

# SATO Interim report 1.1.-31.3.2010



## The mission

- SATO is a provider of good housing.

## The vision

- Homes are our passion –  
50,000 satisfied residents in 2020.

## SATO's values

- the personnel's expertise – skilled personnel is our strength
- partnership – we win by working together
- customer satisfaction – we keep our promises
- profitability – profit enables us to build the future

## Financial targets

SATO's policy on dividend is to pay at least 60 per cent of the freely distributable profit as dividend each year.\* The amount of dividend may, however, be affected by the financing required for the company's investments.

SATO's equity ratio target, net of the non-profit VATRO business when investment properties are calculated at fair value, is at least 25 per cent.

\* Freely distributable profit is that part of the SATO Group's profits which can be remitted to the owners without hindrance under the so-called rules prescribed by legislation on state subsidies and interest subsidies.

## The business strategy

SATO implements its growth strategy by investing in rented housing.

### SATO

- owns, rents, develops and builds housing
- operates in Finland's largest centres of urban growth and St. Petersburg
- expands its housing portfolio profitably
- operates on a customer-driven basis and efficiently
- is a bold pioneer in its field and stands out through excellent service
- communicates its activities transparently

## Strategic strengths

- a high profile
- centrally located housing
- excellent service
- quality guarantee
- network of skilled partners

## Shareholders in SATO Corporation, 27 April 2010

The ten biggest shareholders and their holdings (per cent)

Varma Mutual Pension Insurance Company	38.6
Ilmarinen Mutual Pension Insurance Company	15.9
Suomi Mutual Life Assurance Company	14.8
Tapiola Insurance Group	7.3
Pension Fennia Mutual Insurance Company	5.4
Tapiola Mutual Pension Insurance Company	5.1
Wärtsilä Corporation	4.4
Pohjola Insurance Ltd	2.7
Notalar Oy	2.0
Habinvest Oy	1.0
Others	2.8

On 27 April, the Group had 29 shareholders entered in the book-entry securities register. The list does not include the shares subscribed in the April issue.

# SATO

## Interim report

### 1.1.–31.3.2010

#### Summary of the period 1-3/2010 (1-3/2009)

- The Group's turnover was 48.6 (56.8) million euros and its operating profit was 16.5 (12.9) million euros.
- Net rental income from leasing increased to 23.6 (22.7) million euros.
- Profit before taxes improved and was 6.1 (0.3) million euros.
- Return on equity was 8.4 (0.2) per cent and return on investment was 5.2 (4.2) per cent.
- Investments in investment properties were 12.5 (41.4) million euros.
- The fair value of the investment properties as at 31.3.2010 was 1,533 (1,412) million euros.
- The difference between book value and fair value grew during the period under review by 26.0 (12.2) million euros and was 286 (210) million euros.

SATO is one of Finland's leading corporate investors in housing. SATO owns a total of some 23,000 rentable homes in the major growth centres of Finland and in St. Petersburg. The fair value of SATO's investment property is roughly 1.5 billion euros. The housing portfolio is actively developed to meet changing customer needs through servicing and maintenance combined with investment and divestment. In the past decade, SATO has invested more than a billion euros in rented homes. SATO also develops new properties as investment housing for the Group and for sale. The company's main owners are Finnish pension insurance companies and other insurers. The SATO Group's turnover in 2009 was 230.4 million euros, operating profit was 70.8 million euros and the profit before taxes was 30.2 million euros.

#### The business climate

Demand on the rented housing market has continued to be good. The supply of rented housing has held steady for several years and demand has grown, particularly for small rented homes in the urban growth centres. During the past ten years, the rate of rent rises has clearly lagged behind the trend in house prices. In the period 2008-2009, rent increases were higher than previously in the 21<sup>st</sup> century. During the current year, the trend in rents is expected to be more moderate. The supply of rented housing will increase as there have been more building starts financed with government financial support.

An exceptionally low number of new owner-occupied homes have been completed and at the same time demand for housing has picked up due to consumers' high confidence levels and low interest rates. This has boosted housing prices in the urban centres of growth.

#### Turnover and profit

The Group's turnover for the early months of the year was 48.6 million euros (56.8 million euros Q1 2009), of which the turnover of SATO business was 39.9 (47.4) million euros and that of VATRO business was 8.7 (9.5) million euros. Rental income accounted for 44.0 (41.7) million euros of turnover.

The Group's profit before taxes for the period under review was 6.1 (0.3) million euros. The figure includes 2.8 (0.5) million euros for proceeds from divestments. A drag on profit was exerted by a change in the market value of interest-rate hedging to the tune of -1.4 (-2.4) million euros.

SATO business accounted for 5.5 (-0.2) million euros of the profit and VATRO business for 0.6 (0.5) million euros.

#### Financial status and financing

The consolidated balance sheet total at the end of the period under review was 1,413.7 (1,410.3) million euros. Shareholders' equity was 209.7 (195.9) million euros. The equity ratio calculated at the book value of the investment properties was 14.9 (14.0) per cent, and, when calculated at fair value, 24.9 (21.8) per cent. The equity ratio of SATO business calculated at book values was 17.0 (16.8) per cent, and, when investment properties are calculated at fair value, 27.9 (25.5) per cent.

The Group's return on equity was 8.4 (0.2) per cent and return on investment was 5.2 (4.2) per cent.

The cash position of the Group and parent company was favourable during the period under review. The Group's liquid financial assets at the end of the period under review were 24.8 (34.5) million euros.

Interest-bearing liabilities at the end of the period under review were 1,068.5 (1,083.7) million euros, of which market rate loans totalled 663.2 (675.3) million euros, interest-subsidised loans totalled 97.4 (100.1) million euros, and state-subsidised loans totalled 207.8 (228.9) million euros. There were debts in the amount of 100.1 (79.4) million euros on shares held in housing companies and mutual property holding companies included in investment properties.

Of the capital of market rate loans at the end of the period under review, 415.4 (372.3) million euros was hedged with interest-rate swaps and options. The average maturity of the swaps was 3.0 (2.8) years. During the period under review, the computational effect of changes in the market value of hedging on the shareholders' equity was -5.1 (-4.0) million euros and the effect on net profit was -1.4 (-2.4) million euros.

#### Investment properties

The trend in the investment properties' value is of key importance to SATO's business operations. Housing property is consolidated in areas in which long-term demand for rented housing is growing.

On 31 March 2010, SATO held a total of 22,745 (22,701) homes, of which 18,344 (17,579) were included in SATO business and 4,401 (5,122) were included in VATRO business.

There were 21,411 (21,325) rented homes and 1,334 (1,376) shared ownership apartments. The number of homes decreased during the period under review by 24 (number of homes in Q1 2009 increased by 301) homes.

The book value of the investment properties totalled 1,247.2 (1,201.9) million euros, of which St. Petersburg accounted for 46.9 (39.7) million euros. The fair value of the investment properties totalled 1,532.8 (1,411.9) million euros. During the period under review, the book value of the housing portfolio grew by 3.8 (38.4) million euros and its fair value by 29.8 (50.6) million euros. The positive difference between the book value and the fair value was 285.6 (210.0) million euros and this grew during the period under review by 26.0 (12.2) million euros. The increase in the differential resulted from a rise in housing rents and selling prices as well as the ending of restrictions on some properties due to state-subsidised lending. SATO applies the historical cost method to investment properties. The change in value of investment properties is not posted to the profit and loss account but is stated in a note to the financial statements.

## Investments

Investment business lays the foundations for growth and for a positive trend in the cash flow from renting. In the past decade, SATO has invested a total of more than a billion euros in rented housing.

During the period under review the Group's gross investments in investment properties totalled 12.5 (41.4) million euros, of which St. Petersburg accounted for 0.3 (0.6) million euros. The investments focused on SATO business. Investments were used to purchase a total of 122 (304) rented homes. The number of new rented homes completed totalled 122 (20).

At the end of March there were a total of 257 (190) rented homes under construction for ownership by the Group, of which 229 are being built with interest-subsidised financing on the so-called interim model in the Helsinki Metropolitan Area and in Oulu. Of the homes under construction, 28 (51) are in St. Petersburg.

## Rental business

Rental business secures a steady trend in cash flow. Rental services are mostly handled by the branches of the SATO Housing Service. The financial occupancy rate of the housing during the period under review averaged 97.4 (96.6) per cent.

The tenant turnover rate of rental homes was 25.4 (29.2) per cent.

The average monthly rent per square metre during the period under review was EUR 11.95 (11.55) for rental housing and 9.11 (9.21) for shared ownership apartments.

The net rental income on the housing portfolio was 23.6 (22.7) million euros. The net rental income annualised on the book value of rental housing was 8.1 (8.0) per cent and 6.4 (6.8) on the fair value.

## Divestments

SATO's strategic aim is to consolidate its investment properties in the five largest urban growth centres in Finland and in St. Petersburg. Housing divestments are effected mainly in other areas.

During the period under review, SATO continued the regional consolidation of its housing portfolio in the largest urban growth centres. The Group's holdings of rental housing were divested to the tune of 5.9 (0.0) million euros. Sales of plots of land and other divestments totalled 1.3 (0.5) million euros.

The net profit on sales amounted to 2.8 (0.5) million euros.

## Property development

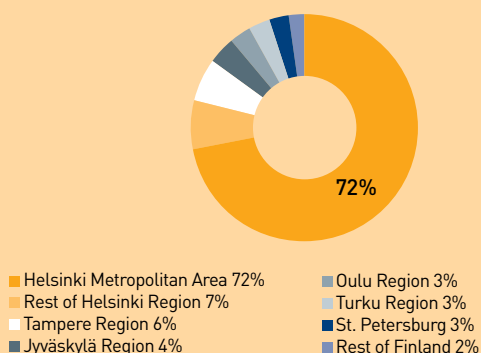
Property development is used to create a basis for SATO's construction of rented homes for the group and for the development of owner-occupied homes for sale.

The book value of the building land inventory held at the end of the period under review was 76.6 (66.4) million euros. No new plots were purchased for Group ownership during the period.

During the period under review no owner-occupied homes were completed. Under construction at the end of March were a total of 21 (190) owner-occupied homes.

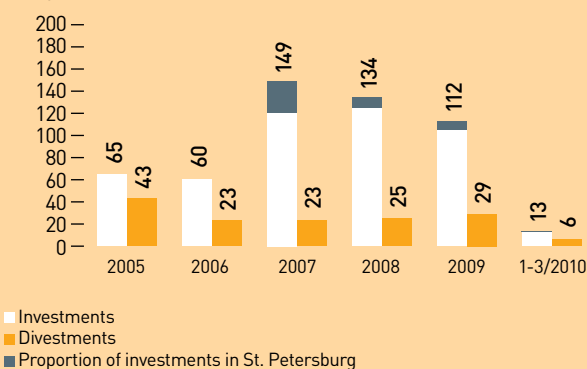
### Regional distribution of housing portfolio, 31 March 2010

Total housing portfolio, fair value MEUR 1,532.8



### Investments and divestments 2005 - 1-3/2010

MEUR

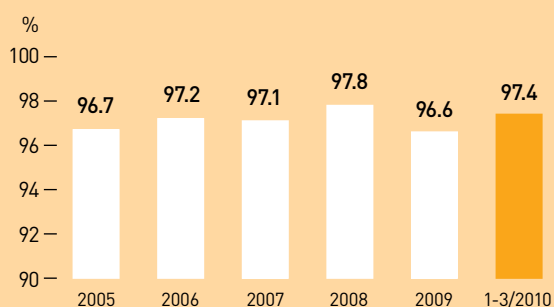


## Information on segments

SATO's investment in housing business includes both privately financed and state-subsidised housing property, of which the latter is affected by restrictions set by housing legislation both at the company level and for individual properties. SATO's housing investments are divided into two segments for purposes of financial reporting, SATO business and VATRO business. SATO business includes privately financed homes as well as those state-subsidised and interest-subsidised homes, to which property-specific restrictions under legislation on state-subsidised and interest-subsidised loans will end in the period 2010-2025. The construction of owner-occupied housing and business operations in St. Petersburg are also included in SATO business. The VATRO business segment includes housing subject to longer-term property-specific restrictions under legislation on state-subsidised loans. These restrictions will end by roughly the year 2047.

	SATO business	VATRO business	Total	SATO business	VATRO business	Total
MEUR	1-3/2010	1-3/2010	1-3/2010	1-3/2009	1-3/2009	1-3/2009
Turnover	39.9	8.7	48.6	47.4	9.4	56.8
Net rental income	19.1	4.5	23.6	17.8	4.9	22.7
Profit before taxes	5.5	0.6	6.1	-0.2	0.5	0.3
Gross investments in investment properties	12.5	-	12.5	41.4	-	41.4
Book value of the investment properties	1,025.4	221.8	1,247.2	953.6	248.3	1,201.9
Fair value of the investment properties	1,311.0	221.8	1,532.8	1,163.6	248.3	1,411.9
Rented homes (number)	17,010	4,401	21,411	16,203	5,122	21,325
Shared ownership apartments (number)	1,334	-	1,334	1,376	-	1,376
Completed owner-occupied homes (number)	-	-	-	42	-	42

### Financial occupancy rate of rental housing 2005 - 1-3/2010



### Reserve of plots for construction (sq.m. floor area)

Total 342,000, approx. 3,800 homes



\*Permitted building volume in zoning proposals

During the period under review, a total of 18 (41) owner-occupied apartments were sold, to a value of 3.5 (10.8) million euros. Unsold at the end of the period under review were 5 (125) owner-occupied apartments under construction and 7 (35) completed ones.

## Personnel

At the end of the period under review, the Group had 131 (143) employees and during the period under review it had an average of 130 (147) employees.

## Annual general meeting, 4 March 2010

The annual general meeting of SATO Corporation held on 4 March 2010 confirmed the number of members on the Board of Directors as six.

Juha Laaksonen continues as chairman of the Board of Directors with Timo Hukka, Jorma Kuokkanen, Raimo Lind and Esko Torsti continuing as ordinary members. Tapiola Real Estate Ltd's Managing Director Vesa Immonen was elected as a new member.

The firm of Authorised Public Accountants KPMG Oy Ab was re-elected as the auditor, with Markku Sohlman, APA, as the auditor in charge.

The annual general meeting also passed a resolution on a for-payment share issue in which a maximum of 5,671,586 new shares in SATO Corporation are to be offered to the company's shareholders for subscription in proportion to their holdings of company shares on the date of record for the share issue. The maximum total of the share issue was EUR 36,865,309.00.

The annual general meeting also passed a resolution to authorise the Board of Directors to decide on a targeted share issue in which a maximum total of 305,000 shares in SATO Corporation held by the company could be issued to the shareholders of Habinvest Oy in payment for a merger. This arrangement is related to long-term incentives for and commitment of SATO's management. The authorisation will be valid until 31 March 2012.

## The arrangements of the Board of Directors

At its meeting on 18 March 2010, the Board of Directors elected Raimo Lind from its membership to serve as deputy chairman. Juha Laaksonen was re-elected as chairman of the Nomination and Compensation Committee with Jorma Kuokkanen and Timo Hukka as its members. Raimo Lind continues as chairman of the Audit Committee, with Esko Torsti and Vesa Immonen as members.

## Events after the end of the review period

The share issue decided on at the annual general meeting of 4 March concluded on 20 April 2010. Of the shares offered in the issue, 99.3 per cent were subscribed, to a total of EUR 36,589,494.50. At its meeting on 29 April 2010, the Board

of Directors approved the subscriptions made and decided that the shares left unsubscribed in the issue would not be re-offered for subscription. After the increase in capital, the Group's computational equity ratio in the interim statements as at 31 March 2010 would have been 26.5 per cent at fair value. The computational effect of the increase in capital is 1.6 percentage points.

## Risks and uncertainty factors in the near future

The change in the market prices of housing will have an impact on the value of SATO's housing portfolio. A favourable trend in the value of the housing portfolio and the rental attractiveness of the apartments will be secured by concentrating on the urban centres of growth.

New owner-occupied housing projects will be launched on the basis of project-specific market surveys.

The risks of investment in housing business in St. Petersburg are related to the trend in market prices for housing, currency fluctuations, and changes in the business climate. The amount of investment in St. Petersburg is limited in proportion to the Group's investments in housing as a whole.

Interest rate fluctuations affect SATO's profit through changes in interest expenses and through changes in the market values of interest rate hedging. In line with the Group's financing policy, 50–80 per cent of the market-rate loans' interest positions are hedged. The adequacy of financing is monitored on an ongoing basis by liquidity forecasting.

Lawsuits and countersuits between the contracting parties are pending in respect of the implementation and invoicing for the construction project known as Asunto Oy Helsingin Tila.

A broader description of the risks can be found in the company's annual report for the year 2009 and on the website [www.sato.fi](http://www.sato.fi).

## Outlook

The Finnish economy has gone into a cautious upswing and consumer confidence has continued to gain in strength, although unemployment is expected to rise. According to forecasts, a rise in interest rates will begin towards the end of 2010.

Demand for rented homes is forecast to continue to be good in 2010 and the net profit of SATO's rental business is expected to improve.

The prospects for the investments in rented housing envisaged in the growth strategy are seen as good. Investments in newly built projects will be carried out by SATO mainly with interest-subsidised financing on the so-called interim model.

The recovery in the owner-occupied housing market facilitates an increase in the number of owner-occupied project starts.

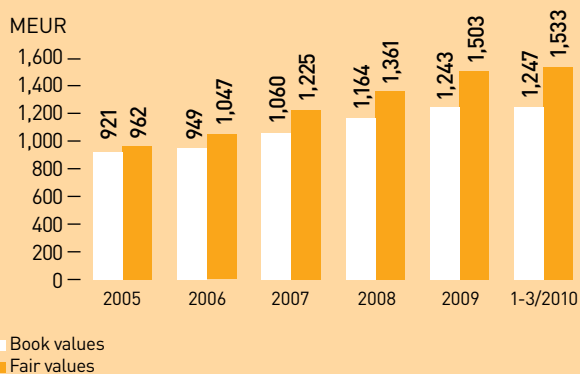
In St. Petersburg there are signs of an economic recovery and the prospects for further investments are improving.

The consolidated net profit before taxes for 2010 is forecast to be on a par with that of the previous year.

## Consolidated profit and loss account, IFRS

MEUR	1.1.-31.3.2010	1.1.-31.3.2009	1.1.-31.12.2009
<b>Turnover</b>	48.6	56.8	230.4
Capital gains/losses on Investment Properties	2.0	0.1	13.0
Share of profit in associated companies	0.0	0.0	0.1
Other income from business operations	0.0	0.0	0.6
Consumption of materials and services	-4.2	-16.0	-60.8
Personnel expenses	-2.3	-2.9	-9.8
Depreciation, amortization and impairment charges	-4.8	-4.7	-18.5
Losses from disposals of Investment Properties	0.0	0.0	-0.1
Other expenses of business operations	-22.8	-20.3	-84.0
<b>Operating profit</b>	<b>16.5</b>	<b>12.9</b>	<b>70.8</b>
Financial income	0.1	0.3	0.9
Financial expenses	-10.5	-12.9	-41.5
	-10.4	-12.6	-40.6
<b>Profit before taxes</b>	<b>6.1</b>	<b>0.3</b>	<b>30.2</b>
Income taxes	-1.6	-0.2	-7.5
<b>Profit for the period</b>	<b>4.5</b>	<b>0.1</b>	<b>22.7</b>
<b>Other comprehensive income items</b>			
Cash flow hedges	-6.9	-5.4	-2.2
Financial assets available for sale	0.0	-0.1	0.1
Translation difference	0.0	0.0	0.0
Taxes applied to other comprehensive income items	1.8	1.4	0.5
Other comprehensive income items for the accounting period after taxes	-5.1	-4.0	-1.6
<b>Comprehensive income for the accounting period, total</b>	<b>-0.6</b>	<b>-3.9</b>	<b>21.2</b>
Distribution of net profit for financial period			
To the owners of the parent company	4.5	0.1	22.6
To minorities	0.0	0.0	0.1
	4.5	0.1	22.7
Distribution of comprehensive income			
To the owners of the parent company	-5.1	-4.0	21.0
To minorities	0.0	0.0	0.1
	-5.1	-4.0	21.2
Profit per share calculated on the profit due to the owners of the parent enterprise			
Earnings per share, €	0.10	0.00	0.50
Average number of shares, million	45.37	44.96	45.27

Trend in the housing portfolio 2005 - 1-3/2010



## Consolidated balance sheet, IFRS

MEUR	31.3.2010	31.3.2009	31.12.2009
<b>Assets</b>			
<b>Non-current assets</b>			
Investment Property	1,247.2	1,201.9	1,243.4
Tangible assets	1.3	1.6	1.3
Intangible assets	1.0	1.1	1.0
Holdings in joint ventures and associated companies	0.5	0.6	0.6
Financial assets available for sale	2.5	2.2	2.3
Receivables	6.4	9.6	6.0
Deferred tax receivables	22.2	20.9	19.5
	1,281.1	1,237.9	1,274.1
<b>Current assets</b>			
Inventories	93.5	121.8	95.7
Accounts receivable and other receivables	14.3	16.1	13.0
Tax credits based on the taxable income for the period	0.0	0.0	1.7
Cash and cash equivalents	24.8	34.5	33.4
	132.6	172.4	143.8
<b>Assets, total</b>	<b>1,413.7</b>	<b>1,410.3</b>	<b>1,418.0</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity due to the parent company's owners</b>			
Share capital	4.4	4.4	4.4
Share issue	0.3	0.0	0.0
Fair value reserve	-13.3	-10.6	-8.2
Reserve fund	43.7	43.7	43.7
Other funds	9.3	9.3	9.3
Retained earnings	163.6	147.5	170.1
	208.1	194.4	219.4
Minority interest	1.6	1.5	1.6
<b>Shareholders' equity, total</b>	<b>209.7</b>	<b>195.9</b>	<b>221.0</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	68.1	63.6	66.6
Provisions	4.7	7.8	5.0
Interest-bearing debt	873.8	847.3	886.3
	946.7	918.6	957.9
<b>Current liabilities</b>			
Accounts payable and other liabilities	62.6	59.4	52.2
Income tax liabilities	0.0	0.0	1.8
Interest-bearing debt	194.7	236.4	185.2
	257.3	295.8	239.1
<b>Liabilities, total</b>	<b>1,204.0</b>	<b>1,214.4</b>	<b>1,197.0</b>
<b>Shareholders' equity and liabilities, total</b>	<b>1,413.7</b>	<b>1,410.3</b>	<b>1,418.0</b>

## Consolidated cash flow statement, IFRS

MEUR	1.1.- 31.3.2010	1.1.- 31.3.2009	1.1.- 31.12.2009
<b>Cash flow from operating activities</b>			
Net profit for period	4.5	0.1	22.7
Adjustments:			
Business activities not involving payment	6.2	7.1	20.4
Proceeds from sales of fixed assets	-2.0		-12.9
Interest expenses and other financial expenses	9.1	10.5	39.6
Interest income	-0.1	-0.3	-0.9
Dividend income	0.0		-0.1
Taxes	1.6	0.2	7.5
Change in working capital:			
Change in accounts receivable and other receivables	0.0	-8.5	-5.5
Change in inventories	2.4	6.9	32.3
Change in accounts payable and other liabilities	1.9	3.1	1.8
Change in reserves	-0.2	1.6	-1.2
Interest paid	-11.6	-14.2	-43.5
Interest received	0.1	0.7	1.8
Taxes paid	-1.0	-0.1	-5.7
<b>Net cash flow from operating activities</b>	<b>11.0</b>	<b>7.1</b>	<b>56.4</b>
<b>Cash flow from investing activities</b>			
Investments in tangible assets	-7.3	-25.5	-76.2
Investments in intangible assets	-0.1	0.0	-0.4
Repayments of notes receivable	0.2	0.0	2.3
Loans granted	-0.2	-0.3	-1.2
Sales of tangible assets	5.4	0.0	23.3
<b>Net cash flow from investing activities</b>	<b>-2.0</b>	<b>-25.8</b>	<b>-52.0</b>
<b>Cash flow from financing activities</b>			
Payments received from share issues	0.3	0.0	0.0
Repayments (-) / withdrawals (+) of short-term loans	7.1	22.9	-41.1
Withdrawals of long-term loans	0.3	4.4	112.4
Repayments of long-term loans	-14.5	-10.3	-78.3
Dividends paid	-10.9	-10.7	-10.7
<b>Net cash flow from financing activities</b>	<b>-17.7</b>	<b>6.3</b>	<b>-17.8</b>
<b>Change in cash and cash equivalents</b>	<b>-8.7</b>	<b>-12.4</b>	<b>-13.4</b>
Cash and cash equivalents at start of period	33.4	46.8	46.8
<b>Cash and cash equivalents at end of period</b>	<b>24.8</b>	<b>34.5</b>	<b>33.4</b>

## Calculation of changes in Group shareholders' equity, 1.1.–31.3.2010

MEUR	Shareholders' equity due to the parent company's owners						Minority interest	Shareholders' equity, total
	Share capital	Revaluation fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1.1.2010</b>	<b>4.4</b>	<b>-8.2</b>	<b>43.7</b>	<b>9.3</b>	<b>170.1</b>	<b>219.4</b>	<b>1.6</b>	<b>221.0</b>
Comprehensive income for the accounting period, total		-5.1			4.5	-0.6	0.0	-0.7
Dividend payment					-10.9	-10.9		-10.9
Directed share issue				0.3		0.3		0.3
Other adjustments						0.0		0.0
<b>Shareholders' equity 31.3.2010</b>	<b>0.0</b>	<b>-5.1</b>	<b>0.0</b>	<b>0.3</b>	<b>-6.4</b>	<b>-11.2</b>	<b>0.0</b>	<b>-11.3</b>
	<b>4.4</b>	<b>-13.3</b>	<b>43.7</b>	<b>9.6</b>	<b>163.7</b>	<b>208.1</b>	<b>1.6</b>	<b>209.7</b>

## Calculation of changes in Group shareholders' equity, 1.1.–31.3.2009

MEUR	Shareholders' equity due to the parent company's owners						Minority interest	Shareholders' equity, total
	Share capital	Revaluation fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1.1.2009</b>	<b>4.4</b>	<b>-6.6</b>	<b>43.7</b>	<b>3.2</b>	<b>158.1</b>	<b>202.8</b>	<b>1.5</b>	<b>204.3</b>
Comprehensive income for the accounting period, total		-4.0			0.1	-4.0		-4.0
Dividend payment					-10.7	-10.7		-10.7
Directed share issue				6.2		6.2		6.2
Other adjustments					0.0	0.0	0.0	0.0
<b>Shareholders' equity 31.3.2009</b>	<b>0.0</b>	<b>-4.0</b>	<b>0.0</b>	<b>6.2</b>	<b>-10.6</b>	<b>-8.4</b>	<b>0.0</b>	<b>-8.4</b>
	<b>4.4</b>	<b>-10.6</b>	<b>43.7</b>	<b>9.3</b>	<b>147.5</b>	<b>194.4</b>	<b>1.5</b>	<b>195.9</b>

## Notes to the interim report

SATO's interim report for the period 1.1.–31.3.2010 has been drawn up in compliance with on the IAS 34 Interim Report Standard as approved for use by the EU. The interim report is unaudited. The same accounting conventions were applied in the production of the interim report as in the IFRS consolidated financial statements for the financial year 1.1–31.12.2009.

SATO's operations are managed and monitored in the form of two business areas, namely SATO business and VATRO business. The division into segments is done on the same principle. SATO business includes privately financed investment homes as well as those state-subsidised and interest-subsidised homes to which property-specific restrictions end mostly by 2016, although for some properties they will continue until 2025. Construction of owner-occupied housing and investment in housing in St. Petersburg are also included in SATO business. VATRO business includes housing subject to longer-term property-specific restrictions under legislation on state-subsidised loans. These restrictions will end by the year 2047.

The earnings and expenses shown for the segments are the direct earnings and expenses due to the segments plus those earnings and expenses which are reasonably attributable to the segments. Within SATO, the segments' earnings and expenses are also taken to include financial income and expenses, as these are considered to be such a crucial factor in forming the net profit of the segment that leaving them out would not give a fair view of the segments' net profit.

The assets and liabilities of a segment are such business items as the segment uses in its business operations or are reasonably attributable to the segments. All items are included in the segments' assets and liabilities which give rise to items in the profit and loss account which are shown into the segments' net profits, including the segments liabilities which are deemed to constitute an important part in describing the segments' financial position.

The unallocated assets include deferred tax credits as well as the Group's common items. The unallocated debts are comprised mainly of deferred tax liabilities.

Investments are comprised of increases in investment properties, tangible fixed assets, and intangible assets which are used in more than one financial year.

Pricing between segments is done at appropriate market rate.

### Calculation of net rental income

The net rental income of investment properties is obtained by deducting from the rental income the maintenance expenses, which include annual repair expenses. In calculating the net rental income, the part of the Group's fixed expenses which concerns the maintenance of the investment properties is added to the maintenance expenses.

## 1. Segment information 1.1.–31.3.2010

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	39.9	8.7		48.6
Internal turnover				0.0
Turnover, total	39.9	8.7		48.6
Profits/losses from selling of Investment Properties	2.0	0.0		2.0
Depreciation, amortizations and impairment charges	-3.7	-1.1		-4.8
Operating profit	14.0	2.5		16.5
Interest income	0.1	0.0		0.1
Interest expenses	-8.6	-1.9		-10.5
Profit before taxes	5.5	0.6		6.1
Net rental income on the housing portfolio	19.1	4.5		23.6
Net rental income of rented homes, % of book value (%)	8.3	7.2		8.1
Investments	12.5			12.5
Acquisition of land for inventory	0.0			0.0
Depreciation and amortization	-3.7	-1.1		-4.8
Impairment charges				0.0
Assets and eliminations allocated to segments, total	1,161.0	236.7	-12.1	1,385.6
Investment Properties	1,025.4	221.8		1,247.2
Cash and cash equivalents	17.4	1.5		18.9
Other assets of the segment	117.9	13.2	-12.1	119.0
Holding in joint venture and associated companies	0.3	0.2		0.5
Unallocated assets				28.1
Assets, total				1,413.7
Liabilities and eliminations allocated to segments, total	919.6	228.4	-12.1	1,135.9
Interest-bearing debt	847.6	225.7		1,073.3
Other liabilities of segment	72.0	2.7	-12.1	62.6
Unallocated liabilities				68.1
Liabilities, total				1,204.0

## Segment information 1.1.–31.3.2009

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	47.4	9.4		56.8
Internal turnover		0.0	0.0	0.0
Turnover, total	47.4	9.4	0.0	56.8
Profits/losses from selling of Investment Properties	0.0			0.0
Depreciation, amortizations and impairment charges	-3.5	-1.2	0.0	-4.7
Operating profit	9.9	3.0	0.0	12.9
Interest income	0.3			0.3
Interest expenses	-10.4	-2.5		-12.6
Profit before taxes	-0.2	0.5	0.0	0.3
Net rental income on the housing portfolio	17.8	4.9		22.7
Net rental income of rented homes, % of book value (%)	8.0	8.3		8.0
Investments	41.4			41.4
Acquisition of land for inventory				0.0
Depreciation and amortization	-3.5	-1.2		-4.7
Impairment charges	0.0			0.0
Assets and eliminations allocated to segments, total	1,127.8	251.3	0.0	1,379.1
Investment Properties	953.6	248.3		1,201.9
Cash and cash equivalents	23.1	1.1		24.2
Other assets of the segment	150.8	1.6	0.0	152.4
Holding in joint venture and associated companies	0.3	0.3		0.6
Unallocated assets				31.2
Assets, total				1,410.3
Liabilities and eliminations allocated to segments, total	903.7	247.1	0.0	1,150.8
Interest-bearing debt	840.5	243.1		1,083.6
Other liabilities of segment	63.2	4.0	0.0	67.2
Unallocated liabilities			0.0	63.6
Liabilities, total				1,214.4

## Segment information 1.1.–31.12.2009

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	192.6	37.8		230.4
Internal turnover	0.0	0.0	0.0	0.0
Turnover, total	192.6	37.8	0.0	230.4
Profits/losses from selling of Investment Properties	11.7	1.2		12.9
Depreciation, amortizations and impairment charges	-13.7	-4.8	0.0	-18.5
Operating profit	56.8	14.0	0.0	70.8
Interest income	0.8	0.1		0.9
Interest expenses	-31.7	-9.8		-41.5
Profit before taxes	25.9	4.3	0.0	30.2
Net rental income on the housing portfolio	72.3	21.0		93.3
Net rental income of rented homes, % of book value (%)	7.8	8.6		8.0
Investments	110.3	1.9		112.2
Acquisition of land for inventory	7.2			7.2
Depreciation and amortization	-13.7	-4.8		-18.5
Impairment charges	0.0			0.0
Assets and eliminations allocated to segments, total	1,147.4	241.7		1,389.1
Investment Properties	1,005.5	237.9		1,243.4
Cash and cash equivalents	23.5	2.2		25.7
Other assets of the segment	118.1	1.3	0.0	119.4
Holding in joint venture and associated companies	0.2	0.3		0.5
Unallocated assets				28.9
Assets, total				1,418.0
Liabilities and eliminations allocated to segments, total	898.3	232.1		1,130.4
Interest-bearing debt	844.4	227.1		1,071.5
Other liabilities of segment	53.9	5.0	0.0	58.9
Unallocated liabilities			0.0	66.6
Liabilities, total				1,197.0

## 2. Investment properties

MEUR	31.3.2010	31.3.2009	31.12.2009
Acquisition cost, 1 Jan.	1 341.8	1 244.2	1 244.2
Additions; new properties	10.8	40.4	107.4
Additions; additional investments	1.7	1.0	4.6
Decreases	-4.1	0.0	-15.6
Reclassifications		1.6	1.2
Acquisition cost, total	1 350.2	1 287.2	1 341.8
Accumulated depreciation and write-downs, 1 Jan.	-98.4	-80.7	-80.7
Depreciation	-4.6	-4.6	-17.7
Impairment losses		0.0	0.0
Accumulated depreciation and write-downs, total	-103.0	-85.3	-98.4
<b>Book value</b>	<b>1 247.2</b>	<b>1 201.9</b>	<b>1 243.4</b>
<b>Fair value</b>	<b>1 532.8</b>	<b>1 411.9</b>	<b>1 503.0</b>
<b>Difference between fair and book value</b>	285.6	210.0	259.6
<b>Change in difference in value</b>	26.0	12.2	61.8

An external assessor has given a statement on the fair value of SATO's investment properties as at 31 March 2010.

SATO has chosen for its accounting processing method the historical cost method as per the IAS 40 Investment Properties standard. Investment properties are booked at the original historical cost, which includes transaction costs. Later they are valued at the original historical cost less accumulated depreciation and impairments.

The fair values of the investment properties to be shown as notes are determined as a result of the company's own appraisal at the time of preparing the financial statements. At the time the interim financial statements are prepared, the fair values are updated in respect of investments, surrenders and changes in limitation periods. Also, an external specialist makes a statement on the appraisal.

## 3. Tangible assets

MEUR	31.3.2010	31.3.2009	31.12.2009
Book value at start of period	1.3	1.8	1.8
Increases	0.1	0.0	0.1
Decreases	0.0	0.0	-0.1
Depreciation for accounting period	-0.1	-0.2	-0.5
<b>Book value at end of period</b>	<b>1.3</b>	<b>1.6</b>	<b>1.3</b>

## 4. Inventories

MEUR	31.3.2010	31.3.2009	31.12.2009
Housing under construction	3.6	29.4	0.6
Completed housing units and commercial space	7.2	15.8	9.9
Land areas and land area companies	76.6	66.4	78.3
Other inventories	6.2	10.1	7.0
<b>Total</b>	<b>93.5</b>	<b>121.8</b>	<b>95.7</b>

## 5. Notes on shareholders' equity

MEUR	Number of shares (1,000)	Share capital	Reserve fund	Invested distributable equity fund	Total
Precision calculation of the number of shares:					
1.1.2010	45,373	4.4	43.7	9.3	57.4
Share issue	0	0.0	0.0	0.3	0.3
31.3.2010	45,373	4.4	43.7	9.6	57.7

## 6. Financial liabilities

No further long-term loans have been taken for so-called ownership companies during the first quarter of 2010. Contingent liabilities applied to shares in housing companies have increased by 3.9 million euros.

For short-term financing, SATO now has a MEUR 100 commercial paper programme in use as well as MEUR 150 in binding credit limits on short-term loans. On 31 March 2010 the commercial paper issued amounted to 96.5 million euros and the credits raised on short-term credit limits were 40.0 million euros.

## 7. Derivatives

MEUR	31.3.2010	31.3.2009	31.12.2009
<b>Interest rate derivatives</b>			
Interest rate derivatives, par value,	552.5	538.0	532.6
of which included in calculation of hedging	435.4	428.0	361.8
Interest rate derivatives, fair value,	-25.7	-21.0	-17.3
of which included in calculation of hedging	-18.4	-14.7	-11.5

## 8. Collateral and contingency commitments

MEUR	31.3.2010	31.3.2009	31.12.2009
<b>Debts for which mortgages and pledges have been given as collateral</b>			
<b>Market loans</b>	<b>518.1</b>	<b>480.5</b>	<b>528.1</b>
Mortgages provided	86.3	55.8	86.3
Book value of pledged shares	558.4	492.2	560.6
Value of corporate mortgages pledged	0.0	0.0	0.0
Value of deposits pledged	0.3	1.4	0.3
<b>State-subsidised ARAVA loans</b>	<b>202.1</b>	<b>226.4</b>	<b>206.3</b>
Mortgages provided	375.6	402.8	376.6
Book value of pledged shares	25.2	28.3	25.2
<b>Interest-subsidised loans</b>	<b>97.4</b>	<b>100.1</b>	<b>97.4</b>
Mortgages provided	121.9	121.9	121.9
Book value of pledged shares	0.8	0.8	0.8
<b>Debts of housing and mutual property holding companies, secured by mortgages on properties</b>			
Loans from financial institutions	100.2	79.4	96.2
Mortgages provided	157.6	105.9	139.6
<b>Other commitments</b>			
Guarantees	0.6	1.2	0.6
<b>Guarantee pledges for others</b>			
Owner-occupier home purchase commitments	17.8	17.5	17.4
Rs-guarantees	12.2	18.6	13.6
<b>Mortgages provided to secure payment of rent and street maintenance</b>			
Property mortgages provided	5.1	5.1	5.1
<b>Binding purchase agreements</b>			
For acquisitions of investment properties	3.2	18.0	6.6
Pledges for land use payments on zoned plots	15.3	13.9	14.7
Letters of intent on land for which there is a zoning condition	7.5	18.1	7.5

Within SATO, housing companies which hold so-called owner-occupied apartment are treated for the special purpose as units established for a fixed period, which are not included in the consolidation. The combined total for loans of such housing companies, which are included in shared ownership systems, was MEUR 101.8 on 31 March 2010 (MEUR 106.8 on 31 March 2009).

## 9. Related party transactions

Parties closely associated with the company are considered to include the President and CEO of the parent company and the Managing Directors of the main subsidiaries, the members of the Board of Directors and other managers who exercise authority or considerable influence in making decisions affecting the finances and business of the parent company or of the subsidiary in question. Also included as parties closely associated are artificial persons in which the specified individuals have a controlling interest, as well as shareholders who hold at least 10 per cent of the company's shares or voting rights.

In 2009 and during the period under review, Varma Mutual Pension Insurance Company, Ilmarinen Mutual Pension Insurance Company, and Suomi Mutual Life Assurance Company are the owners taken to be insiders.

Related parties are also taken to include the members of the Board of Directors and Corporate Management Groups including the President and CEO as well as the families of the members of the Board of Directors and Corporate Management Group and the President and CEO, and companies managed by these. The Group's Corporate Management Group is comprised of SATO Corporation's President and CEO; the Vice President for the Helsinki Region and St. Petersburg; the Vice President for the Regions; the Director, Marketing and Communications; and the Chief Financial Officer. Habinvest Oy, which was founded by the members of the Corporate Management Group in 2007, held at the end of the period under review 465,000 SATO Corporation shares, which amounts to 1% of the company's issued stock.

The following transactions were effected with related parties:

MEUR	31.3.2010	31.3.2009	31.12.2009
<b>Open balances with shareholders</b>			
Receivables	0.0	0.0	0.0
Debts	42.5	1.1	43.6

The terms applied in business with related parties were equal to the terms complied with in business dealings between independent parties.

MEUR	31.3.2010	31.3.2009	31.12.2009
<b>Management perquisites</b>			
Salaries and other short-term perquisites	0.3	0.3	1.2
Other long-term perquisites	0.0	0.0	0.0
<b>Total</b>	<b>0.3</b>	<b>0.3</b>	<b>1.2</b>

## 10. Key indicators

	31.3.2010	31.3.2009	31.12.2009
Return on investment, %	5.2	4.2	5.6
Return on equity, %	8.4	0.2	10.7
Equity ratio, %	14.9	14.0	15.7
Equity ratio, % SATO business	17.0	16.8	18.2
Equity ratio, % SATO business at fair values	27.9	25.5	28.2
Earnings per share, €	0.10	0.00	0.50
Net worth per share, €			
- at book values	4.6	4.3	4.8
- at fair values	9.2	7.7	9.1
Number of shares, million	45.4	45.4	45.4
Average number of shares, million	45.4	45.0	45.3
Gross investments, MEUR	12.6	41.4	112.0
Personnel, average	130	147	141

## 11. Formulas for key indicators

$$\text{Return on investment, \%} = \frac{(\text{Profit or loss before taxes} + \text{interest expense and other financing expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing debts (average during the financial year)}}$$

$$\text{Return on equity, \%} = \frac{(\text{Profit or loss after taxes}) \times 100}{\text{Shareholders' equity (average during the financial year)}}$$

$$\text{Equity ratio, \%} = \frac{\text{Shareholders' equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$$

$$\text{Earnings per share, €} = \frac{\text{Net profit for year due to owners of parent company}}{\text{Adjusted number of shares (average during the financial year)}}$$

$$\text{Net worth per share, €} = \frac{(\text{Net worth at balance sheet value} - \text{liabilities}) \times 100}{\text{Adjusted number of shares at year-end}}$$



SATO Corporation, Panuntie 4, PO Box 401, FI-00601 Helsinki  
Tel. +358 201 34 4000, fax +358 201 34 4355  
[www.sato.fi](http://www.sato.fi)