

# ANNUAL REPORT AND SUSTAINABILITY REPORT 2018







4

#### CEO'S REVIEW

Our successes from last year lay a strong foundation for developing our activities and services this year, too.



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#### HIGHLIGHTS

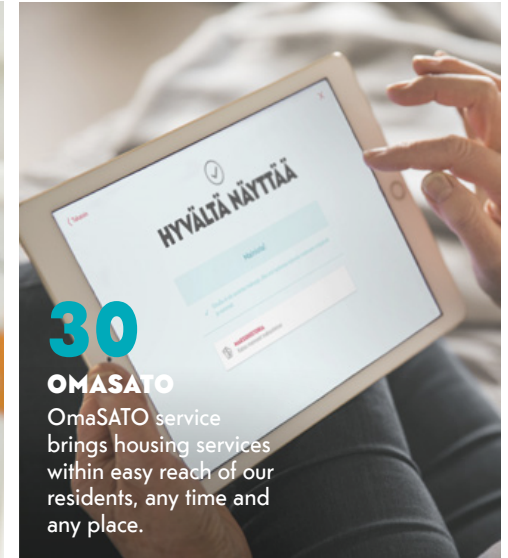
The economic occupancy rate strengthened each quarter.



43

#### SATO'S SUSTAINABILITY FOCUS

Sustainability is echoed in our vision – thriving cities will be home to people who enjoy a high level of well-being.



30

#### OMASATO

OmaSATO service brings housing services within easy reach of our residents, any time and any place.



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#### THIS IS HOW WE CREATE VALUE

Our mission is to transform housing and offer our customers more than just walls.

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**/ CEO'S REVIEW****CEO, SAKU SIPOLA**

"SATO's operating environment and the Finnish housing market in general have been in a phase of rapid change in the past decade. Urbanisation, the growing cost burden of house construction, changes resulting from regulation and from banks' own risk assessments of housing lending, uncertainty related to consumers' incomes and the rapid change in values related to ownership have contributed to the growing popularity of rental housing. There is good reason to believe this trend will continue. The development has led to a rapid increase in the offering of rental housing, as well as diversified the range of players offering rental apartments."







*A special highlight of 2018 was the improvement in customer satisfaction in all measured areas.*

In the prevailing market situation, our property development and investments have focused almost entirely on complementary construction planning projects carried out in cooperation with cities and on our own construction.

The growing economic uncertainty and weakening development will curb housing investments on a general level in the coming years, which could open up interesting acquisition opportunities for SATO.

In an increasingly competitive environment, 2018 was a positive year for SATO, characterised by renewals and successes, which were reflected in the improvement in all our key ratios. Our Customer First strategy moved forward nicely, and particular bright points in our successes were the improved economic occupancy rate and the especially pleasing improvement in customer satisfaction across all measured areas.

One of the highlights of the year was the launch of the OmaSATO service, which helped us bring housing services to our residents' smart phones, so they can use the services any time and any place. More than 250 of our residents were involved in the planning, testing and further development of OmaSATO in various workshops. By the end of the year, there were 8,190 registered users of the service, and one of our main focus areas in 2019 will be to continue developing OmaSATO.

In 2018, we submitted city planning applications covering 63,000 floor square metres, and we reinforced our rental housing portfolio with investments valued at over EUR 140 million. In construction and renovations, we paid special attention to energy efficiency and life-cycle thinking. During the reporting year, 388 new SATOhomes were completed, all of which in the Helsinki metropolitan area.

Our long-term work and successes are reflected in our strengthened equity ratio, our lowered solvency ratio and the increase in our unencumbered assets, all of which play an important role in securing our financing and, in turn, our opportunities to support Finland's urbanisation through new investments.

In December of the reporting year, SATO's Board of Directors updated the Group's long-term financial targets. The Group's equity ratio target

was raised from 35 per cent to 40 per cent. The Group's other financial targets remained unchanged: the interest coverage ratio must be over 1.8x and unencumbered assets 60 per cent or more. The long-term target for solvency ratio is not to exceed 50 per cent.

In 2018, we focussed on reinforcing our personnel's competence in areas that are key to implementing our strategy. We also cultivated our culture of safety and provided our customer service personnel with training in dealing with challenging situations at work. In average, SATO employees took part in 4.8 training days in 2018. As in previous years, satisfaction at work was high at SATO, and assessments of supervisory work showed very positive development. SATO had a total of 218 (212) employees at the end of the year.

Our sustainability work was guided by SATO's strategy, sustainability policy and the material topics raised in our stakeholder survey. I would like to call attention to one particular area that is very important to us, which is housing health and safety; we developed our operations around this theme during the financial year. We established, among other things, the position of Housing Health Manager, and drew up an operating model for housing health and safety matters. From the perspective of corporate social responsibility, we also considered it important to be part of efforts to reduce two major societal issues, unemployment and homelessness. We collaborated on a project with the non-profit organisations No Fixed Abode and the Rehabilitation Foundation to help participants in the project find two of life's essentials – a home and a job. By the end of the reporting year, nine people who had participated in the project were living in a SATOhome. We measured our sustainability efforts during the reporting year in the Global Real Estate Sustainability Benchmark (GRESB), and we achieved a score of four out of five stars. SATO's long-term sustainability efforts reflected progress in nearly all areas.

Our successes from last year lay a strong foundation for developing our activities and services this year, too. The strong role and commitment of our customers, cooperation partners, employees, shareholders and Board of Directors were our strongest pillars of success in 2018, and they will continue to be in future, too. I thank everyone for the past year and aim for an even better 2019.



## / HIGHLIGHTS AND KEY FIGURES

# A YEAR OF WORKING TOGETHER

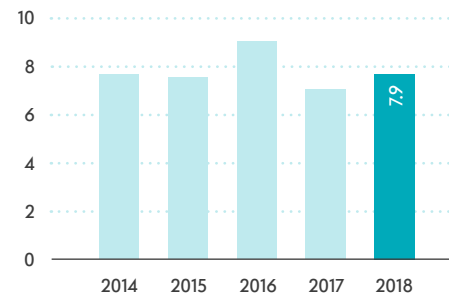
We included residents in the development of the digital OmaSATO service, we introduced our Customer First service model in our partners' day-to-day activities, and we developed residential areas together with cities. Our successes during the year are reflected in our higher occupancy rate and improved customer satisfaction – it's great to live in a city!



## HIGHLIGHTS AND KEY FIGURES



Return on invested capital, %



*2018 was a positive year for SATO, characterised by renewals and successes, which were reflected in the improvement in all our key figures.*

**97.9%**

The economic occupancy rate strengthened each quarter.

The improved occupancy rate was reflected in net sales and net rental income.

Net sales increased by 3.7 per cent and net rental income improved by 5.4 per cent. Profit before taxes improved by 25.2 per cent, and the change in the fair value of investment properties included in the result was EUR 102.0 million.

**8,190**

**OmaSATO users**

The highlight of the year was the launch of the digital OmaSATO service, which helped us bring housing services to our residents, regardless of time or place.

**218**

**Employees**

SATO had 218 employees at the end of the year.



**25,893**

**SATOhomes at the end of the year**

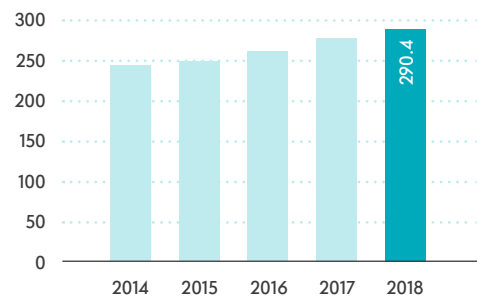
During the reporting year, 388 new SATOhomes were completed, all of which in the Helsinki metropolitan area. We also filed city planning applications for the construction of 1,000 apartments.

**40%**

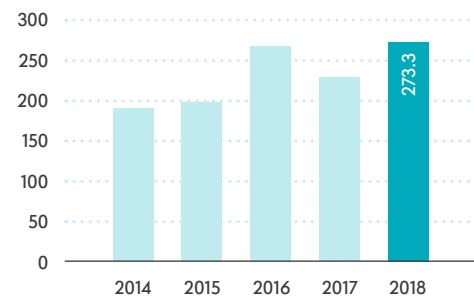
**New target for the Group's equity ratio**

## HIGHLIGHTS AND KEY FIGURES

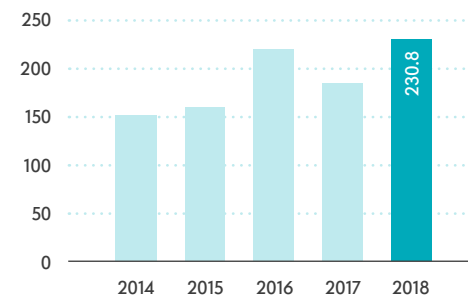
Net sales, MEUR



Operating profit, MEUR

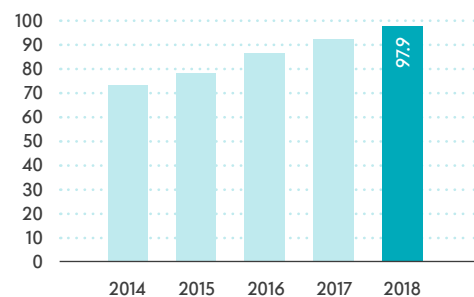


Profit before taxes, MEUR

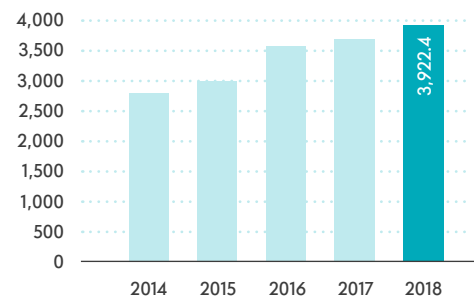


*All of SATO's key figures improved during the reporting year.*

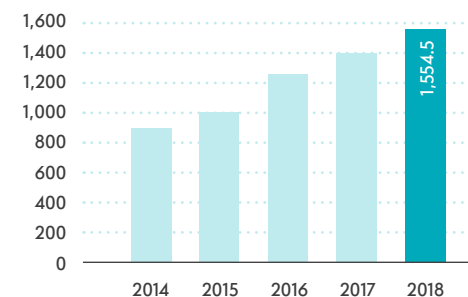
Cash earnings (CE), MEUR



Balance sheet, MEUR

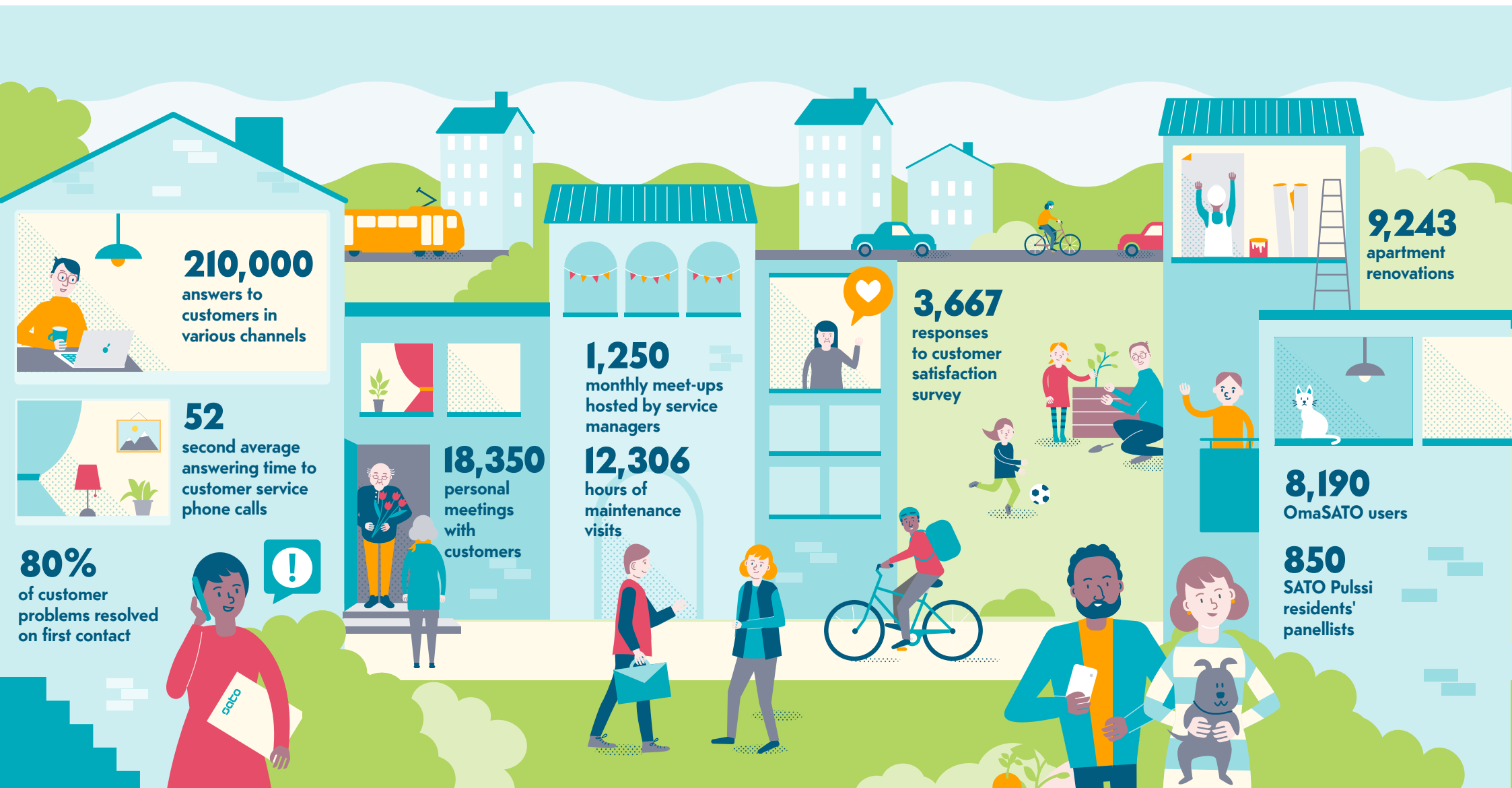


Shareholders' equity, MEUR





## CUSTOMER FIRST 2018



**"WHEN I AM AT HOME  
WITH MY SON,  
OUR HOME SOUNDS  
ALIVE."**

*Janne Ruukonen, who lives in a SATOhome in Tapiola, says in a SATO video what makes a home a home.*



**/ OPERATING ENVIRONMENT AND STRATEGY****URBAN HOMES**

As cities and populations change, we believe that housing also needs to change. One's home, block and city create a foundation for well-being, and SATO's goal is to build thriving neighbourhoods where people enjoy a high level of well-being. We implement our strategy and we anticipate changes in our operating environment – with digitalisation, globalisation and sustainability as our guiding light.

## HOMES WITH CUSTOMER CARE

**SATO's customers receive homes with customer care. We own, build, buy and renovate urban homes to ensure safe, carefree and pleasant living for our customers. Our service promise to our customers is: A home the way you want it.**

Residents of SATOhomes receive not only good service, but a number of additional benefits as well. SATO offers residents a DIY kit so they can paint the

walls to suit their preferences, and in cooperation with our partners we offer, for instance, insurance, moving services, electricity, healthcare services and food home-delivery services at special prices. We continuously develop our services, paying close attention to our customers' wishes.

As a major lessor, we bear responsibility for urban development and the environmental impacts of housing. We invest in rental apartments that meet

25,893

SATOhomes

50,000

Residents of SATOhomes

our customers' needs and are near good transport connections, and we grow profitably.

SATO invests primarily in the Helsinki metropolitan area, Tampere and Turku, where demand for homes and the expected value development are highest. We also operate in Jyväskylä, Oulu and St. Petersburg.

*Our service  
promise to our  
customers is:  
A home the way  
you want it.*



## REVIEW OF THE OPERATING ENVIRONMENT AND HOUSING MARKET

The increase in the number of small households, urbanisation, the ageing population and immigration have increased demand for rental apartments in growth centres. In particular, demand for small apartments is increasing in cities. Although construction remained brisk in 2018, it is losing momentum as Finland's economic growth levels off. Housing services are becoming increasingly important, and digitalisation is opening up entirely new possibilities for developing the service offering.

### POLITICAL TENSIONS OVERSHADOW ECONOMIC GROWTH

In its January forecast, the International Monetary Fund (IMF) projected a slowdown in global economic growth such that growth this year would be 3.5 per cent, and next year 3.6 per cent. As recently as last October, the IMF projected growth of 3.7 per cent for both years. In its outlook, the IMF highlights that there is a considerable risk that growth will weaken more than previously anticipated. Global trade tensions and uncertainty related to Brexit, combined with central banks' tightening monetary policy outlook, are behind the weakened growth forecast.

In its outlook published in December, the European Central Bank projected that GDP growth in the euro area will slow to 1.7 per cent in 2019. Finland's economic growth will continue, but signs of a slowdown are already apparent. Based on the most recent statistics and short-term forecasts, annual growth of just under 3 per cent was achieved in 2018. Growth is, however, projected to slow to below 2 per cent in 2019.

### RUSSIAN ECONOMY'S MODERATE RECOVERY CONTINUES

The recovery that started in 2016 continued, and Russia's GDP growth increased to nearly 2 per

cent in 2018. GDP growth is expected to weaken slightly in 2019. The VAT increase from 18 to 20 per cent raises the risk that inflation will accelerate and purchasing power will weaken. Due to inflationary pressures, monetary policy remains tight, which is keeping growth in private investments at a low level. Favourable growth in exports is expected in 2019, although it will weaken to some degree. If there is no change in the level of imports, the current account surplus will grow. Geopolitical risks and risks related to the global economic growth outlook, as well as the unstable price of oil, mean Russia's economic outlook will remain uncertain also going forward.

### FINLAND'S ECONOMIC GROWTH IS SLOWING

Finland's economic growth will continue, but signs of a slowdown are already apparent. Growth has been broad. Based on the most recent statistics and short-term forecasts, annual growth of just under 3 per cent will be achieved this year. There are, however, signs that the economic cycle is levelling off, especially in the construction industry. The slowdown in global economic growth and uncertainty in trade policy are, however, weighing down the outlook for exports, which in turn is reflected in the outlook for industry.

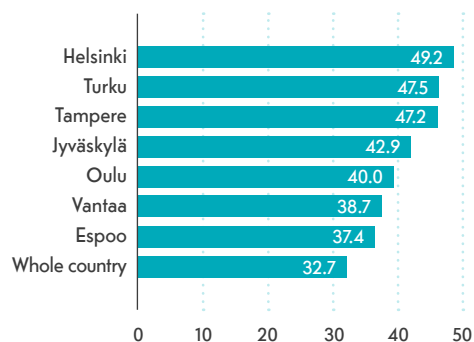
As uncertainty grows, companies' expectations have shifted downward, especially in the service sector and in industry. Consumer confidence remains at a high level, despite the decline that began in the summer. Consumer price inflation has remained moderate. Most of the increase in consumer prices can be attributed to the rise in energy prices.

*Digitalisation is a key enabler when it comes to developing the service offering.*



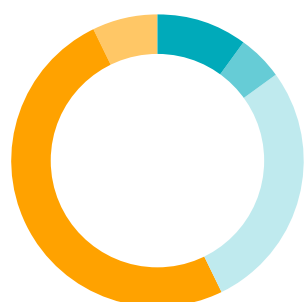


### Share of rental homes of all permanently occupied homes in 2017, %



Source: Statistics Finland

### Parties that own rental homes, %



- Housing investment companies 10%
- Funds and institutional investors 5%
- Municipal owners 28%
- Private investors 50%
- Foundations, foreign investors, etc. 7%

Total volume approximately 900,000 rental homes.  
Source: SATO's estimate

Employment continues to grow, despite expectations that it will slow down somewhat in the future. The majority of the increase in employment has taken place in the service sector and construction. The improved employment rate contributes to growth in private consumption.

### CONSTRUCTION REMAINED BRISK THROUGHOUT THE YEAR

Similar to the preceding years, construction has remained brisk, but the pace of growth is slowing. According to an estimate by the Confederation of Finnish Construction Industries (RT), construction volume increased by around six per cent during the reporting year, with the number of new construction projects reaching an impressive 44,000.

Housing construction's peak economic cycle has likely already passed, as the volume of housing construction has been shrinking for several months. At the same time, construction permits granted for housing construction by cubic metre volume have decreased by more than ten per cent. This is reflected in the volume of new construction projects started at the end of the reporting year, and for 2019, zero growth is projected for the overall volume of construction investments.

New apartments are being built particularly in the largest centres in SATO's main areas of operation. Brisk housing construction also increases the offering of rental apartments. According to KTI Property Information, close to 7,000 rental apartments were under construction in the Helsinki metropolitan area in the third quarter of the reporting year, and a total of roughly 2,900 were under construction in other major cities in

Finland (Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio).

Three quarters of all Finnish households consist of those living either alone or with one other person, and the corresponding figure for Helsinki is approximately 80 per cent. The majority of homes under construction are small, and the average size of rental apartments under construction in large cities is between 45 and 52 square metres.

Thanks to a strong economy, highly liquid markets, low interest rates and high equity valuations, considerable capital has been channelled to the real estate investment market in recent years. With these drivers expected to slow down across the board, there is also reason to assume that the peak of activity in the property investment markets is coming to an end. According to KTI, however, no sharp turns are expected if the turns in the economy and financial markets take place moderately as anticipated.

Foreign investors' interest in Finland remains strong, and the housing investment market has become increasingly globalised. With the entry of new players in the markets, it can be expected that the markets' liquidity will remain at least at a reasonable level.

### RENT DEVELOPMENT

Demand continues to exceed supply in most growth centres, despite the growth in supply and increase in construction costs. In a few areas, an increased supply of rental apartments has reduced pressures to raise rent levels, but rents have increased as a result of higher costs arising

from property management and maintenance. Higher property taxes, energy prices and water tariffs related to SATO's apartments have increased such costs by nearly 40 per cent over the past five years.

According to Statistics Finland, the annual increase in rents of privately financed apartments was around 2.5 per cent in the Helsinki metropolitan area and 2.2 per cent in other parts of Finland. Of the major cities outside the Helsinki metropolitan area, rents continue to increase in Tampere and Oulu, whereas rents in Turku have remained more or less the same. In all major cities, rents for large apartments increased more than rents for studio apartments or one-bedroom apartments. Rents of ARA apartments went up by 2.4 per cent throughout the country.

In line with its strategy, SATO continues to focus on apartments in growing urban regions. Rent levels are expected to continue to develop moderately. The change in the average rent of our apartments per square metre was slightly less than 1 per cent during the reporting year.

### URBANISATION

Finland's accelerating rate of urbanisation and continued population growth in the 2010s have propelled housing production to record figures. Statistics Finland's latest population projection paints a picture of the end of population growth if the birth rate remains at the current level. 2018 marks the third year in a row when deaths outnumber births in Finland. Until 2035, immigration will uphold population growth, and thereafter, it appears the population will begin to decline.

## New apartments are being built particularly in the largest centres in SATO's main areas of operation.

According to the population forecast, the working age population is expected to decrease by 57,000 persons by 2030 from the present situation, and by 2050 the working age population will have decreased by 200,000 persons.

Close to half of Finland's entire urban population already lives in the country's six major urban areas. A well-functioning rental apartment market promotes labour mobility and makes it easier for students to start their studies. If apartments can be built in areas with the highest demand, price pressures will decrease in a wider area.

The popularity of urban living has created a shortage of small apartments and an increase in demand for family apartments. Finns want to live closer to city centres, near services and good transport connections.

Helsinki's city plans include preparations for as many as over 200,000 new residents by the year 2050. This entails making existing urban structures denser and planning for new residential areas, especially near public transport hubs.

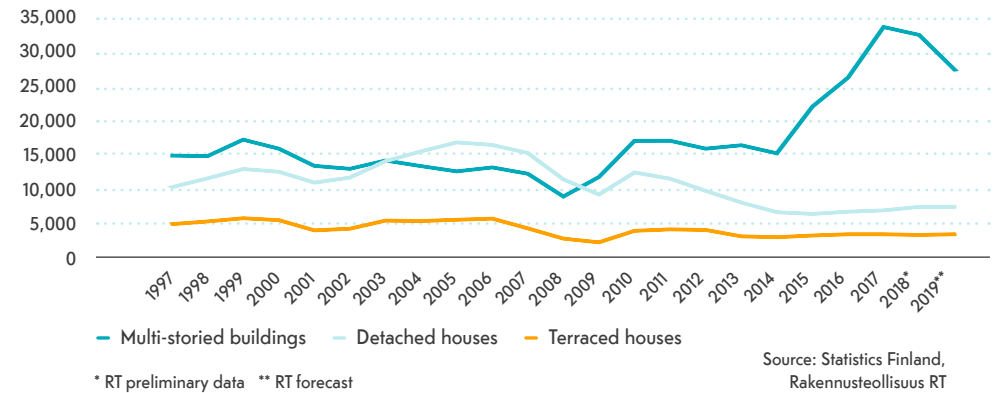
### THE SERVICISATION OF HOUSING

Housing is a service platform, and the customer experience arises from the combined effect of the home itself and services. Finns have learned to demand housing-related services, and according to a consumer survey commissioned by SATO, services that are included in a building or in rents are important when choosing an apartment. A third of the survey respondents said they would use more housing-related services if they could be ordered digitally from a centralised service. Residents would like to see services that make their lives easier and give them more time for day-to-day activities and hobbies.

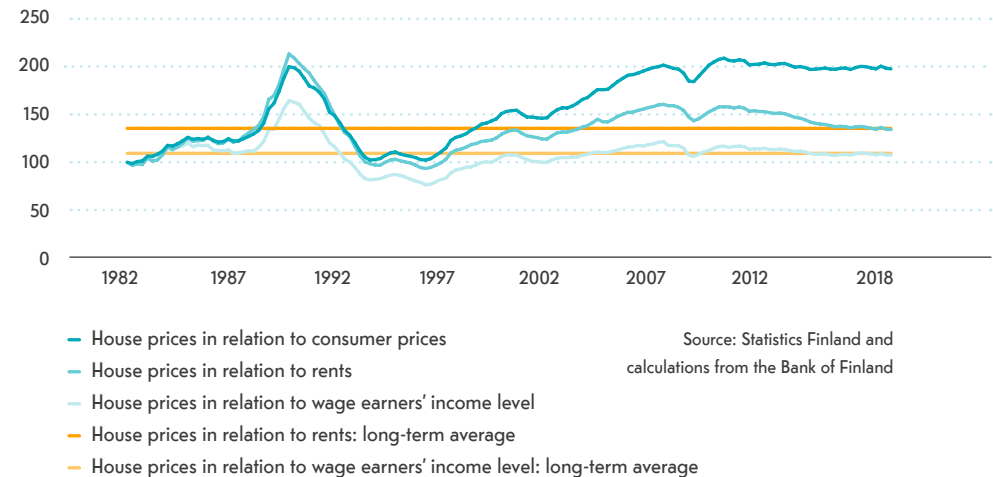
Sharing spaces and services among neighbours is also something that interests Finns, regardless of age and gender. The sharing economy is becoming increasingly common, and shared facilities, such as saunas, are being built in apartment buildings again. The possibility of modifying apartments to meet changing needs is often considered important.

Digitalisation is a key enabler when it comes to developing the service offering. Online services are already transcending the rental market's traditional approaches and challenging old players to renew their service solutions.

### Housing starts 1997–2019, number



### Relative prices of homes 1982–2018, index 1981/1 = 100



*The megatrends are changing people's values and behaviour. That is why we believe that housing also needs to change.*

## MEGATRENDS AND IMPACTS ON SATO

### GLOBALISATION

- Economic fluctuations are global.
- The real estate markets are globalising, and international investors are showing growing interest in Finland's housing market.
- Immigration and labour migration increase multiculturalism.
- The global platform economy is also establishing a foothold in Finland.

### DIGITALISATION

- Consumers perceive living as a service that is complemented by digital services.
- The internet of things (IoT) and wireless solutions create opportunities and expectations for living and for property maintenance.
- Work in the future will increasingly be performed by means of digital platforms (efficient connections, remote work, shared facilities).

### SUSTAINABILITY

- Value-based consumer choices and lifestyles are becoming more common.
- Dense, urban living with good public transport connections is becoming more popular.
- Life-cycle thinking – no more low-quality products for the masses.
- Design and material choices in construction are highlighted (long useful life, flexibility, modifiability).
- Energy efficiency (heating, electricity and water), reduced waste volumes, and waste sorting.

### URBANISATION

- As careers and earnings become fragmented, cities gain appeal for their good employment opportunities.
- As the population ages, internal migration leans towards services.
- Services in city centres become more diverse and abundant.
- Homes become smaller (family size, eco-values, price development of housing will play a role).
- People live more closely together, but use shared spaces as an extension of their own private space.





## IN THRIVING CITIES, PEOPLE ENJOY A HIGH LEVEL OF WELL-BEING

The megatrends of globalisation, digitalisation and sustainability are changing people's values and behaviour. That is why we believe that housing also needs to change. Our mission is to revolutionise housing by providing our customers with more than just walls. According to our vision, thriving cities will be home to people who enjoy a high level of well-being.

SATO provides rental homes and creates diverse housing concepts for different needs. The customer is at the heart of our strategy, and we focus on the customer experience in traditional channels, and especially in the digital realm.

We develop services that bring genuine benefits to our customers in their day-to-day lives. In addition to smooth daily living, we take care of our

*We provide our residents with homes that come with ever-improving services.*

customers' well-being and we promote a sense of community. We pay special attention to home health and energy efficiency.

Our strategic development programmes are Customer First, digital services and diverse housing solutions. During the reporting year, we made good progress in these areas with our partners.

The cornerstone of our strategy is our focus on major cities. We are expanding in the Helsinki metropolitan area, Tampere and Turku, all areas where demand for apartments is the highest and the increase in value is expected to be stable over the longer term. The role of financing in creating the preconditions for growth will increase even further.

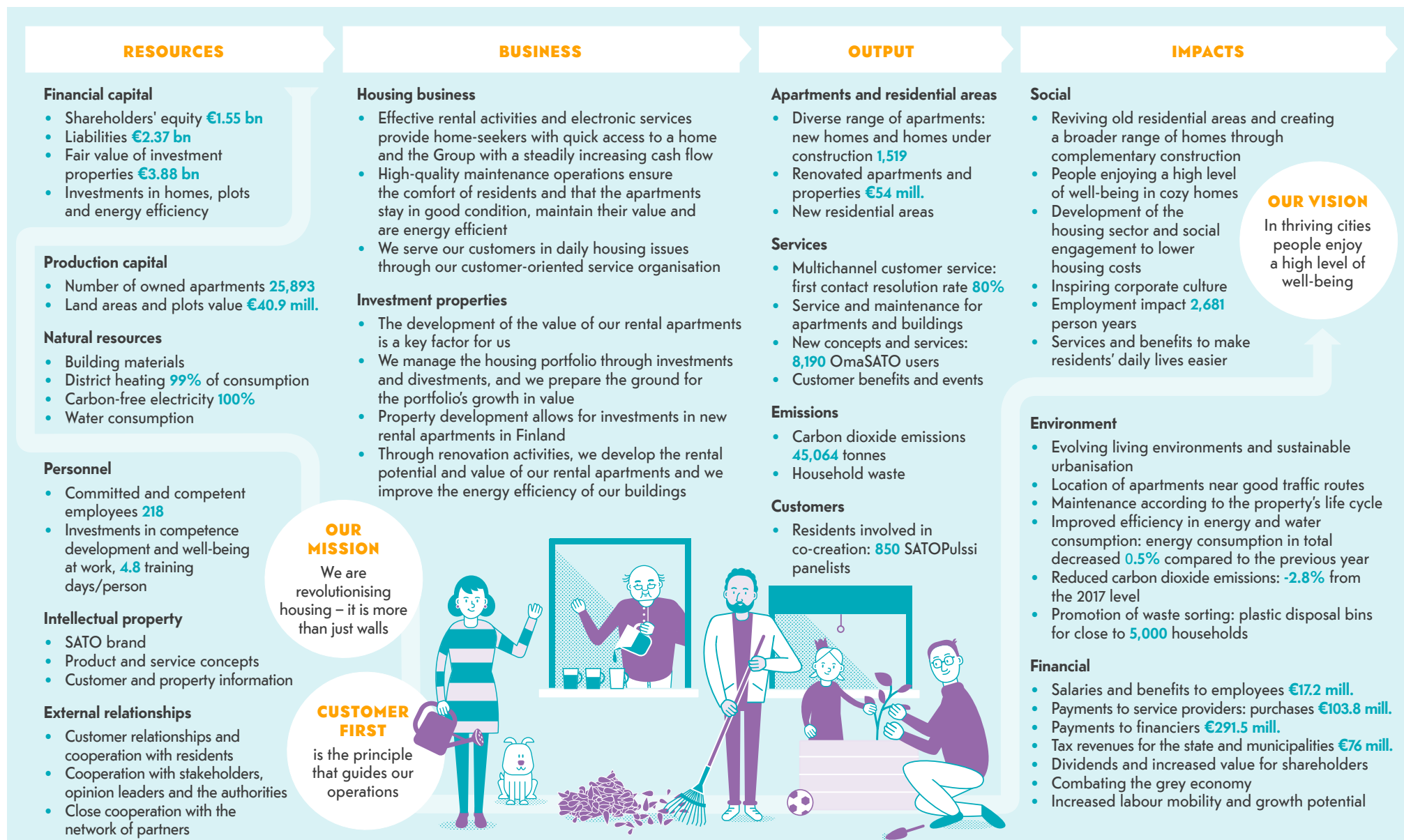
### DIVERSIFIED FINANCING SUPPORTS GROWTH

We develop SATO's financing structure for the long term. Our objective is to improve SATO's public credit rating to ensure the availability of financing and to enable a diverse financing base. Our current credit rating is Moody's Investment Grade Baa3 (with a stable outlook).

During the reporting year, we considerably increased the proportion of SATO's financing free of real securities and the amount of unencumbered assets. At the end of 2018, the proportion of unsecured financing out of the entire debt portfolio was 65.7 per cent and the amount of unencumbered assets out of the entire balance sheet was 74.1 per cent.



## THIS IS HOW WE CREATE VALUE



## SUSTAINABILITY EVERY DAY

Sustainability is part of our day-to-day work, and it is guided by SATO's strategy and sustainability policy, as well as themes that we have evaluated to be material based on discussions with our stakeholders. We updated our materiality analysis during the reporting year.

SATO's sustainability indicators are described in the Annual Report, in the sections [The Sustainable SATO](#) and [GRI](#).

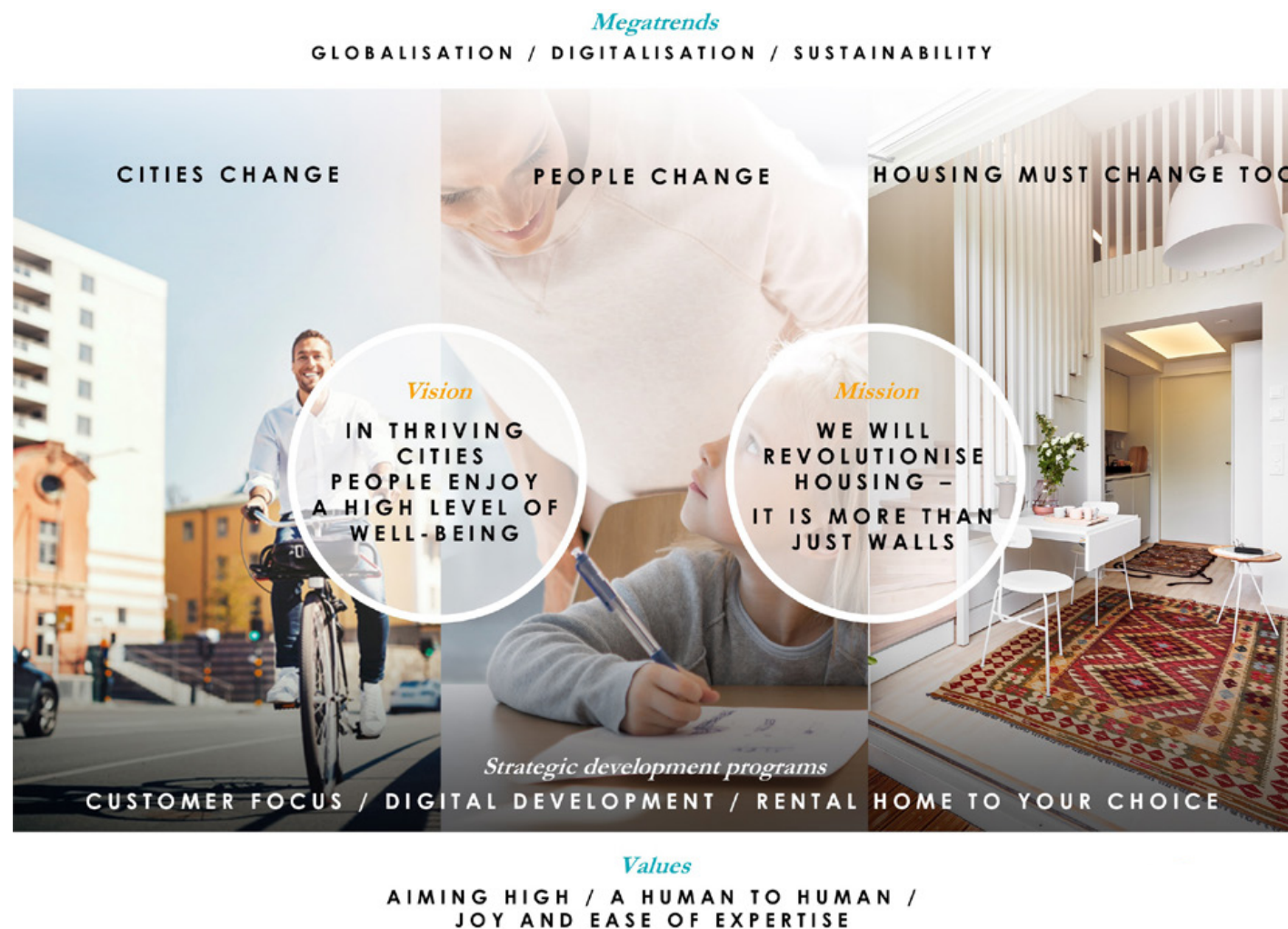
## WE UPDATED OUR FINANCIAL TARGETS

In December of the reporting year, SATO's Board of Directors updated the Group's long-term financial targets. The Group's equity ratio target was raised from 35 per cent to 40 per cent. The Group's other financial targets remained unchanged: the interest coverage ratio must be over 1.8x and unencumbered assets 60 per cent or more. The long-term target is to have a solvency ratio of no more than 50 per cent.

### SATO's strategic goals

- Improving the Investment Grade credit rating (currently Moody's Baa3, with a stable outlook)
- Our return on equity target for the strategy period is 12 per cent.
- Continuously improving our residents' Net Promoter Score (NPS)

## SATO'S STRATEGY





## WE MEET THE EXPECTATIONS OF OUR STAKEHOLDERS

**SATO creates value for its stakeholders in many ways. During the reporting year, we asked our stakeholders for their opinions on our key sustainability topics and, based on their responses, we updated SATO's sustainability materiality analysis.**

SATO's stakeholders include parties affected by our operations, as well as parties whose operations affect us directly or indirectly. Our stakeholders include our customers, employees, shareholders, financiers, partners and service providers, as well as the authorities and other operators in society.

Open interaction with stakeholders helps us identify topics that are material to our business operations and corporate responsibility. It also helps us define our goals and achieve them.

In autumn of the reporting year, we asked our key stakeholders about SATO's material sustainability topics, and we updated our [materiality analysis](#). We develop our operations in line with SATO's strategy and our key stakeholders' expectations.

### WE CREATE VALUE FOR OUR STAKEHOLDERS

We create value for our customers by offering the right home for different life situations and by

taking care of buildings and their surroundings. SATO's skilled employees, who are committed to achieving common goals, play a particularly important role in producing value for our customers. Meaningful work combined with a fair and inspiring corporate culture and well-being at work are directly reflected in the customer experience, and vice versa.

We expect our partners to operate responsibly, and we engage in continuous dialogue to enhance the efficiency of our operations and improve customers' perceived quality. We work to be a profitable and sustainably managed investment for our shareholders and investors.

As an operator in society, we want to renew housing and have a positive impact on the development of society, business and industry through urbanisation.

We contribute to the development of the housing and real estate sectors through our participation in organisations and the Helsinki Region Chamber of Commerce.

SATO is represented on the board of directors, the housing executive group and many committees of the Finnish Association of Building Owners and Construction Clients (RAKLI). SATO is also on the boards of Suomen Asuntoliitto ry (Finnish Housing Association) and Asuntoreformiyhdistys ry (Finnish Housing Reform Association), and we are a member of the FIBS network for corporate social responsibility.

We collaborate with players who tackle homelessness and unemployment and who promote the integration of immigrants through various cooperation projects, such as the [#kämppäjaduuni](#) (i.e. [#homesandjobs](#)) and The 'Housing skills' projects.

### WE COMMUNICATE OPENLY

SATO provides its stakeholders with timely and transparent information about its operations. All bulletins concerning SATO's operations are released simultaneously in NASDAQ Helsinki's publication system, to the media and to the Irish Stock Exchange, as well as on [our website](#).

Once a year, we publish a combined annual report and sustainability report to provide comprehensive information about our business operations, value creation, sustainability and finances.

*SATO's skilled employees, who are committed to achieving common goals, play a particularly important role in producing value for our customers.*



The following table illustrates our interaction with our key stakeholder groups:

## SATO'S STAKEHOLDER GROUPS

Stakeholder group	Stakeholders' expectations of SATO	Channels of interaction	SATO's actions in 2018
<b>Customers</b>			
SATOhome residents approx. 50,000	<ul style="list-style-type: none"> <li>• Safe and sound homes</li> <li>• A reliable lessor</li> <li>• Smooth customer service</li> <li>• Open communication</li> </ul>	<ul style="list-style-type: none"> <li>• Customer service and communication in various channels: phone service, chat, social media, sato.fi, OmaSATO, newsletters</li> <li>• Customer surveys and feedback, Pulssi resident panel</li> <li>• Meetings, such as building-specific meet-ups, maintenance visits, resident meetings, resident forum, customer workshops</li> </ul>	<ul style="list-style-type: none"> <li>• Development of customer service and communication</li> <li>• Maintenance of the properties and apartments</li> <li>• Continuous rent monitoring</li> <li>• Concept and service development</li> <li>• Development of digital services</li> <li>• Development of operations and services together with customers</li> <li>• Customer surveys and measuring the customer experience</li> </ul>
<b>Personnel</b>			
Average of 215 employees	<ul style="list-style-type: none"> <li>• A fair and inspiring workplace</li> <li>• Good management and supervisory work</li> <li>• Challenging tasks and developing personal competence</li> <li>• Safe and enjoyable work conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Regular employee events and effective internal communication</li> <li>• Personnel work satisfaction surveys</li> <li>• Interaction with supervisors and personal performance appraisals</li> <li>• The Tarmo management/personnel group</li> <li>• Exercise and recreational activities</li> <li>• Operations of the OHS committee and OHS representatives</li> </ul>	<ul style="list-style-type: none"> <li>• Looking after well-being at work: comprehensive occupational healthcare, lunch and recreational benefit, early intervention model</li> <li>• Training opportunities and job rotation</li> <li>• Safety training for personnel</li> </ul>

Stakeholder group	Stakeholders' expectations of SATO	Channels of interaction	SATO's actions in 2018
<b>Partners and service providers</b>			
Approx. 1,600 service and material providers	<ul style="list-style-type: none"> <li>• Long-term partnerships</li> <li>• Compliance with agreements</li> <li>• Openness and equality</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive bidding</li> <li>• Supplier audits</li> <li>• Negotiations</li> <li>• Agreements and guidelines</li> <li>• Partner cooperation steering groups</li> <li>• Joint real estate industry development projects</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term partnerships and service agreements</li> <li>• Concentrating purchases</li> <li>• Sustainable purchasing guidelines and criteria</li> <li>• Audits and quality control</li> <li>• Combating the grey economy</li> </ul>
<b>Owners and financiers</b>			
	<ul style="list-style-type: none"> <li>• Sustainable investment object</li> <li>• Maintaining profitability and value increase</li> <li>• Transparent practices</li> <li>• Open communication</li> <li>• Good management</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder meetings</li> <li>• Investor and financier meetings</li> <li>• Annual general meeting</li> <li>• Board meetings</li> <li>• Financial reviews and releases</li> <li>• GRI reporting and GRESB sustainability benchmark</li> <li>• Good and transparent governance and communication</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy work</li> <li>• Board work</li> <li>• Transparent and comprehensive business reporting</li> <li>• Supervisory work and training, personnel surveys, personnel/employer cooperation teams</li> <li>• Developing corporate social responsibility</li> </ul>
<b>Society</b>			
Authorities, organisations, media, land owners and neighbours	<ul style="list-style-type: none"> <li>• Legal and responsible operations and combating the grey economy</li> <li>• Development of rental housing</li> <li>• Employment</li> <li>• Tax revenues</li> <li>• Responding to climate change</li> <li>• Reliable and timely communication</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperation with authorities, partners and residents</li> <li>• Activities in industry associations</li> <li>• Open and reliable communication in various channels</li> </ul>	<ul style="list-style-type: none"> <li>• Providing and developing high-quality housing and associated services</li> <li>• Participating in urban development</li> <li>• Actively interacting with various stakeholders</li> <li>• Developing our industry in cooperation with industry associations</li> <li>• Including personnel in innovation activities</li> <li>• Energy efficiency and emission targets and reduction measures</li> <li>• Energy efficiency commitments with the state and the City of Helsinki</li> </ul>

**"IN ALL SATO BUILDINGS,  
RESIDENTS ARE FREE TO  
WALLPAPER AND DECORATE  
THEIR HOME TO REFLECT  
THEMSELVES. THAT IS ONE  
REASON WHY I LIKE BEING  
A SATO CUSTOMER."**

*A SATO resident's comment in the Pulssi resident panel.*





## / OUR BUSINESS OPERATIONS

### **CUSTOMER FIRST**

With our Customer First approach, we find home-seekers a home, provide residents with a smooth day-to-day life and introduce new housing solutions and services, such as the digital OmaSATO service. Residents, in turn, make their SATO rental apartment a home through their choice of decor, their presence and their emotions – home is always more than just walls.

## WHAT MAKES A HOME A HOME?

It's always nice to come home after school, work or a recreational activity. Home is a safe place where you can enjoy time alone, playing with your pet or the warm embrace of your family. It is more than just walls and a roof – it is a feeling. Our residents make SATO rental homes a home.

During the reporting year, we put emotions and senses at the heart of our brand, and we succeeded in increasing awareness of our brand. At the same

time, we continued with our Customer First efforts, bringing our partners on board to an even greater degree. We also ensured the energy efficiency and water conservation of our homes through proactive measures.

### HOMES WITH CUSTOMER CARE

We want our customers to enjoy living in our rental apartments – their homes. We place great importance on listening to the customer and being part of their daily lives.

*SATO's main areas of operation are in the Helsinki metropolitan area, Tampere and Turku.*

SATO's professional customer service advisors are easily reachable through a number of channels. Our service managers know the buildings in their area of responsibility, meet with residents, and co-ordinate renovation and repair operations together with SATO's infrastructure managers. Repairs and renovations ensure that the homes provide good living conditions and are energy efficient. The Customer First approach guides the day-to-day work of every SATO employee, and during the reporting year, we also trained our partner network in our Customer First programme.

We actively develop services related to the home and living, and during the year under review, for instance, we launched the new digital OmaSato service for our customers.

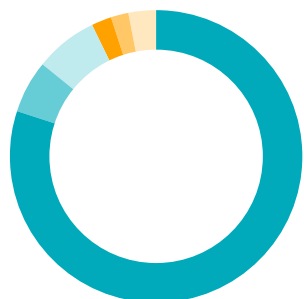
### A SENSE OF EASE AND AUTHENTICITY AT THE HEART OF THE SATO BRAND

SATO creates a sense of ease among its customers thanks to continuity, care, service and flexibility. We put our expertise into play every day to ensure that not only homes but also blocks and their surrounding cities are good places for everyone to live in. Our residents are united in their need to feel at home, to live a life that is true to themselves.

In summer 2018, we revamped our advertising. We wanted to highlight the feel of home by focusing on various senses: how does home smell, what does it look and sound like? We naturally included our residents, and in the television advertisements, they got to express, in their own words, exactly what it is that makes their SATO-home a home.



Regional distribution of the housing portfolio,  
31 Dec 2018



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

SATO is genuine, easy-going and down-to-earth, and we want these characteristics to show in our brand efforts. During the reporting year, we succeeded in increasing awareness of SATO as a lessor and in significantly increasing the level of interest towards us among people considering rental living\*.

### URBAN LIVING IN SATOHOMES

SATO's main areas of operation are in the Helsinki metropolitan area, Tampere and Turku. We also have rental apartments in, among other cities, Jyväskylä, Oulu and St. Petersburg.

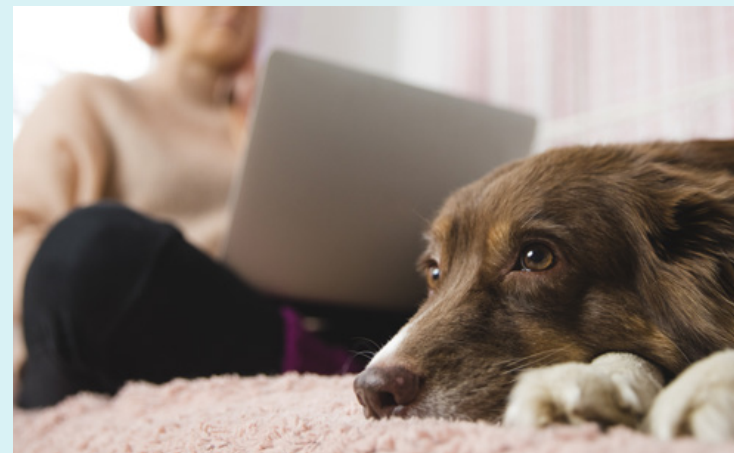
Urbanisation increases demand for services and creates new jobs. The mobility of labour and increasing immigration, as well as the well-being of individuals and society, call for a sufficient, multi-faceted supply of homes for various needs. We are continuously developing new housing concepts so that we can respond to changing needs.

At the end of 2018, we owned 25,893 SATOhomes. The rental income from these homes and the development of their value lay the foundation for the profitability of our business operations. The average monthly rent for SATO's rental apartments at the end of the reporting year was EUR 16.86 per m<sup>2</sup>. Our occupancy rate was at an excellent level throughout the year, and stood at 98.2 per cent at the end of 2018, and the external tenant turnover was 27.7 per cent at year-end.

### MORE ENERGY EFFICIENT SATO RENTAL APARTMENTS

Reducing energy use and water consumption are among SATO's most important [environmental goals](#). A total of 10,000 of our apartments are equipped

### / CASE



## MANY BENEFITS FOR RESIDENTS OF SATOHOMES

**NEARLY ALL** SATOhomes have a broadband connection. Pets are welcome in our rental apartments, and residents can order a free DIY renovation kit that includes paint. Our rent security deposit is 0 euros.

In 2018, in cooperation with our partners, we offered our residents a diverse range of products and services at special prices, including insurance, removal services, electricity, healthcare services and food home-delivery services. During the reporting year, more than 2,500

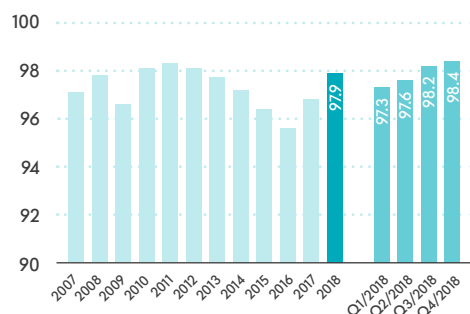
SATO customers took part in our free customer events, such as Korkeasaari Zoo day, movie screenings and the Winter Circus show.

Residents who are keen to have a say in living and its future can participate in the [SATO Pulssi resident panel](#). We include our active residents in, among other things, developing our digital services; for example, our residents played a major role in developing the OmaSATO service that was launched during the reporting year.

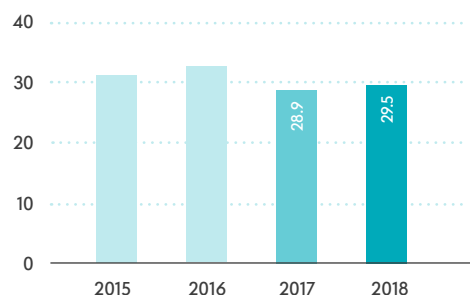


*At the end of 2018, we owned around 26,000 SATOhomes.*

Financial occupancy rate of rental housing, %



External tenant turnover, %



with temperature- and humidity-monitoring sensors, 6,000 of which were installed during the reporting year. We monitor the data collected by the sensors in order to detect consumption deviations at an early stage. This insight helps effectively prevent an increase in energy use, as well as the related costs, and improves living enjoyment.

We also focussed on water conservation, for instance, by investing in apartment-specific water meters and installing water-saving shower nozzles in 6,000 apartments. We aim to include water consumption data in the digital OmaSATO service in the future, so that residents can also monitor their home's water consumption.

#### SATOHOMES IN ST. PETERSBURG

SATO has 534 rental apartments in St. Petersburg; approximately half of them are rented furnished. The average occupancy rate in St. Petersburg increased to 93.1 (89.6) per cent during the reporting year. Along with the depreciation of the rouble, euro-denominated rents decreased, and were 13.56/m<sup>2</sup> per month at the end of the year.

The share of investments in Russia is limited to a maximum of 10 per cent of SATO's housing stock, and for the time being, we are not making any new investments in the country. SATO does not have any binding purchase agreements or apartments under construction in St. Petersburg, nor were any new apartments completed in St. Petersburg during the reporting year.

At the end of the reporting year, the value of SATO's investment property in St. Petersburg stood at around EUR 104.8 million. The impact of the rouble's price performance during the year 2018 was EUR -15.3 million, and the effect of the change in value was EUR -14.1 million.

SATOhomes in Finland	2018	2017
Number of properties	747	751
Total number of apartments	25,893	25,793
Average size of apartments, m <sup>2</sup>	54.8	55.1
Fair value of investment property, MEUR	3,770.3	3,513.6
Net rental income, MEUR	198.5	188.4

SATOhomes in St. Petersburg	2018	2017
Number of properties	14	14
Total number of apartments	534	534
Average size of apartments, m <sup>2</sup>	70.2	70.2
Fair value of investment property, MEUR	104.8	118.9
Net rental income, MEUR	3.6	4.9



## RENTING A SATOHOME IS NOW MORE FLEXIBLE THAN EVER

Some people need a home right away, while others prefer to dream about it a little longer. We serve our customers online and in person, and we help every one of our customers to find the home that perfectly suits their wishes and life situation.

SATO serves its apartment-seeking customers flexibly and personally through a number of channels. We inspire dreams through our marketing, and our FindHome service is the place where customers can find just the rental apartment they are looking for. Our customer service and business locations provide expert assistance. During the year under review, we focussed on ensuring a smooth rental process especially in the Helsinki metropolitan area by also serving customers on Sundays as needed.

We draw on a range of information to find a home that meets the customer's wishes quicker than ever. Going forward, business intelligence and related support systems, as well as competence development, will play an even bigger role in SATO's rental activities.

### INCREASINGLY EFFECTIVE DIGITAL MARKETING

The internet is a good channel for reaching home-seekers. During the year under review, SATO's online advertising adopted artificial intelligence software, thanks to which our digital marketing served our customers even better in finding a home. We also revamped our advertising to stir the imagination, and our new concept, "The feel of home", was launched in spring of the reporting year.

*In 2018,  
we signed  
9,593 lease  
agreements,  
57% of which  
electronically.*

Residents' need to change apartments is determined when they contact SATO's customer service. Through the OmaSATO digital service, residents can conveniently inquire about changing apartments at any time. Residents changing apartments and new customers alike can find available and soon-to-be-available SATOhomes in the FindHome section of SATO's website, sato.fi. During the year under review, the number of visitors reached 1.4 million.

### SMOOTH RENTAL PROCESS EVERY DAY OF THE WEEK

We want to be there to serve our customers precisely when they want and need our services. That is why, during the reporting year, the sales negotiators at our office in the Helsinki metropolitan area also worked on Sundays during peak periods at the turn of the month to rent SATOhomes. We also overhauled our rental resourcing with the goal of making our customer service more agile



and boosting our own operations. In 2018, we signed 9,593 lease agreements, 57 per cent of which electronically.

We serve people seeking a new home in the way that suits them. In the FindHome section of the sato.fi website, customers can browse available and soon-to-be-available rental apartments, and through the OmaSATO service, residents can send a message about their need to change apartments. The expertise offered by SATO's customer service is available by phone, email and SATO Chat.

New rental-service premises serving the Helsinki metropolitan area opened their doors in Helsinki city centre at the turn of 2017–2018. The design of the premises is more customer-friendly, and customers are served by a more multilingual staff.

These measures make it easier, for example, for immigrants to use the services.

### MAKING HOUSING DREAMS COME TRUE

According to SATO's Pulssi resident panel, the number one criterion when selecting a rental apartment is location. Other important considerations are price and the condition and layout of the apartment, as well as public transport connections.

We want to find our customers the home of their dreams. We hired a Sales Data Analyst at the end of the reporting year to help sales negotiators better understand home-seekers, to help make the rental process smoother and to make business intelligence a more integral part of day-to-day rental activities.

Rental activities in Finland	2018	2017
Average rent of rental apartments, EUR/m <sup>2</sup> /month, at the end of review period	16.86	16.69
Economic occupancy rate, %	97.9	96.8
Turnover of rental apartments, %	29.5	28.9

### / CASE



### FROM ONE SATOHOME TO ANOTHER IN A BREEZE

**WHEN OUR** residents begin dreaming of a new home as their family grows, their oldest child moves out or some other major life change happens, we want them to think of us first.

Moving from one SATOhome to another is a breeze: We are flexible with notice periods, our residents get first priority when applying

for a SATOhome, and the benefits for residents changing apartments also apply to all members of the household. Residents changing apartments also receive a voucher for renting a moving van, just like SATO's new residents.

During the year, approximately 2,002 customers moved from one SATOhome to another.

## HOUSING SERVICES BY PHONE

We want our customers to enjoy living in our rental apartments – their homes. We worked hard to ensure this during the reporting year, and we also closely involved our partners: maintenance companies and contractors. The highlight of the year was the launch of the OmaSATO service, which brings housing services within easy reach of our residents, any time and any place.

In 2018, we trained and inspired our partners to operate in the spirit of the Customer First approach, we improved both our own and our partners' customer communication and we appointed a Housing Health Manager, who serves as SATO's expert in matters related to health and safety at home.

The new service that was launched in August, called OmaSATO, enables residents to take care of their housing-related matters also digitally. SATO's highly professional customer service advisors now carry out their work through even more channels, providing expert service through traditional and digital channels alike. During the reporting year, we also ensured the energy efficiency and water conservation of our homes through proactive measures.

### AN EVEN BETTER CUSTOMER EXPERIENCE THROUGH CONCRETE ACTIONS

SATO works hard to fulfil its goal of continuously improving the customer service experience. During the reporting year, we introduced the digital OmaSATO service to facilitate our residents' day-to-day lives, and our customer service resolved the majority of issues already during the customer's first contact with us.

During the reporting year, we succeeded in improving our net promoter score (NPS) during living, and we launched a development project that helps us to better identify key factors influencing the NPS. The net promoter score indicates how willing a resident is to recommend our services. We measure our residents' NPS both during living and in a number of other situations where we encounter the customer.

### SATO'S PROFESSIONAL SERVICE ADVISERS HELP CUSTOMERS

SATO's customers receive professional and fast service via a number of channels: phone, email, OmaSATO, Facebook and SATO Chat. During the reporting year, our service experts responded to 207,419 customer queries, with a first contact resolution rate as high as 80 per cent. The average telephone wait time was 52 seconds, and the NPS for customer service was 70 per cent. The most important factor in helping to achieve these impressive figures has been the close cooperation between supervisors and teams in developing day-to-day work, tools and work methods.

Multiculturalism is a daily part of SATO's customer service, and in practice, it is frequently visible in the lack of a common language. We broadened our language skills during the reporting year and adopted an effective and comprehensive interpreting service to facilitate customer service situations. Understanding cultural differences is and will continue to be one of customer service's tasks, and achieving success in that area contributes to a confidential customer service situation.

### GETTING TO KNOW RESIDENTS AND MAKING MOVING SIMPLE

The better we know our residents, the better we can serve them. In order to avoid the customer only encountering SATO when signing a lease agreement and

### / CASE



## OMASATO IS LIKE CARRYING HOME AROUND IN YOUR POCKET

WITH THE browser-based OmaSATO, residents can easily and quickly contact SATO. In OmaSATO, residents can report defects, see their payment information and stay on top of their customer benefits and building-related matters on both a mobile device and a regular computer.

The launch of OmaSATO in August was a complete success. Several hundred residents registered to use the service on the first day, and the number of registered users reached more than 8,000 by the end of 2018. OmaSATO was enthusiastically

received by residents: in a survey carried out in autumn, more than 75 per cent of respondents considered the contents of the service either good or excellent.

We included our residents who are interested in the future of housing in planning, testing and further developing the service. During the reporting year, more than residents took part in our workshops and service trials. We are actively developing OmaSATO, and in 2019 we will launch new services to increase social living and bring benefits and joy to our customers.

in possible problem situations, our service managers chat with residents during building-specific meet-ups and events. In 2018, 1,650 such meet-ups and events took place.

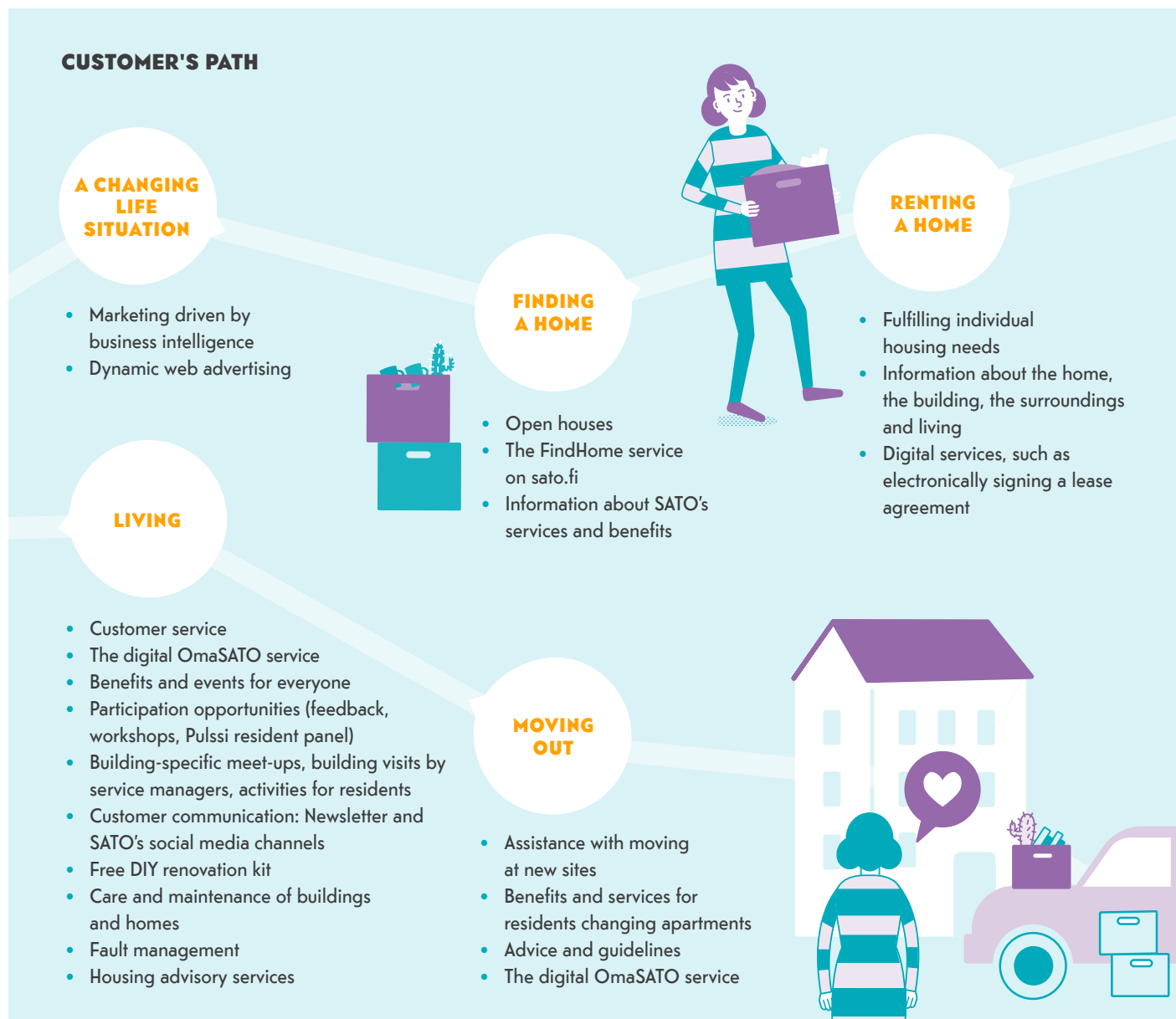
When new SATOhomes are completed, we are there to assist our residents on moving day. By answering questions and straightening out kinks on moving day, the service manager and other SATO employees who ensure smooth housing also get to know the new residents. Anyone moving into a new or older SATOhome receives a voucher for a moving van.

### NEW APPROACH TO CUSTOMER COMMUNICATION

The importance of good customer communication has been recognised at SATO, and considerable efforts were made in that area during the reporting year. The results of our efforts were reflected in the customer satisfaction survey, according to which an increasing number of our residents said they were satisfied or very satisfied with the information they receive about their building.

During the year under review, new SATO employees took part in customer service communication training to learn how to communicate in the SATO tone of voice – lively and warm. We also trained our partners, maintenance companies and key contractors, all of whom have a daily presence in our residents' lives, in our Customer First approach and customer service communication. We will continue with this training in 2019.

We communicated with residents nearly every month during the reporting year, either with a postal or online newsletter, in which we recounted the latest housing news and provided information about SATO's customer benefits and events. In addition, we shared the latest news with close to 200 of our buildings that have their own newsletter, and we engaged with our customers on SATO's Facebook page.





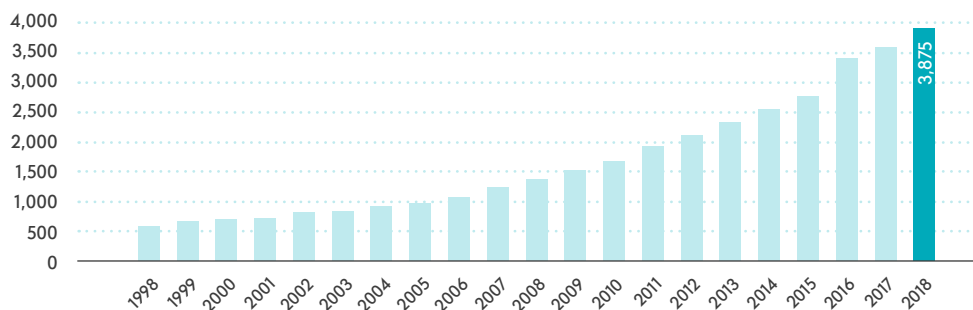
## DEVELOPING CITIES AND RENEWING RESIDENTIAL AREAS

Cities are changing. They are expanding, becoming more diverse and need enough homes in order to develop. SATO looks after its housing portfolio, acquires existing rental apartments and buildings, builds new homes and takes part in developing entire residential areas in the country's largest cities. Since 2000, we have invested more than EUR 2.0 billion in non-subsidised rental apartments.

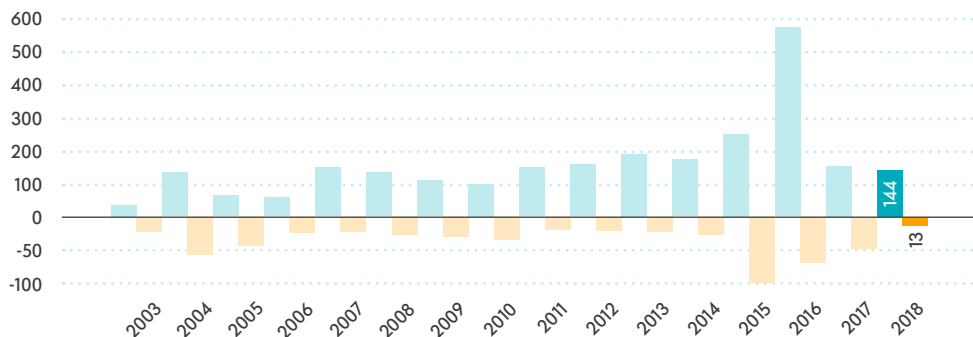
We prudently increase our housing stock, paying close attention to the operating environment. During the year under review, we concentrated on planning and building new homes and on renovating existing homes.

In **property development**, we focussed our energies especially on complementary construction and on planning new residential areas together with partners and cities.

Trend in the investment property portfolio value, MEUR



Housing investments and divestments, MEUR



### / CASE



### THE JOY OF BEING TOGETHER, FROM SATO STUDIOHOMES TO NEW CONSTRUCTION

**WE WANT** to develop sustainable housing concepts that bring joy to our customers, and the position of SATO StudioHome Community Manager that was created in 2017 does just that. At a StudioHome in Vantaa's Martinlaakso neighbourhood, the Community Manager introduced residents to one another, arranged joint events and ensured a positive and lasting team spirit.

These successes inspired us to also extend the concept to regular SATO

rental buildings. After the apartment building on Gadolininkatu in Kumpula was completed, for instance, the Community Manager hosted a first-floor café for residents, organised a May Day party, encouraged residents to form a residents' committee and shared tips for building a healthy community. Following the experiences gained, the position of Community Manager, which began as a temporary trial position, was changed to a permanent job.



*We prepare an investment sustainability evaluation before trading.*

In construction and renovations, we paid special attention to, in particular, energy efficiency and life-cycle thinking. Although our main focus is rental apartments, we also had owner-occupied apartments under construction during the reporting year.

### WE INVEST RESPONSIBLY

SATO acquires and builds entire multi-storied buildings and single rental apartments under its ownership. We prepare an investment sustainability evaluation before trading. The evaluation focuses on the fulfilment of financial criteria, the environmental impact of the investment, transport connections and the execution of the procurement process in accordance with good corporate governance, among other aspects. In 2018, SATO invested EUR 143.5 million in its housing portfolio.

### DEVELOPMENT THROUGH DIVESTMENTS

We focus our housing stock on Finland's largest cities, near good services and transport routes. Apartments that are not in line with our strategy are divested. The apartments to be sold are mainly selected based on their location, size or condition. During the review period, our divestments stood at around EUR 12.7 million.

Investments	2018	2017
Housing investments, MEUR	143.5	156.0
Acquisition of existing stock, units	0	167
New apartments, units	403	856
Investment commitments on 31 December MEUR	107.9	54.9
Rental apartments under construction on 31 December, units	985	834

Divestments	2018	2017
Divestments of apartments, units	98	294
Divestments of apartments	12.7	46.2

## HOMES THAT ARE EASY TO GET TO

SATO plans its rental apartments where demand for them is greatest: along good transport routes and near a wide range of services. Our strong expertise in the development of city planning, cooperation with the authorities and listening to our customers' wishes, combined with our carefully maintained plot reserves, create a foundation for continued housing supply in an increasingly urbanised Finland.

SATO's property development takes a very forward-looking approach. In 2018, we focussed especially on complementary construction – planning new homes in existing neighbourhoods. At the end of the reporting year, complementary construction projects were in progress to produce more than 3,000 new homes. We also participated in developing new residential areas and in plot assignment and architectural competitions.

*We develop cities and renew residential areas.*

In all our development projects, we engage in continuous dialogue with the authorities, residents, partners and our other stakeholders.

### LOWER EMISSIONS IN COMPLEMENTARY CONSTRUCTION

Complementary construction plays an increasingly important role in SATO's property development. Producing new apartments in an existing urban structure benefits not only services in the area, but also the environment. As the number of residents in a neighbourhood grows, services and the use of public transport also grow. And if the infrastructure already exists, the emissions from construction are lower.

During the reporting year, we initiated complementary city planning projects in Tampere's Lentävänniemi and Turtola districts (approx. 14,000 floor square metres of new permitted building volume). Complementary city planning projects in Espoo's Karakallio and Finnoo districts reached the plan proposal phase (approx. 17,500 floor square metres of new permitted building volume).

### REVIVING TRADITIONAL SUBURBS

We often undertake larger city planning projects together with one or more partners. The advantages of partnership agreements include the sharing of expertise and responsibilities, as well as the diverse housing offering of the area being planned, including various types of rental and owner-occupied apartment loans.

During the reporting year, we began planning the development of Vantaa's Hakunila district together with YIT and the City of Vantaa. The sparsely



built suburb is perfectly suited to complementary construction, and Hakunila's appeal lies in its wide range of outdoor recreation and sports opportunities. Development of the area is further supported by the upcoming Jokeri Light Rail 3 line, which will conveniently transport residents from Hakunila to both Aviapolis and Mellunmäki in Helsinki. Hakunila has been built up mostly by SATO, which currently has more than 700 rental homes in the area.

Another major SATO project is the MyyrYork Downtown area in Vantaa's Myyrmäki area. In autumn 2018, we launched a design competition together with three partners and the City of Vantaa with the objective of developing 62,000 floor square metres of homes and 14,000 floor square metres of commercial space in an area where the current buildings (including the Isomyrri shopping centre) will be demolished. The aim for the residential blocks is to have efficient parking facilities and various mobility solutions that combine public transport, various forms of pedestrian traffic and car-sharing. The winner of the competition will be announced in early 2019.

During the reporting year, SATO and Skanska jointly submitted a proposal for the Helsinki High Rise competition, which aims to develop the Pasila Tower Area. Our proposal, "South Pasila", made it to the second round, but we did not win the competition.

### NEW PLOTS IN HELSINKI AND ESPOO

Having our own plot reserves enables long-term planning work and flexible responses to economic cycles.

During the reporting year, SATO purchased plots in Verkkosaari and Jätkäsaari from the City of Helsinki. The construction of 338 new rental and Hitas owner-occupied apartments was started on the plots. We won a plot assignment competition arranged by the City of Helsinki for a residential apartment building for 56 homes in the Helsinki neighbourhood of Sompasaari, located by the sea. We also acquired 9,500 floor square metres in residential apartment building plots in Espoo's Niittykallio neighbourhood.

Plot reserves	2018	2017
Plot reserves, MEUR	40.9	54.0
Plots purchased, MEUR	19.9	0
Total permitted building volume in the plot reserve, floor-m <sup>2</sup>	485,046	447,100
Owned plots transferred to production or sold, MEUR	33.7	9.0

### / CASE



## SMART MOBILITY SOLUTIONS

**DURING THE** reporting year, SATO took part in developing smart mobility solutions. We are actively involved in the Finnish Association of Building Owners and Construction Clients' (RAKLI) MaaS (Mobility as a Service) services and Urban

Development Clinic. We also take part in Trafí's [Aviapolis Traffic Lab](#), the aim of which is to develop mobility services and digitisation of traffic. These projects were started up in autumn of the reporting year.



## WE BUILD AND RENOVATE HOMES

It is important to us that our residents enjoy their SATOhome, whether it is a new one or one that has seen more life. We build rental apartments in new residential areas and in older residential blocks. We renovate homes and entire buildings: during the reporting year, we had several renovation projects on our planning desk.

New rental apartments were completed in the Helsinki metropolitan area during SATO's reporting year. These include a complementary

planning project in Tikkurila, Vantaa, and the first SATOhomes in Vermonniitty, Espoo. We began renovations in Hakunila, Vantaa, and in Kaleva, Tampere.

We took the environmental impacts of our new construction and renovations into account, and we studied both the opportunities offered by geothermal heating and the modifiability of new apartments. We listened to our residents' opinions and wishes with the help of, among other things, SATO Pulssi resident surveys.

*We aim to transform housing and offer our customers more than just walls.*

### NEW RENTAL APARTMENTS IN THE HELSINKI METROPOLITAN AREA

SATO's key areas of operation are in the Helsinki metropolitan area, Tampere and Turku, and this is also reflected in our production of new housing. During the reporting year, 403 SATOhomes were completed, 388 of which in the Helsinki metropolitan area and 15 in Turku.

On a sparse plot in Vantaa's Tikkurila neighbourhood, the complementary planning project Orvokikuja 1b, built next to a 40-year-old apartment building, received its first residents in late summer 2018. In Espoo's new Vermonniitty (formerly Perkkää) residential area, the first SATOhomes, with 117 rental apartments, were built. The special feature of the Runoratsunkatu building is the solar panels that produce electricity for the building's common areas.

### INCLUDING RESIDENTS' WISHES IN PLANNING WORK

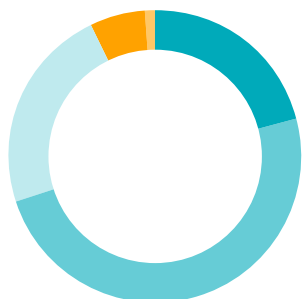
We want to take our residents' wishes into account as broadly as possible in our various operations. SATO employees responsible for new construction and renovations draw on the SATO Pulssi resident panel in their work. The panel surveys helped us during the reporting year to determine, for instance, the needs of families with children, wishes for common areas and thoughts on the use of cars.

Among the questions we ask the first residents after they move into new apartments and renovated apartments is how we succeeded in the design of the apartment.

To develop the SATO StudioHome concept, we rely on the community manager, the lessons learned



SATO's owned rental homes 31 Dec 2018, %



■ Studio 21% ■ 3 br 6%  
■ 1 br 49% ■ 4 br 1%  
■ 2 br 23%

On 31 December 2018, SATO had nearly 1,000 rental apartments under construction in Finland, and around 400 rental apartments were completed for the SATO Group in Finland during the year.

from the first StudioHome apartment block and the SATO Pulssi survey. The next SATO StudioHome is being planned for East Helsinki.

### TARGETING ENERGY EFFICIENCY AND MODIFIABLE HOMES

In its new construction, SATO's goal is to achieve an energy efficiency figure of less than 81, which is below the energy efficiency figure of 90 that is required by legislation. During the reporting year, we studied the opportunities to make use of geothermal heating in SATO's new apartments.

We also considered ways to increase the modifiability of our homes. Taking modifiability into account already during the planning stage allows us to respond to future housing needs with greater agility, for instance, by turning part of a two-bedroom apartment into a first home for a family's growing child, or by combining two smaller homes to form a larger one. We also drew on the SATO Pulssi survey in this work. Our efforts in this area continue in 2019.

### WE CARRIED OUT REPAIRS ON MORE THAN 12,000 SATOHOMES

We renovate our rental homes and properties according to the life-cycle principle. During the year under review, we invested around EUR 53.6 million in the repair and renovation of apartments and properties, of which repair investments accounted for a total of EUR 31.3 million.

Some renovations are so extensive technically that it is impossible to live at home during the repairs. During the review, there were 236 such homes with about 420 residents. We provided the residents with the opportunity to find a new home from the range of rental apartments offered by SATO.

New production	2018	2017
Completed in Finland, units	403	913
Rental apartments	403	856
Owner-occupied apartments	0	57
Under construction on 31 December, units	1,116	834
Rental apartments	985	834
Owner-occupied apartments	131	0
Unsold owner-occupied apartments, by 31 December, units	2	1
Completed	0	1
Under construction	2	0

Repairs	2018	2017
Apartment and property repairs, MEUR	53.6	49.3
Repair investments, MEUR	31.3	25.8
Repair subsidies received, MEUR	0	0

*SATO employees responsible for new construction and renovations draw on the SATO Pulssi resident panel in their work.*

## / CASE



## DURABLE AND DOMESTIC BATHROOM MATERIALS IN SATOHOMES

**IT DAWNED** on SATO at some point that bathroom furniture has a remarkably short life-cycle. In some apartments, the furniture must be replaced less than every two years. This is inconvenient for residents, and it takes time away from customer service, maintenance and contractors.

The new Kide line of cabinetry used in SATOhomes is made from the same compact laminate that is used for the

lockers of swimming pool changing rooms – and they come with a 25-year guarantee. The new line of bathroom furniture was created in cooperation with the Pirkanmaa-based Kankarin Kaluste. The purchase price for the high-quality furniture is higher than normal, but SATO believes savings will be achieved in the long term due to significantly longer intervals between replacements. The objective is to cut the life-cycle costs of bathroom furniture by half.

Furniture that is made from long-lasting and durable wood material helps save natural resources and can also be more easily recycled or disposed of after use. The precisely planned manufacturing process minimises leftover pieces, which Kankarin Kaluste efficiently combusts at its factory for energy.

[Kide furniture can already be found in more than 1,000 SATOhomes.](#)

## DIVERSIFIED FINANCING SUPPORTS GROWTH

We develop SATO's financing structure for the long term. To strengthen our financial position, we continued to increase the proportion of unsecured financing during the review period, and we also set a new equity ratio target.

Efficient financing enables profitable investment activities and strengthens risk management. Our objective is to improve SATO's public credit rating

to ensure the availability of financing and to enable a diverse financing base. Our current credit rating is Moody's Investment Grade Baa3 (with a stable outlook).

### INCREASE IN PROPORTION OF UNENCUMBERED ASSETS

During the review period, we considerably increased the proportion of SATO's financing free of real securities and the amount of unencumbered

*The Group's equity ratio target was raised from 35% to 40%.*

assets. At the end of 2018, the proportion of unsecured financing out of the entire debt portfolio was 65.7 per cent and the amount of unencumbered assets out of the entire balance sheet was 74.1 per cent.

During the review period, we signed significant agreements on bank loans free of real securities. In September, SATO and Nordea Bank Abp signed a seven-year loan agreement without asset-backed securities worth EUR 100 million. The loan was used for the Group's general financing purposes and to refinance secured loans. In December, SATO and Swedbank AB (publ) agreed on a bilateral loan of EUR 100 million. The seven-year loan will be withdrawn after the review period, and it will be used to cover the Group's general financing needs and to refinance secured loans.

Customary capital structure and performance covenants concerning the solvency ratio (<70%), interest coverage ratio (>1.8) and unencumbered assets (>42.5%) have been set on SATO's unsecured loans. SATO has complied with its covenant requirements every review period.

### FINANCIAL TARGETS UPDATED

In December of the review period, SATO's Board of Directors updated the Group's long-term financial targets. The Group's equity ratio target was raised from 35 per cent to 40 per cent. The Group's other financial targets remained unchanged: the interest coverage ratio must be over 1.8x and unencumbered assets 60 per cent or more. The long-term target is to have a solvency ratio of no more than 50 per cent.

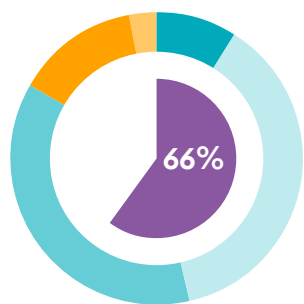




2.2x

of unencumbered assets  
to unsecured debt

Debt portfolio, Nominal values 31 Dec 2018,  
total MEUR 1,998



- Commercial papers 183
- Corporate bonds 749
- Bank loans 734
- Interest subsidised 275
- State subsidised (ARAVA) 57
- 66% of loans without asset based securities

## SUFFICIENT FINANCING THROUGH CAPITAL MANAGEMENT

The purpose of SATO's capital structure management is to support [the achievement of the company's targets](#) and to ensure the Group's operating conditions in capital markets. An optimal capital structure secures sufficient financing with competitive terms and the ability to pay dividends.

## STRONG RISK MANAGEMENT

Our risk management principles have been defined in the treasury policy approved by SATO's Board of Directors. Our most significant financial risks relate to liquidity, refinancing and interest rates. We manage our liquidity and refinancing risks by diversifying the financing sources and

maturity of our loan portfolio, and by holding sufficient liquidity reserves in the form of committed credit facilities and other long-term financing commitments.

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

Floating rate loans form an interest rate risk which we manage by balancing the share of

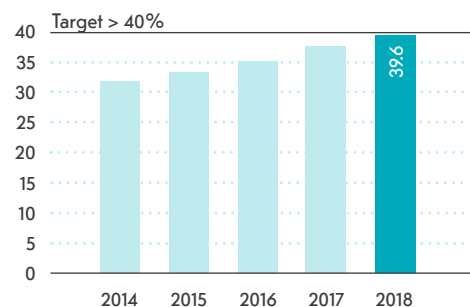
fixed and floating rate loans either by issuing fixed rate loans or by interest rate hedges. According to our treasury policy, our objective is to keep the ratio of fixed rate loans at over 60 per cent of debt portfolio after interest hedging.

Our operations in St. Petersburg involve a currency risk. To reduce this risk, SATO hedges the exposure relating to committed foreign currency cash flows with forward contracts. The consolidation of foreign currency-denominated assets in the consolidated financial statements also involves a translation risk. Possibilities of hedging the translation risk are evaluated in accordance with our treasury policy.

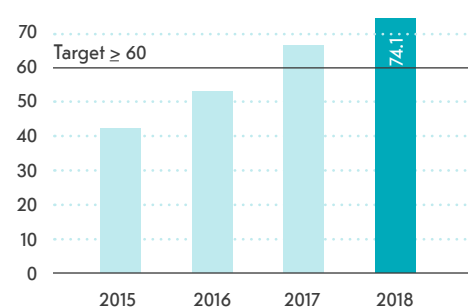


*We develop  
SATO's  
financing  
structure for  
the long term.*

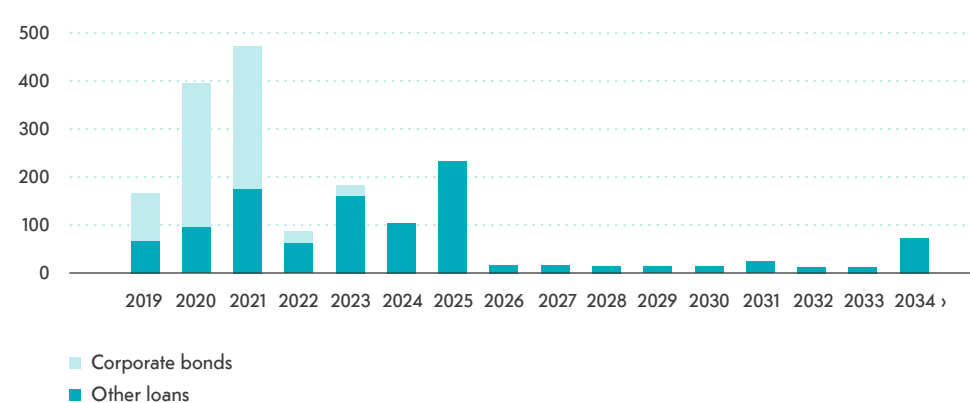
### Equity ratio, %



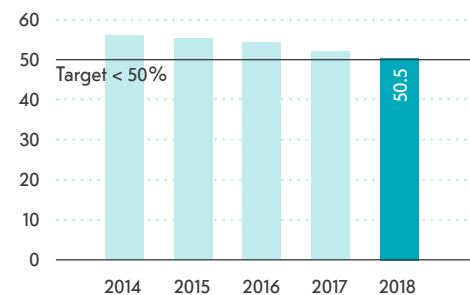
### Unencumbered assets, %



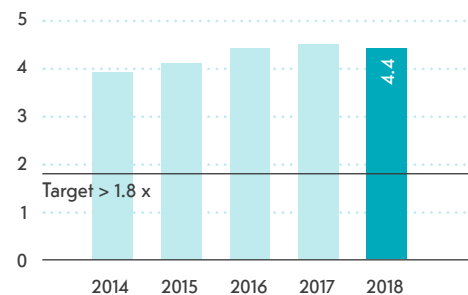
### Maturity profile of long term debt, MEUR



### Solvency ratio, %



### Interest coverage ratio



Key figures of financing	Target	2018	2017
Average loan maturity, years	2.5–6	4.4	4.8
Average interest fixing period, years	3–5	2.6	3
Average interest rate, at the end of period, %	-	2.1	2.2
Proportion of fixed rate debt, %	>60	68.9	78.2

**"I ENJOY READING  
ABOUT GOOD AND CLOSE  
NEIGHBOUR RELATIONS, AND  
I WOULD LIKE THAT IN MY  
BUILDING. PEOPLE GET ON  
BETTER WHEN THEY KNOW  
EACH OTHER AND HAVE  
THINGS TO TALK ABOUT."**

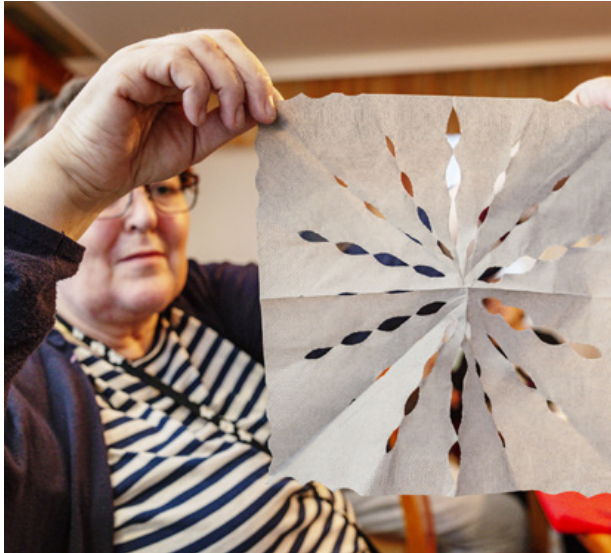
*In the Pulssi resident survey, a SATO resident shares which article in SATO's channels left an impression.*

**/ THE SUSTAINABLE SATO****COMMITTED TO  
BETTER RENTAL  
HOUSING**

We bear our responsibility for homes, a fundamental human need. In addition to long-term business operations, well-managed assets and competent personnel, we want to work for the good of the customer and the environment, while at the same time contributing to the development of society, business and industry. Sustainability is echoed in our vision – thriving cities will be home to people who enjoy a high level of well-being.



## HIGHLIGHTS IN 2018



### #BRINGING JOY AND LIGHT TO NEIGHBOURS

As an official partner of the Lux Helsinki light festival, we lit up the dark Finnish nights by inviting our residents to make winter a little brighter. Among those who took up the challenge were residents of a senior home in Helsinki's Puotila area, where participants gathered for coffee and cake and got creative with tissue paper.



### CIRCULAR ECONOMY WITH HOUSEHOLD APPLIANCES

We donate all the used home appliances in our renovated apartments to the Reuse Centre. By reusing, we saved some 390 tonnes of solid natural resources in 2018.

2.6

per cent less specific heat consumption

0.7

per cent less specific water consumption

2.8

per cent fewer greenhouse gas emissions



### MAKING IT EASIER TO RECYCLE PLASTIC PACKAGING

We responded to the wishes of people who care about recycling – residents of SATOhomes now have better opportunities to recycle their plastic packaging. We brought plastic recycling bins to the waste-collection points of close to 5,000 rental apartments.



### WE TAKE CARE OF HOUSING HEALTH

We trained our very own housing health manager, who serves as our expert in matters related to indoor air, moisture, temperature, ventilation and suspected mould.

### WE WILL HELP YOU FIND A HOME AND A JOB

We take part in a project that helps participants find two of life's essentials – a home and a job. During the reporting year, nine people without a home found their SATOhome thanks to the project.



### RECOGNITION FOR SUSTAINABILITY EFFORTS

SATO participated in the Global Real Estate Sustainability Benchmark (GRESB) for the fourth time, achieving four stars out of five. The results are internationally comparable, and SATO's result exceeds the average of its European peers.

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

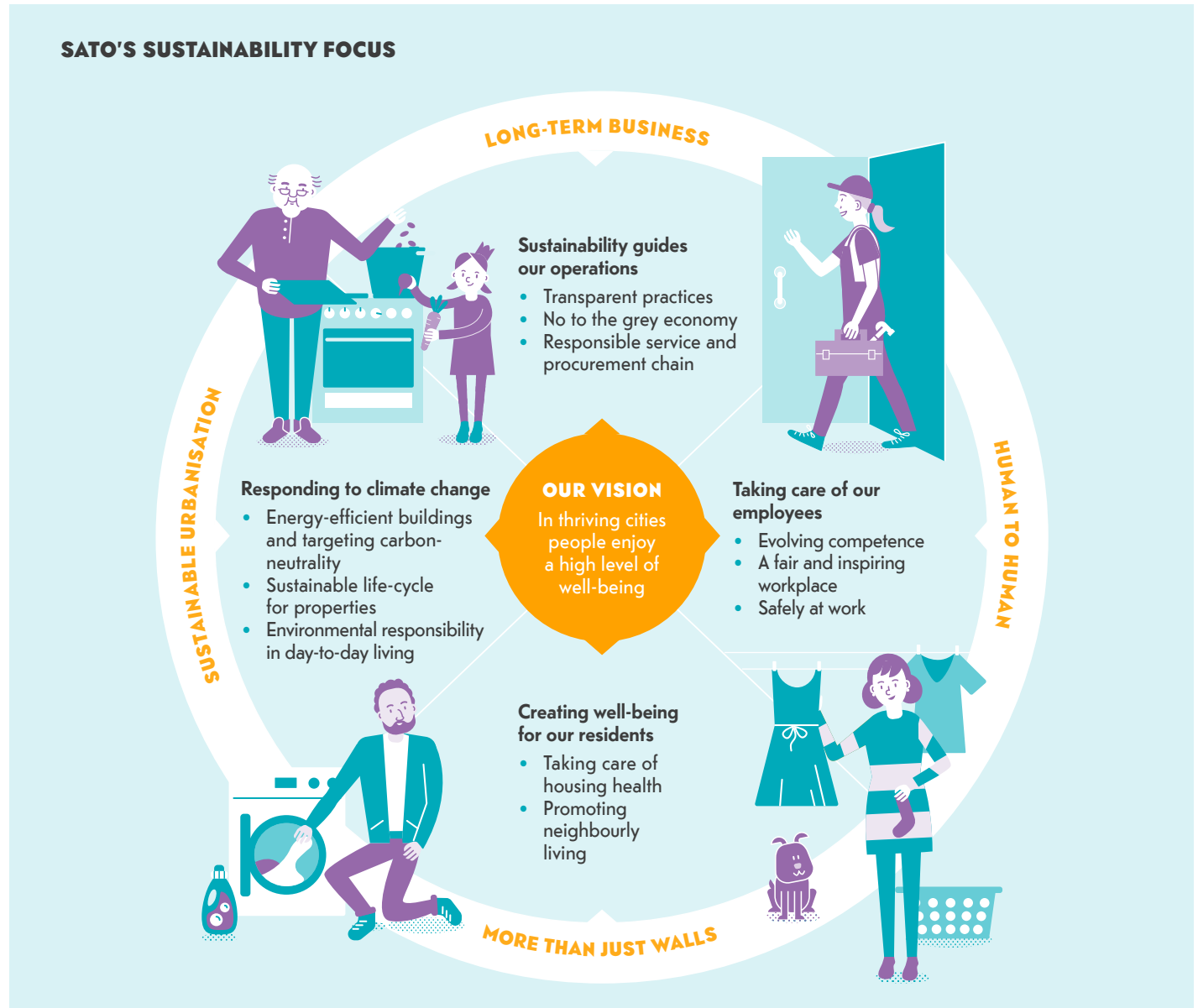
SATO operates responsibly, applying its Customer First approach. Rental apartments and new investments in growth centres enable sustainable urbanisation and growth in business and industry. We participate in real estate organisations and development projects that promote sustainability, and we offer our expertise to decision-makers in society.

Our sustainability work is guided by SATO's strategy and sustainability policy, as well as themes that we have evaluated to be material based on discussions with our stakeholders.

Urbanisation increases the need for rental apartments in growth centres. We want to have a positive impact on the development of society, business and industry through urbanisation. We support the well-being of our customers by offering them safe living. Some 50,000 people live in SATOhomes, and in addition to our own personnel, a significant number of our partners all work to ensure good living for these residents.

### LONG-TERM BUSINESS

We take care of the financial sustainability of our operations, and we take responsibility for our financial impact on our stakeholders and society. Investments create jobs, and the income obtained from this work is used to buy products and services or to make new investments.



SATO wants to provide competitive and sustainable investment opportunities. We communicate and report on our operations transparently in accordance with international accounting standards and the Finnish Corporate Governance Code, and we prepare our sustainability reports in accordance with the GRI framework.

We require our suppliers to operate sustainably in terms of work environments, occupational safety and environmental responsibility. SATO's procurement team selects suppliers that are able to create value and good customer experiences for our customers.

[Read more about our financial sustainability and our partnerships.](#)

## MORE THAN JUST WALLS

We want to have a positive impact on the development of society, business and industry through urbanisation. SATO is a reliable and professional long-term lessor. When our customers' life situations change, they can find a new home from our range of apartments, and they can live in a SATOhome throughout their lives.

We promote neighbourly living by listening to our residents, and we encourage a sense of community among our residents. We monitor customer satisfaction in different phases of living, organise building-specific meet-ups and collect ideas through the SATO Pulssi resident panel and in co-creation workshops.

We take care of our residents' health by taking good care of our buildings and by quickly reacting to any housing problems that arise.

[Read more about how we create value for our customers.](#)

## SUSTAINABLE URBANISATION

SATO designs and develops vibrant new residential areas in cooperation with cities, partners, residents and other stakeholders. We mainly build new rental apartments in existing urban structures with excellent connections and services. This reduces the environmental impact of construction and living.

We target carbon-neutrality in our construction of new buildings, and we focus on a long life-cycle for our properties – in construction, renovations and maintenance alike. We maintain and repair our housing portfolio regularly and sustainably, and with respect for the environment.

We continuously monitor energy and water use in our buildings to reduce consumption. We encourage our residents to recycle by offering them guidance and by improving waste-sorting opportunities.

[Read more about sustainable urbanisation.](#)

## HUMAN TO HUMAN

SATO's employees have the ability to reinvent themselves, and they recognise this as a shared strength. SATO employees are keen to develop themselves, to hone their expertise and constantly learn, and they encourage their colleagues to do the same.

Our surveys show that we work in a positive frame of mind and with the encouragement of skilled supervisors. We keep customer service and our customers' well-being in sharp focus.

## / CASE



## MATERIAL SUSTAINABILITY TOPICS IDENTIFIED

**WE ENGAGE** in open dialogue with our stakeholders in order to identify the impacts of our operations, as well as the significance of those impacts. In autumn 2018, we updated SATO's sustainability materiality analysis. We carried out an extensive stakeholder survey to identify material aspects related to our business operations for each stakeholder group. Representatives of various stakeholder groups raised issues that should be associated with sustainability in our operations.

Our survey of customers and personnel was carried out via an online form, and more than 800 people responded to it. In addition, other representatives of our main stakeholder groups were interviewed by an independent third party. SATO's management evaluated the themes raised in the dialogue in terms of business impacts, and identified 4 main themes and 11 material aspects. The approach to the material topics is described in the [management approach table](#).

Work satisfaction and enthusiasm are at a high level among SATO employees.

We invest in the occupational safety of our employees and our partners, and we reinforce our safety culture by developing and monitoring occupational safety practices.

[Read more about how we take care of our employees.](#)

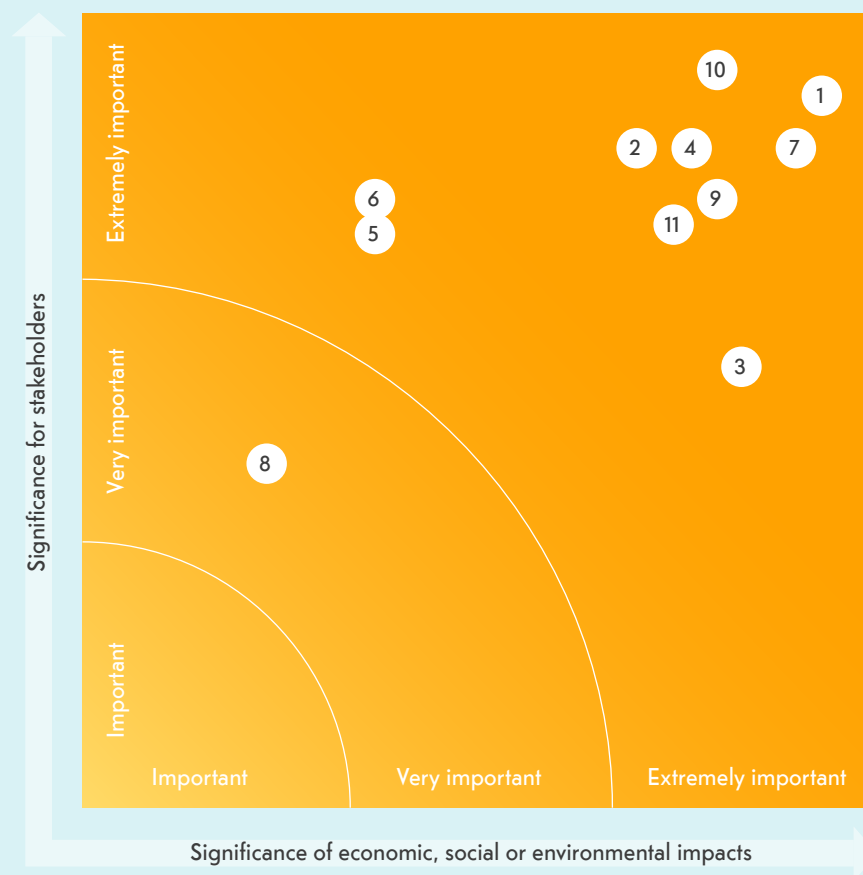
### TRANSPARENT PRACTICES

SATO's sustainability management and key guidelines and policies are described in the Annual Report's [Governance](#) section.

To further develop its operations, SATO participates in national and international sustainability comparisons. We participated in the Global Real Estate Sustainability Benchmark for the fourth time and achieved four stars, or the Green Star level. SATO's long-term sustainability efforts were reflected in the results, as progress was made in nearly all benchmarked areas. Our investments, particularly in customer service and stakeholder cooperation in accordance with our Customer First strategy, strengthened SATO's success in terms of social sustainability. SATO's strengths also lie in the company's energy-efficiency measures and comprehensive monitoring, as well as in its transparent operating principles and reporting.

The lack of environmental certification for apartment buildings came up as a development area for SATO in the comparison. Certification has so far mostly been used in the construction of new office premises and shopping centres and is generally not broadly used in residential buildings in Finland.

### SATO'S MATERIALITY MATRIX 2018



#### Sustainability guides our operations

1. Transparent practices
2. No to the grey economy
3. Responsible service and procurement chain

#### Taking care of our employees

4. Evolving competence
5. A fair and inspiring workplace
6. Safely at work

#### Creating well-being for our residents

7. Taking care of housing health
8. Promoting neighbourly living

#### Responding to climate change

9. Energy-efficient buildings and targeting carbon-neutrality
10. Sustainable life-cycle for properties
11. Environmental responsibility in day-to-day living



## SUSTAINABILITY IN EVERYTHING WE DO

For SATO, sustainability is about concrete actions. In 2018, we saved energy, made waste-sorting and recycling easier for our buildings, and we developed a systematic way of operating in order to clarify matters related to housing health. In autumn, with the introduction of the digital OmaSATO service, we brought housing services within

easy reach of our customers – anywhere, anytime.






















We began updating our sustainability goals at the end of the reporting year, based on our [materiality themes](#). One of our key objectives for 2019 is to integrate our sustainability goals even more strongly with our strategy and daily actions. We

are continuing with our energy and water saving initiatives in 2019, and we are also strongly focusing on promoting housing health and a sense of community among our residents.






A summary of SATO's sustainability goals and initiatives, as well as their connection to the UN's Sustainable Development Goals, is presented in the table.

In addition to our environmental targets, we have joined the City of Helsinki's cooperation network for climate matters, [Climate Partners](#), and have committed to the [Energy Efficiency Agreement](#) targets for the property sector.








### ENVIRONMENTAL SUSTAINABILITY

Objectives for 2018 (outcome in 2017)	Fulfilment of objectives and key initiatives in 2018	Objectives for 2019	Key initiatives in 2019	Link to the UN sustainable development goals (SDG)
Specific heat consumption 40.9 kWh/m <sup>3</sup> (41.8)	We came under the target (40.7 kWh/m <sup>3</sup> ) by improving temperature and ventilation optimisation and by developing remote monitoring of properties.	Specific heat consumption 39.8 kWh/m <sup>3</sup>	Extended temperature optimisation and development of efforts to limit peak power, installation of water-saving fixtures, optimised ventilation, reviewing geothermal possibilities.	   
Specific water consumption 390 l/m <sup>3</sup> (414)	Unfulfilled, outcome 411 l/m <sup>3</sup> . Specific water consumption fell 0.7 per cent. The number of residents in relation to floor square metres has grown. We installed water-saving fixtures in more than 6,000 homes and repaired leaks.	Specific water consumption 387 l/m <sup>3</sup>	Installation of water-saving fixtures and repairing leaks, installation of apartment-specific water meters.	   
Specific electricity consumption 3.9 kWh/m <sup>3</sup> (3.9)	Outcome 3.9 kWh/m <sup>3</sup> . Optimised ventilation was the most important means of fulfilling the objective.	Specific electricity consumption 3.9 kWh/m <sup>3</sup>	Optimised ventilation, determining the benefits of solar energy in new buildings.	   
Developing energy efficiency monitoring measures	We launched systematic energy efficiency monitoring at the site level.	Continuous monitoring of energy efficiency initiatives	Site-specific energy efficiency monitoring and reporting.	  
New investments to be located along main public transportation routes	Objective fulfilled both in the construction of new buildings, and in purchases of existing properties. The location of investments is always assessed as part of investment decisions based on sustainability due diligence and Environmental Due Diligence (EDD).	New investments to be located along main public transportation routes	Due diligence and EDD reviews for investment sustainability, complementary construction projects.	  
Enhance the sorting of waste from residents	Fulfilled in part. To reduce waste volumes and improve the recycling rate, we increased resident communication and support in waste matters, and we added 74 plastic recycling points and 472 recycling bins.	Enhance the sorting of waste from residents	Increasing communication, resident support, recycling bins, developing sorting opportunities in apartments and at waste points.	  

## SOCIAL SUSTAINABILITY

Objectives for 2018 (outcome in 2017)	Fulfilment of objectives and key initiatives in 2018	Objectives for 2019	Key initiatives in 2019	Link to the UN sustainable development goals (SDG)
Continuously improving NPS	Customers' NPS improved. We focussed on introducing and expanding a customer service model throughout the year, on renewing our customer service centre and on developing our digital services.	One-contact principle – shorter response times and efficient execution of service transactions	Developing customer service personnel's competence and supporting their abilities, active communication and making use of information in the development of digital services, establishing a housing health operating model.	  
3-point improvement in the People Power Index	Contents of the survey and the service provider changed in 2018, and direct comparison with the previous year is not possible. The results of SATO's personnel survey ('Syke') were at a good level in all key categories. The main initiatives were common personnel events, increasing multicultural understanding and improving work-ability management.	The results of SATO's personnel survey at the same level or higher than 2018 in all key categories	Development of the corporate culture, reinforcing supervisory work and management, strengthening the employer image.	
The development of communality among residents	The objective is difficult to measure, but we succeeded in our initiatives: Piloting a cooperative model at a StudioKoti site and expanding it, establishing the job profile of community manager, and increasing multicultural understanding among personnel.	The development of communality among residents	Testing out a neighbour support programme, actively working with the authorities and organisations, building meet-ups, housing support, light maintenance visits, supporting events for residents, developing communication and digital services.	

## FINANCIAL SUSTAINABILITY

Objectives for 2018 (outcome in 2017)	Fulfilment of objectives and key initiatives in 2018	Objectives for 2019	Key initiatives in 2019	Link to the UN sustainable development goals (SDG)
Maintenance and repair costs remains at 2017 level (e/m <sup>2</sup> )	Fulfilled. We adopted a new maintenance partnership model, organised competitive bidding for apartment repair contracting, and continued with our energy efficiency measures. We separated our material purchases from repair and maintenance work.	Maintenance costs remain at the 2018 level	Expansion of the Customer First service model to partners, maintenance training, competitive bidding of maintenance.	   
Continuation of supplier audits and 10% reduction in the number of suppliers	Fulfilled in part. We continued with supplier audits and with the development of procurement systems and processes. The number of suppliers decreased by 5 per cent.	Cascading of the Customer First service model to partner-suppliers and continuation of supplier audits	Training of key suppliers, competitive bidding and audits.	 
Improving the Investment Grade credit rating	Fulfilled in part. The key indicators improved, but our credit rating did not.	Improving the Investment Grade credit rating	Improving key indicators.	

## A SATOHOME IS MORE THAN JUST WALLS

**Our goal is to make our residents' lives more convenient than ever. People who live in SATOhomes get more than just walls – they get new services alongside existing ones, opportunities to make a difference, social activities, monetary customer benefits and free customer events.**

We provide our 50,000 residents with more than just rental apartments: we want to be part of their lives, bringing them joy, lending a helping hand and giving them value for their money.

Our Customer First efforts led to successes during the reporting year. Our Net Promoter Score (NPS), indicating how likely a customer is to recommend our services, improved, and our economic occupancy rate for the full year reached 97.9 per cent. These results can be attributed to, for instance, our efforts to enhance our operations, which, for customers, meant quicker and more flexible service. Renovations were carried out with greater efficiency during the reporting year, and during peak periods at the turn of the month, we had more personnel at work than normal.

*We promote sustainable urban living.*

We developed the new digital OmaSATO service for our customers, we trained our partners in our Customer First programme, and we improved our customer query resolution rate and the level of our customer service, with great results.

### **A RELIABLE AND SERVICE-ORIENTED LESSOR**

SATO wants to be worthy of its residents' trust, and operating responsibly is an important principle for us. In autumn of the reporting year, we asked our residents for their thoughts on SATO's sustainability, and based on the responses we received from more than 700 residents, we updated our material sustainability topics.

Our Code of Conduct defines the actions of SATO and its employees. We follow good rental practices and respect the privacy of our customers. We are particularly careful when processing personal information and payment data covered by privacy laws and regulations. Only designated employees are allowed to process customers' personal data, and only for predetermined purposes. During the reporting year, SATO received no complaints regarding the processing of customer data, and there was no misuse of customer information.

The goal of SATO's customer service is for our customers to always be provided with the information they need in a timely manner, by the same customer service professional, from the first enquiry all the way to resolution. During the reporting year, our service experts responded to 207,419 customer queries, with a first contact resolution rate as high as 80 per cent.



## OMASATO-SURVEY RESULTS:

1/4

Roughly one quarter of respondents use the service weekly and 44% use it 1–2 times a month.

83.5%

Of respondents considered the user-friendliness of the service to be either good or excellent.

Top 3

For respondents, the most important features were reporting defects (50.3%), viewing their own rent payment details (33.1%), bulletins concerning their own building (28.8%).

55.4%

Recommend the service.

Multiculturalism is a daily part of SATO's customer service, and in practice, it is frequently visible in the lack of a common language. We broadened our language skills during the reporting year and began using an effective and comprehensive interpreting service to facilitate customer service situations. Understanding cultural differences is and will continue to be one of customer service's tasks, and achieving success in that area contributes to a confidential customer service situation. In January 2019, we arranged training in the customs, habits and lifestyles of different cultures for all SATO personnel.

## BRAINSTORMING AND DEVELOPMENT WORK TOGETHER WITH CUSTOMERS

We interact with our customers via various channels and forums. We collect and test new development ideas through the mobile SATO Pulssi resident panel, and we regularly collect feedback through customer satisfaction surveys, drawing on their results to develop our operations. Our new feedback procedure enables us to address customer feedback more quickly than before.

The digital OmaSATO service launched in August 2018 was designed in close cooperation with our customers right from the start. We believe that our residents are our best experts for developing the OmaSATO service. More than 250 residents took part in joint development workshops and tested the service before it was launched.

## WE PROMOTE NEIGHBOURLY LIVING

A sense of community makes it easier for residents to adapt to their new living environment.

It also prevents loneliness and brings a greater sense of safety to the entire neighbourhood. We encourage residents of SATOhomes to interact socially. We arrange, for instance, resident meetings for buildings and neighbourhoods. In addition, we select a Customer of the Year – an active resident who brings joy to the neighbourhood. In 2018, the Customer of the Year was a long-time resident who actively participates in resident activities in Helsinki.

In December 2017, SATO started a pilot project in communal living in its SATO StudioHome building in Vantaa. During the 2018 pilot, experiences were collected and operating models were developed in order to guide future communal resident activities also for other SATOhomes.

*A sense of community makes it easier for residents to adapt to their new living environment. It also prevents loneliness and brings a greater sense of safety to the entire neighbourhood.*

## HELP TO FIND A HOME

### HOMELESSNESS, UNEMPLOYMENT

and integrating immigrants into Finnish society are significant social issues today. During the reporting year, we collaborated on a project with the non-profit organisations No Fixed Abode and the Rehabilitation Foundation to help participants in the project find two of life's essentials – [a home](#) and [a job](#). By the end of the reporting year,

nine people who had participated in the project were living in a SATOhome.

To help promote, in particular, the integration of immigrants, we joined hands with Monik ry and Moniheli ry in the Katto (i.e. "Roof") project. Finding a home and building a daily routine are among the most important factors promoting integration.



*In October – December, 19% of home health notifications concerned suspicions of mould, 15% related to indoor air, 11% to indoor moisture levels, 11% to temperature, and 6% to ventilation.*

One example of a new kind of operating model is the 'neighbour mentor' programme. Neighbour mentors inform new residents on the building's practices, and they help their neighbours with minor housing-related matters. The programme was piloted in autumn 2018, and it will be expanded in the first half of 2019.

#### HELP WITH EVERYDAY PROBLEMS

Increasingly dense and compact urban structures create more diverse and multicultural neighbourhoods. SATO is present in its residents' daily lives – even when things don't go as planned. SATO's housing advisor provides our residents who may be experiencing temporary difficulties with assistance, also with the help of the experts at Indcare Oy, which is owned by the social welfare organisation EIJ ry. The Housing skills co-operation project that was launched in 2017 has already helped more than 800 housing advisor customers.

During the reporting year, we also started up maintenance visits to collect important information about the condition of apartments, residents' living habits and the need for housing guidance. The need for housing guidance may be related to, for instance the functioning of a building's air ventilation or radiators, water consumption, or ventilation. The maintenance visits have been well-received by residents, who are pleased that SATO is taking good care of its residents and apartments.

#### / CASE



### WE TAKE CARE OF HOUSING HEALTH

**DURING THE REPORTING YEAR,** we introduced an operating model related to housing health and safety. We want to make healthy and safe living a priority. We stress **quick response times**, ensure that customers are kept up to date and provide a smooth flow of information in different circumstances.

At the beginning of the reporting year, SATO created a new position, Housing Health Manager, a person who serves as an expert in all matters related to housing health and safety. Other areas we focus on are analysing home health cases and internal reporting in order to ensure continuous learning and increased awareness.

We use low-emission materials for interior surface structures in new construction, and purity classification and indoor climate requirements are set on construction. During construction, dust control is monitored and the cleanliness of air ducts is ensured, and measurements are taken to ensure the correct air ventilation settings. When the apartment is completed, residents are asked if they are satisfied with the ventilation and indoor air of their home. Any deviations detected through the questions, as well as possible feedback from residents, are responded to by performing adjustment measurements and, if necessary, by adjusting the property's ventilation.

## WE TAKE CARE OF OUR EMPLOYEES

**SATO employees carry out their work with professionalism, always putting the customer first. Surveys show that we have a positive work atmosphere and the encouragement of competent supervisors. The capacity for renewal is seen as a shared strength at SATO, and during the reporting year we increased our competence in areas that are key in terms of SATO's strategy.**

SATO places great emphasis on training, and in 2018, our personnel learned more about, among other things, different cultures and meeting customers. For two years in a row, SATO's supervisory work was considered a strength. For us, it is important to take care of

the well-being of our employees. To that end, our efforts focussed on, for instance, reinforcing our safety culture.

### NEW EXPERTISE, NEW POSITIONS

In 2018, SATO hired 60 new employees, 29 of whom under permanent employment contracts. We hired a new sales director to develop SATO's rental activities, a technical director to strengthen our energy management knowledge, a commercial premises manager to boost the profitability of our commercial spaces, and a communications expert to reinforce our customer communication. At the start of the year, the position of housing health manager was established within our Housing organisation. We also appointed a chief

digital officer to accelerate our digital development, and we combined our digital services and IT management into one unit.

We opened up a new LinkedIn page for SATO, where we share the latest news, as well as information about our goals, working at SATO and job openings. We developed our induction practices to ensure that new SATO employees get off to a smooth start. SATO had a total of 218 (212) employees at the end of the year. We had clearly more summer employees during the reporting year compared to the previous year: 22 (12).

All SATO employees in Finland have collectively negotiated labour agreements.

### FAIR EMPLOYER, HAPPY EMPLOYEES

In a personnel survey carried out by HR4 Promenade Research Oy, SATO employees described SATO as a reliable, fair and renewing employer. Similar to previous years, work satisfaction was at a high level, as was the appraisal of supervisory work. On a scale of 1 to 5, the average grade for supervisory work at SATO was 4.1. Personnel cited supervisory work, the ability to renew and a good work atmosphere as SATO's strengths. The contents of the work and how challenging the work is were mentioned as development areas.

The personnel engagement survey was renewed in 2018, so the results cannot be compared to the results of [previous years](#).

### SAFELY AT WORK

During the reporting year, we clarified our occupational safety practices, and SATO employees who work in customer service participated in occupational safety training organised by the Peace of Mind Threat Management Company Ltd.

New members were appointed to SATO's OHS committee, which convened four times during the year.

### LEARNING ABOUT DIFFERENT CULTURES

The main theme of the SATO Seminar held in autumn was multiculturalism. SATO employees reflected on cultural differences and similarities through speeches given by experts, group tasks and with Monik ry, an association that promotes the integration and interaction between different groups of citizens.



***SATO employees have good opportunities to develop in their work, hone their expertise and learn new things.***

## TRAININGS IN 2018

4.8

Number of training days  
per SATO employee, average  
(men 5.0/women 4.7)

1.7

Number of working days  
per employee spent on training  
provided by a third party.

4.8

Number of training days  
per SATO employee  
(men 5.0/women 4.7)

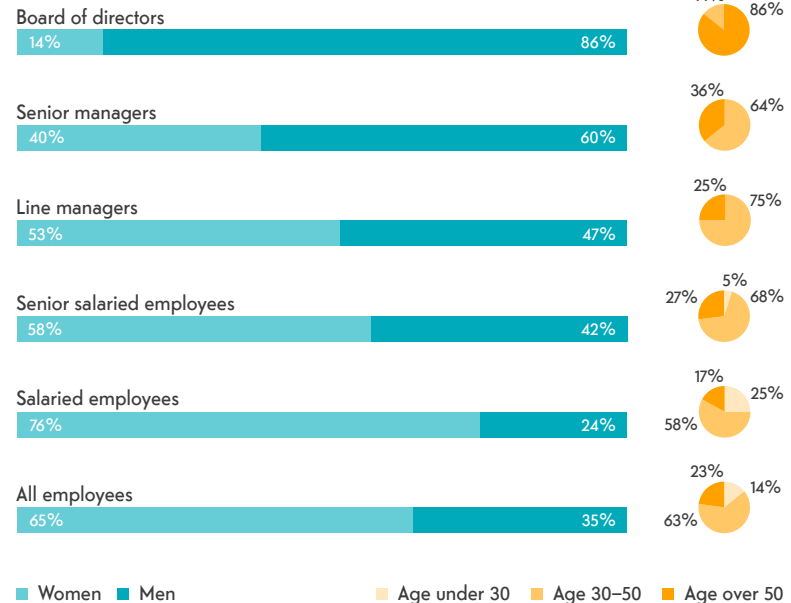
During the year, we learned about the living customs, holiday traditions and values of different cultures in several internal training sessions. In addition, a group of eager SATO employees began learning Arabic. SATO's customer service began using the Túlka interpreting service, which helps us serve customers and those seeking a rental apartment in dozens of languages.

### WE TRAIN, WE LISTEN, WE INVIGORATE

SATO employees have good opportunities to develop in their work, hone their expertise and learn new things. Besides training in data protection, multiculturalism and occupational safety, we arranged training and morning coffee events where information about SATO's business, development projects and current events was shared. SATO employees took part in 4.8 training days (men 5.0/women 4.7) in 2018. Around 1.7 working days per employee were spent in training provided by a third party. The number of training days for supervisors was 4.8 days per person and for employees 4.8 days per person.

The **Tarmo group**, consisting of members of management and personnel, convened four times during the reporting year. The group focuses on SATO's people practises and well-being-at-work. SATO's committee for recreation and sports activities, called **Liivi**, arranges activities that maintain and improve employees' work ability and which encourage employees to spend time together outside of work.

## Gender distribution of personnel groups and board of directors, 31 Dec 2018



In 2018, 14% of SATO's personnel were under 30, 63% were between 30 and 50, and 23% were over 50. By personnel group, those under 30 were represented the most in the salaried employees group (25%) and in the senior salaried employees group (5%).

The 30–50 age group represented 64% of those working in senior management positions, 75% of supervisors, 68% of senior salaried employees, and 58% of salaried employees.

The over-50 age group was represented the most in senior management positions (36%), and in senior salaried employee positions (27%). One quarter of all supervisors and 17% of salaried employees are over the age of 50.

## INFORMATION ABOUT PERSONNEL

GRI 102-8 Total number of personnel at end of 2018 (2017)						
Number of personnel	permanent	fixed-term	men	women	men, %	women, %
Total 218 (212)	203 (201)	15 (11)	77 (75)	142 (137)	35%	65%
of which the number of personnel in Russia 11 (10)	10 (9)	1 (1)	2 (2)	9 (8)	18%	82%
During the year, the Group had an average of 215 (206) employees.						

Total number and rates of new employee hires and employee turnover by age group, gender and region (GRI-401-1)				
New employment contracts	total 60	under 30	30-50	over 50
permanent employment contracts	29	7	19	3
men	11	2	6	3
women	18	5	13	0
New fixed-term employment contracts	total 11	under 30	30-50	over 50
men	4	3	1	0
women	7	3	4	0

Summer trainees	total 22	under 30	30-50	over 50
men	12	12	0	0
women	10	9	1	0
Terminated employment contracts	total 26	under 30	30-50	over 50
permanent employment contracts	21	2	11	8
men	8	0	5	3
women	13	2	6	5
Employment contracts terminated by the employer	7.7%			
Total personnel turnover, % (summer trainees excluded)	12.3%			
Work accidents, occupational diseases, sick leave and deaths entire personnel (GRI 403-2)				
absentee rate (AR)	1.7%			
lost day rate	0.02%			

See [Key Sustainability concepts](#) for more information about how we calculated the figures.



## WORKING TOGETHER FOR THE GOOD OF THE CUSTOMER

**We value responsible partners that support us in our strategy of providing a diverse range of services, high-quality urban living and smoothly running maintenance. Good partners have clear goals and are passionate about developing with us – together we can serve our customers even better.**

In 2018, we enjoyed successes in bringing our Customer First service model to our partners' day-to-day operations. We selected the property services company Unce Kiinteistöpalvelut Oy as our partner of the year. Unce's strengths lie in how it takes residents into account and its seamless cooperation with our customer service. In

SATO's buildings, Unce operates with a Customer First attitude, which is directly reflected in customer satisfaction. Another outcome of our partner cooperation is our very own **Kide bathroom furniture line**, which is high quality, durable and made in Finland.

### SUSTAINABLE PROCUREMENT AND SUPPLY CHAINS

We select suppliers that create value and good experiences for our customers. We require sustainable operating methods in terms of work environments, occupational safety and environmental responsibility. When selecting new partners, we carry out a supplier assessment, which entails going over

the company's finances, references, resources and equipment. It is also important to us that our partners are willing to develop their operations.

To combat the grey economy, we only work with companies registered in tilaajavastuu.fi's Reliable Partner service. When selecting suppliers through competitive bidding processes, we evaluate offers based on our goals and the product or service in question. We also analyse the level of supervision, reporting and delivery of potential suppliers.

During the review period, we continued to audit our contractual suppliers to comprehensively evaluate their processes and the current state of their

operations. Based on these audits, we prepare scorecards for suppliers, including a description of the current state of their operations and any suggestions for improvements.

### NEW WAYS OF MAINTAINING PROPERTIES

SATO's objective is to offer better and better housing services. Since our customers feel that they are receiving service from SATO, even though the maintenance staff they see have a different logo on their uniforms, we focussed efforts during the reporting year on familiarising our property maintenance providers with our Customer First service model. Together with our partners, we looked into best practices, and in order to better understand the day-to-day lives of our property managers and cleaners, we held a joint workday at our buildings in the spring.

We monitor the level of customer service, customer satisfaction and our energy-efficiency targets together with our maintenance and building management partners through jointly developed indicators, which are included in our agreements. SATO's service managers engage in close dialogue with the property maintenance management, and during the reporting year, we introduced a service-request process together with our maintenance and building management partners.

The new service-request process sets a high standard of quality on all SATO service providers. In our purchase agreements, our procurement partners commit to short response times, which in itself has a positive impact on customer satisfaction.

*In 2018, we enjoyed successes in bringing our Customer First service model to our partners' day-to-day operations.*



In concentrating our operations on certain partners and suppliers, we refer to trilateral cooperation. Rather than the property manager, for instance, entering individual home appliance orders in the system, the orders are automated. The trilateral cooperation parties can see that it pays to have a shared operating model, where volumes are large and improving customer satisfaction is easier.

### LONG-LASTING MATERIALS AND EASY LIVING

We aim to lower the life-cycle and maintenance costs of buildings by investing in the quality of the products we use. Work should be done right the first time and sustainably: Properly installed, long-lasting materials save natural resources, and in most cases, they can be recycled or disposed of after use.

SATO's customers expect durability and easy maintenance in their home's surface materials. During the reporting year, SATO introduced its own Kide line of bathroom furniture products, which are designed to be not only stylish, but also highly durable and functional. Every sheet of material is used down to the millimetre, and the furniture comes with a 25-year guarantee. In summer 2018, SATO was granted the Design from Finland mark, one of the reasons being the Kide line of furniture. The recognition was granted to the furniture, furnishings and design of SATO's homes and shared spaces.

### SAFE CONSTRUCTION SITES

Every year, we spend approximately EUR 153 million on the construction and repair of our buildings. The occupational health and safety

*SATO's customers expect durability and easy maintenance in their home's surface materials.*

of the people working on our construction sites, and the construction of healthy and high-quality homes are extremely important to us.

Occupational safety on the work sites of buildings commissioned by SATO is primarily the responsibility of the contractors. We monitor compliance with occupational safety practices and we keep track of the accident frequency rate. The aim is to minimise the number of accidents. In 2018, a total of 7 (10) accidents were recorded on 20 (21) sites, with the rolling accident frequency rate being 18 (24). Working hours on our construction sites amounted to roughly 395,000. In 2019, we will begin the regular analysis and reporting of accidents occurring on construction sites.

We continued to develop occupational safety and moisture management on our new construction and renovation sites by appointing an occupational safety and moisture management coordinator for each site. We monitor the quality of apartment repairs carried out by our contractors by performing spot checks. We prepare six-month summary reports on the spot checks, and their results have an impact on the fees paid to contractors.

### SATO'S EMPLOYMENT IMPACT 2018

Direct and indirect employment impact	Person-years
Investments in construction and renovations	1,650
Maintenance and upkeep services	676
Other purchased services	140
Personnel	215
<b>Total</b>	<b>2,681</b>

### WE PROVIDE THOUSANDS OF JOBS

**ACCORDING TO** the VATT Institute for Economic Research's calculation models, SATO's employment impact is approximately 2,700 person-years.

The assessment of our employment impact covers all investments, maintenance services and other purchased services. The assessment takes both our direct

and indirect employment impact into account. For example, the indirect impact of new construction and renovations on the construction industry and building services was evaluated, in addition to the direct impact of construction sites. See [Key sustainability concepts](#) for more information about the assessment of our employment impact.

## SUSTAINABLE URBAN LIVING

Responding to climate change and enabling sustainable lifestyles are important parts of SATO's sustainability efforts. Investing in the energy efficiency of rental apartments, building new homes near good public transport connections and increasing recycling opportunities for residents are some of the ways that we are ensuring a cleaner future for city residents.

Building materials, the construction of apartments and energy consumption during living cause the most significant climate effects of SATO's business operations.

We promote environmental sustainability in day-to-day living. During the reporting year, we encouraged our residents to save energy and water. We also made recycling easier by arranging

### *Energy efficiency through investments and proactive measures*

recycling container tours, increasing the number of plastic-recycling points and designing colored waste bins that inspire and provide information about sorting.

We additionally reduce the load on the environment by regularly taking care of and repairing homes and properties according to the life-cycle principle, and by building properties in existing urban environments and near good transport connections. When selecting **building materials for indoor spaces** we aim to minimise their environmental impacts.

### **DENSE AND LIVELY CITIES THROUGH COMPLEMENTARY CONSTRUCTION**

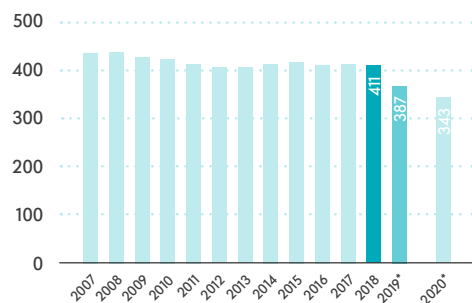
Complementary planning, where new buildings rise alongside or in place of existing buildings, supports not only the creation of denser urban structures in line with the objectives of master plans, but also SATO's goal of offering new rental apartments in areas where homes are in demand. Complementary construction furthermore gives SATO good prerequisites for reducing emissions and targeting carbon neutrality.

Most of our standard planning development projects are situated in excellent locations in terms of services and public transport, such as along the West Metro and its extension, which is under construction, and the future Raide-Jokeri, an express tramline between Itäkeskus in Helsinki and Keilaniemi in Espoo. Efficient parking solutions combined with cycling and light traffic possibilities are the basis for planning new areas.



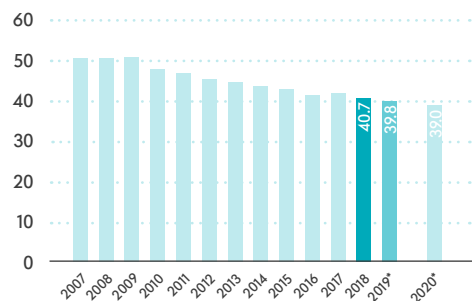
*39% of the waste on SATO's new construction sites that started up in 2018 was sorted.*

Water consumption, l/m<sup>3</sup>/year



\* SATO's target

Standardised heating consumption, kWh/m<sup>3</sup>/year



\* SATO's target

SATO invests in urban construction, for example, by acquiring plots, developing city plans, investing in public utility services and remediating soil. In 2018, our investments in infrastructure totalled EUR 22.1 (4.1) million.

A precondition for the creation of balanced and socially sustainable residential areas is the construction of homes with different types of ownership and management forms. During the reporting year, plots in complementary planning areas developed by SATO were sold to construction companies and other partners, enabling the construction of approximately 270 owner-occupied apartments and thus promoting a diverse residential area and social structure.

### COMMITTED TO CLIMATE-FRIENDLIER HOMES

Efficient and sensible energy use saves costs and increases business profitability. It is also one of the most important means of mitigating climate change and reducing greenhouse gas emissions.

We are committed to the Energy Efficiency Agreement targets for the property sector, aiming for a reduction in the total consumption of electricity and heat by 10.5 per cent between 2014 and 2025. Energy efficiency agreements are an important part of Finland's energy and climate strategy, and a primary means of promoting the efficient use of energy in Finland.

We are updating SATO's environmental programme in 2019. We are setting new environmental sustainability targets, which will support the themes identified in our sustainability materiality analysis.

### OBJECTIVES OF THE ENVIRONMENTAL PROGRAMME 2020

Specific consumption	Target	Reference year
Emissions	-20%	2013
Heat	-23%	2009
Water	-20%	2009
Electricity	+/- 0	2014

### ENERGY EFFICIENCY THROUGH INVESTMENTS AND PROACTIVE MEASURES

We continued to make significant energy efficiency and water conservation investments during the reporting year. Our investments and other energy efficiency measures will generate around EUR 600,000 in annual cost savings.

In the reporting year, our specific weather-adjusted heat consumption decreased by 2.6 per cent, our specific water consumption was down by 0.7 per cent and specific greenhouse gas emissions decreased by 2.8 per cent in comparison with 2017. The rated consumption of electricity increased by 0.8 per cent as the relative number of new buildings increased.

Proactiveness is a key word when it comes to seeking enhanced energy efficiency. A total of 10,000 of our rental apartments are equipped with temperature- and humidity-monitoring sensors, 6,000 of which were installed during the reporting year. An efficient monitoring system helps us to quickly identify and rectify consumption deviations.

SATO's total water consumption remained at the 2017 level, despite the increase in the number of residents. During the year, 6,000 apartments were equipped with water-saving shower nozzles. We systematically repaired leaky and broken water fixtures. In 2019, we are investing in apartment-specific water meters, and apartment-specific water consumption data will be incorporated in the OmaSATO service so that residents can monitor their water consumption.

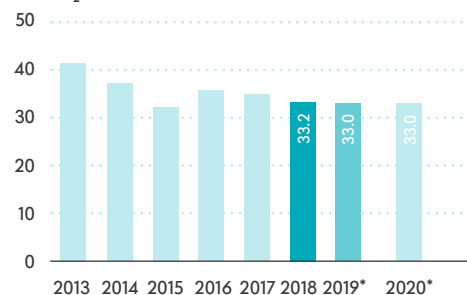
Legislation on the energy efficiency of residential buildings sets energy requirements for new buildings, corresponding to the energy efficiency figure of 90. SATO is committed to building markedly more energy-efficient buildings, with our energy efficiency figure target being 81 for new buildings. We began measuring energy and water consumption, as well as waste volumes, for our construction sites that started up in 2018. We are furthermore charting opportunities for the use of geothermal heating in our new construction sites.

Statutory energy certificates have been prepared for all SATO properties. We have also developed



*Among the items residents brought to SATO's recycling skips were 9,500 kilos of electrical and electronic scrap, 159 car tyres and 16 items of refrigeration equipment.*

Greenhouse gas emission intensity of buildings, kg CO<sub>2</sub>-e/m<sup>2</sup>/year



\* SATO's target

a separate energy efficiency rating for our residential buildings, taking into account the energy efficiency and costs of each building. Using this rating, we are able to calculate an energy figure for each building for action planning. Energy consumption is reported monthly to SATO's management team. All of the electricity used in our buildings is emissions-free.

### MORE RECYCLING AND WASTE-SORTING OPPORTUNITIES

We encourage our residents to take the environment into account. During the reporting year, we paid special attention to improving waste management and recycling. We also participated in the national Energy Saving Week campaign and offered our residents energy saving tips.

We want to increase waste sorting in our buildings. In future, all SATOhome kitchens will be equipped with at least four colour coded waste bins that were designed by us. The bins at waste collection points have the same colour codes. This also makes it easy for children to remember the proper waste bin to use when taking out the trash.

SATO's residents, particularly those in the Helsinki metropolitan area, have been hoping for plastic-recycling bins at their buildings. In spring and autumn 2018, we brought plastic-recycling points to close to 5,000 households.

Increasing waste sorting also helps keep yards clean and pleasant. We helped our residents declutter and recycle by bringing a record number of recycling skips and cages to the yards of our buildings. Some 282,000 kilos of electronics, bicycles, furniture, clothes and other items were collected in 472 recycling skips and cages. The usual cities were involved, i.e. Helsinki, Tampere and Turku, and they were joined by a newcomer to the recycling programme, Lahti.

### / CASE



## CIRCULAR ECONOMY WITH HOUSEHOLD APPLIANCES

**SATO CONTRIBUTES** to the circular economy in the construction industry and donates all the used home appliances from its renovated buildings to the Reuse Centre. This ensures that operational items are reused, and that items destined for waste are sorted or processed sustainably. The approach was tested out for the first time in 2017, and it was established as a routine collaboration in 2018.

During the reporting year, of the three SATO renovation sites that

were cleared out, approximately 200 working home appliances, such as refrigerators and ovens, as well as around 20 bicycles, found a new home through the Reuse Centre.

According to an estimate by the Reuse Centre, the reuse of our appliances and movables helped saved some 390 tonnes of solid natural resources in 2018. Savings of solid natural resources refers to the volume of natural resources that would be needed to manufacture similar products.

The following SATO environmental sustainability indicators have been verified by an independent third party.

## ENERGY

Energy consumption within the organisation (GRI 302-1)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
Total, MWh	238,263	283,484	264,874	263,465	-1,409	-0.5%
<b>Share of purchased energy:</b>						
Electricity, MWh	23,689	24,531	23,624	24,285	661	2.8%
District heating, MWh	214,056	258,299	240,427	238,493	-1,934	-0.8%
<b>Share of own production:</b>						
Oil, MWh	518	654	823	687	-136	-16.6%
Building energy intensity (CRE1)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
Consumption of heating energy, adjusted for weather, kWh/rm <sup>3</sup> /a	42.9	41.5	41.8	40.7	-1.1	-2.6%
Consumption of electricity, kWh/m <sup>3</sup> /a	3.89	3.85	3.91	3.93	0.02	0.5%

## EMISSIONS

Greenhouse gas emissions (GRI 305-1, 305-2, 305-3)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
<b>GRI 305-1 Direct greenhouse gas emissions (scope 1)</b>	135	170	214	179	-35	-16.4%
<b>GRI 305-2 Indirect greenhouse gas emissions* (scope 2)</b>						
Indirect greenhouse gas emissions (market-based)	37,674	48,560	45,200	44,837	-363	-0.8%
Indirect greenhouse gas emissions (location-based)	41,962	52,583	49,074	48,819	-255	-0.5%
GRI-305-3 Other indirect greenhouse gas emissions (scope 3)	1,834	948	240	49	-191	-79.8%
Total emissions of greenhouse gases, t CO <sub>2</sub> -e	39,643	49,768	46,339	45,064	-1,275	-2.8%

\* In line with the GHG Protocol standard, a location-based emission figure has been reported for electricity consumption. The market-based figure is used in combined emission figures. The location-based figure refers to figures calculated using country-specific emission coefficients and figures calculated using electricity-supplier-specific market-based emission coefficients. The building's electricity is generated with zero emissions.

GHG emission intensity of buildings (CRE3)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
kg CO <sub>2</sub> -e/m <sup>2</sup>	32.2	35.5	34.8	33.2	-1.6	-4.6%
kg CO <sub>2</sub> -e/person	903.7	1,033.6	988.7	952.6	-36.1	-3.7%

## WATER

Total water withdrawal (GRI 303-1)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
Total, 1,000 m <sup>3</sup>	2,329	2,622	2,507	2,537	30	1.2%

All SATO properties use municipal water supply.

Building water intensity (CRE2)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
dm <sup>3</sup> /rm <sup>3</sup> /a	418	412	414	411	-3	-0.7%

## WASTE

Total weight of waste from tenants (GRI 306-2 b)	2015	2016	2017	2018	Change, 2017–2018	Change, % 2017–2018
tonnes	21,578	23,985	23,573	24,124	551	2.3%
t CO <sub>2</sub> -e	1,834	948	924	49	-875	-94.7%

Distribution of waste from tenants by disposal method (GRI 306-2 b)	2018, %	2018, t
For recycling	40.6%	9,783
For energy	58.5%	14,119
To landfill sites	0.9%	222

Land remediated or in need of remediation (CRE 5)	m <sup>2</sup>
Remediated soil	2,200
Soil known to be in need of remediation	800

Initiatives to reduce energy consumption, and their impact	2016	2017	2018
Energy efficiency investments, MEUR	1.3	1.5	1.5
GRI 302-4 Reduction of energy consumption as a result of initiatives, MWh	4,070	7,750	7,200
GRI 305-5 Reduction of greenhouse gas emissions as a result of initiatives, t CO <sub>2</sub> -e	721	1,364	1,359

## LONG-TERM AND TRANSPARENT BUSINESS OPERATIONS

**SATO takes care of the financial sustainability of its operations for the long term. As a responsible, well-managed and profitable company, SATO operates sustainably and transparently. We take care of the value of our homes, and we pay taxes to Finland.**

For SATO, financial sustainability means good financial management, the efficient use of resources, and the generation of a steady financial benefit over the long term for stakeholders.

In 2018, we continued to strengthen our balance sheet and we raised the Group's equity ratio target to 40 per cent. The Group's other financial targets remain unchanged. In line with the targets, the interest coverage ratio must be at least 1.8x and unencumbered assets at least 60 per cent. Our long-term target is to have a solvency ratio of no more than 50 per cent.

### WE TAKE RESPONSIBILITY FOR OUR FINANCIAL IMPACT ON OUR STAKEHOLDERS AND SOCIETY

We generate a steady financial benefit for our stakeholders, including shareholders, employees, customers, municipalities, the state, and goods suppliers and service providers and their employees.

We support growth opportunities in business and industry by offering rental apartments in Finland's largest growth centres. During the reporting year, SATO invested around EUR 144 million in rental apartments.

Our housing stock is focussed on areas and apartment sizes that will grow in demand and

in value. In 2018, we repaired our apartments in accordance with the life-cycle principle in order to maintain or increase their value in use and financial value. Our repair investments amounted to EUR 54 million.

### WE PAY TAXES TO FINLAND

Our net sales for the financial year were EUR 290 million. The total amount of taxes paid and tax-like payments was EUR 76 million.

The financial added value that SATO generates for society – the tax footprint of the company's operations – consists of direct and indirect taxes. SATO Group's effective income tax rate in Finland was 20.2 per cent in 2018. In addition to Finland, we pay income and real estate taxes to Russia on our business in St. Petersburg. Employee salaries, benefits and pension expenses also include the personnel expenses of our St. Petersburg office.

### NO TO THE GREY ECONOMY

Our operations comply with the Finnish Corporate Governance Code and SATO's internal guidelines, principles and policies, which include guidelines for combating the grey economy.

SATO's Code of Conduct and the related whistleblowing channel for our stakeholders and employees support long-term and profitable operations, based on ethically sound and sustainable

### CASH FLOW IN 2018, EUR MILLION

#### CUSTOMERS

- Net sales **290.4**

#### FINANCIERS, INVESTORS

- Withdrawal of loans **299.1**
- Equity issued **0.0**

#### OTHER MARKET PARTICIPANTS

- Divestments of housing property **23.8**
- Other operating income **3.9**



#### SUPPLIERS

- Purchases **103.8**
- Investments **157.6**

#### PUBLIC SECTOR

- Direct taxes **36.7**
- Indirect taxes **34.8**
- Land rents and land use fees **7.9**

#### FINANCIERS, INVESTORS

- Interest and financial expenses **42.5**
- Repayments **249.0**
- Dividend **28.3**

#### PERSONNEL

- Salaries, benefits and pension expenses **17.2**



operating methods with regard to the economy, people, society and the environment.

To combat the grey economy, we only work with companies registered in tilaajavastuu.fi's Reliable Partner service. In line with the Finnish Occupational Safety and Health Act, everyone working at SATO's construction sites must have a photo ID with a tax number.

### GLOBAL INVESTOR DIALOGUE

In 2018, SATO participated in several investor meetings, which attracted both Finnish and international (mainly European) investors interested in our business. The following matters, for example, generated particular interest.

### IS SATO ACTIVELY DEVELOPING ITS LAND STOCK?

Yes, SATO has plot reserves valued at approximately EUR 40 million, in addition to which, a permitted building volume for more than 2,300 apartments is being developed for the plots in the company's housing portfolio. This is preparing the ground for growth. Complementary construction is also ecological, as it can make use of the existing infrastructure and contributes to a denser urban structure.

### HOW IS SATO MANAGING PROPERTY MAINTENANCE COSTS, I.E. ENERGY, WATER, ETC.?

Our goal is to lower maintenance costs. To achieve that goal, we actively monitor energy and water use in our buildings to reduce consumption, and we regularly invite competitive bidding on, among other things, maintenance and apartment repairs.

## SATO'S TAX FOOTPRINT IN 2018

### TAXES TO BE PAID DURING THE FINANCIAL YEAR

#### Direct

- Income tax **€25.2 mill.**
- Employer contributions **€2.9 mill.**
- Transfer tax on investments **€0.7 mill.**
- Property tax **€7.9 mill.**



#### Indirect

- Energy and insurance tax **€0.8 mill.**
- VAT included in investments that is not deducted **€17.6 mill.**
- VAT included in purchases that is not deducted ALV **€16.3 mill.**



### TAXES TO BE REPORTED DURING THE FINANCIAL YEAR

- Tax withheld on salaries **€4.2 mill.**
- Net VAT on sales **€0.4 mill.**



**TOTALLING €76.0 MILL.**

*Taxes paid to Finland €73.9 mill.*

**"A SPACE WHERE RESIDENTS  
CAN GET TOGETHER AND HAVE  
COFFEE, A FEW COMFY SOFAS  
AND SOME CHAIRS. THERE ARE  
SOME LONELY ELDERLY PEOPLE  
IN THE BUILDING, SO THEY COULD  
HAVE COMPANY THIS WAY."**

*In the Pulssi resident survey, a SATO resident describes the kind of space that would draw people.*



/ GRI

## TRANSPARENT REPORTING ON OUR SUSTAINABILITY

SATO's Annual Report is also the company's sustainability report, now drawn up for the fifth consecutive year in line with the GRI guidelines. The aim of the sustainability report is to openly provide our stakeholders with information about our operations, to create value for them in the short, medium and long terms.

## SUSTAINABILITY REPORTING PRINCIPLES

Since sustainability is an integral part of SATO's business, we have combined traditional annual report contents and corporate sustainability information into one integrated report. The aim of the sustainability report is to openly provide our stakeholders with information about our operations and value creation.

SATO's annual sustainability report has now been drawn up for the fifth consecutive year in line with the GRI guidelines: GRI-G3 2014, GRI-G4 2015 and

2016, GRI Standards 2017. The report has been prepared in accordance with the international Global Reporting Initiative Standards Core option. It is also compliant with the industry-specific guidelines for the construction and real estate sector (CRESS).

The report covers the Universal Standards of the GRI guidelines, as well as the Topic-specific Standards, which consist of descriptions of management practices and indicators for aspects identified as material for SATO. We have additionally reported

on information related to SATO's own sustainability topics in accordance with the GRI Standards.

The Boundaries for the calculation of key figures are mainly based on information concerning the SATO Group and the rental apartments it owns in Finland. Descriptions of management practices, reporting indicators and calculation boundaries are described in the [management approach table](#). The report is published online in Finnish and in English.

### SUSTAINABILITY BASED ON MATERIALITY

Our sustainable operating principles lay the foundation for sustainable and profitable business operations over the long term. Our sustainability reporting is based on the [material aspects related to our business](#) that have been identified in cooperation with our stakeholders and processed by SATO's Management Group. The effects of the material aspects on stakeholders are defined in the sections [Customers](#), [Personnel](#), [Partners](#), [Environment](#) and [Finances](#). The comparison of the content of the report with the GRI standards is indicated in the GRI content index.

### TRANSPARENT AND VERIFIED INFORMATION

The information concerning environmental responsibility in the report has been verified by an independent third party. The following information has been verified by KPMG Oy Ab:

The indicators presented in the tables of the Annual Report's The Sustainable SATO/ Environment section:

- Energy (GRI 302-1, 302-4, CRE1, CRE4)
- Water (GRI 303-1, CRE2)
- Emissions (GRI 305-1, 305-2, 305-3, 305-5, CRE3)
- Effluents and waste (GRI 306-2)
- Land degradation, contamination and remediation (CRE5)

Key financial indicators presented in the GRI index table:

- Environmental compliance (GRI 307-1)
- Supplier environmental assessment (GRI 308-1)





## MANAGEMENT APPROACH

### Sustainable operations – Transparent practices, a responsible service and procurement chain, and combating the grey economy

<b>Approach</b>	As a responsible, well-managed and profitable company, SATO is able to operate sustainably and transparently for the good of the economy, the environment, society and key stakeholders. Long-term partnerships benefit both parties. Combating the grey economy in the construction industry plays a key role in our procurement. We require our service providers to be registered with Suomen Tilaaajavastuu's Reliable Partner service. We report on our tax policies and our tax footprint, and we pay taxes to Finland.
<b>Main topics and key indicators to be reported</b>	<ul style="list-style-type: none"> <li>• Ethics and integrity (GRI 102-16, 102-17)</li> <li>• Economic performance (GRI 201-1, 201-4)</li> <li>• Procurement practices (GRI 204-1)</li> <li>• Indirect economic impacts (GRI 203-1, 203-2)</li> <li>• Anti-corruption and anti-bribery (GRI 205-3)</li> <li>• Employee-employer relations (GRI 402-1)</li> <li>• Customer privacy (GRI 418-1)</li> <li>• Environmental compliance (GRI-307-1)</li> <li>• Supplier environmental assessment (GRI 308-1)</li> <li>• Socio-economic compliance (GRI-419-1)</li> <li>• Land degradation, contamination and remediation (CRE5)</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Transparent communications and reporting</li> <li>• Combating the grey economy</li> <li>• Reputation as a responsible operator</li> <li>• Ensuring the Group's overall interests</li> <li>• Excellent customer experience throughout the service chain</li> <li>• Responsible procurement</li> <li>• Value-creating collaboration</li> </ul>
<b>Operating principles, guidelines and policies</b>	SATO complies with the Finnish Corporate Governance Code and with SATO's internal guidelines, principles and policies. The most important of these are the sustainability policy, the Code of Conduct, guidelines on personal data processing, guidelines on data privacy, guidelines on combating the grey economy, and procurement, financing, risk management and disclosure policies, communication and sponsorship policies, HR management principles, and the gender equality plan. The procurement principles are written in the Code of Conduct, procurement policy and guidelines for combating the grey economy. The guidelines for preventing money laundering, related party guidelines, stakeholder policy, and cooperation agreements supplement the principles.
<b>Evaluation of the management approach</b>	The management approach is evaluated continuously as part of operations and the partnership management system. Changes that take place in the operating environment and within SATO are responded to by adjusting the operating principles, monitoring systems and resources. On a Group level, changes in situations and the sufficiency of management are evaluated on a quarterly basis, while persons responsible for each risk area perform continuous evaluations.
<b>Boundaries</b>	SATO Group and the most significant outsourced services related to building management, maintenance, repair and construction.

## Customers with a high level of well-being – we take care of housing health and promote neighbourly living

### Approach

We offer our customers a safe rental relationship and an excellent customer experience. We ensure healthy and safe living conditions, we place high importance on responding quickly and on communicating with our customers, and we develop our internal analyses and reporting. We promote interaction between residents and foster a sense of community. We increase knowledge of different cultures among our personnel, residents and partners.

### Main topics and key indicators to be reported

- Approach to stakeholder engagement (GRI 102-43, 102-44)
- Indirect economic impacts (GRI 203-1, 203-2)
- Customers' health and safety (GRI 416-1, 416-2)
- Customer service and satisfaction

### Objectives

- An excellent customer experience
- To develop housing together with partners
- A healthy and safe living environment

### Operating principles, guidelines and policies

Housing health operating model, customer promises, service principles, partnership policy and principles, good renting practices

### Evaluation of the management approach

The management approach is evaluated continuously as part of operations. Changes that take place in the operating environment and within SATO are responded to by adjusting the operating principles, monitoring systems and resources.

### Boundaries

SATO Group customers

## Taking care of personnel – a fair and inspiring workplace, evolving competence and occupational safety

<b>Approach</b>	SATO's organisation is developed in a way that ensures that our personnel's competence corresponds to the business needs, now and going forward. We focus on personnel's overall well-being through good supervisory work and an inspiring work atmosphere. Personnel's ability to cope at work and occupational safety are well taken care of. We offer our employees services that promote well-being, and we promote practices that enable a balance between work and leisure time. We are committed to a high level of occupational safety in our operations and in our subcontracting chain, and we monitor occupational safety practices and related indicators.
<b>Main topics and key indicators to be reported</b>	<ul style="list-style-type: none"> <li>• Employment (GRI 401-1)</li> <li>• Employee-employer relations (GRI 402-1)</li> <li>• Occupational health and safety (GRI 403-1, 403-2, CRE-6)</li> <li>• Training and education (GRI 404-1, 404-3)</li> <li>• Diversity and equality (GRI 405-1, 405-2)</li> <li>• Indirect economic impacts (GRI 203-2)</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Developing personnel's satisfaction and well-being at work</li> <li>• Developing the employer image</li> <li>• Promoting collaboration, interaction and communication between management and all personnel</li> <li>• Developing customer service and the customer experience</li> </ul>
<b>Operating principles, guidelines and policies</b>	HR management is based on the company's values and sustainable operating principles. The objective of HR management is to ensure SATO's ability to achieve the company's strategic targets. The objectives, targets and measures of HR management are defined in the operating principles. The criteria for equal and non-discriminatory operations are expressed in SATO's Code of Conduct, HR management principles and gender equality plan. In the area of occupational safety, an emergency plan, comprehensive safety manual, activity-specific guidelines and crisis communications guidelines for various dangerous situations and accidents have been drawn up.
<b>Evaluation of the management approach</b>	The management approach is evaluated continuously as part of operations. Changes that take place in the operating environment and within SATO are responded to by adjusting the operating principles, monitoring systems and resources.
<b>Boundaries</b>	SATO Group personnel

## Responding to climate change – Energy-efficient buildings and targeting carbon-neutrality, a sustainable life-cycle for properties and environmental responsibility in day-to-day living

<b>Approach</b>	We work with our stakeholders to reduce the environmental load from living and to mitigate climate change. The biggest impact of SATO's environmental responsibility stems from improving energy efficiency and reducing emissions. SATO guides customers and increases recycling opportunities in order to reduce the volume of waste. In land acquisition and planning, we evaluate possible soil impurities, on the basis of which we implement remediation measures. When making new investments, we strive to situate the sites we build near good transport connections and public transport routes, and we encourage our residents to use public transport.
<b>Main topics and key indicators to be reported</b>	<ul style="list-style-type: none"> <li>• Energy (GRI 302-1, 302-4, CRE1, CRE8)</li> <li>• Water (GRI 303-1, CRE2)</li> <li>• Greenhouse gas emissions (GRI 305-1, 305-2, 305-3, 305-5, CRE3)</li> <li>• Effluents and waste (GRI 306-2)</li> <li>• Land degradation, contamination and remediation (CRE5)</li> <li>• Indirect economic impacts (GRI 203-1)</li> <li>• Location of investments</li> <li>• Property maintenance</li> </ul>
<b>Objectives</b>	<ul style="list-style-type: none"> <li>• Energy Efficiency Agreement targets for the real estate industry for 2017–2025 to reduce energy consumption and emissions</li> <li>• As part of its climate partnership with the City of Helsinki, SATO made a commitment to reduce the consumption of heating energy by 15 per cent by 2016 from the 2009 level and to situate its new housing investments near public transport routes</li> <li>• Profitable construction and repair of buildings, taking the full life-cycle impacts into account</li> <li>• Reducing the environmental impacts of living</li> </ul>
<b>Operating principles, guidelines and policies</b>	SATO's investment criteria and planning guidelines determine the location of acquired plots, complementary construction projects and new investments. SATO's partnership policy and principles and environmental programme guide the servicing and maintenance of properties. The environmental programme will be updated in 2019.
<b>Evaluation of the management approach</b>	The management approach is evaluated continuously as part of operations and the partnership management system. Energy reports are drawn up regularly on properties. Changes that take place in the operating environment and within SATO are responded to by adjusting the operating principles, monitoring systems and resources.
<b>Boundaries</b>	SATO Group and the most significant outsourced services related to building management, maintenance, repair and construction.



# SUSTAINABILITY CONCEPTS

## ENVIRONMENT

Concept or indicator	Definition
<b>Initiatives to reduce energy consumption, and their impact</b>	Energy-efficiency projects include all measures taken to conserve electricity, heat and water. The reduction in energy consumption through energy efficiency measures has been calculated from the reduction in heating energy compared to the previous year.
<b>Objects covered by energy and water consumption monitoring</b>	Properties in which SATO holds more than 50 per cent, consumption in SATOs offices is not included in the consumption figure
<b>Total heat consumption, MWh</b>	The year's absolute heat consumption in all the owned properties held throughout the year and within the scope of consumption monitoring, expanded by estimated consumption in properties purchased and sold during the year and properties outside the scope of consumption monitoring (average rated consumption multiplied by the surface area of apartments owned on average during the year)
<b>Total electricity consumption, MWh</b>	The year's absolute electricity consumption in all the owned properties held throughout the year and within the scope of consumption monitoring, expanded by estimated consumption in properties purchased and sold during the year and properties outside the scope of consumption monitoring (average rated consumption multiplied by the surface area of apartments owned on average during the year)
<b>Total energy consumption, MWh</b>	Total consumption of heat and electricity during the year
<b>Total water consumption, 1,000 m<sup>3</sup></b>	The year's absolute water consumption in all owned properties held throughout the year and within the scope of consumption monitoring, expanded by estimated consumption in properties purchased and sold during the year and properties outside the scope of consumption monitoring (average rated consumption multiplied by the surface area of apartments owned on average during the year)
<b>Electricity consumption intensity, kWh/m<sup>3</sup>/year</b>	Electricity consumption per m <sup>3</sup> in all objects that have been rented for the entire year
<b>Water consumption intensity, litres/m<sup>3</sup>/year</b>	Water consumption per m <sup>3</sup> in all objects that have been rented for the entire year
<b>Standardised heat consumption intensity, kWh/m<sup>3</sup>/year</b>	Heat consumption per m <sup>3</sup> in all objects that have been rented for the entire year. The figure is weather adjusted to make years comparable
<b>Greenhouse gas emissions, tCO<sub>2</sub>e</b>	Emissions from heat, electricity, water and waste produced by residents. The emissions of properties within the scope of consumption monitoring have been expanded to apply to apartments owned on average during the year, similarly to the total consumption of heat, electricity and water. The emission multiplier of district heating is defined by Motiva Oy. The building's electricity is generated with zero emissions.
<b>Greenhouse gas emission intensity of buildings, kg CO<sub>2</sub>-e/m<sup>2</sup>/year</b>	Greenhouse gas emissions per square metre. The emissions of properties within the scope of consumption monitoring have been expanded to apply to apartments owned on average during the year.
<b>Total amount of waste, tonnes</b>	The total volume of waste produced by residents has been estimated on the basis of the number of SATO residents and the annual resident-specific waste volume reported by Statistics Finland.

## PERSONNEL

Concept or indicator	Definition
<b>Total personnel turnover, %</b>	Sum of terminated employment contracts in relation to the number of personnel for the last month of the previous year, summer jobs excluded
<b>Absentee rate, %</b>	Hours of sick leave in relation to calculated working hours.
<b>Injury rate, %</b>	Number of accidents during the work commute and number of occupational diseases in relation to the number of employees.
<b>Lost day rate, %</b>	The percentage of work-related accidents and occupational diseases in relation to calculated working hours.
<b>Number of new employment contracts</b>	Permanent and fixed-term employment contracts that started during the reported period, summer jobs excluded
<b>Number of terminated employment contracts</b>	Permanent and fixed-term employment contracts that ended during the reported period, summer jobs excluded
<b>Number of training days</b>	One training day comprises six hours of training
<b>Person-year</b>	SATOs direct and indirect employment impact has been evaluated applying a calculation of the employment footprint of the maintenance services and other purchased services prepared by VATT for Senate Properties and the estimate of the Confederation of Finnish Construction Industries and VTT of the employment impact of building investments. The employment multipliers obtained from the aforementioned sources have been combined with SATOs 2016 cost structure
<b>TARMO</b>	TARMO is a discussion forum for SATOs management and personnel, comprised of 9 employee representatives and 3 representatives of the employer
<b>Liivi</b>	Liivi is SATOs committee for recreation and sports activities, comprised of 11 employee representatives and 1 representative of the employer

## CUSTOMER RELATIONSHIPS

Concept or indicator	Definition
<b>NPS (Net Promoter Score)</b>	Net Promoter Score (NPS) among customers. The strategic NPS is the NPS during living starting from 2017
<b>One-contact principle</b>	The same customer service professional is responsible for the entire case, from the first enquiry all the way to resolution.

## SATO'S GRI CONTENT

Standard	Disclosure	Location and additional information
<b>Organisational profile</b>		
102-1	Name of the organisation	Contact information
102-2	Primary activities, brands, products and services	SATOhomes
102-3	Location of headquarters	Contact information
102-4	Location of operations	SATOhomes
102-5	Ownership and legal form	Information for shareholders
102-6	Markets served	SATOhomes
102-7	Scale of the organisation	Financial Statements
102-8	Information on employees and other workers	Personnel
102-9	Supply chain	Partners, Finances
102-10	Significant changes to the organisation and its supply chain	Key figures and highlights 2018, Report of the Board of Directors, Information for shareholders, Partners
102-11	Precautionary principle or approach	Risk management
102-12	External initiatives	Sustainability focus areas, Environment, Corporate governance statement
102-13	Membership of associations	Stakeholder cooperation
<b>Strategy</b>		
102-14	Statement from senior decision-maker	CEO's review
102-15	Key impacts, risks and opportunities	Impact of the operating environment, Stakeholder cooperation, Risk management
<b>Ethics and integrity</b>		
102-16	Values, principles, standards, and norms of behaviour	Value creation and our strategy, Housing and customer service, Sustainability focus areas
102-17	Mechanisms for advice and concerns about ethics	Sustainability management
<b>Governance</b>		
102-18	Governance structure	Corporate governance statement, Sustainability management
102-19	Delegating authority for economic, environmental and social topics	Sustainability management

102-20	Executive-level responsibility for economic, environmental and social topics and reporting lines	Sustainability management
102-22	Composition of the highest governance body and its committees	Board of Directors, Corporate Management Group
102-23	The role of Chair of the highest governance body	The Chairman of the Board of Directors is not the CEO, and the CEO is not a member of the Board of Directors
102-24	Nominating and selecting the highest governance body	Corporate governance statement
102-26	The highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	Sustainable operating principles, Corporate governance statement, Rules of procedure of the Board of Directors
102-28	Evaluating the highest governance body's performance	Corporate governance statement, Rules of procedure of the Board of Directors
102-29	The highest governance body's role in the identification and management of risks and opportunities	Sustainable operating principles, Corporate governance statement, Rules of procedure of the Audit Committee
102-30	The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Corporate governance statement, Rules of procedure of the Audit Committee
102-31	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	Risk management
102-35	The remuneration policies for the highest governance body and senior executives	Remuneration statement
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups	Stakeholder cooperation
102-41	Collective bargaining agreements	Personnel
102-42	Identifying and selecting stakeholders	Stakeholder cooperation
102-43	Approach to stakeholder engagement	Stakeholder cooperation, Sustainability focus areas, Customers, Personnel, Partners
102-44	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder cooperation Sustainability focus areas
<b>Reporting practice</b>		
102-45	Entities included in the consolidated financial statements	Financial Statements
102-46	Defining report content and topic boundaries	Sustainability focus areas, Management approach
102-47	List of material topics	Sustainability focus areas, Management approach
102-48	Restatements of information	Reporting principles



102-49	Changes in reporting	Reporting principles, Management approach
102-50	Reporting period	2018
102-51	Date of most recent report	15/02/2018
102-52	Reporting cycle	Reporting principles
102-53	Contact point for questions regarding the report	Contact information
102-54	Claims of reporting in accordance with the GRI Standards	Reporting principles
102-55	GRI content index	GRI index
102-56	External assurance	Assurance report
<b>Material topics</b>		
Topic-specific content is reported with regard to aspects identified as begin material		
<b>Management approach</b>		
103-1	Explanation of the material topic and its boundary	Sustainability focus areas, Management approach
103-2	The management approach and its components	Management approach
103-3	Evaluation of the management approach	Management approach
<b>GRI 200 Economic performance</b>		
<b>Financial results</b>		
201-1	Direct economic value generated and distributed	Key figures and highlights 2018, Finances
201-4	Financial assistance received from government	Construction and renovations, Finances SATO did not receive financial assistance from the government for renovations or new construction in 2018.
<b>Indirect financial impacts</b>		
203-1	Investments in local infrastructure and services	Environment
203-2	Significant indirect economic impacts	Value creation and our strategy, Personnel, Partners, Environment, Finances
<b>Procurement practices</b>		
204-1	Proportion of spending on local suppliers	Partners Local suppliers represent 95.5% of SATO's purchases. Foreign suppliers represent 4.5% of SATO's purchases.

<b>Anti-corruption</b>		
205-3	Confirmed incidents of corruption and actions taken	Sustainability management No incidents of bribery in 2018
<b>GRI 300 Environmental standards series</b>		
<b>Energy</b>		
302-1	Energy consumption within the organisation	Environment
302-4	Reduction of energy consumption	Environment
CRE1- sector supplement	Building energy intensity	Environment
CRE8- sector supplement	Sustainability certification for buildings	Sustainability focus areas, Environment
<b>Water</b>		
303-1	Total water withdrawal by source	Environment
CRE2- sector supplement	Building water intensity	Environment
<b>Emissions</b>		
305-1	Direct greenhouse gas (GHG) emissions (Scope 1)	Environment
305-2	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Environment
305-3	Other indirect greenhouse gas (GHG) emissions (Scope 3)	Environment
305-5	Reduction of greenhouse gas (GHG) emissions	Environment
CRE3- sector supplement	Greenhouse gas emissions intensity from buildings	Environment
<b>Effluents and waste</b>		
306-2	Total weight of waste by type and disposal method	Environment The total amount of waste includes non-hazardous waste generated by residents. The amount of waste from SATO's own operations is marginal. Information about the proportion of composted biowaste is not available from a reliable source.
SATO	Enhance the sorting of waste from residents	Environment
SATO	Communication on the environment and open data	Environment
<b>Environmental compliance</b>		
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Sustainability management No fines or sanctions in 2018

<b>Supplier environmental assessments</b>		
308-1	Percentage of new suppliers that were screened using environmental criteria	<b>Partners</b> In line with our auditing process, we require that the environmental responsibility procedures of our new suppliers are fully adequate. 4% of SATO's suppliers have been audited.
<b>Sector aspect: Land degradation, contamination and remediation</b>		
CRE5- sector supplement	Land remediated or in need of remediation	<b>Environment</b> Soil contamination is the result of the actions of 3rd party.
<b>SATO's own material topic: Location of investments</b>		
SATO	Public transportation	<b>Environment, Property development</b>
<b>SATO's own material topic: Property maintenance</b>		
SATO	Maintenance and repair operations	<b>Environment, Construction and renovations</b>
<b>GRI 400 Social standards series</b>		
<b>Employment</b>		
401-1	Total number and rates of new employee hires and employee turnover by age group, gender and region	<b>Personnel</b>
<b>Employee-employer relations</b>		
402-1	Minimum notice periods regarding operational changes	The Act on Co-operation within Undertakings (334/2007) applies to corporate restructuring in Finland. In all of its countries of operation, SATO complies with the local statutory periods (1–6 months)
<b>Occupational health and safety</b>		
403-1	Workers representation in formal joint management-worker health and safety committees	<b>Personnel</b>
403-2	Injuries, occupational diseases, lost days and absenteeism, work-related fatalities	<b>Personnel, Partners</b> Number of accidents during the work commuting in relation to a number of other occupational accidents are not known.
CRE6- sector supplement	Percentage of the organisation operating in verified compliance with an internationally recognized health and safety management system	The figure would be material in terms of the supply chain, but it is not available.
<b>Training and education</b>		
404-1	Average hours of training per year per employee by gender, and by employee category	<b>Personnel</b>
404-3	Percentage of employees receiving regular performance and career development reviews	Applies to all employees; the personal data on employees in St. Petersburg is not in the system due to Russian data privacy legislation.

<b>Diversity and equality</b>		
405-1	Diversity of governing bodies and personnel groups	Personnel
405-2	Equal remuneration of women and men	Personnel
<b>Customer health and safety</b>		
416-1	Assessment of the health and safety impacts of product and service categories	Customers
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Customers
<b>Customer privacy</b>		
418-1	Number of substantiated complaints concerning breaches of customer privacy and losses of customer data	Customers
<b>Socio-economic compliance</b>		
419-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Corporate governance statement No fines or sanctions in 2018
<b>SATO's own material topic: Customer service and satisfaction</b>		
	Multilingual customer service and communication	Customers, Housing and customer service
	Promoting a sense of community	Customers



## INDEPENDENT ASSURANCE REPORT

### TO THE MANAGEMENT OF SATO CORPORATION

This document is an English translation of the Finnish report

We were engaged by the Management of SATO Corporation (hereafter "SATO") to provide limited assurance on SATO's environmental data presented in SATO's Annual Report 2018 for the year ended Dec 31, 2018 (hereafter "Environmental Data").

The Environmental Data subject to assurance consists of the following indicators:

- The indicators presented in the tables of "The sustainable SATO/Environment" section in the Annual Report: Energy (GRI 302-1, 302-4, CRE1), Water (GRI 303-1, CRE2), Emissions (GRI 305-1, 305-2, 305-3, 305-5, CRE3), Effluents and waste (GRI 306-2), and Land remediated and in need of remediation (CRE5).
- The indicators presented in the table of "GRI index" section in the Annual Report: Environmental compliance (GRI 307-1), and Supplier environmental assessment (GRI 308-1).

### Management's responsibilities

The Management of SATO is responsible for the preparation and presentation of the Environmental Data in accordance with the *GRI Sustainability Reporting Standards*, and the information and assertions contained within it; for determining SATO's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control

systems from which the reported performance information is derived.

### Our responsibilities

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our assurance engagement on Environmental Data in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board IAASB. That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Environmental Data is free from material misstatement.

KPMG Oy Ab applies International Standard on Quality Control ISQC 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants IESBA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

### Procedures performed

A limited assurance engagement on Environmental Data consists of making inquiries, primarily of

persons responsible for the preparation of information presented in the Environmental Data, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included for example:

- Interviews with relevant staff responsible for providing the information in the Environmental Data;
- An assessment of the Environmental Data's conformity with the principles of the *GRI Sustainability Reporting Standards* for defining content and reporting quality;
- An assessment of data management processes, information systems and working methods used to gather and consolidate the presented Environmental Data, and a review of related internal documents;
- Testing of Environmental Data accuracy and completeness through samples from information systems and original numerical information.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

### Inherent limitations

Inherent limitations exist in all assurance engagements due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Additionally, non-financial data may be subject to more inherent limitations than financial data, given both its nature and the

methods used for determining, calculating and estimating such data.

### Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not prepared, in all material respects, in accordance with the reporting criteria *GRI Sustainability Reporting Standards*.

Helsinki, 4 March 2019  
KPMG Oy Ab

Tomas Otterström  
Partner, Advisory

**"MY LIFE HERE IS  
VERY SOCIAL. WHEN WE  
HAVE A COOKING CLUB  
OR SOMETHING, I WRITE  
A NOTE WELCOMING  
ALL RESIDENTS AND POST  
IT IN THE HALLWAY."**

*Seija Rätty, a pensioner who switched from living in a detached house to a SATO rental home in Vihti.*



## GOVERNANCE

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## SUSTAINABILITY IS PART OF OUR DAILY WORK

**Sustainability is evident in our day-to-day work in many ways. Our operations are based on legislation and our values and guidelines. We comply with approved international accounting standards and the Finnish Corporate Governance Code in general reporting. In sustainability reporting, we comply with the GRI framework and our own guidelines and principles in sustainability reporting.**

SATO's most important guidelines and principles include its Code of Conduct, values, sustainability policy, environmental programme and guidelines for preventing the grey economy, as well as its procurement, financing, risk management and disclosure policies and its HR management principles.

SATO's operating principles, guidelines and policies are described in the [management approach table](#).

### SUSTAINABILITY MANAGEMENT

The Group's Management Team processes all key corporate management matters, such as those related to the Group's strategy, budget, investments, operational planning and financial reporting. The management team is also responsible for executing the Board of Directors' decisions. SATO's units have their own management teams, which are responsible for the preparation and execution of matters.

The Group's Director of Marketing and Communications is responsible for sustainability issues in the Management Team. Sustainability work is planned and coordinated by the sustainability working group, which meets four to six times a year. The working group is responsible for preparing the main guidelines and determining the target level for sustainability work, in addition to preparing a proposal for the action plan. It is also responsible for sustainability communications within SATO in cooperation with the communications department, and for preparing proposals concerning sustainability matters for the Group's Management Team.

Practical measures and development goals related to sustainability are included in the action plan of each of SATO's units. The sustainability working group monitors the implementation of these measures and the achievement of these goals.

*Our operations are based on legislation and our values and guidelines.*



## PREVENTING RISKS

The purpose of risk management is to advance the fulfilment of SATO's strategic and business objectives. Furthermore, the task of risk management is to evaluate any threats and opportunities appearing in business operations in relation to the set objectives, secure operational continuity, produce information to support decision-making processes in business operations, and increase the organisation's awareness of possibilities and uncertainties in the operating environment.

We identify any risks that may prevent key objectives from being fulfilled annually during strategic and operational planning processes. In order to ensure that strategic and operational risks are handled comprehensively, key SATO employees take part in the risk identification process.

### OPERATING MODEL

We have set responsibilities for the evaluation and monitoring of the realisation of recognised risks. When required, risk management meas-

ures will be initiated to prevent the realisation of risks or to enhance the monitoring of a certain area. Management can also be strengthened by preparing operating models for various risk situations.

Changes in situations and the sufficiency of management are continuously evaluated on both a Group level and by the persons responsible for each risk area.

## RISK MANAGEMENT SYSTEM

### Risk evaluations and risk management

Key guidelines

- Decision-making model and authorisations
- Financing policy
- Control model for procurement (cooperation with suppliers, selection of suppliers, criteria for suppliers, selection of partners)
- Insurance management system, evaluation and responsibilities
- Internal control system

### Process management model

- Ownership of key processes, monitoring and development model, and indicators

### Financial and operational reporting

- Balance between preventive and monitoring indicators





## MANAGEMENT OF KEY RISKS

Risk	Description of risk	Control measures
Regulatory risk	A risk that the activities of the authorities, political guidelines or legal amendments disturb the development of towns and cities and SATO's operating conditions.	<ul style="list-style-type: none"> <li>• Continuous contact with authorities</li> <li>• Impact on housing policies</li> <li>• Active monitoring of motions to change laws</li> </ul>
Impact of a long-term recession on the development of prices and demand for apartments	A risk that a trend lower than the basic scenario applied by SATO to evaluate the economic situation is realised. A risk that market demand decreases significantly, resulting in a decrease in the value of SATO's apartment stock.	<ul style="list-style-type: none"> <li>• Sufficient financial reserves and liquidity buffers</li> <li>• Development of the housing portfolio, investments (procurement and repairs) and divestments</li> <li>• Sensitivity analyses</li> <li>• Allocation of new investments/microlocation strategy</li> </ul>
Reputation risk	A risk that SATO's reputation/image is damaged, for example, due to non-compliance with personal data protection regulations, due to partners not operating in the manner required by SATO, or due to neglected repairs causing health problems among customers. A risk that SATO does not operate responsibly or that irresponsible activities in the real estate business ruin the reputation of the industry. A risk that a significant industrial operator faces financial difficulties that are also reflected in the value of housing assets of other operators.	<ul style="list-style-type: none"> <li>• Compliance with the data protection policy in transactions carried out by the company and its partners</li> <li>• Expansion of the Customer First service model to partner activity</li> <li>• Regular updating of the long-term repair plan and compliance with the plan</li> <li>• Operating according to the company's sustainability policy and focusing on themes that SATO has estimated to be material based on the stakeholder dialogue.</li> <li>• Thorough and close monitoring of the financial situation of partners</li> <li>• Regular communication with managers of partners</li> <li>• Back-up plans in the case of partners facing difficulties</li> </ul>
Risks associated with partnerships	A risk that a major partner faces financial difficulties or other problems, causing significant damage to SATO's business operations.	<ul style="list-style-type: none"> <li>• Thorough and close monitoring of the financial situation of partners</li> <li>• Regular communication with managers of partners</li> <li>• Back-up plans in the case of partners facing difficulties</li> </ul>
Risks related to data systems, or cyber threats	A risk that SATO's data systems are incapable of offering the usability, functionality or services required for business. A risk that an external party attacks SATO's data systems and/or data network with the purpose of causing disruption and endangering SATO's operations. A risk that, as a result of an attack, SATO's customer information ends up in the wrong hands and/or is misused.	<ul style="list-style-type: none"> <li>• Actively updating the overall architecture</li> <li>• Renewal of data systems to meet business needs</li> <li>• Building strong firewalls</li> <li>• Continuity and recovery plans for data management</li> <li>• Information security audits</li> <li>• Information security training</li> </ul>
Significant difficulties in the availability and price of financing	A risk that current sources of financing are unable to meet SATO's financing needs in the medium term. Key risks include difficulties in the availability and price of bank financing due to developments in the market environment, and a decrease in demand in the Nordic bond market.	<ul style="list-style-type: none"> <li>• Diversified financing</li> <li>• Sufficient financial reserves</li> <li>• IG credit rating</li> </ul>

## CORPORATE GOVERNANCE STATEMENT 2018

The governance of SATO Corporation (hereinafter "SATO" or "the Company") is based on Finnish legislation and SATO's articles of association. The Company also complies with the Corporate Governance Code issued in 2015, issued by the Finnish Securities Market Association and SATO's internal instructions. The Corporate Governance Code is available on the website of the Finnish Securities Market Association [www.cgfinland.fi](http://www.cgfinland.fi).

SATO's shares are not publicly listed. SATO has issued corporate bonds, which are listed on the Helsinki stock exchange or Irish stock exchange, and the Company complies with their rules and regulations for listed bonds as well as EU's Market Abuse Regulation, securities markets legislation and the regulations of supervisory authorities.

SATO draws up its consolidated financial statements as well as interim reports and half year financial reports in accordance with international, IFRS reporting standards approved in EU. The report of the Company's Board of Directors and the parent company's financial statements have been drawn up in accordance with Finnish accounting legislation. An independent external appraiser gives a statement about the values of SATO's housing portfolio and building land inventory and the appropriateness of the methods used to assess them.

This report is being published separately from the annual report of the Board of Directors.

### GOVERNING BODIES

The authority and governance of the Company are divided among the annual general meeting, the Board of Directors, and the President and CEO. The President and CEO implements the operative business with the assistance of the Corporate Management Group. Internal audit subordinate to the Board of Directors is responsible for internal auditing and auditors are responsible for the external auditing.

#### The general meeting

The general meeting of the shareholders is SATO's supreme decision-making body. The annual general meeting is to be held once a year within six months of the end of the financial year. An extraordinary general meeting is held when it is necessary according to the consideration of the Board of Directors or the Finnish Limited Liability Companies Act.

The annual general meeting decides on the matters due to it under the Finnish Limited Liability Companies Act and the articles of association. These include the adoption of the Company's financial statements and consolidated financial statements, the use of profit indicated on the balance sheet, discharging the members of the Board of Directors and the President and CEO from liability, electing the members and Chair of the Board of Directors and an auditor, and determining the remuneration to be payable to them. The meeting may also handle other matters to be dealt with at a general meeting in accordance with the Finnish Limited Liability Companies Act, such as share issues, acquisition of the Company's



own shares and amendments to the articles of association. The meeting also deals with matters which a shareholder has requested to be dealt with at a general meeting in accordance with the Finnish Limited Liability Companies Act.

SATO has a single series of shares. Each share confers entitlement to one vote at a general meeting. Entitlement to attend the general meeting is held by a shareholder who has been entered in the register of shareholders maintained by Euroclear Finland eight working days before the general meeting. The Finnish Limited Liability Companies Act also contains regulations concerning nominee-registered shareholders.

In order to ensure the dialogue between shareholders and Company bodies and to fulfil shareholders' entitlement to ask questions, the President and CEO, Chair of the Board of Directors and the Board members must attend the general meeting. Persons proposed as Board members must be present at a general meeting deciding on their election.

The Company's annual general meeting was held on 23 March 2018. A total of 16 shareholders attended the meeting, representing 96.17 per cent of the Company's shares and votes. The minutes of the annual general meeting can be found on the Company's website, <https://www.sato.fi/en/sato-company/general-meeting-of-shareholders>.

#### Shareholders' Nomination Committee

On 3 March 2015, the annual general meeting decided to establish a shareholders' Nomination Committee and approved its rules of procedure.

The Committee's task is to prepare proposals concerning the Board's composition and the remuneration of its members to the annual general meeting. The committee's rules of procedure can be found on the Company's website <https://www.sato.fi/en/sato-company/rules-of-procedure>.

The Committee's term of office begins in October each year, when the largest shareholders have nominated their representatives, and ends at the closing of the next annual general meeting. A shareholder shall name as a member of the Committee a person independent of the Company.

The shareholders' Nomination Committee consists of the representatives of SATO's four largest shareholders, which have been registered in the book-entry system on 1 October and which accept the position. If a shareholder does not use its right of nomination, the right transfers to the next largest shareholder. The fourth largest shareholder of the Company, State Pension Fund, has not used its nomination right so the nomination right has transferred to the fifth largest shareholder, Finnish Construction Trade Union.

The Chair of the Company's Board of Directors serves as a specialist member of the Committee. The Committee elects one of its members to serve as Chair.

The representatives of the following shareholders have been nominated as members of the Committee: Balder Finska O'as AB (Erik Selin, chairman), Stichting Depositary APG Strategic Real Estate Pool (Hans Spikker), Elo Mutual Pension Insurance Company (Hanna Hiidenpalo)

and Finnish Construction Trade Union (Matti Harjunemi).

#### Board of Directors

The general meeting elects between five and nine members of the Board of Directors and one member of the Board of Directors to serve as Chair of the Board. The Board of Directors elects one of its members to serve as Deputy Chair. The term of office of the members of the Board of Directors lasts until the closing of the annual general meeting following the one at which they were elected. The majority of the Board of Directors must be independent of the Company. At least two Board members who are independent of the Company must also be independent of significant shareholders in the Company. The Board of Directors assesses the independence of its members and declares which of the members of the Board of Directors are considered independent of the Company, and which independent of the significant shareholders.

The annual general meeting on 23 March 2018 elected seven members to the Board of Directors. All the elected members also acted as members of the Board prior to the annual general meeting. The shareholdings of the members of the Board are presented as on 31 December 2018.

Elected as chairman of the Board of Directors was Erik Selin, degree in business economics b. 1967, Managing Director, Fastighets AB Balder Swedish citizen

- no shareholdings
- no SATO-shareholdings in by Erik Selin controlled corporations

- Erik Selin owns 57,210,900 B-shares and 8,309,328 A-shares in Fastighets AB Balder which represents 36.4% of the share capital and 49.9% of votes. Erik Selin is the member of the Board of Directors and CEO in Fastighets AB Balder. Fastighets AB Balder is the ultimate parent company of SATO Corporation.

Elected as members of the Board of Directors were Marcus Hansson, M.Sc. (Econ.) b. 1974, CFO, Fastighets AB Balder Swedish citizen

- no shareholdings
- no SATO-shareholdings in by Marcus Hansson controlled corporations
- Marcus Hansson owns 156,500 B-shares in Fastighets AB Balder.

Jukka Hienonen, M.Sc. (Econ.) b. 1961, professional board member Finnish citizen

- no shareholdings
- no shareholdings in controlled corporations

Esa Lager, LL.M., M.Sc. (Econ.) b. 1959, professional board member Finnish citizen

- no shareholdings
- no shareholdings in controlled corporations

Tarja Pääkkönen, D.Sc. (Corporate strategies), M.Sc. (Construction)

b. 1962, professional board member Finnish citizen

- no shareholdings
- no shareholdings in controlled corporations

Johannus (Hans) Spikker, Economic Geography, University of Amsterdam  
s. 1959, Senior Portfolio Manager Real Estate Europe, APG Asset Management, The Netherlands  
Dutch citizen

- no shareholdings
- no shareholdings in controlled corporations

Timo Stenius, M.Sc. (Constr. Eng.),  
b. 1956, Director, Unlisted investments (real estate, infrastructure, private equity and private debt)  
Elo Mutual Pension Insurance Company  
Finnish citizen

- no shareholdings
- no shareholdings in controlled corporations

The Board of Directors elected Jukka Hienonen as its Deputy Chair.

All Board members are independent of the Company, and Jukka Hienonen, Esa Lager and Tarja Pääkkönen are also independent of the significant shareholders.

The Company's Board of Directors is responsible for the proper organisation of the Company's governance and its operations. It is the duty of the Board of Directors to promote the interests of the Company and all its shareholders.

In 2018, the Board of Directors convened on nine meetings. An average of 90.5 per cent of the members of the Board of Directors attended the Board meetings. Members of the Board of Directors participated in the meetings as follows: Erik Selin 9/9, Marcus Hansson 8/9, Jukka Hienonen 8/9, Esa Lager 7/9, Tarja Pääkkönen 9/9, Hans Spikker 7/9 and Timo Stenius 9/9.

SATO's Board of Directors has confirmed the rules of procedure applied to the duties, meeting procedures and decision-making practices of the Board of Directors. These rules of procedure are explained on the Company's website, <https://www.sato.fi/en/sato-company/rules-of-procedure>. In addition to matters for decision, the Board of Directors receives up-to-date information on the Company's operations, financial position and risks at its meetings.

In addition to the duties specified by the Companies Act, the Board of Directors decides on matters which, taking into account the extent and size of the Group's operations, have considerable importance for the Group's business. The duties of the Board of Directors include the following:

- confirmation of the Group's business strategy and monitoring its implementation
- confirming and monitoring the annual budget and the business plan
- dealing with the financial statements and report of the Company's Board of Directors as well as the interim reports and half year financial reports
- confirming the Company's dividend policy
- organization and supervision of risk management, internal control and internal audit
- decisions regarding SATO Group's financing
- decisions on significant investments and divestments.

The Board of Directors also appoints and dismisses the Company's President and CEO and, when necessary, his/her deputy, as well as the members of the Corporate Management Group, and determines the terms of their employment and of

their term of office as well as their remuneration schemes.

The Board of Directors performs an annual, internal self-assessment of its activities and its working methods. The purpose of the self-assessment is to verify how the Board's activities have been performed during the year and to serve as a basis for assessing the Board's method of operating.

### Diversity of the Board of Directors

The diversity of the Board of Directors supports the Company's business and its development. Diversity strengthens the work of the Board of Directors by emphasising the views of people of different ages, different educational backgrounds and different experience concerning the Company's development and the steering of its operations. Diversity increases open discussion and strengthens the decision-making of the Board members.

While preparing a proposal for the annual general meeting concerning the number of Board members and the persons to be elected as members and Chair the Nomination Committee must take into account the requirement for diversity. The Committee must evaluate the requirements set for the competence of Board members in any given situation in the Company and must also evaluate the experience of the Board members, their knowledge of SATO's business, education and distribution of age and gender. A member of the Board of Directors must have the possibility to spend sufficient time on Board work. The number of Board members must be a sufficient. Board members must have different skills to sup-

port the implementation of the Company's current strategic targets. To support and challenge SATO's management from various perspectives is also one of the Board's key tasks.

The requirement for diversity has been implemented in the composition of SATO's Board of Directors. The education and experience of the members of SATO's Board supplement and support that of other members. Each member of SATO's Board has a degree in technology, in business or economics or a Master of Laws degree. Board members have experience in management functions and board memberships in significant companies and of companies operating internationally. A wide experience in housing investment, financing and consumer business is represented in SATO's Board. Both genders are represented on the Board of Directors and the span of ages ranges from 44 to 62. The term of office of the Board members has lasted four years on average.

### The committees of the Board of Directors

At the organisational meeting held after the annual general meeting, the Board of Directors appoints annually an Audit Committee and a Nomination and Remuneration Committee. The Audit Committee and the Nomination and Remuneration Committee comprise three to five members elected by the Board of Directors, one of whom serves as Chair.

The Board of Directors has confirmed the rules of procedure for the committees. The committees have no independent decision-making authority. Their mission is to prepare matters for decision

by the Board of Directors and the annual general meeting and they report constantly on their actions to the Board of Directors. The rules of procedure can be seen on the SATO's website <https://www.sato.fi/en/sato-company/rules-of-procedure>.

Serving on the Audit Committee in 2018 were Marcus Hansson as Chair and members Esa Lager, Hans Spikker and Timo Stenius. All members have been independent of the Company. Esa Lager is also independent of the significant shareholders. An average of 90 per cent of the members of the Audit Committee attended the committee meetings. Members of the Audit Committee participated in the meetings as follows: Marcus Hansson 5/5, Esa Lager 4/5, Hans Spikker 4/5 and Timo Stenius 5/5.

Serving on the Nomination and Remuneration Committee in 2018 were Chair Erik Selin and members Jukka Hienonen and Tarja Pääkkönen. All the members are independent of the Company and Tarja Pääkkönen and Jukka Hienonen are also independent of the significant shareholders. The members of the committee attended all the committee meetings, three meetings in the total.

### President and CEO

The President and CEO is responsible for managing the Group's business operations, their planning, and the attainment of its goals. He/she is responsible for preparing matters for the Board of Directors' attention and for executing the decisions of the Board. The President and CEO is responsible for the ongoing management of the Company in accordance with the rules and regulations supplied by the Board of Directors.

The President and CEO serves as Chair of the Corporate Management Group.

The Board of Directors appoints and discharges the Company's President and CEO.

SATO's President and CEO is Saku Sipola (b. 1968), M.Sc. (Tech.) as of year 2015.

### The Corporate Management Group

The Corporate Management Group assists the President and CEO in the planning and management of operations and decision-making. The Corporate Management Group deals with all key issues for the management of SATO Group, such as matters related to the strategy, budgeting, investments, business planning, and financial reporting. The Corporate Management Group's duties include the implementation of the decisions of the Board of Directors under the leadership of the President and CEO. The Corporate Management Group has no authority under law or the articles of association; it serves as a body to assist the President and CEO. The shareholdings of the members of the Corporate Management Group are presented as on 31 December 2018.

### In 2018, the Corporate Management Group has consisted of

Saku Sipola, President and CEO, Chair of the Management Group  
b. 1968, M.Sc. (Tech.)

- no shareholdings
- no shareholdings in controlled corporations

Antti Aarnio, Vice President, Investments  
b. 1972, M.Sc. (Tech.)

- no shareholdings
- no shareholdings in controlled corporations

Monica Aro, Vice President, Development  
(until 31 August 2018)

b. 1954, B.Sc. (Econ.), LL.M., MBA

- shareholdings 44,000 shares
- no shareholdings in controlled corporations

Antti Asteljoki, Vice President,  
Rental Housing Business

b. 1974, M.Sc. (Econ.)

- no shareholdings
- no shareholdings in controlled corporations

Miia Eloranta, Director, Marketing and  
Communications

b. 1973, M.Pol.Sc.

- no shareholdings
- no shareholdings in controlled corporations

Markku Honkasalo CFO

b. 1964, LL.M., eMBA

- no shareholdings
- no shareholdings in controlled corporations

The Corporate Management Group convenes once in two weeks and in addition when necessary. Also the General Counsel; VP, Human Resources and Director, Digital Services attend the meetings. The focus areas of the Corporate Management Group were in year 2018 occupational health and safety as well as development of digital operational environment. The Corporate Management Group convened 33 times in 2018. In addition, management groups operate in different areas of business and financing having

focus on the monitoring, development and supervision of its own field of business.

## DESCRIPTION OF THE PROCEDURES FOR INTERNAL CONTROL AND THE MAIN FEATURES OF RISK MANAGEMENT SYSTEMS

### Internal control

The aim of internal control is to help to verify the efficiency, productiveness and reliability of the Group's operations, and to confirm the compliance of operations with the law and other regulations. In addition, SATO's activities are steered by SATO's internal instructions such as Code of Conduct. SATO's priority is that each person working for SATO Group is acquainted with rules and regulations regarding his/her own tasks and follows them. SATO organizes regularly training about internal instructions and it is an essential part of introduction for work.

The Group's internal control systems serve i.a. to verify that the financial reports issued by the Company give essentially correct information on the financial standing of the Group. The Group has determined for the key spheres of its operations Group-wide principles which form the basis for internal control. Each of SATO's units has its own controller function to assure that the financial reporting meets with Group's instructions.

Responsibility for the arrangement of internal control is held by the Board of Directors and by the President and CEO who implement the resolutions of the Board. Each member of the Board of Directors is sent a monthly report on the Group's finan-



cial position and operating environment. The Audit Committee of the Board of Directors oversees the effectiveness of internal control and the accuracy of the financial reporting. Responsibility for the performance of internal control is held by the operational organisation of the entire Group, in such a way that each Group employee is responsible to his or her supervisor at all times for the supervision of his or her sphere of responsibility.

The content of the reporting process and compliance with regulations are the responsibility of the Group's financial administration. The Group's financial reporting process complies with the Group's operational guidelines and process descriptions as well as control measures for ensuring the quality of reporting. The controls on the reporting process have been specified on the basis of a control risk assessment matrix for the process. The types of controls are, for example, system controls, specifications, or audits or actions carried out by management or another party. Responsible parties have been allocated for controls which are in charge of the implementation and effectiveness of the controls.

The interpretation and application of accounting standards has been consolidated in the hands of the Group's financial administration, which maintains operating guidelines on financial reporting, process descriptions, calculation manuals and control mechanism descriptions, and which attends to the associated in-house communications. The Group's financial administration also oversees compliance with these instructions and procedures. The monitoring of the budgeting and reporting processes is based on the Group's

reporting principles, for which the definition and centralised maintenance is the responsibility of the Group's financial administration. The principles are applied uniformly throughout the Group and a standardised Group reporting system is in use.

### **Risk management**

SATO's risk management is based on the risk assessment embodied in the strategic and annual planning process. Risk assessment also covers the risks of the financial reporting process. Business risks are categorised as strategic and operative risks as well as financing and market risks. The controls on the financial reporting process are specified on the basis of a separate survey of reporting process risks.

Responsibility for the arrangement of risk management is held by the Company's Board of Directors and the CEO. The internal audit and internal control support the Board of Directors in performing its duty of supervision. The mission of the Audit Committee is to assess the adequacy and appropriateness of risk management processes and risk management. The Audit Committee reports to the Board of Directors, which supervises the risk management.

### **Internal audit**

Internal audit supports the Board of Directors in performing its duty of supervision. Internal audit acts in accordance with the annual plan approved by the Audit Committee of the Board. Audit objects are elected in accordance with the Group's strategic targets, estimated risks and focus areas. In year 2018 the internal audit conducted five audits.

The internal audit assesses, independently and systematically, the functionality, efficiency and appropriateness of the Group's management and governance systems, as well as the business processes and risk management. In its reports, the internal audit makes recommendations for the improvement of systems and processes.

The aim of the internal audit is to give reasonable reliability of the correctness of financial and business reporting, the appropriate management of the Company's assets and the legality of Company's activities. In addition, the internal audit aims to promote the development of the risk management. The person liable for the internal audit reports to the Chief Financial Officer (as the member of the organisation) and the findings of internal audit to the President and CEO as well as to the Audit Committee of the Board.

### **Audit**

The annual general meeting elects a single auditor for the Company, which must be an auditing firm approved by the Central Chamber of Commerce. The auditor's term in office is the financial year and their duties end at the closing of the annual general meeting following the one at which they were elected.

The auditor for the financial year 1 January to 31 December 2018 was Deloitte Oy with Eero Lumme, M.Sc. (Econ.), APA as the auditor in charge. The audit checks the accounts, financial statements and administration of the Company and the Group. KPMG Oy Ab was responsible for the audit of the financial year 2017 and its task expired at the closing of the annual general meeting 23 March 2018.

In 2018, the auditor Deloitte Oy was paid auditing fees of EUR 128,081 and fees for other assignments related to auditing EUR 9,600. No other services were purchased from Deloitte Oy in 2018 (including all companies belonging to the same group or chain).

### **Related party transactions**

A key employee included in the management of SATO Corporation is obligated to report in writing to the person in charge of related party issues any related party transaction that involves the key employee in question, their close family member or corporation in which said employee or their close family member hold control or have prominent influence.

The report must be submitted for approval before completing the related party transaction. In the case of major transactions, the Board of Directors will make a decision on whether to accept the reported related party transaction. In the case of transactions that are part of SATO's regular business, or minor transactions valued less than EUR 10,000, the decision can be made by the Chair of the Board, the President and CEO or the CFO. Regulations concerning recusal due to the likelihood of bias are observed in decision making.

The closeness of the related party relations and the size of the transaction are taken into account, as well as any exceptions from market conditions, whether the transaction is part of SATO Group's daily business, whether there are financial grounds for the transaction and whether it is acceptable from the viewpoint of SATO Group.

**Insider trading management**

SATO's rules concerning insider trading are based on the EU's Market Abuse Regulation (596/2014, "MAR"), the Finnish Securities Markets Act and they comply with the standards of the Financial Supervisory Authority and the guidelines of the Helsinki and Irish stock exchanges where these apply to an issuer of listed bonds.

The insider guidelines include, among other things, guidelines concerning trading in SATO's financial instruments. SATO has no permanent insiders and it does not maintain a list of permanent insiders. A project-specific list of insiders is based on a decision by the President and CEO or, if he/she is recused, the CFO. Insider information is in particular information that concerns the ability of SATO and the SATO Group to fulfil their commitments in respect of issued bonds.

In SATO managers (as specified in MAR) are the members of the Board of Directors and the President and CEO. SATO maintains a list of them and persons closely associated to them according to MAR. SATO's managers are prohibited from trading in SATO's financial instruments during the closed period starting 30 days prior to the publication of SATO's financial statement or interim report and ending at the closing of the publication day. Also persons who participate in the preparation of the financial statements or interim reports or their publication are prohibited from trading in SATO's financial instruments during the closed period. A separate record is maintained of these persons. Managers and their closely associated persons must notify SATO and Finnish Financial Supervision Authority of all transactions conducted by SATO's financial instruments within three working days of the transaction.

## REMUNERATION STATEMENT 2018

### MEMBERS OF SATO'S BOARD OF DIRECTORS

#### Decision-making procedure

Remuneration payable to the members of the Board of Directors of SATO Corporation (hereinafter "SATO") is resolved by the SATO's shareholders at the Annual General Meeting. The proposal for the remuneration is prepared, together with a proposal for the election of board members, by the Shareholders' Nomination Committee. The Nomination Committee consists of representatives of SATO's four largest shareholders registered in the book-entry system on 1 October, which shareholders have approved the assignment.

SATO's Annual General Meeting ("AGM") held on 23 March 2018 made the resolution that the following annual remuneration be paid for the term starting at the close of the AGM and ending at the close of the AGM in year 2019:

- Chair of the Board of Directors: EUR 36,000
- Deputy chair of the Board of Directors: EUR 22,000
- Other members of the Board of Directors: EUR 18,000 each.

In addition, the AGM resolved that a meeting fee of EUR 500 per meeting be paid to the chair, deputy chair and members of the Board of Directors for meetings of the Board of Directors and its committees. These fees correspond to the fees paid to members of the Board of Directors during the previous term of office.

### Fees paid to members of the Board of Directors in 2018

The following fees were paid to members of SATO's Board of Directors during the financial period of 1 January–31 December 2018:

Erik Selin, chairman of the Board of Directors	EUR 42,000
Jukka Hienonen, deputy chairman of the Board of Directors	EUR 27,500
Marcus Hansson	EUR 25,000
Esa Lager	EUR 24,000
Tarja Pääkkönen	EUR 24,000
Johannus (Hans) Spikker	EUR 23,500
Timo Stenius	EUR 25,000

A total of EUR 191,000 was paid in fees to members of the Board of Directors in 2018. During the financial period, no shares or share-based rights were issued to members of the Board of Directors as fees.

### THE PRESIDENT AND CEO AND OTHER MANAGERS OF THE GROUP

#### Decision-making procedure

On the basis of proposals presented by the Nomination and Remuneration Committee, SATO's Board of Directors makes resolution on the terms and conditions of the term of office of SATO's President and CEO and employment of the members of the Group's management team. Board of Directors also makes resolution on their salaries, the criteria of annual bonus schemes

and long-term incentive schemes, as well as the amount of bonuses payable based on the schemes, the payment method and date.

Individuals employed by SATO Group do not receive any separate compensation for acting as a member of the Board of Directors or as CEO in the subsidiaries of the Group.

#### The President and CEO's service contract

A written service contract has been signed between SATO and its President and CEO Saku Sipola, according to which the President and CEO receives a monthly salary divided into a monetary component and customary fringe benefits. The President and CEO is within the scope of the annual bonus and long-term incentive schemes in accordance with SATO's policies valid at the time, following the terms and conditions defined by SATO's Board of Directors.

The period of notice for the President and CEO is six months if the service contract is terminated by SATO. If SATO terminates the service contract, the President and CEO will receive compensation corresponding to 12 months' salary in addition to the regular salary payable for the period of notice.

### REMUNERATION SCHEMES

The objective of incentive schemes is to combine the targets of shareholders and key individuals to increase the company's value, improve the Group's competitiveness and ensure the long-term financial success.

In 2018, the following incentive schemes were effective in SATO:

a. Long-term scheme applicable to years 2016–2018

On the basis of this scheme, key individuals within the scope of the scheme receive bonuses, the amount of which is based on the development of the company's value and another objective which supports business improvement. The scheme covers a total of 12 key individuals.

SATO's Board of Directors has decided the participants in the scheme, the maximum bonus to be paid, and the values which form the basis of the bonuses, as well as the amount of bonuses to be paid.

b. Incentive scheme for year 2018

Members of the Group's management team and separately appointed key individuals of the Group are within the scope of an annual bonus scheme. The joint objectives defined were related to the Group's profit and the value development of the Group. In addition, targets related to the successful performance of own tasks were set for individuals within the scheme.

The Board of Directors approves the criteria for annual bonuses, the individuals within the scope of bonus scheme and the payment of bonuses. The annual bonuses are paid in two parts: first

part in the year following the earnings period and the second part two years after the earnings period for those individuals employed by SATO at the moment of payment.

#### **SALARIES AND FEES PAID TO THE PRESIDENT AND CEO AND MEMBERS OF THE GROUP'S MANAGEMENT TEAM IN 2018**

In 2018, the President and CEO Saku Sipola received EUR 323,622 in salary, of which monetary salary accounted for EUR 309,362 and fringe benefits made up EUR 14,260. In addition, the President and CEO was paid bonuses for year 2017 EUR 158,319 and on the basis of previous long-term incentive schemes EUR 49,042.

In 2018, Erkka Valkila, who acted as the President and CEO of SATO until 15 November 2015, received EUR 29,352 in bonuses paid on the basis of previous long-term incentive schemes.

In 2018, other members of the Group's management team received EUR 771,649 in salaries and fringe benefits, EUR 75,403 in bonuses based on long-term incentive schemes, and EUR 376,639 in bonuses based on the annual bonus scheme. In addition to the President and CEO, the Group's management team consisted of five individuals during the period 1.1.–31.8.2018 and four individuals during the period 1.9.–31.12.2018.

## BOARD OF DIRECTORS



### ERIK SELIN

born 1967, Business school economist, CEO and Board Member, Fastighets Ab Balder, Board member since 2015, Chairman of the Board since March 2016, independent of the Company, not independent of the main shareholders

#### Primary working experience

Fastighets AB Balder: CEO and Board Member since 2005, owner of several companies in real estate business

#### Main positions of trust

Skandrenting AB: Chairman of the Board of Directors, Collector AB: member of the Board of Directors, Collector Bank AB: Member of the Board of Directors, Västsvenska Handelskammaren: member of the Board of Directors, Hexatronic Scandinavia AB: member of the Board of Directors, Hedin Bil: member of the Board of Directors, Ernström & Co: member of the Board of Directors



### MARCUS HANSSON

born 1974, M.Sc.(Econ.), CFO, Fastighets Ab Balder, Board member since March 2016, independent of the Company, not independent of the main shareholders

#### Primary working experience

Fastighets AB Balder: CFO since 2007

#### Main positions of trust

Member of the Board in several Balder companies in Sweden and Denmark, Husvärden AB: Member of the Board, SHH Bostad AB: Member of the Board



### JUKKA HIENONEN

born 1961, M.Sc.(Econ.), Board member and Deputy Chairman of the Board since 2015, independent of the Company and its main shareholders

#### Primary working experience

SRV Plc: President and CEO 2010–2014, Finnair Plc: President and CEO 2006–2010, Stockmann Plc: Executive Vice President 2001–2005, Director, International Affairs 1995–2000, Timberjack Oy: Marketing Director 1991–1995

#### Main positions of trust

Juuri Partners Oy: Chairman of the Board of Directors, Stockmann Oyj Abp: Chairman of the Board of Directors, Silmäasema Oyj: Chairman of the Board of Directors, Hartela Oy: Chairman of the Board of Directors, Silmäasema Oyj: Chairman of the Board of Directors



### ESA LAGER

born 1959, LL.M., M.Sc. (Econ.), Board member since 2014, Deputy Chairman of the Board 2014–2015, Chairman of the Board 2015–2016, independent of the Company and its main shareholders

#### Primary working experience

Otokumpu Oyj: deputy to the CEO 2011–2013, Executive Vice President - Chief Financial Officer 2005–2013, Executive Vice President of Finance and Administration 2001–2004, Corporate Treasurer 1995–2000, Assistant Treasurer 1991–1994, Kansallis Banking Group: Manager at the Head Office/London Branch 1984–1990

#### Main positions of trust

Ilkka-Yhtymä Oyj: Deputy Chairman of the Board of Directors, Alma Media Corporation: member of the Board of Directors, Finnish Industry Investment Ltd: Chairman of the Board of Directors, Terrafame Oy: member of the Board of Directors, Stockmann Oyj: member of the Board of Directors



## BOARD OF DIRECTORS



### TARJA PÄÄKKÖNEN

born 1962, Ph.D (Corp.Strategies), M.Sc. (Const. & Architecture), Executive Partner and Chairman of Brand Compass Group, Boardman Ltd, Board member since 2013, independent of the company and its main shareholders

#### Primary working experience

Boardman Ltd: Executive Partner and Chairman of Brand Compass Group 2010-, Itella Corporation: Senior Vice President, Corporate Sales and Marketing and member of Executive Board 2005–2010, Nokia Corporation: Member of the Management Board of Nokia Mobile Phones and several global Senior Vice President positions in Europe, the USA and Asia 1994–2004, Mecrator Oy (PwC): Management Consultant 1992–1994, Kienbaum KmbH, Germany: Management Consultant 1990–1992

#### Main positions of trust

United Bankers Oyj: member of the Board of Directors and member of Remuneration Committee, Panostaja Oyj: member of the Board of Directors, Helsinki University Group: member of the Board of Directors and member of Remuneration Committee, GRK Infra Oy: member of the Board of Directors, Qentinel Oy: member of the Board of Directors, Spinverse Oy: member of the Board of Directors, Mobile software company Sunduka Oy: member of the Board of Directors, "CTO of the Year": member of the jury



### JOHANNUS (HANS) SPIKKER

born 1959, Economic Geography, University of Amsterdam, Senior Portfolio Manager Real Estate Europe, APG Asset Management, Amsterdam, The Netherlands, Board member since 2017, independent of the Company, non-independent of the main shareholders

#### Primary working experience

Senior Portfolio Manager Real Estate, Structured Investments, Pensionfund PGGM, 1997–2007, Asset manager German real estate, SPP Investment Management, 1994–1997, Property manager commercial real estate Germany, Shell Pensionfund 1991–1994, Market researcher MAB Groep BV, a Dutch property development company, 1986–1991

#### Main positions of trust

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### TIMO STENIUS

born 1956, M.Sc. (Constr. Eng.), Director, Unlisted investments (real estate, infrastructure, private equity and private debt) of Elo Mutual Pension Insurance Company, Board member since 2015, independent of the Company, not independent of the main shareholders

#### Primary working experience

In his current post, he is responsible for Elo Mutual Pension Insurance Company's unlisted investments worth EUR 5.7 billion. Since 1990, he has been involved in property investment and development, first in a listed company and later, since 2001, as the director responsible for a pension insurance company's property investments, corporate financing and non-listed equity investments. In addition, in 1982–1988 he was involved in project export tasks targeted at the Soviet Union in Finn-Stroi Oy.

#### Main positions of trust

KTI: Chairman of the Board of Directors, Tyvene Oy: Chairman of the Board of Directors, Amplus Holding Ltd: Deputy Chairman of the Board of Directors, Rakennuspalvelu V. Stenius Oy: member of the Board of Directors, Exilion Capital Oy: member of Board of Directors

## CORPORATE MANAGEMENT GROUP



### SAKU SIPOLA

President and CEO

born 1968, M.Sc.(Tech.), has worked for SATO since 2015

#### Primary working experience

Pohjolan Design-Talo Oy: CEO 2011–2015, Rautaruukki Oyj: Executive Vice President, Marketing, Technology and Supply Chain Management, Finland 2010–2011, Rautaruukki Oyj, Ruukki Construction Oy: Division President, Finland 2005–2010, YIT Construction Ltd: Business group director, Business premises, southern Finland, 2001–2005, Marketing team director, Property development, leasing and sales 2000–2001, YIT Group: various tasks 1995–2000

#### Main positions of trust

Member of the Board for several SATO Group companies, Remeo Oy: chairman of the Board, Llentab Group: member of the Board of Directors, Pohjolan Design-Talo Oy: member of the Board of Directors, Helsinki Region Chamber of Commerce: member of Delegation, RAKLI ry: deputy member of the Board of Directors



### ANTTI ASTELJOKI

Vice President/Rental Housing Business

born 1974, M.Sc.(Econ.), has worked for SATO since 2016

#### Primary working experience

Huoneistokeskus Oy: CEO 2012–2016, RTK-Palvelu Oy: Area Director and Commercial Director 2009–2012, Kiinteistömaailma Oy: Area Director, Deputy Managing Director 2007–2009, Lassila & Tikanoja Oyj: Sales Director, Property Services 2004–2007, Telia Product Oy: Area Director 1999–2003, Sales Manager 1998–1999, Sales Representative 1997–1998

#### Main positions of trust

Member of the Board for several SATO Group companies



### ANTTI AARNIO

Vice President/Investments

born 1972, M.Sc.(Eng.), has worked for SATO since 2000

#### Primary working experience

SATO Corporation: Director, Investments and divestments, Helsinki Region and St. Petersburg 2010–2016, Nordic Real Estate Partners Oy: Housing investments and investment management/managing director of Minun Koti associations 2007–2009, SATO Corporation, Housing investments: Director, SATO Asunnot 2006–2007, Real estate manager 2004–2006, Building manager 2003–2004, Project engineer 2002–2003, Administrative building manager 2000–2001

#### Main positions of trust

Member of the Board for several SATO Group companies, Helsinki Region Chamber of Commerce: Regional and housing committee, member, RAKLI: Investment and financing committee, member

## CORPORATE MANAGEMENT GROUP

**MIIA ELORANTA**

Director of Marketing and Communications

born 1973, M.Soc.Sc., has worked for SATO since 2016

**Primary working experience**

ISS Palvelut Oy: Director of Communications and Marketing 2013–2016, The Bioenergy Association of Finland: Director of Communications 2012–2013, Soprano Oy: Head of Communications and Marketing Agency 2008–2012; Head of Business Unit at Soprano Communications and Marketing Agency 2007–2008; Senior Consultant 2005–2007, Communications Consultant 2003–2005, The Finnish Fair Corporation: Communications Officer 2000–2003, Ministry for Foreign Affairs: Desk Officer for Namibia and Botswana 1999–2000, University of Turku: Education planner at the EU Education Programme for Journalists 1998–1999

**Main positions of trust**

Member of the Editorial Board for Locus magazine

**MARKKU HONKASALO**

Chief Financial Officer

born 1964, LL.M., eMBA, has worked for SATO since 2016

**Primary working experience**

Componenta Corporation: CFO 2015–2016, Valmet Corporation: CFO 2013–2015, Rautaruukki Oy: CFO 2009–2013, Myllykoski Corporation: Director, Administration, Legal & HR 2003–2008, Different positions in the banking sectors 1989–2003

**Main positions of trust**

Member of the Board for several SATO Group companies

**"THANK YOU,  
SATO, FOR BEING  
ACTIVE AND  
INNOVATIVE!"**

*A SATO resident's comment in the Pulssi resident panel.*



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# REPORT OF THE BOARD OF DIRECTORS 1 JANUARY–31 DECEMBER 2018

## OPERATING ENVIRONMENT

The Finnish economy has developed favourably over the past two years. As a result, employment has improved, which in turn, has had a positive impact on the balance of public finances. The operating environment is, however, becoming increasingly challenging. It is more and more difficult to predict economic development due to the high number of global threats. It is clear that the Finnish economy's strongest growth phase will experience a downturn as global economic growth weakens. In its January economic outlook, International Monetary Fund IMF projects a slowdown in global economic growth. The global economy is projected to grow at 3.5 percent this year and 3.6 percent next year. Just last year, in October, the IMF projected growth of 3.7 per cent for both years. In its outlook, the IMF highlights that there is a considerable risk that growth will weaken even more than previously anticipated. Global trade tensions and uncertainty related to Brexit are behind the weakened growth forecast. In its outlook published in December, the European Central Bank projected that GDP growth in the euro area will slow to 1.7 per cent in 2019.

Finland's economic growth will continue, but signs of a slowdown can already be seen. Based on the most recent statistics and short-term forecasts, annual growth of just under three per cent was achieved in 2018. Growth is, however, projected to slow to below two percent in 2019.

Similar to the preceding years, construction has remained brisk, but the strongest growth is losing momentum. According to an estimate by the Confederation of Finnish Construction Industries (RT), construction volume increased by around 6 per

cent during the reporting year, with the number of housing starts reaching the all-time-high 2017 figure of 44,000. For 2019, zero growth is projected for the overall volume of construction investments. There was a sharp decline in the number of construction permit applications in 2018, which forecasts a significant slowdown in the number of new housing construction projects and thus also in the number of apartments that will be completed in 2020 and 2021.

New apartments are being built particularly in the largest centres in SATO's main areas of operation. According to KTI Property Information, close to 7,000 rental apartments were under construction in the Helsinki metropolitan area at the end of the reporting year, and a total of roughly 2,900 were under construction in other major cities in Finland (Tampere, Turku, Oulu, Jyväskylä, Lahti and Kuopio).

Three quarters of all Finnish households now consist of those living either alone or with one other person, and the corresponding figure for Helsinki is approximately 80 per cent. The majority of apartments under construction are small. The average size of rental apartments under construction in large cities is between 45 and 52 square metres.

Thanks to a strong economy, highly liquid markets, low interest rates and high equity valuations, considerable capital has been channelled to the real estate investment market in recent years. Foreign investors' interest in Finland has held strong, and the housing investment market has also become increasingly globalised.

The demand of rental apartments continues to exceed supply in most growth centres, despite the growth in supply and increase in construction costs. In some areas, an increased supply of rental apartments has reduced pressures to raise rent levels, but rents have increased as a result of higher costs arising from property management and maintenance.

According to Statistics Finland, the annual increase in rents of non-subsidized rental apartments was around 2.5 per cent in the Helsinki metropolitan area and 2.2 per cent in other parts of Finland. Rents of subsidized apartments went up by 2.4 per cent throughout the country.

Close to half of Finland's entire population already lives in the country's six major urban areas. A well-functioning rental apartment market promotes labour mobility and makes it easier for students to accept a place to study.

The popularity of living in city centres has created a shortage of small apartments and also caused the demand for family apartments in city centres to increase.

Helsinki's city master plans include preparations for as many as over 200,000 new residents by the year 2050. This entails making existing urban structures denser and planning for new residential areas, especially near public transport hubs.

Finns have learned to demand housing-related services, and according to a consumer survey commissioned by SATO, services that are related to the apartment or to rents, are important when choosing an apartment. A third of the respondents

said they would use more housing-related services if they could be ordered digitally from a centralised service. Digitalisation is, in fact, one of the key enablers in developing SATO's service offering.

Sharing spaces and services among neighbours is also something that interests Finns, regardless of age and gender. The possibility of modifying apartments to meet changing needs is often considered important.

## STRATEGY

The megatrends of globalisation, digitalisation and sustainability, as well as functioning in an urban environment, are changing people's values and behaviour. That is why we believe that housing also needs to change. Our mission is to revolutionise housing by providing our customers with more than just walls. According to our vision, thriving cities will be home to people who enjoy a high level of well-being.

We are a provider of rental homes, and we create diverse housing concepts for different needs. We develop services that bring genuine benefits to our customers in their day-to-day lives. We focus on the customer experience in traditional channels, and especially in the digital realm. In addition to smooth daily living, we take care of our customers' well-being by promoting a sense of community, which increases not only their living enjoyment, but also their sense of security. We pay special attention to housing health and energy efficiency.

We are growing in the Helsinki metropolitan area, Tampere and Turku, all areas where demand for apartments is the highest and the increase in value

is expected to be stable over the longer term. In creating the preconditions for growth the role of financing will increase even further. SATO has set the strengthening of its investment grade rating (currently Moody's Baa3) as a strategic goal. Our return on equity target for the strategy period is 12 per cent. In addition, our strategic goal is to achieve a continuously improving Net Promoter Score (NPS) among our residents.

According to SATO's dividend policy, a maximum of 40 per cent of the cash earnings will be paid in annual dividends, depending on the market situation, investment level, the development of the equity and the solvency ratios.

In December 2018, the Board of Directors approved the new equity ratio target at 40 per cent. The previous target was 35 per cent. The Group's other financial targets remain unchanged. The interest coverage ratio must be at least 1.8x and unencumbered assets ratio 60 per cent or more. The long-term target for solvency ratio is not to exceed 50 per cent.

## NET SALES AND PROFIT

SATO is engaged in investment activities where the profit comes from rental income (i.e. from net sales), sales income and changes in the fair value of investment properties. At the end of the year, capital invested in business operations stood at EUR 3,536.7 (3,329.3) million. When evaluating the business profitability, the key indicator is return on invested capital, which was 7.9 (7.1) per cent.

Consolidated net sales for 2018 were EUR 290.4 (280.1) million, an increase of 3.7 per cent compared to 2017. The growth was based on the increased number of apartments, the improved occupancy rate and our focus on apartments in growth centres.

Operating profit amounted to EUR 273.3 (230.1) million. The operating profit without the change in the fair value of investment properties was EUR 171.4 (161.6) million. The improvement in operating profit was due to the growth in net sales, good management of maintenance and repair costs and the positive change in fair value. The change in fair value was EUR 102.0 (68.6) million. In addition to investments and divestments, the change in value was effected by the development of market prices and some changes in yields for residential and non-residential properties.

Profit before taxes was EUR 230.8 (184.4) million. Cash flow from operations (free cash flow after taxes excluding changes in fair value) amounted to EUR 97.9 (92.4) million.

Earnings per share were EUR 3.26 (2.55).

## FINANCIAL POSITION AND FINANCING

On 31 December 2018, the consolidated balance sheet total stood at EUR 3,922.4 (3,693.1) million. Equity was EUR 1,554.5 (1,397.6) million. Equity per share was EUR 27.46 (24.68).

The Group's equity ratio was 39.6 (37.8) per cent. In December, the Board of Directors updated the equity ratio target, raising it to 40 per cent from 35 per cent. EUR 257.1 million in new long-term financing was withdrawn, and the solvency ratio was 50.5 (52.1) per cent.

The Group's annualised return on equity was 12.4 (11.0) per cent. Return on invested capital was 7.9 (7.1) per cent.

Interest-bearing liabilities at the end of the financial period totalled EUR 1,982.2 (1,931.7), of which loans

subject to market terms accounted for EUR 1,650.1 (1,552.1) million. The loan itemisation is in note 25 of the financial statements. At the end of the reporting year, the average loan interest rate was 2.1 (2.2) per cent. Net financing costs totalled EUR 42.5 (45.8) million. The average maturity of loans with market terms was 4.4 (4.9) years.

During the financial year, the calculated impact of changes in the market value of interest hedges on equity was EUR 1.0 (12.5) million.

During the reporting year, SATO increased the proportion of loans with no asset-based securities to 65.7 per cent of all loans. At the end of the year, the proportion of unencumbered assets was 74.1 per cent of total assets.

## GROUP STRUCTURE

SATO Corporation is the parent company of SATO Group. At the end of the reporting year, the parent company had a total of 26 (36) subsidiaries engaged in business operations. Mergers took place during the year in order to streamline the Group structure.

SATO Corporation's majority shareholder is Balder Finska Ota AB, whose parent company is Fastighets AB Balder, which is quoted on the Stockholm Stock Exchange.

## HOUSING BUSINESS

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

*customers in daily housing issues through our customer-oriented service organisation.*

SATO had approximately 50,000 customers at the end of the reporting year. Our objective is to continuously improve the net promoting score. The NPS improved by two percentage points in the reporting year.

Rental income increased by 3.7 per cent to EUR 290.4 (280.1) million. The economic occupancy rate of apartments in Finland was 97.9 (96.8) per cent on average, and the external tenant turnover was 29.5 (28.9) per cent. The occupancy rate rose during the review period to an excellent level, especially thanks to the measures in line with the Customer First strategy.

The average monthly rent for SATO's rental apartments in Finland at the end of the reporting year was EUR 16.86 (16.69) per m<sup>2</sup>. Rent increases remained moderate.

Net rental income stood at EUR 198.5 (188.4) million.

## INVESTMENT PROPERTIES

On 31 December 2018, SATO owned a total of 25,893 (25,793) apartments. Altogether 403 rental apartments were acquired or completed. The total number of divested rental apartments and shared ownership apartments redeemed by the owner-occupants was 253.

## Fair value

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

At the end of the reporting year, the fair value of investment properties in Finland and St. Petersburg was EUR 3,875.1 (3,632.5) million, of which the St. Petersburg investment assets accounted for EUR 104.8 (118.9) million. The change in value of the St. Petersburg investment assets is largely the result of a change in the value of the rouble. The change in the value of investment assets, including the rental apartments acquired and divested during the reporting year, was EUR 242.6 (146.3) million. In addition to investments and divestments, the change in value was affected by the development of market prices and by changes in the return requirement on certain residential properties and business and office properties.

Of the value of apartments, the commuting area of the Helsinki metropolitan area accounted for approximately 80 per cent, Tampere and Turku together made up approximately 13 per cent, Oulu and Jyväskylä approximately 4 per cent, and St. Petersburg approximately 3 per cent.

### Investments, divestments and property development

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

During the reporting year, we launched new complementary planning projects corresponding to a total of nearly 62,000 floor square metres, which represents roughly 1,000 new apartments, in

collaboration with various cities. The city planning development projects that are currently in progress include a permitted building volume of approximately 272,000 floor square metres, i.e. around 4,500 apartments.

Total investments in rental apartments stood at EUR 143.5 (156.0) million during the reporting year, with new apartments accounting for EUR 99.9 (100.8) million, or roughly 69.6 per cent, of that total. At the end of the financial year, binding purchase agreements in Finland totalled EUR 107.9 (54.9) million.

In total, 98 (294) rental apartments with a total value of EUR 12.7 (46.2) million were divested in Finland.

The book value of plot reserves totalled EUR 40.9 (54.0) million. The value of new plots acquired was EUR 19.9 (0) million.

The permitted building volume for some 2,800 apartments is being developed for the plots in the company's housing portfolio. This allows SATO to utilise existing infrastructure, create a denser urban structure and thus bring more customers closer to services and public transport connections.

In Finland, a total of 403 (856) rental apartments and 0 (57) apartments for sale were completed. On 31 December 2018, a total of 985 (834) rental apartments and 131 (0) owner-occupied apartments were under construction. The reporting principle for apartments under construction changed as of the start of 2018. In addition to an investment decision, a signed construction contract and a valid construction permit are required. Earlier, apartments under construction included all apartments for which an investment decision had been made.

A total of EUR 53.6 (44.3) million was spent on repairing apartments and improving their quality.

At the end of the financial year, SATO owned 534 (534) completed apartments in St. Petersburg. There were no apartments under construction during the reporting year. The economic occupancy rate of rental apartments in St. Petersburg was 93.1 (89.6) per cent on average. For the time being, SATO will refrain from making new investment decisions in Russia. The share of investments in Russia is limited to a maximum of 10 per cent of the Group's housing assets.

### SUSTAINABILITY

Our sustainability work was guided by SATO's strategy and sustainability policy, as well as themes that we have evaluated to be material based on dialogue with our stakeholders.

We continued to focus on sustainability in many areas in 2018.

During the year under review, we created an operating model for housing health and safety matters. The operating model underlined particularly a quick response rate, keeping customers informed, and the flow of information. We also appointed a Housing Health Manager, who is an expert in all matters related to housing health and safety.

In 2018, we increased the number of our collection points for plastic packaging exponentially and made them available to nearly 5,000 of our customers in the Helsinki metropolitan area.

We also made energy-efficiency investments and life-cycle management development as focus areas, and we reinforced our recycling model for household appliances in our renovation sites.

During the reporting year, we collaborated on a project with the non-profit organisations No Fixed Abode and the Rehabilitation Foundation to help participants in the project find two of life's essentials – a home and a job. By the end of the reporting year, nine people who had participated in the project were living in a SATOhome.

We were successful in the Global Real Estate Sustainability Benchmark (GRESB), scoring four out of five stars. SATO's long-term sustainability efforts reflected progress in nearly all areas. Compared to other European housing investors in its peer group, SATO's result exceeded the average.

During the reporting year we also developed our sustainability management and reporting, and we updated our sustainability materiality analysis. SATO reports its corporate sustainability annually in accordance with the Global Reporting Initiative (GRI) reporting guidelines. The environmental performance indicators presented in the report have been verified by an independent third party, KPMG Oy Ab.

The Corporate Governance Statement is published separately from the Report of the Board of Directors. SATO's Corporate Governance Statement, Code of Conduct and sustainability policy are available at [sato.fi](http://sato.fi).

### ENVIRONMENTAL IMPACTS

We reduce the load on the environment by regularly taking care of and repairing homes and properties according to the life-cycle principle, and by building properties in existing urban environments and near good transport connections.

Legislation governing the energy efficiency of residential buildings requires an energy efficiency

figure of 90 for new buildings. SATO is committed to building remarkably more energy-efficient buildings, with our energy efficiency figure target being 81 for new buildings.

We are committed to the targets in the Energy Efficiency Agreement for the property sector, aiming for a reduction in the total consumption of electricity and heat by 10.5 per cent between 2014 and 2025.

During the reporting year, we continued to make significant energy-efficiency and water-conservation investments in SATOhomes, and we also encouraged our residents to save energy and water.

During the year under review, our weather-adjusted heat consumption decreased by 2.6 per cent, specific electricity consumption increased by 0.5 per cent and water consumption decreased by 0.7 per cent compared to 2017. During the reporting year, rated emissions from SATO's apartments fell by 2.8 per cent compared to 2017 and amounted to 33.2 (34.8) carbon dioxide equivalent kilograms per square metre. Emissions are calculated according to the absolute consumption of district heating.

During the reporting year, we made recycling easier by arranging recycling container tours, increasing the number of plastic-recycling points and designing waste bins that inspire and provide information about sorting. We also consolidated our collaboration with the Helsinki metropolitan area's Reuse Centre that started in 2017. In the course of 2018, some 200 functional appliances from our properties under major renovation found a new home through the collaboration.

The Group's environmental programme is available in its entirety at [sato.fi](http://sato.fi).

## DEVELOPMENT ACTIVITIES

SATO's development activities were strongly focused on digital development during the reporting year. The highlight of the year was the launch of the OmaSATO service, which brought housing-related services within our residents' reach digitally, regardless of time and place. What is significant about the development of OmaSATO is that our customers were closely involved in planning, testing and developing the service. During the reporting year, more than 250 residents took part in our workshops. OmaSATO was enthusiastically received by residents and by the end of the year, the service had 8,190 registered users. A survey carried out in autumn indicated that more than 75% of the OmaSATO users who responded to the survey considered the contents of the service either good or excellent.

In addition to digital development, we also made good headway in our development work thanks to our Customer First strategy programme. We especially developed operating models related to housing health, our partnership policy, our customer service, as well as concepts related to communality and customer communication.

Our third strategy programme, diverse housing solutions, focussed on refining the communality lessons gained from our first StudioHome, which was completed in 2017.

Development activities also concentrated on strategy development and IT systems development. A total of EUR 1.7 (1.9) million was spent on development, corresponding to 0.6 per cent of net sales.

## EVENTS AFTER THE REVIEW PERIOD

There are no significant events following the review period.

## RISK MANAGEMENT

Risk management is used to ensure that risks impacting the company's business are identified, managed and monitored.

The main risks of SATO's business are risks related to the business environment and financial risks.

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

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

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

The means for managing the liquidity risk at SATO include cash assets, a bank account limit, committed credit facilities of EUR 400 million, and a

commercial paper programme of EUR 400 million. We increase the amount of reserves as the funding requirements grow. Our objective is to keep the liquidity requirements of the next 12 months covered by committed agreements.

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

In our operations in St Petersburg, we have risks related to the business environment, including currency risk. The consolidation of foreign currency-denominated assets in the consolidated financial statements also involves a translation risk. Possibilities of hedging the translation risk are evaluated in accordance with our treasury policy. For the time being, SATO will refrain from making new investments in Russia.

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

## PENDING LEGAL PROCEEDINGS

SATO has no such proceedings with public authorities, litigations or arbitration proceedings pending that would have a significant impact on the company's financial standing or profitability, and SATO is not aware of any threat of such proceedings.

## SHARES

On 31 December 2018, SATO Corporation's share capital amounted to EUR 4,442,192.00 and the number of shares was 56,783,067. The company has one series of shares. The shares are included

in the book-entry system maintained by Euroclear Finland Oy.

SATO Corporation holds 160,000 treasury shares, representing 0.3 per cent of all shares and votes.

On 31 December 2018, the Board of Directors did not have authorisation to acquire or issue the company's own shares.

On 31 December 2018, the Board members or the CEO of SATO Corporation did not hold any shares in the company.

## PERSONNEL

At the end of 2018, the Group had 218 (212) employees. There were 203 (201) permanent employees and 15 (11) employees with a fixed-term employment contract. In average, SATO employees took part in 4.8 training days in 2018. As in previous years, satisfaction at work was high at SATO, and assessments of supervisory work showed very positive development. During the year, the Group had an average of 215 (206) employees. The Group's salaries and remunerations in 2018 totalled EUR 17.2 (16.1) million.

## SHAREHOLDERS' NOMINATION COMMITTEE

The Shareholders' Nomination Committee consists of representatives of SATO's four largest shareholders registered in the book-entry system on 1 October. If a shareholder chooses not to exercise its nomination right, the right will pass on to the next largest shareholder. The State Pension Fund, the company's fourth largest shareholder, did not exercise its nomination right, and the right was passed to the Finnish Construction Trade Union, the fifth largest shareholder. The Committee consisted of representatives of the following shareholders:

Balder Finska Ots AB (Erik Selin), Stichting Depositary APG Strategic Real Estate Pool (Hans Spikker), Elo Mutual Pension Insurance Company (Hanna Hiidenpalo) and the Finnish Construction Trade Union (Matti Harjuniemi).

## BOARD OF DIRECTORS, CEO AND AUDITORS

The Annual General Meeting held on 23 March 2018 confirmed that the Board of Directors consists of seven members.

In 2018, the members of SATO's Board of Directors were chairman Erik Selin, deputy chairman Jukka Hienonen and ordinary members Marcus Hansson, Esa Lager, Tarja Pääkkönen, Johannes (Hans) Spikker and Timo Stenius.

The Board of Directors convened 9 times in 2018. The Board's work is supported by two committees: the Nomination and Remuneration Committee and the Audit Committee.

Saku Sipola (M.Sc. Eng.) has acted as the CEO.

As the company's auditor, the Annual General Meeting elected the audit firm Deloitte Oy, which appointed APA Eero Lumme as the auditor in charge. The auditor's term in office is the financial year, and the auditor's duties end at the closing of the next Annual General Meeting.

## MEMBERS OF THE MANAGEMENT TEAM

During the financial year 2018, members of the management team were Saku Sipola, Antti Aarnio (EVP, investments), Monica Aro (EVP, development), Antti Asteljoki (EVP, rental housing business), Miia Eloranta (EVP, Marketing and Communications) and Markku Honkasalo (CFO).

## OUTLOOK

In the operating environment, SATO's business activities are mainly effected by urbanisation, housing policies, 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 path, but growth is projected to slow down. Interest rates are expected to remain low in 2019, which will have a positive impact on SATO's financing costs.

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

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

The historically high rate of housing construction is expected to decrease in the coming years.

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

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

In order to align its policy with that of its majority shareholder, SATO Corporation will not publish guidance on its 2019 earnings. The parent company of Balder Finska Ots AB is Fastighets AB Balder, which is quoted on the Stockholm Stock Exchange.

## PROPOSAL OF THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFIT

On 31 December 2018, the parent company's distributable funds amounted to EUR 302,887,045.77, of which profit for the period was EUR 49,670,104.13. The company had 56,623,067 outstanding shares entitling to dividends for year 2018.

According to our dividend policy, annual dividends are at most 40 per cent of our operational cash flow, depending on the market situation, investment level, the development of our equity and solvency ratios.

The Board of Directors proposes to the Annual General Meeting that EUR 0.50 per share be paid in dividends for the 2018 financial period (EUR 0.50 per share for 2017), and that EUR 21,358,570.63 be transferred to retained earnings.

No material changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good, and in the Board of Directors' view, the proposed distribution of profit will not compromise the company's solvency.



## CONSOLIDATED FINANCIAL STATEMENTS, IFRS

### CONSOLIDATED INCOME STATEMENT, IFRS

MEUR	note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Net sales	3	290.4	280.1
Property maintenance expenses		-91.9	-91.8
<b>Net operating income</b>		<b>198.5</b>	<b>188.4</b>
Fair value change of investment properties, realised	4, 13	3.8	7.5
Fair value change of investment properties, unrealised	13	102.0	68.6
Sales, marketing and administrative expenses	6, 7, 8, 9	-33.5	-35.2
Other operating income	5	3.8	2.8
Other operating expenses	5	-1.2	-1.9
<b>Operating profit</b>		<b>273.3</b>	<b>230.1</b>
Financial income	10	0.9	0.7
Financial expenses	10	-43.5	-46.5
		<b>-42.5</b>	<b>-45.8</b>
<b>Profit before tax</b>		<b>230.8</b>	<b>184.4</b>
Income tax expenses	11	-46.5	-39.8
<b>Profit for the period</b>		<b>184.3</b>	<b>144.6</b>
<b>Profit for the period attributable to</b>			
Equity holder of the parent		184.3	144.7
Non-controlling interests		0.0	-0.1
		<b>184.3</b>	<b>144.6</b>
<b>Earnings per share attributable to equity holders of the parent</b>	12		
Basic, EUR		3.26	2.55
Diluted, EUR		3.26	2.55
Average number of shares, million		56.6	56.6

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Other comprehensive income</b>		
Remeasurement of defined benefit liability, net of tax	0.0	0.0
Related tax	0.0	0.0
<b>Items that will never be reclassified to income statement</b>	<b>0.0</b>	<b>0.0</b>
Cash flow hedges	26 1.2	15.6
Translation differences	-0.1	-0.1
Related tax	-0.2	-3.1
<b>Items that may be reclassified subsequently to income statement</b>	<b>0.9</b>	<b>12.4</b>
<b>Other comprehensive income, net of tax</b>	<b>0.9</b>	<b>12.4</b>
<b>Total comprehensive income</b>	<b>185.2</b>	<b>157.0</b>
<b>Comprehensive income attributable to</b>		
Equity holders of the parent	185.2	157.0
Non-controlling interest	0.0	-0.1
	<b>185.2</b>	<b>157.0</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

MEUR	note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	13	3,875.1	3,632.5
Tangible assets	14	2.4	2.2
Intangible assets	9, 15	2.6	1.8
Investments in associated companies	16	0.0	0.0
Other non-current investments	17, 18	1.9	1.7
Non-current receivables	19, 27	8.5	11.3
Deferred tax assets	20	12.9	13.2
<b>Total</b>		<b>3,903.4</b>	<b>3,662.6</b>
<b>Current assets</b>			
Account and other receivables	21	11.9	13.9
Current tax assets		1.7	2.4
Cash and cash equivalents	17, 22	5.4	14.2
<b>Total</b>		<b>19.0</b>	<b>30.5</b>
<b>TOTAL ASSETS</b>		<b>3,922.4</b>	<b>3,693.1</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital		4.4	4.4
Fair value and other reserves		-24.4	-25.4
Reserve fund		43.7	43.7
Reserve for invested non-restricted equity		114.8	114.8
Retained earnings		1,416.1	1,260.2
<b>Total</b>	23	<b>1,554.6</b>	<b>1,397.7</b>
<b>Non-controlling interests</b>		<b>-0.1</b>	<b>-0.1</b>
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>1,554.5</b>	<b>1,397.6</b>

MEUR	note	31 Dec 2018	31 Dec 2017
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	20	273.2	252.1
Provisions	27	2.0	2.7
Derivatives	17, 26	39.7	39.4
Long-term non-interest bearing liabilities	24	1.3	0.0
Long-term interest bearing liabilities	17, 25	1,635.0	1,621.8
<b>Total</b>		<b>1,951.3</b>	<b>1,915.9</b>
<b>Current liabilities</b>			
Accounts payable and other liabilities	28	64.4	59.4
Provisions	27	2.7	3.4
Current tax liabilities		2.3	6.8
Short-term interest bearing liabilities	17, 25	347.2	309.9
<b>Total</b>		<b>416.6</b>	<b>379.6</b>
<b>TOTAL LIABILITIES</b>		<b>2,367.9</b>	<b>2,295.5</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>3,922.4</b>	<b>3,693.1</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

MEUR	note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Cash flow from operating activities</b>			
<b>Profit for the period</b>		<b>184.3</b>	<b>144.6</b>
Adjustments:			
Non-cash items included in the profit	31	-102.1	-66.2
Profit and loss on sales of investment properties and fixed assets		-3.9	0.3
Other adjustments		0.0	0.4
Interest expenses and other financial expenses	10	43.5	46.5
Interest income	10	-0.9	-0.6
Dividend income		0.0	-0.1
Income taxes	11	46.5	39.8
<b>Cash flow before change in net working capital</b>		<b>167.4</b>	<b>164.7</b>
Change in net working capital:			
Changes in accounts receivable and other receivables		0.9	2.5
Change in accounts payable and other liabilities		5.7	-13.6
Interest paid		-45.2	-46.2
Interest received		1.0	0.6
Taxes paid		-29.2	-25.8
<b>Net cash flow from operating activities</b>		<b>100.6</b>	<b>82.1</b>
<b>Cash flow from investing activities</b>			
Disposals of subsidiaries, net of disposed cash		1.6	0.0
Investments in investment properties		-153.2	-156.5
Net investment in tangible and intangible assets		-2.4	-1.4
Repayments of loans receivable		2.3	2.1
Payments of granted loans		0.0	0.0
Disposals of investment property		20.5	77.5
<b>Net cash flow from investing activities</b>		<b>-131.2</b>	<b>-78.3</b>

MEUR	note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Cash flow from financing activities</b>			
Repayments (-) / withdrawals (+) of current loans		42.0	31.1
Withdrawals of non-current loans		257.1	273.5
Repayments of non-current loans		-249.0	-312.3
Repayment of capital and dividends paid	23	-28.3	0.0
<b>Net cash flow from financing activities</b>		<b>21.9</b>	<b>-7.8</b>
<b>Change in cash and cash equivalents</b>		<b>-8.8</b>	<b>-3.9</b>
Cash and cash equivalents at the beginning of period		14.2	18.3
Effect of exchange rate fluctuations on cash held		0.0	-0.2
Cash M&A		0.0	0.0
Cash and cash equivalents at the end of period		5.4	14.2

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY, IFRS

MEUR	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings			
<b>Shareholders' equity 1 Jan 2017</b>	<b>4.4</b>	<b>-37.9</b>	<b>43.7</b>	<b>114.8</b>	<b>1,115.6</b>	<b>1,240.7</b>	<b>0.0</b>	<b>1,240.7</b>
Comprehensive income:								
Remeasurements of defined benefit liability	-	-	-	-	-	0.0	-	0.0
Cash flow hedges	-	12.5	-	-	-	12.5	-	12.5
Translation differences	-	-	-	-	-0.1	-0.1	-	-0.1
Profit for the period	-	-	-	-	144.7	144.7	-0.1	144.6
<b>Total comprehensive income</b>	<b>0.0</b>	<b>12.5</b>	<b>0.0</b>	<b>0.0</b>	<b>144.6</b>	<b>157.0</b>	<b>-0.1</b>	<b>157.0</b>
Transactions with shareholders:								
Dividend	-	-	-	-	0.0	0.0	-	0.0
<b>Transaction with shareholders, total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Other adjustments	0.0	-	-	-	0.0	0.0	-	0.0
<b>Total of equity movements</b>	<b>0.0</b>	<b>12.5</b>	<b>0.0</b>	<b>0.0</b>	<b>144.6</b>	<b>157.0</b>	<b>-0.1</b>	<b>157.0</b>
<b>Shareholders' equity 31 Dec 2017</b>	<b>4.4</b>	<b>-25.4</b>	<b>43.7</b>	<b>114.8</b>	<b>1,260.2</b>	<b>1,397.7</b>	<b>-0.1</b>	<b>1,397.6</b>

MEUR	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Share capital	Fair value and other reserves	Reserve fund	Reserve for invested non-restricted equity	Retained earnings			
<b>Shareholders' equity 1 Jan 2018</b>	<b>4.4</b>	<b>-25.4</b>	<b>43.7</b>	<b>114.8</b>	<b>1,260.2</b>	<b>1,397.7</b>	<b>-0.1</b>	<b>1,397.6</b>
Comprehensive income:								
Remeasurements of defined benefit liability	-	-	-	-	-	0.0	-	0.0
Cash flow hedges	-	1.0	-	-	-	1.0	-	1.0
Translation differences	-	-	-	-	-0.1	-0.1	-	-0.1
Profit for the period	-	-	-	-	184.3	184.3	0.0	184.3
<b>Total comprehensive income</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>184.2</b>	<b>185.2</b>	<b>0.0</b>	<b>185.2</b>
Transactions with shareholders:								
Dividend	-	-	-	-	-28.3	-28.3	-	-28.3
<b>Transaction with shareholders, total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-28.3</b>	<b>-28.3</b>	<b>0.0</b>	<b>-28.3</b>
Other adjustments	0.0	-	-	-	-	0.0	-	0.0
<b>Total of equity movements</b>	<b>0.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>155.9</b>	<b>156.9</b>	<b>0.0</b>	<b>156.8</b>
<b>Shareholders' equity 31 Dec 2018</b>	<b>4.4</b>	<b>-24.4</b>	<b>43.7</b>	<b>114.8</b>	<b>1,416.1</b>	<b>1,554.6</b>	<b>-0.1</b>	<b>1,554.5</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, IFRS

### 1. ACCOUNTING PRINCIPLES

#### General company information

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").

The Board of Directors has approved the consolidated financial statements on 26 February 2019. A copy of the consolidated financial statements may be obtained from the abovementioned address and at [www.sato.fi](http://www.sato.fi).

SATO provides housing solutions and its operations primarily consist of investment in housing properties. The focus of the Group's operations is in the largest growth centres, and approximately 80 per cent of its 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 housing investments include both privately financed and state-subsidised housing assets. In respect of the latter SATO's business is affected by special features of non-profit activities, which are the result of restrictions set on the company's business for state-subsidised housing construction. The non-profit restrictions affect owner organisations through, inter alia, restrictions on distribution of the profit, divestment and risk-taking as well as through the prohibition on lending and providing collateral. Housing is also affected by property-specific, fixed-term restrictions, which apply to matters such as the use and handover of apartments, the selection

of the residents, and the setting of rent. In respect of non-profit activities, SATO's supervisory authorities are the Housing Fund of Finland (ARA), the State Treasury and the Ministry of the Environment, as well as local authorities in matters concerning the selection of residents.

#### General accounting principles

SATO's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union observing the standards and interpretations effective on 31 December 2018. The notes to the financial statements are also in compliance with the Finnish accounting principles and corporate legislation.

The information in the financial statements is stated in millions of euros. 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 IFRS financial statements requires judgement by the management in applying the accounting principles and making certain estimates and assumptions that are subject to uncertainty. In Note 2, information is given on key areas where management judgements or uncertainty factors in estimates and assumptions may cause the most significant effects on the figures presented.

#### New accounting standards and changes in accounting principles

From the beginning of the year 2018, the Group has adopted new or amended IFRS's and IFRIC interpretations, as described in section "New and amended standards applied in financial year ended".

At 31 December 2018, the Group has changed its accounting principle regarding the measurement of deferred taxes from investment property measured at fair value, as described in section "Changes in accounting principles".

#### Principles of consolidation

The consolidated financial statements are a consolidation of the financial statements of the parent company and the subsidiaries. Subsidiaries are companies over which the parent company has control. Control over a subsidiary is presumed to exist when the investor is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Acquired subsidiaries are included in the consolidated financial statements from the date of acquisitions until the control ends. Acquired companies are included in the financial statements using the acquisition cost method. The net assets of the acquired company at the acquisition date are booked at the fair value of the land areas and buildings. Acquisitions of real property are generally treated as acquisitions of asset items.

All intra-group transactions, internal receivables and payables, in addition to profit on internal transactions and the distribution of profit between Group companies are eliminated as part of the consolidation process.

Mutual property companies and housing companies, in which the rights of control over specified apartments are determined by shareholdings, are treated as joint operations in the consolidated financial statements. In a joint operation, SATO has rights to

the assets and obligations for the liabilities of the arrangement. Joint operations are accounted for in the consolidated financial statements in the manner prescribed in the IFRS 11 *Joint Arrangements* standard, by recognising SATO's assets and liabilities in the arrangement, including its share of joint assets and liabilities, and its revenue and expenses, including its share of joint revenue and expenses. Joint ventures, in which the Group and another party have joint control in the arrangement and which give the Group rights to the net assets of the arrangement, are consolidated in SATO's consolidated financial statements in accordance with IFRS 11, i.e., by the equity method.

In SATO's consolidated financial statements, the housing companies that own so-called shared ownership apartments are treated as structured entities. These are not included in the consolidated financial statements insofar as the companies are considered to be arrangements outside of SATO's operations, the purpose of which is to act on behalf of the people who have invested in shared ownership apartments. Those involved in the ownership arrangements are entitled to purchase the apartment for themselves after an agreed period and thus to benefit from any rise in the apartment's value. SATO handles the governance and building management of the shared ownership properties.

#### Transactions denominated in foreign currencies

The financial statements of the Group entities are based on their primary functional currencies of the economic environment where the companies are operating. The presentation currency of the financial statements is the euro, which is also the functional currency of the parent company.



Transactions in foreign currencies are translated in the functional currency using the exchange rate of the date of transactions. At the end of the accounting period all open balances of assets and liabilities denominated in foreign currencies are translated into euros at the closing date exchange rate.

Receivables and liabilities denominated in a foreign currency are translated using period-end exchange rates. Foreign exchange gains and losses related to the primary business are treated as adjustments to income or expenses. Investment-related foreign exchange gains and losses are treated as adjustments to investments. Financial foreign exchange gains and losses are reported under financial income and expenses. Foreign exchange gains and losses from translation of other assets and liabilities are reported in income statement. Unrealised gains and losses related to cash flow hedges are reported in other comprehensive income.

The statements of income of foreign subsidiaries, whose functional currency is not the euro, are translated into euros based on the average exchange rate of the accounting period. Items in the statement of financial position, with the exception of income for the accounting period, are translated into euros at the closing-date exchange rate. Exchange rate differences arising from investments in subsidiaries with non-euro currency, as well as the exchange rate differences resulting from translating income and expenses at the average rates and assets and liabilities at the closing rate, are recorded in translation differences under equity. Respective changes during the period are presented in other comprehensive income.

Translation differences from acquisition cost eliminations and post-acquisition profits and losses of foreign

operations outside the euro area are recognised in the statement of comprehensive income. The cumulative translation differences related to foreign operations are reclassified from equity to statement of income upon the disposal of the foreign operation.

### Investment property

As defined in the IAS 40 *Investment Property* standard, investment properties are properties of which the Group retains possession in order to obtain rental income or appreciation in value and which are not occupied for use by the Group or for its operations, nor for sale in the ordinary course of business. In SATO, the housing companies that own so-called shared ownership apartments are treated as structured entities and thus not classified as investment property under IAS 40.

At initial recognition, investment properties are booked at acquisition value, which includes transaction costs. Subsequently, investment properties are valued at fair value in accordance with IFRS 13 *Fair value measurement*. Gains and losses from changes in fair value are booked 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.

Some of SATO's 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.

Investment properties under development, plus those financed with ARAVA loans or 20-year interest-subsidised loans ("short-term interest-subsidised loans") in accordance with the Act on Interest Subsidy for Rental Housing Loans (1980/867), are booked at the original acquisition cost, including the transaction costs. Subsequently, they are valued at the original acquisition cost less accumulated depreciation and impairments. Unbuilt land and development projects, whose realization is uncertain, are valued at cost or probable value, whichever is lower, if their fair value cannot be determined reliably.

An investment property is derecognised from the balance sheet when it is handed over or when the investment property is permanently removed from use and no future economic use can be expected from the handover. The profits and losses from divestments or removals from use of investment properties are presented on separate lines in the profit and loss account.

The fair values of investment properties are based on the following:

- The sales comparison method is used for residential properties, of which apartments can be sold individually without restrictions, and for a majority of other properties than residential properties;
- the income value method is used for residential properties, which can only be sold as entire property and to a restricted group of buyers, and for a number of other properties than residential properties;

- the fair values of properties under construction, properties funded with short-term interest-subsidised loans or ARAVA loans, as well as unbuilt land and development projects, whose realization is uncertain, are estimated to be same as the remaining acquisition cost.

In the sales comparison method, the reference sales prices of comparable housings are gathered from the 24 months preceding the valuation date.

### Tangible assets

Tangible assets are valued at the original acquisition cost less accumulated depreciation and impairments. Other tangible assets are depreciated with the straight-line method over their estimated economic lives, which are as follows:

Machinery and equipment 5–10 years  
Other tangible assets 3–6 years

The economic life and residual value of assets are reassessed at each year-end. Changes in the future economic benefits found in the assessment are taken into account by adjusting the economic life and residual value of the assets. Profits and losses arising from sales and divestments of tangible assets are booked in the profit and loss account and presented as other income and expenses of business operations.

### Intangible assets

An intangible asset is recognised in the balance sheet only if the asset is identifiable, its cost can be measured reliably and it is likely that an expected economic benefit attributable to the asset will flow to the Group.

An intangible asset is valued at the original acquisition cost less amortisation and any impairment.

Intangible assets consist largely of computer software, which is subjected to straight-line amortisation over 3–6 years.

### Impairment

At the end of each reporting period it is assessed whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount from the asset item is estimated. An asset is impaired if the carrying value exceeds the recoverable amount. An impairment loss is recognised in profit or loss.

When an impairment loss is booked, the economic life of the asset item subject to depreciation is reassessed. The impairment loss booked against the asset item is cancelled if there is an increase in the value of the assessment used to determine the recoverable amount from the asset item. However, the increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

### Financial instruments

SATO's financial assets are classified, in accordance with IFRS 9 *Financial Instruments*, into the following categories: financial assets at fair value through profit and loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and financial assets at amortised cost. The classification is made at the time of the initial recognition and is based on the contractual terms of the instrument and the Group's business model for the type of financial instruments.

Financial liabilities are classified to financial liabilities at amortised cost and financial liabilities at fair value through profit and loss under IFRS 9. The

instruments are classified at the time of the initial recognition, based on the purpose of the instrument. Sales and purchases of financial instruments, other than those associated with derivatives, are booked on the clearance date. All derivatives are booked on the balance sheet on the trade date.

### Financial assets and liabilities at fair value through profit and loss

The category includes derivative instruments for which hedge accounting in accordance with IFRS 9 is not applied and are hence classified in trading portfolio. These instruments are valued at fair value and gains and losses arising from changes in the fair value, both realised and unrealised, are recognised in the income statement for the period.

### Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are principally stocks and shares, and they are presented in the statement of financial position in other non-current investments. Investments in listed securities are valued in the financial statements at the prices quoted in an active market at the closing date of the reporting period. Unlisted shares, the fair value of which cannot be determined reliably, are valued at acquisition cost. Unrealised changes in the value the assets in this class are booked in the other comprehensive income, with allowance for the deferred tax. Accumulated changes in fair value are not booked from the fair value reserve to profit and loss until the investment is sold.

### Financial assets at amortised cost

Financial assets at amortised cost are non-derivative assets, for which the cash flows consist of payments of principal and interest, as applicable,

and which are not held for trading purposes. On the statement of financial position, they are included in non-current receivables, accounts receivable and other receivables or cash and cash equivalents, according to their terms.

At initial recognition, loan receivables are measured at fair value including any transaction costs, and they are subsequently measured at amortised cost, using the effective interest rate method. Short-term accounts receivable are initially measured at the transaction value. For impairment of accounts receivable, the Group applies the simplified approach allowed by IFRS 9, whereby it makes an assessment of the lifetime expected credit losses for its accounts receivable at each reporting date, and based on this assessment, recognises the impairment through profit and loss.

Cash and cash equivalents are comprised of cash in hand, bank accounts and liquid investments with maturities of three months or less at the date of initial recognition. Any credit balances of bank accounts with an overdraft facility are included in current liabilities. The cash and cash equivalents of non-profit companies are kept separate from those of companies not subject to non-profit restrictions.

### Financial liabilities at amortised cost

Financial liabilities are initially recognised at fair value of the proceeds less transaction expenses. Subsequently, interest-bearing liabilities are valued at amortised cost using the effective interest method. Financial liabilities are included in non-current and current liabilities and they may be interest-bearing or non-interest-bearing. Interest is accrued in the income statement for the accounting period by the effective interest method.

### Derivatives and hedge accounting

All derivatives are originally booked at fair value at the trade date, and are subsequently measured at fair value. The accounting treatment of profits and losses depends on the intended use of the derivatives. The Group documents the designation of hedging instruments to hedged items and makes its assessment as to whether the derivatives used for hedging are highly effective in negating the changes in the cash flows of the hedged items. The effectiveness is reviewed both when starting the hedging and at each reporting date. The fair value of derivatives is calculated by discounting the contractual cash flows. The fair value of interest-rate options is calculated by using the market prices at the balance sheet date and option valuation models.

The Group treats derivatives either as cash flow hedges for floating-rate loans or as derivatives for which hedge accounting under IFRS 9 is not applied. Changes in value of derivatives subject to hedge accounting are recorded in other comprehensive income. Gains and losses are transferred to the interest expenses in the income statement at the same time as the interest expenses on the hedged item. Any ineffective part of a hedging relationship is booked immediately in financial expenses. Changes in value of derivatives, for which hedge accounting is not applied, are recorded in profit and loss.

### Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events, it is probable that settling the obligation will require a payment or cause an economic loss, and the amount can be reliably estimated.

The Group recognises a provision for statutory 10-year guarantees related to new apartments sold. The 10-year provision is measured based on prior experience of the realization of these obligations. In addition, a warranty provision is recognised upon the recognition of revenue from the project. The amount of the warranty provision is based on prior experience of the actual warranty costs and the specific risks related to the project.

A provision for onerous contracts is recognised when the unavoidable costs of settling the obligations exceed the benefits received from the contract.

#### Principles of income recognition

SATO recognises the income items, which are not in the scope of any other standard, according to IFRS 15 *Revenue from Contracts with Customers*. Under IFRS 15, a five-step model is applied to determine when, and at which amount, revenue is recognised. SATO makes an assessment of the performance obligations included in the contract, after which income is recognised when (or as) control is transferred, either over time or at a point in time.

#### Principles of income recognition for sales of investment property

Sales of the Group's investment property normally consist of a single performance obligation, for which income is recognised at a point in time, when control of the asset is transferred to the buyer. SATO assesses for each transaction, whether the contract includes other performance obligations, such as a material financing component, and determines the expected income from them. Income from any additional performance obligations are recognised over time or at a point in time, depending on their nature.

#### Principles of income recognition for sales of new homes

Income from sales of new homes is recognised when control of the sold asset is transferred to the buyer. The sale of an apartment is considered to form a single performance obligation. In respect of the homes sold during the construction, the risks and benefits are deemed to be transferred on the completion date of the property, whereas for completed homes, they are transferred on the sale date.

#### Income from services

Income from services, such as property management, is recognised as the service is performed.

#### Lease agreements (SATO as lessor)

Rental income from investment properties is recognised in the profit and loss account in equal instalments over the lease period. As a lessor, SATO has no agreements classified as financial lease agreements.

#### Lease agreements (SATO as lessee)

Lease agreements, in which SATO is a lessee, are classified as either financial or other leases at inception, as required by IAS 17 *Leases*.

A lease is classified as a financial lease, if the risks and benefits of ownership have been substantially transferred to SATO, whereby it is recognised, at the commencement of the lease term, on the balance sheet as an asset and liability at fair value or at the present value of the minimum lease payments, if lower. The leased asset is depreciated over the economic life of the asset or over the duration of the lease agreement. The lease payment is divided into interest expense recorded in profit and loss and repayment of the lease debt.

A lease is classified as other lease if the characteristic risks and benefits of ownership have not been transferred substantially. Rental payments of other lease agreements are recorded as expenses in profit and loss over the lease period.

#### Borrowing costs

Borrowing costs are capitalised as part of an asset's acquisition cost when they are due to acquisition, construction or manufacture of a qualifying asset. A qualifying asset is one for which the completion for its intended use or sale will necessarily take a substantial period of time. Other borrowing costs are expensed in the financial year when they have been incurred. Direct transaction costs from the raising of loans, which can be attributed to a particular loan, are included in the cost of the loan and amortised as an interest expense using the effective interest rate method.

#### Public grants

For SATO, the main form of public support is state-supported interest-subsidised loans and ARAVA loans, in which state-backed housing is funded by low-interest debt subsidised by the government. The real interest on these loans is lower than the interest expenses would be on loans with market terms. The interest benefit obtained through public support is therefore netted into interest expenses in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and is not separately presented as interest income.

Other direct public grants, such as investment grants, are recorded as reductions in the book values of the subsidised assets. The grants received therefore reduce the original acquisition cost of those assets.

#### Pension arrangements

SATO's current pension arrangements are classified as defined-contribution arrangements. Contributions to defined-contribution pension arrangements are recorded as expenses in profit and loss for the period when they are incurred. The Group has no legal or actual obligation to make further payments if the recipient of the payments is unable to perform the payment of these pension benefits.

#### Income taxes

Income taxes include the taxes based on the taxable profit for the current year, adjustments to previous years' taxes, and changes in deferred taxes. Deferred tax assets and liabilities are calculated from the differences between the taxational values of assets and liabilities and their carrying values under IFRS. The tax rate approved by the financial statement date is used to determine the deferred taxes. For SATO, the largest temporary differences arise from investment properties measured at fair value through profit and loss and from financial instruments measured at fair value through other comprehensive income. Deferred tax assets are recorded up to the amount, for which it is likely that there will be taxable income in the future, against which the temporary difference can be used.

#### Net operating income

Net operating income is the sum of net sales less property maintenance expenses.

#### Operating profit

Operating profit is the net sum obtained from net operating income, by adding gains from divestments of investment properties, the share of the profit of joint ventures and associated companies,

and other operating income, and deducting the sales, marketing and administrative expenses, losses from divestments of investment properties and other operating expenses. Also, it includes the gain or loss from unrealised fair value changes of investment properties. Exchange gains and losses are included in operating profit when they arise from items related to ordinary business operations. Exchange gains and losses attributable to financing are recorded in financial income and expenses.

### New and amended standards applied in financial year ended

SATO has applied from 1 January 2018 the following new and amended standards that have become effective:

#### IFRS 15 Revenue from Contracts with Customers

In 2018, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for annual periods beginning on or after 1 January 2018, and amendments (effective for financial years beginning on or after 1 January 2018): The new standard replaced the previous IAS 18 and IAS 11 -standards and related interpretations. Under IFRS 15, a five-step model is applied to determine when, and at which amount, to revenue is recognised.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts that begin and end within the same annual reporting period or have variable consideration, or for contracts modified before the beginning of the earliest period presented, but using the expedient allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when

it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

The Group's accounting policies for its significant revenue streams in scope of IFRS 15 are disclosed in detail above, in section "Income recognition". Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

#### IFRS 9 Financial Instruments

In 2018, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. However, the Group has elected to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments*: Disclosures that were applied to the disclosures for 2018 and to the comparison period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets, and
- 3) General hedge accounting.

Further details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

#### (a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have been restated where appropriate.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Additional information of changes in classification of the Group's financial assets upon application of IFRS 9 is presented in section (e) below and in note 17.

#### (b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a

credit event to have occurred before credit losses are recognised.

IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- 1) Debt investments measured subsequently at amortised cost or at fair value through other comprehensive income (FVTOCI);
- 2) Lease receivables;
- 3) Trade receivables and contract assets; and
- 4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The Group applies the simplified approach to measure impairment of its accounts receivable.

Because the Group has elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application

of IFRS 9 (i.e. 1 January 2018), the management has compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017. Based on the Group's assessment, there has been no significant change in the credit risk of such financial assets since their initial recognition.

#### (c) Classification and measurement of financial liabilities

IFRS 9 introduced a significant change to the classification and measurement of financial liabilities, regarding the accounting for changes in the fair value of a financial liability designated as at fair value through profit or loss (FVTPL), when these changes are attributable to changes in the credit risk of the issuer. The adoption of IFRS 9 did not, however, impact the classification or measurement of the financial liabilities of the Group.

#### (d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January

2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current or prior years. Please refer to note 29 for detailed disclosures regarding the Group's risk management activities.

#### (e) The impact of the initial application of IFRS 9 at SATO

SATO has reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- The Group's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve;

- Financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Further details regarding changes in classification of the Group's financial assets upon application of IFRS 9 are presented in tabular form in note 17.

Due to implementation of IFRS 9, the Group has changed the accounting treatment of the allowance for doubtful accounts. The change had a one-off negative impact of EUR 1.5 million on the Group's equity, as at 1 January 2018. See further details below in section (f).

The transition to IFRS 9 had no impact on the classification or measurement of the Group's financial liabilities.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

#### (f) Impact of initial application of IFRS 9 on financial performance and financial position

The table below shows the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for 2017. The adjustments are related to the new accounting principle for the

impairment of accounts receivable. Otherwise, the initial application of IFRS 9 had no impact on the Group's financial performance or financial position.

EUR million	1 Jan–31 Dec 2017
Other operating expenses	-0.5
Income taxes (change of deferred taxes)	0.1
Profit for the period	-0.4

EUR million	31 Dec 2017
Deferred tax assets	0.4
Accounts receivable and other receivables	-1.9
Total assets	-1.5
Retained earnings	-1.5
Total equity and liabilities	-1.5

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

The impact of the application of IFRS 9 on basic and diluted earnings per share of 2017 was EUR -0.01.

#### Amendments to IFRS 2 – Clarification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2, effective from 1 January 2018, clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The amendments had no impact on SATO's consolidated financial statements.



**Amendments to IAS 40 – Transfers of Investment Property**

The amendments to IAS 40, effective from 1 January 2018, clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

In connection to the amendments, SATO has reassessed the classification of certain assets on the balance sheet. From the beginning of the year 2018, the Group's unbuilt land reserve and such properties under development, which previously were not classified as investment property, are classified as investment property. Accordingly, the gain (loss) from land plots sold, which was previously presented under other operating income in the income statement, is presented under realised fair value changes of investment properties. Due to the change, the Group's investment property at 1 January 2018 increased, and its tangible assets decreased, by EUR 67.7 million. Correspondingly, the gain (loss) from land plots sold, totalling EUR 7.9 million in 2017 and previously presented under other operating income in the income statement, is presented in the realised fair value change of investment properties.

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21

*The Effects of Changes in Foreign Exchange Rates*

-standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation had no impact on SATO's consolidated financial statements.

**Annual Improvements to IFRSs (2014–2016 cycle)**

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The amendments had no impact on SATO's consolidated financial statements.

**Adoption of new and amended standards and interpretations applicable in upcoming financial years**

SATO has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

**IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The new standard replaces the current IAS 17 Leases standard and related interpretations. SATO will apply the new standard from 1 January 2019.

**(a) General impact of application of the standard**

Due to the new standard, lessees will recognise most of leases on the balance sheet and there will no longer be a distinction between operating and finance leases. Under IFRS 16, a lease asset (i.e. right-of-use asset), representing right to use the underlying item, and a lease liability, representing obligation to make lease payments, will be recognised. The new standard includes certain optional exemptions in respect of short-term leases and leases of low-value items.

Lessor accounting remains similar compared to the current IAS 17 standard. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

**(b) Transition principles**

The Group will apply IFRS 16 using the modified retrospective application, without restatement of comparatives. The cumulative effect of initially applying the standard at the date of initial application, i.e. 1 January 2019, is recognised as an adjustment to the opening balance of retained earnings. A lease liability and a right-of-use asset is recognised at the date of initial application for leases classified as an operating lease under the previous standard. The right-of-use asset is measured at the same amount as the related lease liability at the date of initial application. The accounting for short-term lease agreements and lease agreements of low-value assets remains unchanged and these leases will not

be capitalised. Leases with a duration of 12 months or less are considered short-term.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

**(c) Impact analysis**

SATO has assessed the impacts of the implementation of IFRS 16 on its consolidated financial statements. According to the assessment, the new standard will have an impact on SATO's consolidated financial statements as far as it concerns the Group as a lessee. The Group is a lessee in a significant number of lease agreements for land plots and offices, which will be recognised on the balance sheet according to the new standard. As at 1 January 2019, the Group had non-cancellable operating lease commitments of EUR 125.3 million. Based on preliminary assessment, EUR 0.1 million of these commitments relate to short-term leases and leases of low-value items. Further information of the Group's lease commitments is presented in note 30 to the consolidated financial statements.

The Group has made an analysis of the quantitative impact of new standard to the consolidated financial statements. Currently, a balance sheet impact of approximately EUR 60 million to assets and approximately EUR 60 million to liabilities is expected. In the income statement, operating lease expenses will be replaced by depreciation and interest expense and investment property fair value change as far as they relate to land leases classified as investment property. For lease contracts that will be recognised on the balance

sheet as of 1 January 2019, annual operating lease expenses (that would have been recognised under IAS 17) of approximately EUR 3 million relate to property maintenance expenses and approximately EUR 2 million to sales, marketing and administrative expenses. The Group expects IFRS 16 to have no significant impact to the consolidated financial statements as regards to the Group acting as a lessor. The final impact assessment of the new standard will be completed during the first quarter of 2019.

**IFRS 17 Insurance Contracts\* (effective for financial years beginning on or after 1 January 2021)**

The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces the IFRS 4 standard. The standard is expected to have no impact on SATO's consolidated financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments\* (effective for financial years beginning on or after 1 January 2019)**

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation is expected to have no impact on SATO's consolidated financial statements.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019)**

The amendments enable entities to measure some financial assets that include a prepayment

feature with so-called negative compensation at amortised cost. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures\* (effective for financial years beginning on or after 1 January 2019)**

The amendments clarify that IFRS 9 Financial Instruments, including its impairment requirements, applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Annual Improvements to IFRSs (2015–2017 cycle)\* (effective for financial years beginning on or after 1 January 2019)**

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Amendments to IAS 19 – Employee Benefits Plan Amendment, Curtailment or Settlement\* (effective for financial years beginning on or after 1 January 2019)**

The amendments clarify the calculation of service costs and the measurement of the defined benefit liability (asset) in defined benefit plans. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 – Sale or Contribution of**

**Assets between an Investor and its Associate or Joint Venture**

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Amendments to IFRS 3 – Definition of a Business\***

The amendments in Definition of a Business (Amendments to IFRS 3) are bring clarifications to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The amendments are expected to have no impact on SATO's consolidated financial statements.

**Amendments to IAS 1 and IAS 8: Definition of Material\* (effective for financial years beginning on or after 1 January 2020)**

The amendments to IAS 1 and IAS 8 clarify the definition of "material" and align the definition used in the Conceptual Framework and the standards. The amendments are expected to have no impact on SATO's consolidated financial statements.

\* not yet endorsed for use by the European Union as of 31 December 2018

**Changes in accounting principles**

At 31 December 2018, the Group has changed its accounting principle regarding the measurement of deferred taxes from investment property measured at fair value. The change is based on the agenda decision of 15–16 July 2014 by the IFRS Interpretations Committee, regarding interpretation of the IAS 12 standard in situations where the ownership of a single asset (such as a property) is arranged through a subsidiary established solely for that purpose. Because of the prevailing market practice in real estate transactions in its area of operations, SATO previously applied a practice of calculating the deferred tax of investment properties owned through housing companies based on the temporary difference between the acquisition cost of the housing company shares (in the parent company's taxation) and the fair value of the investment property. Under the revised accounting practice, the deferred tax is calculated based on the temporary difference of housing companies' investment properties based on between the value of the underlying properties for tax purposes (in the housing company's taxation) and the fair value of the investment property. The restatements to the consolidated financial statements have been carried out according to the IAS 8 standard. The retrospective restatement decreased

the Group's profit for the period 1 January–31 December 2017 by EUR 1.3 million, or by EUR 0.02 per share. Due to the restatement, total shareholders' equity of the Group as at 31 December 2017 was decreased by EUR 12.1 million and deferred tax liabilities were correspondingly increased by EUR 12.1 million.

From the beginning of 2019, the Group will apply IFRIC 21 *Leases* interpretation to the recording of property taxes. According to the new principle, the property taxes will be expensed at their full amount when the obligation for payment arises, whereas in the current and prior periods, they have been expensed over the entire reporting period. The change does not affect the profit for the full financial period. In total, the property taxes of the Group for 2018 amount to approximately EUR 7.0 million.

## 2. MANAGEMENT JUDGEMENTS AND KEY ESTIMATES AND ASSUMPTIONS UNDERLYING THE CONSOLIDATED FINANCIAL STATEMENTS

When the financial statements are prepared, making of judgements, estimates and assumptions is required in certain matters, affecting the amounts of assets, liabilities and conditional liabilities on the consolidated statements of financial position as well as the amount of income and expenses in the income statement. The judgements, estimates and assumptions that have the most significant effects on preparation of the financial statements, are presented in the following.

### Management judgements

In the process of applying the Group's accounting principles, management has made the following judgements, which have a significant effect on the amounts recognised in the consolidated financial statements.

- Classification of acquisitions. The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of assets. The Group considers whether the acquisition represents a business as defined in IFRS 3 *Business combinations*, i.e., whether an integrated set of activities and processes is acquired in addition to the property. When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.
- Classification of properties. The Group determines whether a property is classified as investment property or a tangible asset. Investment property comprises land and buildings (primarily housing units) that are not occupied for use by the Group or for its operations, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants. Property in tangible assets comprises other than investment property and they are occupied for use by the Group or for its operations.

### Key estimates and assumptions

Estimates and assumptions underlying the financial statements are based on the management's historical experience, the best available information about the events at the reporting date, and other factors, such as expectations concerning the future that are considered reasonable under current circumstances. Due to the uncertainty involved, actual amounts may differ significantly from the estimates

used in the financial statements. The changes in estimates, assumptions and the factors affecting them are followed in the Group by using both internal and external sources of information.

Revisions of accounting estimates are recorded for the period in which the estimate is revised if the change in the estimate only affects that period. If the change in the estimate affects both the period in which it is made and subsequent periods, the effect arising from the change in the estimate is correspondingly recorded in current and subsequent periods.

The key estimates and assumptions, which are considered to involve a significant risk of causing a material adjustment in future periods, are described below.

- The amount of provisions recognised on property development projects requires estimates of the obligations arising from the projects. The amounts recorded as provisions are based on the management's assessment of the specific risks in each project. Key considerations in the management's assessment include technical, contractual and legal aspects related to the project, as well as the Group's prior experience on similar projects.
- The fair value of investment property is determined using recognised valuation techniques and the principles of IFRS 13 *Fair Value Measurement*. Due to the fact that market prices for properties are not observable on a quoted market, the fair value measurement for investment property is performed using indirect valuation techniques that require the use of several assumptions by the Group management. The significant methods and assumptions used by the Group in estimating the fair value of investment property are set out in note 13.

### 3. SEGMENT INFORMATION

SATO has one operating segment. Significant operational decisions at SATO are made by the 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 per cent or more of SATO's revenues.

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Net sales by geographical region</b>		
Finland	284.4	273.4
Russia	6.0	6.7
<b>Total</b>	<b>290.4</b>	<b>280.1</b>

MEUR	31 Dec 2018			31 Dec 2017		
	Finland	Russia	Total	Finland	Russia	Total
<b>Non-current assets by geographical region</b>						
Investment property	3,770.3	104.8	3,875.1	3,513.6	118.9	3,632.5
Tangible assets	2.3	0.0	2.4	2.2	0.0	2.2
Intangible assets	2.6	0.0	2.6	1.8	0.0	1.8
Investments associated companies	0.0	-	0.0	0.0	-	0.0
<b>Total</b>	<b>3,775.3</b>	<b>104.8</b>	<b>3,880.1</b>	<b>3,517.6</b>	<b>118.9</b>	<b>3,636.4</b>

### 4. RESULT ON DISPOSAL OF INVESTMENT PROPERTIES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Gains and losses on sales of investment properties</b>		
Gains on sales of investment properties	4.3	9.9
Losses on sales of investment properties	-0.4	-2.4
<b>Total</b>	<b>3.8</b>	<b>7.5</b>

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

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

Specification of significant investments and disposals are presented in note 13.

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Sale of residential investment properties</b>		
Proceeds from disposal of residential investment properties	15.4	45.7
Carrying value of investment properties sold	-14.9	-46.2
<b>Total</b>	<b>0.4</b>	<b>-0.5</b>

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Sale of land plots</b>		
Sales income, land plots	10.0	14.9
Carrying value of land plots sold	-6.7	-7.0
<b>Total</b>	<b>3.4</b>	<b>7.9</b>

### 5. OTHER OPERATING INCOME AND EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Other operating income</b>		
Sales income, new production	1.0	30.0
New production expenses	-0.1	-28.7
Proceeds from disposal of subsidiaries	1.7	0.0
Carrying value of subsidiaries divested	-0.2	0.0
Other income	1.5	1.6
<b>Total</b>	<b>3.8</b>	<b>2.8</b>

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

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Other operating expenses</b>		
Bad debts expensed in the period	-2.4	-2.4
Post-collection income	1.3	1.1
Other expenses	-0.1	-0.6
<b>Total</b>	<b>-1.2</b>	<b>-1.9</b>

## 6. PERSONNEL EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Personnel expenses</b>		
Salaries and wages	14.3	13.3
Defined contribution pension plans	2.5	2.4
Other personnel expenses	0.4	0.4
<b>Total</b>	<b>17.2</b>	<b>16.1</b>

Management employee benefits are presented in note 33. Related Party Transactions. Average

number of personnel during the period has been 215 (206).

## 7. AUDITOR'S FEE

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Auditor's fees</b>		
Audit	0.1	0.1
Other audit related assignments	0.0	0.0
Tax consultancy	0.0	0.0
Other services	0.0	0.0
<b>Total</b>	<b>0.1</b>	<b>0.2</b>

SATO's Auditor in 2018 is Deloitte Oy, Authorised Public Accountants. In 2017, SATO's Auditor was KPMG Oy Ab, Authorised Public Accountants.

The audit fees include fees relating to audits of SATO, its subsidiaries and the consolidated financial statements of the Group. Other audit related assignment fees include assurance and other services related to audit.

## 8. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES

MEUR	note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Depreciation, amortisation and impairment charges by asset class:</b>			
Tangible assets	14	0.5	0.3
Intangible assets	15	0.8	0.8
<b>Total</b>		<b>1.3</b>	<b>1.1</b>

## 9. RESEARCH AND DEVELOPMENT

Research and development expenses during 2018 were EUR 0.2 (1.3) million and capitalised development costs were EUR 1.5 (0.6) million.

## 10. FINANCIAL INCOME AND EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Financial income</b>		
Interest income on loans and other receivables	1.0	0.5
Dividend income on other non-current investments	0.0	0.1
Foreign exchange gain	-0.1	0.1
<b>Total</b>	<b>0.9</b>	<b>0.7</b>

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Financial expenses</b>		
Interest expense on financial liabilities measured at amortised cost	-27.3	-29.0
Interest expense on effective cash flow hedges	-11.6	-12.9
Interest expense on non-hedge accounted derivatives	0.0	0.0
Change in fair value, non-hedge accounted derivatives	0.0	0.0
Other financial expenses	-4.6	-4.6
<b>Total</b>	<b>-43.5</b>	<b>-46.5</b>
<b>Financial income and expenses, net</b>	<b>-42.5</b>	<b>-45.8</b>

## II. INCOME TAXES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Income taxes recognised in income statement</b>		
Current tax from accounting period	24.4	23.0
Current tax from previous period	0.9	1.4
Deferred taxes	21.2	15.4
<b>Total</b>	<b>46.5</b>	<b>39.8</b>



Reconciliation between the income tax expense recognised in income statement and tax expense calculated with domestic corporate tax rate 20 per cent of the parent company:

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Profit before taxes</b>	230.8	184.4
<b>Income tax calculated with domestic corporate tax rate of the parent</b>	46.2	36.9
Non-deductible expenses and tax-exempt income	-0.4	0.5
Effect of different tax rates in foreign operations	0.7	1.1
Taxes from prior periods	-0.1	0.3
Other items*	0.2	1.1
<b>Total adjustments</b>	<b>0.4</b>	<b>1.6</b>
<b>Income tax expense in income statement</b>	<b>46.5</b>	<b>39.8</b>
Effective tax rate, per cent	20.2	21.6

\* At 31 December 2018, SATO changed its accounting principle regarding the measurement of deferred taxes from investment property at fair value. The effect of the retrospective restatement to the prior period tax expense, EUR 1.3 million, is included in other items.

## 12. EARNINGS PER SHARE

Undiluted earnings per share is calculated by dividing parent company profit attributable to equity holders with weighted average number of shares

outstanding. The total number of SATO's shares at 31 December 2018 was 56,783,067. At the end of the reporting period, SATO held 160,000 of its own shares.

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Profit attributable to equity holders of the parent	184.3	144.7
Weighted average of shares	56.6	56.6
<b>Earnings per share (EUR)</b>		
Basic	3.26	2.55
Diluted	3.26	2.55

## 13. INVESTMENT PROPERTIES

MEUR	note	2018	2017
<b>Fair value of investment properties at start of period*</b>		3,632.5	3,486.2
Acquisitions of properties		5.6	29.1
New construction and other investments in properties		155.0	127.4
Disposals of investment properties		-21.7	-81.9
Capitalised borrowing costs	34	1.7	1.9
Reclassified from other items		0.1	1.2
Gains and losses from changes in fair value**		102.0	68.6
<b>Fair value of investment properties end of period</b>		<b>3,875.1</b>	<b>3,632.5</b>

\* From 1 January 2018, SATO has classified its unbuilt land reserved and such properties under development, which previously were not classified as investment property, as investment property. Due to the change, the Group's investment property increased by EUR 67.7 million at the beginning of 2018 and by EUR 103.0 million at the beginning of 2017.

\*\* Gains and losses from changes in fair value include foreign exchange gains and losses of EUR -15.3 (-9.3) million.

### Significant acquisitions of investment properties during the period:

SATO did not make significant acquisitions of completed investment properties during the reporting period.

### Significant disposals of investment properties during the period:

In total, 98 (294) rental apartments were divested in Finland, with a combined value of EUR 12.7 (46.2) million. The most significant divestments were the sale of 24 rental apartments to Kouta Kiinteistöt Ltd in July and the sale of 26 rental apartments to ABC Invest Ltd in August. The divested apartments are mainly located outside SATO's primary operating area.

### Valuation methods

SATO's investment properties mainly comprise of residential properties. In addition, the investment

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

Some of the residential investment properties are subject to legislative and usage restrictions. The so-called non-profit restrictions apply to the owning company and the so-called property-specific restrictions apply to the investment owned. The non-profit restrictions include, among other things, permanent limitations on the company's opera

tions, 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 measurement are approved by the Corporate Management Group. During the valuation process all the periodical changes are analysed. The result of the valuation and the periodic change in fair value recorded through profit and loss are reported to the Corporate Management Group and Board of Directors.

At inception, 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, according to the Group's estimate, would be received for the property in an orderly transaction taking place in the local (principal) market at the reporting date, considering the condition and location of the property. The valuation methods for

SATO's investment properties are sales comparison method, income value method and acquisition cost method.

### Sales comparison method

The sales comparison method is used for residential properties, of which apartments can be sold individually without restrictions. The market value as at the date of the valuation is based on the average of the actual sales prices of comparable housings from the preceding 24 months. As a source for such comparable sales prices, the Company applies housing price data which, according to its view, represents the most comprehensive data source available. Currently, the Company uses HSP (Hintaseuranta-palvelu), a price tracking service maintained by CGI Suomi Oy, as a source of such housing price data. The HSP price tracking service includes information on sales of apartments and real estates in Finland provided by real estate agents. The market value for each property is individually adjusted using rental house discount. Deduction is mainly based on the location, condition and image of the property. Properties located in St. Petersburg are valued by a third party expert (JLL). In addition, a majority of non-residential properties are valued with the sales comparison method.

### Income value

The residential properties that can only be sold as entire properties and to a restricted group of buyers are valued using the income value method. The income value is based on the area-specific yield and assumption of the long-term rental use of the buildings. Long-term renovation costs and interest subsidies are taken into account in the income value method. In 2018, the yields used in estimation of the income value varied mainly in the range of 5 to 7 per cent. In addition, a number of non-resi-

dential properties are valued with the income value method.

### Acquisition cost

Properties under construction and ARAVA properties are valued at acquisition cost less any impair-

ments, which is estimated to represent their fair value. Unbuilt land and development projects, whose realization is uncertain, are valued at cost or probable value, whichever is lower, if their fair value cannot be determined reliably.

MEUR	31 Dec 2018	31 Dec 2017
<b>Investment property by valuation classes</b>		
Sales comparison method	3,138.0	2,932.8
Income value	516.2	478.9
Acquisition method	220.8	220.8
<b>Total</b>	<b>3,875.1</b>	<b>3,632.5</b>

### Sensitivity analysis of investment properties

MEUR	-10%		-5%		5%		10%	
	Change	Change, %	Change	Change, %	Change	Change, %	Change	Change, %
<b>Properties measured by sales comparison method</b>								
Change in market prices	-282.5	-9.7%	-141.2	-4.9%	141.2	4.9%	282.5	9.7%
<b>Properties measured by income value</b>								
Yield requirement	58.9	12.0%	27.9	5.7%	-25.2	-5.1%	-48.2	-9.8%
Lease income	-73.4	-14.9%	-36.7	-7.5%	36.7	7.5%	73.4	14.9%
Maintenance costs	20.5	4.2%	10.2	2.1%	-10.2	-2.1%	-20.5	-4.2%
Utilisation rate	-73.4	-14.9%	-36.7	-7.5%	-	-	-	-

All SATO's investment properties are classified in 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.

## 14. TANGIBLE ASSETS

2018					2017				
MEUR	note	Machinery and equipment	Other tangible assets	2018 total	MEUR	note	Machinery and equipment	Other tangible assets	2017 total
<b>Acquisition cost, 1 January</b>		4.7	1.3	6.0	<b>Acquisition cost, 1 January</b>		4.6	1.4	6.0
Additions		0.7	0.0	0.8	Additions		0.5	0.1	0.6
Disposals		-0.4	0.0	-0.4	Disposals		-0.4	-	-0.4
Transfers between items		-0.1	0.1	0.0	Transfers between items		0.0	-0.1	-0.1
<b>Acquisition cost, 31 December</b>		<b>4.9</b>	<b>1.4</b>	<b>6.4</b>	<b>Acquisition cost, 31 December</b>		<b>4.7</b>	<b>1.3</b>	<b>6.0</b>
<b>Accumulated depreciation, 1 January</b>		3.6	0.3	3.8	<b>Accumulated depreciation, 1 January</b>		3.6	0.3	3.9
Disposals		-0.4	0.0	-0.4	Disposals		-0.4	-	-0.4
Depreciation and impairments for the period	8	0.3	0.1	0.5	Depreciation for the period	8	0.3	-	0.3
Transfers between items		-0.2	0.2	0.0	Transfers between items		-	0.0	0.0
<b>Accumulated depreciation, 31 December</b>		<b>3.4</b>	<b>0.6</b>	<b>4.0</b>	<b>Accumulated depreciation, 31 December</b>		<b>3.6</b>	<b>0.3</b>	<b>3.8</b>
<b>Carrying value, 1 January</b>		1.1	1.1	2.2	<b>Carrying value, 1 January</b>		1.0	1.1	2.1
<b>Carrying value, 31 December</b>		<b>1.5</b>	<b>0.8</b>	<b>2.4</b>	<b>Carrying value, 31 December</b>		<b>1.1</b>	<b>1.1</b>	<b>2.2</b>

## 15. INTANGIBLE ASSETS

2018				
MEUR	note	Intangible rights	Other intangible assets	2018 total
Acquisition cost, 1 January		0.3	6.9	7.2
Additions		0.0	1.7	1.7
Disposals		-0.3	-0.4	-0.7
Transfers between items		0.0	-0.1	-0.1
Acquisition cost, 31 December		0.0	8.2	8.2
Accumulated amortisation, 1 January		0.3	5.1	5.4
Disposals		-0.3	0.0	-0.3
Amortisation for the period	8	0.0	0.8	0.8
Transfers between items		0.0	-0.4	-0.4
Accumulated amortisation, 31 December		0.0	5.6	5.6
Carrying value, 1 January		0.0	1.8	1.8
Carrying value, 31 December		0.0	2.6	2.6

## 16. INTERESTS IN OTHER ENTITIES

### Group composition

SATO has 26 (36) subsidiaries that are individually material to the Group. Subsidiaries are entities over which SATO has control and they are consolidated to the Group. There are no material non-controlling interests in any of the Group's subsidiaries.

Mutual property companies and housing companies, in which the rights of control over specified apartments are determined by shareholdings, are treated as joint operations in the consolidated financial statements. None of these entities is

individually material to the Group. Joint operations are accounted for in the consolidated financial statements in the manner prescribed in the IFRS 11 *Joint Arrangements* standard, by recognising SATO's assets and liabilities in the arrangement, including its share of joint assets and liabilities, and its revenue and expenses, including its share of joint revenue and expenses.

A list of all entities owned by the Group or the parent company is presented in note 36.

2017				
MEUR	note	Intangible rights	Other intangible assets	2017 total
Acquisition cost, 1 January		0.3	6.0	6.3
Additions		-	0.9	0.9
Disposals		-	-	0.0
Transfers between items		-	0.1	0.1
Acquisition cost, 31 December		0.3	6.9	7.2
Accumulated amortisation, 1 January		0.3	4.4	4.7
Disposals		-	-	0.0
Amortisation for the period	8	-	0.8	0.8
Transfers between items		-	-	0.0
Accumulated amortisation, 31 December		0.3	5.1	5.4
Carrying value, 1 January		0.0	1.6	1.6
Carrying value, 31 December		0.0	1.8	1.8

### Significant restrictions

The non-profit subsidiaries are subject to regulatory restrictions limiting distribution of profit from those entities. More information of the restrictions are presented in note 23: Shareholders' equity.

### Structured entities

The housing companies in SATO that own so-called shared ownership apartments are treated as structured entities. These companies are considered to be external arrangements of SATO's operations and are not included in the consolidated financial statement. Their purpose is to act on behalf of the

people who have invested in shared ownership apartments.

There is no significant risk associated to the Group's interests in unconsolidated structured entities. More information on the shared ownership apartments is presented in the accounting principles (note 1) and in note 32: Collateral, commitments and contingencies.

### Immaterial associates and joint ventures

SATO did not have joint ventures or associates that are material to the Group in 2018 or 2017.

## 17. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

31 Dec 2018

31 Dec 2018					Fair value hierarchy		
MEUR	note	Fair value, other com- prehensive income	Assets and liabilities at amortised cost	2018 Carrying amount total	Level 1	Level 2	Level 3
Non-current financial assets							
Other non-current investments	18	1.9	-	1.9	-	1.9	-
Loans receivable	19	-	8.4	8.4	-	8.4	-
Derivative assets	19, 26	0.0	-	0.0	-	0.0	-
Total		1.9	8.4	10.3			
Current financial assets							
Accounts receivable	21	-	7.0	7.0	-	7.0	-
Cash and cash equivalents	22	-	5.4	5.4	-	5.4	-
Total		0.0	12.4	12.4			
Non-current financial liabilities							
Corporate bonds	25	-	647.0	647.0	643.4	24.0	-
Other loans	25	-	987.9	987.9	-	991.8	-
Derivative liabilities	26	39.7	-	39.7	-	39.7	-
Total		39.7	1,635.0	1,674.7			
Current financial liabilities							
Corporate bonds	25	-	100.0	100.0	100.9	-	-
Other loans	25	-	247.2	247.2	-	247.2	-
Derivative liabilities	26	1.1	-	1.1	-	1.1	-
Accounts payable	28	-	4.9	4.9	-	4.9	-
Total		1.1	352.2	353.2			

31 Dec 2017

31 Dec 2017					Fair value hierarchy		
MEUR	note	Fair value, other com- prehensive income	Assets and liabilities at amortised cost	2017 Carrying amount total	Level 1	Level 2	Level 3
Non-current financial assets							
Other non-current investments	18	1.7	-	1.7	-	1.7	-
Loans receivable	19	-	10.7	10.7	-	10.7	-
Derivative assets	19, 26	0.6	-	0.6	-	0.6	-
Total		2.2	10.7	13.0			
Current financial assets							
Accounts receivable	21	-	8.9	8.9	-	8.9	-
Cash and cash equivalents	22	-	14.2	14.2	-	14.2	-
Total		0.0	23.1	23.1			
Non-current financial liabilities							
Corporate bonds	25	-	745.9	745.9	760.5	24.0	-
Other loans	25	-	876.0	876.0	-	879.3	-
Derivative liabilities	26	39.4	-	39.4	-	39.4	-
Total		39.4	1,621.8	1,661.2			
Current financial liabilities							
Corporate bonds	25	-	100.0	100.0	100.6	-	-
Other loans	25	-	209.9	209.9	-	209.9	-
Derivative liabilities	26	3.3	-	3.3	-	3.3	-
Accounts payable	28	-	4.5	4.5	-	4.5	-
Total		3.3	314.4	317.7			



The cash flow hedging derivatives are valued at fair value through other comprehensive income.

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

SATO has evaluated its financial assets and liabilities based on the IFRS 9 standard. On the date of initial application of the standard, 1 January 2018, the financial assets and liabilities were as follows:

	Classification		Carrying amount, MEUR	
	Original (IAS 39)	New (IFRS 9)	Original	New
<b>Financial assets</b>				
Other non-current investments	Available-for-sale financial assets	Fair value through other comprehensive income (FVTOCI)	1.7	1.7
Loans receivable	Loans and receivables (amortised cost)	Financial assets at amortised cost	10.7	10.7
Derivatives under hedge accounting	Fair value through other comprehensive income (FVTOCI)	Fair value through other comprehensive income (FVTOCI)	0.6	0.6
Accounts receivable	Loans and receivables (amortised cost)	Financial assets at amortised cost	8.9	7.0
Cash and cash equivalents	Loans and receivables (amortised cost)	Financial assets at amortised cost	14.2	14.2
<b>Financial liabilities</b>				
Corporate bonds	Financial liabilities at amortised cost	Financial liabilities at amortised cost	845.9	845.9
Other loans	Financial liabilities at amortised cost	Financial liabilities at amortised cost	1,085.8	1,085.8
Derivatives under hedge accounting	Fair value through other comprehensive income (FVTOCI)	Fair value through other comprehensive income (FVTOCI)	42.7	42.7
Accounts payable	Financial liabilities at amortised cost	Financial liabilities at amortised cost	4.5	4.5

## 18. OTHER NON-CURRENT INVESTMENTS

MEUR	31 Dec 2018	31 Dec 2017
<b>Available-for-sale financial assets</b>		
Other holdings	1.9	1.7
<b>Total</b>	<b>1.9</b>	<b>1.7</b>

SATO presents its available-for-sale financial assets categorised into quoted shares and other holdings. Unrealised valuation gains and losses from available-for-sale financial assets are recognised in other comprehensive income and in fair value reserve,

after accounting for tax effects. Other holdings include shares in unlisted companies, and are valued at acquisition cost if their fair value cannot be reliably determined.

## 19. NON-CURRENT RECEIVABLES

MEUR	note	31 Dec 2018	31 Dec 2017
<b>Non-current receivables</b>			
Derivatives	17, 26	0.0	0.6
Loans receivable	17	8.4	10.7
<b>Non-current receivables total</b>		<b>8.5</b>	<b>11.3</b>

The loans receivable are mainly receivables from housing companies that own shared ownership apartments. They are valued at acquisition cost

in the consolidated financial statements and, according to the Group's assessment, they are not exposed to significant credit risk.

## 20. CHANGES IN DEFERRED TAX ASSETS AND LIABILITIES

MEUR	1 Jan 2018	New standards and changes in accounting principles	Recognised through profit or loss	Transfers between items	Recognised through other comprehensive income	31 Dec 2018
<b>Deferred tax assets</b>						
Valuation of financial instruments at fair value	6.8	-	-	-	-0.2	6.6
Periodisation and temporary differences	6.4	-	0.0	-	-	6.4
<b>Total</b>	<b>13.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.2</b>	<b>12.9</b>
<b>Deferred tax liabilities:</b>						
Valuation of investment properties at fair value	191.4	-	23.8	-	-	215.2
Valuation of financial instruments at fair value	1.1	-	-0.1	-	-	1.0
Reclassification of housing provisions and depreciation differences	58.0	-	-2.6	-	-	55.4
Periodisation and temporary differences	0.0	-	-	-	-	0.0
Allocated acquisition costs	1.6	-	-	-	-	1.6
<b>Total</b>	<b>252.1</b>	<b>0.0</b>	<b>21.2</b>	<b>0.0</b>	<b>0.0</b>	<b>273.2</b>

SATO adopted IFRS 9 *Financial instruments* standard on 1 Jan 2018. The impact of the standard on the Group's deferred tax assets amounted to EUR 0.3 million at the beginning of the comparison period and EUR 0.4 million at the beginning of the current financial period, as compared to prior reporting practice.

At 31 Dec 2018, SATO changed its accounting principle concerning the measurement of deferred tax on investment property. The impact of the standard on the Group's deferred tax liabilities amounted to EUR 10.8 million at the beginning of the comparison period and EUR 12.1 million at the beginning of the current financial period, as compared to prior reporting practice.

MEUR	1 Jan 2017	New standards and changes in accounting principles	Recognised through profit or loss	Transfers between items	Recognised through other comprehensive income	31 Dec 2017
<b>Deferred tax assets</b>						
Valuation of financial instruments at fair value	9.5	0.3	0.1	-	-3.1	6.8
Periodisation and temporary differences	6.5	-	-0.2	-	-	6.4
<b>Total</b>	<b>16.1</b>	<b>0.3</b>	<b>-0.1</b>	<b>0.0</b>	<b>-3.1</b>	<b>13.2</b>
<b>Deferred tax liabilities:</b>						
Valuation of investment properties at fair value	162.6	10.8	18.0	-	-	191.4
Valuation of financial instruments at fair value	1.1	-	0.0	-	-	1.1
Reclassification of housing provisions and depreciation differences	60.6	-	-2.6	-	-	58.0
Periodisation and temporary differences	0.0	-	-	-	-	0.0
Allocated acquisition costs	1.6	-	-	-	-	1.6
<b>Total</b>	<b>225.9</b>	<b>10.8</b>	<b>15.4</b>	<b>0.0</b>	<b>0.0</b>	<b>252.1</b>

For additional information about the changes mentioned before, please refer to note 1.

## 21. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

MEUR	note	31 Dec 2018	31 Dec 2017
<b>Accounts receivable and other receivables</b>			
Accounts receivable	17	7.0	8.9
Prepaid expenses and accrued income		0.9	1.1
Other receivables		4.0	3.9
<b>Total</b>		<b>11.9</b>	<b>13.9</b>

MEUR	31 Dec 2018			31 Dec 2017		
	Gross amount	Expected credit loss	Carrying amount	Gross amount	Expected credit loss	Carrying amount
<b>Aging structure of accounts receivable</b>						
Not due and less than one month overdue	3.8	-0.2	3.6	6.5	-0.3	6.3
1-6 months overdue	2.0	-0.4	1.6	2.1	-0.6	1.5
More than 6 months overdue	3.5	-1.6	1.9	2.2	-1.1	1.1
<b>Total</b>	<b>9.2</b>	<b>-2.2</b>	<b>7.0</b>	<b>10.8</b>	<b>-1.9</b>	<b>8.9</b>

SATO recognises the allowance for bad debts for accounts receivable according to IFRS 9, starting at 1 January 2018. For measurement of the impairment of accounts receivable, the Group applies the simplified approach allowed by the standard, whereby it makes an assessment of the lifetime

expected credit losses for its accounts receivable at each reporting date, and based on this assessment, recognises the impairment through profit and loss. The recorded allowance for bad debts amounted to EUR 2.2 (1.9) million at the end of period.

MEUR	31 Dec 2018	31 Dec 2017
<b>Specification of prepaid expenses and accrued income</b>		
Prepaid expenses and accrued income related to rental services	0.0	0.7
Prepaid expenses and accrued income related to new constructions	0.1	0.0
Prepayments	0.1	0.1
Purchase price receivable	0.1	0.1
Interest receivables	0.2	0.1
Other	0.3	0.2
<b>Total</b>	<b>0.9</b>	<b>1.1</b>

## 22. CASH AND CASH EQUIVALENTS

MEUR	note	31 Dec 2018	31 Dec 2017
Cash and bank balances	17	5.4	14.2
<b>Total</b>		<b>5.4</b>	<b>14.2</b>

The cash assets of group companies subject to non-profit restrictions are kept separately from other companies' cash assets. At the reporting

date, such restricted companies' cash assets totalled EUR 1.0 (11.1) million.

## 23. SHAREHOLDERS' EQUITY

MEUR	31 Dec 2018	31 Dec 2017
<b>The following dividend and repayment of capital were declared and paid by the company:</b>		
Dividends, EUR 0.50 (0.00) per share	-28.3	0.0
<b>Total</b>	<b>-28.3</b>	<b>0.0</b>

No capital repayments were made by SATO in 2018 or 2017.

### Description of items in shareholders' equity

#### Shares and share capital

As at 31 December 2018, the share capital of SATO Corporation totalled EUR 4,442,192, fully paid and divided to 56,783,067 shares. The number of own shares held by the company at the reporting date was 160,000. SATO has one class of shares, each of which entitles to one vote at the Annual General Meeting. The shares do not have a nominal value.

During the period, there were no changes in the number of the company's shares or the number of own shares held. At the reporting date 31 December 2018, the Board of Directors did not have authorisations for arrangement of new share issues.

#### Reserve fund

Reserve fund includes share premium fund.

#### Fair value reserves

Fair value reserves include change in fair value of financial instruments used in cash flow hedge accounting and fair valuation of available-for-sale financial assets.

#### Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes other equity investments and the subscription price of shares, to the extent that it is not recorded in share capital.

## Dividends

After the balance sheet date 31 December 2018, the Board of Directors has proposed dividend distribution of EUR 0.50 per share (2017: dividend of EUR 0.50 per share).

## Restrictions concerning SATO's shareholders' equity

SATO's retained earnings at the end of period, EUR 1,416.1 (1,260.2) million, included distribution-restricted capital totalling EUR 185.2 (182.9) million attributable to subsidised, non-profit businesses. The figure includes the share of the change in the fair value reported in the income statement. Part of the Group companies are under statutory, non-profit restrictions according to which a company is allowed to distribute only a regulated amount of capital.

## Management of capital structure

The aim of SATO's management of capital structure is to support the growth targets and to secure the ability to pay dividend. Another aim is to ensure SATO's prospects of operating in the equity market. SATO's targeted equity ratio measured at fair value is at least 40 per cent. At the end of period, SATO's equity ratio measured at fair value was 39.6 (37.8) per cent. The Board of Directors reviews and assesses SATO's capital structure regularly.

Some of SATO's interest-bearing financial agreements include covenants relating to capital structure and profitability. SATO complied with the capital structure and profitability covenants during the reporting period.

## 24. LONG-TERM NON-INTEREST-BEARING LIABILITIES

The long-term non-interest-bearing liabilities, EUR 1.3 (0.0) million, are related entirely to the Group's property development projects.

## 25. FINANCIAL LIABILITIES

MEUR	31 Dec 2018	31 Dec 2017
<b>Non-current</b>		
Corporate bonds	647.0	745.9
Bank loans	693.9	528.3
Interest-subsidised loans	243.9	290.6
State-subsidised ARAVA loans	50.2	57.0
<b>Total</b>	<b>1,635.0</b>	<b>1,621.8</b>

MEUR	31 Dec 2018	31 Dec 2017
<b>Current</b>		
Corporate bonds	100.0	100.0
Commercial papers	182.9	140.9
Bank loans	26.3	37.0
Interest-subsidised loans	31.5	24.1
State-subsidised ARAVA loans	6.5	7.9
<b>Total</b>	<b>347.2</b>	<b>309.9</b>

During the reporting period, a total of EUR 257.1 (273.5) million of new long-term debt was drawn. At the reporting date, the average interest on the SATO debt portfolio was 2.1 (2.2) per cent.

For purposes of short-term financing, SATO has a commercial paper programme of EUR 400 (400) million, committed credit limits of EUR 400 (400) million, of which EUR 400 (400) million were unused, and a non-committed current overdraft limit of EUR 5 (5) million, of which EUR 5 (5) million were unused.

Corporate bonds include the following bonds issued by SATO Corporation during 2015–2016: EUR 300 million unsecured five-year bond which maturing in September 2020 and carrying a fixed

annual coupon of 2.25 per cent, EUR 300 million unsecured five-year bond maturing in March 2021 and carrying a fixed annual coupon of 2.375 per cent. The bonds are guaranteed by a subsidiary, are listed on the Irish Stock Exchange and have a public Baa3 credit rating from Moody's. Corporate bonds also include the secured bonds issued by SATO Corporation during 2012–2013. The EUR 100 million secured bond issued in 2012 matures in April 2019 and carries a fixed annual coupon of 3.375 per cent. The EUR 24 million and EUR 25 million secured bonds issued in 2013 will mature in June 2023 and December 2022, and the both carry an annual interest consisting of a margin and a floating Euribor rate. The secured bonds are listed on Nasdaq Helsinki Ltd, and they do not have credit ratings.

## 26. DERIVATIVES

### Fair values of derivative instruments

MEUR	Positive	Negative	31 Dec 2018 net	Positive	Negative	31 Dec 2017 net
<b>Non-current</b>						
Interest rate swaps, cash flow hedge	-	-25.7	-25.7	0.6	-25.2	-24.6
Cross-currency and interest rate swaps, cash flow hedge	-	-14.0	-14.0	-	-14.2	-14.2
<b>Non-current derivatives, total</b>	<b>0.0</b>	<b>-39.7</b>	<b>-39.7</b>	<b>0.6</b>	<b>-39.4</b>	<b>-38.8</b>
<b>Current</b>						
Interest rate swaps, cash flow hedge	0.0	-1.1	-1.1	-	-0.4	-0.4
Cross-currency and interest rate swaps, cash flow hedge	-	-	0.0	-	-2.9	-2.9
<b>Current derivatives, total</b>	<b>0.0</b>	<b>-1.1</b>	<b>-1.1</b>	<b>0.0</b>	<b>-3.3</b>	<b>-3.3</b>
<b>Derivatives, total</b>	<b>0.0</b>	<b>-40.8</b>	<b>-40.8</b>	<b>0.6</b>	<b>-42.7</b>	<b>-42.1</b>

MEUR	31 Dec 2018	31 Dec 2017
<b>Nominal values of derivative instruments</b>		
Interest rate swaps, cash flow hedge	775.5	716.6
Cross-currency and interest rate swaps, cash flow hedge	73.4	103.8
<b>Total</b>	<b>848.9</b>	<b>820.4</b>

Change in fair value of designated interest rate hedges, booked to hedge reserve in other comprehensive income, totalled EUR 1.0 (12.5) million and that of foreign exchange hedges totalled EUR 0.0 (0.0) million. Interest rate swaps are used to hedge interest cash flows against fluctuation in market interest rates. SATO also hedges the interest rate risk with forward start swaps. On the reporting date, the forward start swaps amounted to EUR 275.0 (205.0) million in nom-

inal value. 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 one 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.

## 27. PROVISIONS

MEUR	Provision for refund claims	Provision for litigation claims	Other provisions	Total
<b>Total provision at the beginning of the period 1 January 2018</b>	4.0	0.2	2.0	6.1
Increases	0.2	-	0.9	1.1
Provisions used	-0.9	-0.2	-1.1	-2.1
Reversals	-0.7	0.0	-	-0.7
Transfers between items	0.4	0.0	-0.1	0.3
<b>Total provision at the end of the period 31 December 2018</b>	<b>2.9</b>	<b>0.0</b>	<b>1.8</b>	<b>4.7</b>

MEUR	31 Dec 2018	31 Dec 2017
Non-current provisions	2.0	2.7
Current provisions	2.7	3.4
<b>Total</b>	<b>4.7</b>	<b>6.1</b>

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

The provision for litigation claims concerning one of SATO's development projects in Helsinki are used entirely. Legal proceedings have ended in 2018 and there are no further related compensations payable or expected.

## 28. ACCOUNTS PAYABLE AND OTHER LIABILITIES

MEUR	note	31 Dec 2018	31 Dec 2017
<b>Accounts payable and other liabilities</b>			
Advances received		17.6	9.3
Accounts payable	17	4.9	4.5
Other liabilities		3.2	5.3
Accrued expenses and prepaid income		38.6	40.3
<b>Total accounts payable and other liabilities</b>		<b>64.4</b>	<b>59.4</b>



MEUR	note	31 Dec 2018	31 Dec 2017
<b>Accrued expenses and prepaid income</b>			
Personnel expenses		6.2	5.0
Interest expenses		13.2	15.3
Derivative instruments	26	1.1	3.3
Accrued expenses and prepaid income related to new constructions		8.2	7.7
Accrued expenses and prepaid income related to rental services		9.6	8.0
Other accrued expenses		0.3	0.4
Other		0.0	0.5
<b>Total accrued expenses and prepaid income</b>		<b>38.6</b>	<b>40.3</b>

## 29. FINANCIAL RISK MANAGEMENT

The goal of SATO's financial risk management is to protect the company from unfavourable changes occurring in the financial markets. The main principles of financing and financial risk management are set out in the Treasury Policy, approved by the Board of Directors. SATO Treasury is responsible for the management of financial risks in accordance with the Treasury Policy. SATO Treasury reports to the CFO, who is responsible for organising and managing the duties associated with the financing and financial risk management, as well as ensuring compliance with the principles set in the Treasury Policy.

### Interest rate risk

The most significant of SATO market risks is the impact of market interest rate fluctuation on interest cash flows. To manage interest rate risk, the proportions of fixed and floating rate instruments are balanced in such a way that the risk of a rise in interest expenses is on an acceptable level and liquidity is secured. Interest rate risk is primarily attributable to market-based loans, but the interest rate risk of other types of financial liabilities is also monitored.

Market-based loans are primarily drawn at floating rates. In accordance with the Treasury Policy, the interest rate risk arising from these contracts is hedged using derivative instruments, mainly interest rate swaps and options, so that when hedging is applied, the fixed rate portion exceeds 60 per cent of the nominal value of the total loan portfolio. On 31 December 2018, the fixed rate portion of the loan portfolio after hedging is 68.9 (78.2) per cent, the average maturity being 4.4 (4.8) years.

The interest rate derivatives are accounted for as designated cash flow hedges. No ineffectiveness has occurred, as the hedged items and the hedging instruments have the same interest periods. The effect of changes in market interest rates on net financial expenses is examined in the "sensitivity analysis" table below.

Changes in market interest rates also affect interest expense on interest-subsidised loans. However, in interest-subsidised loans, a subsidy is received for the part exceeding the deductible rate, so the risk of increases in interest rates for interest-subsidised loans are considerably lower than for market-based

loans. The deductible rate on interest-subsidised loans varies between 2.75 to 3.50 per cent and on the so-called interim model interest-subsidy loans, funded in years 2009 to 2011, is 3.40 per cent. A major part of the interest-subsidised loans is tied to long reference rates, ranging from 3 to 10 years. Due to the subsidies and long reference rates, the interest rate risk on these loans is not material. In accordance with the Treasury Policy, SATO does not apply hedging to interest-subsidised loans.

In operations financed with state subsidies, rents are based on absorption cost, and hence any interest risk can be transferred to the rents. The interest on state-subsidised ARAVA loans is pegged to changes in Finnish consumer prices. The ARAVA rate is fixed in advance for the following financial period and hence there is no uncertainty of the following period interest expense. Some state-subsidised loans have an interest rate cap, the level of which is based on the interest rate of government 10-year bonds. A risk in state-subsidised ARAVA loans is a substantial increase in interest, which would be difficult to transfer in its entirety to rents without delay.

### Currency risk

SATO is exposed to both transaction and translation risks due to investments in St. Petersburg. Transaction risk arises mainly from rouble-denominated purchase agreements. Committed agreements are fully hedged with currency forward contracts, which are accounted for as cash flow hedges. On the financial statement date, SATO didn't have any rouble-denominated commitments related to the investments. The translation risk, i.e. the consolidation of foreign currency-denominated subsidiary accounts, arises due to the investment properties in St. Petersburg. The fair values of the properties

are translated to euros in consolidated financial statements using the closing exchange rate on the reporting date.

The Group's foreign currency-denominated loans are exposed to foreign exchange risk, which is fully hedged with cross-currency and interest rate swaps. The effect of changes in foreign exchange rates on net financial expenses is examined in the "sensitivity analysis" table below.

### Price risk

At present, SATO has no items which might be subject to a significant price risk.

### Credit risk

SATO is not exposed to significant concentrations of credit risk. Majority of SATO's accounts receivable consists of rent receivables. SATO has over 26,000 tenants, so the risk entailed in a single receivable is insignificant. The use of security deposit decreases the credit risk associated with rent receivables. SATO's actual credit losses have averaged the equivalent of 0.7 (0.7) per cent of rental income. In addition, treasury functions, such as liquidity investments and derivative instruments, involve a counterparty risk, which is reduced by careful selection of counterparties and by diversification of contracts among a number of counterparties.

### Liquidity risk

The Group constantly monitors the amount of financing demanded for business operations so that the adequacy of financing will be assured in all circumstances. The cash flow of operative business is steady and fluctuation mainly arise from investment activities.

Liquidity is managed with the commercial paper programme of EUR 400 (400) million, committed credit limits EUR 400 (400) million, and non-committed credit limits, EUR 5 (5) million. On 31 December 2018, the commercial papers issued amounted to EUR 183.0 (141.0) million in nominal value. The credit facilities were unused (EUR 0 in use on 31 December 2017). In addition, on

31 December 2018 SATO had EUR 100 million other committed long-term unsecured loan undrawn. In liquidity management, it is taken into account that the assets of Group companies subject to non-profit restrictions due to interest subsidies or state-subsidised ARAVA loans, are kept separately and allocated to those non-profit operations.

Moody's has assigned SATO with Baa3 credit rating with stable outlook. With the investment grade credit rating, SATO aims to widen the investor base and to further limit dependency on any single financing counterparties.

SATO's funding agreements contain covenant clauses relating to the Group's capital structure

and debt service capacity. These clauses set a ratio of unencumbered assets to total assets at least 42.5 per cent, a solvency ratio maximum of 70 per cent and interest coverage ratio of at least 1.8. On report date, the ratio of unencumbered assets was 74.1 (66.3) per cent, the solvency ratio was 50.5 (52.1) per cent, and interest coverage ratio was 4.4 (4.5).

#### Sensitivity analysis, interest rate risk

MEUR	2018				2017			
	Profit and Loss		Equity		Profit and Loss		Equity	
	0.1%	-0.1%	0.1%	-0.1%	0.1%	-0.1%	0.1%	-0.1%
Floating rate loans	-0.7	0.7	-	-	-0.8	0.8	-	-
Cross-currency and interest rate swaps	0.1	-0.1	0.2	-0.2	0.1	-0.1	0.3	-0.3
Interest rate swaps	0.4	-0.4	3.4	-3.4	0.4	-0.4	3.1	-3.1
<b>Total</b>	<b>-0.2</b>	<b>0.2</b>	<b>3.6</b>	<b>-3.6</b>	<b>-0.4</b>	<b>0.4</b>	<b>3.3</b>	<b>-3.4</b>

#### Sensitivity analysis, currency risk

MEUR	2018				2017			
	Profit and Loss		Equity		Profit and Loss		Equity	
	10%	-10%	10%	-10%	10%	-10%	10%	-10%
Foreign currency-denominated loans	-5.8	7.1	-	-	-8.5	10.4	-	-
Cross-currency and interest rate swaps	5.8	-7.1	-	-	8.5	-10.4	-	-
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

## Maturity analysis on financial instruments

31 Dec 2018

MEUR	Within 1 year	2–5 years	6–10 years	11–15 years	After 15 years	2018 total
<b>Financial liabilities</b>						
Market-based loans	-329.5	-1,034.4	-348.4	-29.5	-36.9	-1,778.6
Interest-subsidised loans	-40.6	-142.5	-38.5	-42.9	-34.8	-299.2
State-subsidised ARAVA loans	-7.1	-23.8	-20.4	-4.2	-3.6	-59.2
Accounts payable	-4.9	-	-	-	-	-4.9
<b>Financial liabilities total</b>	<b>-382.1</b>	<b>-1,200.7</b>	<b>-407.3</b>	<b>-76.6</b>	<b>-75.2</b>	<b>-2,141.9</b>
<b>Financial instruments</b>						
Interest rate derivatives	-10.7	-27.9	-6.9	-	-	-45.5
<b>Financial instruments total</b>	<b>-10.7</b>	<b>-27.9</b>	<b>-6.9</b>	<b>0.0</b>	<b>0.0</b>	<b>-45.5</b>
<b>Total</b>	<b>-392.8</b>	<b>-1,228.6</b>	<b>-414.2</b>	<b>-76.6</b>	<b>-75.2</b>	<b>-2,187.4</b>

31 Dec 2017

MEUR	Within 1 year	2–5 years	6–10 years	11–15 years	After 15 years	2017 total
<b>Financial liabilities</b>						
Market-based loans	-306.5	-1,085.8	-221.7	-30.8	-44.6	-1,689.2
Interest-subsidised loans	-27.1	-172.6	-48.4	-40.6	-59.7	-348.4
State-subsidised ARAVA loans	-9.0	-24.5	-19.9	-8.3	-5.8	-67.6
Accounts payable	-4.5	-	-	-	-	-4.5
<b>Financial liabilities total</b>	<b>-347.1</b>	<b>-1,282.9</b>	<b>-290.0</b>	<b>-79.7</b>	<b>-110.0</b>	<b>-2,109.7</b>
<b>Financial instruments</b>						
Interest rate derivatives	-10.7	-29.2	-7.9	-	-	-47.9
<b>Financial instruments total</b>	<b>-10.7</b>	<b>-29.2</b>	<b>-7.9</b>	<b>0.0</b>	<b>0.0</b>	<b>-47.9</b>
<b>Total</b>	<b>-357.9</b>	<b>-1,312.1</b>	<b>-297.9</b>	<b>-79.7</b>	<b>-110.0</b>	<b>-2,157.6</b>

Above figures represent contractual, non-discounted cash flows, including interest payments.

### 30. OTHER LEASE AGREEMENTS

#### Group as a lessee

MEUR	31 Dec 2018	31 Dec 2017
<b>Minimum rents to be paid on the basis of other lease agreements:</b>		
Within one year	5.6	5.5
Within two to five years	20.0	21.6
Over five years	99.8	99.8
<b>Total</b>	<b>125.3</b>	<b>126.9</b>

Other lease agreements of the Group mainly include land lease agreements and lease agreements for the Group's offices. The land lease agreements relate to plots leased by the Group from cities and municipalities, and their average remaining lease term is 19.0 years. All of the lease agreements for offices expire within five years, and their total minimum lease payments are EUR 8.1 (10.1) million.

SATO has sublet office premises in Panuntie, Helsinki. The future minimum rent payments from these agreements are EUR 0.5 (0.6) million. In the current period, rental income recognised in income statement amounted to EUR 0.4 (0.5) million.

### 31. NOTES TO THE CASH FLOW STATEMENT

MEUR	note	31 Dec 2018	31 Dec 2017
<b>Non-cash items included in the profit</b>			
Depreciation and amortisation	8	1.3	1.1
Gains and losses from changes in fair value of investment properties	13	-102.0	-68.6
Change in provisions	27	-1.4	1.2
<b>Total</b>		<b>-102.1</b>	<b>-66.2</b>

MEUR	2018	2017
<b>Changes in interest-bearing debt during the period</b>		
<b>Interest-bearing debt, 1 Jan</b>	<b>1,931.7</b>	<b>1,943.0</b>
Cash changes in interest-bearing debt during the period, total	50.2	-7.8
Non-cash changes:		
Change in foreign exchange rates	0.1	-2.7
Interest accrued by the effective interest rate method	0.7	1.6
Transfers of debt to buyers upon disposals of investment property and other adjustments	-0.5	-2.4
<b>Interest-bearing debt, 31 Dec</b>	<b>1,982.2</b>	<b>1,931.7</b>

### 32. COLLATERAL, COMMITMENTS AND CONTINGENCIES

MEUR	31 Dec 2018	31 Dec 2017
<b>Mortgages and pledges for secured borrowings</b>		
Secured borrowings	671.2	894.5
Pledges and mortgages provided, fair value	999.8	1,245.4
<b>Guarantees for others</b>		
Shared ownership apartment purchase commitments	7.8	11.4
Rs-guarantees	4.2	2.5
<b>Other collateral provided</b>		
Mortgages provided to secure payment of rent and street maintenance	7.8	7.4
Guarantees and mortgages provided to secure payments of land use contracts	9.1	7.3
<b>Binding purchase agreements</b>		
For acquisitions of investment properties	107.9	54.9
Commitments for land use payments on zoned plots	0.8	3.4
Commitments to cleaning and removal charges	0.0	0.0
Letters of intent on land for which there is a zoning condition	39.3	45.1

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

reporting date, the loans of such housing companies included in the shared ownership systems, totalled EUR 21.8 (35.0) million.

## Maturity analysis on financial instruments

31 Dec 2018

MEUR	Within 1 year	2–5 years	6–10 years	11–15 years	After 15 years	2018 total
<b>Financial liabilities</b>						
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<b>Total</b>	<b>-357.9</b>	<b>-1,312.1</b>	<b>-297.9</b>	<b>-79.7</b>	<b>-110.0</b>	<b>-2,157.6</b>

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reporting date, the loans of such housing companies included in the shared ownership systems, totalled EUR 21.8 (35.0) million.

### 33. RELATED PARTY TRANSACTIONS

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

Shareholders that are considered as SATO's related party in 2018 are Balder Finska Ota AB (owner:

Fastighets Ab Balder, 100 per cent), Stichting Depository APG Strategic Real Estate Pool (owner: Stichting Pensioenfonds ABP, >95 per cent; manager: APG Asset Management NV) and Elo Mutual Pension Insurance Company.

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

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

The following transactions were made with related parties:

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Transactions with related parties</b>		
Rental agreements	0.0	0.0
Insurance payments	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Management employee benefits</b>		
Salaries and other short-term employee benefits	1.9	2.2
Other long-term employee benefits	0.1	0.1
<b>Total</b>	<b>2.1</b>	<b>2.3</b>

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Salaries and remuneration paid</b>		
President and CEO	0.5	0.4
Deputy to President and CEO	0.0	0.0
Members of the Board of Directors	0.2	0.2
<b>Total</b>	<b>0.7</b>	<b>0.6</b>

Thousand EUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Compensation paid to the members of the Board of Directors and the President &amp; CEO</b>		
Saku Sipola	531	386
Erik Selin	42	40
Jukka Hienonen	28	28
Esa Lager	24	24
Tarja Pääkkönen	24	24
Timo Stenius	25	24
Marcus Hansson	25	23
Hans Spikker	24	16
<b>Total</b>	<b>722</b>	<b>562</b>

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.

In addition to the members of the Corporate Management Group, the PRP system covers around 75 SATO employees in executive, managerial and

expert roles. The terms and conditions of the PRP system and the payment of performance bonuses are approved by the Board of Directors. The aim of the PRP system is to harmonise the objectives of shareholders, management and key persons, bolster the commitment of key persons, improve competitiveness and promote long-term financial success.

### 34. BORROWING COSTS

	note	31 Dec 2018	31 Dec 2017
Capitalised expenses of borrowing costs during the period, MEUR	13	1.7	1.9
Financial expense index, %		2.4	2.6

### 35. SUBSEQUENT EVENTS

No significant events after the end of the reporting period.

### 36. SUBSIDIARIES OWNED BY THE GROUP AND PARENT COMPANY

31 Dec 2018	Group's holding, %	Parent company's holding, %
Holding percentages are the same as voting rights.		

#### Subsidiaries held by SATO Corporation

Sato-Asunnot Oy	100.0	100.0
Sato-Rakennuttajat Oy	100.0	100.0
SATOkoti Oy	100.0	100.0
SATOkoti 18 Oy	100.0	100.0
SATOkoti 21 Oy	100.0	100.0
SATOkoti 23 Oy	100.0	100.0
SATOkoti 24 Oy	100.0	100.0
Suomen Vuokrakodit 2	100.0	100.0
Suomen Vuokrakodit 3	100.0	100.0
Suomen Satokodit 19 Oy	100.0	100.0
Suomen Satokodit 21 Oy	100.0	100.0
Suomen Satokodit 22 Oy	100.0	100.0
Suomen Satokodit 24 Oy	100.0	100.0
Sato VK 18 Oy	100.0	100.0
Sato VK 19 Oy	100.0	100.0
Sato VK 20 Oy	100.0	100.0
Sato VK 21 Oy	100.0	100.0
Sato VK 22 Oy	100.0	100.0
Vatrotalot 2 Oy	100.0	100.0
Vatrotalot 3 Oy	100.0	100.0
Vatrotalot 5 Oy	100.0	100.0
Sato KT-Asunnot Oy	100.0	100.0
Uusi Sarfvik Oy	60.0	18.3

31 Dec 2018	Group's holding, %	Parent company's holding, %
Sarfvikin Vesialue Oy	60.0	18.3
Vantaan SATO-Kartano KOy	100.0	100.0

#### Unconsolidated subsidiaries and associated companies

SV-Asunnot Oy	50.0	50.0
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#### Other shares

Outakessa Koy	100.0	100.0
Espoon Aallonrivi As Oy	100.0	100.0
Jyväskylän Lyseonlinna As Oy	6.8	2.2

#### Companies held by subsidiaries

#### Sato-Asunnot Oy

Sato-Pietari Oy	100.0	100.0
Sato-Neva Oy	100.0	100.0
OOO SATO RUS	100.0	100.0
Agricolankuja 3 As Oy	3.0	3.0
Agricolankuja 8 As Oy	80.7	80.7
Agricolankulma As Oy	0.8	0.8
Albertus As Oy	1.1	1.1
Amos As Oy	0.5	0.5
Arabian Valo, Helsinki As Oy	52.2	52.2
Asunto Oy 4 linja 24	33.6	33.6
Asunto Oy Kalasataman Fregatti, Helsinki	25.3	25.3
Björneborgsvägen 5 Bost. Ab	0.5	0.5
Bostads Ab Munksnäs N:o 25 Asunto Oy	14.1	14.1
Erkintalo As Oy	1.1	1.1
Espoon Elosalama As Oy	73.7	73.7
Espoon Elosalama As Oy (Uudisosa)	26.3	26.3
Espoon Hassel As Oy	4.4	4.4

31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Espoon Heinjoenpolku As Oy	100.0	100.0	Espoon Perkaankuja 3 As Oy	100.0	100.0
Espoon Henttaan puistokatu 6 As Oy	100.0	100.0	Espoon Porarinkatu 2 D-E As Oy	100.0	100.0
Espoon Henttaan puistokatu 8 As Oy	100.0	100.0	Espoon Porarinkatu 2 F As Oy	100.0	100.0
Espoon Honkavaarantie 5 As Oy	10.3	10.3	Espoon Puikkarinmäki As Oy	100.0	100.0
Espoon Hopeavillakko As Oy	100.0	100.0	Espoon Puropuisto As Oy (VA)	58.4	55.8
Espoon Interior As Oy	11.4	11.4	Espoon Pyhäjärventie 1 As Oy	100.0	100.0
Espoon Jousenkaari 5 As Oy	100.0	100.0	Espoon Rastaspuistonpolku As Oy	22.6	22.6
Espoon Kala-Maija 4 As Oy	100.0	100.0	Espoon Rastaspuistontie 8 As Oy	7.3	7.3
Espoon Kaupinkalliontie 5 As Oy (Sato-Asunnot)	48.7	48.7	Espoon Rummunlyöjäkatu 11 D-E As Oy	100.0	100.0
Espoon Kilvoituksentie 1 Asunto Oy	100.0	100.0	Espoon Runoratsunkatu 5 As Oy	100.0	100.0
Espoon Kiskottajankuja 4 As Oy	100.0	100.0	Espoon Ruorikuja 4 As Oy	3.8	3.8
Espoon Kivenhakkaajankuja 3 As Oy	2.3	2.3	Espoon Ruusulinna As Oy	100.0	100.0
Espoon Kuunkierros 2 As Oy	22.0	13.5	Espoon Satokallio As Oy	11.6	11.6
Espoon Kuunsirppi As Oy	100.0	100.0	Espoon Saunalyhty As Oy	6.8	6.8
Espoon Kyyhkysmäki 16 As Oy	100.0	100.0	Espoon Sepetlahdentie 6 As Oy	100.0	100.0
Espoon Kyyhkysmäki 9 As Oy	100.0	100.0	Espoon Siniheinä As Oy	100.0	100.0
Espoon Lansantie 3 As Oy	100.0	100.0	Espoon Sokerilinnantie 1 As Oy	5.8	4.3
Espoon Likusterikatu 1 D As Oy	100.0	100.0	Espoon Soukanniementie 1 As Oy	100.0	100.0
Espoon Linnustajantie 17 As Oy	100.0	100.0	Espoon Sukikäytävä As Oy	29.9	29.9
Espoon Lounaismeri As Oy	100.0	100.0	Espoon Taivalmäki 5 As Oy	100.0	100.0
Espoon Magneettikatu 8 As Oy	100.0	100.0	Espoon Taivalrinne As Oy	100.0	100.0
Espoon Matinniitynkuja 8 As Oy	100.0	100.0	Espoon Tähtimötie As Oy	100.0	100.0
Espoon Merituulentie 38 As Oy	100.0	100.0	Espoon Vanharaide As Oy	90.1	90.1
Espoon Myötätuulenmäki As Oy	8.5	8.5	Espoon Vasaratörmä As Oy	5.2	5.2
Espoon Niittyhuippu As Oy	28.1	28.1	Espoon Viherlaaksonranta 3-5 As Oy	100.0	100.0
Espoon Niittymaantie 1 As Oy	100.0	100.0	Espoon Viherlaaksonranta 7 As Oy	100.0	100.0
Espoon Niittymaantie 3 As Oy	100.0	100.0	Espoon Yläkartanonpiha As Oy	10.9	10.9
Espoon Niittysillankulma 2 C-D As Oy	100.0	100.0	Espoon Zanseninkuja 6 As Oy	100.0	100.0
Espoon Numersinkatu 11 As Oy	18.8	18.8	Etelä-Hämeen Talo Oy (Sato-as.)	81.3	81.3
Espoon Omenapuu As Oy	16.0	16.0	Eura III As Oy	100.0	100.0
Espoon Paratiisiomena As Oy	18.3	18.3	Fredrikinkatu 38 As Oy	2.7	2.7

31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Haagan Pappilantie 13 As Oy	2.6	2.6	Helsingin Isopurje As Oy	3.2	3.2
Haagan Talontie 4 As Oy	3.1	3.1	Helsingin Juhani Ahon tie 12-14 As Oy	100.0	100.0
Hakaniemenranta As Oy	2.5	2.5	Helsingin Junonkatu 4 As Oy	100.0	100.0
Hannanpiha As Oy	19.1	19.1	Helsingin Kaarenjalka 5 As Oy	100.0	100.0
Harjulehmus As Oy	19.4	19.4	Helsingin Kaivonkatsojantie 2 As Oy	16.4	16.4
Helkalax As Oy	1.3	1.3	Helsingin Kalevankatu 53 As Oy	30.5	30.5
Helsingin Akaasia As Oy	13.9	13.9	Helsingin Kallioliina As Oy	0.8	0.8
Helsingin Aleksis Kiven katu 52-54 As Oy	0.5	0.5	Helsingin Kanavaranta As Oy	8.8	8.8
Helsingin Ansaritie 1 As Oy	100.0	100.0	Helsingin Kangaspellontie 1-5 As Oy	100.0	100.0
Helsingin Ansaritie 2-4 As Oy	100.0	100.0	Helsingin Kangaspellontie 4 As Oy	10.0	10.0
Helsingin Ansaritie 3 As Oy	100.0	100.0	Helsingin Kaustisenpolku 1 As Oy	100.0	100.0
Helsingin Apollonkatu 19 As Oy	38.2	38.2	Helsingin Kerttulinkuja 1 As Oy	7.5	7.5
Helsingin Arabian Kotiranta As Oy	4.2	4.2	Helsingin Kiillekuja 4 As Oy	100.0	100.0
Helsingin Arabiinkatu 3 As Oy	13.4	13.4	Helsingin Kirjala As Oy	100.0	100.0
Helsingin Aurinkotuulenkatu 6 As Oy	100.0	100.0	Helsingin Kilaavuntie 8-10 As Oy	100.0	100.0
Helsingin Casa Canal As Oy	13.3	13.3	Helsingin Kokkosaarenkatu 4 As Oy	20.8	20.8
Helsingin Castreninkatu 3 As Oy	100.0	100.0	Helsingin Koralli As Oy	4.1	4.1
Helsingin Cirrus As Oy	1.7	1.7	Helsingin Koroistentie As Oy	9.4	9.4
Helsingin Corona As Oy	17.0	17.0	Helsingin Korppaanmäentie 17 As Oy	100.0	100.0
Helsingin Eiranrannan Estella As Oy	30.8	30.8	Helsingin Korppaanmäentie 21 As Oy	100.0	100.0
Helsingin Eliel Saarisen tie 10 As Oy	96.1	96.1	Helsingin Kristianinkatu 11-13 As Oy	100.0	100.0
Helsingin Finniläntalo As Oy	80.2	80.2	Helsingin Kultareuna 1 As Oy	39.0	39.0
Helsingin Gadolininkatu 1 As Oy	100.0	100.0	Helsingin Kutomotie 10a KOy	75.5	75.5
Helsingin Gerbera As Oy	12.7	12.7	Helsingin Kutomotie 12a As Oy	100.0	100.0
Helsingin Graniittitie 8 ja 13 As Oy	100.0	100.0	Helsingin Kutomotie 14 A As Oy	100.0	100.0
Helsingin Hakaniemenkatu 9 As Oy	100.0	100.0	Helsingin Kutomotie 8a As Oy	100.0	100.0
Helsingin Happiness As Oy	22.2	22.2	Helsingin Kuusihovi As Oy	25.4	25.4
Helsingin Heikkiläntie 10 K Oy	100.0	100.0	Helsingin Kyläkirkontie 13 As Oy	68.5	68.5
Helsingin Hildankulma As Oy	80.1	80.1	Helsingin Köysikuja 2 As Oy	9.5	9.5
Helsingin Hämeenpenger As Oy	100.0	100.0	Helsingin Lapponia As Oy	100.0	100.0
Helsingin Ida Aalbergin tie 3 A As Oy	100.0	100.0	Helsingin Lauttasaarentie 19 KOy	58.3	58.3



31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Helsingin Leikopiha As Oy	9.6	9.6	Helsingin Piispantie 8 As Oy	100.0	100.0
Helsingin Leikosaarentie 31 As Oy	18.7	18.7	Helsingin Pirta As Oy	17.1	17.1
Helsingin Leikovuori As Oy	9.1	9.1	Helsingin Porthaninkatu 4 As Oy	0.7	0.7
Helsingin Leirikuja 3 As Oy	100.0	100.0	Helsingin Puuskarinne 1 As Oy	98.2	98.2
Helsingin Lontoonkatu 9 As Oy	100.0	100.0	Helsingin Päivöläntie 72 As Oy	7.7	7.7
Helsingin Lönnrotinkatu 32 As Oy	55.1	55.1	Helsingin Pääskylänrinne As Oy	100.0	100.0
Helsingin Malagankatu 7 As Oy	100.0	100.0	Helsingin Reginankuja 4 As Oy	11.8	11.8
Helsingin Mariankatu 19 As Oy	1.0	1.0	Helsingin Rikhard Nymanin tie 3 As Oy	100.0	100.0
Helsingin Mechelininkatu 12-14 As Oy	100.0	100.0	Helsingin Riontähti As Oy	100.0	100.0
Helsingin Merenkävijä As Oy	5.1	5.1	Helsingin Rosas As Oy	9.6	9.6
Helsingin Meripellonhovi KOy	98.3	98.3	Helsingin Rusthollarinkuja 2 As Oy	100.0	100.0
Helsingin Mestari As Oy	100.0	100.0	Helsingin Ruusutarhantie 2-4 As Oy	30.7	30.7
Helsingin Minna Canthinkatu 24 As Oy	1.1	1.1	Helsingin Ruusutarhantie 7 As Oy	19.7	19.7
Helsingin Myllypellonpolku 4 As Oy	6.9	6.9	Helsingin Sateenkaari As Oy	100.0	100.0
Helsingin Mylläri As Oy	2.3	2.3	Helsingin Satoaalto As Oy	8.6	8.6
Helsingin Nautilus As Oy	26.0	26.0	Helsingin Satorinne As Oy	8.5	8.5
Helsingin Navigatortalo KOy	44.7	44.7	Helsingin Serica As Oy	3.8	3.8
Helsingin Nils Westermarckin kuja 18 As Oy	100.0	100.0	Helsingin Siltavoudintie 20 As Oy	100.0	100.0
Helsingin Nukkeruusunkuja 3 As Oy	15.5	15.5	Helsingin Snellmaninkatu 23 As Oy (asunnot)	85.2	85.2
Helsingin Näyttelijäntie 24 As Oy	100.0	100.0	Helsingin Snellmaninkatu 23 As Oy (muut tilat)	14.9	14.9
Helsingin Otto Brandtin polku 4 As Oy	4.4	4.4	Helsingin Solarus As Oy (ASSI)	5.9	5.9
Helsingin Näkinkuja 6 As Oy	100.0	100.0	Helsingin Solnantie 22 As Oy	71.0	71.0
Helsingin Pajamäentie 6 As Oy	100.0	100.0	Helsingin Solnantie 22 As Oy (LT)	27.0	27.0
Helsingin Pajamäentie 7 As Oy	100.0	100.0	Helsingin Stenbäckinkatu 5 KOy	60.0	60.0
Helsingin Pakilantie 17 As Oy	52.7	52.7	Helsingin Ståhlbergintie 4 As Oy	93.5	93.5
Helsingin Pakilantie 17 As Oy (uudisosa)	47.3	47.3	Helsingin Sähköttäjänkatu 6 As Oy	100.0	100.0
Helsingin Pasilantornit As Oy	53.4	53.4	Helsingin Tapaninkulo As Oy	4.7	4.7
Helsingin Perustie 16 As Oy	56.0	56.0	Helsingin Tila As Oy (Sato-As.)	24.5	13.1
Helsingin Piispantie 3 As Oy	100.0	100.0	Helsingin Tilkankatu 15 As Oy	100.0	100.0
Helsingin Piispantie 5 As Oy	100.0	100.0	Helsingin Tilkankatu 2 As Oy	100.0	100.0
Helsingin Piispantie 7 As Oy	100.0	100.0	Helsingin Tilkankatu 6 As Oy	100.0	100.0

31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Helsingin Topeliuksenkatu 29 As Oy	4.6	4.6	Jyväskylän Äijälänrannan Ansaritie 4 As Oy	100.0	100.0
Helsingin Tulvaniitynpolku 5 As Oy	6.6	6.6	Järvenpään Alhonrinne As Oy	18.4	18.4
Helsingin Tunturinlinna As Oy	9.5	9.5	Järvenpään Kotokartano As Oy	100.0	100.0
Helsingin Töölön Oscar As Oy	25.3	25.3	Kaarenkunnas As Oy	100.0	100.0
Helsingin Vanha viertotie 16 As Oy	68.8	68.8	Kaarinan Auranpihat As Oy	100.0	100.0
Helsingin Vanha viertotie 18 As Oy	42.8	42.8	Kaarinan Katariinanrinne As Oy	12.2	6.9
Helsingin Vanha viertotie 6 As Oy	100.0	100.0	Kaarinan Verkapatruuna As Oy	30.3	11.7
Helsingin Vanha Viertotie 8 As Oy	100.0	100.0	Kaidanpääty As Oy	100.0	100.0
Helsingin Venemestarin tie 4 As Oy	100.0	100.0	Kajaneborg Bost. Ab	7.3	7.3
Helsingin Vervi As Oy	100.0	100.0	Kangasalan Kukkapuisto As Oy	6.3	6.3
Helsingin Vetelintie 5 As Oy	100.0	100.0	Kasarmikatu 14 As Oy	12.2	12.2
Helsingin Villa Kuuhu As Oy	25.6	25.6	Kangasalan Unikkoniitty KOy	100.0	100.0
Helsingin Viulutie 1 As Oy	100.0	100.0	Kapellimestarinparkki KOy	9.1	9.1
Helsingin Vuosaaren Helmi As Oy	100.0	100.0	Kasarminkatu 10 As Oy	26.7	26.7
Helsingin Välskärinkatu 4 KOy	85.7	85.7	Kastevuoren Palvelutalo As Oy	100.0	100.0
Hervannan Juhani As Oy	14.9	14.9	Kaukotie 10-12 As Oy	3.1	3.1
Hiihtomäentie 34 As Oy	3.7	3.7	Kauniaisten Ersintie 9-11 As Oy	5.5	5.5
Humalniementie 3-5 As Oy	1.1	1.1	Kauniaisten Konsuli As Oy Bost. Ab	7.4	7.4
Hämeenlinnan Aaponkuja 3 As Oy	33.4	33.4	Kauniaisten Ratapolku 6 As Oy	100.0	100.0
Iidesranta 42 Tampere As Oy	9.9	6.6	Keravan Papintie 1 As Oy	100.0	100.0
Jukolanniitty As Oy	15.3	15.3	Ketturinne As Oy	1.3	1.3
Jukolantanner As Oy	7.8	7.8	Kilonkallionkuja 5 As Oy	100.0	100.0
Jussinhoivi As Oy	3.5	3.5	Kirkkonummen Sarvikinrinne 4 As Oy	100.0	100.0
Jyväskylän Ailakinraitti As Oy	100.0	100.0	Kirkkosalmentie 3 As Oy	0.9	0.9
Jyväskylän Harjukartano As Oy	23.0	23.0	Kivisaarentie As Oy	2.7	2.7
Jyväskylän Harjunportti As Oy	18.7	18.7	Kolehmaisentori As Oy	11.6	11.6
Jyväskylän Lyseonlinna As Oy (asunnot)	6.8	4.6	Kotipiennar As Oy	2.8	2.8
Jyväskylän Taitoniekansato As Oy	17.4	17.4	Kristianinkatu 2 As Oy	1.7	1.7
Jyväskylän Tanhurinne As Oy	24.1	24.1	Kuhakartano As Oy	1.3	1.3
Jyväskylän Torihovi As Oy (asunnot)	2.7	2.7	Kukkolan Koivu As Oy	4.3	4.3
Jyväskylän Yliopistonkatu 18 ja Keskustie 17 As Oy	100.0	100.0	Kulmakatu 12 As Oy	2.1	2.1

31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Kulmavuorenpiha As Oy	100.0	100.0	Mannerheimintie 170 KOy	63.3	16.1
Kulmavuorenrinne As Oy	1.0	1.0	Mannerheimintie 170 KOy	63.3	47.2
Kupittaa Kotka, Turku As Oy	10.9	10.9	Mannerheimintie 77 As Oy	1.2	1.2
Kupittaa Kurki, Turku As Oy	6.1	6.1	Mannerheimintie 83-85 As Oy	0.7	0.7
Kupittaa Kyyhky, Turku As Oy	100.0	100.0	Mannerheimintie 93 As Oy	0.3	0.3
Kupittaa Satakieli As Oy	6.1	6.1	Mariankatu 21 As Oy	1.3	1.3
Kuuselanpuisto As Oy	23.0	23.0	Matinkylän Poutapilvi As Oy	100.0	100.0
Kuusihalme As Oy	2.3	2.3	Matinraitti 14 As Oy	1.0	1.0
Kuusitie 15 As Oy	1.5	1.5	Meiramikuja As Oy	4.7	4.7
Kuusitie 3 As Oy	1.8	1.8	Mellunsusi As Oy	1.5	1.5
Kuusitie 9 As Oy	2.3	2.3	Merimiehenkatu 41 As Oy Bost. Ab	1.6	1.6
Kvarnhyddan Bost. Ab	1.8	1.8	Messeniuksenkatu 8 As Oy	2.0	2.0
Laajalahdentie 26 As Oy	6.5	6.5	Messilä As Oy	70.0	70.0
Lahden Jyrkkärinteenpuisto As Oy	41.2	41.2	Minna Canthin katu 22 As Oy	2.4	2.4
Lahden Kauppakatu 36 As Oy	7.9	3.6	Muotialantie 31 As Oy	7.0	7.0
Lahden Mesisurri As Oy	100.0	100.0	Mursu As Oy	0.5	0.5
Lahden Nuolikatu 9 As Oy	100.0	100.0	Myllysalama As Oy	59.8	59.8
Lahden Roopenkuja As Oy	25.6	25.6	Myyrinhaukka As Oy	100.0	100.0
Lapinniemen Pallopurje As Oy	1.9	1.9	Naantalin Kastovuorenrinne As Oy	16.7	16.7
Lapintalo As Oy	1.0	1.0	Nekalanpuisto KOy	2.9	2.9
Lappeenrannan Kanavansato 2 As Oy	18.2	18.2	Nervanderinkatu 9 As Oy	2.6	2.6
Lauttasaarentie 11 As Oy	1.6	1.6	Neulapadontie 4 As Oy	1.2	1.2
Lempäälän Moisionaukea 25 As Oy	100.0	100.0	Niittaajankadun Klaava As Oy	100.0	100.0
Lielahdentie 10 As Oy	9.1	9.1	Niittyhovi K Oy	100.0	100.0
Linjala 14 As Oy	4.2	4.2	Niittykummun Huippuparkki K Oy	36.5	36.5
Läntinen Brahenkatu 8 As Oy	0.8	0.8	Nokian Miharintie 38-40 As Oy	32.4	32.4
Lönegropen Bost. Ab, Skidbacksvägen 18	1.6	1.6	Nokian Virran Ritari As Oy	100.0	100.0
Malmeken Ömsesidiga Fastighet	12.8	12.8	Nordenskiöldinkatu 8 As Oy	2.5	2.5
Mannerheimintie 100 As Oy	0.9	0.9	Näkinkuja 2 As Oy	2.5	2.5
Mannerheimintie 108 As Oy	3.0	3.0	Näsinlaine As Oy	1.0	1.0
Mannerheimintie 148 As Oy	2.5	2.5	Näyttelijäntien Pistetalot As Oy	1.4	1.4

31 Dec 2018	Group's holding, %	Parent company's holding, %	31 Dec 2018	Group's holding, %	Parent company's holding, %
Oskelantie 5 As Oy	4.1	4.1	Puolukkasato As Oy	5.9	5.9
Oskelantie 8 As Oy	2.1	2.1	Puolukkavarikko As Oy	33.9	33.9
Otavantie 3 As Oy	0.6	0.6	Raikukuja II As Oy	100.0	100.0
Otavantie 4 As Oy	1.8	1.8	Raikurinne 1 As Oy	1.3	1.3
Oulun Aleksanteri As Oy	100.0	100.0	Raisio Tason torni As Oy	39.3	39.3
Oulun Aleksinranta As Oy	100.0	100.0	Raisio Toripuisto As Oy	56.9	20.8
Oulun Arvolankartano As Oy	2.1	2.1	Rantasentteri As Oy	1.5	1.5
Oulun Arvolanpiha As Oy	0.0	0.0	Risto Rytin tie 28 As Oy Bost. Ab	1.5	1.5
Oulun Arvolanpuisto As Oy	9.0	9.0	Ristolantie 7 As Oy	2.5	2.5
Oulun Hoikantie 14-22 As Oy	100.0	100.0	Rivihkola As Oy	4.4	4.4
Oulun Kalevalantie As Oy	100.0	100.0	Ryytikuja 5 As Oy	0.8	0.8
Oulun Laamannintie 1 As Oy	12.8	12.8	Saarenkeskus As Oy	0.4	0.4
Oulun Laanila I As Oy	100.0	100.0	Salpakolmio As Oy	31.3	31.3
Oulun Laanila IV As Oy	100.0	100.0	Sammon Parkki K Oy	21.2	21.2
Oulun Laaniranta As Oy	6.0	6.0	Satakallio As Oy	0.2	0.2
Oulun Marsalkka As Oy	5.7	5.7	Satokaunokki As Oy	7.5	7.5
Oulun Notaarintie 1 As Oy	24.4	24.4	Satosorsa As Oy	19.9	19.9
Oulun Notaarintie 3 As Oy	5.0	5.0	Satosyppi As Oy	12.1	12.1
Oulun Paalikatku 23 As Oy	100.0	100.0	Satulaparkki KOy	53.3	53.3
Oulun Peltolantie 18 B As Oy	100.0	100.0	Savilankatu 1 b As Oy	33.3	33.3
Oulun Rautatienkatu 74 As Oy	100.0	100.0	Solnantie 32 As Oy	0.9	0.9
Oulun Rautatienkatu 78 Asunto Oy	100.0	100.0	Spargäddan Bost. Ab As Oy	1.3	1.3
Oulun Tullikartano As Oy	17.0	17.0	Sulka polku 6 As Oy	0.4	0.4
Oulun Tulliveräjä As Oy	40.7	40.7	Säästökartano As Oy	0.3	0.3
Peltohuhta As Oy	1.2	1.2	Taapuri As Oy	2.5	2.5
Pengerkatu 27 As Oy	2.6	2.6	Tallbergin puistotie 1 As Oy	2.0	2.0
Pihlajatie N:o 23 As Oy	3.0	3.0	Tammitie 21 As Oy	0.9	0.9
Pohjankartano As Oy	9.0	9.0	Tampereen Aitolahdentie 22 As Oy	100.0	100.0
Pohjanpoika As Oy	8.0	8.0	Tampereen Aitolahdentie 24 As Oy	100.0	100.0
Poutuntie 2 As Oy	3.7	3.7	Tampereen Alapeussonkatu 6 As Oy	100.0	100.0
Puistokaari 13 As Oy	1.9	1.9	Tampereen Atanväylä 4A As Oy	100.0	100.0

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Tampereen Atanvöylä 4B As Oy	100.0	100.0	Terhokuja 6 As Oy	11.3	11.3
Tampereen Charlotta As Oy (ASSI)	2.0	2.0	Tikkamatti As Oy	9.8	9.8
Tampereen Hannulanpolku 10 As Oy	100.0	100.0	Tohlopinkontu Koy (Sato-As.)	100.0	60.0
Tampereen Hervannan Puistokallio As Oy	100.0	100.0	Turun Asemanlinna As Oy	20.9	20.9
Tampereen Härmälänrannan Aurinkokallio KOy	100.0	100.0	Turun Eteläranta II As Oy	3.2	3.2
Tampereen Härmälänrannan Sisu As Oy	100.0	100.0	Turun Eteläranta III As Oy	2.9	2.9
Tampereen lidesranta 18 As Oy	100.0	100.0	Turun Eteläranta IV As Oy (ASSI)	3.0	3.0
Tampereen Jankanpuisto As Oy	100.0	100.0	Turun Fregatinranta As Oy	4.7	4.7
Tampereen Kanjoninkatu 15 As Oy	56.3	56.3	Turun Föörinranta II As Oy	1.0	1.0
Tampereen Kauppa-aukio As Oy	100.0	100.0	Turun Gränsbackankuja 3 As Oy	100.0	100.0
Tampereen Kokinpellonrinne 2 As Oy	86.9	86.9	Turun Hehtokatu As Oy	51.2	19.1
Tampereen Kristiina As Oy	19.1	19.1	Turun Ipnoksenrinne As Oy (ASSI)	6.7	6.7
Tampereen Kuikankatu 2 As Oy	9.7	9.7	Turun Joutsenpuisto 7 As Oy	100.0	100.0
Tampereen Kyyhky As Oy	11.1	8.1	Turun Kaivokatu 10 As Oy	100.0	100.0
Tampereen Linnanhera As Oy	100.0	100.0	Turun Kivimaanrivi As Oy	6.5	6.5
Tampereen Pappilan Herra As Oy	100.0	100.0	Turun Kiviniemenpuisto As Oy	4.9	4.9
Tampereen Puistofasaani As Oy	100.0	100.0	Turun Kupittaan Peippo, As Oy	34.6	34.6
Tampereen Rotkonraitti 6 As Oy	48.2	48.2	Turun Linnanhuippu As Oy	1.1	1.1
Tampereen Ruovedenkatu 11 As Oy	100.0	100.0	Turun Linnankatu 37 a As Oy	1.7	1.7
Tampereen Sammon Kalervo As Oy	100.0	100.0	Turun Linnanpuisto As Oy	8.8	8.8
Tampereen Siirtolapuutarhankatu 12 As Oy	5.6	5.6	Turun Marmoririnne 2 As Oy	100.0	100.0
Tampereen Strada As Oy	46.6	46.6	Turun Metallikatu As Oy	100.0	100.0
Tampereen Tarmonkatu 6 As Oy	100.0	100.0	Turun Mietoistenkuja As Oy	9.4	9.4
Tampereen Tieteenkatu 14 As Oy	100.0	100.0	Turun Pernon Kartanonlaakso As Oy	42.3	42.3
Tampereen Tuiskunkatu 7 As Oy	100.0	100.0	Turun Pryssinkatu 13 As Oy	100.0	100.0
Tampereen Waltheri As Oy (ASSI)	23.9	23.9	Turun Pulmussuonpuisto As Oy	7.6	7.6
Tapiolan Itäkartano, Espoo As Oy	53.6	53.6	Turun Puutarhakatu 50 As Oy	13.1	13.1
Tapiolan Tuuliniitty, Espoo As Oy (ASSI)	6.8	6.8	Turun Ratavahdinrinne As Oy	100.0	100.0
Tarkkampusjankatu 14 As Oy	44.1	44.1	Turun Rauhankatu 8 As Oy	100.0	100.0
Tasatuomo As Oy	1.3	1.3	Turun Sato-Koto As Oy	100.0	100.0
Terhokuja 3 As Oy	100.0	100.0	Turun Seiskarinkulma As Oy	24.0	14.0



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Turun Sipimetsä As Oy	8.5	8.5	Vantaan Krassipuisto As Oy	100.0	100.0
Turun Sukkulakoti As Oy	100.0	100.0	Vantaan Kukinkuja 2 As Oy	100.0	100.0
Turun Tallgreninkartano As Oy	37.1	37.1	Vantaan Käräjäkuja 3 As Oy	19.8	19.8
Turun Tervaporvari As Oy	100.0	100.0	Vantaan Leksankuja 3 As Oy	100.0	100.0
Turun Uudenmaanlinna As Oy (SATOhousing)	100.0	100.0	Vantaan Liesitorin palvelutalo As Oy (ASSI)	2.5	2.5
Turun Veistämöntori As Oy	100.0	100.0	Vantaan Lummepiha As. Oy	100.0	100.0
Turun Westparkin Tuija As Oy	100.0	100.0	Vantaan Maarinrinne As Oy	12.0	12.0
Turuntie 112 As Oy	1.4	1.4	Vantaan Maarukanrinne 6 As Oy	14.6	14.6
Turuntie 63 As Oy	1.6	1.6	Vantaan Martinpääsky As Oy	100.0	100.0
Tykkikuja 7 As Oy	100.0	100.0	Vantaan Minkkikuja As Oy	49.0	49.0
Työväen Asunto-osakeyhtiö Rauha	10.2	10.2	Vantaan Myyrinmutka As Oy	100.0	100.0
Töölön Estradi, Helsinki As Oy	63.0	63.0	Vantaan Oritie 1 As Oy	100.0	100.0
Töölön Gaala As Oy	50.3	50.3	Vantaan Orvokkikuja 1a As Oy	100.0	100.0
Ulpukkaniemi As Oy	25.4	25.4	Vantaan Orvokkikuja 1b As Oy	100.0	100.0
Ulvilantie 11 b As Oy	0.6	0.6	Vantaan Orvokkitie 17 As Oy	14.3	14.3
Urheilukatu 38 As Oy	56.0	56.0	Vantaan Pakkalanportti As Oy	100.0	100.0
Vaasankatu 15 As Oy	0.8	0.8	Vantaan Pakkalanrinne 3 As Oy	41.8	41.8
Vallikallionpolku KOy	100.0	100.0	Vantaan Pakkalanrinne 5-7 As Oy	100.0	100.0
Vallinkyyhky As Oy	6.0	6.0	Vantaan Pakkalanruusu As Oy	3.1	3.1
Valtapolku As Oy	1.2	1.2	Vantaan Peltolantie 14 As Oy	100.0	100.0
Vantaan Aapramintie 4 As Oy	100.0	100.0	Vantaan Pronssikuja 1 As Oy	100.0	100.0
Vantaan Albert Petreliuksen katu 8 As Oy	7.7	7.7	Vantaan Raikukuja 4B As Oy	100.0	100.0
Vantaan Havukoskenkatu 20 As Oy	100.0	100.0	Vantaan Ravurinmäki As Oy	33.2	33.2
Vantaan Heporinne 4 As Oy	100.0	100.0	Vantaan Ruostekuja 3 As Oy	100.0	100.0
Vantaan Horsmakuja 4a As Oy	100.0	100.0	Vantaan Solkikuja 2 As Oy	100.0	100.0
Vantaan Kaarenlehmus As Oy	100.0	100.0	Vantaan Solkikuja 5 As Oy	100.0	100.0
Vantaan Kesäniitty As Oy	100.0	100.0	Vantaan Sompakuja 2-4 As Oy	100.0	100.0
Vantaan Kevät puro As Oy	100.0	100.0	Vantaan Talvikkitie 38 As Oy	96.1	96.1
Vantaan Kilterinpuisto As Oy	70.2	70.2	Vantaan Tammiston Tringa As Oy	8.3	8.3
Vantaan Kivivuorentie 8 A-B As Oy	100.0	100.0	Vantaan Tammistonkatu 29 As Oy	29.1	29.1
Vantaan Kivivuorentie 8 C As Oy	100.0	100.0	Vantaan Tempo Koy	100.0	100.0

31 Dec 2018	Group's holding, %	Parent company's holding, %
Vantaan Teodora KOy	100.0	100.0
Vantaan Tuurakuja 4 As Oy	34.1	34.1
Vantaan Tykkikuja 11 As Oy	100.0	100.0
Vantaan Tähtiö As Oy	33.2	33.2
Vantaan Uomarinne 5 As Oy	100.0	100.0
Vantaan Vihvilätie 3 As Oy	100.0	100.0
Viides linja 16 As Oy	1.1	1.1
Viikinkisankari As Oy	31.1	31.1
Vilhonvuorenkatu 8 As Oy – Bost. Ab		
Vilhelmsbergsgatan 8	1.1	1.1
Vuomeren-Salpa As Oy	2.7	2.7
Vuorastila As Oy	99.0	99.0
Vuoreksen Vega, Tampere As Oy	88.8	88.8
Vuosaaren Meripihka As Oy, Helsinki	42.7	42.7
Välkynkallio As Oy	0.8	0.8
Yläaitankatu 4 As Oy	1.7	1.7
Ylöjärven Soppeenkatja As Oy	100.0	100.0
Ylöjärven Viljavainio As Oy	100.0	100.0
<b>Sato-Rakennuttajat Oy</b>		
Helsingin Tila As Oy (SATO-Rak.)	24.5	11.4
Helsinki, Kalasataman Huvilat As Oy	8.4	8.4
Oulun Peltopyy As Oy	100.0	100.0
Oulun Peltokerttu As Oy	100.0	100.0
Puutorin Pysäköinti KOy	51.6	51.6
Uudenmaantulli KOy	24.3	24.3
Uusi Sarfvik Oy	60.0	41.7
Sarfvikin Vesialue Oy	60.0	41.7
<b>SATOkoti Oy</b>		
Ida Aalbergintie 1 KOy	100.0	100.0

31 Dec 2018	Group's holding, %	Parent company's holding, %
Tohlopinkontu Koy (SATOkoti)	100.0	40.0
<b>SATOkoti 18 Oy</b>		
Espoon Jousenkaari 7 As Oy	100.0	100.0
Vantaan Hiekkaharjuntie 16 As Oy	100.0	100.0
<b>SATOkoti 21 Oy</b>		
Helsingin Keinulaudantie 7 As Oy	100.0	100.0
<b>Suomen Vuokrakodit 3 Oy</b>		
Turun Westparkin Eeben As Oy	100.0	100.0
Vantaan Piparminttu As Oy	100.0	100.0
Vantaan Rubiinikehä 1B As Oy	100.0	100.0
<b>Suomen Satokodit 19 Oy</b>		
Pellervon Pysäköinti KOy	16.0	16.0
<b>Suomen Satokodit 21 Oy</b>		
Espoon Kaskenkaatajantie 5 As Oy	100.0	100.0
Helsingin Arhotie 22 As Oy	100.0	100.0
Helsingin Myllymatkantie 1 As Oy	100.0	100.0
<b>Suomen Satokodit 22 Oy</b>		
Vantaan Kortteeri As Oy	6.4	6.4
<b>Sato VK 18 Oy</b>		
Espoon Ristinientie 22 As Oy	7.9	5.4
Helsingin Mustankivenraitti 5 As Oy	94.6	94.6
Helsingin Pasuunatie 8 As Oy	14.8	9.1
Helsingin Taimistontie 9 As Oy	5.7	5.7
Helsingin Tulisuoentie 20 As Oy	100.0	100.0

31 Dec 2018	Group's holding, %	Parent company's holding, %
Kuovi As Oy	100.0	100.0
Tampereen Haapalinnan Antintalo As Oy	66.7	50.7
<b>Sato VK 19 Oy</b>		
Jyväskylän mlk:n Kirkkotie 3 As Oy	61.6	12.1
Kaarinan Katariinankallio As Oy	79.5	23.5
Kaarinan Kultarinta As Oy	39.8	26.5
Tampereen Rantatie 13 E-G As Oy	87.7	41.6
Turun Merenneito As Oy	24.7	14.6
Turun Meripoika As Oy	40.8	26.0
Tuusulan Naavankierto 10 As Oy	87.4	5.3
<b>Sato VK 20 Oy</b>		
Espoon Säterinkatu 10 As Oy	75.4	6.1
Helsingin Lintulahdenpuisto As Oy	100.0	100.0
Helsingin Vanhanlinnantie 10 As Oy	80.6	10.2
Oulun Laamannintie As Oy	96.4	43.5
<b>Sato VK 21 Oy</b>		
Espoon Zanseninkuja 4 As Oy	82.0	17.4
Jyväskylän Vaneritori 4 As Oy	85.9	19.8
Kaarinan Mattelipiha As Oy	94.2	36.0
Turun Unikkoniitty As Oy	88.1	13.9
Vantaan Herttuantie 3 As Oy	85.4	31.2
<b>Sato VK 22 Oy</b>		
Espoon Numersinkatu 6 As Oy	81.0	9.2
Kaarinan Kiurunpuisto As Oy	91.7	29.6
Oulun Laamannintie 14 ja 17 As Oy	96.0	61.9
Tampereen Kyläleni As Oy	96.3	70.7
Turun Maarianportti As Oy	100.0	100.0

31 Dec 2018	Group's holding, %	Parent company's holding, %
<b>Sato-Osaomistus Oy</b>		
Espoon Nostoväenkuja 1 As Oy (VA)	3.5	3.5
Espoon Numersinkatu 6 As Oy (OOA)	81.0	71.8
Espoon Puropuisto As Oy (VA)	58.4	2.5
Espoon Ristiniementie 22 As Oy (VA)	7.9	2.5
Espoon Sokerilinnantie 1 As Oy (VA)	5.8	1.6
Espoon Säterinkatu 10 As Oy (OOA)	75.4	69.3
Espoon Zanseninkuja 4 As Oy (OOA)	82.0	64.6
Helsingin Pasuunatie 8 As Oy (OOA)	14.8	5.8
Helsingin Taavetinaukio 4 As Oy (VA) 1	3.9	3.9
Helsingin Vanhanlinnantie 10 As Oy (OOA)	80.6	70.4
lidesranta 42 Tampere As Oy (VA)	9.9	3.4
Jyväskylän mlk:n Kirkkotie 3 As Oy (OOA)	61.6	49.5
Jyväskylän Vaneritori 4 As Oy (OOA)	85.9	66.0
Kaarinan Katariinankallio As Oy (OOA)	79.5	55.9
Kaarinan Katariinanrinne As Oy (VA)	12.2	5.3
Kaarinan Kiurunpuisto As Oy (OOA)	91.7	62.1
Kaarinan Kultarinta As Oy (OOA)	39.8	13.4
Kaarinan Mattelipiha As Oy (OOA)	94.2	58.1
Kaarinan Verkapatruuna As Oy (VA)	30.3	18.6
Lahden Kauppakatu 36 As Oy (VA)	7.9	4.3
Oulun Laamannintie 14 ja 17 As Oy (VA)	96.0	34.1
Oulun Laamannintie As Oy (OOA)	96.4	52.9
Raisio Siirinsopukka As Oy (VA)	15.3	15.3
Raisio Toripuisto As Oy (VA)	56.9	36.2
Tampereen Haapalinnan Antintalo As Oy (OOA)	66.7	16.0
Tampereen Kyläleni As Oy (OOA)	96.3	25.6
Tampereen Kyyhky As Oy (VA)	11.1	3.0
Tampereen Rantatie 13 E-G As Oy (OOA)	87.7	46.1
Turun Hehtokatu As Oy (VA)	51.2	32.1
Turun Merenneito As Oy (OOA)	24.7	10.1

31 Dec 2018	Group's holding, %	Parent company's holding, %
Turun Meripoika As Oy (OOA)	40.8	14.8
Turun Pakanpoika As Oy	50.0	50.0
Turun Seiskarinkulma As Oy (VA)	24.0	10.0
Turun Unikkoniitty As Oy (OOA)	88.1	74.3
Tuusulan Naavankierto 10 As Oy (OOA)	87.4	82.1
Vantaan Herttuantie 3 As Oy (OOA)	85.4	54.2
<b>Vatrotalot 2 Oy</b>		
Sato-Osaomistus Oy	100.0	100.0
<b>Vatrotalot 3 Oy</b>		
Kirkkonummen Riihipolku As Oy	100.0	100.0
Kylänpäänpelto As Oy	43.8	43.8
Nurmijärven Kylänpäänniitty As Oy	35.2	35.2
Nurmijärven Kylänpääänkaari As Oy	45.0	45.0

31 Dec 2018	Group's holding, %	Parent company's holding, %
<b>Vatrotalot 5 Oy</b>		
Helsingin Laivalahdenportti 5 As Oy	75.5	75.5
Helsingin Toini Muonan katu 8 As Oy	10.6	10.6
Laakavuorentie 4 As Oy	39.1	39.1
Meriramsi As Oy	25.6	25.6
Meri-Rastilan tie 5 As Oy	23.5	23.5
Meri-Rastilan tie 9 As Oy	9.1	9.1
Raudikkokuja 3 KOy	100.0	100.0
Vantaan Ravurinpuisto As Oy	61.1	61.1

# FINANCIAL STATEMENTS OF THE PARENT COMPANY, FAS

## PARENT COMPANY INCOME STATEMENT, FAS

MEUR	note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Net sales	2	11.0	12.4
Other operating income	3	0.2	0.2
Materials and services	4	0.6	-1.9
Personnel expenses	5, 6, 7	-3.6	-3.0
Depreciation, amortisation and impairment charges	8	-1.3	-1.1
Other operating expenses	9	-26.4	-13.0
<b>Operating profit</b>		<b>-19.5</b>	<b>-6.4</b>
Financial income and expenses	10	-41.0	-41.1
<b>Profit/loss before appropriations and taxes</b>		<b>-60.5</b>	<b>-47.5</b>
Group contribution	11	127.2	125.6
Income taxes	12	-17.0	-15.6
<b>Profit for the period</b>		<b>49.7</b>	<b>62.5</b>

## PARENT COMPANY BALANCE SHEET, FAS

MEUR	note	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	3.0	2.1
Tangible assets	14	1.9	1.7
Holdings in Group companies	15	1,066.9	1,081.2
Holdings in associated companies	16	0.0	0.0
Other holdings and shares	17	1.0	1.0
<b>Total</b>		<b>1,072.9</b>	<b>1,086.0</b>

MEUR	note	31 Dec 2018	31 Dec 2017
<b>Current assets</b>			
Inventories	18	1.4	1.8
Long-term receivables, group	19	599.5	395.0
Long-term receivables, external	19	0.3	0.4
Short-term receivables, group	20	181.6	176.3
Short-term receivables, external	20	0.7	0.3
Cash and cash equivalents		0.0	0.0
<b>Total</b>		<b>783.6</b>	<b>573.7</b>
<b>TOTAL ASSETS</b>		<b>1,856.5</b>	<b>1,659.7</b>

### SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Shareholders' equity</b>	21, 22		
Share capital	23	4.4	4.4
Reserve fund		43.7	43.7
Other funds		116.0	116.0
Retained earnings		137.2	103.0
Profit for the period		49.7	62.5
<b>Total</b>		<b>351.0</b>	<b>329.7</b>
<b>Obligatory reserves</b>	24	<b>0.0</b>	<b>0.0</b>
<b>Liabilities</b>			
Non-current liabilities, external	25	1,195.4	1,068.1
Current liabilities, group	26	0.5	0.4
Current liabilities, external	26	309.5	261.5
<b>Total</b>		<b>1,505.5</b>	<b>1,330.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</b>		<b>1,856.5</b>	<b>1,659.7</b>



## PARENT COMPANY'S CASH FLOW STATEMENT, FAS

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net profit for the financial year	49.7	62.5
Adjustments:		
Depreciation	1.3	1.1
Financial income (-) and expenses (+)	41.0	41.1
Income tax	17.0	15.6
Proceeds (-) and losses (+) on sales of non-current assets	-1.8	-0.2
Group contribution	-127.2	-125.6
Other adjustments	15.7	-0.5
<b>Cash flow before change in working capital</b>	<b>-4.4</b>	<b>-5.9</b>
Change in working capital		
Decrease (+) / increase (-) in current non-interest bearing receivables	1.5	1.7
Decrease (+) / increase (-) in inventories	0.1	2.9
Decrease (-) / increase (+) in current loans	-0.5	-0.2
<b>Cash flow before financial items and taxes</b>	<b>-3.3</b>	<b>-1.4</b>
Interest paid	-35.1	-48.1
Interest received	6.5	3.3
Other financial expenses	-9.5	-12.5
Direct taxes paid	-18.0	-19.7
<b>Cash flow from operating activities (A)</b>	<b>-59.4</b>	<b>-78.5</b>

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in tangible and intangible assets	-2.5	-1.4
Income from disposals of tangible assets	0.1	0.2
Other investments to subsidiaries	0.0	0.0
Placements in other investments	0.0	-0.1
Proceeds from subsidiary shares	1.7	0.0
Proceeds from other investments	0.1	0.0
Loans granted	-204.5	-395.0
Instalments on loan receivable	0.0	7.8
<b>Cash flow from investing activities (B)</b>	<b>-205.2</b>	<b>-388.4</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Loans taken	272.0	281.4
Payments on loans	-100.0	-3.9
Changes in short-term cash pool liabilities and receivables	-4.7	66.5
Group contributions (contribution-based)	125.6	110.2
Dividends paid and other distribution of profit	-28.3	0.0
<b>Cash flow from financing activities (C)</b>	<b>264.6</b>	<b>454.3</b>
<b>Change in cash equivalents</b>	<b>0.0</b>	<b>-12.5</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>0.0</b>	<b>12.6</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>0.0</b>	<b>0.0</b>

## NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

### I. SATO CORPORATION, PARENT COMPANY ACCOUNTING PRINCIPLES

#### Basic information

Sato Corporation is domiciled in Helsinki and its registered address is Panuntie 4, 00610 Helsinki.

Sato Corporation is a part of Balder Fastighets Ab Group. The largest shareholder of Sato Corporation is Balder Finska Ots Ab with 54.4 % shareholding. Balder Finska Ots Ab is a subsidiary of Balder Fastighets Ab Plc.

#### General principles

Sato Corporation's financial statements have been prepared in accordance with the provisions of the Finnish Accounting Act and the Finnish Limited Liability Companies Act.

#### Income related to rental operations and compensation for administration costs

Income related to rental operations and compensation for administration costs are recognised on an accrual basis during the agreement period.

#### Valuation of fixed assets

Tangible and intangible assets are recognised in the balance sheet at original acquisition cost less depreciation according to plan and possible impairment. Depreciations according to plan are calculated as straight-line depreciation on the basis of the estimated useful life of the assets.

Depreciation periods:

Other intangible long-term expenses	10 years
Buildings	67 years
Structures	15 years
Machinery and equipment	5–10 years
Other tangible assets	3–6 years
Shelters	40 years
Vehicles	4 years

Shares in subsidiaries are valued based on acquisition costs less possible impairments.

#### Pension costs

The pension cover of Group companies is handled by external pension insurance companies in all respects. Pension costs are recognised as costs in the income statement on an accrual basis.

#### Development expenditures

Development costs are recognised as expenses in the income statement in the financial year in which they are generated.

#### Valuation of inventories

Inventories have been recognised at the lower of cost or probable sales price on the balance sheet date.

#### Derivatives, change in accounting principles

Interest rate derivatives are used for hedging against the interest rate risks of floating term loans. The interest income and expenses based on derivative instruments are allocated over the agreement period.

The company has changed its accounting principles related to the fair value changes recordings from 1 January 2018 onwards. Earlier the derivatives were not recorded at fair value in the balance sheet and fair values were only reported in the notes to the financial statements. In accordance with the new accounting principles, from 1 January 2018 onwards, the company has recorded the negative fair values of the derivatives as a non-current and current liability in full in its balance sheet. No deferred tax assets have been recorded from the derivative liability neither on 1 January 2018 or 31 December 2018.

Derivatives having positive fair values are still not entered into the balance sheet and positive fair values are reported only in the notes to the financial statements.

Due to the change of accounting principles the comparative 31 December 2017 balance sheet has been restated and retained earnings have been decreased by EUR 20,827,436.00. The comparative period Income statement has not been restated. The calculated income statement impact for the year 2017 would have been EUR 9,897,752.00, which is included for the comparative period adjustment under retained earnings.

From 1 January 2018 onwards the fair value changes of the derivatives, having negative fair values, are recorded in the Income Statement. Principles regarding the fair valuation methodology of the derivatives have been presented in note 26 to the consolidated financial statements.

## NOTES TO INCOME STATEMENT

### 2. NET SALES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Rental income and compensation charges	2.5	2.2
Other income	2.0	5.3
Management service charges	6.5	4.9
<b>Total</b>	<b>11.0</b>	<b>12.4</b>

### 3. OTHER OPERATING INCOME

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Other operating income	0.0	0.1
Commission, sold property	0.1	0.0
Profit on sales of fixed assets	0.1	0.2
<b>Total</b>	<b>0.2</b>	<b>0.2</b>

### 4. MATERIALS AND SERVICES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Materials and consumables</b>		
Purchases	0.0	0.6
Change in inventories	-0.6	1.3
<b>Total</b>	<b>-0.6</b>	<b>1.9</b>

### 5. PERSONNEL EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Salaries and wages	3.0	2.5
Pension expenses	0.5	0.5
Other personnel expenses	0.1	0.1
<b>Total</b>	<b>3.6</b>	<b>3.0</b>

### 6. MANAGEMENT SALARIES AND COMPENSATIONS

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Presidents and members of the Board of Directors	0.7	0.6

### 7. AVERAGE NUMBER OF PERSONNEL

	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Employees	16	18

### 8. DEPRECIATION AND AMORTISATION

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Amortisation of intangible assets	0.8	0.6
Depreciation of tangible assets	0.5	0.5
<b>Total</b>	<b>1.3</b>	<b>1.1</b>

### 9. OTHER OPERATING EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Rents	0.5	0.5
Maintenance expenses	0.6	0.5
Other fixed expenses*	11.3	11.9
Other operating expenses	0.0	0.0
Merger loss, SVK Group Corporation	14.0	0.0
<b>Total</b>	<b>26.4</b>	<b>13.0</b>

\* Deloitte Oy, Authorised Public Accountants, have acted as auditors of SATO Corporation in 2018. In 2017, KPMG Oy Ab, Authorised Public Accountants, acted as auditors of SATO Corporation. Audit fees and audit related assignment fees were EUR 0.0 million in 2018 and EUR 0.1 million in 2017. Tax and other consultancy services purchased from auditors were EUR 0.0 (0.0) million in 2018 and in 2017, respectively.

## 10. FINANCIAL INCOME AND EXPENSES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
<b>Interest income and other financial income on long-term investments</b>		
From Group companies	6.5	3.3
Sales profit on long-term investment, subsidiary SATO Hotelhome Corp.	1.7	0.0
From others	0.0	0.0
<b>Total</b>	<b>8.2</b>	<b>3.3</b>
<b>MEUR</b>	<b>1 Jan–31 Dec 2018</b>	<b>1 Jan–31 Dec 2017</b>
<b>Interest expenses and other financing expenses</b>		
To Group companies	-5.6	-8.1
To others:		
Interest income	-33.2	-31.8
Other financial expenses	-4.3	-4.4
Change of derivative fair values*	-6.0	-0.0
<b>Total</b>	<b>-43.5</b>	<b>-36.3</b>
<b>Financial income and expenses, total</b>	<b>-41.0</b>	<b>-41.1</b>

\* The accounting principle on derivatives has changed in 2018. More information under accounting principles.

## 11. GROUP CONTRIBUTIONS

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Group contributions received	127.2	125.6
<b>Total</b>	<b>127.2</b>	<b>125.6</b>

## 12. INCOME TAXES

MEUR	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Income taxes, business operations	17.0	15.6
<b>Total</b>	<b>17.0</b>	<b>15.6</b>

## NOTES TO BALANCE SHEET

### 13. INTANGIBLE ASSETS

MEUR	2018	2017
<b>Other long-term expenditure</b>		
Acquisition cost, 1 Jan	6.6	5.7
Increases	1.7	0.9
Decreases	0.0	0.0
Acquisition cost, 31 Dec	8.3	6.6
Accumulated amortisation and impairment, 1 Jan	4.5	3.8
Accumulated amortisation of decreases	0.0	0.0
Amortisation, current year	0.8	0.6
Accumulated amortisation and impairment, 31 Dec	5.3	4.5
<b>Book value, 31 Dec</b>	<b>3.0</b>	<b>2.1</b>
<b>Intangible assets, total</b>	<b>3.0</b>	<b>2.1</b>

### 14. TANGIBLE ASSETS

MEUR	2018	2017
<b>Land and water areas</b>		
Acquisition cost, 1 Jan	0.0	0.0
Acquisition cost, 31 Dec	0.0	0.0
<b>Book value, 31 Dec</b>	<b>0.0</b>	<b>0.0</b>
<b>Buildings and structures</b>		
Acquisition cost, 1 Jan	0.0	0.0
Acquisition cost, 31 Dec	0.0	0.0
Accumulated depreciation and impairment, 1 Jan	0.0	0.0
Accumulated depreciation and impairment, 31 Dec	0.0	0.0
<b>Book value, 31 Dec</b>	<b>0.0</b>	<b>0.0</b>
<b>Connection fees</b>		
Acquisition cost, 1 Jan	0.0	0.0
Acquisition cost, 31 Dec	0.0	0.0

MEUR	2018	2017
<b>Machinery and equipment</b>		
Acquisition cost, 1 Jan	3.5	3.5
Increases	0.7	0.5
Decreases	-0.2	-0.4
Acquisition cost, 31 Dec	4.1	3.5
Accumulated depreciation and impairment, 1 Jan	2.5	2.5
Accumulated depreciation of decreases	-0.1	-0.4
Depreciation, current year	0.3	0.3
Accumulated depreciation and impairment, 31 Dec	2.7	2.5
<b>Book value, 31 Dec</b>	<b>1.3</b>	<b>1.0</b>
<b>Other tangible assets</b>		
Acquisition cost, 1 Jan	1.4	1.3
Increases	0.0	0.1
Acquisition cost, 31 Dec	1.4	1.4
Accumulated depreciation and impairment, 1 Jan	0.7	0.5
Depreciation, current year	0.1	0.1
Accumulated depreciation and impairment, 31 Dec	0.8	0.7
<b>Book value, 31 Dec</b>	<b>0.6</b>	<b>0.7</b>
<b>Tangible assets, total</b>	<b>1.9</b>	<b>1.7</b>

## 15. HOLDINGS IN GROUP COMPANIES

MEUR	2018	2017
Acquisition cost, 1 Jan	1,081.2	1,081.2
Increases	0.0	0.0
Transfers	0.2	0.0
Decreases	-14.5	0.0
Acquisition cost, 31 Dec	1,066.9	1,081.2
<b>Book value, 31 Dec</b>	<b>1,066.9</b>	<b>1,081.2</b>

## 16. HOLDINGS IN ASSOCIATED COMPANIES

MEUR	2018	2017
Acquisition cost, 1 Jan	0.0	0.0
Acquisition cost, 31 Dec	0.0	0.0
<b>Book value, 31 Dec</b>	<b>0.0</b>	<b>0.0</b>

## 17. OTHER STOCKS AND SHARES

MEUR	2018	2017
Acquisition cost, 1 Jan	1.0	1.0
Increases	0.0	0.1
Decreases	0.0	0.0
Acquisition cost, 31 Dec	1.1	1.0
Accumulated depreciation and impairment, 1 Jan	0.0	0.0
Accumulated depreciation and impairment, 31 Dec	0.0	0.0
<b>Book value, 31 Dec</b>	<b>1.0</b>	<b>1.0</b>
<b>Investments, total</b>	<b>1,067.9</b>	<b>1,082.2</b>

## 18. INVENTORIES

MEUR	2018	2017
Completed housing units and commercial space	0.0	0.2
Land areas and land area companies	1.1	1.2
Other inventories	0.3	0.3
<b>Book value, 31 Dec</b>	<b>1.4</b>	<b>1.8</b>



## 19. NON-CURRENT RECEIVABLES

MEUR	2018	2017
<b>Receivables from Group companies</b>		
Notes receivable	599.5	395.0
<b>Total</b>	<b>599.5</b>	<b>395.0</b>
<b>MEUR</b>	<b>2018</b>	<b>2017</b>
<b>Receivables from others</b>		
Notes receivable	0.3	0.4
<b>Total</b>	<b>0.3</b>	<b>0.4</b>
<b>Non-current receivables, total</b>	<b>599.8</b>	<b>395.4</b>

## 20. CURRENT RECEIVABLES

MEUR	2018	2017
<b>Receivables from Group companies</b>		
Accounts receivable	0.0	0.0
Other receivables	181.6	176.3
Prepaid expenses and accrued income	0.0	0.0
<b>Total</b>	<b>181.6</b>	<b>176.3</b>
<b>Receivables from others</b>		
Accounts receivable	0.5	0.1
Prepaid expenses and accrued income*	0.2	0.1
<b>Total</b>	<b>0.7</b>	<b>0.3</b>
<b>Current receivables, total</b>	<b>182.3</b>	<b>176.5</b>
<b>Receivables total</b>	<b>782.1</b>	<b>571.9</b>

MEUR	2018	2017
<b>* Specification of prepaid expenses and accrued income</b>		
Interest receivables	0.1	0.0
Other	0.1	0.1
<b>Total</b>	<b>0.2</b>	<b>0.1</b>

## 21. SHAREHOLDERS' EQUITY

MEUR	2018	2017
Share capital, 1 Jan	4.4	4.4
Share capital, 31 Dec	4.4	4.4
Reserve fund, 1 Jan	43.7	43.7
Reserve fund, 31 Dec	43.7	43.7
Other funds, 1 Jan	1.1	1.1
Other funds, 31 Dec	1.1	1.1
Invested unrestricted equity fund, 1 Jan	114.8	114.8
Invested unrestricted equity fund, 31 Dec	114.8	114.8
Retained earnings, 1 Jan	165.6	123.9
Adjustment to retained earnings	0.0	-20.8
Dividend payment	-28.3	0.0
Retained earnings, 31 Dec	137.2	103.0
<b>Profit for the period</b>	<b>49.7</b>	<b>62.5</b>
<b>Shareholders' equity, total, 31 Dec</b>	<b>351.0</b>	<b>329.7</b>

## 22. CALCULATION OF DISTRIBUTABLE FUNDS

MEUR	2018	2017
Other funds	1.1	1.1
Invested unrestricted equity fund	114.8	114.8
Retained earnings	137.2	103.0
Profit for the period	49.7	62.5
<b>Distributable funds, 31 Dec</b>	<b>302.9</b>	<b>281.5</b>

## 23. SHARE CAPITAL AND SHARES

	2018	2017
Total number of shares	56,783,067	56,783,067

SATO Corporation has one class of shares, each of which entitles to one vote at the Annual General Meeting. The shares do not have a nominal value. The share capital of the company totalled EUR 4,442,192.00 at the financial statement date, and it was fully paid. The company held 160,000 of its own shares at the financial statement date.

## 24. PROVISIONS

MEUR	2018	2017
Provision for refund claims	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

## 25. LONG-TERM LIABILITIES

MEUR	2018	2017
<b>Loans from financial institutions</b>		
Bonds*	648.1	747.7
Loans from financial institutions	521.7	300.0
Derivative liabilities	25.7	20.5
<b>Total</b>	<b>1,195.4</b>	<b>1,068.1</b>
<b>Long-term liabilities, total</b>	<b>1,195.4</b>	<b>1,068.1</b>

Sensitivity analysis, interest rate risk		2018			
		Profit and Loss		Equity	
MEUR		0.1%	-0.1%	0.1%	-0.1%
Interest rate swaps		3.4	-3.4	3.4	-3.4
<b>Total</b>		<b>3.4</b>	<b>-3.4</b>	<b>3.4</b>	<b>-3.4</b>

		2017			
		Profit and Loss		Equity	
MEUR		0.1%	-0.1%	0.1%	-0.1%
Interest rate swaps		3.1	-3.1	3.1	-3.1
<b>Total</b>		<b>3.1</b>	<b>-3.1</b>	<b>3.1</b>	<b>-3.1</b>

Hedge accounting is not applied on SATO Corporation level, therefore the sensitivity impact on equity and profit and loss is the same.

<b>Loans maturing in more than five years</b>	<b>304.2</b>	<b>178.2</b>
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Derivatives			
MEUR		2018	2017
<b>Nominal values of derivative instruments</b>			
Interest rate swaps, liabilities		755.4	474.6
Interest rate swaps, assets		0.0	120.0
<b>Net</b>		<b>755.4</b>	<b>594.6</b>

MEUR	2018	2017
<b>Fair values of derivative instruments</b>		
Interest rate swaps		
Positive	0.0	0.3
Negative	-25.8	-20.8
<b>Net</b>	<b>-25.8</b>	<b>-20.6</b>

\* More information in the Group financial statements, note 25.

Interest rate risk arising from floating rate loans of Group companies is hedged using derivative instruments in accordance with the Treasury Policy. The hedge ratio complies with the Treasury Policy, according to which the ratio of fixed-rate loans to the entire loan portfolio (excluding ARAVA loans) is kept above 60 per cent. SATO's objective is to keep the interest-fixing period between 3 to 5 years.

No deferred tax assets have been recorded in relation to derivative liabilities. The deferred tax asset would have been EUR 5.4 million on 31 December 2018 and EUR 4.2 million on 31 December 2017.

The accounting principles regarding to derivatives have changed on 1 January 2018. More information in accounting principles.

## 26. CURRENT LIABILITIES

MEUR	2018	2017
<b>Loans to Group companies</b>		
Accounts payable	0.4	0.4
Other liabilities	0.1	0.0
Accrued expenses and prepaid income to 100% owned housing companies	0.0	0.0
<b>Total</b>	<b>0.5</b>	<b>0.4</b>
<b>MEUR</b>	<b>2018</b>	<b>2017</b>
<b>Loans to others*</b>		
Loans from financial institutions	191.3	140.9
Bonds	100.0	100.0
Advances received	0.2	0.1
Accounts payable	0.6	0.8
Other liabilities	0.9	0.8
Accrued expenses and prepaid income	16.6	18.8
<b>Total</b>	<b>309.5</b>	<b>261.5</b>
<b>Current liabilities, total</b>	<b>310.0</b>	<b>261.9</b>
<b>Liabilities, total</b>	<b>1,505.5</b>	<b>1,330.0</b>

\* Short-term liabilities include derivative liabilities EUR 1.1 million (2017: EUR 0.0 million)

MEUR	2018	2017
<b>Specification of accrued expenses and prepaid income</b>		
Wages and salaries including employee benefits	2.6	2.1
Interest payable	12.5	13.8
Current tax liabilities	1.4	2.5
Others	0.2	0.4
<b>Total</b>	<b>16.6</b>	<b>18.8</b>

## 27. COLLATERALS, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

MEUR	2018	2017
<b>Guarantees</b>		
Guarantees for debts and derivatives of Group companies	169.6	222.3
Bank guarantees for Group companies	6.5	4.3
<b>Total</b>	<b>176.1</b>	<b>226.5</b>
<b>MEUR</b>	<b>2018</b>	<b>2017</b>
<b>Other commitments</b>		
Lease agreements for premises in Panuntie, amounts due (incl.VAT)		
Within one year	1.8	1.7
Later than one year but within five years	5.3	5.2
Utilities commitments	0.3	0.7
<b>Pledges and contingent liabilities, total</b>	<b>7.3</b>	<b>7.6</b>

SATO has sublet its office premises in Panuntie, Helsinki. The future minimum rent payments from these agreements is EUR 0.5 (0.6) million. In the current period, rental income recognised in income statement amounted to EUR 0.4 (0.5) million.

SATO has granted an unlimited general guarantee for Sato-Pietari Oy and Sato-Neva Oy and a community guarantee for Sato-Asunnot Oy.

SATO's funding agreements contain covenant clauses relating to the Group's capital structure and debt servicing capacity. These clauses set a ratio of unencumbered assets to total assets at least 42.5 per cent, a solvency ratio maximum of 70 per cent and interest coverage ratio of at least 1.8. On report date, the ratio of unencumbered assets was 74.1 (66.3) per cent, the solvency ratio was 50.5 (52.1) per cent, and interest coverage ratio was 4.4 (4.5). SATO complied with all covenant clauses during the reporting period.

## PROPOSAL OF THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFIT

On 31 December 2018, the parent company's distributable funds amounted to EUR 302,887,045.77, of which profit for the period was EUR 49,670,104.13. The company had 56,623,067 outstanding shares entitling to dividends for year 2018.

The Board of Directors proposes to the Annual General Meeting that EUR 0.50 per share be paid in dividends for the 2018 financial period (EUR 0.50 per share for 2017), EUR 28,311,533.50 in total, and that EUR 21,358,570.63 be transferred to retained earnings.

Dividend will be paid to a shareholder registered in the company's shareholders' register maintained by Euroclear Finland Ltd on the record date of the dividend, 5 April 2019. It is proposed that the dividend will be paid on 12 April 2019.

No material changes have taken place in the company's financial position since the end of the financial year.

## SIGNATURES TO THE FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

Helsinki, 26 February 2019

Erik Selin	Jukka Hienonen	Marcus Hansson
Esa Lager	Tarja Pääkkönen	Timo Stenius
Hans Spikker	Saku Sipola CEO	

### The auditor's note

Our report on the conducted audit has been issued today.

Helsinki, 26 February 2019  
Deloitte Oy, Authorised Public Accountants

Eero Lumme, Authorised Public Accountant

## AUDITOR'S REPORT

To the Annual General Meeting of SATO Oyj

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of SATO Oyj (business identity code 0201470-5) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

#### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

### Valuation of investment properties

#### Key audit matter

Refer to note 13 to the consolidated financial statements.

Consolidated financial statements as of 31 December 2018 include investment properties amounting to EUR 3,875.1 million.

Investment properties, as defined in IAS 40, are measured at fair value in accordance with IFRS 13.

Fair value measurement of investment properties requires management judgment and assumptions, since market prices for investment properties are not available in publicly traded markets.

This matter is regarded as significant risk of material misstatement in accordance with EU Audit Regulation (537/2014) Article 10 paragraph 2 c.

#### How our audit addressed the key audit matter

We have assessed and challenged the principles and methods applied in the fair value measurement. Our audit procedures included the following, among others:

- assessment of the appropriateness of valuation methods and the reasonableness of management assumptions
- testing the applied valuation model for mathematical accuracy
- comparison of the valuation of investment properties against externally available market data
- evaluation of the competence and objectivity of the external valuation expert used by the management
- testing the key controls for operating effectiveness.

We have assessed the appropriateness of the presentation in the consolidated financial statements.

## Change in accounting principle for deferred tax liabilities regarding valuation of investment properties

### Key audit matter

Refer to notes 1 and 20 to the consolidated financial statements.

Consolidated financial statements as of 31 December 2018 include deferred tax liabilities amounting to EUR 273.2 million, of which EUR 215.2 million arise from the valuation of investment properties.

SATO changed its accounting principle for recognition of deferred taxes arising from the changes in fair value of investment properties on 31 December 2018. The change is based on the IFRS Interpretations Committee's 2014 agenda decision on the interpretation of IAS 12, applicable to situations where an individual asset (such as investment property) is held through a special purpose entity. The impact of this change in accounting principle on the opening balance of deferred tax liabilities as of 1 January 2018 amounted to EUR 12.1 million.

This matter is regarded as significant risk of material misstatement in accordance with EU Audit Regulation (537/2014) Article 10 paragraph 2 c.

### How our audit addressed the key audit matter

We have assessed the new accounting principle and methods adopted for the recognition of deferred tax liabilities regarding investment properties.

We have assessed the reasonableness of management assumptions.

We have performed audit procedures on the valuation and completeness of deferred tax liabilities regarding investment properties by testing the company's calculation model for technical accuracy and data completeness.

In addition, we have assessed how the management has ensured the appropriateness of the calculation model.

We have assessed the appropriateness of the presentation in the consolidated financial statements.

## Fair value measurement of derivative instruments and application of hedge accounting

### Key audit matter

Refer to note 26 to consolidated financial statements and note 25 to the parent company's financial statements.

Derivative liabilities as of 31 December 2018 in the consolidated financial statements and in the parent company's financial statements amount to EUR 40.8 million and EUR 26.8, respectively.

Management estimates are used in the fair value measurement of derivatives and in the application of hedge accounting. These estimates contain management assumptions.

### How our audit addressed the key audit matter

Our audit procedures included an assessment of internal control environment and processes over the hedge accounting documentation, effectiveness testing, and fair value measurement.

We have also assessed the procedures and assumptions used by the management in fair value measurement.

- We have assessed the appropriateness of valuation methods and accounting policies used against the requirements set in IFRS 9 and IFRS 13 for consolidated financial statements and against requirements of the Finnish Accounting Act for parent company's financial statements.
- We have compared the assumptions used by management in valuation against externally available market data.
- We have assessed the existence and completeness of outstanding derivative contracts by requesting confirmations from the counterparties.
- We have assessed that financial instruments included in hedge relationships are accounted for in accordance with IFRS 9 in the consolidated financial statements.

We have assessed the appropriateness of the presentation for derivative financial instruments and hedge accounting applied in the consolidated financial statements and in the parent company's financial statements.



## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole

are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting pol-

icies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## OTHER REPORTING REQUIREMENTS

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 23 March 2018.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 26 February 2019

Deloitte Oy  
Audit Firm

Eero Lumme  
Authorised Public Accountant (KHT)

## FIVE YEAR INDICATORS

Key financial indicators	2018	2017	2016**	2015**	2014**
Net sales, MEUR	290.4	280.1	262.7	249.4	243.2
Net rental income, MEUR	198.5	188.4	167.1	151.8	146.2
Net rental income, %	5.5%	5.6%	5.6%	6.0%	6.3%
Operating profit, MEUR	273.3	230.1	267.2	196.5	191.3
Net financing expenses, MEUR	-42.5	-45.8	-47.8	-37.0	-39.1
Profit before taxes, MEUR	230.8	184.4	219.4	159.4	152.2
Balance sheet total, MEUR	3,922.4	3,693.1	3,562.2	2,979.6	2,801.6
Shareholders' equity, MEUR	1,554.5	1,397.6	1,252.6	993.2	892.3
Interest bearing liabilities, MEUR	1,982.2	1,931.7	1,943.0	1,676.2	1,584.9
Return on invested capital, % (ROI)	7.9%	7.1%	9.1%	7.6%	7.7%
Return on equity, % (ROE)	12.4%	11.0%	15.6%	13.5%	14.0%
Equity ratio, %	39.6%	37.8%	35.2%	33.3%	31.8%
Personnel, average***	215	206	170	172	165
Personnel at the end of period	218	212	175	170	169
<b>Key indicators per share</b>					
Earnings per share, EUR	3.26	2.55	3.22	2.49	2.37
Equity per share, EUR****	27.46	24.68	22.12	19.53	17.55
Number of shares, million*	56.6	56.6	56.6	50.8	50.8
<b>Operational key figures and net asset value</b>					
Operational earnings, MEUR	96.0	82.8	69.5	64.5	65.1
Operational earnings per share, EUR	1.70	1.46	1.28	1.27	1.28
Net asset value, MEUR	1,855.7	1,678.7	1,517.5	1,227.8	1,120.3
Net asset value per share, EUR	32.77	29.65	26.80	24.15	22.04
Cash earnings, MEUR	97.9	92.4	86.2	78.1	72.9
Cash earnings per share, EUR	1.73	1.63	1.59	1.54	1.43

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

\*\* Key figures of 2018 and 2017 include the effects of adoption of IFRS 9 Financial Instruments. The figures of prior years are unadjusted.

\*\*\* Including summer trainees

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

## FORMULAS USED IN CALCULATION

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

## INFORMATION FOR SHAREHOLDERS

### THE ANNUAL GENERAL MEETING OF SATO CORPORATION

Notice is given to the shareholders of SATO Corporation of the Annual General Meeting to be held on Wednesday, 3 April 2019 at 13.00 in the SATO building auditorium at the address Panuntie 4, FI-00610 Helsinki. The reception of registered participants and the distribution of voting tickets will commence at 12.30.

The matters defined in section 5 in SATO Corporation's Articles of Association will be handled in the Annual General Meeting.

### DOCUMENTS OF THE GENERAL MEETING

The notice of the meeting and the agenda with the draft resolutions will be available on the SATO Corporation's website [www.sato.fi](http://www.sato.fi) as of 27 February 2019. SATO Corporation's financial statements, report of the Board of Directors and the auditor's report will be available on the website no later than on 5 March 2019. The draft resolutions and the other above-mentioned documents will also be available at the General Meeting. The minutes of the General Meeting will be available on the said website on 17 April 2019 at the latest.

### INSTRUCTIONS FOR PARTICIPANTS OF THE GENERAL MEETING

#### Right to attend and registration

Each shareholder who is on 22 March 2019 registered in the shareholders register of the company

maintained by Euroclear Finland Ltd has the right to attend the General Meeting. A shareholder whose shares have been entered into his/her personal Finnish book-entry account, is registered in the shareholders register of the company.

A shareholder who is entered into the shareholders register and who wish to attend the General Meeting shall register for the meeting no later than on Friday 29 March 2019 at 16.00, by which time the registration shall be received by the company. The registration may be made as follows:

- by regular mail to the address SATO Corporation, Kati Laakso, PO Box 401, FI-00601 Helsinki
- by telephone (+358 201 34 4002/Kati Laakso) Mon-Fri 9.00–16.00 or
- by e-mail to [yhtiokokous@sato.fi](mailto:yhtiokokous@sato.fi)

Personal information given by the shareholders to SATO Corporation shall be used only in connection with the General Meeting and the registrations required for it.

If required, the shareholder, his/her authorized representative or proxy representative shall prove his/her identity and/or the right of representation at the meeting.

#### Holders of nominee registered shares

A holder of nominee registered shares is entitled to attend the General Meeting by virtue of shares on the basis of which he/she on 22 March 2019

would be entitled to be registered in the shareholders register of the company maintained by Euroclear Finland Ltd. The attendance also requires that the shareholder is temporarily entered into the shareholders register maintained by Euroclear Finland Oy on the basis of such shares by 29 March 2019 by 10.00. For shares entered in the nominee register, this will be deemed as registration for the General Meeting.

With regard to the nominee registered shares, the holder of such shares is advised to request from his/her custodian bank in time instructions for entry on the temporary shareholders register, the issuing of proxy documents and registration for the General Meeting. The account management organisation of the custodian bank shall request temporary entry of the holder of the nominee registered shares wishing to attend the General Meeting into the company's shareholders register no later than the above mentioned time.

#### Representatives and powers of attorney

A shareholder may attend the General Meeting and exercise his/her rights by way of a representative. The shareholder's representative shall present a dated power of attorney or otherwise in a reliable manner prove his/her right to represent the shareholder. In case a shareholder participates the General Meeting by means of several representatives, representing the shareholder with shares entered into different book-entry accounts, the shares on the basis of which each representative represents

the shareholder shall be identified in connection with the registration for the General Meeting.

Proxy documents, if any, should be delivered to SATO Corporation, Kati Laakso, PO Box 401, FI-00601 Helsinki by the expiry of the registration period.

#### Other instructions

Pursuant to Chapter 5 Section 25 of the Finnish Limited Liability Companies Act a shareholder attending the General Meeting is entitled to request information concerning the issues on the Meeting agenda

### FINANCIAL PUBLICATIONS

Publication dates for interim reports and half year financial report:

Interim report  
January–March 8 May 2019  
Half year financial report  
January–June 17 July 2019  
Interim report  
January–September 25 October 2019

The annual report for the financial period, interim reports and half year financial report are issued in Finnish and in English. They are available at the company's website [www.sato.fi](http://www.sato.fi). Further information is available from [viestinta@sato.fi](mailto:viestinta@sato.fi).

**DISTRIBUTION OF SHARES ON 31 DECEMBER 2018**

Shareholder	Number of shares	Holdings, %
BALDER FINSKA OTAS AB (owned by Fastighets AB Balder, 100 %)	30,882,806	54.4%
STICHTING DEPOSITARY APG STRATEGIC REAL ESTATE POOL	12,811,647	22.6%
KESKINÄINEN TYÖELÄKEVAKUUTUSYHTIÖ ELO	7,233,081	12.7%
VALTION ELÄKERAHASTO	2,796,200	4.9%
RAKENNUSLIITTO RY	619,300	1.19%
ERKKA VALKILA	390,000	0.7%
HENGITYSSAIRAUKSIEN TUTKIMUSSÄÄTIÖ	227,000	0.4%
RAUSANNE OY	194,920	0.3%
TUULA ENTELÄ	179,000	0.3%
OTHERS (106 shareholders)	1,289,113	2.3%

On 31 December 2018, the Group had 116 shareholders entered in the book-entry register. The turnover of SATO Corporation's shares was 0.71 per cent during the reporting year.

**ARTICLES OF ASSOCIATION AND SHARES**

SATO Corporation's Articles of Association as in force was registered on 19 April 2018. The Articles of Association does not include any provisions on redemption of shares.

On 31 December 2018, the company's share capital was EUR 4,442,192. The company has 56,783,067 shares. The share has no par value.

The company has one series of shares. The shares are included in the book-entry system maintained by Euroclear Finland Oy.



sato

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