AUDITOR'S REPORT

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

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 2016. The financial statements comprise the consolidated balance sheet, 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 performance and financial position 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.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 property
(Refer to notes 1 and 13 to the consolidated financial statements)

Why

— SATO applies fair value accounting (IAS 40). Investment properties measured at fair value (EUR 3,383.2 million) comprise 95.0 per cent of the consolidated total in the statement of financial position as at 31 December 2016. The resulting change in fair values has a significant impact on the consolidated equity and profit for the year.

— The fair value of an investment property is, depending on the impact of the restriction in use and transfer of title, based on sales comparison method, income method or the acquisition value. When applying the sales comparison method, market value is determined based on the 24-month average of the selling prices for comparable apartments. Income method value is determined by discounting the net rental income from the property with the yield specific for the property. SATO uses an external property valuer, who quarterly provides a report on the fair value calculation prepared by the company.

— Due to management judgments involved about the estimates used in determining fair values and the significant carrying amounts involved valuation of investment properties is considered a key audit matter for the Group. The determination of key parameters requires management judgements about yields and vacancy, among others.

How the matter was addressed in the audit

— We evaluated the assumptions requiring management judgements used in the fair value calculations. We also assessed the reasons for the material changes in the fair values. Furthermore, we tested the controls designed to ensure the correctness of the basic data used in fair value calculations.

— We tested a sample of the fair value calculations and compared the assumptions used to market and industry-specific information.

— We interviewed an external valuer (Authorised Property Valuer) used by SATO to evaluate the appropriateness of the valuation methods applied by SATO.

Net sales: recognition of rental income
(Refer to note 1 to the consolidated financial statements)

Why

— Rental income comprises a significant part of the consolidated net sales and cash flows. Rental income from investment properties is recognised in equal instalments over the lease term.

— Net sales consist of a significant number of invoicing transactions. The industry is marked by a large number of lease agreements effective until further notice.

How the matter was addressed in the audit

— We assessed the internal controls over rental income and tested the effectiveness of the key controls over the accuracy of the invoicing process.

— Our audit focused on testing the key controls to assess the completeness, accuracy and existence of consolidated net sales.

Acquisitions and disposals of investment property (Refer to notes 1, 4 and 13 to the consolidated financial statements)

Why

— SATO acquires and disposes of apartments and investment property portfolios annually. The acquisitions of investment properties in 2016 amounted to EUR 557.7 million and proceeds from disposal of investment properties EUR 67.3 million.

— The sale and purchase agreements for property acquisitions and disposals may have complexity such as deferred consideration arrangements and include other rights and obligations. These circumstances may require management judgement when assessing the appropriate accounting treatment in relation to the relevant accounting standards applied.

How the matter was addressed in the audit

— We assessed the internal controls of the Group and tested the controls over the approval and authorisation processes to acquire and dispose of investment properties.

— We considered the sale and purchase agreements for property acquisitions and disposals and other documentation on the transactions. We assessed the definition, classification and recognition of the transactions in relation to the relevant accounting standards and the accounting principles for the consolidated financial statements applied.

— Furthermore, we assessed the appropriateness of the disclosures on the transactions presented in the consolidated financial statements.

Accounting for borrowings and derivative instruments (Refer to notes 17, 26, 27, 28 and 31 to the consolidated financial statements)

Why

— The interest-bearing liabilities amount to EUR 1,943.0 million which account for 54.5 per cent of the consolidated total in the statement of financial position as at 31 December 2016.

— The Group has derivative instruments that are accounted for at fair value. The nominal value of the derivatives is EUR 767.3 million as at 31 December 2016. SATO uses both interest rate and currency derivatives to hedge its interest rate and currency risk exposures. The Group applies hedge accounting to a part of its derivative instruments.

How the matter was addressed in the audit

— We considered the Group's financing policy, the finance function and the developments in the loan portfolio and finance expenses during the year.

— We assessed the functionality of the key internal controls over the finance functions in relation to the financing policy approved by the parent company's Board of Directors.

— We considered the financing agreements of the Group and other related documentation. We also assessed the definition, classification and recognition of the transactions, in relation to the relevant accounting standards and the accounting principles for the consolidated financial statements applied.

— Furthermore, we assessed the appropriateness of the disclosures provided on the financing arrangements and financial instruments in the consolidated financial statements.

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 a 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 the 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 judgement 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

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We 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 report of the Board of Directors, 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.

Other Opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet (and the distribution of other unrestricted equity) is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 1 February 2017

KPMG OY AB

LASSE HOLOPAINEN
Authorised Public Accountant, KHT