

# *Financial Results Q2 2010*

## *5 August 2010*

***Conference call 11.00 am EET***

***Dial-in number:***

***+44-20-7138 0834***

***Webcast available at:***

***[http://www.sponda.fi/www/ln\\_english/Investors.iw3](http://www.sponda.fi/www/ln_english/Investors.iw3)***

**SPONDA**

# Agenda

- **Back to business – Kari Inkinen**
- Property market – Kari Inkinen
- Financial performance – Erik Hjelt
- Business performance – Kari Inkinen

# Sponda Q2/2010: Performance highlights

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€*	58.3	60.6	115.9	119.8	237.2
Net Operating Income, M€*	43.0	43.6	83.4	87.2	175.8
Operating profit, M€	56.7	27.9	93.0	(49.9)	(13.3)
Cash flow from operations/share, €	0.11	0.19	0.19	0.37	0.45
Earnings/share, €**	0.11	0.04	0.15	(0.48)	(0.40)
NAV/share, €			3.55	3.54	3.54
EPRA NAV/share, €			4.19	4.20	4.18
Economic occupancy rate, %			87.3	86.8	88.4

*\*) The company's share of real estate fund profits in the income statement are presented on the change in fair value line instead of under total revenue which has altered the company's total revenue. The share of the profit in January-June was EUR 2.9 million and in April – June EUR 1.4 million. The figures for comparison have been adjusted accordingly.*

*\*\*\*) The figure includes the impact of the interest on the hybrid bond.*

# Back to business

- Tax issue was decided in Sponda's favour in July 2010.
- Property valuations are expected to start going up, but our priorities will continue to be in property management and leasing operations:
  - Securing strong and solid cash flow
  - Increasing cash flow with completion of property development in 2011
  - Further reducing office and logistics vacancy and
  - Completing current property development project as well as looking for new projects.
- Increased rental demand for all property types despite market sentiment.

# Activities in H2/2010

- Making use of signs of improvement in office and logistics markets
  - Improving prime rental levels
  - Further improving vacancy
- Accelerating property development activities
- Continue to look at disposing of non-strategic assets
- Continue to follow both Finnish and Russian markets with a view to invest
- Continue to follow interest rate movements
- Negotiation of renewal of expiring debt in 2011 and 2012
  - In May Sponda issued a bond of EUR 100 million with a fixed coupon of 4.375 %.

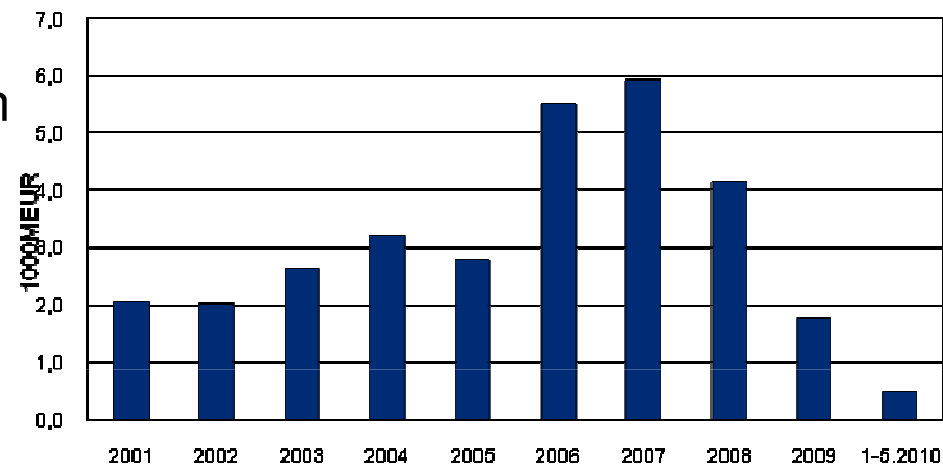
# Agenda

- Back to business – Kari Inkinen
- **Property market – Kari Inkinen**
- Financial performance – Erik Hjelt
- Business performance – Kari Inkinen

# The Finnish property market

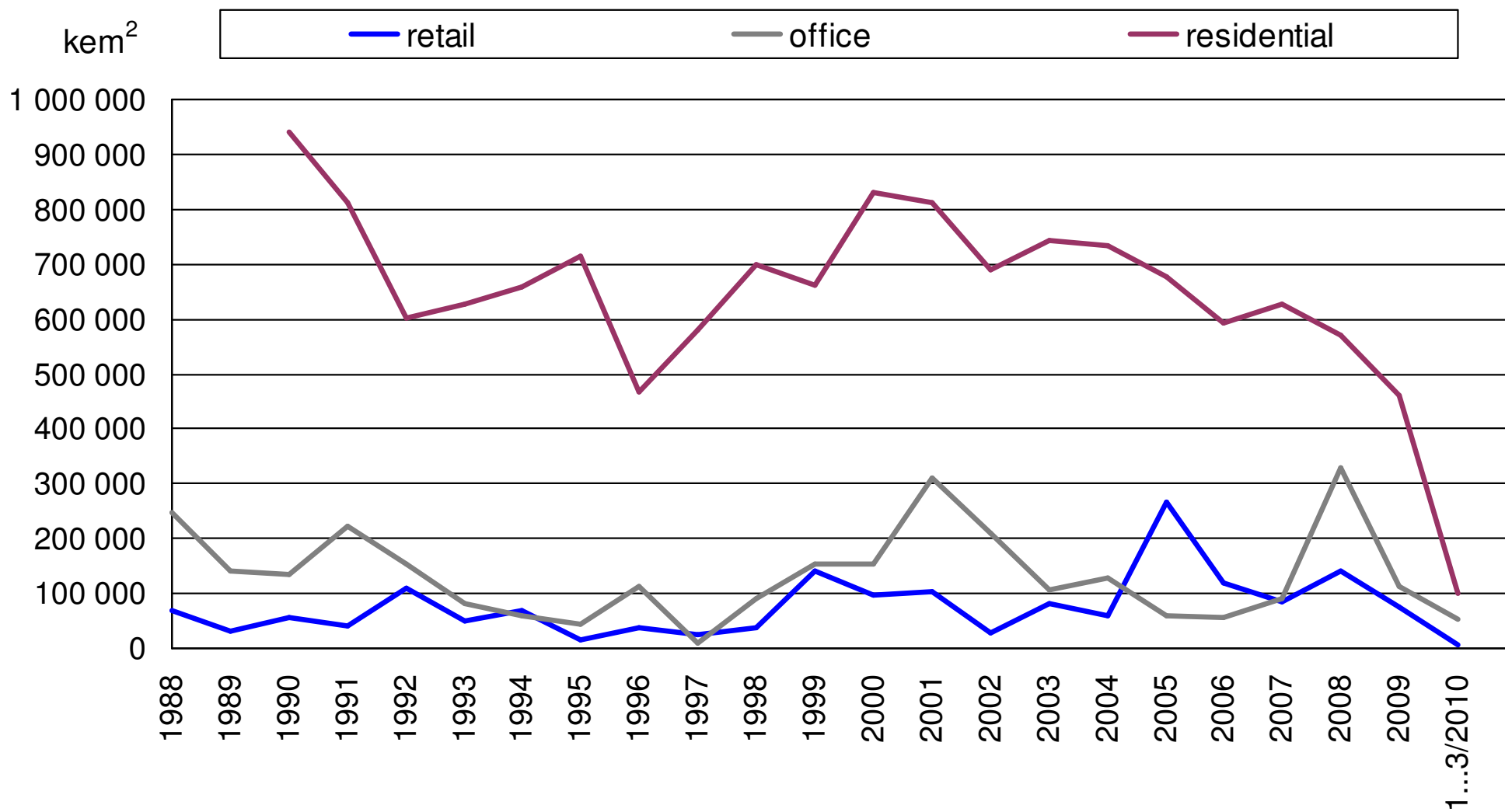
- Transaction volume in H1 2010 was EUR 0.5 bn.
- Market expects the office vacancy to still continue to increase during 2010 in the HMA.
- Market rents have stabilised in prime markets and in new, modern buildings. Secondary markets are still waiting for recovery.

Property transaction volume



Source: KTI

# Buildings completed in HMA





# Agenda

- Back to business – Kari Inkinen
- Property market – Kari Inkinen
- **Financial performance – Erik Hjelt**
- Business performance – Kari Inkinen

# Profit & loss statement

Me	4-6/2010	4-6/2009	1-6/2010	1-6/2009	1-12/2009
Total revenue*	58.3	60.6	115.9	119.8	237.2
Expenses	(15.2)	(17.0)	(32.4)	(32.6)	(61.4)
<b>Net operating income*</b>	<b>43.0</b>	<b>43.6</b>	<b>83.4</b>	<b>87.2</b>	<b>175.8</b>
Profit on sale of inv. properties	0.9	0.3	2.1	0.5	0.3
Valuation gain / loss	10.1	(10.8)	10.0	(126.7)	(169.3)
Profit on sale of trading properties	8.5	0.4	8.8	0.2	4.0
SGA expenses	(5.1)	(5.8)	(10.1)	(11.2)	(22.0)
Share of result of associated companies	0.0	0.0	(0.1)	0.0	0.0
Other operating income/expenses	(0.6)	0.2	(1.2)	0.1	(2.1)
<b>Operating profit</b>	<b>56.7</b>	<b>27.9</b>	<b>93.0</b>	<b>(49.9)</b>	<b>(13.3)</b>
Financial income and expenses	(14.7)	(14.2)	(31.3)	(33.2)	(65.0)
<b>Profit before taxes</b>	<b>42.1</b>	<b>13.7</b>	<b>61.7</b>	<b>(83.0)</b>	<b>(78.3)</b>
Taxes from previous and current fin. years	(0.9)	(0.8)	(1.9)	(1.2)	(3.2)
Deferred taxes	(8.8)	(2.8)	(13.0)	2.4	(0.1)
<b>Profit for the period</b>	<b>32.4</b>	<b>10.1</b>	<b>46.8</b>	<b>(81.8)</b>	<b>(81.6)</b>

\*) The company's share of real estate fund profits in the income statement are presented on the change in fair value line instead of under total revenue which has altered the company's total revenue. The share of the profit in January-June was EUR 2.9 million and in April – June EUR 1.4 million. The figures for comparison have been adjusted accordingly.

# Valuation gains/losses

M€	4-6/10	1-6/10	1-12/09
Changes in yield requirements (Finland)	2.2	2.2	(54.7)
Changes in yield requirements (Russia)	-	-	(49.4)
Profit/loss from property development projects	0.1	1.0	(1.2)
Modernization investments	(6.4)	(12.0)	(21.3)
Change in market rents and maintenance costs (Finland)	6.4	3.6	(8.4)
Change in market rents and maintenance costs (Russia)	2.6	2.6	(26.9)**
Change in exchange rates	4.9	11.2	(5.0)*
<b>Investment properties, total</b>	<b>9.7</b>	<b>8.5</b>	<b>(166.8)</b>
Real estate funds	(1.0)	(1.4)	(8.3)
Realised gains/losses in re funds	1.4	2.9	5.8
<b>Group, total</b>	<b>10.1</b>	<b>10.0</b>	<b>(169.3)</b>

\* Change in value due to changes in exchange rates 6-12/2009

\*\* Includes changes in value due to changes in exchange rates 1-6/2009

# Balance sheet

M€

## ASSETS

Non-current assets

2,992.7      2,936.2      2,906.6

Current assets

70.5      100.1      83.6

### Assets, total

**2,993.2      3,063.3      2,990.2**

## SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity total

1,116.1      1,112.1      1,113.6

Non-current liabilities

Interest-bearing debt

1,258.5      1,326.9      1,287.2

Provisions

0.0      0.3      0.0

Other liabilities

41.1      38.3      30.5

Deferred tax liabilities

192.7      199.9      193.8

Non-current liabilities, total

1,492.4      1,565.4      1,511.4

Current liabilities, total

384.7      358.8      365.2

### Liabilities, total

**1,877.0      1,924.2      1,876.6**

### Shareholders' equity and liabilities

**2,993.2      3,063.3      2,990.2**

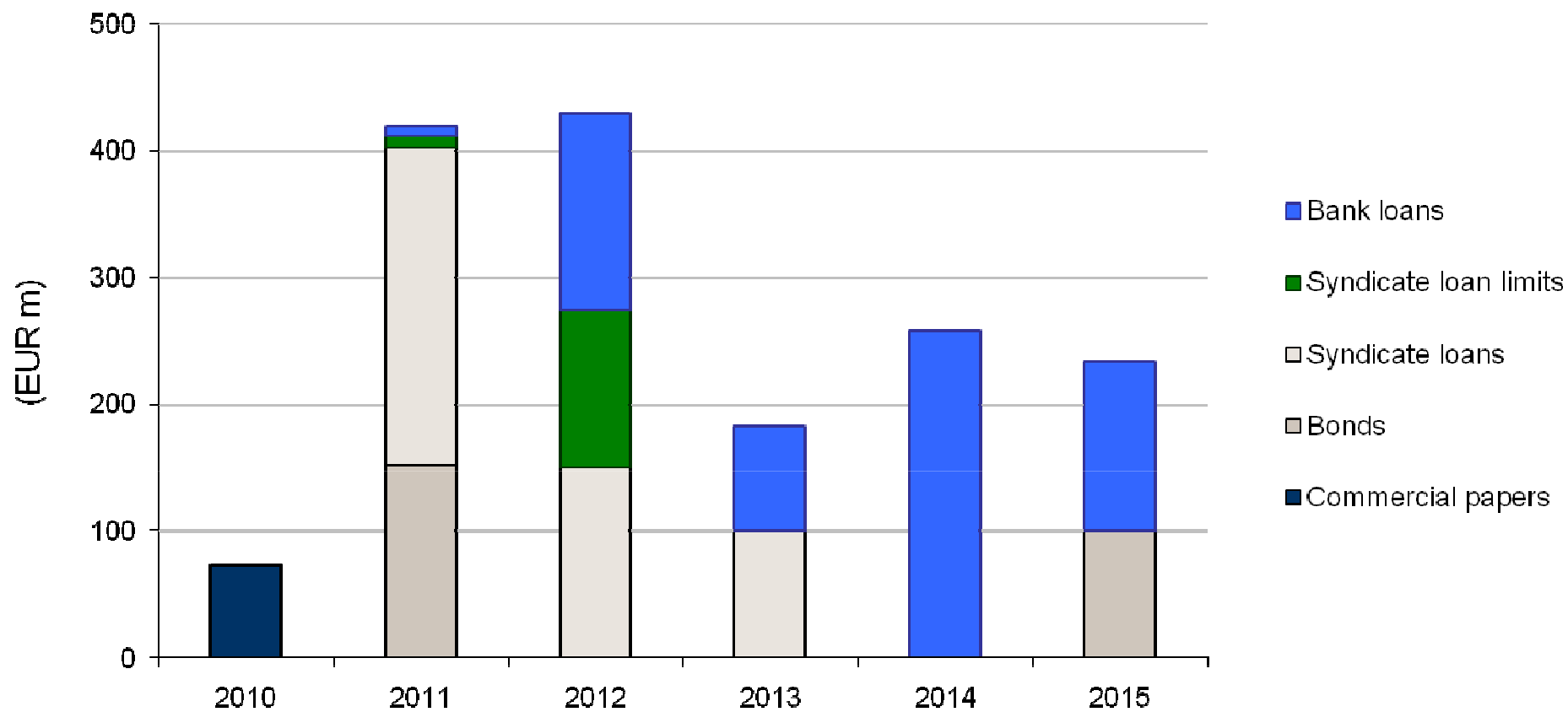
# Financing

	Q2/2010	Q1/2010	Q4/2009	Q3/2009	Q2/2009
Equity ratio, %	<b>37</b>	37	37	37	37
Average interest rate, %	<b>3.9</b>	3.8	3.7	3.5	3.8
Hedging, %	<b>70</b>	67	65	63	63
Average loan maturity, yrs	<b>2.6</b>	2.5	2.4	2.6	2.8
Average fixed interest rate period, yrs	<b>1.9</b>	1.8	1.8	1.5	1.7
Interest cover	<b>2.9x</b>	2.9x	2.7x	2.6 x	2.4 x
Loan to Value, %	<b>55</b>	56	56	57	57

- *Long-term equity ratio target 40 %*
- *Covenants at equity ratio (28 %) and ICR (1.75 x)*

# Loan maturities 30 June 2010


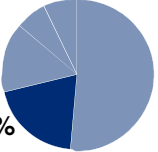
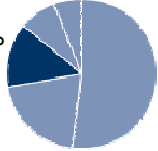
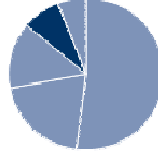
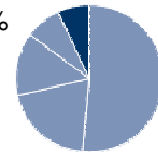
- Interest-bearing debt EUR 1,597.7 million
- Unused financing limits EUR 375 million



# Agenda

- Back to business – Kari Inkinen
- Property market – Kari Inkinen
- Financial performance – Erik Hjelt
- **Business performance – Kari Inkinen**

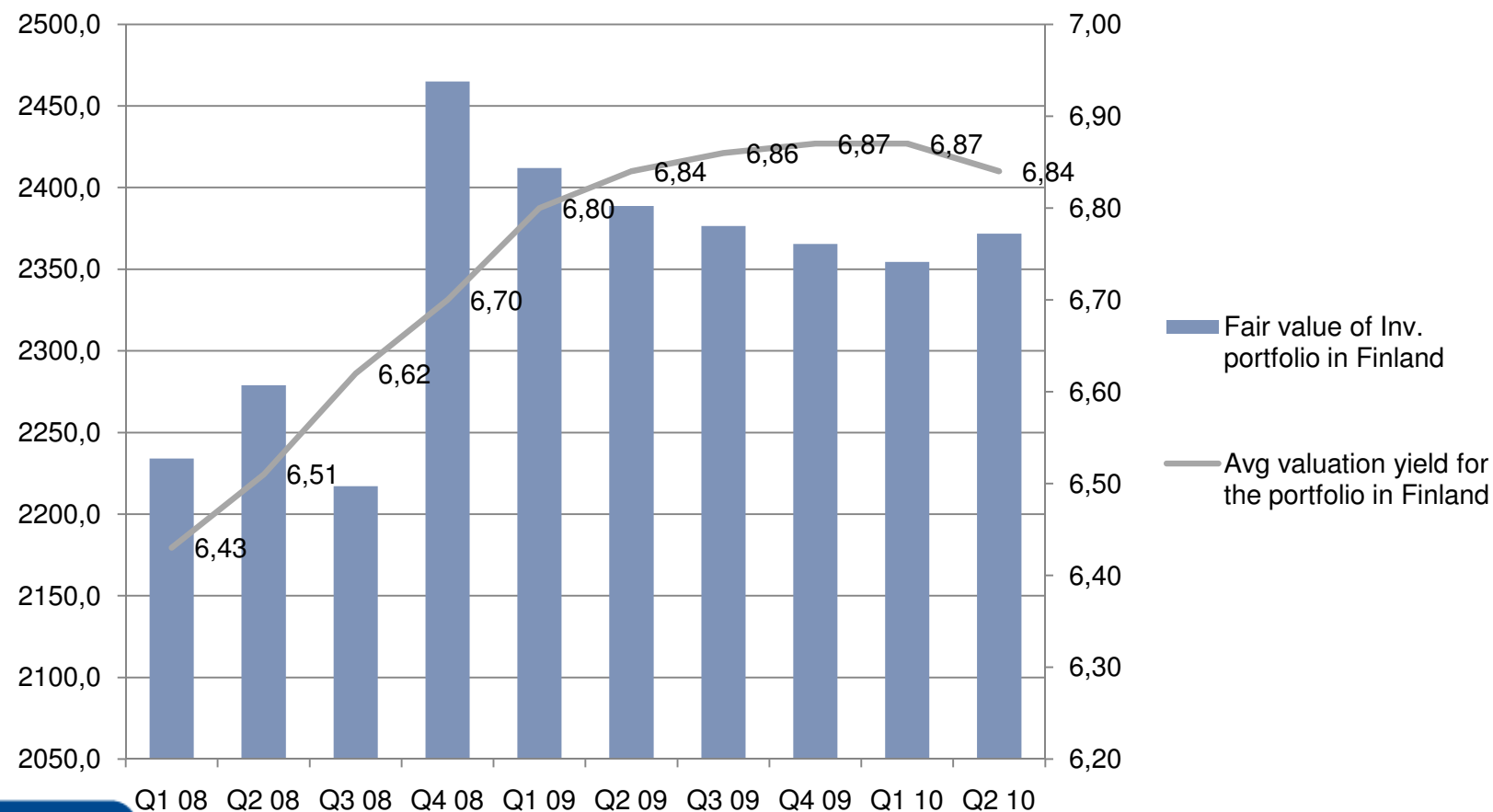
# Overview of reporting segments

	Segment in brief	Fair value <sup>1</sup>	% of portfolio <sup>2</sup>	Yield requirement <sup>3</sup>
Office & Retail	<ul style="list-style-type: none"> <li>Office and retail properties in the largest cities of Finland</li> <li>Focus on Helsinki CBD and the Ruoholahti area</li> </ul>	EUR 1,433.5m	 51%	6.6%
Shopping Centres	<ul style="list-style-type: none"> <li>Specialises in leasing shopping centres in the largest cities in Finland</li> </ul>	EUR 540.2m	 20%	6.1%
Logistics	<ul style="list-style-type: none"> <li>One of the largest owners and lessors of logistics properties in Finland and largest supplier in the Helsinki Metropolitan Area</li> </ul>	EUR 398.2m	 14%	8.1%
Property Development	<ul style="list-style-type: none"> <li>Sponda's development projects and land assets</li> <li>Currently active projects are the City-Center project and production plant in Vantaa</li> </ul>	EUR 230.2m	 8%	n/m
Russia	<ul style="list-style-type: none"> <li>Office and logistics properties, shopping centres and land assets in the Moscow and St Petersburg areas</li> </ul>	EUR 196.0m	 7%	11.5%
Real Estate Funds	<ul style="list-style-type: none"> <li>Owns and manages office, retail and logistics properties through real estate funds</li> </ul>	EUR 670m (assets under management)	n/m	n/m



# Valuation yield development

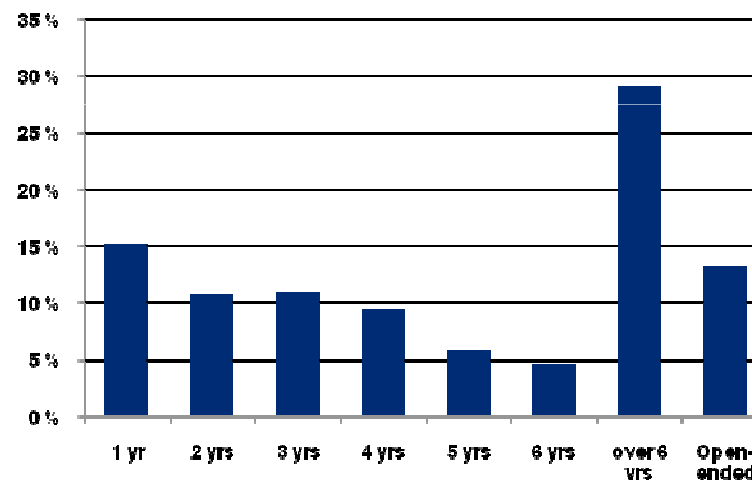
- Average valuation yield for the investment portfolio in Finland (excl. property development and Russia)



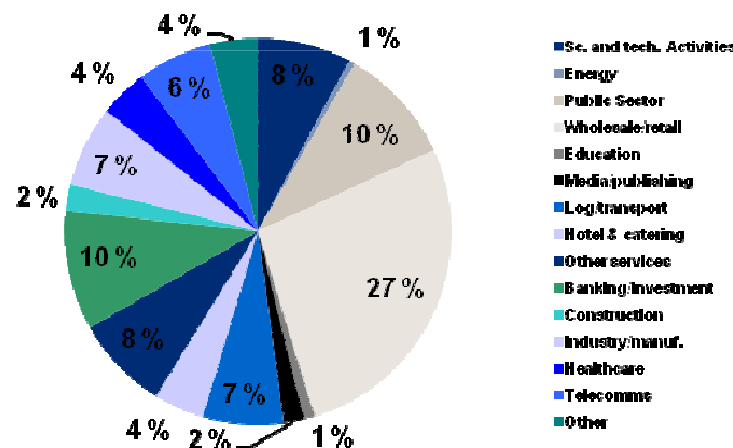
# High-quality tenant base and balanced lease agreement base

- Future cash flows  
EUR 1,114.0 million
- Average length of contracts  
4.7 years:
  - O&R 5.3 yrs
  - Shopping Centres 5.1 yrs
  - Log 3.6 yrs
- Approximately 32 % of total rental income comes from 10 largest tenants
- All agreements in Finland are linked to CPI

Lease maturity profile



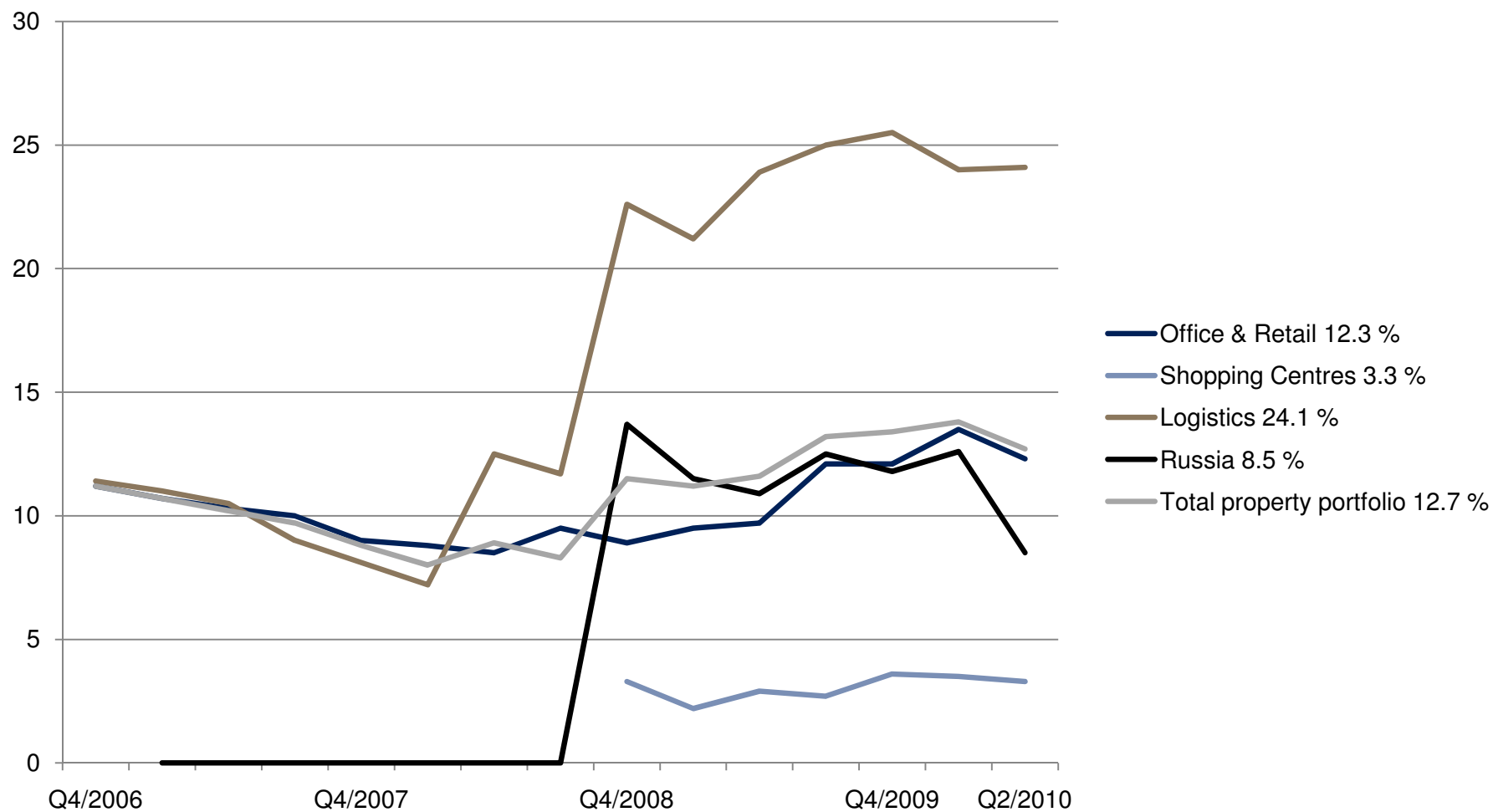
Tenant breakdown by sector<sup>1</sup>



Note 1: Based on rental income

# Economic vacancy rate 2007 - 2010

*Office & Retail vacancy restated from 31 Dec 2008*



# Office & retail properties: Performance highlights

- Occupancy rate rose since last quarter
- Increase in leasing activity, especially in prime areas
- Like-for-like rental growth for Office & retail properties in Finland was -4.21 %.

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€	30.7	32.4	61.0	65.2	129.0
Net Operating Income, M€	22.6	23.9	43.9	48.0	96.3
Operating profit, M€	26.3	19.9.	41.9	11.3	46.5
Economic occupancy rate, %			87.7	87.9	87.9

# Shopping Centres: Performance highlights

- Occupancy rate stayed at high level with a small increase
- Like-for-like rental growth for Shopping Centres in Finland was 0.18 %
- Consumer confidence has increased

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€	9.6	10.3	19.6	18.6	39.3
Net Operating Income, M€	7.9	8.2	15.6	14.5	31.4
Operating profit, M€	5.0	5.8	11.0	4.3	18.7
Economic occupancy rate, %			96.7	97.3	96.4

# Logistics Properties: Performance highlights

- Like-for-like rental growth for Logistics Properties in Finland was -4.66 %
- Manufacturing and exports are recovering slowly

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€	9.1	10.2	18.5	20.6	38.6
Net Operating Income, M€	6.4	7.3	12.1	14.5	27.4
Operating profit, M€	5.6	5.0	10.4	(3.0)	(4.5)
Economic occupancy rate, %			75.9	75.0	76.1

# Leading operations in property development

- The value of development portfolio was EUR 230.2 million
  - Land sites: EUR 88.1 million
  - Development projects: EUR 142.1 million
  - Development investments include mainly investments to City-Center project and production plant in Vantaa.
- Construction of City-Center project's second phase and the production plant in Vantaa are progressing as planned.
  - Both will be income-producing in 2011.
- Other development projects can be started once the required level of pre-letting, over 50 %, has been achieved.

# Russia

- Sponda's growth target is to invest 10 – 20 per cent of the company's balance sheet in Russia
- Occupancy was up by 4 %-points, 91.5 %, since the previous quarter
- Like-for-like rental growth was -4.67 %

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€	5.8	5.7	11.4	11.4	21.8
Net Operating Income, M€	4.3	4.2	8.4	8.6	16.4
Operating profit, M€	10.9	5.4	20.4	(54.4)	(70.4)
Economic occupancy rate, %			91.5	87.5	88.2



# Property Funds

- Assets under management EUR 670 million
- High occupancy in properties, all funds have over 90 % occupancy rates
- Share of fund profits in the Group's income statement are presented on the change in fair value line instead of under total revenue. The figures for comparison have been adjusted accordingly

	4-6/10	4-6/09	1-6/10	1-6/09	1-12/09
Total revenue, M€	1.9	1.8	3.7	3.5	6.9
Net Operating Income, M€	1.5	1.3	3.0	2.5	5.1
Operating profit, M€	0.6	(4.8)	1.8	(3.7)	(3.6)
Share of fund profits	1.4	1.2	2.9	2.6	5.8

# Prospects and financial targets

## Prospects

- Sponda estimates that the positive development in occupancy rates, which started in Q2 2010, will continue for the rest of 2010. This assessment is based on the lease agreements that the company knows are expiring and on the forecast growth in Finland's economy in 2010.
- The net operating income in 2010 is estimated to be lower than that in 2009. The reasons for this decline are the strategic sale of property and the fall in occupancy rates that began in 2009 and continued in the first quarter of 2010.

## Financial targets

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



*IR contact:*

*Pia Arrhenius*

*Senior Vice President, Corporate  
Communications and IR*

*Tel: +358-20-431 3454*

# Strategy

- *Sponda's strategic goal* is to seek growth and profitability through customer-focused operations and active property development, by purchasing property, and through operating real estate funds in Finland and Russia.
- Due to economic downturn Sponda adjusted its strategy to *moderate* growth and profitability. Growth will be financed by selling some of the existing property portfolio.
- Sponda reviews its strategy regularly so that it can, if necessary, adjust its operations to prevailing market conditions.

# Strategy 2005-2009

2005	2006	2007	2008	2009
<ul style="list-style-type: none"> <li>• Strategy revised: Profitable growth strategy and expansion plans to Russia and the Baltic Countries</li> </ul>	<ul style="list-style-type: none"> <li>• First property fund established: First TopLux Co.</li> <li>• First investment to Russia made, a logistics property in St Petersburg.</li> </ul>	<ul style="list-style-type: none"> <li>• Rights offering for EUR 250 million completed to partly finance Kapiteeli acquisition.</li> <li>• Sale of asset portfolio, in total EUR 400 million.</li> </ul>	<ul style="list-style-type: none"> <li>• Along with the economic downturn, Sponda started to sell properties in order to strengthen its balance sheet.</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy revised: Baltic Countries no longer as a strategic investment target.</li> <li>• Strategy adjusted to challenging market conditions: modest growth financed by property disposals.</li> </ul>
<p>Organisation streamlined to four business units: Office and Retail, Logistics, Property Development and New Business areas.</p>	<ul style="list-style-type: none"> <li>• Sponda signed agreement with Helsinki Harbour to build logistics centre in the new Vuosaari Harbour.</li> </ul>	<ul style="list-style-type: none"> <li>• A number of property development projects were started in Helsinki Metropolitan Area.</li> </ul>	<ul style="list-style-type: none"> <li>• At the end of the year, all property development projects were completed on schedule, apart from the City-Center project.</li> </ul>	<ul style="list-style-type: none"> <li>• Rights offering for EUR 200 million completed to strengthen balance sheet..</li> </ul>
	<ul style="list-style-type: none"> <li>• Sponda bought property investment company Kapiteeli Plc for EUR 950 million.</li> </ul>		<ul style="list-style-type: none"> <li>• Property development activities increased at the end of the year.</li> </ul>	

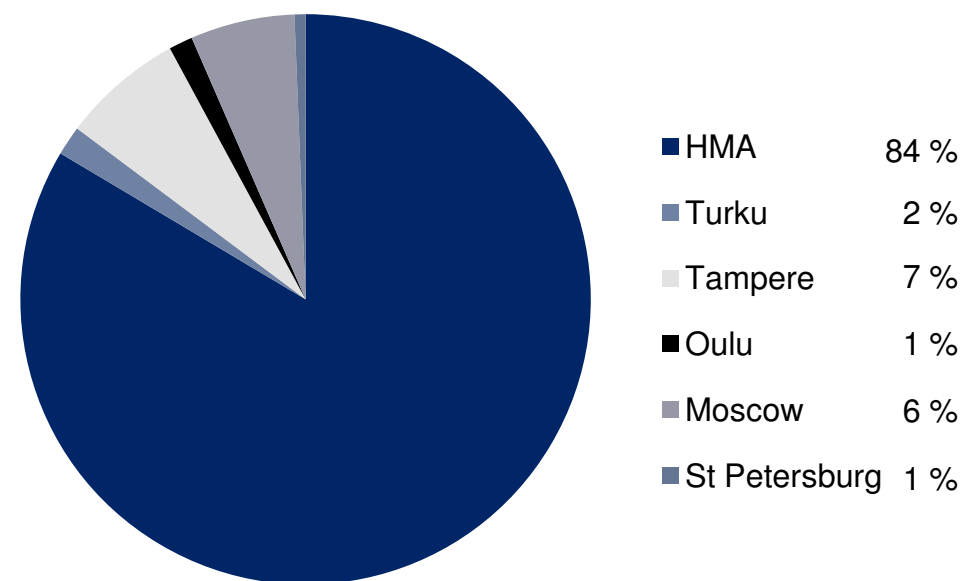
# Property portfolio focused on prime locations in the Helsinki Metropolitan Area

Sponda owns a diversified property portfolio with a wide range of space solutions

## Helsinki CBD and Ruoholahti areas

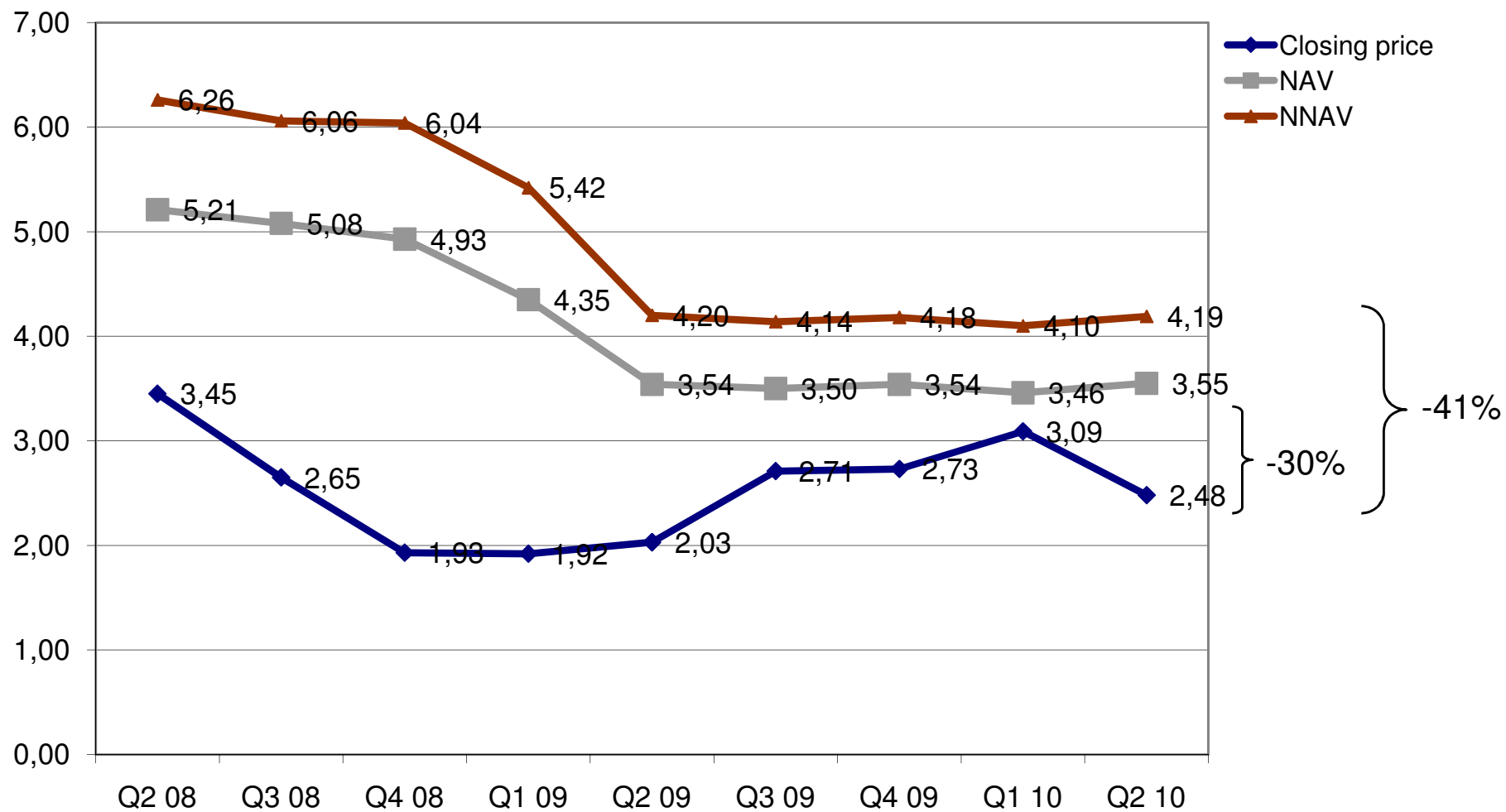


## Investment properties by location (excl. Property development & Funds)



EUR 2,798.0 million

# NAV/share and EPRA NAV/share



# EPRA NAV calculation

	M€
Equity attributable to equity holders of parent company	1 114.4
Other equity reserve	-129.0
Goodwill relating to deferred tax liability on properties	-14.5
Deferred tax relating to fair valuation of property	164.3
Deferred tax relating to depreciation difference	23.5
Deferred tax relating to capitalized borrowing cost	3.1
<b>Total</b>	<b>1 163.0</b>
No of shares at the end of period	277 575 462
EPRA NAV	4.19



# Environmental responsibility

- Sponda made environmental responsibility a strategic focus in 2009.
- In 2009 Sponda launched an energy efficiency scheme in which Sponda and its customers identify areas in a property where energy can be saved.
- For 2010, Sponda has set goals for:
  - Updating the corporate responsibility goals in the design guidelines for property refurbishment
  - Half of Sponda's properties in Sponda's energy efficiency scheme
  - Reducing consumption in Sponda's properties
    - Total electricity consumption
    - Consumption of district heating energy
    - Water consumption
  - Reduction of the average carbon footprint of the properties
  - Defining a technical concept for a low energy office building
  - Publishing environmental responsibility guidelines for clients
  - Green Office certificate for Sponda's own office

