

SATO CORPORATION

Interim Report

Jan-Jun 2015

Erkka Valkila
CEO



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SATO in brief





- Leading housing investment company
- Value creation by focusing on growth centres
- Active housing property development and maintenance
- Customer-oriented and efficient operations
- Steady cash flow and net rental income

MAIN FACTS:

Number of SATO homes:
25,000

Investments/year:
150-200 million €

Fair value of
investment property:
2.7 billion €

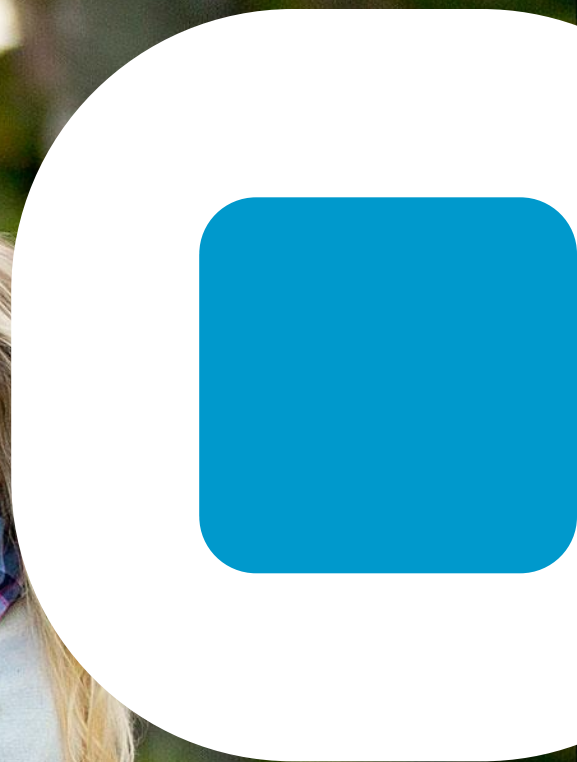
Number
of personnel:
170

Business areas: *Helsinki Metropolitan Area, Tampere, Turku, Jyväskylä, Oulu
and St. Petersburg*

SERVICE CONCEPTS: **SATO RentHome • SATO HotelHome**

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Operating environment





- The Finnish economy is expected to remain weak in 2015.
- Consumer confidence has decreased over the summer, and purchasing power continues to grow at a low rate.
- Inflation and interest rates are expected to remain at exceptionally low levels.
- The supply of rental homes has increased in SATO's areas of operation
 - However, low-cost rental homes are needed, particularly in the Helsinki region.
- Rents are increasing moderately.
- The demand for owner-occupied housing picked up during the spring
- The prices of small homes are projected to remain stable in the Helsinki Metropolitan Area throughout the year.
- The Russian economy is predicted to decrease in 2015.

More rented apartments needed



URBANISATION



**GROWTH IN THE NUMBER
OF PEOPLE LIVING ALONE**



IMMIGRATION



**GREYING
POPULATION**



NEED FOR FLEXIBILITY



**GROWING
ST. PETERSBURG**



- The development of the Helsinki Metropolitan Area calls for alternative housing models.
- SATO StudioHome
 - An innovative solution to the shortage of small, affordable homes
 - High-quality living with affordable housing costs
 - Well-equipped common areas in addition to studio homes (16 m²) with sleeping lofts
 - The model home being showcased at Housing Fair 2015 in Vantaa has been well received.

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Strategy



Mission, vision and values



MISSION
SATO provides
good housing

VISION
Best home address—
50,000 happy
residents

VALUES AIMING HIGH
A HUMAN TO HUMAN
JOY AND EASE OF EXPERTISE

Key strategic areas

PROFITABILITY

ensures the creation of well-being in the long term

GROWTH

increases the supply of rental apartments and the company's value

EXCELLENT CUSTOMER EXPERIENCE

provides competitive edge

INSPIRING CORPORATE CULTURE

supports employee engagement

RESPONSIBILITY CREATES WELL-BEING

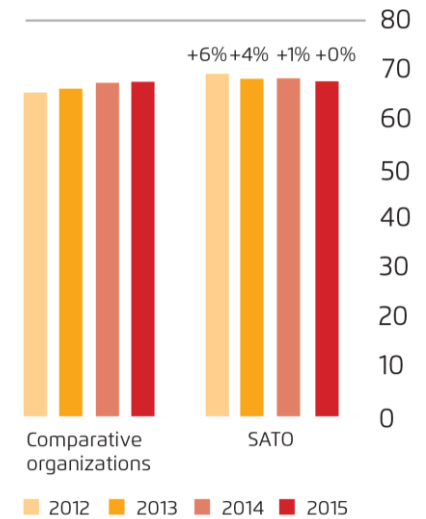
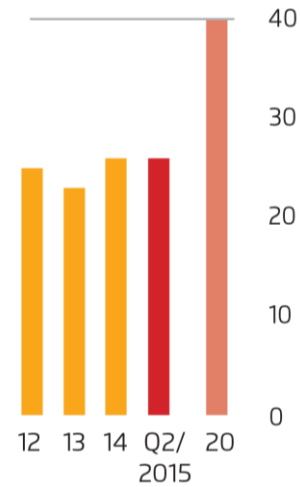
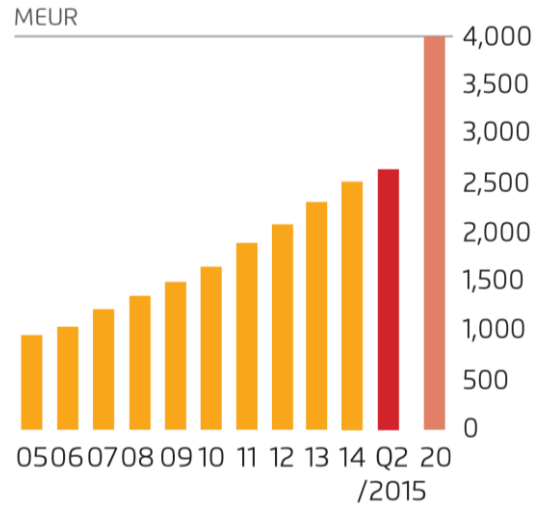
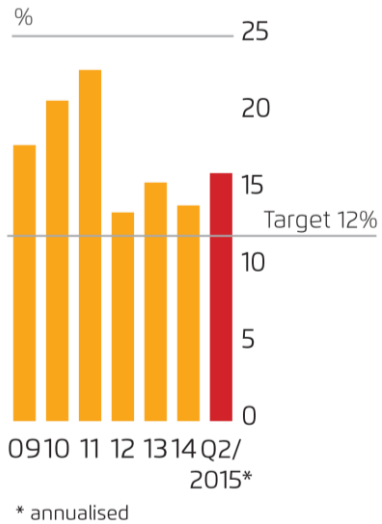
Strategic goals 2020

Increasing ownership value
Return on equity $\geq 12\%$

Increasing ownership value
Housing property $> \text{€}4$ billion

Creating value for customers
Net Promoter Score NPS > 40

Inspiring company culture
Personnel index at least 10% above the reference index



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Interim Report 1-6/2015





- Profit before taxes €93.0 (96.7) million
- The change in the fair value of rental homes included in the profit €44.7 (42.9) million
- Shareholders' equity €945.0 (859.5) million, €18.59 (16.91) per share
- Return on equity 16.1 (18.4)%
- Rental income €125.0 (120.4) million
- Investments in rental homes €96.1 (100.8) million
- A total of 485 (509) rental homes were acquired or completed
- Rental occupancy rate 96.5 (96.5)%



- Profit before taxes €34.7 (46.0) million
- The change in the fair value of rental homes included in the profit €8.1 (18.5) million
- Rental income €62.9 (60.6) million
- Investments in rental homes €66.8 (41.6) million
- Rental occupancy rate 96.6 (96.8)%

Appointment of President and CEO

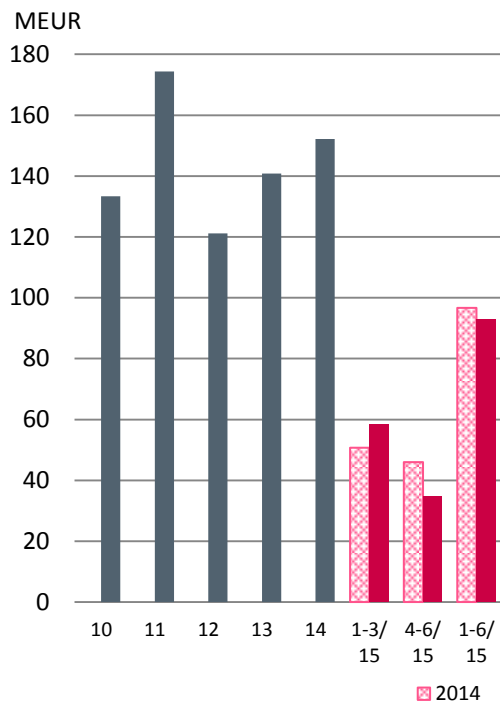
- Erkkka Valkila, President and CEO of SATO, will retire in late 2015.
 - In 2013, he reached the age of retirement determined in his employment contract, but his contract was extended by a period of two years.
- Saku Sipola, M.Sc. (Tech.), was appointed as the new President and CEO in June.
 - He will assume his duties towards the end of the current year on a date to be announced later on.

Profit and Shareholders' equity

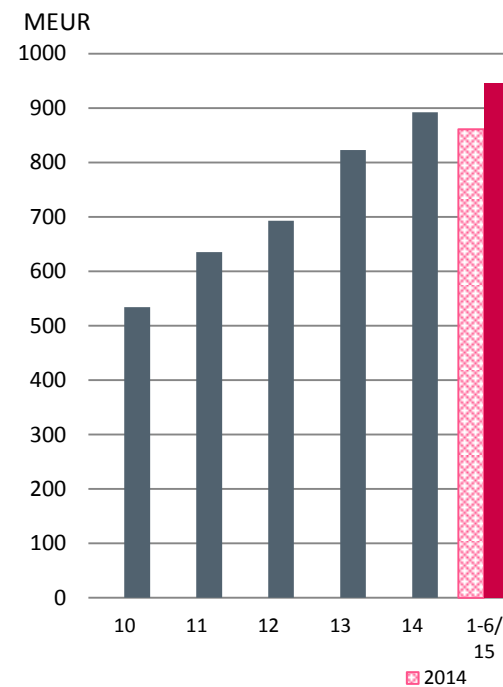
€93.0 million

€945 million

Profit before taxes



Shareholders' equity

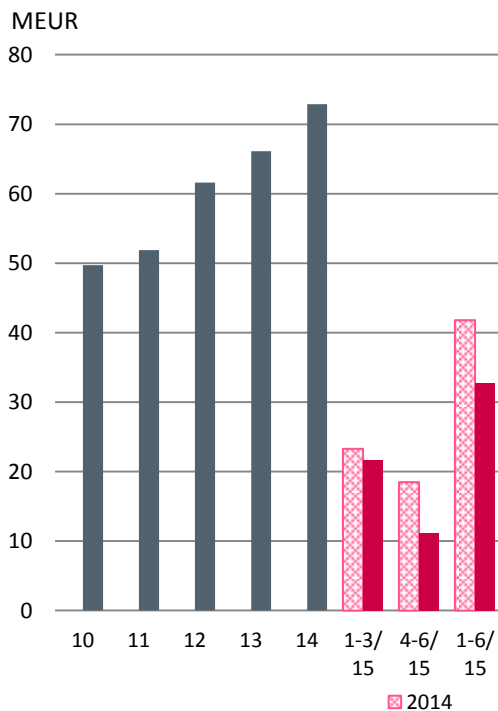


Cash Earnings and EPRA Earnings

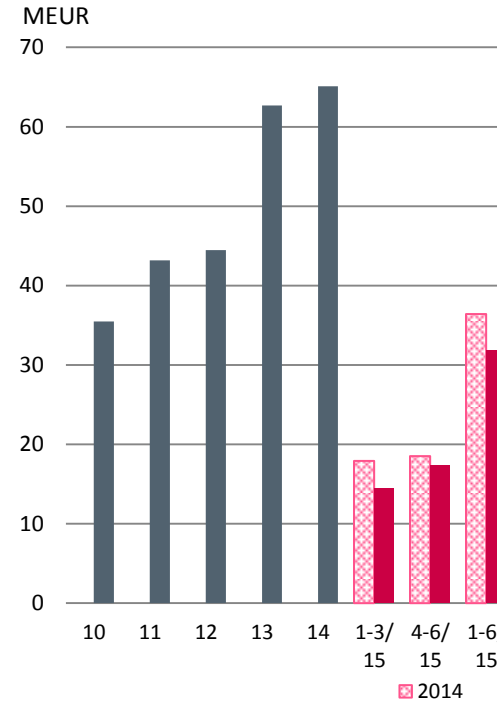
€32.7 million

€31.8 million

Cash Earnings



EPRA Earnings



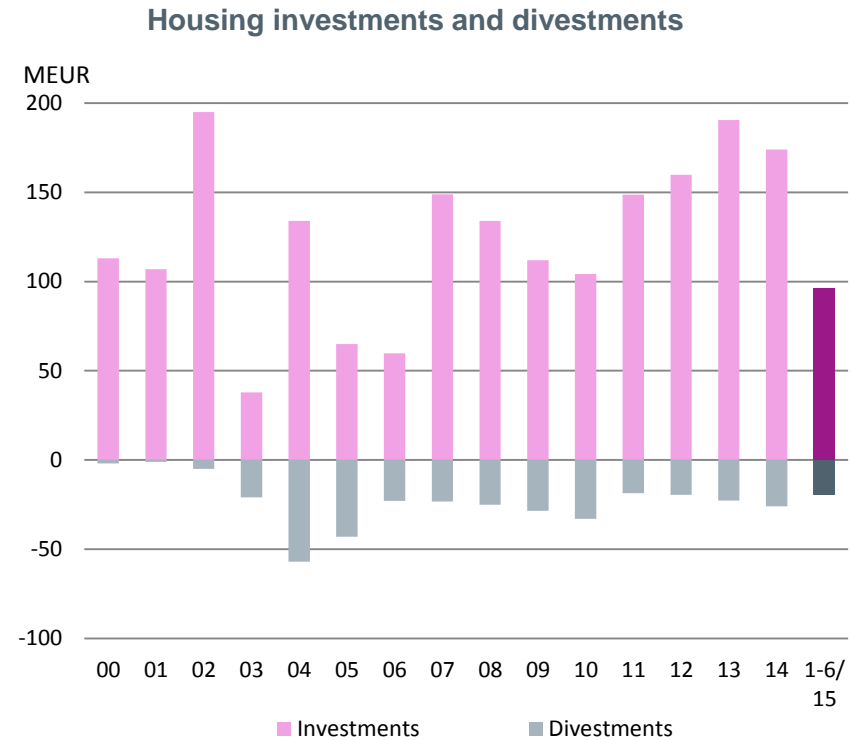
Housing investments and divestments

Investments

€96 million

880

rental apartments under construction

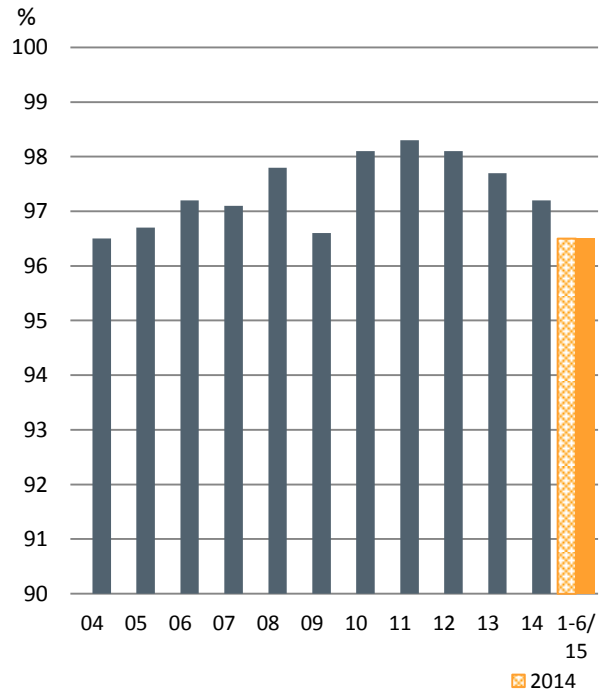


Rental occupancy rate and income

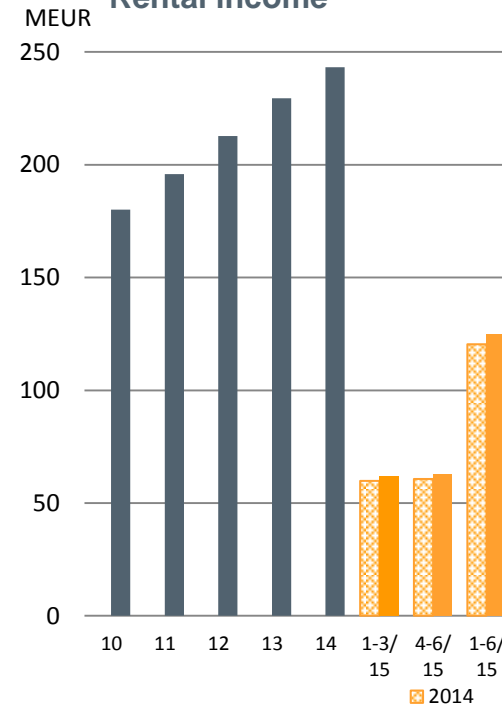
96.5%

€125 million

Economic occupancy rate



Rental income



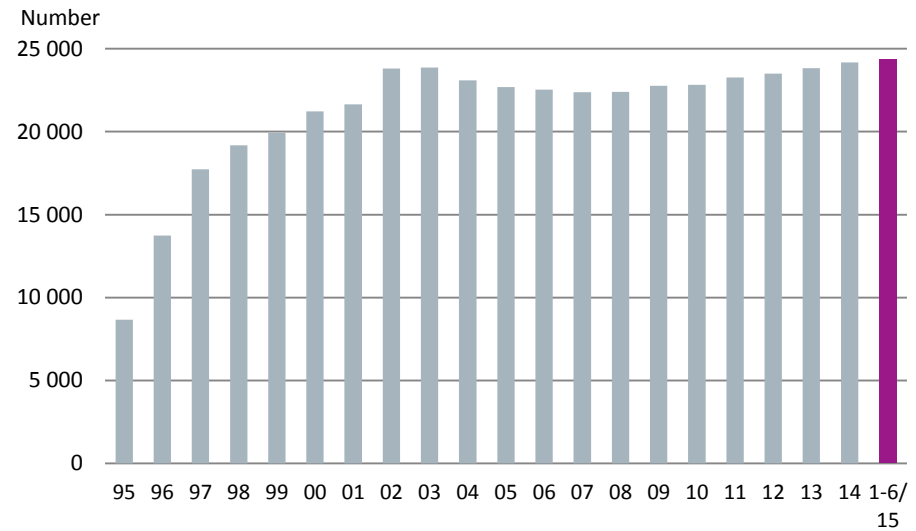
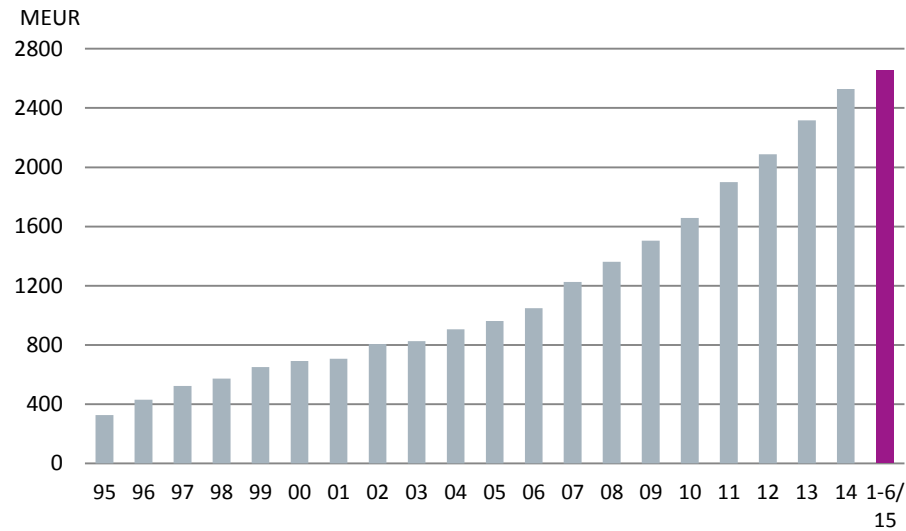
Trend in the housing portfolio

Housing portfolio

€2,7 billion

Housing portfolio

24,400 apartments



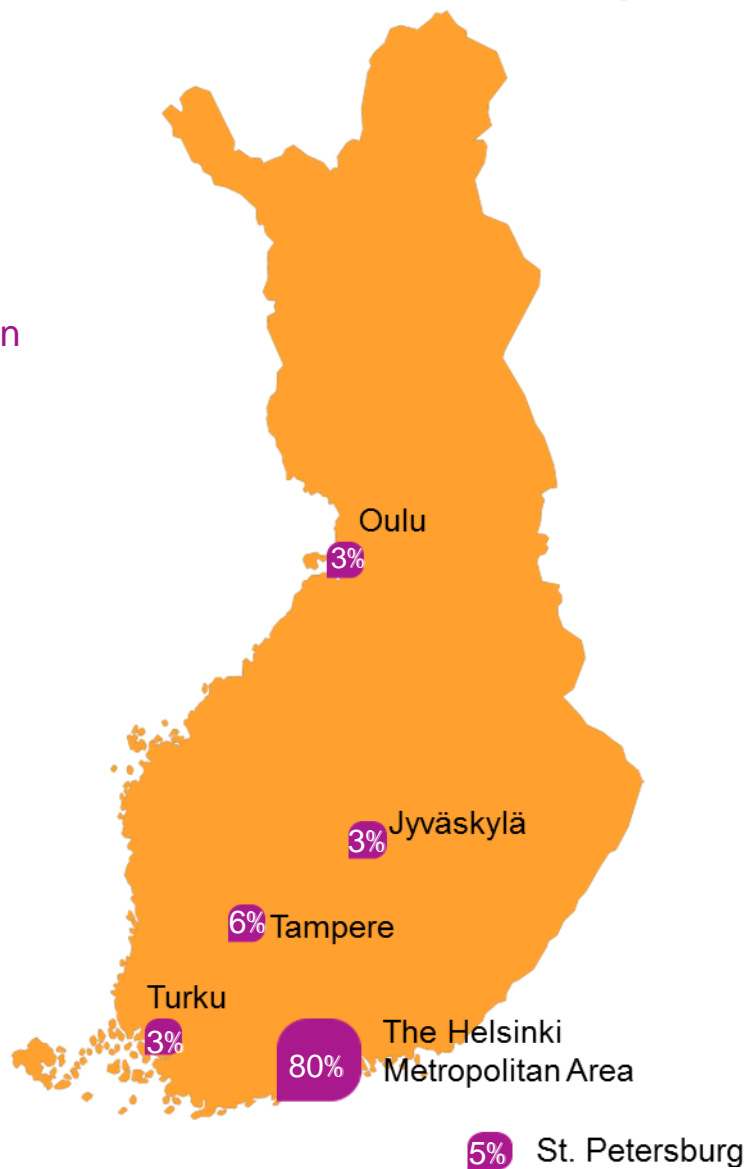
Regional distribution of the housing portfolio

Housing portfolio

€2,7 billion

of which in Helsinki

€1,2 billion



SATO in St. Petersburg

Rental homes

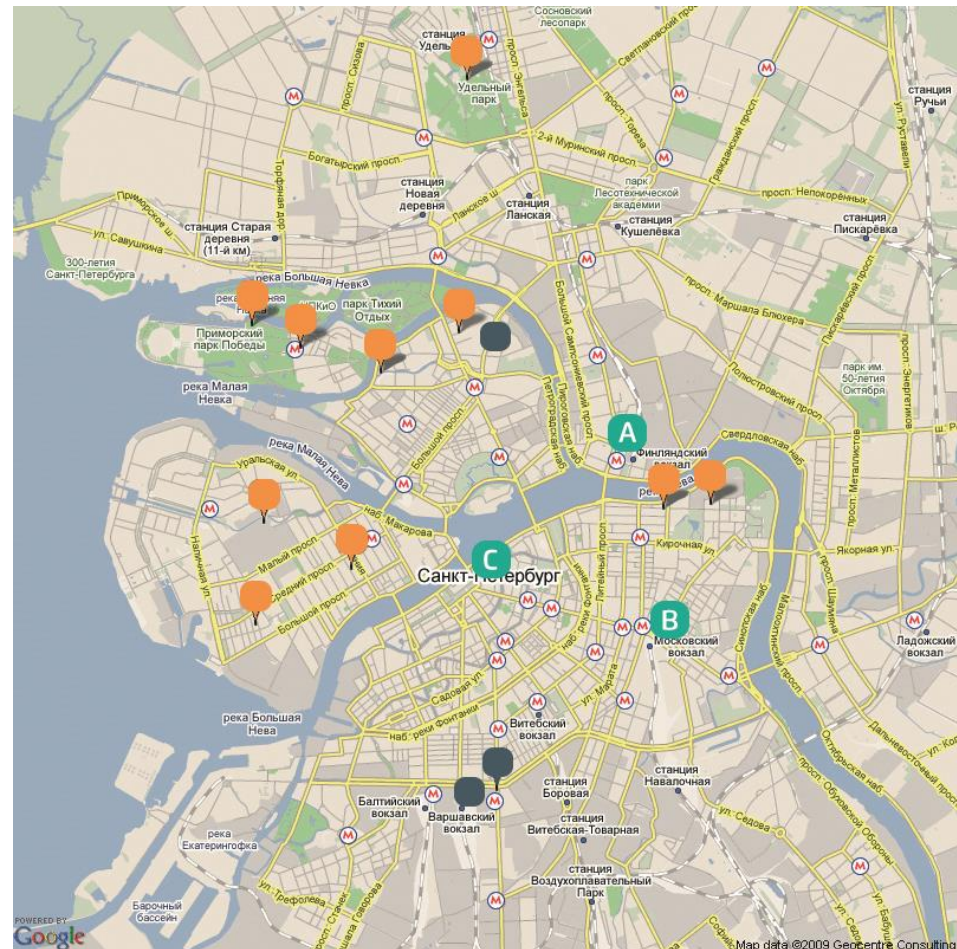
310 completed

Rental homes

220 under construction

Value of housing portfolio

€131 million



Landmarks:

- A. Finland Station (Finlyandsky)
- B. Moscow Station (Moskovsky)
- C. State Hermitage Museum

sato

Growth potential through own plot reserves



Owned plots

€68 million

For building

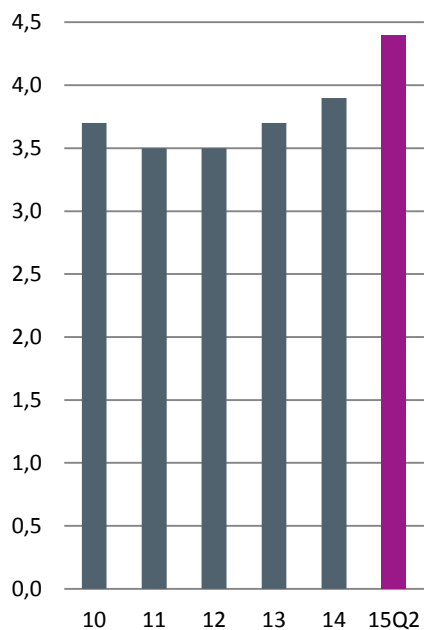
ca. 3,000
apartments

74%

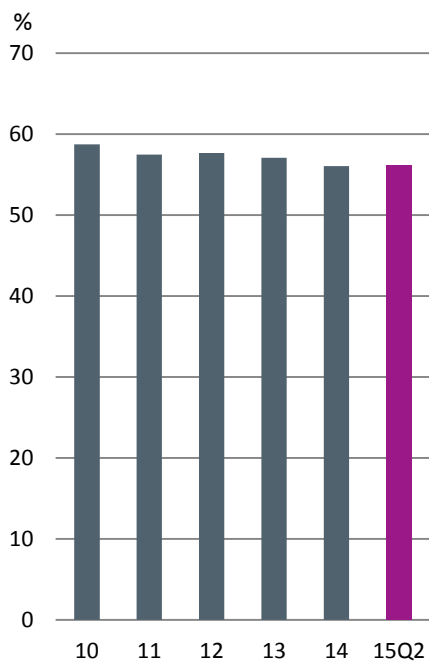
in the Helsinki Metropolitan Area

Finance

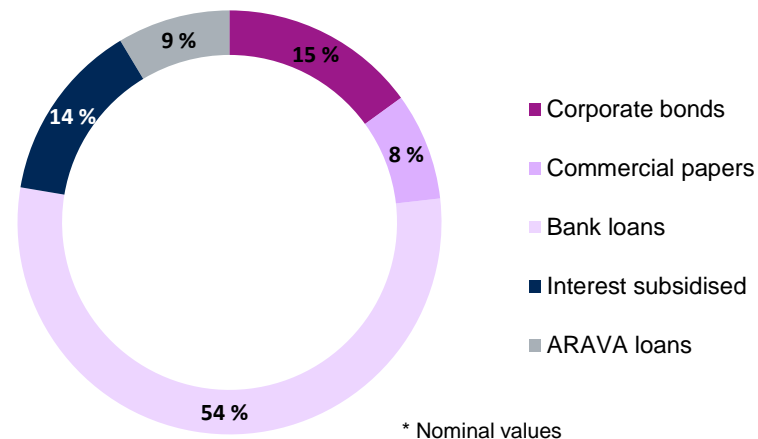
Interest coverage ratio



LTV (Loan to Value)



Debt portfolio* 30 Jun 2015 total MEUR 1,660



Financial figures 2014-Q2/2015

Key financial indicators	1-6/2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	1-12/2014
Net sales, MEUR	175.5	79.2	96.3	76.4	77.3	85.0	73.6	312.3
Operating profit, MEUR	111.9	44.4	67.5	38.4	36.8	56.0	60.1	191.3
Profit and losses from changes of fair value	44.7	8.1	36.6	16.1	4.8	18.5	24.4	63.8
Net financing expenses, MEUR	-18.8	-9.6	-9.2	-9.9	-9.8	-9.9	-9.5	-39.1
Profit before taxes, MEUR	93.0	34.7	58.3	28.5	27.1	46.0	50.7	152.2
Earnings per share, EUR	1.45	0.55	0.90	0.42	0.42	0.72	0.80	2.37
Shareholders' equity, MEUR	945	945	908	892	875	861	829	892
Gross investments, MEUR	96.1	66.8	29.3	30.6	42.6	41.6	59.2	174.0
Economic occupancy rate, %	96.5%	96.6%	96.4%	97.9%	97.8%	96.8%	96.2%	97.2%

Main shareholders

24 July 2015

Varma Mutual Pension Insurance Company	22.8%
APG Asset Management NV	22.8%
Balder Finska Otas AB	16.1%
Danske Bank Plc (nominee-registered)	13.7%
Elo Mutual Pension Insurance Company	12.9%
The State Pension Fund	5.0%
The Finnish Construction Trade Union	0.9%
Other (71 shareholders)	<u>5.8%</u>
	100%

On 24 July 2015, SATO had 51,001,842 shares and 78 shareholders registered in the book-entry system. The share turnover rate was 31.7 percent for the period 1 January - 24 July 2015.

Outlook

- Finnish economic growth and the general climate of confidence are expected to remain poor. In the operating environment, SATO's business operations are mainly affected by consumer confidence, the rental and price development of homes, and the interest rate.
- The demand for rental homes is expected to remain good in SATO's areas of operation, focusing mainly on small homes. Some 80 percent of SATO's housing assets are located in the Helsinki region, where the rental and price development is more stable than in other regions. SATO's product range responds to the demand for small homes, with the average area of homes being 57 square metres.
- Increasing urbanisation and immigration offer good potential for continued investments in Finland. Owing to good demand and new investments, SATO's net rental income is expected to improve from the year before. However, increases in rents are expected to be more moderate than in the previous years.
- Interest rates are estimated to remain low, which will have a positive impact on SATO's business operations.
- The Russian economy is expected to decrease. Some 5 percent of SATO's housing assets are located in St. Petersburg. Due to the unstable economic and political situation in Russia, SATO is refraining from making new investment decisions in Russia for the time being.



Homes will always be needed.

Additional information:

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