SATO Annual Report 2007

Contents

Good housing

SATO not only provides homes but also services to assist you with finding a home, moving and everyday life through its network of partners.

SATO in brief

SATO's business is based on an understanding of the customers' housing needs and on providing the right kind of housing solutions. The Group's main business area is Investment in Housing, and SATO also commissions the construction of new homes for sale and as investments for the Group. The Group's turnover in 2007 was 265.9 million euros and the profit before taxes was 34.3 million euros. SATO's value proposition is 'A Home the Way You Want It'.

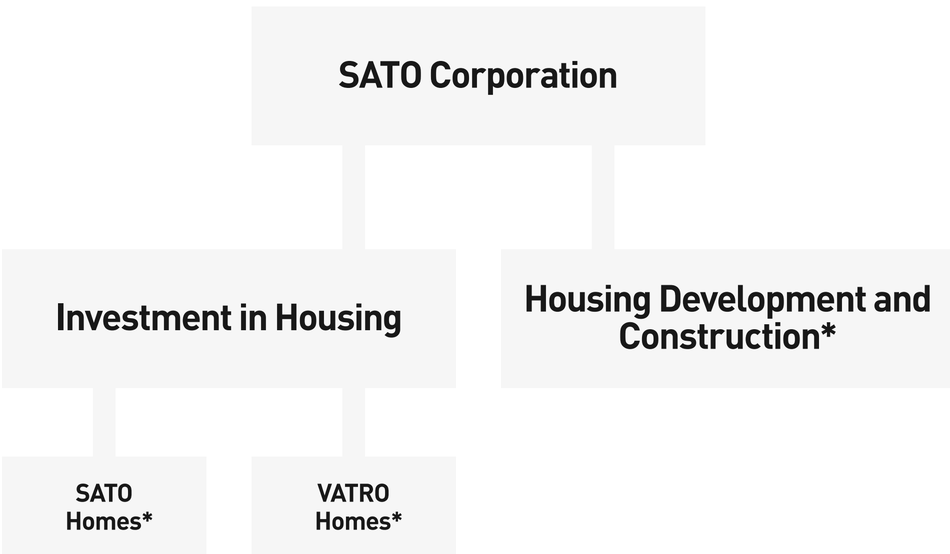
A leading housing investment company

SATO is one of Finland's leading corporate investors in housing. SATO owns some 23,000 rented homes with a fair value of roughly 1.2 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 almost 100 million euros and divested about 30 million euros per year. In the same period we have devoted an average of 26 million euros per year in repairs and upgrading the quality of homes.

An experienced housing developer

SATO is also Finland's most experienced housing developer: roughly ten per cent of Finland's housing stock was built on commissions from SATO. Housing development and construction focuses on building owner-occupied homes and on commissioning rental housing projects for ownership by SATO. Today's building land inventory will permit the construction of about 5,000 new homes.

The business structure



* segments used in financial reporting

The vision

SATO's strategic aim is to be a responsible pioneer in its field, the provider of the best housing solutions for its customers and a company that is attractive to investors, providing its shareholders with competitive revenue.

The business strategy

The cornerstones of the business strategy are:

- customer-driven operations
- focusing on Investment in Housing and on Housing Development and Construction
- emphasising growth in Investment in Housing
  - rented homes in the Helsinki Metropolitan Area
  - senior homes
  - Investment in Housing in St. Petersburg
- in Housing Development and Construction, focusing on development for owner-occupation
- geographically focusing on the urban centres of growth

Main strengths

SATO's status as a trailblazer is based on these and other strong points:

- a strong and recognised brand
- good profitability and a steady cash flow
- a large rental housing portfolio, concentrated on the Helsinki Metropolitan Area
- efficient Housing Development and Construction
- customer-oriented operations
- promising growth prospects

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

Skilled personnel and committed ownership

SATO has about 175 employees. SATO's main owners are pension insurance companies and other insurers.

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 Housing segment, is at least 20 per cent. The equity ratio may temporarily fall short of the target owing to major investments.

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

SATO in 2007

– profit before taxes, MEUR 34.3
– gross investment in Investment Properties MEUR 147.8
– launch of housing investment in St. Petersburg
– new IFRS-compliant segment division
  – fair values published for Investment Properties
– stock exchange listing cancelled in November
– proposed dividend € 0.36/share, MEUR 16.0

Investment in Housing

– housing portfolio at year-end 22 387 homes, book value MEUR 1,060
– fair value of housing portfolio MEUR 1,225 (value difference MEUR 164.3)
– total of housing investments in Finland MEUR 101.4
– investments in St. Petersburg MEUR 28.3, also MEUR 13.7 in purchase contracts
– divestments MEUR 23.2
– repairs MEUR 32.6
– financial rental occupancy rate 97.1% and tenant turnover 30.7%

Housing Development and Construction

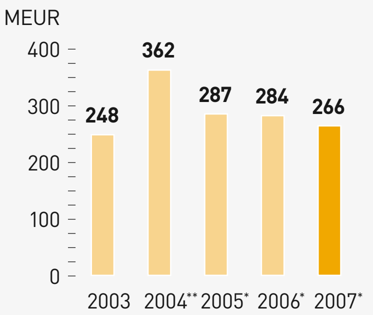
– completed homes 736, of which owner-occupied homes 384
– 619 owner-occupied homes under construction
– new plot acquisitions MEUR 37.6, roughly 95,000 square metres of floor area
– building land inventory at year-end for roughly 5,000 homes

Financial key indicators	2007	2006
Turnover, MEUR	**266**	284
Profit before taxes, MEUR	**34.3**	42.6
Balance sheet total, MEUR	**1,263**	1,114
Return on equity, %	**12.4**	16.6
Return on investment, %	**7.2**	7.0
Equity ratio, %	**16.8**	17.9
Equity ratio, % net of VATRO Homes		
– at book values	**21.9**	24.9
– at fair values	**29.4**	30.1
Earnings per share, EUR	**0.57**	0.70
Equity per share, EUR		
– at book values, EUR	**4.70**	4.42
– at fair values, EUR	**7.44***	6.04*
Dividend, MEUR	**16.0****	15.9
Operational key indicators		
Net rental income of rented homes, %		
– at book values	**8.0**	8.2
– at fair values	**7.1**	7.3
Occupancy rate of rented homes, %	**97.1**	97.2
Number of homes	**22,387**	22,548
Output of new homes, total	**736**	672
Output of owner-occupied homes	**384**	601
Personnel		
Personnel, average	**176**	173
Personnel, 31 December	**175**	170

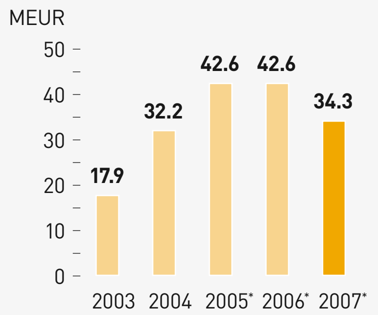
* deferred tax liability figured in
** Board's proposal to AGM

Financial trend

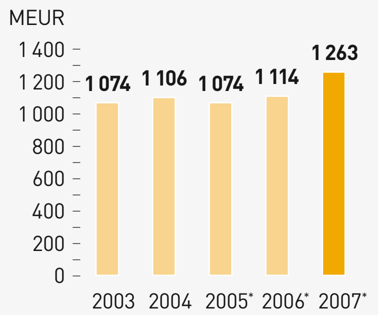
Group turnover 2003–2007



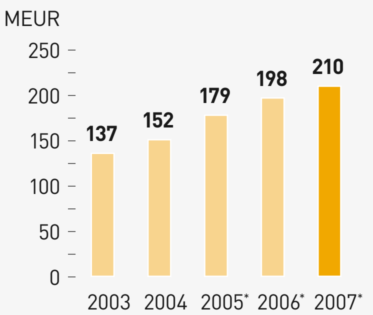
Group profit before taxes 2003–2007



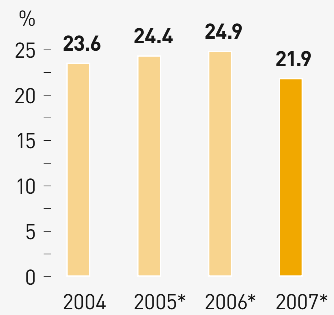
Consolidated balance sheet 2003–2007



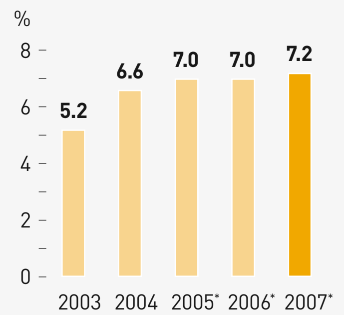
Shareholders' equity 2003–2007



Equity ratio, net of VATRO Homes segment 2004–2007

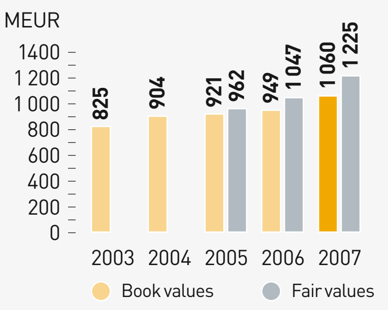


Return on investment 2003–2007



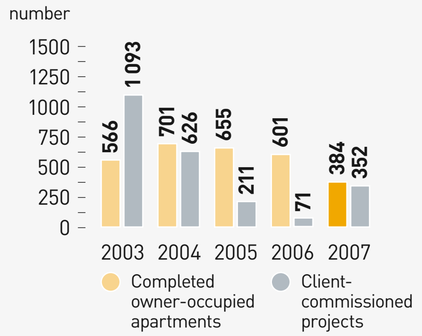
Investment in Housing

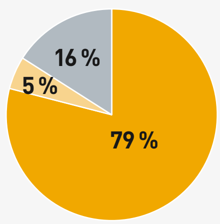
Trend in the housing portfolio, book values 2003–2007 and fair values 2005–2007



Housing construction

Trend in housing construction 2003–2007





Distribution of profit 2007 by segment

Total MEUR 34.3

- SATO Homes
- VATRO Homes
- Housing construction

* IFRS

** includes MEUR 81 in sales of 10-year shared ownership apartments

Competitive edge through customer-orientation

SATO has chosen for its value proposition "A Home the Way You Want It" to guide its operations and its customer service towards individual choices, whatever the form of housing.

We aim to stand out from other players in the field, not only with our products but also with customer service. The service concepts developed on the basis of the value proposition offer choices and quality.

SATO QualityHome

SATO has developed a star rating system to clarify to the home-seeker what the rented home is like in terms of location, materials and condition. When the lease is signed, we give the tenant a written guarantee of quality, and regular inspections of the apartment secure lasting quality. When rented housing is remodelled, we use materials and fittings with character, chosen by an interior designer. Most SATO QualityHomes are in the three- and four-star categories. A five-star home can also include a comprehensive service: the furnishings for the home, home insurance and other contracts related to housing.

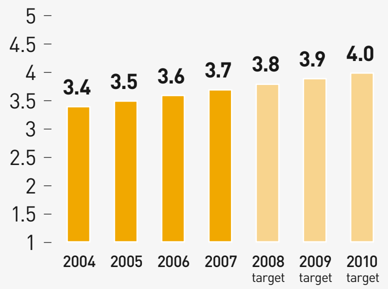
SATO PlusHome

SATO PlusHome offers alternatives for the floor plan of the chosen home as well as varied ranges created by an interior designer to facilitate the choice of materials and fittings for each home. A sophisticated online service and skilled personnel assist the customer to individualise the home to match his or her tastes.

The value proposition – 'A Home the Way You Want It'

- **a variety of convenient choices**
- **customising options**
- **quality guarantee for homes**
- **good, personal service**
- **it is worthwhile to be a SATO customer**

Customer satisfaction 2004–2007 and targets 2008–2010
Investment in Housing and Housing construction, average



SATO SeniorHome

SATO SeniorHome includes, in addition to the apartment, housekeeping and nursing services provided by our partners. Most SATO SeniorHome apartments are rented homes of high quality. The customer orders housekeeping and nursing services as required on the basis of a needs survey.

Quality guarantee

SATO provides a quality guarantee that the condition and quality of a rented home are as described by its category and that a new owner-occupied home will meet the quality standard described when it is completed.

Constant development to secure the value proposition

Development work continued in 2007 to enhance the customer-driven nature of operations. Networking with partners was intensified to improve quality and customer service, and a number of operative processes were updated. Particular attention is paid to improving product quality, developing service concepts, and expanding customer communications. A concept is under development to improve the standard of service in SATO's new housing areas.

SATO's service concepts

Rented homes

SATO QualityHome

– quality-rated homes

Rented and owner-occupied homes

SATO SeniorHome

– nursing service in addition to a home

Owner-occupied homes

SATO PlusHome

– possibilities for customisation

A developing supply of housing

SATO actively develops its housing portfolio to maintain its competitiveness while anticipating changes in the market. Owner-occupier customers are offered a wide range of customised solutions for requirements that emphasise greater individuality.

Review by the President and CEO

The need for rental housing is growing

Demand for rental housing has grown, particularly in the Helsinki Metropolitan Area, due to growth in trade and industry and rising demand for labour. This provides a good basis for growth by SATO.

At the end of the year under review, a committee appointed by the Council of State submitted its proposal for a housing policy action plan aimed at increasing the supply of reasonably priced rental housing, particularly in the Helsinki Metropolitan Area. Production of new rental housing has been at a standstill due to high price levels and restrictions on the terms for state financing.

Positive points in the committee's proposal are goals for speeding up planning permission, cities handing over building land, and lowering the price of construction, as well as a proposal for reforming the Property Fund Act. In our view, however, it is restrictions on the income-recognition of earnings that constitute the biggest obstacle for private players in stepping up the production of state-supported rental housing. If the restrictions are not eliminated, the incentives included in the proposal will ultimately be of little importance.

SATO's growth target

SATO has a strong growth strategy aimed at Investment in Housing business. To underpin the company's capital structure, an IPO was initiated in November last year. The offering came at a time when overall economic uncertainty was increasing and share prices were falling sharply. Because of the state of the market, SATO's Board of Directors decided to withdraw from the listing.

SATO continues its growth in line with the strategy decided on. Investments are aimed primarily at rental and senior homes in the Helsinki Metropolitan Area and investment is being stepped up in housing in St. Petersburg. Investments in new housing both in Finland and in St. Petersburg will tie up capital in these primarily with an eye to the revenue they yield, and the favourable effect of the investments will be seen in SATO's bottom line with a time lag.

St. Petersburg a new market area for SATO

At the end of 2006 SATO made a decision to initiate Investment in Housing business in St. Petersburg. The first investments were placed during the year under review and, by the end of the year, investments and binding purchase agreements in high-quality new rental homes in the centre of St. Petersburg totalled 42 million euros. Purchases have been made from Finnish and Russian construction companies. As customers, the main thrust will be on employees of Western companies. Leasing will start after the first apartments are completed in autumn 2008.

The developing rental business

The introduction of quality ratings for rental homes and action carried out to improve customer service impacted favourably on rental business during the year under review. The rental occupancy rate stayed high and the turnover of tenants declined.

To respond to the demand for rented apartments in the Helsinki Metropolitan Area, we will further boost SATO's supply of rental housing. In repairs, we devote effort to improving quality levels to ensure the desirability of apartments also in the future. We have new concepts under development, aimed at boosting appreciation for rental housing.

Synergy from development and construction

The situation for sales has been exceptionally good for the past three years in the owner-occupied housing market. Although demand is levelling out, in SATO's areas of operations, sales of owner-occupied homes are locally to hold up well in the future. One of SATO's strengths is the PlusHome concept, with the opportunities it affords to respond to customers' growing demands for greater individuality.

As demand for rental housing grows, there are more prospects for starting rental housing construction. SATO's building land inventory and excellent know-how in development and construction will also be applied in carrying out new building investment projects.

Improving the customer experience

We have now succeeded for four consecutive years in improving our results in customer satisfaction surveys. Customer satisfaction is crucial to the profitability of business and it is an aspect that affects growth prospects, so improving it is an important goal for us. In development work, we emphasise action aimed at improving the customer experience. We will also continue to commit our partners more strongly to the goals set for SATO's customer service.

Success continues

SATO had a good year in 2007 as a whole. For the personnel, the year was filled with work and required an extra effort. I would like to express my warm thanks to all the personnel for achieving the results we attained. Strong professional skills, the constant improvement of processes, and the ability to anticipate changes in the market create a good basis for SATO's growth and success.

I would like to thank our customers, the members of the Board of Directors, the owners and other stakeholders for their encouraging collaboration. Taking support from your trust, we set our sights boldly on the challenges ahead.

Erkka Valkila
President and CEO

Business climate

The overall economic trend

Finland's economic growth continued to be strong in 2007, but uncertainty in the economy increased. The uncertainty was reflected in the stock market, leading to an increase in share price swings. Economic forecasts reveal concern over the consequences of the sub-prime loan crisis in the United States on the whole economy and the financial market. Generally economic growth in Finland is forecast to continue to be good but to slow down in comparison with 2007.

Inflation accelerated towards the end of the year and it was close to the average for the EU. At the end of 2007, the rise in interest rates throughout the year levelled off.

Consumer confidence

Consumer confidence in the economy has declined since summer 2007. In January 2008, confidence in the economy was slightly below the long-term average. The downturn in this indicator was influenced most by lower expectations among consumers for the trend in unemployment. However, confidence in their own financial trend continued to be good.

Migration

According to Statistics Finland, 22,450 people immigrated to Finland in 2006, which is the highest figure since Finnish independence.

The urbanisation rate in Finland is among the lowest in Europe, so migration to the urban growth centres is expected to continue. The number of immigrants coming to Finland is forecast to increase.

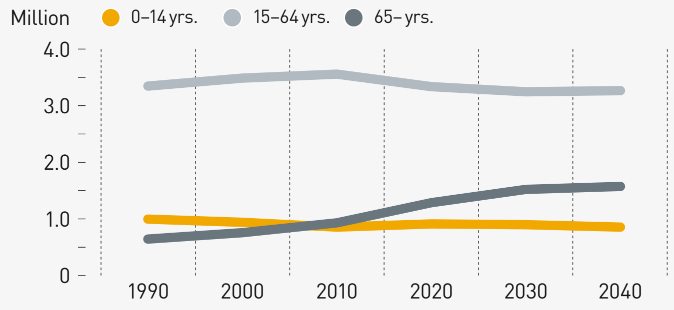
Population and housing

The number of households in Finland is roughly 2.45 million. A household is comprised of all the people living permanently in the same accommodation. The majority of these are households of one or two people, the number of which is expected to continue to grow. Of the households, roughly 65 per cent lived in owner-occupied homes and roughly 35 per cent in rented homes. In Helsinki, about half of the households live in rented homes.

According to forecasts, the proportion of people over 65 years of age in the population will rise from the present figure of approximately 16.5 per cent to roughly 30 per cent by 2040.

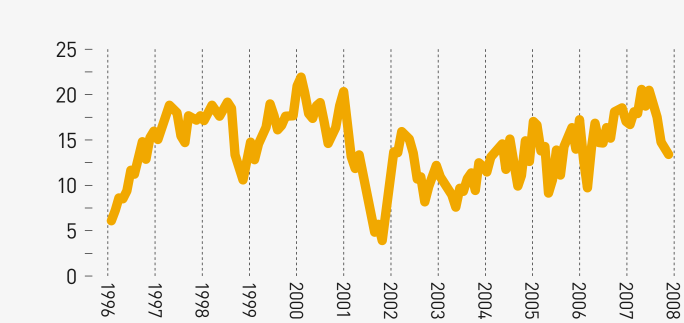
Housing expenses account for 25–30 per cent of private individuals' consumption.

Age structure of Finns 1990–2040



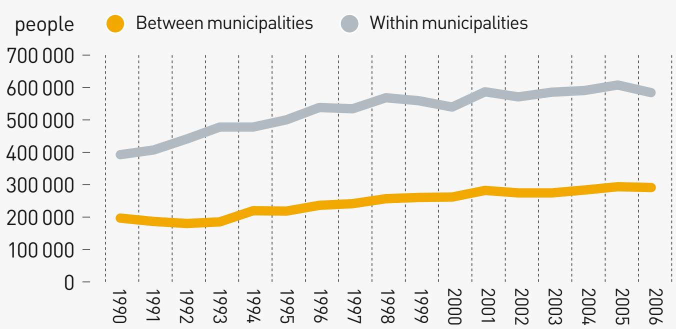
Source: Statistics Finland

Consumer confidence indicator



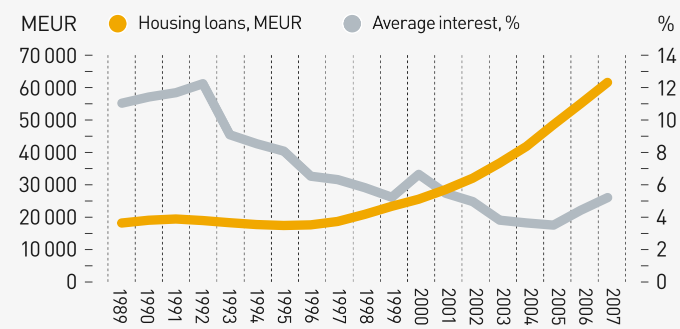
Source: Statistics Finland

Movement between and within municipalities



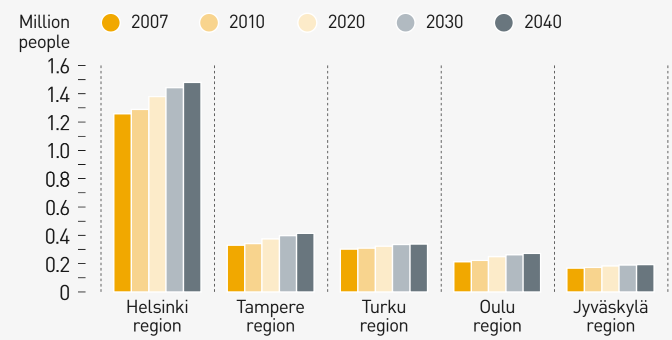
Source: Statistics Finland

Housing loans and average interest rate



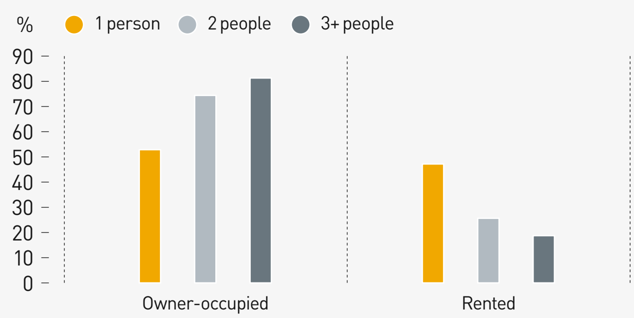
Source: Bank of Finland

Forecast population



Source: Statistics Finland

Households by type of hold and number of members



Source: Statistics Finland

The housing market

The home loan portfolio continued to grow in 2007, although its annual rate of growth slowed down slightly. The average interest rate on new home loans went up by about one percentage point during the year, but the rise in interest rates levelled out towards the end of the year.

The atmosphere in the housing market has changed since 2006. Trade in owner-occupied homes has slowed down and selling times have become longer. According to advance information from Statistics Finland, prices of old apartments rose throughout Finland in 2007 by an average of 5.1 per cent on the previous year. In the Helsinki Metropolitan Area prices rose by 6.1 per cent and in the rest of Finland by 4.2 per cent. During the year under review the rise in selling prices slowed and real prices are not expected to rise in 2008.

The increase in rent has been slower than the rise in home prices this decade. Because of this trend and a downturn in the supply of rented housing, pressure for higher rent increases has risen. This has made itself visible in the Helsinki Metropolitan Area in the form of higher rent requests than before.

The government's housing policy action programme aims at measures to increase the supply of rental housing, particularly in the Helsinki Metropolitan Area. The municipalities in the Helsinki region have signed a contract binding them to the aims of the programme.

Housing construction

The volume of housing construction declined in 2007 relative to the previous year. There were roughly 32,000 housing starts during the year, of which more than half consisted of apartments and terraced houses. The proportion of state subsidised construction is small due to high prices and the limitations of lending terms. On the basis of information on construction permits, the downward trend will continue in 2008.

Construction costs rose between December 2006 and December 2007 by 5.6 per cent. The increase was affected mostly by the increase in prices for construction materials.

Housing allowance

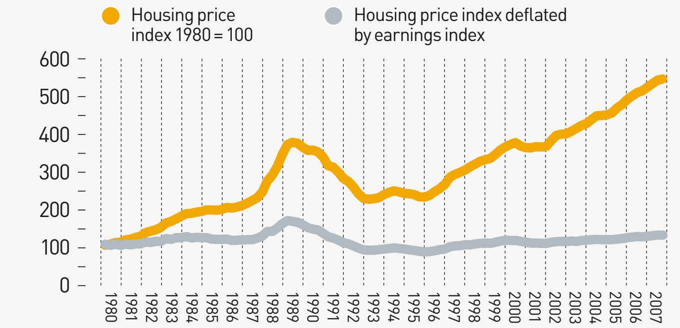
There were no significant changes in the criteria for determining public housing allowance during the year under review. Roughly 605,000 people are within the sphere of direct housing support systems.

The business climate in St. Petersburg

The Russian economy has been growing at an annual rate of 5–7 per cent. Inflation in 2007 was roughly 12 per cent. Housing construction in Russia grew during the year under review by 25 per cent on the previous year.

The growth prospects are good in the St. Petersburg region. Foreign investment is expected to continue and the number of foreign companies in the area is forecast to increase. Demand for housing is growing. The increase in housing prices in St. Petersburg in 2007 averaged approximately 20 per cent.

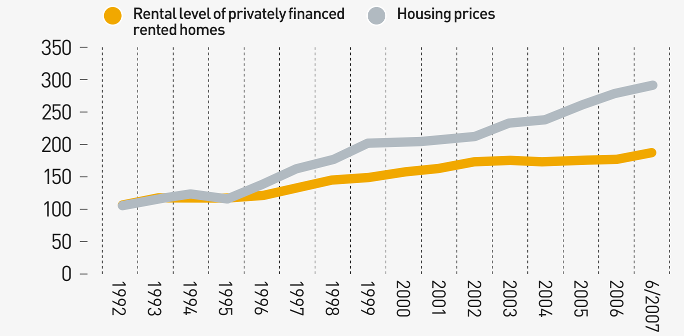
Housing prices



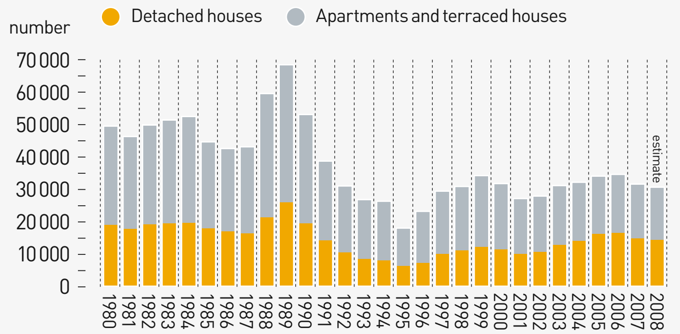
Source: Statistics Finland

Housing prices and rental levels in the Helsinki Metropolitan Area

Indexed 1992 = 100

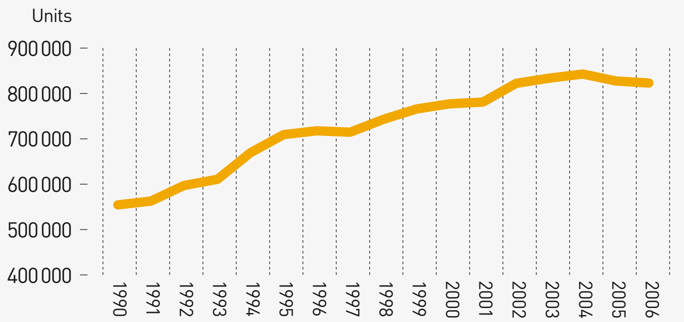


Housing construction starts



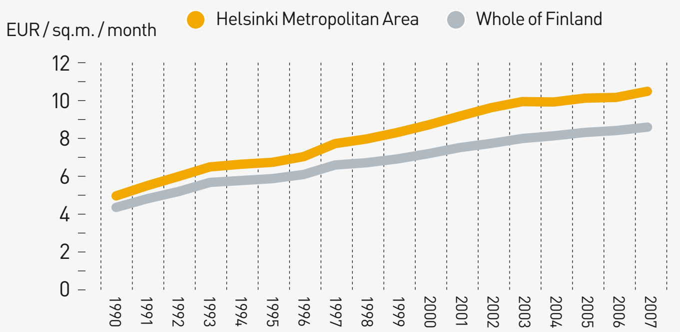
Source: Statistics Finland

Finland's rented housing stock



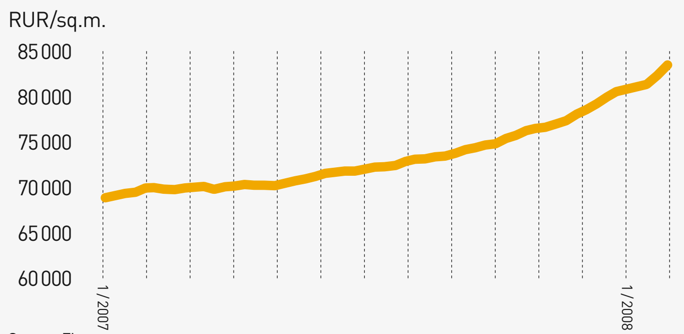
Source: Statistics Finland

Average rents per square metre



Source: Statistics Finland

Housing price trend 2007, St. Petersburg



Source: Finpro

We devote effort to quality

SATO pays particular attention to improving product quality, smoothly running service concepts, and expanding customer communications. Our homes have a quality guarantee.

Business area Investment in Housing

Operations

Investment in housing is SATO's core expertise. Investment in Housing actively develops the Group's housing portfolio to maintain its competitiveness while anticipating changes in the market. Every effort is made to maintain the technical, financial and utility value of the housing portfolio through lifecycle management and cost-effective operations which respect environmental values. By offering flexible housing solutions that support different stages of the customer's life, SATO seeks to secure a high occupancy rate for homes and long-lasting customer relationships.

Holdings of housing

On 31 December 2007, SATO had a total of 22,387 (22,548) homes, of which 20,939 (20,980) were rented homes, and 1,448 (1,568) were shared ownership apartments. The book value of Investment Properties was 1,060.3 (949.4) million euros and the fair value was 1,224.6 (1,046.5) million euros. Through investments and divestments during the year under review, the housing portfolio grew by 110.9 (28.5) million euros. The number of homes declined by 161 (145). The fair value of the Investment Properties increased by 178.1 (84.3) million euros. The difference between fair and book value as at 31 December 2007 was 164.3 (97.1) million euros.

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 at both the company level and for individual properties. The holdings of Investment in Housing are divided among seven different parent companies owning a total of 679 properties.

SATO's housing investments are divided into two segments for purposes of financial reporting, SATO Housing and VATRO Housing. SATO Housing includes all the 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. Of SATO's investment properties, roughly 45 per cent by book value were free of the restrictions of state subsidies and interest subsidised credits as at 31 December 2007. St. Petersburg business is also part of the SATO Housing segment. 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.

The Group holds 50 per cent of Suomen Asumisoikeus Oy, which at year-end held 13,856 (13,856) right-of-occupancy housing units.

The principles of valuation for Investment Properties

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 and interim statements. The current 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 for the financial statements. The model for determining the fair value of the Investment Properties was 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.

The model for setting the value of Investment Properties has been altered in respect of the market value method as of 31 December 2007, in such a way that the comparison information for traded prices is for 24 months instead of 36 months prior to the assessment date.

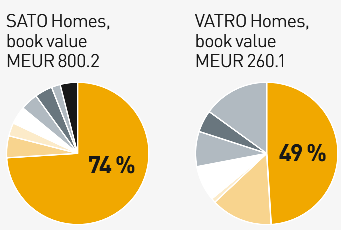
Turnover and profit

The turnover from Investment in Housing in 2007 was 161.9 (158.5) million euros, of which the SATO Homes segment's turnover was 124.1 (120.2) million euros and that of the VATRO Homes segment 37.8 (38.3) million euros. The business area's profit before taxes was 29.0 (32.7) million euros, of which the SATO Homes segment's profit before taxes was 27.4 (32.4) million euros and that of the VATRO Homes segment 1.6 (0.3) million euros. Of turnover, rental income was 151.6 (146.5) million euros and sales of shares were 10.2 (12.0) million euros. Of sales of shares, 2.9 (5.6) million euros accrued from the final payments made at the end of shared ownership periods of homes with ten-year subsidised interest on their loans. The profit from rental income was 22.2 (22.0) million euros and the capital gains on divestments were 6.8 (10.7) million euros.

Investments and divestments

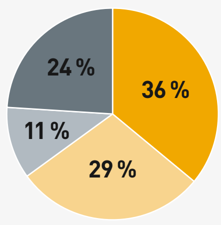
The strategic intent of investment business is to expand SATO's holdings of housing by purchasing rented homes from the existing housing stock and new homes for a value of 100–150 million euros per year. The main thrust in investment is in the SATO Homes segment. Purchases focus primarily on rented homes in the Helsinki economic zone, on senior housing in the Helsinki Metropolitan Area, and on expanding investment in housing in St. Petersburg. It is SATO's intention to attain a significant position as a foreign housing investor in St. Petersburg.

SATO continues the active development of its rented homes portfolio by divesting its properties located outside the growth centres. The aim is to consolidate the rental homes in roughly thirty municipalities instead of the present 48. The division of rooms layout in rented homes is developed to meet the demand for rented homes, bearing in mind particularly the continuing demand for homes with a small net leasable area.



Regional distribution of housing portfolio, 31 Dec. 2007

- Helsinki Metropolitan Area
- Rest of Helsinki Metropolitan Area
- Turku Region
- Tampere Region
- Jyväskylä Region
- Oulu Region
- Rest of Finland
- St. Petersburg

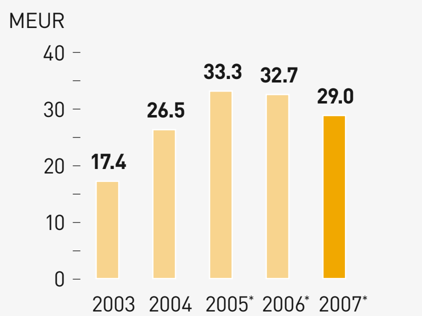


Distribution of housing by area, Helsinki 31 Dec. 2007

- South
- West
- North
- East

Total housing portfolio, book value MEUR 446

Investment in Housing, profit before taxes



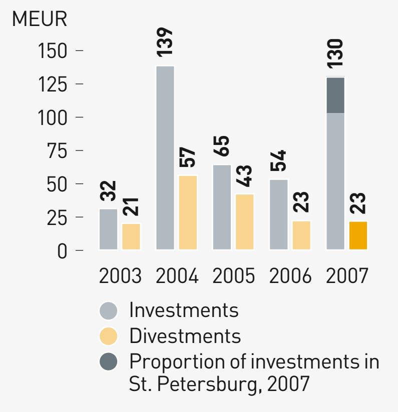
* IFRS

In 2007 the total invested in housing was 129.7 (54.1) million euros, and this was all allocated to the SATO Homes segment. The main investments in Finland were a 20.5 million euro investment in 175 rented apartments in the Reimarla district of Helsinki and an investment in 141 apartments in the Tapiola district of Espoo. In September, SATO acquired a total of 37 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. In October 38 rented apartments at Kalevankatu in Helsinki and 15 on Sibeliuksenkatu in Hämeenlinna were purchased from the Pharmacy Pension Fund for a total of 10.8 million euros. Investments were used to acquire a total of 607 (672) rented homes, of which 74 (31) were newly built. Binding contracts for new investments in Finland were also made for a total of 43.8 million euros. These include the completion of a total of 188 homes in Helsinki and Espoo. Of these, 94 are senior homes.

During the year under review, Investment in Housing business was launched in St. Petersburg. By the end of the period under review, the investments in St. Petersburg totalled 28.3 million euros. Binding contracts had also been made for 13.7 million euros. The properties in St. Petersburg are in the centre of the city, on the islands of Kristovsky and Petrogradskaya, and in Smolny. The properties comprise a total of 72 apartments, the renting of which will get under way in 2008 and 2009.

The value of housing divestments totalled 23.2 (22.9) million euros. During 2007 a total of 712 (702) rental homes were sold from the Group's housing portfolio. Also, residents in shared ownership apartments purchased ownership of 78 (110) homes in all. During the period under review an office property in the Lauttasaari district of Helsinki, obtained as part of a housing investment, was resold.

Investments and divestments in housing 2003–2007



Rental business

The Group's average monthly rent per square metre in 2007 was EUR 10.26 (EUR 9.78) for rental housing and EUR 8.98 (EUR 8.49) for shared ownership apartments. The average increase in rent for valid leases was 3.1 (2.7) per cent. The change in rents per square metre of rental homes averaged 4.9 (4.6) per cent on the previous year. This increase was a result of changes in the structure of the housing portfolio, rent increases, and the effect of new leases. The financial occupancy rate of rental homes during the period under review averaged 97.1 (97.2) per cent and that of shared ownership apartments was 99.8 (99.6) per cent. A drag was exerted on the financial occupancy rate by units which were vacant for renovation and for sale. The tenant turnover of rental homes in 2007 was 30.7 (33.7) per cent and that of shared ownership apartments was 10.4 (14.6) per cent. The net rental income on the book value of rental housing was 8.0 (8.2) per cent and 7.1 (7.3) on the fair value.

Renting business in St. Petersburg will get under way in autumn 2008 after the first investment properties are completed.

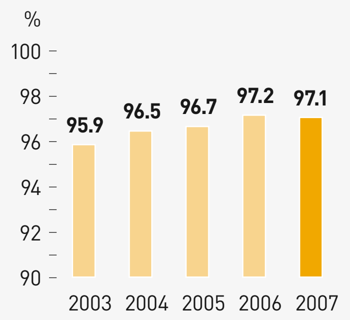
Maintenance of holdings of housing

The allocation of building repairs is based on lifecycle plans as well as on needs analyses. Repairs to rented homes are focused on maintaining and enhancing the standard of the quality rating. During the year under review, a total of 32.6 (25.3) million euros was used for repairs to the housing portfolio. Of the repair expenses, a total of 13.5 (5.6) million euros was capitalised at the acquisition cost.

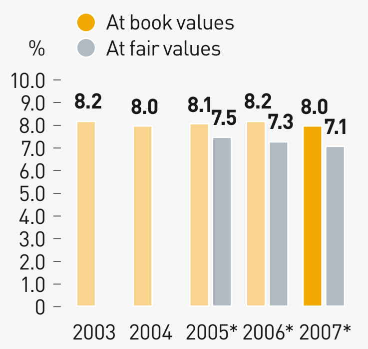
During 2007, the improvement of buildings' energy efficiency was continued with consumption monitoring, water-conserving plumbing fittings, and inspections of HEPAC regulators.

Building management, maintenance, cleaning and dwelling-specific repairs are mainly handled through partnership contracts. The biggest partnership solutions have been made with Realia Management Oy and YIT Kiinteistötekniikka Oy, with which agreements covering approximately 17,000 apartments were renewed in February 2008. At the same time, a new partnership agreement was signed with Juhola Management Oy for building management covering roughly 600 apartments.

Financial occupancy rate of rental housing, 2003–2007



Net rental income 2003–2007



* IFRS

Customer relationships

In line with SATO's value proposition, customers' choices were increased during the year under review by offering two optional rent payment days and two optional notice-of-termination days for tenants moving out. New opportunities were also introduced for long-term residents to exchange homes and for refunds of rent deposits as well as procedures for regular checks on the condition of apartments in connection with the quality guarantee.

The theme chosen by residents for 2006–2007 was "Communal Areas", and in connection with this ideas from the residents were carried out to refurbish communal areas, the remodelling range for stairways was updated, and standardised signage was made for the communal areas of buildings.

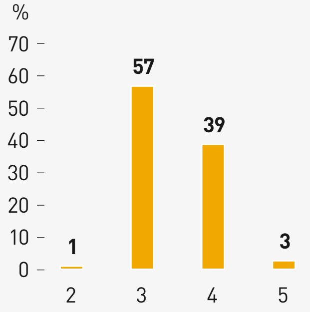
Development work

During 2007 the development of a new concept was launched in which services assisting everyday life were linked with housing, irrespective of the type of housing.

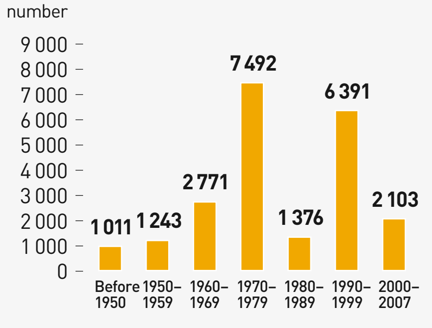
Effort was deployed in the development of processes and systems, for example by modernising the property data system and by promoting the fluency of removals and of the apartment refurbishments involved of these.

To improve cooperation with partners, SATO is taking part in a project by the property sector aimed at harmonising facilities management contract practices.

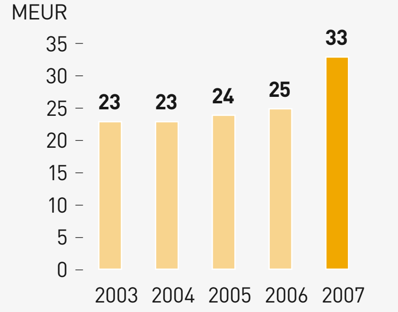
Distribution of units by quality rating
(% of balance sheet value MEUR 1,060)



Housing stock by year of completion 31 Dec. 2007 Total 22,387 units



Repairs to properties 2003–2007



Outlook for the near future of Investment in Housing

The price of housing is forecast to level out and rents are forecast to rise, which will improve the prospects for the profitability of investments. Demand for rented housing is gathering strength in the centres of growth due to an increase in employment and the migration that this causes. Demand is focused particularly on small apartments. The ageing population is stimulating the need for housing which includes household and nursing services. Customers' expectations for quality are rising.

The proportion of investments in newly built properties is being expanded. Effort is deployed in enhancing the quality of service, for example through training and by developing monitoring systems.

Information on the Investment in Housing by segments

1 January – 31 December 2007	SATO Homes	VATRO Homes
Turnover, MEUR	124.1	37.8
Profit before taxes, MEUR	27.4	1.6
– incl. proceeds from divestments, MEUR	6.4	0.4
Net rental income of rental homes, %		
– of book value	8.1	7.7
– of fair value	6.9	7.7
Financial rental occupancy rate of rented homes, %	96.8	98.3
Tenant turnover, %	30.0	32.5
Average rent, €/sq.m./month	10.46	9.70
Gross investments, MEUR	147.8	0
Divestments, MEUR	17.5	10.0
Repairs, MEUR	27.5	5.1
31 December 2007		
Number of rented homes	15,655	5,284
Number of shared ownership homes	1,448	0
Book value of Investment Properties, MEUR	800.2	260.1
Fair value of Investment Properties, MEUR	964.5	260.1
Difference in value, MEUR	164.3	0

We listen to the customer

Customer satisfaction affects the profitability of business and growth prospects, so improving it is an important goal for us.

Business area Housing Development and Construction

Operations

Housing Development and Construction focuses on commissioning the construction of owner-occupied homes and carrying out investments in new projects for ownership by the Group. Commissioning projects are also carried out in the form of consulting commissions for corporate customers. SATO commissions construction in the Helsinki Metropolitan Area and the economic zones of Tampere, Turku, Oulu and Jyväskylä.

During the year under review, 736 (672) housing units were completed, of which 384 (601) were owner-occupied housing units. At year-end, a total of 662 (1,066) new housing units were under construction, of which 619 (669) were owner-occupied homes.

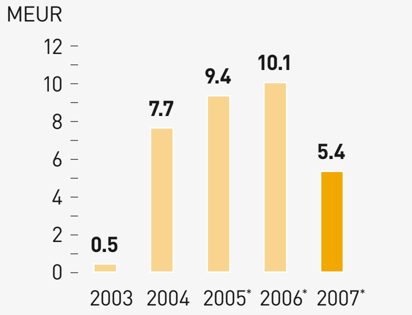
Turnover and profit

The turnover of Housing Development and Construction in 2007 was 109.5 (129.4) million euros and the profit before taxes was 5.4 (10.1) million euros. The profit figure includes 0.1 (0.7) million euros in capital gains from divestments of plots.

Output of owner-occupied homes

During the year under review, a total of 384 (601) owner-occupied homes were completed. The main projects completed during the period under review were apartment buildings in the Saunalahti district of Espoo, the Tammisto district of Vantaa, the Kaleva district of Tampere and the Korppoolaismäki district of Turku.

Housing Development and Construction, profit before taxes 2003–2007



* IFRS

At the end of 2007, 619 (669) owner-occupied homes were under construction. The acquisition value of the properties under construction totalled 163.3 million euros, of which projects in the Helsinki Metropolitan Area account for roughly 60 per cent.

Of the building starts during the year, the most important are the Loft project in the Arabianranta district of Helsinki, SATO PlusHome projects in the Matinkylä district of Espoo and the Aurinkolahti district of Helsinki, and phase three of a four-building complex in the Korppoolaismäki district of Turku.

At the end of the period under review, the Group had 40 (21) completed owner-occupied homes unsold and 273 (375) under construction.

Client commissioning

On client commissioning projects, a total of 352 (71) new homes were completed. At the turn of the year, 43 (397) new housing units were under construction for clients.

Plots

At the end of 2007, SATO held land with zoning permission for construction of housing amounting to roughly 215,000 square metres of floor area. The value of the building land inventory as at 31 December 2007 was 67.6 million euros. In addition to this, the permitted building volume based on plot reservations and letters of intent totalled roughly 156,000 square metres of floor area. Projects under zoning development totalled roughly 92,000 square metres of floor area. Together, these will permit the construction of more than 5,000 homes if the letters of intent and zoning targets are implemented.

In 2007, a total of roughly 37.6 million euros was invested in land with a combined total of approximately 95,000 square metres of floor area in permitted building volume, which enables the construction of a total 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 32,000 square metres of floor area in permitted building volume. The most important plot reservations were obtained from the City of Helsinki in the Arabianranta district for a total of roughly 7,300 square metres of floor area.

Roughly 28,000 square metres of floor area of the Group's land inventory was transferred to production. The value of the owned plots transferred to construction totalled roughly 9.2 million euros.

Customer relationships

During the year under review, the SATO PlusHome service was extended to all projects starting up and a revamped range of interiors was launched for the service. The online service was also made more diverse. In Housing Development and Construction, a quality guarantee related to SATO's value proposition was introduced, and quality control procedures for homes approaching completion were augmented.

Development work

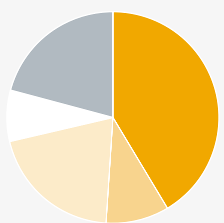
During 2007 the development of a new concept was launched in which services assisting everyday life are linked with housing. There are plans to carry out the concept first in the Tali area of Helsinki and on the basis of the feedback received to apply it in other new housing areas built for SATO. Customer feedback is being collected to support the development of the areas.

In Oulu, SATO will put on the market a low-energy house solution developed in partnership with the city's Department of Building Inspection. A goal of this development work is to anticipate the effect of stricter energy norms on building and housing. In the pilot project, the aim is to achieve savings of roughly 38 per cent in the energy used for heating compared to conventional projects.

SATO is also continuing development aimed at increasing the adaptability of homes. In addition to refining the SATO PlusHome concept, SATO is taking part in the "Elements of Kitchen" project developing kitchen solutions.

Outlook for the near future

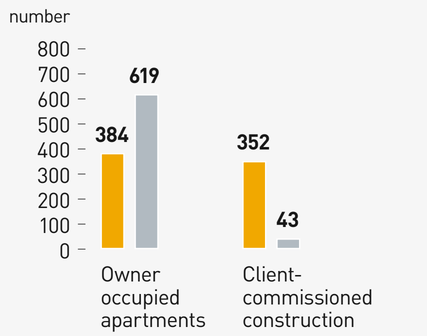
The volume of owner-occupied homes in Finland is forecast to decline relative to the level of 2007 and the real price level of homes is forecast to hold steady at the end 2007 level. In the Helsinki Metropolitan Area, the output of rented housing is expected to increase. The number of owner-occupied homes completed for SATO is forecast to be higher than in 2007.



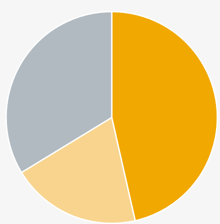
Completed owner-occupied units by region 2007
Total 384 units

- Helsinki Metropolitan Area 159
- Turku 37
- Tampere 78
- Jyväskylä 30
- Oulu 80

Construction of new housing 2007



- Completed 1 Jan.–31 Dec. 2007
- Under construction 31 Dec. 2007



Reserve of plots for owner-occupied housing construction (sq.m. floor area)
Total 463,000, approx. 5,000 homes

- Zoned 215,000
- Framework zoning 92 000*
- Letters of intent and allocations 156 000

* Permitted building volume in zoning proposals

Proactive operations

The ability to anticipate changes in the market creates a good basis for SATO to grow and prosper.


THE TIMES ATLAS

Responsibility

Financial responsibility

The assets invested in SATO's homes and properties are more than a billion euros. By maintaining, renting and developing its investment property and by producing new homes, SATO promotes the economic success of Finnish society.

SATO seeks with its business to generate financial added value not only for its shareholders but also for its personnel, its partners and society. Maintaining the housing stock and building new homes has a broad-based impact on employment. The company's long and continuing profitable operation has created well-being for the personnel and facilitated the development of new housing-related innovations.

In recent years, SATO has stepped up its partnering by signing long-term agreements with selected players to promote an ongoing business relationship. Thanks to its steady cash flow, the company is able to attend to its liquidity and reliably to handle its obligations to its stakeholders. The lifecycle control of SATO's Investment Properties ensures the maintenance of their value and their good collateral value.

During the year under review, the cash flows to subcontractors and partners generated by the Group totalled roughly 172 million euros. The personnel were paid salaries and bonuses amounting to roughly 11 million euros. During the year under review, some 16 million euros was paid in dividend and roughly 10 million euros was paid in taxes.

Environmental responsibility

SATO promotes with its operations care for the environment and sustainable development on the basis of its environmental programme. The programme embodies environmental targets and procedural guidelines to support them. The guiding aspects chosen in environmental work are ecological acceptability, customer-centredness, continual learning and profitability. The entire environmental programme can be read on the company's website www.sato.fi.

In the planning and control of environmental work, the Group management has the help of an environmental committee. The environmental committee has the duty of preparing an annual environmental action plan and it oversees and reports on the environmental programme's implementation and development needs. In implementing the programme, not only SATO's personnel but also its partners bear

Cash flows 2007

responsibility, and they are committed to common goals in agreements for design, contracting and building management, etc.

The main environmental impacts are caused by energy consumption and the emissions resulting from this. In SATO's environmental work priority has been given to reducing energy consumption. SATO is a party to the nationwide agreement on energy conservation in residential buildings (AESS). In the Group's rented home portfolio, energy consumption has been monitored as prescribed by AESS since 2004. The signatories' goal is to reduce the specific consumption of heating energy and water in residential buildings by 15 per cent by the year 2012. The specific consumption of heating per cubic metre in SATO's buildings covered by the agreement has been reduced by 7.2 per cent since 2004 and that of water by 6.5 per cent.

Another goal of the AESS agreement is to halt the increase in specific energy consumption in buildings and to send consumption rates into decline before 2008 as well as to carry out energy inspections in 80 per cent of the properties covered by the agreement. The properties should be connected to continuous monitoring by the end of 2010. In terms of electricity for buildings, SATO reached the target as early as 2005, when consumption topped out. In 2007 the specific consumption of electricity fell by a further 5.0 per cent on the previous year. An energy inspection was carried out at 29 rental sites and by the end of the year inspections had been performed at a total of 228 properties. This is the equivalent of roughly 50 per cent of SATO's sites covered by the energy conservation agreement.

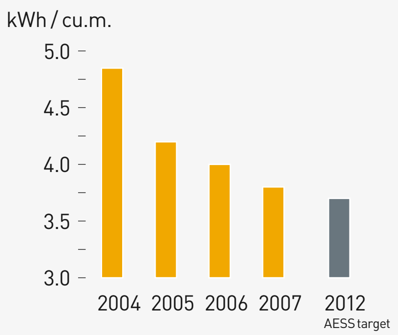
Water-conserving plumbing fittings were installed in 1,445 homes to promote the energy conservation objectives. Also, 260 building HEPAC control devices were serviced.

In Housing Development and Construction, the design of a low-energy building in Oulu was started. The apartment building will serve as a pilot scheme for modelling low-energy solutions for the Group's future housing construction. In this owner-occupied project, new challenges of climate change and increasingly stringent energy norms for construction are being anticipated, in terms of both energy consumption and amenity value. The aim is to achieve savings of roughly 38 per cent in the energy used for heating compared to conventional projects. SATO is carrying out the project in partnership with the City of Oulu's Department of Building Inspection.

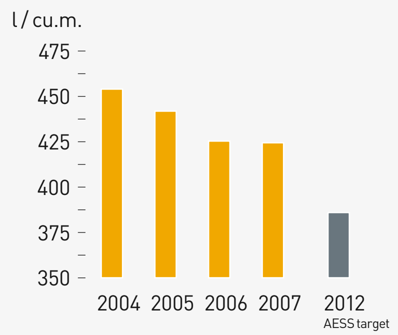
The guidelines for company cars were updated for SATO as of 1 January 2008 in respect of the carbon dioxide emissions of new company vehicles. The upper limit set for emissions was 200 g/km.

To encourage environmental conservation practices, SATO awards an annual prize for the best idea or implementation promoting sustainable development. Employees, customers and partners are encouraged to take part in the environmental competition.

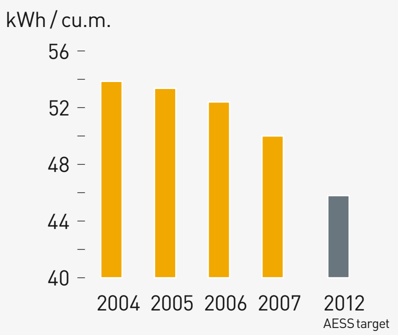
Electricity consumption



Water consumption



Standardised heating consumption



Social responsibility

Customers

For 67 years, SATO has been a trailblazer in the Finnish housing market, participating in creating numerous innovations related to housing. Among the key aims of this activity is to enhance the quality of the homes offered and to improve customer service. In order to assess the success of its activities, SATO systematically collects feedback from its customers.

Thanks to its diverse housing supply and its long-term business, SATO is able to offer alternatives for changing situations in life. SATO also develops its offering with services supporting housing, particularly for senior citizens, who are growing as a percentage of the population.

As a large lessor, SATO also encourages residents to engage in community action by arranging customer events and by stimulating residents' action in the properties. During the year under review, an environmental club for residents was launched and gardening club activities were continued. Customer events were also arranged and opportunities to participate in cultural events were given support.

In 2007 people who promoted dialogue between SATO and the customers were chosen as Customers of the Year in both the Investment in Housing and the Housing Development and Construction business areas.

Personnel

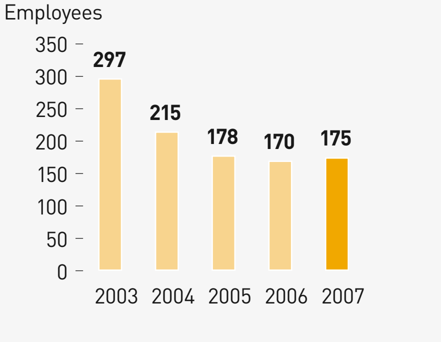
At the end of the year under review, SATO had 175 employees, of whom 164 were in permanent employment.

The personnel's expertise is vital to SATO's success. During the year under review, training was used to develop supervisor's management skills, for example, and efforts were devoted to enhancing the entire personnel's service capabilities. In 2007, the Group had 6 days of training per member of personnel

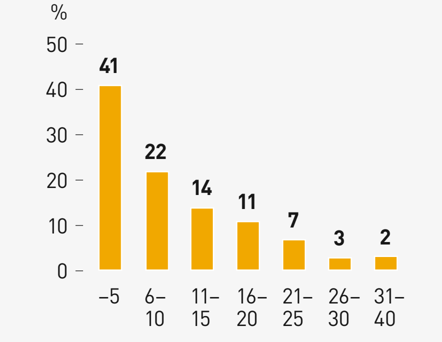
The average age of the personnel is 46 years. During the year under review, absences due to sickness were 5.9 days per employee.

In 2007 a personnel resource survey was carried out on a basis of self-assessment. Since the last survey, carried out in 2005, the view of personal working capacity had generally improved. Strain on supportive tissue and motor muscles emerged as the largest health risk, and in order to reduce the risk, a survey was made of workstation ergonomics and the necessary corrective action was carried out.

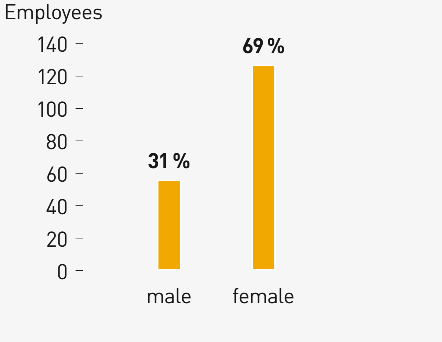
Personnel at year-end 2003–2007



Number of years of service by personnel 31 Dec. 2007



Personnel by gender 31 Dec. 2007



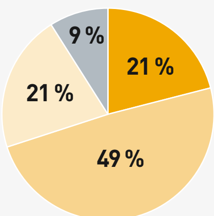
The personnel were particularly appreciative of SATO's positive attitude to exercise. During the year under review, in order to maintain working capability, roughly 22,000 euros was spent by the Group on supporting the personnel's exercise and recreational hobbies. On the basis of the wishes of the personnel, information was distributed on promoting health, for example about ways of losing weight. Special groups have also been offered a chance for guided physiotherapy. A wellbeing survey rounded out the study of the working environment carried out in the autumn.

Matters relating to job wellbeing are discussed regularly by a group composed of management and personnel representatives. The Group has an equality plan concerning the personnel.

On the basis of nominations from the personnel, a person who performs her job in an exemplary way to carry out the values of SATO was chosen as the SATO Employee of the Year.

Partners

The actions of partners are of growing importance in SATO's service process. To emphasise the importance of collaboration, the Group awards a worthy partner each year. In 2007, the award went to Palmberg-Urakoitsijat Oy for long-term and broad-based collaboration, particularly on the development of the building site part of the SATO PlusHome concept.



Personnel educational level 31 Dec. 2007

- Tertiary (university or equivalent)
- Senior upper secondary (e.g. college or polytechnic)
- Junior upper secondary (vocational training or matriculation)
- Lower secondary (e.g. middle school or comprehensive school)

In the year under review, the main thrust was on the fluency of the main joint processes of SATO and the partners. Also, incentives were introduced for the employees of networking parties and joint training sessions were held.

Development work

In addition to SATO's in-house development work, it also takes part in two projects funded by Tekes, the National Technology Agency. The purpose of a research project by VTT Technical Research Centre of Finland, Helsinki University of Technology and Sweden's Royal Institute of Technology is to create for actors in the field a new way of thinking and acting for the efficient use of consumer information in designing residential areas, buildings and homes. In the 'Elements of Kitchen' development team, a modular kitchen is modelled which can be adapted to meet changes in the customer's needs.

SATO is also taking part in a project of the Finnish Association of Building Owners and Construction Clients RAKLI together with Helsinki University of Technology to harmonise property service practices.

The development of quality in the main business processes was continued in accordance with the EFQM quality system.

Incentives and sponsorships

For the third time, during the year under review, SATO presented an award for the graduation piece of a Master of Arts who graduated from the University of Art and Design. The prize for 2007 was awarded for the household textiles of Matleena Issakainen. The choice was influenced not only by the execution and the suitable, modern patterns but also by the written description of the graduation piece in which Issakainen underlines the importance of household textiles specifically in a small home. The ideas behind the graduation piece are well suited to young people, whose rented homes are often the first self-decorated home.

The money allocated to remembrance at Christmas was donated to the Finnish Association for Mental Health for its work and to WWF to support environmental education. A number of social organisations for physical fitness and charitable causes were also supported.

Action in organisations

SATO is a member of the Finnish Association of Building Owners and Construction Clients RAKLI, where its representatives sit on the Housing Sector Management Board and four committees. SATO is also represented on the consultative committee of the Finnish Real Estate and Construction Forum.

SATO is a member of the Helsinki Region Chamber of Commerce, and it is represented on the delegates' committee and governing board as well as the housing and regional committee. SATO is also a member of the Association of Support Service Industries, the Finnish-Russian Board of Trade, and several housing and senior citizen support organisations. The most prominent of these are the Finnish Housing Association, the Finnish Housing Reform Association, SFHP Suomi-Finland Housing and Planning, and the Senior Citizens' Sheltered Housing Association.

Press releases in 2007

3.1.2007
SATO buys a residential block in the Linnanmaa district of Oulu, where roughly 200 new apartments of high standard are to be built.

18.1.2007
Antti Mäntynen takes leadership of the SATO Investments and Divestments Unit.

19.1.2007
SATO acquires a heritage building in the old part of Eira, with a total of 22 rented apartments.

1.2.2007
SATO builds high-quality homes in the Sarfvik district of Kirkkonummi.

2.2.2007
Kari Mikkonen takes charge of the SATO Foreign Investment Unit.

14.2.2007
Financial statements bulletin 2006 – excellent results for SATO.

28.3.2007
SATO buys 10 apartment buildings from the Pharmacy Pension Fund with a total of 175 privately financed rented apartments in the Reimarla district of Helsinki.

29.3.2007
SATO acquired 41 new homes in the Helsinki Metropolitan Area for renting out. Most of the apartments are in the Vuosaari Aurinkolahti and Vanhankaupunginkoski districts of Helsinki.

29.3.2007
SATO invests in apartments in St. Petersburg – investment business opens with the acquisition of 21 new homes.

29.3.2007
SATO's financial statements are adopted.

4.4.2007
The new residential area in Limingantulli, Oulu, is named Etelätulli.

20.4.2007
SATO buys 141 rented homes in Tapiola from the Central Union of Agricultural Producers.

26.4.2007
SATO's Board of Directors appoints the members of the committees.

2.5.2007
SATO buys additional permitted building volume in Sarfvik.

3.5.2007
Interim report for 1 January – 31 March 2007, a good Q1 for SATO.

24.5.2007
SATO encourages the rollout of design as part of a housing solution.

29.5.2007
Juha-Pekka Järvenpää becomes head of the SATO Homes Unit.

28.6.2007
SATO receives permitted building volume for roughly 300 apartments in the Tali district of Helsinki. SATO launches a new concept combining housing and services in the area.

28.6.2007
SATO sells an office building in Lauttasaari.

28.6.2007
SATO acquired from NCC 75 new rented apartments in the Helsinki Metropolitan Area.

9.8.2007
Anssi Salonen, D.Sc. (Tech.) becomes SATO's Development Manager.

10.8.2007
Interim report 1 January – 30 June 2007, SATO invested heavily and posted a good result for 1–6/2007.

14.9.2007
Mika Saariketo recruited to become SATO's Regional Director in Housing Development and Construction.

25.9.2007
SATO acquires 37 rented homes in the Sörnäinen district of Helsinki from the Finnish Cultural Foundation.

8.10.2007
SATO checks out the possibility of a public listing on Helsinki Stock Exchange.

17.10.2007
SATO invests in new apartments in St. Petersburg. The deal includes 23 quality apartments with parking facilities under construction.

24.10.2007
SATO's interim report 1 January – 30 September 2007, SATO's trend in earnings continues to be good.

29.10.2007
SATO acquires 53 city centre apartments in Helsinki and Hämeenlinna.

9.11.2007
SATO's initial public offering 12 – 26 November 2007

20.11.2007
Further information about the valuation of SATO's Investment Properties

22.11.2007
A significant senior homes project for SATO in Niittymaa, Espoo.

26.11.2007
SATO Corporation's IPO is cancelled.

A home the way you want it

The value proposition has been the basis for service concepts that offer choices and quality.

Annual report of the Board for the period 1 January–31 December 2007

Turnover, net profit and financial status

The Group's turnover was 265.9 million euros (284.4 million euros in 2006), of which the turnover of Investment in Housing was 161.9 (158.5) million euros and that of Housing Development and Construction was 109.5 (129.4) million euros. The Group's operating profit was 66.2 (66.8) million euros.

The Group's profit before taxes was 34.3 (42.6) million euros. The downturn in profits was anticipated and was largely the result of a rise in liabilities due to a considerable increase in investments, as well as an increase in interest rates and a rise in financial expenses due to these factors. The profit of Investment in Housing was 29.0 (32.7) million euros and that of Housing Development and Construction was 5.4 (10.1) million euros.

The Group's return on equity was 12.4 (16.6) per cent and return on investment was 7.2 (7.0) per cent. Return on equity, excluding the non-profit VATRO Homes segment, was 11.5 (16.1) per cent.

The consolidated balance sheet total on 31 December 2007 was 1,263.4 (1,113.8) million euros. The book value of Investment Properties was 1,060.3 (949.4) million euros and the fair value was 1,224.6 (1,046.5) million euros The Group's interest-bearing liabilities were 945.1 (811.1) million euros. The Group's equity ratio at year-end was 16.8 (17.9) per cent, and when Investment Properties are calculated at fair value 23.5 (22.5) per cent. The Group's equity ratio, excluding the non-profit VATRO Homes segment, was 21.9 (24.9) per cent calculated at book values, and that when Investment Properties are calculated at fair value, was 29.4 (30.1) per cent.

Financing

The cash position of the Group and parent company was favourable throughout the financial year. The Group's financial assets at year-end review were 34.0 (41.3) million euros.

Interest-bearing liabilities at year-end were 945.1 (811.1) million euros, of which market rate loans totalled 544.5 (385.7) million euros, interest-subsidised loans totalled 100.4 (100.8) million euros, and state-subsidised loans totalled 249.0 (269.2) million euros. There were debts in the amount of 51.2 (55.4) million euros on shares held in housing companies and mutual property holding companies included in Investment Properties.

Of the capital of market rate loans at year-end, 294.5 (189.6) million euros was hedged with interest-rate swaps and options, which is equal to 56 per cent of the market rate interest position. The average maturity of the swaps was 46 (33) months.

Group and division structure

SATO Corporation is the parent company of the SATO Group. At year-end, the parent company had a total of 6 (6) subsidiaries engaged in business.

The transition to IFRS accounting practices updated the Group's reporting. The reporting business segments are SATO Homes and VATRO Homes in Business Area Investment in Housing, and Housing Development and Construction. The adoption of segment reporting increases the transparency of business and in connection with this the company ended the spin-off of the Vatro Group from the SATO Group.

Business area Investment in Housing

On 31 December 2007, the Group held a total of 22,387 housing units (22,548). The book value of the housing was 1,060.3 (949.4) million euros and the fair value was 1,224.6 (1,046.5) million euros. The financial occupancy rate for rental homes averaged 97.1 (97.2) per cent and occupant turnover averaged 30.7 (33.7) per cent. The net rental income of rental housing was 8.0 (8.2) per cent on book value and 7.1 (7.3) per cent on fair value.

During 2007, a total of 533 (641) housing units were acquired from the existing housing stock. A total of 74 (31) new housing units were completed for the Group. The increase in the balance sheet due to investments in housing totalled 129.7 (54.1) million euros. The sum of 32.6 (25.3) million euros was spent on renovating housing properties and upgrading housing units.

During the financial year, 712 (702) rental homes with a combined value of 23.2 (22.9) million euros were sold.

At the end of 2006, SATO made a decision to initiate investment in housing business in St. Petersburg. By the end of the year under review, the investments in St. Petersburg totalled 28.3 million euros. Binding contracts had been made for a further 13.7 million euros. The properties comprise a total of 72 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.

The turnover from Investment in Housing was 161.9 (158.5) million euros, of which the SATO Homes segment's turnover was 124.1 (120.2) million euros and that of the VATRO Homes segment 37.8 (38.3) million euros. The turnover includes

2.9 (5.6) million euros in sales of shares in shared ownership apartments resulting from the expiry of the ten-year shared ownership period.

Investment in Housing's profit before taxes was 29.0 (32.7) million euros. The profit figure includes 6.8 (10.7) million euros in proceeds from divestments. The SATO Homes segment's profit was 27.4 (32.4) million euros and that of the VATRO Homes segment was 1.6 (0.3) million euros.

Business area Housing Development and Construction

During the financial year, a total of 736 (672) new homes were completed, of which 384 (601) were owner-occupied and 352 (71) were homes in client projects. The combined acquisition value of the completed owner-occupied homes was 84.5 (124.7) million euros.

At year-end, 662 (1,066) homes were under construction, of which 619 (669) were owner-occupied and 43 (397) were homes in client projects. The acquisition value of the owner-occupied homes under construction was 163.3 (163.6) million euros.

The turnover from Housing Development and Construction was 109.5 (129.4) million euros. The turnover of Housing Development and Construction includes 5.4 (3.4) million euros of internal sales. The division's profit before taxes was 5.4 (10.1) million euros.

The book value of the land inventory held by the Group was 67.6 (37.4) million euros at the turn of the year. During the financial year, land inventory was acquired for a total of 37.6 (18.8) million euros. The value of the land inventory transferred to housing construction during the year was 9.2 (14.6) million euros.

Investments and divestments

The Group's gross investments totalled 149.1 (59.7) million euros. During the period under review, Group housing properties were sold for a total of 23.2 (22.9) million euros and office properties were sold for 4.3 (2.1) million euros.

Environmental impacts

The main environmental impacts of SATO's operations arise from housing energy consumption and resultant emissions. In order to reduce emissions, SATO has committed itself to the aims of the nationwide agreement on energy conservation in residential buildings (AESS) to reduce the specific consumption of heating energy and water in residential buildings by 15 per cent by the year 2012 and to turn consumption of electricity into decline before 2008. In the Group's rented home portfolio, energy consumption has been monitored as prescribed by AESS since 2004. The specific consumption of heating per cubic metre in SATO's buildings covered by the agreement has been reduced by 7.2 per cent since 2004 and that of water by 6.5 per cent. The specific consumption of electricity turned into decline in 2005 and in the year under review it declined by a further 5.0 per cent.

Risk management

SATO's risk management is based on systematic risk assessment embodied in the strategic and annual planning process.

SATO's financing is denominated in euros, which is subject to an interest rate risk. In accordance with the Group's financial policy, 50–80 per cent of the interest position on market loans is hedged.

The main risks of selling and leasing homes concern economic cycles and changes in interest rates.

Business area Investment in Housing's vacancy rate and turnover in rented homes as well as forecasts for these are monitored on a monthly basis. In order to boost the rental occupancy rate and to reduce occupant turnover, effort is deployed in action on the apartments' quality factors and on strengthening customer relationships. A favourable trend in the value of holdings of housing and the rentability of homes is secured by concentrating on the urban centres of growth. Repair operations based on the buildings' lifecycle plans and on the assessment of the need for repairs improve the quality of the housing portfolio in the long term.

The business area Housing Development and Construction's sales of housing are monitored on a weekly basis. SATO's Board of Directors has set euro limits to the total amount of unsold homes and land inventory.

To limit the risks, business is concentrated on the five largest economic zones in Finland.

During the year under review, Investment in Housing business was launched in St. Petersburg. Business in St. Petersburg involves risks related to the business climate as well as a currency risk. As part of the risk management, investment prospects are selected among properties for which the demand for housing and potential rise in value are greatest.

The function of the internal audit is to assess the business risks and the management of them. The audit is targeted in accordance with the strategy and annual planning process's risk assessments.

The Group's risks in respect of property, loss of profits and liability for damages are secured with appropriate insurance cover.

Increase in the share capital and targeted share issue

On the basis of the authorisation granted by the annual general meeting of 30 March 2006, SATO Corporation's Board of Directors decided on 22 March 2007 to increase SATO Corporation's share capital in disapplication of existing shareholders' preemption rights and to offer for subscription a maximum of 24,000 new shares in the company. The shares were offered for subscription to a company founded by the members of the SATO Group's Corporate Management Group. This arrangement concerns the long-term commitment of the management. The founded company, Habinvest Oy, subscribed in the share issue for 23,250 new shares in the company at a price of 120.00 euros per share. On the basis of the share issue, SATO Corporation's share capital was increased by 46,500 euros. Following the increase, the company's share capital was 4,442,192.00 euro and the number of shares was 2,221,096.

The listing project and the extraordinary meeting of shareholders

An extraordinary meeting of shareholders on 23 October 2007 passed a resolution to change SATO Corporation's articles of association in their entirety.

The meeting also resolved on a non-payment issue of shares in which the number of SATO Corporation's shares was increased by issuing 42,200,824 new shares to the shareholders without payment. All the new shares issued in the non-payment issue were allotted to the company's shareholders in proportion to their existing holdings, in such a way that 19 new shares were awarded without payment for one old share. The share capital was not increased by the share issue.

The increase in the number of shares was entered in the Trade Register on 26 October 2007.

The extraordinary meeting of shareholders also made the following decisions:

1. The meeting of shareholders authorised the Board of Directors to decide on one or more targeted, for-payment issues of shares and on the terms of these. The combined number of shares issued in the share issues may not exceed 17,000,000 new shares. The Board of Directors may exercise the authorisation to expand the company's shareholder base and reinforce the capital structure in the event of the company seeking a listing on Helsinki Stock Exchange.
2. The meeting of shareholders authorised the Board of Directors decide on a for-payment issue of no more than 2,500,000 new shares in a targeted issue and to decide the terms for this. The share issue may be directed at eQ Bank or other parties nominated by the bank to cover a situation of oversubscription in connection with the company obtaining a public listing.
3. The meeting of shareholders authorised the Board of Directors to acquire a maximum of 2,500,000 shares in the company from eQ Bank or other parties nominated by the bank other than proportionately to the shares held by shareholders.

The company's Board of Directors has not made any decisions based on these authorisations. The authorisations are valid until 31 December 2008.

On the basis of the authorisations, the Board of Directors initiated in November a share issue with the aim of seeking a listing on OMX Nordic Exchange Helsinki. However, it was decided not to go ahead with the listing, as rising uncertainty on the stock market prevented the aims set for the issue to be realised.

Shares

The number of shares in SATO Corporation as at 31 December 2007 was 44,421,920. The turnover of shares during the financial year was 19 (27) per cent.

The members of SATO Corporation's Board of Directors, the President and CEO and his deputy held a total of 244,000 shares on 31 December 2007. The President and CEO and his deputy also, through their holding in Habinvest Oy, have an indirect holding of a total of 270,000 SATO Corporation shares.

Personnel

At the end of 2007, the Group had 175 (170) employees. There were 164 employees on permanent contracts and 11 on fixed-term contracts. The number of Group personnel averaged 176 (173) during the year.

Board of Directors, President and CEO and auditors

Serving on SATO's Board of Directors until the annual general meeting of 29 March 2007 were Jouko Tuunainen (chairman), Eino Halonen, Juhani Järvi, Jorma Kuokkanen, Raimo Lind, Martti Porkka and Jukka Salminen as well as Esko Torsti.

Elected to the company's Board of Directors by the annual general meeting of 29 March 2007 were CFO Juha Laaksonen as chairman and as ordinary members Eino Halonen, Jorma Kuokkanen, Raimo Lind, CEO Asko Salminen, Esko Torsti and Jouko Tuunainen. The Board of Directors appointed Raimo Lind as their deputy chairman on 26 September 2007.

Erkka Valkila, B.Sc. (Eng.), served as President and CEO. Tuula Entelä, B.Sc. (Econ.), LL.M., is deputy to the President and CEO.

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

Committees

At its meeting held after SATO Corporation's AGM, on 25 April 2007, the Board of Directors elected from among its members Juha Laaksonen to chair the Appointment and Compensation Committee and Jorma Kuokkanen and Jouko Tuunainen as its members. The committee convened twice during the financial year.

Raimo Lind was elected as chairman of the Audit Committee, with Asko Salminen and Esko Torsti as members. The committee convened three times during the financial year.

The members of the Corporate Management Group

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

Events after the period under review

In January, SATO invested in a total of roughly 150 homes in Helsinki. The combined value of the investments is roughly 20 million euros.

In February, SATO renewed building supervision and management agreements for roughly 18,000 homes.

Outlook

The prospects for an upbeat 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.

In SATO's investments in rental housing, the proportion of new homes will increase both in Finland and in St. Petersburg, and capital will be tied up in these primarily with an eye to the revenue they yield.

With the economic situation holding steady, the Group's net profit for 2008 is forecast to be on a par with the previous year's level.

Board's proposal for the disposal of profits

The parent company's distributable assets as at 31 December 2007 were EUR 37,157,702.40, of which the net profit for the financial year was EUR 16,206,080.94. The number of issued shares in the company conferring entitlement to dividend for 2007 was 44,421,920 as at 31 December 2007.

The Board of Directors proposes to the annual general meeting that dividend be paid on the profit for the financial year of EUR 0.36 per share, being a total of EUR 15,991,891.20 and that EUR 214,189.74 be posted to retained profits.

Since the end of the financial year, there have been no significant changes in the company's financial status.

Signatures to the report of the Board and the financial statements

Helsinki, 13 February 2008

Juha Laaksonen	Eino Halonen	Jorma Kuokkanen
Raimo Lind	Asko Salminen	Esko Torsti
Jouko Tuunainen	Erkka Valkila President and CEO	

Note on the financial statements

The above financial statements have been produced in accordance with generally accepted accounting principles. An auditors' report has been submitted this day on the audit performed.

Helsinki, 13 February 2008

KPMG OY AB

Markku Sohlman
APA

Consolidated profit and loss account

Consolidated profit and loss account, IFRS

MEUR	Note	**1.1.– 31.12. 2007**	1.1.– 31.12. 2006
Turnover	2, 3	**265.9**	284.4
Profits/losses from sales of Investment Properties	4	**7.0**	10.8
Share of profit in associated companies	13	**0.0**	0.1
Other operating income	4	**0.6**	0.5
Materials and services		**–102.9**	–122.9
Personnel expenses	5	**–10.6**	–10.6
Depreciation and write-downs	6	**–16.9**	–19.7
Other operating expenses	4	**–76.9**	–75.7
Operating profit		**66.2**	**66.8**
Financial income	7	**11.3**	8.3
Financial expenses	7	**–43.3**	–32.5
		–32.0	**–24.2**
Profit before taxes		**34.3**	**42.6**
Income taxes	8	**–9.0**	–11.3
Net profit for the financial year		**25.2**	**31.3**
Distribution			
Parent company shareholders		**25.1**	31.2
Minority interest		**0.1**	0.1
		25.2	**31.3**
Earnings per share attributable to the parent company owners	9	**0.57**	0.70
Number of shares, million		**44.4**	44.4

Consolidated balance sheet

Consolidated balance sheet. IFRS

MEUR	Note	**31.12. 2007**	31.12. 2006
Assets			
Non-current assets			
Investment Property	10	**1,060.3**	949.4
Tangible assets	11	**2.1**	2.0
Intangible assets	12	**1.2**	3.4
Holdings in associated companies	13	**0.8**	0.2
Financial assets	15	**2.1**	1.2
Receivables	16	**7.2**	2.1
Deferred tax credits	17	**11.1**	12.3
		1,084.8	**970.6**
Current assets			
Inventories	18	**113.6**	78.3
Accounts receivable and other receivables	19	**27.6**	21.9
Tax credits based on the taxable income for the period		**3.5**	1.7
Cash and cash equivalents	20	**34.0**	41.3
		178.6	**143.2**
Assets, total		**1,263.4**	**1,113.8**
Shareholders' equity and debts			
Shareholders' equity due to the parent company's owners	21		
Share capital		**4.4**	4.4
Value adjustment fund		**2.8**	2.6
Reserve fund		**43.7**	43.7
Other funds		**3.2**	0.4
Retained earnings		**154.7**	145.2
		208.8	**196.3**
Minority interest		**1.4**	1.3
Shareholders' equity, total		**210.2**	**197.6**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	17	**56.8**	54.4
Untaxed reserves	24	**5.5**	7.0
Interest-bearing liabilities	22	**768.1**	727.2
		830.5	**788.6**
Current liabilities			
Accounts payable and other liabilities	25	**44.9**	43.6
Tax liabilities based on the taxable income for the period		**0.9**	0.1
Interest-bearing liabilities	22	**177.0**	83.9
		222.7	**127.6**
Liabilities, total		**1,053.2**	**916.2**
Shareholders' equity and liabilities, total		**1,263.4**	**1,113.8**

Consolidated cash flow statement

Consolidated cash flow statement. IFRS

MEUR	Note	**2007**	2006
Cash flow from operating activities			
Net profit for financial year		**25.2**	31.3
Adjustments:			
Business actions not involving a payment	28	**16.5**	19.2
Proceeds from sales of fixed assets		**–7.0**	–11.6
Interest expenses and other financing expenses		**43.3**	32.5
Interest income		**–10.9**	–6.9
Dividend income		**–0.1**	–0.0
Taxes		**9.0**	11.1
Change in working capital:			
Changes in accounts receivable and other receivables		**–5.3**	5.7
Change in inventories		**–35.3**	–6.3
Change in accounts payable and other liabilities		**1.3**	–7.5
Change in reserves		**–1.4**	–0.8
Interest paid		**–40.6**	–31.5
Interest received		**10.8**	7.0
Taxes paid		**–8.0**	–8.7
Net cash flow from operating activities		**–2.5**	**33.6**
Cash flow from investments			
Investments in tangible assets		**–148.6**	–58.3
Investments in intangible assets		**–0.5**	–1.9
Repayments of notes receivable		**0.7**	4.0
Loans granted		**–5.6**	–1.3
Sale of tangible assets		**27.5**	21.8
Dividends received		**0.0**	–0.0
Net cash flow from investments		**–126.5**	**–35.8**
Cash flow from financial activities			
Proceeds from share issues		**2.8**	0.0
Repayments (–) / withdrawals (+) of short-term loans		**58.8**	37.5
Withdrawals of long-term loans		**115.9**	27.5
Repayments of long-term loans		**–39.8**	-40.1
Dividends paid		**–15.9**	-15.4
Net cash flow from financial activities		**121.8**	**9.5**
Change in cash and cash equivalents		**–7.2**	**7.3**
Cash and cash equivalents at start of year	20	**41.3**	34.0
Cash and cash equivalents at year-end	20	**34.0**	41.3

Calculation of changes in Group's shareholders' equity

Calculation of changes in Group's shareholders' equity, IFRS

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		
Shareholders' equity 1.1.2006	**4.4**	**–0.2**	**43.7**	**0.6**	**129.4**	**177.9**	**1.3**	**179.2**
Hedging of cash flow		2.6				2.6		2.6
Financial assets available for selling		0.1				0.1		0.1
Net profit for financial year					31.2	31.2	0.1	31.2
Total income and expenses booked during the period	**0.0**	**2.7**	**0.0**	**0.0**	**31.2**	**33.9**	**0.1**	**34.0**
Dividends paid					–15.4	–15.4		–15.4
Other adjustments				–0.2	0.1	–0.1	–0.1	–0.2
	0.0	0.0	0.0	–0.2	–15.3	–15.5	–0.1	–15.6
Shareholders' equity 31.12.2006	**4.4**	**2.6**	**43.7**	**0.4**	**145.2**	**196.3**	**1.3**	**197.6**
Shareholders' equity 1.1.2007	**4.4**	**2.6**	**43.7**	**0.4**	**145.2**	**196.3**	**1.3**	**197.6**
Hedging of cash flow		0.2				0.2		0.2
Financial assets available for selling		0.0				0.0		0.0
Net profit for financial year					25.1	25.1	0.1	25.2
Total income and expenses booked during period	**0.0**	**0.2**	**0.0**	**0.0**	**25.1**	**25.3**	**0.1**	**25.4**
Dividends paid					–15.9	–15.9		–15.9
Targeted share issue	0.0			2.7		2.8		2.8
Other adjustments				0.0	0.3	0.3	0.0	0.3
	0.0	0.0	0.0	2.7	–15.6	–12.8	0.0	–12.8
Shareholders' equity 31.12.2007	**4.4**	**2.8**	**43.7**	**3.2**	**154.7**	**208.8**	**1.4**	**210.2**

Notes to the consolidated financial statements, IFRS

1 The accounting conventions of the financial statements

Basic information on the company

The Group's parent company is a Finnish public limited liability company established in compliance with Finnish law, with its domicile in Helsinki and the registered address Panuntie 4, 00600 Helsinki. The Board of Directors approved the financial statements on 13 February 2008. A copy of the company's consolidated financial statements may be obtained from this address.

SATO is a corporation providing housing solutions, and its business is comprised of Investment in Housing and Housing Development and Construction. The Group's operations are focused on the Helsinki Metropolitan Area and its commuter regions as well as the economic zones of Tampere, Turku, Oulu and Jyväskylä.

SATO's Investment in Housing includes both privately financed and state-supported housing assets. In respect of the latter, SATO's business is affected by special features of non-profit activities, which are the result of restrictions set for on the company's business state-subsidised housing construction. The non-profit restrictions affect owner organisations through, for example, restrictions on distribution of profit, divestment and risk-taking as well as through a prohibition on lending and providing collateral. Also, housing is affected by property-specific, fixed-term restrictions, which apply to matters such as the use and handover of apartments, the selection of the residents, and the setting of rent. In respect of non-profit activities, SATO's supervisory authorities are the Housing Fund of Finland (ARA), the State Treasury and the Ministry of the Environment, as well as local authorities in matters concerning the selection of residents.

The main risks of selling and leasing homes concern interest rates and changes in housing demand.

General conventions

The consolidated financial statements have been drawn up in compliance with International Financial Reporting Standards (IFRS), and their compilation complies with the IFRS norms in force on 31 December 2007, meaning the procedures ordered in the EU's IAS Regulation No. 1606/2002 for the standards approved for application in the EU and the interpretations supplied for these. The consolidated financial statements apply the standard IFRS 7 *Financial Instruments: Disclosures standard* as well as the standard format of IAS 1: *Presentation of Financial Statements – Presentation of Information on Equity in Financial Statements.* The notes to the financial statements are also in compliance with Finnish legislation on accounting and company law.

SATO's consolidated financial statements were drawn up in accordance with FAS until 31 December 2006. In connection with the public listing project carried out in autumn 2007, IFRS financial statements were also produced for 2006. The date for the transition for the first IFRS-standard consolidated financial statements for 2006 was 1 January 2005 and IFRS 1 *First-time Adoption of International Financial Reporting Standards* were used for this. The reconciliation calculations required by the IFRS standard between the previously applied accounting rules and IFRS for shareholders' equity and net profit were not included in the financial statements presented at the meeting of shareholders. For this reason they are shown in the notes to these financial statements. In the same context the accounting principles with the most important effect on the profit and loss account and the balance sheet in the adoption of IFRS are shown.

The consolidated financial statements have been drawn up on the basis of acquisition cost, with the exception of investments available for selling, derivatives, and financial assets and debts booked at fair value charged or credited to the profit and loss account. The information in the financial statements is given in millions of euros.

The production of IFRS financial statements requires the company management to make certain estimates and assumptions and to apply discretion in applying the accounting conventions. The estimates and assumptions made affect the amount of assets, debts and conditional debts on the balance sheet in the financial statements as well as the amount of income and expenses in the profit and loss account. The estimates and assumptions are based on previous experience and other factors which are considered to offer the best current view in the assessment of assets or debts for which figures cannot be obtained from other sources. The actuality may differ from the estimates made.

The estimates and the related assumptions are constantly examined. Revisions of accounting estimates are booked for the period in which the estimate is revised if the change in the estimate affects only that period. If the change in the estimate affects both the period in which it is made and subsequent periods, the change in the estimate is correspondingly booked both for that and for future periods.

In the section of the accounting conventions entitled "Accounting conventions requiring management discretion and the main factors of uncertainty affecting the estimates", information is given on those subdivisions in which management discretion or uncertainty factors in estimates may cause the most effects on the figures show.

Principles of consolidation

The consolidated financial statements are a consolidation of the financial statements of the parent company and the subsidiaries. Subsidiaries are companies over which the parent company has control. Control constitutes a condition in which the parent company has, directly or indirectly, the right to control the subsidiary's principles of finance or business with the aim of benefiting from its operations. Acquired subsidiaries are included in the consolidated financial statements from the date of acquisitions until such time as the control ends. Acquired companies are included in the financial statements by the acquisition cost method. That portion of an acquired company's net assets which exceeds book values at the acquisition date is applied to land areas and buildings up to their fair values. Acquisitions of real property are mostly dealt with as acquisitions of asset items.

All intra-Group transactions, internal receivables and debts, in addition to unrealised margins on internal transactions and the distribution of profit between Group companies, is eliminated in the production of the financial statements.

The main property companies and housing companies are treated as asset items under joint control, which are consolidated by the relative method prescribed by the IAS 31 *Interests in Joint Ventures* standard. This means that the consolidated financial statements include the Group's share of assets, debts, incomes and expenses. The relative consolidation method is applied to all such asset items irrespective of the Group's holdings.

Suomen Asumisoikeus Oy is a joint venture in which SATO has a 50% interest. The joint venture, in which the partners exercise business under joint control, is consolidated in SATO's consolidated financial statements in accordance with the optional consolidation method permitted by the IAS 31 *Interests in Joint Ventures* standard, i.e., the equity method.

The housing companies in SATO, which own so-called shared ownership apartments, are treated as SPEs (Special Purpose Entities) and these are not included in the consolidation. These companies are considered to be arrangements external to SATO's operations, the purpose of which is to act on behalf of the people who have invested in shared ownership apartments. Those involved in the ownership arrangements are entitled to purchase the apartment for themselves after an agreed period and thus to benefit from any rise in the apartment's value. SATO handles the governance and building management of the shared ownership properties.

Transactions denominated in foreign currency

Monetary assets and debts denominated in foreign currency are translated into euros at the year-end rate. Non-monetary assets and debts denominated in foreign currency, which are valued at the original acquisition costs, are translated into euros at the rate in effect on the transaction date. Gains and losses on translation are booked in the profit and loss account.

Investment Properties

Investment properties are those which the Group retains possession of in order to obtain rental income or appreciation in value of the property and which are not used by the Group itself. SATO has chosen as the method for accounting for Investment Properties the acquisition cost method permitted by the IAS 40 *Investment Property* standard, as legal restrictions on divestment and use apply to the greater part of the properties. Restrictions apply on the one hand to a company owning housing (the so-called non-profit restrictions) and on the other to the investment which is the subject of the ownership (the so-called property-specific restrictions). The non-profit restrictions include, among other things, permanent limitations on the company's operations, distribution of profit, lending and providing collateral, and the divestment of investments, The property-specific restrictions include the use of apartments, the selection of the residents, the setting of rent and divestment of apartments, and they are fixed-term.

Investment Properties are booked at the original acquisition price, including the transaction costs. Later they are valued at the original acquisition price less accumulated depreciation and impairments.

Expenditure on repairs to Investment Properties is only capitalised if it increases the property's future revenue-generating capability. The depreciation periods of these capitalisations are set on a case-by-case basis according to the estimated economic life.

Investment Properties are depreciated on a straight-line basis. The economic lives on which this is based are as follows:

Buildings	67 years
Buildings' machinery and equipment	20 years
Buildings' civil defence shelters	40 years

The economic life and residual value of Investment Properties is reassessed at each year-end. Changes found in the economic advantages obtainable revealed by the assessment are figured in by adjusting the economic life and residual value of goods.

An investment property is written off the balance sheet when it is handed over or when the investment property is permanently removed from use and no future economic use can be expected from the handover. The profits and losses from divestments or removals from use of Investment Properties are shown on separate lines in the profit and loss account.

The fair values of the Investment Properties presented in the notes to the financial statements are determined as the result of the company's in-house assessment made annually at the time the financial statements are drawn up. An external specialist also makes a report on the assessment of value. When interim financial statements are drawn up, the definition of the fair values is updated for investments, divestments and changes in the period of restrictions.

The fair values of the Investment Properties are based on the following:

– the market value in properties where the homes are freely on sale,
– the yield value for properties which are for sale only by complete buildings and to a restricted number of buyers, and
– for state subsidised properties, at the remaining historical cost shown in the accounting.

The model for determining the value of Investment Properties was changed in respect of the commercial value method on 31 December 2007, in such a way that the comparison information for traded prices is for the 24 months prior to the assessment date instead of 36.

Tangible assets

Tangible assets are valued at the original acquisition price less accumulated depreciation and impairments. Tangible assets are depreciated in straight-line instalments during their estimated economic lives, which are as follows:

Machinery and equipment	5–10 years
Other tangible assets	3–6 years

The economic life and residual value of assets are reassessed at each year-end. Changes in the economic benefits available in the future found in the assessment are taken into account by adjusting the economic life and residual value of the assets. Profits and losses arising from sales and divestments of tangible assets included in fixed assets are booked in the profit and loss account presented as other income and expenses of business operations.

Intangible assets

An intangible asset is entered in the balance sheet only if its acquisition cost can be determined reliably and it is likely that an expected economic benefit will accrue to the company from it.

An intangible asset is valued at the original acquisition cost less depreciation and any impairments.

Intangible assets consist largely of computer software, which is subjected to straight-line depreciation over 3–6 years.

Impairment

At each year-end, it is assessed for Investment Properties' tangible and intangible assets whether there are indications of impairment. If there are indications of impairment, the amount of money accruing from the asset item is estimated. If the book value exceeds the amount of money accruing, an impairment loss is booked in the profit and loss account.

When an impairment loss is booked, the economic life of the asset item subject to depreciation is reassessed. An impairment loss booked against an asset item is cancelled if there has been a change increasing the value in the assessment used to determine the amount of money accruing from the asset item. However, no more of an impairment loss will be cancelled than what the asset's book value would have been without the booking of the impairment loss.

Inventories

Inventories are valued at the acquisition cost or probable net divestment value if lower. The net divestment value corresponds to the selling price in normal business less the estimated cost of completing the product and the expenses of selling.

Inventories are comprised of the following items:

- homes under construction, comprised of the portion of projects in progress not booked as an expense,
- completed homes and commercial premises intended for sale but unsold at the date of closing the books,
- land areas and land area companies, which includes the acquisition costs of unstarted properties, and
- other inventories, which comprises mostly projects being planned.

Financial instruments

SATO's financial assets and financial debts are classified in accordance with the IAS 39 standard in the following classes: financial assets and financial debts to be charged or credited to the profit and loss account at fair value, financial assets available for sale, loans and other receivables, and financial debts valued at the matched acquisition cost. The classification is performed at the time of the original acquisition and on the basis of the purpose of the acquisition. Purchases and sales of financial instruments other than those associated with derivatives are booked on the clearance date. All derivatives are booked on the balance sheet on the trade date.

Financial assets

Financial assets and debts credited or charged to the profit and loss account at fair value

This group includes derivative instruments which do not fulfil the terms of IAS 39 for hedging calculations and they are classified in the group of instruments kept for trading purposes. The group's financial assets and debts are valued at fair value and profits and losses arising from changes in the fair value, both realised and unrealised, are booked in the profit and loss account for the period in which they arose.

Loans and other receivables

Loans and other receivables are assets not included in derivative assets, the payments for which are fixed or can be determined. They are included in the accounts receivable group in the balance sheet, in either current or non-current assets, according to their nature.

Loans and other receivables are valued at the matched acquisition cost less any impairments. The Group books an impairment loss against accounts receivable when there are reasonable indications on the date of closing the books that the receivable will not be collected in full.

Financial assets available for selling

Financial assets available for selling are mostly stocks and shares. Investments made in listed securities are valued in the financial statements at the buying price based on quoted prices announced in an active market on the date of closing the books. Unlisted shares, the fair value of which cannot be determined reliably, are valued at the original acquisition price or probable value if lower.

Unrealised changes in value of financial assets available for selling are booked direct in the shareholders' equity with allowance for the effect of tax. Accumulated changes in fair value are not booked from shareholders' equity to the profit and loss account until the investment is sold or its value has declined to such an extent that an impairment loss has to be booked against the investment.

A significant and prolonged impairment of share investments in which the fair value is lower than the acquisition price is an indication of an impairment in a share available for selling. An impairment loss on financial assets available for sale which are classified as quasi-equity investment is not cancelled through the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash in hand, bank accounts and liquid investments with a currency at the date of acquisition of three months or less. The balances of bank accounts with an overdraft facility are included in current liabilities. The cash and cash equivalents of non-profit companies are kept separate from those of companies free of non-profit restrictions.

Financial debts

Financial debts are booked at the fair value at the time the debt is raised, in the form of the amount of the remuneration received less transaction expenses. Later interest-bearing debts are shown valued at the matched acquisition cost using the effective interest method. Financial debts include non-current and current debts and they may be interest-bearing or non-interest-bearing. Interest is matched in the profit and loss account for the currency period of the debt by the effective interest method.

Derivatives and hedging calculation

All derivatives are booked in the balance sheet at fair value at the acquisition price of the trade date. In the future they will continue to be valued at fair value. The accounting treatment of profits and losses depends on the intended use of the derivatives.

The fair value of derivatives is calculated by discounting the cash flows related to them. The fair value of interest-rate options is calculated by using the market prices at the date of closing the books and option valuation models.

The Group treats derivatives either as hedging of floating rate loans or as derivatives which do not meet the criteria of hedging calculation under IAS39. Changes in value of derivative instruments in the sphere of hedging calculation are booked direct in shareholders' equity in the value adjustment fund. Profits and losses entered in shareholders' equity are transferred to the profit and loss account at the same time as the hedged item. Any ineffective part of a hedging relationship is booked immediately in the financial items.

Changes in value in derivatives which are not in the sphere of hedging calculation are credited or charged in the profit and loss account in the financial items.

Untaxed reserves

A reserve is booked when the Group has a legal or actual obligation on the basis of prior events, when the realisation of a payment obligation is likely and the amount of the obligation can be reliably estimated.

The extent of the construction sector's 10-year liability reserve is based on experience of the realisation of these liabilities. A guarantee period reserve is also booked when a project is credited or charged in the profit and loss account. The extent of the guarantee period reserve is based on experience of the realisation of guarantee expenditures.

Other reserves may be reorganisation reserves or loss-making agreements. A reserve is booked for loss-making agreements when the essential expenditure required to meet obligations exceed the benefits obtained from the agreement.

Principles of income recognition

Construction contracts

The income and expenditure of a construction contract is booked as income and expense on the basis of the percentage of completion when the end result of the project can be estimated reliably. The percentage of completion is determined for each project by the time of inspection in terms of the actual technical percentage of completion. When it is probable that the overall expenditure required for the completion of the project exceed the overall income from it, the expected loss is booked as an expense immediately.

Estimates are used in the income-recognition of construction contracts. If the end result of a construction contract looks likely to change, the income-recognition of sales is changed for the financial year in which the estimate or information on which the estimate is based has changed.

The income and expenditure of developer/client construction is income-recognised according to the percentage of completion and the percentage of the sales rate profit obtained. Expenditures whose amount exceeds the amount according to the percentage of completion are capitalised in construction contracts in progress.

Income from services

Income from services, such as client commissioning, are income-recognised when the service has been performed

Lease agreements (SATO as lessor)

Rental income from Investment Properties is entered in the profit and loss account as equal items over the lease period. When acting as a lessor, SATO has no agreements classified as financial leasing agreements.

Lease agreements (SATO as lessee)

Lease agreements in which SATO is the lessee are classified as financial lease agreements and they are booked as assets and debts if the risks and benefits have been transferred. Lease agreements are classified at their commencement and they are booked at fair value, or at the present value of minimum rents if lower, in the balance sheet as a tangible asset and financial debt. A tangible asset is depreciated during the economic retention of the asset in question or during the duration of the lease agreement. The rent to be paid is divided into the interest posted to the profit and loss account and the instalment on the financial debt.

Lease agreements are classified as other lease agreements if the characteristic risks and benefits of ownership are not transferred to an essential extent. Rents to be paid on the basis of other lease agreements are booked as an expense in the profit and loss account as equal items over the lease period.

Expenses of liabilities

Expenditures on liabilities are booked as expenses for the financial year during which they arose. Transaction costs directly due to the taking of loans, which can be attributed to a particular loan, are included in the original matched acquisition cost of the loan and matched as an interest expense using the effective interest rate method.

Public grants

Public grants, for example for lifts, are booked as decreases in the book value of tangible assets. Received grants therefore reduce the depreciation applied to the asset during its economic life.

For SATO, the main form of public support is state-supported interest subsidised loans and Housing Fund of Finland loans, in which state-backed projects receive a low-interest loan with the support of the state. The real interest on these loans is lower than the interest expenses would be on market-based loans. The interest advantage obtained through public support is there netted in accordance with IAS 20 into interest expenses and is not shown as a separate item in the interest income.

Pension arrangements

SATO's pension arrangements are classified as contribution-based. Contributions to contribution-based pension arrangements are booked as an expense in the profit and loss account for the period in which the payment was made. The Group has no legal or actual obligation to make further payments if the recipient of the payments is unable to perform the payment of these pension benefits.

Income taxes

Income taxes include the taxes based on the taxable profit for the financial year, adjustments to previous years' taxes, and changes in deferred taxes.

Deferred tax credits and liabilities are calculated from the differences between the taxation values of assets and debts and their book values according to IFRS. The tax rate set by the date of closing the books is used to determine the deferred taxes.

The largest temporary differences arise from the financial instruments valued through the profit and loss account from Investment Properties and for fair value.

A deferred tax credit is booked up to the point where it is likely that there will be taxable income in the future against which the temporary difference can be used.

Operating profit

Operating profit is the net sum formed when the profits from divestment of Investment Properties netted with divestment losses and other income from business operations are added to turnover, and the use of materials and services, personnel expenses, depreciation and impairments are deducted. Exchange gains and losses are included in operating profit when they arise from items related to ordinary business operations. Exchange gains and losses associated with financing are booked in financial income and expenses.

Accounting conventions requiring management discretion and the main factors of uncertainty affecting the estimates

When the financial statements are drawn up, the making of estimates is required in certain quarters. At SATO, the main estimates are associated with the following subdivisions.

Incomes and expenses booked on the basis of the percentage of completion require estimates of the expected incomes and expenses of projects as well as the project's completion timetable.

The amount of reserves booked on projects requires estimates of the obligations arising from the projects.

In respect of Investment Properties, tangible and intangible assets must be assessed annually for indications that the value of these assets may have declined. If there are such indications, the amount of money accruing from these asset items must be estimated.

The application of new and updated IFRS norms

In 2009 the Group will adopt IFRS 8 *Operating Segments* (in force as of 1 January 2009). The new standard will replace the current IAS 14 *Segment Reporting* standard. The effects of the new standard on segment reporting are currently being assessed at SATO.

The revised IAS 23 *Borrowing Costs* coming into effect in 2009 will no longer permit booking of liabilities invariably as an expense, as it will require capitalisation of these in a case of what the standard refers to as a condition-fulfilling asset. The effects of the new standard on the treatment of accounting for housing commissioning are currently being assessed at SATO.

It is believed that the interpretation of IFRIC 13 *Customer Loyalty Programmes** coming into effect in 2009 will not affect SATO's consolidated financial statements.

In 2009 the Group will adopt the modified IAS 1 *Presentation of Financial Statements* standard (in force as of 1 January 2009, not yet approved by the EU). By SATO's assessment, the modification of the IAS 1 standard will mostly affect the presentation of the consolidated financial statements' final accounts and notes to the financial statements.

In July 2007 IFRIC (International Financial Reporting Interpretation Committee) submitted its draft interpretation D 21 *Real Estate Sales**. The background to the draft interpretation is that, according to IFRIC, some agreements handled as construction contracts do not satisfy the IAS 11 definition of a construction contract and the draft interpretation recommends guidelines to define the applicable standard.

No information was available on the final timing and content of the draft interpretation while the financial statements were under preparation. If the draft interpretation is approved as it stands, the interpretation may also alter the income-recognition principle applied by SATO for the sale of apartments. At present, the IAS 11 *Construction Contracts* standard is applied to the income-recognition for apartments, in accordance with which income is recognised according to the percentage of completion in compliance with the drafting principles described above. The standard to be applied in the future would be IAS 18 *Revenue,* under the application of which the income-recognition of sales would take place on the basis of the handover of the apartment. At SATO the progress of the draft interpretation is being monitored and the impact of potential changes on the principles of income-recognition will be assessed.

2 Segment information

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 includes 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 reasonable 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 figured 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 items are comprised of items related to taxation and joint items of the Group as a whole.

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 the current 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 includes annual repair expense. 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.

Information for segments 2007	Investment in Housing SATO Housing	Investment in Housing VATRO Housing	Housing Development and Construction	Eliminations	Total SATO Group
MEUR					
External turnover	124.1	37.8	104.1		265.9
Internal turnover			5.4	–5.4	0.0
Turnover, total	124.1	37.8	109.5	–5.4	265.9
Profits/losses from sales of Investment Properties	6.7	0.4		0.0	7.0
Depreciation and write-downs	–10.7	–5.9	–0.3	0.0	–16.9
Operating profit	47.4	12.1	7.0	–0.2	66.2
Financial expenses (net)	–20.0	–10.4	–1.6		–32.0
Profit before taxes	**27.4**	**1.6**	**5.4**	**–0.2**	**34.3**
Net rental income	60.0	20.4			80.5
Net rental income, % of book value	8.1 %	7.7 %			8.0 %
Investments	143.1				143.1
Acquisition of land for inventory			37.6		37.6
Depreciation	–10.7	–4.9	–0.3	0.0	–15.9
Impairments		–1.0			–1.0
Investment Properties	800.1	260.1			
Cash and cash equivalents	26.8	0.8	1.2		
Other assets of the segment	27.0	2.9	141.2	–13.8	
Holding in joint venture and affiliated companies	0.5	0.3			
Assets and eliminations allocated to segments, total	854.5	264.1	142.4	–13.8	1,247.2
Unallocated assets					16.2
Assets, total					**1,263.4**
Interest-bearing liabilities	636.5	254.1	54.4		
Other liabilities of segment	17.8	9.0	37.7	–13.7	
Liabilities and eliminations allocated to segments, total	654.3	263.1	92.1	–13.7	995.9
Unallocated liabilities					57.4
Liabilities, total					**1,053.2**

Notes to the consolidated financial statements, IFRS

Information for segments 2006	Investment in Housing SATO Housing	VATRO Housing	Housing Development and Construction	Eliminations	Total SATO Group
MEUR					
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 from sales 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	
Holding in joint venture and affiliated companies		0.2			
Assets and eliminations allocated to segments, total	721.4	276.5	104.4	–5.1	1,097.2
Unallocated assets					16.6
Assets, total					**1,113.8**
Interest-bearing liabilities	515.0	268.6	27.5		
Other liabilities of segment	13.9	8.5	31.8	–5.1	
Liabilities and eliminations allocated to segments, total	528.9	277.1	59.3	–5.1	860.2
Unallocated liabilities					56.0
Liabilities, total					**916.2**

Notes to the consolidated financial statements, IFRS	2007	2006
MEUR		

3 Long-term projects and distribution of turnover

Income booked on long-term projects during the financial year	**107.5**	117.3
Accumulated actual expenditure and booked profits of projects in progress less booked losses by year-end.	**62.1**	37.6
Gross receivables from customers shown in accrued assets	**12.8**	7.0
Gross debts to customers shown in advances received	**9.8**	11.0

The expenditures arising from and profits booked for long-term projects which are larger than the amount invoiced for the project are included in the balance sheet in the item "Accounts receivable and other receivables". If the expenditures arising and profits booked are smaller than the invoicing for the project, the difference is included in the balance sheet item "Accounts payable and other debts".

The turnover for commissioning construction includes, in addition to the income from long-term projects, earnings from client commissioning and sales of shares as well as rental income. The total rental income from Investment in Housing during the 2007 financial year has been MEUR 151.6 (during the 2006 financial year MEUR 146.5).

4 Profit from disposals of Investment Properties plus other income and expenses of business operations

Profits and losses from sales of Investment Properties		
Profit from disposals of Investment Properties	**7.8**	12.1
Losses from disposals of Investment Properties	**–0.7**	–1.3
Total	**7.0**	**10.8**
Other income from business operations	**0.6**	0.5
Total	**0.6**	**0.5**
Other expenses of business operations		
Direct maintenance expenses of Investment Properties accruing rental income	**47.4**	48.7
Rental expenses	**20.0**	18.3
Other fixed expenses	**7.6**	6.5
Other expenses	**2.0**	2.3
Total	**76.9**	**75.7**

Notes to the consolidated financial statements, IFRS	2007	2006
MEUR		

5 Personnel expenses		
Salaries and wages	**8.5**	8.5
Pension expenses – contribution-based arrangements	**1.7**	1.3
Other personnel expenses	**0.4**	0.8
Total	**10.6**	**10.6**

Management perquisites are set out in note 30, Related Party Events.

Average number of Group personnel during the financial year		
Total	**176**	**173**

6 Depreciation and write-downs		
Depreciation by type of asset:		
Investment Properties	**14.9**	14.9
Tangible assets	**0.6**	0.6
Intangible assets	**0.4**	0.3
Total	**15.9**	**15.8**
Impairments:		
Investment Properties	**1.0**	3.9
Total	**1.0**	**3.9**

The impairments concern amendments of certain investment properties' book values to correspond with their future income expectations

7 Financial income and expenses		
Interest income		
On loans and other receivables	**2.0**	1.2
On derivatives not subject to hedging calculation	**1.9**	2.3
On derivatives not subject to hedging calculation, increase in market value	**0.3**	1.3
On derivatives subject to hedging calculation	**7.0**	3.4
Interest income, total	**11.2**	**8.2**
Dividend income		
Dividend income on financial assets available for selling	**0.1**	**0.1**
Interest expenses		
Interest expenses on financing debts booked at matched acquisition cost	**35.4**	25.8
On derivatives not subject to hedging calculation	**1.7**	2.9
On derivatives not subject to hedging calculation, decrease in market value	**0.0**	0.0
On derivatives subject to hedging calculation	**6.2**	3.9
Interest expenses, total	**43.3**	**32.6**
Financial income and expenses, total	**–32.0**	**–24.3**

Notes to the consolidated financial statements, IFRS	**2007**	2006
MEUR		

8 Income taxes

The profit and loss account tax expense is divided as follows:		
Tax based on the taxable income for the period	**5.8**	6.9
Taxes of previous years	**–0.5**	0.2
Deferred taxes, net	**3.7**	4.3
Total	**9.0**	**11.3**

Precision calculation based on the domestic tax rate (26%) for the tax expense of the consolidated profit and loss account for the SATO Group's parent company:

Profit before taxes	**34.3**	42.6
Taxes calculated on the parent company's tax rate	**8.9**	11.1
Non-tax-deductible expenses	**0.0**	0.1
Application of previously unbooked taxation losses	**0.0**	–0.2
Tax from previous financial years	**0.0**	0.2
Losses/profits on merger	**0.0**	0.1
Other differences	**0.1**	0.1
Adjustments, total	**0.1**	0.2
Taxes in profit and loss account	**9.0**	**11.3**

9 Earnings per share

The undiluted earnings per share are calculated by dividing the profit for the year due to the parent company's shareholders by the weighted average number of issued shares for the year. The number of shares has been adjusted in line with the decision by the extraordinary meeting of the company held on 23 October 2007 to increase the number of shares in the ration of 1:19 without increasing the share capital (free issue). In 2007 and 2006 SATO had no transactions diluting the number of shares.

Profit for financial year for distribution to the owners of the parent company (MEUR)	**25.1**	31.2
Weighted average number of shares during the financial year (millions)	**44.4**	44.4
Earnings per share (€)	**0.57**	**0.70**

Notes to the consolidated financial statements, IFRS	2007	2006
MEUR		

10 Investment Properties		
Acquisition cost, 1 Jan.	**997.6**	950.3
Increases; new properties	**134.3**	54.0
Increases; additional investments	**13.5**	5.6
Decreases	**–21.7**	–12.9
Transfers between items	**0.7**	0.6
Acquisition cost, 31 Dec	**1,124.4**	**997.6**
Accumulated depreciation and write-downs, 1 Jan.	**–48.2**	–29.4
Depreciation	**–14.9**	–14.9
Impairment losses	**–1.0**	–3.9
Accumulated depreciation and write-downs, 31 Dec.	**–64.1**	–48.2
Book value, 31 Dec.	**1,060.3**	949.4
Fair value, 31 Dec.	**1,224.6**	1,046.5

Investment Properties are subject to legislated non-profit restrictions on disposal and utilisation. These restrictions and the definition of fair value are described above in greater detail in the accounting conventions of the financial statements, in the sections Basic Company Information and Investment Properties.

Rental income on Investment Properties	**151.6**	146.5

The Group's lease agreements are leases on housing and they are mostly valid indefinitely. Roughly 7,000 new leases are drawn up per year. The turnover in the Group's rental housing portfolio in 2007 was 30.7 % and in 2006 it was 33.7 %, with the average validity for leases in 2007 being 3.3 years and 3 years in 2006.

11 Tangible assets	Machinery and equipment	Other tangible assets	Total
2007			
Acquisition cost, 1 Jan.	3.1	0.1	3.1
Increases	0.6	0.0	0.7
Decreases	0.0	0.0	0.0
Transfers between items	–0.2		–0.2
Acquisition cost, 31 Dec	3.5	0.1	3.6
Accumulated depreciation and write-downs, 1 Jan.	1.1	0.1	1.1
Accumulated depreciation on transfers	–0.2	0.0	–0.2
Depreciation for the period	0.6	0.0	0.6
Accumulated depreciation and write-downs, 31 Dec.	1.5	0.1	1.5
Book value, 1 Jan. 2007	**2.0**	**0.0**	**2.0**
Book value, 31 Dec. 2007	**2.1**	**0.0**	**2.1**

Notes to the consolidated financial statements, IFRS

MEUR	Machinery and equipment	Other tangible assets	Total
2006			
Acquisition cost, 1 Jan.	4.6	0.4	4.9
Increases	0.5	0.0	0.5
Decreases	–0.2	0.0	–0.2
Transfers between items	–1.7	–0.3	–2.1
Acquisition cost, 31 Dec	3.1	0.1	3.1
Accumulated depreciation and write-downs, 1 Jan.	2.6	0.4	3.0
Accumulated depreciation on transfers	–1.9	–0.3	–2.2
Depreciation for the period	0.4	0.0	0.4
Accumulated depreciation and write-downs, 31 Dec.	1.1	0.1	1.2
Book value, 1 Jan. 2006	**2.0**	**0.0**	**2.0**
Book value, 31 Dec. 2006	**2.0**	**0.0**	**2.0**

Tangible assets include assets acquired with financial leasing agreements as follows:

	Machinery and equipment
2007	
Acquisition cost, 1 Jan.	1.4
Increases	0.4
Decreases	–0.1
Acquisition cost, 31 Dec	1.7
Accumulated depreciation and write-downs, 1 Jan.	0.4
Depreciation for the period	0.3
Accumulated depreciation on decreases	–0.1
Accumulated depreciation, 31 Dec.	0.5
Book value, 31 Dec.	1.2
2006	
Acquisition cost, 1 Jan.	1.3
Increases	0.3
Decreases	–0.2
Acquisition cost, 31 Dec	1.4
Accumulated depreciation and write-downs, 1 Jan.	0.2
Depreciation for the period	0.1
Accumulated depreciation, 31 Dec.	0.4
Book value, 31 Dec.	1.1

Notes to the consolidated financial statements, IFRS

MEUR

12 Intangible assets	Intangible rights	Other intangible assets	Total
2007			
Acquisition cost, 1 Jan.	0.7	7.5	8.2
Increases	0.0	0.5	0.5
Transfers between items	0.0	–6.2	–6.2
Acquisition cost, 31 Dec	0.7	1.8	2.5
Accumulated depreciation and write-downs, 1 Jan.	0.7	4.1	4.8
Accumulated depreciation of transfers	0.0	–3.8	–3.8
Depreciation for the period	0.0	0.3	0.3
Accumulated depreciation and write-downs, 31 Dec.	0.7	0.6	1.3
Book value, 1 Jan. 2007	**0.0**	**3.4**	**3.4**
Book value, 31 Dec. 2007	**0.0**	**1.2**	**1.2**
2006			
Acquisition cost, 1 Jan.	0.7	5.1	5.9
Increases	0.0	2.2	2.2
Transfers between items	0.0	0.2	0.2
Acquisition cost, 31 Dec	0.7	7.5	8.3
Accumulated depreciation and write-downs, 1 Jan.	0.7	3.7	4.5
Accumulated depreciation on transfers	0.0	0.1	0.1
Depreciation for the period	0.0	0.3	0.3
Accumulated depreciation and write-downs, 31 Dec.	0.7	4.1	4.9
Book value, 1 Jan. 2006	**0.0**	**1.4**	**1.4**
Book value, 31 Dec. 2006	**0.0**	**3.4**	**3.4**

13 Holding in joint ventures and affiliated companies

	2007	2006
Acquisition cost, 1 Jan.	**0.2**	0.2
Increases	**0.3**	
Transfers between items	**0.3**	
Acquisition cost, 31 Dec	**0.7**	0.2
Adjustments to shares in equity, 1 Jan.		
Share of net profit for the financial year	**0.1**	
Dividends received	**0.0**	
At year-end	**0.8**	**0.2**

Notes to the consolidated financial statements, IFRS

MEUR

Information on the joint ventures and affiliated companies and its combined assets, debts, turnover and profit/loss:

2007	Domicile	Assets	Debts	Turnover	Profit/loss	Holding (%)
Suomen Asumisoikeus Oy	Helsinki	1,236.3	1,057.6	104.0	0.1	50.0
K Oy Färminahde	Nokia	0.5	0.5	0.2	0.0	40.7
K Oy Nummelan Hiekkarinne	Nummela	0.9	0.7	0.2	0.1	21.0
K Oy Ristiinan Suopursu	Ristiina	0.4	0.3	0.2	0.0	30.0
K Oy Nuottapuisto	Mikkeli	0.3	0.0	0.0	0.0	30.0
K Oy Ummelo	Oulu	0.5	0.4	0.3	0.0	49.0
K Oy Nurmijärven Jukolanmäki	Nurmijärvi	0.3	0.3	0.1	–0.1	40.0
K Oy Salpalohi	Kerava	0.8	0.8	0.2	0.0	33.3
K Oy Kupittaan Lähde	Turku	7.6	7.6	0.3	0.0	50.0
Piipunjuuri Oy	Oulu	0.1	0.1	0.6	0.0	50.0
2006						
Suomen Asumisoikeus Oy	Helsinki	1,247.8	1,069.7	98.8	0.1	50.0

14 Book values of financial assets and debts by valuation group

2007	Derivatives subject to hedging calculation	Derivatives not subject to hedging calculation	Loans and other receivables	Financial assets available for selling	Debts to book at matched acquisition cost	Book values of balance sheet items
Non-current financial assets						
Stocks and shares				2.1		**2.1**
Notes receivable			7.2			**7.2**
Current financial assets						
Accounts receivable			20.2			**20.2**
Notes receivable			0.6			**0.6**
Derivative receivables	3.2	0.6				**3.8**
Cash and cash equivalents			34.0			**34.0**
Non-current financial debts						
Loans from financial institutions					768.1	**768.1**
Current financial debts						
Loans from financial institutions					177.0	**177.0**
Accounts payable and other debts					6.9	**6.9**

MEUR 2006	Derivatives subject to hedging calculation	Derivatives not subject to hedging calculation	Loans and other receivables	Financial assets available for selling	Debts to book at matched acquisition cost	Book values of balance sheet items
Non-current financial assets						
Stocks and shares				1.2		**1.2**
Notes receivable			2.1			**2.1**
Current financial assets						
Accounts receivable			12.3			**12.3**
Notes receivable			0.8			**0.8**
Derivative receivables	2.9	0.3				**3.2**
Cash and cash equivalents			41.3			**41.3**
Non-current financial debts						
Loans from financial institutions					727.2	**727.2**
Current financial debts						
Loans from financial institutions					83.9	**83.9**
Accounts payable and other debts					15.4	**15.4**

Loans from financial institutions had a total book value of MEUR 945.1 (MEUR 811.1 in 2006). The balance sheet value of market-based loans was MEUR 544.5 (in 2006 MEUR 384.6) and the fair value was MEUR 548.1 (in 2006 MEUR 387.7). The weighted average effective interest rate for long-term market-based loans as at 31 December 2007 was 5.1 %. The book value of other loans was MEUR 400.6 (MEUR 426.5 in 2006). No fair value has been given for state subsidised and interest subsidised loans due to the special character of these types, such as parts in the form o grants. The maturities of state subsidised and interest subsidised loans are very long, so a reliable benchmark interest rate is hard to set. Most of the state subsidised loans end in the period 2022–2047. The fair value of all the other financial assets and debts is estimated to be equal to their book value.

More detailed information on derivatives is given in note 23. There were no postings of financial assets available for selling in the profit and loss account during the year. The amount posted in the shareholders' equity is given in the calculation for changes in shareholders' equity.

15 Financial assets available for selling	2007	2006
Shares	**0.6**	0.6
Other holdings	**1.5**	0.6
Financial assets available for selling, total	**2.1**	**1.2**

Shares included quoted shares, which are valued at the closing price on the date of closing the books. Other holdings include unlisted shares, which are values at the acquisition cost as it was not possible to determine their fair value.

MEUR	2007	2006
16 Non-current receivables		
Notes receivable	**7.2**	2.1
Total	**7.2**	**2.1**

The notes receivable MEUR 3.8 are from an associated company and the others are receivables from housing associations. They have been valued at the acquisition cost in the financial statements and their fair value is estimated to be equal to their book value.

17 Deferred tax credits and liabilities

Changes in deferred taxes during 2007:	**1.1.2007**	**Entered in profit and loss account**	**Entered in shareholders' equity**	**Subsidiaries acquired/ sold**	**31.12.2007**
Deferred tax credits:					
Valuation of financial instruments at fair value	0.0	0.0	0.0	0.0	0.0
From matching difference and interim differences	7.8	–1.3	0.0	0.0	6.5
From intra-Group margins	4.5	0.1	0.0	0.0	4.6
Total	**12.3**	**–1.2**	**0.0**	**0.0**	**11.1**
Deferred tax liability:					
Valuation of financial instruments at fair value	0.9	0.0	0.1	0.0	1.0
From appropriations and depreciation differences	47.4	3.5	0.0	–0.1	50.8
From matching difference and interim differences	2.5	–1.0	0.0	0.0	1.5
From applied acquisition costs	3.7	–0.1	0.0	0.0	3.6
Total	**54.4**	**2.5**	**0.1**	**–0.1**	**56.8**

Changes in deferred taxes during 2006:	**1.1.2006**	**Entered in profit and loss account**	**Entered in shareholders' equity**	**Subsidiaries acquired/ sold**	**31.12.2006**
Deferred tax credits:					
Valuation of financial instruments at fair value	0.2	0.0	–0.2	0.0	0.0
From matching difference and interim differences	8.0	–0.2	0.0	0.0	7.8
From intra-Group margins	3.2	1.3	0.0	0.0	4.5
Total	**11.3**	**1.1**	**–0.2**	**0.0**	**12.3**
Deferred tax liability:					
Valuation of financial instruments at fair value	0.1	0.0	0.8	0.0	0.9
From appropriations and depreciation differences	41.6	6.1	0.0	–0.4	47.4
From matching difference and interim differences	2.9	–0.5	0.0	0.0	2.5
From applied acquisition costs	4.0	–0.3	0.0	0.0	3.7
Total	**48.7**	**5.3**	**0.8**	**–0.4**	**54.4**

MEUR

18 Inventories

	2007	2006
Housing under construction	**30.7**	34.8
Completed housing units and commercial space	**11.0**	0.4
Land areas and land area companies	**67.6**	34.4
Other inventories	**4.4**	8.7
Total	**113.6**	**78.3**

EUR 0.8 million was posted as an expense in 2006, by which the book value of inventories was reduce to correspond to its net divestment value. There was no similar need to post an expense in 2007.

19 Accounts receivable and other receivables

	2007	2006
Accounts receivable	**20.2**	12.3
Accrued assets	**5.1**	6.6
Notes receivable	**0.6**	0.8
Other receivables	**1.8**	2.3
Total	**27.6**	**21.9**
Itemisation of accrued assets		
Rental business	**0.2**	0.0
Construction commissioning	**0.2**	2.8
Calculation of hedging	**3.8**	3.2
Interest	**0.4**	0.1
Other accrued assets	**0.5**	0.6
Total	**5.1**	**6.6**

The balance sheet values correspond best to the amount of money which is the maximum amount of the credit risk notwithstanding the fair value of the securities in a case in which the other contractual parties are unable to meet their obligations in respect of the financial instruments. The receivables do not entail significant clusters of credit risks. The book values of the trade receivables and other non-current receivables are considered to be equal to their fair values.

20 Cash and cash equivalents

	2007	2006
Cash and at bank	**10.3**	15.0
Certificates of deposit, deposits	**23.7**	26.3
Cash and cash equivalents on balance sheet	**34.0**	41.3

The non-profit companies' cash assets are kept separately from those of companies not subject to non-profit. The non-profit companies' cash assets in 2007 were MEUR 18.9 and in 2006 MEUR 28.2.

MEUR

21 Notes on shareholders' equity

Precision calculation of the number of shares:	Number of shares (1,000)	Share capital	Reserve fund	Invested distributable equity fund	Total
1.1.2006	2,198	4.4	43.7	0.0	48.1
	0	0.0	0.0	0.0	0.0
31.12.2006	**2,198**	**4.4**	**43.7**	**0.0**	**48.1**
1.1.2007	2,198	4.4	43.7	0.0	48.1
Rights issue	23	0.0	0.0	2.7	2.7
Non-payment issue	42,201	0.0	0.0	0.0	0.0
31.12.2007	**44,422**	**4.4**	**43.7**	**2.7**	**50.8**

Description of shareholders' equity funds:

Shares
An extraordinary meeting of shareholders on 23 October 2007 passed a resolution to change SATO Corporation's articles of association in their entirety. At the same time, the meeting resolved on a non-payment issue of shares in which the number of SATO Corporation's shares was increased by issuing 42,200,824 new shares to the shareholders without payment. All the new shares issued in the non-payment issue were allotted to the company's shareholders in proportion to their existing holdings, in such a way that 19 new shares were awarded without payment for one old share. The share capital was not increased by the share issue. The increase in the number of shares was entered in the Trade Register on 26 October 2007. After this, the total number of shares is 44,421,920.

The extraordinary meeting of shareholders on 23 October 2007 also made the following decisions:

1. The meeting authorised the Board of Directors to decide on one or more target, for-payment issues of shares and on the terms of these. The combined number of shares issued in the share issues may not exceed 17,000,000 new shares. The Board of Directors may exercise the authorisation to expand the company's shareholder base and reinforce the capital structure in the event of the company seeking a listing on Helsinki Stock Exchange.

2. The meeting of shareholders authorised the Board of Directors decide on a for-payment issue of no more than 2,500,000 new shares in a targeted issue and to decide the terms for this. The share issue may be directed at eQ Pankki Oy or other parties nominated by the bank to cover a situation of oversubscription in connection with the company obtaining a public listing.

3. The meeting of shareholders authorised the Board of Directors to acquire a maximum of 2,500,000 shares in the company from eQ Pankki Oy or other parties nominated by the bank other than proportionately to the shares held by shareholders.

The company's Board of Directors has not made any decisions based on these authorisations. The authorisations are valid until 31 December 2008.

Reserve fund
The reserve fund includes a share premium account.

Value adjustment fund
The value adjustment fund includes the change in fair values of the derivative instruments used to hedge the cash flow as well as the valuation of the investments available for selling at their fair value.

Dividends
After the date of closing the books, 31 December 2007, the Board of Directors have proposed paying dividend in the amount of 0.36 euros per share.

Restrictions concerning the Group's shareholders' equity
The Group's retained profits in 2007, MEUR 155.2 (in 2006 MEUR 145.2) include a total of MEUR 18.6 (in 2006 MEUR 13.1) of shareholders' equity subject to restrictions on the distribution of profit from non-profit operations. Part of the Group companies are subject to so-called non-profit income-recognition limitations under housing legislation, according to which the organisation may not pay out to its owners more than the profit permitted under housing legislation.

Management of the capital structure
The aim of the company's capital structure management is to support the growth targets and to secure the ability to pay dividend. Another aim of the structure management is to ensure the Group's prospects for operating in the equity market in all situations, regardless of volatility in the sector. SATO's targeted equity ratio net of VATRO Homes is at least 20 per cent. Equity ration may temporarily dip below this target due to significant investments. The actual equity ratio net of VATRO Homes on 31 December 2007 was 21.9 per cent.

The company's Board of Directors reviews and assesses the Group's capital structure regularly.

Notes to the consolidated financial statements, IFRS	2007	2006
MEUR		

22 Interest-bearing liabilities

Non-current		
Market-based loans	376.5	310.2
Interest-subsidised loans	100.2	100.5
State-subsidised loans	240.3	263.0
Commitments due to housing companies and mutual building management companies	50.3	52.7
Financial leasing liabilities	0.7	0.8
Total	**768.1**	**727.2**

Current		
Market-based loans	166.8	74.4
Interest-subsidised loans	0.2	0.3
State-subsidised loans	8.7	6.2
Commitments due to housing companies and mutual building management companies	0.9	2.7
Financial leasing liabilities	0.4	0.3
Total	**177.0**	**83.9**

The amount of cash flow hedging entered in shareholders' equity during the period is shown in the calculation of changes in shareholders' equity. Cash flows of instalments and interest based on loan agreements are shown in note 26 to the financial statements, Management of Financial Risks.

Financial leasing liabilities

Total of minimum rents		
During one year	0.4	0.3
Longer than one year and within a maximum of five years	0.7	0.8
In more than five years	0.0	0.0
Total	**1.2**	**1.1**
Current value of minimum rents		
During one year	0.4	0.3
Longer than one year and within a maximum of five years	0.7	0.8
In more than five years	0.0	0.0
Total	**1.1**	**1.0**
Financial expenses accruing in the future	0.1	0.1
Total amount of financial leasing liabilities	**1.2**	**1.1**

MEUR

23 Derivatives

The following table gives information on the derivatives presented in note 14 to the financial statements:

Derivative instruments specified for hedging cash flow in 2007

			< 1 year	1–3 years	> 3 years
Interest rate swaps		Par value	22.3	77.3	105.0
Interest rate swaps	Positive	Fair value	0.2	1.3	2.0
	Negative	Fair value	0.0	–0.1	–0.2
	Total		0.2	1.2	1.8

Derivative instruments without hedging calculation in 2007

			< 1 year	1–3 years	> 3 years
Interest rate swaps		Par value	73.6	0.0	90.0
Interest rate swaps	Positive	Fair value	0.2	0.0	0.4
	Negative	Fair value	0.0	0.0	0.0
	Total		0.2	0.0	0.4

Derivative instruments specified for hedging cash flow in 2006

			< 1 year	1–3 years	> 3 years
Interest rate swaps		Par value	7.2	29.5	75.0
Interest rate swaps	Positive	Fair value	0.0	0.2	2.7
	Negative	Fair value	0.0	0.0	0.0
	Total		0.0	0.2	2.7

Derivative instruments without hedging calculation in 2006

			< 1 year	1–3 years	> 3 years
Interest rate swaps		Par value	51.0	26.9	0.0
Interest rate swaps	Positive	Fair value	0.0	0.3	0.0
	Negative	Fair value	0.0	0.0	0.0
	Total		0.0	0.3	0.0

Of the derivatives specified for hedging cash flow in 2007, MEUR 0.3 was booked in the value adjustment fund (MEUR 2.9 in 2006).

Notes to the consolidated financial statements, IFRS

MEUR

24 Untaxed reserves

	Refund claim expense reserve	Other reserves	Reserves, total
31.12.2006	5.5	1.5	7.0
Increases in reserves	1.4	0.0	1.4
Reserves disbursed	–1.3	–0.6	–1.9
Cancellations of unused reserves	–0.5	–0.4	–0.9
31.12.2007	**5.0**	**0.5**	**5.5**

The refund claim expense reserve includes a guarantee reserve related to construction business as well as the 10-year liability period thereafter. The refund claim expense reserve is determined on the basis of the claims submitted and on figures from previous experience.

Other reserves include, inter alia, reserves for loss-making agreements.

The potential realisation of the refund claim expense reserve will take place within 10 years and other reserves within 6 years.

25 Accounts payable and other debts

	2007	2006
Advances received	**14.0**	12.0
Accounts payable	**6.9**	15.4
Other debts	**0.8**	2.5
Deferred liabilities	**23.1**	13.7
Accounts payable and other debts, total	**44.8**	**43.6**

Critical items of deferred liabilities		
Wages and salaries with employee benefits	**1.8**	3.5
Interest	**8.1**	5.4
Construction commissioning	**11.5**	2.8
Rental business	**1.7**	1.4
Others	**0.1**	0.6
	23.1	**13.7**

26 Management of financial risks

The goal of SATO's financial risk management is to protect the company from unfavourable changes in the financial market. SATO's financing attends to the management of financial risks in accordance with guidelines from the operative management (the President and CEO and the CFO). Group financing reports to the management, which oversees that risk management has been arranged appropriately.

Interest risk
The aim of interest risk management is to reduce the impact of market rates on interest expenses in such a way that the risk of a rise in interest expenses is on an acceptable level and liquidity is secured. The most crucial risk to the loan portfolio is interest risk, which is due to the effect of fluctuations in market interest rates on interest flows into floating rate loans. In interest risk management, the aim is balance between floating and fixed rates. Interest risk mostly results from financial debts, which include market rate loans, interest subsidised loans and state subsidised loans. The main interest risk involves market-based loans, but other the interest risk on other types of financial debts is also monitored.

It is a goal for market-based loan interest risk management that fixed interest loans should account for at least 50% of market-based loans. Loans are basically taken at floating rates. The company hedges against market-based loan interest risk by selecting interest periods and with derivative instruments, such as interest rate swaps and interest rate options. Some interest rate derivatives are treated in the accounting as hedging of cash flow. Some floating rate loans have been hedged until 2012. The hedges on cash flow include no ineffective part, because the subjects of the hedging and the hedging instruments have the same interest periods.

Changes in market interest rates also affect interest expenditure on interest subsidised loans. In interest subsidised loans, a subsidy is obtained for the part exceeding the deductible rate, so the costs of increases in interest rates for interest subsidised loans are considerably lower than for market rate loans. The deductible rate at the end of 2007 was 2.75 or 3.5 %. A large part of the interest subsidised loans is tied to longer reference rates. The interest risk on interest subsidised loans is very small due to the interest subsidy and long reference rates. SATO does not apply hedging to interest subsidised loans.

In projects financed with state subsidies, absorption cost-based determination is used for rent, by which any interest risk is transferred to the rents. The interest on state subsidised loans is pegged to changes in Finnish consumer prices. Some state subsidised loans have an interest ceiling, the level of which is based on the interest rate of state 10-year bonds. A risk in state subsidised loans is a sudden increase in interest, which would be difficult to transfer in its entirety to rents without delay. Another risk is an increase in state subsidised interest rates based on inflation to a level higher than Euribor rates. SATO does not apply hedging to state subsidised loans.

Currency risk
During 2007 SATO started Investment in Housing in St. Petersburg. On 31 December 2007 SATO has EUR 9 million in rouble-denominated commitments in connection with the investments. The currency risk is not hedged.

Price risk
At present, SATO has no items which might be subject to a significant price risk.

Credit risk
Credit risk is caused by the inability of a contractual party to fulfil his obligations.

SATO's accounts receivable consist mainly of accounts receivable from construction commissioning. For the most part there is no credit risk from accounts receivable from construction commissioning, as title to the properties to be sold is not usually transferred to the buyer until the price has been paid.

A small proportion of accounts receivable involve rent receivables. SATO has more than 23,000 tenants, so the risk entailed in a single rent receivable is insignificant. Most lease agreements have security for the rent receivable. SATO's actual credit losses have amounted on average to 0.1% of rental income.

In addition, derivative instruments involve a counterparty risk, which is reduced by spreading derivative instruments among a number of counterparties.

Liquidity risk
The Group constantly monitors the amount of financing demanded for business operations so that the adequacy of financing will be assured in all circumstances. The cash flow of actual basic business is steady. The financial cash flow and investments are built on a foundation of a steady cash flow. Liquidity is managed with the commercial paper programme used by the Group (in 2007 MEUR 100), and with credit limits on short-term loans (in 2007 MEUR 60).On 31 December 2007 the commercial paper issued amounted to EUR 87 million and the credits raised on short-term credit limits were EUR 30 million. In liquidity management, it is taken into account that the assets of the Group's non-profit companies are kept separately and allocated to not-profit projects.

Sensitivity analyses (interest rate risk)
The following assumptions have been made in calculating the sensitivity arising from a change in the interest rate
– the interest rate change is assumed to be ±100 bp
– loans are denominated in EUR

Sensitivity analysis of market-rate floating interest loans

(per cent)	Profit and loss account 100 bp increase	decrease	Shareholders' equity 100 bp increase	decrease
Floating rate loans	–3.7	3.7	–	–
Interest rate swaps	1.5	–1.5	5.3	–5.3
Interest-rate options	2.3	–2.1	–	–
Effect, total	**0.0**	**0.1**	**5.3**	**–5.3**

Market-rate loans are basically taken at floating rates. The company hedges against market-based loan interest risk by selecting interest periods and with derivative instruments, mainly interest rate swaps.

The sensitivity of interest subsidised loans to changes in market interest rates is small. The average interest subsidy on SATO's interest subsidised loans at year-end was roughly 40% of the total interest calculated on market-based terms. There is a deductible rate on the loans, and the part which exceeds this is effectively affected by the interest subsidy. Roughly 2/3 of the interest subsidised loans are pegged to long-term, 3–10 year reference interest rates.

The interest on state subsidised loans is pegged to changes in Finnish consumer prices. The interest on state subsidised loans is updated annually on the basis of the change in the consumer price index for July. The new interest rate on state subsidised loans affects the interest rates for SATO's state subsidised loans only more than six months later. Therefore, as at the date of closing the books, the sensitivity of SATO's state subsidised loans to changes in the consumer price index for the next 12 months is nonexistent. Some of the state subsidised loans also have an interest ceiling based on the three-year average for interest on Finnish state bonds, so the sensitivity of the loans to a change in the consumer price index for the next 12 months is small also in other periods under examination.

MEUR

Liquidity risk

The cash flows of instalments on debts and of interest, based on loan agreements, were as follows on 31 Dec. 2007:

	in 1 year	in 1–5 years	in 6–10 years	in 10–15 years	after 15 years	Total
Market-based loans	–206.1	–140.1	–164.9	–129.5	–108.3	**–748.9**
Interest-subsidised loans	–3.4	–24.0	–59.2	–45.2	0.0	**–131.8**
State-subsidised loans	–18.0	–75.6	–91.7	–77.3	–91.7	**–354.3**
Interest rate swaps	1.9	3.5	0.0	0.0	0.0	**5.4**
Accounts payable, deferred liabilities and other debts	–6.9	0.0	0.0	0.0	0.0	**–6.9**
Total	**–232.5**	**–236.2**	**–315.7**	**–252.0**	**–200.1**	**–1,236.5**

The cash flows of instalments on debts and of interest, based on loan agreements, were as follows on 31 Dec. 2006:

	in 1 year	in 1–5 years	in 6–10 years	in 10–15 years	after 15 years	Total
Market-based loans	–105.9	–133.2	–104.1	–126.1	–60.8	**–530.1**
Interest-subsidised loans	–3.5	–20.9	–56.5	–52.9	–1.4	**–135.4**
State-subsidised loans	–25.1	–79.8	–96.1	–82.1	–109.5	**–392.6**
Interest rate swaps	0.6	1.9	0.2	0.0	0.0	**2.6**
Accounts payable, deferred liabilities and other debts	–15.4	0.0	0.0	0.0	0.0	**–15.4**
Total	**–149.3**	**–232.1**	**–256.5**	**–261.2**	**–171.7**	**–1,070.9**

The tables do not include the liability for debts of shares of housing and mutual property holding companies belonging to the group of investments.

Notes to the consolidated financial statements, IFRS	2007	2006
MEUR		

27 Other lease agreements

Group as lessee
Minimum rents to be paid on the basis of other lease agreements

During one year	**1.9**	1.8
Longer than one year and a maximum of five years later	**7.5**	7.3
In more than five years	**1.9**	3.6
Total	**11.2**	**12.8**

The Group has sublet SATO's office premises on Panuntie in Helsinki. The amount of the minimum rents to be obtained from these premises is MEUR 1.2 (MEUR 1.4 in 2006). The received rents entered in the profit and loss account during the year were MEUR 0.6 in 2007 (MEUR 0.5 in 2006).

28 Notes to the cash flow statement

Business actions not involving a payment		
Depreciation	**15.9**	15.5
Impairments	**1.0**	3.9
Other changes	**–0.4**	–0.2
Total	**16.5**	**19.2**

29 Collateral and contingency commitments

Debts for which mortgages and pledges have been given as collateral		
Market loans	**424.3**	324.9
Mortgages provided	**54.3**	45.8
Book value of pledged shares	**432.0**	327.3
Value of corporate mortgages pledged	**2.5**	2.5
Value of deposits pledged	**2.2**	4.5
State housing loans	**246.4**	266.5
Mortgages provided	**419.4**	444.4
Book value of pledged shares	**29.2**	31.9
Interest-subsidised loans	**100.4**	100.2
Mortgages provided	**121.9**	121.9
Book value of pledged shares	**0.8**	0.8
Debts of housing and mutual property holding companies, secured by mortgages on properties		
Loans from financial institutions	**51.2**	55.4
Mortgages provided	**76.0**	91.8
Other commitments		
Guarantees	**2.7**	8.9

Notes to the consolidated financial statements, IFRS	**2007**	2006
MEUR		
Guarantee pledges for others		
Owner-occupier home purchase commitments	**18.4**	17.9
Rs-guarantees	**25.2**	24.2
Mortgages provided to secure payment of rent and street maintenance		
Property mortgages provided	**5.1**	5.6
Binding purchase agreements		
For acquisitions of investment properties	**57.5**	11.5
Pledges for land use payments on zoned plots:	**20.9**	5.0
Letters of intent on land for which there is a zoning condition	**12.7**	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 114.7 in 2007 (MEUR 127.0 in 2006).

30 Related party events

The Group's related parties are comprised of the parent company, SATO Corporation, and the subsidiaries and associated companies. The owners are also counted as related parties when they have direct or indirect influence, meaning those owners whose holding in SATO is 20 % or more are always related parties. When ownership falls below 20 %, an owner is considered a related party when he has considerable influence in other ways, for example, through a seat on the Board of Directors. In 2006 and 2007 the shareholders included in related parties were Sampo Mutual Pension Insurance Company, Ilmarinen Mutual Pension Insurance Company and Suomi Mutual Life Assurance Company.

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 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. Habinvest Oy, which was founded by the members of the Corporate Management Group in 2007, subscribed in a targeted issue 23,250 SATO Corporation shares, which amounts to 1.05 % of the company's issued stock.

Notes to the consolidated financial statements, IFRS

MEUR

The following transactions were effected with related parties:
MEUR

2007	**Sales**	**Purchases**	**Receivables**	**Debts**
Shareholders	0.0	0.0	0.0	1.6
2006	**Sales**	**Purchases**	**Receivables**	**Debts**
Shareholders	0.0	20.4	0.0	3.3

In 2006 SATO acquired 309 rental homes from Varma Mutual Pension Insurance Company for MEUR 20.4.

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

Management perquisites

MEUR	**2007**	2006
Salaries and other short-term perquisites	**3.1**	1.4
Other long-term perquisites	**0.0**	0.0
Total	**3.1**	**1.4**

Management salaries and emoluments	**2007**	2006
Presidents	**2.1**	0.6
Members of Boards of Directors	**0.3**	0.2

Persons employed by the Group are not paid separate remuneration when serving as a member of the Board of Directors or as a President of a Group company.

Pensionable age for the President, President's deputy and the Vice President, Housing Development and Construction is 60 years. At that time they are entitled to a pension of 60 per cent of their pension salary.

The period of notice for the President is six months. If the company decides to terminate the President's employment before pension age, the President is entitled to severance pay equal to 12 months' total salary in addition to the salary for the period of notice.

The members of the Group's Corporate Management Group is covered by a long-term incentive scheme based on the Group's profit and fulfilment of the key targets for the respective sphere of responsibility. The Board of Directors approves the payment of bonuses. The Group's Corporate Management Group was also covered by a long-term incentive scheme based on the cumulative profit for the financial years 2004–2006, which ended in 2006. The incentive bonus based on this was paid during 2007.

Habinvest Oy, which was founded by the members of the Corporate Management Group in 2007, holds 23,250 SATO Corporation shares. This arrangement is part of the long-term management incentives.

Subsidiaries owned by the Group and parent company		Group's holding %	Parent company's holding %
Holdings are the same as voting rights.			
Subsidiaries held by SATO Corporation			
As Oy Espoon Heinjoenpolku		100.0	100.0
As Oy Lappeenrannan Metsäsaimaankatu 9		100.0	100.0
As Oy Turun Uudenmaanlinna		100.0	10.0
K Oy Espoon Solberga		100.0	49.9
Kanta-Suomen Sato Oy		78.4	78.4
Outakessa Oy		100.0	100.0
Sato-Asunnot Oy		100.0	100.0
Sato Vuokrakodit Oy		100.0	100.0
Sato-Rakennuttajat Oy		100.0	100.0
Suomen Satokodit Oy		100.0	100.0
SATOkoti Oy		100.0	100.0
Vatro-Yhtymä Oy		100.0	100.0
Vatrotalot Oy		100.0	100.0
Unconsolidated subsidiaries ja associated companies, holding 20–100 %			
Keskus-Sato Oy	dormant	100.0	100.0
Sato-Asumispalvelut Oy	dormant	100.0	100.0
Companies held by subsidiaries			
Sato-Asunnot Oy			
As Oy Arabian Kotiranta		4.2	4.2
As Oy Espoon Hassel		4.4	4.4
As Oy Hakaniemenranta		2.5	2.5
As Oy Helsingin Akaasia		13.9	13.9
As Oy Helsingin Casa Canal		13.3	13.3
As Oy Helsingin Cirrus		1.7	1.7
As Oy Helsingin Corona		17.0	17.0
As Oy Helsingin Gerbera		12.7	12.7
As Oy Helsingin Happiness		22.2	22.2
As Oy Helsingin Kalevankatu 53		30.5	30.5
As Oy Helsingin Kalliolinna		0.8	0.8
As Oy Helsingin Mylläri		2.3	2.3
As Oy Helsingin Nautilus		26.0	26.0
As Oy Helsingin Piispantie 5		100.0	100.0
As Oy Helsingin Piispantie 7		100.0	100.0
As Oy Helsingin Pirta		17.1	17.1
As Oy Helsingin Topeliuksenkatu		4.6	4.6
As Oy Helsingin Porthaninkatu 4		0.7	0.7

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Hiihtomäentie 34	3.7	3.7
As Oy Jussinhovi	3.5	3.5
As Oy Jyväskylän Torihovi	2.7	2.7
As Oy Kalliopohja	2.1	2.1
As Oy Ketturinne	0.4	0.4
As Oy Kirkkosalmentie 3	0.9	0.9
As Oy Kulmakatu 12	2.1	2.1
As Oy Kulmavuorenpiha	100.0	100.0
As Oy Kulmavuorenrinne	1.0	1.0
As Oy Kuusitie 3	1.8	1.8
As Oy Kuusitie 9	2.3	2.3
As Oy Lapintalo	1.0	1.0
As Oy Linjala 14	4.2	4.2
As Oy Läntinen Brahenkatu 8	0.8	0.8
As Oy Mannerheimintie 100	0.9	0.9
As Oy Mannerheimintie 108	1.5	1.5
As Oy Mannerheimintie 77	1.2	1.2
As Oy Mannerheimintie 83–85	0.7	0.7
As Oy Mariankatu 19	1.0	1.0
As Oy Mellunsusi	1.5	1.5
As Oy Mursu	0.5	0.5
As Oy Nervjaerinkatu 9	2.6	2.6
As Oy Neulapadontie 4	1.2	1.2
As Oy Nordenskjöldinkatu 8	2.5	2.5
As Oy Näyttelijäntien Pistetalot	1.4	1.4
As Oy Oulun Laaniranta	6.0	6.0
As Oy Pengerkatu 27	2.6	2.6
As Oy Raikunrinne 1	1.3	1.3
As Oy Ryytikuja 5	0.8	0.8
As Oy Satakallio	0.1	0.1
As Oy Taapuri	2.5	2.5
As Oy Turuntie 112	1.4	1.4
As Oy Vaasankatu 15	0.8	0.8
As Oy Vallinkyyhky	6.0	6.0
As Oy Vantaan Maarukanrinne	14.6	14.6
As Oy Vihtavuorenkatu 8	1.1	1.1
As Oy Viides linja	1.1	1.1
As Oy Espoon Elosalama	100.0	100.0
As Oy Fredrikinkatu 38	2.7	2.7
As Oy Helsingin Piispantie 8	100.0	100.0
As Oy Helsingin Villa Kuohu	25.6	25.6
As Oy Mannerheimintie 93	0.3	0.3
As Oy Puistokaari 13	1.9	1.9
As Oy Rikhaard Nymanin tie 3	100.0	100.0
As Oy Risto Rytin tie 28	1.5	1.5

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Säästökartano	0.3	0.3
As Oy Tallbergin Puistotie 1	2.0	2.0
As Oy Työväen Rauha	10.2	10.2
As Oy Urheilukatu 38	56.0	56.0
B Ab Björneborgsvägen 5	0.5	0.5
B Ab Kvarnhyddan	1.8	1.8
B Ab Lönegropen	1.6	1.6
B Ab Spargäddan	1.3	1.3
K Oy Pellervon Pysäköinti	1.0	1.0
Kajaneborg Bostads	7.3	7.3
As Oy Espoon Mäenpäänpolku	100.0	100.0
As Oy Espoon Neidonkorento	100.0	100.0
As Oy Helsingin Kirjala	100.0	100.0
As Oy Helsingin Koroistentie	15.9	15.9
As Oy Helsingin Serica	3.8	3.8
As Oy Merimiehenkatu 41	1.6	1.6
Etelä-Hämeen Talo Oy	81.2	56.3
As Oy Agricolankuja 3	3.0	3.0
As Oy Agricolankuja 8	80.7	80.7
As Oy Agricolankulma	0.8	0.8
As Oy Albert Petreliuksen katu 8	7.7	7.7
As Oy Arabian Kotiranta	4.2	4.2
As Oy Espoon Rastaspuistontie 8	7.3	7.3
As Oy Espoon Honkavaarantie 5	100.0	100.0
As Oy Espoon Kiiltokalliontie 26	14.5	14.5
As Oy Espoon Kivenhakkaajankuja 3	2.3	2.3
As Oy Espoon Lounaismeri	100.0	100.0
As Oy Espoon Myötätuulenmäki	6.7	6.7
As Oy Espoon Numersinkatu	18.8	18.8
As Oy Espoon Puikkarinmäki	100.0	100.0
As Oy Espoon Punatulkuntie 5	12.0	12.0
As Oy Espoon Pyhäjärventie 1	100.0	100.0
As Oy Espoon Ruorikuja 4	3.8	3.8
As Oy Espoon Ruusulinna	100.0	100.0
As Oy Espoon Satokallio	11.6	11.6
As Oy Espoon Suvikumpu	7.7	7.7
As Oy Espoon Taivalpolku	3.6	3.6
As Oy Espoon Vanharaide	90.1	90.1
As Oy Espoon Vasaratörmä	5.2	5.2
As Oy Espoon Viherlaaksonranta 3-5	100.0	100.0
As Oy Espoon Viherlaaksonranta 4	100.0	100.0
As Oy Espoon Viherlaaksonranta 7	100.0	100.0
As Oy Espoon Zanseninkuja 6	100.0	100.0
As Oy Eura III	100.0	100.0
As Oy Helsingin Ansaritie 1	100.0	100.0

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Helsingin Ansaritie 2-4	100.0	100.0
As Oy Helsingin Ansaritie 3	100.0	100.0
As Oy Helsingin Apollonkatu 19	38.2	38.2
As Oy Helsingin Arabiankatu 3	13.4	13.4
As Oy Helsingin Castreninkatu 3	100.0	100.0
As Oy Helsingin Eliel Saarisen tie 10	96.1	96.1
As Oy Helsingin Hildankulma	80.1	80.1
As Oy Helsingin Isopurje	3.2	3.2
As Oy Helsingin Kaarenjalka 5	100.0	100.0
As Oy Helsingin Kaivonkatsojantie 2	16.4	16.4
As Oy Helsingin Kangaspellontie 1-5	100.0	100.0
As Oy Helsingin Kangaspellontie 4	60.3	60.3
As Oy Helsingin Kangaspellontie 8	25.0	25.0
As Oy Helsingin Kerttulinkuja 1	7.5	7.5
As Oy Helsingin Klaavuntie	100.0	100.0
As Oy Helsingin Kokkosaarenkatu 4	20.8	20.8
As Oy Helsingin Korppaanmäki	65.8	65.8
As Oy Helsingin Korppaantie 8	49.8	49.8
As Oy Helsingin Kristianinkatu 11–13	100.0	100.0
As Oy Helsingin Kultareuna 1	39.0	39.0
As Oy Helsingin Köysikuja 2	9.5	9.5
As Oy Helsingin Lauttasaarentie 19	58.3	58.3
As Oy Helsingin Leikopiha	9.6	9.6
As Oy Helsingin Leikosaarentie 31	11.1	11.1
As Oy Helsingin Leikovuo	9.1	9.1
As Oy Helsingin Mechelininkatu 12–14	100.0	100.0
As Oy Helsingin Merenkävijä	5.1	5.1
As Oy Helsingin Nukkeruusunkuja 3	9.3	9.3
As Oy Helsingin Pakilantie 17	100.0	100.0
As Oy Helsingin Perustie 16	65.2	65.2
As Oy Helsingin Puuskarinne 1	98.2	98.2
As Oy Helsingin Reginankuja 4	11.8	11.8
As Oy Helsingin Ruusutarhantie 7	39.3	39.3
As Oy Helsingin Satoaalto	8.6	8.6
As Oy Helsingin Satorinne	8.5	8.5
As Oy Helsingin Siltavoudintie 20	100.0	100.0
As Oy Helsingin Solnantie 22	100.0	100.0
As Oy Helsingin Stenbäckinkatu 5	60.0	60.0
As Oy Helsingin Ståhlbergintie 4	93.5	93.5
As Oy Helsingin Sähköttäjänkatu 6	100.0	100.0
As Oy Helsingin Tapaninkulo	4.7	4.7
As Oy Helsingin Tunturilinna	9.5	9.5
As Oy Helsingin Vanha viertotie 16	76.7	76.7
As Oy Helsingin Vanha viertotie 18	47.5	47.5
As Oy Helsingin Vanha Viertotie 6	100.0	100.0

Notes to the consolidated financial statements, IFRS

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Helsingin Vanha Viertotie 8	100.0	100.0
As Oy Helsingin Vuosaaren Helmi	100.0	100.0
As Oy Hyvinkään Joutsenlaulu	28.2	28.2
As Oy Hämeenlinnan Aroniitynkuja 7	100.0	100.0
As Oy Jyväskylän Ailakinraitti	100.0	100.0
As Oy Jyväskylän Taitoniekansato	17.4	17.4
As Oy Jyväskylän Yliopistonkatu 18 ja Keskustie 17	100.0	100.0
As Oy Kajaanin Rekitie 1–2	100.0	100.0
As Oy Kasarmikatu 14 – Bostads Ab Kasärngatan 14	20.4	20.4
As Oy Kasarminkatu 10	26.7	26.7
As Oy Kauniaisten Ersintie 9 –11	5.5	5.5
As Oy Keravan Papintie 1	100.0	100.0
As Oy Korppaanmäki	65.8	65.8
As Oy Kuikankatu 2	9.7	9.7
As Oy Kuopion Pyöröntähti	36.4	36.4
As Oy Kuopion Venemiehenkatu	100.0	100.0
As Oy Lahden Nuolikatu 9	100.0	100.0
As Oy Lapinniemen Pallopurje	1.9	1.9
As Oy Lappeenrannan Maininkikatu 9	100.0	100.0
As Oy Messeniuksenkatu 5	70.0	70.0
As Oy Myllysalama	82.9	82.9
As Oy Myyrinhaukka	100.0	100.0
As Oy Oulun Aleksinranta	100.0	100.0
As Oy Oulun Kalevalantie	100.0	100.0
As Oy Oulun Laanila I	100.0	100.0
As Oy Oulun Laanila IV	100.0	100.0
As Oy Oulun Laaniranta	6.0	6.0
As Oy Oulun Marsalkka	5.7	5.7
As Oy Oulun Mastolinna	2.2	2.2
As Oy Oulun Notaarintie 3	5.0	5.0
As Oy Raikukuja 4	100.0	100.0
As Oy Riihimäen Kolehmaisentori	29.6	29.6
As Oy Rovaniemen MLK:n Niittykuja	100.0	100.0
As Oy Salpakolmio	31.3	31.3
As Oy Tampereen Jankanpuisto	100.0	100.0
As Oy Tampereen Kanjoninkatu 15	65.1	65.1
As Oy Tampereen Kuuselanpuisto	23.0	23.0
As Oy Tampereen Rotkonraitti 6	77.1	77.1
As Oy Tampereen Siirtolapuutarhankatu	5.6	5.6
As Oy Tampereen Tarmonkatu 6	100.0	100.0
As Oy Tampereen Waltteri	23.9	23.9
As Oy Tapiolan Tuuliniitty	6.8	6.8
As Oy Tarkk'ampujankatu 14	44.1	44.1
As Oy Terhokuja 3	100.0	100.0

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Terhokuja 6	11.3	11.3
As Oy Valkeakosken Katajatie 62	58.7	58.7
As Oy Valkeakosken Katajatie 64	3.4	3.4
As Oy Valkeakosken Katajatie 66	35.3	35.3
As Oy Vantaan Aapramintie 4	100.0	100.0
As Oy Vantaan Kaarenlehmus	100.0	100.0
As Oy Vantaan Liesitorin Palvelutalo	5.9	5.9
As Oy Vantaan Maarinrinne	12.0	12.0
As Oy Vantaan Myyrinmutka	100.0	100.0
As Oy Vantaan Pronssikuja 1	100.0	100.0
As Oy Vantaan Tammistonkatu 29	23.5	23.5
As Oy Vantaan Tuurakuja 4	34.1	34.1
As Oy Vihdin Lippotie 10 ja Vesitie 5	100.0	100.0
As Oy Vuomeren Salpa	2.7	2.7
As Oy Vuorastila	99.0	99.0
As Oy Helsingin Piispantie 3	100.0	100.0
K Oy Helsingin Kangaspellontie 6	100.0	100.0
K Oy Kaarentuomi	100.0	100.0
K Oy Karjalaisten Heimotalo	0.1	0.1
K Oy Nekalanpuisto	2.9	2.9
K Oy Uusikatu 58		
OOO SATO-Rus	100.0	100.0
Sato-Pietari Oy	100.0	100.0
Satopos 111 Oy	0.3	0.3
Sato-Russia Oy	100.0	100.0
Sato Vuokrakodit Oy		
As Oy Espoon Säterinkatu 10	1.6	1.6
As Oy Espoon Numersinkatu 6	2.3	2.3
As Oy Espoon Puropuisto	49.8	49.8
As Oy Espoon Sokerilinnantie 1	1.9	1.9
As Oy Espoon Zanzeninkuja 4	5.6	5.6
As Oy Helsingin Finniläntalo	80.2	80.2
As Oy Helsingin Myllypellonpolku 4	2.9	2.9
As Oy Helsingin Paciuksenkaari 19	1.6	1.6
As Oy Jyväskylän mlk:n Kirkkotie 3	7.5	7.5
As Oy Jyväskylän Vaneritori	3.9	3.9
As Oy Kaarinan Kiurunpuisto	2.1	2.1
As Oy Kaarinan Kultarinta	2.5	2.5
As Oy Kuopion Lakeissuontie 5	96.7	96.7
As Oy Oulun Laamannintie 7	7.8	7.8
As Oy Oulun Laamannintie 14–17	40.8	40.8
As Oy Raision Toripuisto	1.2	1.2
As Oy Tampereen Haapalinnan Antintalo	14.2	14.2
As Oy Tampereen Kyläleni	41.6	41.6

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Tampereen Kyyhky	5.6	5.6
As Oy Tampereen Rantatie 13	6.4	6.4
As Oy Turun Merenneito	0.8	0.8
As Oy Vantaan Herttuantie 3	15.8	15.8
Etelä-Hämeen Talo Oy	81.2	24.9
Suomen Satokodit Oy		
As Oy Meiraminkuja	19.9	19.9
As Oy Satosorsa	19.9	19.9
As Oy Vantaan Kortteeri	12.8	12.8
K Oy Karpalopolku	100.0	100.0
K Oy Vihdin Nurmijärventie 4	100.0	100.0
K Oy Vihdin Kirkkoniementie 2	100.0	100.0
K Oy Vihdin Nummenselkä 10	100.0	100.0
SATOkoti Oy		
SATO-Martinpääsky Oy (formerly Satopos 107 V Oy)	100.0	100.0
As Oy Espoon Jousenkaari 5	100.0	100.0
As Oy Espoon Sepetlahdentie 6	100.0	100.0
As Oy Espoon Solberga	100.0	50.1
As Oy Helsingin Graniittitie 8 ja 13	100.0	100.0
As Oy Helsingin Hämeenpenger	100.0	100.0
As Oy Helsingin Ida Aalbergin tie 3 A	100.0	100.0
As Oy Helsingin Kauppakartanonkuja 3	40.2	40.2
As Oy Helsingin Kiillekuja 4	100.0	100.0
As Oy Helsingin Lapponia	100.0	100.0
As Oy Helsingin Näyttelijäntie 24	100.0	100.0
As Oy Helsingin Pajamäentie 6	100.0	100.0
As Oy Helsingin Pajamäentie 7	100.0	100.0
As Oy Helsingin Pasilantornit	25.0	25.0
As Oy Helsingin Rusthollarinkuja 2	100.0	100.0
As Oy Helsingin Vetelintie 5	100.0	100.0
As Oy Helsingin Viulutie 1-3	100.0	100.0
As Oy Hollolan Harjukoivu	100.0	100.0
As Oy Hollolan Hiihto-Salpa	100.0	100.0
As Oy Jyväskylän Karsikkotie 3	100.0	100.0
As Oy Jyväskylän Karsikkotie 5	100.0	100.0
As Oy Kuopion Rypysuontie 63	100.0	100.0
As Oy Lohjan Koulukuja 14	100.0	100.0
As Oy Lohjan Riihenkiuas	100.0	100.0
As Oy Oulun Utelias-Salpa	100.0	100.0
As Oy T:reen Hervannan Puistokallio	100.0	100.0
As Oy Turun Uudenmaanlinna	100.0	90.0
As Oy Turun Veistämöntori	100.0	100.0

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Vihdin Kuortilankuja 4	100.0	100.0
As Oy Vihdin Lippotie 3	100.0	100.0
As Oy Vihdin Nummenselkä 8	100.0	100.0
K Oy Färminahde	40.7	40.7
K Oy Helsingin Keinulaudantie 7	100.0	100.0
K Oy Jyskävaara	63.5	63.5
K Oy Koulukuja 4–10	53.9	53.9
K Oy Nummelan Hiekkarinne	21.0	21.0
K Oy Nummenpuisto	100.0	100.0
K Oy Nuottapuisto	30.0	30.0
K Oy Nurmijärven Jukolanmäki	40.0	40.0
K Oy Ojamonkuusi	54.6	54.6
K Oy Osuniemi	100.0	100.0
K Oy Riikuntie 5	80.0	80.0
K Oy Ristiinan Suopursu	30.0	30.0
K Oy Tapionjousi	100.0	100.0
K Oy Tikkurilan Satotalo	100.0	100.0
K Oy Ummelo	49.0	49.0
K Oy Vihdin Niittytie 1	100.0	100.0
K Oy Vihdin Peltotie 2	100.0	100.0
Pateniemenhaka Oy	69.7	69.7
SATOtalo Oy	100.0	100.0
SATO-Väinölänranta Oy (formerly Satopos 105 Oy)	100.0	100.0
SATOtalo Oy		
As Oy Hannanpiha	19.1	19.1
As Oy Hauenhaavi	2.6	2.6
As Oy Hervannan Juhani	14.9	14.9
As Oy Kevätesikko	3.4	3.4
As Oy Killerinpuisto	1.3	1.3
As Oy Kotipiennar	2.8	2.8
As Oy Kuhakartano	0.7	0.7
As Oy Kukkolan Koivu	4.3	4.3
As Oy Kuusihalme	2.3	2.3
As Oy Maijalanraitti	6.3	6.3
As Oy Malmeken	12.8	12.8
As Oy Marinraitti	4.4	4.4
As Oy Matinraitti 14	1.0	1.0
As Oy Mattitapio	7.6	7.6
As Oy Muotialantie 31	17.0	17.0
As Oy Näsinlaine	1.0	1.0
As Oy Näsinselkä	1.1	1.1
As Oy Peltohuhta	1.2	1.2
As Oy Pohjankartano	22.8	22.8

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Puistoraitti	2.3	2.3
As Oy Puolukkasato	5.9	5.9
As Oy Rantasentteri	1.5	1.5
As Oy Reuharinrinne	4.6	4.6
As Oy Sarasipi	1.7	1.7
As Oy Satokaunokki	7.4	7.4
As Oy Satosaila	21.3	21.3
As Oy Satotatti	3.0	3.0
As Oy Satulapuisto	22.3	22.3
As Oy Säästöjurvala	1.1	1.1
As Oy Tasatuomo	1.3	1.3
As Oy Ulpukkaniemi	25.4	25.4
As Oy Vahterantorni	3.2	3.2
As Oy Valtapolku	1.2	1.2
As Oy Varalanrinne	9.8	9.8
As Oy Välkynkallio	0.8	0.8
As Oy Yläaitankatu 4	1.7	1.7
K Oy Kastevuoren Palvelutalo	100.0	100.0
K Oy Mannerheimintie 170	15.8	15.8
Helkalax Oy	1.3	1.3
Vatrotalot Oy		
As Oy Ahmonpesä	73.6	73.6
As Oy Forssan Ystävyydenaukio	73.8	73.8
As Oy Harjulansato	36.6	36.6
As Oy Harjulehmus	41.0	41.0
As Oy Helsingin Laivalahdenportti 5	75.5	75.5
As Oy Helsingin Toini Muonan katu 8	37.4	37.4
As Oy Hämeenlinnan Aaponkuja 3	47.7	47.7
As Oy Jukolanniitty	52.6	52.6
As Oy Jukolantanner	52.3	52.3
As Oy Jyväskylän Kakkospesä	18.2	18.2
As Oy Kaarinan Kultarinta	5.9	5.9
As Oy Kajaanin Kannonkatu	18.7	18.7
As Oy Kajaanin Välimaanrinne	47.4	47.4
As Oy Kangasalan Kukkapuisto	18.8	18.8
As Oy Karhukorkalo	29.3	29.3
As Oy Kaukotie 10-12	3.1	3.1
As Oy Kavilanniitty	21.3	21.3
As Oy Kirkkonummen Riihipolku	100.0	100.0
As Oy Kuopion Tikassato	79.1	79.1
As Oy Kuopion Vuorikatu 23	59.8	59.8
As Oy Kylänpäänkaari	32.5	32.5
As Oy Kylänpäänpelto	48.3	48.3
As Oy Laakavuorentie 4	39.1	39.1

Subsidiaries owned by the Group and parent company	Group's holding %	Parent company's holding %
As Oy Lahden Roopenkuja	57.7	57.7
As Oy Linkinkoppi	44.2	44.2
As Oy Marilinnankoti	15.4	15.4
As Oy Meriramsi	24.5	24.5
As Oy Merirastilantie 5	23.5	23.5
As Oy Merirastilantie 9	9.1	9.1
As Oy Naantalin Kastovuorenrinne	34.6	34.6
As Oy Nastolan Moreeniraitti	27.2	27.2
As Oy Nurmijärven Kylänpäänniitty	47.2	47.2
As Oy Pirilänportti	14.5	14.5
As Oy Pohjanpoika	24.5	24.5
As Oy Poskilammenpuisto	78.9	78.9
As Oy Puolukkavarikko	33.9	33.9
As Oy Pupumäki	3.2	3.2
As Oy Riviuhkola	49.9	49.9
As Oy Saarenkylän Saarenkartanot	33.3	33.3
As Oy Salon Valhojanrivi	21.2	21.2
As Oy Satosyppi	50.0	50.0
As Oy Satotaival	50.2	50.2
As Oy Tasakuusi	11.7	11.7
As Oy Turun Kivimaanrivi	13.1	13.1
As Oy Turun Maarianportti	89.7	89.7
As Oy Turun Merenneito	2.0	2.0
As Oy Turun Metallikatu	47.0	47.0
As Oy Turun Mietoistenkuja	22.5	22.5
As Oy Turun Pernon Kartanonlaakso	68.8	68.8
As Oy Turun Sipimetsä	19.8	19.8
As Oy Vantaan Minkkikuja 1	74.9	74.9
As Oy Vantaan Omaksi	2.8	2.8
As Oy Vantaan Ravurinmäki	47.8	47.8
As Oy Vantaan Ravurinpuisto	63.7	63.7
K Oy H:gin Muurahaisenpolku 6	64.4	64.4
K Oy Kukkaropohja	51.3	51.3
K Oy Salpalohi	33.3	33.3
Vatro-Osaomistus Oy	100.0	100.0
Suomen Asumisoikeus Oy	50.0	50.0
SATO-Martinpääsky Oy (formerly Satopos 107 V Oy)		
As Oy Vantaan Martinpääsky	100.0	100.0
Sato-Rakennuttajat Oy		
Piipunjuuri Oy	50.0	50.0
K Oy Kupittaan Lähde	50.0	50.0
Etelätullin Rakennuttajat Oy	100.0	100.0

31 Events after year-end

In January SATO invested in a total of approximately 150 apartments in Helsinki.
The total value of the investments is roughly EUR 20 million.
In February SATO renewed building supervision and management contracts for roughly 18,000 of its apartments with YIT Kiinteistötekniikka Oy, Realia Management Oy and Juhola Management Oy.

32 The introduction of IFRS reporting

SATO's consolidated financial statements were drawn up in accordance with FAS until 31 December 2006. In connection with the public listing project carried out in autumn 2007, IFRS financial statements were also produced for 2006. The transition date for the first consolidated financial statements in accordance with the IFRS norms was 1 January 2005 and IFRS 1 First-time Adoption of International Financial Reporting Standards were used for this. The reconciliation calculations required by the IFRS standard between the previously applied accounting rules and IFRS for shareholders' equity and net profit were not included in the financial statements presented at the meeting of shareholders. The tables presented below and the notes to them explain the effect of the adoption of IFRS principles on the Group's financial position, net operating profit and cash flows.

The effects on the Group's shareholders' equity and net profit have been examined in the calculation of the comparative information for 2005 and 2006. The main differences are due to the transition to the percentage of completion method, an amendment to the treatment of shared ownership apartments, and the presentation of the effect of interest rate hedging. On the whole, the effect of the transition on the Group's shareholders' equity is positive. SATO applies the historical cost method to investment properties and states the current value of the investment properties in a note to the financial statements. The purpose of the comparative figures shown below (MEUR) is to provide additional information to the financial statements as at 31 December 2006 to demonstrate the essential effects of the adoption of IFRS on the Group's balance sheet and shareholders' equity. The comparison was drawn up using IFRS standards current at the time. The comparison covers the comparison of balance sheet and profit FAS/IFRS as at 31 December 2005 and 31 December 2006 as well as a specification of changes in shareholders' equity and the net profit for the year.

FAS figures have been reclassified in the reconciliation calculation to comply with IFRS presentation as follows:

1. Properties treated as Investment Properties have been transferred to a separate line in the balance sheet

31.12.2004 EUR 900.0 million, reducing tangible assets included in fixed assets by EUR 539.2 million and investments by EUR 360.8 million.

31.12.2005 EUR 920.7 million, reducing tangible assets included in fixed assets by EUR 513.8 million and investments by EUR 406.9 million.

31.12.2006 EUR 949.3 million, reducing tangible assets included in fixed assets by EUR 508.8 million and investments by EUR 440.5 million.

2. The tax credits and liabilities based on the taxable income for the year have been transferred to separate lines from other receivables and debts.

31.12.2004 EUR 7.7 million, 31.12.2005 EUR 11.0 million and 31.12.2006 EUR 12.3 million.

3. The tax credits and liabilities based on the taxable income for the year have been transferred to separate lines from other receivables and debts.

4. The Group reserve and minority interest have been presented as part of shareholders' equity. Obligatory reserves have been included in non-current debts.

From accounts receivable, EUR 14.0 million on 31.12.2004, EUR 15.3 million on 31.12.2005 and EUR 20.8 million on 31.12.2006 has been reclassified in inventories.

5. In the profit and loss account, the profits and losses from divestments of Investment Properties has been moved to a separate line.

In 2006 the profits and losses from divestments of Investment Properties totalled EUR 10.8 million, whereupon other income from business operations declined by EUR 12.1 million and other expenses of business operations by EUR 1.3 million. In 2005 the profits and losses from divestments of Investment Properties totalled EUR 13.5 million, whereupon other income from business operations declined by EUR 13.8 million, extraordinary income by EUR 0.1 million and other expenses of business operations by EUR 0.4 million.

Notes to the consolidated financial statements, IFRS

MEUR

Balance sheet reconciliation calculation 1.1.2005, 31.12.2005 and 31.12.2006

Assets	FAS 31.12.2004	Effect of transition to IFRS	IFRS 1.1.2005	FAS 31.12.2005	Effect of transition to IFRS	IFRS 31.12.2005
Investment Properties	900.2	4.7	904.9	920.7	0.2	920.9
Tangible assets	1.2	0.7	1.8	1.0	1.0	2.0
Intangible assets	0.9	–0.2	0.7	1.6	–0.2	1.4
Holding in joint venture	0.2	0.0	0.2	0.2	0.0	0.2
Financial assets available for selling	0.7	0.3	1.0	0.7	0.4	1.1
Receivables	4.4	0	4.4	1.5	0.0	1.5
Deferred tax credits	7.7	2.2	9.9	11.0	0.4	11.3
Non-current assets, total	**915.3**	**7.6**	**922.9**	**936.8**	**1.7**	**938.5**
Inventories	97.2	–31.9	65.3	102.2	–30.1	72.1
Accounts receivable and other receivables	55.5	–29.2	26.4	65.8	–36.3	29.5
Tax credits based on the taxable income for the period	1.6	0.0	1.6	0.0	0.0	0.0
Cash and cash equivalents	36.1	1.9	38.0	31.6	2.4	34.0
Current assets, total	**190.5**	**–59.2**	**131.3**	**199.6**	**–64.0**	**135.6**
Assets, total	**1,105.8**	**–51.6**	**1,054.2**	**1,136.4**	**–62.3**	**1,074.0**

Shareholders' equity and liabilities	FAS 31.12.2004	Effect of transition to IFRS	IFRS 1.1.2005	FAS 31.12.2005	Effect of transition to IFRS	IFRS 31.12.2005
Shareholders' equity belonging to the parent company's shareholders	151.9	3.8	155.7	173.1	4.8	177.9
Group reserve	0.2	–0.2	0.0	0.2	–0.2	0.0
Minority interest	1.5		1.5	1.3		1.3
Shareholders' equity	**153.6**	**3.6**	**157.2**	**174.6**	**4.6**	**179.2**
Liabilities						
Deferred tax liabilities	39.2	6.0	45.2	47.2	1.5	48.7
Provisions	6.0	–0.4	5.6	7.8	–0.9	6.9
Interest-bearing liabilities	760.8	–48.1	712.7	741.6	–7.6	734.0
Other liabilities	16.6	–16.6	0.0	14.0	–14.0	0.0
Non-current liabilities, total	**822.6**	**–59.2**	**763.4**	**810.6**	**–20.9**	**789.6**
Accounts payable and other liabilities	96.7	–54.1	42.6	116.8	–66.2	50.6
Tax liabilities based on the taxable income for the period	3.1	0.0	3.1	5.9	0.0	5.9
Interest-bearing liabilities	29.8	58.1	87.9	28.5	20.3	48.8
Current liabilities, total	**129.6**	**4.0**	**133.6**	**151.2**	**–46.0**	**105.2**
Shareholders' equity and liabilities, total	**1,105.8**	**–51.6**	**1,054.2**	**1 136.4**	**–62.3**	**1,074.0**

Notes to the consolidated financial statements, IFRS

MEUR

Assets	FAS 31.12.2006	Effect of transition to IFRS	IFRS 31.12.2006
Investment Properties	949.3	0.1	949.4
Tangible assets	0.9	1.1	2.0
Intangible assets	3.5	–0.1	3.4
Holding in joint venture	0.2	0.0	0.2
Financial assets available for selling	0.7	0.5	1.2
Receivables	2.1	0.0	2.1
Deferred tax credits	12.3	0.0	12.3
Non-current assets, total	**969.1**	**1.4**	**970.6**
Inventories	98.9	–20.6	78.3
Accounts receivable and other receivables	61.3	–39.4	21.9
Tax credits based on the taxable income for the period	1.7	0.0	1.7
Cash and cash equivalents	39.0	2.2	41.3
Current assets, total	**201.0**	**–57.8**	**143.2**
Assets, total	**1,170.2**	**–56.4**	**1,113.8**

Shareholders' equity and liabilities	FAS 31.12.2006	Effect of transition to IFRS	IFRS 31.12.2006
Shareholders' equity belonging to the shareholders of the parent company	189.8	6.5	196.3
Group reserve	0.2	–0.2	0.0
Minority interest	1.3	0.0	1.3
Shareholders' equity	**191.3**	**6.3**	**197.6**
Liabilities			
Deferred tax liabilities	52.5	2.0	54.4
Provisions	7.0	0.0	7.0
Interest-bearing liabilities	768.8	–41.6	727.2
Other liabilities	11.7	–11.7	0.0
Non-current debts, total	**840.0**	**–51.3**	**788.6**
Accounts payable and other liabilities	112.6	–69.1	43.6
Tax liabilities based on the taxable income for the period	0.1	0.0	0.1
Interest-bearing liabilities	26.2	57.7	83.9
Current liabilities, total	**138.9**	**–11.3**	**127.6**
Shareholders' equity and liabilities, total	**1,170.2**	**–56.4**	**1,113.7**

Notes to the consolidated financial statements, IFRS

MEUR

Reconciliation calculation for the profit and loss account for financial years 1.1-31.12.2005 and 1.1-31.12.2006

	FAS 1.1.– 31.12. 2005	Effect of transition to IFRS	IFRS 1.1.– 31.12. 2006	FAS 1.1.– 31.12. 2006	Effect of transition to IFRS	IFRS 1.1.– 31.12. 2006
Turnover	**289.6**	**–3.0**	**286.5**	**301.1**	**–13.4**	**287.8**
Profits/losses from sales of Investment Properties	13.7	0.0	13.7	10.8	0.0	10.8
Share in joint venture's profit	0.0	0.0	0.0	0.1	0.0	0.1
Other income from business operations	0.5	0.3	0.8	1.5	–1.0	0.5
Materials and services	–126.0	–6.2	–132.1	–129.7	3.4	–126.3
Personnel expenses	–11.4	0.0	–11.4	–10.6	0.0	–10.6
Depreciation and write-downs	–19.5	–0.3	–19.8	–19.4	–0.3	–19.7
Other expenses of business operations	–80.5	9.1	–71.4	–84.6	8.9	–75.7
Operating profit	**66.4**	**–0.1**	**66.3**	**69.1**	**–2.3**	**66.9**
Financial income and expenses	–23.1	–0.6	–23.7	–25.5	1.3	–24.2
Profit before taxes	**43.3**	**–0.8**	**42.6**	**43.6**	**–1.1**	**42.6**
Income taxes	–12.0	1.6	–10.4	–11.3	0.1	–11.3
Net profit for financial year	**31.3**	**0.8**	**32.2**	**32.3**	**–1.0**	**31.3**
Distribution:						
To the owners of the parent company	31.2	0.8	32.0	32.2	–1.0	31.2
To minority	0.2	0.0	0.2	0.1	0.0	0.1
Earnings per share, undiluted (€)	**0.70**		**0.72**	**0.72**		**0.70**
Earnings per share, corrected for dilution effect (€)	**0.70**		**0.72**	**0.72**		**0.70**

Notes to the consolidated financial statements, IFRS

MEUR

Bridging calculation of shareholders' equity 1.1.2005, 31.12.2005 and 31.12.2006		1.1.2005	31.12.2005	31.12.2006
Shareholders' equity 2005 and 2006, FAS		**151.9**	**173.1**	**189.8**
IFRS adjustments per standard:				
IAS 11 Construction Contracts	1.	4.3	4.4	3.4
IAS 27 Consolidated and Separate Financial Statements	2.	1.8	1.8	1.3
IAS 39 Financial Instruments	3.	–3.7	–1.3	3.7
IAS 12 Income Taxes	4.	0.9	–1.1	–2.0
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	5.	0.4	0.8	0.0
Other standards	6.	0.0	0.0	0.1
Effect on shareholders' equity, total		**3.8**	**4.8**	**6.5**
Shareholders' equity, IFRS		**155.7**	**177.9**	**196.3**

Bridging calculation of net profit for year		1.1.– 31.12. 2005	1.1.– 31.12. 2006
Net profit for year, FAS (including minority interest)		**31.3**	**32.3**
IFRS adjustments per standard:			
IAS 11 Construction Contracts	1.	0.1	–1.1
IAS 27 Consolidated and Separate Financial Statements	2.	0.0	–0.5
IAS 39 Financial Instruments	3.	–0.6	1.3
IAS 12 Income Taxes	4.	0.9	0.0
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	5.	0.4	–0.8
Other standards	6.	0.1	0.0
Effect on net profit for year		**0.8**	**–1.0**
Net profit for year, IFRS		**32.2**	**31.3**

Notes to the reconciliation calculations

1. Transition to percentage of completion method (IAS 11 Construction Contracts)

In FAS, SATO has income-recognised construction projects on the basis of the handover of the apartments

In the transition to IFRS principles, the percentage of completion method has been applied to construction commissioning.

The changeover to the percentage of completion method in 2006 reduced sales revenue by EUR 4.5 million and material and service expenses by EUR 3.4 million, so the effect on income was EUR –0.1 million. In 2005 sales revenue increased by EUR 6.3 million and material and service expenses by EUR 6.2 million, so the effect on income was EUR 0.1 million.

In the balance sheet, premises under construction and completed were written off inventories, and on the other hand projects in progress were booked in inventories. In 2006 the net effect of these adjustments on inventories was to reduce them by EUR 7.4 million. Also, receivables declined by EUR 42.6 million and cash and cash equivalents increased by EUR 2.3 million. Non-current debts increased by EUR 15.1 million and current debts decreased by EUR 66.2 million. The effect of the adjustments on shareholders' equity was to augment it by a total of EUR 3.4 million. In 2005 the adjustments reduced inventories by EUR 15.0 million and receivables by EUR 36.3 million and increased cash and cash equivalents by EUR 2.4 million Non-current debts increased by EUR 11.7 million and current debts decreased by EUR 65.0 million, so the adjustment improved shareholders' equity by a total of EUR 4.4 million.

In the opening balance the percentage of completion adjustment reduced inventories by EUR 14.3 million and receivables by EUR 29.2 million and increased cash and cash equivalents by EUR 1.9 million Non-current debts increased by EUR 9.4 million and current debts decreased by EUR 55.3 million The adjustment to shareholders' equity was thus EUR 4.3 million.

2. The change in the consolidation principles for shared ownership apartments (IAS 27 Consolidated and Separate Financial Statements, SIC 12 Consolidation – Special Purpose Entities)

In FAS, companies associated with shared ownership arrangements were not included in the consolidated financial statements. Margins for the commissioning of shared ownership apartments and Investment in Housing were part left unrecognised as income in line with the principle of prudence, and it was only income-recognised in its entirety at the stage in which the shared owner exercised his or her right of purchase and purchased the apartment. Share capital paid to a housing company has been included in inventories and advance payment debts. Rental income and service charge expenses concerning shared ownership properties have been presented in SATO's profit and loss account.

In the transition to IFRS practice, shared ownership arrangements have been interpreted as Special Purpose Entities, which are not consolidated as they are not under SATO's control. For this reason the above-mentioned margins have also been income-recognised in their entirety from the opening balance for both 2005 and 2006, and correspondingly the shares described above and their corresponding advance payment on debts have been written off the balance sheet. Only lessor fees and building management fees have been shown as revenue in the IFRS profit and loss account.

The amendment of the presentation of shared ownership in line with IFRS and the adjustments to margins for 2006 reduced turnover by EUR 8.9 million and other expenses of business operations by EUR 8.6 million, so the effect on profit was EUR –0.4 million. In 2005 the same adjustments reduced turnover by EUR 9.3 million and other expenses of business operations by EUR 8.9 million, but they increased other income from business operations by EUR 0.3 million, so the effect on profit was EUR –0.1 million.

In the balance sheet the adjustment reduced in 2006 inventories by EUR 13.3 million, non-current debts by EUR 11.7 million and current debts by EUR 2.9 million, so the adjustment to shareholders' equity augmented net profit by EUR 1.3 million. Similarly, in 2005 inventories declined by EUR 15.1 million, non-current debts by EUR 14.0 million and current debts by EUR 2.9 million, making the effect of the change in shareholders' equity improve net profit by EUR 1.8 million.

In the opening balance, inventories declined by EUR 17.6 million, non-current debts by EUR 16.5 million and current debts by EUR 2.9 million, augmenting shareholders' equity by EUR 1.8 million.

3. Financial Instruments (IAS 39 Financial Instruments: Booking and Valuing)

SATO uses interest rate swaps to hedge cash flow. These instruments are used to hedge against changes in cash flows of interest payments caused by floating interest rates (cash flow hedging). The changes in the fair value of the derivatives which are included in the sphere of hedging calculations are booked direct in shareholders' equity, in the value adjustment fund. Changes in the value of derivatives which do not meet the criteria for hedging calculations are credited or charged to income in the financial items.

SATO has also had shares values at their acquisition date in its FAS financial statements. In the IFRS financial statements they are classified in accordance with IAS 39 as financial assets available for selling, which are valued at fair value and the value adjustment are booked in shareholders' equity until the ownership ends or an impairment has to be booked.

In 2006 financial income of EUR 1.3 million in improvement of profit was booked for derivatives, whereas in 2005 they resulted in financing expenses exerting a drag on profit of EUR 0.6 million.

In 2006 receivables from derivatives were booked in balance sheet in the amount of EUR 3.2 million. Of this, EUR 2.9 million was booked on the derivatives in hedging calculations improving shareholders' equity in the revaluation fund and EUR 0.3 million was booked on derivatives not included in hedging calculations in retained earnings. In addition EUR 57.5 million of the non-current financial debts was classified as current. Similarly, in 2005 a debt was booked on derivatives of EUR 1.6 million, when the derivatives in hedging calculations were booked in the revaluation fund decreasing shareholders' equity by EUR 0.6 million and EUR 1.0 million was booked on derivatives not included in hedging calculations, reducing retained earnings. EUR 20.0 million of the non-current financial debts was classified as current.

In the opening balance, EUR 4.0 million was booked as debt on derivatives, when the derivatives in hedging calculations were booked in the revaluation fund decreasing shareholders' equity by EUR 3.6 million and EUR 0.4 million was booked on derivatives not included in hedging calculations, reducing retained earnings.

Of the shares valued at fair value in the opening balance, EUR 0.3 million was booked in the assets of the balance sheet and a like amount was booked in the value adjustment fund for shareholders' equity, improving shareholders' equity. In 2005, the valuation of these in the balance sheet assets and correspondingly in the value adjustment fund was EUR 0.4 million and in 2006 EUR 0.6 million.

4. Deferred taxes (IAS 12 Income Taxes)

In 2006 the booking of deferred tax calculated on the above adjustments had no effect on the profit and loss account, but in 2005 EUR 0.9 million was booked to reduce the deferred tax expenditure.

In 2006 the deferred taxed booked increased the deferred tax liability by EUR 2.0 million. In 2005 the deferred tax liability booked in the balance sheet increases by EUR 1.4 million and the deferred tax credit increases by EUR 0.4 million.

In the opening balance an additional EUR 2.2 million of deferred taxes was booked, which was booked decreasing shareholders' equity.

5. Provisions (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

In 2006 a booking arising from provisions reduced the other revenue in the profit and loss account by EUR 0.8 million. In 2005 the booking of provisions increased the other revenue by EUR 0.4 million.

In the opening balance a booking reducing provisions was made of EUR 0.4 million, which augmented shareholders' equity. In 2005 the booking reducing provisions totalled EUR 0.8 million. In 2006 the above adjustments reducing provisions were already included in the FAS figures, so in IFRS the previous bookings were cancelled by booking 0.8 million of expenditure charged or credited and by adjusting retained earnings.

6. Other adjustments (IAS 17 Leases, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

Other adjustments include a financial leasing adjustment and a correction of an error. These adjustments have no crucial effect on profit; the adjustments affected the lines of the profit and loss account – in 2006 adjustments increased depreciation by EUR 0.3 million and decreased other expenses of business operations by EUR 0.3 million. In 2005 the adjustments reduced other income from business operations by EUR 0.4 million, increased depreciation by EUR 0.3 million, decreased other expenses of business operations by EUR 0.1 million, and reduced tax expenditure by EUR 0.6 million.

In 2006 the above adjustments increase the balance sheet assets by EUR 1.0 million and correspondingly increased non-current debts by EUR 0.8 million and current debts by EUR 0.2 million. The assets and debts of the balance sheet for 2005 were increased by similar figures. In the opening balance the increase in assets was EUR 0.6 million, the increase in non-current debts was EUR 0.5 million and the increase in current debts was EUR 0.1 million.

Parent company's profit and loss account

Profit and loss account, FAS

MEUR	Note	**1.1.– 31.12. 2007**	1.1.– 31.12. 2006
Turnover	1	**3.7**	9.1
Other income from business operations	2	**6.2**	6.1
Materials and services	3	**–0.9**	–1.9
Personnel expenses	4 –6	**–3.0**	–2.1
Depreciation and write-downs	7	**–0.5**	–0.5
Other expenses of business operations	8	**–7.1**	–5.9
Operating profit		**–1.6**	**4.9**
Financial income and expenses	9	**–0.4**	0.6
Profit/loss before extraordinary items		**–2.1**	**5.5**
Extraordinary items	10	**23.7**	16.0
Profit before taxes		**21.6**	**21.5**
Income taxes	11	**–5.4**	–5.7
Profit for the period		**16.2**	**15.8**

Parent company's balance sheet

Balance sheet , FAS

MEUR	Note	**31.12. 2007**	31.12. 2006
Assets			
Fixed assets and other long-term investments			
Intangible assets	12	1.2	1.0
Tangible assets	13	0.9	0.9
Holdings in Group companies	14	62.3	62.3
Other holdings and shares	15–16	5.4	4.8
		69.9	69.1
Inventories and financial assets			
Inventories	17	6.2	1.8
Long-term receivables	18	33.5	29.9
Short-term receivables	19	104.4	51.6
Financial securities		4.0	3.5
Cash and bank deposits		1.2	0.8
		149.3	87.7
Assets, total		**219.1**	**156.8**
Shareholders' equity and liabilities			
Shareholders' equity	20–22		
Share capital		4.4	4.4
Reserve fund		43.7	43.7
Other funds		3.9	1.1
Retained earnings		17.1	17.2
Profit for the period		16.2	15.8
		85.3	82.2
Obligatory reserves	23	0.9	1.0
Liabilities			
Long-term	24	0.8	0.8
Short-term	25	132.1	72.7
		132.9	73.6
Shareholders' equity and liabilities, total		**219.1**	**156.8**

Parent company's cash flow statement

Cash flow statement, indirect model

MEUR	2007	2006
Cash flow from operating activities		
Profit for the period	**16.2**	15.8
Adjustments:		
Depreciation	**0.5**	0.5
Financing income (–) and expenses (+)	**0.4**	–0.6
Income taxes	**5.4**	5.7
Profits (–) and losses (+) on sale of fixed assets	**–0.0**	–0.1
Other adjustments	**–23.7**	–16.0
Cash flow before change in working capital	**–1.1**	**5.4**
Change in working capital:		
Decrease (+)/increase(–) in current non-interest-bearing receivables	**5.1**	–6.8
Decrease (+)/increase (–) in inventories	**–4.4**	2.8
Decrease (–)/increase (+) in current debts	**0.9**	–5.8
Increase (+)/decrease (–) in obligatory reserves	**–0.1**	–0.3
Cash flow before financial items and taxes	**0.4**	**–4.7**
Interest paid and payments for other financial expenses	**–3.9**	–1.8
Dividends received	**0.0**	0.0
Interest received	**4.2**	2.5
Direct taxes paid	**–7.0**	–7.3
Cash flow before extraordinary items	**–6.3**	–11.3
Cash flow from business activities (A)	**–6.3**	**–11.3**
Cash flow from investments		
Investments in tangible and intangible assets	**–0.7**	–0.5
Proceeds from sales of tangible assets	**0.0**	0.1
Investments in other placements	**–0.6**	0.0
Repayments of notes receivable	**–37.3**	–6.1
Cash flow from investments (B)	**–38.6**	**–6.5**
Cash flow from financing		
Change in fund	**2.8**	
Withdrawals of loans	**60.2**	40.1
Repayments of loans	**–1.4**	–6.9
Group contributions (payment-based)	**0.0**	
Dividends paid and other distribution of profit	**–15.9**	–15.4
Cash flow from financing (C)	**45.7**	**17.8**
Calculated change in cash and cash equivalents (A+B+C)	**0.9**	**0.0**
Cash and cash equivalents at start of period	**4.3**	4.3
Cash and cash equivalents at end of period	**5.2**	**4.3**

Notes to the parent company's financial statements

Notes to the profit and loss account, FAS	2007	2006
MEUR		
1 Turnover		
Rental income		
and compensation	**2.2**	2.3
Building management and maintenance fees	**0.0**	0.0
Sales of shares	**0.4**	1.0
Other income	**1.0**	5.8
	3.7	**9.1**
2 Other income from business operations		
Other income from business operations	**0.2**	0.5
Proceeds from sales of fixed assets	**0.0**	0.1
Charges for management costs	**6.0**	5.5
	6.2	**6.1**
3 Materials and services		
Materials and supplies		
Purchases during the period (=procurements)	**0.8**	–0.9
Change in inventories	**0.1**	2.8
	0.9	1.9
4 Personnel expenses		
Salaries and wages	**2.4**	1.7
Pension expenses	**0.4**	0.3
Other personnel expenses	**0.2**	0.1
	3.0	**2.1**
5 Management salaries and emoluments		
Presidents and members of the Board of Directors	**1.5**	0.5
The President and CEO is entitled to retire at the age of 60.		
6 Parent company had during the financial year an average number of		
Employees	**25**	23
7 Depreciation		
Depreciation on tangible and intangible assets	**0.5**	0.5
	0.5	**0.5**

Notes to the profit and loss account, FAS	2007	2006
MEUR		
8 Other expenses of business operations		
Rents	**1.6**	1.7
Properties' maintenance expenses	**0.2**	0.3
Other fixed expenses	**5.2**	3.9
Other expenses of business operations	**0.0**	0.0
	7.1	**5.9**
9 Financial income and expenses		
Dividend income		
From others	**0.0**	0.0
Dividend income, total	**0.0**	**0.0**
Interest income on long-term investments		
From Group companies	**4.1**	2.2
From others	**0.3**	0.2
	4.5	2.4
Interest expenses and other financing expenses		
To Group companies	**0.5**	0.4
To others	**4.4**	1.4
	4.9	1.8
Financial income and expenses, total	**–0.4**	**0.6**
10 Extraordinary items		
Extraordinary income		
Group contributions	**23.7**	16.0
	23.7	**16.0**
11 Income taxes		
Income taxes on actual business	**5.4**	5.6
Change in deferred tax credit		0.1
	5.4	**5.7**

Notes to the balance sheet, FAS	**2007**	2006
MEUR		
12 Intangible assets		
Other long-term expenditure		
Acquisition cost, 1 Jan.	**1.6**	3.1
Increases	**0.5**	0.3
Transfers between items	**–0.2**	–1.9
Acquisition cost, 31 Dec.	**1.8**	1.6
Accumulated depreciation and write-downs, 1 Jan.	**0.5**	2.2
Accumulated depreciation of transfers	**–0.2**	–1.9
Depreciation for year	**0.3**	0.2
Accumulated depreciation, 31 Dec.	**0.6**	0.5
Book value, 31 Dec.	**1.2**	1.0
Intangible assets, total	**1.2**	**1.0**
13 Tangible assets		
Land and water areas		
Acquisition cost, 1 Jan.	**0.0**	0.0
Acquisition cost, 31 Dec.	**0.0**	0.0
Book value, 31 Dec.	**0.0**	0.0
Buildings and structures		
Acquisition cost, 1 Jan.	**0.0**	0.0
Acquisition cost, 31 Dec.	**0.0**	0.0
Accumulated depreciation and write-downs, 1 Jan.	**0.0**	0.0
Accumulated depreciation, 31 Dec.	**0.0**	0.0
Book value, 31 Dec.	**0.0**	0.0
Connection fees		
Acquisition cost, 1 Jan.	**0.0**	0.0
Acquisition cost, 31 Dec.	**0.0**	0.0
Machinery and equipment		
Acquisition cost, 1 Jan.	**1.7**	3.5
Increases	**0.2**	0.2
Decreases	**–0.0**	–0.0
Transfers between items	**–0.2**	–1.9
Acquisition cost, 31 Dec.	**1.8**	1.7
Accumulated depreciation and write-downs, 1 Jan.	**0.8**	2.4
Accumulated depreciation of transfers	**–0.2**	–1.9
Depreciation for year	**0.2**	0.3
Accumulated depreciation, 31 Dec.	**0.9**	0.8
Book value, 31 Dec.	**0.9**	0.9

Notes to the balance sheet, FAS	**2007**	2006
MEUR		
Other tangible assets		
Acquisition cost, 1 Jan.	**0.0**	0.4
Increases	**0.0**	0.0
Transfers between items	**0.0**	–0.3
Acquisition cost, 31 Dec.	**0.1**	0.0
Accumulated depreciation and write-downs, 1 Jan.	**0.0**	0.4
Accumulated depreciation of transfers	**0.0**	–0.3
Depreciation for year	**0.0**	0.0
Accumulated depreciation, 31 Dec.	**0.0**	0.0
Book value, 31 Dec.	**0.0**	0.0
Tangible assets, total	**0.9**	**0.9**
14 Holdings in Group companies		
Acquisition cost, 1 Jan.	**62.3**	62.3
Acquisition cost, 31 Dec.	**62.3**	62.3
Book value, 31 Dec.	**62.3**	62.3
15 Other stocks and shares		
Acquisition cost, 1 Jan.	**0.7**	0.7
Increases	**0.1**	
Decreases		–0.0
Acquisition cost, 31 Dec.	**0.9**	0.7
Accumulated write-downs, 1 Jan.	**0.0**	0.0
Accumulated write-downs, 31 Dec.	**0.0**	0.0
Book value, 31 Dec.	**0.8**	0.7
16 Investments/housing companies and mutual building management companies	**4.5**	**4.1**
Investments, total	**67.7**	**67.1**
17 Inventories		
Completed housing units and commercial space	**0.1**	0.1
Land areas and land area companies	**5.8**	1.4
Other inventories	**0.3**	0.3
Book value, 31 Dec.	**6.2**	1.8

Notes to the balance sheet, FAS	2007	2006
MEUR		
18 Non-current receivables		
Receivables from Group companies		
Notes receivable, Group	**33.0**	29.2
	33.0	29.2
Receivables from others		
Notes receivable	**0.5**	0.8
	0.5	0.8
Non-current receivables, total	**33.5**	29.9
19 Current receivables		
Receivables from Group companies		
Accounts receivable	**1.5**	1.5
Notes receivable	**98.9**	25.3
Accrued assets	**1.1**	0.1
Other receivables		16.0
	101.6	42.9
Receivables from others		
Accounts receivable	**0.4**	6.5
Notes receivable		0.2
Other receivables	**0.0**	0.0
Accrued assets	**2.4**	2.0
	2.9	8.7
Current receivables, total	**104.4**	51.6
Receivables, total	**137.9**	**81.5**
Critical items of accrued assets		
Taxes	**1.6**	1.7
Interest	**0.5**	0.0
Receivables from construction commissioning	**0.9**	
Other	**0.5**	0.3
	3.6	2.0

Notes to the balance sheet, FAS	2007	2006
MEUR		

20 Shareholders' equity

Share capital, 1 Jan.	**4.4**	4.4
Share issue	**0.0**	
Share capital, 31 Dec.	**4.4**	4.4
Reserve fund, 1 Jan.	**43.7**	43.7
Reserve fund, 31 Dec.	**43.7**	43.7
Other funds, 1 Jan.	**1.1**	1.1
Increase in other funds	**2.7**	
Other funds, 31 Dec.	**3.9**	1.1
Retained earnings, 1 Jan.	**33.0**	32.6
Dividend payment	**–15.9**	–15.4
Retained earnings, 31 Dec.	**17.1**	17.2
Profit for the period	**16.2**	15.8
Shareholders' equity, total, 31 Dec.	**85.3**	**82.2**

21 Calculation of distributable assets

Other funds	**3.9**	1.1
Retained earnings	**17.1**	17.2
Profit for the period	**16.2**	15.8
Distributable assets, 31 Dec.	**37.2**	**34.1**

22 The parent company's share capital is divided into shares as follows:

Number of shares	**44,421,920**	2,197,846
Combined par value of shares		4.4

23 Obligatory reserves

Refund claim expense reserve	**0.9**	1.0
	0.9	1.0

Notes to the balance sheet, FAS	2007	2006
MEUR		
24 Long-term liabilities		
Debts to Group companies		
Loans, Group	**0.8**	0.8
	0.8	0.8
Long-term liabilities, total	**0.8**	0.8
Debts maturing in more than five years		
Loans from Group companies	**0.8**	
	0.8	
25 Current liabilities		
Debts to Group companies		
Loans	**11.8**	11.7
Accounts payable	**0.4**	0.4
Deferred liabilities	**0.5**	0.1
	12.7	12.3
Debts to others		
Loans from financial institutions	**117.1**	58.3
Advances received	**0.0**	0.1
Accounts payable	**0.7**	0.6
Other debts	**0.1**	0.1
Deferred liabilities	**1.5**	1.4
	119.4	60.5
Current liabilities, total	**132.1**	**72.7**
Liabilities, total	**132.9**	**73.6**
Critical items of deferred liabilities		
Wages and salaries with employee benefits	**0.5**	1.1
Taxes		0.0
Interest	**1.3**	0.0
Others	**0.2**	0.4
	2.0	1.6

Notes to the balance sheet, FAS	**2007**	2006
MEUR		
26 Collateral, contingent liabilities and other commitments		
For own debt		
Pledged shares	**0.3**	0.3
Mortgages on land areas and buildings	**0.5**	0.5
	0.7	0.7
For Group company debts		
Pledges	**2.0**	1.6
Mortgages on land areas and buildings	**4.5**	
Guarantees	**302.6**	199.3
	309.2	200.9
For others		
Guarantees	**27.9**	31.5
Other own commitments		
Leasing commitments		
To be paid in the next financial year	**0.1**	0.1
To be paid in subsequent financial years	**0.2**	0.2
	0.3	0.2
Total		
Pledges	**2.3**	1.9
Mortgages on land areas and buildings	**5.0**	0.5
Guarantees	**330.5**	230.8
Other commitments	**0.3**	0.2
Pledges and contingent liabilities, total	**338.1**	**233.4**

Auditors' report

To the shareholders of SATO Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of SATO Corporation for the period 1 January–31 December 2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Limited Liability Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors on how to deal with the result for the period is in compliance with the Limited Liability Companies Act.

Helsinki 13. February 2008

KPMG OY AB
Markku Sohlman
Authorized Public Accountant

Key indicators

Five-year review	2003	2004	2005*	2006*	2007*
Key indicators for financial trend					
Turnover, MEUR	248	362	287	284	**266**
Operating profit, MEUR	46	60	66	67	**66**
as percentage of turnover	18.7	16.6	23.1	23.5	**24.9**
Net financing expenses, MEUR	–28	–26	–24	–24	**–32**
as percentage of turnover	–11.4	–7.2	–8.3	–8.5	**–12.0**
Profit before extraordinary items, MEUR	18	34	43	43	**34**
as percentage of turnover	7.2	9.4	14.9	15.0	**12.9**
Profit before taxes, MEUR	18	32	43	43	**34**
as percentage of turnover	7.2	8.9	14.9	15.0	**12.9**
Balance sheet total, MEUR	1,074	1,106	1,074	1,114	**1,263**
Shareholders' equity and minority interest, MEUR	163	153	179	198	**210**
Liabilities, MEUR	910	952	895	916	**1,053**
Return on equity, % (ROE)	6.6	15.8	19.1	16.6	**12.4**
Return on investment, % (ROI)	5.2	6.6	7.0	7.0	**7.2**
Equity ratio, %	15.8	14.3	16.9	17.9	**16.8**
Gross investments in fixed assets, MEUR	38	134	65	60	**149**
as percentage of turnover	15.3	37.1	22.7	21.0	**56.1**
Personnel, average	339	228	181	173	**176**
Key indicators for shares					
Earnings per share, EUR	0.26	0.51	0.72	0.70	**0.57**
Equity per share, EUR	3.10	3.42	4.01	4.42	**4.70**
Dividend per share, EUR **)	0.19	0.27	0.35	0.36	**0.36**
Dividend, MEUR	8.2	12.1	15.4	15.9	**16.0**
Adjusted number of shares, average	44 421 920	44 421 920	44 421 920	44 421 920	**44 421 920**

*) IFRS
**) Based on the Board of Directors' proposed dividend for 2007

Formulas for key indicators

Return on equity, % = (Profit or loss before extraordinary items – taxes) x 100 / Shareholders' equity + minority interest (average for year)

Return on investment, % = (Profit or loss before extraordinary items + interest expense and other financing expenses) x 100 / Balance sheet total – non-interest-bearing debts (average for year)

Equity ratio, % = (Shareholders' equity + minority interest) x 100 / Balance sheet total – advances received

Earnings per share, EUR = Profit before extraordinary items – taxes +/– minority interest / Adjusted number of shares (average for year)

Shareholders' equity per share, EUR = Shareholders' equity / Adjusted number of shares on closing the books

Dividend per share, EUR = Dividend paid for year / Adjusted number of shares on closing the books

Corporate governance in the SATO Group

The administration of SATO Corporation is based on the Finnish Companies Act and SATO Corporation's articles of association. The company also complies with the recommendation for the corporate governance and control systems for listed companies of the Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Industry and Employers which came into effect on 1 July 2004. As SATO Corporation is not publicly listed it does not, however, comply with section 10 of the recommendation: Management of Insiders.

Authority and the governance of the company are divided among the annual general meeting, the Board of Directors, and the President and CEO.

The annual general meeting

The general meeting of the shareholders is SATO Corporation's supreme decision-making body. The annual general meeting is to be held once a year within six months of the end of the financial year.

The annual general meeting decides on the matters due to it under the Finnish Companies Act and the articles of association, which include the following:

1. adopting the company financial statements and consolidated financial statements
2. the application of the profit shown by the balance sheet
3. granting release from personal liability to the members of the Board of Directors and the President and CEO
4. electing the members and chairman of the Board of Directors as well as an auditor
5. the remuneration of the Board members and auditors.

A shareholder is entitled to propose an item permitted under the Companies Act for discussion by the meeting of shareholders if he or she requires this in writing from the Board of Directors in sufficient time for the item to be included in the notice of meeting.

The notice of meeting will be made public no less than 17 days prior to the meeting in a daily newspaper published in the capital city. The notice of meeting is also posted on the company's website.

Entitlement to attend the annual general meeting is held by a shareholder who has been entered in the company's register of shareholders ten days before the annual general meeting.

SATO Corporation has one class of shares. Each share confers entitlement to one vote at the annual general meeting.

Board of Directors

The annual general meeting elects no fewer than five and no more than nine members to the company's Board of Directors. The annual general meeting elects one member of the Board of Directors to serve as chairman of the Board. The Board of Directors elects one of its members to serve as deputy chairman. The term in office of the members of the Board of Directors lasts until the closing of the annual general meeting following the one at which they were elected.

The annual general meeting which convened on 29 March 2007 elected seven members to the Board of Directors. The Board of Directors convenes 10–12 times a year in general. In 2007, the Board of Directors convened 16 times. An average of 93.2% per cent of the members of the Board of Directors attended the Board meetings.

Information on the identities and holdings of the chairman and members of the company's Board of Directors is given on page 105.

The company's Board of Directors is responsible for the proper organisation of the company's management and its operations. It is also the duty of the Board of Directors to promote the interests of the company and all its shareholders.

SATO Corporation's Board of Directors has confirmed rules of procedure which apply to the duties, meeting procedures and decision-making procedures of the Board of Directors.

In addition to the duties specified by the Companies Act, the Board of Directors decides on matters which, taking into account the extent and size of the Group's operations, have considerable importance to the Group's business. The duties of the Board of Directors include the following:

1. confirmation of the Group's business strategy and monitoring implementation
2. confirming and following up the annual budget, the action plan and related investment and divestment plans
3. dealing with the financial statements and report on operations as well as the interim reports
4. confirming the company's dividend policy.

The Board of Directors also appoints the company's President and CEO and his deputy, and the members of the Corporate Management Group, and it determines the terms of their employment and their posts.

The committees of the Board of Directors

The Audit Committee and the Nomination and Compensation Committee are comprised of between three and five members appointed by the Board of Directors, one of whom acts as chairman.

The Board of Directors has confirmed rules of procedure for the committees. The committees have no independent decision-making authority. Their mission is to prepare matters for decision by the Board of Directors and the annual general meeting and they report constantly on their actions to the Board of Directors. The rules of procedure can be seen on the Group's website www.sato.fi.

The Audit Committee convened twice during the financial year and the Nomination and Compensation Committee three times.

President and CEO

The Board of Directors appoints the company's President and CEO and his deputy. The duties of the President and CEO are defined by the law, the articles of association, and guidelines supplied by the Board of Directors. The President and CEO attends to the everyday management of the company in accordance with the rules and regulations supplied by the Board of Directors. The President and CEO is responsible for the Group's business, the planning thereof and the attainment of its goals. The President and CEO serves as chairman of the Corporate Management Group.

The President and CEO is Erkka Valkila, B.Sc. (Eng.). The deputy to the President is Vice President, Investment in Housing Tuula Entelä, LL.M, B.Sc. (Econ.). Information on the President and CEO and his deputy and on their holdings is given on page 107.

The Corporate Management Group

The Corporate Management Group deals with key issues for the management of the Group, such as matters related to the strategy, budgeting, investments, business planning, and financial reporting. The Corporate Management Group's duties include the implementation of the decisions of the Board of Directors under the leadership of the President and CEO. The Corporate Management Group has no authority under law or the articles of association; it serves as a body to assist the President and CEO.

The members of the Corporate Management Group are the President and CEO of SATO Corporation; the Vice Presidents for Investment in Housing and for Housing Development and Construction; the Head of Legal Affairs; the Director, Marketing and Communications; and the CFO. The duties and areas of responsibility of the members of the Corporate Management Group, as well as information on them and their holdings, are given on page 107.

The Corporate Management Group convenes once a week.

Salaries and remuneration

1. The Board of Directors and auditors
The remuneration to be paid to the members of the Board of Directors and auditors is decided by the annual general meeting. The annual general meeting which convened on 29 March 2007 decided that the chairman of the Board of Directors was to be paid EUR 36,000 and the members of the Board of Directors were to be paid EUR 18,000 for their term in office. It was also decided to pay the chairman of the Board of Directors and the members EUR 500 per meeting. It was decided to pay the chairmen of the committees and the members EUR 500 per meeting.

The fees for the members of the Board of Directors in 2007 totalled EUR 253,250. No shares or share-related entitlements were surrendered to members of the Board of Directors during the financial year.

It was decided to pay the auditors' fee on invoice. Auditing fees paid by the SATO Group to the auditors during the financial year 2007 amounted to EUR 116,507.

2. The President and CEO and the Corporate Management Group
The criteria and payment of the salaries and bonuses paid to the President and CEO and members of the Group's Corporate Management Group are decided by the Board of Directors. Employees of the Group are not paid any remuneration for serving as a member of the Board of Directors or as President of a Group company.

The salary and other perquisites of the President and CEO in 2007 amounted to EUR 317,711 and the long-term incentive bonus paid for the period 2004–2006 was EUR 454,974. The salary and other perquisites paid to the Deputy President and CEO were EUR 186,792 and the long-term incentive bonus paid for the period 2004–2006 was EUR 270,846.

The President and CEO's retirement age is 60 years. At that time, he is entitled to a pension amounting to 60 per cent of the annual wages serving as the basis for the calculation of pension. The period of notice of the President and CEO's service contract is six months. In case the company terminates the service contract of the President and CEO before his retirement age, the President and CEO will be entitled to a redundancy bonus of 12 months' full salary in addition to the salary for the period of notice.

The corporate management is covered by an annual incentive scheme based on the Group's profit and the attainment of the main targets in the specific sphere of responsibility. The Board of Directors approves the payment of bonuses.

The current long-term incentive scheme applies to the period 2007–2010. Habinvest Oy, which was founded by the Corporate Management Group to implement the incentive scheme, holds 465,000 SATO Corporation shares, which the company has pledged to retain until 31 December 2010. The shareholders of Habinvest Oy have also pledged to retain the shares they hold in Habinvest Oy until 31 December 2010.

The auditors and the internal audit

The annual general meeting elects a single auditor for the company, which must be an auditing firm approved by the Central Chamber of Commerce. The auditor's duties in office is the financial year and his duties end at the closing of the annual general meeting following the one at which he was elected. The auditor for the financial year 1 January–31 December 2007 was KPMG Oy Ab. The auditor in charge at the auditing firm was Markku Sohlman, M.Sc. (Econ. & BA), APA. The audit checks the accounts, financial statements and administration of the company and Group.

Risk management and internal audit

Responsibility for risk management and for the arrangement of the internal audit is held by the company's Board of Directors. The internal audit enhances the Board of Directors' duty of supervision. The aim is to verify the efficiency and appropriateness of various functions, the accuracy of financial and operational reporting, and the compliance of operations with the law, as well as to ensure that the company's assets are safeguarded.

The internal audit is handled by Deloitte & Touche Oy. The audit reports are sent to the chairman of the Board of Directors and to the chairman of the Audit Committee as well as to the President and CEO. A review of the internal audit is sent twice a year to the Audit Committee. The Board of Directors deals with the annual plan for internal auditing and the audit report for the previous year.

Articles of association and shares

SATO Corporation's current articles of association were registered on 26 October 2007. The articles of association do not include provisions on share buybacks.

The company's share capital is EUR 4,442,192.00. The company has 44,421,920 shares. The share has no par value.

The company has a single series of shares. The shares are in a book-entry securities system maintained by Finnish Central Securities Depository Ltd.

Board of Directors

From left: Jouko Tuunainen, Esko Torsti, Eino Halonen, Juha Laaksonen, Jorma Kuokkanen, Raimo Lind, Asko Salminen

Juha Laaksonen
born 1952, B.Sc. (Econ.)
CFO, Fortum Corporation
Board member since 2007
Chairman of the Board since 2007
independent of the main shareholders

Primary working experience:
Fortum Corporation: CFO since 2000
Fortum Corporation: Corporate Vice President, M&A, and Executive Vice President, Finance & Planning; 1999–2000
Neste Oyj: CFO 1998, Corporate Controller 1997–1998, Director of Finance & Planning, Chemicals Division 1994–1997
Neste Oy: various specialist and management duties 1979–1993

Main simultaneous positions of trust:
Kemira Oyj: member of the Board of Directors
Teollisuuden Voima Oy: member of the Board of Directors
Kemijoki Oy: member of the Supervisory Board
Several Fortum Group companies' Board chairman and member
Fortum Art Foundation: chairman of the Board

Raimo Lind
born 1953, M.Sc. (Econ.)
Executive Vice President, CFO and Deputy to the President, Wärtsilä Group
Board member since 2001
Deputy Chairman of the Board since 2007
independent of the main shareholders

Primary working experience:
Wärtsilä Corporation: Vice President, CFO since 1998, Executive Vice President, CFO and Deputy to the President since 2005
Tamrock Oy: CFO, Tamrock Service Business, Vice President, Tamrock Coal Business, Vice President, 1992–1998
Scantrailer Ajoneuvoteollisuus Oy: President and CEO 1990–1991
Wärtsilä Group: positions within control and finance 1976–1989

Main simultaneous positions of trust:
Member of the Board of Directors of several Wärtsilä Group companies

Eino Halonen
born 1949, M.Sc. (Econ.), Financial Counsellor
Board member since 2006
not independent of the main shareholders

Primary working experience:
Suomi Mutual Life Assurance: President and CEO 2000–2007
Pohjola Life Insurance Company Ltd: President 1998–1999
Merita Nordbanken: Deputy President, Regional Bank Director 1998
Merita Bank Ltd: Director, Board member 1995–1997
Kansallis-Osake-Pankki: 1971–1995

Main simultaneous positions of trust:
Ilmarinen Mutual Pension Insurance Company: member of the Board of Directors 2000-2007
YIT Oyj: deputy chairman of the Board of Directors
Cramo Oyj: member of the Board of Directors
Finsilva Oyj: member of the Board of Directors
OKO Osuuspankkien Keskuspankki: member of the Board of Directors
Metsäliitto Cooperative: member of the Board of Directors

Jorma Kuokkanen
born 1953, LL.M., M.Sc. (Econ.)
Director, Investments, Varma Mutual Pension Insurance Company
Board member since 2005
not independent of the main shareholders

Primary working experience:
Varma Mutual Pension Insurance Company: head of Client Financing and Real Estate Investments since 1998
Since 1981 in various investment-related posts for Sampo, Pension Sampo and Varma Mutual Pension Insurance Company

Main simultaneous positions of trust:
NV Kiinteistösijoitus Oy: member of the Board of Directors

Asko Salminen
born 1947, B.Sc. (Eng.), Certified Real Estate Manager, Construction Counsellor
Managing Director, Tapiola Real Estate Ltd
Board member since 2007
Holding in SATO: 20,000 shares
not independent of the main shareholders

Primary working experience:
Tapiola Real Estate Ltd: Managing Director since 1 January 2007
Tapiola Insurance Group: Director of Real Estate Unit 1989–2006, Vice President of Senior Management for Investment 1988–1989, Departmental Manager for Development and Construction Department 1984–1988
Pohjola Group: Head of Construction 1981–1983, Project Manager 1975–1981
Haka Construction Cooperative: Project Engineer 1973–1975

Main simultaneous positions of trust:
RAKLI – the Finnish Association of Building Owners and Construction Clients, chairman of the Board
Finnish Real Estate and Construction Forum, chairman of consultative committee
Tapiolan Alueen Kehitys Oy, chairman of the Board

Esko Torsti
born 1964, Licentiate in Social Sciences, Economics
Director, Ilmarinen Mutual Pension Insurance Company
Board member since 2006
not independent of the main shareholders

Primary working experience:
Ilmarinen Mutual Pension Insurance Company: Director since 2006
Pohjola Group plc: Director, Investments 2005–2006
Pohjola Asset Management Ltd: President and CEO 2003–2005
Pohjola Group plc: Director, Investments 2001–2003
Ilmarinen Mutual Pension Insurance Company: Director, Interest Investments 1998–2001
Skandinaviska Enskilda Banken, Finland: Chief Economist 1996–1998
Stockbroker company Protos: economist 1994–1996
Research Institute of the Finnish Economy: 1985–1994

Main simultaneous positions of trust:
Tornator Oy: member of the Board of Directors
World Trade Center Helsinki Oy: member of the Board of Directors
Central Chamber of Commerce: member of the Property Appraisal Board

Jouko Tuunainen
born 1945, Commercial Counsellor
Board member since 1998
chairman of the Board of Directors 2000–2007
independent of the main shareholders

Primary working experience:
35 years in management at Kesko Corporation, incl. 18 years as a member of the Board of Directors. Has also served on numerous companies' Boards of Directors, incl. those in the fields of construction, credit, logistics, transport services, food and telecommunications.

Main simultaneous positions of trust:
The Finnish Association of Professional Board Members: member of the Board of Directors
Helsinki Region Chamber of Commerce: member of delegation
Central Chamber of Commerce: member of delegation
Construction Establishment of Defence Administration: chairman of delegation

Corporate Management Group

From left: Tuula Entelä, Harri Huttunen, Monica Aro, Katri Innanen, Pekka Komulainen, Erkka Valkila

Erkka Valkila

born 1953, B.Sc. (Eng.)
President and CEO
has worked for SATO since 2003

Primary working experience:
Polar Corporation/Polar Real Estate Corporation President and CEO 1999–2003; Vice President, Real Estate Division 1993–1998
Ferenda Oy: Managing Director 1991–1993
Kiinteistösolar Oy: Managing Director 1988–1991

Main positions of trust:
Member of the Board for several SATO Group companies
KTI Kiinteistötieto Oy: chairman of the Board of Directors
Suomen Talokeskus Oy: member of the Board of Directors
HYY Group: member of the Board of Directors
The Finnish Housing Fair: member of the Supervisory Board
Helsinki Region Chamber of Commerce: deputy chairman of the Board
RAKLI – the Finnish Association of Building Owners and Construction Clients: deputy member of delegation
Finnish Housing Reform Association: deputy chairman of the Board
SFHP Suomi-Finland Housing and Planning: member of the Board of Directors
Habinvest Oy: chairman of the Board of Directors

Shareholding in SATO: direct holding 165,500 shares, indirect holding via Habinvest Oy 180,000 shares

Tuula Entelä

born 1955, B.Sc. (Econ.), LL.M.
Vice President, Investment in Housing; Deputy to President and CEO
has worked for SATO since 1981

Primary working experience:
Polar Group: Administrative Director of Real Estate Division 1992–1994
SATO Group: Director, Housing Development and Construction 1989–1992
SOK Corporation: Real Estate Legal Councel 1987–1989
SATO Group: Construction Client Agent 1981–1986

Main positions of trust:
Member of the Board for several SATO Group companies
Sponda Plc: member of the Board of Directors
Helsingin Osuuskauppa Elanto: deputy chairman of the Board
Helsinki Deaconess Institute: member of the Social Work Board
Finnish Housing Association: member of the Board of Directors
RAKLI – the Finnish Association of Building Owners and Construction Clients: member of the Investment Committee
Habinvest Oy: member of the Board of Directors

Shareholding in SATO: direct holding 58,500 shares, indirect holding via Habinvest Oy 90,000 shares

Pekka Komulainen

born 1958, M.Sc. (Eng.)
Vice President, Housing Development and Construction
has worked for SATO since 2004

Primary working experience:
Polar Real Estate Corporation: various managerial positions 1994–2004
Kiinteistösolar Oy: Managing Director 1991–1994, Project Manager 1989–1991

Main positions of trust:
Member of the Board for several SATO Group companies
Helsinki Region Chamber of Commerce: member of the Regional and Housing Committee
Habinvest Oy: member of the Board of Directors

Shareholding in SATO: direct holding 97,200 shares, indirect holding via Habinvest Oy 90,000 shares

Harri Huttunen

born 1957, M.Sc. (Econ.)
Chief Financial Officer
has worked for SATO since 2005

Primary working experience:
Patria Plc: CFO 2001–2005
Asko/Uponor Oyj: Internal Audit Director 1993–2000

Main positions of trust:
Member of the Board for several SATO Group companies
Habinvest Oy: member of the Board of Directors

Shareholding in SATO: indirect holding via Habinvest Oy 35,000 shares

Monica Aro

born 1954, B.Sc. (Econ.), LL.M., MBA
Director, Marketing and Communications
has worked for SATO since 1990

Primary working experience:
SATO Group: Director, Marketing 2002-2003; Director in Property Investment 1998-2002: Project Manager in Housing Development and Construction 1998; Construction Client Agent 1990–1997

Main positions of trust:
Member of the Board for several SATO Group companies
Habinvest Oy: member of the Board of Directors

Shareholding in SATO: direct holding 7,000 shares, indirect holding via Habinvest Oy 35,000 shares

Katri Innanen

born 1960, LL.M
Head of Legal Affairs
has worked for SATO since 1998

Primary working experience:
SATO Group: Director of Law and Personnel Administration 1999–2004, Legal Councel 1998–1999
Lemminkäinen Corporation: Legal Councel 1987–1998

Main positions of trust:
Member of the Board for several SATO Group companies
Suomen Asumisoikeus Oy: member of the Board of Directors
Habinvest Oy: member of the Board of Directors

Shareholding in SATO: direct holding 17,000 shares, indirect holding via Habinvest Oy 35,000 shares

Information for shareholders

Summons to the annual general meeting

The annual general meeting of SATO Corporation will be held at 2.00 p.m. on Wednesday 26 March 2008 at SATO Corporation's premises, address Panuntie 4, FI-00610 Helsinki, Finland.

Right to attend and enrolment

Entitlement to attend the annual general meeting is held by a shareholder who on 14 March 2008 has been entered as a shareholder in the company's register of shareholders maintained by Finnish Central Securities Depository Ltd.

Shareholders who wish to attend the annual general meeting must give notice thereof no later than Wednesday 19 March 2008. The notification must be made in writing to the address SATO Corporation, Tessa Kaario, PO Box 401, FI-00601 Helsinki, by phone (+358 201 34 4002 / Tessa Kaario), by fax (+358 201 34 4452) or by e-mail (tessa.kaario@sato.fi). Notifications must arrive before the deadline stated above. Possible proxies should be submitted to the company by the end of the registration period.

Payment of dividend

The Board of Directors has decided to propose to the annual general meeting that the company will pay EUR 0.36 per share in dividend for the year ending on 31 December 2007. Dividend would be payable to a shareholder who, on the date of record for the dividend payment, 31 March 2008, has been entered in the register of the company's shareholders maintained by Finnish Central Securities Depository Ltd. The Board of Directors proposes to the annual general meeting that the dividend be paid on Monday 7 April 2008.

Financial disclosures

The issue dates for interim reports are as follows:

January – March	29 April 2008
January – June	8 August 2008
January – September	23 October 2008

The annual report for the financial year and interim reports will be issued in Finnish and English. They will be available on the website www.sato.fi. Further information may be obtained from viestinta@sato.fi.

Distribution of shares, 8 February 2008

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%
Tapiola Mutual Pension Insurance Company	5.2%
Wärtsilä Corporation	4.5%
Mutual Insurance Company Pension Fennia	3.4%
Pohjola Non-Life Insurance Company Ltd	2.8%
Notalar Oy	2.0%
Habinvest Oy	1.0%
Other	2.8%

Turnover in SATO Corporation shares during the financial year was 19%.

The main change in holdings of SATO Corporation shares during the year under review was in February when Kesko Corporation sold 16.5% of SATO Corporation's issued stock to Varma Mutual Pension Insurance Company.

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