# REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2018


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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 sent 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 Otas 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 $m^2$. 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.

## 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.

## DEVELOPMENT ACTIVITIES

SATO's development activities were strongly focussed 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.

## 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

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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 Otas 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, Johannus (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 Otas 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 |
| **Net operating income** | | **198.5** | **188.4** |
| | | | |
| 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 |
| | | | |
| **Operating profit** | | **273.3** | **230.1** |
| | | | |
| Financial income | 10 | 0.9 | 0.7 |
| Financial expenses | 10 | -43.5 | -46.5 |
| | | **-42.5** | **-45.8** |
| | | | |
| **Profit before tax** | | **230.8** | **184.4** |
| | | | |
| Income tax expenses | 11 | -46.5 | -39.8 |
| **Profit for the period** | | **184.3** | **144.6** |
| | | | |
| **Profit for the period attributable to** | | | |
| Equity holder of the parent | | 184.3 | 144.7 |
| Non-controlling interests | | 0.0 | -0.1 |
| | | **184.3** | **144.6** |
| | | | |
| **Earnings per share attributable to equity holders of the parent** | 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 |
|---|---|---|---|
| **Other comprehensive income** | | | |
| Remeasurement of defined benefit liability, net of tax | | 0.0 | 0.0 |
| Related tax | | 0.0 | 0.0 |
| **Items that will never be reclassified to income statement** | | **0.0** | **0.0** |
| | | | |
| Cash flow hedges | 26 | 1.2 | 15.6 |
| Translation differences | | -0.1 | -0.1 |
| Related tax | | -0.2 | -3.1 |
| **Items that may be reclassified subsequently to income statement** | | **0.9** | **12.4** |
| | | | |
| **Other comprehensive income, net of tax** | | **0.9** | **12.4** |
| | | | |
| **Total comprehensive income** | | **185.2** | **157.0** |
| | | | |
| **Comprehensive income attributable to** | | | |
| Equity holders of the parent | | 185.2 | 157.0 |
| Non-controlling interest | | 0.0 | -0.1 |
| | | **185.2** | **157.0** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION, IFRS

| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| 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 |
| **Total** | | **3,903.4** | **3,662.6** |
| **Current assets** | | | |
| 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 |
| **Total** | | **19.0** | **30.5** |
| **TOTAL ASSETS** | | **3,922.4** | **3,693.1** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| 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 |
| **Total** | 23 | **1,554.6** | **1,397.7** |
| **Non-controlling interests** | | **-0.1** | **-0.1** |
| **TOTAL SHAREHOLDERS EQUITY** | | **1,554.5** | **1,397.6** |

| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| 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 |
| **Total** | | **1,951.3** | **1,915.9** |
| **Current liabilities** | | | |
| 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 |
| **Total** | | **416.6** | **379.6** |
| **TOTAL LIABILITIES** | | **2,367.9** | **2,295.5** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **3,922.4** | **3,693.1** |

# CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

| MEUR | note | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit for the period** | | **184.3** | **144.6** |
| 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 |
| **Cash flow before change in net working capital** | | **167.4** | **164.7** |
| | | | |
| 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 |
| **Net cash flow from operating activities** | | **100.6** | **82.1** |
| | | | |
| **Cash flow from investing activities** | | | |
| 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 |
| **Net cash flow from investing activities** | | **-131.2** | **-78.3** |

| MEUR | note | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| 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 |
| **Net cash flow from financing activities** | | **21.9** | **-7.8** |
| | | | |
| **Change in cash and cash equivalents** | | **-8.8** | **-3.9** |
| 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 |

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# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY, IFRS

| MEUR | Share capital | Fair value and other reserves | Reserve fund | Reserve for invested non-restricted equity | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the parent | | | | | | | |
| **Shareholders' equity 1 Jan 2017** | **4.4** | **-37.9** | **43.7** | **114.8** | **1,115.6** | **1,240.7** | **0.0** | **1,240.7** |
| 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 |
| **Total comprehensive income** | **0.0** | **12.5** | **0.0** | **0.0** | **144.6** | **157.0** | **-0.1** | **157.0** |
| Transactions with shareholders: | | | | | | | | |
| Dividend | - | - | - | - | 0.0 | 0.0 | - | 0.0 |
| **Transaction with shareholders, total** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Other adjustments | 0.0 | - | - | - | 0.0 | 0.0 | - | 0.0 |
| **Total of equity movements** | **0.0** | **12.5** | **0.0** | **0.0** | **144.6** | **157.0** | **-0.1** | **157.0** |
| **Shareholders' equity 31 Dec 2017** | **4.4** | **-25.4** | **43.7** | **114.8** | **1,260.2** | **1,397.7** | **-0.1** | **1,397.6** |

| MEUR | Share capital | Fair value and other reserves | Reserve fund | Reserve for invested non-restricted equity | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the parent | | | | | | | |
| **Shareholders' equity 1 Jan 2018** | **4.4** | **-25.4** | **43.7** | **114.8** | **1,260.2** | **1,397.7** | **-0.1** | **1,397.6** |
| 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 |
| **Total comprehensive income** | **0.0** | **1.0** | **0.0** | **0.0** | **184.2** | **185.2** | **0.0** | **185.2** |
| Transactions with shareholders: | | | | | | | | |
| Dividend | - | - | - | - | -28.3 | -28.3 | - | -28.3 |
| **Transaction with shareholders, total** | **0.0** | **0.0** | **0.0** | **0.0** | **-28.3** | **-28.3** | **0.0** | **-28.3** |
| Other adjustments | 0.0 | - | - | - | - | 0.0 | - | 0.0 |
| **Total of equity movements** | **0.0** | **1.0** | **0.0** | **0.0** | **155.9** | **156.9** | **0.0** | **156.8** |
| **Shareholders' equity 31 Dec 2018** | **4.4** | **-24.4** | **43.7** | **114.8** | **1,416.1** | **1,554.6** | **-0.1** | **1,554.5** |

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# 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. SATOs 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.

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

SATOs 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

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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 *Levies* 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 |
|---|---|---|
| **Net sales by geographical region** | | |
| Finland | 284.4 | 273.4 |
| Russia | 6.0 | 6.7 |
| **Total** | **290.4** | **280.1** |

| | 31 Dec 2018 | | | 31 Dec 2017 | | |
|---|---|---|---|---|---|---|
| MEUR | Finland | Russia | Total | Finland | Russia | Total |
| **Non-current assets by geographical region** | | | | | | |
| 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 |
| **Total** | **3,775.3** | **104.8** | **3,880.1** | **3,517.6** | **118.9** | **3,636.4** |

### 4. RESULT ON DISPOSAL OF INVESTMENT PROPERTIES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Gains and losses on sales of investment properties** | | |
| Gains on sales of investment properties | 4.3 | 9.9 |
| Losses on sales of investment properties | -0.4 | -2.4 |
| **Total** | **3.8** | **7.5** |

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 |
|---|---|---|
| **Sale of residential investment properties** | | |
| Proceeds from disposal of residential investment properties | 15.4 | 45.7 |
| Carrying value of investment properties sold | -14.9 | -46.2 |
| **Total** | **0,4** | **-0.5** |

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Sale of land plots** | | |
| Sales income, land plots | 10.0 | 14.9 |
| Carrying value of land plots sold | -6.7 | -7.0 |
| **Total** | **3.4** | **7.9** |

### 5. OTHER OPERATING INCOME AND EXPENSES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Other operating income** | | |
| 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 |
| **Total** | **3.8** | **2.8** |

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 |
|---|---|---|
| **Other operating expenses** | | |
| Bad debts expensed in the period | -2.4 | -2.4 |
| Post-collection income | 1.3 | 1.1 |
| Other expenses | -0.1 | -0.6 |
| **Total** | **-1.2** | **-1.9** |

## 6. PERSONNEL EXPENSES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Personnel expenses** | | |
| Salaries and wages | 14.3 | 13.3 |
| Defined contribution pension plans | 2.5 | 2.4 |
| Other personnel expenses | 0.4 | 0.4 |
| **Total** | **17.2** | **16.1** |

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 |
|---|---|---|
| **Auditor's fees** | | |
| 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 |
| **Total** | **0.1** | **0.2** |

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 |
|---|---|---|---|
| **Depreciation, amortisation and impairment charges by asset class:** | | | |
| Tangible assets | 14 | 0.5 | 0.3 |
| Intangible assets | 15 | 0.8 | 0.8 |
| **Total** | | **1.3** | **1.1** |

## 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 |
|---|---|---|
| **Financial income** | | |
| 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 |
| **Total** | **0.9** | **0.7** |

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Financial expenses** | | |
| 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 |
| **Total** | **-43.5** | **-46.5** |
| | | |
| **Financial income and expenses, net** | **-42.5** | **-45.8** |

## 11. INCOME TAXES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Income taxes recognised in income statement** | | |
| Current tax from accounting period | 24.4 | 23.0 |
| Current tax from previous period | 0.9 | 1.4 |
| Deferred taxes | 21.2 | 15.4 |
| **Total** | **46.5** | **39.8** |

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 |
|---|---|---|
| **Profit before taxes** | 230.8 | 184.4 |
| | | |
| **Income tax calculated with domestic corporate tax rate of the parent** | 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 |
| **Total adjustments** | **0.4** | **1.6** |
| **Income tax expense in income statement** | **46.5** | **39.8** |
| 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 |
| | | |
| **Earnings per share (EUR)** | | |
| Basic | 3.26 | 2.55 |
| Diluted | 3.26 | 2.55 |

## 13. INVESTMENT PROPERTIES

| MEUR | note | 2018 | 2017 |
|---|---|---|---|
| **Fair value of investment properties at start of period*** | | 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 |
| **Fair value of investment properties end of period** | | **3,875.1** | **3,632.5** |

* 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 operations, distribution of profit, lending and provision of collateral, and the divestment of investments. The property-specific restrictions include the use of apartments, the selection of residents, the setting of rents and divestment of apartments, and they are fixed-term.

The valuation of SATO's investment properties is based on a method which has been prepared by SATO in co-operation with a third party expert (currently: JLL (Helsinki office)). The external expert quarterly issues a statement on the applicability of SATO's valuation methods, the appropriateness of sources of information used and the credibility of the valuation. As part of the valuation process, the external expert also reviews each SATO's property on site every three years. Existing properties located in St. Petersburg are valuated 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 (Hintaseurantapalvelu), 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 valuated 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 valuated 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-residential properties are valued with the income value method.

### Acquisition cost

Properties under construction and ARAVA properties are valued at acquisition cost less any impairments, 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 |
|---|---|---|
| **Investment property by valuation classes** | | |
| Sales comparison method | 3,138.0 | 2,932.8 |
| Income value | 516.2 | 478.9 |
| Acquisition method | 220.8 | 220.8 |
| **Total** | **3,875.1** | **3,632.5** |

**Sensitivity analysis of investment properties**

| | -10% | | -5% | | 5% | | 10% | |
|---|---|---|---|---|---|---|---|---|
| **MEUR** | Change | Change, % | Change | Change, % | Change | Change, % | Change | Change, % |
| **Properties measured by sales comparison method** | | | | | | | | |
| Change in market prices | -282.5 | -9.7% | -141.2 | -4.9% | 141.2 | 4.9% | 282.5 | 9.7% |
| **Properties measured by income value** | | | | | | | | |
| 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

| MEUR | note | Machinery and equipment | Other tangible assets | 2018 total |
|---|---|---|---|---|
| **Acquisition cost, 1 January** | | 4.7 | 1.3 | 6.0 |
| Additions | | 0.7 | 0.0 | 0.8 |
| Disposals | | -0.4 | 0.0 | -0.4 |
| Transfers between items | | -0.1 | 0.1 | 0.0 |
| **Acquisition cost, 31 December** | | **4.9** | **1.4** | **6.4** |
| | | | | |
| **Accumulated depreciation, 1 January** | | 3.6 | 0.3 | 3.8 |
| Disposals | | -0.4 | 0.0 | -0.4 |
| Depreciation and impairments for the period | 8 | 0.3 | 0.1 | 0.5 |
| Transfers between items | | -0.2 | 0.2 | 0.0 |
| **Accumulated depreciation, 31 December** | | **3.4** | **0.6** | **4.0** |
| | | | | |
| **Carrying value, 1 January** | | **1.1** | **1.1** | **2.2** |
| **Carrying value, 31 December** | | **1.5** | **0.8** | **2.4** |

2017

| MEUR | note | Machinery and equipment | Other tangible assets | 2017 total |
|---|---|---|---|---|
| **Acquisition cost, 1 January** | | 4.6 | 1.4 | 6.0 |
| Additions | | 0.5 | 0.1 | 0.6 |
| Disposals | | -0.4 | - | -0.4 |
| Transfers between items | | 0.0 | -0.1 | -0.1 |
| **Acquisition cost, 31 December** | | **4.7** | **1.3** | **6.0** |
| | | | | |
| **Accumulated depreciation, 1 January** | | 3.6 | 0.3 | 3.9 |
| Disposals | | -0.4 | - | -0.4 |
| Depreciation for the period | 8 | 0.3 | - | 0.3 |
| Transfers between items | | - | 0.0 | 0.0 |
| **Accumulated depreciation, 31 December** | | **3.6** | **0.3** | **3.8** |
| | | | | |
| **Carrying value, 1 January** | | **1.0** | **1.1** | **2.1** |
| **Carrying value, 31 December** | | **1.1** | **1.1** | **2.2** |

## 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** |

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** |

## 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.

### 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.

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## 17. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

| 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 | | | | | 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 |
| **Financial assets** | | | | |
| 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 |
| **Financial liabilities** | | | | |
| 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 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Other holdings | 1.9 | 1.7 |
| **Total** | **1.9** | **1.7** |

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 |
|---|---|---|---|
| **Non-current receivables** | | | |
| Derivatives | 17, 26 | 0.0 | 0.6 |
| Loans receivable | 17 | 8.4 | 10.7 |
| **Non-current receivables total** | | **8.5** | **11.3** |

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 comprehen-sive income | 31 Dec 2018 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| Valuation of financial instruments at fair value | 6.8 | - | - | - | -0.2 | 6.6 |
| Periodisation and temporary differences | 6.4 | - | 0.0 | - | - | 6.4 |
| **Total** | **13.2** | **0.0** | **0.0** | **0.0** | **-0.2** | **12.9** |
| | | | | | | |
| **Deferred tax liabilities:** | | | | | | |
| 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 |
| **Total** | **252.1** | **0.0** | **21.2** | **0.0** | **0.0** | **273.2** |

| MEUR | 1 Jan 2017 | New standards and changes in accounting principles | Recognised through profit or loss | Transfers between items | Recognised through other comprehen-sive income | 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | | |
| 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 |
| **Total** | **16.1** | **0.3** | **-0.1** | **0.0** | **-3.1** | **13.2** |
| | | | | | | |
| **Deferred tax liabilities:** | | | | | | |
| 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 |
| **Total** | **225.9** | **10.8** | **15.4** | **0.0** | **0.0** | **252.1** |

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 libilities 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.

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 |
|---|---|---|---|
| **Accounts receivable and other receivables** | | | |
| Accounts receivable | 17 | 7.0 | 8.9 |
| Prepaid expenses and accrued income | | 0.9 | 1.1 |
| Other receivables | | 4.0 | 3.9 |
| **Total** | | **11.9** | **13.9** |

| | 31 Dec 2018 | | | 31 Dec 2017 | | |
|---|---|---|---|---|---|---|
| MEUR | Gross amount | Expected credit loss | Carrying amount | Gross amount | Expected credit loss | Carrying amount |
| **Aging structure of accounts receivable** | | | | | | |
| 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 |
| **Total** | **9.2** | **-2.2** | **7.0** | **10.8** | **-1.9** | **8.9** |

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 |
|---|---|---|
| **Specification of prepaid expenses and accrued income** | | |
| 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 |
| **Total** | **0.9** | **1.1** |

## 22. CASH AND CASH EQUIVALENTS

| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| Cash and bank balances | 17 | 5.4 | 14.2 |
| **Total** | | **5.4** | **14.2** |

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 |
|---|---|---|
| **The following dividend and repayment of capital were declared and paid by the company:** | | |
| Dividends, EUR 0.50 (0.00) per share | -28.3 | 0.0 |
| **Total** | **-28.3** | **0.0** |

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 |
|---|---|---|
| **Non-current** | | |
| 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 |
| **Total** | **1,635.0** | **1,621.8** |

| MEUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Current** | | |
| 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 |
| **Total** | **347.2** | **309.9** |

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 |
|---|---|---|---|---|---|---|
| **Non-current** | | | | | | |
| 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 |
| **Non-current derivatives, total** | **0.0** | **-39.7** | **-39.7** | **0.6** | **-39.4** | **-38.8** |
| **Current** | | | | | | |
| 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 |
| **Current derivatives, total** | **0.0** | **-1.1** | **-1.1** | **0.0** | **-3.3** | **-3.3** |
| **Derivatives, total** | **0.0** | **-40.8** | **-40.8** | **0.6** | **-42.7** | **-42.1** |

| MEUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Nominal values of derivative instruments** | | |
| Interest rate swaps, cash flow hedge | 775.5 | 716.6 |
| Cross-currency and interest rate swaps, cash flow hedge | 73.4 | 103.8 |
| **Total** | **848.9** | **820.4** |

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 nominal 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 |
|---|---|---|---|---|
| **Total provision at the beginning of the period 1 January 2018** | 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 |
| **Total provision at the end of the period 31 December 2018** | **2.9** | **0.0** | **1.8** | **4.7** |

| MEUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| Non-current provisions | 2.0 | 2.7 |
| Current provisions | 2.7 | 3.4 |
| **Total** | **4.7** | **6.1** |

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 |
|---|---|---|---|
| **Accounts payable and other liabilities** | | | |
| 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 |
| **Total accounts payable and other liabilities** | | **64.4** | **59.4** |

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| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **Accrued expenses and prepaid income** | | | |
| 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 |
| **Total accrued expenses and prepaid income** | | **38.6** | **40.3** |

## 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**

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Profit and Loss | | Equity | | Profit and Loss | | Equity | |
| **MEUR** | 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 |
| **Total** | **-0.2** | **0.2** | **3.6** | **-3.6** | **-0.4** | **0.4** | **3.3** | **-3.4** |

**Sensitivity analysis, currency risk**

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Profit and Loss | | Equity | | Profit and Loss | | Equity | |
| **MEUR** | 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 | - | - |
| **Total** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

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 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| 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 |
| **Financial liabilities total** | **-382.1** | **-1,200.7** | **-407.3** | **-76.6** | **-75.2** | **-2,141.9** |
| | | | | | | |
| **Financial instruments** | | | | | | |
| Interest rate derivatives | -10.7 | -27.9 | -6.9 | - | - | -45.5 |
| **Financial instruments total** | **-10.7** | **-27.9** | **-6.9** | **0.0** | **0.0** | **-45.5** |
| **Total** | **-392.8** | **-1,228.6** | **-414.2** | **-76.6** | **-75.2** | **-2,187.4** |

31 Dec 2017

| MEUR | Within 1 year | 2–5 years | 6–10 years | 11–15 years | After 15 years | 2017 total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| 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 |
| **Financial liabilities total** | **-347.1** | **-1,282.9** | **-290.0** | **-79.7** | **-110.0** | **-2,109.7** |
| | | | | | | |
| **Financial instruments** | | | | | | |
| Interest rate derivatives | -10.7 | -29.2 | -7.9 | - | - | -47.9 |
| **Financial instruments total** | **-10.7** | **-29.2** | **-7.9** | **0.0** | **0.0** | **-47.9** |
| **Total** | **-357.9** | **-1,312.1** | **-297.9** | **-79.7** | **-110.0** | **-2,157.6** |

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 |
|---|---|---|
| **Minimum rents to be paid on the basis of other lease agreements:** | | |
| Within one year | 5.6 | 5.5 |
| Within two to five years | 20.0 | 21.6 |
| Over five years | 99.8 | 99.8 |
| **Total** | **125.3** | **126.9** |

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 |
|---|---|---|---|
| **Non-cash items included in the profit** | | | |
| 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 |
| **Total** | | **-102.1** | **-66.2** |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Changes in interest-bearing debt during the period** | | |
| **Interest-bearing debt, 1 Jan** | **1,931.7** | **1,943.0** |
| 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 |
| **Interest-bearing debt, 31 Dec** | **1,982.2** | **1,931.7** |

## 32. COLLATERAL, COMMITMENTS AND CONTINGENCIES

| MEUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Mortgages and pledges for secured borrowings** | | |
| Secured borrowings | 671.2 | 894.5 |
| Pledges and mortgages provided, fair value | 999.8 | 1,245.4 |
| | | |
| **Guarantees for others** | | |
| Shared ownership apartment purchase commitments | 7.8 | 11.4 |
| Rs-guarantees | 4.2 | 2.5 |
| | | |
| **Other collateral provided** | | |
| 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 |
| | | |
| **Binding purchase agreements** | | |
| 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.

## 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 Otas AB (owner: Fastighets Ab Balder, 100 per cent), Stichting Depositary APG Strategic Real Estate Pool (owner: Stichting Pensioenfonds ABP, >95 per cent; manager: APG Asset Management NV) and Elo Mutual Pension Insurance Company.

The members of the Board of Directors of SATO, CEO and the members of the Corporate Management Group and their close family members and the entities controlled or jointly controlled by them and joint venture SV-Asunnot Oy are considered as SATO's related party. The Corporate Management Group comprises of SATO Corporation's President and CEO, Vice Presidents, Director of Marketing and Communications and 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 |
|---|---|---|
| **Transactions with related parties** | | |
| Rental agreements | 0.0 | 0.0 |
| Insurance payments | 0.0 | 0.0 |
| **Total** | **0.0** | **0.0** |

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Management employee benefits** | | |
| Salaries and other short-term employee benefits | 1.9 | 2.2 |
| Other long-term employee benefits | 0.1 | 0.1 |
| **Total** | **2.1** | **2.3** |

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Salaries and remuneration paid** | | |
| 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 |
| **Total** | **0.7** | **0.6** |

| Thousand EUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Compensation paid to the members of the Board of Directors and the President & CEO** | | |
| 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 |
| **Total** | **722** | **562** |

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 |
| | | |
| **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, % |
|---|---|---|
| Espoon Heinjoenpolku As Oy | 100.0 | 100.0 |
| Espoon Henttaan puistokatu 6 As Oy | 100.0 | 100.0 |
| Espoon Henttaan puistokatu 8 As Oy | 100.0 | 100.0 |
| Espoon Honkavaarantie 5 As Oy | 10.3 | 10.3 |
| Espoon Hopeavillakko As Oy | 100.0 | 100.0 |
| Espoon Interior As Oy | 11.4 | 11.4 |
| Espoon Jousenkaari 5 As Oy | 100.0 | 100.0 |
| Espoon Kala-Maija 4 As Oy | 100.0 | 100.0 |
| Espoon Kaupinkalliontie 5 As Oy (Sato-Asunnot) | 48.7 | 48.7 |
| Espoon Kilvoituksentie 1 Asunto Oy | 100.0 | 100.0 |
| Espoon Kiskottajankuja 4 As Oy | 100.0 | 100.0 |
| Espoon Kivenhakkaajankuja 3 As Oy | 2.3 | 2.3 |
| Espoon Kuunkierros 2 As Oy | 22.0 | 13.5 |
| Espoon Kuunsirppi As Oy | 100.0 | 100.0 |
| Espoon Kyyhkysmäki 16 As Oy | 100.0 | 100.0 |
| Espoon Kyyhkysmäki 9 As Oy | 100.0 | 100.0 |
| Espoon Lansantie 3 As Oy | 100.0 | 100.0 |
| Espoon Likusterikatu 1 D As Oy | 100.0 | 100.0 |
| Espoon Linnustajantie 17 As Oy | 100.0 | 100.0 |
| Espoon Lounaismeri As Oy | 100.0 | 100.0 |
| Espoon Magneettikatu 8 As Oy | 100.0 | 100.0 |
| Espoon Matinniitynkuja 8 As Oy | 100.0 | 100.0 |
| Espoon Merituulentie 38 As Oy | 100.0 | 100.0 |
| Espoon Myötätuulenmäki As Oy | 8.5 | 8.5 |
| Espoon Niittyhuippu As Oy | 28.1 | 28.1 |
| Espoon Niittymaantie 1 As Oy | 100.0 | 100.0 |
| Espoon Niittymaantie 3 As Oy | 100.0 | 100.0 |
| Espoon Niittysillankulma 2 C-D As Oy | 100.0 | 100.0 |
| Espoon Numersinkatu 11 As Oy | 18.8 | 18.8 |
| Espoon Omenapuu As Oy | 16.0 | 16.0 |
| Espoon Paratiisiomena As Oy | 18.3 | 18.3 |
| Espoon Perkkaankuja 3 As Oy | 100.0 | 100.0 |
| Espoon Porarinkatu 2 D-E As Oy | 100.0 | 100.0 |
| Espoon Porarinkatu 2 F As Oy | 100.0 | 100.0 |
| Espoon Puikkarinmäki As Oy | 100.0 | 100.0 |
| Espoon Puropuisto As Oy (VA) | 58.4 | 55.8 |
| Espoon Pyhäjärventie 1 As Oy | 100.0 | 100.0 |
| Espoon Rastaspuistonpolku As Oy | 22.6 | 22.6 |
| Espoon Rastaspuistontie 8 As Oy | 7.3 | 7.3 |
| Espoon Rummunlyöjänkatu 11 D-E As Oy | 100.0 | 100.0 |
| Espoon Runoratsunkatu 5 As Oy | 100.0 | 100.0 |
| Espoon Ruorikuja 4 As Oy | 3.8 | 3.8 |
| Espoon Ruusulinna As Oy | 100.0 | 100.0 |
| Espoon Satokallio As Oy | 11.6 | 11.6 |
| Espoon Saunalyhty As Oy | 6.8 | 6.8 |
| Espoon Sepetlahdentie 6 As Oy | 100.0 | 100.0 |
| Espoon Siniheinä As Oy | 100.0 | 100.0 |
| Espoon Sokerilinnantie 1 As Oy | 5.8 | 4.3 |
| Espoon Soukanniementie 1 As Oy | 100.0 | 100.0 |
| Espoon Suvikäytävä As Oy | 29.9 | 29.9 |
| Espoon Taivalmäki 5 As Oy | 100.0 | 100.0 |
| Espoon Taivalrinne As Oy | 100.0 | 100.0 |
| Espoon Tähtimötie As Oy | 100.0 | 100.0 |
| Espoon Vanharaide As Oy | 90.1 | 90.1 |
| Espoon Vasaratörmä As Oy | 5.2 | 5.2 |
| Espoon Viherlaaksonranta 3-5 As Oy | 100.0 | 100.0 |
| Espoon Viherlaaksonranta 7 As Oy | 100.0 | 100.0 |
| Espoon Yläkartanonpiha As Oy | 10.9 | 10.9 |
| Espoon Zanseninkuja 6 As Oy | 100.0 | 100.0 |
| Etelä-Hämeen Talo Oy (Sato-as.) | 81.3 | 81.3 |
| Eura III As Oy | 100.0 | 100.0 |
| Fredrikinkatu 38 As Oy | 2.7 | 2.7 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Haagan Pappilantie 13 As Oy | 2.6 | 2.6 |
| Haagan Talontie 4 As Oy | 3.1 | 3.1 |
| Hakaniemenranta As Oy | 2.5 | 2.5 |
| Hannanpiha As Oy | 19.1 | 19.1 |
| Harjulehmus As Oy | 19.4 | 19.4 |
| Helkalax As Oy | 1.3 | 1.3 |
| Helsingin Akaasia As Oy | 13.9 | 13.9 |
| Helsingin Aleksis Kiven katu 52-54 As Oy | 0.5 | 0.5 |
| Helsingin Ansaritie 1 As Oy | 100.0 | 100.0 |
| Helsingin Ansaritie 2-4 As Oy | 100.0 | 100.0 |
| Helsingin Ansaritie 3 As Oy | 100.0 | 100.0 |
| Helsingin Apollonkatu 19 As Oy | 38.2 | 38.2 |
| Helsingin Arabian Kotiranta As Oy | 4.2 | 4.2 |
| Helsingin Arabiankatu 3 As Oy | 13.4 | 13.4 |
| Helsingin Aurinkotuulenkatu 6 As Oy | 100.0 | 100.0 |
| Helsingin Casa Canal As Oy | 13.3 | 13.3 |
| Helsingin Castreninkatu 3 As Oy | 100.0 | 100.0 |
| Helsingin Cirrus As Oy | 1.7 | 1.7 |
| Helsingin Corona As Oy | 17.0 | 17.0 |
| Helsingin Eiranrannan Estella As Oy | 30.8 | 30.8 |
| Helsingin Eliel Saarisen tie 10 As Oy | 96.1 | 96.1 |
| Helsingin Finniläntalo As Oy | 80.2 | 80.2 |
| Helsingin Gadolininkatu 1 As Oy | 100.0 | 100.0 |
| Helsingin Gerbera As Oy | 12.7 | 12.7 |
| Helsingin Graniittitie 8 ja 13 As Oy | 100.0 | 100.0 |
| Helsingin Hakaniemenkatu 9 As Oy | 100.0 | 100.0 |
| Helsingin Happiness As Oy | 22.2 | 22.2 |
| Helsingin Heikkiläntie 10 K Oy | 100.0 | 100.0 |
| Helsingin Hildankulma As Oy | 80.1 | 80.1 |
| Helsingin Hämeenpenger As Oy | 100.0 | 100.0 |
| Helsingin Ida Aalbergin tie 3 A As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Helsingin Isopurje As Oy | 3.2 | 3.2 |
| Helsingin Juhani Ahon tie 12-14 As Oy | 100.0 | 100.0 |
| Helsingin Junonkatu 4 As Oy | 100.0 | 100.0 |
| Helsingin Kaarenjalka 5 As Oy | 100.0 | 100.0 |
| Helsingin Kaivonkatsojantie 2 As Oy | 16.4 | 16.4 |
| Helsingin Kalevankatu 53 As Oy | 30.5 | 30.5 |
| Helsingin Kalliolinna As Oy | 0.8 | 0.8 |
| Helsingin Kanavaranta As Oy | 8.8 | 8.8 |
| Helsingin Kangaspellontie 1-5 As Oy | 100.0 | 100.0 |
| Helsingin Kangaspellontie 4 As Oy | 10.0 | 10.0 |
| Helsingin Kaustisenpolku 1 As Oy | 100.0 | 100.0 |
| Helsingin Kerttulinkuja 1 As Oy | 7.5 | 7.5 |
| Helsingin Kiillekuja 4 As Oy | 100.0 | 100.0 |
| Helsingin Kirjala As Oy | 100.0 | 100.0 |
| Helsingin Klaavuntie 8-10 As Oy | 100.0 | 100.0 |
| Helsingin Kokkosaarenkatu 4 As Oy | 20.8 | 20.8 |
| Helsingin Koralli As Oy | 4.1 | 4.1 |
| Helsingin Koroistentie As Oy | 9.4 | 9.4 |
| Helsingin Korppaanmäentie 17 As Oy | 100.0 | 100.0 |
| Helsingin Korppaanmäentie 21 As Oy | 100.0 | 100.0 |
| Helsingin Kristianinkatu 11-13 As Oy | 100.0 | 100.0 |
| Helsingin Kultareuna 1 As Oy | 39.0 | 39.0 |
| Helsingin Kutomotie 10a KOy | 75.5 | 75.5 |
| Helsingin Kutomotie 12a As Oy | 100.0 | 100.0 |
| Helsingin Kutomotie 14 A As Oy | 100.0 | 100.0 |
| Helsingin Kutomotie 8a As Oy | 100.0 | 100.0 |
| Helsingin Kuusihovi As Oy | 25.4 | 25.4 |
| Helsingin Kyläkirkontie 13 As Oy | 68.5 | 68.5 |
| Helsingin Köysikuja 2 As Oy | 9.5 | 9.5 |
| Helsingin Lapponia As Oy | 100.0 | 100.0 |
| Helsingin Lauttasaarentie 19 KOy | 58.3 | 58.3 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Helsingin Leikopiha As Oy | 9.6 | 9.6 |
| Helsingin Leikosaarentie 31 As Oy | 18.7 | 18.7 |
| Helsingin Leikovuo As Oy | 9.1 | 9.1 |
| Helsingin Leirikuja 3 As Oy | 100.0 | 100.0 |
| Helsingin Lontoonkatu 9 As Oy | 100.0 | 100.0 |
| Helsingin Lönnrotinkatu 32 As Oy | 55.1 | 55.1 |
| Helsingin Malagankatu 7 As Oy | 100.0 | 100.0 |
| Helsingin Mariankatu 19 As Oy | 1.0 | 1.0 |
| Helsingin Mechelininkatu 12-14 As Oy | 100.0 | 100.0 |
| Helsingin Merenkävijä As Oy | 5.1 | 5.1 |
| Helsingin Meripellonhovi KOy | 98.3 | 98.3 |
| Helsingin Mestari As Oy | 100.0 | 100.0 |
| Helsingin Minna Canthinkatu 24 As Oy | 1.1 | 1.1 |
| Helsingin Myllypellonpolku 4 As Oy | 6.9 | 6.9 |
| Helsingin Mylläri As Oy | 2.3 | 2.3 |
| Helsingin Nautilus As Oy | 26.0 | 26.0 |
| Helsingin Navigatortalo KOy | 44.7 | 44.7 |
| Helsingin Nils Westermarckin kuja 18 As Oy | 100.0 | 100.0 |
| Helsingin Nukkeruusunkuja 3 As Oy | 15.5 | 15.5 |
| Helsingin Näyttelijäntie 24 As Oy | 100.0 | 100.0 |
| Helsingin Otto Brandtin polku 4 As Oy | 4.4 | 4.4 |
| Helsingin Näkinkuja 6 As Oy | 100.0 | 100.0 |
| Helsingin Pajamäentie 6 As Oy | 100.0 | 100.0 |
| Helsingin Pajamäentie 7 As Oy | 100.0 | 100.0 |
| Helsingin Pakilantie 17 As Oy | 52.7 | 52.7 |
| Helsingin Pakilantie 17 As Oy (uudisosa) | 47.3 | 47.3 |
| Helsingin Pasilantornit As Oy | 53.4 | 53.4 |
| Helsingin Perustie 16 As Oy | 56.0 | 56.0 |
| Helsingin Piispantie 3 As Oy | 100.0 | 100.0 |
| Helsingin Piispantie 5 As Oy | 100.0 | 100.0 |
| Helsingin Piispantie 7 As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Helsingin Piispantie 8 As Oy | 100.0 | 100.0 |
| Helsingin Pirta As Oy | 17.1 | 17.1 |
| Helsingin Porthaninkatu 4 As Oy | 0.7 | 0.7 |
| Helsingin Puuskarinne 1 As Oy | 98.2 | 98.2 |
| Helsingin Päivöläntie 72 As Oy | 7.7 | 7.7 |
| Helsingin Pääskylänrinne As Oy | 100.0 | 100.0 |
| Helsingin Reginankuja 4 As Oy | 11.8 | 11.8 |
| Helsingin Rikhard Nymanin tie 3 As Oy | 100.0 | 100.0 |
| Helsingin Riontähti As Oy | 100.0 | 100.0 |
| Helsingin Rosas As Oy | 9.6 | 9.6 |
| Helsingin Rusthollarinkuja 2 As Oy | 100.0 | 100.0 |
| Helsingin Ruusutarhantie 2-4 As Oy | 30.7 | 30.7 |
| Helsingin Ruusutarhantie 7 As Oy | 19.7 | 19.7 |
| Helsingin Sateenkaari As Oy | 100.0 | 100.0 |
| Helsingin Satoaalto As Oy | 8.6 | 8.6 |
| Helsingin Satorinne As Oy | 8.5 | 8.5 |
| Helsingin Serica As Oy | 3.8 | 3.8 |
| Helsingin Siltavoudintie 20 As Oy | 100.0 | 100.0 |
| Helsingin Snellmaninkatu 23 As Oy (asunnot) | 85.2 | 85.2 |
| Helsingin Snellmaninkatu 23 As Oy (muut tilat) | 14.9 | 14.9 |
| Helsingin Solarus As Oy (ASSI) | 5.9 | 5.9 |
| Helsingin Solnantie 22 As Oy | 71.0 | 71.0 |
| Helsingin Solnantie 22 As Oy (LT) | 27.0 | 27.0 |
| Helsingin Stenbäckinkatu 5 KOy | 60.0 | 60.0 |
| Helsingin Ståhlbergintie 4 As Oy | 93.5 | 93.5 |
| Helsingin Sähköttäjänkatu 6 As Oy | 100.0 | 100.0 |
| Helsingin Tapaninkulo As Oy | 4.7 | 4.7 |
| Helsingin Tila As Oy (Sato-As.) | 24.5 | 13.1 |
| Helsingin Tilkankatu 15 As Oy | 100.0 | 100.0 |
| Helsingin Tilkankatu 2 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, % |
|---|---|---|
| Helsingin Topeliuksenkatu 29 As Oy | 4.6 | 4.6 |
| Helsingin Tulvaniitynpolku 5 As Oy | 6.6 | 6.6 |
| Helsingin Tunturinlinna As Oy | 9.5 | 9.5 |
| Helsingin Töölön Oscar As Oy | 25.3 | 25.3 |
| Helsingin Vanha viertotie 16 As Oy | 68.8 | 68.8 |
| Helsingin Vanha viertotie 18 As Oy | 42.8 | 42.8 |
| Helsingin Vanha viertotie 6 As Oy | 100.0 | 100.0 |
| Helsingin Vanha Viertotie 8 As Oy | 100.0 | 100.0 |
| Helsingin Venemestarintie 4 As Oy | 100.0 | 100.0 |
| Helsingin Vervi As Oy | 100.0 | 100.0 |
| Helsingin Vetelintie 5 As Oy | 100.0 | 100.0 |
| Helsingin Villa Kuohu As Oy | 25.6 | 25.6 |
| Helsingin Viulutie 1 As Oy | 100.0 | 100.0 |
| Helsingin Vuosaaren Helmi As Oy | 100.0 | 100.0 |
| Helsingin Välskärinkatu 4 KOy | 85.7 | 85.7 |
| Hervannan Juhani As Oy | 14.9 | 14.9 |
| Hiihtomäentie 34 As Oy | 3.7 | 3.7 |
| Humalniementie 3-5 As Oy | 1.1 | 1.1 |
| Hämeenlinnan Aaponkuja 3 As Oy | 33.4 | 33.4 |
| Iidesranta 42 Tampere As Oy | 9.9 | 6.6 |
| Jukolanniitty As Oy | 15.3 | 15.3 |
| Jukolantanner As Oy | 7.8 | 7.8 |
| Jussinhovi As Oy | 3.5 | 3.5 |
| Jyväskylän Ailakinraitti As Oy | 100.0 | 100.0 |
| Jyväskylän Harjukartano As Oy | 23.0 | 23.0 |
| Jyväskylän Harjunportti As Oy | 18.7 | 18.7 |
| Jyväskylän Lyseonlinna As Oy (asunnot) | 6.8 | 4.6 |
| Jyväskylän Taitoniekansato As Oy | 17.4 | 17.4 |
| Jyväskylän Tanhurinne As Oy | 24.1 | 24.1 |
| Jyväskylän Torihovi As Oy (asunnot) | 2.7 | 2.7 |
| Jyväskylän Yliopistonkatu 18 ja Keskustie 17 As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Jyväskylän Äijälänrannan Ansaritie 4 As Oy | 100.0 | 100.0 |
| Järvenpään Alhonrinne As Oy | 18.4 | 18.4 |
| Järvenpään Kotokartano As Oy | 100.0 | 100.0 |
| Kaarenkunnas As Oy | 100.0 | 100.0 |
| Kaarinan Auranpihat As Oy | 100.0 | 100.0 |
| Kaarinan Katariinanrinne As Oy | 12.2 | 6.9 |
| Kaarinan Verkapatruuna As Oy | 30.3 | 11.7 |
| Kaidanpääty As Oy | 100.0 | 100.0 |
| Kajaneborg Bost. Ab | 7.3 | 7.3 |
| Kangasalan Kukkapuisto As Oy | 6.3 | 6.3 |
| Kasarmikatu 14 As Oy | 12.2 | 12.2 |
| Kangasalan Unikkoniitty KOy | 100.0 | 100.0 |
| Kapellimestarinparkki KOy | 9.1 | 9.1 |
| Kasarminkatu 10 As Oy | 26.7 | 26.7 |
| Kastevuoren Palvelutalo As Oy | 100.0 | 100.0 |
| Kaukotie 10-12 As Oy | 3.1 | 3.1 |
| Kauniaisten Ersintie 9-11 As Oy | 5.5 | 5.5 |
| Kauniaisten Konsuli As Oy Bost. Ab | 7.4 | 7.4 |
| Kauniaisten Ratapolku 6 As Oy | 100.0 | 100.0 |
| Keravan Papintie 1 As Oy | 100.0 | 100.0 |
| Ketturinne As Oy | 1.3 | 1.3 |
| Kilonkallionkuja 5 As Oy | 100.0 | 100.0 |
| Kirkkonummen Sarvvikinrinne 4 As Oy | 100.0 | 100.0 |
| Kirkkosalmentie 3 As Oy | 0.9 | 0.9 |
| Kivisaarentie As Oy | 2.7 | 2.7 |
| Kolehmaisentori As Oy | 11.6 | 11.6 |
| Kotipiennar As Oy | 2.8 | 2.8 |
| Kristianinkatu 2 As Oy | 1.7 | 1.7 |
| Kuhakartano As Oy | 1.3 | 1.3 |
| Kukkolan Koivu As Oy | 4.3 | 4.3 |
| Kulmakatu 12 As Oy | 2.1 | 2.1 |

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| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Kulmavuorenpiha As Oy | 100.0 | 100.0 |
| Kulmavuorenrinne As Oy | 1.0 | 1.0 |
| Kupittaan Kotka, Turku As Oy | 10.9 | 10.9 |
| Kupittaan Kurki, Turku As Oy | 6.1 | 6.1 |
| Kupittaan Kyyhky, Turku As Oy | 100.0 | 100.0 |
| Kupittaan Satakieli As Oy | 6.1 | 6.1 |
| Kuuselanpuisto As Oy | 23.0 | 23.0 |
| Kuusihalme As Oy | 2.3 | 2.3 |
| Kuusitie 15 As Oy | 1.5 | 1.5 |
| Kuusitie 3 As Oy | 1.8 | 1.8 |
| Kuusitie 9 As Oy | 2.3 | 2.3 |
| Kvarnhyddan Bost. Ab | 1.8 | 1.8 |
| Laajalahdentie 26 As Oy | 6.5 | 6.5 |
| Lahden Jyrkkärinteenpuisto As Oy | 41.2 | 41.2 |
| Lahden Kauppakatu 36 As Oy | 7.9 | 3.6 |
| Lahden Mesisurri As Oy | 100.0 | 100.0 |
| Lahden Nuolikatu 9 As Oy | 100.0 | 100.0 |
| Lahden Roopenkuja As Oy | 25.6 | 25.6 |
| Lapinniemen Pallopurje As Oy | 1.9 | 1.9 |
| Lapintalo As Oy | 1.0 | 1.0 |
| Lappeenrannan Kanavansato 2 As Oy | 18.2 | 18.2 |
| Lauttasaarentie 11 As Oy | 1.6 | 1.6 |
| Lempäälän Moisionaukea 25 As Oy | 100.0 | 100.0 |
| Lielahdentie 10 As Oy | 9.1 | 9.1 |
| Linjala 14 As Oy | 4.2 | 4.2 |
| Läntinen Brahenkatu 8 As Oy | 0.8 | 0.8 |
| Lönegropen Bost. Ab, Skidbacksvägen 18 | 1.6 | 1.6 |
| Malmeken Ömsesidiga Fastighet | 12.8 | 12.8 |
| Mannerheimintie 100 As Oy | 0.9 | 0.9 |
| Mannerheimintie 108 As Oy | 3.0 | 3.0 |
| Mannerheimintie 148 As Oy | 2.5 | 2.5 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Mannerheimintie 170 KOy | 63.3 | 16.1 |
| Mannerheimintie 170 KOy | 63.3 | 47.2 |
| Mannerheimintie 77 As Oy | 1.2 | 1.2 |
| Mannerheimintie 83-85 As Oy | 0.7 | 0.7 |
| Mannerheimintie 93 As Oy | 0.3 | 0.3 |
| Mariankatu 21 As Oy | 1.3 | 1.3 |
| Matinkylän Poutapilvi As Oy | 100.0 | 100.0 |
| Matinraitti 14 As Oy | 1.0 | 1.0 |
| Meiramikuja As Oy | 4.7 | 4.7 |
| Mellunsusi As Oy | 1.5 | 1.5 |
| Merimiehenkatu 41 As Oy Bost. Ab | 1.6 | 1.6 |
| Messeniuksenkatu 8 As Oy | 2.0 | 2.0 |
| Messilä As Oy | 70.0 | 70.0 |
| Minna Canthin katu 22 As Oy | 2.4 | 2.4 |
| Muotialantie 31 As Oy | 7.0 | 7.0 |
| Mursu As Oy | 0.5 | 0.5 |
| Myllysalama As Oy | 59.8 | 59.8 |
| Myyrinhaukka As Oy | 100.0 | 100.0 |
| Naantalin Kastovuorenrinne As Oy | 16.7 | 16.7 |
| Nekalanpuisto KOy | 2.9 | 2.9 |
| Nervanderinkatu 9 As Oy | 2.6 | 2.6 |
| Neulapadontie 4 As Oy | 1.2 | 1.2 |
| Niittaajankadun Klaava As Oy | 100.0 | 100.0 |
| Niittyhovi K Oy | 100.0 | 100.0 |
| Niittykummun Huippuparkki K Oy | 36.5 | 36.5 |
| Nokian Miharintie 38-40 As Oy | 32.4 | 32.4 |
| Nokian Virran Ritari As Oy | 100.0 | 100.0 |
| Nordenskiöldinkatu 8 As Oy | 2.5 | 2.5 |
| Näkinkuja 2 As Oy | 2.5 | 2.5 |
| Näsinlaine As Oy | 1.0 | 1.0 |
| Näyttelijäntien Pistetalot As Oy | 1.4 | 1.4 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Oskelantie 5 As Oy | 4.1 | 4.1 |
| Oskelantie 8 As Oy | 2.1 | 2.1 |
| Otavantie 3 As Oy | 0.6 | 0.6 |
| Otavantie 4 As Oy | 1.8 | 1.8 |
| Oulun Aleksanteri As Oy | 100.0 | 100.0 |
| Oulun Aleksinranta As Oy | 100.0 | 100.0 |
| Oulun Arvolankartano As Oy | 2.1 | 2.1 |
| Oulun Arvolanpiha As Oy | 0.0 | 0.0 |
| Oulun Arvolanpuisto As Oy | 9.0 | 9.0 |
| Oulun Hoikantie 14-22 As Oy | 100.0 | 100.0 |
| Oulun Kalevalantie As Oy | 100.0 | 100.0 |
| Oulun Laamannintie 1 As Oy | 12.8 | 12.8 |
| Oulun Laanila I As Oy | 100.0 | 100.0 |
| Oulun Laanila IV As Oy | 100.0 | 100.0 |
| Oulun Laaniranta As Oy | 6.0 | 6.0 |
| Oulun Marsalkka As Oy | 5.7 | 5.7 |
| Oulun Notaarintie 1 As Oy | 24.4 | 24.4 |
| Oulun Notaarintie 3 As Oy | 5.0 | 5.0 |
| Oulun Paalikatu 23 As Oy | 100.0 | 100.0 |
| Oulun Peltolantie 18 B As Oy | 100.0 | 100.0 |
| Oulun Rautatienkatu 74 As Oy | 100.0 | 100.0 |
| Oulun Rautatienkatu 78 Asunto Oy | 100.0 | 100.0 |
| Oulun Tullikartano As Oy | 17.0 | 17.0 |
| Oulun Tulliveräjä As Oy | 40.7 | 40.7 |
| Peltohuhta As Oy | 1.2 | 1.2 |
| Pengerkatu 27 As Oy | 2.6 | 2.6 |
| Pihlajatie N:o 23 As Oy | 3.0 | 3.0 |
| Pohjankartano As Oy | 9.0 | 9.0 |
| Pohjanpoika As Oy | 8.0 | 8.0 |
| Poutuntie 2 As Oy | 3.7 | 3.7 |
| Puistokaari 13 As Oy | 1.9 | 1.9 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Puolukkasato As Oy | 5.9 | 5.9 |
| Puolukkavarikko As Oy | 33.9 | 33.9 |
| Raikukuja II As Oy | 100.0 | 100.0 |
| Raikurinne 1 As Oy | 1.3 | 1.3 |
| Raision Tasontorni As Oy | 39.3 | 39.3 |
| Raision Toripuisto As Oy | 56.9 | 20.8 |
| Rantasentteri As Oy | 1.5 | 1.5 |
| Risto Rytin tie 28 As Oy Bost. Ab | 1.5 | 1.5 |
| Ristolantie 7 As Oy | 2.5 | 2.5 |
| Riviuhkola As Oy | 4.4 | 4.4 |
| Ryytikuja 5 As Oy | 0.8 | 0.8 |
| Saarenkeskus As Oy | 0.4 | 0.4 |
| Salpakolmio As Oy | 31.3 | 31.3 |
| Sammon Parkki K Oy | 21.2 | 21.2 |
| Satakallio As Oy | 0.2 | 0.2 |
| Satokaunokki As Oy | 7.5 | 7.5 |
| Satosorsa As Oy | 19.9 | 19.9 |
| Satosyppi As Oy | 12.1 | 12.1 |
| Satulaparkki KOy | 53.3 | 53.3 |
| Savilankatu 1 b As Oy | 33.3 | 33.3 |
| Solnantie 32 As Oy | 0.9 | 0.9 |
| Spargäddan Bost. Ab As Oy | 1.3 | 1.3 |
| Sulkapolku 6 As Oy | 0.4 | 0.4 |
| Säästökartano As Oy | 0.3 | 0.3 |
| Taapuri As Oy | 2.5 | 2.5 |
| Tallbergin puistotie 1 As Oy | 2.0 | 2.0 |
| Tammitie 21 As Oy | 0.9 | 0.9 |
| Tampereen Aitolahdentie 22 As Oy | 100.0 | 100.0 |
| Tampereen Aitolahdentie 24 As Oy | 100.0 | 100.0 |
| Tampereen Alapeusonkatu 6 As Oy | 100.0 | 100.0 |
| Tampereen Atanväylä 4A As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Tampereen Atanväylä 4B As Oy | 100.0 | 100.0 |
| Tampereen Charlotta As Oy (ASSI) | 2.0 | 2.0 |
| Tampereen Hannulanpolku 10 As Oy | 100.0 | 100.0 |
| Tampereen Hervannan Puistokallio As Oy | 100.0 | 100.0 |
| Tampereen Härmälänrannan Aurinkokallio KOy | 100.0 | 100.0 |
| Tampereen Härmälänrannan Sisu As Oy | 100.0 | 100.0 |
| Tampereen Iidesranta 18 As Oy | 100.0 | 100.0 |
| Tampereen Jankanpuisto As Oy | 100.0 | 100.0 |
| Tampereen Kanjoninkatu 15 As Oy | 56.3 | 56.3 |
| Tampereen Kauppa-aukio As Oy | 100.0 | 100.0 |
| Tampereen Kokinpellonrinne 2 As Oy | 86.9 | 86.9 |
| Tampereen Kristiina As Oy | 19.1 | 19.1 |
| Tampereen Kuikankatu 2 As Oy | 9.7 | 9.7 |
| Tampereen Kyyhky As Oy | 11.1 | 8.1 |
| Tampereen Linnanherra As Oy | 100.0 | 100.0 |
| Tampereen Pappilan Herra As Oy | 100.0 | 100.0 |
| Tampereen Puistofasaani As Oy | 100.0 | 100.0 |
| Tampereen Rotkonraitti 6 As Oy | 48.2 | 48.2 |
| Tampereen Ruovedenkatu 11 As Oy | 100.0 | 100.0 |
| Tampereen Sammon Kalervo As Oy | 100.0 | 100.0 |
| Tampereen Siirtolapuutarhankatu 12 As Oy | 5.6 | 5.6 |
| Tampereen Strada As Oy | 46.6 | 46.6 |
| Tampereen Tarmonkatu 6 As Oy | 100.0 | 100.0 |
| Tampereen Tieteenkatu 14 As Oy | 100.0 | 100.0 |
| Tampereen Tuiskunkatu 7 As Oy | 100.0 | 100.0 |
| Tampereen Waltteri As Oy (ASSI) | 23.9 | 23.9 |
| Tapiolan Itäkartano, Espoo As Oy | 53.6 | 53.6 |
| Tapiolan Tuuliniitty, Espoo As Oy (ASSI) | 6.8 | 6.8 |
| Tarkkampujankatu 14 As Oy | 44.1 | 44.1 |
| Tasatuomo As Oy | 1.3 | 1.3 |
| Terhokuja 3 As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Terhokuja 6 As Oy | 11.3 | 11.3 |
| Tikkamatti As Oy | 9.8 | 9.8 |
| Tohlopinkontu Koy (Sato-As.) | 100.0 | 60.0 |
| Turun Asemanlinna As Oy | 20.9 | 20.9 |
| Turun Eteläranta II As Oy | 3.2 | 3.2 |
| Turun Eteläranta III As Oy | 2.9 | 2.9 |
| Turun Eteläranta IV As Oy (ASSI) | 3.0 | 3.0 |
| Turun Fregatinranta As Oy | 4.7 | 4.7 |
| Turun Förinranta II As Oy | 1.0 | 1.0 |
| Turun Gränsbackankuja 3 As Oy | 100.0 | 100.0 |
| Turun Hehtokatu As Oy | 51.2 | 19.1 |
| Turun Ipnoksenrinne As Oy (ASSI) | 6.7 | 6.7 |
| Turun Joutsenpuisto 7 As Oy | 100.0 | 100.0 |
| Turun Kaivokatu 10 As Oy | 100.0 | 100.0 |
| Turun Kivimaanrivi As Oy | 6.5 | 6.5 |
| Turun Kiviniemenpuisto As Oy | 4.9 | 4.9 |
| Turun Kupittaan Peippo, As Oy | 34.6 | 34.6 |
| Turun Linnanhuippu As Oy | 1.1 | 1.1 |
| Turun Linnankatu 37 a As Oy | 1.7 | 1.7 |
| Turun Linnanpuisto As Oy | 8.8 | 8.8 |
| Turun Marmoririnne 2 As Oy | 100.0 | 100.0 |
| Turun Metallikatu As Oy | 100.0 | 100.0 |
| Turun Mietoistenkuja As Oy | 9.4 | 9.4 |
| Turun Pernon Kartanonlaakso As Oy | 42.3 | 42.3 |
| Turun Pryssinkatu 13 As Oy | 100.0 | 100.0 |
| Turun Pulmussuonpuisto As Oy | 7.6 | 7.6 |
| Turun Puutarhakatu 50 As Oy | 13.1 | 13.1 |
| Turun Ratavahdinrinne As Oy | 100.0 | 100.0 |
| Turun Rauhankatu 8 As Oy | 100.0 | 100.0 |
| Turun Sato-Koto As Oy | 100.0 | 100.0 |
| Turun Seiskarinkulma As Oy | 24.0 | 14.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Turun Sipimetsä As Oy | 8.5 | 8.5 |
| Turun Sukkulakoti As Oy | 100.0 | 100.0 |
| Turun Tallgreninkartano As Oy | 37.1 | 37.1 |
| Turun Tervaporvari As Oy | 100.0 | 100.0 |
| Turun Uudenmaanlinna As Oy (SATOhousing) | 100.0 | 100.0 |
| Turun Veistämöntori As Oy | 100.0 | 100.0 |
| Turun Westparkin Tuija As Oy | 100.0 | 100.0 |
| Turuntie 112 As Oy | 1.4 | 1.4 |
| Turuntie 63 As Oy | 1.6 | 1.6 |
| Tykkikuja 7 As Oy | 100.0 | 100.0 |
| Työväen Asunto-osakeyhtiö Rauha | 10.2 | 10.2 |
| Töölön Estradi, Helsinki As Oy | 63.0 | 63.0 |
| Töölön Gaala As Oy | 50.3 | 50.3 |
| Ulpukkaniemi As Oy | 25.4 | 25.4 |
| Ulvilantie 11 b As Oy | 0.6 | 0.6 |
| Urheilukatu 38 As Oy | 56.0 | 56.0 |
| Vaasankatu 15 As Oy | 0.8 | 0.8 |
| Vallikallionpolku KOy | 100.0 | 100.0 |
| Vallinkyyhky As Oy | 6.0 | 6.0 |
| Valtapolku As Oy | 1.2 | 1.2 |
| Vantaan Aapramintie 4 As Oy | 100.0 | 100.0 |
| Vantaan Albert Petreliuksen katu 8 As Oy | 7.7 | 7.7 |
| Vantaan Havukoskenkatu 20 As Oy | 100.0 | 100.0 |
| Vantaan Heporinne 4 As Oy | 100.0 | 100.0 |
| Vantaan Horsmakuja 4a As Oy | 100.0 | 100.0 |
| Vantaan Kaarenlehmus As Oy | 100.0 | 100.0 |
| Vantaan Kesäniitty As Oy | 100.0 | 100.0 |
| Vantaan Kevätpuro As Oy | 100.0 | 100.0 |
| Vantaan Kilterinpuisto As Oy | 70.2 | 70.2 |
| Vantaan Kivivuorentie 8 A-B As Oy | 100.0 | 100.0 |
| Vantaan Kivivuorentie 8 C As Oy | 100.0 | 100.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| Vantaan Krassipuisto As Oy | 100.0 | 100.0 |
| Vantaan Kukinkuja 2 As Oy | 100.0 | 100.0 |
| Vantaan Käräjäkuja 3 As Oy | 19.8 | 19.8 |
| Vantaan Leksankuja 3 As Oy | 100.0 | 100.0 |
| Vantaan Liesitorin palvelutalo As Oy (ASSI) | 2.5 | 2.5 |
| Vantaan Lummepiha As. Oy | 100.0 | 100.0 |
| Vantaan Maarinrinne As Oy | 12.0 | 12.0 |
| Vantaan Maarukanrinne 6 As Oy | 14.6 | 14.6 |
| Vantaan Martinpääsky As Oy | 100.0 | 100.0 |
| Vantaan Minkkikuja As Oy | 49.0 | 49.0 |
| Vantaan Myyrinmutka As Oy | 100.0 | 100.0 |
| Vantaan Oritie 1 As Oy | 100.0 | 100.0 |
| Vantaan Orvokkikuja 1a As Oy | 100.0 | 100.0 |
| Vantaan Orvokkikuja 1b As Oy | 100.0 | 100.0 |
| Vantaan Orvokkitie 17 As Oy | 14.3 | 14.3 |
| Vantaan Pakkalanportti As Oy | 100.0 | 100.0 |
| Vantaan Pakkalanrinne 3 As Oy | 41.8 | 41.8 |
| Vantaan Pakkalanrinne 5-7 As Oy | 100.0 | 100.0 |
| Vantaan Pakkalanruusu As Oy | 3.1 | 3.1 |
| Vantaan Peltolantie 14 As Oy | 100.0 | 100.0 |
| Vantaan Pronssikuja 1 As Oy | 100.0 | 100.0 |
| Vantaan Raikukuja 4B As Oy | 100.0 | 100.0 |
| Vantaan Ravurinmäki As Oy | 33.2 | 33.2 |
| Vantaan Ruostekuja 3 As Oy | 100.0 | 100.0 |
| Vantaan Solkikuja 2 As Oy | 100.0 | 100.0 |
| Vantaan Solkikuja 5 As Oy | 100.0 | 100.0 |
| Vantaan Sompakuja 2-4 As Oy | 100.0 | 100.0 |
| Vantaan Talvikkitie 38 As Oy | 96.1 | 96.1 |
| Vantaan Tammiston Tringa As Oy | 8.3 | 8.3 |
| Vantaan Tammistonkatu 29 As Oy | 29.1 | 29.1 |
| Vantaan Tempo Koy | 100.0 | 100.0 |

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| 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 Tähkiö 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 Soppeenkataja As Oy | 100.0 | 100.0 |
| Ylöjärven Viljavainio As Oy | 100.0 | 100.0 |
| | | |
| **Sato-Rakennuttajat Oy** | | |
| 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 |
| | | |
| **SATOkoti Oy** | | |
| 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 |
| | | |
| **SATOkoti 18 Oy** | | |
| Espoon Jousenkaari 7 As Oy | 100.0 | 100.0 |
| Vantaan Hiekkaharjuntie 16 As Oy | 100.0 | 100.0 |
| | | |
| **SATOkoti 21 Oy** | | |
| Helsingin Keinulaudantie 7 As Oy | 100.0 | 100.0 |
| | | |
| **Suomen Vuokrakodit 3 Oy** | | |
| 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 |
| | | |
| **Suomen Satokodit 19 Oy** | | |
| Pellervon Pysäköinti KOy | 16.0 | 16.0 |
| | | |
| **Suomen Satokodit 21 Oy** | | |
| 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 |
| | | |
| **Suomen Satokodit 22 Oy** | | |
| Vantaan Kortteeri As Oy | 6.4 | 6.4 |
| | | |
| **Sato VK 18 Oy** | | |
| Espoon Ristiniementie 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 Tulisuontie 20 As Oy | 100.0 | 100.0 |

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| 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 |
| | | |
| **Sato VK 19 Oy** | | |
| 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 |
| | | |
| **Sato VK 20 Oy** | | |
| 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 |
| | | |
| **Sato VK 21 Oy** | | |
| Espoon Zanseninkuja 4 As Oy | 82.0 | 17.4 |
| Jyväskylän Vaneritori 4 As Oy | 85.9 | 19.8 |
| Kaarinan Mattelpiha As Oy | 94.2 | 36.0 |
| Turun Unikkoniitty As Oy | 88.1 | 13.9 |
| Vantaan Herttuantie 3 As Oy | 85.4 | 31.2 |
| | | |
| **Sato VK 22 Oy** | | |
| 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, % |
|---|---|---|
| **Sato-Osaomistus Oy** | | |
| 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 |
| Iidesranta 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 Mattelpiha 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 |
| Raision Siirinsopukka As Oy (VA) | 15.3 | 15.3 |
| Raision 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 |
| | | |
| **Vatrotalot 2 Oy** | | |
| Sato-Osaomistus Oy | 100.0 | 100.0 |
| | | |
| **Vatrotalot 3 Oy** | | |
| Kirkkonummen Riihipolku As Oy | 100.0 | 100.0 |
| Kylänpäänpelto As Oy | 43.8 | 43.8 |
| Nurmijärven Kylänpäänniitty As Oy | 35.2 | 35.2 |
| Nurmijärven Kylänpäänkaari As Oy | 45.0 | 45.0 |

| 31 Dec 2018 | Group's holding, % | Parent company's holding, % |
|---|---|---|
| **Vatrotalot 5 Oy** | | |
| 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 |

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# 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 |
| Deprecation, amortisation and impairment charges | 8 | -1.3 | -1.1 |
| Other operating expenses | 9 | -26.4 | -13.0 |
| **Operating profit** | | **-19.5** | **-6.4** |
| | | | |
| Financial income and expenses | 10 | -41.0 | -41.1 |
| **Profit/loss before appropriations and taxes** | | **-60.5** | **-47.5** |
| | | | |
| Group contribution | 11 | 127.2 | 125.6 |
| | | | |
| Income taxes | 12 | -17.0 | -15.6 |
| **Profit for the period** | | **49.7** | **62.5** |

## PARENT COMPANY BALANCE SHEET, FAS

| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| | | | |
| **Non-current assets** | | | |
| 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 |
| **Total** | | **1,072.9** | **1,086.0** |

| MEUR | note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **Current assets** | | | |
| 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 |
| **Total** | | **783.6** | **573.7** |
| | | | |
| **TOTAL ASSETS** | | **1,856.5** | **1,659.7** |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| | | | |
| **Shareholders' equity** | 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 |
| **Total** | | **351.0** | **329.7** |
| | | | |
| **Obligatory reserves** | 24 | **0.0** | **0.0** |
| | | | |
| **Liabilities** | | | |
| 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 |
| **Total** | | **1,505.5** | **1,330.0** |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL** | | **1,856.5** | **1,659.7** |

# PARENT COMPANY'S CASH FLOW STATEMENT, FAS

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **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 |
| **Cash flow before change in working capital** | **-4.4** | **-5.9** |
| | | |
| 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 |
| **Cash flow before financial items and taxes** | **-3.3** | **-1.4** |
| | | |
| 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 |
| **Cash flow from operating activities (A)** | **-59.4** | **-78.5** |

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| 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 |
| **Cash flow from investing activities (B)** | **-205.2** | **-388.4** |
| | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| 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 |
| **Cash flow from financing activities (C)** | **264.6** | **454.3** |
| **Change in cash equivalents** | **0.0** | **-12.5** |
| | | |
| **Cash and cash equivalents at the beginning of the year** | **0.0** | **12.6** |
| **Cash and cash equivalents at the end of the year** | **0.0** | **0.0** |

# NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

## 1. 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 Otas Ab with 54,4 % shareholding. Balder Finska Otas 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 opoerations 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 recogniced as costs in the income statement on an accrual basis.

### Development expendituеs

Development costs are recognized as expenses in the income statement in the financial year in which they are generated.

### Valuation of inventories

Inventories have been recogniced 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.

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# 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 |
| **Total** | **11.0** | **12.4** |

## 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 |
| **Total** | **0.2** | **0.2** |

## 4. MATERIALS AND SERVICES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Materials and consumables** | | |
| Purchases | 0.0 | 0.6 |
| Change in inventories | -0.6 | 1.3 |
| **Total** | **-0.6** | **1.9** |

## 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 |
| **Total** | **3.6** | **3.0** |

## 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 |
| **Total** | **1.3** | **1.1** |

## 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 |
| **Total** | **26.4** | **13.0** |

* 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 01 million in 2017. Tax and other consultancy services purchased from auditors were EUR 0.0 (0.0) million in 2018 and in 2017, respectively.

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## 10. FINANCIAL INCOME AND EXPENSES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| **Interest income and other finacial income on long-term investments** | | |
| 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 |
| **Total** | **8.2** | **3.3** |

| MEUR | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|---|---|
| **Interest expenses and other financing expenses** | | |
| 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 |
| **Total** | **-43.5** | **-36.3** |
| | | |
| **Financial income and expenses, total** | **-41.0** | **-41.1** |

* 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 |
| **Total** | **127.2** | **125.6** |

## 12. INCOME TAXES

| MEUR | 1 Jan–31 Dec 2018 | 1 Jan–31 Dec 2017 |
|---|---|---|
| Income taxes, business operations | 17.0 | 15.6 |
| **Total** | **17.0** | **15.6** |

# NOTES TO BALANCE SHEET

## 13. INTANGIBLE ASSETS

| MEUR | 2018 | 2017 |
|---|---|---|
| **Other long-term expenditure** | | |
| 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 |
| **Book value, 31 Dec** | **3.0** | **2.1** |
| | | |
| **Intangible assets, total** | **3.0** | **2.1** |

## 14. TANGIBLE ASSETS

| MEUR | 2018 | 2017 |
|---|---|---|
| **Land and water areas** | | |
| Acquisition cost, 1 Jan | 0.0 | 0.0 |
| Acquisition cost, 31 Dec | 0.0 | 0.0 |
| **Book value, 31 Dec** | **0.0** | **0.0** |
| | | |
| **Buildings and structures** | | |
| 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 |
| **Book value, 31 Dec** | **0.0** | **0.0** |
| | | |
| **Connection fees** | | |
| Acquisition cost, 1 Jan | 0.0 | 0.0 |
| **Acquisition cost, 31 Dec** | **0.0** | **0.0** |

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| MEUR | 2018 | 2017 |
|---|---|---|
| **Machinery and equipment** | | |
| 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 |
| **Book value, 31 Dec** | **1.3** | **1.0** |
| | | |
| **Other tangible assets** | | |
| 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 |
| **Book value, 31 Dec** | **0.6** | **0.7** |
| | | |
| **Tangible assets, total** | **1.9** | **1.7** |

## 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 |
| **Book value, 31 Dec** | **1,066.9** | **1,081.2** |

## 16. HOLDINGS IN ASSOCIATED COMPANIES

| MEUR | 2018 | 2017 |
|---|---|---|
| Acquisition cost, 1 Jan | 0.0 | 0.0 |
| Acquisition cost, 31 Dec | 0.0 | 0.0 |
| **Book value, 31 Dec** | **0.0** | **0.0** |

## 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 |
| **Book value, 31 Dec** | **1.0** | **1.0** |
| | | |
| **Investments, total** | **1,067.9** | **1,082.2** |

## 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 |
| **Book value, 31 Dec** | **1.4** | **1.8** |

## 19. NON-CURRENT RECEIVABLES

| MEUR | 2018 | 2017 |
|---|---|---|
| **Receivables from Group companies** | | |
| Notes receivable | 599.5 | 395.0 |
| **Total** | **599.5** | **395.0** |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Receivables from others** | | |
| Notes receivable | 0.3 | 0.4 |
| **Total** | **0.3** | **0.4** |
| | | |
| **Non-current receivables, total** | **599.8** | **395.4** |

## 20. CURRENT RECEIVABLES

| MEUR | 2018 | 2017 |
|---|---|---|
| **Receivables from Group companies** | | |
| Accounts receivable | 0.0 | 0.0 |
| Other receivables | 181.6 | 176.3 |
| Prepaid expenses and accrued income | 0.0 | 0.0 |
| **Total** | **181.6** | **176.3** |
| | | |
| **Receivables from others** | | |
| Accounts receivable | 0.5 | 0.1 |
| Prepaid expenses and accrued income* | 0.2 | 0.1 |
| **Total** | **0.7** | **0.3** |
| | | |
| **Current receivables, total** | **182.3** | **176.5** |
| | | |
| **Receivables total** | **782.1** | **571.9** |

| MEUR | 2018 | 2017 |
|---|---|---|
| *** Specification of prepaid expenses and accrued income** | | |
| Interest receivables | 0.1 | 0.0 |
| Other | 0.1 | 0.1 |
| **Total** | **0.2** | **0.1** |

## 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 |
| | | |
| **Profit for the period** | **49.7** | **62.5** |
| | | |
| **Shareholders' equity, total, 31 Dec** | **351.0** | **329.7** |

## 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 |
| **Distributable funds, 31 Dec** | **302.9** | **281.5** |

## 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 |
| **Total** | **0.0** | **0.0** |

## 25. LONG-TERM LIABILITIES

| MEUR | 2018 | 2017 |
|---|---|---|
| **Loans from financial institutions** | | |
| Bonds* | 648.1 | 747.7 |
| Loans from financial institutions | 521.7 | 300.0 |
| Derivative liabilities | 25.7 | 20.5 |
| **Total** | **1,195.4** | **1,068.1** |
| | | |
| **Long-term liabilities, total** | **1,195.4** | **1,068.1** |

* More information in the Group financial statements, note 25.

| **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 |
| **Total** | **3.4** | **-3.4** | **3.4** | **-3.4** |

| | 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 |
| **Total** | **3.1** | **-3.1** | **3.1** | **-3.1** |

Hedge accounting is not applied on SATO Corporation level, therefore the sensitivity impact on equity and profit and loss is the same.

| | | |
|---|---|---|
| **Loans maturing in more than five years** | **304.2** | **178.2** |

**Derivatives**

| MEUR | 2018 | 2017 |
|---|---|---|
| **Nominal values of derivative instruments** | | |
| Interest rate swaps, liabilities | 755.4 | 474.6 |
| Interest rate swaps, assets | 0.0 | 120.0 |
| **Net** | **755.4** | **594.6** |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Fair values of derivative instruments** | | |
| Interest rate swaps | | |
| Positive | 0.0 | 0.3 |
| Negative | -25.8 | -20.8 |
| **Net** | **-25.8** | **-20.6** |

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 |
|---|---|---|
| **Loans to Group companies** | | |
| 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 |
| **Total** | **0.5** | **0.4** |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Loans to others*** | | |
| 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 |
| **Total** | **309.5** | **261.5** |
| | | |
| **Current liabilities, total** | **310.0** | **261.9** |
| | | |
| **Liabilities, total** | **1,505.5** | **1,330.0** |

* Short-term liabilities include derivative liabilities EUR 1,1 million (2017: EUR 0,0 million)

| MEUR | 2018 | 2017 |
|---|---|---|
| **Specification of accrued expenses and prepaid income** | | |
| 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 |
| **Total** | **16.6** | **18.8** |

## 27. COLLATERALS, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

| MEUR | 2018 | 2017 |
|---|---|---|
| **Guarantees** | | |
| Guarantees for debts and derivatives of Group companies | 169.6 | 222.3 |
| Bank guarantees for Group companies | 6.5 | 4.3 |
| **Total** | **176.1** | **226.5** |

| MEUR | 2018 | 2017 |
|---|---|---|
| **Other commitments** | | |
| 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 |
| **Pledges and contingent liabilities, total** | **7.3** | **7.6** |

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 unencumbured 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<br>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** | **How our audit addressed the key audit matter** |
| Refer to note 13 to the consolidated financial statements.<br><br>Consolidated financial statements as of 31 December 2018 include investment properties amounting to EUR 3,875.1 million.<br><br>Investment properties, as defined in IAS 40, are measured at fair value in accordance with IFRS 13.<br><br>Fair value measurement of investment properties requires management judgment and assumptions, since market prices for investment properties are not available in publicly traded markets.<br><br>This matter is regarded as significant risk of material misstatement in accordance with EU Audit Regulation (537/2014) Article 10 paragraph 2 c. | We have assessed and challenged the principles and methods applied in the fair value measurement. Our audit procedures included the following, among others:<br><br>• assessment of the appropriateness of valuation methods and the reasonableness of management assumptions<br>• testing the applied valuation model for mathematical accuracy<br>• comparison of the valuation of investment properties against externally available market data<br>• evaluation of the competence and objectivity of the external valuation expert used by the management<br>• testing the key controls for operating effectiveness.<br><br>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 polices 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.

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### 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 policies 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 expences, 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 |
| Intrest 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 |
| | | | | | |
| **Key indicators per share** | | | | | |
| 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 |
| | | | | | |
| **Opeartional key figures and net asset value** | | | | | |
| 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

**Net rental income, EUR**

Rental income
– Property, maintenance and reparation expenses
– Ground rents

**Net rental income, %**

$$= \frac{\text{Net rental income}}{\text{(fair value of investment property - property under construction) average during the financial year}} \times 100$$

**Return on investment, %**

$$= \frac{\text{(Profit or loss before taxes + interest expense and other financing expenses)}}{\text{Balance sheet total – non-interest-bearing debts (average during the financial year)}} \times 100$$

**Return on equity, %**

$$= \frac{\text{(Profit or loss after taxes)}}{\text{Shareholders' equity (average during the financial year)}} \times 100$$

**Equity ratio, %**

$$= \frac{\text{Shareholders' equity}}{\text{Balance sheet total – advances received}} \times 100$$

**Earnings per share, EUR**

$$= \frac{\text{Profit for the period attributable to owners of the parent}}{\text{Adjusted number of shares (average during the financial year)}}$$

**Equity per share, EUR**

$$= \frac{\text{Shareholders' equity attributable to owners of the parent}}{\text{Adjusted number of shares (at the end of the reporting period)}}$$

**Operational earnings**

Profit for the period, IFRS
–/+ Gains and losses from valuation of investment properties
– Profit on sales of investment properties
+ Loss on sales of investment properties
–/+ Profit on sales of new apartments adjusted with sales and marketing expenses
–/+ Profit on sales of land areas
–/+ Fair value change of financial instruments
–/+ Deferred taxed of above items
– Non-controlling interests

**Net asset value**

Shareholders' equity attributable to owners of the parent
–/+ Fair value of financial instruments (net), net of tax
–/+ Deferred tax assets and liabilities (net)

**Cash earnings**

Operating profit
+/– Gains and losses from valuation of investment properties
+ Depreciations
+/– Change of provisions
+/– Defined benefit plans
– Cash based financial income and expenses
– Cash based taxes
+/– Other items

# 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 Corporations'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 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

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. Further information is available from 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 share-holders 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.

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