11.6	-12.3	-35.4	-35.5	-48.4
	<b>-11.4</b>	<b>-12.1</b>	<b>-34.8</b>	<b>-35.1</b>	<b>-47.8</b>
<b>Profit before tax</b>	<b>54.8</b>	<b>64.0</b>	<b>130.0</b>	<b>172.9</b>	<b>219.4</b>
Income tax expenses	-11.1	-12.8	-26.2	-35.2	-44.8
<b>Profit for the period</b>	<b>43.7</b>	<b>51.2</b>	<b>103.8</b>	<b>137.7</b>	<b>174.7</b>
<b>Profit for the period attributable to</b>					
Equity holder of the parent	43.8	51.2	103.9	137.7	174.8
Non-controlling interests	0.0	0.0	0.0	0.0	-0.2
	<b>43.7</b>	<b>51.2</b>	<b>103.8</b>	<b>137.7</b>	<b>174.7</b>
<b>Earnings per share attributable to equity holders of the parent</b>					
Basic, EUR	0.77	0.90	1.83	2.57	3.22
Diluted, EUR	0.77	0.90	1.83	2.57	3.22
Average number of shares, million	<b>56.6</b>	<b>56.6</b>	<b>56.6</b>	<b>53.6</b>	<b>54.3</b>



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

MEUR	1 Jul-30 Sep 2017	1 Jul-30 Sep 2016	1 Jan-30 Sep 2017	1 Jan-30 Sep 2016	1 Jan-31 Dec 2016
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability, net of tax	0.0	0.0	0.0	0.0	-0.1
Related tax	0.0	0.0	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>	<b>0.0</b>	<b>-0.1</b>
Cash flow hedges	1.5	-0.4	13.4	-14.8	-3.5
Translation differences	0.0	0.0	-0.1	0.0	0.1
Related tax	-0.3	0.1	-2.7	3.0	0.7
<b>Items that may be reclassified subsequently to income statement</b>	<b>1.2</b>	<b>-0.4</b>	<b>10.6</b>	<b>-11.8</b>	<b>-2.7</b>
<b>Other comprehensive income, net of tax</b>	<b>1.2</b>	<b>-0.4</b>	<b>10.6</b>	<b>-11.8</b>	<b>-2.8</b>
<b>Total comprehensive income</b>	<b>45.0</b>	<b>50.9</b>	<b>114.5</b>	<b>125.9</b>	<b>171.9</b>
<b>Comprehensive income attributable to</b>					
Equity holders of the parent	45.0	50.9	114.5	125.9	172.1
Non-controlling interest	0.0	0.0	0.0	0.0	-0.2
	<b>45.0</b>	<b>50.9</b>	<b>114.5</b>	<b>125.9</b>	<b>171.9</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	3,508.8	3,335.7	3,383.2
Tangible assets	75.3	102.8	105.1
Intangible assets	1.8	1.7	1.6
Investments in associated companies	0.0	0.0	0.0
Available-for-sale financial assets	1.7	1.7	1.7
Non-current receivables	13.5	12.2	13.4
Deferred tax assets	13.1	18.3	16.1
<b>Total</b>	<b>3,614.0</b>	<b>3,472.3</b>	<b>3,521.1</b>
<b>Current assets</b>			
Account and other receivables	26.4	24.4	18.0
Deferred tax assets	2.9	8.5	4.9
Cash and cash equivalents	3.0	35.4	18.3
<b>Total</b>	<b>32.3</b>	<b>68.3</b>	<b>41.2</b>
<b>TOTAL ASSETS</b>	<b>3,646.3</b>	<b>3,540.6</b>	<b>3,562.2</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	-27.2	-46.9	-37.9
Reserve fund	43.7	43.7	43.7
Reserve for invested non-restricted equity	114.8	114.8	114.8
Retained earnings	1,231.3	1,090.4	1,127.6
<b>Total</b>	<b>1,367.1</b>	<b>1,206.5</b>	<b>1,252.6</b>
<b>Non-controlling interests</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,367.1</b>	<b>1,206.6</b>	<b>1,252.6</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	235.6	224.1	225.9
Provisions	2.8	3.7	3.0
Derivatives	43.0	67.0	54.4
Long-term non-interest bearing liabilities	0.0	0.8	0.8
Long-term interest bearing liabilities	1,584.0	1,889.9	1,794.4
<b>Total</b>	<b>1,865.4</b>	<b>2,185.6</b>	<b>2,078.5</b>
<b>Current liabilities</b>			
Accounts payable and other liabilities	64.8	60.0	69.9
Provisions	3.8	2.1	1.9
Deferred tax liabilities	7.3	4.7	10.8
Short-term interest bearing liabilities	337.9	81.6	148.5
<b>Total</b>	<b>413.8</b>	<b>148.4</b>	<b>231.1</b>
<b>TOTAL LIABILITIES</b>	<b>2,279.3</b>	<b>2,334.0</b>	<b>2,309.6</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>3,646.3</b>	<b>3,540.6</b>	<b>3,562.2</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

MEUR	1 Jul-30 Sep 2017	1 Jul-30 Sep 2016	1 Jan-30 Sep 2017	1 Jan-30 Sep 2016	1 Jan-31 Dec 2016
<b>Cash flow from operating activities</b>					
<b>Profit for the period</b>	<b>43.7</b>	<b>51.2</b>	<b>103.8</b>	<b>137.7</b>	<b>174.7</b>
Adjustments:					
Non-cash items included in the profit*	-22.8	-38.4	-45.7	-102.8	-122.5
Profit and loss on sales of investment properties and fixed assets	-0.2	0.2	0.4	-0.6	-1.0
Other adjustments	0.0	0.0	2.0	0.0	0.0
Interest expenses and other financial expenses	11.6	12.3	35.4	35.5	48.4
Interest income	-0.1	-0.2	-0.4	-0.4	-0.6
Dividend income	0.0	0.0	-0.1	0.0	0.0
Income taxes	11.1	12.8	26.2	35.2	44.8
<b>Cash flow before change in net working capital</b>	<b>43.2</b>	<b>37.9</b>	<b>121.6</b>	<b>104.5</b>	<b>143.7</b>
Change in net working capital:					
Changes in accounts receivable and other receivables	-7.3	-5.2	-8.3	-7.7	-1.4
Change in accounts payable and other liabilities*	1.9	5.1	-0.2	8.0	12.1
Interest paid	-12.8	-13.1	-40.4	-35.0	-43.0
Interest received	0.1	0.2	0.4	0.2	0.5
Taxes paid	-1.8	-0.6	-17.7	-13.5	-13.8
<b>Net cash flow from operating activities</b>	<b>23.3</b>	<b>24.2</b>	<b>55.4</b>	<b>56.5</b>	<b>98.1</b>
<b>Cash flow from investing activities</b>					
Acquisitions of investment properties	-58.5	-64.5	-120.6	-267.5	-327.0
Net investment in tangible and intangible assets	1.7	6.6	27.8	11.8	6.1
Repayments of loans receivable	0.0	0.0	0.4	0.6	0.9
Payments of granted loans	0.0	0.0	0.0	-1.0	-1.9
Disposals of Investment property	3.8	18.3	42.1	31.2	52.1
<b>Net cash flow from investing activities</b>	<b>-53.0</b>	<b>-39.6</b>	<b>-50.3</b>	<b>-224.9</b>	<b>-269.8</b>
<b>Cash flow from financing activities</b>					
Repayments (-) / withdrawals (+) of current loans	-21.0	-30.0	66.0	-70.8	6.1
Withdrawals of non-current loans	119.8	12.5	174.1	310.8	381.6
Repayments of non-current loans	-69.8	-11.4	-260.5	-169.8	-332.9
Payments received from the issue of shares	0.0	0.0	0.0	98.7	98.7
Repayment of capital and dividends paid	0.0	0.0	0.0	-25.4	-25.4
<b>Net cash flow from financing activities</b>	<b>29.0</b>	<b>-28.9</b>	<b>-20.4</b>	<b>143.5</b>	<b>128.1</b>
<b>Change in cash and cash equivalents</b>	<b>-0.7</b>	<b>-44.3</b>	<b>-15.3</b>	<b>-24.9</b>	<b>-43.6</b>
Cash and cash equivalents at the beginning of period	3.6	79.7	18.3	60.7	60.7
Effect of exchange rate fluctuations on cash held	0.0	0.0	-0.1	0.2	0.4
Cash M&A	0.0	0.0	0.0	-0.5	0.9
Cash and cash equivalents at the end of period	3.0	35.4	3.0	35.4	18.3

\* Since the fourth quarter of 2016, SATO presents the adjustment for change in current provisions, EUR 1.5 (-0.6) million, in non-cash items included in the profit, instead of change in accounts payable and other liabilities.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY, IFRS

### Attributable to owners of the parent

MEUR	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
<b>Shareholders' equity 1 Jan 2016</b>	4.4	-35.1	43.7	1.9	978.1	993.1	0.1	993.2
Comprehensive income:								
Remeasurements of defined benefit liability					0.0	0.0		0.0
Cash flow hedges, net of tax		-11.8				-11.8		-11.8
Translation differences					0.0	0.0		0.0
Profit for the period					137.7	137.7	0.0	137.7
<b>Total comprehensive income</b>	0.0	-11.8	0.0	0.0	137.7	125.9	0.0	125.9
Transactions with shareholders:								
Issue of shares				112.9		112.9		112.9
Dividend					-25.4	-25.4	0.0	-25.4
<b>Transaction with shareholders, total</b>	0.0	0.0	0.0	112.9	-25.4	87.5	0.0	87.5
Other adjustments	0.0			0.0	0.0	0.0	0.0	0.0
<b>Total of equity movements</b>	0.0	-11.8	0.0	112.9	112.3	213.4	0.0	213.4
<b>Shareholders' equity 30 Sep 2016</b>	4.4	-46.9	43.7	114.9	1,090.4	1,206.5	0.1	1,206.6

### Attributable to owners of the parent

MEUR	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interests	Total equity
<b>Shareholders' equity 1 Jan 2017</b>	4.4	-37.9	43.7	114.8	1,127.6	1,252.6	0.0	1,252.6
Comprehensive income:								
Remeasurements of defined benefit liability					0.0	0.0		0.0
Cash flow hedges, net of tax		10.7				10.7		10.7
Translation differences					-0.1	-0.1		-0.1
Profit for the period					103.8	103.8	0.0	103.8
<b>Total comprehensive income</b>	0.0	10.7	0.0	0.0	103.8	114.5	0.0	114.5
Transactions with shareholders:								
Dividend					0.0	0.0	0.0	0.0
<b>Transaction with shareholders, total</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other adjustments	0.0			0.0	0.0	0.0	0.0	0.0
<b>Total of equity movements</b>	0.0	10.7	0.0	0.0	103.7	114.5	0.0	114.5
<b>Shareholders' equity 30 Sep 2017</b>	4.4	-27.2	43.7	114.8	1,231.3	1,367.1	-0.1	1,367.1

## NOTES TO THE INTERIM REPORT

### 1. Notes to the interim report

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.

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.

From the beginning of the year 2017, the Group has adopted new or amended IFRS's and IFRIC interpretations, as described in the financial statements 2016. These new norms and regulations have been assessed not to have a significant impact on the figures presented in this interim report. Otherwise, the interim report has been prepared according to the same accounting principles as the consolidated financial statements for the year ended 31 December 2016.

SATO has amended the reporting of income and expenses starting from the first quarter of 2017. The new reporting practice is considered to better reflect SATO's current strategy and the recent development of its business. Under its current strategy, SATO focuses on the rental business. Sale of new apartments and land stock is no longer a part of the Group's core business and its share of the Group's income has decreased significantly. Therefore, income from the sale of new homes and land stock that were previously presented in the net sales have been reclassified to profit (loss) from investment property sold and included in the other operating income. Similarly, the profit (loss) from the sale of land stock and other income previously included in net sales have been reclassified to other operating income. Accordingly, the Group's unbuilt land stock reserve and properties under construction that are not classified as investment property are included in tangible assets in the Group's statement of financial position. In the statement of cash flows, changes in the Group's unbuilt land stock reserve and properties under construction not classified as investment property are presented in the cash flow from investing activities, and are included in the net investment in intangible and tangible assets, starting from the first quarter of 2017. The changes have been applied to the comparison periods.

### 2. 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.

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Assets by geographical regions</b>			
Finland	3,515.8	3,416.6	3,425.4
Russia	130.5	124.0	136.8
<b>Total</b>	<b>3,646.3</b>	<b>3,540.6</b>	<b>3,562.2</b>

### 3. Result on disposal of investment properties

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
<b>Sold investment properties</b>					
Proceeds from disposal of investment properties	5.6	19.0	44.0	31.9	67.3
Carrying value of investment properties sold	-5.4	-19.3	-44.6	-31.4	-66.5
<b>Total</b>	<b>0.2</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.4</b>	<b>0.7</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.

#### 4. Other operating income

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
<b>Other operating income</b>					
Sales income, new production	3.6	3.5	30.0	26.5	40.2
New production expenses	-4.0	-3.1	-28.3	-23.3	-34.3
Sales income, land stock	3.6	0.6	13.1	9.2	14.6
Carrying value of land stock sold	-3.0	-0.7	-7.4	-8.8	-13.9
Other income	0.1	0.1	1.4	0.6	1.2
<b>Total</b>	<b>0.4</b>	<b>0.4</b>	<b>8.8</b>	<b>4.2</b>	<b>7.7</b>

From the first quarter of 2017, SATO reports the income from sales of new homes and sales of land stock, net of attributable expenses, in other operating income. Similarly, other income from the sale of services amounting to EUR 0.3 (0.4) million, which was previously included in the Group's net sales, is presented in other operating income from the first quarter of 2017.

#### 5. Investment properties

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Fair value of investment properties at start of period</b>	<b>3,383.2</b>	<b>2,752.9</b>	<b>2,752.9</b>
Acquisitions, new constructions	29.1	501.2	557.7
Other investments to properties	92.0	6.6	10.5
Disposals of investment properties	-44.6	-31.4	-66.5
Capitalized borrowing costs	0.5	0.9	1.1
Reclassification from trading properties	0.3	3.9	3.2
Gains and losses from changes in fair value*	48.2	101.5	124.3
<b>Fair value of investment properties at end of period</b>	<b>3,508.8</b>	<b>3,335.7</b>	<b>3,383.2</b>

\* Gains and losses from changes in fair value includes foreign exchange gains and losses of EUR -7.5 (12.3) million.

#### Valuation methods

SATO's investment properties mainly comprise of rental apartments that are located in the largest growth centres. Approximately 80 per cent of the housing property is 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 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 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 SATO's investment properties 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 valuation 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, investment properties are recognised at acquisition value, which includes transaction costs. Thereafter, investment properties 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 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. SATO's investment properties valuation methods are sales comparison method, income value method and acquisition cost method.

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Investment property by valuation classes</b>			
Sales comparison method	2,876.9	2,566.6	2,687.6
Income value	480.9	594.7	540.6
Acquisition method	151.0	174.4	155.1
<b>Total</b>	<b>3,508.8</b>	<b>3,335.7</b>	<b>3,383.2</b>

## Sensitivity analysis of investment properties

Sensitivity analysis of investment properties has been presented in the 2016 financial statement. 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.

## 6. Tangible assets

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Balance at the start of the period</b>	105.1	113.3	113.3
Additions	25.8	21.4	88.0
Disposals	-53.4	-35.5	-104.7
Accumulated depreciation of disposals	0.3	0.3	0.4
Transfers between items	-2.2	3.7	8.4
Depreciation	-0.3	-0.3	-0.4
<b>Balance at the end of the period</b>	<b>75.3</b>	<b>102.8</b>	<b>105.1</b>

At the end of the reporting period, tangible assets included EUR 73.1 million (30 Sep 2016: EUR 100.8 million and 31 Dec 2016: EUR 103.0 million) of assets previously classified as inventories.

## 7. Intangible assets

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Balance at the start of the period</b>	1.6	1.8	1.8
Additions	0.7	0.3	0.5
Transfers between items	0.1	0.1	0.0
Depreciation	-0.6	-0.6	-0.7
<b>Balance at the end of the period</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>

## 8. Shareholders' equity

The total number of SATO's shares as at 30 Sep 2017 was 56,783,067 (56,783,067) and the number of own shares held was 160,000 (160,000).

During 2016, SATO carried out a directed share issue and a rights issue. SATO announced on 1 April 2016 the acquisition of all of the shares in SYK Yhtymä Oy. The transaction was completed by a directed share issue approved by SATO's Board of Directors. Shareholders of SYK Yhtymä subscribed for a total of 728,763 SATO's shares. In the rights issue a total of 5,052,462 shares was subscribed. SATO raised approximately EUR 98.7 million through the rights issue. The subscription price is recorded to the reserve for invested non-restricted equity.

The following dividend and repayment of capital were declared and paid by the company:

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>The following dividend and repayment of capital were declared and paid by the company:</b>			
Dividends 0.00 (0.50) per share, EUR	0.0	-25.4	-25.4
<b>Total</b>	<b>0.0</b>	<b>-25.4</b>	<b>-25.4</b>

## 9. Financial liabilities

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Financial liabilities</b>			
Commercial Papers	175.9	32.9	109.9
Corporate bonds	845.6	844.4	844.6
Bank loans	490.4	592.2	491.8
Interest-subsidised loans	344.9	416.1	421.5
State-subsidised ARAVA loans	65.2	86.0	75.2
<b>Total</b>	<b>1,921.8</b>	<b>1,971.6</b>	<b>1,943.0</b>

The average interest on the SATO debt portfolio during the period was 2.3 (2.6) per cent.

For purposes of short-term financing, SATO has a commercial paper program of EUR 400 (200) 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 (5), of which EUR 5 (5) million were unused.

## 10. Derivatives

MEUR	30 Sep 2017		30 Sep 2016	31 Dec 2016
	Positive	Negative	Net	Net
<b>Fair values of derivative instruments</b>				
Interest rate swaps, cash flow hedge	1.0	-27.6	-26.6	-47.0
Cross-currency and interest rate swaps, cash flow hedge		-15.9	-15.9	-20.0
<b>Total</b>	<b>1.0</b>	<b>-43.5</b>	<b>-42.5</b>	<b>-67.0</b>

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Nominal values of derivative instruments</b>			
Interest rate swaps, cash flow hedge	747.2	674.5	661.3
Cross-currency and interest rate swaps, cash flow hedge	104.9	107.2	106.0
<b>Total</b>	<b>852.1</b>	<b>781.7</b>	<b>767.3</b>

Change in fair value of designated interest rate hedges, booked to hedge reserve in other comprehensive income, totalled EUR 10.7 (-12,4) million and that of foreign exchange hedges totalled EUR 0.0 (0.6) 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. Currency forward contracts are used to hedge contractual cash flow relating to binding purchase agreements denominated in foreign currency. Interest rate hedges have maturities ranging between 1–10 years and forward contracts within 1 year. 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.

## 11. Fair values of financial instruments

MEUR	30 Sep 2017			30 Sep 2016		
	Level 1:	Level 2:	Level 3:	Level 1:	Level 2:	Level 3:
<b>Assets</b>						
Loans receivable		12.4			12.3	
Derivative assets		1.0			0.6	
Cash and cash equivalents		3.0			35.4	
<b>Liabilities</b>						
Corporate bonds	863.9	24.0		869.3	24.0	
Other loans		1,080.8			1,129.8	
Derivative liabilities		43.5			67.6	
31 Dec 2016						
MEUR				Level 1:	Level 2:	Level 3:
<b>Assets</b>						
Loans receivable					12.9	
Derivative assets					0.5	
Cash and cash equivalents					18.3	
<b>Liabilities</b>						
Corporate bonds				868.0	24.0	
Other loans					1,101.1	
Derivative liabilities					55.5	

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.

## 12. Provisions

MEUR	Provision for refund claim	Provision for litigation claim	Other provisions	Total
<b>Provision at the end of the period 31 Dec 2016</b>	4.2	0.2	0.5	4.9
Increases	0.1		2.3	2.5
Provisions used	-0.3	0.0	-0.5	-0.7
Reversals	0.0		0.0	0.0
<b>Provision at the end of the period 30 Sep 2017</b>	4.1	0.2	2.4	6.6
30 Sep 2017    30 Sep 2016    31 Dec 2016				
Non-current provisions		2.8	3.7	3.0
Current provisions		3.8	2.1	1.9
<b>Total</b>		<b>6.6</b>	<b>5.8</b>	<b>4.9</b>



The provision for refund claim includes guarantees related to new construction business and the 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 10 years from the reporting date.

The provision for litigation claim relates to a litigation process initiated during 2008, concerning one of SATO's development projects in Helsinki. Based on Helsinki Court of Appeals decision given on 30 January 2015, the expense was recognised in the consolidated income statement of 2015.

### 13. Notes to the cash flow statement

MEUR	7-9/2017	7-9/2016	1-9/2017	1-9/2016	1-12/2016
<b>Non-cash items included in the profit</b>					
Depreciation	0.3	0.3	0.9	0.8	1.1
Gains and losses from changes in fair value of investment properties	-24.3	-38.5	-48.2	-101.5	-124.3
Increase and reversals in provisions*	1.1	-0.1	1.6	-2.1	0.6
<b>Total</b>	<b>-22.8</b>	<b>-38.4</b>	<b>-45.7</b>	<b>-102.8</b>	<b>-122.5</b>

\* Since the fourth quarter of 2016, SATO presents the adjustment for change in current provisions, EUR 1.5 (-0.6) million, in non-cash items included in the profit, instead of change in accounts payable and other liabilities.

### 14. Collateral, commitments and contingencies

MEUR	30 Sep 2017	30 Sep 2016	31 Dec 2016
<b>Mortgages and pledges for secured borrowings</b>			
Secured borrowings	946.0	1,338.7	1,183.1
Pledges and mortgages provided, fair value	1,386.5	1,924.5	1,669.1
<b>Guarantees for others</b>			
Shared ownership apartment purchase commitments	13.7	15.8	14.9
Rs-guarantees	2.5	4.2	3.9
<b>Mortgages provided to secure payment of rent and street maintenance</b>			
Property mortgages provided	5.8	5.8	5.8
<b>Binding purchase agreements</b>			
For acquisitions of investment properties	87.5	125.7	121.2
Pledges for land use payments on zoned plots	4.2	5.2	4.2
Commitments to cleaning and removal charges	0.0	0.7	0.0
Preagreements on land for which there is a zoning condition	44.8	37.6	34.0

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 43.7 (54.4) million.

## 15. Related party transactions

SATO's related parties include the parent company SATO Corporation, its subsidiaries and associated companies. In addition, SATO's related parties include shareholders that have control or joint control over, or significant influence on, the reporting entity, as well as persons who are members of the key management personnel of the reporting entity or of a parent of the reporting entity. Shareholders with holdings of 20% or more are automatically considered related parties. Shareholders whose ownership is less than 20 per cent are considered related parties when they have significant influence of the reporting entity through, for example, position on the Board of Directors.

Shareholders that are considered as SATO's related parties in 2017 are Balder Finska Ota AB (owner: Fastighets Ab Balder, 100%), Stichting Depository APG Strategic Real Estate Pool (owner: Stichting Pensioenfonds ABP, >95%; 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 the entities controlled or jointly controlled by them are considered as SATO's related party. Also close members of their family are considered as 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.

Related party transactions consist entirely of management employee benefits. The terms and conditions used in the potential related party transactions are equivalent to the terms used in transactions between independent parties.

MEUR	1-9/2017	1-9/2016	1-12/2016
<b>Management employee benefits</b>			
Salaries and other employee benefits	2.0	2.0	2.7
<b>Total</b>	<b>2.0</b>	<b>2.0</b>	<b>2.7</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 SATO's profit and fulfilment of the targets for their respective area of responsibility. The Board of Directors approves the payment of bonuses.

## 16. Subsequent events

[On 30 October, the Board of Directors of SATO made an investment decision to start construction in Atlantinkatu, Helsinki. This is a plot SATO received from the City of Helsinki for its 75th anniversary.]

## KEY INDICATORS

Key financial indicators	1-9/2017	1-9/2016	1-12/2016	1-12/2015	1-12/2014	1-12/2013**	1-12/2012**
Net sales, MEUR	208.2	194.8	262.7	249.4	243.2	229.5	212.7
Net rental income, MEUR	139.5	126.1	167.1	151.8	146.2	131.8	122.1
Net rental income, %	5.6%	5.8%	5.6%	6.0%	6.3%	6.2%	6.3%
Profit before taxes, MEUR	130.0	172.9	219.4	159.4	152.2	140.8	121.0
Balance sheet total, MEUR	3,646.3	3,540.6	3,562.2	2,979.6	2,801.6	2,596.0	2,360.0
Shareholders' equity, MEUR	1,367.1	1,206.6	1,252.6	993.2	892.3	823.0	693.0
Interest bearing liabilities, MEUR	1,921.8	1,971.6	1,943.0	1,676.2	1,584.9	1,501.3	1,375.3
Return on invested capital, % (ROI)	6.8%	9.5%	9.1%	7.6%	7.7%	7.7%	7.7%
Return on equity, % (ROE)	10.6%	16.7%	15.6%	13.5%	14.0%	15.5%	13.5%
Equity ratio, %	37.5%	34.1%	35.2%	33.3%	31.8%	31.7%	29.4%
Personnel, average***	203	170	170	172	165	156	152
Personnel at the end of period	211	170	175	170	169	156	150
<b>Key indicators per share</b>							
Earnings per share, EUR	1.83	2.57	3.22	2.49	2.37	2.34	1.78
Equity per share, EUR****	24.14	21.31	22.12	19.53	17.55	16.16	13.72
Number of shares, million*	56.6	56.6	56.6	50.8	50.8	50.8	50.8
<b>Key figures according to EPRA recommendations and operational cash earnings</b>							
EPRA Earnings, MEUR	59.9	53.2	69.5	64.5	65.1	62.7	44.4
EPRA Earnings per share, EUR	1.06	0.99	1.28	1.27	1.28	1.23	0.87
EPRA Net Asset Value, MEUR*****	1,632.1	1,479.3	1,517.5	1,227.8	1,120.3	1,006.9	900.5
EPRA Net Asset Value per share, EUR*****	28.82	26.13	26.80	24.15	22.04	19.80	17.71
Cash earnings, MEUR	63.5	58.1	86.2	78.1	72.9	66.1	61.6
Cash earnings per share, EUR	1.12	1.08	1.59	1.54	1.43	1.30	1.21
<b>Quarter key financial indicators</b>							
	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net sales, MEUR	70.6	69.5	68.1	67.9	68.3	65.4	61.1
Net rental income, MEUR	51.0	45.4	43.1	40.9	44.7	43.2	38.2
Net rental income, %	6.0%	5.4%	5.2%	5.1%	5.7%	6.0%	5.7%
Operating profit, MEUR	66.3	28.3	70.3	59.3	76.1	58.9	72.9
Profit and losses from changes of fair value	24.3	-8.4	32.3	22.7	38.5	23.2	39.8
Net financing expenses, MEUR	-11.4	-11.7	-11.7	-12.7	-12.1	-13.3	-9.6
Profit before taxes, MEUR	54.8	16.6	58.6	46.5	64.0	45.6	63.3
Earnings per share, EUR	0.77	0.23	0.83	0.66	0.90	0.68	0.99
Average number of shares, million*	56.6	56.6	56.6	56.6	56.6	53.3	50.8
Gross investments, MEUR	59.1	36.2	26.4	63.8	64.0	407.6	37.2
as percentage of net sales	83.8%	52.0%	38.8%	73.2%	88.3%	510.4%	47.4%
<b>Key figures according to EPRA recommendations and operational cash earnings</b>							
EPRA Earnings, MEUR	22.4	18.3	19.2	16.3	20.1	16.4	16.7
EPRA Earnings per share, EUR	0.40	0.32	0.34	0.29	0.36	0.31	0.33
Cash earnings, MEUR	29.8	14.5	19.2	28.1	23.3	13.8	21.0
Cash earnings per share, EUR	0.53	0.26	0.34	0.50	0.41	0.26	0.41

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

\*\* Adoption of IAS 40 Investment properties -standard fair value model has been taken into account retrospectively in key figures. Retrospectively adjusted figures are unaudited.

\*\*\* Including summer trainees

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

\*\*\*\*\* Includes items valued at their carrying amount

## FORMULAS USED IN CALCULATION

<b>Net rental income, EUR</b>	Rental income – Property, maintenance and reparation expenses – Ground rents	
<b>Net rental income, %</b>	$\frac{\text{Net rental income}}{\text{(fair value of investment property – property under construction) average during the financial year}}$	x 100
<b>Return on investment, %</b>	$\frac{\text{(Profit or loss before taxes + interest expense and other financing expenses)}}{\text{Balance sheet total – non-interest-bearing debts (average during the financial year)}}$	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>	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total – advances received}}$	x 100
<b>Earnings per share, EUR</b>	$\frac{\text{Net profit for year due to owners of parent company}}{\text{Adjusted number of shares (average during the financial year)}}$	
<b>Equity per share, EUR</b>	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares (at the end of the reporting period)}}$	
<b>EPRA 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 –/+ Profit on sales of land areas –/+ Fair value change of financial instruments –/+ Deferred taxed of above items – Non-controlling interests	
<b>EPRA Net Asset Value</b>	Net asset value –/+ 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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