REPORT OF THE BOARD OF DIRECTORS 1 JANUARY–31 DECEMBER 2017

Operating environment

During the reporting year, the Finnish economy grew faster than forecasted earlier, driven by the global economy. In 2018, growth is projected to be slightly over three per cent. This growth is based on improving export, increased private consumption and investments. The Finnish competitiveness pact is expected to improve cost competitiveness, but its impact on economic development will take effect with some delay. The public economy is estimated to remain in the deficit.

Regardless of strong economic growth, the labour market has recovered slowly, albeit steadily, as more and more Finnish people have been able to find a job. The improved employment situation, combined with low interest rates and the strong confidence of consumers in their own finances and the Finnish economy, has helped to increase private consumption.

Interest rates have started to go up in the USA where economic growth has increased. Rates are expected to remain low in the eurozone and in Finland as a result of the exceptionally light financial policy of the European Central Bank (ECB). Low interest rates have a positive impact on SATO's results, as they reduce financing costs. However, economic growth and inflation expectations will cause the ECB to apply a stricter financial policy in coming years, and long-term interest rates are expected to start increasing first.

The success of urbanisation is essential for the competitiveness and growth of Finland. The pace of construction was high, also in 2017, continuing at a growth rate of four per cent. Housing construction also proceeded at a record-breaking pace. According to the October 2017 review of the Confederation of Finnish Construction Industries, the construction of approximately 43,000 apartments was started in the year under review. Furthermore, the Confederation of Finnish Construction Industries estimates that the construction of some 40,000 apartments will start in 2018. The pace of construction must remain high in order to balance the supply and demand of apartments in growth centres.

Last year was another active year in the real estate investment market, as interest rates remained low and a plentiful supply of money was in circulation. Residential portfolio transactions declined to a more moderate level from the peak year of 2016. According to KTI Property Information Ltd, trading in rental apartment portfolios was worth close to EUR 1 billion in the review year, and new investors emerged again in the housing investment market. The positive development of apartment prices in SATO's operating areas has increased the fair value of our housing assets.

The growth in the number of small households, urbanisation, the aging population and immigration has strongly increased demand for rental apartments in growth centres, particularly in the Helsinki metropolitan area. In particular, demand for small apartments is showing a steady increase.

According to Statistics Finland, there were 1,131,000 one-person households in 2016 (669,000 in 1991) and 2,012,000 households of one or two persons (1,280,000 in 1991). A quarter of the entire population, and nearly half of the population of the largest cities, live in rental apartments. Of all households living in rental apartments, 86 per cent consist of one or two persons. For example, approximately 80 per cent of all households in Helsinki and in Tampere consist of one or two persons. Approximately 45 per cent of the population of Helsinki live in rental apartments.

The population in the 14 biggest cities will increase by 486,700 people between 2015–2040 according to the conservative scenario of VTT Technical Research Centre of Finland for a population estimate in 2015–2040 and by 642,500 people according to an urbanisation forecast.

The increase of the number of rental apartments has alleviated the pressure to increase rents. However, rents have correspondingly increased as a result of the development of energy and property taxes and water tariffs.

While the apartment range has increased, competition over customers has intensified. We will increase SATO's competitive edge by improving our customer service, building new services that produce value for our customers and developing new housing concepts for urban needs.

The number of rental apartments has slowly increased, and they numbered approximately 850,000 of the 2.6 million permanently occupied apartments. Approximately half of these were owned by private persons. The housing assets of SATO represent roughly three per cent of all rental apartments in Finland and approximately six per cent of all rental apartments in major cities.

The long-term economic uncertainty and low interest rates have made real estate investments increasingly attractive, and during the reporting year the volume of property transactions was at a record high for the second year in succession. In Finland, housing investments, in particular, have increased in popularity, and several new operators specialising in housing investments have entered the market over the past few years. Finnish pension insurance companies have also returned to the market, making direct investments in rental apartments when the use of borrowed capital for rental housing investments was permitted by temporary legislation. The number of foreign investors has also increased.

Strategy

Globalisation, digitalisation and sustainable development are speeding the pace of urbanisation. Megatrends and urban environments also have an impact on people's values and activities. This is why we believe that housing will also need to change. According to our vision, thriving urban environments will be home to people enjoying a high level of wellbeing. Our mission is to revolutionise housing, by providing our customers more than just walls.

Because people's needs are changing, we will create diversified housing concepts for different needs. We will also develop services that provide our customers with benefits and experiences every day and that increase social living and, therefore, comfort. We will grow in the Helsinki metropolitan area, Tampere and Turku, all areas where demand for apartments is the highest and value increase is expected to be stable over the longer term.

The role of financing in creating preconditions for growth 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 strategic period is 12 per cent. In addition, our strategic goal is a constantly improving Net Promoter Score (NPS) among our tenants.

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

In December 2017, the Board of Directors approved the long-term goal of solvency ratio not to exceed 50 per cent. The previous goal was less than 70 per cent.

Net sales, profit and financial position

SATO is engaged in investment activities where profit comes from rental income, sales profits and changes in the fair value of apartments. At the end of the year, capital invested in business operations stood at EUR 3,342.9 (3,195.6) million. When evaluating business profitability, the key indicator is return on investment, which was 7.1 (9.1) per cent.

At the beginning of 2017, SATO changed its reporting practices so that net sales consist only of rental income. During the reporting year, the Group's net sales increased by 6.6 per cent from the reference year of 2016 and totalled EUR 280.1 (262.7) million. Rental income improved as a result of the increased number of apartments, the improved occupancy rate and our focus on apartments in growth centres. Net rental income stood at EUR 188.4 (167.1) million. The development of the apartment portfolio, the improved economic occupancy rate, the moderate development of maintenance fees and the development of rental activities and customer service contributed to the increase in net rental income.

Operating profit, including the change in fair value of EUR 70.6 (124.3) million, decreased by 13.7 per cent to EUR 230.7 (267.2) million. The difference was due to the smaller change in fair value of rental apartments, in comparison with the previous year. Operating profit without the change in fair value improved to EUR 160.1 (143.0) million.

Profit before taxes decreased by 15.7 per cent to EUR 184.9 (219.4) million. The difference was due to the smaller change in fair value of rental apartments, in comparison with the previous year.

Earnings per share were EUR 2.58 (3.22). Cash flow from operations (free cash flow after taxes excluding changes in fair value) amounted to EUR 91.1 (86.2) million. The improved economic occupancy rate and low interest rates helped to improve the cash flow. In 2017, net financing costs totalled EUR 45.8 (47.8) million, comprising 16.3 per cent of the Group's net sales.

The change in the fair value of apartments included in the profit was EUR 70.6 (124.3) million. The smaller change was mainly due to the weakened exchange rate of the Russian rouble and a reduction in the expiry of restrictions applicable to certain sites, in comparison with the previous year.

Further information about the determination of the fair value is presented in note 13 to the consolidated financial statements.

On 31 December 2017, the consolidated balance sheet total stood at EUR 3,694.6 (3,562.2) million. Equity was EUR 1,411.2 (1,252.6) million. Equity per share was EUR 24.92 (22.12).

The Group's equity ratio was 38.2 (35.2) per cent, which exceeds the target level of 35 per cent.

In 2017, return on equity was 11.0 (15.6) per cent.

Financing

The Group and the parent company have enjoyed a solid financial position throughout the financial period. At the end of the year, the Group had EUR 14.2 (18.3) million in cash and cash equivalents.

Interest-bearing liabilities at the end of the financial period totalled EUR 1,931.7 (1,943.0), of which loans subject to market terms accounted for EUR 1,552.1 (1,446.2) million. The loan itemisation is in note 26 of the consolidated financial statements.

EUR 273.5 million in new long-term financing was withdrawn during the review period. The solvency ratio was 52.1 (54.3) per cent at the end of the reporting year. In December 2017, the Board of Directors approved the new long-term target for the solvency ratio. The solvency ratio is not to exceed 50 per cent, while the previous target was to remain below 70 per cent.

SATO's objective is to shift towards an unsecured financing structure and also to ensure as extensive and flexible financing base as possible and to improve the availability of financing to support the growth of the company. During the review period, SATO increased the proportion of unsecured loans to 53.4 per cent of all loans. At the end of the year, the proportion of unencumbered

assets was 66.3 per cent. During the review period, SATO reached agreements on significant and exceptionally long unsecured bank loans. In May, SATO and OP Corporate Bank signed an agreement on bilateral loan of EUR 100 million. In August, SATO and Swedbank AB (publ) signed an agreement on bilateral loan of EUR 100 million. Both of these are seven-year loans, and the cash proceeds will be used for the Group's general financing purposes and to refinance secured loans. These loans are guaranteed by Sato-Asunnot Oy.

To stabilise its financing costs and to improve the availability of financing and length in maturities, SATO has set an improved investment grade rating (currently Moody's Baa3) as its strategic goal. At the end of the reporting year, the average loan interest rate was 2.2 (2.5) per cent. In accordance with the Group's financing policy, the aim is to ensure that at least 60 per cent of all loans are fixed-rate loans. At the end of reporting year, the proportion was 78.2 (82.2) per cent.

In 2017, net financing costs totalled EUR 45.8 (47.8) million. The average maturity of loans with market terms was 4.9 (4.8) years.

During the financial period, the calculated impact of changes in the market value of interest hedges on equity was EUR 12.5 (-3.4) million.

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 36 (21) subsidiaries engaged in business operations.

Housing assets and fair value

On 31 December 2017, SATO owned a total of 25,793 (25,344) apartments. The number of apartments increased by 449 during the year. A total of 167 (2,679) apartments were purchased and 856 (701) new apartments were completed, totalling 1,023 (3,380) apartments. The total number of divested rental apartments and shared ownership homes redeemed by the owner occupants was 486.

At the end of the reporting year, the fair value of apartments was EUR 3,564.8 (3,383.2) million and the change in fair value, including the rental apartments acquired and divested during the year, was EUR 181.6 (630.3) million. In addition to investments and divestments, the change in value was affected by the development of market prices and rental income, as well as the expiry of restrictions applicable to certain sites.

Of the value of apartments, the commuting area of the Helsinki metropolitan area accounted for approximately 80 per cent, Tampere and Turku made up approximately 14 per cent, and Oulu and Jyväskylä approximately 4 per cent. Apartments in St. Petersburg represent approximately 3 per cent of the total value.

Development of housing assets

We will develop our housing assets by building new houses and apartments, and by repairing houses and apartments we own. In addition, we aquire existing houses and apartments, and divest those that are secondary in terms of our strategy.

Our investment activities serve to increase and modernise our apartment range. According to SATO's strategy, our aim is to increase the range of rental apartments in the Helsinki metropolitan area, Tampere and Turku and, therefore, support the urban development that is vital for Finland.

During the reporting year, investments in apartments totalled EUR 156.0 (572.6) million. New apartments accounted for EUR 100.8 (153.5), being roughly 64.6 per cent of all investments. At the end of the financial year, binding purchase agreements in Finland totalled EUR 54.9 (121.2) million.

During the reporting year, a total of 1,023 (3,306) rental apartments were acquired in Finland, of which 856 (627) in new buildings. A total of 1,109 (1,232) apartments were under construction in Finland at the end of the year.

The most significant investment involved the package of 150 apartments in Espoo, Vantaa and Turku acquired from Veritas Pension Insurance Company. These apartments are located in central areas in these cities.

In total, 294 (1,267) rental apartments with a total value of EUR 46.2 (67.7) million were divested in Finland.

In Finland, EUR 44.3 (45.2) million was spent on improving the quality of apartments, i.e. the repair of apartments and the modernisation of properties.

Property development

We create ground for continuous investments by city planning development projects. Having our own plot reserves gives us a competitive edge and helps us to respond to future apartment demand in the best possible way.

The carrying amount of plots owned by SATO was EUR 54.0 (62.0) million at the end of the reporting year. No new plots were acquired in 2017. The carrying amount of the plot reserves divested during the year or used for producing apartments was EUR 9.0 (22.4) million.

We initiated complementary city planning projects, totalling nearly 70,000 m^2 for roughly 1,100 new apartments. One of the most interesting complementary city planning projects was launched in Oulunkylä, Helsinki. A design competition was held for the development of the area with the aim of making the area more densified and lively by means of demolition and rebuilding. Other city plan development projects were in progress, for example, in Patola and Myllypuro in Helsinki, Hakunila and Myyrmäki in Vantaa, and Niittykumpu, Finnoo and Soukka in Espoo. In Turku and Tampere, we are negotiating with the cities over complementary city planning projects to be launched during 2018.

A design from SATO, Skanska and ALA Architects was selected for the second round of the Helsinki High-Rise architectural competition in autumn 2017. The aim of the competition, which emphasises quality, is to find a designer and developer for a high-rise area in central Pasila. For SATO, the competition is an opportunity to create a vibrant urban environment for one of the most significant unbuilt areas in Helsinki.

Of the ongoing city plan development projects, approximately 200,000 m^2 of permitted building rights are planned for complementary construction on the company's own plots or plots under preliminary acquisition agreements, for approximately 3,400 apartments. City plans were completed for complementary construction on the company's own plots, totalling approximately 13,000 m^2 of permitted building rights. Complementary construction serves to produce various benefits for people already living in the area, future residents, service providers and society. The permanence of services improves, and municipalities do not need to invest in public utility services, and furthermore the image of the area is enhanced.

During the financial year, a total of 856 (627) rental apartments and 57 (38) apartments for sale were completed for the Group in Finland. At the end of the year, 1 (27) completed apartment remained unsold at a total purchase value of EUR 0.7 (16.1) million. There were 0 (0) apartments for sale under construction.

Customers and housing business operations

At the end of the reporting year, SATO had 47,440 customers living in 25,793 SATO homes. The housing needs of our customers are becoming more diverse and their expectations of housing-related services are increasing. We develop our operations and apartment range to respond to the expectations of our customers and, therefore, improve the customer experience. We measure the customer experience using the NPS, and our objective is to continuously increase this value.

During the reporting year, we invested in customer service during the home-seeking phase, by launching an online FindHome service. In addition, we continued to improve the efficiency of our rental service processes in order to more quickly find a suitable apartment for customers needing a new home.

We developed our housing services during the strategic Customer First programme. We created a new customer service model during the development programme to ensure an unbroken service chain for our customers in accordance with the one contact principle. At the same time, we insourced real estate management, and established SATO's own service manager organisation to cover designated buildings and service the needs of their customers. As a part of the bidding process held for maintenance work at the end of the year, we also ensured that our key partners serve our customers by following the Customer First principles.

The significant development of customer service was reflected in SATO's economic occupancy rate which was 96.8 (95.6) per cent on average in Finland during the review year. The occupancy rate improved during every quarter, rising from 96.1 per cent in the first quarter to 97.5 per cent in the last quarter. The external tenant turnover rate was 28.9 (32.7) per cent on average. Internal tenant turnover remained at previous year´s level of 7.9 per cent. The occupancy rate increased and the external tenant turnover rate decreased as a result of Customer First programme, in particular through the improved customer service and smoother services for customers in need to change an apartmen

The average rent of SATO's apartments in Finland was EUR 16.69 (16.47) per m^2 per month at the end of the year. The rate of net rental income from apartments was 5.6 (5.7) per cent, being at the same level as in 2016 and being in line with our guidance.

Business operations in St. Petersburg

The housing market in St. Petersburg equals the Finnish housing market in size. SATO has operated in St. Petersburg since 2007. The share of investments in Russia is limited to a maximum of 10 per cent of the Group's housing assets.

SATO's buildings are located close to the centre of St. Petersburg and constructed in the 21st century. At the end of the reporting year, the fair value of housing assets in St. Petersburg totalled EUR 118.9 (128.6) million, being 3.3 per cent of all housing assets held by SATO. The change in value was EUR -9.7 (19.8) million, resulting from changes in the exchange rate. SATO does not have binding purchase agreements in St. Petersburg. There were a total of 534 (534) completed apartments and zero apartments under construction in St. Petersburg at the end of the year. For the time being, SATO will refrain from making new investment decisions in Russia.

During the reporting year, the average occupancy rate of our apartments in St. Petersburg increased to 89.6 (82.2) per cent. The increase in the occupancy rate was attributable to the more efficient rental process and the positive development of the infrastructure around SATO's apartments.

The estimated inflation rate in Russia was approximately 4.0 (5.8) per cent. SATO's rouble-denominated rents changed by 1.2 (-0.7) per cent. As a result of the decreased value of the rouble, euro-denominated rents decreased, being EUR 14.86 (15.33) per m^2 per month at the end of the year.

Corporate responsibility

We consider responsibility to be a precondition for business operations, and we have continuously updated and revised the guidelines and principles applied to our activities.

Corporate Governance Statement is being published separately from the annual report of the Board of Directors. SATO's Code of Conduct, Corporate Governance Statement and Sustainability policy are available at sato.fi.

To further develop our operations, SATO participates in national and international sustainability comparisons. In 2017, we took part in the development of an environmental responsibility reporting recommendation for Finnish real estate investors in cooperation with KTI Property Information and the Finnish Association of Building Owners and Construction Clients (RAKLI). The recommendation was piloted with ten pioneering companies. We also took part in KTI's annual study on sustainable real estate business operations and sustainability barometer.

In the review period, we participated in the international Global Real Estate Sustainability Benchmark comparison for the third time and achieved three stars, or the Green Star level. SATO received special recognition for the comprehensiveness of our energy monitoring, and the setting and monitoring of objectives.

On 1 January 2017, SATO introduced a new Code of Conduct, including revised guidance on reasonable hospitability, and decided to adopt a Whistleblowing policy to stakeholders and personnel for reporting any misuse.

Environmental impact

By curbing energy consumption, we can have a significant impact on the prevention of environmental impact caused by housing. In 2016, SATO signed the energy efficiency agreement in the real estate industry for 2017–2025. SATO has also been party to preceding energy saving agreements of rental apartment associations, starting from the very first agreement signed in 2002. In addition, SATO is a committed climate partner of the City of Helsinki.

Through our environmental programme, we are committed to the objectives of the new energy efficiency agreement for the real estate sector to reduce the total consumption of electricity and heat by 10.5 per cent between 2014 and 2025.

During the reporting year, the rated (i.e. adjusted by weather) consumption of heating energy increased by 0.7 per cent and that of electricity by 1.3 per cent from the 2016 level. The rated consumption of water increased by 0.5 per cent.

Legislation concerning the energy efficiency of residential buildings sets a near zero energy requirement for new buildings, corresponding to energy efficiency figure 128. Through its financing agreement with the European Investment Bank, SATO is committed to building markedly more energy-efficient buildings, with our energy efficiency figure target being 116 for new buildings. There are already nearly 20 sites completed or under construction on the basis of this at a total investment value of more than EUR 200 million.

During the reporting year, rated emissions from SATO's apartments fell by 2.0 per cent to 32.6 (33.3) carbon dioxide equivalent kilograms per square metre. Emissions are calculated according to the absolute consumption of district heating. The goal is to achieve a 20 per cent reduction in greenhouse gas emissions by 2020 when compared to the 2013 level.

The Group's environmental programme is available at sato.fi/ymparisto-ohjelma.

Development activities

Development activities were focused on strategy development, the development of customer service, digital services and IT systems and the planning of new concepts. A total of EUR 1.9 (0.9) million was spent on development, comprising 0.7 per cent of net sales.

During the reporting year, we worked on three strategic development programmes to strengthen our customer satisfaction and permanence. In the Customer First development programme, we changed our entire customer service model to ensure that our customers are served with the one contact principle. We re-integrated building management into our service range and established a service manager organisation, within which service managers have thorough knowledge of their buildings and customers.

The FindHome service, the first phase of the digital MySATO development programme, ensured that finding a new home is an easy experience for customers. The programme continued in the autumn through the development of digital housing services.

Our third programme, diverse housing solutions, was implemented during the reporting year through various complementary planning projects, like StudioHome pilot project, for example, where the aim is to promote social living and to deliver more reasonable living costs. More than 700 customers applied for StudioHome apartments, of whom 70 moved in to the building at the beginning of December 2017. SATO's community manager moved in to one of the 68 StudioHome apartments to create opportunities for social living. The StudioHome building is home to people between 19–69 of age and seven different nationalities, ranging from students to pensioners and from workers to managers.

In total, our strategic development programmes created the need for around 40 new SATO employees in different positions, all with one aim: to serve our customers.

Events after the review period

After the review period SATO has sold all the shares in SATO HotelHome Ltd to Majoituspalvelu Forenom Oy. The parties closed the transaction on 1 February 2018. Following the transaction, SATO will focus on developing its rental housing offering as well as diversify its housing solutions and new housing services for consumers in growing cities.

Risk management

SATO's risk management is based on systematic risk assessments included in the strategy and annual planning process. When required, risk management measures will be initiated for preventing the materialisation of risks or for enhancing the monitoring of a certain area. Internal audits are targeted in line with the risk assessments made in the strategy and annual planning process.

The change in the value of SATO's apartments is presented in the income statement. Consequently, the development of apartment price levels – as well as currency fluctuations regarding the assets in St. Petersburg – may cause fluctuations in profit.

The most significant risks in the sale and rental of apartments are related to economic cycles and fluctuations in demand.

The positive development of the value of housing assets and the rental capacity of apartments are secured by focusing on growth centres. The quality of the Group's housing assets is developed by engaging in systematic repair activities. Changes in the energy efficiency and environmental requirements may increase the repair costs of SATO's investment apartments.

In Russia, SATO operates in St. Petersburg only. The St. Petersburg operations carry both a risk related to the operating environment and a currency risk. The known currency-denominated instalments related to the procurement of sites are hedged in compliance with the Group's financial policy. The proportion of investments made in St. Petersburg is limited to a maximum of 10 per cent of the Group's entire housing assets. Currently approximately three per cent of SATO's housing assets are located in St. Petersburg. For the time being, SATO will refrain from making new investment decisions in Russia.

In order to secure the continuity of services purchased from partners, procurement activities are distributed between several service producers.

In accordance with the Group's financing policy, the aim is to ensure that at least 60 per cent of all loans are fixed-rate loans. The Group has set an equity ratio target of at least 35 per cent.

The Group's asset, interruption and liability risks are covered by appropriate insurance policies.

Further information about risk management is available at www.sato.fi/riskienhallinta.

Pending legal actions

SATO has no official procedures, legal actions or arbitration proceedings pending that would have 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 2017, the share capital of SATO Corporation was EUR 4,442,192.00 and there were 56,783,067 shares. The company has one series of shares. The shares are included in the book-entry securities system maintained by Euroclear Finland Oy.

SATO Corporation holds 160,000 treasury shares. This is equivalent to 0.3 per cent of all shares.

On 31 December 2017, the Board members or the CEO of SATO Corporation did not hold any shares in the company.

Personnel

At the end of 2017, the Group had 212 (175) employees. There were 201 (160) permanent employees and 11 (15) employees with a fixed-term employment contract. During the year, the Group had an average of 206 (170) employees. Employee satisfaction increased during the reporting year, and the PeoplePower rating increased from A+ to AA.

The Shareholders' Nomination Committee

The Shareholders' Nomination Committee consists of representatives of SATO's four largest shareholders registered in the book-entry system October 1. If a shareholder chooses not to exercise their 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 passed on 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 AGM held on 8 March 2017 confirmed that the Board of Directors consists of seven members.

In 2017, members of SATO's Board of Directors were chairman Erik Selin, deputy chairman Jukka Hienonen and ordinary members Marcus Hansson, Esa Lager, Tarja Pääkkönen and Timo Stenius. Johannus (Hans) Spikker was elected as a new member.

The Board of Directors convened eight times in 2017. The Board's work is supported by two committees appointed from among the Board members: the Nomination and Remuneration Committee and the Audit Committee.

Saku Sipola (M.Sc. Eng.) has acted as the CEO. The CEO has no deputy.

KPMG Oy Ab, authorised public accountants, has been the company's auditor, with Lasse Holopainen, authorised public accountant, acting as the auditor in charge.

Members of the management team

On 31 December 2017, 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 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 solid growth path, and general confidence is estimated to be higher than on average. Interest rates are expected to remain low in 2018, which will have a positive impact on SATO's financing costs.

Increases in urbanisation and immigration provide good long-term conditions for continued investments in Finland. Net immigration is expected to be the highest form of population increase in SATO's operating areas. The volume of housing construction should remain at a level that in the long term balances the ratio between supply and demand. This requires sufficient plot reserves and the dissolution of regulation on construction, as well as an operating environment that offers encouragement to invest in rental apartments.

SATO's net rental income rate is expected to remain at the 2017 level. Rent increases are expected to be moderate.

Some 80 per cent of SATO's housing assets are located in the Helsinki metropolitan area, where price development is expected to be more positive than in the rest of Finland.

The Russian economy is expected to develop slowly.

Proposal of the Board of Directors for the distribution of profit

On 31 December 2017, the parent company's distributable equity was EUR 302,355,911.14, of which profit for the period was EUR 62,526,766.65. The company had 56,623,067 outstanding shares entitling to dividends for year 2017.

According to our dividend policy, annual dividends paid will account for 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 2017 financial period (EUR 0.00 per share for 2016), and that EUR 34,215,233.15 be transferred to earnings.

No material changes have taken place in the company's financial position after the end of the financial period.

SIGNATURES TO THE REPORT OF THE BOARD OF DIRECTORS AND THE FINANCIAL STATEMENTS

Helsinki, 7 February 2018

Erik Selin

Jukka Hienonen

Esa Lager

Markus Hansson

Tarja Pääkkönen

Timo Stenius

Johannus Spikker

Saku Sipola
CEO

AUDITOR'S NOTE

An auditors' report has today been issued for the audit carried out.

Helsinki, 7 February 2018

KPMG OY AB
Lasse Holopainen, KHT