

INTERIM REPORT JAN-MAR 2022

Presentation material 12th April 2022 | Antti Aarnio, President and CEO

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- SATO in brief
- Operating environment
- Interim report January-March 2022

SATO IN BRIEF

- Number of SATO homes **26,800**
- Number of personnel **322**
- Fair value of investment properties EUR **5.1** billion
- Operating area
 - **Helsinki MA**, Tampere, Turku, Jyväskylä, Oulu in Finland
 - St. Petersburg in Russia

On 22 April 2022, SATO Group companies signed an agreement on the divestment of 2,009 rental homes to Swedish real estate investor Heimstaden. Transaction was closed 25 April 2022. The properties sold in this transaction are located in Hämeenlinna, Jyväskylä, Lahti, Oulu, Vihti and Ylöjärvi.

SATO'S STRATEGY

MEGATRENDS: POPULATION SHIFT, CLIMATE CHANGE, DIGITALISATION, SUSTAINABILITY



VALUES: HUMAN TO HUMAN | BE BOLD, AIM HIGH | JOY OF SUCCEEDING TOGETHER

OPERATING ENVIRONMENT

Over the reporting period, SATO's operating environment was affected by the war in Ukraine, accelerating inflation and the continued high level of rental housing supply, particularly in the Helsinki Metropolitan Area.

The first months of the year saw rapid economic growth as COVID-19 restrictions were lifted. Russia's attack on Ukraine in late February transformed the economic outlook. The biggest impacts are related to the surge in energy and materials prices and challenges in supply chains, which were already visible in the end of the year 2021. According to a Bank of Finland analysis of 11 March 2022, the war in Ukraine is increasing uncertainty over the outlook for Finland's economy and will slow economic growth. The analysis projects that Finland's economic growth will slow to 0.5%–2% in the current year. The uncertainty has resulted in a major decline in consumer confidence. According to the consumer confidence indicator published by Statistics Finland on 28 March 2022, consumers' expectations concerning their own finances and especially the Finnish economy were very pessimistic.

Inflation has continued to accelerate in early 2022. According to preliminary Eurostat data published on 1 April 2022, inflation in March was expected to be 7.5% in the euro area and 5.6% in Finland. The main component pushing prices up has been the surge in energy prices, which has accelerated after Russia's attack on Ukraine. The accelerating inflation has raised the overall interest rate level, and central banks have tightened their monetary policy to curb price increases. The US Federal Reserve approved its first interest rate hike in March, and the European Central Bank (ECB) announced it would scale down its securities purchase programme. Contrary to previous forecasts, inflation is anticipated to remain at a high level during 2022.

The continued high level of housing supply particularly in the Helsinki Metropolitan Area has maintained intense competition for good tenants between rental housing providers, which was reflected over the reporting period in SATO's business as a decline in the economic occupancy rate and in a slight decrease in average rents year on year. However, with COVID-19 restrictions lifted and service-sector employment improving, demand for centrally located homes started to grow towards the end of the reporting period. There are slight signs of slowing in the record-high rate of construction that has been seen for a long period of time. According to Statistics Finland, the number of building permits issued in November–January decreased by 15% year on year.

Despite the economic uncertainty, there is demand for rental homes and the urbanisation trend continues. Dense urban housing with good access to public transport is becoming increasingly popular in Finland. The Helsinki Metropolitan Area (HMA), Tampere and Turku continue to enjoy strong growth, while at the same time Statistics Finland forecasts a downturn in the nationwide population trend in 2031. The HMA is projected to grow by more than 200,000 new residents by 2040. Almost 80% of HMA residents already live in households with one to two members, and the proportion of small households continues to grow. The proportion of immigrants is projected to increase in the HMA from the current 17% to 25% by 2030. The ageing population is moving to growth centres providing access to services and expects more and more housing-related services.

The demographic change and the price development of owner-occupied homes create a stable foundation for demand for rental housing, especially in the HMA, Tampere and Turku. Outside growth centres, the real prices of homes are declining, which makes home ownership in a growth centre even more challenging for people coming from those areas.



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INTERIM REPORT JAN-MAR 2022

**SATO's result remained on stable level
in challenging market environment**

HIGHLIGHTS

Antti Aarnio

- During the reporting period, SATO's occupancy rate was 94.6% (94.8). In the Helsinki Metropolitan Area in particular, the continued high level of housing supply has sustained intense competition between rental housing providers. SATO is investing strongly in its presence at SATO-owned properties and in developing personal service for customers.
- There are slight signs of the record-high rate of construction slowing. According to Statistics Finland, the number of building permits issued in November–January decreased by 15% year on year.
- The war in Ukraine has increased uncertainty relating to the development of the economy. The impacts of the war are reflected particularly in the surge in energy and materials prices and in the accelerating inflation.
- SATO's House Expert model is now fully deployed in the Helsinki Metropolitan Area, Tampere and Turku. With the House Expert model, SATO aims to improve the customer service in the daily lives of its residents.
- In February the renovation of an apartment building started in Castréninkatu, Kallio, Helsinki, which is estimated to take around 18 months. SATO repairs its properties in accordance with the lifecycle principle and, when renovating properties, energy efficiency is also improved. The aim is to improve energy efficiency by around 30% compared to the pre-renovation level.
- Events after the review period: SATO sold 2 009 rental apartments mainly in Lahti, Jyväskylä and Oulu region to Heimstaden. The divestment implements the SATO strategy to focus housing investments on the Helsinki Metropolitan area and its commuter area along the main railway line as well as on Tampere and Turku and their surrounding municipalities.
- I would like to thank SATO employees for their great work to ensure customer satisfaction and the comfort of our residents.

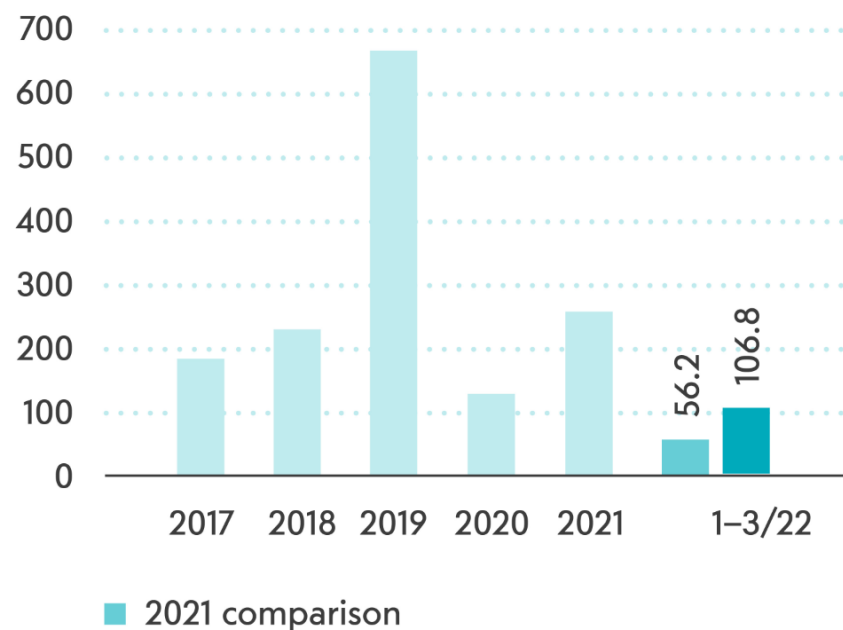
REVIEW PERIOD JAN-MAR 2022 (JAN-MAR 2021)

- The economic occupancy rate in Finland was 94.6% (94.8).
- Net sales totalled EUR 74.7 million (74.0).
- Net rental income was EUR 44.4 million (44.9).
- Profit before taxes was EUR 106.8 million (56.2).
- The change in the fair value of investment properties included in the result was EUR 82.6 million (31.6).
- Housing investments amounted to EUR 23.7 million (16.9).
- Invested capital at the end of the review period was EUR 4,593.7 million (4,379.8).
- Return on invested capital was EUR 10.4% (6.1).
- Equity was EUR 2,417.1 million (2,179.0), or EUR 42.70 per share (38.49).
- Earnings per share were EUR 1.50 (0.79).
- A total of 0 (0) rental apartments were acquired or completed.
- A total of 1,100 new rental apartments (561), 0 owner-occupied apartments (71) and 52 FlexHomes (0) are under construction.

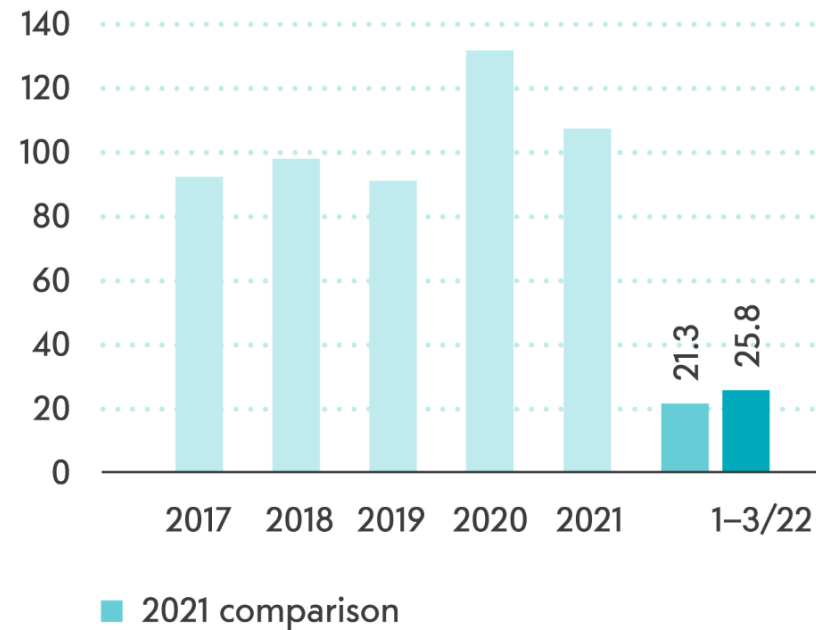
PROFIT AND CASH EARNINGS

Stable cash earnings

PROFIT BEFORE TAXES, MEUR



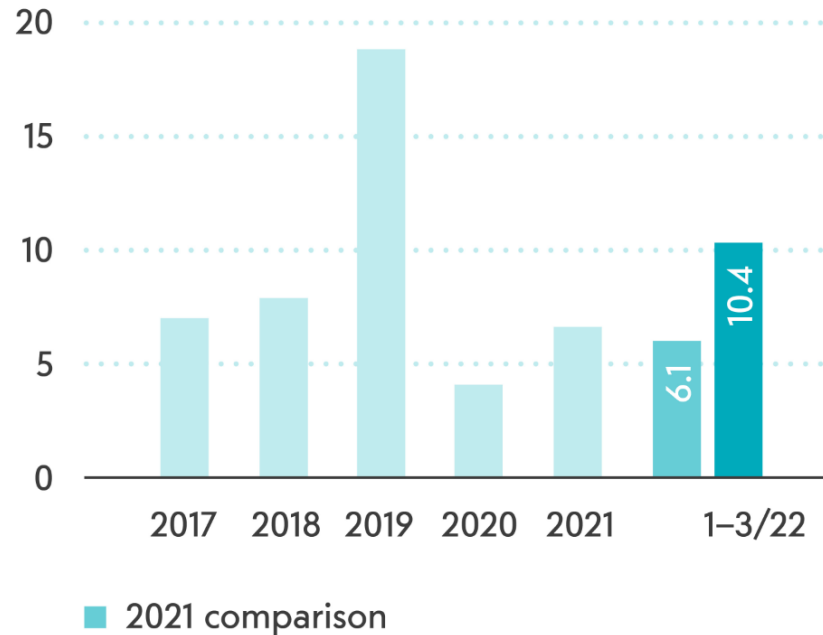
CASH EARNINGS (CE), MEUR



RETURN ON INVESTMENT

The key indicator of housing business

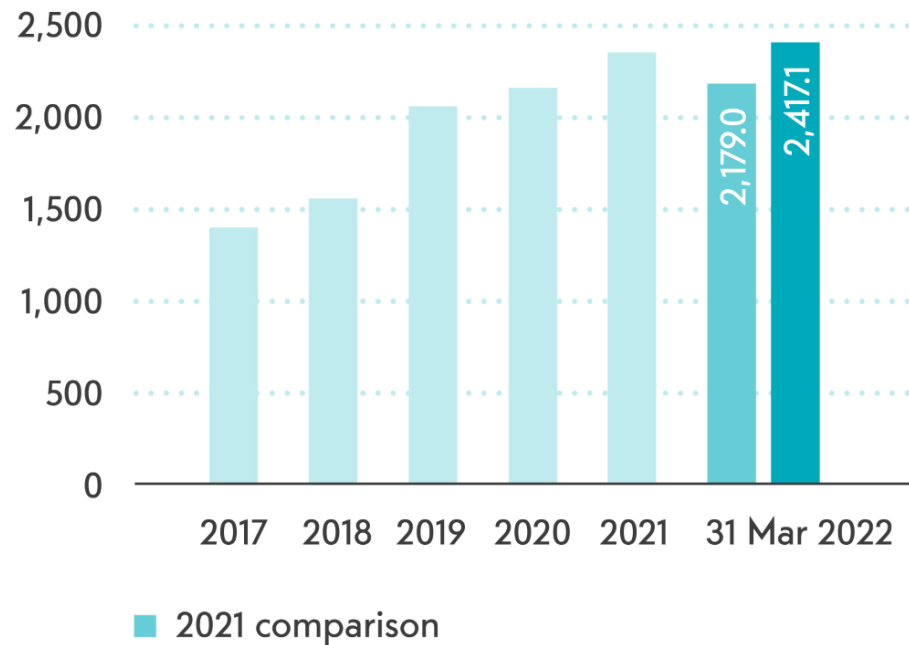
RETURN ON INVESTED CAPITAL, %



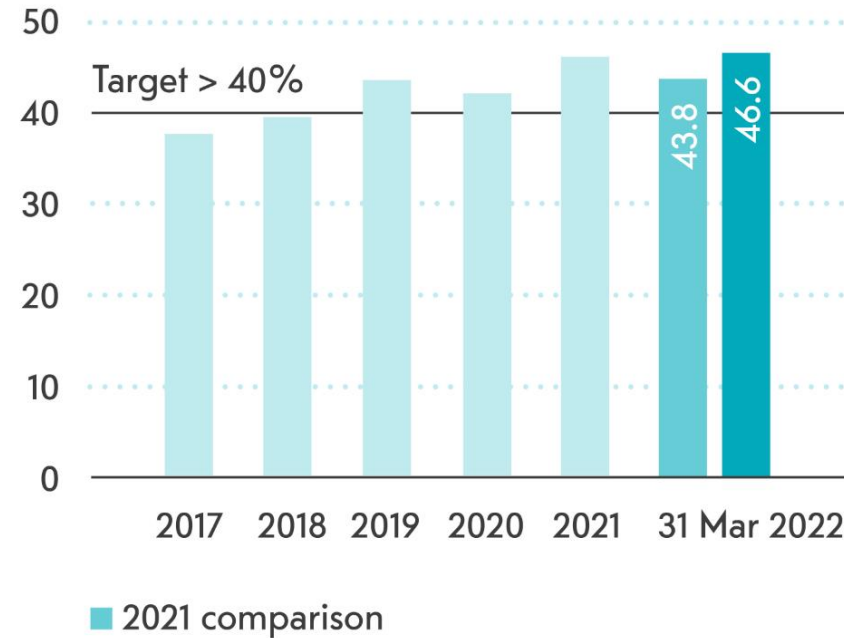
EQUITY

Strong equity ratio enables growth

SHAREHOLDERS' EQUITY, MEUR



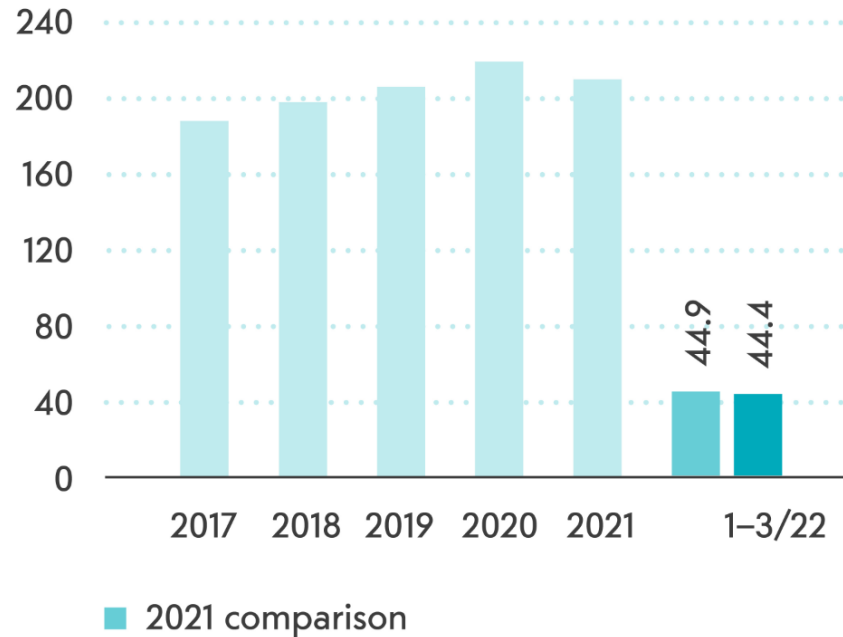
EQUITY RATIO, %



RENTAL INCOME

Impacted by the high level of housing supply in Helsinki MA

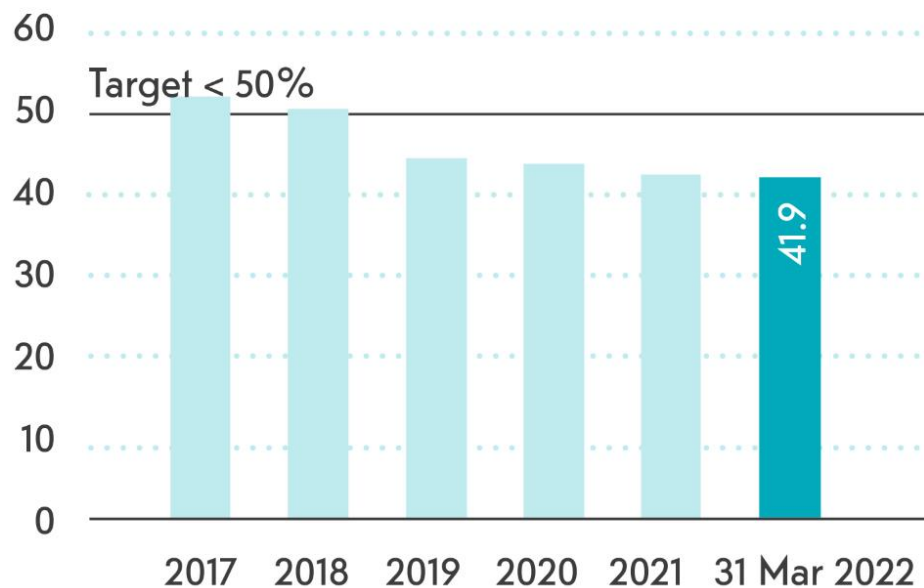
NET RENTAL INCOME, MEUR



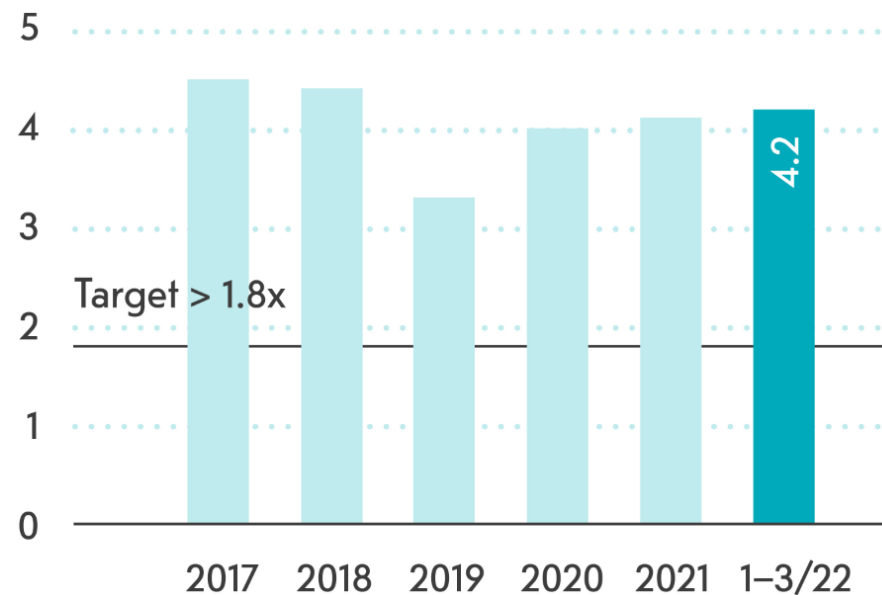
FINANCING

Strong financial position

SOLVENCY RATIO, %



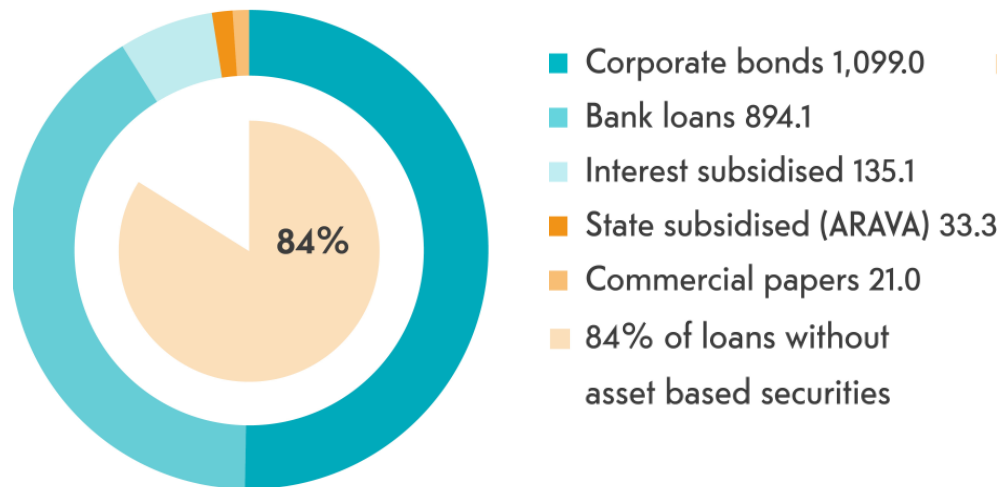
INTEREST COVERAGE RATIO



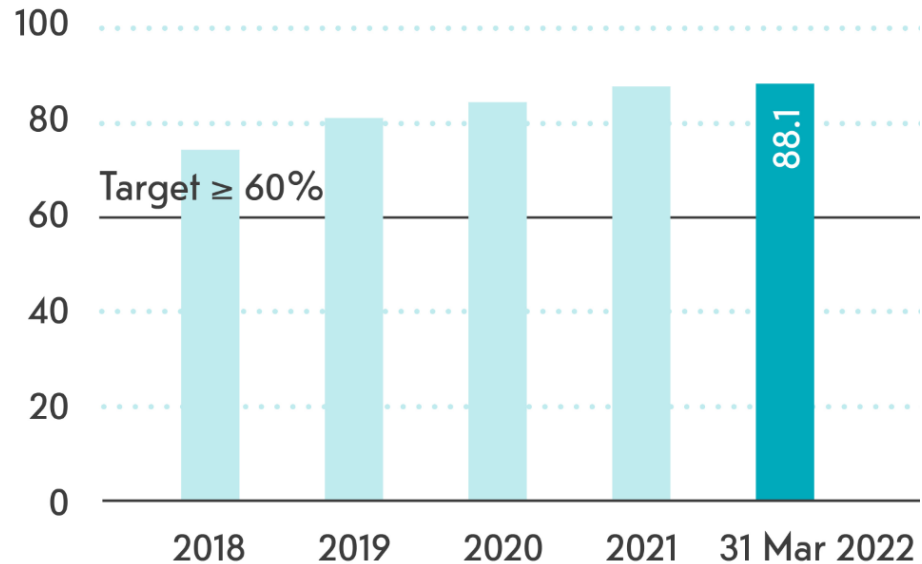
FINANCING

Interest bearing debt MEUR 2,182.5

DEBT PORTFOLIO, nominal values 31st March 2022,
TOTAL MEUR 2,182.5



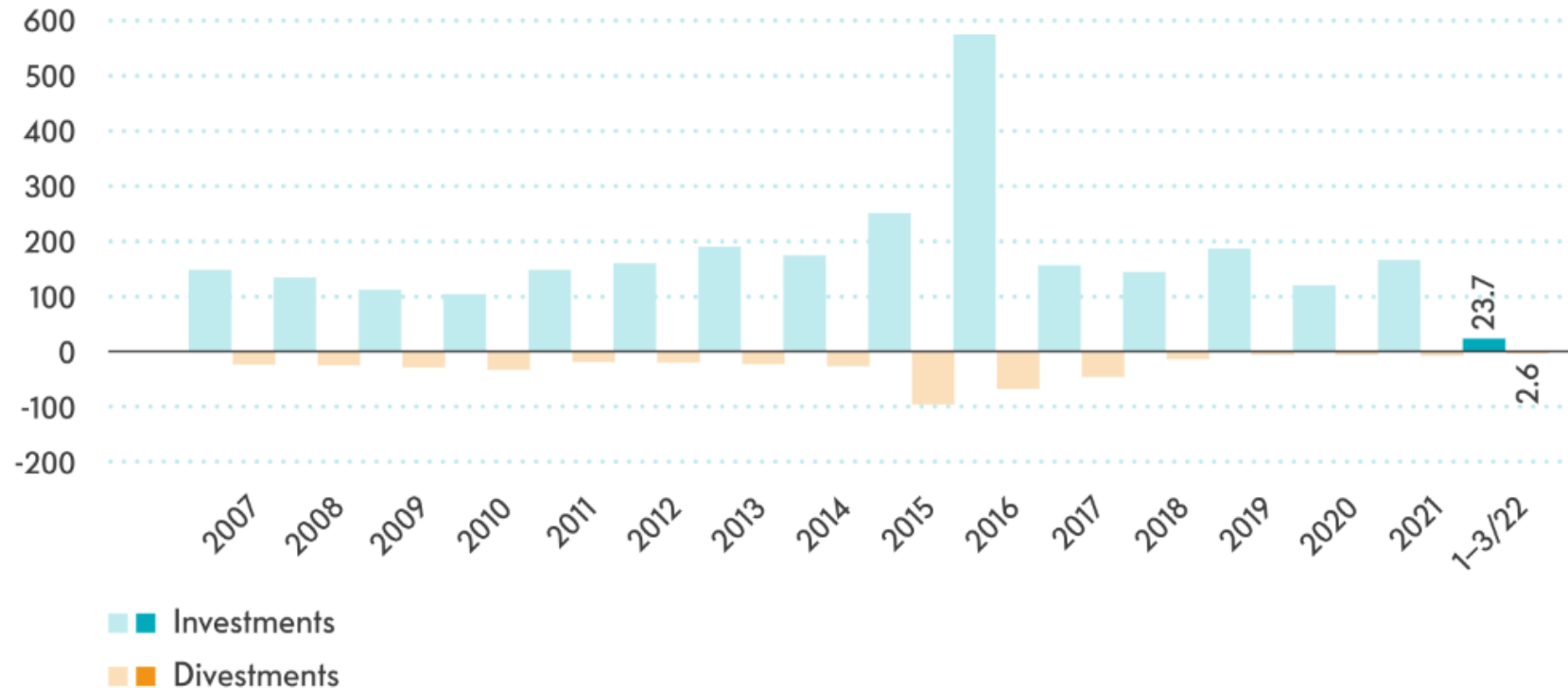
UNENCUMBERED ASSETS, %



INVESTMENTS IN FINLAND

82.4 % of the investments in Helsinki MA

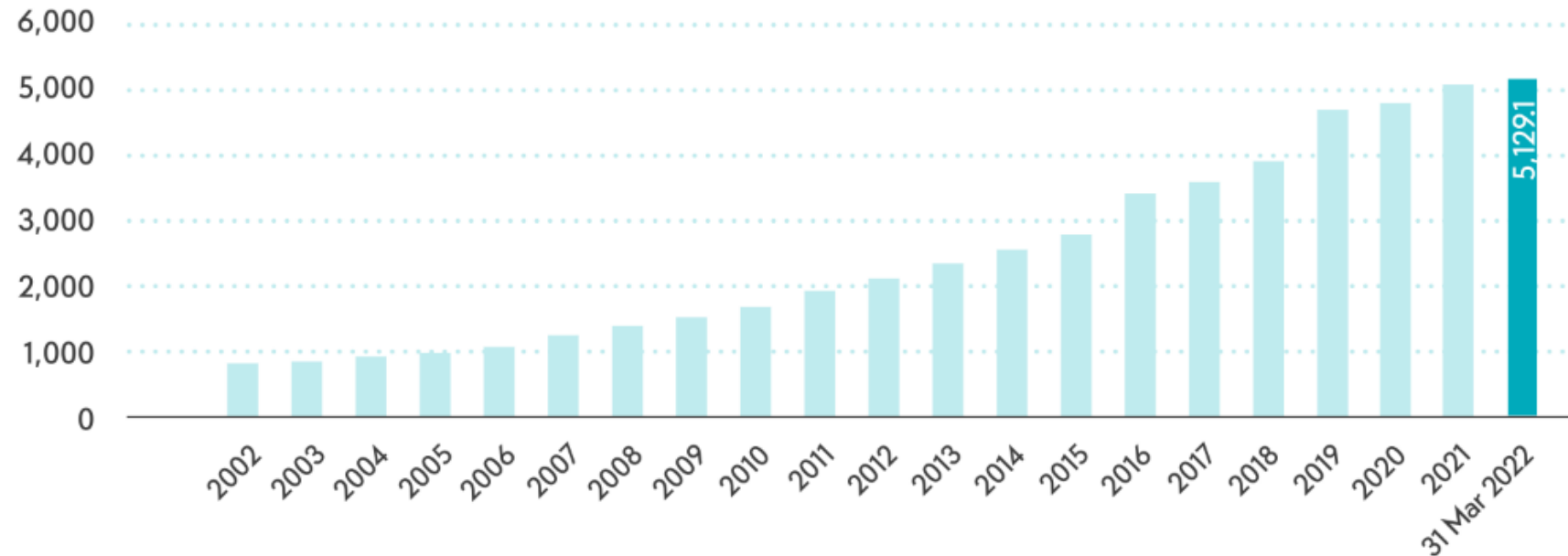
HOUSING INVESTMENTS AND DIVESTMENTS, MEUR



INVESTMENT PROPERTIES

The development of the value is a key factor for SATO

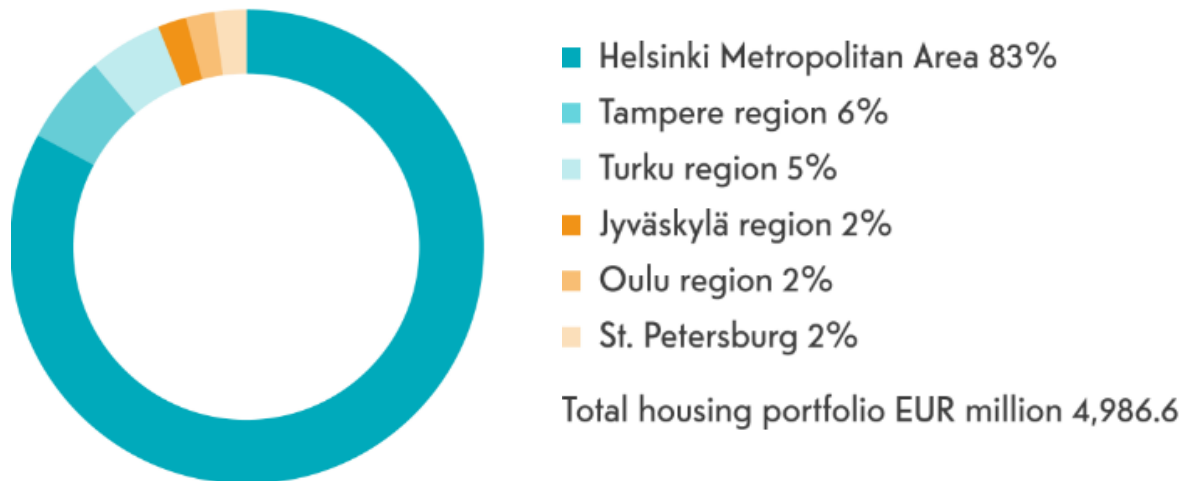
TREND IN THE INVESTMENT PROPERTY PORTFOLIO, MEUR



HOUSING ASSETS

Homes in areas with rising demand

REGIONAL DISTRIBUTION OF THE HOUSING PORTFOLIO ON 31 MARCH 2022



MAIN SHAREHOLDERS

Balder Finska Otas AB / Fastighets AB Balder	55.9 %
Stichting Depository APG Strategic Real Estate Pool	22.6 %
Elo Mutual Pension Insurance Company	12.7 %
The State Pension Fund	4.9 %
Valkila Erkkä	0.7 %
Research Foundation of the Pulmonary Diseases	0.4 %
SATO Oyj	0.3 %
Entelä Tuula	0.3 %
Heinonen Erkki	0.3 %
Tradeka Invest Ltd	0.2 %
Others (116 shareholders)	1.7 %

On 31 March 2022, SATO had 56,783,067 shares and 126 shareholders registered in the book-entry system. The share turnover rate was 0.00% for the period from 1 January to 31 March 2022.

OUTLOOK

In the operating environment, SATO's business activities are mainly affected by the urbanisation trend, competitive situation, interest rate level, consumer confidence, the development of purchasing power, rent and price development for apartments, and housing policies. The war in Ukraine that broke out in February and the resulting acceleration of inflation have brought a great deal of uncertainty to the economic outlook.

The first months of the year saw rapid economic growth as COVID-19 restrictions were lifted. Russia's attack on Ukraine in late February transformed the economic outlook. The biggest impacts have been related to the surge in energy and materials prices and also to challenges in supply chains, which were already visible in the end of the year 2021. According to a Bank of Finland analysis of 11 March 2022, the war in Ukraine is increasing uncertainty over the outlook for Finland's economy and will slow economic growth. The analysis projects that Finland's economic growth will slow to 0.5%–2% in the current year. The uncertainty has resulted in a major decline in consumer confidence. According to the consumer confidence indicator published by Statistics Finland on 28 March 2022, consumers' expectations concerning their own finances and especially the Finnish economy were very pessimistic.

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The continued high level of housing supply particularly in the Helsinki Metropolitan Area has maintained intense competition for good tenants between rental housing providers. However, with COVID-19 restrictions lifted and service-sector employment improving, demand for centrally located homes started to grow towards the end of the reporting period. There are signs of slowing in the record-high rate of construction that has been seen for a long period of time.

With the increased choice available for those looking for a home, the role of a successful customer experience has become even more important. SATO is investing strongly in increasing its presence close to customers and in digital services.



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The models in the photos of this presentation are mainly SATO residents, like Satu and Pekka above.