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Q1 INTERIM REPORT
1.1.–31.3.2017

sato

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KEY FIGURES



Key figure	Q1 2017	Q1 2016
Net sales	€ 68.1 million	€ 61.1 million
Housing portfolio	25,499 homes €3.41 billion	23,365 homes €2.82 billion
Investments	€26.4 million	€37.2 million
Under construction Finland	1,392 pcs	1,172 pcs
Under construction St. Petersburg	0 pcs	74 pcs
Average rent in Finland at the end of the review period	16.54 €/m ² /month	16.06 €/m ² /month
Cash Earnings	€19.2 million	€21.0 million
Shareholders' equity at the end of the review period	€1,304.2 million	€1,011.9 million
Customers' Net Promoter Score	29	24

STRATEGY

MEGATRENDS

Globalisation

Digitalisation

Sustainability

CITIES AND PEOPLE CHANGE, HOUSING MUST CHANGE TOO

Vision:
IN THRIVING CITIES
PEOPLE ENJOY
A HIGH LEVEL OF
WELL-BEING

**A HOME
THE WAY
YOU
WANT IT**

Mission:
WE WILL
REVOLUTIONISE
HOUSING – IT IS
MORE THAN
JUST WALLS

Strategic development programs:
CUSTOMER FIRST, MYSATO, DIVERSIFIED HOUSING SOLUTIONS

VALUES

Aiming high

A human to human

Ease and joy of expertise

SATO CORPORATION'S INTERIM REPORT, 1 JANUARY–31 MARCH 2017

Summary for the period 1 January–31 March 2017 (1 January–31 March 2016)

- Profit before taxes stood at EUR 58.6 (63.3) million.
- Earnings per share were EUR 0.83 (0.99).
- The change in the fair value of rental apartments included in the result was EUR 32.3 (39.8) million.
- Equity was EUR 1,304.2 (1,011.9) million, or EUR 23.03 (19.90) per share.
- Return on equity was 14.7 (20.1) per cent.
- Return on investment was 8.8 (10.4) per cent.
- Net sales stood at EUR 68.1 (61.1) million.
- Investments in rental apartments stood at EUR 26.4 (37.2) million.
- A total of 315 (32) rental apartments were acquired or completed.
- The occupancy rate in Finland was 96.1 (94.8) per cent.
- A total of 1,392 rental apartments are under construction.

Operating environment

The Finnish economy has turned towards growth. In the near future, growth is expected to be clearly above one per cent. This growth is mainly based on private consumption and building investments. Inflation has shown signs of acceleration, but, in particular, short-term interest rates remain at an unusually low level. Long-term interest rates are expected to rise. The confidence of consumers in the economy has strengthened further, and they are optimistic about the development of the unemployment situation.

Demand for rental apartments has remained high. Housing construction is active in SATO's main operating areas. In the Helsinki metropolitan area many developing residential areas are being built such as Kalasatama, Kruunuvuorenranta and Jätkäsaari in Helsinki, Niittykumpu in Espoo, and Tikkurila and

Martinlaakso in Vantaa. Among others, the Härmälänranta area in Tampere and Kakola area in Turku are being developed. The high number of new apartments completed has balanced the rental apartment market in many places and rents have increased moderately.

There is more activity in the real estate investment market than ever before (KTI). The number of apartments purchased by investors has remained high, and consumers have also picked up the pace during the first quarter. This was reflected, for example, in the number of housing loans withdrawn in January 2017. The last time as many loans were withdrawn was in January 2012.

The Russian economy is expected to grow moderately.

CEO Saku Sipola:

- Our strong focus on customer service was seen as a decrease in resident turnover during the review period. We have been able to improve our customer loyalty.
- SATO's revised strategy centres around the customer, and we are implementing our Customer First development programme that aims at improved customer service. SATO's customer service employees will ensure that a consistent service chain works within predefined time and the customer is well informed throughout the process. In addition, we will focus more closely on building management services that have previously been acquired from external service providers, and we will include the regular tasks of building managers in the job descriptions of SATO's service managers and directors. Through this change, SATO has recruited more than 30 customer service employees.
- We want to listen to our customers more closely, and develop and improve on the basis of feedback and research data. We opened SATO Pulssi, a mobile customer panel, with which our residents can have an impact on housing solutions and the development of related services.
- Strong urban development will continue in the future. Urbanisation is essential for the international success of Finland, as innovation, businesses and jobs are mainly created in urban environments. This sets a continuous demand for rental apartments and we continue investing in the Helsinki metropolitan area, Tampere and Turku.
- Rental activities have developed positively, and our occupancy rate improved clearly from the year before. The occupancy rate decreased slightly from the final quarter of 2016, as 463 new and renovated apartments became available for renting during the first quarter.

Net sales and profit

At the beginning of the year, the company changed its reporting practices so that net sales consist only of rental income. For further information on the changes, please see the note 1 in the interim report.

In January–March, consolidated net sales stood at EUR 68.1 (61.1) million, showing a change of 11.5 per cent from the reference period. Net sales have increased as a result of the larger number of apartments and positive development of occupancy rate.

Operating profit was EUR 70.3 (72.9) million. The operating profit without the change in the fair value was EUR 38.0 (33.1) million. At the beginning of the year, the change in value was EUR 32.3 (39.8) million, mainly because of the increase in apartment prices in SATO's operating areas, the discontinuation of specific restrictions and the increase in the value of the Russian rouble.

Profit before taxes was EUR 58.6 (63.3) million. Cash flow from operations (free cash flow after taxes excluding the change in fair value) in January–March amounted to EUR 19.2 (21.0) million.

Financial position and financing

The consolidated balance sheet totalled EUR 3,562.5 (3,287.1) million at the end of March. Equity was EUR 1,304.2 (1,011.9) million. Equity per share was EUR 23.03 (19.90).

The Group's equity ratio was 36.6 (30.8) per cent at the end of March. The increase in the equity ratio was due to value growth and good profitability in 2016. SATO's Annual General meeting decided not to pay dividend from profit 2016 in order to further improve investment capacity. The minimum target is an equity ratio of 35 per cent.

The Group's annualized return on equity was 14.7 (20.1) per cent. Return on investment was 8.8 (10.4) per cent.

Interest-bearing liabilities at the end of March totalled EUR 1,905.7 (1,946.1) million, of which loans subject to market terms accounted for EUR 1,437.1 (1,635.9) million. The average interest rate was 2.5 (2.5) per cent. Net financing costs totalled EUR -11.7 (-9.6) million.

EUR 52.0 million of new long-term financing was raised. The solvency ratio (debt-to-assets) was 53.4 (55.1) per cent at the end of March. Solvency ratio improved due to value growth and good profitability in 2016.

The calculated impact of changes in the market value of interest hedging on equity was EUR 4.7 (-6.6) 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 31 March 2017, SATO owned a total of 25,499 (23,365) apartments. A total of 315 rental apartments were acquired or completed. The total number of divested rental apartments and shared ownership apartments redeemed by the owner occupants was 117.

The fair value of rental apartments was EUR 3,414.2 (2,823.4) million at the end of March. The change in the value of investment assets, including the rental apartments acquired and divested during the review period, was EUR 31.0 (70.5) million.

Of the value of homes, the Helsinki metropolitan area accounted for some 79 per cent, Tampere and Turku made up 13 per cent, and St. Petersburg covered 4 per cent at the end of March.

Investments and divestments

Investment activities 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.

Investments in rental apartments stood at EUR 26.4 (37.2) million. Investments in the Helsinki metropolitan area represented 78 per cent and investments in new apartments represented 74 per cent of all investments in the review period.

On 31 March 2017, binding purchase agreements in Finland totalled EUR 107.5 (124.6) million.

During the review period, 117 (66) rental apartments were divested in Finland. Their total value was EUR 28.4 (7.3) million.

Rental activities

Effective rental activities provide home-seekers with quick access to a home and the Group with a steadily increasing 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.

Because of apartments acquired in 2016 and an improved occupancy rate, rental income increased by 11.5 per cent to EUR 68.1 (61.1) million. The economic occupancy rate of apartments in Finland was 96.1 (94.8) per cent on average, and the rental apartment turnover rate was 37.0 (40.6) per cent. During the past 12 months, the decrease in the turnover rate and the increase in the occupancy rate have been improved by activities carried out in accordance with the Customer First strategy programme, closer communications with customers, improved quality and more effective rental activities.

The average monthly rent of SATO's rental apartments at the end of the period was EUR 16.54 (16.06) per m². The average rent is increased by investments in small apartments in growth centres. Rent increases remained moderate.

Net rental income from apartments stood at EUR 42.4 (37.9) million, and the net rental income rate was 5.2 (5.7) per cent.

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 62.6 (57.0) million at the end of March. The value of new plots acquired by the end of March totalled EUR 0.0 (2.4) million.

The permitted building volume for about 2,050 apartments is being developed for the plots of the company's own stock. 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 298 (32) rental apartments and 57 (0) apartments for sale were completed. On 31 March 2017, a total of 1,392 (1,172) rental apartments and 0 (76) owner occupied apartments were under construction.

A total of EUR 8.8 (8.2) million was spent on repairing apartments and improving their quality.

A total of 18 (48) new apartments were sold in January–March. At the end of the review period, a total of 9 (29) completed apartments and 0 (23) apartments under construction remained unsold. The total purchase value of these unsold apartments amounted to EUR 6.0 (25.8) million. SATO has made a strategic decision to give up its production of owner-occupied apartments and focus on business operations related to rental apartments.

Business operations in St. Petersburg

The housing market of St. Petersburg is of the same size as the Finnish housing market. The expansion of investment activities to St. Petersburg from 2007 has increased the opportunities for SATO's growth. Apartments are acquired in central locations in the city.

At the end of March, housing assets in St. Petersburg totalled EUR 137.3 (111.5) million. The total amount of binding purchase agreements was EUR 0.0 (1.1) million.

At the end of March, SATO owned 534 (460) completed apartments and 0 (74) apartments under construction in St. Petersburg.

The economic occupancy rate of rental apartments was 87.8 (77.0) 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 March, the Group employed 186 (162) people, of whom 171 (152) had a permanent contract of employment. The average number of personnel was 181 (165) in January–March.

Annual General Meeting on 8 March 2017

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

KPMG Oy Ab, authorised public accountants, will continue as the company's auditor.

The Annual General Meeting decided that SATO Corporation will pay no dividend for 2016.

Organisation of the Board of Directors

At its organisation meeting on 8 March 2017, 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 the Chairman of the Nomination and Remuneration Committee, and Jukka Hienonen and Tarja Pääkkönen as its members.

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

Events after the review period

There are no significant events following the review period.

Future risks and uncertainties

The most significant risks in the renting of apartments are related to economic cycles and fluctuations in demand. The positive development of the value of SATO's housing assets and its rental capacity of apartments are secured by focusing on growth centres.

Changes in energy efficiency and environmental requirements may increase the repair costs of SATO's investment apartments.

Risks in housing investments in St. Petersburg are associated with the operating environment and currency risks. About four 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.

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.

A more detailed description of risks and risk management is available in the Group's annual report for 2016 and on the company's website at 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 with its slow growth, and general confidence is estimated to be higher than on average. Interest rate level is expected to remain low

in 2017, which will have a positive impact on SATO's financing costs. Long-term interest rates are expected to rise.

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.

Increases in urbanisation provide 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 more positive 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 accelerating of housing sales will alleviate the pressure in the rental market.

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

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 Corporation's shareholders on 10 April 2017

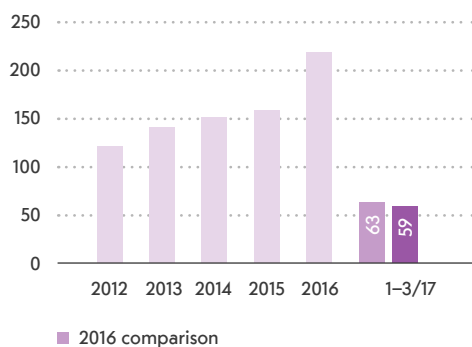
Largest shareholders and their holdings

- Balder Finska Ota AB
(owner: Fastighets Ab Balder, 100%) 53.6%
- Stichting Depositary APG Strategic Real Estate Pool
(owner: Stichting Pensioenfond ABP, >95%;
manager: APG Asset Management NV) 22.6%
- Elo Mutual Pension Insurance Company 12.7%
- The State Pension Fund 4.9%
- The Finnish Construction Trade Union 1.1%
- Others (91 shareholders) 5.1%

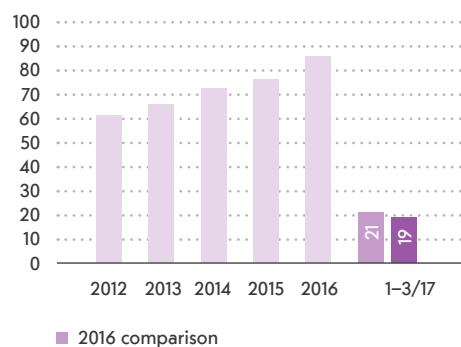
On 10 April 2017, SATO had 56,783,067 shares and 96 shareholders registered in the book-entry system. The share turnover rate was 0.0 per cent for the period 1 January–10 April 2017.

FINANCIAL TREND

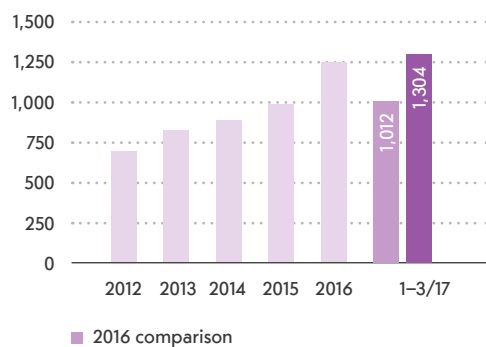
Profit before taxes, MEUR



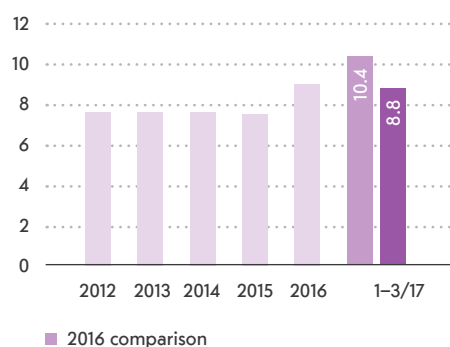
Cash earnings (CE), MEUR



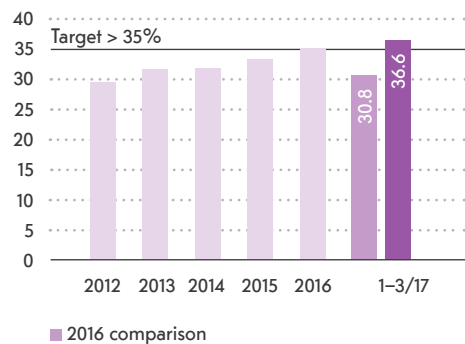
Shareholders' equity, MEUR



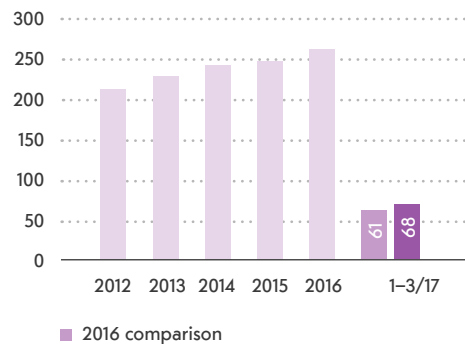
Return on invested capital, %



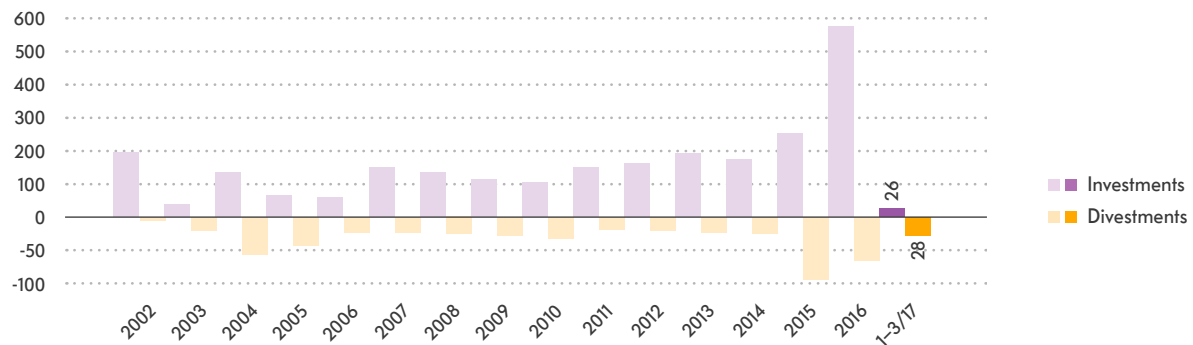
Equity ratio, %



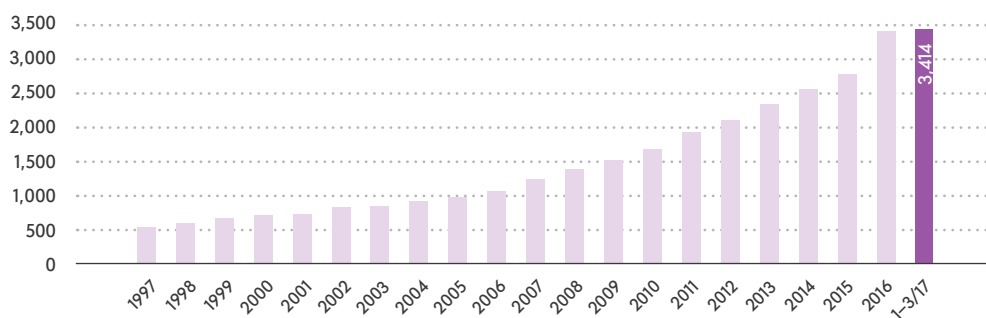
Net sales, MEUR



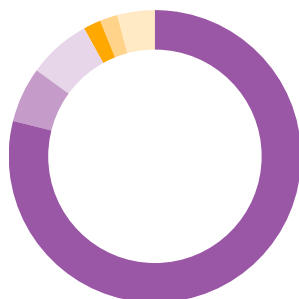
Housing investments and divestments, MEUR



Trend in the housing portfolio, fair values, MEUR



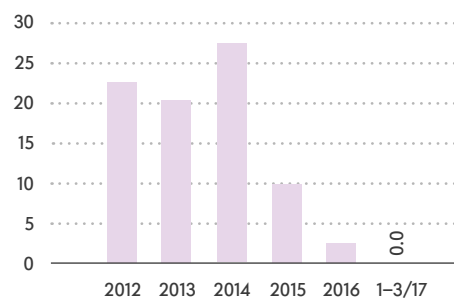
Regional distribution of the housing portfolio, 31 March 2017



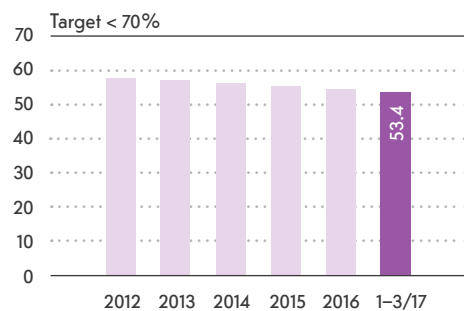
- Helsinki Metropolitan Area 79%
- Turku region 6%
- Tampere region 7%
- Jyväskylä region 2%
- Oulu region 2%
- St. Petersburg 4%

Total housing portfolio MEUR 3,414

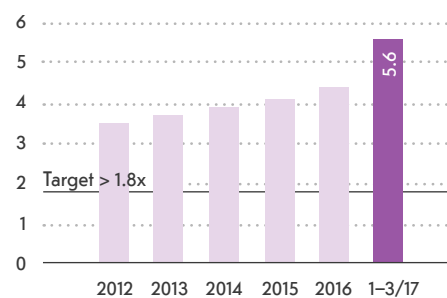
Housing investments in St. Petersburg, MEUR



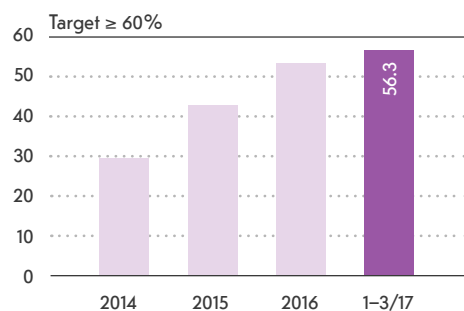
Solvency ratio, %



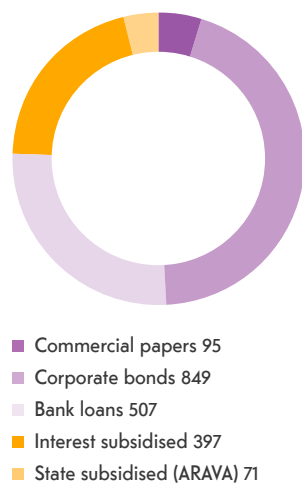
Interest coverage ratio



Unencumbered assets, %



Debt portfolio, Nominal values 31 March 2017, total MEUR 1,919



CONSOLIDATED INCOME STATEMENT, IFRS

MEUR	1 Jan–31 Mar 2017	1 Jan–31 Mar 2016	1 Jan–31 Dec 2016
Net Sales	68.1	61.1	262.7
Property maintenance expenses	-25.0	-22.8	-95.7
Net operating income	43.1	38.2	167.1
Fair value change of investment properties, realised	0.5	0.7	0.7
Fair value change of investment properties, unrealised	32.3	39.8	124.3
Sales, marketing and administrative expenses	-7.9	-7.2	-30.0
Other operating income	3.1	2.0	7.7
Other operating expenses	-0.8	-0.5	-2.6
Operating profit	70.3	72.9	267.2
Financial income	0.3	0.1	0.6
Financial expenses	-12.0	-9.7	-48.4
	-11.7	-9.6	-47.8
Profit before tax	58.6	63.3	219.4
Income tax expenses	-11.6	-12.9	-44.8
Profit for the period	47.0	50.4	174.7
Profit for the period attributable to			
Equity holder of the parent	47.0	50.4	174.8
Non-controlling interests	0.0	0.0	-0.2
	47.0	50.4	174.7
Earnings per share attributable to equity holders of the parent			
Basic, EUR	0.83	0.99	3.22
Diluted, EUR	0.83	0.99	3.22
Average number of shares, million	56.6	50.8	54.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

MEUR	1 Jan–31 Mar 2017	1 Jan–31 Mar 2016	1 Jan–31 Dec 2016
Other comprehensive income			
Remeasurement of defined benefit liability, net of tax	0.0	0.0	-0.1
Related tax	0.0	0.0	0.0
Items that will never be reclassified to income statement	0.0	0.0	-0.1
Cash flow hedges	5.9	-7.7	-3.5
Translation differences	-0.1	0.0	0.1
Related tax	-1.2	1.5	0.7
Items that may be reclassified subsequently to income statement	4.6	-6.2	-2.7
Other comprehensive income, net of tax	4.6	-6.2	-2.8
Total comprehensive income	51.6	44.2	171.9
Comprehensive income attributable to			
Equity holders of the parent	51.6	44.2	172.1
Non-controlling interest	0.0	0.0	-0.2
	51.6	44.2	171.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS			
Non-current assets			
Investment property	3,414.2	2,823.4	3,383.2
Tangible assets	85.2	106.4	105.1
Intangible assets	1.9	1.9	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	13.2	12.5	13.4
Deferred tax assets	14.9	16.9	16.1
Total	3,531.0	2,962.7	3,521.1
Current assets			
Account and other receivables	20.5	16.5	18.0
Deferred tax assets	4.9	6.3	4.9
Cash and cash equivalents	6.1	301.6	18.3
Total	31.5	324.3	41.2
TOTAL ASSETS	3,562.5	3,287.1	3,562.2
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity attributable to Equity holders of the parent			
Share Capital	4.4	4.4	4.4
Fair value and other reserves	-33.2	-41.3	-37.9
Reserve fund	43.7	43.7	43.7
Reserve for invested non-restricted equity	114.8	1.9	114.8
Retained earnings	1,174.4	1,003.1	1,127.6
Total	1,304.2	1,011.9	1,252.6
Non-controlling interests	0.0	0.1	0.0
TOTAL SHAREHOLDERS EQUITY	1,304.2	1,012.1	1,252.6
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	232.5	205.8	225.9
Provisions	3.0	5.2	3.0
Derivatives	49.3	55.5	54.4
Long-term non-interest bearing liabilities	0.0	0.8	0.8
Long-term interest bearing liabilities	1,765.6	1,766.7	1,794.4
Total	2,050.4	2,034.0	2,078.5
Current liabilities			
Accounts payable and other liabilities	52.7	50.0	69.9
Provisions	1.9	1.9	1.9
Deferred tax liabilities	13.3	9.7	10.8
Short-term interest bearing liabilities	140.1	179.4	148.5
Total	208.0	241.0	231.1
TOTAL LIABILITIES	2,258.4	2,275.0	2,309.6
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3,562.5	3,287.1	3,562.2

CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

MEUR	1 Jan–31 Mar 2017	1 Jan–31 Mar 2016	1 Jan–31 Dec 2016
Cash flow from operating activities			
Profit for the period	47.0	50.4	174.7
Adjustments:			
Non-cash items included in the profit*	-31.9	-39.0	-122.5
Profit and loss on sales of investment properties and fixed assets	-0.5	-0.7	-1.0
Other adjustments	0.0	-0.2	0.0
Interest expenses and other financial expenses	12.0	9.7	48.4
Interest income	-0.2	-0.1	-0.6
Dividend income	-0.1	0.0	0.0
Income taxes	11.6	12.9	44.8
Cash flow before change in net working capital	37.9	33.0	143.7
Change in net working capital:			
Changes in accounts receivable and other receivables	-2.6	-2.5	-1.4
Change in accounts payable and other liabilities*	-12.1	1.7	12.1
Interest paid	-16.6	-8.7	-43.0
Interest received	0.2	0.1	0.5
Taxes paid	-2.5	-4.2	-13.8
Net cash flow from operating activities	4.2	19.4	98.1
Cash flow from investing activities			
Acquisitions of Investment properties	-26.4	-37.2	-327.0
Net investment in tangible and intangible assets	18.0	7.9	6.1
Repayments of loans receivable	0.1	0.1	0.9
Payments of granted loans	0.0	-0.8	-1.9
Disposals of Investment property	28.8	7.4	52.1
Net cash flow from investing activities	20.5	-22.6	-269.8
Cash flow from financing activities			
Repayments (-) / withdrawals (+) of current loans	-15.0	2.6	6.1
Withdrawals of non-current loans	52.0	298.3	381.6
Repayments of non-current loans	-74.0	-31.4	-332.9
Payments received from the issue of shares	0.0	0.0	98.7
Repayment of capital and dividends paid	0.0	-25.4	-25.4
Net cash flow from financing activities	-37.0	244.1	128.1
Change in cash and cash equivalents	-12.3	240.8	-43.6
Cash and cash equivalents at the beginning of period	18.3	60.7	60.7
Effect of exchange rate fluctuations on cash held	0.1	0.1	0.4
Cash M&A	0.0	0.0	0.9
Cash and cash equivalents at the end of period	6.1	301.6	18.3

* Since the fourth quarter of 2016, SATO presents the adjustment for change in current provisions, EUR 0.0 (0.0) 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

MEUR	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings	Total		
Shareholders' equity 1 Jan 2016	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		-6.2				-6.2		-6.2
Translation differences					0.0	0.0		0.0
Profit for the period					50.4	50.4	0.0	50.4
Total comprehensive income	0.0	-6.2	0.0	0.0	50.4	44.2	0.0	44.2
Transactions with shareholders:								
Dividend					-25.4	-25.4	0.0	-25.4
Transaction with shareholders, total	0.0	0.0	0.0	0.0	-25.4	-25.4	0.0	-25.4
Other adjustments	0.0				0.0	0.0	0.0	0.0
Total of equity movements	0.0	-6.2	0.0	0.0	25.0	18.8	0.0	18.8
Shareholders' equity 31 Mar 2016	4.4	-41.3	43.7	1.9	1,003.1	1,011.9	0.1	1,012.1

MEUR	Attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings	Total		
Shareholders' equity 1 Jan 2017	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		4.7				4.7		4.7
Translation differences					-0.1	-0.1		-0.1
Profit for the period					47.0	47.0	0.0	47.0
Total comprehensive income	0.0	4.7	0.0	0.0	46.9	51.6	0.0	51.6
Transactions with shareholders:								
Dividend					0.0	0.0	0.0	0.0
Transaction with shareholders, total	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
Total of equity movements	0.0	4.7	0.0	0.0	46.9	51.6	0.0	51.6
Shareholders' equity 31 Mar 2017	4.4	-33.2	43.7	114.8	1,174.4	1,304.2	0.0	1,304.2

NOTES TO THE INTERIM REPORT

1. Notes to the interim report

SATO Corporation is a Finnish public limited company domiciled in Helsinki, Finland. SATO's registered address is Panuntie 4, 00600 Helsinki. SATO Corporation and its subsidiaries together form the consolidated SATO Group ("SATO" or "the Group"). SATO group provides housing solutions and its operations consist 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 these financial statements have been rounded from exact figures and therefore the sum of figures presented individually can deviate from the presented sum figure. The preparation of interim financial statements 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 expense. Actual results may differ from these estimates. The figures in the interim report are unaudited.

From the beginning of the year 2017 SATO has adopted new or amended IFRS's and IFRIC interpretations as described in the financial statements 2016. The interpretation has been assessed not to have a significant impact on SATO's consolidated financial statements. Other parts of the interim report have been reported according to same accounting principles as in SATO's Financial Statements of 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 as at 31 March 2017 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	31 Mar 2017	31 Mar 2016	31 Dec 2016
Assets by geographical regions			
Finland	3,416.2	3,168.4	3,425.4
Russia	146.3	118.7	136.8
Total	3,562.5	3,287.1	3,562.2

3. Result on disposal of investment properties

MEUR	1-3/2017	1-3/2016	1-12/2016
Sold investment properties			
Proceeds from disposal of investment properties	28.2	7.2	67.3
Carrying value of investment properties sold	-27.7	-6.5	-66.5
Total	0.5	0.7	0.7

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	1-3/2017	1-3/2016	1-12/2016
Other operating income			
Sales income, new production	23.9	13.2	40.2
New production expenses	-22.0	-11.9	-34.3
Sales income, land stock	0.0	4.0	14.6
Carrying value of land stock sold	0.0	-3.6	-13.9
Other income	1.2	0.3	1.2
Total	3.1	2.0	7.7

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 0.1 (0.1) million, that 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	31 Mar 2017	31 Mar 2016	31 Dec 2016
Fair value of investment properties at start of period	3,383.2	2,752.9	2,752.9
Acquisitions, new constructions	3.6	31.6	55.7
Other investments to properties	22.6	3.8	10.5
Disposals of investment properties	-27.7	-6.5	-66.5
Capitalized borrowing costs	0.2	0.3	1.1
Reclassification from trading properties	-0.1	1.6	3.2
Gains and losses from changes in fair value *	32.3	39.8	124.3
Fair value of investment properties at end of period	3,414.2	2,823.4	3,383.2

*Gains and losses from changes in fair value includes foreign exchange gains of EUR 8.5 (4.2) million.

Valuation methods

SATO's investment properties mainly comprises of rental apartments that are located in the largest growth centres. Approximately 78 per cent of the housing property is located in the Helsinki region. Investment property value is taken care by renovation and repair activity based on their lifecycle and repair plans. Increase 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 rent 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 booked through profit and loss are reported to the Corporate Management Group and Board of Directors.

At inception investment properties are booked at acquisition value, which includes transaction costs. Later investment properties are valued at fair value. Gains and losses from changes in fair value are booked through profit and loss in the period when they are incurred. Fair value is the price at which the property would trade in a competitive auction setting. Fair value of investment properties represents the price in local primary market taking into account 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	31 Mar 2017	31 Mar 2016	31 Dec 2016
Investment property by valuation classes			
Sales comparison method	2,753.9	2,152.4	2,687.6
Income value	504.7	502.6	540.6
Acquisition method	155.6	168.3	155.1
Total	3,414.2	2,823.4	3,383.2

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	31 Mar 2017	31 Mar 2016	31 Dec 2016
Balance at the start of the period	105.1	116.8	116.8
Additions	16.7	72.5	91.7
Disposals	-33.7	-82.0	-111.8
Accumulated depreciation of disposals	0.1	0.1	0.4
Transfers between items	-2.9	-0.9	8.4
Depreciation	-0.1	-0.1	-0.4
Balance at the end of the period	85.2	106.4	105.1

At the end of the reporting period, tangible assets included EUR 83.1 million (31 March 2016: EUR 104.2 million and 31 Dec 2016: EUR 103.0 million) of assets previously classified as inventories.

7. Intangible assets

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Balance at the start of the period	1.6	1.8	1.8
Additions	0.4	0.2	0.5
Transfers between items	0.1	0.0	0.0
Depreciation	-0.2	-0.2	-0.7
Balance at the end of the period	1.9	1.9	1.6

8. Shareholders' equity

The total number of SATO's shares as at 31 March 2017 was 56,783,067 (51,001,842) 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 SVK Yhtymä Oy. The transaction was completed by a directed share issue approved by SATO's Board of Directors. Shareholders of SVK 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	31 Mar 2017	31 Mar 2016	31 Dec 2016
The following dividend and repayment of capital were declared and paid by the company:			
Dividends 0.00 (0.50) per share, EUR	0.0	-25.4	-25.4
Total	0.0	-25.4	-25.4

9. Financial liabilities

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Financial liabilities			
Commercial Papers	94.9	106.3	109.9
Corporate bonds	844.9	844.0	844.6
Bank loans	497.3	685.6	491.8
Interest-subsidised loans	397.2	220.9	421.5
State-subsidised ARAVA loans	71.3	89.2	75.2
Total	1,905.7	1,946.1	1,943.0

In March 2016 SATO issued a euro 300 million unsecured corporate bond for European investors, with maturity of five years and coupon rate of 2.375 per cent. The loan was assigned Baa3 rating by Moody's and is listed in Irish Stock Exchange.

SATO acquired two housing portfolios in April 2016 and the loans transferred to SATO among these transactions explain the increased amount of interest-subsidised loans.

The average interest on the SATO debt portfolio during the period was 2.5 (2.5) 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 (290) million, of which EUR 400 (290) million were unused, and a non-committed current overdraft limit of EUR 5 (5) million.

10. Derivatives

MEUR	31 Mar 2017		31 Mar 2016	31 Dec 2016
	Positive	Negative	Net	Net
Fair values of derivative instruments				
Interest rate swaps, cash flow hedge	0.4	-32.6	-32.2	-36.5
Cross-currency and interest rate swaps, cash flow hedge		-16.7	-16.7	-18.5
Foreign exchange forward contracts, cash flow hedge				-0.3
Total	0.4	-49.3	-48.9	-55.0

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Nominal values of derivative instruments			
Interest rate swaps, cash flow hedge	654.9	547.6	661.3
Cross-currency and interest rate swaps, cash flow hedge	106.0	108.3	106.0
Foreign exchange forward contracts, cash flow hedge		0.8	
Total	761.0	656.6	767.3

Change in fair value of designated interest rate hedges, booked to hedge reserve in other comprehensive income, totalled EUR 4.7 (-6.6) million and that of foreign exchange hedges totalled EUR 0.0 (0.4) 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	31 Mar 2017			31 Mar 2016		
	Level 1:	Level 2:	Level 3:	Level 1:	Level 2:	Level 3:
Assets						
Loans receivable		12.8			12.5	
Derivative assets		0.4			0.0	
Cash and cash equivalents		6.1			301.6	
Liabilities						
Corporate bonds	863.0	24.0		841.3	24.0	
Other loans		1,063.3			1,104.6	
Derivative liabilities		49.3			55.8	

MEUR	31 Dec 2016		
	Level 1:	Level 2:	Level 3:
Assets			
Loans receivable		12.9	
Derivative assets		0.5	
Cash and cash equivalents		18.3	
Liabilities			
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
Provision at the end of the period 31 Dec 2016	4.2	0.2	0.5	4.9
Increases	0.1	0.0	0.0	0.1
Provisions used	0.0	0.0	0.0	-0.1
Provision at the end of the period 31 Mar 2017	4.2	0.2	0.5	4.9

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Non-current provisions	3.0	5.2	3.0
Current provisions	1.9	1.9	1.9
Total	4.9	7.2	4.9

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 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	1-3/2017	1-3/2016	1-12/2016
Non-cash items included in the profit			
Depreciation	0.3	0.3	1.1
Gains and losses from changes in fair value of investment properties	-32.3	-39.8	-124.3
Increase and reversals in provisions*	0.1	0.5	0.6
Total	-31.9	-39.0	-122.5

*Since the fourth quarter of 2016, SATO presents the adjustment for change in current provisions, EUR 0.0 (0.0) million, in non-cash items included in the profit, instead of change in accounts payable and other liabilities.

14. Collateral, commitments and contingencies

MEUR	31 Mar 2017	31 Mar 2016	31 Dec 2016
Mortgages and pledges for secured borrowings			
Secured borrowings	1,110.7	1,199.8	1,183.1
Pledges and mortgages provided, fair value	1,556.8	1,740.8	1,669.1
Guarantees for others			
Shared ownership apartment purchase commitments	14.9	17.1	14.9
Rs-guarantees	3.9	4.8	3.9
Mortgages provided to secure payment of rent and street maintenance			
Property mortgages provided	5.8	5.8	5.8
Binding purchase agreements			
For acquisitions of investment properties	107.5	125.7	121.2
Pledges for land use payments on zoned plots	3.4	5.2	4.2
Commitments to cleaning and removal charges	0.0	0.7	0.0
Letters of intent on land for which there is a zoning condition	33.9	3.9	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 47.4 (60.5) 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 Depositary 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 related party transactions are equivalent to the terms used in transactions between independent parties.

MEUR	1-3/2017	1-3/2016	1-12/2016
Management employee benefits			
Salaries and other employee benefits	0.6	0.8	2.7
Total	0.6	0.8	2.7

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

No significant events after the reporting period.

KEY INDICATORS

Key financial indicators	1-3/2017	1-3/2016	1-12/2016	1-12/2015	1-12/2014	1-12/2013**	1-12/2012**
Net sales, MEUR	68	61	263	249	243	229	213
Net rental income, MEUR	42	38	166	152	146	132	122
Net rental income, %	5.2%	5.7%	5.6%	6.0%	6.3%	6.2%	6.3%
Profit before taxes, MEUR	59	63	219	159	152	141	121
Balance sheet total, MEUR	3,563	3,287	3,562	2,980	2,802	2,596	2,360
Shareholders' equity, MEUR	1,304	1,012	1,253	993	892	823	693
Intrest bearing liabilities, MEUR	1,906	1,946	1,943	1,676	1,585	1,501	1,375
Return on invested capital, % (ROI)	8.8%	10.4%	9.1%	7.6%	7.7%	7.7%	7.7%
Return on equity, % (ROE)	14.7%	20.1%	15.6%	13.5%	14.0%	15.5%	13.5%
Equity ratio, %	36.6%	30.8%	35.2%	33.3%	31.8%	31.7%	29.4%
Personnel, average***	181	165	170	172	165	156	152
Personnel at the end of period	186	162	175	170	169	156	150
Key indicators per share							
Earnings per share, EUR	0.83	0.99	3.22	2.49	2.37	2.34	1.78
Equity per share, EUR ****	23.03	19.90	22.12	19.53	17.55	16.16	13.72
Number of shares, million *	56.6	50.8	56.6	50.8	50.8	50.8	50.8
Key figures according to EPRA recommendations and operational cash earnings							
EPRA Earnings, MEUR	19.2	16.7	69.5	64.5	65.1	62.7	44.4
EPRA Earnings per share, EUR	0.34	0.33	1.28	1.27	1.28	1.23	0.87
EPRA Net Asset Value, MEUR*****	1,570.8	1,256.6	1,517.5	1,227.8	1,120.3	1,006.9	900.5
EPRA Net Asset Value per share, EUR*****	27.74	24.72	26.80	24.15	22.04	19.80	17.71
Cash earnings, MEUR	19.2	21.0	86.2	78.1	72.9	66.1	61.6
Cash earnings per share, EUR	0.34	0.41	1.59	1.54	1.43	1.30	1.21
Quarter key financial indicators	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016		
Net sales, MEUR	68.1	67.9	68.3	65.4	61.1		
Net rental income, MEUR	42.4	40.8	44.6	43.0	37.9		
Net rental income, %	5.2%	5.1%	5.7%	6.0%	5.7%		
Operating profit, MEUR	70.3	59.3	76.1	58.9	72.9		
Profit and losses from changes of fair value	32.3	22.7	38.5	23.2	39.8		
Net financing expenses, MEUR	-11.7	-12.7	-12.1	-13.3	-9.6		
Profit before taxes, MEUR	58.6	46.5	64.0	45.6	63.3		
Earnings per share, EUR	0.83	0.66	0.90	0.68	0.99		
Average number of shares, million *	56.6	56.6	56.6	53.3	50.8		
Gross investments, MEUR	26.4	63.8	64.0	407.6	37.2		
as percentage of net sales	38.8%	73.2%	88.3%	510.4%	47.4%		
Key figures according to EPRA recommendations and operational cash earnings							
EPRA Earnings, MEUR	19.2	16.3	20.1	16.4	16.7		
EPRA Earnings per share, EUR	0.34	0.29	0.36	0.31	0.33		
Cash earnings, MEUR	19.2	27.7	24.0	13.5	21.0		
Cash earnings per share, EUR	0.34	0.49	0.42	0.25	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

Net rental income, EUR	Rental income – Property, maintenance and reparation expenses – Ground rents – Credit losses on rents
Net rental income, %	$= \frac{\text{Net rental income}}{(\text{fair value of investment property} - \text{property under construction}) \text{ average during the financial year}} \times 100$
Return on investment, %	$= \frac{(\text{Profit or loss before taxes} + \text{interest expense and other financing expenses})}{\text{Balance sheet total} - \text{non-interest-bearing debts (average during the financial year)}} \times 100$
Return on equity, %	$= \frac{(\text{Profit or loss after taxes})}{\text{Shareholders' equity (average during the financial year)}} \times 100$
Equity ratio, %	$= \frac{\text{Shareholders' equity}}{\text{Balance sheet total} - \text{advances received}} \times 100$
Earnings per share, EUR	$= \frac{\text{Net profit for year due to owners of parent company}}{\text{Adjusted number of shares (average during the financial year)}}$
Equity per share, EUR	$= \frac{\text{Shareholders' equity}}{\text{Adjusted number of shares (at the end of the reporting period)}}$
EPRA Earnings	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
EPRA Net Asset Value	Net asset value –/+ Fair value of financial instruments (net), net of tax –/+ Deferred tax assets and liabilities (net)
Cash Earnings	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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