

# SATO



# good

*trend in profits continued*

Interim report 1 January–31 March 2011

# SATO

## mission

SATO is a provider of good housing

## strategic aims

- constantly improving services for the customer
- average 12% annual return for the shareholders
- value of the investment properties > €3 billion in 2020

## vision

homes are our passion – 50,000 satisfied residents in our homes in 2020

## SATO's values

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

## FINANCIAL TARGETS 2010-2013

To promote business continuity, profitability and growth, the following targets have been set for the equity ratio, dividend payments and investments:

SATO business equity ratio at fair values  
 $\geq 25\%$

dividend of distributable profit  
 $\geq 60\%$

*MEUR 100* of annual investments in rented housing

# SATO

## interim report

### 1 Jan.-31 March 2011

#### SUMMARY OF THE PERIOD 1-3/2011 (1-3/2010)

- Profit before taxes improved and was 13.9 (6.1) million euros, in addition to which the difference in value of the investment properties grew during the period under review by 12.3 (26.0) million euros.
- The Group's turnover was 49.9 (48.6) million euros, of which rental income was 47.4 (44.0) million euros.
- Operating profit was 20.7 (16.5) million euros.
- The fair value of the investment properties was 1,681.2 (1,532.8) million euros.
- Investments in investment properties were 21.4 (12.5) million euros.
- Net assets per share at fair value were 10.64 (9.24) euros.
- Earnings per share were 0.20 (0.10) euros.

#### THE BUSINESS CLIMATE

Demand continued to be good on the rented housing market. Urbanisation, smaller family sizes, the greying population and work-based immigration support expectations for growth in demand for rented housing also in the years ahead.

The supply of rented housing has increased as a result of action on the part of the state to boost economic recovery, but in the course of this year the number of rented housing building starts will decline. During the period under review, the trend in rents has been moderate.

Consumer confidence and low interest rates for housing loans are maintaining demand for owner-occupied housing and the construction of owner-occupied properties.

#### President and CEO Erkkä Valkila:

“An exceptional number of new rented homes were completed last year and will be completed in the course of this year. In spite of this, even more new homes are still needed to meet the continuing demand, particularly in the Helsinki Metropolitan Area. A key way to boost the construction of rented homes is to loosen the restrictions on state housing finance. This will improve the prospects for steady output.

SATO's growth is founded on active investment business and the outlook for new acquisitions is good, particularly in the Helsinki Metropolitan Area and St. Petersburg.

We will acquire rented homes in the existing building stock and we will also commission the construction of new homes.

Sales of owner-occupied homes have continued to be brisk and we have increased the number of owner-occupied project starts.”

#### TURNOVER AND PROFIT

The Group's turnover grew by 2.7 per cent and was 49.9 million euros (48.6 million euros 1.1–31.3.2010). Rental income accounted for 47.4 (44.0) million euros of turnover. During the period under review, the rental occupancy rate held steady at an excellent level and rental income grew by 7.7 per cent. Of turnover, 41.3 (39.9) million euros was generated by SATO business and 8.6 (8.7) million euros by VATRO business.

Operating profit for the period under review was 20.7 (16.5) million euros.

The Group's profit before taxes for the period under review was 13.9 (6.1) million euros. Furthermore, the difference in value of the investment properties grew by 12.3 (26.0) million euros. The figure includes 4.3 (2.8) million euros for proceeds from divestments. The improvement in profit was influenced mainly by good earnings from renting and divestment as well as continuing low interest rates. Profits were affected by a change in the market value of interest-

rate hedging to the tune of 1.7 (-1.4) million euros.

SATO business accounted for 12.4 (5.5) million euros of the profit before taxes and VATRO business for 1.5 (0.6) million euros.

#### FINANCIAL STATUS AND FINANCING

The consolidated balance sheet total at the end of the period under review totalled 1,487.8 (1,413.7) million euros. Shareholders' equity was 272.3 (209.7) million euros. Net assets, calculated on the fair value of investment properties, was 540.8 (419.4) million euros.

The entire Group's equity ratio, calculated on the book value of investment properties, was 18.5 (14.9) per cent and at fair value it was 29.4 (24.9) per cent.

The Group's return on equity was 15.1 (8.4) per cent. Return on investment was 6.1 (5.2) per cent.

The cash position of the Group and parent company was favourable during the period under review. The Group's liquid assets at the end of the period under review were 16.6 (24.8) million euros. During the period under review, the capital tied up in inventories grew by 6.9 (-2.2) million euros due to the start-up of new projects for sale.

Interest-bearing liabilities at the end of the period under review were 1,093.9 (1,068.5) million euros, of which market rate loans totalled 636.6 (621.5) million euros, pension insurance loans totalled 38.1 (41.7) million euros, interest-subsidised loans totalled 98.6 (97.4) million euros, and state-subsidised loans totalled 185.2 (207.8) million euros. There were debts in the amount of 135.4 (100.1) million euros on shares held in housing companies and mutual property holding companies included in investment properties. During the period under review, long-term loans grew by 31.7 million euros.

Of the capital of market rate loans at the end of the period under review, 71 (68) per cent was hedged with interest-rate swaps. The average maturity of the swaps was 3.6 (3.0) years. During the period under review, the computational effect of changes in the market value of hedging on the shareholders' equity was 6.5 (-5.1) million euros and the effect on net profit was 1.7 (-1.4) million euros.

The state-subsidised ARAVA loans, interest-subsidised loans and pension insurance loans are pegged to a long-term reference rate or include an element limiting the interest risk. When these loans are included, the hedged total of the interest-bearing liabilities is 73 (75) per cent.

#### INVESTMENT PROPERTIES

*The trend in the investment properties' value is of key importance to SATO. Housing property is consolidated in areas in which long-term demand for rented housing is growing. Allocations for renovations of properties are based on lifecycle plans and renovation requirement analyses.*

On 31 March 2011, SATO held a total of 22,810 (22,745) homes, of which 18,707 (18,344) were included in SATO business and 4,103 (4,401) were included in VATRO business. There were 21,509 (21,411) rented homes and 1,301 (1,334) shared ownership apartments. The number of homes decreased during the period under review by 20.

The book value of the investment properties totalled 1,317.5 (1,247.2) million euros. The fair value of the investment properties totalled 1,681.2 (1,532.8) million euros. During the period under review, the book value of the housing portfolio grew by 11.6 (3.8) million euros and its fair value by 23.9 (29.8) million euros.

The positive difference between the fair value and the book value was 363.7 (285.6) million euros and it increased during the period under review by 12.3 (26.0) million euros. The differential increased largely due to the effect of the trend in housing rents and prices.

In its accounting, SATO applies the historical cost method to investment properties. The change in differential of fair value and book 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. In the past decade, SATO has invested a total of more than a billion euros in rented housing. SATO acquires and commissions the construction of both whole rental properties and individual rented apartments.*

During the period under review, the Group's gross investments in investment properties were 21.4 (12.5) million euros. The Group acquired 72 (122) newly built rented homes and 34 (0) previously built homes. The main acquisition was 19 new rented homes in the Töölö district of Helsinki, which were purchased from SRV.

Of the investments, 3.1 (2.7) million euros was allocated to renovations.

#### RENTAL BUSINESS

*Rental business secures a steady trend in cash flow. Rental services are mostly handled by SATO's renting offices.*

The key indicators for rental business held at an excellent level during the period under review. The financial occupancy rate of the homes averaged 97.9 (97.4) per cent and

tenant turnover was 28.5 (25.4) per cent. SATO has consolidated its rental housing in regions with growing demand, which creates a basis for a high rental occupancy rate.

The average monthly rent per square metre during the period under review was EUR 12.73 (11.95) for rental housing and 8.87 (9.11) for shared ownership apartments.

The net rental income on the housing portfolio was 25.3 (23.6) million euros. The net rental income annualised on the book value of rental housing was 7.8 (8.1) per cent and 6.2 (6.4) on the fair value.

#### PROPERTY DEVELOPMENT

*Property development is used to create a basis for investment in SATO's new rented homes and for the development of owner-occupied homes for sale. The attractiveness of the rented homes held is improved and their value is developed by means of renovation.*

The book value of the building land inventory held at the end of the period under review was 74.9 (76.6) million euros. The value of acquisitions of plots of land during the period under review was 0.7 (0) million euros. Plots valued at 0.8 (0) million euros were transferred to production.

During the period under review 53 (0) rented homes commissioned by SATO were completed and 615 (257) had been started as at 31 March. Of these, 491 are being built in the Helsinki Metropolitan Area with interest-subsidised financing on the so-called interim model.

During the period under review a total of 6.5 (7.5) million euros was used for renovations of investment properties. A further 3.1 (2.7) million euros in all of renovation costs was capitalised. The value of major renovations totalled 2.4 (2.9) million euros.

During the period under review no owner-occupied homes were completed and the construction of 64 (0) was started. There were 254 (21) owner-occupied homes under construction at the end of the period under review.

## SALES

*Through divestments of rented housing, SATO carries out its strategic aim to consolidate its investment properties in the five largest urban growth centres in Finland and in St. Petersburg. Sales of new owner-occupied homes are mostly handled as an in-house operation.*

During the period under review, the Group's holdings of rental housing were divested to the tune of 6.6 (5.9) million euros.

A total of 32 (18) new owner-occupied homes were sold at a value of 8.3 (3.5) million euros. At the end of the period under review was 170 (5) owner-occupied homes under construction and one (7) completed ones were left unsold.

Sales of plots of land totalled 2.6 (1.3) million euros.

## BUSINESS IN ST. PETERSBURG

*The housing market in St. Petersburg is equivalent to the entire Finnish housing market. SATO carries out its growth strategy by investing in rented homes in St. Petersburg. Properties are acquired in central locations in the city.*

The book value of investments in St. Petersburg as at 31 March totalled 65.9 (46.9) million euros. At the end of March, SATO had a total of 85 (28) apartments under construction and 93 (44) completed ones in St. Petersburg.

SATO's investments are new elite and business-class homes, and the apartments are mostly rented in furnished form. The renting is done by the company's own personnel at the regional office in St. Petersburg. The rental occupancy rate of the apartments is high, with the exception of a property completed at the turn of the year, the renting of which has been started during the period under review.

## PERSONNEL

At the end of the period under review, the Group had 135 (131) employees and during the period under review it had an average of 133 (130) employees.

## 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.

Changes in interest rates affect SATO's profit through changes in interest expenses and through changes in the market value 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 Group's annual report for the year 2010 and on the website [www.sato.fi](http://www.sato.fi).

## OUTLOOK

The Finnish economy has gone into an upswing but there is continuing uncertainty about the economic trend. Consumers' confidence in their own economy has been at a high level for a long time.

Interest rates are forecast to rise in 2011 but they are expected to continue to be at a moderate level.

Construction of rented housing increases supply but demand for rented housing is expected to remain good. SATO's net rental income is forecast to improve.

The prospects for the investments in rented housing in line with the strategy are seen as good in SATO's business area, including St. Petersburg.

SATO will continue to start owner-occupied housing projects in 2011 if demand for owner-occupied housing holds at the current level.

The consolidated profit before taxes for 2011 is forecast to be an improvement on last year's figure.

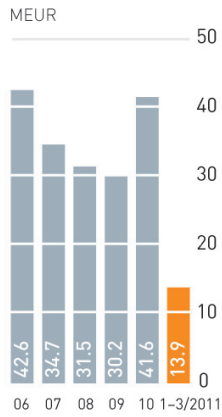
## Shareholders in SATO Corporation, 19 April 2011

The biggest shareholders and their holdings (per cent)

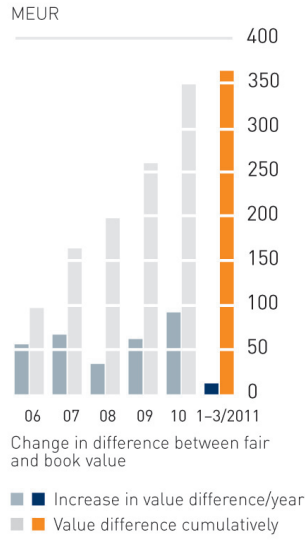
Varma Mutual Pension Insurance Company	39.3
Ilmarinen Mutual Pension Insurance Company	16.0
Suomi Mutual Life Assurance Company	14.8
Tapiola Insurance Group	7.3
Pension Fennia Mutual Insurance Company	5.4
Tapiola Mutual Pension Insurance Company	5.1
Wärtsilä Corporation	3.9
Pohjola Insurance Ltd	2.7
Notalar Oy	2.0
Others	3.5

On 19 April 2011, the total number of SATO shares was 51,001,842 and there were 30 shareholders entered in the book-entry securities register.

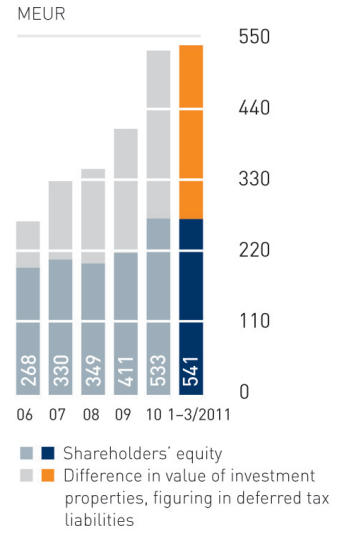
Profit before taxes  
2006 - 1-3/2011



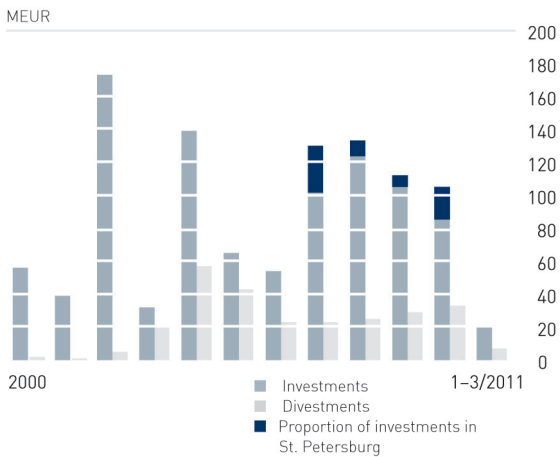
Change in value difference of  
investment properties  
2006 - 1-3/2011



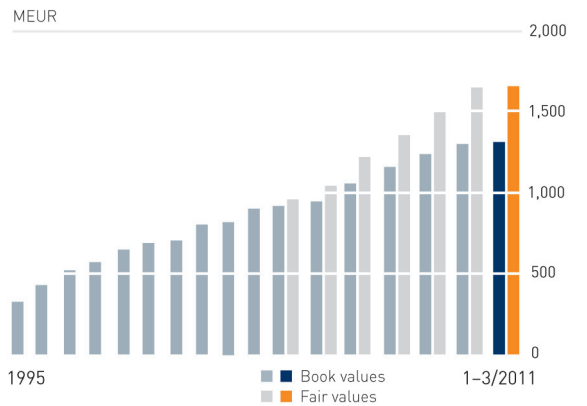
Net worth  
2006 - 1-3/2011



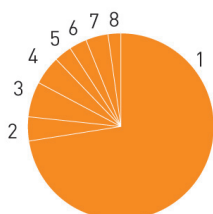
Investments and divestments 2000 - 1-3/2011



Trend in housing stock, book values 1995 - 1-3/2011 and fair values 2005 - 1-3/2011



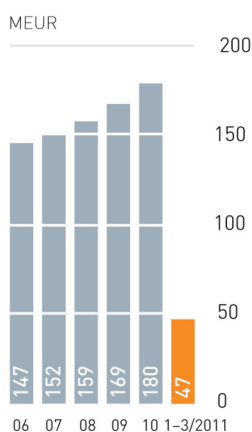
Regional distribution of housing portfolio, 31 March 2011



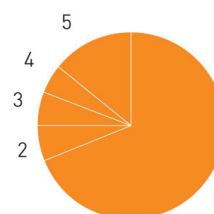
- 1 Helsinki Metropolitan Area 73%
- 2 Rest of Helsinki Region 4%
- 3 Tampere Region 6%
- 4 Jyväskylä Region 5%
- 5 Oulu Region 3%
- 6 Turku Region 3%
- 7 St. Petersburg 4%
- 8 Outside the designated area 2%

Total housing portfolio,  
fair value MEUR 1,681.2

Rental income  
2006 - 1-3/2011



Regional distribution of the building land inventory, (floor area, sq.m.) 31 March 2011



- 1 Helsinki Region 69%
- 2 Tampere 6%
- 3 Turku 6%
- 4 Jyväskylä 5%
- 5 Oulu 14%

Total approx. 327,000 floor area,  
sq.m., about 3,800 apartments

### 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 2011-2025. 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	1-3/2011	1-3/2011	1-3/2011	1-3/2010	1-3/2010	1-3/2010
Turnover	41.3	8.6	49.9	39.9	8.7	48.6
Net rental income	20.9	4.4	25.3	19.1	4.5	23.6
Profit before taxes	12.4	1.5	13.9	5.5	0.6	6.1
Gross investments in investment properties	21.4	0	21.4	12.5	0	12.5
Book value of the investment properties	1,110.6	206.9	1,317.5	1,025.4	221.8	1,247.2
Fair value of the investment properties	1,474.3	206.9	1,681.2	1,311.0	221.8	1,532.8
Rented homes (number)	17,406	4,103	21,509	17,010	4,401	21,411
Shared ownership apartments (number)	1 301	0	1,301	1,334	0	1,334

## Consolidated comprehensive profit and loss account, IFRS

MEUR	1 Jan.- 31 March 2011	1 Jan.- 31 March 2010	1 Jan.- 31 Dec. 2010
<b>TURNOVER</b>	49.9	48.6	192.9
Capital gains/losses on Investment Properties	3.1	2.0	12.0
Share of profit in associated companies	0.0	0.0	0.1
Other income from business operations	0.0	0.0	0.0
Consumption of materials and services	-1.1	-4.2	-11.7
Personnel expenses	-2.6	-2.3	-9.9
Depreciation, amortization and impairment charges	-5.0	-4.8	-19.4
Losses from disposals of Investment Properties	-0.1	0.0	-0.6
Other expenses of business operations	-23.4	-22.8	-88.7
<b>OPERATING PROFIT</b>	20.7	16.5	74.7
Financial income	0.1	0.1	0.6
Financial expenses	-6.9	-10.5	-33.7
	-6.8	-10.4	-33.1
<b>PROFIT BEFORE TAXES</b>	<b>13.9</b>	<b>6.1</b>	<b>41.6</b>
Income taxes	-3.6	-1.6	-10.9
<b>PROFIT FOR THE PERIOD</b>	<b>10.3</b>	<b>4.5</b>	<b>30.7</b>
<b>OTHER COMPREHENSIVE INCOME ITEMS</b>			
Cash flow hedges	9.0	-6.9	-3.4
Financial assets available for sale	0.0	0.0	0.1
Translation difference	0.0	0.0	0.0
Taxes applied to other comprehensive income items	-2.3	1.8	0.9
Other comprehensive income items for the accounting period after taxes	6.6	-5.1	-2.5
<b>COMPREHENSIVE INCOME FOR THE ACCOUNTING PERIOD, TOTAL</b>	<b>17.0</b>	<b>-0.6</b>	<b>28.2</b>
Distribution of net profit for financial period			
To the owners of the parent company	10.3	4.5	30.6
To the shareholders without a controlling interest	0.0	0.0	0.1
	10.3	4.5	30.7
Distribution of comprehensive income			
To the owners of the parent company	16.9	-0.7	28.1
To the shareholders without a controlling interest	0.0	0.0	0.1
	17.0	-0.6	28.2
Profit per share calculated on the profit due to the owners of the parent enterprise			
Earnings per share, €	0.20	0.10	0.62
Average number of shares, million	50.8	45.4	49.1

# Consolidated balance sheet, IFRS

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment Property	1,317.5	1,247.2	1,305.9
Tangible assets	1.1	1.3	1.0
Intangible assets	0.8	1.0	0.8
Holdings in joint ventures and associated companies	0.4	0.5	0.5
Financial assets available for sale	2.7	2.5	2.3
Receivables	7.0	6.4	7.0
Deferred tax receivables	20.1	22.2	22.2
	<b>1,349.6</b>	<b>1,281.1</b>	<b>1,339.6</b>
<b>Current assets</b>			
Inventories	114.0	93.5	107.1
Accounts receivable and other receivables	7.7	14.3	7.1
Tax credits based on the taxable income for the period	0.0	0.0	0.0
Cash and cash equivalents	16.6	24.8	18.0
	<b>138.3</b>	<b>132.6</b>	<b>132.2</b>
<b>ASSETS, TOTAL</b>	<b>1,487.8</b>	<b>1,413.7</b>	<b>1,471.8</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity due to the parent company's owners			
Share capital	4.4	4.4	4.4
Share issue		0.3	
Fair value reserve	-4.0	-13.3	-10.6
Reserve fund	43.7	43.7	43.7
Other funds	44.9	9.3	44.9
Retained earnings	182.6	163.6	190.1
	<b>271.7</b>	<b>208.1</b>	<b>272.5</b>
Proportion of shareholders without a controlling interest	0.7	1.6	1.7
<b>SHAREHOLDERS' EQUITY, TOTAL</b>	<b>272.3</b>	<b>209.7</b>	<b>274.2</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	71.0	68.1	70.3
Provisions	3.8	4.7	4.3
Interest-bearing debt	954.4	873.8	922.7
	<b>1,029.3</b>	<b>946.7</b>	<b>997.3</b>
<b>Current liabilities</b>			
Accounts payable and other liabilities	40.9	62.6	50.3
Income tax liabilities	5.9	0.0	4.8
Interest-bearing debt	139.5	194.7	145.2
	<b>186.3</b>	<b>257.3</b>	<b>200.3</b>
<b>LIABILITIES, TOTAL</b>	<b>1,215.5</b>	<b>1,204.0</b>	<b>1,197.6</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL</b>	<b>1,487.8</b>	<b>1,413.7</b>	<b>1,471.8</b>

## Consolidated cash flow statement, IFRS

MEUR	1 Jan. - 31 March 2011	1 Jan. - 31 March 2010	1 Jan. - 31 Dec. 2010
<b>Cash flow from operating activities</b>			
Net profit for period	10.3	4.5	30.7
Adjustments:			
Business activities not involving payment	3.3	6.2	19.3
Proceeds from sales of fixed assets	-3.0	-2.0	-11.4
Interest expenses and other financial expenses	8.5	9.1	33.8
Interest income	-0.1	-0.1	-0.5
Dividend income	0.0	0.0	-0.1
Taxes	3.6	1.6	10.9
<b>Cash flow before change in working capital</b>	<b>22.7</b>	<b>19.3</b>	<b>82.7</b>
Change in working capital:			
Change in accounts receivable and other receivables	-0.8	0.0	6.0
Change in inventories	-6.8	2.4	-11.4
Change in accounts payable and other liabilities	1.7	1.9	-0.1
Change in reserves	-0.5	-0.2	-0.7
Interest paid	-9.1	-11.6	-34.9
Interest received	0.3	0.1	0.3
Taxes paid	-1.6	-1.0	-4.3
<b>Net cash flow from operating activities</b>	<b>5.9</b>	<b>11.0</b>	<b>37.7</b>
<b>Cash flow from investing activities</b>			
Acquisition of subsidiaries less cash and cash equivalents at time of acquisition	-1.5	0.0	-5.9
Sale of subsidiaries less cash and cash equivalents at time of sale	0.6	0.0	0.2
Investments in tangible assets	-6.7	-7.3	-68.4
Investments in intangible assets	0.0	-0.1	0.0
Repayments of notes receivable	0.1	0.2	0.4
Loans granted	0.0	-0.2	-1.1
Sales of tangible assets	5.1	5.4	21.3
<b>Net cash flow from investing activities</b>	<b>-2.4</b>	<b>-2.0</b>	<b>-53.5</b>
<b>Cash flow from financing activities</b>			
Payments received from share issues	0.0	0.3	36.6
Repayments (-) / withdrawals (+) of short-term loans	-3.9	7.1	-31.7
Withdrawals of long-term loans	31.2	0.3	87.3
Repayments of long-term loans	-14.3	-14.5	-80.8
Dividends paid	-17.8	-10.9	-10.9
<b>Net cash flow from financing activities</b>	<b>-4.9</b>	<b>-17.7</b>	<b>0.4</b>
<b>Change in cash and cash equivalents</b>	<b>-1.4</b>	<b>-8.7</b>	<b>-15.4</b>
Cash and cash equivalents at the beginning of the period	18.0	33.4	33.4
<b>Cash and cash equivalents at the end of the period</b>	<b>16.6</b>	<b>24.8</b>	<b>18.0</b>

## Calculation of changes in Group shareholders' equity, 1 Jan.–31 March 2011

MEUR	Shareholders' equity due to the parent company's owners						Shareholders without a controlling interest	Shareholders' equity, total
	Share capital	Revaluation fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1 Jan. 2011</b>	<b>4.4</b>	<b>-10.6</b>	<b>43.7</b>	<b>44.9</b>	<b>190.1</b>	<b>272.5</b>	<b>1.6</b>	<b>274.2</b>
Comprehensive income for the accounting period, total		6.6			10.3	16.9	0.0	17.0
Dividend payment					-17.8	-17.8		-17.8
Share issue						0.0		0.0
Other adjustments						0.0	-1.0	-1.0
<b>Shareholders' equity 31 March 2011</b>	<b>4.4</b>	<b>-4.0</b>	<b>43.7</b>	<b>44.9</b>	<b>182.6</b>	<b>271.7</b>	<b>0.7</b>	<b>272.3</b>

## Calculation of changes in Group shareholders' equity, 1 Jan.–31 March 2010

MEUR	Shareholders' equity due to the parent company's owners						Shareholders without a controlling interest	Shareholders' equity, total
	Share capital	Revaluation fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1 Jan. 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
Share issue				0.3		0.3		0.3
Other adjustments						0.0		0.0
<b>Shareholders' equity 31 March 2010</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>

## NOTES TO THE INTERIM REPORT

SATO's interim report for the period 1 Jan.-31 March 2011 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 Jan.-31 Dec. 2010.

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 Jan.–31 March 2011

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	41.3	8.6		49.9
Internal turnover	0.0	0.0		0.0
Turnover, total	41.3	8.6		49.9
Profits/losses from divestments of Investment Properties	3.0	0.0		3.0
Depreciation, amortizations and impairment charges	-4.0	-1.0		-5.0
Operating profit	18.0	2.7		20.7
Interest income	0.1	0.0		0.1
Interest expenses	-5.7	-1.2		-6.9
Profit before taxes	12.4	1.5		13.9
Net rental income on the housing portfolio	20.9	4.4		25.3
Net rental income of rented homes, % of book value (%)	7.6	9.0		7.8
Investments	21.4			21.4
Acquisition of land for inventory	0.7			0.7
Depreciation and amortization	-4.0	-1.0		-5.0
Impairment charges				0.0
Assets and eliminations allocated to segments, total	1,272.6	221.7	-12.2	1,482.1
Investment Properties	1,110.6	206.9		1,317.5
Cash and cash equivalents	29.7	1.3		31.0
Other assets of the segment	132.1	13.3	-12.2	133.2
Holding in joint venture and associated companies	0.2	0.2		0.4
Unallocated assets				5.7
Assets, total				1,487.8
Liabilities and eliminations allocated to segments, total	951.9	204.8	-12.2	1,144.5
Interest-bearing debt	895.2	198.7		1,093.9
Other liabilities of segment	56.7	6.1	-12.2	50.6
Unallocated liabilities				71.0
Liabilities, total				1,215.5

## Segment information 1 Jan.–31 March 2010

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	39.9	8.7		48.6
Internal turnover	0.0	0.0		0.0
Turnover, total	39.9	8.7		48.6
Profits/losses from divestments 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	0.0		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 Jan.–31 Dec. 2010

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	158.8	34.1		192.9
Internal turnover	0.0	0.0		0.0
Turnover, total	158.8	34.1		192.9
Profits/losses from divestments of Investment Properties	7.3	4.1		11.4
Depreciation, amortizations and impairment charges	-15.4	-4.0		-19.4
Operating profit	62.7	12.0		74.7
Interest income	0.6	0.0		0.6
Interest expenses	-28.3	-5.4		-33.7
Profit before taxes	35.0	6.6		41.6
Net rental income on the housing portfolio	85.5	15.1		100.6
Net rental income of rented homes, % of book value (%)	8.3	7.0		7.9
Investments	104.3	0.0		104.3
Acquisition of land for inventory	14.5			14.5
Depreciation and amortization	-15.4	-4.0		-19.4
Impairment charges	0.0			0.0
Assets and eliminations allocated to segments, total	1,238.6	226.7	-15.7	1,449.6
Investment Properties	1,098.1	207.8		1,305.9
Cash and cash equivalents	16.2	1.8		18.0
Other assets of the segment	124.1	16.8	-15.7	125.2
Holding in joint venture and associated companies	0.2	0.3		0.5
Unallocated assets				22.2
Assets, total				1,471.8
Liabilities and eliminations allocated to segments, total	935.3	207.7	-15.7	1,127.3
Interest-bearing debt	867.2	200.7		1,067.9
Other liabilities of segment	68.1	7.0	-15.7	59.4
Unallocated liabilities				70.3
Liabilities, total				1,197.6

## 2. Investment properties

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
Acquisition cost, 1 Jan.	1,423.0	1,341.8	1,341.8
Additions; new properties	19.9	10.8	98.6
Additions; additional investments	1.5	1.7	5.7
Decreases	-3.5	-4.1	-23.6
Reclassifications	-1.4	0.0	0.6
Acquisition cost, total	1,439.5	1,350.2	1,423.0
Accumulated depreciation and write-downs, 1 Jan.	-117.1	-98.4	-98.4
Depreciation	-4.8	-4.6	-18.7
Accumulated depreciation and write-downs, total	-121.9	-103.0	-117.1
<b>Book value</b>	<b>1,317.5</b>	<b>1,247.2</b>	<b>1,305.9</b>
<b>Fair value</b>	<b>1,681.2</b>	<b>1,532.8</b>	<b>1,657.3</b>
Difference between fair and book value	363.7	285.6	351.4
Change in difference in value	12.3	26.0	91.8

An external assessor has given a statement on the fair value of SATO's investment properties as at 31 March 2011.

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 March 2011	31 March 2010	31 Dec. 2010
Book value at start of period	1.0	1.3	1.3
Increases	0.2	0.1	0.2
Decreases	0.0	0.0	-0.1
Depreciation for accounting period	-0.1	-0.1	-0.4
<b>Book value at end of period</b>	<b>1.1</b>	<b>1.3</b>	<b>1.0</b>

## 4. Inventories

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
Housing under construction	28.2	3.6	19.4
Completed housing units and commercial space	5.6	7.2	5.9
Land areas and land area companies	74.9	76.5	76.7
Other inventories	5.4	6.2	5.0
<b>Total</b>	<b>114.0</b>	<b>93.5</b>	<b>107.1</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 Jan. 2011	50,842	4.4	43.7	44.9	93.0
	0	0.0	0.0	0.0	0.0
<b>31 March 2011</b>	<b>50,842</b>	<b>4.4</b>	<b>43.7</b>	<b>44.9</b>	<b>93.0</b>

## 6. Financial liabilities

During the period under review, long-term foreign currency loans in the amount of SEK 179.5 million have been taken for so-called owner companies. The currency risk arising from these loans has been hedged to the full amount with interest rate and currency swaps. The hedging covers the currency risk both of interest payments and of repayments of principal. The euro counter-value of the currency loans at the time of the withdrawal of the loan was 20 million euros. The contingent liabilities on shares in housing companies have increased by 13.1 million euros, mostly on the basis of investments during the financial period.

For purposes of short-term financing, SATO has the use of a commercial paper programme 100 million euros, committed short-term credit limits 150 million euros and a non-committed current limit 5 million euros. On 31 March 2011, the commercial paper issued amounted to 94.3 million euros.

## 7. Derivatives

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
<b>Interest rate derivatives</b>			
Interest rate derivatives, par value,	481.1	552.5	451.3
of which included in calculation of hedging	371.1	435.4	341.3
Interest rate derivatives, fair value,	-9.9	-25.7	-20.4
of which included in calculation of hedging	-6.1	-18.4	-14.9
Interest and currency swaps, par value	20.0	-	-
Interest and currency swaps, fair value	0.1	-	-
<b>Currency derivatives</b>			
Forward rate agreements, par value,	7.1	-	7.1
of which included in calculation of hedging	5.4	-	5.3
Forward rate agreements, fair value,	-0.1	-	-0.2
of which included in calculation of hedging	0.1	-	-0.1

Loans denominated in foreign currency are hedged with interest and currency swaps. Currency derivatives are used to hedge purchase contracts denominated in foreign currency.

## 8. Collateral and contingency commitments

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
<b>Debts for which mortgages and pledges have been given as collateral</b>			
<b>Market loans</b>	<b>532.1</b>	<b>518.1</b>	<b>475.7</b>
Mortgages provided	63.4	86.3	63.4
Book value of pledged shares	572.6	558.4	567.3
Value of corporate mortgages pledged	0.0	0.0	0.0
Value of deposits pledged	0.0	0.3	0.0
<b>State-subsidised ARAVA loans</b>	<b>180.0</b>	<b>202.1</b>	<b>186.3</b>
Mortgages provided	347.0	375.6	351.3
Book value of pledged shares	23.8	25.2	23.8
<b>Interest-subsidised loans</b>	<b>98.6</b>	<b>97.4</b>	<b>98.6</b>
Mortgages provided	127.2	121.9	127.2
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	135.4	100.2	122.3
Mortgages provided	193.8	157.6	184.8
<b>Other commitments</b>			
Guarantees	3.2	0.6	2.6
<b>Guarantee pledges for others</b>			
Owner-occupier home purchase commitments	18.6	17.8	18.1
Rs-guarantees	8.9	12.2	9.0
<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	24.7	3.2	38.5
Pledges for land use payments on zoned plots	13.4	15.3	13.1
Letters of intent on land for which there is a zoning condition	7.5	7.5	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 96.9 on 31 March 2011 (MEUR 101.8 on 31 March 2010).

## 9. Related party events

The Group's related parties are comprised of the parent company, SATO Corporation, and the subsidiaries and associated companies. The owners are also counted as related parties when they have direct or indirect influence, meaning those owners whose holding in SATO is 20% or more are always related parties. When ownership falls below 20%, an owner is considered a related party when he has considerable influence in other ways, for example, through a seat on the Board of Directors. In 2009 and 2010 the shareholders included in related parties were Varma Mutual Pension Insurance Company, Ilmarinen Mutual Pension Insurance Company, Suomi Mutual Life Assurance Company and Wärtsilä Corporation.

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.

The following transactions were effected with related parties:

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
<b>Open balances with shareholders</b>			
Receivables	0.0	0.0	0.0
Debts	38.4	42.3	39.4

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

MEUR	31 March 2011	31 March 2010	31 Dec. 2010
<b>Management perquisites</b>			
Salaries and other short-term perquisites	0.8	0.3	1.5
Other long-term perquisites	0.0	0.0	0.0
<b>Total</b>	<b>0.8</b>	<b>0.3</b>	<b>1.5</b>

## 10. Key indicators

	31 March 2011	31 March 2010	31 Dec. 2010
Return on investment, %	6.1	5.2	5.7
Return on equity, %	15.1	8.4	12.4
Equity ratio, %	18.5	14.9	18.8
Equity ratio, % SATO business	20.3	17.0	20.8
Equity ratio, % SATO business at fair values	32.1	27.9	32.3
Earnings per share, €	0.20	0.10	0.62
Net worth per share, €			
- at book values	5.3	4.6	5.4
- at fair values	10.6	9.2	10.5
Number of shares, million *	50.8	45.4	50.8
Average number of shares, million	50.8	45.4	49.1
Gross investments, MEUR	21.6	12.6	104.3
Personnel, average	133	130	129

\*] The 160,000 shares held by the Group have been deducted from the number of shares.

## 11. Formulas for key indicators

Return on investment, %	=	$\frac{(\text{Profit or loss before taxes} + \text{interest expense and other financing expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing debts (average during the financial year)}}$
Return on equity, %	=	$\frac{(\text{Profit or loss after taxes}) \times 100}{\text{Shareholders' equity (average during the financial year)}}$
Equity ratio, %	=	$\frac{\text{Shareholders' equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$
Earnings per share, €	=	$\frac{\text{Net profit for year due to owners of parent company}}{\text{Adjusted number of shares (average during the financial year)}}$
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 is one of Finland's leading corporate investors in housing. SATO owns a total of some 23,000 rentable homes in Finland's largest centres of urban growth and St. Petersburg. Its investment assets have a fair value of roughly 1.7 billion euros.

SATO has set the goal of being the most efficient and progressive player in the market, which facilitates the constant improvement of customer services as well as generating added value for its shareholders.

SATO's value proposition:

*a home the way  
you want it*



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