

# *Financial Results Q3 2010*

## *3 November 2010*

***Conference call 11.00 am EET***

***Dial-in number:***

***+44-20-7806 1956***

***Webcast available at:***

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

**SPONDA**

# Agenda

- **Q3 in Brief – Kari Inkinen**
- Market Update – Kari Inkinen
- Q3 in Numbers – Erik Hjelt
- Business Update – Kari Inkinen

# Sponda Q3/2010: Performance highlights

	7-9/10	7-9/09	1-9/10	1-9/09	1-12/09
Total revenue, M€*	57.7	59.1	173.6	178.9	237.2
Net Operating Income, M€*	42.8	45.5	126.2	132.7	175.8
Operating profit, M€	40.2	13.1	133.2	(36.7)	(13.3)
Cash flow from operations/share, €	0.09	0.10	0.28	0.41	0.45
Earnings/share, €**	0.06	(0.03)	0.22	(0.45)	(0.40)
NAV/share, €			3.63	3.50	3.54
EPRA NAV/share, €			4.27	4.14	4.18
Economic occupancy rate, %			87.4	86.8	86.6

\*) 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-September was EUR 4.2 million and in July-September EUR 1.3 million. The figures for comparison have been adjusted accordingly.

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

# What happened with...

- **Occupancy rates**
  - Slight increase in Sponda's occupancy rate
  - Growing interest in the market
- **Rents and**
  - Actual rents slowly improving, especially in good locations
- **Property values**
  - Positive development in Finland
  - Negative figures in Russia due to changes in exchange rates
  - External valuation done in Q4/2010

... in Q3 2010?

# Refinancing

- Sponda agreed on EUR 650 million refinancing on 1 November.
  - EUR 550 million of syndicated loans for duration of 5 years
  - Back-stop facility of EUR 100 million extended for 3 years
  - Syndicated loans have a margin of 150 bps
  - The loans will be used entirely for refinancing 2011 and 2012 maturing debt.

# How has Sponda's portfolio performed in the market otherwise?

## Office and Retail

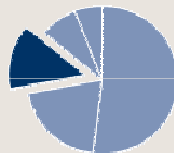


Occupancy rate stayed at the same level as last quarter.

Lease expiries and new leases are at the same level 1-9/2010\*.

Property values have stabilised and yields in prime properties will start to decline in 2010.

## Logistics



Occupancy rate decreased 1.1 %-points due to lease expiry but negotiations are already ongoing with new tenant/s.

Average rents have decreased 5 % in the signed agreements\*.

Yields have leveled out, improved market conditions should turn the values as well.

## Shopping Centres

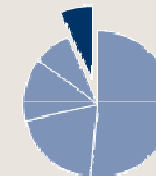


Occupancy rate rose by 1.5 %-points from Q2 and was 98.2 %.

Rents on average have increased approx. 3 % in the signed agreements\*.

Values of shopping centres in prime locations have signs of decreasing yields.

## Russia



Occupancy was up by 1.8 %-points, 93.3 %, since the previous quarter.

Net operating income increased 16 % since Q2 2010.

Yields from peak to trough fell over 20 % but have now stabilised, especially in Moscow.

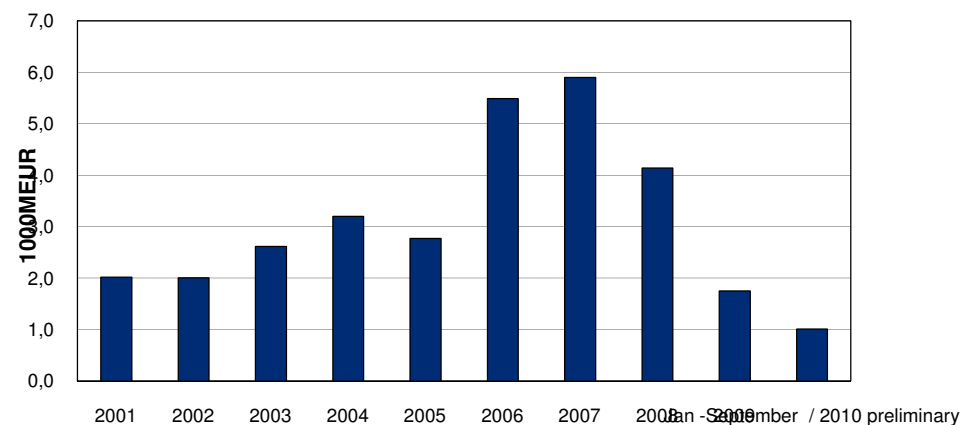
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# The Finnish property market

- Transaction volume was EUR 1.0 bn at the end of September.
- Office market vacancy is expected to stabilise at the end of the year.
- Market rents are still stable. Apart from retail and properties in prime locations, there is no sign of rental pick-up.

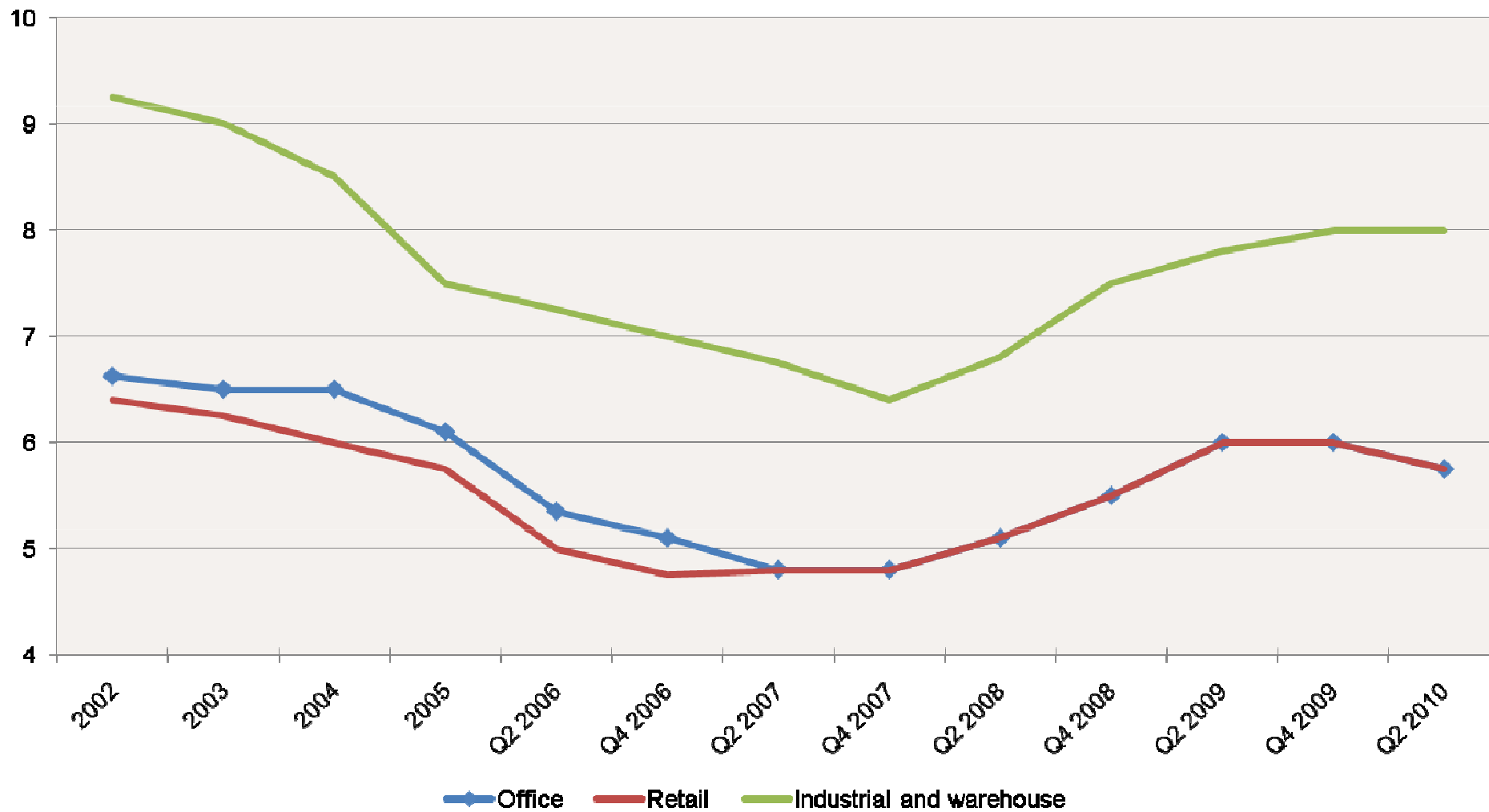
Property transaction volume



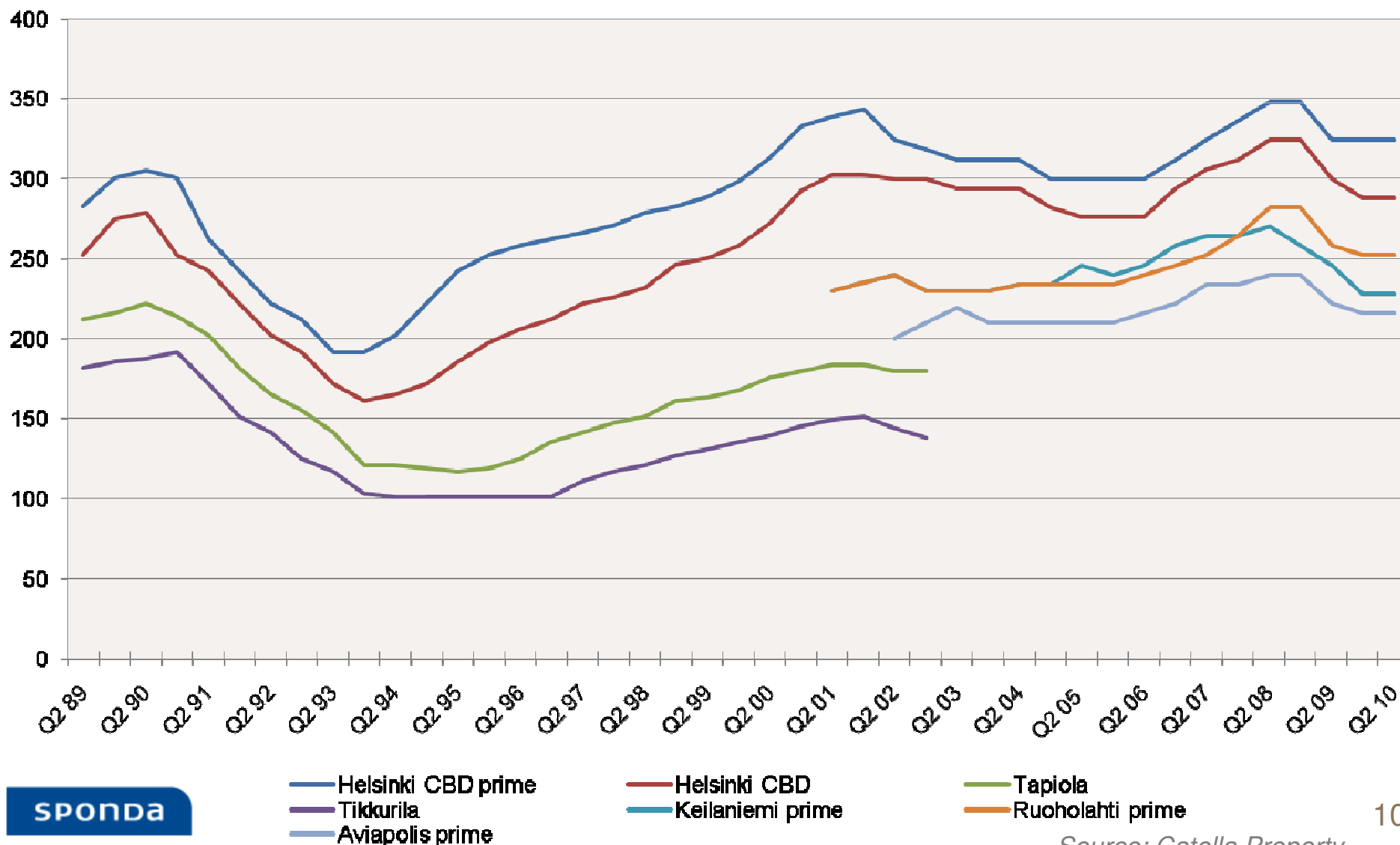
Source: KTI



# Prime yields in HMA

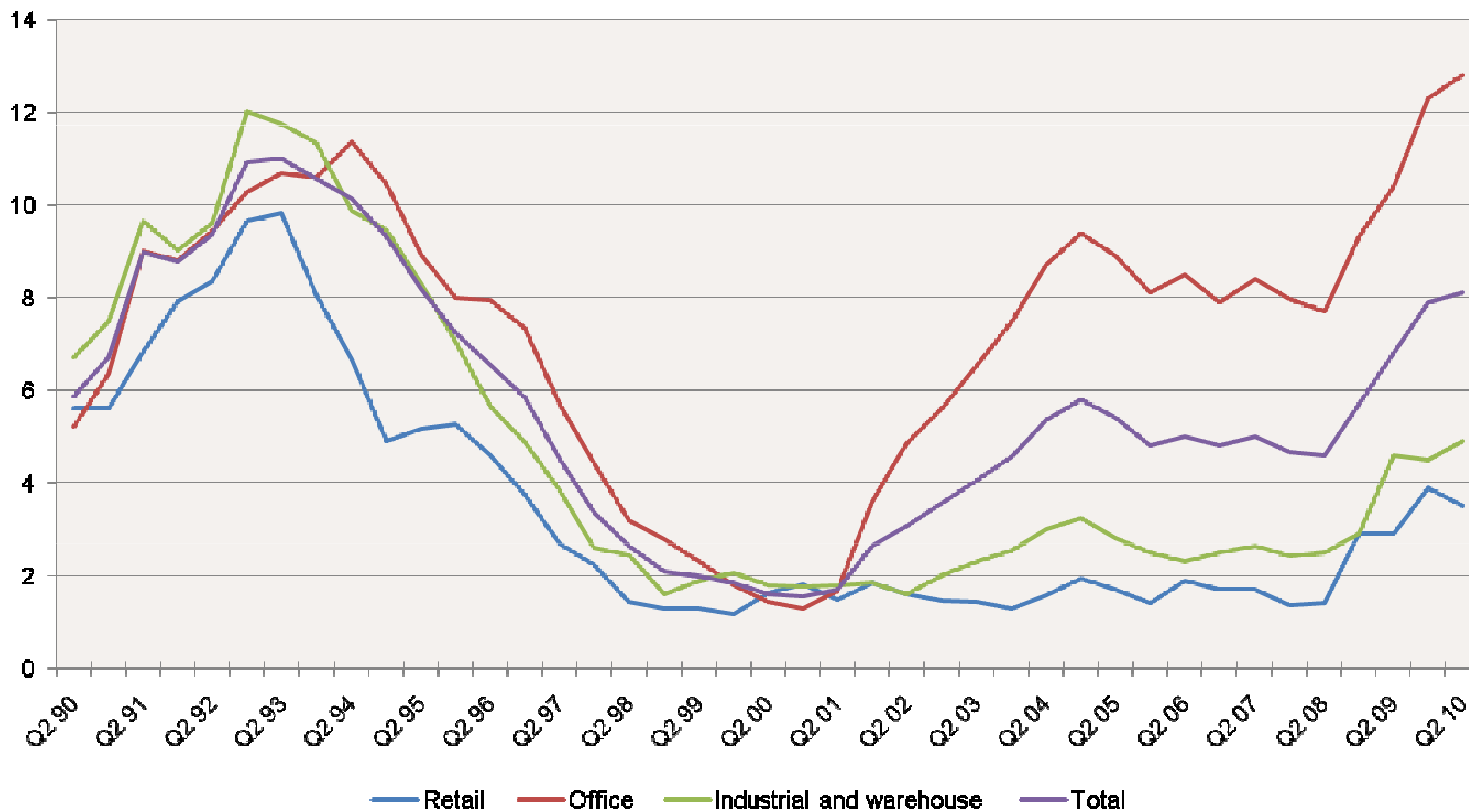


# Rental levels in HMA offices



Source: Catella Property

# Vacancy rate in the HMA



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# Profit & loss statement

Me	7-9/2010	7-9/2009	1-9/2010	1-9/2009	1-12/2009
Total revenue*	57.7	59.1	173.6	178.9	237.2
Expenses	(14.9)	(13.6)	(47.4)	(46.2)	(61.4)
<b>Net operating income*</b>	<b>42.8</b>	<b>45.5</b>	<b>126.2</b>	<b>132.7</b>	<b>175.8</b>
Profit on sale of inv. properties	1.2	0.0	3.3	0.5	0.3
Valuation gain / loss	1.1	(29.7)	11.1	(156.4)	(169.3)
Profit on sale of trading properties	0.0	2.6	8.8	2.8	4.0
SGA expenses	(4.8)	(4.9)	(15.0)	(16.1)	(22.0)
Share of result of associated companies	0.2	0.0	0.1	0.0	0.0
Other operating income/expenses	(0.2)	(0.3)	(1.4)	(0.3)	(2.1)
<b>Operating profit</b>	<b>40.2</b>	<b>13.1</b>	<b>133.2</b>	<b>(36.7)</b>	<b>(13.3)</b>
Financial income and expenses	(13.8)	(16.4)	(45.1)	(49.6)	(65.0)
<b>Profit before taxes</b>	<b>26.4</b>	<b>(3.3)</b>	<b>88.1</b>	<b>(86.4)</b>	<b>(78.3)</b>
Taxes from previous and current fin. years	(0.5)	(0.8)	(2.4)	(2.0)	(3.2)
Deferred taxes	(6.5)	(2.0)	(19.6)	0.4	(0.1)
<b>Profit for the period</b>	<b>19.4</b>	<b>(6.1)</b>	<b>66.2</b>	<b>(88.0)</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-September was EUR 4.2 million and in July-September EUR 1.3 million. The figures for comparison have been adjusted accordingly.

# Valuation gains/losses

M€	7-9/10	1-9/10	1-12/09
Changes in yield requirements (Finland)	1.8	4.0	(54.7)
Changes in yield requirements (Russia)	-	-	(49.4)
Profit/loss from property development projects	1.6	2.6	(1.2)
Modernization investments	(6.5)	(18.5)	(21.3)
Change in market rents and maintenance costs (Finland)	8.9	12.5	(8.4)
Change in market rents and maintenance costs (Russia)	0.2	2.9	(26.9)**
Change in exchange rates	(6.3)	4.9	(5.0)*
<b>Investment properties, total</b>	<b>(0.3)</b>	<b>8.2</b>	<b>(166.8)</b>
Real estate funds	-	(1.4)	(8.3)
Realised gains/losses in re funds	1.3	4.2	5.8
<b>Group, total</b>	<b>1.1</b>	<b>11.1</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

2,916.9      2,907.9      2,906.6

Current assets

84.7      100.0      83.6

**Assets, total**

**3,001.6      3,008.0      2,990.2**

## SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity total

1,138.5      1,102.5      1,113.6

Non-current liabilities

Interest-bearing debt

1,252.4      1,302.0      1,287.2

Provisions

0.0      0.1      0.0

Other liabilities

37.9      39.5      30.5

Deferred tax liabilities

194.3      192.6      193.8

Non-current liabilities, total

1,484.5      1,534.2      1,511.4

Current liabilities, total

378.5      371.3      365.2

**Liabilities, total**

**1,863.1      1,905.5      1,876.6**

**Shareholders' equity and liabilities**

**3,001.6      3,008.0      2,990.2**

# Financing

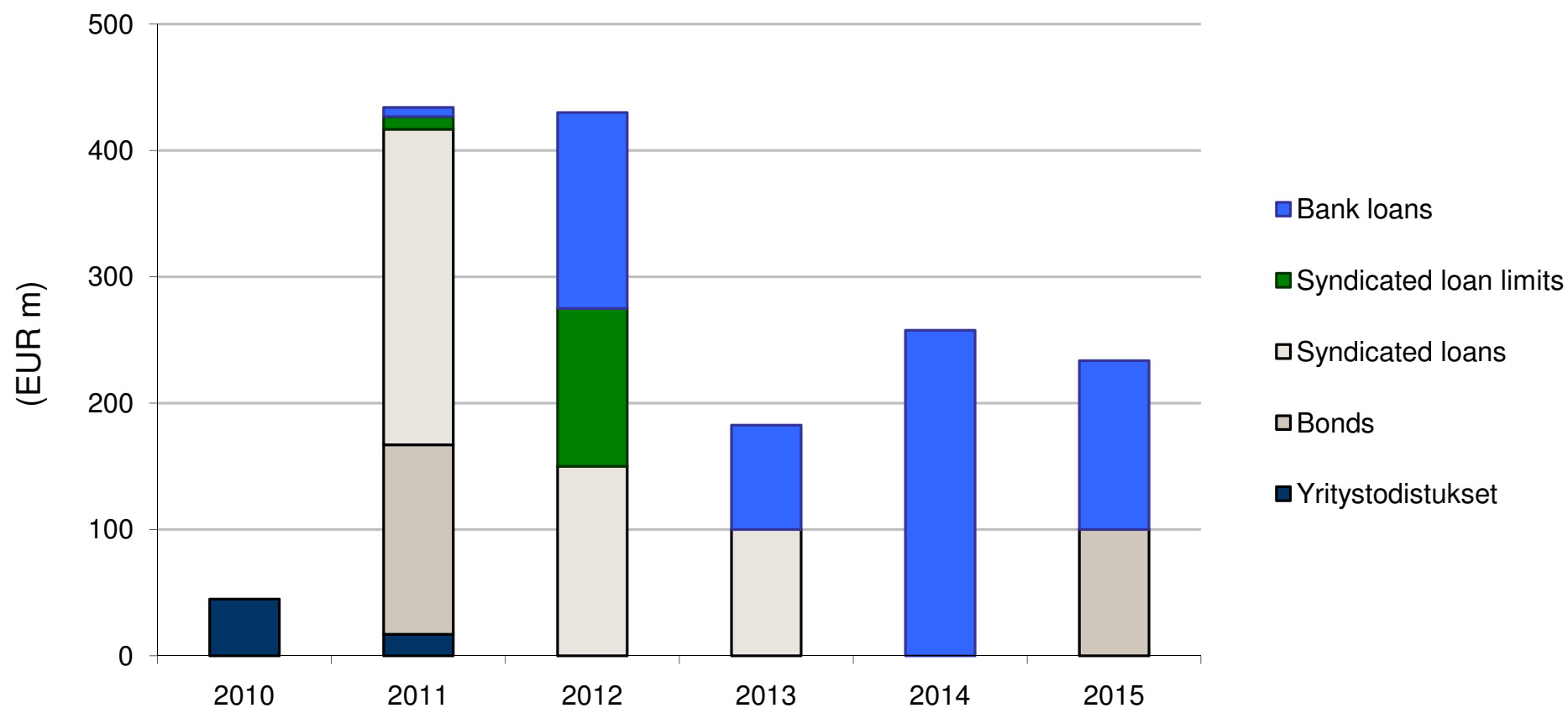
	Q3/2010	Q2/2010	Q1/2010	Q4/2009	Q3/2009
Equity ratio, %	<b>38</b>	37	37	37	37
Average interest rate, %	<b>3.9</b>	3.9	3.8	3.7	3.5
Hedging, %	<b>74</b>	70	67	65	63
Average loan maturity, yrs	<b>2.4</b>	2.6	2.5	2.4	2.6
Average fixed interest rate period, yrs	<b>2.2</b>	1.9	1.8	1.8	1.5
Interest cover	<b>3.0x</b>	2.9x	2.9x	2.7x	2.6 x
Loan to Value, %	<b>55</b>	55	56	56	57

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



# Loan maturities 30 September 2010


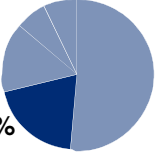
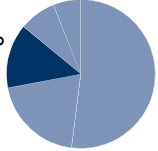
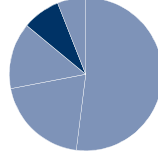
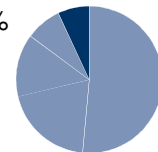
- Interest-bearing debt EUR 1,580.5 million
- Unused financing limits EUR 375 million



# Agenda

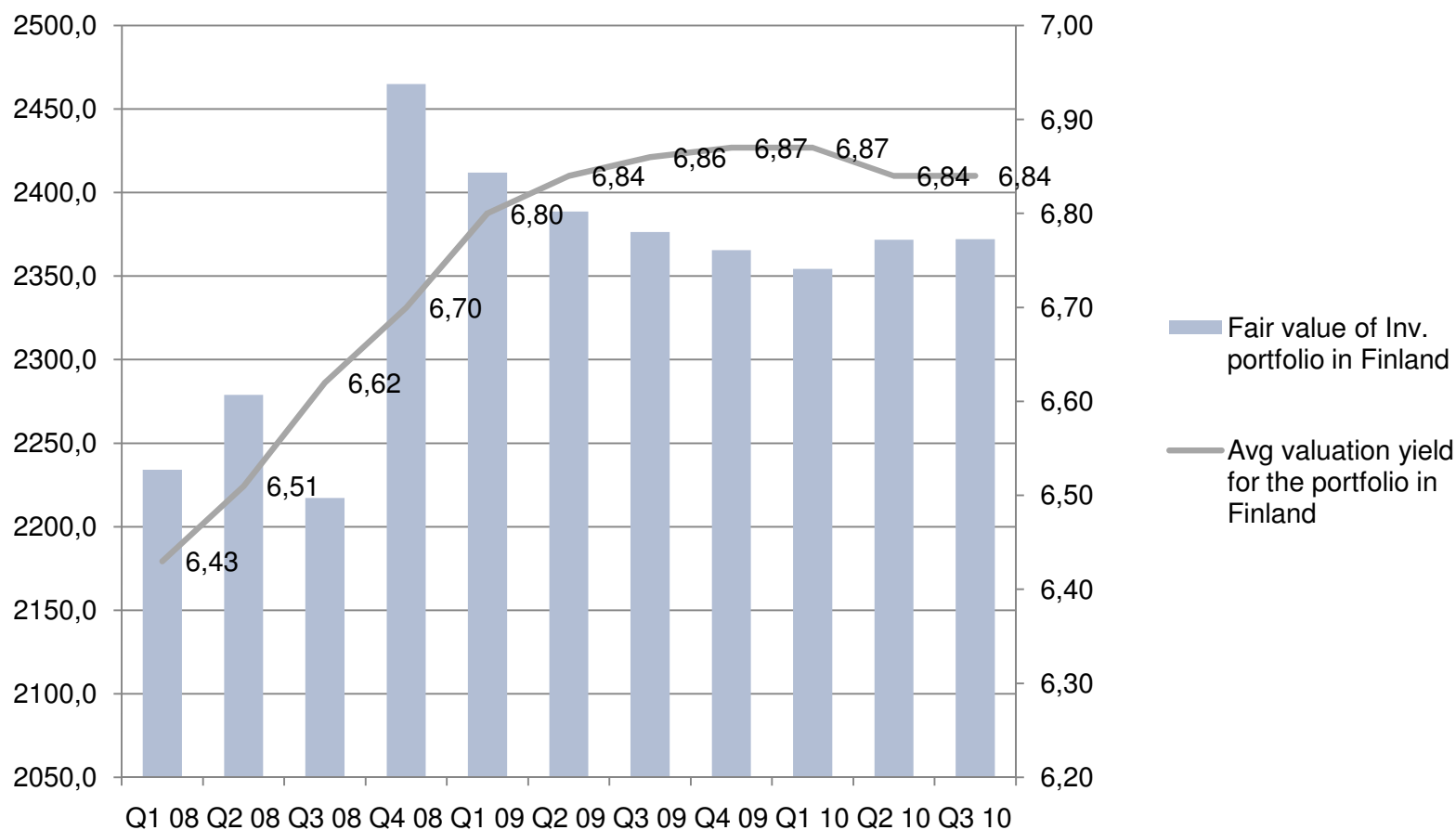
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# Overview of reporting segments

	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 1,425.3m	 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 541.2m	 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 405.7m	 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 233.6m	 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 190.2m	 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

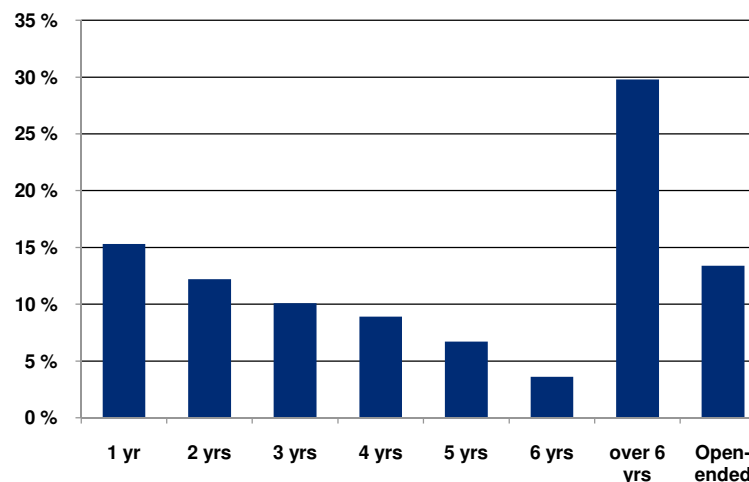
- Average valuation yield for the investment portfolio in Finland (excl. property development and Russia)



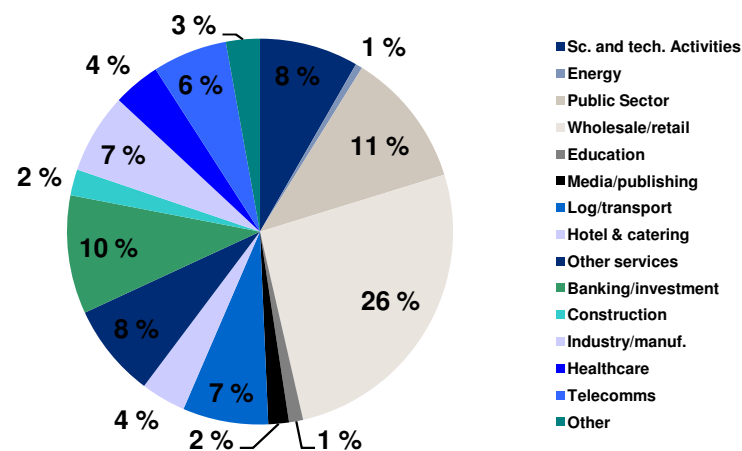
# High-quality tenant base and balanced lease agreement base

- Future cash flows  
EUR 1,097.7 million
- Average length of contracts  
4.7 years:
  - O&R 5.3 yrs
  - Shopping Centres 4.8 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

# Lease agreements in Q3 2010

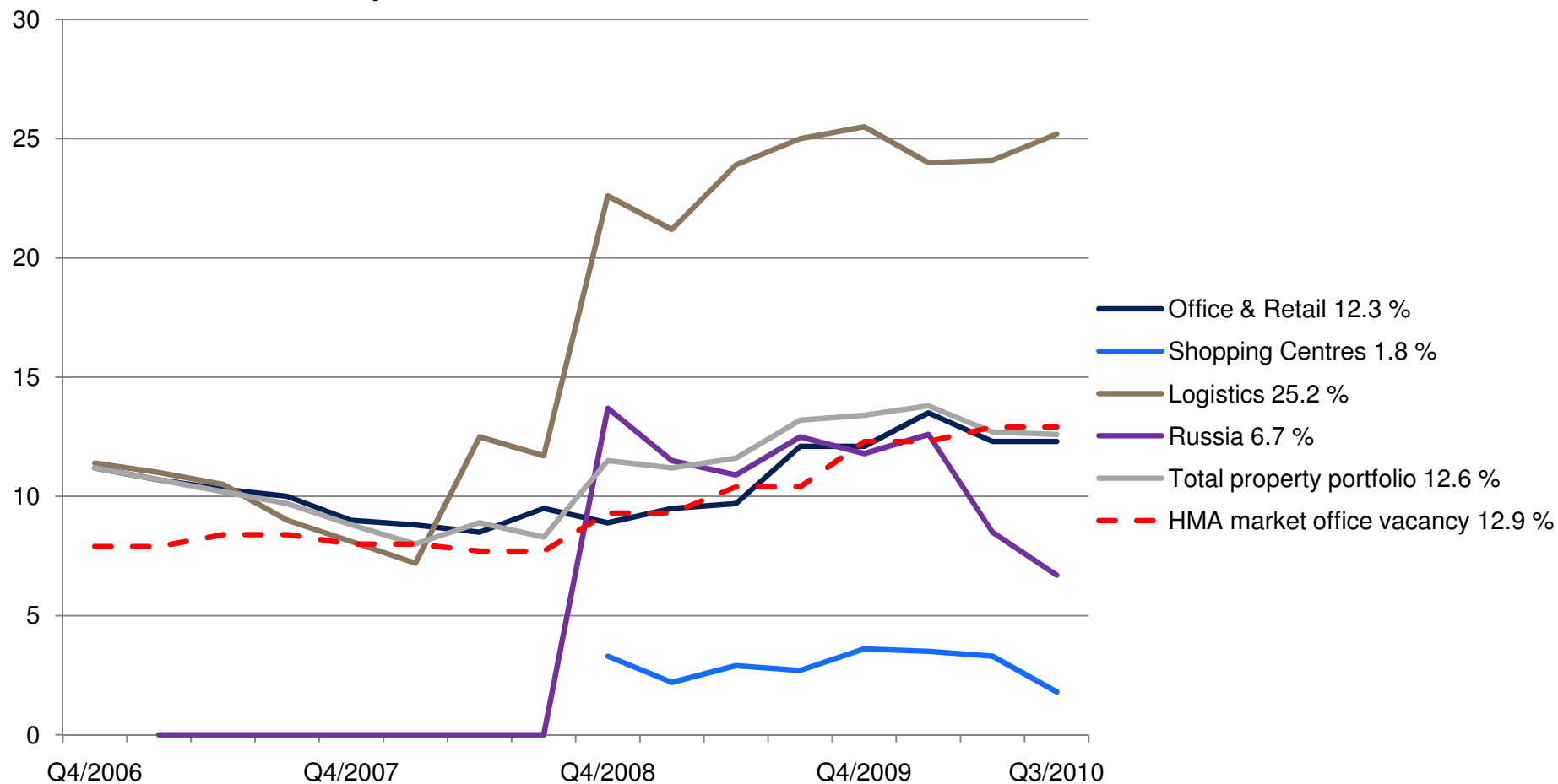
	Pcs	M <sup>2</sup>	€/m <sup>2</sup> /month (avg)*
Agreements that came into force during the period	116	34 000	12.27
Agreements that ended during the period	96	37 000	10.97

*\*) Agreements that came into force and ended do not necessarily correlate with same sector or space.*

	Office and Retail	Shopping Centres	Logistics	Russia
Like-for-like rental growth (portfolio that Sponda has held for 2 year excluding acquisitions, disposals and property development)	-4.53 %	3.93 %	-5.21 %	-5.12 %

# Economic vacancy rate 2007 - 2010

Office & Retail vacancy restated from 31 Dec 2008



# Leading operations in property development

- The value of development portfolio was EUR 233.6 million
  - Land sites: EUR 84.9 million
  - Development projects: EUR 148.7 million
  - Development investments include mainly investments to City-Center project and production plant in Vantaa.

	<b>City-Center</b>	<b>Hakkila</b>
Total investment, Me	125.0	40.0
Of which invested by 30 Sep 2010	87.0	13.0
Completion time	End of 2012	Early 2011



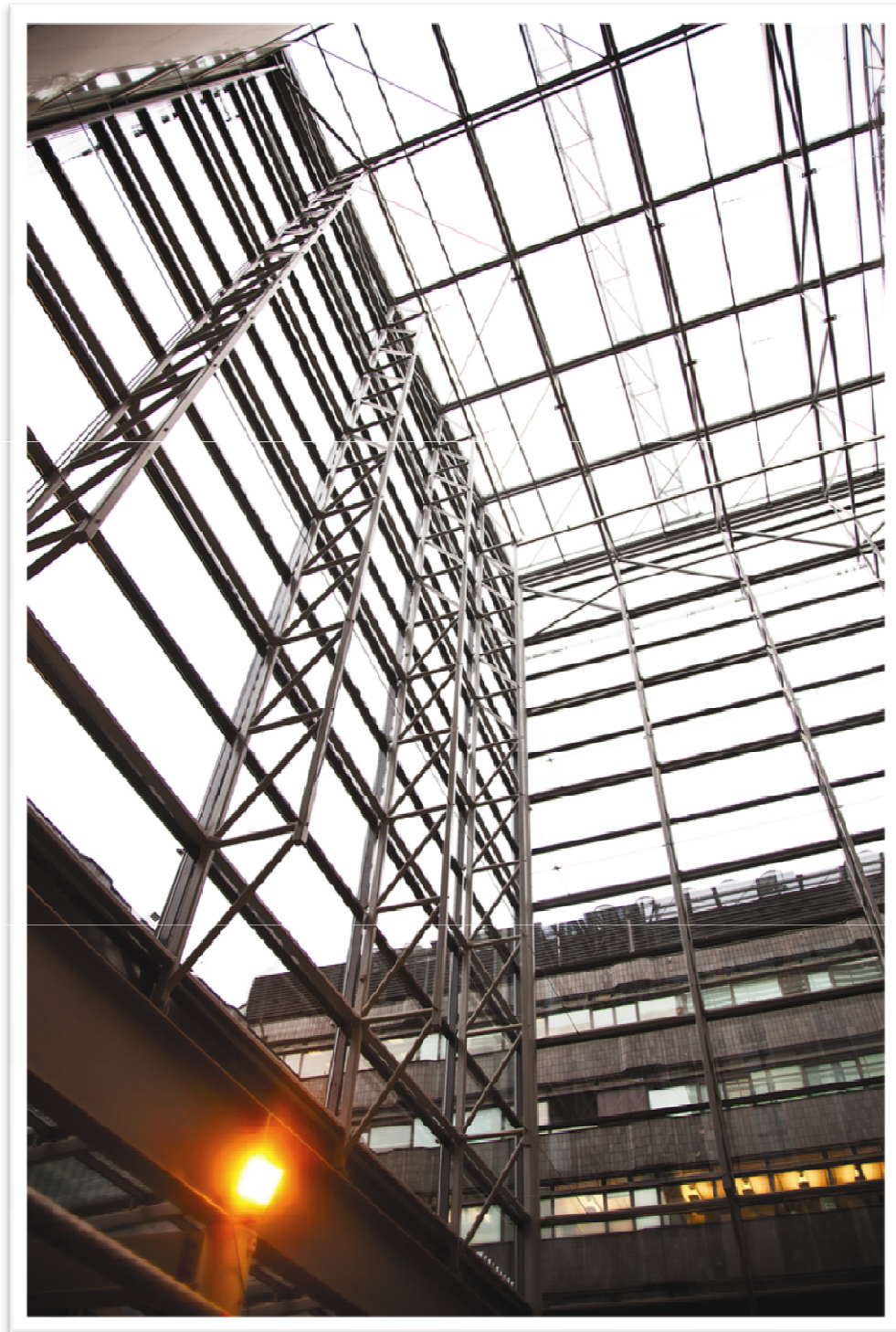
# Hakkila, Vantaa

- New production plant for 22 000 m<sup>2</sup> is being built. Building is 100 % pre-let.
- In addition, Sponda will lease 12 000 m<sup>2</sup> of office and warehouse space in the adjacent office building.
- Construction started, completion estimated end 2010-beginning 2011.
- Total investment EUR 40 million.



# City-Center, Helsinki CBD

- New office building and retail space being built.
- In addition, new atrium (in the picture) constructed in the middle of the building in order to let light in through the whole of City-Center.



# 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.

# Environmental responsibility – focus on City-Center in Q3

- During Q3, the office building in City-Center reached roof height. Particular attention has been paid to energy efficiency and environmentally benign solutions in the office building. The lighting of the office premises is with energy-efficient LED lights. The use of LED technology on such a large scale in office buildings is rare in the Nordic countries

The office building includes heat recovery from the ventilation system, separate regulation of ventilation for each floor and thermally efficient glass structures. District cooling is used for cooling and district heat for heating the building. When finished the office building will join Sponda's energy efficiency scheme, in which Sponda works with its clients to find energy savings.

- Sponda is obtaining LEED certification for the office building.





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# 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.
- Sponda will focus on active portfolio management through divesting non-core properties, acquiring properties that the company considers to be in core locations and core segments.
- 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>

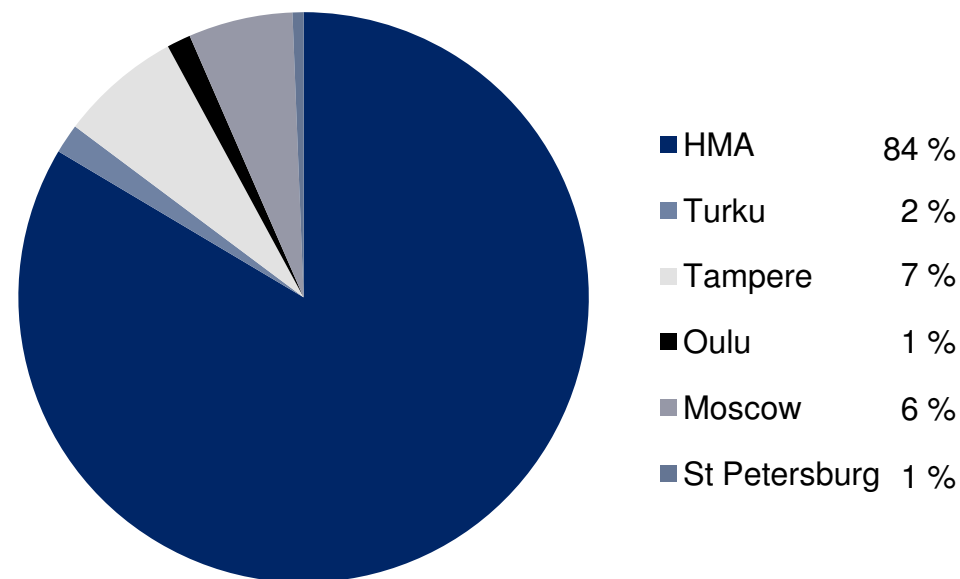
# Property portfolio focused on prime locations in the Helsinki Metropolitan Area

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

## Helsinki CBD and Ruoholahti areas



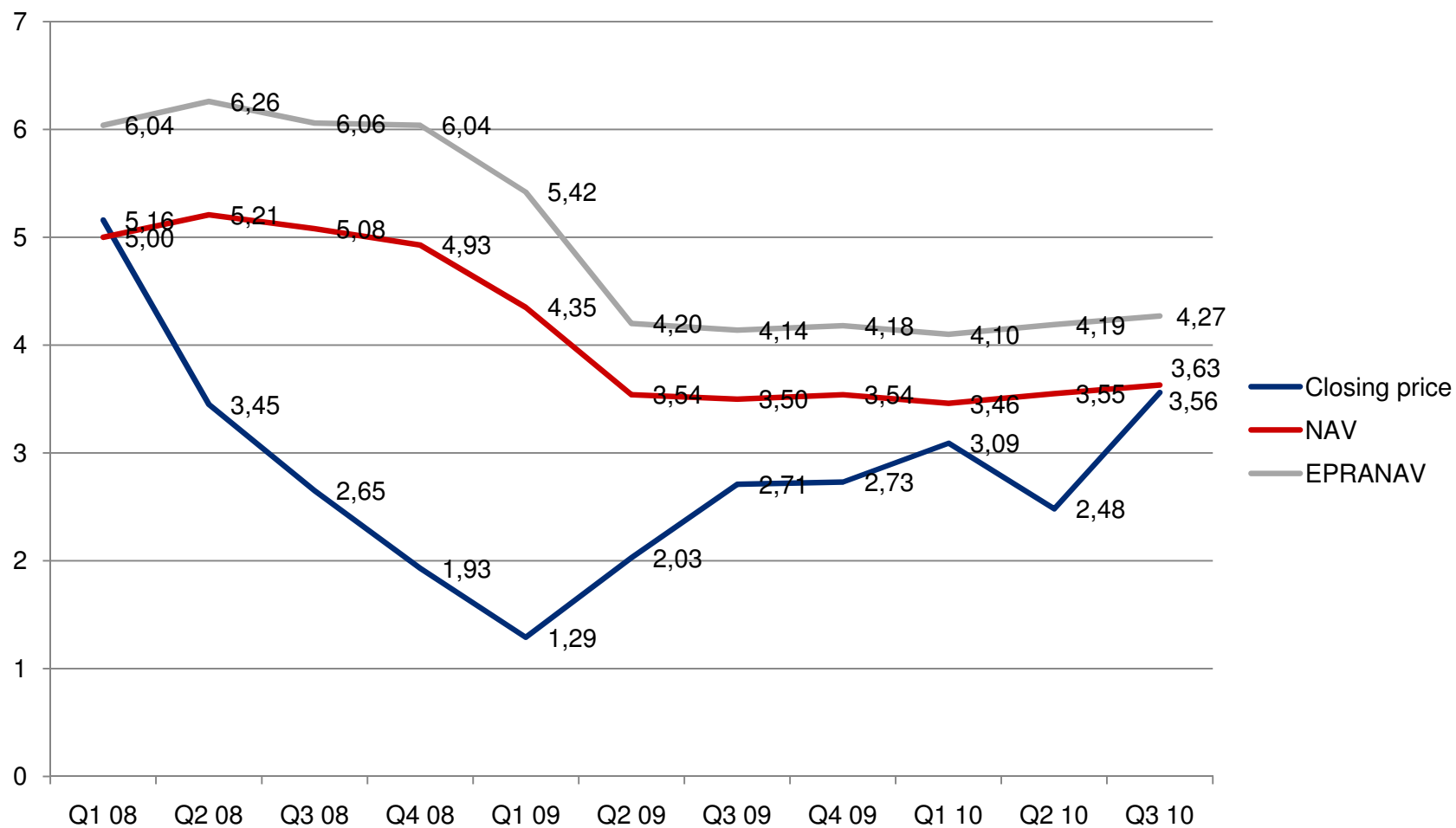
## Investment properties by location (excl. Property development & Funds)



EUR 2,798.0 million



# NAV/share and EPRA NAV/share



# EPRA NAV calculation

	M€
Equity attributable to equity holders of parent company	1 136.9
Other equity reserve	-129.0
Goodwill relating to deferred tax liability on properties	-14.5
Fair valuation	166.2
Cumulative depreciation difference	23.2
Capitalized borrowing cost	3.5
<b>Total</b>	<b>1 163.0</b>
No of shares at the end of period	277 575 462
EPRA NAV	4.27