sponda

Report by the Board of Directors and Financial Statements 2016

Cover photo: Forum shopping centre

Contents

Sponda in brief

Sponda Plc is a property investment company specialising in commercial properties in the largest cities in Finland. We own, lease and develop office, retail and shopping centre properties into operating environments that promote the business success of our clients.

Sponda's business units were until 31 December 2016: Investment Properties, Property Development and Russia. As of 1 January 2017 Sponda has four business units: Office Properties. Shopping Centres, Property Development and Investment Properties.

Financial key figures

Economic occupancy rate, %

89.6

Revenue, M€

259.0

Net operating income, M€

190.9

Key highlights in 2016

Sponda acquired the Forum block in the heart of Helsinki in February. The acquisition included the Forum shopping centre and adjacent office properties.

In February, a new kind of coworking space that revolutionised the market, MOW, opened its doors on Pieni Roobertinkatu.

In line with its strategy, the company sold its last property in Turku. Property ownership was focused on the Helsinki metropolitan area and Tampere.

In July started a new property development project at the Tikkurila railway station in Vantaa.

The Forum shopping centre won the Shopping Centre of the Year award in October.

Seven properties obtained LEED® or BREEAM® environmental certificates during the year.

Fair value of properties, M€

3,755.5

CDP Climate

A–

Cash earnings/share, €

0.40

Return on equity, %

8.0

Adjusted EPRA Earnings/share, €

0.35

Equity ratio, %

47.4

Report by the Board of Directors 2016

Sponda Plc's total revenue was EUR 259.0 million (2015: EUR 230.5 million) and net operating income was EUR 190.9 million (EUR 165.7 million). Total revenue and net operating income were improved by a property transaction completed in 2016 and an increase in occupancy rates toward the end of the year. Sponda's operating profit was EUR 206.7 (178.1) million. The economic occupancy rate was 89.6% (87.7%).

Strategy

The main goals of Sponda's strategy are simplification of the business structure, more focused property ownership and profitable growth. To simplify its business structure, Sponda will divest its Russian operations, logistics properties and properties located in Turku within one to two years.

The capital to be released will be invested in Sponda's main markets in Helsinki, particularly the central business district and Ruoholahti, as well as Tampere. The investments will be directed at office and retail properties, and they will be implemented as acquisitions of existing properties and as property development projects.

Financial targets

The company's long-term goals for equity ratio and dividends are:

- The Group aims to attain a 40 per cent equity ratio;
- The company aims to pay a stable dividend. The dividend is approximately 50% of the cash flow from operations per share for the financial period, taking into account, however, the economic situation and the company's development needs.

Main events during 2016

Sponda's operative targets were to improve the economic occupancy rate, continue to sell non-strategic properties, launch at least one new property development project during the year and maintain stable cash flow from operations to ensure dividend payment capacity.

Property acquisition and rights offering

The implementation of the strategy saw significant progress in 2016. In February, Sponda announced the acquisition of six prime properties located in the Forum block in Helsinki's central business district. In addition to the Forum shopping centre, the acquisition included office premises. Of the properties' total leasable area of 76,918 m^2, some 48% is retail premises and 41% office premises, while 11% is storage space and other utility space. The transaction price was approximately EUR 576 million. The acquisition was financed with existing cash funds and a short-term bridge loan of approximately EUR 300 million.

In February, Sponda held an Extraordinary General Meeting that authorised the Board of Directors to decide on a rights offering to maintain the Group's capital structure and equity ratio following the Forum acquisition. The rights offering was carried out in March. Shareholders were granted one subscription right for each existing Sponda share, and five subscription rights entitled to subscribe for one new share. The subscription price was EUR 3.90 per share. The number of shares in Sponda increased by 56,615,092 and the Group raised gross funds of approximately EUR 220.8 million with the rights offering.

Property sales and property development projects

Sponda continued to sell non-strategic properties in 2016, for a total of EUR 65.5 million.

Sponda sold two properties in Russia: a shopping centre in Moscow and a logistics centre in St. Petersburg. Following these property sales, Sponda has two remaining office properties in Moscow. In July, Sponda sold a property in Turku. Following the sale, Sponda no longer owns any properties in Turku.

In July, Sponda started a new property development project in Vantaa's Tikkurila district. The office and retail complex at Tikkurila railway station will be implemented in two phases. The first phase will comprise a total of 9,500 m^2 of leasable space, half of which will be office space and the other half retail and service premises as well as parking space. The investment size of the project's first phase, to be completed in March 2018, is approximately EUR 31 million.

In February, Sponda opened MOW, a new kind of coworking space on Pieni Roobertinkatu in Helsinki. Its diverse and community-oriented premises and services were developed in close co-operation with the target group.

Financing and dividend payment

In June, Sponda signed a syndicated credit facilities agreement for EUR 600 million in total. The agreement includes a term-loan for EUR 500 million and a revolving credit facility of EUR 100 million.

The unsecured facilities are for five years. The EUR 500 million term loan was used to refinance existing loans maturing in 2016 and for general corporate purposes. The EUR 100 million revolving credit facility extended the similar undrawn EUR 100 million revolving credit facility's original maturity from November 2016.

Sponda's Board of Directors decided, based on the authorisation granted to it by the Annual General Meeting on 21 March 2016, to pay a dividend based on the annual accounts adopted for the financial year 2015 of EUR 0.06 per share in August and December, totalling EUR 0.12 per share.

Organisational restructuring

Sponda announced a change to its organisation in November. Starting from 1 January 2017, Sponda has four business units: Office Properties, Shopping Centres, Property Development, and Property Investments. Newly established with the aim of enhancing the existing property portfolio, the Property Investments unit is responsible for property sales and acquisitions as well as investments in properties and property maintenance. Following the change, Sponda's Executive Board consists of seven members.

Result of operations and financial position 1 January–31 December 2016 (compared with 1 January–31 December 2015)

- Total revenue increased to EUR 259.0 (230.5) million.
- Net operating income totalled EUR 190.9 (165.7) million.
- Operating profit was EUR 206.7 (178.1) million. This includes a fair value change of EUR 28.7 (23.2) million.
- The Forum acquisition had a significant positive impact on the full-year result.
- Cash flow from operations per share was EUR 0.40 (0.36).
- The fair value of the investment properties amounted to EUR 3,755.5 (3,101.7) million.
- Net assets (NAV) per share totalled EUR 5.16 (5.26).
- The economic occupancy rate was 89.6% (87.7%).
- The Board proposes to the Annual General Meeting that a dividend of EUR 0.08 per share be paid. The proposal takes into consideration the dividends already paid in August and December in 2016, a total of EUR 0.12 per share.
- The Board further proposes to the Annual General Meeting that the Annual General Meeting authorise the Board of Directors to decide, at its discretion, on the payment of dividend in no more than two tranches based on the annual accounts adopted for the financial year 2016. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share.

Financial position

Sponda Group's result for the financial year was EUR 137.5 (227.2) million. The result before taxes was EUR 155.5 (129.2) million and operating profit was EUR 206.7 (178.1).

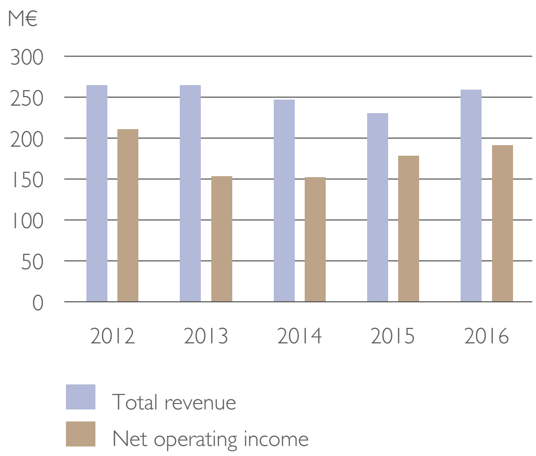
Net operating income for the period was EUR 190.9 (165.7) million, an increase of EUR 25.2 million. The increase in net operating income was primarily attributable to the Forum property acquisition, the effect of which is included in the consolidated figures starting from 1 March 2016, as well as completed property development projects. Net operating income was reduced by property divestments made in 2015 and 2016. Marketing and administration expenses and other operating income and expenses amounted to EUR 23.1 (21.5) million, up EUR 1.6 million from the previous year mainly due to the Forum acquisition. The net operating income for the final quarter of 2016 amounted to EUR 47.2 (41.3) million.

During the period, the Group recognised profit on sales of EUR 15.4 (3.5) million, primarily from the sale of land associated with a property development project. The Group's fair value change during the period was EUR 26.7 (23.2) million. The Group's result was weighed down by amortisation of goodwill amounting to EUR 3.1 (3.0) million. The result for the comparison period includes EUR 10.2 million attributable to the Group's share of the result of Certeum Oy, an associated company that was divested in September 2015.

The consolidated balance sheet total was EUR 3,916.5 (31 December 2015: 3,441.0) million. The total value of property assets was EUR 3,762.7 (3,109.4) million. Of this total, investment properties accounted for EUR 3,755.5 (3,101.7) million and trading properties for EUR 7.2 (7.7) million. Investments in real estate funds totalled EUR 22.4 (21.4) million.

In 2016, Sponda sold properties for EUR 36.7 (2015: 157.6) million, recording a sales gain of EUR 0.8 million. Property maintenance and quality improvement investments totalled EUR 31.0 (37.8) million and property development investments amounted to EUR 60.9 (65.2) million. New property acquisitions in 2016 amounted to EUR 590.5 (4.7) million.

Total revenue and net operating income

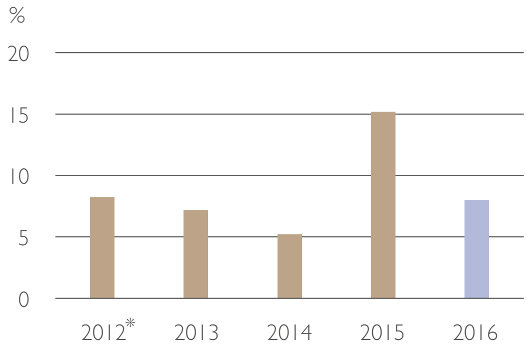


Consolidated key figures

	2016	2015
Economic occupancy rate, %	89.6	87.7
Total revenue, M€	259.0	230.5
Net operating income, M€	190.9	165.7
Operating profit, M€	206.7	178.1
Equity ratio, %	47.4	46.2
Gearing ratio, %	100.0	90.9
Return on equity, %	8.0	15.2
Earnings per share, €	0.41	0.78
Dividend per share (Board's proposal), €	0.08	0.19
Dividends paid based on authorisation granted by General Meeting, €	0.12 [1]	
Total dividend, €	0.20	0.19
Net assets per share, €	5.16	5.26
Cash flow from operations per share, €	0.40	0.36

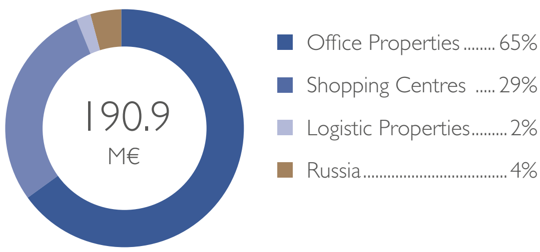
[1] Dividend: dividends paid during the financial year 2016 based on the authorisation granted to the Board of Directors at the General Meeting held on 21 March 2016.The distribution of dividend was based on the annual accounts adopted for the financial year 2015.

Return on shareholders' equity (ROE)

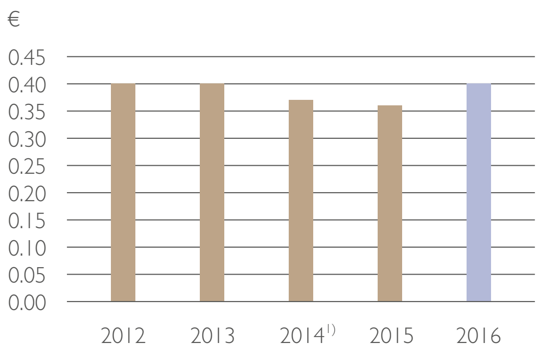


*2012 figures were adjusted following the voluntary amendment of accounting principles with regard to IAS 12 and the amendment of IAS 19.

Net operating income by business unit



Cash earnings per share



[1] Cash flow from operations includes the share of the result of associated companies adjusted by the changes in fair value of the associated companies' investment properties and financial instruments, and deferred taxes.

Financing

Key items in the Group's cash flows:

M€	2016	2015
Net cash flow from operations	122.5	94.9
Net cash flow from investments	-650.8	241.5
Net cash flow from financing	318.7	-136.1
Change in cash and cash equivalents	-209.5	200.4
Cash and cash equivalents, start of period	220.0	20.3
Impact of changes in exchange rates	2.4	-0.7
Cash and cash equivalents, end of period	12.9	220.0

Full calculations of cash flows are presented in the financial statements.

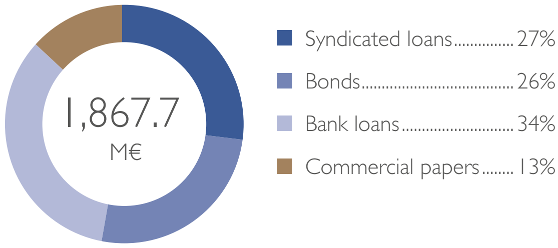
The consolidated equity at the end of 2016 stood at EUR 1,849.9 (1,585.0) million. The sum of EUR 94.0 million recorded in the other equity reserve comprises equity bonds issued in December 2012. Debts totalled EUR 2,066.6 (1,856.0) million, of which EUR 1,437.7 (1,192.0) million was long-term debt and EUR 628.6 (664.0) million short-term debt.

Interest-bearing debt amounted to EUR 1,862.5 (1,660.9) million and the average maturity of loans was 2.6 (2.2) years. The average interest rate was 2.7% (2.9%) including interest derivatives. Fixed-rate and interest-hedged loans accounted for 67% (90%) of the loan portfolio. The average fixed interest rate period of the debt portfolio was 1.4 (2.2) years. Sponda's equity ratio stood at 47.4% (46.2%) and the gearing ratio was 100.0% (90.9%).

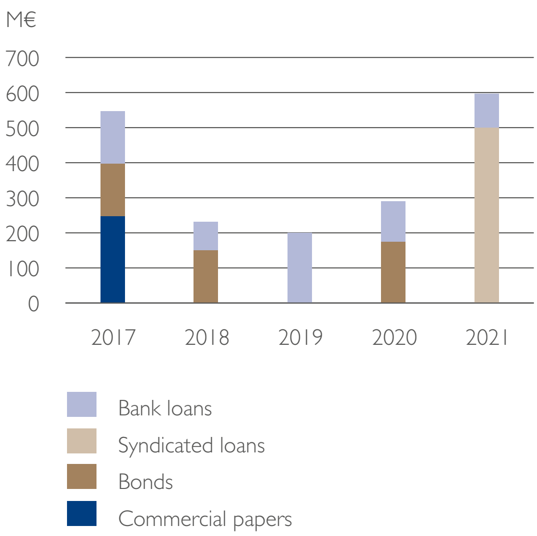
Sponda Group's debt portfolio on 31 December 2016 comprised EUR 500 million in syndicated loans, EUR 475 million in bonds, EUR 248 million in issued commercial papers, and EUR 639 million in loans from financial institutions. Sponda had EUR 438 million in unused credit limits. Sponda Group had mortgaged loans of EUR 178.0 million, or 4.5% of the consolidated balance sheet. Net financing costs for the period totalled EUR -51.2 (-48.9) million. The increase in financial expenses was attributable to an increase in interest-bearing liabilities related to the Forum acquisition as well as financial expenses associated with the transaction. Financial income and expenses include EUR -0.4 (-0.1) million in unrealised change in the fair value of derivatives.

Sponda applies hedge accounting to those interest derivatives that meet the criteria for hedge accounting. Changes in the fair value of interest derivatives that fall under hedge accounting are recognised in equity on the balance sheet. Changes in the fair value of other interest derivatives and currency options are recorded in the income statement.

Loan instruments 31 Dec



Sponda Group, Loan maturities 31 Dec 2016



Business environment

Business conditions – Finland

The Finnish economy saw a positive turn in 2016, although growth was still slow. In its Economic Survey, the Ministry of Finance estimates that the Finnish economy grew by 1.6 per cent in 2016. Growth was largely driven by strong domestic demand as well as increased investment, particularly in construction. Export trends remained weak in 2016, with growth of only one per cent. The unemployment rate has declined and it stood at 7.9 per cent at year's end according to Statistics Finland.

According to KTI Property Information, the property transaction volume in the final quarter of 2016 was EUR 1.82 billion and the full-year volume was EUR 7.18 billion, which is approximately 30 per cent higher than in 2015 (EUR 5.5 billion) and also a historical high. International investors continued to play a significant role in trading, although their share of the total transaction volume declined by 14 percentage points to 32 per cent.

According to information from Catella Property, some 30,000 square metres of new office space was completed in the Helsinki metropolitan area in 2016, which represents a substantial decline from the previous year's figure of 86,000 square metres. The rate of construction of new office premises in the Helsinki metropolitan area is remaining strong, with Catella predicting that some 111,000 square metres of office space will be completed in 2017–2018.

According to Catella, the vacancy rate for office premises in the Helsinki metropolitan area rose to 13.9 (13.3) per cent in 2016. The vacancy rate for retail premises in the Helsinki metropolitan area increased to 5.3 (4.6) per cent in 2016. The vacancy rate for retail premises was 4.0 (4.2) per cent for Helsinki as a whole and 2.3 (1.5) per cent for the central business district.

Business conditions – Russia

According to the Bank of Finland's forecast, Russia's GDP contracted by one per cent in 2016 (2015: -3.7%). The downward pressure on the Russian GDP has been alleviated by rising oil prices in 2016 as well as lower exports due to the weak rouble. The Bank of Finland predicts that Russian GDP will see a gradual upturn in 2017, but growth will be weak due to factors such as the low level of investment.

According to data from the real estate adviser CBRE, the transaction volume in the last quarter was about USD 161 (800) million, while the transaction volume for the full year amounted to approximately USD 2 (2.8) billion.

Operations and property assets January–December 2016

Net operating income from all of Sponda's property assets totalled EUR 190.9 (165.7) million in 2016. Of this total, office premises accounted for 65%, shopping centres for 29%, logistics premises for 2% and the Russia unit for 4%.

At the end of 2016, Sponda had a total of 169 leasable properties, with an aggregate leasable area of approximately 1.2 million m². Of this total, approximately 69% is office premises, 17% shopping centres and 13% logistics premises. Approximately 1% of the leasable area of properties is located in Russia.

The fair values of Sponda's investment properties are confirmed as a result of the company's own cash flow-based yield value calculations. The assessment method complies with International Valuation Standards (IVS). The data used in the calculations of fair value is audited at least twice a year by external experts to ensure that the parameters and values used in the calculations are based on market observations.

At the end of 2016, an external consultant audited the values of Sponda's investment properties in Finland (Catella Property Oy) and Russia (CB Richard Ellis). The fair value of the investment properties totalled EUR 3.8 billion at the end of 2016. The change in the fair value of the investment properties in 2016 was EUR 28.7 (23.2) million for the full year and EUR 33.7 (10.3) million for October–December. The value of Sponda's properties in Finland developed favourably, primarily due to a decrease in yield requirements, especially with regard to shopping centre properties and office properties located in the central business district. The negative change in the fair value was mainly attributable to properties in Russia due to the Russian market situation and the resulting lower market rents. Maintenance costs have also risen in Russia, primarily due to an increase in property taxes.

Valuation gains/losses on fair value assessment

M€	2016	2015
Changes in yield requirements (Finland)	60.1	39.2
Changes in yield requirements (Russia)	-4.1	-7.4
Development gains on property development projects	7.4	25.4
Modernisation investments	-31.0	-37.8
Change in market rents and maintenance costs (Finland)	12.6	30.2
Change in market rents and maintenance costs (Russia)	-14.1	-26.8
Change in currency exchange rates	-2.1	0.3
Investment properties, total	**28.7**	**23.2**
Real estate funds	-2.0	0.0
Realised share of fund profits	0.0	0.0
Group, total	**26.7**	**23.2**

Changes in Sponda's investment property assets

M€	Total	Office Properties	Shopping Centres	Logistics Properties	Property Develop-ment	Russia
Operating income	257.8	167.1	70.3	8.6	0.4	11.3
Maintenance expenses	-66.4	-42.3	-15.5	-4.2	-1.4	-3.0
Net operating income	**191.4**	**124.8**	**54.8**	**4.4**	**-1.0**	**8.3**
Investment properties on 1 January 2016	3,101.7	1,994.8	733.6	92.9	129.7	150.7
Investment properties held for sale on 1 January 2016	10.2	8.4	-	1.8	-	-
Capitalised interest 2016	1.2	-	-	-	1.2	-
Acquisitions	590.5	162.2	428.2	-	-	-
Investments	91.9	24.8	5.1	1.2	60.7	0.2
Transfers between segments	-	-	7.2	-	-7.2	-
Sales	-35.9	-14.5	-	-5.7	-1.7	-14.1
Change in fair value	28.7	25.2	21.3	-2.3	4.9	-20.5
Reclassifications to non-current assets held for sale	-32.8	-10.6	-	-18.9	-3.3	-
Investment properties on 31 December 2016	**3,755.5**	**2,190.4**	**1,195.4**	**69.0**	**184.3**	**116.3**
Change in fair value, %	**0.9**	**1.3**	**2.9**	**-2.4**	**3.8**	**-13.6**
Weighted average yield requirement %	5.9	6.0	5.3	9.2		10.1
Weighted average yield requirement %, Finland	5.8					

Rental operations

Expired lease agreements and new agreements that came into effect in the last quarter of the year were as follows:

	Number (agree-ments)	Area (m²)	EUR/m²/month
Came into effect during the period	110	24,442	19.60
Expired during the period	101	23,660	23.80
Renewed during the period	71	19,269	16.90

The expired agreements and agreements that came into effect do not necessarily pertain to the same segments and properties.

Sponda calculates the growth in net rental income for its properties during the review period according to EPRA Best Practices Recommendations by using a like-for-like net rental growth formula based on a comparable property portfolio owned by the company for two years. For January–December, **like-for-like net rental growth** was -0.2% (3.3%) for office properties, 2.1% (1.3%) for shopping centres, 13.1% (27.8%) for logistics properties and -6.7% (-4.3%) for properties in Russia. All of Sponda's lease agreements in Finland are tied to the cost of living index.

Economic occupancy rate					
Type of property	**31.12.2016**	**30.9.2016**	**30.6.2016**	**31.3.2016**	**31.12.2015**
Office Properties, %	89.2	88.8	88.3	88.1	88.2
Shopping Centres, %	93.5	93.2	94.2	93.8	91.3
Logistics Properties, %	74.0	72.8	73.4	68.9	68.3
Russia, %	84.8	85.3	81.9	82.9	84.6
Total property portfolio, %	89.6	89.3	89.1	88.7	87.7

Economic occupancy rate					
Geographical area	**31.12.2016**	**30.9.2016**	**30.6.2016**	**31.3.2016**	**31.12.2015**
Helsinki business district, %	92.1	91.9	92.6	92.4	90.1
Helsinki Metropolitan Area, %	87.3	86.5	86.1	85.3	85.7
Tampere, Oulu, %*)	90.6	91.0	89.9	89.4	90.8
Russia, %	84.8	85.3	81.9	82.9	84.6
Total property portfolio, %	89.6	89.3	89.1	88.7	87.7

*) The comparison figures include a property in Turku until 30 June 2016.

Total cash flow from lease agreements at the end of 2016 was EUR 1,050.4 (969.3) million. Sponda had 1,908 clients and a total of 3,084 lease agreements. The company's largest tenants were the State of Finland (7.0% of rental income), Kesko Group (4.7% of rental income), HOK-Elanto (4.2% of rental income) and Danske Bank Oyj (3.3% of rental income). Sponda's 10 largest tenants generate approximately 29% of the company's total rental income.

The **average length of all lease agreements** was 3.8 (4.2) years. The average length of lease agreements was 3.8 (4.2) years for office properties, 4.4 (5.2) years for shopping centres, 2.3 (2.3) years for logistics properties and 1.5 (2.4) years for properties in Russia.

The lease agreements expire as follows:

	% of rental income 31 Dec 2016	% of rental income 31 Dec 2015
Within 1 year	19.9	14.2
Within 2 years	12.7	17.1
Within 3 years	10.9	10.8
Within 4 years	7.6	8.3
Within 5 years	11.9	5.3
Within 6 years	5.5	7.7
After more than 6 years	19.8	23.6
Valid indefinitely	11.8	13.0

Divestments and investments

Sponda is continuing to actively manage its property portfolio and sell non-strategic properties. New investments and property development projects will be centralised in office and shopping centre properties in identified growth areas. Investment properties were sold for EUR 36.7 million during the review period, with EUR 9.1 million of this total divested in October–December.

Divestments		
M€	**1–12/16**	**1–12/15**
Investment properties sold		
Selling price	36.7	157.6
Profit/loss on sale *)	0.8	-4.3
Balance sheet value	35.9	161.9

*) Includes sales costs

In addition, trading properties were sold for EUR 28.8 million during the review period, with EUR 3.7 million of this total divested in October–December.

Investments

M€	1–12/16	1–12/15
Properties acquired	-590.5	-4.7
Modernisation investments	-31.0	-37.8
Property development investments	-60.9	-65.2
Investments, total	-682.4	-107.7

Property development investments were mainly directed to the construction of the Ratina shopping centre and an office and retail complex in Vantaa's Tikkurila district.

Results by segment

Until 31 December 2016, Sponda's operations were organised into seven segments. The segments under the Investment Properties business unit were Office Properties, Shopping Centres and Logistics Properties. The other segments were Property Development, Russia and Property Investment Companies. In addition, Sponda reported the Other segment, which included expenses not attributed to any segment, as well as tax and financing expenses and any operating segments for which separate segment information did not need to be presented. the financial statements bulletin for the year 2016 uses the aforementioned reporting structure.

From 1 January 2017, Sponda's new reporting segments are as follows: Office Properties, Shopping Centres, Property Development, Non-Strategic Holdings and the Other segment. The Non-Strategic Holdings segment includes the remaining logistics properties, properties in Russia and the current Property Investment Companies segment. The Other segment includes expenses not allocated to any of the Group's businesses. The first report to use the new reporting structure will be the interim report for January–March, which will be published on 5 May 2017. The segments' comparison data will be published before the interim report.

Office Properties

M€	1–12/16	1–12/15
Total revenue, M€	167.2	149.1
Net operating income, M€	124.1	109.7
Operating profit, M€	138.4	134.1
EPRA Net Initial Yield (NIY), %	5.6	5.9
Economic occupancy rate, %	89.2	88.2
Fair value of properties, M€	2,190.4	1,994.8
– excludes properties classified as held for sale, M€	10.6	8.4
Change in fair value from beginning of year, M€	25.2	35.5
Leasable area, m²	808,500	775,000

Investments and divestments in the Office Properties segment during the period were:

M€	1–12/16	1–12/15
Properties sold		
Selling price	15.1	17.9
Profit/loss on sale, incl. costs	0.6	-0.2
Balance sheet value	14.5	18.1
Properties acquired	-162.2	-4.7
Modernisation investments	-24.7	-29.7
Property development investments	-0.1	0.4

The **lease agreements for Office Properties** will expire as follows:

	% of rental income 31 Dec 2016	% of rental income 31 Dec 2015
Within 1 year	21.1	13.5
Within 2 years	12.8	19.8
Within 3 years	12.0	10.2
Within 4 years	6.2	9.1
Within 5 years	11.7	4.8
Within 6 years	2.4	5.4
After more than 6 years	18.9	21.4
Valid indefinitely	15.0	15.8

Shopping Centres

	1–12/16	1–12/15
Total revenue, M€	70.3	46.6
Net operating income, M€	54.8	35.7
Operating profit, M€	72.0	35.8
EPRA Net Initial Yield (NIY), %	4.4	4.7
Economic occupancy rate, %	93.5	91.3
Fair value of properties, M€	1,195.4	733.6
Change in fair value from beginning of year, M€	21.3	3.2
Leasable area, m²	198,000	153,500

Investments and divestments in the Shopping Centres segment during the period were:

M€	1–12/16	1–12/15
Properties sold		
Selling price	-	-
Profit/loss on sale, incl. costs	-	-
Balance sheet value	-	-
Properties acquired	-428.2	-
Modernisation investments	-5.1	-6.8
Property development investments	-	-

The **lease agreements for Shopping Centre properties** will expire as follows:

	% of rental income 31 Dec 2016	% of rental income 31 Dec 2015
Within 1 year	11.5	8.4
Within 2 years	11.4	10.1
Within 3 years	7.6	7.9
Within 4 years	10.3	6.4
Within 5 years	15.2	5.4
Within 6 years	13.5	18.8
After more than 6 years	26.3	38.8
Valid indefinitely	4.2	4.3

Logistics Properties

	1–12/16	1–12/15
Total revenue, M€	8.6	16.8
Net operating income, M€	4.4	9.1
Operating profit, M€	3.2	-1.9
EPRA Net Initial Yield (NIY), %	6.3	7.4
Economic occupancy rate, %	74.0	68.3
Fair value of properties, M€	69.0	92.9
– excludes properties classified as held for sale, M€	18.9	1.8
Change in fair value from beginning of year, M€	-2.3	-7.4
Leasable area, m²	149,000	152,500

Investments and divestments in the Logistics Properties segment during the period were

M€	1–12/16	1–12/15
Properties sold		
Selling price	6.7	100.8
Profit/loss on sale, incl. costs	1.1	-3.1
Balance sheet value	5.7	103.9
Properties acquired	-	-
Modernisation investments	-1.2	-0.9
Property development investments	-	-

The **lease agreements for Logistics properties** will expire as follows:

	% of rental income 31 Dec 2016	% of rental income 31 Dec 2015
Within 1 year	17.2	24.7
Within 2 years	7.2	13.0
Within 3 years	21.0	4.5
Within 4 years	6.5	7.4
Within 5 years	2.8	6.0
Within 6 years	3.2	1.2
After more than 6 years	8.8	11.3
Valid indefinitely	33.3	31.9

Property Development

The balance sheet value of Sponda's property development portfolio stood at EUR 184.3 million at the end of December 2016. Of this total, EUR 52.6 million was in undeveloped land sites and the remaining EUR 131.7 million was tied up in property development projects in progress. The value of unused building rights is presented in the assets of the segment concerned for investment properties that have a building, and as part of the Property Development segment for building rights for unbuilt land.

Sponda's property development operations comprise new construction projects and the refurbishment of existing properties. At the end of the review period, the Property Development segment had invested a total of EUR 60.7 million, of which EUR 19.6 million was invested in October–December. The investments were primarily directed to the construction of the Ratina shopping centre and the office and retail complex in Tikkurila.

The Ratina shopping centre project is progressing on schedule. The construction of the frame of the Valo-Ratina building is mostly completed and the installation of the facade's glass walls is underway. Work on interior walls has begun and work on building service systems is moving ahead at a good rate. Of the expansion of the Ranta-Ratina building, about half of the frame has been installed and the installation of the new frame for the old part of the Ranta-Ratina building has begun. The renovation of the Funkis-Ratina building started in November 2016 and is progressing according to plan.

The shopping centre will be completed on schedule in spring 2018. The complex comprises a total of approximately 53,000 m² of retail and service premises for more than 150 businesses. The project's total investment, including the land value, is estimated at approximately EUR 240 million, with some EUR 104 million invested to date. The project's target development margin is 15% and the estimated net yield on cost is 7.5%. The shopping centre section's signed and agreed lease agreements cover approximately 55% of the leasable area. The pre-let rate for the Ratina project as a whole is approximately 45%.

Sponda's other significant new construction project, an office and retail complex at Tikkurila railway station in Vantaa, will be implemented in two phases. Restoration work on contaminated soil has been completed in the project, and piling work has also been finished for the most part. Casting work on the foundations and the basement slab is underway. Work on the frame will begin next.

The project's first phase will be completed in spring 2018, comprising a total of 9,500 m² of leasable space, half of which will be office space and the other half retail and service premises as well as parking space. The investment size for the first phase is approximately EUR 31 million and the property is 65% pre-let. The project's yield on cost is estimated at approximately 7.3%. Some EUR 6.5 million has been invested in the project to date. The plan for the project's second phase involves the construction of approximately a further 4,000 m² of leasable business premises. The decision on commencing the second phase will be made later based on the occupancy rate.

Russia

	1–12/16	1–12/15
Total revenue, M€	11.3	16.9
Net operating income, M€	8.3	12.8
Operating profit, M€	-15.1	-24.8
EPRA Net Initial Yield (NIY), %	7.8	5.8
Economic occupancy rate, %	84.8	84.6
Fair value of properties, M€	116.3	150.7
Change in fair value from beginning of year, M€	-20.5	-33.9
Leasable area, m²	17,500	34,500

Investments and divestments in the Russia segment during the period were:

M€	1–12/16	1–12/15
Properties sold		
Selling price	13.6	38.7
Profit/loss on sale, incl. costs	-0.5	-1.1
Balance sheet value	14.1	39.8
Properties acquired	-	-
Modernisation investments	-0.2	-0.1
Property development investments	-	-

The **lease agreements for the Russia segment** will expire as follows:

	% of rental income 31 Dec 2016	% of rental income 31 Dec 2015
Within 1 year	55.2	35.2
Within 2 years	23.5	13.9
Within 3 years	10.0	31.2
Within 4 years	10.7	6.6
Within 5 years	0.0	9.3
Within 6 years	0.0	0.0
After more than 6 years	0.6	3.8
Valid indefinitely	0.0	0.0

Property Investment Companies

Sponda's holding in Russia Invest, which invests in property development projects in Russia, is 27%. Russia Invest owns a 55% share in the Okhta Mall shopping centre project, which is Phase I of the Septem City project located in St. Petersburg. Sponda's investment amounted to approximately EUR 22.4 million at the end of December 2016.

Parent company

The net revenue of parent company Sponda Plc was EUR 232.9 (129.5) million and operating profit was EUR 130.9 (193.1) million in 2016. Financial income and expenses came to EUR 133.5 (78.3) million and the result for the period was EUR -0.3 (257.0) million.

Group structure

Sponda Group comprises the parent company Sponda Plc and its wholly- or partly-owned Finnish limited liability companies and property companies. The Group also includes the foreign subsidiaries owned by Sponda Russia Ltd.

Risk management

Sponda manages the risks associated with its operations by identifying, measuring and preventing key uncertainties.

Sponda has adopted a systematic approach to risk management and one of the company's key strengths is its ability to integrate risk management into its planning process, the enterprise resource planning system and business processes.

Risk management organisation

The responsibility for risk management is determined in accordance with business responsibility. The ultimate responsibility for risk management lies with the Board of Directors, which sets risk management objectives, decides on risk management policy, organises risk management and monitors key risks. Business units and corporate functions are responsible for arranging for risk management to be monitored and reported as part of the company's other reporting activities. The company's internal audit function monitors the effectiveness of the risk management system.

Key risks and risk management methods

Sponda's key risks are classified as strategic risks, operational risks, damage and asset risks, and financing risks. The different risk categories are described in more detail on Sponda's website at www.sponda.fi/en > Investors > Risks.

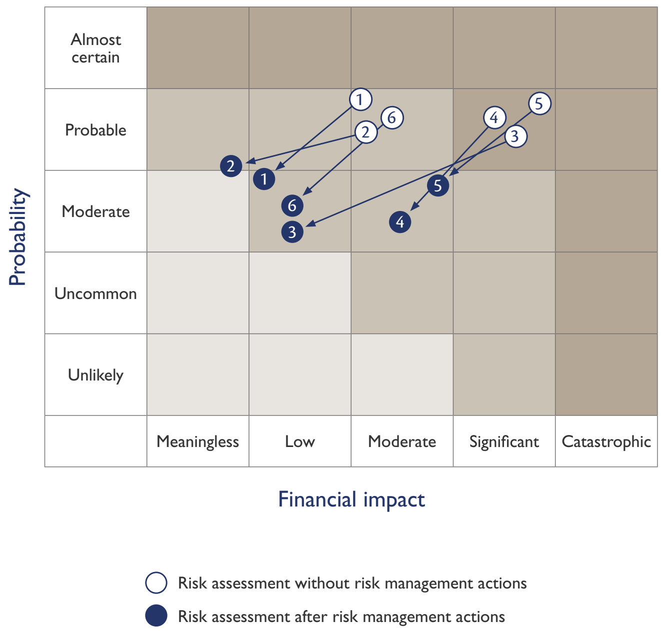
Sponda's toolbox of risk management includes risk aversion, risk elimination and reducing the probability of their materialisation. Risks can also be restricted and reduced. A business continuity and recovery plan has been prepared for the contingency that substantial risks materialise.

Annual risk assessment

Risks are assessed in terms of their probability as well as their financial impact. Achieving financial targets is a sign that risk management has been successful.

Risks are assessed in a risk survey carried out annually. The risk survey identifies the company's key risks, assesses the probability of their occurrence and potential impacts thereof, and defines risk management procedures. Risk management guidelines and the operations handbook are updated based on the risk survey.

Risk assessment without risk management actions and after risk management actions



Short-term risks related to Sponda's operations	Risk management actions
1. Fall in economic occupancy rate	Sponda's property ownership is mainly located in prime areas in Helsinki and Tampere, which are attractive areas regardless of the market situation. Sponda is selling properties that are not within these strategic areas. Sponda is continuously developing its customer service through measures such as more detailed property service surveys and the launch of more flexible lease models.
2. Decline in tenants' solvency	Sponda carries out regular checks to monitor tenants' solvency and changes therein. Most tenants submit a security deposit corresponding to three to six months' rent at the start of their tenancy. The company has a diverse tenant base representing a wide variety of sectors. Due to its broad tenant base, Sponda is not dependent on individual major clients.
3. Availability of financing	Risks related to the availability of financing are mitigated by using credit agreements of varying lengths, a broad financing base, credit limits and by maintaining the company's reputation as a reliable debtor.
4. Interest rate risk	Sponda's hedge level for interest rate risk must be at least 60 per cent and at most 100 per cent. Fixed-rate loans and interest rate derivatives are used to balance the effect of changes in the market interest rates.
5. Technological development	The technical development of properties and the automation of property use are closely monitored. Sponda develops its properties to correspond with technical requirements and creates services for customers as new needs arise.
6. Sale of properties located in Russia	Sponda has two remaining properties in Russia and the company aims to divest the properties in line with its strategy. To support the sale of the properties and maintain interest among potential buyers, the properties' occupancy rates are kept high and the properties are maintained in good condition.

Environmental responsibility

Environmental responsibility is one of Sponda's strategic priorities. Sponda's most significant environmental impacts are the energy consumption of properties and the resulting carbon dioxide emissions. Improving energy efficiency is an integral element of all of Sponda's operations, ranging from property development projects to the renovation, maintenance and use of properties. Sponda also monitors the reduction of its other environmental impacts, such as the water consumption of its properties in Finland as well as the recovery and recycling of waste materials.

Sponda's environmental responsibility in 2016 was in line with the company's strategy. Sponda's Energy efficiency programme progressed in accordance with the energy saving target, achieving 14.1 per cent in energy consumption savings compared to the baseline. Sponda's target is to reduce energy consumption by 20 per cent by 2020, using the average consumption in 2001–2005 as the baseline. At the end of 2016, Sponda's Energy efficiency programme covered 91 per cent (88) of the properties owned by Sponda. The carbon footprint caused by the total energy consumption of Sponda's properties located in Finland decreased by 1.1 per cent from the previous year. The waste recovery rate rose to 100 per cent (97) and the recycling rate remained at 45 per cent (45).

In autumn 2016, Sponda made a commitment to the new Property and Building Sector Energy Efficiency Agreement 2017–2025 enacted by the Ministry of Economic Affairs and Employment, the Ministry of the Environment and the Finnish Energy Authority. The shared indicative energy savings target stipulated by the agreement is 7.5 per cent by 2025, using energy consumption in 2015 as the baseline.

Sponda's goal-driven environmental certification efforts continued with good results in 2016, with seven properties obtaining or successfully renewing their international LEED® or BREEAM® environmental certification. Sponda applies for international environmental certificates for all new property development projects and major renovation projects. At the end of 2016, Sponda's environmentally certified properties accounted for 25 per cent of Sponda's total leasable area. In 2016, Sponda increased its co-operation with customers related to environmental responsibility by signing three new environmental partnerships.

Sponda continued to perform well in internationally recognised sustainability surveys. Sponda maintained its excellent A- score in the CDP Climate assessment. Sponda's result is the best in Finland and among the best in the Nordic region in the Financials category, and the company was included in the best Leadership level for the second consecutive year. The CDP Climate report assesses companies' greenhouse gas emissions, emissions targets, measures to reduce emissions, business risks and opportunities related to climate change, as well as the management, development and reporting of these areas. In 2016, Sponda won its fourth consecutive Green Star award in the Global Real Estate Sustainability Benchmark (GRESB) study. The Green Star is awarded to companies in the property industry that measure, implement, manage and develop responsibility successfully as an integral part of their business operations.

More information on Sponda's responsibility is available in the Annual Review.

Governance

Sponda Plc is a public limited company registered in Finland and listed on the NASDAQ OMX Helsinki Stock Exchange. Sponda Plc and its subsidiaries constitute the Sponda Group.

In its decision-making and administration, Sponda complies with the Finnish Companies Act and other legal provisions governing public limited companies, and the company's articles of association. Sponda complies with the rules and regulations for listed companies issued by Nasdaq Helsinki Ltd and the Finnish Corporate Governance Code 2015 issued by the Securities Market Association, which entered into force on 1 January 2016. The Corporate Governance Code 2015 is available online on the Securities Market Association's website at www.cgfinland.fi.

In 2016, Sponda did not depart from the recommendations of the Corporate Governance Code 2015.

Sponda's Corporate Governance Statement (CG Statement) has been prepared in accordance with the reporting requirements set out by the Corporate Governance Code 2015 and the structure of the CG Statement has been revised to correspond to the structure laid out in the Corporate Governance Code 2015.

The CG Statement is published separately from the Board of Directors' report and it is available on the Sponda website at www.sponda.fi/en > Investors > Governance.

The shareholders' Nomination Board, a permanent body established by the Annual General Meeting on 18 March 2013, assists the Annual General Meeting in nominating members to the Board of Directors and in preparing Board members' remuneration.

Under Sponda Plc's articles of association, the company has a Board of Directors composed of five to nine (5–9) members. The AGM appoints the members of the Board of Directors based on the proposal of the shareholders' Nomination Board and their appointments are valid until the conclusion of the next AGM. The Board of Directors elects a Chairman and Deputy Chairman from among its members.

Until the AGM of 21 March 2016, the members of the Board of Directors were **Kaj-Gustaf Bergh** (Chairman), **Arja Talma** (Deputy Chairman), **Christian Elfving, Paul Hartwall, Juha Laaksonen, Leena Laitinen** and **Raimo Valo**.

The AGM of 21 March 2016 decided to change the provision in the articles of association concerning the number of members on the Board of Directors to state that the Board of Directors is composed of five to nine members. The AGM then decided to elect eight members to the Board of Directors. **Kaj-Gustaf Bergh, Christian Elfving, Paul Hartwall, Leena Laitinen, Arja Talma** and **Raimo Valo** were re-elected to the Board of Directors, with **Outi Henriksson** and **Juha Metsälä** elected to the Board of Directors as new members. The term of office of the re-elected members of the Board of Directors began at the conclusion of the AGM on 21 March 2016, while the term of office of the new members, Outi Henriksson and Juha Metsälä, began on 23 March 2016 after the change to the articles of association concerning the number of members on the Board of Directors was registered in the Finnish Trade Register.

Sponda's Board members represent broad experience in the real estate, industrial, financial and commercial sectors. The information on the members of the Board of Directors is also available in the Governance section of Sponda Plc's website at http://investors.sponda.fi/en/governance/board-of-directors/members-of-the-board. The Board of Directors considers that, of its members, Outi Henriksson, Juha Laaksonen (member until 21 March 2016), Leena Laitinen, Juha Metsälä, Arja Talma and Raimo Valo are independent of both the company and its major shareholders, and that Kaj-Gustaf Bergh, Christian Elfving and Paul Hartwall are independent of the company. Kaj-Gustaf Bergh and Christian Elfving are considered not to be independent of a major shareholder due to their Board membership in Oy Mercator Invest Ab (and, correspondingly, their previous Board membership in Oy Palsk Ab), which is a major shareholder of Sponda. Paul Hartwall is considered not to be independent of a major shareholder due to his Board membership in Hartwall Capital Oy, whose subsidiary HC Fastigheter Holding Oy Ab is a major shareholder of Sponda.

In its constitutive meeting after the Annual General Meeting of 21 March 2016, the Board of Directors elected Kaj-Gustaf Bergh as its Chairman and Arja Talma as its Deputy Chairman.

Principles concerning the diversity of the Board of Directors

Sponda has defined its principles concerning the diversity of the Board of Directors as follows: Factors to be taken into account when assessing the diversity of the Board of Directors include the members of the Board having complementary educational and professional backgrounds, international experience and the age and gender structure of the Board of Directors. Both genders shall be represented on the Board of Directors.

The company's principles concerning diversity include the objective that both genders be represented on the Board of Directors. In preparing its proposal to the Annual General Meeting concerning the members of the Board of Directors, the shareholders' Nomination Board has taken into consideration the company's aforementioned diversity principles. The company's objective of having both genders represented has been realised, as the gender breakdown of the Board of Directors elected by the Annual General Meeting of 21 March 2016 is 62.5% men and 37.5% women.

Board Committees

The Board has established two permanent committees to assist the Board in preparing matters for which the Board is responsible. These permanent committees are the Audit Committee and the Structure and Remuneration Committee. The Board is responsible for carrying out the duties it assigns to the committees. If required, the Board can appoint other committees and working groups from among its own members to prepare matters for the Board's consideration and decision-making.

The Audit Committee comprises at least three (3) Board members who are independent of the company and its subsidiaries and have sufficient knowledge of accounting and financial statement standards.

In 2016, the composition of the Audit Committee was as follows: from 1 January to 21 March 2016, the Audit Committee was comprised of Arja Talma as Chair, Raimo Valo as Deputy Chair, and Paul Hartwall and Juha Laaksonen as ordinary members, and from 21 March to 31 December 2016, Arja Talma as Chair, Raimo Valo as Deputy Chair, and Paul Hartwall and Outi Henriksson as ordinary members. The Chief Financial Officer of Sponda acted as secretary in the meetings of the Audit Committee.

The Structure and Remuneration Committee comprises at least three (3) Board members who are independent of the company. In 2016, the composition of the Structure and Remuneration Committee was as follows: from 1 January to 21 March 2016, the Structure and Remuneration Committee was comprised of Kaj-Gustaf Bergh as Chair, Christian Elfving as Deputy Chair and Leena Laitinen as an ordinary member, and from 21 March to 31 December 2016, Kaj-Gustaf Bergh as Chair, Christian Elfving as Deputy Chair, and Leena Laitinen and Juha Metsälä as ordinary members. Sponda's President and CEO also attended meetings of the Structure and Remuneration Committee. The company's President and CEO acted as secretary in the meetings of the Structure and Remuneration Committee.

The operations of the Board of Directors and its Committees in 2016 are described in more detail in the CG Statement.

Annual General Meeting and dividend

The Board of Directors of Sponda Plc is convening the Annual General Meeting on 20 March 2017. The Board's dividend proposal takes into consideration the dividend payment authorisation granted by the 2016 Annual General Meeting, based on which dividends totalling EUR 0.12 per share have already been paid in 2016. The Board proposes to the 2017 Annual General Meeting that a dividend of EUR 0.08 per share be paid.

The Board further proposes to the Annual General Meeting that the Annual General Meeting authorise the Board of Directors to decide, at its discretion, on the payment of dividend in no more than two tranches based on the annual accounts adopted for the financial year 2016. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share.

Auditors

Sponda Plc's auditors are APA Esa Kailiala and authorised public accountants KPMG Oy Ab, with APA Lasse Holopainen as the responsible auditor and APA Petri Kettunen as the deputy auditor.

The Shareholders' Nomination Board

In its meeting held on 25 January 2017, the Shareholders' Nomination Board of Sponda Plc has decided to propose to the Annual General Meeting to be held on 20 March 2017 that the Board of Directors will consist of seven ordinary members.

The Shareholders' Nomination Board proposes that the current members Kaj-Gustaf Bergh, Christian Elfving, Paul Hartwall, Outi Henriksson, Leena Laitinen, Juha Metsälä and Raimo Valo be re-elected to the Board of Directors for the term that expires at the closing of the Annual General Meeting in 2018. The Nomination Board notes that, of the current members of the Board of Directors, Alma Talma was no longer available for election as a Board member.

In its proposal, the Nomination Board has taken into consideration the principles concerning the diversity of the Board of Directors defined by the company.

The Shareholders' Nomination Board of Sponda Plc proposes to the Annual General Meeting that the remuneration of Board members be kept unchanged, and that the members of the Board of Directors elected in the Annual General Meeting be paid the following annual remunerations for the term concluding at the 2018 Annual General Meeting:

- Chairman of the Board: EUR 66,000
- Deputy Chairman of the Board: EUR 40,000 and
- each member of the Board: EUR 33,000.

The Nomination Board further proposes that additional compensation of EUR 1,000 be paid to the Chairman of the Board for each meeting attended and EUR 600 be paid to members of the Board for each meeting attended. The Nomination Board proposes that members of the Board be paid EUR 600 per committee meeting attended and the Chairman of the Audit Committee EUR 1,000 per Audit Committee meeting attended.

The Nomination Board proposes that 40% of the fixed annual remuneration be paid in Sponda Plc shares purchased from the market. The shares will be purchased within two weeks of the release of Sponda Plc's interim report for the period 1 January–31 March 2017. The Nomination Board further proposes that travel costs be reimbursed in accordance with the principles approved by the Finnish Tax Administration.

The Nomination Board's proposal to change the Board's rules of procedure

The Nomination Board has decided to propose to the Board of Directors that the Board would include the change in the Nomination Board's rules of procedure in the Annual General Meeting 2017 notice. The primary content of the change is as follows: The right to appoint members to the Nomination Board is determined according to ownership on 31 August of the calendar year preceding the Annual General Meeting, and the term of office for a member of the Nomination Board will begin when the member is appointed and conclude annually as the new Nomination Board is appointed.

The Shareholders' Nomination Board consisted of the following three largest shareholders on 30 September 2016:
– Mercator Invest Ab, Kaj-Gustaf Bergh;
– Varma Mutual Pension Insurance Company, Pekka Pajamo; and
– HC Fastigheter Holding Oy Ab, Ole Johansson.

Management and personnel

Sponda Plc's President and Chief Executive Officer is Kari Inkinen. Until 31 December 2016, Sponda's Executive Board comprised the President and CEO, the CFO, the SVP for Corporate Planning and IR, and the heads of three business units, in total six persons.

In November 2016, Sponda announced its new organisational structure, which consists of four business units: Office Properties, Shopping Centres, Property Development and Property Investments. From 1 January 2017, Sponda's Executive Board comprises the President and CEO, the CFO, the SVP for Corporate Planning and IR, and the heads of four business units, in total seven persons.

	2016	2015	2014	2013	2012
Average number of employees during the year	107	103	118	121	122
Number of employees at the end of the year	102	103	105	118	119
Employee benefit expenses, M€	13.3	10.9	12.1	13.3	13.5

Sponda has personnel in Finland and in Russia..

Annual remuneration and incentive schemes

Sponda has an annual remuneration scheme that covers all employees and is based on both company objectives and personal targets. The key factors affecting the individual's bonus are profitability and business development. Sponda's employees have the opportunity to participate annually in a Share Programme, the target group of which includes all employees of Group companies, excluding persons in an employment or service relationship with the Group who are included in Sponda's long-term share-based incentive scheme.

Sponda also has a long-term share-based incentive scheme with three three-year vesting periods, the calendar years 2014–2016, 2015–2017 and 2016–2018. The Board of Directors decides on the earning criteria and on the targets to be laid down for the earning criteria for each vesting period. The earning criteria for the vesting periods 1 January 2014–31 December 2016, 1 January 2015–31 December 2017 and 1 January 2016–31 December 2018 are the Group's average Return on Capital Employed (ROCE) and cumulative Operational Cash Earnings Per Share (CEPS) for the financial years in question, as well as property sales.

The long-term incentive scheme currently covers the members of the Executive Board, six people in all. The Board of Directors can decide on including new key personnel in the scheme. The incentive scheme is described in more detail in the company's stock exchange releases dated 5 February 2014, 5 February 2015 and 4 February 2016.

Sponda's share

Issued shares and share capital

At the end of 2016, Sponda Plc's share capital amounted to EUR 111,030,185 and the number of issued shares was 339,690,554. The number of shares increased by 56,615,092 due to a rights offering carried out in March 2016.

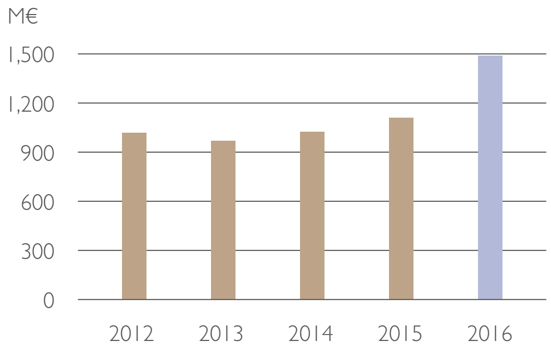
Trading in Sponda's shares

The weighted average price of Sponda's share in 2016 was EUR 3.96. The highest quotation on NASDAQ Helsinki was EUR 4.85 and the lowest EUR 3.32. Turnover during the period totalled some 126.5 million shares, or approximately EUR 501 million. The closing price of the share on 30 December 2016 was EUR 4.38 and the market capitalisation of the company's share capital was EUR 1,486.5 million.

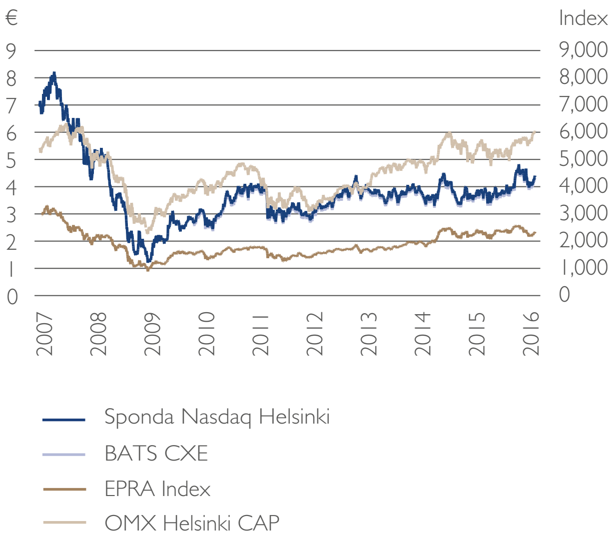
Board authorisations

The Annual General Meeting on 21 March 2016 authorised the Board of Directors to purchase the company's own shares. The authorisation is valid until the next Annual General Meeting. The authorisation was not exercised during the review period.

Market capitalization



Sponda's share price compared to indices



Source: Sponda website and Investis

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and on the issuance of special rights conferring entitlement to the shares referred to in Chapter 10, Section 1 of the Finnish Companies Act in accordance with the proposal of the Board of Directors. The authorisation is valid until the next Annual General Meeting. The authorisation was not exercised during the review period.

The Annual General Meeting authorised the Board of Directors to decide, at its discretion, on the payment of dividend during 2016, in no more than two tranches, based on the annual accounts adopted for the financial year 2015. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share. The authorisation granted by the General Meeting will be in force until the beginning of the Annual General Meeting of 2017. The authorisation was exercised in its entirety during the review period.

Treasury shares

Sponda did not own any treasury shares during the review period.

Events after the period

In its meeting held on 25 January 2017, the Shareholders' Nomination Board of Sponda Plc decided to submit a proposal to the Annual General Meeting to be held on 20 March 2017 regarding the number of members of the Board of Directors, the members to be elected to the Board and the remuneration of the Board. More detailed information on the proposal is available under the heading "Shareholders' Nomination Board".

Prospects for 2017

Sponda provides prospects for 2017 with regard to the development of the company's net operating income and adjusted EPRA Earnings.

Net operating income

Sponda estimates that the net operating income for 2017 will amount to EUR 182–192 million. This estimate is based on property sales in 2016 and estimated sales in 2017. The development of net operating income will also be affected by the increase in property taxes in 2017 as well as one large property being vacated for renovation.

Adjusted EPRA Earnings

Sponda estimates that company adjusted EPRA Earnings in 2017 will amount to EUR 106–116 million. This estimate is based on property sales in 2016 and estimated sales in 2017. The development of net operating income will also be affected by the increase in property taxes in 2017 as well as one large property being vacated for renovation.

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Corporate Governance Statement
www.sponda.fi > Investors > Governance

More information on the Sponda share on
www.sponda.fi > Investors and on the following pages

The total shareholdings of the Board of Directors and the Executive Board are presented in Note 6.3 to the financial statements.

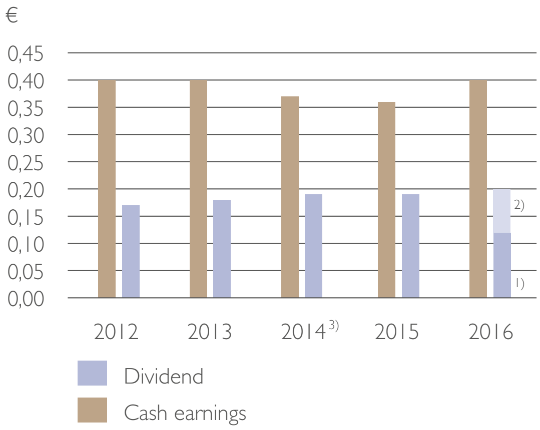
Sponda Annual Review 2016
http://sijoittajat.sponda.fi/en/year-in-review

Share and shareholders

Sponda Plc's share capital on 31 December 2016 was EUR 111,030,185 and the number of shares was 339,690,554. The Sponda share is quoted on NASDAQ Helsinki Ltd under the trading code SDA1V. The shares are managed under the book-entry securities system. Sponda has one share series with equal voting and dividend rights. Each share carries one vote at general meetings. The company did not hold any Sponda shares.

In addition to NASDAQ Helsinki, Sponda shares were traded on several alternative marketplaces such as BATS CXE, BATS and Turquoise.

Dividend and cash earnings per share



[1] Dividend paid during 2016 based on AGM 2016 authorisation, in total EUR 0,12 per share
[2] Board's proposal, EUR 0.08 / share
[3] Cash flow from operations includes the share of the result of associated companies adjusted by the changes in fair value of the associated companies' investment properties and financial instruments, and deferred taxes.

Dividend policy

Sponda Plc distributes a dividend corresponding to about 50 per cent of the cash flow from operations per share for the period while taking into consideration the company's financial situation and business development needs.

Shareholders

At the end of 2016, Sponda had a total of 10,414 shareholders. Nominee-registered shareholders accounted for 34.7 per cent of the shares and votes. Foreign and nominee-registered shareholders together held 35.2 per cent of the shares and votes.

Sponda issued the following flagging notices in 2016:

- 1 April 2016: Varma Mutual Pension Insurance Company announced that its holding of shares represented 8.56% of the total number of shares and votes in Sponda Plc.
- 1 April 2016: Forum Fastighets Ab announced that its holding of shares represented 28.07% of the total number of shares and votes in Sponda Plc.
- 1 December 2016: Mercator Invest Ab announced that, as of 1 December 2016, its holding of shares represents 28.07 per cent of the total number of shares in Sponda Plc. Oy PALSK Ab merged with Mercator Invest Ab on 30 November 2016. The 42,163,745 Sponda Plc shares (12.41% of the total number of shares and votes) owned by Oy PALSK Ab were transferred to Mercator Invest Ab in the merger.

Rights offering

Sponda carried out a rights offering in March 2016. Shareholders were granted one subscription right for each existing Sponda share, and five subscription rights entitled to subscribe for one new share. The subscription price was EUR 3.90 per share. The number of shares in Sponda increased by 56,615,092.

Current authorisations

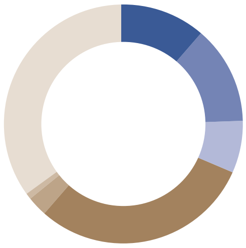
The Annual General Meeting on 21 March 2016 authorised the Board of Directors to purchase the company's own shares. The authorisation is valid until the next Annual General Meeting. The authorisation was not exercised during the review period.

The Annual General Meeting also authorised the Board of Directors to decide on a share issue and on the issuance of special rights conferring entitlement to the shares referred to in Chapter 10, Section 1 of the Finnish Companies Act in accordance with the proposal of the Board of Directors. The authorisation is valid until the next Annual General Meeting. The authorisation was not exercised during the review period.

! Up-to-date information on the Sponda share at [www.sponda.fi > Investors](www.sponda.fi)

The Annual General Meeting authorised the Board of Directors to decide, at its discretion, on the payment of dividend during 2016, in no more than two tranches, based on the annual accounts adopted for the financial year 2015. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share. The authorisation granted by the General Meeting will be in force until the beginning of the Annual General Meeting of 2017. The authorisation was exercised in its entirety during the review period.

Ownership structure by sector 31 Dec



Shareholders by sector on 31 December 2016

	Number of shares	% of share capital
Public sector	39,363,904	11.59
Financial and insurance corporations	43,920,107	12.93
Households	23,532,432	6.93
Non-financial corporations	102,204,636	30.09
Non-profit institutions	9,694,297	2.85
Foreign owners, total	2,967,645	0.87
Nominee-registered	118,007,533	34.74
Total	**339,690,554**	**100.00**

20 principal shareholders on 31 December 2016

		Number of shares	% of shares
1	Mercator Invest Ab	95,344,608	28.07
2	HC Fastigheter Holding Oy Ab	34,181,172	10.06
3	Varma Mutual Pension Insurance Company	29,083,070	8.56
4	Åbo Akademi University Foundation	4,957,430	1.46
5	Elo Mutual Pension Insurance Company	4,893,083	1.44
6	The State Pension Fund	3,950,000	1.16
7	OP-Finland Value Fund	2,183,952	0.64
8	OP-Finland Small Cap Fund	1,868,580	0.55
9	Odin Eiendom	1,500,000	0.44
10	Danske Invest Finnish Institutional Equity Fund	1,042,000	0.31
11	Norvestia plc	798,196	0.23
12	Tiiviste-Group Oy	750,000	0.22
13	SEB Finland Small Cap	700,000	0.21
14	Säästöpankki Korko Plus fund	641,817	0.19
15	Landskapet Ålands Pensionsfond	604,000	0.18
16	I.A. von Julins STB	595,000	0.18
17	Paju Markku Juhani	593,261	0.17
18	The Finnish Literature Society (SKS)	545,000	0.16
19	Life Annuity Institution Hereditas	540,000	0.16
20	Danske Invest Suomen Parhaat non-UCITS fund	540,000	0.16
	Total	**185,311,169**	**54.55**

Distribution of ownership 31 December 2016

	Number of shareholders	% of shareholders	Number of securities	% of securities	Number of votes	% of votes
1–100	906	8.70	49,260	0.02	49,260	0.02
101–500	2,899	27.84	885,736	0.26	885,736	0.26
501–1,000	1,934	18.57	1,514,883	0.45	1,514,883	0.45
1,001–5,000	3,613	34.69	8,552,518	2.52	8,552,518	2.52
5,001–10,000	549	5.27	3,935,196	1.16	3,935,196	1.16
10,001–50,000	384	3.69	7,600,224	2.24	7,600,224	2.24
50,001–100,000	54	0.52	3,591,334	1.06	3,591,334	1.06
100,001–500,000	46	0.44	9,279,094	2.73	9,279,094	2.73
500,001–	29	0.28	304,282,309	89.58	304,282,309	89.58
Total	**10,414**	**100.00**	**339,690,554**	**100.00**	**339,690,554**	**100.0**
of which nominee-registered	9		118,007,533	34.74	118,007,533	34.74
Non-transferred, total	0		0	0	0	0
In general account			0	0	0	0
In special accounts, total			0	0	0	0
Total issued			339,690,554	100.00	339,690,554	100.00

Group key figures

Key financial figures

	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Income statement key figures					
1. Total revenue, M€	**259.0**	230.5	246.7	264.3	264.6
2. Operating profit, M€	**206.7**	178.1	151.7	153.0	210.5 [1]
3. % of total revenue	**79.8**	77.3	61.5	57.9	79.6 [1]
4. Financial expenses, M€	**-54.4**	-55.7	-74.1	-83.1	-94.6
5. Profit/loss for the period, M€	**137.5**	227.2	73.6	103.1	114.3 [1]
6. % of total revenue	**53.1**	98.6	29.8	39.0	43.2 [1]
7. EPRA, Direct result, M€	**113.1**	232.0	101.6	111.5 [2]	111.9 [1] [2]
Balance sheet key figures					
8. Total shareholders' equity, M€	**1,849.9**	1,585.0	1,411.5	1,409.3	1,447.7 [1]
9. Total liabilities, M€	**2,066.6**	1,856.0	2,037.7	2,062.5	2,074.1 [1]
10. Interest-bearing liabilities, M€	**1,862.5**	1,660.9	1,731.2	1,788.8	1,736.2
11. Interest-bearing net liabilities, M€	**1,849.6**	1,440.9	1,710.8	1,770.0	1,706.1
Profitability and financing key figures					
12. Return on investment, %	**6.0**	5.8	5.4	5.5	7.9 [1]
13. Return on shareholders' equity (ROE), %	**8.0**	15.2	5.2	7.2	8.2 [1]
14. Equity ratio, %	**47.4**	46.2	41.0	40.7	41.2 [1]
15. Debt equity ratio, %	**100.7**	104.8	122.6	126.9	119.9 [1]
16. Gearing, %	**100.0**	90.9	121.2	125.6	117.9 [1]
Other key figures					
17. Gross expenditure on non-current assets, M€	**686.8**	111.4	185.1	54.8	147.8
18. % of total revenue	**265.2**	48.3	75.1	20.7	55.9

[1] The 2012 figure was adjusted following the voluntary amendment of accounting principles with regard to IAS 12 and the amendment of IAS 19

[2] In 2013, Sponda changed the calculation and the presentation of EPRA key figures to better correspond with the EPRA Best Practices Recommendations. The figures for 2012 were adjusted accordingly. The most notable change relates to deferred taxes on investment properties.

Key figures per share

	31.12.2016		31.12.2015	31.12.2014	31.12.2013	31.12.2012
19. Basic and diluted earnings per share attributable to parent company equity holders, € (EPS)	**0.41**		0.78	0.24	0.34	0.37 [2]
20. Shareholders' equity per share, €	**5.16**		5.26	4.65	4.64	4.45 [2]
21. Dividend/ Board's proposal, €	**0.08**	[1]	0.19	0.19	0.18	0.17
22. Dividends paid based on authorisation granted by General Meeting, €	**0.12**	[4]				
23. Total dividend, €	**0.20**		0.19	0.19	0.18	0.17
24. Payout ratio, %	**49.37**	[1]	24.22	78.60	53.49	45.86 [2]
25. Effective dividend yield, %	**4.57**	[1]	4.85	5.25	5.26	4.72
26. P/E ratio, %	**10.81**		5.00	14.98	10.16	9.71 [2]
27. Lowest and highest share prices, €	**3.32/4.85**		3.29/4.57	3.25/4.10	3.32/4.42	2.72/3.75
28. Average share price, €	**3.96**		3.79	3.68	3.75	3.17
29. Closing share price, €	**4.38**		3.92	3.62	3.42	3.60
30. Market capitalisation, M€	**1,487.8**		1,109.7	1,024.7	968.1	1,019.1
31. Share turnover, million shares	**126.5**		121.6	73.4	96.8	115.2
32. Share turnover, %	**37.2**		43.0	25.9	34.2	40.7
33. Weighted average number of basic and diluted shares, million shares	**326.9**		283.1	283.1	283.1	283.1
34. Number of basic and diluted shares at the end of the year, million shares	**339.7**		283.1	283.1	283.1	283.1
35. Operating result per share, €	**0.35**		0.82	0.36	0.39	0.40
36. Cash flow from operations per share, €	**0.40**		0.36	0.37 [3]	0.40	0.40

1) Board proposal

2) The 2012 figure was adjusted following the voluntary amendment of accounting principles with regard to IAS 12 and the amendment of IAS 19

3) Cash flow from operations includes the share of the result of associated companies adjusted by the changes in fair value of the associated companies' investment properties and financial instruments, and deferred taxes.

4) Dividend: dividends paid during the financial year 2016 based on the authorisation granted to the Board of Directors at the General Meeting held on 21 March 2016. The distribution of dividend was based on the annual accounts adopted for the financial year 2015.

EPRA key figures

EPRA (European Public Real Estate Association) is a non-profit association representing Europe's publicly-listed property companies. EPRA's aim is to promote, develop and represent the operations of European property investment companies and the industry in general. Sponda is an EPRA member.

EPRA also establishes best practices for accounting, financial reporting and administration to support the provision of high-quality and comparable financial information. Sponda adheres to EPRA recommendations in its financial reporting. EPRA key figures for Sponda's operations are presented on the following pages.

More information on EPRA recommendations is available online at www.epra.com.

EPRA key figures

	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
35. EPRA Earnings[1,2], M€	**113.1**	232.0	101.6	111.5	111.9
36. EPRA Earnings per share[1,2], €	**0.35**	0.82	0.36	0.39	0.40
37. EPRA NAV[1,2], M€	**1,866.5**	1,586.6	1,542.1	1,497.8	1,472.5
38. EPRA NAV per share[1,2], €	**5.49**	5.60	5.45	5.29	5.20
39. EPRA NNNAV[1,2], M€	**1,723.6**	1,457.9	1,271.5	1,278.1	1,227.7
40. EPRA NNNAV per share[1,2], €	**5.07**	5.15	4.49	4.52	4.34
41. EPRA Net Initial Yield (NIY), %	**5.29**	5.62	5.18	5.84	6.61
42. EPRA "topped-up" NIY, %	**5.31**	5.63	5.19	5.84	6.63
43. EPRA Vacancy rate, %	**10.4**	12.3	13.0	12.1	11.9
44. EPRA Cost Ratio (including direct vacancy costs), %	**16.36**	17.68	17.26	16.27	
45. EPRA Cost Ratio (excluding direct vacancy costs), %	**12.40**	12.90	11.96	11.37	

1) The 2012 figure was adjusted following the voluntary amendment of accounting principles with regard to IAS 12 and the amendment of IAS 19.

2) In 2013, Sponda changed the calculation and the presentation of EPRA key figures to better correspond with the EPRA Best Practices Recommendations. The figures for 2012 were adjusted accordingly. The most notable change relates to deferred taxes on investment properties.

EPRA Earnings

EPRA Earnings illustrates the result of the Group's core business. It is an important indicator for investors and shareholders of how well the operating result supports the payment of dividends. The operating result is calculated by adjusting the Group's result by, inter alia, changes in the fair values of properties and financial instruments, gains and losses on sales, impairment on goodwill and other income and expenses considered by the company to be non-operating items. In addition, EPRA Earnings includes the share of the result of associated companies adjusted by the changes in fair value of the associated companies' investment properties and financial instruments, and deferred taxes.

In order to facilitate the monitoring of the operating result, Sponda presents the Group's operating result and operating result per share in accordance with EPRA recommendations.

Sponda's result includes several non-operating items. These items are primarily due to the nature of Sponda's business operations and IFRS reporting obligations.

In 2013, Sponda changed its method of calculation and presentation for EPRA Earnings to better correspond with the EPRA Best Practices Recommendations. Due to this change, EPRA Earnings is presented with two different calculation methods. The most notable change relates to deferred taxes on investment properties.

EPRA Earnings, new presentation method		
M€	31.12.2016	31.12.2015
Earnings per IFRS income statement	**137.5**	227.2
–/+ Net profits or losses from fair value assessment of investment properties	**-26.7**	-22.4
–/+ Net profits or losses on disposal of investment properties	**-0.7**	-0.7
–/+ Net profits or losses on sales of trading properties	**-14.6**	-2.8
+/– Tax on profits or losses on disposals	**-0.9**	0.0
+/– Negative goodwill / goodwill impairment	**3.1**	3.0
–/+ Changes in fair value of financial instruments	**0.4**	0.1
+/– Change in deferred taxes arising from the items above	**15.0**	27.6
EPRA Earnings	**113.1**	232.0
EPRA Earnings per share, €	**0.35**	0.82
Company-specific adjustments:		
Deferred taxes on operating result	**0.6**	-133.5
Income taxes related to change in fair value	**-0.1**	-
Company-specific Adjusted Earnings	**113.7**	98.6
Company-specific Adjusted Earnings per share, €	**0.35**	0.35

EPRA Earnings, old presentation method		
M€	31.12.2016	31.12.2015
Net operating income	**190.9**	165.7
+ Realised gains from real estate funds	**-**	0.0
– Marketing and administration	**-22.8**	-21.7
+/– Other operating income and expenses	**-0.4**	12.7
Operating profit	**167.8**	156.7
+/– Financial income and expenses	**-50.8**	-48.8
– Taxes based on operating result	**-3.2**	-9.3
– Deferred taxes on operating result	**-0.6**	133.5
EPRA Earnings	**113.1**	232.0
EPRA Earnings per share, €	**0.35**	0.82
Company-specific adjustments:		
Deferred taxes on operating result	**0.6**	-133.5
Income taxes related to change in fair value	**-0.1**	-
Company-specific Adjusted Earnings	**113.7**	98.6
Company-specific Adjusted Earnings per share, €	**0.35**	0.35

EPRA NAV (net asset value) and EPRA NNNAV (adjusted net asset value)

EPRA NAV is a measure of the fair value of the property investment company's net assets, which makes it an important indicator. Compared to IFRS net assets, the EPRA NAV calculation is based on the going concern principle, meaning that the fair values of financial derivatives are eliminated along with deferred taxes on investment properties that would materialise in the event of a possible sale.

EPRA NNNAV is a measure of the property investment company's net assets on the balance sheet date. It includes the fair values of financial derivatives and deferred taxes excluded from EPRA NAV, as well as the fair values of liabilities.

EPRA NAV

M€	31.12.2016	31.12.2015
Equity attributable to equity holders of the parent company	1,848.1	1,583.2
– Other equity reserve	-94.0	-94.0
–/+ Fair value of financial instruments	28.1	37.7
+ Deferred tax liabilities resulting from the assessment of fair value of properties	92.8	71.3
– Goodwill created from the deferred tax liabilities on properties	-8.5	-11.5
EPRA NAV, M€	1,866.5	1,586.6
EPRA NAV per share, €	5.49	5.60

EPRA NNNAV

M€	31.12.2016	31.12.2015
EPRA NAV, M€	1,866.5	1,586.6
+ Fair value of financial instruments	-28.1	-37.7
–/+ Difference between the fair value and balance sheet value of liabilities	-22.0	-19.8
+ Deferred tax liabilities resulting from the assessment of fair value of properties	-92.8	-71.3
EPRA NNNAV, M€	1,723.6	1,457.9
EPRA NNNAV per share, €	5.07	5.15

EPRA NIY and "topped-up" NIY

EPRA Net Initial Yield NIY and "topped-up" NIY represent the annual net yield on investment property on the date of closing the books.

The annual computational net yield is the annualised rental yield for the month of closing the books adjusted by the effect of known rent increases on the following year's yield deducted by the predicted 12-month maintenance costs of comparable properties.

The annual computational adjusted net yield is calculated by making an adjustment to the annual computational net yield in respect of the annualised effect of rent-free periods and graded rents for the coming year.

EPRA NIY

M€		31.12.2016	31.12.2015
Investment properties		**3,788.3**	3,101.7
– Developments		**-228.1**	-226.1
Yield-producing investment properties		**3,560.2**	2,875.6
+ Estimated buyer's expenses		**57.0**	46.0
Adjusted value of investment properties	B	**3,617.2**	2,921.6
Annual computational net yield	A	**191.5**	164.2
Graded rents, rent-free periods, etc.		**0.5**	0.4
Annual computational adjusted net yield	C	**192.0**	164.5
EPRA NIY	A/B	**5.29%**	5.62%
EPRA "topped-up" NIY	C/B	**5.31%**	5.63%

EPRA COST RATIOS

EPRA Cost Ratio describes a property investment company's general administrative costs in relation to operating income.

EPRA Cost Ratio is calculated in two ways, including and excluding direct vacancy costs.

EPRA Cost Ratio			
M€		31.12.2016	31.12.2015
	Include:		
i	Administrative/operating expense line per IFRS income statement	94.3	89.8
ii	Net service charge costs/fees	-5.5	-5.5
iii	Management fees less actual/estimated profit element		
iv	Other operating income/recharges intended to cover overhead expenses less any related profits		
v	Share of Joint Ventures expenses		
	Exclude (if part of the above)		
vi	Investment Property depreciation		
vii	Ground rent costs	-2.7	-4.1
viii	Service charge cost recovered through rents but not separately invoiced	-53.5	-49.5
	EPRA Costs (including direct vacancy costs) (A)	32.6	30.7
ix	Direct vacancy costs	-7.9	-8.3
	EPRA Costs (excluding direct vacancy costs) (B)	24.7	22.4
x	Gross Rental Income less ground rent costs	252.8	223.3
xi	Service fees and service charge cost components of Gross Rental Income that are not separately invoiced	-53.5	-49.5
xii	Share of Joint Ventures		
	Gross Rental Income (C)	199.3	173.8
	EPRA Cost Ratio (including direct vacancy costs) (A/C)	16.36%	17.68%
	EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	12.40%	12.90%

In the cost ratio calculation the part of operating expenses that is not charged separately from the tenants (e.g. "warm" rent) has been deducted as a whole from the leased space. This is because the rent covers maintenance expenses of the leased area.
Property maintenance expenses that are charged directly from tenants are shown on a separate line (ii).

No overhead costs are capitalised.
Sponda has a policy of not capitalising any overhead and operating expenses.

EPRA BPR additional information

EPRA BPR LIKE-FOR-LIKE

EPRA Like-for-like compares net rental income from a comparable property portfolio in normal use with the corresponding period in the previous year.

EPRA BPR LIKE-FOR-LIKE

	Financial year ended 31 Dec 2016, M€						Financial year ended 31 Dec 2015, M€					
EPRA like-for-like net rental growth	Owned 2 yrs	Acquisitions	Sales	Development and other	Currency rate effect[1]	Total	Owned 2 yrs	Acquisitions	Sales	Development and other	Currency rate effect[1]	Total
Office Properties	**106.6**	7.1	0.0	10.3	-	124.1	**106.8**	0.0	0.3	2.6	-	109.7
Shopping Centres	**36.2**	18.1	0.0	0.6	-	54.8	**35.4**	0.0	0.0	0.3	-	35.7
Logistics Properties	**3.9**	-	0.2	0.3	-	4.4	**3.5**	-	5.4	0.2	-	9.1
Russia	**6.4**	-	1.8	0.0	0.2	8.3	**6.8**	-	4.4	-0.1	1.7	12.8

MATCHING	2016	2015
Total above	191.7	167.4
Property Development segment	-0.9	-1.7
Property Investment Companies	0.0	0.0
Other	0.1	0.0
In Sponda's consolidated income statement	**190.9**	**165.7**

[1] Fixed rate, closing rate of the comparison period

Calculations based on per-property level

Acquisitions	Properties whose shares have been acquired during the reporting period or comparison period
Sales	Properties whose shares have been sold during the reporting period or comparison period
Development and other	Properties where development or modernisation investments have been made to the extent that net yield is not fully comparable with the previous year Also includes transfers between segments and other events with possible tax impacts
Exchange rate change	Roubles translated to euros using the exchange rate on the last day of the period.

LIKE-FOR-LIKE net yield increase and corresponding investment assets

	Owned 2 yrs		Change		Comparable investment properties,
2016	2016	2015	M€	%	M€
Office Properties	106.6	106.8	-0.2	-0.2%	1,808.2
Shopping Centres	36.2	35.4	0.7	2.1%	734.3
Logistics Properties	3.9	3.5	0.5	13.1%	61.5
Russia	6.4	6.8	-0.5	-6.7%	101.6

2015	Owned 2 yrs 2015	2014	Change M€	%	Comparable investment properties, M€
Office Properties	101.5	98.2	3.3	3.3%	1,709.1
Shopping Centres	35.4	35.0	0.4	1.3%	730.7
Logistics Properties	4.1	3.2	0.9	27.8%	83.5
Russia	10.0	7.9	[2] -0.5	-4.3%	136.0

[2] For greater accuracy, LFL for Russia is calculated on amounts translated periodically from roubles to euros.

EPRA Valuation data

2016	Investment properties, M€	Valuation change, M€	EPRA Net Initial Yield, %
Office Properties	2,190.4	25.2	5.61
Shopping Centres	1,195.4	21.3	4.42
Logistics Properties	69.0	-2.3	6.30
Property Development	184.3	4.9	N/A
Russia	116.3	-20.5	7.84
Total	**3,755.5**	**28.7**	**5.29**
MATCHING			
Total above	3,755.5		
Other	0.0		
Group investment properties total	**3,755.5**		

2015	Investment properties, M€	Valuation change, M€	EPRA Net Initial Yield, %
Office Properties	1,994.8	35.5	5.85
Shopping Centres	733.6	3.2	4.74
Logistics Properties	92.9	-7.4	7.40
Property Development	129.7	25.9	N/A
Russia	150.7	-33.9	5.80
Total	**3,101.7**	**23.2**	**5.62**
MATCHING			
Total above	3,101.7		
Other	0.0		
Group investment properties total	**3,101.7**		

EPRA Lease information

2016	Total revenue, M€	Net operating income, M€	Leasable area, m²	Paid rent, M€/year	Market rent, M€/month	Economic vacancy rate, %	Rental level, €/m²
Office Properties	167.2	124.1	808,500	164.4	13.7	10.83	21.7
Shopping Centres	70.3	54.8	198,000	69.6	6.5	6.54	34.7
Logistics Properties	8.6	4.4	149,000	8.4	1.0	26.02	7.8
Property Development	1.3	-0.9	29,800	0.2	N/A	N/A	N/A
Russia	11.3	8.3	17,500	10.8	0.9	15.22	44.1
Total	**258.8**	**190.8**	**1,202,800**	**253.4**	**22.1**	**10.38**	**23.0**

MATCHING		
Total above	258.8	190.8
Property Investment Companies	0.0	0.0
Other	0.2	0.1
Consolidated income statement total	**259.0**	**190.9**

2015	Total revenue, M€	Net operating income, M€	Leasable area, m²	Paid rent, M€/year	Market rent, M€/month	Economic vacancy rate, %	Rental level, €/m²
Office Properties	149.1	109.7	775,000	147.6	13.6	11.76	20.3
Shopping Centres	46.6	35.7	153,500	47.2	4.3	8.69	28.2
Logistics Properties	16.8	9.1	152,500	10.8	1.0	31.69	7.9
Property Development	1.1	-1.7	32,000	0.3	N/A	N/A	N/A
Russia	16.9	12.8	34,500	12.8	1.4	15.39	35.6
Total	**230.5**	**165.6**	**1,147,500**	**218.7**	**20.3**	**12.26**	**20.5**

MATCHING		
Total above	230.5	165.6
Property Investment Companies	0.0	0.0
Other	0.0	0.1
Consolidated income statement total	**230.5**	**165.7**

EPRA BPR Property related capital expenditure

M€	31.12.2016	31.12.2015
Acquisitions	**590.5**	4.7
Development	**60.7**	65.7
Like-for-like portfolio	**25.5**	26.4
Other*	**10.0**	14.4
Property related capital expenditure, M€	**686.6**	111.2

*) including capitalised interest amounting to EUR 1.2 million (2015: EUR 0.8 million)

Formulas

IFRS key figures

Earnings per share, € =

$$\frac{\text{Share of earnings for the period attributable to equity holders of the parent company} - \text{interest and expenses on hybrid loan allocated to the period, adjusted for taxes}}{\text{Weighted average number of shares outstanding during the period}}$$

Shareholders' equity per share, € =

$$\frac{\text{Equity attributable to equity holders of the parent company} - \text{Other equity reserve}}{\text{Undiluted total number of shares on the date of closing the books}}$$

Alternative key figures defined in accordance with ESMA guidance

Equity ratio, % =

$$100 \times \frac{\text{Equity}}{\text{Balance sheet total} - \text{advances and rent deposits received}}$$

The equity ratio is an indicator of the financial structure that shows the percentage of equity in the capital tied up in operations. Reflects the company's financial structure.

Gearing, % =

$$100 \times \frac{\text{Non-current and current interest-bearing liabilities} - \text{Cash and cash equivalents}}{\text{Equity}}$$

The gearing ratio is an indicator of the financial structure that illustrates the ratio between net debt and equity items. Reflects the company's financial structure.

LTV, Loan to value =

$$\frac{\text{Non-current and current interest-bearing liabilities} - \text{Cash and cash equivalents}}{\text{Investment properties, Investments in real estate funds, Investments in associated companies, Property, plant and equipment, Trading properties and Non-current assets held for sale total}}$$

Loan to Value indicates the share of liabilities, less cash and cash equivalents, in funding the asset items included in the denominator. Reflects the company's financial structure.

Cash flow from operations per share, €	=	Operating profit –/+ Fair value adjustment + Amortisation of goodwill + Depreciation in administration +/– Changes in provisions +/– Defined benefit pension expenses – Financial income & expenses affecting cash flow – Taxes affecting cash flow +/– Changes in fair value of associated companies' investment properties and financial instruments, and deferred taxes ――――――――――――― Weighted average number of shares outstanding during the period Cash flow from operations per share is an indicator of cash flow per share based on the income statement. The company uses this figure as a measure of its dividend payout capacity in its dividend policy.
EPRA Earnings	=	Earnings for the period per IFRS income statement –/+ Net profits or losses from fair value assessment of investment properties –/+ Net profits or losses on disposal of investment properties –/+ Net profits or losses on sales of trading properties +/– Tax on profits or losses on disposals +/– Negative goodwill / goodwill impairment –/+ Changes in fair value of financial instruments +/– Change in deferred taxes arising from the items above
Adjusted EPRA Earnings	=	EPRA Earnings +/− Deferred taxes on operating result +/− Income taxes related to change in fair value EPRA Earnings and company adjusted EPRA Earnings illustrate the earnings from the Group's core business
EPRA NAV per share, €	=	Equity attributable to equity holders of the parent company – Other equity reserve + Fair value of financial instruments + Deferred tax liabilities resulting from the assessment of fair value of properties and depreciation difference – Goodwill created from the deferred tax liabilities on properties ――――――――――――― Undiluted total number of shares on the date of closing the books EPRA NAV/share is an indicator of net assets per share adjusted by items that are not assumed to be realised provided that the company continues its business operations in accordance with the going concern principle.

EPRA NNNAV/share, € = EPRA NAV
– Fair value of financial instruments
– Difference between the fair value and balance sheet value of liabilities
– Deferred tax liabilities arising from the fair value assessment of investment properties
/ Undiluted total number of shares on the date of closing the books

EPRA NNNAV per share is an indicator of net assets per share based on the fair value assessment of balance sheet items on the reporting date.

Other key figures

EPRA Net Initial Yield (NIY), % = Annualised net rental income
/ Investment properties
– Development properties
+ Estimated purchaser's costs

EPRA "topped up" NIY, % = Annualised net rental income
+ Step rents, rent free periods, etc.
/ Investment properties
– Development properties
+ Estimated purchaser's costs

The reconciliation calculations for the selected alternative key figures are provided under EPRA Earnings, EPRA NAV, EPRA NNNAV, EPRA NIY ja EPRA Cost ratio.

Itemisations required for alternative key figures

M€	2016	2015
Depreciation in administration	-1,0	-0,9
Defined benefit pension plans	0,0	0,0
Taxes affecting cash flow	-2,4	-9,3
Financial income and expenses affecting cash flow	-52,0	-51,5
Change in provisions in the income statement	-	-2,4
Changes in fair value of associated companies' investment properties and financial instruments, and deferred taxes	-	-2,3
Advances received	5,7	4,4
Rent deposits received	5,2	4,3

Consolidated income statement

M€	Note	1.1.–31.12.2016	1.1.–31.12.2015
Total revenue			
Rental income and recoverables	2.3	**258.6**	230.2
Interest income from finance leases	7.2	**0.3**	0.3
Management fees			
		259.0	230.5
Expenses			
Maintenance expenses		**-68.0**	-64.8
		-68.0	-64.8
Net operating income		**190.9**	165.7
Proceeds and losses from sale of investment properties	2.1	**0.8**	-4.5
Valuation gains and losses	2.2	**26.7**	23.2
Amortisation of goodwil	2.5	**-3.1**	-3.0
Profit/loss on sales of associated companies		**-0.1**	5.2
Profit/loss on sales of trading properties	7.5	**14.6**	2.8
Sales and marketing expenses		**-2.1**	-2.3
Administrative expenses	6, 7.1, 7.2.2, 7.4	**-20.6**	-19.4
Share of result of associated companies			10.2
Other operating income		**0.5**	0.9
Other operating expenses		**-0.8**	-0.7
Operating profit		**206.7**	178.1
Financial income	3.1	**3.2**	6.8
Financial expenses	3.1	**-54.4**	-55.7
Net financing costs		**-51.2**	-48.9
Profit before taxes		**155.5**	129.2
Income taxes for current and previous periods		**-2.4**	-9.3
Deferred taxes		**-15.6**	107.3
Income taxes total	4	**-17.9**	98.1
Profit for the period		**137.5**	227.2
Attributable to:			
Equity holders of the parent company		**137.5**	227.2
Non-controlling interest		**0.0**	0.0
Profit for the period		**137.5**	227.2
Basic and diluted earnings per share attributable to parent company equity holders, €	5.3	**0.41**	0.78
Weighted average number of basic and diluted shares, million shares	5.3	**326.9**	283.1

Consolidated statement of other comprehensive income

M€	Note	1.1.–31.12.2016	1.1.–31.12.2015
Profit/loss for period		137.5	227.2
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability (asset)		0.2	0.1
Taxes on items that will not be reclassified to profit or loss	4	0.0	0.0
Items that will not be reclassified to profit or loss, total		0.1	0.1
Items that may be reclassified subsequently to profit or loss			
Changes in associated companies recognised directly in comprehensive income			1.4
Net loss/profit from hedging cash flow		8.3	5.9
Translation differences		2.3	-0.2
Taxes on items that may be reclassified subsequently to profit or loss	4	-2.8	-1.9
Items that may be reclassified subsequently to profit or loss, total		7.8	5.2
Other comprehensive income for period after taxes		8.0	5.3
Comprehensive profit/loss for period		145.5	232.6
Allocation of comprehensive profit/loss for period:			
Equity holders of the parent company		145.5	232.6
Non-controlling interest		0.0	0.0

Consolidated statement of financial position

M€	Note	31.12.2016	31.12.2015
Assets			
Non-current assets			
Investment properties	2	**3,755.5**	3,101.7
Investments in real estate funds	7.3	**22.4**	21.4
Property, plant and equipment	7.4	**12.9**	13.0
Goodwill	2.5	**8.5**	11.5
Other intangible assets	7.4	**1.7**	2.4
Finance lease receivables	7.2	**2.7**	2.7
Other investments	3.3.2	**0.2**	0.9
Deferred tax assets	4	**15.4**	9.4
Total non-current assets		**3,819.4**	3,163.1
Current assets			
Trading properties	7.5	**7.2**	7.7
Trade and other receivables	3.3.2, 7.6.1	**44.2**	39.9
Cash and cash equivalents	3.2, 3.3.2	**12.9**	220.0
Total current assets		**64.2**	267.7
Non-current assets classified as held for sale	2.1	**32.9**	10.2
Total assets		**3,916.5**	3,441.0
Equity and liabilities			
Equity attributable to equity holders of the parent company			
Share capital		**111.0**	111.0
Share premium reserve		**159.4**	159.4
Invested non-restricted equity reserve		**652.7**	433.8
Fair value reserve		**-22.6**	-29.2
Revaluation reserve		**0.7**	0.7
Other equity fund		**94.0**	94.0
Translation difference		**0.9**	-0.2
Retained earnings		**851.8**	813.7
		1,848.1	1,583.2
Non-controlling interest		**1.8**	1.8
Total shareholders' equity	5.1, 5.2	**1,849.9**	1,585.0
Liabilities			
Non-current liabilities			
Deferred tax liabilities	4	**93.1**	71.5
Provisions	7.7	**2.4**	2.4
Current interest-bearing loans and borrowings	3.3.2	**1,313.9**	1,080.4
Other liabilities	3.3.2	**28.2**	37.6
Total non-current liabilities		**1,437.7**	1,192.0
Current liabilities			
Current interest-bearing loans and borrowings	3.3.2	**548.6**	580.5
Trade and other payables	3.3.2, 7.6.2	**79.7**	76.4
Current income tax liabilities		**0.4**	7.1
Total current liabilities		**628.6**	664.0
Liabilities directly associated with the assets classified as held for sale		**0.3**	0.0
Total liabilities		**2,066.6**	1,856.0
Total equity and liabilities		**3,916.5**	3,441.0

Consolidated statement of cash flows

M€	Note	1.1.–31.12.2016	1.1.–31.12.2015
Cash flow from operating activities			
Profit for the period		**137.5**	227.2
Adjustments	1	**40.5**	-80.1
Change in net working capital	2	**7.9**	-1.3
Interest received		**0.5**	0.5
Interest paid		**-45.1**	-44.8
Other financial items		**-7.8**	-4.7
Dividends received		**0.0**	0.0
Taxes received/paid		**-11.0**	-2.0
Net cash flow from operating activities		**122.5**	94.9
Cash flow from investing activities			
Acquisition of investment properties	3	**-684.6**	-99.6
Capital expenditure on real estate funds		**-3.0**	-2.2
Investments in shares in associated companies		**-**	0.0
Acquisition of property, plant and equipment and intangible assets		**-0.1**	-0.2
Proceeds from disposal of investment properties	4	**36.4**	154.4
Proceeds from disposal of real estate funds		**-**	0.3
Proceeds from disposal of shares in associated companies		**0.2**	180.6
Proceeds from disposal of tangible and intangible assets		**0.4**	0.0
Capital repayments from associated companies		**-**	7.6
Loan receivables, repayments		**-**	0.6
Net cash flow from investing activities		**-650.8**	241.5
Cash flow from financing activities			
Proceeds from share issue		**218.5**	0.0
Non-current loans, raised		**595.7**	320.0
Repurchase of hybrid bond		**-**	-
Non-current loans, repayments		**-444.1**	-345.4
Current loans, raised/repayments		**49.5**	-50.5
Interest paid on hybrid bond		**-6.4**	-6.4
Dividends paid		**-94.5**	-53.8
Net cash flow from financing activities		**318.7**	-136.1
Change in cash and cash equivalents		**-209.5**	200.4
Cash and cash equivalents, beginning of period		**220.0**	20.3
Impact of changes in exchange rates		**2.4**	-0.7
Cash and cash equivalents, end of period		**12.9**	220.0

CONSOLIDATED STATEMENT OF CASH FLOWS

Notes to the statement of cash flows	1.1.–31.12.2016	1.1.–31.12.2015
1. Adjustments		
Proceeds and losses from sale of investment properties	**-0.8**	4.5
Valuation gains and losses	**-26.7**	-23.2
Amortisation of goodwill	**3.1**	3.0
Proceeds from sale of associated companies	**0.1**	-5.2
Financial income and expenses	**51.2**	48.9
Income taxes	**17.9**	-98.1
Share of result of associated companies	**-**	-10.2
Other adjustments	**-4.3**	0.2
Adjustments, total	**40.5**	-80.1
2. Specification of change in net working capital		
Change in trade and other receivables	**12.9**	-14.0
Change in trading properties	**0.6**	0.1
Change in non-interest-bearing current liabilities	**-5.6**	13.0
Change in provisions	**-**	-0.4
Change in net working capital	**7.9**	-1.3
3. Acquisition of investment properties		
Assets and liabilities of acquired subsidiaries		
Net working capital	**-3.1**	0.2
Total non-current assets	**589.5**	4.7
Interest-bearing loans and borrowings	**-**	-2.9
Net total of assets and liabilities of acquired companies	**586.4**	1.9
Acquisition of subsidiaries		
Acquisition cost of companies	**588.2**	2.2
Cash and cash and cash equivalents of acquired companies at acquisition date	**-1.8**	-0.3
Cash flow from acquisitions less cash and cash equivalents of acquired companies	**586.4**	1.9
Acquired properties	**-**	-
Other capital expenditure on investment properties	**98.2**	97.7
Total acquisition of investment properties	**684.6**	99.6
4. Proceeds from sale of investment properties		
Proceeds from sale of subsidiaries		
Proceeds from sale of subsidiaries	**26.8**	159.4
Cash and cash equivalents of sold subsidiaries	**-0.4**	-4.9
Proceeds from sale of subsidiaries	**26.4**	154.4
Other proceeds from sale of investment properties	**-**	-
Total proceeds from sale of investment properties	**26.4**	154.4
Assets and liabilities of sold subsidiaries		
Net working capital	**-0.2**	-5.5
Investment properties	**27.2**	161.9
Interest-bearing loans and borrowings	**-**	0.0
Provisions/Rental guarantee	**-**	2.4
Transfer to shares in associated companies (merger)	**-**	-
Sales gain/loss	**-0.6**	-4.3
Net total of assets and liabilities of sold subsidiaries	**26.4**	154.4
Other proceeds from disposal of investment properties		
Investment properties	**8.6**	-
Sales gain/loss	**1.4**	-
Total other proceeds from disposal of investment properties	**10.0**	-
Total proceeds from disposal of investment properties	**36.4**	154.4

Consolidated statement of changes in equity

M€	Note	Share capital	Share premium reserve	Invested non-restricted equity reserve	Fair value reserve	Re-valuation reserve	Other equity reserve	Trans-lation difference	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 January 2016		**111.0**	**159.4**	**433.8**	**-29.2**	**0.7**	**94.0**	**-0.2**	**813.7**	**1,583.2**	**1.8**	**1,585.0**
Comprehensive income												
Profit for the period									137.5	137.5	0.0	137.5
Other comprehensive income (net of tax)												
Remeasurements of defined benefit liability (asset)	6.2								0.1	0.1		0.1
Changes in associated companies recognised directly in comprehensive income												
Cash flow hedges	4				6.7					6.7		6.7
Translation difference	4							1.1		1.1		1.1
Comprehensive income, total					6.7			1.1	137.7	145.5	0.0	145.5
Transactions with shareholders												
Share issue	5.1			219.0						219.0		219.0
Dividend payment	5.1, 5.2								-94.5	-94.5		-94.5
Transactions with shareholders, total				219.0					-94.5	124.4		124.4
Interest paid on hybrid bond	3.3.2, 5.1								-5.1	-5.1		-5.1
Change									0.1	0.1		0.1
Equity 31 December 2016		**111.0**	**159.4**	**652.7**	**-22.6**	**0.7**	**94.0**	**0.9**	**851.8**	**1,848.1**	**1.8**	**1,849.9**

M€	Note	Share capital	Share premium reserve	Invested non-restricted equity reserve	Fair value reserve	Re-valuation reserve	Other equity reserve	Trans-lation difference	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 January 2015		**111.0**	**159.4**	**433.8**	**-35.1**	**0.7**	**94.0**	**0.4**	**645.5**	**1,409.7**	**1.8**	**1,411.5**
Comprehensive income												
Profit for the period									227.2	227.2	0.0	227.2
Other comprehensive income (net of tax)												
Remeasurements of defined benefit liability (asset)	6.2								0.1	0.1		0.1
Changes in associated companies recognised directly in comprehensive income					1.4					1.4		1.4
Cash flow hedges	4				4.4					4.4		4.4
Translation difference	4							-0.6		-0.6		-0.6
Comprehensive income, total					5.8			-0.6	227.3	232.6	0.0	232.6
Transactions with shareholders												
Share issue	5.1											
Dividend payment	5.1, 5.2								-53.8	-53.8		-53.8
Transactions with shareholders, total									-53.8	-53.8		-53.8
Interest paid on hybrid bond	3.3.2, 5.1								-5.1	-5.1		-5.1
Change									-0.2	-0.2		-0.2
Equity 31 December 2015		**111.0**	**159.4**	**433.8**	**-29.2**	**0.7**	**94.0**	**-0.2**	**813.7**	**1,583.2**	**1.8**	**1,585.0**

Notes to the consolidated financial statements

Basic information

Sponda Plc (hereinafter referred to as "the company"), together with the subsidiaries and other units incorporated within the consolidated financial statements specified in Note 38 (hereinafter collectively referred to as "the Group" or "Sponda"), is a leading real estate investment company that owns, leases and develops commercial properties in the Helsinki metropolitan area and major cities in Finland.

Established on 23 October 1991, the company is a public limited company registered in Finland with the Business ID 0866692-3. The company is domiciled in Helsinki and its registered office is at Korkeavuorenkatu 45, 00130 Helsinki, Finland. The company's shares are subject to public trading on the main list of the NASDAQ OMX Helsinki stock exchange.

At its meeting on 3 February 2017, the Board of Directors of Sponda Plc approved these financial statements for publication. According to the Finnish Limited Liability Companies Act, shareholders may approve or reject the financial statements at the General Meeting of Shareholders to be held after their publication. The meeting may also decide to amend the financial statements.

Copies of Sponda Plc's financial statements can be obtained from Sponda Plc, Korkeavuorenkatu 45, 00130 Helsinki, Finland, and on the Internet at www.sponda.fi.

Presentation of the financial statements

Amendments have been made to IAS 1 (Presentation of Financial Statements: Disclosure Initiative) with the aim of improving the presentation of financial statements. The amendments entered into force during the 2016 financial year. Sponda has changed the presentation of its financial statements in response to the amendments. The changes are intended to improve the clarity and readability of the financial statements. Going forward, accounting policies are presented, where applicable, in connection to the notes to the financial statements that are related to the accounting policies in question. Notes have been grouped by topic with the aim of clearly presenting the information that is most relevant to the Group's result and financial position.

For Sponda, the most material notes to the income statement and balance sheet are investment properties (more than 90% of the balance sheet total), financing, equity and taxes. Notes pertaining to other income statement and balance sheet items are presented briefly in Note 7. In addition to the notes on balance sheet and income statement items, notes are presented concerning management, personnel, persons closely associated with the Group and contingent liabilities. If the presentation of a note would not provide added value from the reader's perspective, the note has been filtered out entirely. Materiality has been assessed from both the qualitative and the quantitative perspective.

General accounting policies

The general accounting policies include the standards and recommendations applied by the Group, the principles of consolidation, the translation of foreign currency items and the definitions of operating profit and net operating income. Accounting policies pertaining to individual items in the financial statements are presented in connection with the notes in question.

Basis of preparation

The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) applying the IAS and IFRS standards and SIC and IFRIC interpretations endorsed for use in the EU and in force on 31 December 2016. Sponda also complies with the recommendations of the European Public Real Estate Association (EPRA) (www.epra.com).

The consolidated financial statements have been prepared in euros and are presented in millions of euros, rounding to the nearest 0.1 million. The consolidated financial statements are prepared on the historical cost basis except for investment properties, investments in real estate funds and certain financial instruments, which are measured at fair value. All figures have been rounded, so the sum of the individual figures may differ from the total amount presented.

Management judgment

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment. This judgment affects the choice of accounting policies and their application, the amount of assets, liabilities, revenues and expenses to be reported, and the notes. In its judgments, management uses estimates and assumptions that are based on earlier experience and management's best understanding on the balance sheet date, especially concerning future developments in the property market.

Sponda's management exercises judgment when making decisions about the choice of accounting policies for the financial statements and their application. This concerns in particular situations in which the IFRS standards have alternatives for recognition, measurement or presentation.

The preparation of the financial statements in accordance with IFRSs requires management to some extent to make estimates and assumption that affect the recognition of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from the estimates.

In Sponda, the most significant estimates and assumptions requiring the management's judgment mainly concern the fair value measurement of investment properties and the recognition of deferred taxes. These are described in more detail in the notes in question, under the title Management judgment.

Going concern

The Group's financial statements for the financial year 2016 have been prepared on a going concern basis, taking into account reasonably possible changes in the Group's operating environment. The Group's forecasts and estimates, which take into account the current liquidity position, indicate that the Group has sufficient financial resources to continue its operations for the foreseeable future.

Changes to accounting policies and notes presented with the financial statements

New and revised standards adopted in the financial year ended

The following revised or amended standards have affected the consolidated financial statements and they have been applied from 1 January 2016 onwards.

– Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the IAS 1 guidance concerning materiality, aggregating income statement and balance sheet items, the presentation of subheadings and the structure and accounting policies of the financial statements. In Sponda's consolidated financial statements, changes have been made regarding the presentation of the financial statements. Where applicable, the information on accounting policies has been moved to the note in question and the notes have been regrouped. Notes that are not relevant to Sponda's consolidated financial statements and business operations have been left out.

Adoption of new and amended standards and interpretations applicable in future financial years

The following new and amended standards have already been issued by the IASB. They have not yet been applied by Sponda, but they are estimated to potentially have an impact on the financial statements. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. The standards will enter into effect in or after 2017.

* = Not yet endorsed for use by the European Union as of 31 December 2016.

– IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard replaces the current IAS 18 and IAS 11 standards and related interpretations. IFRS 15 provides a five-step model for recognising revenue: at what amount and at what time must revenue be recognised. Sales revenue is recognised based on the transfer of control either over time or at a single time. The standard also increases the amount of notes to be presented. The impacts of IFRS 15 on Sponda's consolidated financial statements have been assessed as follows:
  - The key concepts of IFRS 15 have been analysed with respect to different revenue streams. The Group's revenues are almost entirely comprised of rental income based on lease agreements, which are within the scope of application of IAS 17 / IFRS 16 Leases. As a result, the standard is not estimated to have a significant impact on the Group. The potential impacts of the standard are related to the recognition of revenue from property sales.
  - The standard will be adopted on 1 January 2018 and comparison data will not be adjusted.

– Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018). The clarifications are included in the assessment of the impacts of IFRS 15 above.

– IFRS 9 Financial Instruments (and amendments, effective for financial years beginning on or after 1 January 2018): IFRS 9 will replace the current IAS 39 standard. The new standard includes revised guidance on the recognition and valuation of financial instruments. This includes a new impairment model concerning expected credit losses, which will be applied to recognising impairment of financial assets. The standard also sets out new requirements pertaining to general hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The provisions concerning financial liabilities largely correspond to the existing provisions of IAS 39.

  The effects of the upcoming IFRS 9 on Sponda's consolidated financial statements are minor. The company does not have financial assets that would involve significant credit risks. The company has never had to recognise credit losses on financial assets or derivative assets. The company estimates that financial assets and derivative contracts will also not cause credit losses to the company in the future. According to the company's estimate, the risk associated with rent receivables can be considered low. Over the past five years, the company has recognised credit losses amounting to an annual average of only about 0.2% of rental income and service charges. Future credit losses will continue to be recognised evenly throughout the financial year. The changes concerning the classification of financial assets have only a minor effect on Sponda's financial statements, as the amount of financial assets other than cash and cash equivalents is low.

On the balance sheet date, the company's financial liabilities were primarily comprised of interest-bearing liabilities and derivative liabilities. The company will continue to account for interest-bearing liabilities and derivative liabilities in the same manner as before and does not expect IFRS 9 to have any effect on the consolidated financial statements.

- IFRS 16 Leases * (effective for financial years beginning on or after 1 January 2019). The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires lessees to recognise leases in the balance sheet as lease payment obligations and a related asset item. The recognition in the balance sheet is largely similar to the treatment of financial leasing in accordance with IAS 17. There are two exemptions to the recognition requirement, concerning short-term leases of no more than 12 months and leases where the value of the underlying asset is at most USD 5,000. For lessors, the accounting requirements will largely remain the same as under the existing IAS 17 standard. The Group has begun a preliminary assessment of the impacts of the standard. According to the assessment, the impacts on Sponda's consolidated financial statements as a lessor are minor. The impacts on Sponda as a lessee are being assessed and they are estimated to mainly arise from leased plots of land as well as leases for cars and other machinery and equipment.
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017): The amendments are aimed at enabling the users of financial statements to evaluate changes in liabilities affecting cash flow and liabilities not affecting cash flow arising from financing activities. The amendment will have an impact on the notes to Sponda's consolidated financial statements.
- Amendments to IAS 40 Transfers of Investment Property* (effective for financial years beginning on or after 1 January 2018). The amendments clarify that a change in the intentions of management does not, in itself, indicate that the use of an investment property has changed. The examples provided in the standard for change in use have also been amended in such a way that they refer to properties under construction as well as completed properties. The amendment will not have an impact on Sponda's consolidated financial statements.

Principles of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Sponda Plc and its subsidiaries as at 31 December each year. The companies incorporated within the consolidated financial statements for the financial year 2016 are specified in Note 8.

Subsidiaries are companies that the Group controls. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

IFRS 3 (Business Combinations) is applied to acquisitions in which a business is acquired. Mutual in-Group holdings have been eliminated by the acquisition method. The consideration transferred and the detailed assets and accepted liabilities of the acquired company are measured at fair value. Goodwill is recorded as the sum of consideration transferred, interest of non-controlling shareholders in the acquiree and previously held interest in the acquiree minus the fair value of the acquired net assets. Acquisitions that do not fall within the definition of a business are recognised as acquired assets.

The classification by Sponda of individual acquisitions of investment properties as acquired assets is based on the view that a single property and its lease agreements do not form a business entity. To constitute a business entity they would require related marketing and development activities as well as management of tenancies, property repairs and renovation. Acquisitions of investment property classified as assets do not involve the transfer of business processes or employees responsible for them.

The results of subsidiaries disposed of during the financial year are consolidated until the date that control in them ceases. Subsidiaries acquired during the financial period are consolidated from the date that control commenced.

All intra-group transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated in the preparation of consolidated financial statements. The result for the period and items recognised in other comprehensive income are allocated to the owners of the parent company and non-controlling interests and presented in the statement of income and other comprehensive income. Non-controlling interests are presented separately from the equity allocated to the owners of the parent. Comprehensive income is allocated to the owners of the parent company and to non-controlling interests even in situations where the allocation would result in the non-controlling interests' share being negative, unless non-controlling interests have an exemption not to meet obligations which exceed non-controlling interests' investment in the company.

Associates and joint arrangements

Associates are all entities over which the Group has a significant influence, meaning that the Group has a shareholding of more than 20 per cent but less than 50 per cent, or the Group otherwise has significant influence, but not control. Associates are consolidated using the equity method. The Group's share of the associates' results is separately disclosed in the consolidated statement of income. All mutual real estate companies, including those in which the Group's holding is less than 50 per cent, are recognised as joint operations as described below.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. Joint ventures consolidated using the equity method. Joint operations are consolidated using the line-by-line method.

Mutual real estate companies and other arrangements whose shares carry an entitlement to have control over specified premises, and in which the Group's holding is less than 100 per cent, are consolidated in the Group's financial statements in proportion to the Group's holding in these companies as joint operations, in accordance with IFRS 11 "Joint Arrangements". This means that they are consolidated line by line according to the Group's share of the joint arrangement's assets, liabilities, income and expenses.

Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Translation of foreign currency items

Functional currency and presentation currency

Items pertaining to the result and financial position of the Group's units are measured using the currency of the primary economic environment in which the unit operates ("the functional currency"). The consolidated financial statements are presented in euro, which is the functional and presentation currency of the Group's parent company.

Transactions and balances

Transactions carried out in foreign currencies are recorded in the functional currency at the exchange rate on the transaction date. Monetary receivables and liabilities denominated in foreign currencies are translated into euros at the exchange rate at year-end. Non-monetary items denominated in foreign currencies are valued at the exchange rate on the transaction date, except for items valued at fair value, which are translated into euros using the exchange rates on the valuation date.

Gains and losses arising from transactions denominated in foreign currencies and from translating monetary items are recorded under financial income and expenses in the income statement. Exchange rate gains and losses from business operations are included in the relevant items above operating profit.

Group companies

The revenue and expense items in the comprehensive income statements and separate income statements of foreign Group companies that use a functional currency other than the presentation currency are translated into euros using the average rate for the financial year, and balance sheets using the rate on the balance sheet date, which gives rise to a translation difference that is recorded in the balance sheet in shareholders' equity, and the change in this is recorded in other comprehensive income. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and from equity items accumulated after acquisition are also recorded in other comprehensive income. Translation differences from selling a subsidiary are recorded in the income statement under capital gains or losses.

Definitions

Net operating income

Net operating income is defined as the net amount after deducting maintenance expenses from total revenue.

In Sponda, total revenue includes rental income and charges for consumption, interest income on finance leases and management fees.

Expenses include maintenance expenses that are maintenance and annual repair costs arising from the regular and continuous maintenance of the properties and are recognised immediately in the income statement.

Operating profit

In the Group, operating profit is defined as the net amount after adding other operating income to net income, then deducting sales and marketing expenses, administrative expenses and other operating expenses, the Group's share of the results of associated companies and amortisation of goodwill, and then adding/deducting gains/losses from the disposal of investment properties, from assessment at fair value, and from the disposal of trading properties and associated companies.

Other operating income and expenses include income and expenses that deviate from normal operations. The majority of the other operating expenses comprises credit losses recognised on rental income and uncertain receivables.

1. Segment information

Accounting principle

Segment information is presented according to the Group's operational and geographical segments.

Operational segments are based on the Group's internal organisational structure and internal financial reporting. Segments are based on different types of business premises and services as well as geographical areas. Results and the fair value changes of properties are reported to Sponda's Board of Directors and Executive Board according to the following segments: Office Properties, Shopping Centres, Logistics Properties, Property Development, Property Investment Companies, Russia and Other.

Sponda's Board of Directors and Executive Board assess the profitability of each segment based on net operating income, operating profit and occupancy rate. The Board of Directors and Executive Board also monitor other key figures such as investments by segment.

Each segment's assets comprise items that are directly attributable to segments such as investment and trading properties, investments in real estate funds, goodwill and financial leasing receivables. Items not attributed to any segment comprise tax and financial items and items concerning the Group as a whole. These are presented under "Others" in the segment information. Investments include acquicitions of investment properties, investments in their development, renovation and tenant improvements and investments in real estate funds.

The Office Properties segment is responsible for the leasing, purchase and sale of office premises in Finland.

The Shopping Centres segment is responsible for the leasing, purchase and sale of shopping centres and retail premises in Finland.

The Logistics Properties segment is responsible for the leasing and sales of logistics properties in Finland.

The Property Development segment is responsible for the marketing and implementation of new property development projects based on customer needs. Its property development primarily focuses on unbuilt land areas and buildings to be renovated, particularly in the Helsinki metropolitan area, but also elsewhere in Finland.

The Property Investment Companies segment owns and manages holdings in other indirect property investments and real estate funds.

The Russia segment leases and sells office, retail and logistics properties in Russia.

The value of unused building rights is presented in the assets of the segment concerned for investment properties that have a building, and as part of the Property Development segment for building rights for unbuilt land.

Sponda's segment information is prepared primarily under the principle that an investment property belongs in the segment that matches its primary use. However, from the beginning of 2014, office and retail premises and shopping centres located in the same property have been divided into their respective segments for part of the investment properties.

Segment information

12/2016, M€	Office Proper- ties	Shopping Centres	Logistics Properties	Property Develop- ment	Russia	Property Investment Companies	Other	Group total
Total revenue	167.2	70.3	8.6	1.3	11.3	-	0.2	259.0
Maintenance expenses and direct fund expenses	-43.1	-15.5	-4.3	-2.2	-3.0	-	0.0	-68.0
Net operating income	124.1	54.8	4.4	-0.9	8.3	-	0.1	190.9
Profit on sales of investment properties	0.7	-	1.1	-	0.1	-	-	2.0
Loss on sales of investment properties	-0.1	-	0.0	-0.4	-0.6	-	0.0	-1.1
Profit/loss on sales of associated companies	-	-	-	-	-	-0.1	-	-0.1
Profit/loss on sales of trading properties	-	-	-	14,6	-	-	0,0	14,6
Valuation gains and losses	25.2	21.3	-2.3	4.9	-20.5	-2.0	-	26.7
Amortisation of goodwill	-	-	-	-3.1	-	-	0.0	-3.1
Administration and marketing expenses	-11.5	-4.0	-0.1	-4.2	-2.5	0.0	-0.5	-22.8
Share of result of associated companies	-	-	-	-	-	-	-	-
Other operating income and expenses	-0.1	-0.2	0.1	-0.4	0.0	-	0.2	-0.4
Operating profit	138.4	72.0	3.2	10.5	-15.1	-2.1	-0.1	206.7
Financial income and expenses							-51.2	-51.2
Profit before taxes							-51.3	155.5
Income taxes							-17.9	-17.9
Profit for the period							-69.3	137.5
Investments	187.1	433.3	1.2	60.7	0.2	3.0	0.3	685.6
Segment assets	2,203.8	1,195.4	87.9	196.0	116.3	22.4	94.5	3,916.5
– of which classified as held for sale	10.6	-	18.9	3.3	-	-	-	32.8
Economic occupancy rate	89.2	93.5	74.0	-	84.8	-	-	89.6

12/2015, M€	Office Proper- ties	Shopping Centres	Logistics Properties	Property Develop- ment	Russia	Property Investment Companies	Other	Group total
Total revenue	149.1	46.6	16.8	1.1	16.9	-	-	230.5
Maintenance expenses and direct fund expenses	-39.4	-10.9	-7.7	-2.8	-4.0	-	-	-64.8
Net operating income	109.7	35.7	9.1	-1.7	12.8	-	-	165.7
Profit on sales of investment properties	0.1	-	-	0.0	0.0	-	0.0	0.1
Loss on sales of investment properties	-0.3	-	-3.1	0.0	-1.1	-	-0.1	-4.6
Profit/loss on sales of associated companies	-	-	-	-	-	5.2	-	5.2
Profit/loss on sales of trading properties	0,0	-	-	2,7	-	-	-	2,8
Valuation gains and losses	35.5	3.2	-7.4	25.9	-33.9	-	-	23.2
Amortisation of goodwill	-	-	-	-3.0	-	-	-	-3.0
Administration and marketing expenses	-10.6	-2.8	-1.3	-4.1	-2.7	0.0	-0.1	-21.7
Share of result of associated companies	-	-	-	-	-	10.2	-	10.2
Other operating income and expenses	-0.2	-0.3	0.7	-	-	0.1	-	0.2
Operating profit	134.1	35.8	-1.9	19.8	-24.8	15.4	-0.3	178.1
Financial income and expenses							-48.9	-48.9
Profit before taxes							-49.1	129.2
Income taxes							98.1	98.1
Profit for the period							48.9	227.2
Investments	34.0	6.8	0.9	66.0	0.1	2.7	0.1	110.6
Segment assets	2,005.9	733.6	94.7	141.2	150.7	21.4	293.4	3,441.0
– of which classified as held for sale	8.4	-	1.8	-	-	-	-	10.2
Economic occupancy rate	88.2	91.3	68.3	-	84.6	-	-	87.7

Geographical segments

M€	2016	2015
Total revenue		
Finland	247.6	213.6
Russia	11.3	16.9
Group, total	**259.0**	**230.5**
Assets		
Finland	3,800.2	3,290.3
Russia	116.3	150.7
Group, total	**3,916.5**	**3,441.0**

! Sponda has revised its segment reporting, effective from the beginning of 2017, to better correspond to its current strategic focus areas. With the Russia and Logistics Properties segments having decreased in size as a result of divestments, they are below the reporting boundaries and will no longer be reported as separate segments. Effective from 1 January 2017, the segments are Office Properties, Shopping Centres, Property Development, Non-Strategic Holdings and the Other segment. The Non-Strategic Holdings segment includes the remaining logistics properties, properties in Russia and the current Property Investment Companies segment. The Other segment includes expenses not allocated to any of the Group's businesses.

The first report to use the new reporting structure will be the interim report for January–March, which will be published on 5 May 2017. The segments' comparison data will be published before the interim report.

2. Investment properties

Sponda Plc is a property investment company specialising in leasing, developing and owning commercial properties. At the end of 2016, Sponda owned a total of 169 leasable properties with a total leasable area of approximately 1,2 million m^2.

The Investment properties section describes the accounting policies and fair value measurement principles related to investment properties and provides information on changes in investment properties during the year as well as future commitments.

2.1. Investment properties in the consolidated balance sheet

Accounting principle

An investment property is a property held by the Group for the purpose of earning rental income or for capital appreciation, or for both reasons. Sponda measures its investment properties using the fair value method, as stated in IAS 40, Investment Property, under which the profit or loss from changes in fair values is recognised through profit and loss in the period in which it is incurred.

An investment property is derecognised from the balance sheet when it is divested or taken permanently out of use. Gains and losses on sales of investment properties are presented as a separate item in the income statement.

Investment properties are valued initially at acquisition cost, including transaction costs. In measurements after the initial recognition, the fair value is used. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. An investment property's fair value reflects the actual market circumstances on the balance sheet date, best manifested in prices paid on the active market under current market conditions at the measurement date for properties with a corresponding location and condition to those of the property under review and that are subject to corresponding lease or other contracts. Reliable reference transaction prices are rarely available due to the individual characteristics of commercial premises. If reliable market-based prices are not available, the measurement of fair value uses the discounted cash flow method, which is based on existing and expected income and expense levels.

Investment properties for development

The acquisition cost for an investment property built by the company itself consists of the construction costs, capitalised borrowing costs and other costs accumulated by the completion date. Development projects in which a new building or extension to a building is being constructed and that are unfinished at the balance sheet date are valued in accordance with IAS 40 Investment Properties at fair value.

The risk arising from the incomplete state of the property – which refers to the risk relating to construction costs, the construction schedule, financial costs and the yield requirement of the potential buyer of the unfinished property – is taken into account when determining the fair value of an unfinished property by not recognising the risk-weighted portion of the margin to be obtained on the property corresponding to the remaining construction time. All other risks relating to the unfinished property, including those relating to the leasing of the property, are taken into account in the same way as when valuing other investment properties.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset if it is likely that they will provide future economic benefit and can be measured in a reliable manner. For Sponda, capitalised borrowing costs are costs arising from loans taken for property development construction projects or the costs calculated for construction projects multiplied by a financial costs factor, if a separate loan has not been taken out for a construction project. The financial costs factor is the weighted average interest rate for Sponda Group's interest-bearing loans during the fiscal period, which is determined each quarter. The capitalisation of borrowing costs is continued until such time as the assets are substantially ready for their intended use or sale.

Investment properties held for sale

If the sale of an operative investment property is deemed probable, such a property is transferred to "Non-current assets held for sale" in the statement of financial position. Classification as "Non-current assets held for sale" requires that the following criteria are fulfilled: the sale is deemed highly probable, the property is available for immediate sale in its present condition subject to usual and customary terms, the management is committed to a plan to sell the property and the sale is expected to qualify for recognition as a completed sale within one year. Investment properties held for sale are still recognised at fair value in accordance with IAS 40.

Investment properties		
M€	2016	2015
Fair value of investment properties 1 Jan.	3,101.7	3,142.1
Classified as non-current assets held for sale 1 Jan.	10.2	0.0
Acquisition of investment properties	590.5	4.7
Other capital expenditure on investment properties	91.9	103.0
Disposals of investment properties	-35.9	-161.9
Capitalised borrowing costs, increase in period	1.2	0.8
Valuation gains and losses	28.7	23.2
Transferred to non-current assets classified as held for sale	-32.8	-10.2
Fair value of investment properties 31 Dec.	**3,755.5**	**3,101.7**

Significant acquisitions of investment properties

In February, Sponda acquired AB Mercator Oy (known as Koy Helsingin Forum from 16 March 2016 onwards), which owns six properties in the Forum block. The acquisition was classified as an acquisition of an asset item based on the properties and their lease agreement not constituting a business entity. In conjunction with the acquisition, Forum was integrated into Sponda's existing systems and operating models.

Profit/loss on sales of investment properties		
M€	2016	2015
Profit on sales	2.0	0.1
Loss on sales	-1.1	-4.6
Total	**0.8**	**-4.5**

Investment properties classified as Non-current assets held for sale

In the financial statements for 2016, a total of 12 investment properties are classified as held for sale. The sales processes for these properties are ongoing and the properties are likely to be sold within the next year. Of these properties, six are logistics properties, four are office properties and two are plots of land.

2.2. Fair value measurement of investment properties

Accounting principle

The fair value of completed business properties is calculated for each property by Sponda itself using the discounted cash flows method (DCF). Cash flows are calculated over a period of at least 10 years. Net cash flows in the period are discounted from the midpoint of each accounting year to the assessment date and the terminal value is discounted from the end of the previous accounting period to the assessment date. The terminal value is calculated by capitalising the net cash flow of the year following the most recent accounting year with the required yield (Gordon growth model). The discount rate is determined by adding the expected long-term rate of inflation to the required yield. The yield is based on Sponda's own assessment of the market situation and on information from published sources, including KTI Property Information Ltd.

Potential gross income is based on current lease contracts and, in the case of vacant premises, on estimated market rent levels. Potential gross income per property is adjusted annually by the estimated long-term vacancy rate taking into account any special aspects related to the property itself and the status of the lease contract. The estimated impact of inflation is calculated on maintenance expenses and on market and contract leases. Sponda's lease agreements are tied to the cost of living index.

The value of non-developed sites and unused but usable building rights is determined using the sales price method.

The results of the assessments are reported directly to the President and CEO, the head of the business unit, the Chief Financial Officer (CFO) and the Board of Directors. The assessment process and the market situation as well as other factors with an impact on the appraisal of the properties are reviewed with the President and CEO, the head of the business unit and the CFO at least once every quarter, in accordance with the Group's reporting schedules.

Sponda's internal property assessment process, calculation methods and reporting are audited by an external valuer and are considered to fulfil the valuation criteria of the IFRSs and IVS (International Valuation Standards) as well as the AKA (Finnish authorised real estate auditors) criteria for good property valuation practice. In addition to auditing, Sponda also commissions at least twice a year an external valuer to examine the material used in calculating the market value of the property portfolio, in order to confirm that the parameters and values used are based on market indications. Sponda's property portfolio in Finland was assessed in the second and fourth quarters of the year by Catella Property Oy. The properties in Russia were assessed in the second and fourth quarters by CB Richard Ellis.

Statements on the assessments of value for properties in both Finland and Russia are available on Sponda's website at investors.sponda.fi.

Management judgment

The most significant component of the financial statements involving uncertainties related to estimations and judgments is the fair value measurement of investment properties. The measurement of the fair value of investment properties requires significant management estimates and judgment, particularly with respect to the future development of yield requirements, market rents and occupancy rates. The fair value of investment properties reflects, among other things, the rental income based on existing leases as well as reasonable and well-founded estimates of future rental income made by knowledgeable willing parties in the light of current conditions. It also reflects expected future cash payments related to each property in question. The yield requirement is determined for each property taking into account the property-specific risks and the market risk. The discount rate is determined by adding the expected long-term rate of inflation to the required yield.

Fair value measurement of investment properties

Weighted average yield requirements based on management estimates used in calculating the fair values of investment properties by type of property 31 December 2016 (%)

	Area				
	Centr. Bus.Distr.	Rest of Helsinki	Espoo/ Vantaa	Finland	Russia
Type of premises					
Office and retail	5.0	6.0	8.4	7.0	10.1
Logistics		9.1	8.4	11.9	-

Weighted average yield requirements based on management estimates used in calculating the fair values of investment properties by type of property 31 December 2015 (%)

	Area				
	Centr. Bus.Distr.	Rest of Helsinki	Espoo/ Vantaa	Finland	Russia
Type of premises					
Office and retail	5.3	6.0	8.4	7.0	10.3
Logistics		9.0	8.4	11.8	12.5

Significant assumptions used in fair value calculations, on average

	Finland		Russia	
	2016	2015	2016	2015
Yield requirement, %	5.8	6.1	10.1	10.3
Initial yield, %	5.7	6.2	6.9	8.4
Computational economic occupancy rate in first year of calculation, %	88.5	88.4	70.7	78.9
Rental income as per agreements, €/m²/month	22.8	20.2	44.1	35.6
Market rents, €/m²/month	18.4	16.2	55.5	41.0
Long term maintenance costs used in calculations, €/m²/month	3.4	3.0	8.8	8.6

Changes in the significant assumptions used in fair value calculations are based on market changes and the effects of new and maturing lease agreements on the property portfolio.

Sensitivity analysis of investment property fair value

The table below shows the euro-denominated and relative future change in the value of investment properties if the fair value measurement parameter shown on the vertical axis changes according to the percentage shown on the horizontal axis.

Change in investment property fair value, M€ and %, 31 December 2016

	-10%		-5%		0%	5%		10%	
	Change, Me	Change, %	Change, Me	Change, %	Me	Change, Me	Change, %	Change, Me	Change, %
Yield requirement	379.0	10.8	180.0	5.1	0.0	-162.0	-4.6	-309.0	-8.8
Rental income (contractual rents)	-74.0	-2.1	-37.0	-1.1	0.0	38.0	1.1	75.0	2.1
Maintenance expenses	94.0	2.7	47.0	1.3	0.0	-46.0	-1.3	-93.0	-2.6
Economic occupancy rate (1st year)	-24.0	-0.7	-12.0	-0.3	0.0	13.0	0.4	25.0	0.7

Change in investment property fair value, M€ and %, 31 December 2015

	-10%		-5%		0%	5%		10%	
	Change, Me	Change, %	Change, Me	Change, %	Me	Change, Me	Change, %	Change, Me	Change, %
Yield requirement	318.0	10.8	150.0	5.1	0.0	-136.0	-4.6	-260.0	-8.8
Rental income (contractual rents)	-67.0	-2.3	-34.0	-1.1	0.0	34.0	1.1	67.0	2.3
Maintenance expenses	78.0	2.6	39.0	1.3	0.0	-39.0	-1.3	-77.0	-2.6
Economic occupancy rate (1st year)	-22.0	-0.7	-11.0	-0.4	0.0	11.0	0.4	22.0	0.7

The sensitivity analysis has been carried out as a quantitative analysis of the investment properties in Finland calculating the 15-year cash flow and of the properties in Russia calculating the 10-year cash flow.

The changes in yield requirements and economic occupancy rates have been calculated for average figures. The analysis includes only investment properties generating cash flows, excluding building rights and incomplete property development projects, totalling EUR 3,521 (EUR 2,957 million).

All investment properties belong to level 3 in the fair value hierarchy, meaning they are not based on observable market data (other than observable input data).

Risks associated with business operations in Russia

The fair values of Sponda's investments in Russia are particularly influenced by the yield requirements of properties, market rents, contractual rents and exchange rate fluctuations. Uncertainty related to fair value measurement has continued due to the weak economic climate in Russia and the lack of comparable transactions. The fair values of properties are calculated based on the contractual currencies of lease agreements. A significant proportion of Sponda's lease agreements have been linked to the USD. A growing number of new agreements have been linked to the Russian rouble instead of the US dollar in recent times. This has not, however, had a significant effect on the fair value changes caused by exchange rate fluctuations. That risk nevertheless exists.

2.3. Revenue from investment properties

Accounting principle

Sponda's revenue mainly consists of rental income from its investment properties.

Total leases as well as separate capital and maintenance leases are recognised in the income statement on a straight-line basis over the lease term. Rental income tied to the tenant's net sales are recognised on the basis of the tenant's actual sales.

Economic occupancy rates of investment properties by segment (%)

	31.12.2016	31.12.2015
Office Properties	89.2	88.2
Shopping Centres	93.5	91.3
Logistics Properties	74.0	68.3
Russia	84.8	84.6

Maturity dates for lease agreements by segment 31 December 2016 (%)

	Office Properties	Shopping Centres	Logistics Properties	Russia
1 year	21.1	11.5	17.2	55.2
2 years	12.8	11.4	7.2	23.5
3 years	12.0	7.6	21.0	10.0
4 years	6.2	10.3	6.5	10.7
5 years	11.7	15.2	2.8	0.0
6 years	2.4	13.5	3.2	0.0
more than 6 years	18.9	26.3	8.8	0.6
open ended	15.0	4.2	33.3	0.0

Maturity dates for lease agreements by segment 31 December 2015 (%)

	Office Properties	Shopping Centres	Logistics Properties	Russia
1 year	13.5	8.4	24.7	35.2
2 years	19.8	10.1	13.0	13.9
3 years	10.2	7.9	4.5	31.2
4 years	9.1	6.4	7.4	6.6
5 years	4.8	5.4	6.0	9.3
6 years	5.4	18.8	1.2	0.0
more than 6 years	21.4	38.8	11.3	3.8
open ended	15.8	4.3	31.9	0.0

The expected rental income from existing leases is:

M€	2017	2018–2021	2022–	Total
Expected rental income	235.8	520.1	294.7	1 050.6

M€	2016	2017–2020	2021–	Total
Expected rental income (reference data)	203.2	445.2	320.9	969.3

Accruals are the current accruals from lease contracts less index increases.

Lease contracts signed for an indefinite period are included up to the date of expiry stated in the contract.

Risks associated with business operations in Russia

Sponda's cash flows from Russia are particularly influenced by tenants' ability to pay rent, the contractual currency of leases, and changes in exchange rates. Future cash flows are influenced by new rental levels agreed with tenants and the linking of rents to currencies. Sponda's rents are primarily linked to either USD or RUB. RUB-denominated rents cover the expenses, which for a large part are RUB-denominated. For this reason, the effect of exchange rate fluctuations on Sponda's cash flows has been moderate.

2.4. The Group's most significant investment commitments

Sponda is carrying out development projects for the Ratina shopping centre in Tampere. The project's total investment is approximately EUR 240 million. The construction of the shopping centre began in April 2015, and it is estimated to be completed in spring 2018.

In 2016, construction began on an office and retail complex at Tikkurila railway station. The investment size of the first phase of the property is approximately EUR 31 million and it is scheduled to be completed in spring 2018.

2.5. Goodwill

Goodwill

M€	2016	2015
Acquisition cost 1 Jan.	27.5	27.5
Acquisition cost 31 Dec.	**27.5**	**27.5**
Accumulated depreciation and writedowns 1 Jan.	-16.0	-13.0
Depreciation and writedowns for the period	-3.1	-3.0
Accumulated depreciation and writedowns 31 Dec.	**-19.1**	**-16.0**
Carrying amount 31 Dec.	**8.5**	**11.5**

The acquisition of Kapiteeli Oy in 2006 resulted in goodwill of EUR 27.5 million being allocated to certain planned development projects, which were considered to have great potential for increase in value upon completion. Goodwill and related writedowns were entirely allocated to the Property Development segment

The remaining goodwill is allocated to the Ratina development project. The goodwill will be written down in relation to the degree of completion of the project, and will thus be written down completely simultaneously with the development project.

The value of the development project is calculated monthly. The total investment and the estimated value at completion is therefore under continuous control.

Management also checks that the construction costs for the project remain within the prepared cost estimate. If there are any indications of a rise in costs or of other causes as a result of which costs may be exceeded, the values are updated.

3. Financing

Sponda's financing strategy aims to secure the financing needed to carry out the company's business operations and it is based on a broad base of financiers, a diversified range of financing instruments, a debt portfolio with evenly spread maturity dates, managed hedging of interest rate risks and good liquidity. The company aims to primarily finance its operations by arranging credit that is unsecured.

The Financing section includes notes on financial income and expenses, financial instruments and risks as well as capital management and financial assets and liabilities.

3.1. Financial income and expenses

Financial income and expenses

M€	2016	2015
Financial income		
Interest income		
Loans and receivables	0.8	0.8
Other financial income	0.1	0.1
Interest income from foreign currency derivatives	0.4	2.2
Exchange rate gains		
Exchange rate gains, realised	0.0	0.3
Exchange rate gains, recognised at fair value through profit and loss	0.2	0.2
Change in fair value		
Recognised at fair value through profit and loss	1.7	3.2
Total	3.2	6.8
Financial expenses		
Interest expenses		
Interest expenses on liabilities recognised at amortised cost	-46.4	-45.1
Interest expenses from foreign currency derivatives	-0.4	-2.1
Other financial expenses, loan management expenses	-5.6	-5.2
Exchange rate losses		
Exchange rate losses, realised	-0.7	-0.1
Exchange rate losses, recognised at fair value through profit and loss	-0.1	-0.5
Unrealised exchange rate losses from foreign currency loans	-1.7	-3.2
Interest rate derivatives subject to hedge accounting, ineffective portion	0.0	0.0
Change in fair value		
Recognised at fair value through profit and loss	-0,6	-0,2
Total	**-55,6**	**-56,5**
Capitalised borrowing costs incurred in the acquisition, construction or production of a qualifying asset*	1.2	0.8
Financial expenses, total	**-54.4**	**-55.7**
Net financing costs	**-51.2**	**-48.9**
Financial expense multiplier used by the Group	2.73%	2.88%

Interest expenses; interest expenses on liabilities recognised at amortised cost includes interest expenses arising from negative Euribor rates amounting to EUR -1.5 million (+0.1). The company uses ordinary interest rate swap agreements to manage interest rate risk. In interest rate swap agreements, the bank normally pays the company the variable Euribor rate. When the Euribor is negative, the company is required to pay the negative interest amount to the bank.

*See 2. Investment properties: Borrowing costs

3.2 Cash and cash equivalents

Accounting principle

Cash and cash equivalents comprise cash on bank accounts. Items classified as cash and cash equivalents have a maturity of less than three months from the acquisition date.

The carrying amount of the Group's cash and cash equivalents is comprised of the following currency denominated amounts:

M€	2016	2015
Euro	6.8	212.5
US dollar	2.3	3.4
Russian rouble	3.8	4.1
Total	**12.9**	**220.0**

3.3 Financial instruments

3.3.1 Financial risk management

The objective of risk management is to minimise the unfavourable impacts of changes in the financial markets on the company's profits and cash flow. Sponda Plc's Board of Directors decides on the goals for risk management, defines the risk management policy and is responsible for monitoring risk management. The company's treasury unit identifies and assesses risks and is responsible for practical risk management measures within the framework of the risk management policy. Regular reports are made to the Board on financing. Sponda's main financial risks are interest rate risk, risks concerning access to financing, credit risk and currency risk. The Group's financing activities are centrally handled by its treasury unit.

Accounting principle

Derivative instruments and hedge accounting

Sponda uses derivative contracts mainly to hedge its interest rate risk exposure. Interest rate swaps are designated as hedging instruments for future interest flows and the Group applies cash flow hedge accounting to certain such contracts when they meet the hedge accounting criteria under IAS 39.

The relationship between the hedged item and the hedging instrument is documented at the inception of the contract. The risk management objectives and strategies, based on which various hedging transactions are undertaken, are also documented. The Group documents at the inception of the hedging contract, and on an ongoing basis thereafter, its assessment of whether the derivatives used for hedging are effective in offsetting changes in the fair values or cash flows of hedged items.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and are subsequently recognised at fair value. The change in the fair value of derivative contracts that are defined as cash flow hedges and satisfy the relevant conditions is recognised in equity to the extent that hedging is effective. The ineffective (non-qualifying) portion of the hedging is recognised immediately in financial items in the income statement. Fair value changes accumulated in equity are reclassified in profit or loss in the period in which the hedged item affects profit or loss.

Should an interest rate swap used as a hedging instrument mature, be sold or terminated prematurely, but it is highly probable that the hedged cash flows will be realised, the gains and losses accrued from the derivative contracts remain under equity until they are realised, at which point they are recognised in the income statement. If it is no longer highly probable that the hedged cash flows will be realised, the gains and losses accrued from the derivative contracts are taken immediately from equity to financial income and expenses in the income statement.

Derivatives that do not meet the hedge accounting criteria are recognised through profit and loss. They are measured at fair value and changes in their fair value are recognised in the income statement.

The fair values of derivatives used for hedging purposes are presented in paragraph 3.3.2 in the table "Carrying amounts of financial assets and liabilities by category" The full fair value of a derivative used for hedging is classified as a non-current financial asset or liability if the derivative matures after more than 12 months, and as a current financial asset or liability if it matures within 12 months.

Interest rate risk

The Group mainly uses floating rate loans in financing its operations, and these are the source of the company's interest rate risk. The company may also use fixed-rate loans. The Group uses interest rate derivatives to reduce growth in future interest flows caused by a rise in short-term market rates. With interest rate swaps, Sponda pays a fixed-rate interest and receives floating-rate interest. Interest rate options are what are referred to as purchased interest rate caps.

According to the risk management policy, the aggregate nominal value (hedging rate) of the Group's fixed-rate loans with a maturity of more than one year and of the interest rate derivatives used to manage interest rate risk must be at least 60 per cent and at most 100 per cent of the Group's interest-bearing liabilities. The Group's hedging rate on 31 December 2016 was 67 (2015: 90) per cent. The average fixed interest rate period of the interest-bearing debt portfolio must be at least one year. The average fixed interest rate period of the Group's portfolio was 1.4 (2015: 2.2) years.

Interest derivatives have been made for the purpose of hedging the loan portfolio and they are valued in the financial statement at fair value. The fair value represents the result if the derivative position had been closed on the balance sheet date. The fair values presented are based on assessments by the counterparty banks. In addition, Sponda Plc checks the valuations using methods that are generally available on the market, employing Bloomberg's derivatives calculator and market quotes. The fair values and nominal values of interest rate derivatives are presented in paragraph 3.3.2 in the table "Derivative instruments"

Interest rate derivatives have been defined as cash flow hedging or as derivatives that do not meet the criteria for hedge accounting. Sponda applies group hedging, in which the behaviour of the loan portfolio is compared with the interest rate derivative portfolio. The interest rate derivative portfolio is divided into interest rate swaps and interest rate options. However, hedge accounting was not applied to interest rate options on the balance sheet date. In addition, Sponda may use forward rate agreements and interest rate futures, to which hedge accounting is not applied. The company also has one interest rate swap agreement for swapping Euribor reference rates, to which hedge accounting is not applied.

At the time of closing the books, Sponda applied hedge accounting to all interest rate swap agreements in which the company pays a fixed interest and receives a floating rate. All interest rate swaps mature in 2017–2020, during which period the interest flows from interest rate swaps will also be realised. The hedging effectiveness between hedged loans and hedging instruments was very high during the 2016 financial year. The non-effective proportion of interest rate swaps under hedge accounting has been recognised in profit and loss. The non-effective proportion of interest rate swaps under hedge accounting has been recognised in profit and loss. Hedge accounting was not applied to the purchased interest rate caps on the balance sheet date. The change in the fair value of interest rate caps is recognised in profit and loss.

Net losses/gains for the period recognised in other comprehensive income items are presented under "Consolidated statement of comprehensive income". Hedge accounting is applied to interest derivatives satisfying the IAS 39 criteria for hedge accounting throughout their maturity.

Sponda Plc analyses its interest rate position by simulating changes in market interest rates. The treasury unit calculates a forecast of interest expenses for the coming year and its interest rate sensitivity. The following assumptions have been made when calculating the sensitivity to change in interest rates:

– the short-term market rates at the stated balance sheet date may rise by one percentage point or fall by 0.1 percentage points (2015: rise by one percentage point or fall by 0.1 percentage points)*
– the calculation includes the nominal value of interest-bearing liabilities EUR 1,868 million (2015: 1,665)
– the calculation includes current derivative contracts hedging interest rate risk, totalling EUR 1,017 million (2015: EUR 1,018 million)

The calculation aims to measure the impact of short-term market rates on the interest expenses of the company's loans and correspondingly on the income to be obtained from interest rate derivatives or on the costs to be paid in the following year. The figures are presented net. The financial instruments used in the calculation are accounted for in accordance with the IFRS definitions mentioned in the company's accounting principles for the financial statements. The interest rates used are the official interest rates quoted on the last banking day on the balance sheet date.

In its 2016 financial statements, Sponda Plc applied hedge accounting to 64 per cent of interest rate derivatives hedging interest rate risks, the same as in 2015. In the sensitivity analysis, changes in the fair value of interest rate derivatives to which hedge accounting is not applied are presented in full through profit and loss. The Group's interest-bearing liabilities increased by approximately EUR 202 million in 2016 (2015: decreased by EUR 70 million).

* On 31 December 2016 and 31 December 2015, all short-term market rates relevant to the calculation were negative.

Sensitivity to interest rate risk

The effect of a one percentage point change in short-term market rates on the company's result and the fair value reserve in shareholders' equity.

	31.12.2016		31.12.2015	
M€	Income statement	Fair value reserve	Income statement	Fair value reserve
One percentage point rise in market rates	-7.3	+ 11.5	+ 1.9	+ 19.4
0.1 percentage point fall in market rates	-0.7	- 3.3	+ 0.3	- 4.0

The sensitivity calculation is not inclusive of the deferred tax effect.

Liquidity and refinancing risk

The Group assesses and monitors the amount of financing required by its business operations on a daily basis to ensure the sufficiency of liquid funds for financing purposes and to repay maturing loans. The Group's liquidity position and forecast are drawn up every working day. The risk related to access to finance is reduced by making financial contracts with several financial sources and using a variety of financial instruments. The Group seeks to spread the maturity of its new borrowings so that, as loans mature, the amount needing refinancing each year remains stable. The Group's single largest creditor represents approximately one seventh of the Group's interest-bearing liabilities. The Group's largest creditors are financially solid Nordic banks with which the company has a long-term customer relationship. Sponda expects to be able to renew the loans that fall due. In 2016, the company refinanced a total of EUR 440 million worth of loans maturing normally during 2016 and 2017 (excluding commercial papers) and also financed investments of approximately EUR 150 million. A corporate bond of EUR 150 million will mature in spring 2017 and a bilateral loan of EUR 150 million will mature in the second half of the year. In addition, EUR 248 million in short-term commercial papers are set to mature in 2017, on which more information is presented below. The company has already commenced negotiations on refinancing the loans. Based on the negotiations and the favourable market climate, the company believes it will be able to arrange the refinancing of the loans that are set to mature during the year. The table below and the table "Maturity of non-current liabilities" in paragraph 3.3.2 present a maturity analysis of the Group's agreements. The average maturity of the Group's loans on 31 December 2016 was 2.6 years (31 December 2015: 2.2 years).

For short-term financing purposes, the company uses a commercial paper programme. The size of the commercial paper programme is EUR 350 million. The amount of commercial papers issued by the company on the balance sheet date stood at EUR 248 million. The company may finance the loans falling due in 2017 by taking out long-term credit limits, for example. There is strong interest in the company's commercial papers, which is why the company aims to keep the commercial paper volume issued at least at the current level.

The Group ensures its liquidity with long-term credit limits and bank account limits. The credit limits also provide a reserve for the commercial paper programme. The company's fixed goal is to retain an amount of undrawn credit limits that is always sufficient to cover the amount of commercial papers issued. Unused long term credit limits totalled EUR 438 million on the balance sheet date (2015: EUR 430 million). Cash surpluses are invested in accordance with the financial policy confirmed by the Board. On 31 December 2016, the Group's cash and cash equivalents totalled EUR 12.9 million (2015: EUR 220.0 million).

In addition, the risks relating to access to finance are reduced by maintaining the company's reputation as a trustworthy debtor. Sponda's financial contracts contain normal covenants to protect the creditors, which concern, for example, the equal status of financiers, certain financial indicators, and the use of collateral. The most important covenants used are:

- Interest cover ratio (EBITDA/Net interest cost) for which the minimum acceptable ratio is 1.75. The ratio on the closing date was 3.8 (2015: 3.5).
- Equity ratio, for which the set minimum ratio is 28 per cent. On the closing date the equity ratio stood at 47 per cent (2015: 46 per cent).
- The Group was not in breach of covenants during the financial year.

Cash flows for repayments and financing expenses for financial liabilities based on contracts were as follows:

31.12.2016, M€	2017	2018	2019	2020	2021	2022
Bonds and FRNs	165	159	4	179	-	-
Loans from financial institutions	168	95	213	125	601	1
Commercial papers	248	-	-	-	-	-
Interest rate derivatives						
- in hedge accounting, net	13	12	6	0	-	-
- not in hedge accounting, net	0	-	-	-	-	-
Currency derivatives not included in hedge accounting, net *)	0	-	-	-	-	-
Trade and other payables	18					
Interest liabilities	11	-	-	-	-	-
Total	**624**	**266**	**224**	**304**	**601**	**1**

31.12.2015, M€	2016	2017	2018	2019	2020	2021
Bonds and FRNs	87	165	159	4	179	-
Loans from financial institutions	325	220	86	204	117	-
Commercial papers	199	-	-	-	-	-
Interest rate derivatives						
- in hedge accounting, net	12	12	11	6	0	0,0
- not in hedge accounting, net	0	0	-	-	-	-
Currency derivatives not included in hedge accounting, net *)	0	-	-	-	-	-
Trade and other payables	4					
Interest liabilities	11	-	-	-	-	-
Total	**638**	**397**	**256**	**214**	**296**	**0**

*) Net flow of foreign currency derivatives hedging loans denominated in foreign currency (incl. loans from financing institutions for the period). Includes currency options.

Credit risk

Credit risk arises from the possibility that the counterparty in a contract fails to fulfil their obligations as given in the contract. The Group's most significant credit risks on the balance sheet date arose from derivative contracts and from rent receivables and trade receivables. The Group has no major concentrations of receivables or credit risks.

To avoid risks from counterparties, the Group uses only financially solid banks with a good credit rating as counterparties in derivative contracts. The banks' credit rating in terms of their long-term acquisition of funds must be classified as at least A- by S&P's (or an equivalent credit rating company). Sponda Plc's Board of Directors decides on acceptable counterparties, on counterparty limits and on the permitted financial instruments. In derivative trading with counterparties, Sponda Plc observes the stipulations given by ISDA (International Swaps and Derivatives Association, Inc.) or the regulations issued by the Finnish Bankers' Association. The maximum amount of credit risks is the carrying amount of the financial assets EUR 32.1 million (2015: EUR 223.4 million). The itemisation is presented in paragraph 3.3.2 in the table "Carrying amounts of financial assets and liabilities by category".

Tenant risk is managed by analysing the creditworthiness of tenants before leases are signed, by requiring rent deposits, and by the monthly collection of rent. The business units responsible for leasing properties are responsible for arranging collateral for rents. The maximum amount of the risk is the total carrying amount of the receivables less the amount of the collateral. Total collateral for rents received amounted to EUR 46.4 million (2015: EUR 43.4 million). Collateral for rents is primarily in the form of bank deposits or bank guarantees. Collateral is not, however, required for separately approved counterparties such as the Finnish state or municipalities. Collateral received in fulfillment of lease obligations may be used to cover the company's receivables without hearing the tenant on the matter. Ovenia Oy monitors the Group's rent receivables.

The total amount of rent receivables on the balance sheet date was EUR 2.7 million (2015: EUR 1.5 million). The total rent unpaid for more than three months was EUR 0.8 million. The Group recorded credit losses of EUR 0.2 million for rent receivables in 2016. The Group recognises a final credit loss when a tenant is found to be without means in the debt collection process or when it has received reliable advance information on the bankruptcy estate's share or when the company's share of a bankruptcy is conclusively confirmed. The Group uses well-known external debt-collection firms to collect receivables.

The company's trade receivables on the balance sheet date 2016 were composed almost entirely of rent receivables (rent receivables in 2015: EUR 1.5 million). The company considers the risk associated with trade receivables to be low.

The collateral for a selling price receivable is almost always a real security. The real security for selling price receivables is typically real estate mortgages for the sold property or shares. The Group's selling price receivables on the balance sheet date, 31 December 2016, amounted to EUR 14.8 million (2015: EUR 0 million). The company considers the risk associated with selling price receivables to be low.

In addition, the company has given guarantees as security for the commitments of the property companies it owns. The guarantees are typically guarantees relating to the construction phase of a new company, in which the beneficiary is almost always the city. The amount of the guarantees, EUR 4.4 million (2015: EUR 3.1 million) is small in proportion to the carrying amount of the companies owned. The guarantees given are not expected to cause significant costs to the Group.

Currency risk

Accounting principle

The currency risk related to foreign currency denominated rental income received by the Russian companies owned by Sponda is hedged with bought currency options. Changes in the fair value of currency options are recognised through profit and loss.

The Group has international operations in Russia. Changes in the exchange rate between the Russian rouble and the euro and between the US dollar and the euro may affect Sponda Group's financial position and operations. The Group is exposed to currency risk since balance sheet items for foreign subsidiaries and revenue and expenses from properties are translated into the business currency of the parent company, i.e. into euros.

Sponda's Russian companies receive their rents monthly in US dollars and in Russian roubles. The companies pay all of their expenses in Russian roubles. USD-denominated net cash flows from lease agreements are some USD 10 million (2015: USD 13 million) annually and RUB-denominated net cash flows some RUB 70 million (2015: RUB 100 million). In accordance with the Board's decision, Sponda hedges primarily foreign currency denominated future net cash flows for a period of six months. The company may use currency denominated bought options for hedging. One currency derivative will mature and be renewed in each month during the next six months, so that a total corresponding to the net position for six months is always effective.

On the balance sheet date the company had a total of USD 5.3 million (2015: USD 6.4 million) in bought EURUSD currency options to hedge the USD net cash flows. The difference between incoming cash flows denominated in Russian roubles and outgoing rouble-denominated expenses is minor when measured in euros, due to which the hedging of this net cash flow has not been deemed necessary. In accordance with the Board's decision, Sponda does not hedge the translation risk from Russian companies. The change in the fair value of the bought EURUSD currency options is recognised through profit and loss in full. If the USD were to appreciate or depreciate against the euro by 10 per cent, the change in the fair value of the bought currency options would be minor. With the currency option maturing each month, the company can sell rental income of some USD 0.9 million based on the USD contract rates used in the leases of Russian companies, which is in the accounts of the Russian companies in cash (in either US dollars or Russian roubles).

The Group finances its capital expenditure in Russia with internal loans denominated in euros.

The company does not apply hedging according to IAS 39 to currency derivatives. Changes in the fair value of other interest derivatives are recorded in the income statement.

Managing the capital structure

The objective of managing the Group's capital structure is to optimise the capital structure in relation to prevailing market conditions at any particular time. The goal is a capital structure that best assures conditions for the Group's long-term strategic operations.

Factors affecting the Group's capital structure, in addition to the result, include capital expenditure, asset sales, acquisitions, dividend payments, equity-based facilities and measurement at fair value. The Group's key covenant in credit arrangements is the equity ratio. The company's equity ratio must always be greater than 28 per cent. In the event that equity ratio approaches the 28 per cent limit, the company will carry out arrangements to boost equity. The company's equity comprises an equity bond (hybrid bond) that improves the company's equity ratio. The nominal value of the hybrid bond is EUR 95.0 million and it is recorded on the balance sheet under "Other equity reserve". More information on the hybrid bond is provided in the accounting policies. The company aims to distribute approximately 50 per cent of the operational cash flow per share for the financial period as dividend, taking into account, however, the economic situation and the company's development needs. The Group's capital structure is also guided by the value of the interest cover ratio covenant. Interest cover ratio is determined by the ratio between EBITDA and net interest expenses, with gains from sales deducted and losses on sales added. Changes in the value of property assets are dealt with accordingly, in addition to which depreciation and amortisation are returned to the calculation. The interest cover ratio must be greater than 1.75.

Sponda Plc's Board of Directors has set the Group's long-term equity ratio target at 40%. On 31 December 2016, the Group's equity ratio was 47% (2015: 46%). Sponda's interest cover ratio on 31 December 2016 was 3.8. In 2015, the interest cover ratio was 3.5. Sponda Group's interest-bearing liabilities increased by EUR 202 million during 2016, totalling EUR 1,863 million at the end of the year (2015: EUR 1,661 million). Sponda Group sold property assets during 2016 for altogether EUR 36,6 million. The funds received were used to pay off the company's loans and finance property development investments. The formula for calculating the equity ratio is shown in the annual report under "Calculation of financial ratios".

The Group's capital structure and equity ratio were as follows:

M€	2016	2015
Interest-bearing liabilities	1,863	1,661
Cash, funds in bank and interest-bearing receivable	13	220
Interest-bearing net liabilities	1,850	1,441
Total equity	1,850	1,585
Balance sheet total	3,916	3,441
Equity ratio	47%	46%

Fair value measurement

Financial assets at fair value through profit or loss in the consolidated financial statements, namely investment properties, investments in real estate funds and derivative instruments, are classified according to the valuation method. The levels used are defined as follows:

– quoted (unadjusted) prices for identical assets or liabilities on active markets (level 1)
– input data other than the quoted prices included in level 1 which are observable for the asset or liability in question either directly (i.e. as a price) or indirectly (i.e. derived from prices) (level 2)
– input data concerning the asset or liability that are not based on observable market data (other than observable input data) (level 3).

The Group's derivative instruments at fair value are presented in Note 3.3.2 along with a more detailed description of how derivative instruments are measured at fair value. Information concerning investment properties at fair value is presented in Note 2, and information on investments in real estate funds at fair value is presented in Note 7.3.

3.3.2 Financial assets and liabilities

Accounting principle

Sponda Group's financial assets are classified as follows: financial assets recognised at fair value through profit and loss, loans and receivables, and available-for-sale financial assets. Correspondingly, financial liabilities are classified as financial liabilities recognised at fair value through profit and loss and financial liabilities measured at amortised cost. Financial assets and liabilities are classified on the basis of the purpose for which they were acquired. The company's management decides on the classification of financial assets and liabilities in conjunction with their initial recognition.

Financial assets and liabilities are recognised initially at fair value based on the consideration received or paid. Transaction costs are included in the original carrying amount of financial assets and liabilities for items that are not measured at fair value through profit and loss. Transaction costs related to financial assets and liabilities measured at fair value through profit and loss are recognised immediately on the income statement. All purchases and sales of financial assets and liabilities are recognised on the value date, which is the date on which the cash flow from the purchased or sold financial instrument is realised, and derivatives are recognised on the transaction date.

Financial assets are derecognised from the balance sheet when the Group has lost the contractual right to the cash flows or when it has transferred a significant part of the risks and yield outside the Group. A financial liability is removed from the balance sheet only when it is extinguished, i.e. when the obligation specified in the contract expires.

Financial assets recognised at fair value through profit and loss contain assets held for trading. Items belonging to financial assets are recognised in this category if they are acquired primarily to be sold in the near future. The company did not have assets held for trading on the balance sheet date. Derivatives to which hedge accounting is not applied are recognised in this group. Assets in this category are classified as current assets, unless they mature after more than 12 months after the end of the reporting period.

The items in this category are measured at fair value and the fair value of all the investments in this category is determined on the basis of publicly quoted prices or generally accepted option pricing models. Realised and unrealised gains and losses resulting from changes in the fair value are recognised in the income statement in the period in which they are incurred.

Payments relating to **loans and receivables** are fixed or determinable, they are not quoted on the active market, and the company does not hold them for trading purposes. They are classified as current assets, unless they mature after more than 12 months after the end of the reporting period, in which case they are classified as non-current assets. This category includes the Group's financial assets that have been obtained by handing over cash, goods or services to a debtor.

Loans and receivables are measured at amortised cost using the effective interest method. The Group recognises an impairment loss for an individual receivable if there is objective evidence that the receivable will not be recovered in full. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or the probability of bankruptcy or other financial reorganisation.

The Group assesses at the end of each reporting period whether there is objective evidence that an item or group classified under loans and receivables is impaired. An item or group recognised under loans and receivables is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has a reliably estimable impact on the estimated future cash flows.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Financial liabilities measured at amortised cost include the Group's financial liabilities that are initially recognised at fair value, net of transaction costs incurred. These financial liabilities are subsequently measured at amortised cost using the effective interest method. The difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over time using the effective interest method. Financial liabilities are included in non-current and current liabilities and they can be interest-bearing or non-interest-bearing.

Liabilities recognised at fair value through profit and loss include derivative liabilities to which hedge accounting is not applied.

Derivatives to which hedge accounting is applied are also recognised at fair value in financial liabilities.

Financial assets and liabilities have not been offset in the financial statements.

Carrying amounts of financial assets and liabilities by category

2016 Balance sheet item, M€	Financial assets/ liabilities recognised at fair value through profit and loss	Loans and receiv- ables	Financial liabilities recognised at amortised cost	Hedging derivatives	Carrying amount of balance sheet items	Fair value	Level 1	Level 2	Level 3	Total
Non-current financial assets										
Other investments		0.0			0.0	0.0			0.0	0.0
Derivative contracts	0.2				0.2	0.2		0.2		0.2
Current financial asset										
Derivative contracts	0.0				0.0	0.0		0.0		0.0
Trade receivables and other financial assets		19.0			19.0	19.0				
Cash and cash equivalents		12.9			12.9	12.9				
Carrying amount by category	**0.2**	**31.9**	**0.0**	**0.0**	**32.1**	**32.1**				
Non-current financial liabilities										
Interest-bearing loans and borrowings			1,313.9		1,313.9	1,332.1		1,332.1		1,332.1
Derivative contracts	0.1			27.6	27.7	27.7		27.7		27.7
Current financial liabilities										
Interest-bearing loans and borrowings			548.6		548.6	552.4		552.4		552.4
Derivative contracts				0.6	0.6	0.6		0.6		0.6
Interest liabilities			11.1		11.1	11.1				
Trade payables and other financial liabilities			17.9		17.9	17.9				
Carrying amount by category	**0.1**		**1,891.5**	**28.2**	**1,919.8**	**1,941.8**				

All derivative instruments are measured at fair value on the balance sheet. Interest-bearing debt is measured at amortised cost using the effective interest rate method. All other items are valued at cost on the parent company's balance sheet. Financial assets include EUR 0.2 million in derivative instruments and financial liabilities include EUR 28.3 million in derivative instruments.

Carrying amounts of financial assets and liabilities by category

2015 Balance sheet item, M€	Financial assets/ liabilities recognised at fair value through profit and loss	Loans and receiv-ables	Financial liabilities recognised at amortised cost	Hedging derivatives	Carrying amount of balance sheet items	Fair value	Level 1	Level 2	Level 3	Total
Non-current financial assets										
Other investments		0.1			0.1	0.1			0.1	0.1
Derivative contracts	0.8				0.8	0.8		0.8		0.8
Current financial asset										
Derivative contracts	0.0				0.0	0.0		0.0		0.0
Trade receivables and other financial assets		2.5			2.5	2.5				
Cash and cash equivalents		220.0			220.0	220.0				
Carrying amount by category	**0.8**	**222.6**	**0.0**	**0.0**	**223.4**	**223.4**				
Non-current financial liabilities										
Interest-bearing loans and borrowings			1,080.4		1,080.4	1,099.5		1,099.5		1,099.5
Derivative contracts	0.3			36.6	36.9	36.9		36.9		36.9
Current financial liabilities										
Interest-bearing loans and borrowings			580.5		580.5	581.2		581.2		581.2
Derivative contracts										
Interest liabilities			11.2		11.2	11.2				
Trade payables and other financial liabilities			3.8		3.8	3.8				
Carrying amount by category	**0.3**		**1,675.8**	**36.6**	**1,712.7**	**1,732.5**				

All derivative instruments are measured at fair value on the balance sheet. Interest-bearing debt is measured at amortised cost using the effective interest rate method. All other items are valued at cost on the parent company's balance sheet.

Financial assets include EUR 0.8 million in derivative instruments and financial liabilities include EUR 36.9 million in derivative instruments.

The company does not have financial instruments offset in the balance sheet. The net value of financial instruments (derivatives) subject to netting agreements in the company is minor. The netting of derivative instruments would be done according to ISDA or an equivalent master agreement. All derivative instruments are measured at fair value.

The Group's interest-bearing liabilities

Long-term liabilities, M€	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Bonds and FRNs *)	324.0	336.4	473.3	489.4
Loans from financial institutions	989.9	995.7	607.2	610.1
Total	**1,313.9**	**1,332.1**	**1,080.4**	**1,099.5**

Current liabilities, M€	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Loans from financial institutions and commercial papers	398.7	400.0	509.8	510.1
Bonds and FRNs *)	149.9	152.4	70.7	71.0
Total	**548.6**	**552.4**	**580.5**	**581.2**

The fair values of bonds are based on the averages of market quotes published by at least two banks. In addition, Sponda compares the external valuations received to the indicative market quotes of Bloomberg's market data system, to ensure the adequate reliability of measurements.

*) Current bonds and FRNs in 2015 consists of a SEK 650 million bond.

The fair values of all liability items reflect the value for which investors in active secondary markets would probably be willing to purchase the items in question. The fair values of loans from financial institutions and of foreign currency loans are calculated by comparing the valid contract terms of each individual liability (such as duration and interest margin) to the terms prevalent on the market, the objective being the refinancing of the liability under review. Central to the valuation of a liability is the new liability's interest margin for which a similar liability could have been arranged at the reporting date. Loan-specific refinancing margins are based on the estimates of company management. Based on discussions conducted with a number of debt investors during the financial period the company considers itself to clearly belong in what is referred to as Investment Grade category in terms of its credit risk. The management's estimate concerning the company's credit risk from the perspective of debt investors has remained unchanged for the 2016 and 2015 financial periods. The company considers any possible change in a company-specific credit risk in the valuation of liabilities.

Derivative contracts

M€	Fair value 2016	Nominal value 2016	Fair value 2015	Nominal value 2015
Interest derivatives				
Interest rate swaps				
In hedge accounting	-28.2	655.0	-36.6	655.0
Not in hedge accounting	-0.1	150.0	-0.3	150.0
Interest rate caps, bought				
Not in hedge accounting	0.2	362.2	0.8	363.1
Foreign currency derivatives				
Currency options				
Currency options, call	0.0	5.0	0.0	6.4
Currency options, put	-	-	-	-
Cross currency swaps	-	-	-1.7	72.4

The interest derivative agreements were made in order to hedge the loan portfolio and currency derivatives in order to hedge against currency risk. At the time of closing the books, hedging only applies to interest rate swaps. The company has one (EUR 150 million) interest rate swap contract made to change the Euribor reference rate of a euro-denominated loan. Hedge accounting was not applied to this swap.

Cross currency swaps were used in 2015 to hedge the exchange rate risk related to loans denominated in Swedish krona. The nominal values of cross currency swaps are identical to the nominal values of the loans hedged.

Derivative instruments are valued in the financial statements at fair value. The fair value represents the result if the derivative position had been closed on the balance sheet date. Sponda utilises external valuations. In addition, Sponda evaluates the size of derivative instruments' fair value internally.

Maturity of non-current liabilities

Maturity of non-current liabilities 31 December 2016, M€	2017 *)	2018	2019	2020	2021	2022
Bonds and FRNs	150.0	150.0	-	175.0	-	-
Loans from financial institutions	150.9	81.5	200.0	115.0	597.0	-

Maturity of non-current liabilities 31 December 2015, M€	2016 *)	2017	2018	2019	2020	2021
Bonds and FRNs	70.7	150.0	150.0	-	175.0	-
Loans from financial institutions	311.6	210.9	81.6	200.0	116.3	-

This table shows the maturities of non-current liabilities, showing the nominal value at the time the loan was taken. Foreign currency loans are quoted at the rate of the balance sheet date. * Loans maturing in the year following the balance sheet date are presented in the balance sheet under current loans.

The average interest rate of the Group's interest-bearing liabilities, including derivatives, was 2.7 per cent (2015: 2.9 per cent). The average maturity of loans was 2.6 years (2015: 2.2 years).

Sponda Group's most significant loans

Loan type	Signed/ issued	Amount, Me	Coupon rate	Listed	Secured	Maturity/ Loan period	Arranged by
Bilateral loan	December 2016	60			Yes	5 years	Danske Bank
Syndicated credit arrangement	June 2016	Loan 500			No	5 years	Syndicate of seven banks
	June 2016	Limit 100			No	5 years	Syndicate of seven banks
Finance limit	March 2016	50			No	5 years	Svenska Handelsbanken
Syndicated finance limit	November 2015	80			No	5 years	Syndicate of three banks
Bilateral loan	April 2015	115			No	5 years	Danske Bank
Bond issue	May 2015	175	2.375%	NASDAQ OMX Helsinki	No	5 years	Pohjola Bank & Swedbank
Bilateral loan	October 2014	100			No	5 years	Swedbank
Bilateral loan	October 2014	100			No	5 years	Pohjola Bank
Bilateral loan	December 2013	150			No	4 years	Nordea Bank Finland Plc
Finance limit	December 2013	100			No	5 years	Danske Bank
Corporate bond	October 2013	150	3.375%	NASDAQ OMX Helsinki	No	5 years	Danske & SEB
Bilateral loan	June 2013	85			Yes	5 years	Helaba
Finance limit	November 2012	100			No	5 years	Swedbank
Corporate bond	May 2012	150	4.125 %	NASDAQ OMX Helsinki	No	5 years	Danske Bank & Pohjola

The key covenants of all agreements (equity ratio and interest cover ratio) are the same

Sponda Plc's hybrid bond

In December 2012, Sponda issued a EUR 95 million hybrid bond (equity bond). The coupon rate of the hybrid bond is 6.75 per cent per annum. The bond has no maturity, but the company may exercise a redemption option after five years. A hybrid bond is an instrument that is subordinated to other debt obligations. It is treated as equity in the IFRS financial statements. A hybrid bond does not confer upon its holder the right to vote at shareholder meetings and does not dilute the holdings of the current shareholders. The interest on the bond is paid if the Annual General Meeting decides to distribute a dividend. If no dividend is distributed, the company decides separately on whether to pay the interest. Unpaid interest accumulates. The transaction was organised by Nordea Markets.

4. Taxes

Accounting principle

Income taxes in the income statement consist of the current tax and changes in deferred tax assets or liabilities. The tax payable by Group companies for the period is calculated using the taxable profit as determined in accordance with local legislation. The tax is adjusted for any taxes related to prior periods.

Deferred tax liabilities and assets are recognized for all temporary differences between the book values and the carrying amounts for tax purposes of assets and liabilities, Apart from the initial recognition of acquisitions of individual assets as referred to in IAS 12.15b, for which no deferred tax is recorded. In Sponda, these acquired assets are typically investment property acquisitions which do not meet the criteria of business entities and are therefore classified as assets.

The most significant temporary difference in Sponda is the difference between the fair values and acquisition costs of the shareholding in property companies owned by Sponda. The recovery of the carrying amount of investment properties valued at fair value in the calculation of deferred taxes will normally happen through sale. The company's principle is to realise its shareholding in property companies by selling the shares it owns. Other temporary differences arise, for example, from the measurement of financial instruments at fair value and unused tax losses. Deferred taxes are calculated using tax rates that are either enacted or actually in force by the balance sheet date.

Changes in deferred taxes are recognised in the income statement apart from when they are related to items recognised as crediting or debiting shareholders' equity or to other comprehensive income items. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Management judgment

Management has exercised its judgment so that individual acquisitions of investment properties at Sponda are classified as acquired assets, since a single property and its lease agreements do not form a business entity. To constitute a business entity they would require related marketing and development activities as well as management of tenancies, property repairs and renovation. Acquisitions of investment property classified as assets do not involve the transfer of business processes or employees responsible for them.

Determining whether to recognise deferred tax assets on the balance sheet requires the management's judgment. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences or unused tax losses can be utilised. It may become necessary to decrease the carrying amount of deferred tax assets if future taxable income differs from the estimate. The deferred tax assets are reassessed on an annual basis in relation to the Group's capacity to produce future taxable profits.

Income taxes

M€	2016	2015
Current tax expense	2.4	9.3
Deferred taxes	15.6	-107.3
Total	**17.9**	**-98.1**

Taxes relating to other comprehensive income items

	2016			2015		
M€	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Defined benefit plans	0.2	0.0	0.1	0.1	0.0	0.1
Cash flow hedges	8.3	-1.7	6.7	7.3	-1.5	5.8
Translation difference	2.3	-1.1	1.1	-0.2	-0.4	-0.6
Total	**10.8**	**-2.8**	**8.0**	**7.2**	**-1.9**	**5.3**

Reconciliation between the income tax expense recognised in the income statement and the taxes calculated using the parent company's domestic corporate tax rate (20%):

	2016	2015
Profit before taxes	155.5	129.2
Income tax using the parent company's domestic corporate tax rate	31.1	25.8
Difference between tax rate in Finland and in other countries	-	-
Change of tax base	-	-
Tax exempt income/non-deductible expenses	0.1	0.0
Share of result of associated companies	-	-2.0
Deferred tax on sale of associated company	-	1.6
Utilisation of tax losses from prior periods	-	0.0
Investment properties, effect of structural change	-	-129.2
Tax effect of Goodwill depreciation	0.6	0.6
Shelf life amortisation and previously unrecognised confirmed losses	-4.2	-0.9
Other items	-9.7	6.0
Tax expense in the income statement	**17.9**	**-98.1**

As a consequence of dissolving an unnecessary sub-group, originating from a portfolio transaction in 2006, and from changes in the acquisition cost of shares, the amount of deferred taxes changed significantly.
The reduction in deferred taxes, caused by dissolving the sub-group and recognised in the financial statements, for the year 2015 was approximately EUR 129.2 million.

Deferred tax liabilities and assets in the balance sheet

M€	31.12.2015	Recognised in income statement	Transfers and other changes	Recognised in other comprehen-sive income items	Recognised in equity	Acquisitions/ divestments of investment properties/ businesses	31.12.2016
Deferred tax assets							
Assessments at fair value							
Financial instruments	7.9			-1.7			6.2
Investment properties	0.0	6.3					6.3
Other items/transfers	1.5	1.7	0.0	-0.3			2.9
Total	**9.4**	**8.0**	**0.0**	**-2.0**	**0.0**	**0.0**	**15.4**
Deferred tax liabilities							
Assessments at fair value							
Financial instruments	0.0						0.0
Investment properties	70.8	21.5					92.3
Other items/transfers	0.7	2.1	-0.3		-1.7		0.8
Total	**71.5**	**23.6**	**-0.3**	**0.0**	**-1.7**	**0.0**	**93.1**

M€	31.12.2014	Recognised in income statement	Transfers and other changes	Recognised in other comprehen-sive income items	Recognised in equity	Acquisitions/ divestments of investment properties/ businesses	31.12.2015
Deferred tax assets							
Assessments at fair value							
Financial instruments	9.5	0.0	0.0	-1.9		0.3	7.9
Investment properties							0.0
Other items/transfers	15.6	-14.3	0.2	0.0			1.5
Total	**25.1**	**-14.3**	**0.2**	**-1.9**	**0.0**	**0.3**	**9.4**
Deferred tax liabilities							
Assessments at fair value							
Financial instruments	16.1	1.3	0.0			-17.4	0.0
Investment properties	177.6	-106.8	0.1				70.8
Other items/transfers	0.8	1.3	-0.1		-1.3		0.7
Total	**194.5**	**-104.2**	**-0.1**	**0.0**	**-1.3**	**-17.4**	**71.5**

On 31 December 2016, the Group had EUR 2.8 million (2015: EUR 4.4 million) of confirmed losses and EUR 56.0 million (2015: EUR 56.3 million) of impairment losses not deducted from taxes for which tax assets had not been calculated, since the utilisation of the items in question is uncertain.

5. Equity and profit for the period

The equity and profit for the period section includes notes on equity including retained earnings.

5.1. Share capital and reserves

Accounting principle

Share capital consists solely of ordinary shares. Ordinary shares as classified as equity.

Transaction costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of tax, from the proceeds.

Where any Sponda Group company purchases the company's shares (treasury shares), the consideration paid, including any directly attributable costs (net of income taxes), is deducted from equity attributable to the owners of the company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity attributable to the owners of the company.

Hybrid bond

A hybrid bond is a bond that is subordinated to the company's other debt instruments but is senior to other equity instruments. The interest on a hybrid loan is paid if the Annual General Meeting decides to pay a dividend. If no dividend is distributed, the company decides separately on whether to pay the interest. Unpaid interest accumulates. Hybrid loan holders have no control over the company and no right to vote at shareholders' meetings, nor does the hybrid bond have a diluting effect.

On 29 February 2016, the Board of Directors of Sponda Plc, based on the authorisation granted by the Extraordinary General Meeting on 29 February 2016, resolved on a rights offering of EUR 220.8 million (before expenses). All of the offered 56,615,092 shares were subscribed for in the rights offering. The subscription price was EUR 3.90 per share. As a result of the offering, the total number of shares in Sponda increased to 339,690,554. The shares were registered with the Finnish Trade Register and in Sponda's shareholder register on 1 April 2016.

M€	No. of shares (1,000)	Share capital	Share premium reserve	Invested non-restricted equity reserve	Total
31.12.2006	**79,307**	**79.3**	**159.5**	**-**	**238.8**
Share issue	31,723	31.7	-	209.7	241.4
31.12.2007	**111,030**	**111.0**	**159.5**	**209.7**	**480.2**
31.12.2008	111,030	111.0	159.5	209.7	480.2
Share issue	166,545	-	-	202.3	202.3
31.12.2009	**277,575**	**111.0**	**159.5**	**412.0**	**682.5**
31.12.2010	277,575	111.0	159.5	412.0	682.5
Share issue	5,500	-	-	21.7	21.7
31.12.2011	**283,075**	**111.0**	**159.5**	**433.8**	**704.2**
31.12.2012	283,075	111.0	159.5	433.8	704.2
31.12.2013	283,075	111.0	159.5	433.8	704.2
31.12.2014	283,075	111.0	159.5	433.8	704.2
31.12.2015	283,075	111.0	159.5	433.8	704.2
Share issue	56,615	-	-	219.0	219.0
31.12.2016	**339,691**	**111.0**	**159.5**	**652.7**	**923.2**

Sponda Plc has a single class of shares. Under the Articles of Association, there is no maximum number of shares and the company does not have a set maximum share capital. The share has no nominal value or accounting par value. All issued shares have been paid in full.

Shareholders' equity comprises the following reserves:

Share premium reserve

Sponda does not have existing instruments that would, under the Limited Companies Act currently in effect, accrue a share premium reserve.

Translation differences

Translation differences comprise translation differences arising from the translation of foreign currency denominated items in the financial statements of foreign subsidiaries.

Fair value reserve

The fair value reserve contains the changes in fair values of the derivatives used to hedge cash flow.

Revaluation reserve

The revaluation reserve comprises the fair value of properties that have previously been used by the Group itself and have subsequently been transferred to investment properties.

Invested non-restricted equity reserve

The invested non-restricted equity reserve contains equity investments and that part of the share subscription price that has not been allocated to share capital by a specific decision.

Other equity reserve

The other equity reserve comprises the equity bond less the costs of raising the bond.

Risks associated with business operations in Russia

Sponda recognises translation differences on property assets located in Russia, equity investments in Russia, and internal Group loans granted to subsidiaries in Russia. The Group measures investment properties located in Russia at fair value in accordance with IAS 40. As such, the translation difference on property assets is determined by the difference between the initial fair value measurement and the RUB-denominated balance on the valuation date. Translation differences on equity investments and loans granted in Russia are determined by the exchange rates for euro-denominated balance sheet items in Russia on the valuation date. The translation difference on property assets has the opposite effect to the translation difference of equity investments and loans granted, which balances the impact of the depreciation of the rouble on the Group's profit and financial position due to the decline in value of the Group's rouble-denominated balance sheet items. The amount of translation differences recognised by Sponda has been minor. The translation differences are realised when properties are sold.

5.2. Retained earnings and dividend payment

Accounting principle

Dividend payment to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's General Meeting of Shareholders.

Retained earnings

M€	2016	2015
At beginning of financial year	813.7	645.5
Profit for the period attributable to equity holders of the parent company	137.5	227.2
Defined benefit obligations	0.1	0.1
Dividend payment	-94.5	-53.8
Hybrid bond, interest paid	-5.1	-5.1
Share-based payments	0.1	-0.2
At end of financial year	851.8	813.7

Dividend

After the balance sheet date, the Board of Directors has proposed that a dividend of EUR 0.08 per share be distributed for the 2016 financial year. The Board further proposes to the AGM that the AGM authorise the Board of Directors to decide, at its discretion, on the payment of dividend in no more than two tranches based on the annual accounts adopted for the financial year 2016. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share before the next AGM. Dividends of EUR 0.12 were paid during the financial year 2016 based on the authorisation granted to the Board of Directors at the General Meeting held on 21 March 2016. The distribution of dividend was based on the annual accounts adopted for the financial year 2015.

5.3. Earnings per share

Accounting principle

Undiluted earnings per share is calculated by dividing profit for the period attributable to the equity holders of the parent company, adjusted by the tax-adjusted interest expenses of the hybrid loan and the hybrid loan repayment premium, by the weighted average number of shares outstanding.

Earnings per share

M€	2016	2015
Profit for the period attributable to equity holders of the parent company	137.5	227.2
Interest accrued during the period on hybrid bond	-6.4	-6.4
Tax effect	1.3	1.3
Net effect	-5.1	-5.1
Weighted average number of shares during the period (million), pcs	326.9	283.1
Diluted earnings per share attributable to parent company equity holders, €	0.41	0.78

There were no diluting instruments in 2016 and 2015.

6. Personnel and related parties

The personnel and related parties section describes the remuneration and pension schemes of Sponda's personnel and management. At the end of the section, related parties are defined and the notes pertaining to related parties are presented.

6.1. Salaries and fees

In 2016, the Sponda Group had 107 employees on average (2015: 103).

Salaries and fees

M€	2016	2015
Management remuneration		
CEO	0.5	0.5
Other Executive Board members	1.0	0.8
Board of Directors	0.4	0.3
Share-based payments to management	0.9	0.9
Management remuneration, total	2.9	2.6
Other wages and salaries	7.7	6.4
Other share-based payments	0.1	0.1
Defined benefit pension plans	0.0	-0.1
Defined contribution pension plans	2.0	1.6
Other social security costs	0.6	0.3
Total	**13.3**	**10.9**

The President and CEO of Sponda Plc is paid a full salary. The salary and fees paid to Sponda Plc's President and CEO totalled EUR 547,000 (2015: 518,000). In addition, during the period the President and CEO was paid a bonus of EUR 302,000 (2015: 440,000) under the incentive scheme for key personnel based on the company's actual performance in 2015.

Accounting principle

Share-based payments

Sponda has several long-term incentive schemes for key personnel, and the individuals within these schemes are entitled to a bonus determined on the basis of defined targets.

The payment of the bonus is conditional upon the achievement of performance targets set by the company's Board of Directors and the person's continued employment in the company. Taxes and statutory employer's contributions are deducted from the bonus, and the remaining sum is used to acquire Sponda's shares from the market. The shares may not be surrendered during a commitment period following the reference period.

Sponda has also had an Employee Share Programme in effect since 2014. The target group of the Share Programme includes all employees of the company and its Group companies, excluding persons in an employment or service relationship with the Group who are included in Sponda's incentive scheme for key personnel. Participation in the Share Programme is voluntary. Shares purchased on the basis of the Share Programme are subject to a Commitment Period during which they may not be assigned, pledged or otherwise used.

The incentive schemes are accounted for as equity-settled share-based business transactions and recorded as personnel expenses on a straight-line basis over the vesting period. The counter-entry for the part paid in shares is taken directly to retained earnings.

Incentive scheme for key personnel

The incentive scheme for key personnel covers the President and CEO and other members of the Executive Board, in total six people (seven people starting from 1 January 2017). The purpose of the incentive scheme is to link the objectives of shareholders and key personnel to increase the company's shareholder value, increase the key personnel's commitment to the company and offer them a competitive remuneration scheme based on share ownership.

On 20 March 2012, Sponda Plc's Board of Directors decided on the implementation of a new incentive scheme for key personnel, which is effective from the beginning of 2012. The incentive scheme comprises three three-year vesting periods, which correspond to the calendar years 2012–2014, 2013–2015, and 2014–2016. In addition, prior to 2012 the Group had incentive schemes in effect, the vesting periods of which have ended and the shares granted under them become free for disposal in 2015–2016.

The earning criteria for the vesting periods that began prior to 2012 were tied to cash flow per share and return on investment. The earning criteria for the vesting period 2012–2014 are tied to the Group's cash flow from operations per share and return on investment. The earning criteria for the vesting period 2013–2015 are tied to the Group's cash flow from operations per share, return on investment and the sale of properties. The earning criteria for the vesting period 2014–2016 are tied to the Group's average return on investment, the Group's cumulative cash flow from operations per share in the financial years 2014–2016, and the sale of properties. In addition, the Board of Directors will assess the Group's success in relation to the prevailing market conditions.

On 5 February 2015, Sponda Plc's Board of Directors decided on the implementation of a new incentive scheme for key personnel, which is effective from the beginning of 2015. The terms are the same as in the previous incentive scheme and the incentive scheme comprises three three-year vesting periods, which correspond to the calendar years 2015–2017, 2016–2018, and 2017–2019. The Board of Directors will decide the earning criteria for the earning period and the targets set for them. The earning criteria for the vesting period 2015–2017 are tied to the Group's return on investment, cash flow from operations per share and the sale of properties. In addition, the Board of Directors will assess the Group's success in relation to the prevailing market conditions.

The bonuses, less taxes and other employer contributions, are used to purchase shares in the company for the person on the open market. The shares may not be disposed of within a set period of their receipt. The duration of this period is two years for the one-year vesting periods and three years for the three-year vesting periods. The personnel covered by the scheme also have a continued obligation to hold shares received under the scheme at a minimum amount corresponding to their gross annual salary for the duration of their employment in the company.

The maximum annual fee under the incentive scheme is the recipient's gross annual pay at the beginning of the vesting period. Gross annual pay refers to fixed basic salary excluding annual bonuses and the incentive scheme.

The remunerations payable based on the vesting period 2014–2016 correspond, at a maximum, to a value of approximately 301,727 shares in Sponda Plc (including the cash component to be paid). The remunerations payable based on the vesting period 2015–2017 correspond, at a maximum, to the value of approximately 319,175 shares in Sponda Plc (including the cash component to be paid). The remunerations payable based on the vesting period 2016–2018 correspond, at a maximum, to a value of approximately 376,853 shares in Sponda Plc (including the cash component to be paid).

Share-based incentive schemes

	Incentive scheme 2012–2014		
Conditions	Vesting period 2014–2016	Vesting period 2013–2015	Vesting period 2012–2014
Non-market based conditions	ROCE, CEPS and property sales	CEPS, ROCE and property sales	CEPS and ROCE
Other conditions	Three-year restriction on disposal	Three-year restriction on disposal	Three-year restriction on disposal
Number of instruments granted*	115,687	94,793	157,542
Share price on date of granting, €	3.70	3.64	3.36
Share price on date of distribution, €*	4.38	3.57	3.62
Grant date	5.2.2014	1.2.2013	20.3.2012
Issue date	1.1.2017	1.1.2016	1.1.2015
Vesting period ends	31.12.2016	31.12.2015	31.12.2014
Shares become free for disposal	31.12.2019	31.12.2018	31.12.2017
Settled as	Shares and cash	Shares and cash	Shares and cash

	Incentive scheme 2015–2017		
Conditions	Vesting period 2017–2019	Vesting period 2016–2018	Vesting period 2015–2017
Non-market based conditions		ROCE, CEPS and property sales	ROCE, CEPS and property sales
Other conditions	Three-year restriction on disposal	Three-year restriction on disposal	Three-year restriction on disposal
Number of instruments granted*	-	-	-
Share price on date of granting, €	-	3.77	4.08
Share price on date of distribution, €*	-	-	-
Grant date		4.2.2016	5.2.2015
Issue date		1.1.2019	1.1.2018
Vesting period ends		31.12.2018	31.12.2017
Shares become free for disposal		31.12.2021	31.12.2020
Settled as			Shares and cash

* The 2016 figure is based on the management's estimate. Actual figures may differ from the estimates provided.

Changes in share bonus during the period:

	2016	2015	2014	2013	2012
Share bonus granted at the start of the period	361,365	453,700	296,158	264,153	227,836
Bonuses granted in the period*	115,687	94,793	157,542	109,030	187,128
Bonuses forfeited during the period	-	-	-	-	-
Bonuses that became free for disposal during the period	109,030	187,128	-	77,025	150,811
Share bonuses granted at the end of the period	368,022	361,365	453,700	296,158	264,153

* The 2016 figure is based on the management's estimate. Actual figures may differ from the estimates provided.

Employee Share Programme

On 4 November 2016, Sponda Plc's Board of Directors decided to continue the Employee Share Programme, which is effective from the beginning of 2014. The Employee Share Programme gives the Group's employees the opportunity to use, in the following year, any net remuneration earned in the current financial year pursuant to the incentive scheme in effect for the purpose of acquiring merit pay shares and, in addition, receive funds from Sponda to acquire additional shares. Merit pay shares will be acquired on behalf of each employee participating in the Employee Share Programme for an amount corresponding to any remuneration earned pursuant to the incentive scheme less advance taxes. For each two merit shares acquired, one additional share will be acquired for participating employees. Shares acquired pursuant to the Employee Share Programme may not be transferred, pledged or otherwise disposed of within a two year engagement period upon initial acquisition.

The purpose of the Share Programme is to encourage the employees of the Group made up by the company to become the company's shareholders and reward them for operating in accordance with the Group's goals. Another purpose of the Share Programme is to align the interests of the company's shareholders and the Group's employees.

The target group of the Share Programme includes all employees of the company and its Group companies, excluding persons in an employment or service relationship with the Group who are included in Sponda's incentive scheme for key personnel. Participation in the Employee Share Programme is voluntary and the intention is that employees will participate in the plan for one year at a time. Sponda will decide annually on whether or not to continue the Employee Share Programme and announce its decision to the personnel. The company will at such time have the right, at its discretion, to discontinue the Employee Share Programme or to amend its terms and conditions.

The Employee Share Programme was first applied to performance bonuses paid in spring 2014. In 2016, a total of 25 (24) employees participated in the Employee Share Programme, and the number of additional shares purchased amounted to 16,953 (12,829). The fair value of the additional shares purchased on the basis of the Employee Share Programme was EUR 130,800 (EUR 116,000), and it will be allocated as an expense over the two-year vesting period. The shares purchased in 2016 will become free for disposal in 2018.

6.2. Pension plans

Accounting principle

Sponda has various post-employment benefit plans, which include both defined contribution and defined benefit pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

Pension coverage has been arranged via a pension insurance company. Contributions made for defined contribution plans are recognised in the income statement for the year to which they relate. The liability recognised on the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds. Actuarial gains and losses are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

Management's pension obligations and termination benefits

The retirement age for Sponda Plc's President and CEO is 63, and his pension is determined in accordance with the Finnish Employees' Pension Act (TyEL).

Under the terms of the service contract, the President and CEO's term of notice is six months. In the event of the company terminating the service contract, the President and CEO is entitled to compensation equal to 12 months' pay.

The President and CEO and the other members of the Executive Board are insured with a contribution-based group pension insurance. Sponda Plc pays the annual insurance premium until the member reaches the age of 63. Under the terms of this scheme, the accrued savings may be withdrawn starting from the age of 63 or as a supplementary pension in addition to the individual's statutory earnings-related pension. The insurance premium amounts to 15 per cent of the fixed annual salary of each member of the Executive Board. In 2016, the premiums of the voluntary group pension scheme of the President and CEO and other Executive Board members were EUR 195,000 (2015: EUR 93,000).

Pension plans for personnel

During its history, Sponda Plc has been the recipient of transfers of pension obligations in conjunction with business acquisitions. The pension obligations compensate for earlier retirement ages. Insurance is used to compensate for early retirement. The retirement age associated with the pension obligations ranges from 60 to 63 years.

M€	2016	2015
Defined benefit obligation	2.9	4.0
Fair value of employee benefit plan assets	2.4	3.3
Net defined benefit (asset) liability 31.12	**0.5**	**0.7**

6.3. Information on related parties

The related parties of Sponda Group are the parent company, subsidiary and associated companies, and joint ventures. Other related parties are the Board of Directors, members of the Executive Board, the President and CEO, and close member of their families. The question of whether corporations under the control of shareholders and key persons in the company's management are considered related parties is assessed on a case-by-case basis, taking the actual circumstances into account.

There were no outstanding loans receivable from key management personnel on 31 December 2016 or on 31 December 2015.

At the end of 2016, members of the Board of Directors held 178,820 shares and members of the Executive Board held 1,003,302 shares (2015: 153,059 and 910,134 shares). The number of shares held by the Board of Directors and Executive Board includes the shareholdings of their related parties. Combined, the shares held by the Board of Directors and Executive Board represent 0.36 per cent of the total number of shares in the company.

The members of Sponda Plc's Board of Directors are paid an annual fee and a fee for each meeting attended for the term ending at the 2017 Annual General Meeting. Of this annual remuneration, 40% is paid in Sponda Plc shares purchased on the market. The Chairman of the Board was paid EUR 84,800 for the year (2015: EUR 79,400), the Deputy Chairman EUR 53,600 (2015: EUR 50,600) and the other members of the Board, in total, EUR 263,400 (2015: EUR 208,200).

A statement on the remuneration of the company's Board of Directors and management, in accordance with the Corporate Governance Code 2016, is available on Sponda's website at investors.sponda.fi.

The Group's parent and subsidiary relationships are presented in Note 8.

Salaries and fees paid to the President and CEO and the Board of Directors

M€	2016	2015
Kari Inkinen, President and CEO	0.5	0.5
Board of Directors		
Kaj-Gustaf Berg	0.1	0.1
Christian Elfving	0.0	0.0
Outi Henriksson [1]	0.0	-
Paul Hartwall	0.0	0.0
Juha Laaksonen [2]	0.0	0.0
Leena Laitinen	0.0	0.0
Juha Metsälä [1]	0.0	-
Arja Talma	0.1	0.1
Raimo Valo	0.0	0.0
Board of Directors	0.4	0.3
Total	**0.9**	**0.9**

[1] as of 23 March 2016 [2] until 21 March 2016

Business transactions carried out with related parties; receivables from and liabilities to related parties

M€	Income	Expenses
Mercator Invest Ab*	0.0	-
Konstsamfundet rf	0.3	-
Total	**0.3**	**-**

*) Sponda acquired six properties from Mercator Invest Ab (formerly Forum Fastighets Kb) for EUR 576 million on 29 February 2016.

7. Other notes

Other notes cover subjects that do not, in the Group's view, constitute a broader topic of their own. Other notes include notes to the income statement and notes to the balance sheet, as well as notes on other topics, such as commitments.

7.1. Auditor fees

Auditor fees

M€	2016	2015
Authorised Public Accountants KPMG Oy		
Audit	0.2	0.2
Tax consultancy	0.2	0.1
Other services	0.3	0.6
Total	**0.7**	**0.9**

Auditing includes fees pertaining to the audit of the consolidated financial statements and the audit of Sponda Plc and its subsidiaries, including assurance and other services related to auditing.

7.2. Leases

7.2.1 Leases, the Group as a lessor

Accounting principle

Property leases are classified as operating leases when the risks and rewards incidental to ownership remain with Sponda.

When the risks and benefits incidental to ownership have been substantially transferred to the lessee, a property lease is classified as a finance lease. In that case, the parts of the properties covered by the finance lease are recognised as finance lease receivables on the balance sheet at the commencement of the lease term in an amount that equals the net investment in the lease, i.e. the present value of the minimum lease payment plus the present value of the non-guaranteed residual value.

The leases collected by Sponda are total leases, separate capital and maintenance leases, or leases indexed to the lessee's net sales. Maintenance costs associated with the property are either included in the lease or they remain the responsibility of the tenant, depending on the contract. Most of the leases are linked to the cost-of-living index. Leases are either signed for an indefinite period or are fixed-term.

Two long-term leases on two different properties are classified as finance leases. Part of the premises in each property are leased. Finance lease income and receivables are presented as their own items in the income statement and balance sheet.

7.2.2 Leases, the Group as a lessee

Accounting principle

Those leases in which the risks and rewards of ownership remain with the lessor are treated as operating leases. Leases paid by Sponda based on operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

Lease expenses in the Group primarily arise from land leases and they are included in net operating income. In addition, administrative expenses include lease expenses for cars and office equipment.

7.3. Investments in real estate funds

Accounting principle

Sponda owns through real estate funds holdings in retail and office properties. The investments in real estate funds contain these holdings. Investments in real estate funds are measured at fair value. The change in fair value is recorded in the income statement under "Valuation gains/losses on fair value assessment".

Investments in real estate funds

	2016		2015	
	Investment, M€	Holding	Investment, M€	Holding
First Top LuxCo S.à.r.l	0.0	20.0%	2.0	20.0%
YESS Ky	0.0	60.0%	0.0	60.0%
Russia Invest B.V.	22.4	27.2%	19.4	27.2%
Total	**22.4**		**21.4**	

First Top LuxCo I S.à.r.l. is a real estate fund registered in Luxembourg that invests primarily in office and retail premises in medium-sized Finnish towns. The value of the investment was written down during the financial year 2016.

YESS Ky is a fund established by Sponda Plc and YLE Pension fund that develops the Forum Virium project. No capital investments have been made in the fund as of yet.

Russia Invest B.V. owns a 55% stake in the Okhta Mall shopping centre in St. Petersburg, which opened in 2016.

All investment properties belong to level 3 in the fair value hierarchy, meaning they are not based on observable market data (other than observable input data).

7.4. Property, plant and equipment and intangible assets

Accounting principle

Property, plant and equipment comprises properties, equipment and furniture in company use, other tangible assets and advance payments and incomplete acquisitions. These are valued at their original acquisition cost, less accumulated depreciation and possible impairment losses, adding capitalised costs related to modernisation work.

The properties, office equipment and furniture and vehicles used by the company itself are depreciated over their useful lives.

Land areas are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their acquisition cost and residual value over their estimated useful lives as follows:

Office premises used by Sponda	100 years
Office machinery and equipment	3–20 years
Other tangible assets	10 years

The residual values, useful lives and depreciation methods of assets are reviewed at the end of each reporting period and adjusted as necessary to reflect changes in expected future economic benefits.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement under "Other operating income or expenses".

Other tangible assets includes, among other things, renovation expenses related to the company's head office and works of art owned by the Group.

Other intangible assets include computer software recorded at acquisition cost and amortised on a straight-line basis over 3–5 years.

Management judgment

At each balance sheet date the Group assesses the carrying amounts of its assets to determine whether any indication of impairment exists. If any such indication exists, the recoverable amount is estimated.

The Group's depreciation on property, plant and equipment in 2016 amounted to EUR 0.2 million (2015: EUR 0.2 million).

The Group's depreciation on other intangible assets in 2016 amounted to EUR 0.8 million (2015: EUR 0.7 million).

7.5. Trading properties

Accounting principle

Trading properties are properties that are meant for sale and which do not correspond to the company's strategic goals owing to their size, location or type. Trading properties are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the direct costs resulting from completion of the sale. The net realisable values are mainly determined using the market value method. If the net realisable value is lower than the carrying amount, an impairment loss is recognised.

Trading properties comprise 17 properties that are owned mainly through real estate or housing limited companies.

Trading properties

M€	2016	2015
Trading properties at the start of the period	7.7	7.8
Disposals and other changes	-0.5	-0.1
Trading properties at the end of the period	**7.2**	**7.7**
Proceeds from the sale of trading properties	28.8	2.8
Provision for land use fees related to the sale	-13.4	-
Amount recognised as income	15.4	2.8
Gains/losses on disposal of trading properties	**14.6**	**2.8**

7.6. Current non-interest-bearing receivables and debt

A substantial proportion of Sponda's current receivables and debt are related to value added tax. The Group covers the VAT deductions of mutual real estate companies at the end of the year using maintenance charges. As a result, the real estate companies recognise substantial VAT payables in December, while the parent company recognises a corresponding VAT receivable.

7.6.1 Trade and other receivables

Accounting principle

Trade receivables are amounts due from customers arising from the leasing of office, retail or logistics premises. If collection is expected within one year, they are classified as current assets. If not, they are presented as non-current assets. Other receivables include items such as VAT receivables, advances paid and other prepaid expenses and accrued income.

Trade receivables are recognised initially at fair value. Subsequently, a provision for impairment of trade receivables is established when the receivable has been overdue for more than three months or there is objective evidence that the Group will not be able to collect the full amount due. Any impairment is recognised in the income statement within other operating expenses. When a trade receivable is uncollectable, it is written off against the provision for impairment of trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

Current non-interest-bearing receivables

M€	2016	2015
Current non-interest-bearing receivables		
Trade receivables	2.9	1.4
Other receivables	16.1	1.1
VAT receivables	20.8	34.3
Advances paid	0.2	0.2
Other prepaid expenses and accrued income	4.3	3.0
Total	**44.2**	**39.9**

The fair value of trade and other receivables corresponds to their carrying amount.

For trade receivables, impairment of EUR 0.8 million has been recognised in the separate provision for impairment.

7.6.2 Trade and other payables

Accounting principle

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The carrying amounts of trade and other payables approximate their fair value.

Current non-interest bearing debt

M€	2016	2015
Current non-interest bearing debt		
Advances received	11.0	8.7
Trade payables	6.1	3.0
Interest liabilities	11.1	11.2
Other current liabilities	12.5	2.5
VAT debt	23.6	31.6
Accrued expenses and deferred income	15.4	19.4
Total	**79.7**	**76.4**
Accrued expenses and deferred income		
Interest and financial items	0.2	0.3
Personnel expenses	4.7	3.4
Taxes	0.2	0.2
Investments	4.0	10.0
Other items	6.4	5.5
Total	**15.4**	**19.4**

7.7. Provisions

Accounting principle

Provisions include obligations that arise in connection with property sales.

Provisions may also need to be recognised for costs arising from property demolition and for soil restoration costs for properties where it is known or suspected that the soil is contaminated in the area because of earlier activity. Provisions are also recognised for obligations arising from disputes in progress when the settlement of the obligation is probable.

7.8. Collateral and contingent liabilities

Liabilities for which mortgages over property and shares have been given

M€	Group 2016	Group 2015
Loans from financial institutions, covered by collateral	178.0	125.8
Mortgages	288.1	288.1
Carrying amount of pledged shares	46.4	44.6
Guarantees	-	-
Collateral, total	**334.5**	**332.7**

Commitments arising from land lease contracts

M€	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Lease liabilities	49.4	53.9	-	-
Mortgages	14.4	23.1	-	-
Guarantees	4.4	3.1	4.4	3.1
Total	**68.2**	**80.1**	**4.4**	**3.1**

Operating leases

M€	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Contractual maturities on lease contracts:				
During the following financial year	0.3	0.4	0.3	0.4
Due after the following year	0.2	0.3	0.2	0.3
Total	**0.6**	**0.7**	**0.6**	**0.7**

Operating leases consist of leases for vehicles and office equipment.

The leases have lengths of 3–5 years and they have no redemption obligations.

Other commitments

VAT deductions made from renovation investments

Liabilities in accordance with section 33 of the Value Added Tax Act have been calculated for all Group companies and their aggregate value in the financial statements was EUR 52.5 million (2015: EUR 49.8 million).

Interest on EUR 95 million hybrid bond

In November 2012, Sponda issued a EUR 95 million hybrid bond. The principal of the hybrid bond was EUR 95 million on the balance sheet date (2015: EUR 95 million) and unpaid accrued interest amounted to EUR 0.5 million (2015: EUR 0.5 million).

Total interest of EUR 6.4 million was accrued on the hybrid bond in 2016 (2015: EUR 6.4 million). The accrued interest is recognised directly as a reduction in equity on the payment date. The Group paid a total of EUR 6.4 million of the hybrid bonds' interest in 2016 (2015: EUR 6.4 million).

Investment commitments

On 31 December 2016, the remaining investment commitments related to real estate funds totalled EUR 3.6 million (2015: EUR 6.6 million).

7.9. Events after the balance sheet date

During its meeting, the Shareholders' Nomination Board of Sponda Plc decided to submit a proposal to the Annual General Meeting to be held on 20 March 2017 regarding the number of members of the Board of Directors, the members to be elected to the Board and the remuneration of the Board. The proposals of the Nomination Board can be found in the stock exchange release dated 25 January 2017.

8. Group structure

Sponda Plc is a property investment company specialising in leasing, developing and owning commercial properties.

The Sponda Group comprises the parent company Sponda Plc and its wholly- or partly-owned Finnish limited liability companies and property companies. The Group also includes the foreign subsidiaries owned by Sponda Russia Ltd.

Non-controlling interests did not have significant holdings in the Group on 31 December 2016 and 31 December 2015.

A list of shares and holdings owned by the Group and the parent company on 31 December 2016

Real estate companies:

		Group company holding %	Parent company holding %
Kiinteistöyhtiöt			
Aleksi-Hermes	Helsinki	100.00	100.00
Arif Holding Oy	Kempele	100.00	100.00
Arkadiankatu 4–6	Helsinki	100.00	100.00
Atomitie1	Helsinki	100.00	100.00
Backaksenpelto	Vantaa	100.00	100.00
Bulevardi1	Helsinki	100.00	100.00
Design House Hattutehdas	Helsinki	100.00	100.00
Dianapuisto	Helsinki	100.00	100.00
Elovainion Kauppakiinteistöt	Ylöjärvi	100.00	100.00
Espoon Esikunnankatu 1	Espoo	100.00	100.00
Espoon Komentajankatu 5	Espoo	100.00	100.00
Espoon Kuusiniementie 2	Espoo	100.00	100.00
Espoon Upseerinkatu 1–3	Espoo	100.00	100.00
Espoonportti	Espoo	100.00	100.00
Estradi	Helsinki	100.00	100.00
Estradi 2	Helsinki	100.00	100.00
Fabianinkatu 23	Helsinki	100.00	100.00
Gohnt-talo	Helsinki	100.00	100.00
Hankasuontie 13	Helsinki	100.00	100.00
Hannuksentie 1	Espoo	100.00	100.00
Haukilahdenkatu 4	Helsinki	100.00	100.00
Heimola	Helsinki	59.57	59.57
Helsingin Erottajanmäki	Helsinki	100.00	100.00
Helsingin Forum	Helsinki	100.00	100.00
Helsingin Harkkoraudantie 7	Helsinki	100.00	100.00
Helsingin Hämeentie 105	Helsinki	60.63	
Helsingin Ilmalanrinne 1	Helsinki	100.00	100.00
Helsingin Itäkatu 11	Helsinki	100.00	100.00
Helsingin Itämerenkatu 21	Helsinki	100.00	100.00
Helsingin Itämerentalo	Helsinki	100.00	100.00
Helsingin Kaivokatu 8	Helsinki	100.00	100.00
Helsingin Kalevankatu 30	Helsinki	100.00	100.00
Helsingin Kirvesmiehenkatu 4	Helsinki	100.00	100.00
Helsingin Lampputie 12	Helsinki	100.00	100.00
Helsingin Lautatarhankatu 2	Helsinki	100.00	100.00
Helsingin Nuijamiestentie	Helsinki	100.00	100.00
Helsingin Pieni Roobertinkatu 9	Helsinki	100.00	100.00
Helsingin Porkkalankatu 22	Helsinki	100.00	100.00
Helsingin Ruoholahden Parkki	Helsinki	90.78	
Helsingin Salmisaarentalo	Helsinki	100.00	100.00
Helsingin Silkkikutomo	Helsinki	100.00	100.00
Helsingin Sörnäistenkatu 2	Helsinki	100.00	100.00
Helsingin Tulppatie 1	Helsinki	100.00	100.00
Helsingin Valimotie 25 A	Helsinki	100.00	100.00
Helsingin Valimotie 25 B	Helsinki	100.00	100.00
Helsingin Valimotie 25 C	Helsinki	100.00	100.00
Helsingin Valimotie 27 A	Helsinki	100.00	100.00
Helsingin Valimotie 27 B	Helsinki	100.00	100.00
Helsingin Valimotie 27 C	Helsinki	100.00	100.00
Helsingin Valimotie 27 D	Helsinki	100.00	100.00
Helsingin Valokaari	Helsinki	100.00	100.00
Helsingin Valuraudankuja 7	Helsinki	100.00	100.00
Helsingin Vanhanlinnantie 3	Helsinki	100.00	100.00
Helsingin Veneentekijäntie 8	Helsinki	100.00	100.00
Helsingin Vuorikatu 14	Helsinki	100.00	100.00
Helsingin Värjäämö	Helsinki	100.00	100.00
Henrik Forsiuksentie 39	Helsinki	100.00	100.00
Hermian Pulssi	Tampere	100.00	100.00
Hiukkavaaran Kasarmit Koy	Oulu	100.00	100.00
Hyvinkään Varikko	Hyvinkää	100.00	100.00
Hämeenkatu 20	Tampere	100.00	100.00
Hämeenlinnan Hallituskatu 10	Hämeenlinna	100.00	100.00
Hämeentie 103	Helsinki	100.00	100.00
Höyläämöntie 5	Helsinki	100.00	100.00
Insinöörinkatu	Helsinki	100.00	100.00
Isontammentie 4	Vantaa	100.00	100.00
Iso-Roobertinkatu 21–25	Helsinki	100.00	100.00
Itälahdenkatu 20	Helsinki	100.00	100.00

		Group company holding %	Parent company holding %
Itälahdenkatu 22	Helsinki	100.00	100.00
Kaisaniemenkatu 2 B	Helsinki	100.00	100.00
Kaivokadun Tunneli	Helsinki	100.00	100.00
Kaivokatu 12	Helsinki	100.00	100.00
Kalkkipellontie 6	Espoo	100.00	100.00
Kappelitie 8	Espoo	100.00	100.00
Karapellontie 4C	Espoo	100.00	100.00
Kasarmikatu 36	Helsinki	100.00	100.00
Kaupintie 3	Helsinki	100.00	100.00
Kauppa-Häme	Tampere	100.00	100.00
Keimolan Radioasema Koy	Vantaa	100.00	100.00
Kenkätie 16 Koy	Pirkkala	100.00	100.00
Keravan Kultasepänkatu 8 Koy	Kerava	100.00	100.00
Keravan Postlarinkatu 3–5 Koy	Kerava	100.00	100.00
Keskuskatu 1 B	Helsinki	100.00	100.00
Kilonkallio 1	Espoo	100.00	100.00
Korkeavuorenkatu 45	Helsinki	100.00	100.00
Kumpulantie 11	Helsinki	100.00	100.00
Kylvöpolku 1	Helsinki	100.00	100.00
Lappeenrannan Leiri Koy	Lappeenranta	100.00	100.00
Liikekeskus Zeppelin Oy	Kempele	85.66	
Läkkitori	Espoo	100.00	100.00
Länsi-Keskus	Espoo	58.64	58.64
Malmin Postitalo Koy	Helsinki	100.00	100.00
Malmin Yritystalo	Helsinki	100.00	100.00
Mannerheimintie 6	Helsinki	100.00	100.00
Mansku 4	Helsinki	100.00	100.00
Martinkyläntie 53	Vantaa	100.00	100.00
Messukylän Castrulli	Tampere	100.00	100.00
Messukylän Kattila	Tampere	100.00	100.00
Messukylän Turpiini	Tampere	100.00	100.00
Miestentie	Espoo	100.00	100.00
Mikonkatu 17	Helsinki	100.00	100.00
Mikonkatu 19	Helsinki	100.00	100.00
Mikonlinna	Helsinki	100.00	100.00
Mäkkylän Toimistotalo	Helsinki	100.00	100.00
Nimismiehenniitty	Espoo	67.00	
Oulun Alasintie 3–7	Oulu	100.00	100.00
Oulun Alasintie 8 Koy	Oulu	100.00	100.00
Oulun Korjaamotie 2	Oulu	100.00	100.00
Oulun Liikevärttö 1	Oulu	100.00	100.00
Oulun Liikevärttö 2	Oulu	100.00	100.00
Oulun Liikevärttö 3	Oulu	100.00	100.00
PaulonTalo	Helsinki	100.00	100.00
Pieni Roobertinkatu 7	Helsinki	99.79	
Piispanpiha 5	Helsinki	100.00	100.00
Poijupuisto	Espoo	100.00	100.00
Porkkalankatu 20	Helsinki	100.00	100.00
Pronssitie 1	Helsinki	100.00	100.00
Ratapihantie 11	Helsinki	100.00	100.00
Ratinan Kauppakeskus	Tampere	100.00	40.00

		Group company holding %	Parent company holding %
Ratinanlinna	Tampere	100.00	100.00
Robert Huberintie 2	Vantaa	100.00	100.00
Ruoholahden Ankkuri	Helsinki	100.00	100.00
Ruoholahden Sulka	Helsinki	100.00	100.00
Salmisaaren Liiketalo	Helsinki	100.00	100.00
Scifin Beta	Espoo	100.00	100.00
Scifin Gamma	Espoo	100.00	100.00
Sinikalliontie 10	Espoo	100.00	100.00
Sinimäentie 14	Espoo	100.00	100.00
Sp-kiinteistöt Oy Kilo	Espoo	100.00	100.00
Säästötammela	Tampere	100.00	100.00
Tallbergintalo	Helsinki	100.00	100.00
Tamforest Oy	Tampere	100.00	100.00
Tampereen Enqvistinkatu 7	Tampere	100.00	100.00
Tampereen Hallituskatu 8	Tampere	100.00	100.00
Tampereen Hämeenkatu 13 Koy	Tampere	100.00	100.00
Tampereen Hämeenkatu 18 Koy	Tampere	100.00	100.00
Tampereen Naulakatu 3	Tampere	100.00	100.00
Tampereen Näsilinnankatu 39–41	Tampere	100.00	100.00
Tamsilva Oy	Tampere	100.00	100.00
Tiistilän Miilu	Espoo	100.00	100.00
Tiistinhovi	Espoo	100.00	100.00
Tulli Koy	Tampere	100.00	100.00
Turunlinnantie 12	Helsinki	100.00	100.00
Tuusulan Teollisuuskuja 6	Tuusula	100.00	100.00
Tuusulan Tärkkelystehdas	Tuusula	100.00	100.00
Unioninkatu 18	Helsinki	100.00	100.00
Unioninkatu 20–22	Helsinki	100.00	100.00
Unioninkatu 24	Helsinki	100.00	100.00
Upseerinkadun Pysäköintitalo	Espoo	100.00	100.00
Vaajakosken Tikkutehtaantie 1	Vaajakoski	100.00	100.00
Vantaan Harkkokuja 2	Vantaa	100.00	100.00
Vantaan Jokiniementie Koy	Vantaa	100.00	100.00
Vantaan Koivupuistontie 26	Vantaa	89.07	
Vantaan Köysikuja 1	Vantaa	100.00	100.00
Vantaan Omega	Vantaa	100.00	100.00
Vantaan Simonrinne	Vantaa	77.18	
Vantaan Väritehtaankatu 8	Vantaa	100.00	100.00
Vilhonkatu 5	Helsinki	100.00	100.00
Vuosaaren LC Koy	Helsinki	100.00	100.00
Vuosaaren PC Koy	Helsinki	100.00	100.00
Värtönparkki 1	Oulu	100.00	100.00
Ylä-Malmintori 6	Helsinki	100.00	100.00
Zeppelinin City-Keskus	Kempele	94.83	
Zeppelinin Kauppakeskus	Kempele	91.47	
Zeppelinin Kauppakulma	Kempele	100.00	100.00
Zeppelinin Kauppapörssi	Kempele	91.44	
Zeppelinin Markkinapaikka	Kempele	100.00	100.00
Zeppelinin Pikkukulma	Kempele	100.00	100.00
Zeppelinin Tavaratori	Kempele	78.87	
Drawer Oy	Helsinki	100.00	100.00

		Group company holding %	Parent company holding %
Porkkalankadun alitus Koy	Helsinki	62.64	
Ruoholahden Yhteissuoja Koy	Helsinki	100.00	100.00
SRK-Kiinteistöt Oy	Helsinki	100.00	100.00

Limited liability companies

Ab Forum Capita Oy	Helsinki	100.00	100.00
Hextagon Oy	Helsinki	100.00	
MOW Mothership Of Work Oy	Helsinki	100.00	100.00
Russia Europe Oy Ltd	Helsinki	100.00	
Spoki Oy	Helsinki	100.00	100.00
Sponda AM Oy	Helsinki	100.00	100.00
Sponda Asset Management II Oy	Helsinki	100.00	100.00
Sponda Asset Management Oy	Helsinki	100.00	100.00
Sponda Osaomisteiset Oy	Helsinki	100.00	100.00
Sponda Russia Finance Oy Ltd	Helsinki	100.00	
Sponda Russia Oy Ltd	Helsinki	100.00	100.00

Associates and joint ventures

Erottajan Pysäköintilaitos Oy	Helsinki	49.29	49.29
Kaisaniemen Metrohalli	Helsinki	25.17	18.23
Kluuvin Pysäköinti Koy	Helsinki	25.35	
Puotinharjun Puhos Oy	Helsinki	18.84	18.84
Simonseutu	Vantaa	46.67	
Zeppelinin Kulmatori Kiinteistö Oy	Kempele	49.67	

Real estate fund companies

First Top LuxCo 1 S.a.r.l	Luxemburg	20.00	20.00
Russia Invest B.V.i.o	Netherlands	27.23	27.23
YESS Ky	Helsinki	60.00	60.00

Foreign subsidiaries

OOO Veika	St.Peters-burg, Russia	100.00	
ZAO Ankor	Moscow, Russia	100.00	
OOO Europe Terminal	Moscow, Russia	100.00	
OOO Western Realty (Ducat 2)	Moscow, Russia	100.00	
Makentrax Limited	Cyprus	100.00	

Changes in Group structure in 2016

Companies sold

Espoon Pyyntitie 1
Helsingin Energiakatu 4
Helsingin Kalatori
OOO Adastra
OOO Slavjanka Closed Joint-Stock Company
Oulun Ritaharjuntie 1 Koy
Turun Yliopistonkatu 14

Companies dissolved

Rowina Holding Limited

Demerged company

Helsingin Sörnäistenkatu 2

Companies established in demerger

Helsingin Lautatarhankatu 2
Helsingin Sörnäistenkatu 2

Companies acquired

Ab Mercator Oy
Ab Forum Capita Oy

Name changes / Mergers

The names of Spoki 1–64 Oy (64 companies) have been changed to correspond to the names of the real estate companies that were merged with them.

Koy Helsingin Forum (formerly Ab Mercator Oy)

Parent company income statement (FAS)

M€	Note	1.1.–31.12.2016	1.1.–31.12.2015
Total revenue			
Rental income and recoverables	1	232.9	129.5
Revenue from current-assets		1.0	-
Management fees		0.0	0.0
		233.9	129.5
Cost of goods sold			
Expenses from leasing operations		-82.4	-44.8
Change in Inventory		-0.1	-
		-82.5	-44.8
Net operating income		151.4	84.8
Sales and marketing expenses		-1.5	-1.8
Administrative expenses	2, 3, 6	-19.8	-8.5
Other operating income	4	0.1	0.9
Profits on sale of investment properties		1.1	118.2
Other operating expenses	5	-0.4	-0.5
Operating profit		130.9	193.1
Financial income and expenses	16	-133.5	78.3
Profit / loss before appropriations		-2.6	271.4
Appropriations	7	2.3	-10.9
Profit / loss before tax		-0.3	260.4
Income taxes	8	0.0	-3.4
Profit / loss for period		-0.3	257.0

Parent company balance sheet (FAS)

M€	Note	31.12.2016	31.12.2015
Assets			
Non-current assets			
Intangible assets	9	66.9	45.4
Property, plant and equipment	10		
Machinery and eqiupment		0.1	0.1
Advance payments		0.0	0.1
		0.1	0.2
Investments	11		
Holdings in Group companies		2,196.0	1,828.3
Receivables from Group companies		1,034.4	850.5
Holdings in associated companies		4.8	4.8
Investments in real estate funds		15.1	15.1
Other receivables		0.2	-
Other investments		61.2	39.4
		3,311.6	2,738.1
Total non-current assets		3,378.7	2,783.7
Current assets			
Other current assets		5.2	-
Current receivables	12	28.7	34.1
Long term receivables		6.2	-
Cash and bank deposits		1.5	206.8
Total current assets		41.6	240.9
Total assets		3,420.3	3,024.6
Equity and liabilities			
Equity			
Share capital	13	111.0	111.0
Other reserves			
Fair value reserve		-22.6	-
Share premium reserve		159.1	159.1
Invested non-restricted equity reserve		666.7	445.9
Retained earnings		405.4	245.2
Loss for the period		-0.3	257.0
Total equity		1,319.3	1,218.3
Provisions	14	2.4	2.4
Liabilities			
Non-current liabilities		1,279.9	1,150.1
Current liabilities	15	818.7	653.8
Total liabilities		2,098.6	1,803.9
Total equity and liabilities		3,420.3	3,024.6

Parent company statement of cash flows

M€		1.1.–31.12.2016	1.1.–31.12.2015
Cash flow from operating activitie			
Net profit for the period		**-0.3**	257.0
Adjustments	1)	**144.5**	-173.4
Change in net working capital	2)	**36.6**	14.9
Provisions		**-**	-0.4
Interest received		**30.2**	22.2
Interest paid		**-51.8**	-52.0
Other financial items		**-19.3**	-7.7
Taxes received/paid		**-5.2**	-
Net cash flow generated by operating activities		**134.6**	60.5
Cash flow from investing activities			
Investments in shares and holdings		**-431.9**	-2.7
Acquisition of property, plant and equipment and intangible assets		**-35.8**	-9.7
Proceeds from disposal of shares and holdings		**9.7**	260.4
Loans granted		**-216.7**	-126.0
Repayments of loan receivables		**7.4**	145.6
Net cash flow used in investing activities		**-667.4**	267.6
Cash flow from financing activities			
Proceeds from the share issue		**220.8**	-
Non-current loans, raised		**560.0**	320.0
Non-current loans, repayments		**-408.2**	-344.6
Current loans, raised/repayments		**49.5**	-50.5
Dividends paid		**-94.5**	-53.8
Net cash flow generated from financing activities		**327.6**	-128.9
Change in cash and cash equivalents		**-205.3**	199.3
Cash and cash equivalents at 1 Jan.		**206.8**	7.6
Cash and cash equivalents at 31 Dec.		**1.5**	206.8

Notes to the cash flow statement, M€	**1.1.–31.12.2016**	1.1.–31.12.2015
1) **Adjustments**		
The following adjustments change the accrual-based items in the income statement to cash-based items, and they reverse items shown elsewhere in the cash flow statement.		
Other operational expenses	**1.2**	2.2
Other operational income	**-2.4**	-120.4
Depreciation and amortization	**14.4**	9.4
Dividends	**-**	-237.3
Financial income and expenses	**131.8**	155.8
Unrealised exchange rate changes	**1.7**	3.2
Group contributions	**-2.3**	10.9
Provisions	**-**	-0.7
Taxes	**0.0**	3.4
Adjustments, total	**144.5**	-173.4
2) **Statement of change in net working capital**		
Current receivables		
increase (-), decrease (+)	**3.2**	-20.4
Non-interest-bearing current liabilities		
increase (+), decrease (-)	**33.4**	35.2
Change in net working capital	**36.6**	14.9

Notes to the parent company financial statements

Accounting principles for the parent company accounts

The financial statements of Sponda Plc have been prepared in accordance with the provisions of the Finnish Accounting Act, the Finnish Companies Act and the Finnish Securities Market Act.

Recognition and valuation principles

Tenant improvements

Costs arising from renovation work for individual tenants are entered as an annual expense or capitalized to other long-term expenditure of the landlord, Sponda Plc. Repair costs and tenant improvements are capitalized over the duration of the lease when they generate income in several accounting periods. For open-ended leases, costs are capitalized over the period until the date that is defined in the lease agreement as the first possible termination date. The maximum depreciation time for tenant improvements is 10 years.

Fixed assets and depreciation according to plan

Fixed assets are valued at cost less depreciations. The depreciation plan on machinery and equipment and on buildings and building materials is calculated using the declining balance method. Renovation costs related to tenant improvements and capitalized to other long-term expenditure are depreciated over the lease period.

Other machinery and equipment	3–10 years
Other long-term expenditure	1–10 years

In addition to capitalized tenant improvements, other long-term expenditure includes computer software.

Investments

Property investments are shares in subsidiaries and associated companies, loans granted to Group companies and associated companies, investments in real estate funds and other investments. Investments are valued at cost in the parent company's balance sheet. Permanent writedowns are deducted from cost.

Trading property

As trading properties are considered properties or shares in a propertycompany that are ment to be sold or that are developed to be sold. Receivables from such companies are reported as longterm recevables.

Research and development costs

The company has no research activities. Building project costs equivalent to R&D costs are capitalized when the technical implementation of the project is completed and the project can be considered to generate income over a period of several years. Otherwise research and development costs are entered as an expense.

Financial assets, liabilities and derivative contracts

On 13 December 2016, the Accounting Board issued opinion 1963/2016 regarding the accounting treatment of derivatives. Following the opinion, Sponda Plc has begun to recognise derivatives at fair value in accordance with IAS 39 (IFRS 9). The effects of the changes on the opening balances for the financial year 2016 have been recognised directly in equity. The accounting policies concerning the financing of the parent company correspond to the accounting policies presented in Note 3 to the consolidated financial statements. The notes to the parent company's financial statements include the tables whose figures differ from those of the notes for the consolidated financial statements.

Income tax

Income tax includes tax in the period and adjustments to taxes for previous periods. The current tax expense is based on taxes calculated on the result for the period and tax rules.

The deferred tax asset or liability for differenses in taxation and financial statements is calculated with the known tax rate for the future at balace sheet date. The liabilty is recorded totally and the asset is recorded based on propability.

Foreign currency denominated items

Transactions denominated in foreign currency are recognized at the exchange rate on the transaction date. Balance sheet items in foreign currency outstanding on the closing date are valued at the exchange rate on the closing date.

Other principles

The Company has arranged statutory pension insurance for its personnel with a pension insurance company. The pension costs are entered as an expense in proportion to salaries.

Fees arising from leasing assignments are recognized over the duration of the leasing contract.

Interest payable during construction projects in progress are entered as an expense.

The Company has no significant finance leases.

1. Rental income and recoverables

Rental income and recoverables by type of property

M€	2016	2015
Office & Retail Properties	224.3	114.6
Logistics Properties	7.8	14.8
Property Development	0.8	0.1
Total	**232.9**	**129.5**

Rental income and recoverables by geographical area

M€	2016	2015
Helsinki Metropolitan Area	204.4	115.8
Rest of Finland	28.5	13.8
Total	**232.9**	**129.5**

2. Personnel expenses and number of employees

M€	2016	2015
Salaries and fees	10.2	8.9
Pension costs	2.0	1.6
Other personnel costs	0.5	0.3
Total	**12.7**	**10.8**
Salaries and fees to management		
President and CEO*	0.5	0.5
Members of the Board of Directors	0.4	0.3
Total	**0.9**	**0.9**

* Excluding bonuses from incentive scheme

The President and CEO is paid a full salary. The salary and fees paid to Sponda Plc's President and CEO totalled EUR 547 000 (2015: 518 000). In addition, during the period the President and CEO was paid a bonus of EUR 302 000 (2015: 440 000) under the incentive scheme, based on the company's actual performance in 2015.

M€	2016	2015
Bonus under the incentive scheme	0.3	0.4

Personnel expenses are included in the income statement under administrative expenses.

Loans and commitments to related parties

There were no loans to related parties. The President and CEO is eligible to retire at the age of 63. The pension obligation is covered by pension insurance policies. The salaries and fees paid to the Board of Directors, and the pension obligations and termination benefits payable to management, are described in Note 6 to the consolidated financial statements "Employees and related party".

Personnel on average

	2016	2015
White collar, number of employees	98	94

3. Depreciation, amortization and impairment losses

M€	2016	2015
Intangible assets		
Other long-term expenditure	14.3	9.4
Property, plant and equipment		
Machinery and equipment	0.0	0.0
Total	**14.4**	**9.4**

Depreciation, amortization and impairment losses are included in the income statement under administrative expenses.

4. Other operating income

M€	2016	2015
Share of bankruptcy estate	0.0	0.0
Other operating income	0.1	0.9
Total	0.1	0.9

5. Other operating expenses

M€	2016	2015
Other expenses	0.0	0.0
Credit losses	0.2	0.5
Doubtful receivables	0.2	-0.1
Total	0.4	0.5

6. Auditor fees

M€	2016	2015
Authorized public accountants KPMG Oy		
Audit	0.2	0.2
Tax advice	0.2	0.1
Other services	0.3	0.6
Total	0.7	0.9

7. Appropriations

M€	2016	2015
Group contributions received	2.3	0.0
Group contributions paid	-	-10.9
Total	2.3	-10.9

8. Income taxes

M€	2016	2015
Income taxes for the period	-	-3.4
Income taxes for previous periods	0.0	-
Total	0.0	-3.4

9. Intangible assets

2016, M€	Other long-term expenditure	Assets under contruction	Total
Acquisition cost 1 January	106.3	11.4	117.6
Increases	32.0	18.3	50.3
Transfers	-0.1	-14.4	-14.5
Acquisition cost 31 December	138.1	15.3	153.5
Accumulated amortization and impairment losses 1 January	-72.2	-	-72.2
Amortization for the period	-14.3	-	-14.3
Accumulated depreciation 31 December	-86.5	-	-86.5
Net carrying amount 31 December	51.6	15.3	66.9

2015, M€	Other long-term expenditure	Assets under contruction	Total
Acquisition cost 1 January	91.8	15.9	107.7
Increases	15.7	17.3	32.9
Transfers	-1.2	-21.8	-23.0
Acquisition cost 31 December	106.3	11.4	117.6
Accumulated amortization and impairment losses 1 January	-62.8	-	-62.8
Amortization for the period	-9.4	-	-9.4
Accumulated depreciation 31 December	-72.2	-	-72.2
Net carrying amount 31 December	34.1	11.4	45.4

10. Property, plant and equipment

2016, M€	Machinery and equipment	Advance payments	Total
Acquisition cost 1 January	1.5	0.1	1.6
Increases	0.0	0.1	0.1
Decreases	-	-0.1	-0.1
Acquisition cost 31 December	**1.5**	**0.0**	**1.6**
Accumulated depreciation and impairment losses 1 January	**-1.4**	-	-1.4
Accumulated depreciation on decreases and transfers	-	-	-
Depreciation for the period	0.0	-	0.0
Accumulated depreciation 31 December	-1.5	-	-1.5
Net carrying amount 31 December	**0.1**	**0.0**	**0.1**

2015, M€	Machinery and equipment	Advance payments	Total
Acquisition cost 1 January	1.5	0.3	1.8
Increases	0.0	0.5	0.5
Decreases	-	-0.7	-0.7
Acquisition cost 31 December	**1.5**	**0.1**	**1.6**
Accumulated depreciation and impairment losses 1 January	**-1.4**	-	-1.4
Accumulated depreciation on decreases and transfers	-	-	-
Depreciation for the period	0.0	-	0.0
Accumulated depreciation 31 December	-1.4	-	-1.4
Net carrying amount 31 December	**0.1**	**0.1**	**0.2**

11. Investments

2016, M€	Shares in Group companies	Receivables from Group companies	Holdings in associated companies	Investments in property funds	Other investments *)	Total
Acquisition cost 1 January	1,828.3	850.5	4.8	15.1	39.4	2,738.1
Increases	431.9	213.1	-	0.0	43.3	688.3
Decreases	-64.2	-29.2	-	-	-21.4	-114.7
Net carrying amount 31 December	**2,196.0**	**1,034.4**	**4.8**	**15.1**	**61.3**	**3,311.6**

*) Other investments, M€	Other shares	Receivables from associated companies	Receivable funds	Other investments	Non-current receivables	Total
Acquisition cost 1 January	9.6	23.5	6.3	0.1	-	39.4
Increases	-	37.5	3.0	-	2.8	43.3
Decreases	-0.3	-18.5	-	-	-2.6	-21.4
Net carrying amount 31 December	**9.2**	**42.5**	**9.3**	**0.1**	**0.2**	**61.3**

2015, M€	Shares in Group companies	Receivables from Group companies	Holdings in associated companies	Investments in property funds	Other investments *)	Total
Acquisition cost 1 January	1,872.6	750.0	99.3	12.9	44.9	2,779.7
Increases	0.4	317.3	-	2.2	42.4	362.4
Decreases	-44.8	-216.8	-94.5	-	-47.9	-404.1
Net carrying amount 31 December	**1,828.3**	**850.5**	**4.8**	**15.1**	**39.4**	**2,738.1**

*) Other investments, M€	Other shares	Receivables from associated companies	Receivable funds	Other investments	Non-current receivables	Total
Acquisition cost 1 January	10.0	29.0	5.8	0.1	-	44.9
Increases	0.0	41.9	0.5	-	-	42.4
Decreases	-0.5	-47.5	-	-	-	-47.9
Net carrying amount 31 December	**9.6**	**23.5**	**6.3**	**0.1**	**-**	**39.4**

12. Current receivables

M€	2016	2015
Trade receivables	2.3	1.0
Other receivables	21.3	23.5
Loan receivables		
Loan receivables, group companies	0.0	0.0
Prepaid expenses and accrued income		
From Group companies	1.2	3.8
From other companies	3.8	5.8
Prepaid expenses and accrued income, total	**5.0**	**9.6**
Current receivables, total	**28.7**	**34.1**
Main items in prepaid expenses and accrued income		
Interest and financial items	0.0	3.4
Other items	5.0	6.2
Total	**5.0**	**9.6**

13. Equity

M€	2016	2015
Share capital 1 January	111.0	111.0
Share capital 31 December	**111.0**	**111.0**
Fair value reserve 1 January	-	-
Adjustment to opening balance [1)]	-29.2	-
Change	6.7	-
Fair value reserve 31 December	**-22.6**	**-**
Share premium reserve 1 January	159.1	159.1
Share premium reserve 31 December	**159.1**	**159.1**
Invested non-restricted equity reserve 1 January	445.9	445.9
Change	220.8	
Invested non-restricted equity reserve 31 December	**666.7**	**445.9**
Retained earnings 1 January	502.2	299.0
Adjustment to opening balance [1)]	-2.3	
Dividend payment	-94.5	-53.8
Retained earnings 31 December	**405.4**	**245.2**
Profit / loss for period	-0.3	257.0
Equity, total	**1,319.3**	**1,218.3**

[1)] Adjustments made to the opening balance due to the opinion 1963/2016 issued the Accounting Board (See Note 16).

Calculation of distributable funds 31 December, M€	2016	2015
Retained earnings	405.4	245.2
Invested non-restricted equity reserve	666.7	445.9
Profit / loss for period	-0.3	257.0
Total	**1,071.7**	**948.1**

14. Provisions

M€	2016	2015
Provisions 1 January	2.4	1.1
Increase	-	2.4
Decrease	-	-1.1
Provisions 31 December	**2.4**	**2.4**

The provision is related rental guarantee in a sold property, Vuosaaren Logistiikkakeskus Koy.

15. Current liabilities

M€	2016	2015
Current interest-bearing liabilities		
Loans from financial institutions	643.6	544.7
Current interest-free liabilities		
Advances received	1.4	0.7
Trade payables		
To Group companies	48.1	25.2
To other companies	1.7	1.1
Total trade payables	**49.8**	**26.2**
Accrued expenses and prepaid income		
Payable to Group companies	10.1	0.1
Payable to other companies	18.8	20.1
Total accrued expenses and prepaid income	**28.9**	**20.1**
Other current debt receivable from Group companies	88.8	57.4
Other current debt	6.2	4.5
Total current interest-free liabilities	**175.1**	**109.0**
Total current liabilities	**818.7**	**653.8**
Main items in accrued expenses and prepaid income		
Interest and financial items	11.3	11.5
Personnel expenses	5.4	4.0
Other items	12.3	4.6
Total	**28.9**	**20.1**

16. Financial income and expenses

On 13 December 2016, the Accounting Board issued opinion 1963/2016 regarding the accounting treatment of derivatives. Following the opinion, Sponda Plc has begun to recognise derivatives at fair value in accordance with IAS 39 (IFRS 9). The effects of the changes on the opening balances for the financial year 2016 have been recognised directly in equity and comparison information is not provided in the financial statements for 2016 (see Note 13). The accounting policies concerning the financing of the parent company correspond to the accounting policies presented in Note 3 to the consolidated financial statements. The notes to the parent company's financial statements include the tables whose figures differ from those of the notes for the consolidated financial statements.

Financial income and expenses

M€	2016
Financial income	
Interest income	
Loans and receivables	0.7
Other financial income	0.1
Interest income from foreign currency derivatives	0.4
Exchange rate gains	
Exchange rate gains, realised	0.0
Exchange rate gains, recognised at fair value through profit and loss	0.2
Change in fair value	
Recognised at fair value through profit and loss	1.7
Intragroup finacial income	29.6
Total	**32.7**
Financial expenses	
Interest expenses	
Interest expenses on liabilities recognised at amortised cost	-51.5
Interest expenses from foreign currency derivatives	-0.4
Other financial expenses, loan management expenses	-7.5
Exchange rate losses	
Exchange rate losses, realised	0.0
Exchange rate losses, recognised at fair value through profit and loss	-0.1
Unrealised exchange rate losses from foreign currency loans	-1.7
Interest rate derivatives subject to hedge accounting, ineffective portion	0.0
Change in fair value	
Recognised at fair value through profit and loss	-0.6
Intragroup financial charges	-104.1
Intragroup interest expenses	-0.2
Total	**-166.2**
Capitalised borrowing costs incurred in the acquisition, construction or production of a qualifying asset	
Financial expenses, total	**-166.2**
Financial income and expenses, total	**-133.5**

Cash and cash equivalents

Cash and cash equivalents are all in Euro

Liquidity and refinancing risk

Cash flows for repayments and financing expenses for financial liabilities based on contracts were as follows:

31.12.2016, M€	2017	2018	2019	2020	2021	>5 years
Bonds and FRNs	165	159	4	179	-	-
Loans from financial institutions	174	75	222	134	576	102
Commercial papers	248	-	-	-	-	-
Interest rate derivatives						
- in hedge accounting, net	13	12	6	0	-	-
- not in hedge accounting, net	0	-	-	-	-	-
Currency derivatives not included in hedge accounting, net	0	-	-	-	-	-
Trade payables	3					-
Interest payable	11	-	-	-	-	-
Intragroup loans	0	0	0	0	0	6
Total	**616**	**246**	**233**	**314**	**576**	**108**

Capital structure and equity ratio

M€	2016
Interest-bearing liabilities	1,794
Cash, funds in bank and interest-bearing receivables	2
Interest-bearing net liabilities	1,793
Total equity	1,319
Balance sheet total	3,420
Equity ratio	38%

Financial assets and liabilities

Carrying amounts of financial assets and liabilities by category

2016 Balance sheet item, M€	Financial assets/liabilities recognised at fair value through profit and loss	Loans and receivables	Financial liabilities recognised at amortised cost	Hedging derivatives	Carrying amount of balance sheet items	Fair value	Level 1	Level 2	Level 3	Total
Non-current financial assets										
Other investments		0.0			0.0	0.0			0.0	0.0
Derivative contracts	0.2				0.2	0.2		0.2		0.2
Current financial assets										
Derivative contracts	0.0				0.0	0.0		0.0		0.0
Trade and other receivables		4.4			4.4	4.4				
Cash and cash equivalents		1.5			1.5	1.5				
Intragroup financial assets	1,034.4				1,034.4	1,034.4				
Carrying amount by category	**1,034.6**	**6.0**	**0.0**	**0.0**	**1,040.6**	**1,040.6**				
Non-current financial liabilities										
Interest-bearing loans and borrowings			1,340.7		1,340.7	1,363.2		1,363.2		1,363.2
Derivative contracts	0.1			27.6	27.7	27.7		27.7		27.7
Current financial liabilities										
Interest-bearing loans and borrowings			548.6		548.6	581.2		581.2		581.2
Derivative contracts				0.6						
Interest payable			11.3		11.3	11.3				
Trade and other payables			3.1		3.1	3.1				
Intragroup financial liabilities			5.5		5.5	5.5				
Carrying amount by category	**0.1**	**0.0**	**1,909.2**	**28.2**	**1,936.9**	**1,991.9**				

All derivative instruments are measured at fair value on the balance sheet. Interest-bearing debt is measured at amortised cost using the effective interest rate method. All other items are valued at cost on the parent company's balance sheet.

Financial assets include EUR 0.2 million in derivative instruments and financial liabilities include EUR 28.3 million in derivative instruments.

Interest-bearing liabilities

Long-term liabilities, M€	Carrying amount 2016	Fair value 2016
Bonds and FRNs	324.0	336.4
Loans from financial institutions	1,016.7	1,026.8
Intragroup loans	-	-
Total	**1,340.7**	**1,363.2**

Derivative contracts

M€	Carrying amount 2016	Fair value 2016
Interest derivatives		
Interest rate swaps		
In hedge accounting	-28.2	655.0
Not in hedge accounting	-0.1	150.0
Interest rate caps, bought		
In hedge accounting	-	-
Not in hedge accounting	0.2	362.2
Foreign currency derivatives		
Currency swaps		
Currency options, call	0.0	5.0
Currency options, put	-	-
Cross currency swaps	-	-

Maturity of non-current liabilities

Maturity of non-current liabilities 31.12.2016, M€	2017	2018	2019	2020	2021	>5 years
Bonds and FRNs	150.0	150.0	-	175.0	-	-
Loans from financial institutions	150.9	81.1	200.0	115.0	560.0	95.0
Intragroup loans	5.5					

This table shows the maturities of non-current liabilities, showing the nominal value at the time the loan was taken. Foreign currency loans are quoted at the rate of the balance sheet date. Loans maturing in 2016 are presented in the balance sheet under current loans..

The average interest rate of all the Group's loans, including derivatives, was 2.7 per cent (2015: 2.9 per cent). The average maturity of loans was 2.6 years (2015: 2.2 years).

17. Collateral and contingent liabilities

Collateral and contingent liabilities

M€	2016	2015
Loans from financial institutions, covered by collateral	112.2	95.8

Collateral given on behalf of Group companies, M€	2016	2015
Book value of pledged shares	12.9	12.9

Contingent liabilities given on behalf of Group companies, M€	2016	2015
Guarantees given on behalf of Group companies	4.4	3.1

Lease liabilities, M€	2016	2015
Payments based on agreements fall due as follows:		
During the following year	0.3	0.4
After the following year	0.2	0.3
Total	**0.6**	**0.7**

Other lease agreements consist of leases for vehicle and office equipment. The leases have lengths of 3–5 years and they have no redemption obligations.

Other commitments, M€	2016	2015
Investment commitments	3.6	6.6

Proposal by the Board of Directors on the disposal of the profit for the year

The parent company's distributable funds amount to EUR 1,071,716,415.39, of which the result for the financial year is EUR -342,594.40.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.08 per share be paid for the 2016 financial year. In its proposal, the Board of Directors has taken into consideration the dividend payment authorisation granted to it by the 2016 Annual General Meeting and the dividends already paid based on that authorisation.

The Board further proposes to the AGM that the AGM authorise the Board of Directors to decide, at its discretion, on the payment of dividend in no more than two tranches based on the annual accounts adopted for the financial year 2016. The maximum amount of dividend to be distributed based on the authorisation is EUR 0.12 per share before the next AGM.

There have been no significant changes in the company's financial position since the end of the financial year. The company's liquidity is good and the Board of Directors' view is that the proposed disposal of the profit does not undermine the company's liquidity.

Helsinki, 3 February 2017

Signatures of the Board of Directors and CEO for the report by the Board of Directors and for the financial statementt

SPONDA PLC
Board of Directors

Kaj-Gustaf Bergh	Christian Elfving	Paul Hartwall
Outi Henriksson	Leena Laitinen	Arja Talma
Juha Metsälä	Raimo Valo	

Kari Inkinen
President and CEO

We have today submitted our report on the audit conducted by us.

Helsinki, 3 February 2017

KPMG Oy Ab

Esa Kalliala APA	Lasse Holopainen APA

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Sponda Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sponda Plc (business identity code 0866692-3) for the year ended 31 December 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

– the consolidated financial statements give a true and fair view of the group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
– the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

The key audit matter	How the matter was addressed in the audit
Valuation of Investment Properties (Consolidated Financial Statements and Note 2)	
– Investment properties (€3,755 million) represent 96% of the consolidated total assets as at 31 December 2016. Valuation of investment properties is considered a key audit matter due to management's estimates used in forecasts underlying the valuations, and significance of the carrying amounts involved. – The fair values of investment properties are determined a property-specific basis using estimated discounted cash flows. Determining the underlying key assumptions requires management to make judgements in respect of yields, market rents, operating costs and vacancy rates, among others.	– We assessed the assumptions used requiring management judgements, as well as the grounds for substantial changes in fair values. We also tested controls in place in the company over the accuracy of the basic data used in the calculations. – We involved KPMG valuation specialists, to test the technical appropriateness of the calculations, and to compare the assumptions used to market and industry data, on a sample basis. – We met with an external property valuer (Authorised Property Valuer, AKA) used by Sponda, to evaluate the appropriateness of the valuation method applied by Sponda. – We assessed the appropriateness of the disclosures provided on the investment properties.
Revenue Recognition (Consolidated Financial Statements Note 2.3)	
– Sponda's revenues consist almost solely of rental income. Varying terms and conditions in lease agreements are common in real estate business.	– We evaluated and tested controls over both the IT environment of the property rental process and the accuracy of invoicing, to assess the completeness and accuracy of total revenues. – Our substantive procedures included, among others, analyzing monthly rental income reporting, prepared on property-specific basis.
Property Acquisitions, Divestments and Investments (Consolidated Financial Statements Note 2)	
– The total acquisitions of properties carried out in the financial year 2016 amounted to €591 million, other investments in investment properties to €92 million and divestments to €36 million. Sale and purchase agreements for property acquisitions and divestments may have arrangements which require management to make judgements.	– We evaluated the internal control environment and tested controls over the approval process for investment projects and property transactions. – Our substantive procedures included assessing the appropriateness of the documentation underlying the accounting for major property transactions.

The key audit matter	How the matter was addressed in the audit
Accounting for Interest Bearing Liabilities and Derivative Instruments (Consolidated Financial Statements Note 3)	
– At the year-end 2016, Sponda's interest bearing liabilities totaled €1,863 million, representing 48% of the consolidated total amount in the statement of financial position. – The Group utilizes derivative contracts, measured at fair value. The nominal value of the derivatives totaled €1,172 million as at 31 December 2016. Sponda uses derivative contracts mainly to hedge its interest rate risk exposure. The Group applies hedge accounting to qualifying interest derivative instruments.	– Our audit procedures included evaluation of the appropriateness of the recognition and measurement policies for financial instruments, and testing of the controls relevant to the accuracy and measurement of financial instruments. – We tested the accuracy of the measurements and the accruals for financial items on a sample basis. – We assessed the appropriateness of the hedge accounting as applied by Sponda. – We assessed the appropriateness of the disclosures provided on the interest bearing liabilities and derivative instruments.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 3 February 2017
KPMG OY AB

Esa Kailiala	Lasse Holopainen
Authorised Public	Authorised Public
Accountant, KHT	Accountant, KHT

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