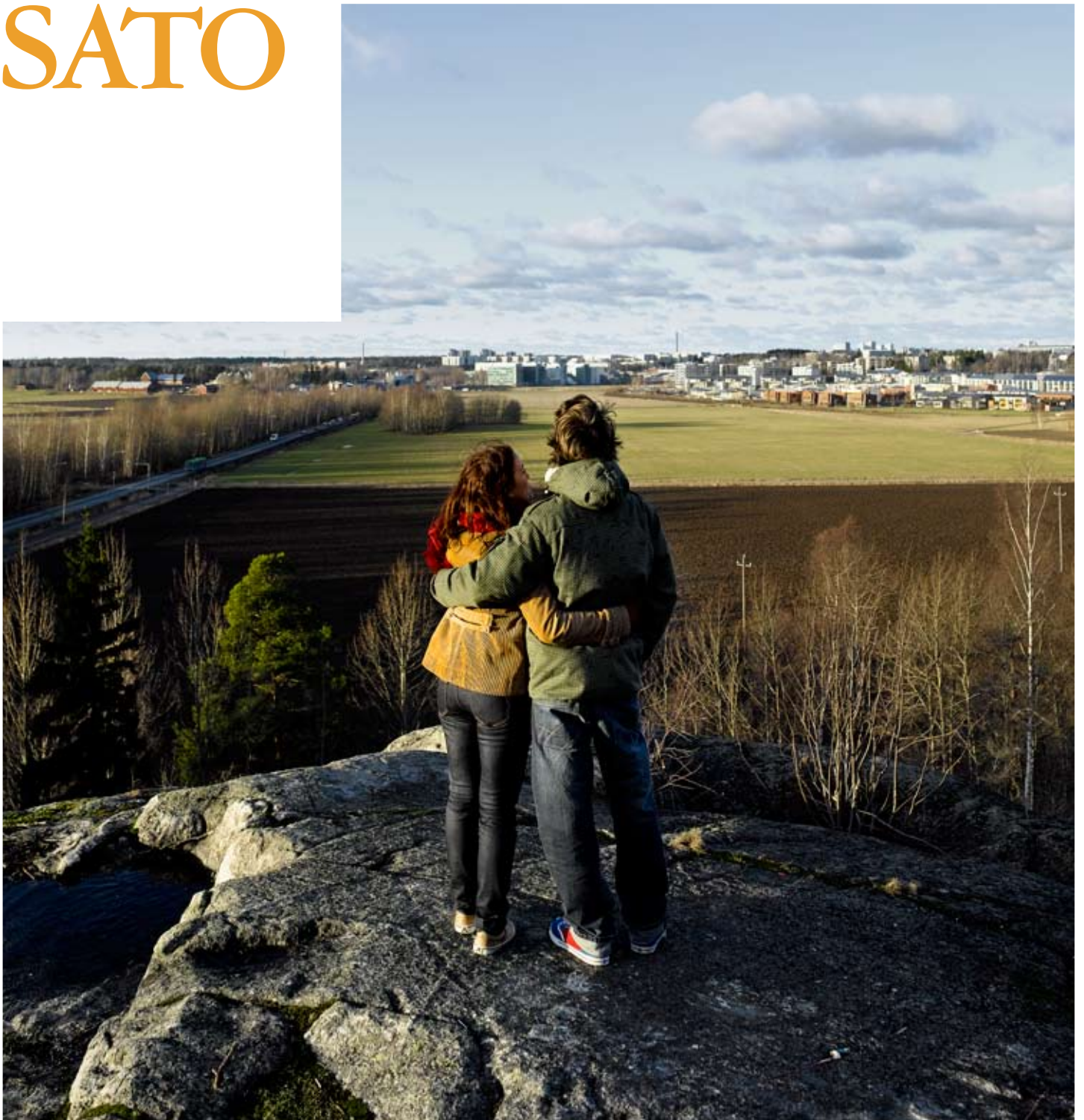


# SATO



Interim report 1.1.–30.9.2007

# SATO

## Interim report

### 1.1.–30.9.2007

#### Summary of the period 1-9/2007 (1-9/2006)

- The Group's turnover was 201.5 (213.6) million euros.
- Profit before taxes was 27.5 (32.9) million euros.
- Earnings per share were € 0.45 (€ 0,54).
- Return on equity was 13.5 (17.3) per cent and return on investment was 6.6 (7.7) per cent.
- Gross investments in investment properties were 109.5 (40.1) million euros and divestments of housing were 13.9 (16.4) million euros.
- The book value of investment properties as at 30.9.2007 was 1,037.8 (946.8) million euros and the fair value was 1,136.9 (1,018.8) million euros.

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 Helsinki, Tampere, Turku, Oulu and Jyväskylä. During the present year, SATO started up investment in housing business in St Petersburg.

SATO owns roughly 23,000 homes with a balance sheet value of approximately a billion euros. The housing portfolio is actively developed to meet changing customer needs through maintenance and repairs combined with investment and divestment. In the period 2002–2006 we have invested an average of 90 million euros and divested 30 million euros per year.

In its history, SATO has built more than 220,000 new homes, representing approximately ten per cent of Finland's housing stock. The value of the owner-occupied housing built by SATO in the period 2004–2006 has averaged roughly 120 million euros a year.

#### Segment reports

The Group's business segments are SATO Housing, VATRO Housing, and Housing Development and Construction. Since the previous interim report, the segments related to IFRS reporting have been defined to clarify the business structure.

#### Turnover and profit

The Group's turnover for period under review was 201.5 (213.6) million euros 1.1–30.9.2006).

The Group's profit before taxes for the period under review was 27.5 (32.9) million euros. This was due to a downturn in divestments by Investment in Housing, a downturn in the volume of Housing Development and Construction, and a deterioration in their earnings. The downturn in profit was also affected by an increase in financial expenses.

#### Financial status and financing

The consolidated balance sheet total at the end of the period under review totalled 1,240.1 (1,117.7) million euros. Shareholders' equity was 203.7 (188.2) million euros and the equity ratio was 16.7 (17.2) per cent. The Group's return on equity was 13.5 (17.3) per cent and return on investment was 6.6 (7.7) per cent.

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 31.6 (45.2) million euros.

Interest-bearing liabilities at the end of the period under review were 915.4 (819.3) million euros, of which market rate loans totalled 508.0 (385.5) million euros, interest-subsidised loans totalled 100.6 (100.8) million euros, and state-subsidised ARAVA loans totalled 256.1 (279.7) million euros. There were debts in the amount of 50.7 (53.3) 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, 263.2 (193.3) million euros was hedged with interest-rate swaps. The average maturity of the swaps was 3.1 (3.0) years.

#### Investments and divestments

The Group's gross investment in investment properties totalled 109.5 (40.1) million euros. During the period under review, Group housing properties were sold for a total of 13.9 (16.4) million euros and office properties were sold for 4.3 (1.0) million euros.

In addition to this, in Housing Development and Construction, plots were acquired for inventory at 36.6 (2.1) million euros and plots were transferred to construction for a total of 7.9 (11.1) million euros.

#### Investment in Housing

On 30 September 2007, SATO held a total of 22,616 (22,713) homes, of which 21,150 (21,133) were rented and 1,466 (1,580) were owner-occupied. The book value of the rented homes was 1,037.8 (946.8) million euros and their fair value was 1,136.9 (1,018.8) million euros. During the period under review, the book value of the housing portfolio grew by 88.4 (26.0) million euros and the number of homes increased by 68 (20).

SATO applies the historical cost method to investment properties and states the fair value of the investment properties in a note to the financial statements. The fair value of the investment properties is determined as a result of an in-house assessment, and an external specialist makes a statement on the valuation annually for the financial statement. The model for determining the fair value of the investment properties was

\*) Altered to correspond to the number of shares registered on 26 October 2007. The number of shares on 30 September 2007 was 2,221,096 and as of 26 October 2007 the number of shares is 44,421,920.

created in cooperation by SATO and an external specialist. The fair values of SATO's investment properties are based on the following:

- the market value in properties where the homes are freely to be sold,
- the productive value for properties which are to be sold only by complete buildings and to a restricted number of buyers,
- for state subsidised properties financed with ARAVA loans, at the remaining historical cost shown in the accounting.

SATO's investment in housing business includes both privately financed and state subsidised housing property, which is affected by restrictions set by housing legislation at both the company level and for individual properties.

SATO's investment housing is divided between two business segments, SATO Housing and VATRO Housing. SATO Housing includes privately financed homes and those housing units subject to state subsidies and interest subsidised credits to which property-specific restrictions end during the period 2007 – 2025. St Petersburg business is also part of SATO Housing. VATRO Housing includes those housing units which are subject to longer-term property-specific restrictions under legislation on state subsidised loans. These restrictions will end by approximately 2047.

### SATO Housing

SATO Housing has 17,073 (17,035) homes, of which 15,607 (15,455) are rented and 1,466 (1,580) are shared ownership apartments. The book value of the rented homes was 771.1 (670.0) million euros and their fair value was 870.2 (742.0) million euros.

The turnover of SATO Housing during the period under review was 91.4 (90.1) million euros and the profit before taxes was 21.4 (24.3) million euros. The profit includes a total of 5.1 (6.8) million euros in capital gains from divestments.

During the period under review, a total of 21.6 (13.4) million euros was spent on improving the quality of homes and on repairs.

The financial occupancy rate of rental homes during the

period under review averaged 96.5 (97.0) per cent and tenant turnover was 30.9 (33.4) per cent. The average rent per square metre of rental homes during the period under review was 10.37 (9.92) euros per month. The net rental income based on book value on an annualised basis was 8.3 (8.4) per cent and based on the fair value it was 7.4 (7.6) per cent.

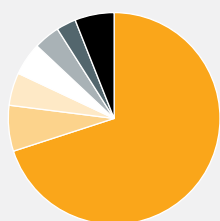
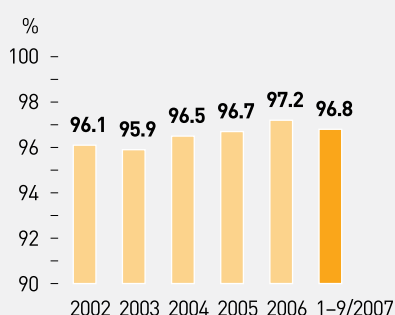
Investments in housing totalled 109.5 (40.1) million euros. Of these, 10.4 (2.4) million euros was investments in repairs. In accordance with the Group's growth strategy, during the period under review, the business segment made investments in Finland in 567 (649) rental homes, of which 74 were new. The main investments were a 20.5 million euro investment in 175 apartments in the Reimarla district of Helsinki and an investment in 141 apartments in the Tapiola district of Espoo. An office building in the Lauttasaari district of Helsinki with roughly 7,000 square metres of area which was part of the latter transaction was sold on during the period under review. In September, SATO acquired a total of 37 rented homes in the Sörnäinen district of Helsinki from the Finnish Cultural Foundation. The investments also include the conversion of a property in the Meilahti district of Helsinki into senior apartments. Binding contracts for new investments were also made during the period under review for a total of 45.0 million euros. These include the completion of a total of 188 homes in Helsinki and Espoo.

A total of 387 (403) rented homes at a total value of 9.9 (12.5) million euros were divested from SATO Housing's portfolio. Also, residents in shared ownership apartments purchased ownership of 78 (114) homes in all.

At the end of last year, SATO made a decision to initiate investment in housing business in St Petersburg. By the end of September, the investments in St Petersburg totalled 9.4 million euros. Binding contracts had also been made for 19.3 million euros. The properties in St Petersburg are in the centre of the city, on the islands of Kristovskiy and Petrogradskaya, and in Smolny. The properties comprise a total of 45 apartments, the renting of which will get under way in 2008 and 2009. It is SATO's intention to attain the position of the leading foreign housing investor in St Petersburg.

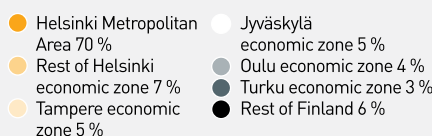
#### Investment in housing

Financial occupancy rate of rental housing  
2002– 1–9/2007



#### Investment in housing

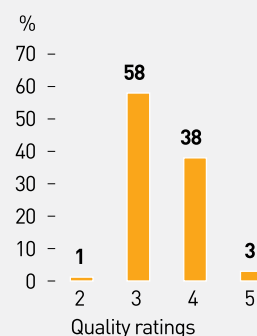
Regional distribution of housing  
portfolio, 30 September 2007



Housing property in Finland, book value MEUR 1,028

#### Investment in housing

Distribution of units by quality rating,  
30 September (% of balance sheet value)





## VATRO Housing

VATRO Housing has 5,543 (5,678) rented homes subject to state subsidised ARAVA loans. The homes' fair values are based on the remaining historical cost in the accounting. The book value of the homes as at 30 September was 266.8 (276.8) million euros.

The turnover of VATRO Housing during the period under review was 29.0 (28.8) million euros and the profit before taxes was 0.7 (0.4) million euros.

4.0 (3.2) million euros was spent on repairs of homes by VATRO Housing during the period under review.

The financial occupancy rate of VATRO Housing's rental homes during the period under review averaged 97.7 (97.5) per cent and tenant turnover was 33.5 (37.4) per cent. The average rent per square metre of rental homes during the period under review was 9.59 (9.36) euros per month. The net rental income of rented homes based on book value on an annualised basis was 7.4 (7.7) per cent.

A total of 34 (112) rented homes were divested from the housing portfolio for a total of 3.9 (3.3) million euros. The divestments had no effect on earnings (0.4 million euros).

## Housing Development and Construction

The turnover of Housing Development and Construction during the period under review was 85.5 (96.0) million euros and the profit before taxes was 5.6 (8.2) million euros. The turnover of Housing Development and Construction includes 4.5 (1.4) million euros of internal sales. 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 588 (412) new homes were completed, of which 301 (370) were owner-occupied and 287 (42) were homes in client projects. The number of new owner-occupied homes started was 285 (252). The main starts during the period under review are the Loft project in the Arabianranta district of Helsinki and SATO PlusHome projects in the Matinkylä district of Espoo and the Vuosaari district of Helsinki. At the end of September, a total of 769

(1,034) homes were under construction, of which 661 (628) were owner-occupied and 108 (406) were homes in client projects. At the end of the period under review, the Group had 305 (244) unsold homes under construction and 32 (17) completed homes unsold.

Investments in building land totalled 36.6 million euros, amounting to 92,600 square metres of permitted building area, which will permit the construction of roughly 1,200 homes. The main acquisitions of building land were permitted residential building volume in the Sarfvik district of Kirkkonummi, the Tali district of Helsinki, and the Linnainmaa district of Oulu. New letters of intent and plot reservations were signed during the period under review for 28,000 square metres of permitted building volume. The permitted building volume used for residential construction was estimated at 7.9 million euros in value.

The book value of the building land inventory held at the end of the period under review was 67.7 (31.4) million euros.

## Risks and uncertainty factors in the near future

The recognised risks in the market for investment in housing include cyclical fluctuations in demand and supply of housing and changes in interest rates. A rise in construction costs may postpone the start of planned housing construction projects.

SATO's financing is denominated in euros, which is subject to an interest rate risk. Investments in St Petersburg also involve an exchange rate risk. Business in St Petersburg further involves risks related to the business climate.

## Personnel

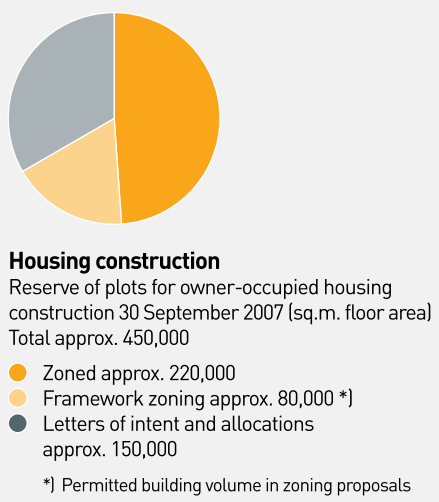
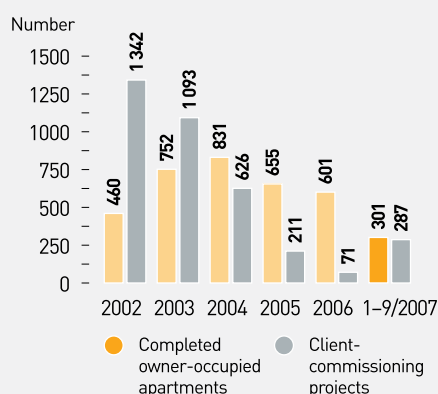
At the end of the period under review, the Group had 175 (171) employees and during the period under review it had an average of 176 (174) employees.

## Chairman of the Board of Directors

SATO's Board of Directors has seven members. The chairman of the Board is Juha Laaksonen. At its meeting convened on 26 September 2007, the Board of Directors elected Board member Raimo Lind as deputy chairman.

### Housing construction

Trend in housing construction 2002–1–9/2007



## Group structure

The changeover to the IFRS standard for financial statements and the introduced segment reporting increase the transparency of business and its divisions. In connection with this, the company has ended the differentiation of the Vatro Group from the SATO Group.

## Increase in the share capital and targeted share issue

During the period under review, SATO Corporation's share capital was raised, in disapplication of pre-emption rights, by 46,500 euros. In the targeted issue, a company founded by the members of the SATO Group's Corporate Management Group, Habinvest Oy, subscribed 23,250 new shares in SATO Corporation, which is the equivalent of 1.05 per cent of the company's issued stock. This arrangement concerns the long-term commitment of the management. The increase in the share capital was entered in the Trade Register on 12 July 2007. Following the increase, the company's share capital is 4,442,192.00 euros and the number of shares is 2,221,096.

## Events after the period under review Report on a public listing

SATO Corporation has decided to investigate the possibilities of acquiring fresh capital by expanding the company's ownership base. One alternative is an initial public offering and a listing on Helsinki Stock Exchange. The company's need for capital is boosted by the expansion of business activities in Finland and the investment in housing business started in St Petersburg. The decision on the prospective listing or other action will be made after the completion of the report.

## Extraordinary general meeting

An extraordinary general meeting of SATO Corporation was held on 23 October 2007. The general meeting passed a resolution to amend SATO Corporation's articles of association. The general meeting resolved to increase the number of shares in SATO Corporation by issuing 42,200,824 new shares to shareholders without payment, in such a way that 19 new shares are received for one old share. It is estimated that the increase in the number of shares will be entered in the Trade Register on 26 October 2007. Following the issue, the number of shares will be 44,421,920.

The meeting resolved to authorise the Board of Directors to decide on one or more targeted for-payment share issues in which a maximum of 17,000,000 new shares may be issued. Of this number, a maximum of 150,000 shares may be directed to the staff and President and CEO of SATO Corporation. The meeting also authorised the Board of Directors to decide on a targeted for-payment issue of a maximum of 2,500,000 new shares in the company to eQ Pankki Oy or parties nominated by eQ Pankki Oy. The meeting also authorised the Board of Directors to decide on a targeted buyback of shares from eQ Pankki Oy or parties nominated by eQ Pankki Oy. On the basis of the authorisation, the company could buy back a maximum of 2,500,000 shares in the company. The Board of Directors may exercise the authorisation if the company goes public on Helsinki stock exchange. The authorisations are valid until 31 December 2008.

## Financial targets

On 24 October 2007, the Board of Directors made a decision on the financial targets concerning the Group's dividend payment and its equity ratio.

The aim is to pay in dividend no less than 60 per cent of the disposable profit<sup>\*)</sup>. The amount of the dividend may be affected by the financing demanded by investments.

SATO's equity ratio net of VATRO Housing will be at least 20 per cent. The equity ratio may temporarily fall short of the target owing to major investments.

## Investments

In October, SATO acquired 23 luxury apartments under construction in the centre of St Petersburg for 11.4 million euros. The apartments are scheduled for completion in autumn 2008.

## Outlook

The net profit for 2007 is forecast to be good but lower than the record net profit in the previous year. This is due to a downturn in investments by Investment in Housing, a downturn in the volume of Housing Development and Construction, and a deterioration in their earnings. The downturn in profit will also be affected by an increase in financial expenses.

The prospects for an positive trend in the market for rental homes are good. The volume of output of owner-occupied housing is expected to decline slightly. The growth prospects for SATO are supported by a rising demand for rented and senior housing in the Helsinki Metropolitan Area and by investment in housing business in St Petersburg.

## Shareholders in SATO Corporation, 11 October 2007

The ten biggest shareholders and their holdings (per cent)

Varma Mutual Pension Insurance Company	39.5
Ilmarinen Mutual Pension Insurance Company	16.3
Suomi Mutual Life Assurance Company	15.1
Tapiola Insurance Group	7.4
Pohjola Non-Life Insurance Company Ltd	6.1
Tapiola Mutual Pension Insurance Company	5.2
Wärtsilä Corporation	4.5
Habinvest Oy	1.0
Valentia Oy	0.7
Outokumpu Oyj	0.7
Others	3.5

On 11 October 2007, the Group had 32 shareholders.

In a transaction 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 SATO Corporation's issued stock. SOK Corporation, Osuuskauppa Arina and Turun Osuuskauppa have sold the shares they held in SATO Corporation, totalling 10.4 per cent of SATO Corporation's issued stock, to the Tapiola Insurance Group and Tapiola Mutual Pension Insurance Company.

<sup>\*)</sup> 'Disposable profit' here means that part of the SATO Group's profits which can be booked as income to owners without prevention by the so-called non-profit income-recognition limitations under legislation on state-subsidised ARAVA loans and interest-subsidised credits.

## Consolidated profit and loss account

MEUR	IFRS 1.7.-30.9.2007	IFRS 1.7.-30.9.2006	IFRS 1.1.-30.9.2007	IFRS 1.1.-30.9.2006	IFRS 1.1.-31.12.2006
<b>Turnover</b>	65.1	73.4	201.5	213.6	284.4
Capital gains/losses on investment properties	0.6	1.1	5.0	7.6	10.8
Share of joint venture's profit	0.0	0.0	0.0	0.1	0.1
Other income from business operations	0.0	-0.5	0.2	0.1	0.5
Consumption of materials and services	-24.7	-32.6	-79.0	-92.4	-122.9
Personnel expenses	-2.9	-2.4	-8.3	-7.9	-10.6
Depreciation and write-downs	-4.0	-6.0	-12.8	-16.0	-19.7
Other expenses of business operations	-16.0	-16.5	-56.4	-54.2	-75.7
<b>Operating profit</b>	<b>18.0</b>	<b>16.4</b>	<b>50.3</b>	<b>50.8</b>	<b>66.8</b>
Financial income	2.9	1.9	7.8	5.9	8.3
Financial expenses	-11.6	-8.5	-30.6	-23.8	-32.5
	-8.7	-6.6	-22.8	-17.9	-24.2
<b>Profit before taxes</b>	<b>9.3</b>	<b>9.8</b>	<b>27.5</b>	<b>32.9</b>	<b>42.6</b>
Income taxes	-2.4	-2.7	-7.2	-9.0	-11.3
<b>Profit for the period</b>	<b>6.9</b>	<b>7.1</b>	<b>20.3</b>	<b>23.9</b>	<b>31.3</b>
Distribution					
To the owners of the parent company	6.8	7.1	20.2	23.8	31.2
To minorities	0.1	0.1	0.2	0.1	0.1
	6.9	7.1	20.3	23.9	31.3
Profit per share calculated on the profit due to the owners of the parent enterprise					
Earnings per share, €	0.15	0.16	0.45	0.54	0.70
Average number of shares*, million	44.4	44.4	44.4	44.4	44.4

\* Note 11. Key indicators (page 11)

## Consolidated balance sheet

MEUR	IFRS 30.9.2007	IFRS 30.9.2006	IFRS 31.12.2006
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	1,037.8	946.8	949.4
Tangible assets included in fixed assets	2.0	2.1	2.0
Intangible assets	1.2	1.6	3.4
Share in joint venture	0.2	0.2	0.2
Financial assets for sale	2.0	1.2	1.2
Receivables	2.9	2.3	2.1
Deferred tax credits	13.4	13.6	12.3
	1,059.5	967.8	970.6
<b>Current assets</b>			
Inventories	113.3	74.7	78.3
Trade receivables and other receivables	35.7	30.0	21.9
Tax credits based on taxable income for period	0.0	0.0	1.7
Cash and cash equivalents	31.6	45.2	41.3
	180.6	149.9	143.2
<b>Assets, total</b>	<b>1,240.1</b>	<b>1,117.7</b>	<b>1,113.8</b>

MEUR	IFRS 30.9.2007	IFRS 30.9.2006	IFRS 31.12.2006
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity belonging to the owners of the parent company</b>			
Share capital	4.4	4.4	4.4
Value adjustment fund	2.9	1.7	2.6
Reserve fund	43.7	43.7	43.7
Other funds	3.2	0.6	0.4
Retained profits	149.5	137.8	145.2
	203.7	188.2	196.3
Minority interest	1.4	1.3	1.3
<b>Shareholders' equity, total</b>	<b>205.1</b>	<b>189.5</b>	<b>197.6</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Deferred tax liability	54.1	48.6	54.4
Reserves	6.1	6.3	7.0
Interest-bearing debts	769.4	741.3	727.2
	829.6	796.1	788.6
<b>Current liabilities</b>			
Accounts payable and other debts	57.2	44.1	43.6
Tax liability based on taxable income for period	2.2	10.0	0.1
Interest-bearing debts	146.0	78.0	83.9
	205.5	132.1	127.6
<b>Liabilities, total</b>	<b>1,035.0</b>	<b>928.2</b>	<b>916.2</b>
<b>Shareholders' equity and liabilities, total</b>	<b>1,240.1</b>	<b>1,117.7</b>	<b>1,113.8</b>

## Consolidated cash flow statement

MEUR	IFRS	IFRS	IFRS
	1.1.- 30.9.2007	1.1.- 30.9.2006	1.1.- 31.12.2006
<b>Cash flow from operating activities</b>			
Net profit for period	20.3	23.9	31.3
Adjustments:			
Business activities not associated with payments	12.3	14.1	19.0
Capital gains on fixed assets	-5.0	-7.6	-11.6
Interest expenses and other financial expenses	25.2	19.7	26.8
Interest income	-2.1	-0.7	-1.2
Dividend income	-0.1	0.0	0.0
Taxes	7.2	9.0	11.3
Change in fixed assets:			
Change in trade receivables and other receivables	-11.5	-1.6	5.7
Change in inventory	-39.9	-2.6	-6.3
Change in accounts payable and other debts	17.8	-10.8	-7.5
Change in reserves	-0.9	-0.4	-0.8
Interest paid	-24.6	-19.6	-25.8
Interest received	2.1	0.6	1.3
Taxes paid	-6.4	-2.0	-8.7
<b>Net cash flow from operating activities</b>	<b>-5.6</b>	<b>22.0</b>	<b>33.6</b>

MEUR	IFRS	IFRS	IFRS
	1.1.- 30.9.2007	1.1.- 30.9.2006	1.1.- 31.12.2006
<b>Cash flow from investments</b>			
Investments in tangible fixed assets	-109.5	-47.9	-58.3
Investments in intangible assets	-6.9	-0.3	-1.9
Instalment on notes receivable	0.5	3.7	4.0
Loans granted	-1.0	-1.3	-1.3
Sales of tangible fixed assets	18.1	15.9	21.8
Interest received	0.1	0.0	0.0
<b>Net cash flow from investments</b>	<b>-98.7</b>	<b>-29.9</b>	<b>-35.8</b>
<b>Cash flow from financing</b>			
Payments received from share issues	2.8	0.0	0.0
Repayments (-) / withdrawals (+) of short-term loans	61.0	29.7	37.5
Withdrawals of long-term loans	72.5	27.5	27.5
Repayments of long-term loans	-25.8	-22.7	-40.1
Interest paid	-15.9	-15.4	-15.4
<b>Net cash flow from financing</b>	<b>94.6</b>	<b>19.1</b>	<b>9.5</b>
<b>Change in cash and cash equivalents</b>	<b>-9.7</b>	<b>11.2</b>	<b>7.3</b>
Cash and cash equivalents at start of period	41.3	34.0	34.0
<b>Cash and cash equivalents at end of period</b>	<b>31.6</b>	<b>45.2</b>	<b>41.3</b>

## Calculation of changes in Group shareholders' equity, 1.1.–30.9.2007

MEUR	Shareholders' equity belonging to owners of parent company						Minority interest	Shareholders' equity, total
	Share capital	Value adjustment fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1.1.2007</b>	<b>4.4</b>	<b>2.6</b>	<b>43.7</b>	<b>0.4</b>	<b>145.2</b>	<b>196.3</b>	<b>1.3</b>	<b>197.6</b>
Hedging of cash flow		0.3			0.0	0.3		0.3
Financial assets for sale		0.0			0.0	0.0		0.0
Net profit for period					20.2	20.2	0.2	20.4
<b>Total income and expenses booked for during period</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>20.2</b>	<b>20.5</b>	<b>0.2</b>	<b>20.7</b>
Dividend payment					-15.9	-15.9		-15.9
Targeted share issue	0.0			2.7	0.0	2.8		2.8
Other adjustments					0.0	0.0	-0.1	-0.1
<b>Shareholders' equity 30.9.2007</b>	<b>4.4</b>	<b>2.9</b>	<b>43.7</b>	<b>3.2</b>	<b>149.5</b>	<b>203.7</b>	<b>1.4</b>	<b>205.1</b>

## Calculation of changes in Group shareholders' equity, 1.1.–30.9.2006

MEUR	Shareholders' equity belonging to owners of parent company						Minority interest	Shareholders' equity, total
	Share capital	Value adjustment fund	Reserve fund	Other funds	Retained profits	Total		
<b>Shareholders' equity 1.1.2006</b>	<b>4.4</b>	<b>-0.2</b>	<b>43.7</b>	<b>0.6</b>	<b>129.4</b>	<b>177.9</b>	<b>1.3</b>	<b>179.2</b>
Hedging of cash flow		1.9			0.0	1.9		1.9
Financial assets for sale		0.0			0.0	0.0		0.0
Net profit for period					23.8	23.8	0.1	23.9
<b>Total income and expenses booked for during period</b>	<b>0.0</b>	<b>1.9</b>	<b>0.0</b>	<b>0.0</b>	<b>23.8</b>	<b>25.7</b>	<b>0.1</b>	<b>25.8</b>
Dividend payment					-15.4	-15.4		-15.4
Other adjustments					0.0	0.0	-0.1	-0.1
<b>Shareholders' equity 30.9.2006</b>	<b>4.4</b>	<b>1.7</b>	<b>43.7</b>	<b>0.6</b>	<b>137.8</b>	<b>188.2</b>	<b>1.3</b>	<b>189.5</b>

## Notes to the interim report

SATO's interim report for the period 1.1-30.9.2007 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 interim report was drawn up with the same accounting conventions as in the IFRS consolidated financial statements for the financial year 1.1.-31.12.2006.

The date of changeover to IFRS previously announced by SATO has been moved back by one year, so SATO's changeover date to IFRS is 1 January 2005. In this connection, the IFRS conventions on drafting and presentation have also been reviewed and for this reason there are changes in the information previously given for the first and second quarters of 2007. These changes have affected the content of items in the balance sheet and profit and loss account but they have no effect on the net profits for the periods. The revised information for these quarters will be given as comparative data for 2007 in the interim reports issued in 2008.

During 2007, SATO started up investment in housing business in St Petersburg. Business in Russia entails commercial operations denominated in foreign currency, but at present the foreign exchange risk due to this business is limited, so it has not been hedged.

SATO's principal form of segment reporting corresponds to the business segments. As business is done almost entirely in Finland, SATO has only one geographical segment. The business segments presented correspond to the Group's internal organisational structure and its internal financial reporting structure. The business segments are comprised of asset-based groups and business operations whose risks and profitability vary from those of the other business segments. SATO's business is comprised of Investment in Housing and Housing Development and Construction. The Group's business segments are SATO Housing, VATRO Housing and Housing Development and Construction.

The SATO Housing segment holds homes which are rented to private individuals. The provision of homes is increased both by buying them in the existing housing stock and by producing new homes.

The VATRO Housing segment holds housing which is within the sphere of permanent or very long-term non-profit restrictions.

The Housing Development and Construction segment's business prominently features commissioning the construction of owner-occupied homes. Also, construction commissioning functions are handled by order of corporate clients.

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. The net rental income percentage is calculated with the book value of the investment properties.

## 1. Segment information 1.1.–30.9.2007

MEUR	Investment in Housing SATO Housing	Investment in Housing VATRO Housing	Housing Development and Construction	Eliminations	Total SATO Group
External turnover	91.4	29.0	81.0		201.5
Internal turnover			4.5	-4.5	0.0
Turnover, total	91.4	29.0	85.5	-4.5	201.5
Profits/losses on surrender of investment properties	5.0				5.0
Depreciation and write-downs	-7.7	-4.8	-0.3	0.0	-12.8
Operating profit	35.4	8.5	6.6	-0.2	50.3
Financial expenses (net)	-14.0	-7.9	-0.9		-22.8
Profit before taxes	21.4	0.7	5.6	-0.2	27.5
Net rental income	44.3	16.0			60.3
Net rental income, % of book value	8.3	7.4			8.1
Investments	114.2				114.2
Acquisition of land for inventory			36.6		36.6
Depreciation	-7.7	-3.8	-0.3		-11.8
Impairments		-1.0			-1.0
Investment properties	771.1	266.8			
Cash and cash equivalents	21.9	2.2	1.5		
Other assets of the segment	27.0	1.7	139.9	-11.7	
Share in joint venture		0.2			
Total assets and eliminations allocated to segments	820.0	270.8	141.4	-11.7	1,220.5
Unallocated assets					19.6
Assets, total					1,240.1
Interest-bearing debts	606.0	258.1	51.3		
Segment's other debts	18.3	9.4	48.4	-11.7	
Total debts and eliminations allocated to segments	624.3	267.5	99.7	-11.7	979.9
Unallocated debts					55.1
Debts, total					1,035.0



## Segment information 1.1.–30.9.2006

MEUR	Investment in Housing SATO Housing	Investment in Housing VATRO Housing	Housing Development and Construction	Eliminations	Total SATO Group
External turnover	90.1	28.8	94.6		213.6
Internal turnover			1.4	-1.4	0.0
Turnover, total	90.1	28.8	96.0	-1.4	213.6
Profits/losses on surrender of investment properties	6.9	0.6		0.0	7.6
Depreciation and write-downs	-7.7	-8.0	-0.3	0.0	-16.0
Operating profit	34.2	7.6	9.1	0.0	50.8
Financial expenses (net)	-9.8	-7.2	-0.9		-17.9
Profit before taxes	24.3	0.4	8.2	0.0	32.9
Net rental income	41.4	16.7			58.1
Net rental income, % of book value	8.4	7.7			8.2
Investments	40.3				40.3
Acquisition of land for inventory			2.1		2.1
Depreciation	-7.7	-3.9	-0.3	0.0	-11.9
Impairments		-4.1			-4.1
Investment properties	670.0	276.8			
Cash and cash equivalents	26.4	5.9	10.2		
Other assets of the segment	15.8	3.0	93.5	-0.4	
Share in joint venture	0.1	0.2			
Total assets and eliminations allocated to segments	712.3	285.9	103.7	-0.4	1,101.5
Unallocated assets					16.2
Assets, total					1,117.7
Interest-bearing debts	501.7	280.9	36.7		
Segment's other debts	25.8	7.4	25.9	-0.4	
Total debts and eliminations allocated to segments	527.5	288.2	62.6	-0.4	877.9
Unallocated debts					50.3
Debts, total					928.2

## Segment information 1.1.–31.12.2006

MEUR	Investment in Housing SATO Housing	Investment in Housing VATRO Housing	Housing Development and Construction	Eliminations	Total SATO Group
External turnover	120.2	38.3	125.8		284.4
Internal turnover			3.6	-3.6	0.0
Turnover, total	120.2	38.3	129.4	-3.6	284.4
Profits/losses on surrender of investment properties	9.9	0.8		0.0	10.8
Depreciation and write-downs	-10.1	-9.2	-0.4	0.0	-19.7
Operating profit	46.0	9.9	11.2	-0.2	66.8
Financial expenses (net)	-13.6	-9.6	-1.1		-24.2
Profit before taxes	32.4	0.3	10.1	-0.2	42.6
Net rental income	54.7	21.4			76.1
Net rental income, % of book value	8.4	7.7			8.2
Investments	54.0				54.0
Acquisition of land for inventory			18.9		18.9
Depreciation	-10.1	-5.3	-0.4	0.0	-15.8
Impairments		-3.9			-3.9
Investment properties	677.1	272.3			
Cash and cash equivalents	29.7	0.8	6.4		
Other assets of the segment	14.5	3.2	98.0	-5.1	
Share in joint venture		0.2			
Total assets and eliminations allocated to segments	721.4	276.5	104.4	-5.1	1,097.2
Unallocated assets					16.6
Assets, total					1,113.8
Interest-bearing debts	515.0	268.6	27.5		
Segment's other debts	13.9	8.5	31.8	-5.1	
Total debts and eliminations allocated to segments	528.9	277.1	59.3	-5.1	860.2
Unallocated debts					56.0
Debts, total					916.2

## 2. Investment properties

MEUR	30.9.2007	30.9.2006	31.12.2006
Acquisition cost, 1 Jan.	997.6	950.3	950.3
Increases; new properties	101.8	45.8	54.0
Increases; additional investments	12.4	2.4	5.6
Decreases	-13.1	-8.7	-12.9
Transfers between items	-0.5	1.1	0.6
Acquisition cost, total	1,098.2	990.9	997.6
Accumulated depreciation and impairments, 1 Jan.	-48.2	-29.4	-29.4
Depreciation	-11.2	-10.6	-14.9
Losses on impairments	-1.0	-4.1	-3.9
Accumulated depreciation and impairments, total	-60.4	-44.1	-48.2
<b>Book value</b>	1,037.8	946.8	949.4
Fair value	1,136.9	1,018.8	1,046.5

An external assessor has given a statement on the fair value of SATO's investment properties as at both 30 September 2007 and 31 December 2006.

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. Also, an external specialist makes a statement on the appraisal. At the time the interim financial statements are prepared, the fair values are updated in respect of investments, sur-renders and changes in limitation periods.

## 3. Tangible assets in fixed assets

MEUR	30.9.2007	30.9.2006	31.12.2006
Book value at start of period	2.0	2.0	2.0
Increases	0.4	0.5	0.5
Decreases	0.0	0.0	-0.2
Depreciation for accounting period	-0.4	-0.4	-0.4
<b>Book value at end of period</b>	<b>2.0</b>	<b>2.1</b>	<b>2.0</b>

## 4. Inventories

MEUR	30.9.2007	30.9.2006	31.12.2006
Housing under construction	24.0	32.2	34.8
Completed housing and commercial facilities	3.6	1.6	0.4
Land areas and holding companies thereof	63.8	27.3	34.4
Other inventories	21.8	13.6	8.7
<b>Total</b>	<b>113.3</b>	<b>74.7</b>	<b>78.3</b>

During 2007 no write-downs were made on the book value of inventories. In 2006 the book value of inventories was reduced 0.8 million euros to correspond to its net divestment value.

## 5. Notes on shareholders' equity

MEUR	Number of shares (1,000)	Share capital	Reserve fund	Total
Share capital and reserve fund 1.1.2007	2,198	4.4	0.0	4.4
Targeted share issue	23	0.0	0.0	0.0
30.9.2007	2,221	4.4	0.0	4.4

The targeted share issue entails management commitment and it is reported on in greater detail in note 9. Related party transactions.

## 6. Interest-bearing debts

During 2007, in the second quarter, further long-term loans in the amount of MEUR 72.5 have been drawn. The loans taken have been secured with property mortgages and stock pledges. A surety from the parent company has also been given for loans taken by subsidiaries. The loans are of variable interest rates and have a maturity of 30 years.

Short-term financing was prepared for by raising the commercial paper schedule limit from 60 million to 100 million euros during the first quarter as well as by raising the credit limits for short-term loans from 20 million to 60 million euros during the second quarter. On 30 September 2007 the commercial paper issued amounted to MEUR 87.7 and the short-term credits taken were MEUR 30.

## 7. Derivatives

MEUR	30.9.2007	30.9.2006	31.12.2006
<b>Interest-rate derivatives</b>			
Interest rate swaps, par value, of which included in calculation of hedging	263.2	193.3	189.6
Interest rate swaps, fair value, of which included in calculation of hedging	208.2	115.5	111.7
	3.9	2.0	3.2
	3.3	1.9	2.9

## 8. Collateral and contingent liabilities

MEUR	30.9.2007	30.9.2006	31.12.2006
<b>Debts secured by mortgages and pledges</b>			
<b>Market loans</b>	<b>417.3</b>	<b>336.4</b>	<b>324.9</b>
Mortgages provided	45.5	51.9	45.8
Book value of pledged shares	401.2	328.6	327.3
Value of corporate mortgages pledged	2.5	2.5	2.5
Value of deposits pledged	2.1	7.2	4.5
<b>State housing loans</b>	<b>253.3</b>	<b>273.4</b>	<b>266.5</b>
Mortgages provided	433.6	441.7	444.4
Book value of pledged shares	31.5	35.9	31.9
<b>Interest subsidised credits</b>	<b>100.0</b>	<b>100.2</b>	<b>100.2</b>
Mortgages provided	121.9	121.9	121.9
Book value of pledged shares	0.8	0.8	0.8
<b>Debts of housing and mutual property holding companies, secured by mortgages on properties</b>			
Loans from financial institutions	50.7	53.3	55.4
Mortgages provided	74.0	89.0	91.8
<b>Other liabilities</b>			
Guarantees	3.9	12.4	8.9
<b>Guarantee pledges for others</b>			
Owner-occupier home purchase commitments	18.2	18.4	17.9
Rs-guarantees	24.3	22.1	24.2
<b>Mortgages provided to secure payment of rent and street maintenance</b>			
Property mortgages provided	5.1	6.3	5.6
<b>Binding purchase agreements</b>			
For acquisitions of investment properties	74.9	0.0	11.5
Pledges for land use payments on zoned plots:			
Letters of intent on land for which there is a zoning condition	12.7	5.0	5.0
	20.9	31.2	32.9

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 118.0 on 30 September 2007 (MEUR 127.0 on 31 December 2006).

## 9. Related party transactions

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.

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 on SATO Corporation's President and CEO, the Vice President for Investment in Housing, the Vice President for Housing Development and Construction, the Head of Legal Affairs, the Director, Marketing and Communications, and the Chief Financial Officer.

The following transactions were effected with related parties:

MEUR	30.9.2007	30.9.2006	31.12.2006
<b>Business with owners</b>			
Sales	0.0	0.0	0.0
Purchases	0.0	0.0	20.4
<b>Sums outstanding with owners</b>			
Receivables	0.0	0.0	0.0
Debts	2.8	4.0	3.3

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

MEUR	30.9.2007	30.9.2006	31.12.2006
<b>Management perquisites</b>			
Salaries and other short-term perquisites	2.8	1.1	1.4
Other long-term perquisites	0.0	0.0	0.0
<b>Total</b>	<b>2.8</b>	<b>1.1</b>	<b>1.4</b>

The members of the Corporate Management Group are covered by an annual bonus scheme which is based on the Group's net profit and meeting the main targets of the personal sphere of responsibility. The payment of productivity bonuses is approved by the Board of Directors. The long-term incentive scheme for the Corporate Management Group which ended in 2006 was based on the cumulative net profit for the financial years 2004–2006. The productivity bonus to be paid on that was paid in 2007.

In 2007, the share capital of SATO Corporation was increased in disapplication of pre-emption rights, by 46,500 euros. A company founded by the members of the SATO Group's Corporate Management Group, Habinvest Oy, subscribed 23,250 new shares in SATO Corporation, which is the equivalent of 1.05 per cent of the company's issued stock. This arrangement concerns the long-term commitment of the management.

## 10. Events after the period under review

An extraordinary general meeting of SATO Corporation was held on 23 October 2007. The general meeting passed a resolution to amend SATO Corporation's articles of association. The general meeting resolved to increase the number of shares in SATO Corporation by issuing 42,200,824 new shares to shareholders without payment, in such a way that 19 new shares are received by a holder of one old share. The increase in the number of shares will be entered in the Trade Register on 26 October 2007.

In October 2007, SATO acquired 23 luxury apartments under construction for 11.4 million euros from a Russian construction company. The apartments are scheduled for completion in summer 2008.

## 11. Key indicators

	30.9.2007	30.9.2006	31.12.2006
Return on investment, %	6.6	7.7	7.0
Return on equity, %	13.5	17.3	16.6
Equity ratio, %	16.7	17.2	17.9
Earnings per share, €	0.45	0.54	0.70
Net worth per share, €	4.6	4.3	4.5
Gross investments, MEUR	116.4	40.3	54.0
Personnel, average	176	174	173

The extraordinary general meeting held on 23 October 2007 passed a resolution on a bonus issue, as a result of which the number of shares will increase from 2,221 million to 44,422 million.

## 12. 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, %	= $\frac{(\text{Profit or loss before taxes} - \text{taxes}) \times 100}{\text{Shareholders' equity (average during the financial year)}}$
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, €	= $\frac{(\text{Net worth at balance sheet value} - \text{liabilities}) \times 100}{\text{Adjusted number of shares at year-end}}$



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