

*Isabella and Toni, Best Friends /
99 m² | 2 br + kit + sauna | Kalasatama*

SATO Corporation/Saku Sipola

INTERIM REPORT JAN-SEP 2016

sato

CONTENT

- SATO in brief
- Operating environment
- Interim Report Jan-Sep 2016



SATO IN BRIEF

- Number of SATO-homes **25,700**
 - SATO RentHome
 - SATO HotelHome
- Number of personnel **170**
- Investments/year **€200-400 million**
- Fair value of investment property **€3,3 billion**
- Operating area
 - Helsinki MA, Tampere, Turku, Jyväskylä, Oulu in Finland
 - St. Petersburg in Russia

*a home the way
you want it*

sato

OPERATING ENVIRONMENT

- **In the Eurozone**, growth is expected, but it is shadowed by several risks. Global crises related to economy, politics and security, together with Brexit, create uncertainty globally and, in particular, in Europe.
- The picture of the **Finnish economy** is mixed. Positive signals can be seen in confidence indicators regarding construction, services and consumers, as these are at the long-term average level or higher. Then again, the outlook is pushed down by exports, and the general recovery has not started, regardless some positive news in certain industrial segments.
- The uncertainty is expected to keep the market interest rates close to zero for a long time.
- There was brisk demand for rental flats during the summer and early autumn. The increased supply has stabilised the relationship between supply and demand in many areas, which has increased occupant tenant turnover with regard to the entire rental housing base.
- **In Russia**, the purchasing power is expected to decrease further, and households are expected to use their assets to repay their loans. Even though GNP was only a little lower at the beginning of the year compared with the year before, Bank of Finland estimates that future growth is sustainable only after investments are started in Russia.

*Sandra, Erika, Rosa ja Riikka, Roommates
and BFFs | 95 m² | 4br, kit*

INTERIM REPORT JAN-SEP 2016

sato

Saku Sipola.

HIGHLIGHTS JUL-SEP 2016

- Over 1,400 rental apartments under construction
 - Urbanisation presents an enormous change, and it largely defines the future success of Finland.
 - Finland is currently making good progress in terms of the housing construction required by urbanisation, and we need to be able to maintain this progress, also in the future.
 - SATO has been contributing to urbanisation development by increasing the offering of rental housing
- Updated strategy
 - An increase in the number of apartments alone is not enough because the values of people are changing and becoming more individual – this is why housing solutions must also become more diverse.
 - SATO's task is to revolutionise housing – provide our customers with more than just walls.
 - Customer-driven approach is raised to the core of operations.
 - Growth investments will be targeted to Helsinki Metropolitan Area, Tampere and Turku.
 - Strengthening the Moody's Investment Grade –rating has been set as objective.
- Improved occupancy rate
 - The increase in the occupancy rate resulting from our productive work with our customers is an important step in our more customer-driven operations.
- Preliminary agreement with VR Group on the development of a housing block in Oulunkylä
 - Targeting to build new apartments for approximately 800 people.
 - The block is located next to Oulunkylä services, train station and the future Raide-Jokeri station.
- Green Star recognition of GRESB for the second time for corporate responsibility
 - Among unlisted housing investors, SATO was the best out of Nordic investors, the sixth out of European investors, and globally, SATO was ranked ninth of the 65 participating housing investors.

sato

Growth by investments.

INTERIM REPORT

JAN-SEP 2016

- Net sales stood at EUR 230.8 (244.8) million, of which rental income accounted for EUR 194.8 (187.8) million.
- Profit before taxes stood at EUR 172.9 (102.5) million. The improvement was based on the change in the fair value of rental homes, which was EUR 101.5 (26.4) million.
- The change in fair value was mainly affected by ending restrictions on certain properties, adjusted yield demands set for specific properties on the basis of the guidance issued by an external valuation agency and higher sales prices of homes in our operating area.
 - The agency's guidance on the adjusted yield demands is based on the attractiveness of housing investments producing steady returns, which increases the value of homes.
- Earnings per share were EUR 2.57 (1.60).
- Equity was EUR 1,206.5 (948.0) million, or EUR 21.31 (18.65) per share.
- Return on equity was 16.7 (11.8) percent.
- Equity ratio was 34.1 (31.2) percent.

- Investments in rental flats stood at EUR 508.8 (195.0) million.
- A total of 3,061 (960) rental flats were acquired or completed.
- A total of 1,428 (1,122) rental apartments are under construction.
- The occupancy rate in Finland was 95.3 (96.6) percent.

sato

Improving occupancy rate.

INTERIM REPORT

JUL-SEP 2016

- Net sales stood at EUR 72.5 (69.3) million, of which rental income accounted for EUR 68.3 (62.8) million.
- Profit before taxes stood at EUR 64.0 (9.4) million. The change in the fair value of rental flats included in the result was EUR 38.5 (-18.3) million.
- The value change was mainly affected by adjusted yield demands set for specific properties on the basis of the guidance issued by an external valuation agency and the change in the Rouble rate in relation to the comparison period.
- Earnings per share were EUR 0.90 (0.15).
- Investments in rental apartments stood at EUR 64.0 (98.9) million.
- The occupancy rate in Finland was 96.0 (96.7) percent.

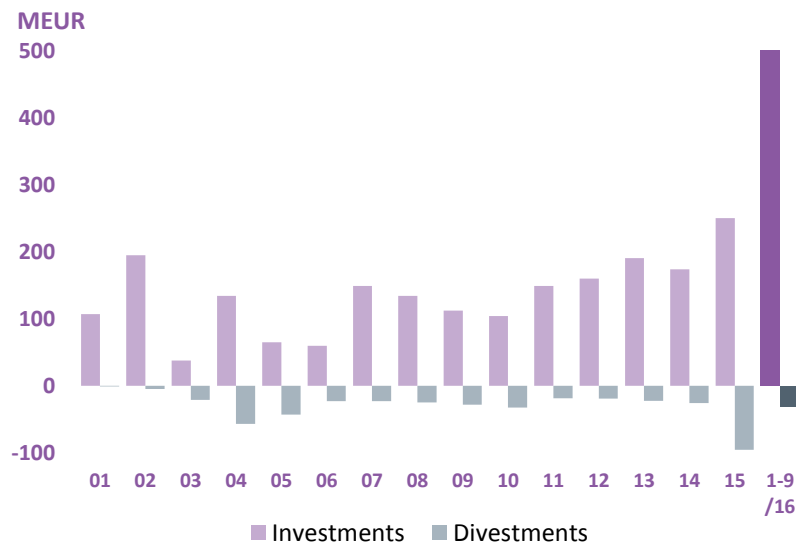


KEY FIGURES

	Q3 2016	Q2 2016	Q1 2016	Q3 2015	Q2 2015	Q1 2015
Rental housing portfolio at the end of the review period	25,681 apts. €3.34 billion	25,437 apts. €3.25 billion	23,365 apts €2.82 billion	23,992 apts. €2.70 billion	24,356 apts. €2.65 billion	24,241 apts. €2.59 billion
Investments	€64.0 million	€407.6 million	€37.2 million	€98.9 million	€66.8 million	€29.3 million
Under construction at the end of the review period (Finland and St. Petersburg)	1,428 rental apartments	1,520 rental apartments	1,246 rental apartments	1,122 rental apartments	1,095 rental apartments	990 rental apartments
Average rent in Finland at the end of the review period	16.37 €/m²/month	16.18 €/m ² /month	15.97 €/m ² /month	15.71 €/m ² /month	15.36 €/m ² /month	15.34 €/m ² /month
Cash Earnings	€24.0 million	€12.6 million	€21.0 million	€22.2 million	€11.1 million	€21.6 million
Shareholders' equity at the end of the review period	€1.21 billion	€1.16 billion	€1.01 billion	€0.95 billion	€0.95 billion	€0.91 billion
Customers' Net Promoter Score	27	28	24	27	26	26

Housing investments and divestments.

INVESTMENTS SUPPORT THE URBANISATION TREND



Investments

€509 million

220%

Investments of net sales

1,430

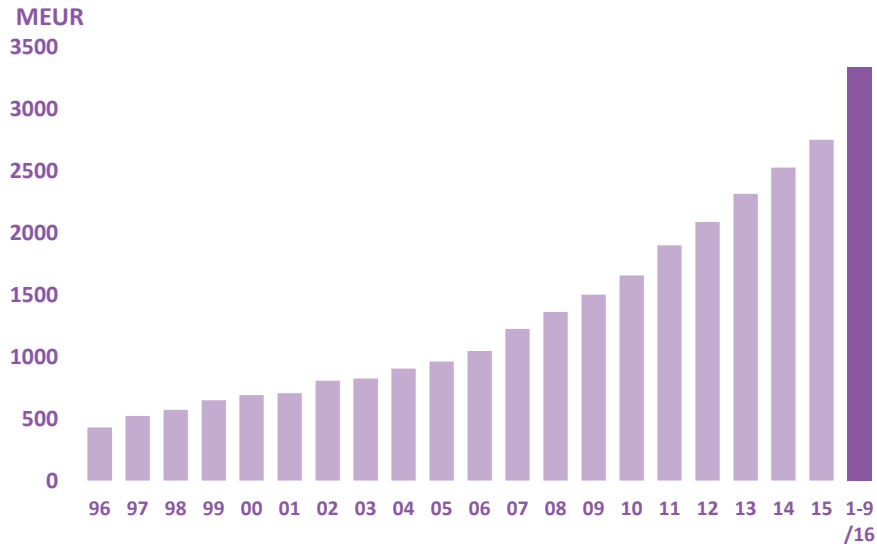
Rental apartments
under construction

sato

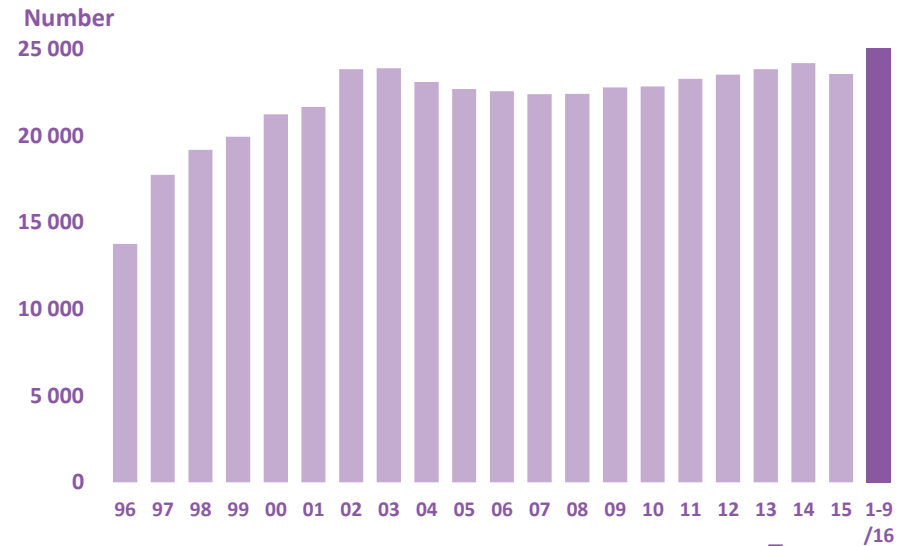
Trend in the housing portfolio.

SMALL RENTAL FLATS IN AREAS WITH HIGH DEMAND POTENTIAL

Trend in the housing portfolio, fair values



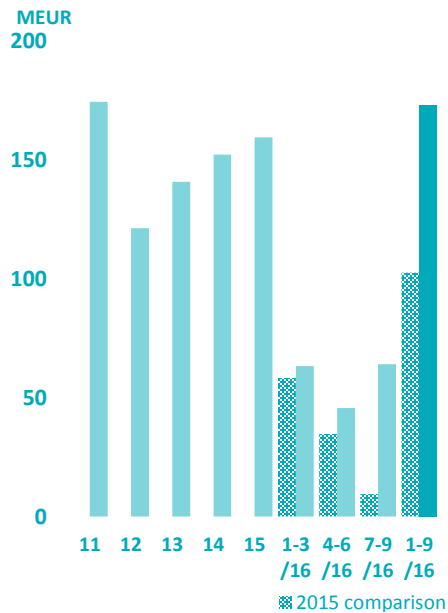
Trend in the housing portfolio



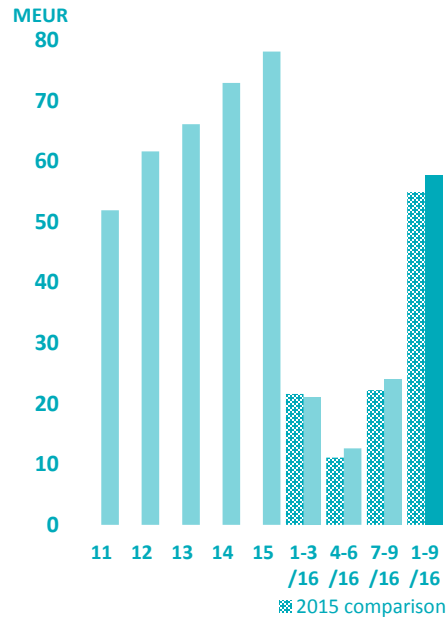
Profit and Cash Earnings.

VALUE DEVELOPMENT HAS A LARGE IMPACT ON PROFIT

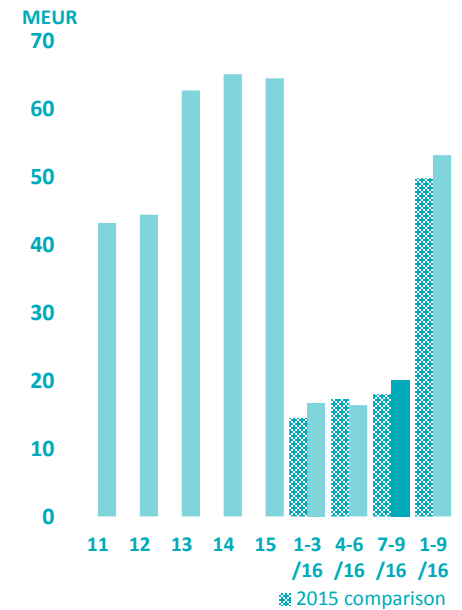
Profit before taxes



Cash Earnings



EPRA Earnings

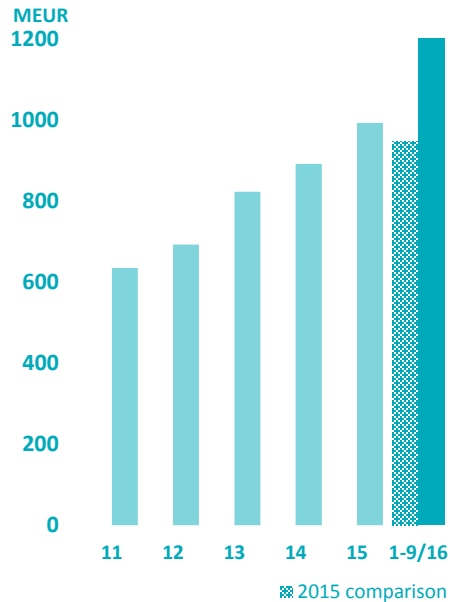


sato

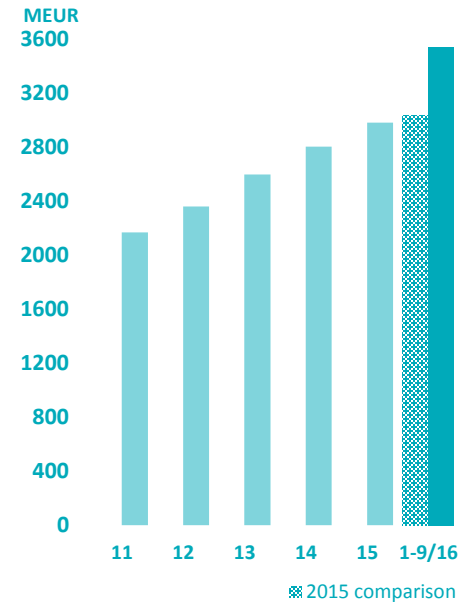
Shareholder's equity and Balance sheet.

BIG INVESTMENTS AND A SUCCESSFUL RIGHTS ISSUE

Shareholder's equity



Balance sheet

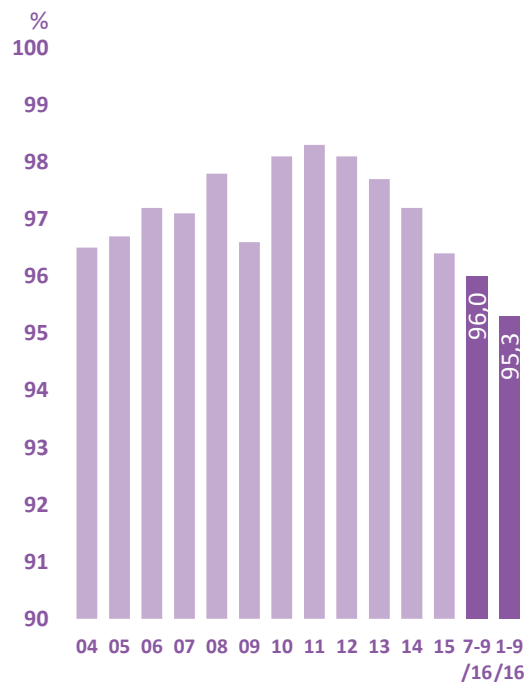


sato

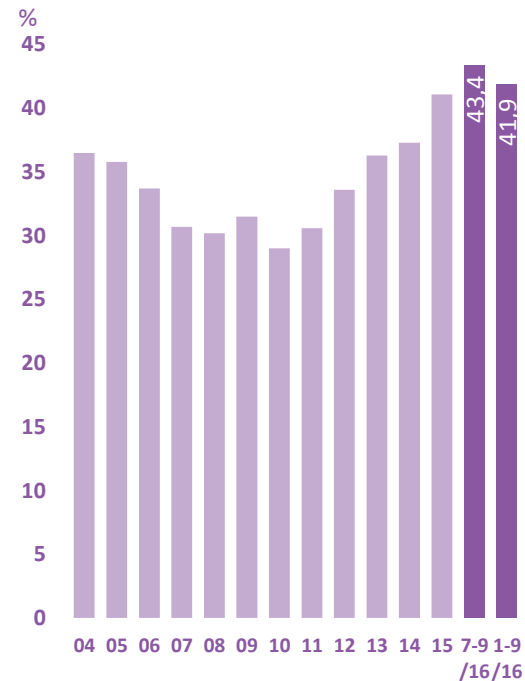
Rental occupancy rate and tenant turnover.

INCREASED OFFERING ON THE RENTAL MARKET

Rental occupancy rate



Tenant turnover



Regional distribution of the housing portfolio.

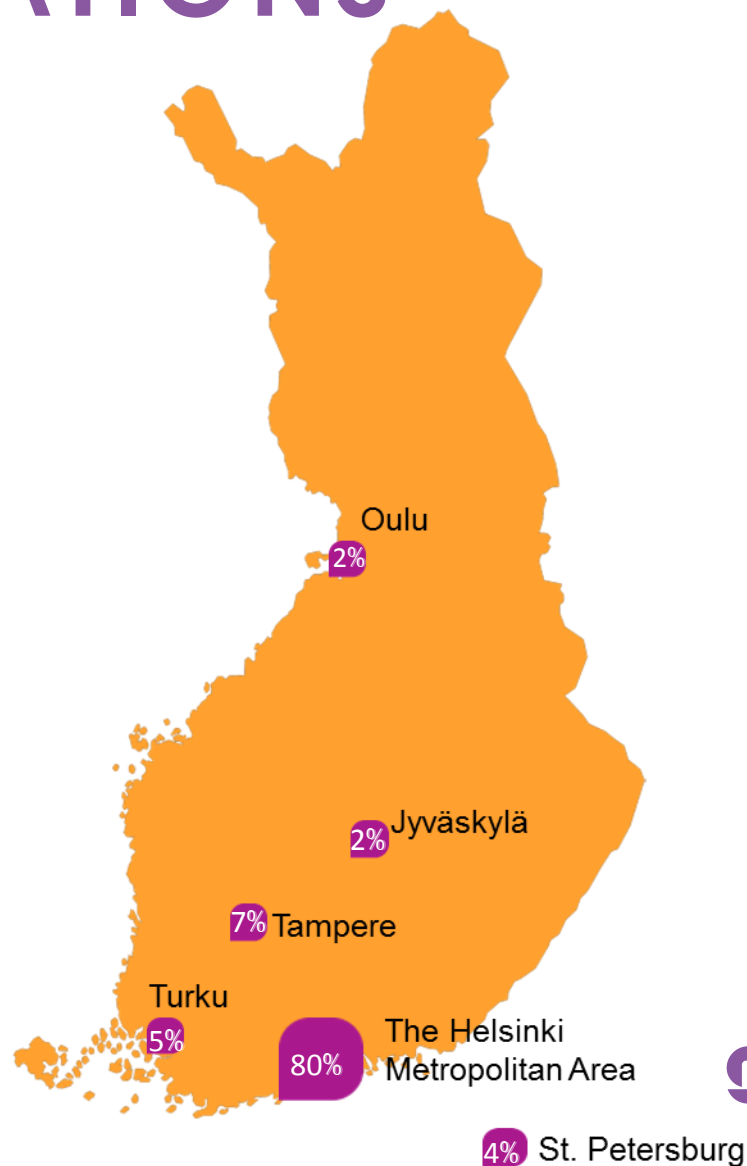
GOOD LOCATIONS

Housing portfolio

€3,3 billion

Helsinki

€1,4 billion



sato

SATO IN ST. PETERSBURG

Rental apartments

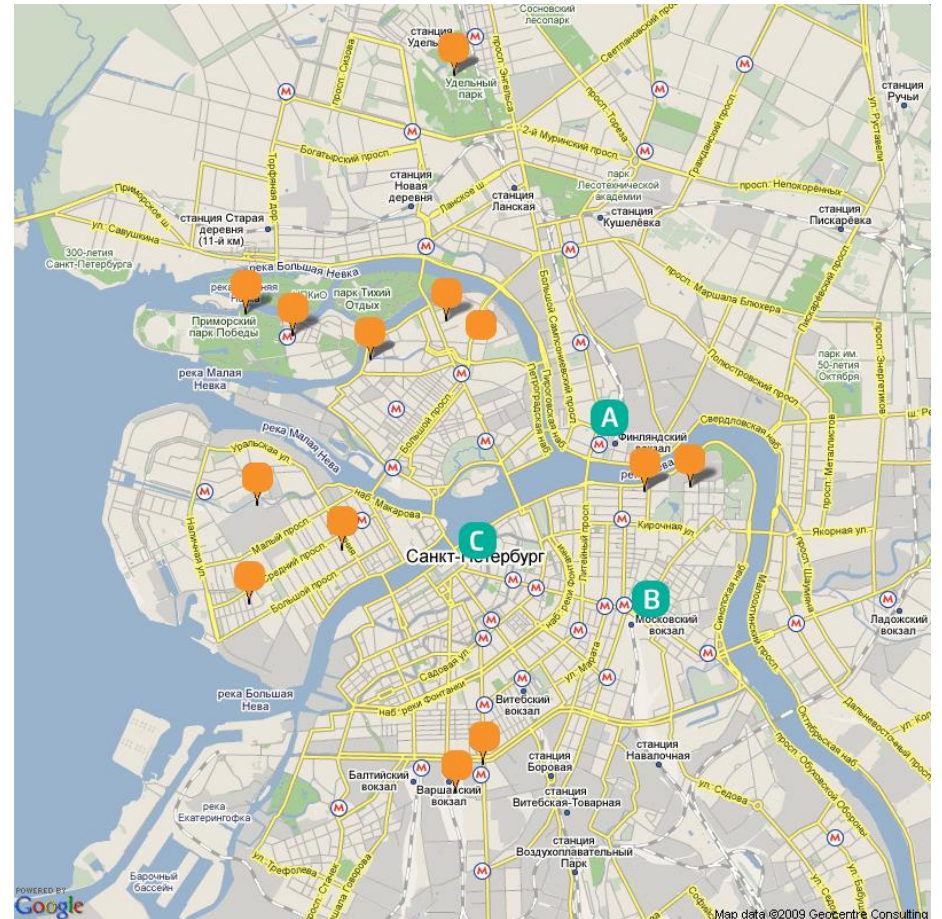
534 completed

Rental apartments

0 under construction

Value of housing portfolio

€117 million



Landmarks:

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

sato

For construction of some 4,600 flats.

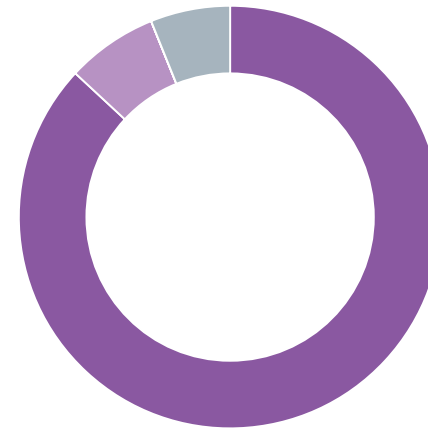
NEW LAND AREAS AND COMPLEMENTARY CONSTRUCTION

Plot reserves

€65 million

87 %

in the Helsinki Metropolitan Area



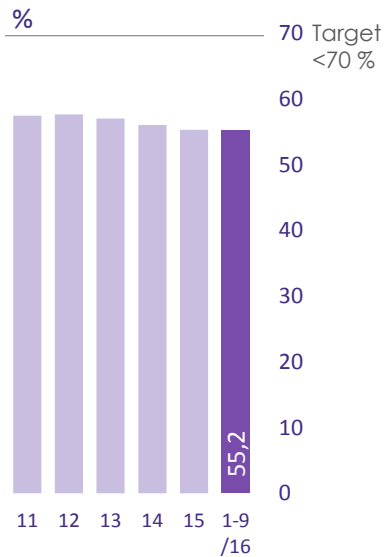
- Helsinki Metropolitan Area 87%
- Tampere 5 %
- Turku 0 %
- Jyväskylä 0 %
- Oulu 6 %

Total approx. 420,000 floor area, sq.m.,
about 4,600 apartments

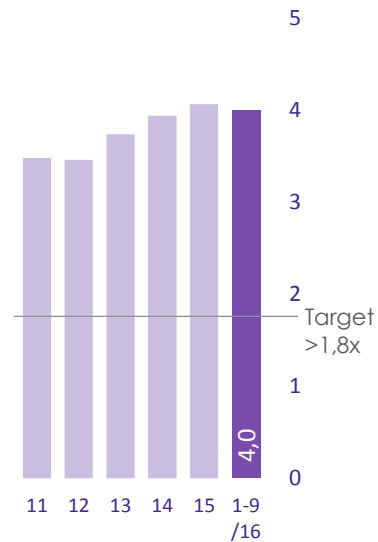
sato

Diversified funding base. FINANCE

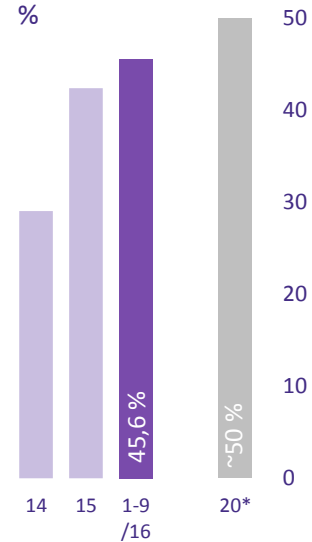
Solvency Ratio



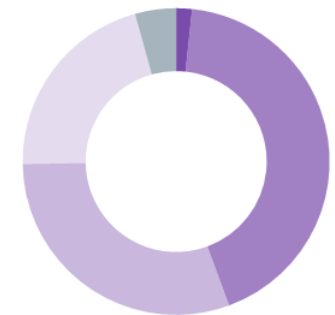
Interest Coverage



Unencumbered assets



Loan portfolio nominal values 30 Sep 2016, Total MEUR 1,987



- Commercial papers 33
- Corporate bonds 849
- Bank loans 603
- Interest subsidised 416
- State subsidised (ARAVA) 86

sato

11 October 2016

MAIN SHAREHOLDERS

Fastighets Ab Balder	53.6%
APG Asset Management NV	22.6%
Elo Mutual Pension Insurance Company	12.7%
The State Pension Fund	4.9%
The Finnish Construction Trade Union	1.1%
Others (82 shareholders)	5.1%

On 11 October 2016, the number of shareholders subscribed in the book-entry system was 87. The share turnover rate was 1.2 percent for the period 1 January – 11 October 2016.

sato

OUTLOOK

- In the operating environment, SATO's business operations are mainly affected by consumer confidence, development of purchasing power, the rent and price development of homes, and the interest rate.
- The Finnish economy and the general climate of confidence picked up slightly during the first half of the year, but global crises in terms of economy, politics and safety, as well as the Brexit, have increased uncertainty globally and particularly in Europe. Interest rates are expected to remain low, which will have a positive impact on SATO's financing costs.
- The increase in urbanisation creates new potential for the international competitiveness of Finnish economy. Urbanisation and immigration provide good long-term conditions for continued housing investments in Finland, unless legislative changes are implemented that weaken the conditions for business operations related to rental homes.
- The deregulation of provisions concerning the construction of new buildings has proceeded slowly and, as a result, the prices of apartments have not settled at reasonable levels. Nevertheless, the active construction of rental flats in many areas has increased supply and, therefore, the balance between supply and demand has improved and the increase in rents has slowed down.
- SATO's net rental income is expected to increase from 2015 due to new investments. Rent increases are expected to be more modest than in the previous years.
- About 80 percent of SATO's housing assets are located in the Helsinki region, where positive development of prices is expected.
- The uncertain situation in Russia is expected to continue. For the time being, SATO will refrain from making new investment decisions in Russia.





THANK YOU

sato

Additional information:

President and CEO Saku Sipola, tel. +358 40 5515 953

Chief Financial Officer Esa Neuvonen, tel. +358 40 5001 003

www.sato.fi