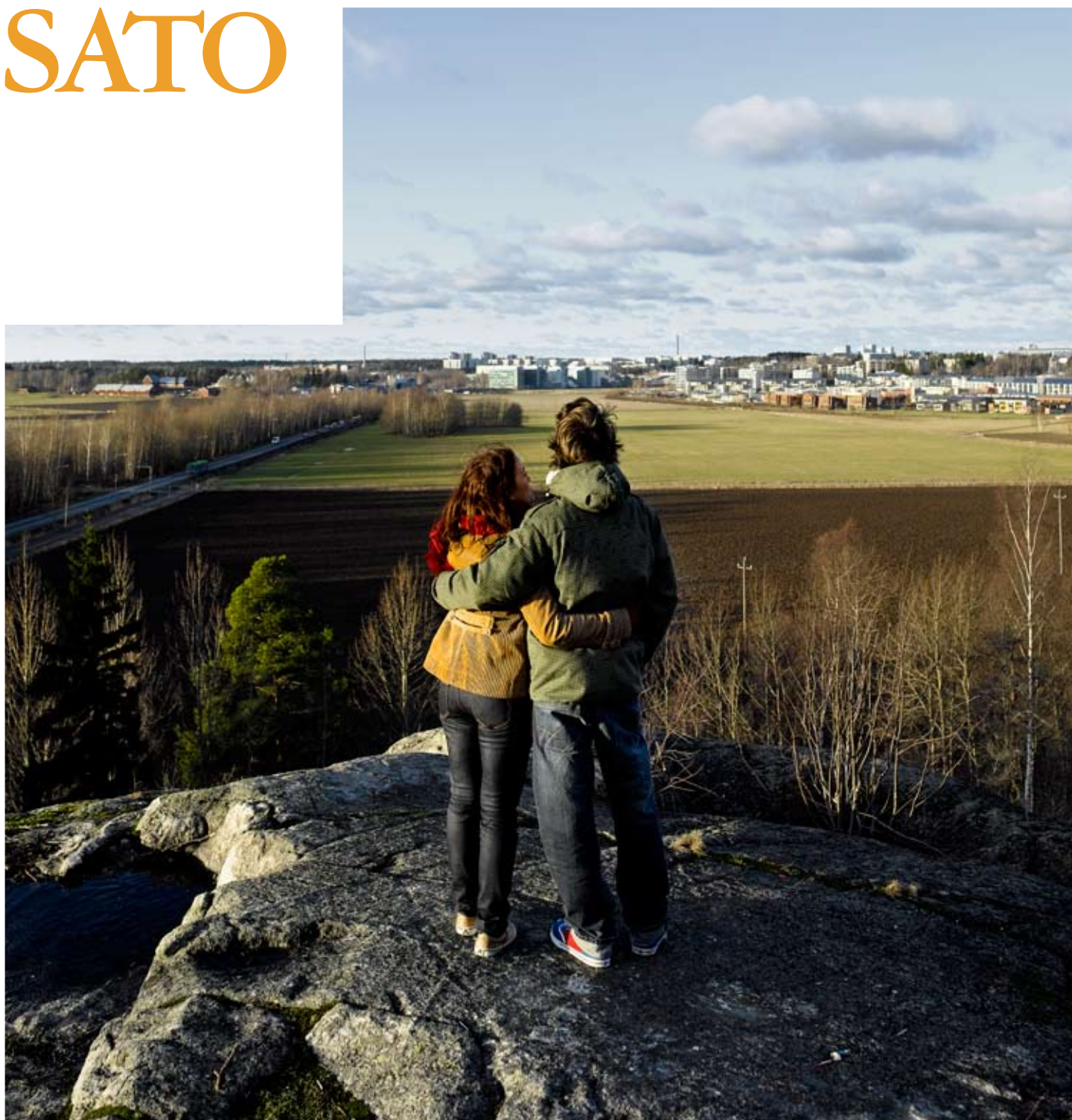


# SATO



Interim report 1.1.–31.3.2007

# SATO

## Interim report

### 1.1.–31.3.2007

#### Summary of the first quarter of 2007

- the Group's turnover was 74.0 (1.1. – 31.3.2006: 72.2) million euros
- profit before taxes was 10.7 (13.0) million euros
- return on equity was 16.5 (20.4) per cent
- return on investment was 7.2 (8.0) per cent
- investments in housing were 16.9 (9.0) million euros and divestments were 12.0 (7.5) million euros
- the financial rental occupancy rate for rented homes was 97.0 (97.0) per cent and the turnover rate was 31.2 (33.7) per cent
- the number of owner-occupied homes completed was 178 (35)

SATO is a company providing housing solutions, and its business is comprised of Investment in housing and Housing development and construction. SATO concentrates on owning, leasing, building and selling homes. Regionally its business focuses primarily on the economic zones of the Helsinki Metropolitan Area, Tampere, Turku, Oulu and Jyväskylä. During the past year, SATO started up investment in housing business in St Petersburg.

SATO owns roughly 22,000 rented homes with a balance sheet value of roughly a 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 five years we have invested an average of 90 million euros and divested 30 million euros per year. Roughly 1,000 new homes are built annually, of which 600 - 800 are owner-occupied homes for sale and the rest are homes in client commissioning projects.

In its history, SATO has built more than 220,000 new homes, representing approximately ten per cent of Finland's housing stock.

#### Change in accounting conventions

On 1 January 2007, SATO changed over to IFRS accounting conventions in its Group reporting. The figures for the first quarter of 2006 given in the interim report are comparative figures calculated in accordance with IFRS.

#### Turnover and profit

The Group's turnover for the early months of the year was 74.0 million euros (72.2 million euros 1.1-31.3.2006), of which the turnover from Investment in housing was 40.6 (39.9) million euros and the turnover from Housing development and construction was 33.4 (32.3) million euros.

The Group's profit before taxes for the period under review was 10.7 (13.0) million euros. This figure includes a total of 4.4 (4.3) million euros in capital gains on divestments. The net profit from Investment in housing for the period under review was 8.8 (10.9) million euros and the net profit from Housing development and construction was 1.9 (2.1) million euros. The downturn in profit is the result of deployments in repairs to housing and an increase in financial expenses.

#### Financial status

The consolidated balance sheet total at the end of the period under review was 1,161 (1,107) million euros. Shareholders' equity was 187.0 (171.4) million euros and the equity ratio was 17.0 (16.0) per cent. The Group's return on equity was 16.5 (20.4) per cent and its return on investment was 7.2 (8.0) per cent.

#### Financing

The cash position of the Group and parent company was favourable during the period under review. The Group's financial assets at the end of the period under review were 49.7 (39.4) million euros.

Interest-bearing liabilities at the end of the period under review were 820.6 (795.3) million euros, of which market rate loans totalled 398.6 (348.1) million euros, interest-subsidised loans totalled 100.8 (101.7) million euros, and state subsidised loans totalled 268.0 (290.0) million euros. At the end of the period under review, there were debts in the amount of 53.2 (55.5) 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, 219.6 (197.0) million euros was hedged with interest-rate swaps. The average maturity of the swaps was 34 (42) months.

## Investment in housing

The turnover from Investment in housing during the period under review was 40.6 (39.9) million euros and profit before taxes was 8.8 (10.9) million euros. The business area's profit includes a total of 4.4 (4.3) million euros capital gains on divestments.

During the period under review, 7.6 (4.3) million euros was spent on improving the quality of homes and on repairs.

On 31 March 2007, SATO owned a total of 22,220 (22,452) homes, of which rental homes accounted for 20,676 (20,770) and shared ownership apartments for 1,544 (1,682). The balance sheet value of the apartments was 970 (942) million euros. SATO applies the cost model to the investment properties and will show the fair value of the investment properties as a note to the financial statements of the year 2007.

In accordance with the Group's strategy, during the period under review, investments were made in 97 (125) rental homes. The investments totalled 16.9 (9.0) million euros. The main investments during the period were 41 new homes in the Helsinki Metropolitan Area purchased from YIT for 8.8 million euros and 175 privately financed homes in the Reimarla district of Helsinki purchased from Apteekkien Eläkekassa for 20.5 million euros, title to which was transferred to SATO in the beginning of April. A building in the Eira district of Helsinki with 22 apartments, built in 1911, was acquired from Svenska Folkskolans Vänner r.f for six million euros.

At the end of last year, SATO made a decision to initiate investment in housing business in St Petersburg. During the period under review, a letter of intent was signed with YIT for the acquisition of 21 new apartments, which are forecast for completion by the end of 2009. The price paid for the apartments was 10.9 million euros. It is SATO's intention to attain a position as the most significant foreign housing investor in St Petersburg.

A total of 406 (347) rented homes were divested from the housing portfolio and residents in shared ownership apartments purchased ownership of a total of 19 (15) homes. Divestments of housing totalled 12.0 (7.5) million euros. Due to the combined effect of investments and divestments, SATO's housing portfolio declined by 328 units compared with the situation at the beginning of the year.

The financial occupancy rate of rental homes during the period under review averaged 97.0 (97.0) per cent and that of shared ownership apartments averaged 99.6 (99.6) per cent. During the period under review, the occupant turnover in rental housing was 31.2 (33.7) per cent and in shared ownership apartments 9.0 (12.7) per cent. The average rent per square metre of SATO's rental homes during the period under review was 10.09 (9.75) euros per month. The average rent per square metre for shared ownership apartments was 8.61 (8.10) euros per month. The rental homes' net rental income based on book value on an annualised basis was 8.2 (8.3) per cent.

## Housing development and construction

The turnover from Housing development and construction during the period under review was 33.4 (32.3) million euros and profit before taxes was 1.9 (2.1) million euros. In accordance with IFRS accounting conventions, projects of owner-occupied homes are income-recognised according to overall percentage of completion.

During the period under review, a total of 178 (35) new owner-occupied homes were completed. The number of new owner-occupied homes started was 148 (21). Under construction were 1,087 (1,074) homes, of which 690 (763) were owner-occupied and 397 (311) were homes in client projects. At the end of the period under review, the Group had 360 (286) homes under construction and 34 (7) completed homes unsold.

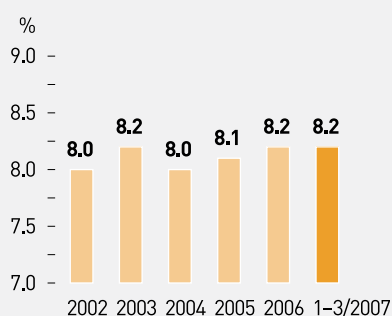
Investments in building land totalled 10.7 million euros, amounting to 34,600 square metres of permitted building area. The most significant acquisitions were a block for apartment buildings of roughly 17,000 square metres of floor area in the Linnainmaa district of Oulu and roughly 16,000 square metres of floor area in permitted building volume in the Sarfvik area of Kirkkonummi. Together, these will permit the construction of approximately 400 homes. The balance sheet value of the building land inventory at the end of the period under review was 46.8 (34.9) million euros.

## Personnel

At the end of the period under review, the Group had 176 (176) employees and during the period under review it had an average of 173 (176) employees.

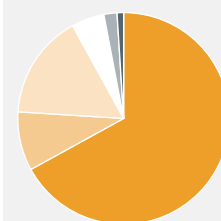
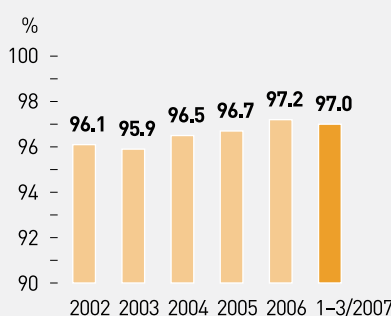
### Investment in housing

Net rental income at book value  
2002 – 1–3/2007



### Investment in housing

Financial occupancy rate of rental housing  
2002 – 1–3/2007



### Investment in housing

Regional distribution of housing  
portfolio 31 March 2007



Total housing portfolio MEUR 970



## Management

The Corporate Management Group is comprised of President and CEO Erkka Valkila, Vice President Tuula Entelä of the Investment in Housing Division, Vice President Pekka Komulainen of the Housing Development and Construction Division, Chief Financial Officer Harri Huttunen, Head of Legal Affairs Katri Innanen, and Director, Marketing and Communications Monica Aro.

## Annual general meeting, 29 March 2007

The annual general meeting adopted the financial statements and granted release from personal liability for 2006 to the members of the Board of Directors and the President and CEO. It was decided to pay dividend of 7.25 euros per share, totalling 15.9 million euros.

The number of members of SATO Corporation's Board of Directors was confirmed as seven. Fortum Corporation's Chief Financial Officer Juha Laaksonen was chosen as the chairman of the Board of Directors for the new term in office. Laaksonen and Tapiola Real Estate Ltd's Managing Director Asko Salminen were elected to the Board as new members. The members re-elected to the Board were Eino Halonen, Jorma Kuokkanen, Raimo Lind, Esko Torsti and Jouko Tuunainen.

The Board of Directors elected its members to committees. The Nomination and Compensation Committee is comprised of Juha Laaksonen as chairman, with Jorma Kuokkanen and Jouko Tuunainen as members. Raimo Lind was appointed to the Audit Committee as chairman and Asko Salminen and Esko Torsti as its members.

The auditors elected were KPMG Oy Ab, a firm of Authorised Public Accountants, with Markku Sohlman, APA, as the auditor in charge.

## Events after the period under review

In April, SATO signed a letter of intent with the Central Union of Agricultural Producers (MTK) for the acquisition of 141 rented homes and permitted building volume in Tapiola. The transaction will be effected by the end of June. The transaction also includes an office building of roughly 7,000 square metres on Itälahdenkatu in Lauttasaari, which will not be held by SATO on a long-term basis.

At the end of April, SATO purchased their shares in Sarfvik Oy from Pohjola Non-Life Insurance Company Ltd and UPM-Kymmene Corporation. After this transaction, SATO's permitted volume of residential building in the Sarfvik area of Kirkkonummi doubled to roughly 56,000 square metres of floor area.

## Outlook

SATO's net profit for 2006 was a record. Due to a downturn in divestments and a rise in interest rates, the Group's earnings from business operations in 2007 are expected to be lower than in the previous year but to be of a good standard. The rental income for Investment in housing is forecast to improve with the previous year's figures. The volume of Housing divestment business is forecast to be down on the previous year. Demand for and prices of owner-occupied homes are expected to level out. The number of owner-occupied homes built by the Group will be similar to the figure for the previous year.

## Shareholders in SATO Corporation, 24 April 2007

The ten biggest shareholders and their holdings (per cent)

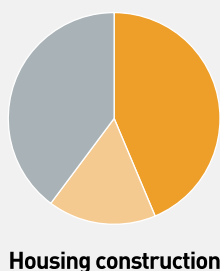
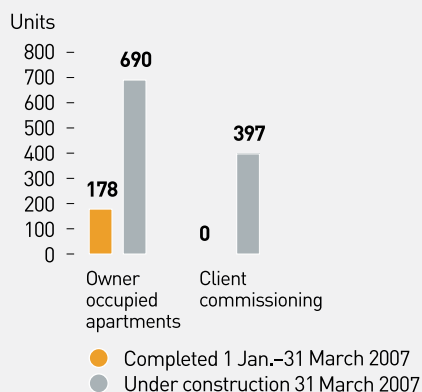
Varma Mutual Pension Insurance Company	39,9
Ilmarinen Mutual Pension Insurance	16,5
Suomi Mutual Life Assurance Company	15,3
Tapiola Insurance Group	7,5
Pohjola Non-Life Insurance Company Ltd	6,2
Tapiola Mutual Pension Insurance Company	5,2
Wärtsilä Corporation	4,5
Valentia Oy	0,8
Outokumpu Oyj	0,7
Boliden Kokkola Oy	0,6
Others	2,8

The Group had 32 shareholders on 24 April 2007.

On 7 February 2007, Varma Mutual Pension Insurance Company acquired the shares in SATO Corporation held by Kesko Corporation, amounting to a 16.5 per cent holding in the issued stock of SATO Corporation. SOK Corporation, Osuuskauppa Arina and Turun Osuuskauppa have sold the shares they held in SATO Corporation, amounting to 10.4 per cent holding in the issued stock of SATO Corporation, to Tapiola Insurance Group and Tapiola Mutual Pension Insurance Company.

### Housing construction

Construction of new housing 1-3/2007



### Housing construction

Reserve of plots for owner-occupied housing construction 31 March 2007 (sq.m. floor area) Total 387,000

- Zoned 169,000
- Framework zoning 64,000 \*)
- Letters of intent and allocations 154,000

\*) Permitted building volume in zoning proposals

## Consolidated profit and loss account

MEUR	IFRS	IFRS	IFRS
	1.1.– 31.3.2007	1.1.– 31.3.2006	1.1.– 31.12.2006
Turnover	74.0	72.2	331.2
Other income from business operations	4.5	5.0	12.4
Consumption of materials and supplies	-31.7	-30.2	-160.7
Personnel expenses	-2.6	-3.1	-10.6
Depreciation and write-downs	-4.3	-4.8	-19.8
Other expenses of business operations	-22.6	-20.7	-85.5
<b>Operating profit</b>	<b>17.3</b>	<b>18.4</b>	<b>67.0</b>
Financial income	0.7	0.8	2.6
Financial expenses	-7.3	-6.2	-26.8
<b>Profit before taxes</b>	<b>10.7</b>	<b>13.0</b>	<b>42.7</b>
Income taxes	-2.8	-4.1	-11.1
<b>Net profit for the period</b>	<b>7.9</b>	<b>8.9</b>	<b>31.6</b>
Distribution			
To the owners of the parent enterprise	7.9	8.9	31.5
To minorities	0.0	0.0	0.1
	7.9	8.9	31.6

Profit per share calculated on the profit due to the owners of the parent enterprise:  
Earnings per share, €

3.6	4.1	14.3
-----	-----	------

## Consolidated cash flow statement

MEUR	IFRS	IFRS	IFRS
	31.3.2007	31.3.2006	31.12.2006
Cash flow from operating activities	9.4	0.6	36.3
Cash flow from investments	-13.2	-2.8	-35.8
Cash flow from financial activities	12.2	7.8	6.9
<b>Change in cash and cash equivalents</b>	<b>8.4</b>	<b>5.7</b>	<b>7.5</b>
Cash and cash equivalents at start of period	41.3	33.8	33.9
<b>Cash and cash equivalents at end of period</b>	<b>49.7</b>	<b>39.4</b>	<b>41.3</b>

## Group's contingent liabilities

MEUR	31.3.2007	31.3.2006	31.12.2006
	Pledges	342	338
Mortgages on company assets	1	3	1
Mortgages on land areas and buildings	705	732	710
Guarantees	32	41	33
Repurchase commitments on shared ownership apartments	17	21	18
<b>Total</b>	<b>1,097</b>	<b>1,135</b>	<b>1,108</b>

## Liabilities on non-consolidated shared ownership apartments

MEUR	31.3.2007	31.3.2006	31.12.2006
	Loans	125	138
Mortgages	169	192	171
Advance payment liability equivalent to repurchase commitments	15	16	15
<b>Total</b>	<b>309</b>	<b>346</b>	<b>313</b>

## Consolidated balance sheet

MEUR	IFRS	IFRS	IFRS
	31.3.2007	31.3.2006	31.12.2006
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible assets included in fixed assets	2	3	1
Intangible assets	5	2	4
Investment properties	941	914	930
Holdings in associated companies	0	0	0
Other investments	19	16	20
Receivables	3	1	2
Deferred tax credits	12	11	12
	982	947	969
<b>Current assets</b>			
Inventories	69	62	68
Trade receivables and other receivables	60	59	45
Advance payments	0	0	0
Tax credits based on taxable income for period	0	0	2
Cash and cash equivalents	50	39	41
	179	160	156
<b>Assets, total</b>	<b>1,161</b>	<b>1,107</b>	<b>1,126</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity belonging to the owners of the parent company</b>			
Share capital	4	4	4
Other equity	183	167	190
	187	171	195
Minority interest	1	1	1
Shareholders' equity, total	188	173	196
<b>Long-term liabilities</b>			
Deferred tax liability	54	49	54
Reserves	7	6	7
Interest-bearing debts	786	753	783
Other debts	11	14	12
	858	822	856
<b>Current liabilities</b>			
Accounts payable and other debts	80	67	47
Tax liability based on taxable income for period	1	3	0
Reserves	0	0	0
Short-term interest-bearing debts	35	42	26
	115	112	73
<b>Liabilities, total</b>	<b>973</b>	<b>934</b>	<b>930</b>
<b>Shareholders' equity and liabilities, total</b>	<b>1,161</b>	<b>1,107</b>	<b>1,126</b>

## Key indicators for Group

MEUR	31.3.2007	31.3.2006	31.12.2006
	Return on investment (% annualised)	7.2	8.0
Return on equity (% annualised)	16.5	20.4	16.9
Net rental income of housing (% annualised)	8.2	8.3	8.2
Equity ratio (%)	17.0	16.0	17.8
Equity per share (EUR)	85.1	78.0	88.6
Gross investments (MEUR)	16.9	9.0	54.1
Average personnel	173	176	173

## Segment information 1.1.–31.3.2007

MEUR	Housing Investment development in housing and constr.	Other items	Total for Group
External sale	40.6	33.4	74.0
Internal sale	0.0	0.0	0.0
Turnover, total	40.6	33.4	74.0
Segment's profit after financial expenses	8.8	1.9	10.7

## Segment information 1.1.–31.3.2006

MEUR	Housing Investment development in housing and constr.	Other items	Total for Group
External sale	39.9	30.7	70.6
Internal sale	0.0	1.6	1.6
Turnover, total	39.9	32.3	72.2
Segment's profit after financial expenses	10.9	2.1	13.0

## Change in shareholders' equity 1–3/2007

MEUR	Share capital	Value adjustment fund	Revaluation fund	Reserve fund	Other reserves	Retained earnings	Total	Minority interest	Total
<b>Shareholders' equity at start of period</b>	4.4	2.1	0.0	43.7	0.4	144.2	194.8	1.3	196.1
Cash flow hedges		0.2				0.2	0.2		0.2
Net profit for accounting period						7.9	7.9		7.9
Other changes						0.1	0.1		0.1
Payment of dividend						-15.9	-15.9		-15.9
<b>Shareholders' equity at end of period</b>	<b>4.4</b>	<b>2.3</b>	<b>0.0</b>	<b>43.7</b>	<b>0.4</b>	<b>136.3</b>	<b>187.1</b>	<b>1.3</b>	<b>188.4</b>

## Change in shareholders' equity 1–3/2006

MEUR	Share capital	Value adjustment fund	Revaluation fund	Reserve fund	Other reserves	Retained earnings	Total	Minority interest	Total
<b>Shareholders' equity at start of period</b>	4.4	-0.5	0.2	43.7	0.4	127.9	176.1	1.3	177.4
Cash flow hedges		1.8				0.0	1.8		1.8
Net profit for accounting period						8.9	8.9		8.9
Other changes						0.0	0.0		0.0
Payment of dividend						-15.4	-15.4		-15.4
<b>Shareholders' equity at end of period</b>	<b>4.4</b>	<b>1.3</b>	<b>0.2</b>	<b>43.7</b>	<b>0.4</b>	<b>121.4</b>	<b>171.4</b>	<b>1.3</b>	<b>172.7</b>

## Calculation of reconciliation of shareholders' equity

MEUR	1.1.2006	31.3.2006
Shareholders' equity according to FAS	173.1	165.0
Effects of changeover to IFRS		
Percentage of completion	3.3	4.8
Cash flow hedges	-1.7	1.3
Financial leasing	0.0	0.0
Deferred taxes	0.1	-0.9
Other items	1.2	1.2
IFRS adjustments, total	3.0	6.4
<b>Shareholders' equity according to IFRS</b>	<b>176.1</b>	<b>171.4</b>

## Calculation of reconciliation of net profit for period

MEUR	1–3/2006
Net profit for period according to FAS	7.3
Percentage of completion	1.5
Cash flow hedges	0.6
Financial leasing	0.0
Deferred taxes	-0.4
IFRS adjustments, total	1.6
<b>Net profit for period according to IFRS</b>	<b>8.9</b>

Interim report 1 January – 30 June 2007 will be issued on 10 August 2007

Interim report 1 January – 30 September 2007 will be issued on 24 October 2007

