

# SATO Interim report 1.1.-30.9.2010



# SATO

## 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, 19 October 2010

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
Habinvest Oy	0.9
Others	2.6

On 19 October 2010, the total number of SATO shares was 51,001,842 and there were 30 shareholders entered in the book-entry securities register.

# SATO

## Interim report

### 1.1.–30.9.2010

#### Summary of the period 1-9/2010 (1-9/2009)

- Profit before taxes improved and was 32.1 (20.6) million euros.
- The Group's turnover was 142.5 (176.0) million euros; the downturn was due to low levels of housing construction.
- Operating profit was 58.9 (52.9) million euros.
- Rental income increased by 6.5 per cent to 133.9 (125.7) million euros.
- Net rental income from leasing increased by 5.7% to 75.5 (71.4) million euros.
- Investments in investment properties were 77.9 (76.5) million euros.
- Return on equity was 13.0 (9.9) per cent, return on investment was 6.1 (5.6) per cent.
- The difference between book value and fair value of investment properties grew during the period under review by 42.9 (11.7) million euros and was 302.5 (209.5) million euros.
- Earnings per share were 0.48 (0.34) 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 1.6 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.

#### President and CEO Erkkä Valkila:

"SATO's location strategy for its housing and our deployments in customer service are yielding the desired results. The rental occupancy rate of the investment properties has risen to an excellent level and occupant turnover is lower than in the comparison period.

SATO has continued to invest in rented housing in Finland and it has also increased its investments in this in St. Petersburg.

Sales of owner-occupied housing have picked up and we have started new owner-occupied housing projects in Finland."

#### The business climate

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

Few new rented homes have been completed, but housing starts with state financial assistance in 2009 and 2010 will boost supply in the near future. The trend in rents has been moderate this year and rent increases have been slightly above inflation.

Construction of new owner-occupied housing has increased due to rising demand.

#### Turnover and profit

The Group's turnover was 142.5 million euros (176.0 million euros 1.1–30.9.2009). Rental income accounted for 133.9 (125.7) million euros of turnover. During the period under review the rental occupancy rate improved and rental income grew by 6.5 per cent. The Group's turnover was down relative to the comparison period due to low levels of housing construction. Of turnover, 116.8 (147.7) million euros was generated by SATO business and 25.7 (28.3) million euros by VATRO business.

Operating profit for the period under review was 58.9 (52.9) million euros.

The Group's profit before taxes for the period under review was 32.1 (20.6) million euros. The figure includes 10.1 (7.1) 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. A drag on profit was exerted by a change in the market value of interest-rate hedging to the tune of -1.0 (-2.8) million euros.

SATO business accounted for 24.8 (16.8) million euros of the profit before taxes and VATRO business for 7.3 (3.8) million euros.

#### Financial status and financing

The consolidated balance sheet total at the end of the period under review totalled 1,439.4 (1,412.0) million euros. Shareholders' equity was 263.7 (212.6) million euros. A share issue carried out in April boosted shareholders' equity by 36.6 million euros.

A target has been set in the Group for equity ratio to be no less than 25 per cent calculated by the fair value of investment properties in SATO business. At the end of the period under review it was 31.0 (26.4) per cent. The entire Group's equity ratio calculated at the book value of the investment properties was 18.4 (15.2) per cent, and, when calculated at fair value, 20.4 (17.9) per cent.

The Group's return on equity was 13.0 (9.9) per cent. Return on investment was 6.1 (5.6) 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 15.7 (45.5) million euros. During the period under review, the capital tied up in inventories declined by 7.4 million euros.

Interest-bearing liabilities at the end of the period under review were 1,042.9 (1,067.6) million euros, of which market rate loans totalled 600.9 (618.3) million euros, pension insurance loans totalled 39.9 (43.6) million euros, interest-subsidised loans totalled 100.1 (97.7) million euros, and state-subsidised loans totalled 192.3 (219.4) million euros. There were debts in the amount of 109.7 (88.6) 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 2.3 by million euros.

Of the capital of market rate loans at the end of the period under review, 73 (61) per cent or a total of 431.4 (372.3) million euros was hedged with interest-rate swaps. The average maturity of the swaps was 3.5 (2.5) years. During the period under review, the computational effect of changes in the market value of hedging on the shareholders' equity was -7.0 (-2.8) million euros and the effect on net profit was -1.0 (-2.8) 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 30 September 2010, SATO held a total of 22,753 (22,347) homes, of which 18,649 (17,418) were included in SATO business and 4,104 (4,929) were included in VATRO business. There were 21,430 (20,995) rented homes and 1,323 (1,401) shared ownership apartments. The number of homes decreased during the period under review by 16.

The book value of the investment properties totalled 1,286.9 (1,216.0) million euros, of which St. Petersburg accounted for 57.6 (43.6) million euros. The fair value of the investment properties totalled 1 589.5 (1 425.5) million euros. During the period under review, the book value of the housing portfolio grew by 43.5 (52.5) million euros and its fair value by 86.5 (64.2) million euros.

The positive difference between the fair value and the book value was 302.5 (209.5) million euros and it increased during the period under review by 42.9 (11.7) 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. 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 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 77.9 (76.5) million euros. Investments were used to purchase 570 (392) rented homes. In September, 208 rented homes in Helsinki and Tampere were acquired from the Trade Union for the Public and Welfare Sectors. The value of the deal was 9.6 million euros.

As at 30 September there were a total of 334 (294) rented homes in Finland under construction for ownership by the Group, of which 313 are being built with interest-subsidised financing on the so-called interim model in the Helsinki Metropolitan Area and in Oulu.

St. Petersburg's share of the investments was 10.4 (4.5) million euros. As a result of the improvement in the economic situation in St. Petersburg, new investments were made in St. Petersburg with the acquisition of 40 apartments under construction. At the end of September, SATO had a total of 61 (38) apartments under construction and 51 (34) completed apartments in St. Petersburg.

### Rental business

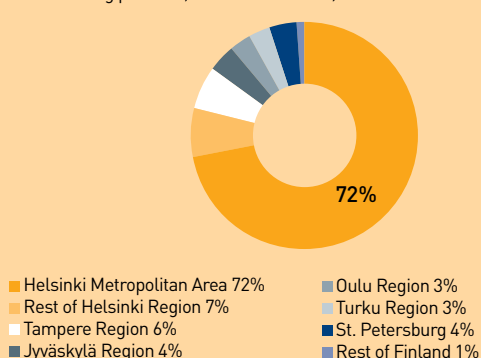
Rental business secures a steady trend in cash flow. Rental services are mostly handled by SATO's renting offices.

The key indicators for rental business were at a favourable level during the period under review. The consolidation of housing in regions with high demand has created a basis for a positive trend in rental occupancy rates.

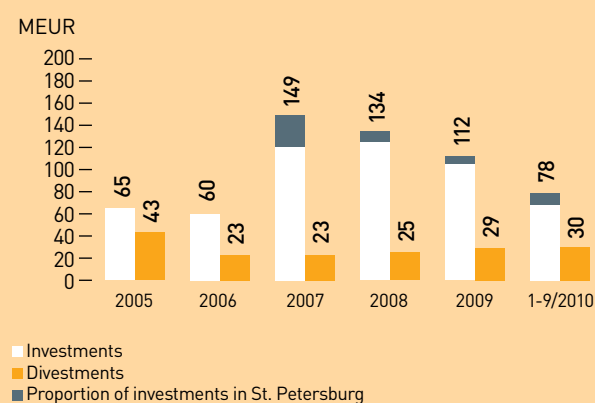
The financial occupancy rate of the housing during the

### Regional distribution of housing portfolio, 30 September 2010

Total housing portfolio, fair value MEUR 1,589.5



### Investments and divestments 2005 - 1-9/2010

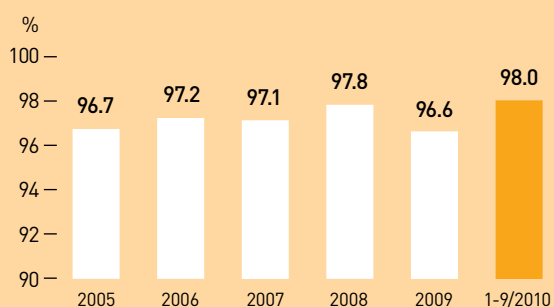


## Information on segments

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.

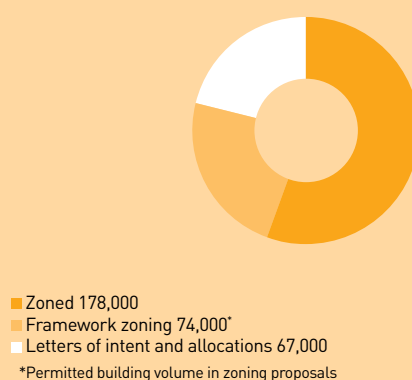
	SATO business	VATRO business	Total	SATO business	VATRO business	Total
MEUR	1-9/2010	1-9/2010	1-9/2010	1-9/2009	1-9/2009	1-9/2009
Turnover	116.8	25.7	142.5	147.7	28.3	176.0
Net rental income	63.2	14.0	77.2	56.4	16.5	72.9
Profit before taxes	24.8	7.3	32.1	16.8	3.8	20.6
Gross investments in investment properties	77.9	-	77.9	76.5	-	76.5
Book value of the investment properties	1,078.2	208.7	1,286.9	975.2	240.8	1,216.0
Fair value of the investment properties	1,380.8	208.7	1,589.5	1,184.7	240.8	1,425.5
Rented homes (number)	17,326	4,104	21,430	16,066	4,929	20,995
Shared ownership apartments (number)	1,323	-	1,323	1,352	-	1,352
Completed owner-occupied homes (number)	31	-	31	179	-	179

### Financial occupancy rate of rental housing 2005 - 1-9/2010



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

Total 319,000, approx. 3,600 homes



period under review averaged 98.0 (96.5) per cent and tenant turnover averaged 28.8 (32.0) per cent. During the period under review, a new customer management data system was introduced and resources for renting were stepped up.

The average monthly rent per square metre during the period under review was EUR 12.09 (11.62) for rental housing and 8.87 (9.11) for shared ownership apartments.

The net rental income on the housing portfolio was 77.3 (72.9) million euros. The net rental income annualised on the book value of rental housing was 8.1 (7.9) per cent and 6.6 (6.9) 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.

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 29.5 (19.4) million euros.

Sales of plots of land and other divestments totalled 4.1 (5.8) million euros.

The net profit on sales amounted to 11.7 (11.3) million euros.

## 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 book value of the building land inventory held at the end of the period under review was 62.6 (70.6) million euros. The value of acquisitions of plots of land during the period under review was 0.6 (1.6) million euros. Plots valued at 10.9 (0) million euros were transferred to production.

During the period under review 31 (179) owner-occupied homes were completed and 196 (21) were started. There were 216 (70) owner-occupied homes under construction at the end of the period.

During the period under review, 64 (160) owner-occupied apartments were sold, to a value of 18.8 (37.6) million euros. Unsold at the end of the period under review there were 161 (47) owner-occupied apartments under construction and one (28) completed ones.

## Personnel

At the end of the period under review, the Group had 128 (131) employees and during the period under review it had an average of 130 (134) employees.

## Share issue

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.

## Events after the end of the period under review

In October, a joint company of SATO Corporation, SRV Housing and Ilmarinen Mutual Pension Insurance Company acquired plots and an office building in the Perkkää district of Espoo owned by Siemens Osakeyhtiö. A change in planning permission for the area is in progress with the aim of creating an enjoyable area of apartment buildings for roughly 3,000 residents.

## 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 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. According to forecasts, the rise in interest rates will continue to be moderate for the remainder of 2010.

Demand for rented homes continues to be good and the net profit of SATO's rental business will be an improvement on last year's figures.

The prospects for the investments in rented housing envisaged in the growth strategy continue to be good. Investments in newly built projects are being carried out in 2010 by SATO mainly with interest-subsidised financing on the so-called interim model.

Recovery in the economy of Russia is forecast to continue, as a result of which SATO will expand its investments in St. Petersburg.

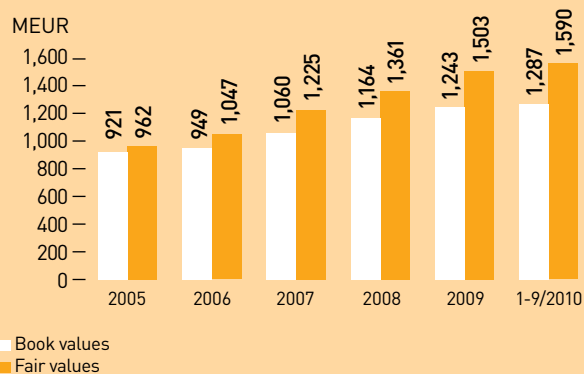
As a result of a recovery in the market for owner-occupied homes, SATO aims to increase the number of building starts for owner-occupied home projects in 2011.

The consolidated profit before taxes for 2010 is forecast to improve clearly on that of the previous year.

## Consolidated profit and loss account, IFRS

MEUR	1.7.-30.9.2010	1.7.-30.9.2009	1.1.-30.9.2010	1.1.-30.9.2009	1.1.-31.12.2009
<b>Turnover</b>	45.8	50.5	142.5	176.0	230.4
Capital gains/losses on Investment Properties	0.4	1.3	10.7	7.2	13.0
Share of profit in associated companies	0.0	0.0	0.1	0.0	0.1
Other income from business operations	0.0	0.1	0.1	0.7	0.6
Consumption of materials and services	-0.5	-9.6	-7.4	-49.0	-60.8
Personnel expenses	-2.5	-2.1	-6.8	-6.9	-9.8
Depreciation, amortization and impairment charges	-4.9	-4.3	-14.5	-13.8	-18.5
Losses from disposals of Investment Properties	0.0	-0.1	-0.6	-0.1	-0.1
Other expenses of business operations	-20.4	-19.5	-65.2	-61.2	-84.0
<b>Operating profit</b>	<b>17.8</b>	<b>16.3</b>	<b>58.9</b>	<b>52.9</b>	<b>70.8</b>
Financial income	0.2	0.1	0.4	0.6	0.9
Financial expenses	-8.6	-10.5	-27.2	-33.0	-41.5
	-8.4	-10.4	-26.8	-32.3	-40.6
<b>Profit before taxes</b>	<b>9.4</b>	<b>5.9</b>	<b>32.1</b>	<b>20.6</b>	<b>30.2</b>
Income taxes	-2.5	-1.4	-8.4	-5.1	-7.5
<b>Profit for the period</b>	<b>6.9</b>	<b>4.5</b>	<b>23.6</b>	<b>15.5</b>	<b>22.7</b>
<b>Other comprehensive income items</b>					
Cash flow hedges	0.5	-0.4	-9.5	-3.8	-2.2
Financial assets available for sale	0.1	0.1	0.1	0.1	0.1
Translation difference	0.0	-0.1	0.0	-0.1	0.0
Taxes applied to other comprehensive income items	-0.2	0.1	2.5	1.0	0.5
Other comprehensive income items for the accounting period after taxes	0.5	-0.3	-7.0	-2.8	-1.6
<b>Comprehensive income for the accounting period, total</b>	<b>7.4</b>	<b>4.2</b>	<b>16.6</b>	<b>12.7</b>	<b>21.2</b>
Distribution of net profit for financial period					
To the owners of the parent company	6.8	4.5	23.4	15.3	22.6
To minorities	0.1	0.1	0.2	0.2	0.1
	6.9	4.5	23.6	15.5	22.7
Distribution of comprehensive income					
To the owners of the parent company	16.4	4.2	16.4	12.5	21.0
To minorities	0.2	0.1	0.2	0.2	0.1
	16.6	4.2	16.6	12.7	21.2
Profit per share calculated on the profit due to the owners of the parent enterprise					
Earnings per share, €	0.13	0.10	0.48	0.34	0.50
Average number of shares, million	51.0	45.4	48.5	45.2	45.3

### Trend in the housing portfolio 2005 - 1-9/2010



## Consolidated balance sheet, IFRS

MEUR	30.9.2010	30.9.2009	31.12.2009
<b>Assets</b>			
<b>Non-current assets</b>			
Investment Property	1,286.9	1,216.0	1,243.4
Tangible assets	1.1	1.4	1.3
Intangible assets	0.9	1.0	1.0
Holdings in joint ventures and associated companies	0.4	0.5	0.6
Financial assets available for sale	3.2	2.3	2.3
Receivables	7.1	9.4	6.0
Deferred tax receivables	22.2	22.1	19.5
	1,321.9	1,252.5	1,274.1
<b>Current assets</b>			
Inventories	88.3	94.3	95.7
Accounts receivable and other receivables	13.5	17.4	13.0
Tax credits based on the taxable income for the period	0.0	2.3	1.7
Cash and cash equivalents	15.7	45.5	33.4
	117.5	159.5	143.8
<b>Assets, total</b>	<b>1,439.4</b>	<b>1,412.0</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
Fair value reserve	-15.2	-9.3	-8.2
Reserve fund	43.7	43.7	43.7
Other funds	45.9	9.3	9.3
Retained earnings	183.0	162.8	170.1
	261.9	211.0	219.4
Minority interest	1.8	1.6	1.6
<b>Shareholders' equity, total</b>	<b>263.7</b>	<b>212.6</b>	<b>221.0</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	72.4	69.3	66.6
Provisions	4.5	5.5	5.0
Interest-bearing debt	888.6	901.0	886.3
	965.6	975.8	957.9
<b>Current liabilities</b>			
Accounts payable and other liabilities	55.9	57.0	52.2
Income tax liabilities	0.0	0.0	1.8
Interest-bearing debt	154.2	166.6	185.2
	210.1	223.7	239.1
<b>Liabilities, total</b>	<b>1,175.7</b>	<b>1,199.4</b>	<b>1,197.0</b>
<b>Shareholders' equity and liabilities, total</b>	<b>1,439.4</b>	<b>1,412.0</b>	<b>1,418.0</b>



## Consolidated cash flow statement, IFRS

MEUR	1.1.- 30.9.2010	1.1.- 30.9.2009	1.1.- 31.12.2009
<b>Cash flow from operating activities</b>			
Net profit for period	23.6	15.5	22.7
Adjustments:			
Business activities not involving payment	15.8	13.8	20.4
Proceeds from sales of fixed assets	-10.3	-7.2	-12.9
Interest expenses and other financial expenses	25.9	33.0	39.6
Interest income	-0.3	-0.6	-0.9
Dividend income	-0.1	0.0	-0.1
Taxes	8.4	5.1	7.5
Change in working capital:			
Change in accounts receivable and other receivables	0.2	-10.2	-5.5
Change in inventories	7.7	30.0	32.3
Change in accounts payable and other liabilities	-2.1	0.8	1.8
Change in reserves	-0.5	-0.6	-1.2
Interest paid	-28.0	-35.6	-43.5
Interest received	0.3	1.0	1.8
Taxes paid	-3.1	-4.9	-5.7
<b>Net cash flow from operating activities</b>	<b>37.5</b>	<b>40.0</b>	<b>56.4</b>
<b>Cash flow from investing activities</b>			
Investments in tangible assets	-61.6	-43.8	-76.2
Investments in intangible assets	0.0	-0.1	-0.4
Repayments of notes receivable	0.4	2.3	2.3
Loans granted	-1.0	-0.3	-1.2
Sales of tangible assets	18.8	14.9	23.3
<b>Net cash flow from investing activities</b>	<b>-43.4</b>	<b>-26.9</b>	<b>-52.0</b>
<b>Cash flow from financing activities</b>			
Payments received from share issues	36.6	0.0	0.0
Repayments (-) / withdrawals (+) of short-term loans	-23.5	-52.7	-41.1
Withdrawals of long-term loans	54.9	97.9	112.4
Repayments of long-term loans	-69.1	-48.9	-78.3
Dividends paid	-10.9	-10.7	-10.7
<b>Net cash flow from financing activities</b>	<b>-12.0</b>	<b>-14.4</b>	<b>-17.8</b>
<b>Change in cash and cash equivalents</b>	<b>-17.7</b>	<b>-1.3</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>15.7</b>	<b>45.5</b>	<b>33.4</b>

## Calculation of changes in Group shareholders' equity, 1.1.–30.9.2010

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		-7.0			23.4	16.4	0.1	16.6
Dividend payment					-10.9	-10.9		-10.9
Directed share issue				36.6		36.6		36.6
Other adjustments					0.4	0.4		0.4
<b>Shareholders' equity 30.9.2010</b>	<b>4.4</b>	<b>-15.2</b>	<b>43.7</b>	<b>45.9</b>	<b>183.0</b>	<b>261.9</b>	<b>1.8</b>	<b>263.7</b>

## Calculation of changes in Group shareholders' equity, 1.1.–30.9.2009

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		-2.7		0.0	15.3	12.6	0.1	12.7
Dividend payment					-10.7	-10.7		-10.7
Directed share issue				6.2		6.2		6.2
Other adjustments						0.0		0.0
<b>Shareholders' equity 30.9.2009</b>	<b>4.4</b>	<b>-9.3</b>	<b>43.7</b>	<b>9.3</b>	<b>162.8</b>	<b>211.0</b>	<b>1.6</b>	<b>212.6</b>

## Notes to the interim report

SATO's interim report for the period 1.1.-30.9.2010 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.–30.9.2010

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	116.8	25.7		142.5
Internal turnover				
Turnover, total	116.8	25.7		142.5
Profits/losses from selling of Investment Properties	5.3	4.8		10.1
Depreciation, amortizations and impairment charges	-11.5	-3.0		-14.5
Operating profit	47.3	11.6		58.9
Interest income	0.4	0.0		0.4
Interest expenses	-22.9	-4.3		-27.2
Profit before taxes	24.8	7.3		32.1
Net rental income on the housing portfolio	63.2	14.0		77.2
Net rental income of rented homes, % of book value (%)	8.3	7.7		8.1
Investments	77.9			77.9
Acquisition of land for inventory	0.0			0.0
Depreciation and amortization	-11.5	-3.0		-14.5
Impairment charges				0.0
Assets and eliminations allocated to segments, total	1,192.3	226.9	-14.1	1,405.1
Investment Properties	1,078.2	208.7		1,286.9
Cash and cash equivalents	1.0	2.6		3.6
Other assets of the segment	112.9	15.4	-14.1	114.2
Holding in joint venture and associated companies	0.2	0.2		0.4
Unallocated assets				34.3
Assets, total				1,439.4
Liabilities and eliminations allocated to segments, total	908.1	209.3	-14.1	1,103.3
Interest-bearing debt	837.8	205.1		1,042.9
Other liabilities of segment	70.3	4.2	-14.1	60.4
Unallocated liabilities				72.4
Liabilities, total				1,175.7

## Segment information 1.1.–30.9.2009

MEUR	SATO business	VATRO business	Eliminations	SATO Group, total
External turnover	147.7	28.3		176.0
Internal turnover				
Turnover, total	147.7	28.3		176.0
Profits/losses from selling of Investment Properties	6.5	0.7		7.2
Depreciation, amortizations and impairment charges	-10.3	-3.5		-13.8
Operating profit	41.7	11.2		52.9
Interest income	0.6	0.1		0.6
Interest expenses	-25.4	-7.6		-33.0
Profit before taxes	16.8	3.8		20.6
Net rental income on the housing portfolio	56.4	16.5		72.9
Net rental income of rented homes, % of book value (%)	7.8	8.2		7.9
Investments	76.5			76.5
Acquisition of land for inventory				0.0
Depreciation and amortization	-10.3	-3.5		-13.8
Impairment charges	0.0			0.0
Assets and eliminations allocated to segments, total	1,127.5	245.1		1,372.6
Investment Properties	975.2	240.8		1,216.0
Cash and cash equivalents	28.0	2.5		30.5
Other assets of the segment	124.1	1.6		125.7
Holding in joint venture and associated companies	0.2	0.2		0.4
Unallocated assets				39.4
Assets, total				1,412.0
Liabilities and eliminations allocated to segments, total	892.3	237.8		1,130.1
Interest-bearing debt	833.3	234.3		1,067.6
Other liabilities of segment	59.0	3.5		62.5
Unallocated liabilities				69.3
Liabilities, total				1,199.4

## 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				
Turnover, total	192.6	37.8		230.4
Profits/losses from selling of Investment Properties	11.7	1.2		12.9
Depreciation, amortizations and impairment charges	-13.7	-4.8		-18.5
Operating profit	56.8	14.0		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		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		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		58.9
Unallocated liabilities				66.6
Liabilities, total				1,197.0

## 2. Investment properties

MEUR	30.9.2010	30.9.2009	31.12.2009
Acquisition cost, 1 Jan.	1,341.8	1,244.2	1,244.2
Additions; new properties	74.0	73.9	107.4
Additions; additional investments	3.8	2.6	4.6
Decreases	-19.5	-12.3	-15.6
Reclassifications	-1.1	1.5	1.2
Acquisition cost, total	1,399.1	1,309.9	1,341.8
Accumulated depreciation and write-downs, 1 Jan.	-98.4	-80.7	-80.7
Depreciation	-13.8	-13.2	-17.7
Accumulated depreciation and write-downs, total	-112.2	-93.9	-98.4
<b>Book value</b>	<b>1,286.9</b>	<b>1,216.0</b>	<b>1,243.4</b>
<b>Fair value</b>	<b>1,589.5</b>	<b>1,425.5</b>	<b>1,503.0</b>
Difference between fair and book value	302.5	209.5	259.6
Change in difference in value	42.9	11.7	61.8

An external assessor has given a statement on the fair value of SATO's investment properties as at 30 September 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	30.9.2010	30.9.2009	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	-0.3	-0.4	-0.5
<b>Book value at end of period</b>	<b>1.1</b>	<b>1.4</b>	<b>1.3</b>

## 4. Inventories

MEUR	30.9.2010	30.9.2009	31.12.2009
Housing under construction	14.0	6.9	0.6
Completed housing units and commercial space	5.8	11.4	9.9
Land areas and land area companies	62.6	68.6	78.3
Other inventories	5.9	7.4	7.0
<b>Total</b>	<b>88.3</b>	<b>94.3</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	5,629	0.0	0.0	36.6	36.6
30.9.2010	51,002	4.4	43.7	45.9	94.0

## 6. Financial liabilities

During the period, further long-term loans were taken in so-called ownership companies to a total of 54.9 million euros. Contingent liabilities applied to shares in housing companies have increased by 13.5 million euros based principally on investments for the accounting period.

For short-term financing, SATO now has a MEUR 100 commercial paper programme in use as well as MEUR 150 plus a non-binding current account limit MEUR 5 in binding credit limits on short-term loans. On 30 September 2010 the commercial paper issued amounted to 95.6 million euros and the credits raised on short-term credit limits were 12.0 million euros.

## 7. Derivatives

MEUR	30.9.2010	30.9.2009	31.12.2009
<b>Interest rate derivatives</b>			
Interest rate derivatives, par value,	451.4	531.6	532.6
of which included in calculation of hedging	341.4	421.6	361.8
Interest rate derivatives, fair value,	-27.8	-19.7	-17.3
of which included in calculation of hedging	-21.1	-13.1	-11.5
<b>Currency derivatives</b>			
Forward rate agreements, par value	2.8		
Forward rate agreements, fair value	-0.2		

Currency derivatives are used to hedge foreign currency-denominated purchase contracts.

## 8. Collateral and contingency commitments

MEUR	30.9.2010	30.9.2009	31.12.2009
<b>Debts for which mortgages and pledges have been given as collateral</b>			
<b>Market loans</b>	<b>460.2</b>	<b>497.1</b>	<b>528.1</b>
Mortgages provided	82.2	56.2	86.3
Book value of pledged shares	588.8	546.0	560.6
Value of corporate mortgages pledged	0.0	0.0	0.0
Value of deposits pledged	0.8	3.5	0.3
<b>State-subsidised ARAVA loans</b>	<b>186.8</b>	<b>217.0</b>	<b>206.3</b>
Mortgages provided	353.5	391.2	376.6
Book value of pledged shares	23.9	27.5	25.2
<b>Interest-subsidised loans</b>	<b>100.0</b>	<b>97.7</b>	<b>97.4</b>
Mortgages provided	127.2	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	109.7	88.6	96.2
Mortgages provided	163.8	122.3	139.6
<b>Other commitments</b>			
Guarantees	0.0	1.1	0.6
<b>Guarantee pledges for others</b>			
Owner-occupier home purchase commitments	17.7	17.6	17.4
Rs-guarantees	12.2	16.9	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	5.4	14.7	6.6
Pledges for land use payments on zoned plots	14.5	8.4	14.7
Letters of intent on land for which there is a zoning condition	7.5	13.5	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 99.8 on 30 September 2010 (MEUR 104.8 on 30 September 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. Habinvest Oy and SATO Corporation have signed a merger contract for the merger of Habinvest Oy with SATO Corporation.

The following transactions were effected with related parties:

MEUR	30.9.2010	30.9.2009	31.12.2009
<b>Open balances with shareholders</b>			
Receivables	0.0	0.0	0.0
Debts	40.5	44.5	43.6

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

MEUR	30.9.2010	30.9.2009	31.12.2009
<b>Management perquisites</b>			
Salaries and other short-term perquisites	1.2	0.9	1.2
Other long-term perquisites	0.0	0.0	0.0
<b>Total</b>	<b>1.2</b>	<b>0.9</b>	<b>1.2</b>

## 10. Key indicators

	30.9.2010	30.9.2009	31.12.2009
Return on investment, %	6.1	5.6	5.6
Return on equity, %	13.0	9.9	10.7
Equity ratio, %	18.4	15.2	15.7
Equity ratio, % SATO business	20.4	17.9	18.2
Equity ratio, % SATO business at fair values	31.0	26.4	28.2
Earnings per share, €	0.48	0.34	0.50
Net worth per share, €			
- at book values	5.1	4.7	4.8
- at fair values	9.5	8.1	9.1
Number of shares, million	51.0	45.4	45.4
Average number of shares, million	48.5	45.2	45.3
Gross investments, MEUR	79.1	76.6	112.0
Personnel, average	130	134	141

## 11. Formulas for key indicators

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

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

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

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

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



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