

# *Financial Results Q3 2012*

## *2 November 2012*

***Conference call 11.00 am EET***

***Dial-in number:***

***+44 (0)20 3364 5381***

***Webcast available on our website:***

***Investors > performance > results and presentations***

**SPONDA**

# Agenda

1. Performance highlights and our priorities – Kari Inkinen
2. Market Update – Kari Inkinen
3. Financials – Erik Hjelt
4. Business Update – Kari Inkinen



# Sponda Q3 2012: Performance highlights

	7-9/12	Change %	7-9/11	1-9/12	Change %	1-9/11	1-12/11
Total revenue, M€	<b>66.0</b>	4.6	63.1	<b>198.2</b>	8.1	183.3	<b>248.2</b>
Net Operating Income, M€	<b>50.2</b>	6.1	47.3	<b>144.8</b>	9.9	131.8	<b>179.4</b>
Operating profit, M€	<b>48.0</b>	1.9	47.1	<b>140.9</b>	(8.9)	154.6	<b>209.6</b>
Cash flow from operations/share, €	<b>0.10</b>	11.1	0.09	<b>0.28</b>	3.7	0.27	<b>0.37</b>
Earnings/share, €	<b>0.08</b>	33.3	0.06	<b>0.24</b>	(4.0)	0.25	<b>0.39</b>
NAV/share, €				<b>4.12</b>	4.8	3.93	<b>4.06</b>
EPRA NAV/share, €				<b>4.88</b>	4.2	4.68	<b>4.84</b>
Economic occupancy rate, %				<b>88.0</b>	(0.2)	88.2	<b>88.2</b>

# Key issues in Q3 2012

- Estimated GDP growth in Finland is still slightly positive.
- Our portfolio performance is stable.
  - Cash flow per share was up by 11 % y-on-y.
  - NAV per share was up by 4.8 % y-on y.
  - Occupancy was down from 88.9 % in Q2 to 88.0 % in Q3. This was mostly due to Russia, Finnish portfolio is stable.
  - Like-for-like rental development positive in Finnish offices and in Russia. Logistics slightly negative (-0.1 %) and Shopping Centres negative (-8.8 %) due to investment costs reduction in one large lease agreement in Q1 2012.
- Properties were sold for EUR 38 million during the quarter.
- Guidance for 2012 remained unchanged apart from specifying NOI growth.
- Change in ownership announced in October.
  - Solidium sold all of its shares in Sponda (14.89 %) to Oy PALSK Ab.
  - The owners of Oy PALSK Ab are Föreningen Konstsamfundet, Sigrid Juséliuksen Säätiö, Stiftelsen för Åbo Akademi, Veritas Pension Insurance Company Ltd and Svenska litteratursällskapet i Finland.

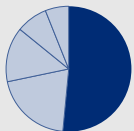
# Segment performance



## Office & Retail

Occupancy rate rose slightly from Q2 from 89.2 % to 89.3 %.

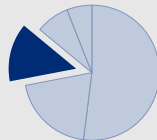
Like-for-like rents were up by 5.6 %.



## Logistics

Occupancy rate decreased from 78.0 % to 76.7 % due to sale of assets.

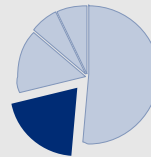
Like-for-like rents were slightly down, -0.1 %.



## Shopping Centres

Occupancy rate decreased from 93.8 % to 93.1 %. Decrease is due to office space vacating above one shopping centre.

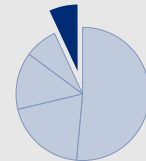
Like-for-like rents were -8.8 %. Decrease was due to one lease agreement where comparable rents in 2011 included investment charges.



## Russia

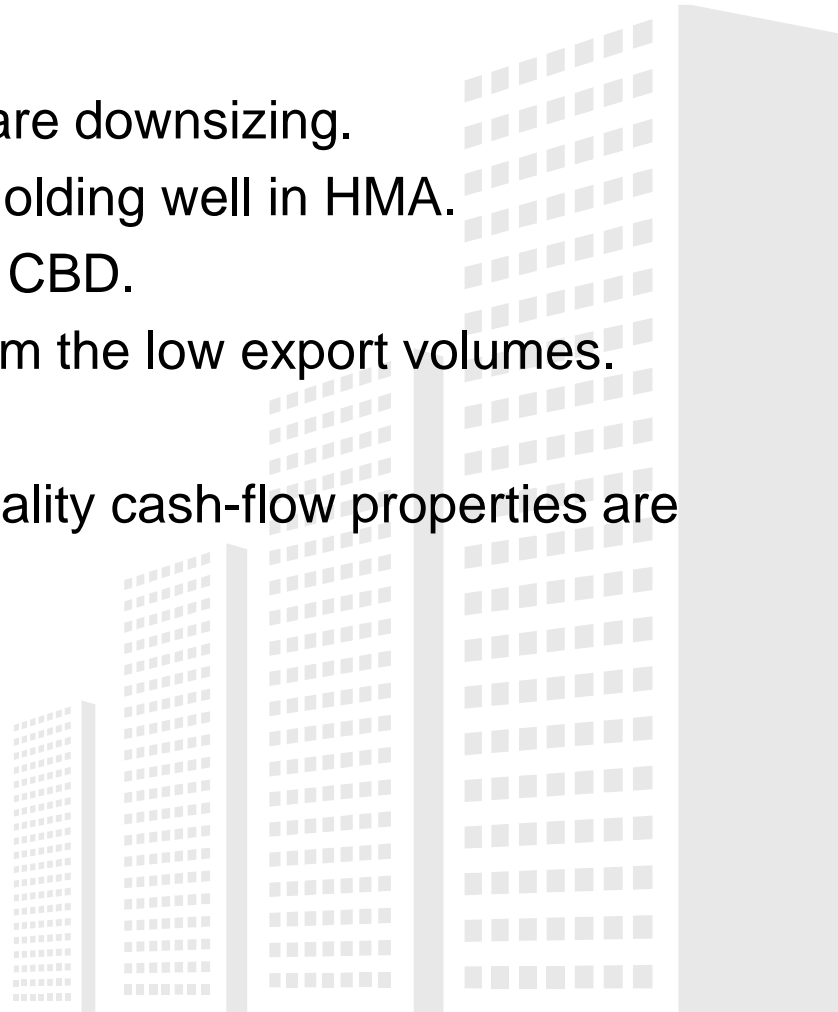
Occupancy decreased from 99.0 % to 93.5 %. Vacancy comes from Ducat II building but some new leases have already been signed.

Like-for-like rents were up by 7.8 %.



# Trends seen in Q3

- Lot of activity, but companies are downsizing.
- Rents in the office sector are holding well in HMA.
- Leasing is solid in the Helsinki CBD.
- Logistics sector is suffering from the low export volumes.
- Retail is performing solidly.
- Transaction prices for good quality cash-flow properties are high.



# Our strengths and possibilities

- Prime locations are performing well.
  - Occupancy rates hold well, especially in Helsinki CBD.
  - Values are holding well.
  - Rents are stable.
- We concentrate on the quality of the cash flow.
  - Our Finnish portfolio is mostly located in CBD Helsinki and Ruoholahti areas (67 %).
- Our equity ratio improved to 38% and LTV to 54%.
- We believe in non-speculative development.
- Russia has strong NIY of 9.5% in Q3 2012.
  - We see the vacancy increase in Q3 as temporary as it comes from Ducat II building. Some of it has already been covered.



# Our priorities in 2012

We will guard our vacancy

Occupancy in Finland stable, Russia temporarily down

We will further develop our portfolio

More than EUR 50 mn of properties sold during 2012, more to come before the end of the year

We aim to retain the rental levels

L-f-I rents either growing or stable

We will guard our balance sheet

No re-fi requirements

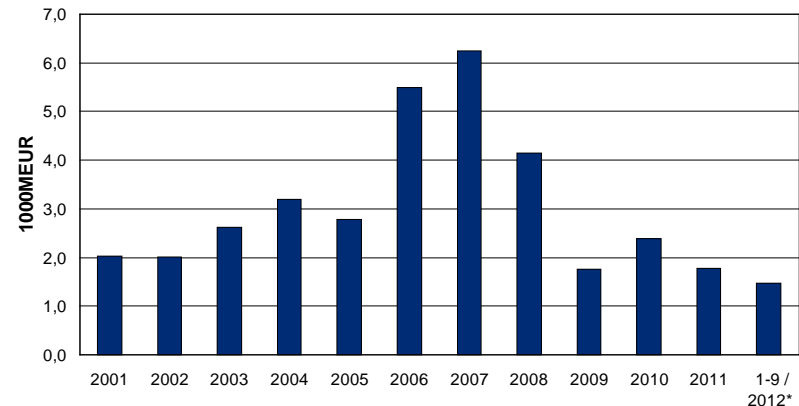
Emphasis on de-levering



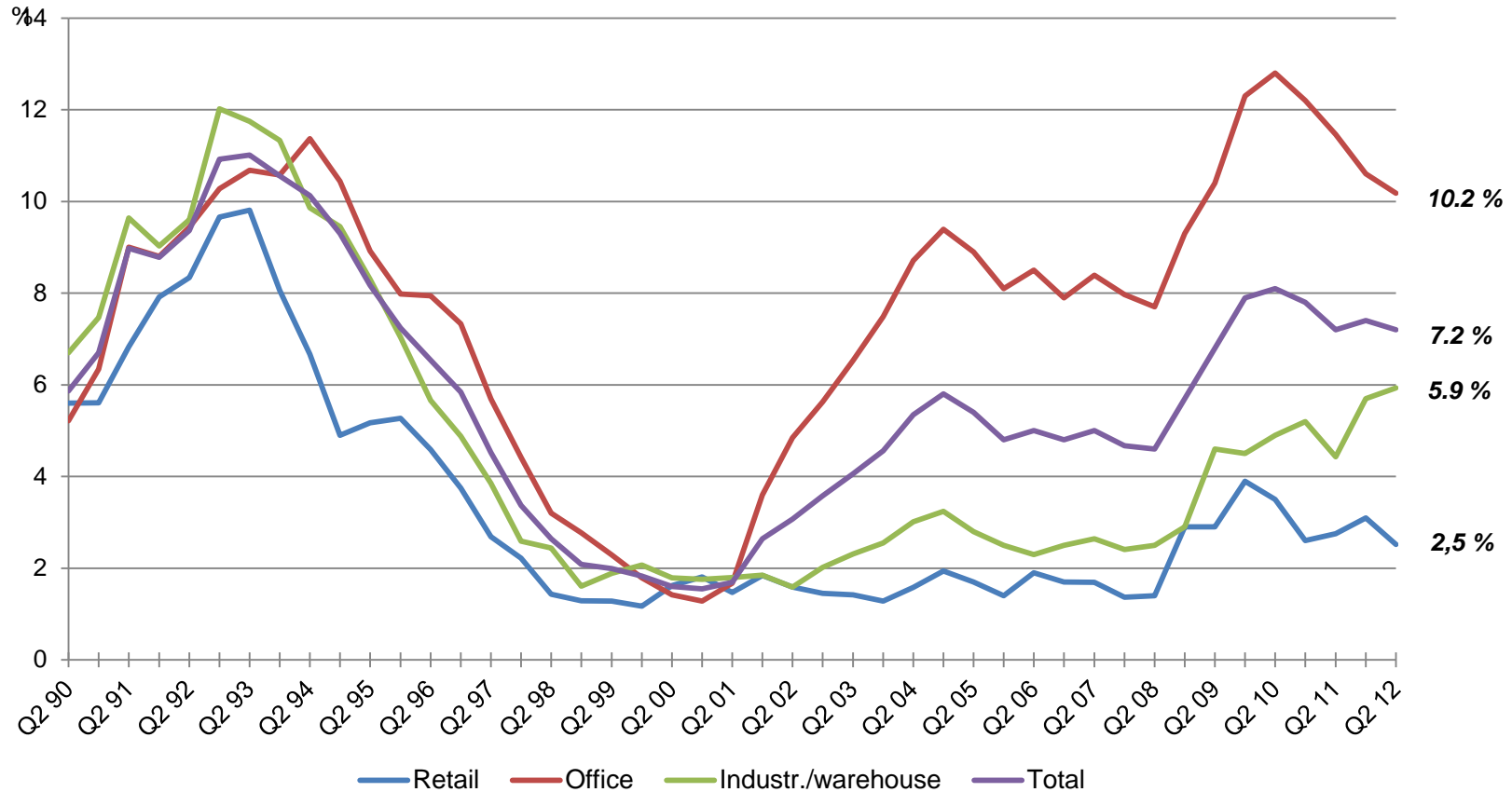
# The Finnish property market

- At the end of September 2012, the transaction level was at EUR 1.5 bn.
- Office market vacancy has been declining in Helsinki CBD and there seem to continue to be shortage of office space in CBD.
- In 2012-2013, approx. 200 000 m<sup>2</sup> of new office space will be completed in the HMA.

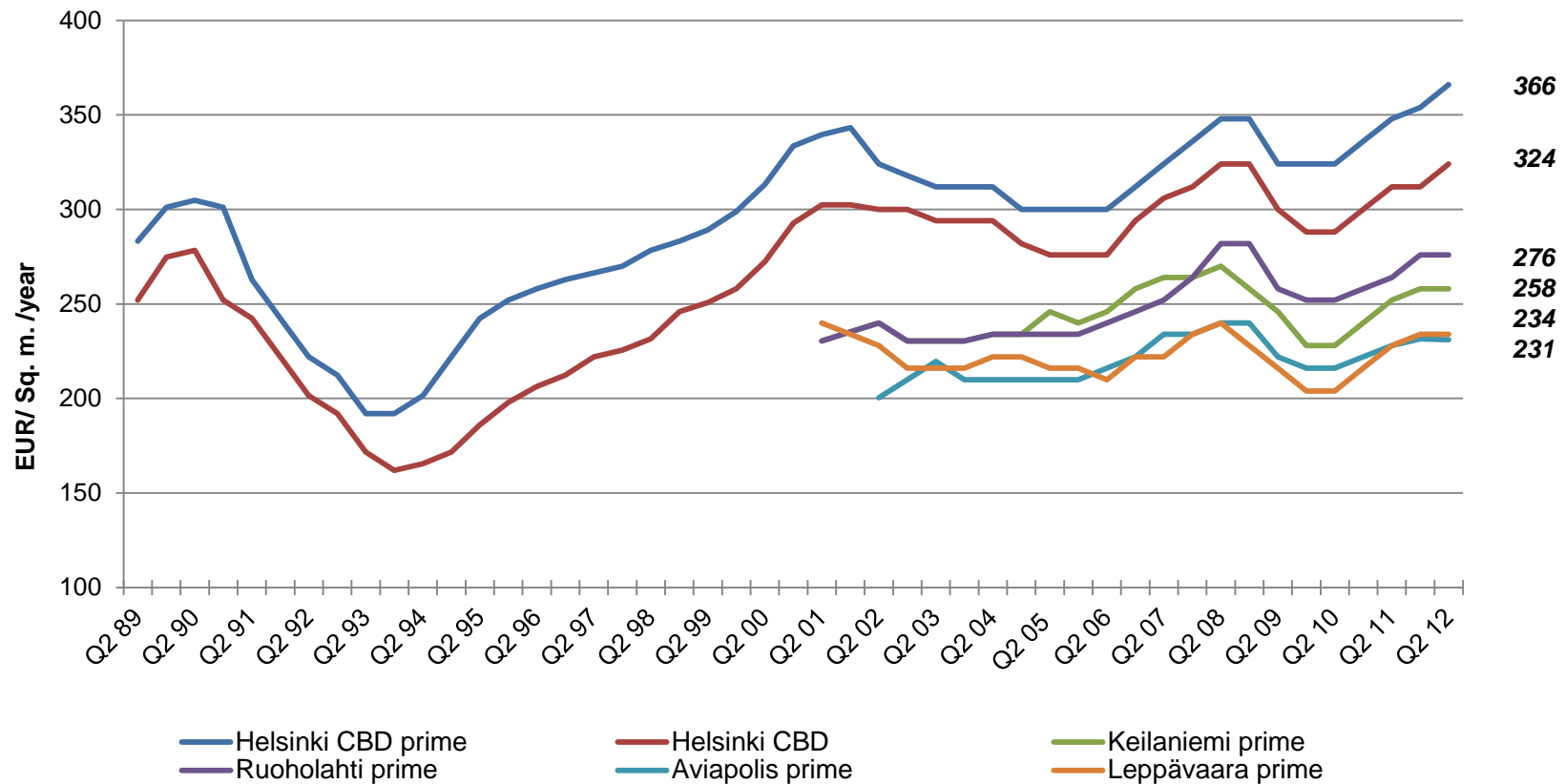
Property transaction volume



# Vacancy rate in HMA



# Rental levels of office premises



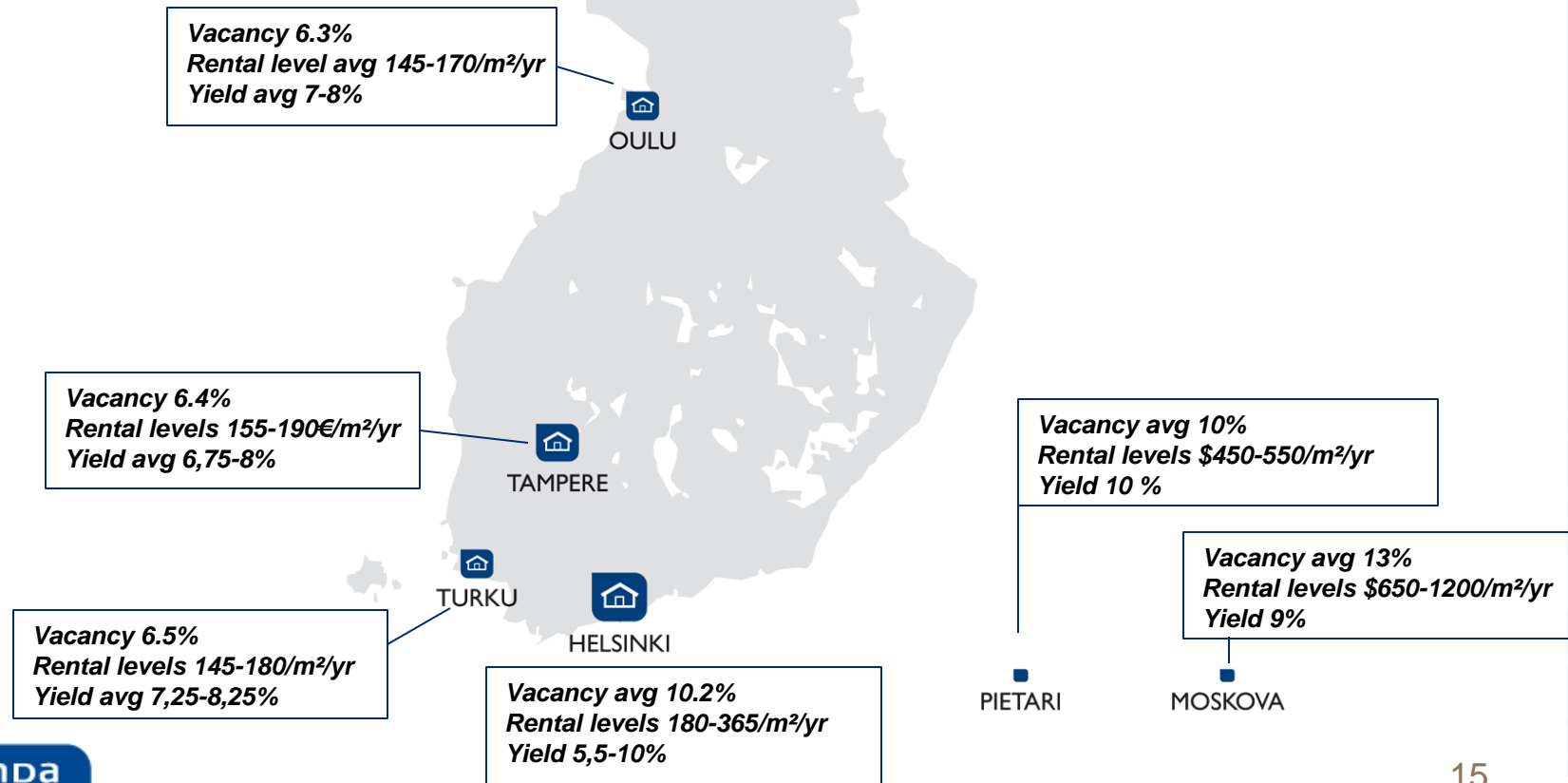
# The Russian property market

- GDP growth for 2012 is expected to be around 3.7 %.
  - Outlook for 2013 GDP growth is also 3.7 %.
- Yields for Class-A office properties in Moscow are around 9 %.
- In Moscow office market prime rents have been USD 1200/m<sup>2</sup>/year due to the lack of grade A office space in the central Moscow.
  - New office stock coming to the market by the end of 2013, approximately 1-1,6 million m<sup>2</sup> (A and B classes combined).
- After 2013, most of the new development will be coming outside the 3-ring road.
- In St. Petersburg, both vacancy and rents are stable. There is more office stock, ca. 400 000 m<sup>2</sup>, coming to the market in the next few years.



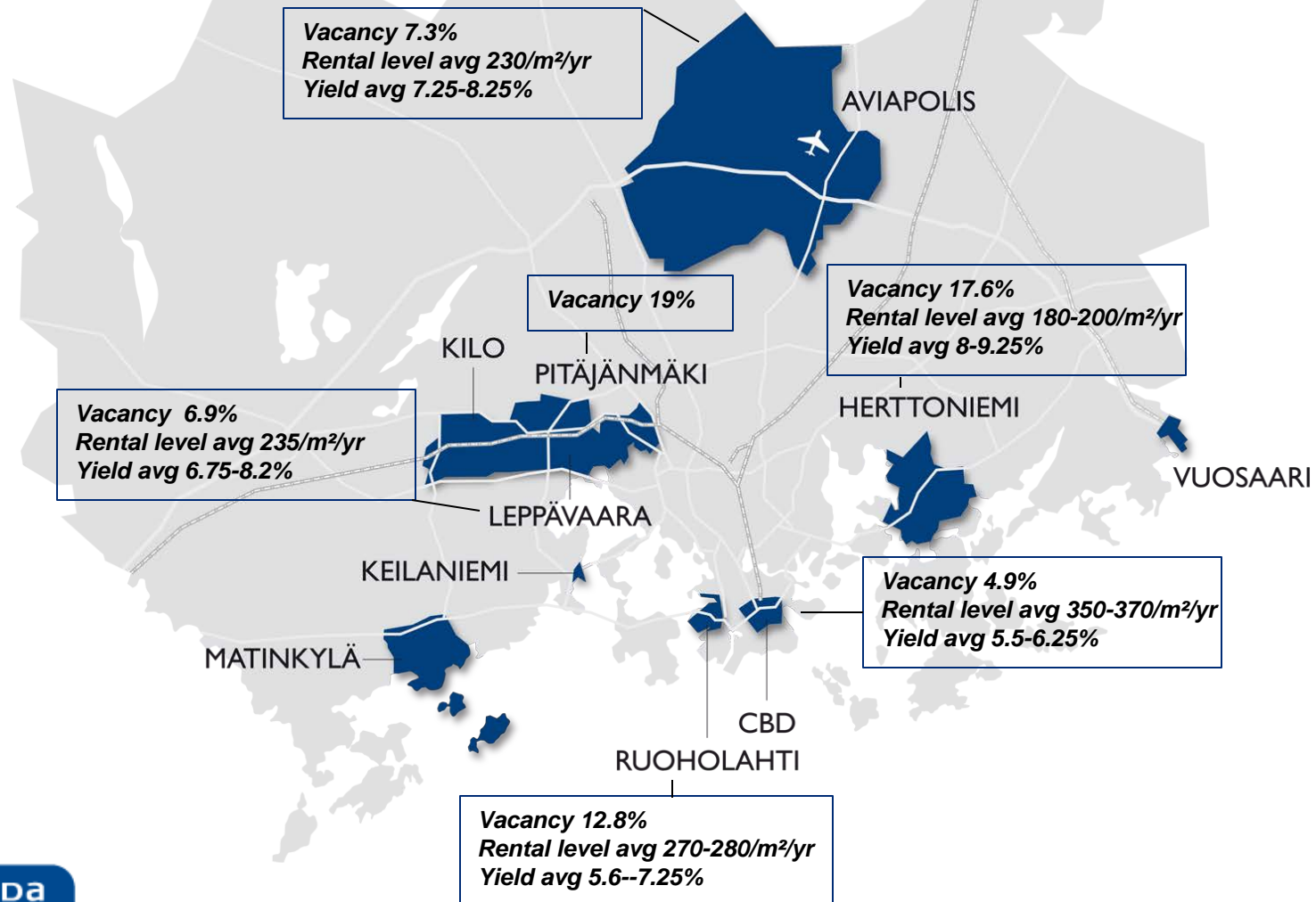
# Office market, Finland and Russia

Source: Catella Property, Sponda,



# Office market, Helsinki Metropolitan Area

Source: Catella Property, Sponda







# Profit & loss statement

Me	7-9/2012	7-9/2011	1-9/2012	1-9/2011	1-12/2011
Total revenue	66.0	63.1	198.2	183.3	248.2
Expenses	(15.8)	(15.8)	(53.5)	(51.5)	(68.8)
<b>Net operating income</b>	<b>50.2</b>	<b>47.3</b>	<b>144.8</b>	<b>131.8</b>	<b>179.4</b>
Profit on sale of inv. properties	0.4	0.0	1.7	0.1	7.2
Valuation gain / loss	2.9	4.6	11.7	32.9	39.6
Profit on sale of trading properties	(0.3)	0.1	(0.7)	0.1	0.7
Valuation gain/loss from trading properties	0.0	0.0	0.0	(1.8)	(1.8)
SGA expenses	(5.1)	(4.8)	(16.7)	(16.5)	(23.1)
Share of result of associated companies	0.0	0.0	0.0	(0.1)	(0.1)
Other operating income/expenses	(0.1)	(0.1)	0.2	8.0	7.6
<b>Operating profit</b>	<b>48.0</b>	<b>47.1</b>	<b>140.9</b>	<b>154.6</b>	<b>209.6</b>
Financial income and expenses	(14.6)	(22.9)	(44.4)	(55.2)	(75.6)
<b>Profit before taxes</b>	<b>33.4</b>	<b>24.3</b>	<b>96.5</b>	<b>99.3</b>	<b>134.0</b>
Taxes from previous and current fin. years	(1.3)	(0.5)	(2.7)	(2.1)	(3.1)
Deferred taxes	(6.6)	(5.2)	(20.6)	(20.1)	(25.1)
Change of tax base of deferred taxes	0.0	0.0	0.0	0.0	12.0
<b>Profit for the period</b>	<b>25.5</b>	<b>18.6</b>	<b>73.1</b>	<b>77.1</b>	<b>117.8</b>

# Valuation gains/losses

M€	7-9/2012	7-9/2011	1-9/2012	1-9/2011	1-12/2011
Changes in yield requirements (Finland)	0.0	0.0	(1.7)	13.6	16.2
Changes in yield requirements (Russia)	0.0	0.0	0.0	17.5	17.5
Profit/loss from property development projects	0.4	2.5	0.1	8.1	8.2
Modernization investments	(5.2)	(12.7)	(17.0)	(37.3)	(50.6)
Change in market rents and maintenance costs (Finland)	6.1	12.8	20.8	32.2	44.7
Change in market rents and maintenance costs (Russia)	0.4	(0.1)	1.4	0.9	2.7
Change in exchange rates	(0.3)	0.8	2.4	(3.8)	0.4
<b>Investment properties, total</b>	<b>1.4</b>	<b>3.3</b>	<b>6.0</b>	<b>31.3</b>	<b>39.0</b>
Real estate funds	0.0	(0.4)	0.6	(2.9)	(4.4)
Realised gains/losses in re funds	1.5	1.6	5.0	4.5	5.0
<b>Group, total</b>	<b>2.9</b>	<b>4.6</b>	<b>11.7</b>	<b>32.9</b>	<b>39.6</b>

# Balance sheet

M€	30.9.2012	30.9.2011	31.12.2011
<b>ASSETS</b>			
Non-current assets	<b>3,379.0</b>	3,259.8	3,311.1
Current assets	<b>53.3</b>	58.2	76.1
<b>Assets, total</b>	<b>3,432.3</b>	3,318.0	3,387.3
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity total	<b>1,296.7</b>	1,243.0	1,281.1
Non-current liabilities			
Interest-bearing debt	<b>1,465.7</b>	1,135.0	1,380.8
Other liabilities	<b>45.3</b>	44.0	39.7
Deferred tax liabilities	<b>232.5</b>	228.3	235.7
Non-current liabilities, total	<b>1,743.5</b>	1,407.2	1,656.2
Current liabilities, total	<b>392.1</b>	667.8	449.9
<b>Liabilities, total</b>	<b>2,135.6</b>	2,075.0	2,106.2
<b>Shareholders' equity and liabilities</b>	<b>3,432.3</b>	3,318.0	3,387.3

# Financing

	Q3/2012	Q2/2012	Q1/2012	Q4/2011	Q3/2011
Equity ratio, %	<b>38</b>	37	37	38	38
Average interest rate, %	<b>3.5</b>	3.6	3.7	4.0	4.0
Hedging, %	<b>76</b>	74	75	77	80
Average loan maturity, yrs	<b>2.8</b>	2.8	2.8	3.1	2.7
Average fixed interest rate period, yrs	<b>2.0</b>	2.0	1.9	2.2	2.2
Interest cover ratio	<b>2.7x</b>	2.6 x	2.6 x	2.7x	2.8x
Loan to Value, %	<b>54</b>	56	55	54	54

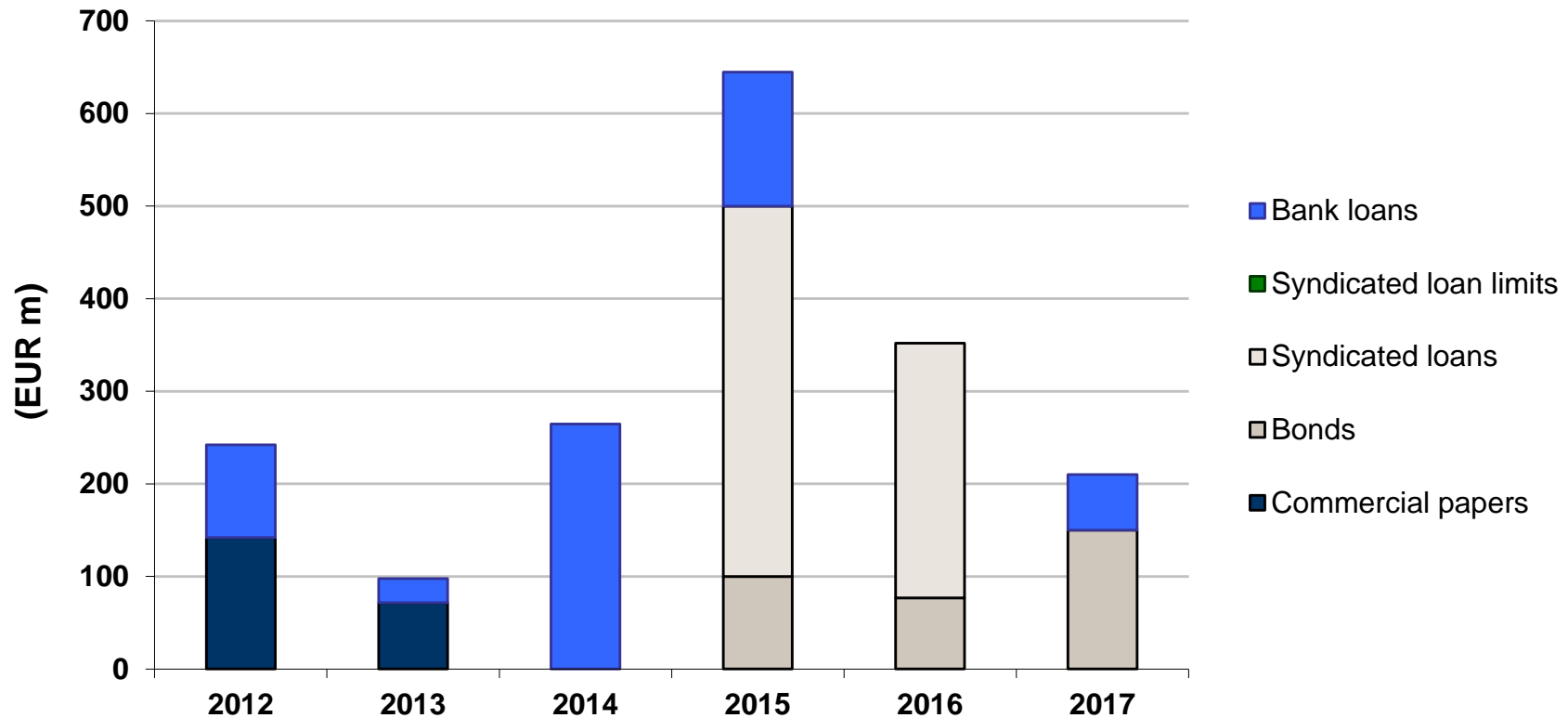
- *Long-term equity ratio target 40 %*
- *Covenants at equity ratio (28 %) and ICR (1.75 x)*

# Loan extension signed in July 2012

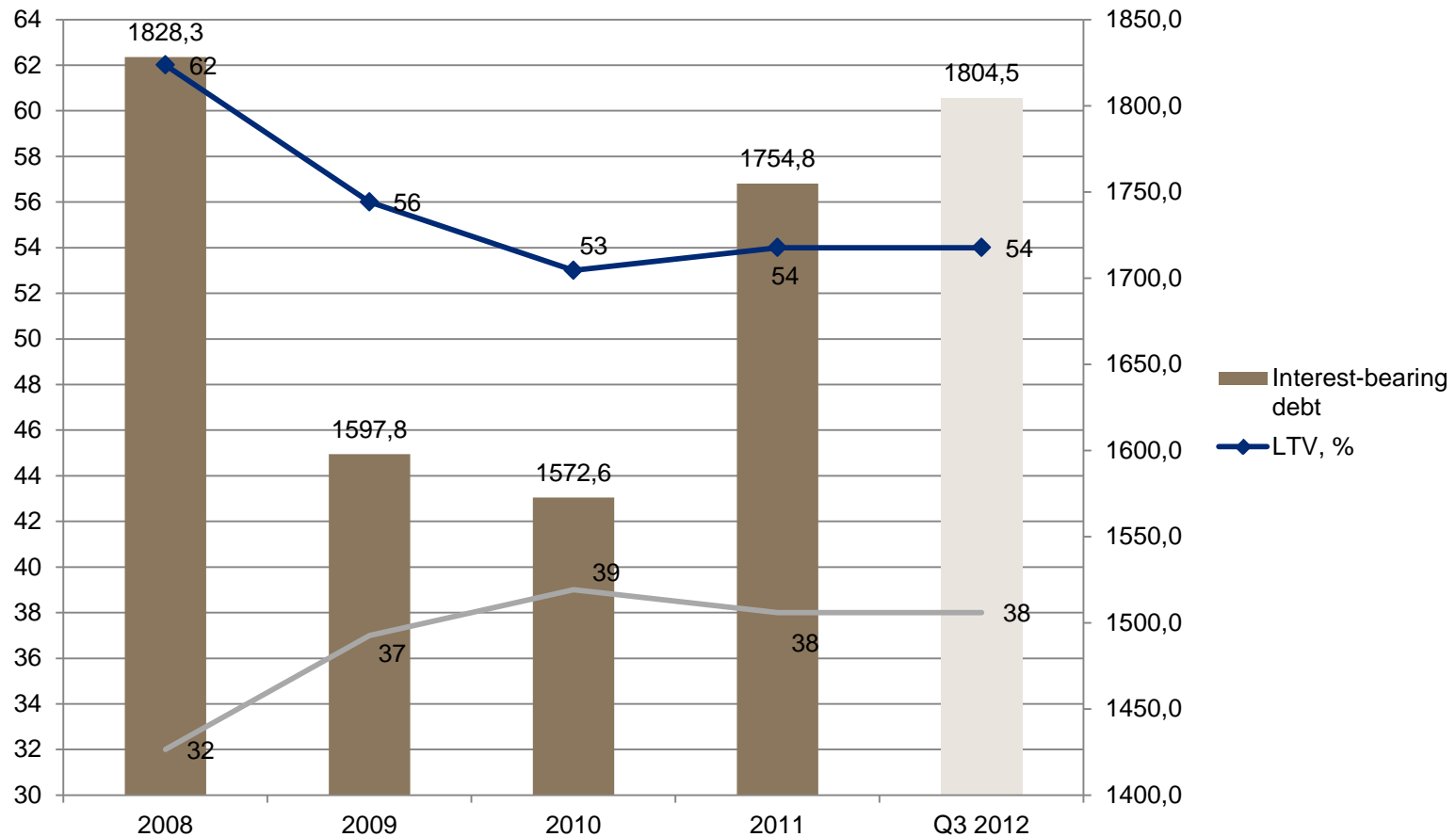
- Bilateral loan of EUR 60 million with Danske Bank A/S, Helsinki Branch.
- Duration 5 years.
- The arrangement extends the loan for Elo shopping centre.
- The margin on the loan corresponds with current market levels and the terms and conditions of the loan remain unchanged.

# Loan maturities 30 September 2012

- Interest-bearing debt EUR 1,804.5 million
- Unused financing limits EUR 510 million
- EUR 60 million loan extended for 5 years



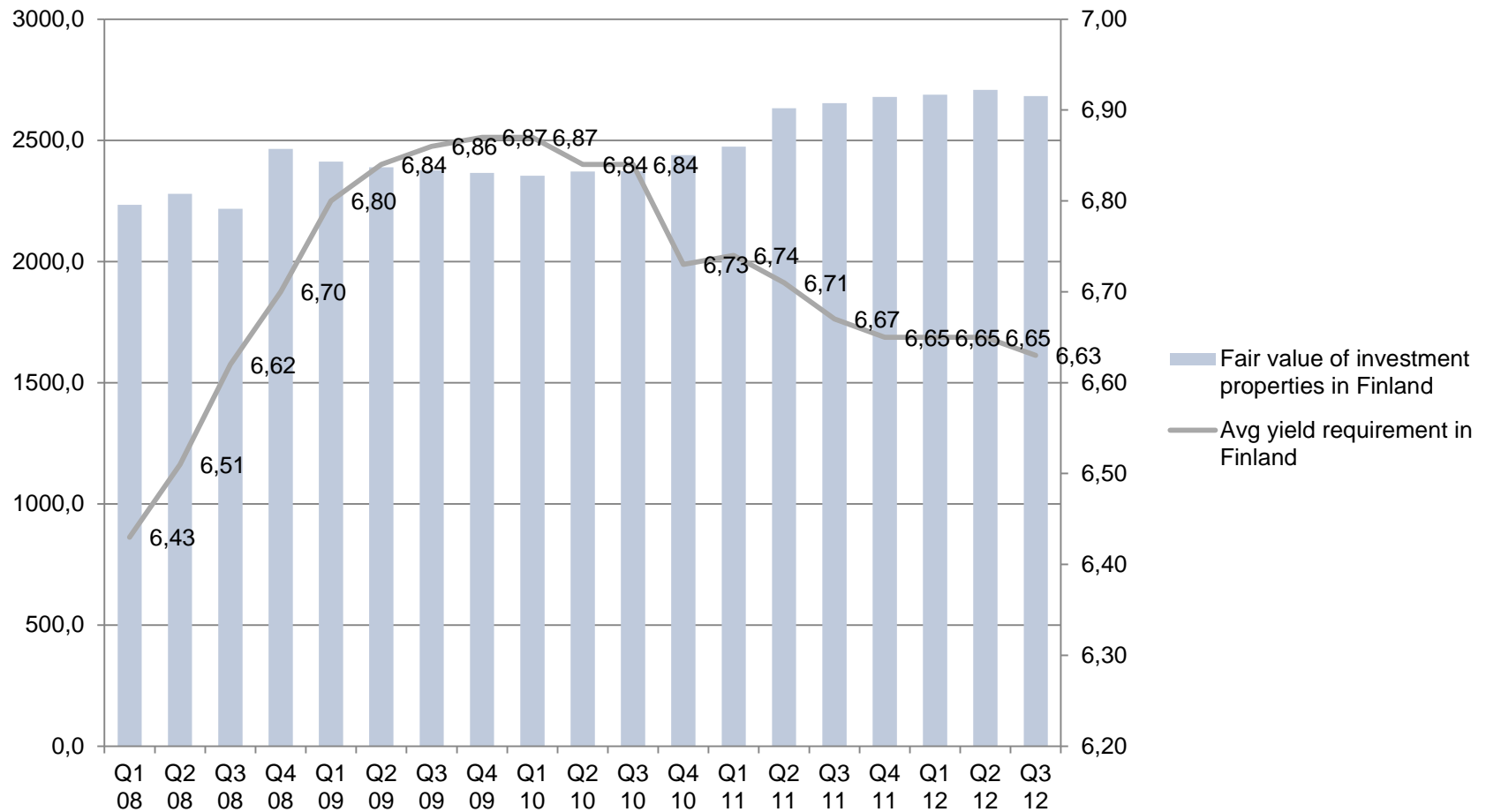
# Development of financing position





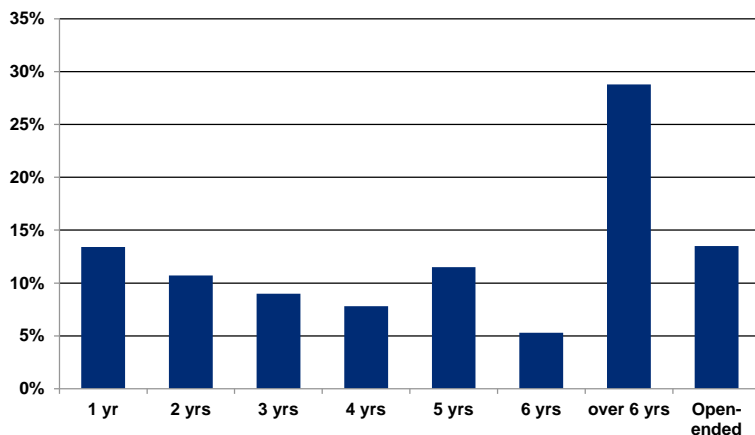


# Valuation yield development

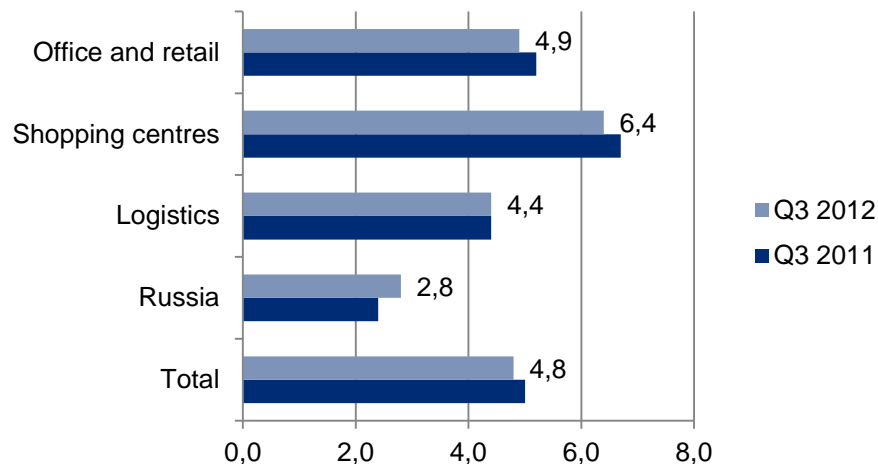


# Lease agreement composition Q3 2012

## Lease maturity profile



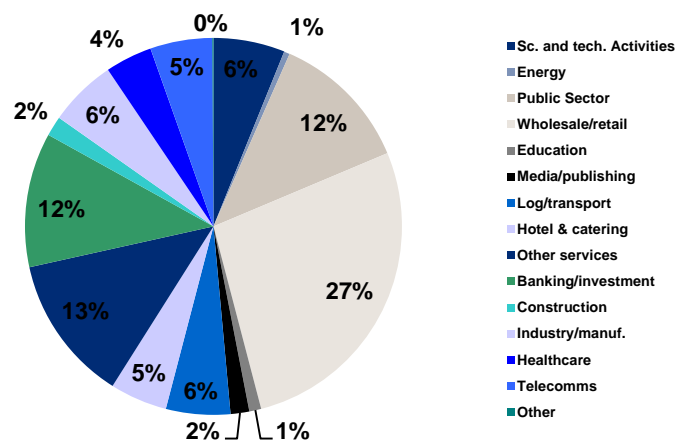
## Average lease maturity



## Like-for-like net rental growth



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



Note 1: Based on rental income

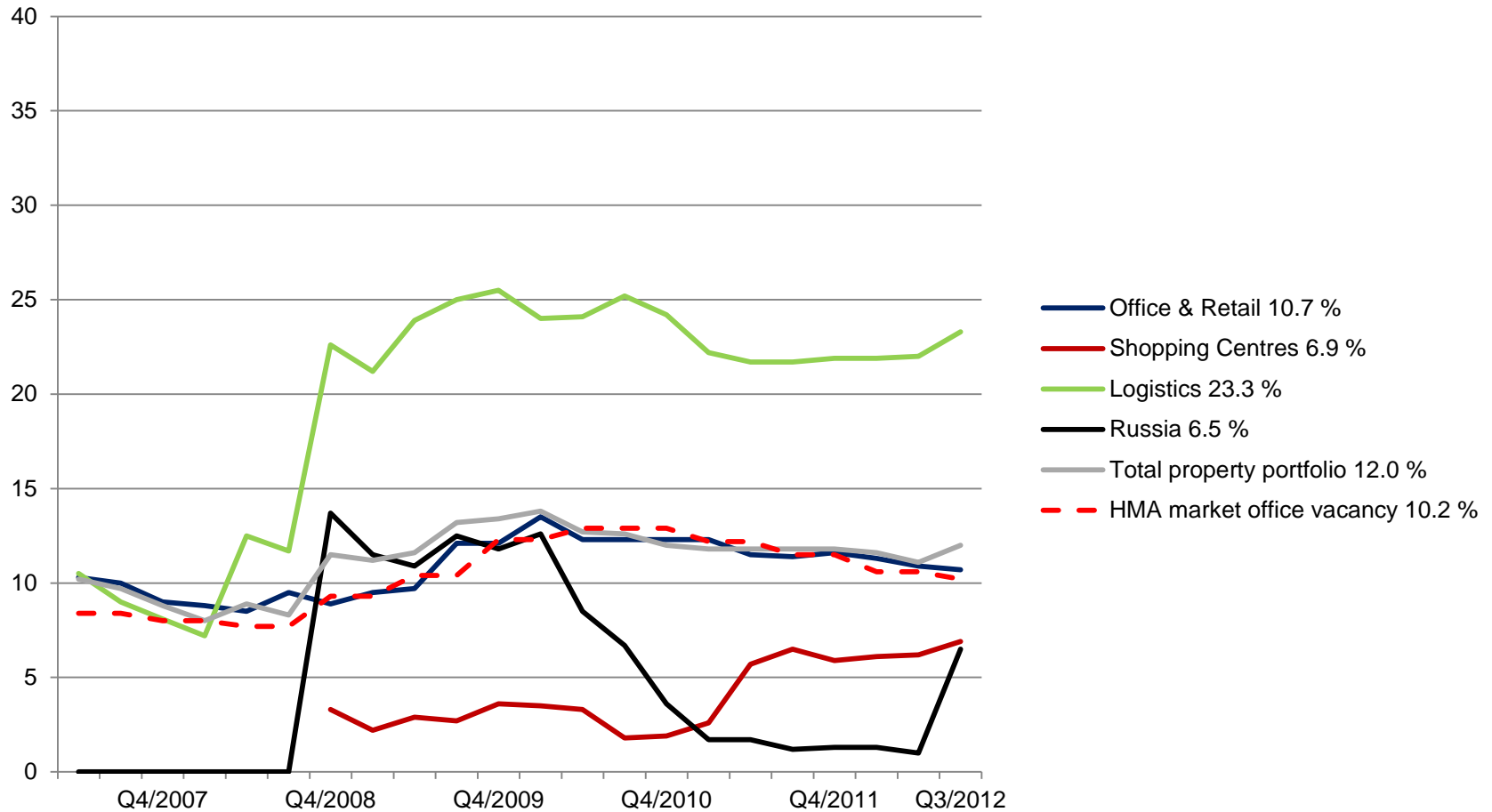
# Lease agreements in Q3 2012

	Pcs	M <sup>2</sup>	€/m <sup>2</sup> /month (avg)*
Agreements that came into force during the period	70	13 947	14.55
Agreements that ended during the period	76	15 001	13.58
Agreements that were extended during the period	35	20 796	13.77

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

- All lease agreements in Finland are linked to CPI.
- Ten largest tenants account for 30 % of rental income.
- Like-for-like net rental growth has been calculated from a portfolio that Sponda has held for 2 years excluding acquisitions, disposals and property development.

# Economic vacancy rate 2007 – Q3 2012



# Investment portfolio development

- We are creating value by property development and active portfolio management.
- Our aim is to sell non-core assets classified as such either by location or development potential.

M€	2010	2011	Q3/2012	2013
Committed property development investments for the remainder of the year	30.5	58.5	11.5	14.9
Maintenance investments Q3 2012	29.9	50.5	17.0	
Acquisitions	0.8	150.4	53.0	
Disposals	57.0	14.1	52.9	

# Property development

- The value of development portfolio was EUR 265.6 million
  - Land sites: EUR 91.5 million
  - Development projects: EUR 174.1 million
  - Development investments include mainly investments to Citycenter project and the construction of the office building in Ruoholahti.

	Citycenter	Ruoholahti office building
Total investment, M€	134.0*)	23.5
Of which yet to be invested	17.0	9.4
Capitalized interest costs by 30 September 2012, M€	13.3	0.1
Completion time	End of 2012	April 2013



# Currently ongoing development projects

## ***Citycenter***

- Last construction phase along Keskuskatu is progressing as planned. The whole project will be completed for the most part by the end of 2012.

## ***Ruoholahti office building***

- Sponda is building a new environmentally-friendly office building in Ruoholahti.
- Total investment is EUR 23.5 million, leasable area is 6,000 m<sup>2</sup>.
- Construction is ongoing. Building will be completed in April 2013.
- Building is 70 % pre-let.





# Prospects and financial targets

## Prospects

- Sponda expects the vacancy rates of its investment properties at year's end 2012 to be largely unchanged from the end of 2011. The estimate is based on the changes in rental agreements and leases already signed.
- The net operating income of 2012 is expected to increase by 6-8% compared to 2011. This is based on increases in rent levels and the growth of the company's property assets.

## 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.



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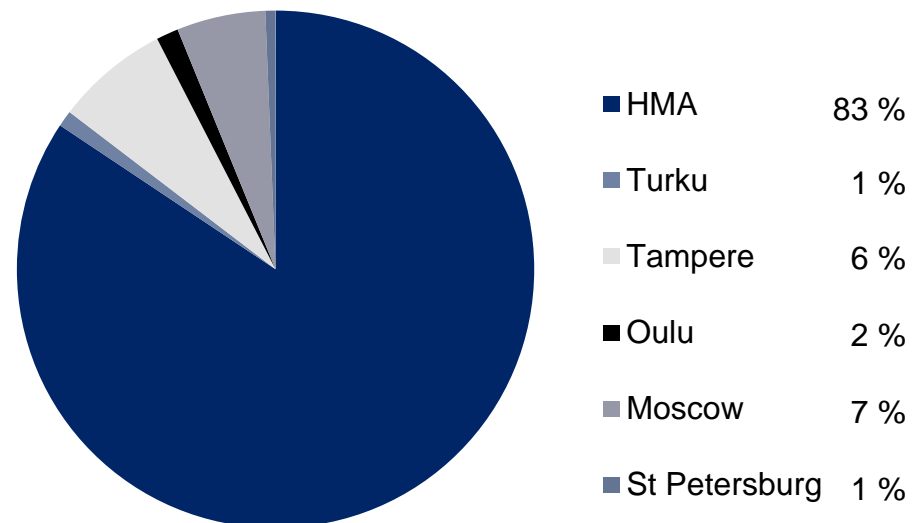
# Property portfolio focused on prime locations in the Helsinki Metropolitan Area

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

## Helsinki CBD and Ruoholahti areas

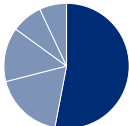
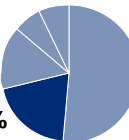
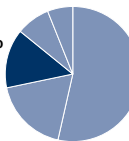
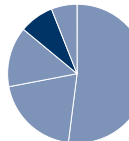
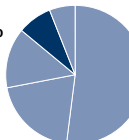


## Investment properties by location (excl. Property development & Funds)



EUR 2,948.3 million

# 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 1,684.2m	 52%	6.4%
Shopping Centres	<ul style="list-style-type: none"> <li>Specialises in leasing shopping centres in the largest cities in Finland</li> </ul>	EUR 584.5m	 18%	6.0%
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 413.6m	 13%	8.0%
Property Development	<ul style="list-style-type: none"> <li>Sponda's development projects and land assets</li> <li>Currently active projects are the Citycenter project and office building in Ruoholahti.</li> </ul>	EUR 265.6m	 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 266.1m	 8%	9.8%
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 580m (assets under management)	n/m	n/m

# 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 2005-2011

2005	2006	2007	2008	2009	2010	2011
<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 inv. target.</li> <li>• Strategy adjusted : modest growth financed by property disposals.</li> </ul>	<ul style="list-style-type: none"> <li>• Sponda sold its properties for EUR 57 million in total.</li> <li>• In total, EUR 800 million was refinanced during the year.</li> </ul>	<ul style="list-style-type: none"> <li>• Sponda bought Fennia Quarter for EUR 122 million.</li> <li>• Re-financing was completed until 2014.</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>• Property development was accelerated after a couple of slower years.</li> </ul>	<ul style="list-style-type: none"> <li>• Building of new headquarters for publishing house Talentum started.</li> <li>• 2nd phase of Citycenter completed.</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>	<ul style="list-style-type: none"> <li>• Activities in environmental responsibility increased.</li> </ul>	<ul style="list-style-type: none"> <li>• Russia Invest – company co-founded with four other parties.</li> </ul>

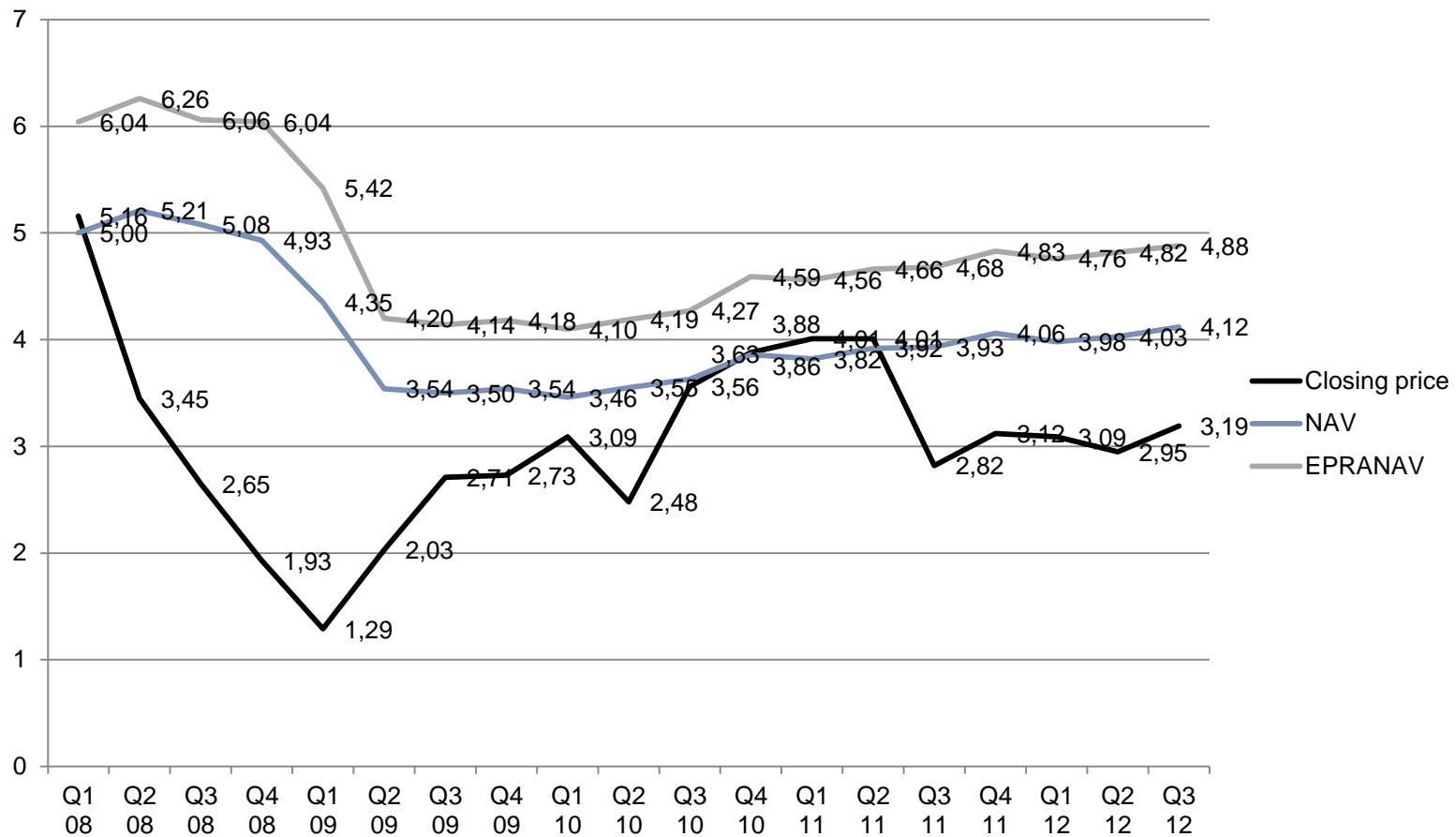


# Environmental responsibility in 2012

## Targets for 2012

- **Low-energy concept will be taken into use**
- **Energy efficiency program expanded from last year**
- **Energy consumption in Sponda's own office will decrease by 2%**
  
- **Properties' environmental strain**
  - Recycling of waste increased to over 70%
  - Comparable energy consumption in properties will decrease
  - Comparable water consumption will decrease
  
- **Energy consumption in Russia**
  - Energy consumption monitoring (water and electricity) developed further in Moscow
  - Environmental certificate for possible new properties and for properties under modernization process.
  
- **Environmental certificates**
  - Obtained for all new development properties and properties under modernization
  - Certification process for an office property in Russia completed

# NAV/share and EPRA NAV/share





# EPRA NAV calculation

4.88 €/share

