

*Cities change. People change.
Housing must change, too.*

Saku Sipola, President and CEO

INTERIM REPORT JAN-SEP 2017

PRESENTATION MATERIAL 31ST OCT 2017

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ANNA ELÄMÄN VIESÄ

Cities change. People change.

Housing must change, too.



Key to Finland's success.

URBANISATION

- Urbanisation a key factor in Finland's international success
→ It promotes innovation, and creates jobs and genuine competition between companies.
- The current record-high construction of apartments strengthens the urban and, therefore, internationally successful Finland
→ Based on sufficient planning in large cities and successful decisions on future traffic solutions.
- Regulations and measures that disturb positive development must be avoided.
- We believe that in the Finland of the future, thriving urban environments will be home to people enjoying a high level of wellbeing. We are targeting our investments at the most rapidly growing urban areas.

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CONTENT

- SATO in brief
- Operating environment
- Interim Report Jan-Sep 2017



SATO IN BRIEF

- Number of SATO homes **25,700**
 - SATO RentHome
 - SATO HotelHome
- Number of personnel **211**
- Investments **€600 million** in 2016
- Fair value of investment property **€3.5 billion**
- Operating area
 - Helsinki MA, Tampere, Turku, Jyväskylä, Oulu in Finland
 - St Petersburg in Russia



Megatrends

GLOBALISATION / DIGITALISATION / SUSTAINABILITY

CITIES CHANGE

PEOPLE CHANGE

HOUSING MUST CHANGE TOO

Vision

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

Mission

WE WILL
REVOLUTIONISE
HOUSING –
IT IS MORE THAN
JUST WALLS

Strategic development programs

CUSTOMER FOCUS / MYSATO / RENTAL HOME TO YOUR CHOICE

Values

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

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OPERATING ENVIRONMENT

- **The Finnish economy** grows rapidly, and it is estimated that growth will be approximately 3 per cent in the near future. Growth has spread to all areas of economy. However, inflation has returned to a low level after being higher at the beginning of the year. The light financial policy from central banks continues to keep the short-term reference rates at an exceptionally low level. Economic growth and expectations of inflation will probably cause the European Central Bank to apply a stricter financial policy in the near future. Longer-term rates are expected to increase first. Consumer trust in their own finances and in the Finnish economy has remained at a record high level, and consumers are optimistic about the development of employment.
- Demand for rental apartments has remained high, as urbanisation continues to be strong. According to the Confederation of Finnish Construction Industries, housing construction is at a record high level in SATO's main operating areas, where construction-related costs are also high. These high costs, combined with expectations of higher interest rates, may result in an increase in rents or a decrease in general interest in housing investments.
- The activity in the real estate investment market is record high (KTI). The number of apartments purchased by investors has remained high, and consumers also picked up the pace during the beginning of the year. This has been reflected in the considerable increase in loan applications, among other aspects.
- **The Russian economy** is expected to grow slightly.



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Housing must change, too.*

Customer first

INTERIM REPORT JAN-SEP 2017

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HIGHLIGHTS

- The occupancy rate increased from 96.6 per cent in June to 97.6 per cent in September due to, among other things, the improvements in our customer service on several fronts, in line with our “Customer first” strategy.
- For the strategy period 2017–2020 we have set as a target that 60 per cent or more of our assets shall be unencumbered. We were already able to reach this goal during the third quarter of 2017.
- The success of urbanisation is a significant factor in terms of Finland's competitiveness.
 - We have accelerated urbanisation in areas planned together with the City of Vantaa in Martinlaakso, Vantaa, by starting the construction of 288 new rental apartments in Raivosuonmäki, by opening 110 new rental apartments in Kukinkuja, and by beginning the completion work on 68 apartments in our StudioHome in Raikukuja.
 - At the same time, a design competition is ongoing in cooperation with the City of Helsinki, VR Group, the Finnish Association of Architects and SATO. The aim of the competition is to develop new apartments alongside the Jokeri Light Rail Line in Helsinki.
 - In Espoo, plans for development projects proceeded in Niittykumpu, Suomenoja and Soukka.
 - In Turku and Tampere, we are negotiating with the cities over complementary planning projects to be launched later this autumn and next spring.
- The SATO StudioHome to be completed this December in Martinlaakso, Vantaa, has raised much discussion and we received more than 700 apartment applications.
- An increase in property tax, changes in district heating rates, stricter taxes on energy and also an increase in the price of water have significantly raised property maintenance costs since 2014.

Net sales consist of rental income.

INTERIM REPORT

JAN-SEP 2017

- Profit before taxes was EUR 130.0 (172.9) million.
 - Earnings per share were EUR 1.83 (2.57).
 - The change in the fair value of rental apartments included in the result was EUR 48.2 (101.5) million.
 - Equity was EUR 1,367.1 (1,206.6) million, or EUR 24.14 (21.31) per share.
 - Return on equity was 10.6 (16.7) per cent.
 - Return on investment was 6.8 (9.5) per cent.
 - Net sales were EUR 208.2 (194.8) million.
 - Investments in rental apartments were EUR 121.7 (508.8) million.
 - A total of 802 (3,061) rental apartments were acquired or completed.
 - The occupancy rate in Finland was 96.6 (95.3) per cent.
 - A total of 1,151 rental apartments are under construction.
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Net sales consist of rental income.

PERIOD JUL-SEP 2017

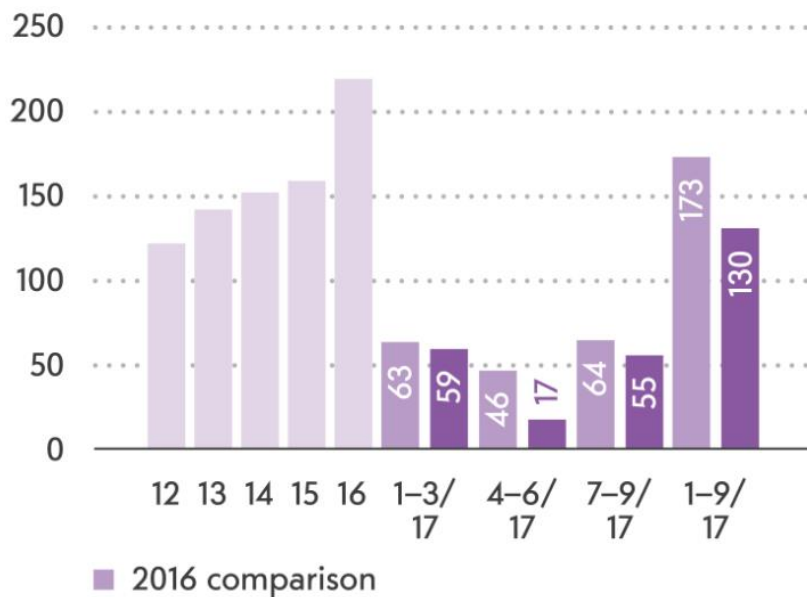
- Profit before taxes was EUR 54.8 (64.0) million.
- Earnings per share were EUR 0.77 (0.90).
- The change in the fair value of rental apartments included in the result was EUR 24.3 (38.5) million.
- Net sales were EUR 70.6 (68.3) million.
- Investments in rental apartments were EUR 59.1 (64.0) million.
- A total of 297 (776) rental apartments were acquired or completed.
- The occupancy rate in Finland was 97.2 (96.0) per cent.
- A total of 1,151 rental apartments are under construction.



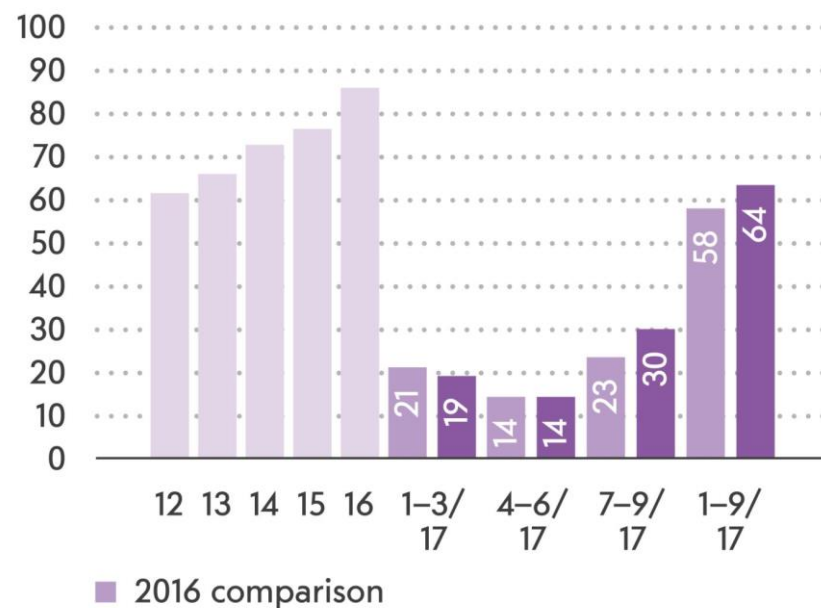
Growing cash earnings.

PROFIT AND CASH EARNINGS

PROFIT BEFORE TAXES, MEUR



CASH EARNINGS (CE), MEUR

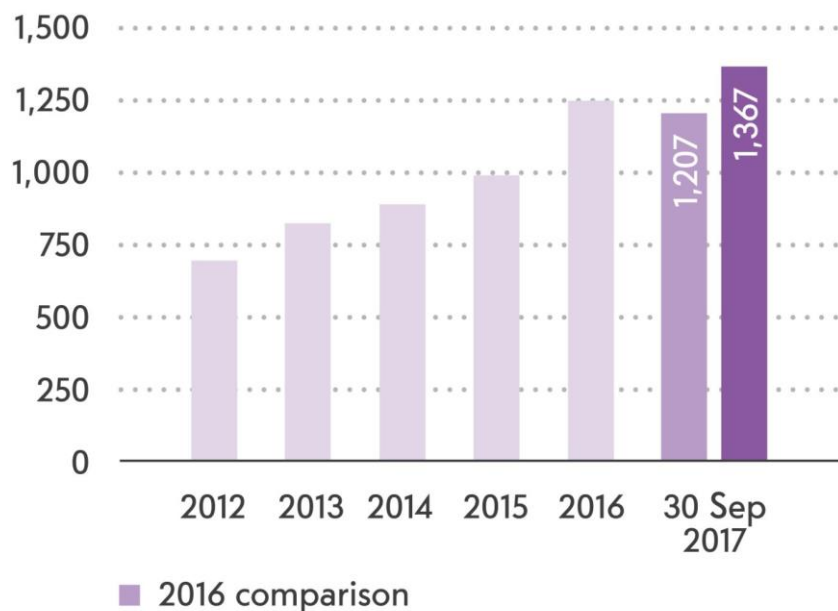


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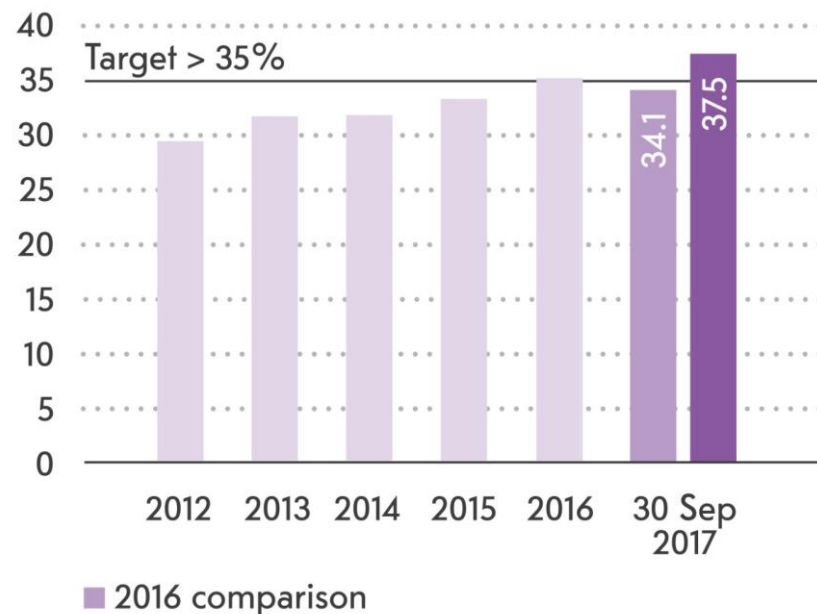
Improvement based on an increase in the value of housing assets.

SHAREHOLDERS' EQUITY AND EQUITY RATIO

SHAREHOLDERS' EQUITY, MEUR



EQUITY RATIO, %

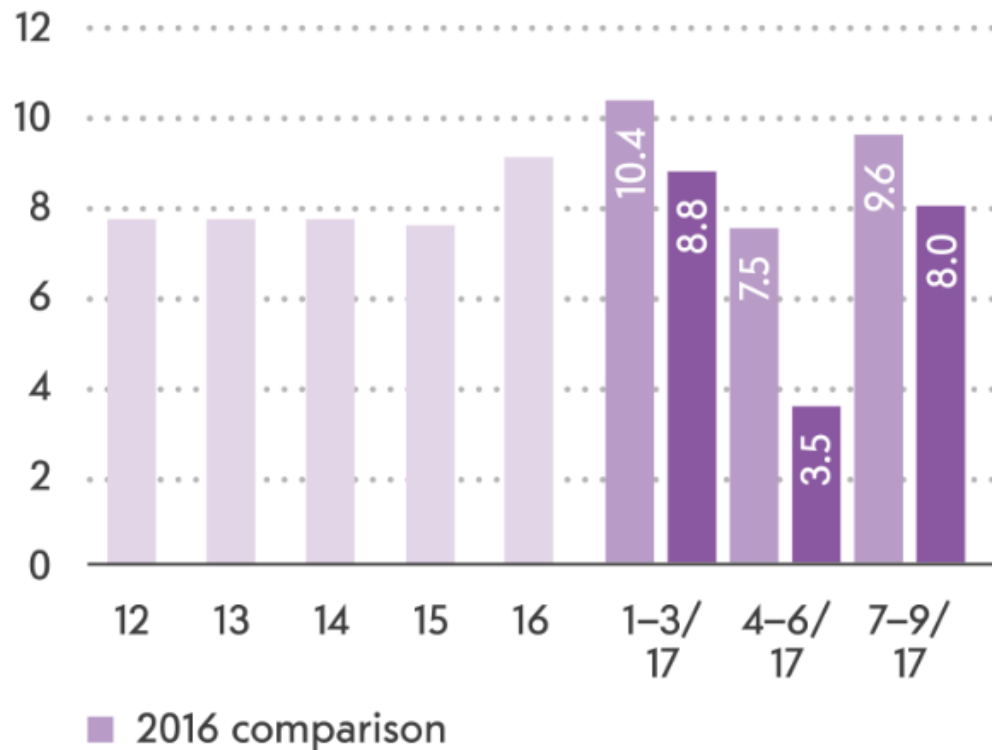


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The key indicator of housing business.

RETURN ON INVESTMENT

RETURN ON INVESTED CAPITAL, %

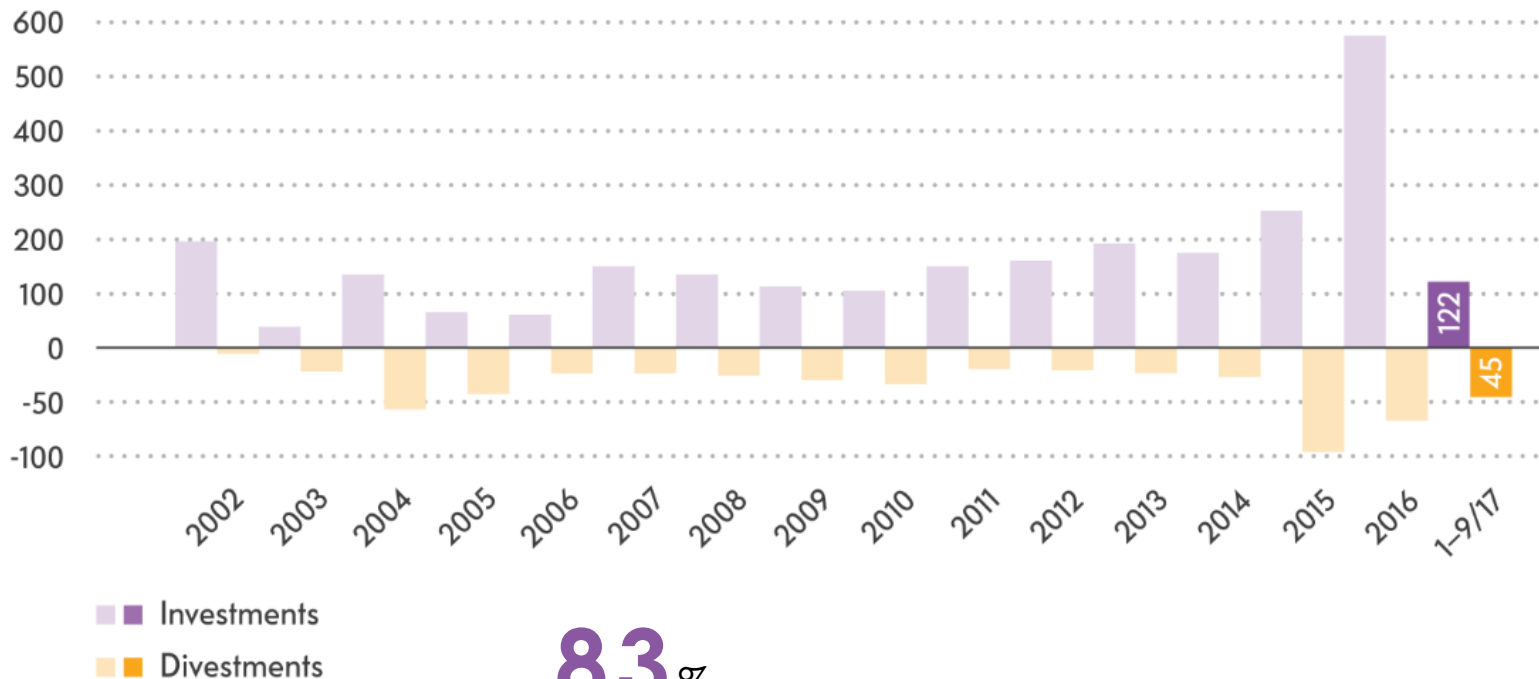


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Investment activities prepare the ground for growth.

INVESTMENTS IN FINLAND

HOUSING INVESTMENTS AND DIVESTMENTS, MEUR



83%

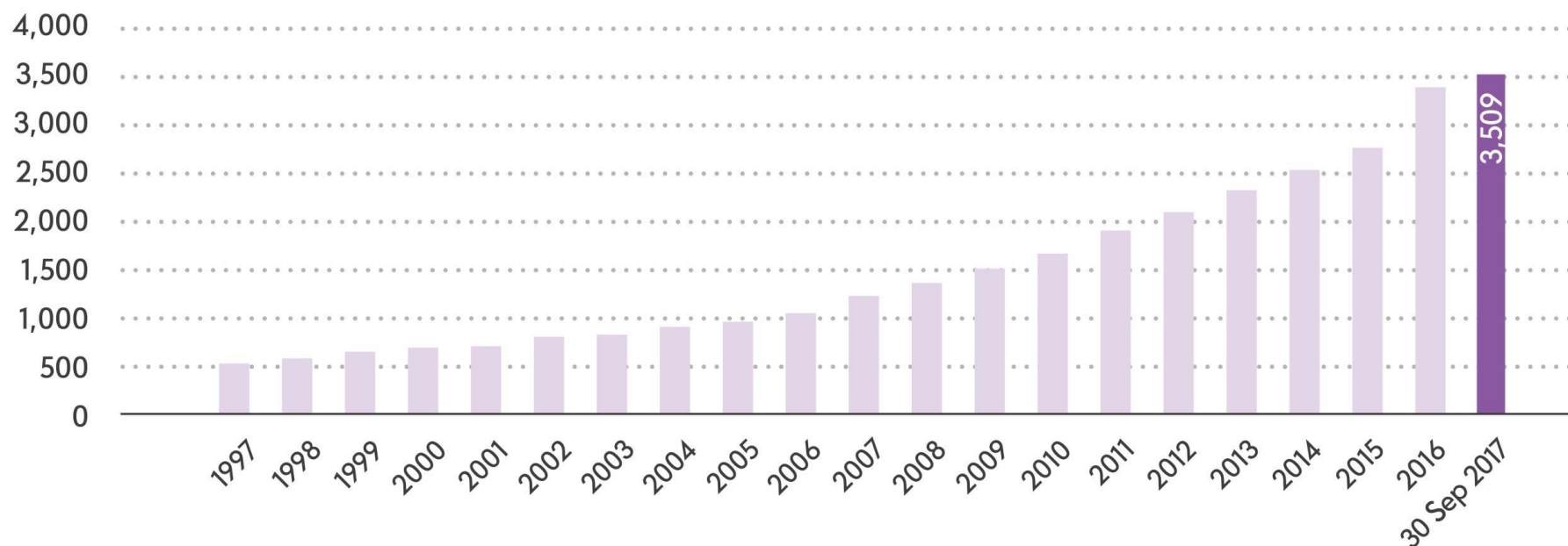
invested in Helsinki metropolitan area

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The development of the value of rental apartments is a key factor for SATO.

HOUSING ASSETS

TREND IN THE HOUSING PORTFOLIO VALUE, MEUR

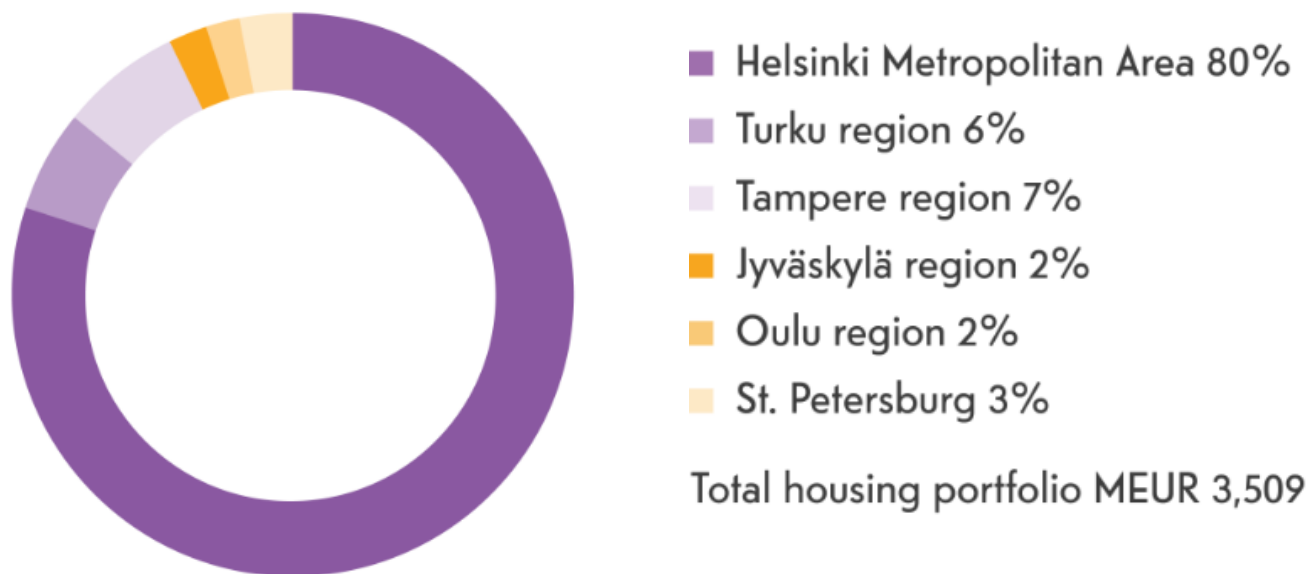


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Apartments in areas with high demand.

HOUSING ASSETS

REGIONAL DISTRIBUTION OF THE HOUSING PORTFOLIO,
30 SEPTEMBER 2017



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Positive development of the occupancy rate boost growth.

RENTAL INCOME

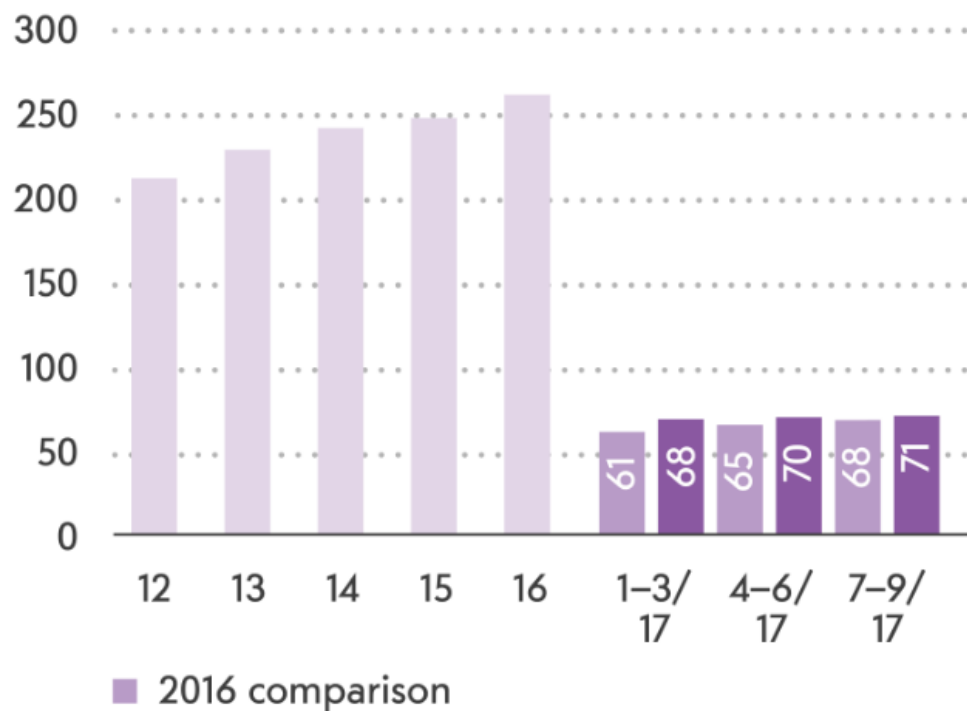
- Following the apartments acquired and the increase in the occupancy rate, rental income increased by 6.9 per cent to EUR 208.2 (194.8) million. The economic occupancy rate of apartments in Finland was 96.6 (95.3) per cent on average, and the rental apartment turnover rate was 28.9 (33.7) per cent.
 - SATO has changed its reporting practices and reports external tenant turnover instead of total tenant turnover. External tenant turnover reflects better the customer loyalty and its impact on SATO's business.
- The average rent of SATO's rental apartments in Finland was EUR 16.65 (16.25) per m² per month at the end of the quarter.
 - The average rent is increased by investments in small apartments in growth centres. Rent increases remained moderate.
- Net rental income from apartments stood at EUR 139.5 (126.1) million, and the net rental income rate was 5.6 (5.8) per cent on an annual level.



Positive development of the occupancy rate boost growth.

RENTAL INCOME

NET SALES, MEUR

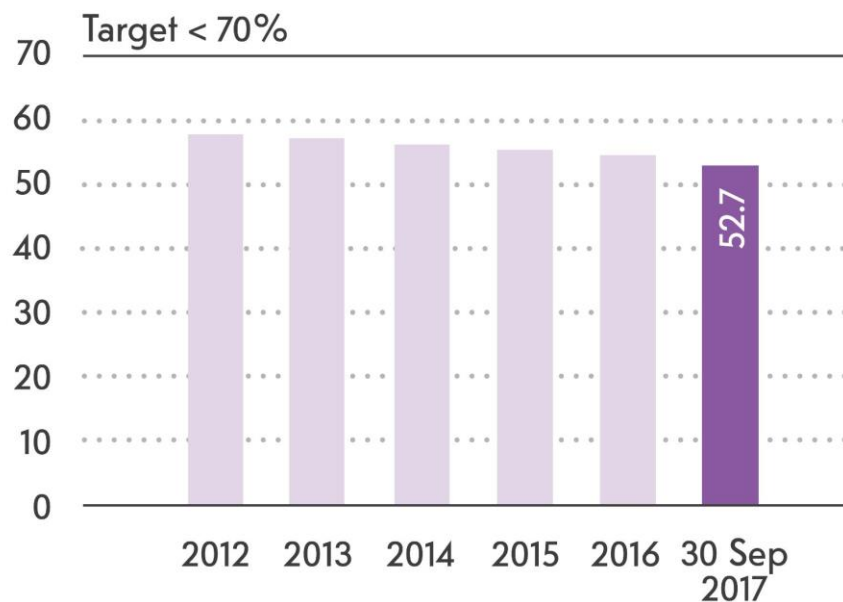


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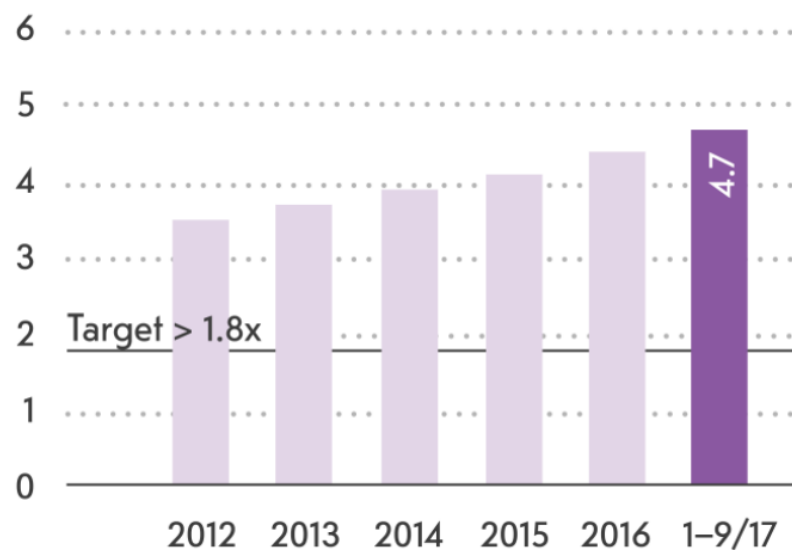
Stronger equity.

FINANCING

SOLVENCY RATIO, %



INTEREST COVERAGE RATIO

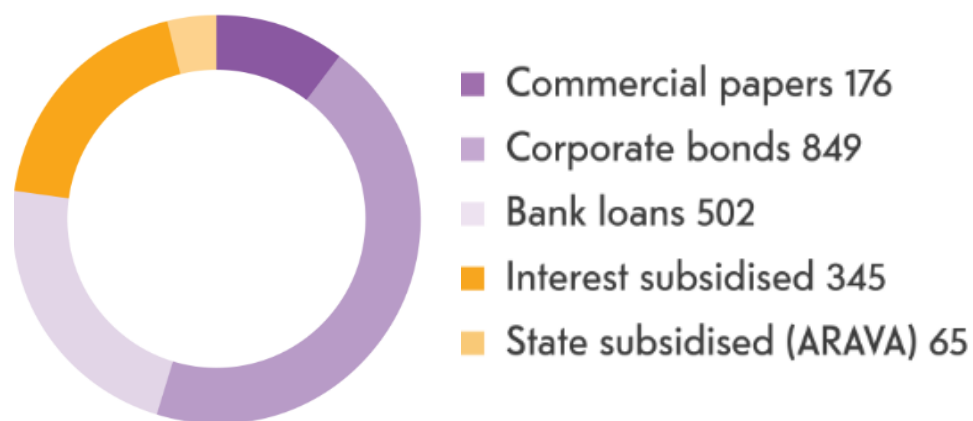


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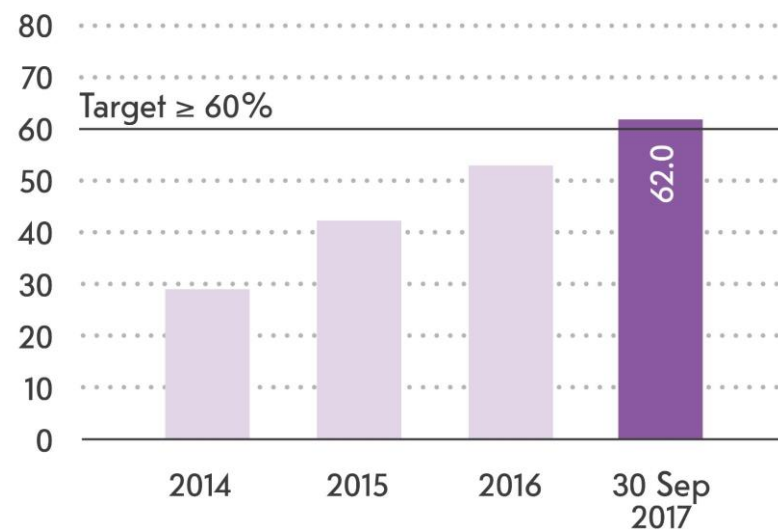
Percentage of the unsecured funding on the rise.

FINANCING

DEBT PORTFOLIO,
NOMINAL VALUES 30 SEP 2017,
TOTAL MEUR 1,937



UNENCUMBERED ASSETS, %



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MAIN SHAREHOLDERS

16TH OCT 2017

• Balder Finska Ota AB (owner: Fastighets Ab Balder, 100%)	30,485,686	53.7 %
• Stichting Depositary APG Strategic Real Estate Pool (owner: Stichting Pensioenfonds ABP, >95 %; manager: APG Asset Management NV)	12,811,647	22.6 %
• Elo Mutual Pension Insurance Company	7,233,081	12.7 %
• The State Pension Fund	2,796,200	4.9 %
• The Finnish Construction Trade Union	619,300	1.1 %
• Valkila Erkka	390,000	0.7 %
• Unemployment Fund of the Construction Sector	330,000	0.6 %
• The Research Foundation of the Pulmonary Diseases	227,000	0.4 %
• Rausanne Oy	194,920	0.3 %
• Entelä Tuula	179,000	0.3 %
• Others (100 shareholders)	1,516,233	2.8 %

On 16 October 2017, SATO had 56,783,067 shares and 110 shareholders registered in the book-entry system. The share turnover rate was 0.13 per cent for the period 1 January – 16 October 2017.



There is constant demand for new housing investments.

OUTLOOK

- In the operating environment, SATO's business activities are mainly affected by consumer confidence, the development of purchasing power, the rent and price development for apartments, general competition and interest rates.
- The Finnish economy is expected to continue its growth, and general confidence is estimated to be higher than on average. Interest rates are expected to remain low in 2017, which will have a positive impact on SATO's financing costs. Longer rates are expected to increase.
- According to the Bank of Finland, steady growth in the global economy and the light financing conditions will support the positive development of the eurozone in the near future, even though these expectations are shadowed by the uncertainties related to Brexit, other political events that may slow down economic growth, and concerns related to the state of the banking sector in certain countries in the eurozone and to the outlook on public economy.
- Continuing urbanisation provides good long-term conditions for continued investments in Finland.
- According to estimates of Pellervo Economic Research PTT, prices and rents will continue to increase, demand for owner occupied apartments will grow higher, and the acceleration of housing sales will alleviate the pressure in the rental market.
- It will take several years to fulfil the estimated lack of 20,000 apartments in the Helsinki metropolitan area and 3,000 apartments in Tampere. There is constant demand for new housing investments.
- The Russian economy is expected to develop slowly.
- SATO's net rental income percentage is expected to remain at the 2016 level.



A woman with long brown hair, wearing a grey knit sweater, is watering a large green plant with a silver watering can. The scene is set against a neutral, light-colored background.

THANK YOU

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LET THE LIFE MOVE YOU

Additional information:

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