

# *Annual General Meeting Sponda Plc*

**16 March 2015  
Finlandia Hall**

**SPONDA**

# Composition of the Board of Directors of Sponda Plc



*Kaj-Gustaf Bergh (Chairman)*



*Christian Elfving*



*Paul Hartwall*



*Juha Laaksonen*



*Arja Talma*



*Leena Laitinen*



*Raimo Valo*

# The Board's activities in 2014

- In 2014 the Board met 11 times and the average attendance of Board members was 98,87%.
- An external consultant assesses The Board performance and working procedures regularly once a year.
  - In 2014 the assessment covered, amongs other things, working processes and the composition of the Board.
- The Board of Directors has prepared Rules of Procedures to guide the way it works and for its committees. These rules define the tasks and responsibilities of the Board, its chairman and deputy chairman, and of the committees.
  - The Rules of Procedure are available on the company's internet pages.

# Board committees

- The permanent Board committees were:
  - **The Audit Committee,**  
comprises as from 19 March 2014 the chairman Arja Talma, the deputy chairman Raimo Valo and the ordinary members Paul Hartwall and Juha Laaksonen.
    - In 2014 the Audit Committee met four times and the average attendance of committee members was 100%.
  - **The Structure and Remuneration Committee,**  
comprises as from 19 March 2014 the chairman Kaj-Gustaf Bergh, the deputy chairman Christian Elfving and the ordinary member Leena Laitinen.
    - In 2014 the Structure and Remuneration Committee met three times and the average attendance of committee members was 77,77%.

# Long-term remuneration

- The share-based incentive scheme currently covers the members of the Executive Board, seven people altogether.
- The incentive scheme comprises three three-year earning periods, which correspond to the calendar years 2013-2015, 2014-2016 and 2015-2017.
- The earning criteria for the earning period are the Group's average Return on Capital employed (ROCE) and the Group's cumulative Operational Cash Earnings per Share (CEPS) and sales of properties.
- The possible remuneration shall be paid partially in company's shares and partially money.
- The shares may not be disposed during the commitment period (three years).

# Strategy

*Main goals of Sponda's strategy are to simplify the business as a whole, to have more focused property portfolio, and to grow profitably.*

- From equity and debt investors' point of view Sponda is more efficient and low-risk company after implementation of the strategy.
- Sponda is planning to sell its entire logistics property portfolio.
- Sponda is planning to exit the Russian market in the next 2-4 years.

# Profitable growth

- The capital released from the sales will be invested in Sponda's main markets in Helsinki and Tampere
  - Prime properties in Helsinki CBD and in Ruoholahti.
  - Growing areas in HMA, for example Pasila, Aviapolis, Leppävaara, and Tampere prime.
- Investing in property development will continue.
  - Value creation and profitable growth through property development.



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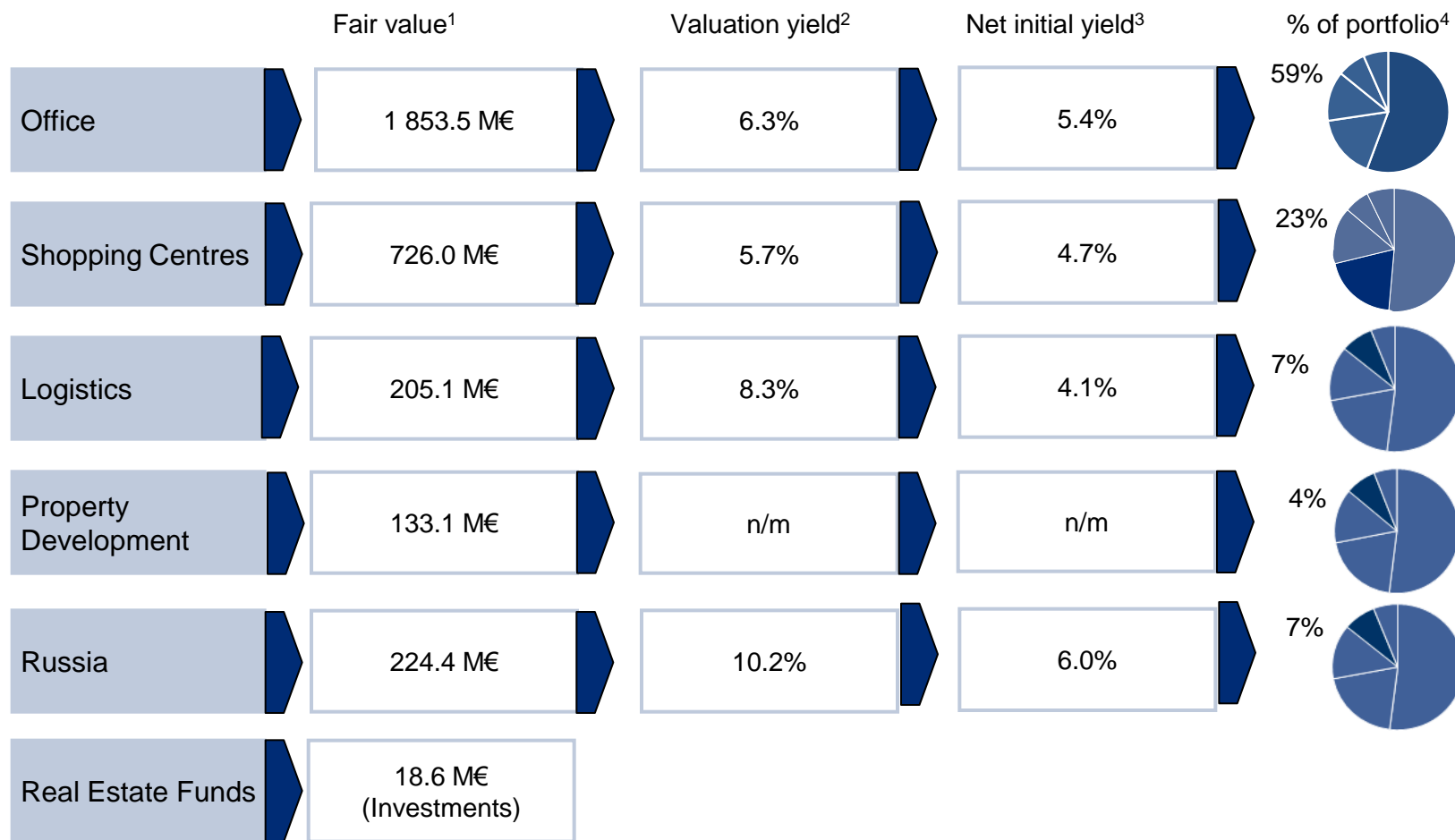
# *Sponda Plc's financial statements and CEO'S review*

*Kari Inkinen, President and CEO  
16 March 2015*

**SPONDA**

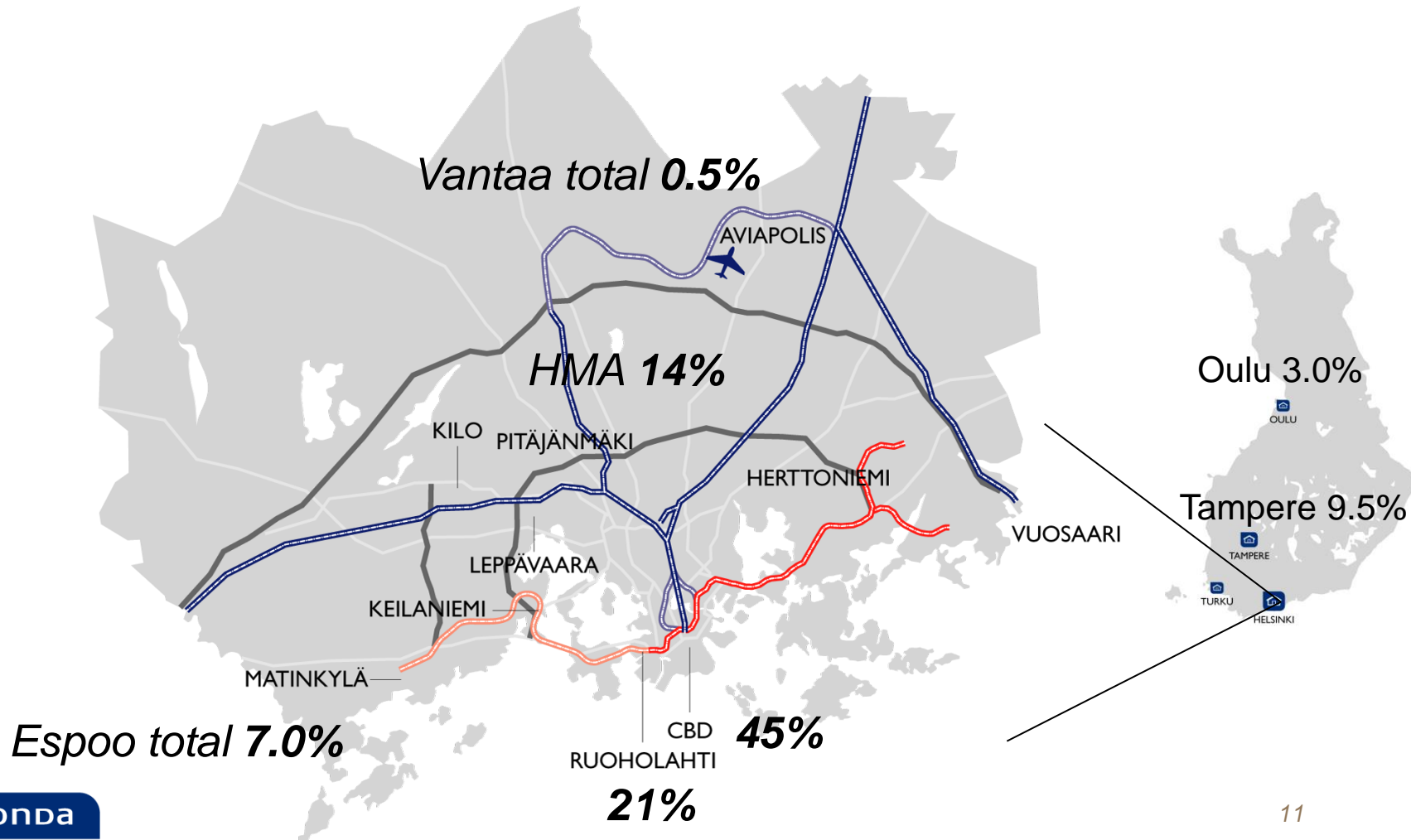
# Overview of the reporting segments

## 31 December 2014



# Sponda's properties by geographical area

Total of the office and shopping centres properties portfolio, EUR 2.6 billion (does not include: Russia, Property development and Logistics)



# Strategy

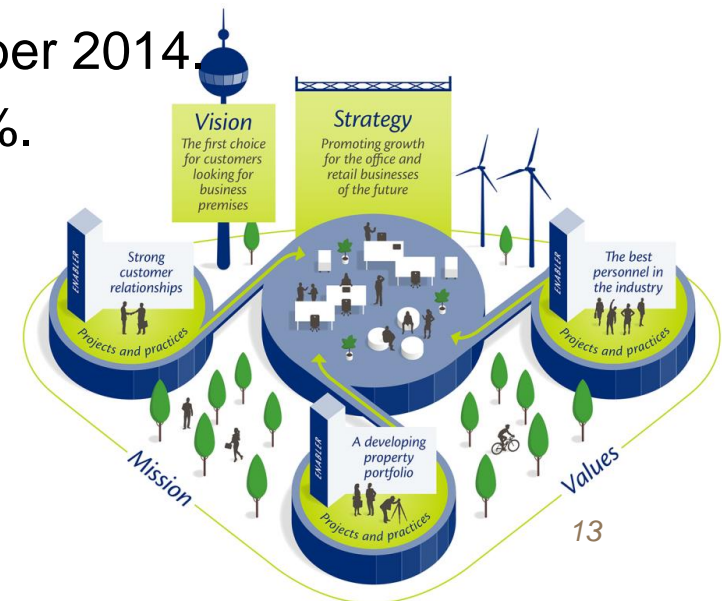
*Main goals of Sponda's strategy are to simplify the business as a whole, to have more focused property portfolio, and to grow profitably.*

- During 2014 Sponda sold properties and shares in real estate funds in total for EUR 314.4 million
  - Shares in real estate funds were sold for EUR 77.2 to Certeum which was established last year.
  - Properties were sold for EUR 20.5 million outside prime area; Logistics properties were sold for EUR 216.7 million

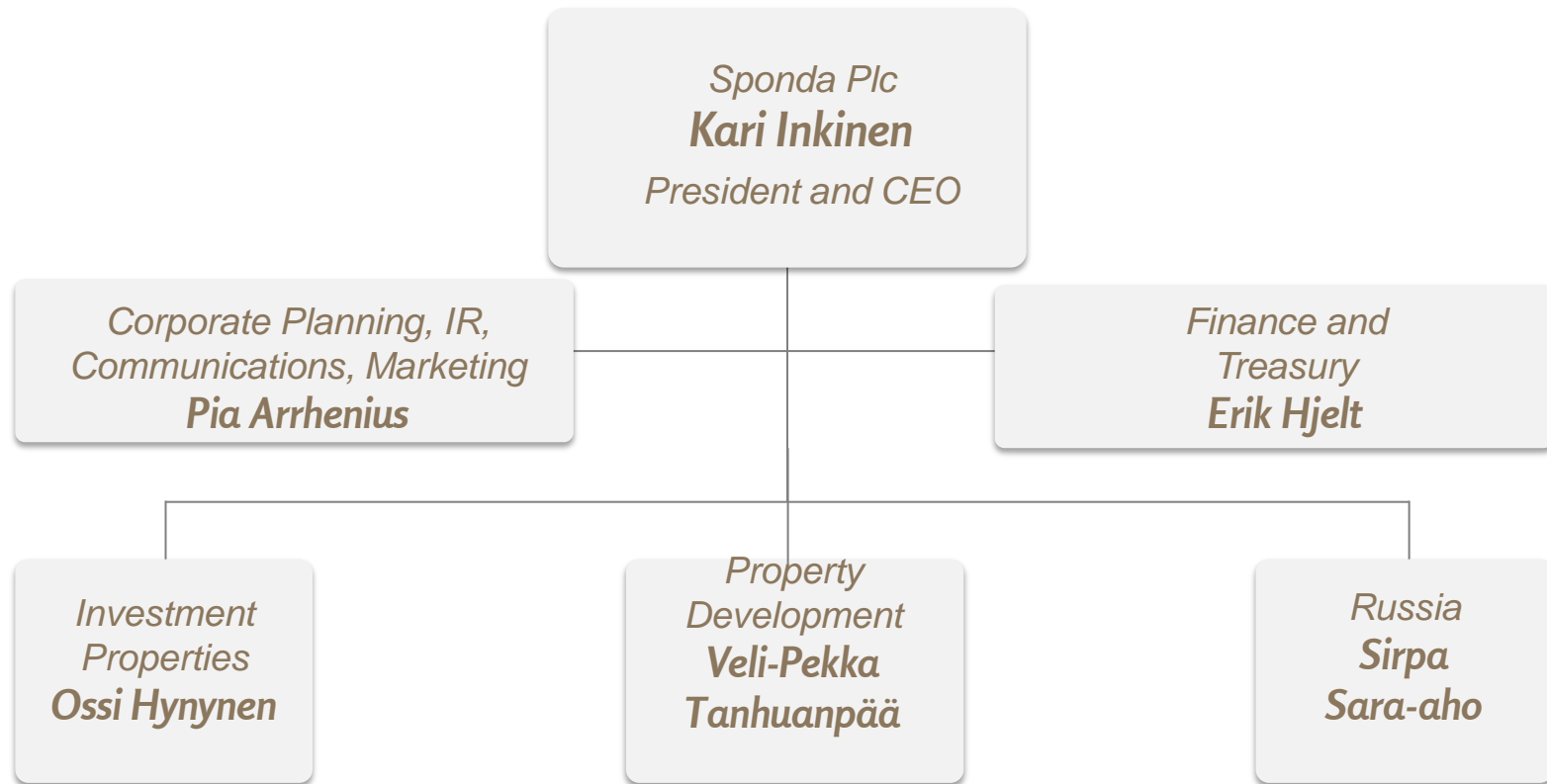


# Strategy

- Sales will be carried out in 2-4 years.
- The capital to be released will be invested in Sponda's main markets in Helsinki and Tampere. Investment targets include office and shopping centre properties. Investments are carried out by both acquisitions and development projects.
- In 2015 two property development projects and two modernization projects will be completed
- Certeum Oy was founded during 2014.
- The transaction was completed in September 2014.
- Sponda remains as a shareholder with 38%.



# Sponda Plc's Executive Board





# *Year 2014 in Brief*

**SPONDA**

# Sponda's 2014 in brief

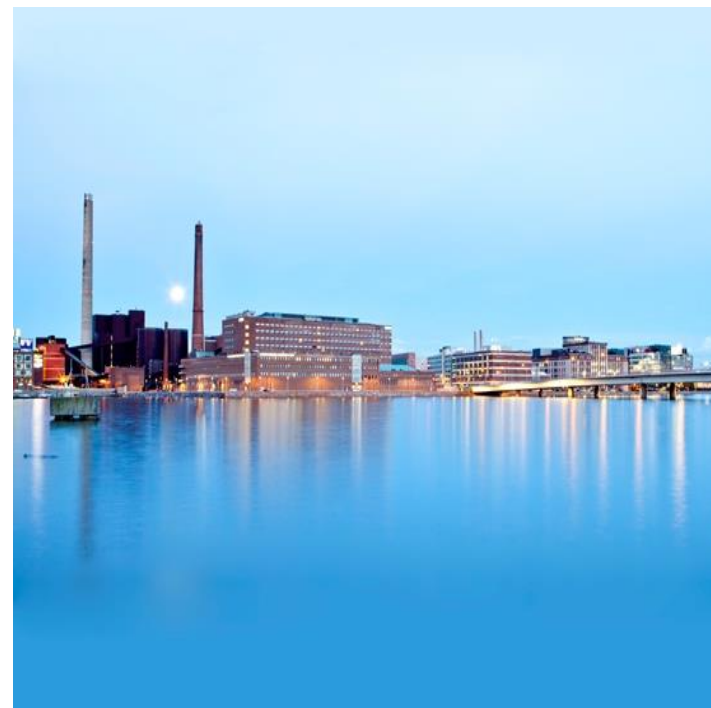
- Economic occupancy rate was slightly down compared to 2013 but positive development in letting operations during the last quarter.
- Cash flow was strong despite the sales.
- Property development projects progressed as planned.
  - Projects will add to 2015 cash flow.
- Properties were sold more than EUR 300 million.
  - Portfolio risk was reduced through sales.
  - A new property company was founded in the Finnish market through the sales.





# Sponda's 2014 in brief

- Cash flow from operations of Certeum was strong, EUR 4.5 million before the non-recurring start-up costs.
  - The negative result came from fair valuation of properties and financing instruments.
- Properties in Russia are fully let apart from Ducat II.
  - Share of the Russian portfolio is only 7% of the total investment portfolio.
  - Macro development in Russia impacted both on valuation and rental levels.

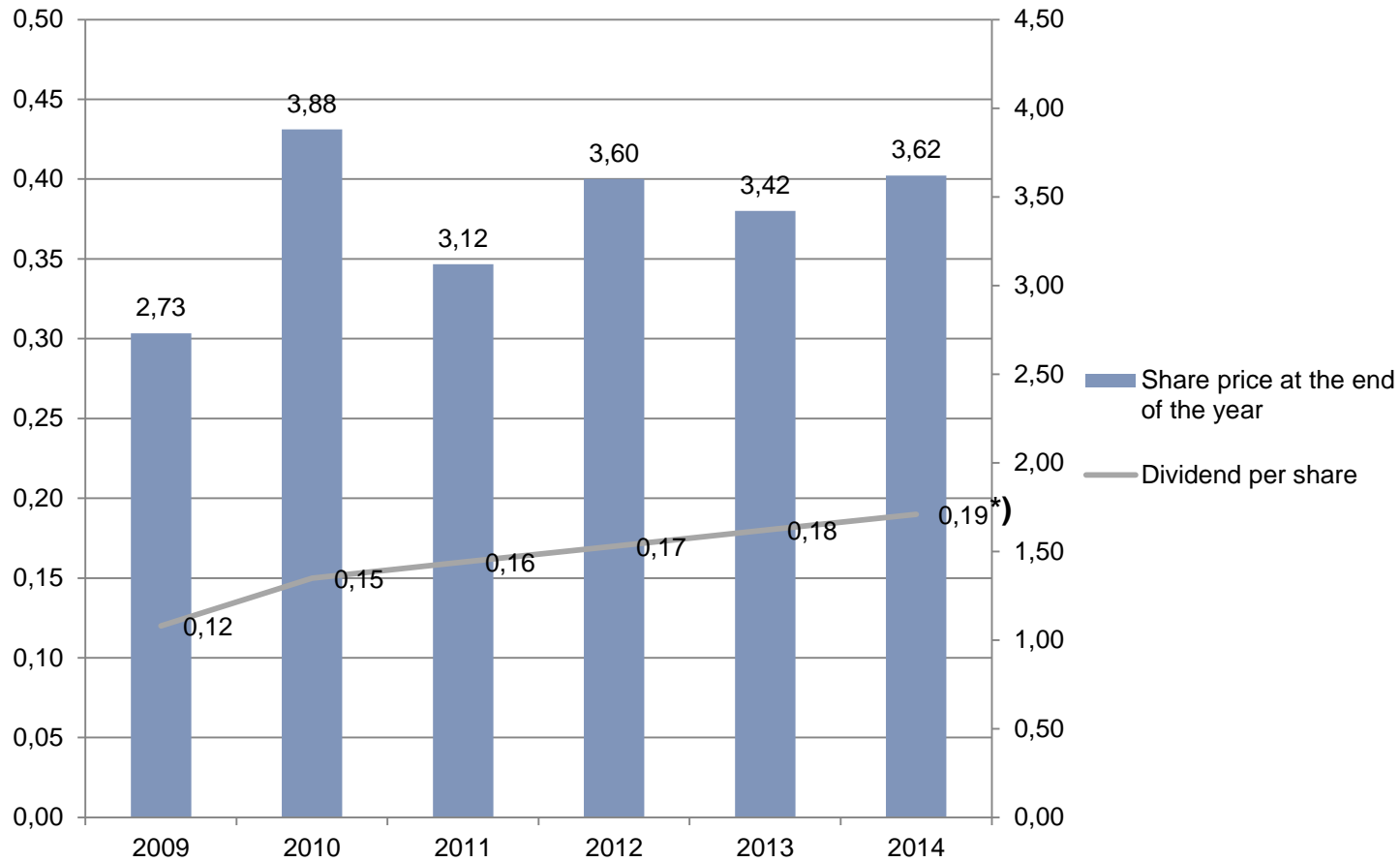


# 2014 Key figures

	1-12/2014	1-12/2013
Total revenue, M€	<b>246.7</b>	264.3
Net Operating Income, M€	<b>176.0</b>	190.9
Operating profit, M€	<b>151.7</b>	153.0
Cash flow from operations/share, €	<b>0.37</b>	0.40
Earnings/share, €	<b>0.24</b>	0.34
NAV/share, €	<b>4.65</b>	4.64
EPRA NAV/share, €	<b>5.45</b>	5.29
Economic occupancy rate, %	<b>87.0</b>	87.9
Dividend/share*)	<b>0.19*)</b>	0.18

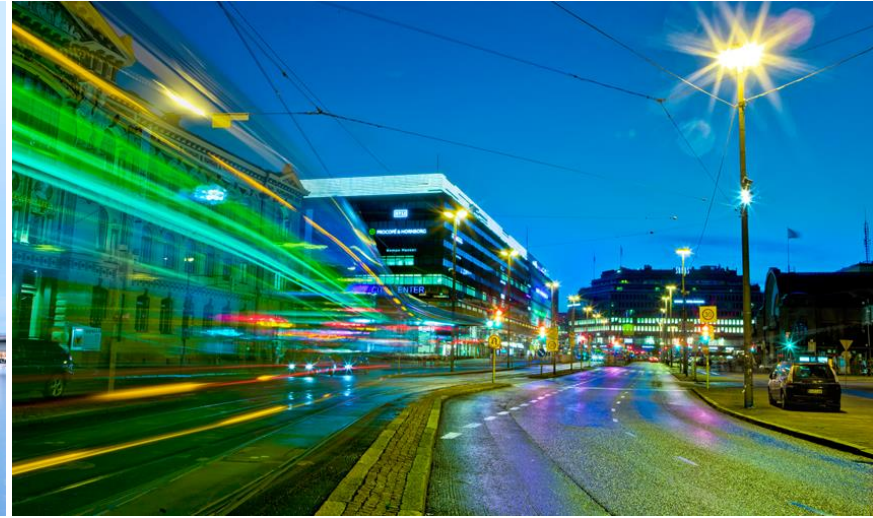
\*) Board proposal

# Dividend



# Sponda's priorities in 2015



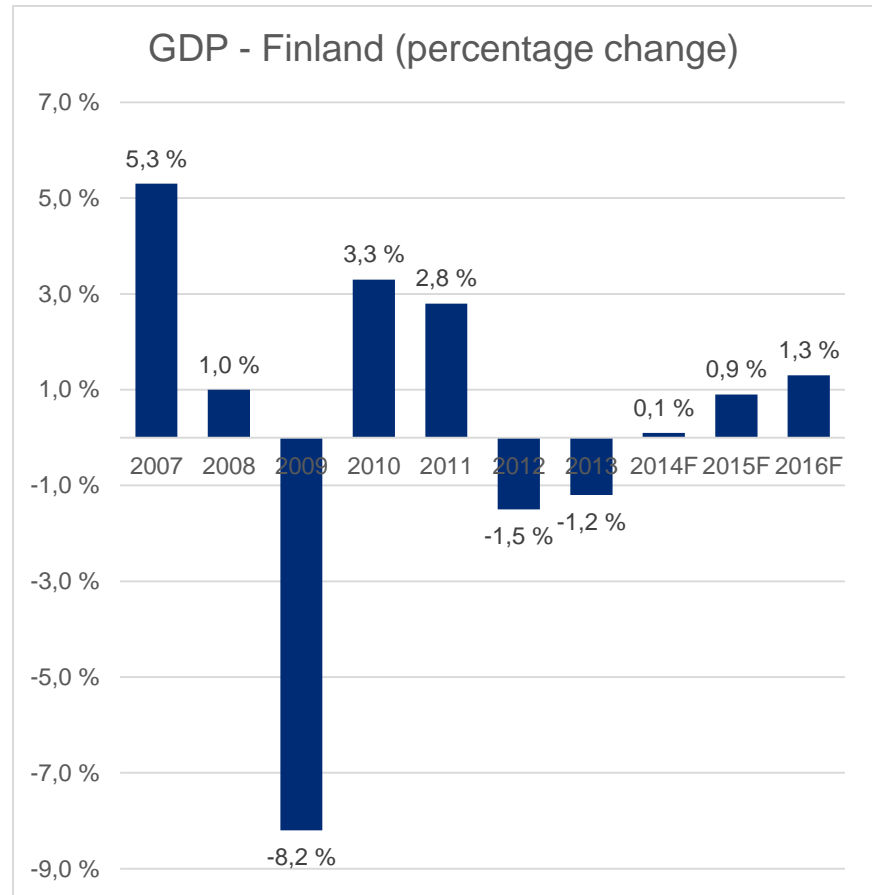


# *Property Market*

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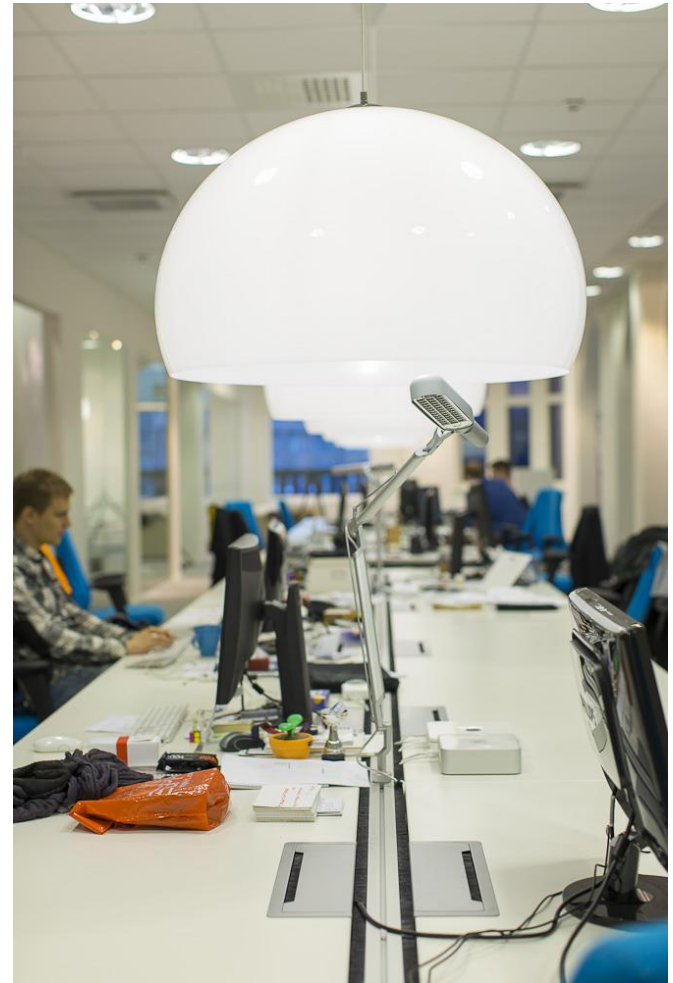
# Finnish Market

- According to the Ministry of Finance, the GDP growth for 2015 is estimated to be 0.9%.
  - In 2014, the GDP growth is estimated to be 0.1% due to increase in exports.
- Property transaction volume increased to EUR 4.2 billion. International investors accounted for 35% of all deals executed in the market.



# Office Sector

- HMA office market vacancy has increased from 12.4% to 12.5%. New estimate for the vacancy is over 13%.
- Yields in the Helsinki CBD market continued to compress.
- Office market is very much dependent on location.
  - HMA, CBD and Ruoholahti are still the desired areas for tenants. Ilmala/Pasila areas are trending positively.
- The trend in demand is for smaller space and more flexible leases.
- City of Tampere has limited new supply, demand for office space continues to be strong.



# Retail sector

- Pop-up shops were the trend during Christmas time.
- City centers are preferred locations for the retailers.
- Rent levels are fairly stable but especially the upper quartile rents have come down approx. 20%.
- Consumer confidence in Finland is still low.





# Logistics Sector

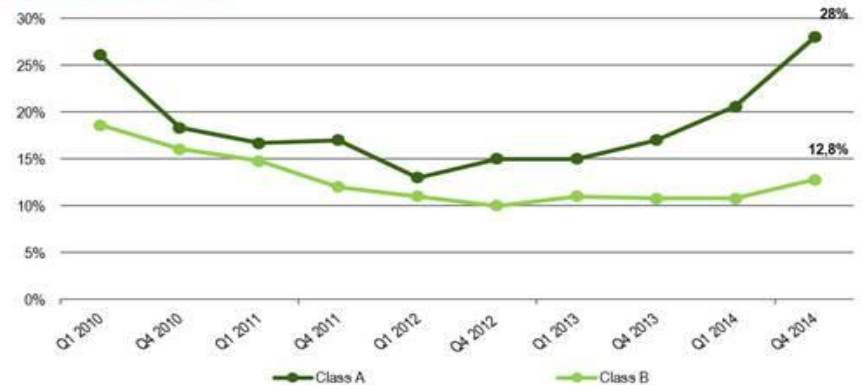
- With some operators, Finnish logistics space competes internationally (for ex. Germany and Holland).
- The macro development in Russia has an effect on the logistics space demand.
- Retail sector in Finland is not creating similar demand for warehouses like in the continental Europe.



# Russia

- The GDP growth in 2015 will be negative.
  - The World Bank estimate is -2.9%
- Transaction volume was USD 3.5 billion in 2014 (USD 7 billion in 2013).
- The top rents for prime offices have declined due to weak demand.
  - A-class offices 450-650 (from 750-650) USD/m<sup>2</sup>/yr.
  - B-class offices 275-450 (from 450-400) USD/m<sup>2</sup>/yr.

Figure 9: Vacancy rates by class



Source: CBRE Research, Q4 2014.



# *Profit & Loss statement and Balance Sheet 2014*

# Profit & loss statement

M€	1-12/2014	1-12/2013
Total revenue	246.7	264.3
Expenses	(70.6)	(73.4)
<b>Net operating income</b>	<b>176.0</b>	<b>190.9</b>
Profit on sale of inv. properties	0.6	0.8
Valuation gain / loss	(0.2)	(14.2)
Profit on sale of trading properties	2.0	0.0
SGA expenses	(22.1)	(23.2)
Share of profit from associated companies	(3.5)	0.0
Other operating income/expenses	(1.2)	(1.4)
<b>Operating profit</b>	<b>151.7</b>	<b>153.0</b>
Financial income and expenses	(55.9)	(59.8)
<b>Profit before taxes</b>	<b>95.7</b>	<b>93.2</b>
Taxes from previous and current fin. years	(1.8)	(3.8)
Deferred taxes	(20.4)	(22.5)
Change of tax base of deferred taxes	0.0	36.3
<b>Profit for the period</b>	<b>73.6</b>	<b>103.1</b>

# Valuation gains/losses

M€	1-12/2014	1-12/2013
Changes in yield requirements (Finland)	15.7	(5.0)
Changes in yield requirements (Russia)	(10.0)	0.0
Profit/loss from property development projects	5.5	2.2
Modernization investments	(42.0)	(22.6)
Change in market rents and maintenance costs (Finland)	40.3	22.1
Change in market rents and maintenance costs (Russia)	(19.3)	(7.1)
Change in exchange rates	5.9	(5.7)
<b>Investment properties, total</b>	<b>(3.9)</b>	<b>(16.1)</b>
Real estate funds	(1.8)	(8.8)
Realised gains/losses in re funds	5.5	10.7
<b>Group, total</b>	<b>(0.2)</b>	<b>(14.2)</b>

# Balance sheet

M€	31.12.2014	31.12.2013
<b>ASSETS</b>		
Investment properties	3,142.1	3,253.3
Other non-current assets	250.9	158.1
Fixed assets & other non-current assets, total	3,393.0	3,411.4
Current assets, total	56.2	60.3
<b>Assets, total</b>	<b>3,449.2</b>	<b>3,471.7</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Shareholders' equity, total	1,411.5	1,409.3
Non-current liabilities, total	1,413.6	1,714.8
Current liabilities, total	624.1	347.6
<b>Shareholders' equity and liabilities, total</b>	<b>3,449.2</b>	<b>3,471.7</b>

# Summary of reporting segments 2014 (compared to year 2013)

Segment	Total revenue M€	Net operating income M€	Economic occupancy rate, %	Net initial yield %
Office properties	141.8 (143.0)	103.0 (104.0)	88.5 (90.1)	5.4 (6.2)
Shopping centres	45.8 (45.9)	35.2 (34.9)	91.2 (89.0)	4.7 (4.4)
Logistics properties	30.8 (38.7)	18.9 (25.9)	64.9 (75.2)	4.1 (5.5)
Russia	22.2 (28.6)	15.8 (21.8)	90.4 (96.0)	6.0 (8.0)
Real Estate Funds + Shares of profit from real estate funds 5.5 (10.7) M€ until 30.9.2014.	4.9 (6.8)	4.1 (5.2)		

## Investments in property development 2014: 22.0 (14.0) M€

\*) From the beginning of 2014, office and retail premises and shopping centres located in the same investment property have been divided into their respective segments for part of the investment properties. The properties were previously classified according to their primary use. The change applied to approximately ten properties, and its effect was -1.2 percentage points for office properties and 3.6 percentage points for shopping centre properties at the time the change was made.

# Financing

	31.12.2014	31.12.2013
Equity ratio, %	41	41
Average interest rate, %	2.9	3.2
Hedging, %	76	79
Average loan maturity, yrs	2.1	2.5
Average fixed interest rate period, yrs	2.3	2.3
Interest cover ratio	3.3x	3.1x
Loan to Value, %	52	53



# Sponda's share price development



# Largest Shareholders 28 February 2015

	Major shareholders	No. of shares	Holding %
1.	Oy PALSK Ab	42,163,745	14.89
2.	Varma Mutual Pension Insurance Company	29,083,070	10.27
3.	HC Fastigheter Holding Oy Ab	28,484,310	10.06
4.	The State Pension Fund	2,550,000	0.90
5.	Odin Eiendom	1,090,718	0.39
6.	Folketrygdfondet	948,420	0.34
7.	Odin Eiendom I	872,518	0.31
8.	Norvestia plc	598,196	0.21
9.	Livränteanstalten Hereditas	540,000	0.19
10.	Paju Markku Juhani	538,467	0.19
	Nominee-registered shareholders 52.3% of the total		

# Prospects for 2015

## ***Net operating income***

- Sponda estimates that the net operating income for 2015 will amount to EUR 158–168 million. The estimate is based on the company's view of property sales to be completed and the development of rental operations during the year.

## ***EPRA Earnings***

- Sponda estimates that company adjusted EPRA Earnings in 2015 will amount to EUR 95–105 million. This outlook is based on the development of net operating income and the company's estimate of the development of financial expenses.

# Financial targets

Sponda's Long-term financial targets are

- **Equity ratio**  
Long-term equity ratio target is 40 %.
- **Dividend policy**  
Dividend policy is to pay approx. 50 % of the operational cash earnings per share, taking into account of the economic situation and company's development needs.



## **Sponda Plc**

*Korkeavuorenkatu 45*

*P.O.Box 940,*

*FI-00101 Helsinki*

*Tel. +358 20 431 31*

*www.sponda.com*

## **Customer service**

*Tel. +358 20 355 6677*

*customerservice@sponda.fi*