


2019

Sponda Plc

Report by the board of directors and consolidated financial statements

1 January – 31 December 2019

Contents

Report by the Board of Directors

YEAR 2019 IN BRIEF (compared with year 2018)

- Total revenue decreased to EUR 244.5 (259.2) million. The reduction was predominantly due to divestments during the year.
- Net operating income decreased to EUR 169.1 (182.8) million.
- Operating profit was EUR 146.4 (155.1) million. This includes a fair value change of EUR -41.5 (-8.4) million and profit on sales of investment properties of EUR 53.1 (15.9) million. Adoption of had a positive impact of EUR 0.5 million to operating profit.
- Earnings per share were EUR 0.22 (0.10). Earnings per share was increased mainly due to deferred taxes which had EUR 25 million positive impact on the result. The positive impact of deferred taxes was primarily attributable to divestments during the year.
- The fair value of the investment properties amounted to EUR 3,092.3 (3,755.8) million, which includes EUR 30.1 million impact of IFRS 16.

Sponda has adopted the new IFRS 16 Leases -standard effective January 1, 2019. In adopting the standard, Sponda applied the modified retrospective approach along with the exemptions provided by the standard. Hence, the comparison figures were not adjusted. More information on the adoption of IFRS 16 is presented in General accounting principles and in note 9 of the consolidated financial statements.

GROUP KEY FIGURES

	2019	**2018**
Total revenue, M€	244.5	259.2
Net operating income, M€	169.1	182.8
Operating profit, M€	146.4	155.1
Earnings per share, €	0.22	0.10
Equity per share, €	2.89	3.67
Equity ratio, %	26.6	29.8

BUSINESS CONDITIONS

Economic growth in Finland has remained moderate and is expected to continue as such in 2020. According to the Ministry of Finance's forecast (published 30 January, 2020), the Finnish GDP will grow by 1% in 2020. The improvement of the economy also has a positive impact on employment. According to Statistics Finland, the unemployment rate was 6.7% at the end of 2019.

GROUP RESULT IN 1 JANUARY–31 DECEMBER 2019

Sponda Group's result for 2019 was EUR 74.9 (33.8) million, while the result before taxes was EUR 50.8 (47.1) million. Operating profit was EUR 146.4 (155.1) million.

Net operating profit decreased by approximately 7.5% to EUR 169.1 (182.8) million. The decline in net operating income was primarily attributable to sold properties as well as properties vacated due to development projects. Administrative and marketing expenses together with other operating income and other operating expenses amounted to EUR -37.1 (-32.4) million. Administrative and marketing expenses accounted for EUR -36.8 (-29.5) million of this total. The increase in administrative and marketing expenses is primarily due to higher expenses related to personnel and external services.

Christian Hohenthal was appointed as Sponda's new President and Chief Executive Officer on 18 December 2019 and he subsequently took his post in 1 February 2020. Hohenthal succeeds Kai Aejmelaeus who left the company on 20 December 2019. Sponda's Chief Legal Officer Ari Käkelä acted as an interim CEO from 20 December 2019 to 1 February 2020.

During the period under review, the Group recognised profit on sales of investment and trading properties amounting EUR 55.8 (16.4) million. The change in fair value of the investment properties and real estate funds amounted to EUR -41.5 (-8.4) million. Majority of the negative change in fair value was attributable to the Group's property portfolio in Finland. More detailed information is presented in the table *Valuation gains/losses on fair value assessment* in the section Property assets 1 January – 31 December 2019.

Financial income and expenses for the period totalled EUR -95.6 (-107.9) million. The decrease in financial expenses is explained by repayments of interest-bearing loans related to sold properties. Deferred tax liabilities decreased during the period under review, which had a positive effect of approximately EUR 25.0 million on the result. The decrease in deferred tax liabilities was primarily attributable to divestments during the year.

PROPERTY ASSETS 1 JANUARY–31 DECEMBER 2019

At the end of 2019, Sponda had a total of 151 leasable properties, with an aggregate leasable area of approximately 1.1 million m² allocated between Finland (99%) and in Russia. The Portfolio in Finland comprised approximately 56% office, 26% shopping centres and 17% logistics premises.

The fair values of Sponda's investment properties in Finland 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 valuers to ensure that the parameters and values used in the calculations are based on market observations.

At the end of 2019, an external valuer (Catella Property Oy) audited valuations of Sponda's investment properties in Finland. The properties in Russia were valued by an external valuer (CB Richard Ellis). The fair value of Sponda investment properties, excluding properties classified as held for sale, was approximately EUR 3.1 billion at the end of 2019.

Valuation gains/losses on fair value assessment

M€	2019	2018
Changes in yield requirements (Finland)	71.1	31.0
Development gains on property development projects	2.2	24.8
Modernisation investments	-52.7	-42.3
Change in market rents and maintenance costs (Finland)	-61.2	-2.7
Change in value (Russia)	3.4	-14.6
Investment properties, total	**-37.3**	**-3.8**
Real estate funds	1.2	-4.6
Rent free adjustments	-3.5	-
IFRS 16 related fair value losses on investment property	-1.9	-
Group, total	**-41.5**	**-8.4**

Changes in Sponda's investment property assets 1 January–31 December 2019*

M€	Total	Office Properties	Shopping Centres	Property Development	Non-Strategic Holdings
Operating income	242.8	135.5	90.8	0.9	15.7
Maintenance expenses	-75.4	-43.4	-23.6	-1.7	-6.7
Net operating income	167.4	92.0	67.2	-0.8	9.0
Investment properties on 1 January 2019	3,755.8	2,006.0	1,514.4	72.0	163.5
Investment properties held for sale on 1 January 2019	241.3	220.3	21.0	-	-
Investments & write-downs	67.8	39.9	9.9	17.5	0.5
Sales	-549.6	-428.8	-110.6	-8.0	-2.2
Change in fair value	-37.3	-20.2	-23.6	5.0	1.5
Reclassifications to non-current assets held for sale	-412.3	-288.3	-124.0	-	-
Rent free adjustments	-3.5	-2.0	-1.5	-0.1	-0.1
*IFRS 16 related fair value losses on investment property***	-1.9				
*Right-of-use assets classified as investment properties (IFRS 16)***	32.0				
Investment properties on 31 December 2019	3,092.3	1,527.0	1,285.6	86.4	163.2
Change in fair value, %	-1.0	-1.0	-1.6	7.0	0.9

*This table includes only investment properties. Trading and other properties as well as segment specific administrative costs are excluded.

**Not allocated to segments

RENTAL OPERATIONS

At the end of December 2019, Sponda had 1,675 tenants and a total of 2,881 lease agreements.

Most of Sponda's lease agreements in Finland are subject to annual or biannual indexation.

The weighted average of unexpired lease terms was 3.3 (3.7). 3.1 (4.0) years was attributable to office properties and 4.0 (3.5) years to shopping centres.

The lease agreements expiry profile:

% of rental income		
	31.12.2019	**31.12.2018**
Within 1 year	15.9	18.1
Within 2 years	13.8	12.0
Within 3 years	19.2	13.7
Within 4 years	10.7	12.5
Within 5 years	9.4	7.6
Within 6 years	4.5	5.1
After more than 6 years	11.9	18.5
Valid until further notice (VUFN)	14.5	12.5

RESULTS BY SEGMENT

The reporting segments are as follows: Office Properties, Shopping Centres, Property Development, Non-Strategic Holdings and Other. The Non-Strategic Holdings include the logistics properties and properties in Russia. The Other includes expenses not allocated to any of the Group's businesses.

Office Properties

The Office Properties segment covers leasing, purchase and sales of office and office related premises in Finland. Total revenue in 2019 amounted to EUR 136.9 (157.0) million and net operating income was EUR 92.7 (111.1) million. The decrease in revenue and net operating income is predominantly due to divestments during the year.

	2019	**2018**
Total revenue, M€	136.9	157.0
Net operating income, M€	92.7	111.1
Operating profit, M€	78.2	97.8
Fair value of properties, M€	1,527.0	2,006.0
- excludes properties classified as held for sale, M€	288.3	220.4
Change in fair value from beginning of year, M€	-20.2	-15.9
Leasable area, m²	700,000	800,000

Shopping Centres

The Shopping Centres segment covers leasing, acquisition and sale of shopping centres and retail related premises in Finland. Total revenue in 2019 amounted to EUR 90.8 (86.6) million and net operating income was EUR 67.1 (65.8) million.

	2019	**2018**
Total revenue, M€	90.8	86.6
Net operating income, M€	67.1	65.8
Operating profit, M€	61.2	68.5
Fair value of properties, M€	1,285.6	1,514.4
- excludes properties classified as held for sale, M€	124.0	21.0
Change in fair value from beginning of year, M€	-23.6	12.6
Leasable area, m²	245,000	255,500

Property Development

Property Development operations comprise new construction projects and refurbishment of existing properties.

The balance sheet value of Sponda's development properties portfolio stood at EUR 86.4 million at the end of 2019 allocated to undeveloped land sites (EUR 44.3 million) and ongoing development projects (EUR 42.1 million). The value of the non-utilised building rights is reflected within this segment.

During 2019 a total of EUR 19.3 million was invested primarily in the construction of the Ratina office building (EUR 16.6 million).

Non-Strategic Holdings

The Non-Strategic Holdings segment includes direct and indirect investments.

The direct investments comprise logistics properties and properties in Russia.

As at the 31 December 2019 fair value of direct investment properties in the Non-Strategic Holdings segment stood at EUR 163.2 million and consisted of logistics properties EUR 76.5 million and properties in Russia EUR 86.7 million.

Sponda has indirect investment of 14.9% in the Oktha Mall center project. As at 31 December 2019 the fair value of the investment amounted to approximately EUR 18.3 million.

FINANCING AND BALANCE SHEET KEY FIGURES

The Group's Interest-bearing debt decreased from the comparison period due to debt repayments. Interest-bearing debt amounted to EUR 2,514.1 (2,705.9) million at the end of December 2019. The Group's cash funds totalled EUR 104.6 (106.7) million from which unrestricted cash totalled EUR 27.3 million. The Group's net debt was EUR 2,409.5 (2,599.2) million, comprising bonds and loans from financial institutions, including capex facilities amounting to EUR 69.2 (47.0) million. As of the balance sheet date the total mortgaged loans amounted to EUR 2,311.4 million approximately 62.3% of the total assets.

Sponda's equity ratio on 31 December 2019 stood at 26.6 (29.8) %. Loan to Value (LTV), based on net debt, was 68.0 (64.4) %. The weighted average maturity of Sponda's loans was 1.6 (1.8) years. The average interest rate was 3.7 (3.6) % including interest derivatives and unamortised arrangement fees. Fixed-rate and interest-hedged loans accounted for 96.3 % of the loan portfolio and 65 (56) % of the consolidated balance sheet.

Sponda's net financing costs for the period totalled EUR -95.6 (-107.9) million. No interest expenses were capitalised in 2019. Net cash flow from operations in the period under review totalled EUR 39.6 (67.3) million. Net cash flow from investing activities was EUR 536.1 (-51.7) million and the net cash flow from financing activities was EUR -578.5 (-637.2) million.

Balance sheet key figures

	31.12.2019	**31.12.2018**
Equity ratio, %	26.6	29.8
Loan to Value (LTV), %*	68.0	64.4
*Interest-bearing debt, EUR million***	2,514.1	2,705.9
Cash reserves, EUR million	104.6	106.7
Capex facilities, EUR million	69.2	47.0

*) Based on net debt

**) December 2019 figure includes EUR 336.8 (189.7) million of interest-bearing liabilities associated with non-current assets held for sale.

SPONDA'S SHARE AND SHAREHOLDERS

At the end of 2019, Sponda Plc's share capital amounted to EUR 111,030,185 and the number of shares was 339,690,554.

Sponda Plc's shares are owned by Polar Bidco S.à r.l., a corporation owned by funds advised by affiliates of the Blackstone Group L.P.

GROUP STRUCTURE

Sponda Plc is part of the Luxembourg-based Polar TopCo S.à r.l. group.

Sponda Group comprises the parent company Sponda Plc and its wholly or partly-owned subsidiaries.

BOARD OF DIRECTORS AND AUDITORS

The members of the Board of Directors are Leif Andersson, Jean-Francois Bossy, Svein Erik Lilleland, James Seppälä, Michael Swank, Laurent Machenaud, Diana Hoffmann and Adam Shah. Chairman of the Board of Directors is James Seppälä.

During 2019 composition of the Board of Directors has changed. Kari Inkinen resigned on 20 March, Outi Henriksson resigned on 2 May and Andrew Lax resigned on 4 December. Andrew Lax acted as a Chairman of the Board until his resignation. After him, James Seppälä was appointed as a Chairman of the Board. Also new members of the Board of Directors were appointed. Diana Hoffmann was appointed on 20 March and Adam Shah was appointed on 4 December.

The Board of Directors assessed that all members of the Board are independent of the company.

Authorised Public Accountant (APA) Esa Kailiala and audit firm KPMG Oy Ab, with APA Petri Kettunen as the responsible auditor and APA Petra Pörnull as the deputy auditor, will serve as the company's auditors for a term ending at the close of the next Annual General Meeting.

BOARD COMMITTEE

Until 2 May 2019, the Audit Committee consisted of Outi Henriksson as chairman, Michael Swank as deputy chairman and Jean-Francois Bossy as an ordinary member. From 3 May 2019 to 22 May 2019, the Audit Committee consisted of Michael Swank as deputy chairman and Jean-Francois Bossy as an ordinary member. Starting from 23 May 2019, Jean-Francois Bossy was elected as Chairman of the Audit Committee and the Michael Swank continued as an ordinary member. All members of the Audit Committee are independent of Sponda Plc.

There are no other Board committees.

SPONDA'S MANAGEMENT

Kai Aejmelaeus acted as Sponda's President and Chief Executive Officer from April 2018 to December 2019. In December 2019 Christian Hohenthal was appointed as Sponda's new President and Chief Executive Officer and he subsequently took up his post in February 1, 2020. Sponda's Chief Legal Officer Ari Käkelä acted as an interim CEO.

Sponda made changes to the composition of its Executive Board in early 2019. In addition to the President and CEO, the Executive Board consists of Martti Savenius (Chief Operating Officer), Anna Blasik (Chief Financial Officer), Timo Pantsari (Chief Information Officer) and Ari Käkelä (Chief Legal Officer).

PERSONNEL

The objectives of Sponda's human resource strategy for 2020 are as follows: developing competence management, investing in good leadership and promoting wellbeing at work.

Key figures for personnel

	31.12.2019	**31.12.2018**
Average number of employees, Group	136	119

ANNUAL REMUNERATION AND INCENTIVE SCHEMES

Sponda has an annual remuneration scheme that covers all employees. The key factors affecting the individual's bonus are profitability and business development.

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.

Key risks and risk management methods

Sponda's key risks are classified as strategic risks, operational risks, damage and asset risks and financing 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 to mitigate potential risks.

Annual risk assessment and organisation

Risks are assessed in terms of their probability as well as their financial impact.

Risks are assessed in a risk survey carried out once a year. Risks related to the availability of financing and interest rate risks are managed through ongoing financing review and strategic disposal of assets as well as introduction of interest rates hedges to mitigate fluctuation in the interest payments although they have not been covered in the risk survey. Further information on Sponda's financial risk management is available on Notes to the consolidated financial statements. The risk survey identifies the company's key risks, assesses the probability of their occurrence and potential impacts thereof, and defines risk management procedures. The risk survey is carried out annually. Risk management guidelines and the operations handbook are updated based on the risk survey.

SHORT-TERM RISKS RELATED TO SPONDA'S OPERATIONS	RISK MANAGEMENT ACTIONS
1. Changes in demand	Flexible solutions and active portfolio management that includes not only investments and divestments, but also the development of properties owned by the Group.
2. Adverse change in market growth	Sponda's property portfolio must be competitive in the market. This is ensured by the right service concepts and by qualitative parameters.
3. Divestment of properties located in Russia	Sponda aims to divest the remaining directly owned properties located in Russia 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

Sponda publishes a separate Sustainability Review that is available on the company website.

RISKS AND UNCERTAINTY FACTORS IN THE NEAR FUTURE

Sponda estimates that the risks and uncertainty factors for 2020 are mainly related to the following areas:

Change in demand for space, caused by reasons such as technological development, may have a negative impact on the development of occupancy rate and net operating income.

In Russia, the risks are mainly related to the development of the Russian economy.

PROSPECTS FOR 2020

Sponda has decided not to give prospects for the financial year 2020.

POST BALANCE SHEET EVENTS

In January and February, Sponda sold properties with a total balance sheet value of EUR 412.4 million.

THE BOARD'S DIVIDEND PROPOSAL

The Board of Directors proposes to the general meeting that no dividend shall be paid for the financial year 2019.

Corporate governance statement

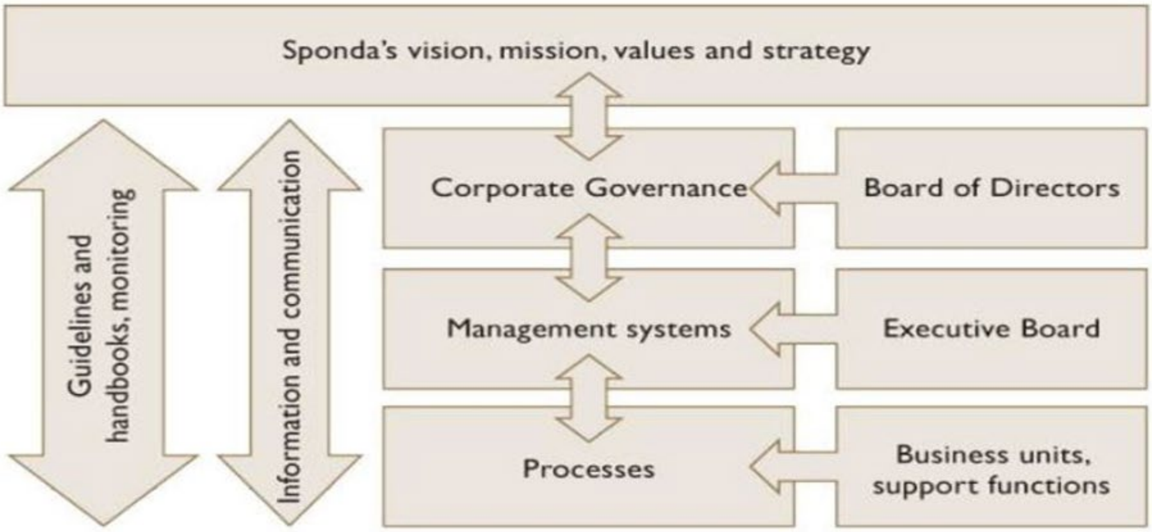
I INTRODUCTION

Sponda Plc is a public limited company registered in Finland. Sponda Plc and its subsidiaries constitute the Sponda Group.

In its decision-making and administration, Sponda complies with the Finnish Companies Act and other laws, regulations and guidelines issued by the authorities regarding limited companies and the company's articles of association. In addition, Sponda Plc complies with the Nasdaq Helsinki Ltd ("Helsinki Stock Exchange") regulations insofar as they apply to issuers of listed bonds.

II DESCRIPTIONS OF INTERNAL CONTROL PROCEDURES RELATED TO THE FINANCIAL REPORTING PROCESS

Main principles for the organisation of risk management



RISK MANAGEMENT

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 pertaining to the company's operations are described in the Board of Directors' report.

Main features of internal control related to financial reporting

The risk management in Sponda's financial reporting process constitutes a part of the Group's overall risk management and internal control. The company has defined the main features of its internal control using the international COSO model. The model has been used in defining the control environment, risk assessment method and the applicable control measures. The internal control solutions adopted by the company also take into consideration its industry, the management of the Group as a single entity and the company form of ownership of properties.

The company's internal control is a Group-wide process that involves the Board of Directors, executive directors, other staff members and internal audit. Internal control aims to ensure the effectiveness and appropriateness of the company's operations, the reliability of financial information and reporting as well as compliance with laws and regulations.

The processes of generating financial information have been clearly defined and assessed. The processes are described in guidelines and separate process descriptions. The key processes are related to financial statement information, planning and resource planning. Internal control pays special attention to the production of external and internal financial information and its communication as well as information system controls. The risks and critical points of financial information production processes have been identified and related control measures have been defined. Internal controls include executive or managerial assessments, performance indicators, account reconciliations, physical controls, ICT controls and anomaly reports. Part of the auditing company's assignment is to conduct an annual review of internal processes and controls.

External financial reports are reviewed by the Board of Directors and Audit Committee prior to their publication. The Audit Committee consults with the auditors and the internal auditor as well as an external valuer on property valuation. The Board of Directors also receives the auditors' report and internal audit report for evaluation. The operative management analyses external financial reports prior to their review by the Board of Directors and Audit Committee and consults with the auditors in conjunction with each interim report. The business units evaluate the financial reports as far as their own unit is concerned. The Group Control unit is in charge of verifying the accuracy of financial reporting. Various ICT controls and account reconciliation are also used to verify the accuracy of financial reporting.

Due to the nature of Sponda's business, the most significant asset item consists of investment properties measured at fair value. The fair value of Sponda's investment property portfolio is determined in-house every six months, using the discounted cash flow method (DCF) with at least 10 years' worth of estimates. An external valuer has audited Sponda's internal property valuation process as well as the calculation methods and reporting. In addition, Sponda has an external valuer review all property valuation material at least twice every year, to ensure that the parameters and values used are based on market observations. The rental income in cash flow calculations is based on data concerning valid lease contracts retrieved from the property management system and, upon their expiration, on the management's estimations concerning market rents, based on market information. Rental income is adjusted according to occupancy rates and actual maintenance costs estimated by the management. Risk factors pertaining to fair value assessments are taken into account when determining yield requirements.

Audit Committee

The Audit Committee is tasked with preparing matters that fall under the Board of Directors' purview. The Audit Committee prepares matters relating to financial reporting, risk management, financial statements and interim reports, auditors, internal audit and compliance with laws and regulations.

The Board has laid out the rules of procedure for the Audit Committee, according to which the Committee is tasked with, among other things:

- monitoring the process of financial reporting
- supervising the financial reporting process
- monitoring the efficiency of the company's internal control, internal audit and risk management systems
- evaluating the independence of the statutory auditor or audit firm, particularly the provision of related services to the company

Until 2 May 2019, the Audit Committee consisted of Outi Henriksson as chairman, Michael Swank as deputy chairman and Jean-Francois Bossy as an ordinary member. From 3 May 2019 to 22 May 2019, the Audit Committee consisted of Michael Swank as deputy chairman and Jean-Francois Bossy as an ordinary member. Starting from 23 May 2019, Jean-Francois Bossy was elected as chairman of the Audit Committee and the Michael Swank continued as an ordinary member. All members of the Audit Committee are independent of Sponda Plc~~.~~

In 2019, the Audit Committee reviewed the financial statement releases and interim report before their disclosure and recommended that the Board approve them. The Audit Committee consulted the company's auditors when reviewing financial statement releases and interim report.

Group key figures

Key financial figures		**31.12.2019**	31.12.2018**	31.12.2017	31.12.2016	31.12.2015
Income statement key figures						
1.	*Total revenue, M€*	**244.5**	259.2	263.7	259.0	230.5
2.	*Operating profit, M€*	**146.4**	155.1	173.5	206.7	178.1
3.	*% of total revenue*	**59.9**	59.8	65.8	79.8	77.3
4.	*Total amount of financial income and expenses, M€*	**-95.6**	-107.9	-75.2	-51.2	-48.9
5.	*Profit/loss for the period, M€*	**74.9**	33.8	76.6	137.5	227.2
6.	*% of total revenue*	**30.6**	13.0	29.0	53.1	98.6
Balance sheet key figures						
7.	*Shareholders' equity, M€*	**984.1**	1,247.4	1,350.1	1,849.9	1,585.0
8.	*Investment properties, M€*	**3,092.3**	3,755.8	3,935.3	3,755.5	3,101.7
9.	*Total liabilities, M€*	**2,724.0**	2,948.6	3,404.7	2,066.6	1,856.0
10.	*Interest-bearing liabilities, M€**	**2,514.1**	2,705.9	3,186.4	1,862.5	1,660.9
11.	*Interest-bearing net liabilities, M€**	**2,409.5**	2,599.2	2,457.3	1,849.6	1,440.9
Profitability and financing key figures						
12.	*Equity ratio, %*	**26.6**	29.8	28.5	47.4	46.2

*) December 2019 figure includes EUR 336.8 (2018:189.7) million of interest-bearing liabilities associated with non-current assets held for sale.
**) Sponda changed its accounting principles concerning deferred taxes during the financial year 2018 and has restated the figures for financial year 2017 to make them comparable. The restated figures are presented as comparison figures.

Key figures per share		**31.12.2019**	31.12.2018	31.12.2017		31.12.2016		31.12.2015
13.	*Basic and diluted earnings per share attributable to parent company equity holders, € (EPS)*	**0.22**	0.10	0.21		0.41		0.78
14.	*Equity per share, €*	**2.89**	3.67	3.97		5.16		5.26
15.	*Dividend/Board's proposal, €*	**-**	-	0.94	1)	0.08	1)	0.19
16.	*Dividends paid during the financial year, €*	**0.44**	1.06	1.14	2)	0.31	2)	0.19
17.	*Capital repayments paid during the financial year, €*	**0.56**	-	0.24				

[1]) Board proposal
[2]) Includes dividends paid based on authorisation granted by General Meeting

Formulas for the key indicators

Formulas for the key indicators and itemisations and bridge calculations required for alternative key figures in accordance with ESMA guidance

IFRS key figures

Earnings per share, €	=		Share of earnings for the period attributable to equity holders of the parent company – interest and expenses on hybrid loan allocated to the period, adjusted for taxes
			Weighted average number of shares outstanding during the period

Alternative key figures defined in accordance with ESMA guidance

Shareholders' equity per share, €	=		Equity attributable to equity holders of the parent company - Other equity reserve
			Undiluted total number of shares on the date of closing the books

Equity ratio, %	=	100 x	Equity
			Balance sheet total - 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.

LTV, Loan to value	=		Non-current and current interest-bearing liabilities - Cash and cash equivalents + Interest-bearing liabilities related to non-current assets held for sale
			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.

Specifications required for alternative key figures

M€	1-12/2019	1-12/2018
Advances received	2.8	2.5
Rent deposits received	6.7	6.6
Interest-bearing liabilities related to non-current assets held for sale	336.8	189.7

Consolidated income statement

M€	Note	**1-12/2019**	**1-12/2018**
Total revenue			
Rental income and recoverable	2.3	244.1	258.9
Interest income from finance leasing agreements	7.2	0.3	0.3
		244.5	259.2
Expenses			
Maintenance expenses		-75.3	-76.5
Net operating income		**169.1**	**182.8**
Profit on sales of investment properties	2.1	53.1	15.9
Valuation gains/losses on fair value assessment	2.2	-41.5	-8.4
Amortisation of goodwill	2.5	-	-3.3
Profit on sales of trading properties	7.5	2.7	0.5
Sales and marketing expenses		-3.8	-4.0
Administrative expenses	6 7.1 7.2.2 7.4	-33.0	-25.5
Other operating income		3.1	0.6
Other operating expenses		-3.4	-3.5
Operating profit		**146.4**	**155.1**
Financial income	3.1	1.0	1.2
Financial expenses	3.1	-96.6	-109.2
Total amount of financial income and expenses		-95.6	-107.9
Profit before taxes		**50.8**	**47.1**
Income taxes for current and previous fiscal years		-0.8	-0.6
Deferred taxes		25.0	-12.7
Income taxes, total	4	24.2	-13.3
Profit for the period		**74.9**	**33.8**
Attributable to:			
Equity holders of parent company		75.5	33.8
Non-controlling interest		-0.6	0.0
Earnings per share based on profit attributable to equity holders of the parent company			
Basic and diluted, €	5.3	0.22	0.10

Consolidated statement of other comprehensive income

M€	Note	2019	2018
Profit for the period		**74.9**	**33.8**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Items arising from the remeasurement of defined benefit liabilities (or assets)		0.0	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		0.0	0.1
Items that may be reclassified subsequently to profit or loss			
Translation differences		-0.1	-0.2
Taxes on items that may be reclassified subsequently to profit or loss	4	-0.1	-
Items that may be reclassified subsequently to profit or loss, total		-0.2	-0.2
Other comprehensive loss for the period after taxes		-0.2	-0.2
Comprehensive profit for the period		**74.7**	**33.7**
Attributable to:			
Equity holders of parent company		75.3	33.7
Non-controlling interest		-0.6	0.0

Consolidated statement of financial position

M€	Note		**31.12.2019**	**31.12.2018**
ASSETS				
Non-current assets				
Investment properties		2	3,092.3	3,755.8
Investments in real estate funds		7.3	18.3	16.2
Property, plant and equipment		7.4	13.8	13.9
Other intangible assets		7.4	1.3	1.3
Finance lease receivables		7.2	2.7	2.7
Other investments		3.3.2	0.1	0.1
Deferred tax assets		4	25.5	22.3
Non-current assets total			**3,154.1**	**3,812.5**
Current assets				
Trading properties		7.5	6.5	6.6
Trade and other receivables	3.3.2	7.6.1	30.4	28.8
Cash and cash equivalents	3.2	3.3.2	104.6	106.7
Current assets total			**141.6**	**142.1**
Non-current assets held for sale		2.1	412.4	241.4
Total assets			**3,708.1**	**4,195.9**
SHAREHOLDERS' 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			567.7	756.7
Revaluation reserve			0.7	0.7
Other equity fund			0.0	0.0
Translation differences			0.1	0.3
Retained earnings			143.8	217.3
Equity attributable to equity holders of the parent company			**982.8**	**1,245.5**
Non-controlling interest			1.3	1.9
Shareholders' equity, total	**5.1**	**5.2**	**984.1**	**1,247.4**
Liabilities				
Non-current liabilities				
Deferred tax liabilities		4	145.3	167.1
Interest-bearing loans and borrowings		3.3.2	2,005.2	2,516.2
Other liabilities		3.3.2	0.3	0.4
Non-current liabilities total			**2,150.8**	**2,683.8**
Current liabilities				
Current interest-bearing liabilities		3.3.2	172.1	0.0
Trade and other payables	3.3.2	7.6.2	61.8	73.2
Tax liabilities based on the taxable income for the period			0.0	0.0
Current liabilities total			**233.9**	**73.3**
Liabilities associated with non-current assets held for sale		3.3.2	339.3	191.5
Total borrowings			**2,724.0**	**2,948.6**
Total equity and liabilities			**3,708.1**	**4,195.9**

Consolidated statement of cash flows

M€	Note	1-12/2019	1-12/2018
Cash flow from operating activities			
Profit for the period		74.9	33.8
Adjustments	1	50.7	114.8
Change in net working capital	2	-4.8	8.4
Interest received		0.4	0.4
Interest paid		-77.3	-87.7
Other financial items		-3.4	-1.7
Dividends received		0.0	0.0
Taxes received/paid		-0.9	-0.6
Net cash flow from operating activities		**39.6**	**67.3**
Cash flow from investing activities			
Acquisition of investment properties	3	-70.0	-126.3
Capital expenditure on real estate funds		-0.9	-0.1
Acquisition of tangible and intangible assets		-0.5	-0.6
Proceeds from disposal of investment properties	4	604.7	75.2
Proceeds from disposal tangible and intangible assets		2.8	-
Net cash flow from investing activities		**536.1**	**-51.7**
Cash flow from financing activities			
Increase in invested unrestricted equity reserve		-	184.0
Non-current loans, raised		204.5	47.0
Non-current loans, repayments		-441.4	-228.9
Current loans, raised/repayments		-	-318.8
Dividends paid and return from the invested unrestricted equity fund		-338.0	-320.5
Change in lease liability (IFRS 16)		-3.5	-
Net cash flow from financing activities		**-578.5**	**-637.2**
Change in cash and cash equivalents		-2.8	-621.6
Cash and cash equivalents, beginning of period		106.7	729.1
Impact of changes in exchange rates		0.7	-0.7
Cash and cash equivalents, end of period		**104.6**	**106.7**

Notes to the statement of cash flows

		1-12/2019	1-12/2018
1.	*Adjustments*		
	Profit/loss on sales of investment properties	-53.1	-15.9
	Valuation gains/losses on fair value assessment	41.5	8.4
	Amortisation of goodwill	0.0	3.3
	Financial income and expenses	95.6	107.9
	Income taxes	-23.3	13.3
	Share of result of associated companies	-	-
	Other adjustments	-10.0	-2.3
	Adjustments, total	**50.7**	**114.8**
2.	*Specification of change in net working capital*		
	Change in trade and other receivables	1.7	-3.1
	Change in trading properties	0.1	0.0
	Change in non-interest-bearing current liabilities	-6.6	11.9
	Change in provisions	0.0	-0.4
	Change in net working capital	**-4.8**	**8.4**
3.	*Acquisition of investment properties*		
	Assets and liabilities of acquired subsidiaries		
	Net working capital	-	0.0
	Total non-current assets	-	5.6
	Net total of assets and liabilities of acquired companies	**-**	**5.6**
	Acquisition cost of companies	-	5.6
	Cash and cash and cash equivalents of acquired companies at acquisition date	-	-0.1
	Cash flow from acquisitions less cash and cash equivalents of acquired companies	**-**	**5.6**
	Acquired properties		-
	Other capital expenditure on investment properties	70.0	120.7
	Total acquisition of investment properties	**70.0**	**126.3**
4.	*Proceeds from sale of investment properties*		
	Proceeds from sale of subsidiaries	407.9	40.8
	Cash and cash equivalents of sold subsidiaries		
	Proceeds from sale of subsidiaries	407.9	40.8
	Other proceeds from sale of investment properties		
	Total proceeds from sale of investment properties	**407.9**	**40.8**
	Net working capital	-186.0	-34.2
	Investment properties	549.1	59.5
	Interest-bearing loans and borrowings	181.2	34.0
	Sales gain/loss	53.1	15.4
	Adjustments to sales gain/loss	6.7	-
	Net total of assets and liabilities of sold subsidiaries	**604.1**	**74.8**
	Investment properties	0.5	0.2
	Sales gain/loss	0.0	0.2
	Total other proceeds from disposal of investment properties	**0.5**	0.5
	Total proceeds from disposal of investment properties	**604.7**	**75.2**

Total liabilities from financing operations

					Changes not affecting cash flow				
2019		**Opening balance**	**Cash flow**		Transfers between balance sheet items	Change in lease liabilities (IFRS 16)	Change in fair value	Other changes not affecting cash flow	**Closing balance**
*Non-current interest-bearing liabilities**		2,516.2	-236.9		-317.3	29.1		14.2	2,005.2
Other non-current liabilities		0.4						-0.1	0.3
Non-current liabilities total		2,516.6	-236.9		-317.3	29.1		14.1	2,005.5
Current interest-bearing liabilities		0.0	-0.0	1)	170.4	1.6			172.1
Other current liabilities	2)	-							-
Current liabilities total		0.0			170.4	1.6			172.1
Non-current assets used in the hedging of non-current liabilities	3)	0.0					0.0		0.0
Total liabilities from financing operations		2,516.6	-236.9		-146.9	30.7	0.0	14.1	2,177.6

*) Includes EUR -147.1 million net transfer to liabilities associated with non-current assets held for sale

					Changes not affecting cash flow				
2018		**Opening balance**	**Cash flow**		Transfers between balance sheet items	Change in lease liabilities (IFRS 16)	Change in fair value	Other changes not affecting cash flow	**Closing balance**
*Non-current interest-bearing liabilities**		2,717.8	-31.9		-189.8			20.2	2,516.2
Other non-current liabilities		0.5						-0.1	0.4
Non-current liabilities total		2,718.3	-31.9		-189.8			20.1	2,516.6
Current interest-bearing liabilities		468.6	-468.8	1)	0.1				0.0
Other current liabilities	2)	0.0							-
Current liabilities total		468.6	-468.8		0.1				0.0
Non-current assets used in the hedging of non-current liabilities	3)	-0.1					0.1	0.0	0.0
Current assets used in the hedging of non-current liabilities	4)	0.0							-
Total liabilities from financing operations		3,186.8	-500.7		-189.7		0.1	20.1	2,516.6

*) Includes EUR -189.7 million transfer to liabilities associated with non-current assets held for sale

1) includes repayments of non-current loans and withdrawals/repayments of current loans
2) Included in non-current liabilities on the balance sheet
3) Included in non-current receivables on the balance sheet
4) Included in trade receivables and other receivables

Consolidated statement of changes in equity

M€		Share capital	Share premium reserve	Invested non-restricted equity reserve	Revaluation reserve	Translation difference	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 January 2019		111.0	159.4	756.7	0.7	0.3	217.3	1,245.5	1.9	1,247.4
Comprehensive income										
Profit for the period							75.5	75.5	-0.6	74.9
Other comprehensive income (net of tax)										
Items arising from the remeasurement of defined benefit liabilities (or assets)	6.2						0.0	0.0		0.0
Translation differences	4					-0.2		-0.2		-0.2
Comprehensive income, total						-0.2	75.5	75.3	-0.6	74.7
Transactions with shareholders										
Increase in equity (invested non-restricted equity reserve)	5.1									
Dividend distribution and other capital repayments	5.1 5.2			-189.0			-149.0	-338.0		-338.0
Transactions with shareholders, total				-189.0			-149.0	-338.0		-338.0
Change							-	-	-	-
Equity 31 December 2019		111.0	159.4	567.7	0.7	0.1	143.8	982.8	1.3	984.1

M€		Share capital	Share premium reserve	Invested non-restricted equity reserve	Revaluation reserve	Translation difference	Retained earnings	Total	Non-controlling	Total equity
Equity 1 January 2018		111.0	159.4	572.7	0.7	0.5	503.9	1,348.3	1.8	1,350.1
Comprehensive income										
Profit for the period							33.8	33.8	0.0	33.8
Other comprehensive income (net of tax)										
Items arising from the remeasurement of defined benefit liabilities (or assets)	6.2						0.1	0.1	-	0.1
Translation differences	4					-0.2		-0.2	-	-0.2
Comprehensive income, total						-0.2	33.9	33.7	0.0	33.7
Transactions with shareholders										
Increase in equity (invested non-restricted equity reserve)	5.1			184.0				184.0	-	184.0
Dividend distribution and other capital repayments	5.1 5.2						-320.5	-320.5	-	-320.5
Transactions with shareholders, total				184.0			-320.5	-136.5	-	-136.5
Change							0.0	0.0	0.0	0.0
Equity 31 December 2018		111.0	159.4	756.7	0.7	0.3	217.3	1,245.5	1.9	1,247.4

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 8 (hereinafter collectively referred to as “the Group” or “Sponda” or “Sponda Group”), is a leading real estate investment company that owns, leases and develops commercial properties in the Helsinki metropolitan area and other 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 is owned by Polar Bidco S.à r.l., a corporation owned by funds advised by affiliates of the Blackstone Group L.P. and registered in Luxembourg.
Sponda’s shares was delisted from Nasdaq Helsinki on 5 December 2017 after Polar Bidco S.à r.l. gained title to all its shares.

At its meeting on 11 March 2020, the Board of Directors of Sponda Plc approved these consolidated financial statements for publication. According to the Finnish Limited Liability Companies Act, shareholders may approve or reject the consolidated financial statements at the General Meeting of Shareholders to be held after their publication. The meeting may also decide to amend the consolidated financial statements.

Copies of Sponda Plc’s consolidated 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

Accounting principles are presented, where applicable, in connection to the notes to the consolidated financial statements that are related to the accounting principle 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 consolidated financial statements are investment properties (more than 90% of the consolidated balance sheet total), financing, equity and taxes. Notes pertaining to other consolidated financial statements items are presented briefly in Note 7. In addition to the notes on consolidated financial statements 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 2019.

The consolidated financial statements have been prepared in euros and are presented in millions of euros, rounded 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.

<u>Management judgment</u>

The preparation of consolidated 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. Management has exercised its judgment so that individual acquisitions of investment properties at Sponda are classified as acquired assets. The acquisitions of investment properties classified as assets involve the transfer of assets, and such acquisitions do not involve the transfer of particular business processes or people responsible for them, let alone the related marketing and development activities or the management of tenancies, property repairs and renovation.

Recognising 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.

Going concern

The Group's financial statements for the financial year 2019 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 in accounting policies and notes presented with the financial statements

New and revised standards applied in the financial year ended

The following revised or amended standard has affected the consolidated financial statements and it has been applied from 1 January 2019 onwards

IFRS 16 *Leases*

Starting from the beginning of the financial year 2019, IFRS 16 Leases has replaced the IAS 17 standard and related interpretations. Under the new standard, lessees are required to recognise in the balance sheet a lease liability reflecting future lease payments and a right-of-use asset for nearly all leases. 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 approximately USD 5,000.

The new standard has had no impact on the accounting treatment of leases in which Sponda is the lessor. The impacts of the new standard on Sponda as a lessee mainly arise from leased plots of land as well as leases for cars. At the time of the standard's adoption, on 1 January 2019, the Group recognised in its balance sheet a lease liability reflecting lease payments and a right-of-use asset. An agreement, or a part of an agreement, is classified as a lease, when the underlying asset can be identified, Sponda has the right to obtain substantially all the economic benefits from the use of the asset and has the right to direct how and for what purpose the asset is used throughout the period of use. If the agreement or part of the agreement is classified as a lease, the lease liability and right-of-use asset are recognised at the commencement date of an agreement. The commencement date is the date when the underlying asset is available for use by the lessee.

Sponda has recognized right-of-use assets from the leases subject to the scope of the standard as part of the 'Investment properties' and 'Property, plant and equipment' balance sheet items. The right-of-use assets recognized as part of investment properties consist of land leases subject to Sponda's core business. The right-of-use assets recognized as property, plant and equipment, on the other hand, are leased cars.

The Group's lease liability has been measured by discounting the lease liabilities of the leases that fall within the scope of the standard at their present value using the Group's view of the incremental borrowing rate as a discount factor. The weighted average discount rate was 2.9%. Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments), variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Starting from the beginning of the financial year 2019, Sponda has recognised lease expenses comparable to straight-line depreciation in the income statement primarily as part of the change in fair value of investment properties, because the majority of Sponda's leases concern right-of-use assets related to investment properties. Depreciation on right-of-use assets related to property, plant and equipment is presented under Administrative expenses. The expenses determined according to the interest rate factor of the lease liability are presented in financial items.

The nature of the expenses associated with a lease agreement changes when the lease expense is replaced by the depreciation of the right-of-use asset and the interest expense arising from the lease liability, which is reported as part of financial expenses. This also affects the statement of cash flows, with lease payments being allocated to cash flow from financing activities at an amount corresponding to the repayment of the liability and to cash flow from operating activities at an amount corresponding to the financial expense.

In adopting the standard, Sponda applied the modified retrospective approach along with the exemptions provided by the standard. Hence, the comparison figures were not adjusted and the cumulative effect, excluding short-term leases and leases of low value, was recognised in the opening balance sheet of 1 January 2019.

More information on the adoption of IFRS 16 is presented in note 9 of the consolidated financial statements.

The following revised or amended standards haven't affected the consolidated financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test for accounting is the assessment of whether the tax authority will accept the entity's chosen tax treatment or not. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a tax treatment proposed by the entity.

Amendments to IFRS 9 - *Prepayment Features with Negative Compensation*

The amendments enable entities to measure at amortised cost some prepaid financial assets with so-called negative compensation.

Amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture.

Amendments to IAS 19 - *Plan amendment, Curtailment or Settlement*

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

Adoption of new and amended standards and interpretations applicable in 2020

Amendments to IFRS 3 - *Definition of a Business*

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.

Amendments to IAS 1 and IAS 8 - *Definition of Material*

The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

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 2019 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
- 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
- adding or deducting gains/losses from the disposal of investment properties, from fair value measurement 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 usually comprise 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.

Results and the fair value changes of properties are reported to Sponda's management on a segment-specific basis. Sponda's management assesses the profitability of each segment based on net operating income, operating profit and occupancy rate. The management also monitors 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 purchases 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 Property Development segment covers development projects. Property development operations comprise new construction projects and the refurbishment of existing properties 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 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

12/2019 M€	Office Properties	Shopping Centres	Property Development	Non-Strategic Holdings	Other	Group total
Total revenue	136.9	90.8	1.1	15.7	0.0	244.5
*Maintenance expenses and direct fund expenses**	-44.3	-23.7	-0.8	-6.6	0.0	-75.3
Net operating income	92.7	67.1	0.2	9.1	0.0	169.1
Profit/loss on sales of investment properties	25.2	26.9	0.8	0.2	0.0	53.1
Profit/loss on sales of trading properties	-	-	2.7	-	0.0	2.7
*Valuation gains/losses on fair value assessment**	-22.2	-25.1	5.0	2.6	-1.9	-41.5
*Administration and marketing expenses**	-20.3	-7.2	-8.8	-0.5	-0.1	-36.8
Other operating income and expenses	2.8	-0.6	-2.3	-0.1	0.0	-0.3
Operating profit	78.2	61.2	-2.5	11.4	-2.0	146.4
Financial income and expenses					-95.6	-95.6
Profit before taxes					-97.6	50.8
Income taxes					24.4	24.4
Profit for the period					-73.4	74.9
Investments	39.9	9.9	17.5	1.4	2.0	70.6
*Segment assets**	1,818.0	1,409.6	86.4	181.5	212.5	3,708.1
- of which classified as held for sale	288.3	124.1	-	-	-	412.4

*) The impact of IFRS 16 adoption on 2019 income statement and balance sheet is recognised in the Other segment

12/2018 M€	Office Properties	Shopping Centres	Property Development	Non-Strategic Holdings	Other	Group total
Total revenue	157.0	86.6	1.0	14.7	0.0	259.2
Maintenance expenses and direct fund expenses	-45.8	-20.8	-2.9	-6.8	0.0	-76.5
Net operating income	111.1	65.8	-2.0	7.8	0.0	182.8
Profit/Loss on sales of investment properties	15.4	-	0.0	0.4	-	15.9
Profit/loss on sales of trading properties	-	-	0.5	-	-	0.5
Valuation gains and losses	-15.9	12.6	15.9	-21.0	-	-8.4
Amortisation of goodwill	-	-	-3.3	-	-	-3.3
Administration and marketing expenses	-12.8	-9.6	-5.0	-1.9	-0.1	-29.5
Other operating income and expenses	0.0	-0.3	-2.6	0.0	0.0	-2.9
Operating profit	97.8	68.5	3.6	-14.7	-0.1	155.1
Financial income and expenses					-107.9	-107.9
Profit before taxes					-108.1	47.1
Income taxes					-13.3	-13.3
Profit for the period					-121.4	33.8
Investments	32.0	6.3	84.1	1.1	0.6	124.2
Segment assets	2,229.1	1,535.4	72.0	179.7	179.8	4,195.9
- of which classified as held for sale	220.4	21.0	-	-	-	241.4

Geographical segments

M€	2019	2018
Total revenue		
Finland	236.8	252.3
Russia	7.7	6.9
Group, total	**244.5**	**259.2**
Assets*		
Finland	3,022.3	3,690.5
Russia	87.9	83.3
Group, total	**3,110.2**	**3,773.8**

* Includes non-current assets based on IFRS 8.33.

2. Investment properties

Sponda Plc is a property investment company specialising in leasing, developing and owning commercial properties. At the end of 2019, Sponda owned a total of 151 leasable properties with a total leasable area of approximately 1.1 million m².

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 or 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. 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€	31.12.2019*	31.12.2018
Fair value of investment properties, 1 Jan.	3,755.8	3,935.3
Non-current assets held for sale, 1 Jan.	241.3	-
Acquisition of investment properties	0.0	12.7
Other capital expenditure on investment properties	67.8	110.8
Disposals of investment properties	-549.6	-59.8
Capitalised borrowing costs, increase in period	0.0	1.9
Valuation gains/losses on fair value assessment	-37.3	-3.8
Investment properties reclassified as held for sale	-412.3	-241.4
Rent free adjustment	-3.5	-
Right-of-use assets classified as investment properties (IFRS 16)	30.1	-
Fair value of investment properties, end of period	3,092.3	3,755.8
Investment properties held for sale	412.3	241.4

*Includes impact of IFRS 16

Profit/loss on sales of investment properties

M€	**2019**	**2018**
Profit on sales	54.8	15.9
Loss on sales	-1.7	0.0
Total	**53.1**	**15.9**

2.2 Fair value measurement of investment properties

Accounting principle

The fair value of completed business properties located in Finland 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 by CB Richard Ellis.

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

Management judgment

Critical accounting estimates and judgments

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.

Significant assumptions used in fair value calculations, on average

	Finland	
	2019	**2018**
Yield requirement, %	5.6	5.7
Initial yield, %	4.9	5.2
Computational economic occupancy rate in first year of calculation, %	79.4	81.1
Rental income as per agreements, €/m²/month	25.2	23.7
Market rents, €/m²/month	19.6	19.3
Long term maintenance costs used in calculations, €/m²/month	4.2	4.0

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.

The properties located in Russia are valued by an external valuer. Assumptions used in Russia have not been built in the table above given the immaterial impact on the fair value.

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 2019

	-10%		-5%		0%	5%		10%	
	Change, M€	Change, %	Change, M€	Change, %	M€	Change, M€	Change, %	Change, M€	Change, %
Yield & Discount requirement	346.0	10.9	164.0	5.2	0.0	-148.0	-4.7	-282.0	-8.9
Rental income (contractual rents)	-56.0	-1.8	-28.0	-0.9	0.0	29.0	0.9	57.0	1.8
Maintenance expenses	97.0	3.1	49.0	1.6	0.0	-48.0	-1.5	-96.0	-3.0
Economic occupancy rate (1st year)	-19.0	-0.6	-9.0	-0.3	0.0	10.0	0.3	20.0	0.6

Change in investment property fair value, M€ and %, 31 December 2018

	-10%		-5%		0%	5%		10%	
	Change, M€	Change, %	Change, M€	Change, %	M€	Change, M€	Change, %	Change, M€	Change, %
Yield & Discount requirement	407.0	10.9	192.0	5.2	0.0	-175.0	-4.7	-333.0	-8.9
Rental income (contractual rents)	-10.0	-2.7	-50.0	-1.1	0.0	49.0	1.3	98.0	2.6
Maintenance expenses	107.0	2.9	53.0	1.4	0.0	-54.0	-1.4	-108.0	-2.9
Economic occupancy rate (1st year)	-24.0	-0.6	-12.0	-0.3	0.0	12.0	0.3	23.0	0.6

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 3,161 million (EUR 3,728 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.

Maturity dates for lease agreements (%) of rental income

	2019	2018
1 year	15,9	18.1
2 years	13,8	12.0
3 years	19,2	13.7
4 years	10,7	12.5
5 years	9,4	7.6
6 years	4,5	5.1
more than 6 years	11,9	18.5
Valid until further notice (UFN)	14,5	12.5

The expected rental income from existing leases is:

M€	2020	2021–2024	2025–	Total
Expected rental income	199.4	384.9	191.4	775.7

M€	2019	2020–2023	2024–	Total
Expected rental income (reference data)	237.2	485.9	273.8	996.9

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 developing an office building adjacent to the Ratina shopping centre in Tampere. The project's total investment is estimated at approximately EUR 41.1 million. Construction began in autumn 2019 and will be completed in H1/2020.

2.5 Goodwill

Goodwill, M€	2019	2018
Acquisition cost 1 Jan.	27.5	27.5
Acquisition cost 31 Dec.	**27.5**	**27.5**
Accumulated depreciation and write-downs 1 Jan.	-27.5	-24.2
Depreciation and write-downs for the period	-	-3.3
Accumulated depreciation and write-downs 31 Dec.	**-27.5**	**-27.5**
Carrying amount 31 Dec.	**-**	**-**

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 write-downs were entirely allocated to the Property Development segment.

Goodwill write-downs in 2018 were allocated to the construction of the Ratina shopping centre, which was completed in spring 2018.

3. Financing

Following its public tender offer, Polar Bidco S.à r.l gained title to all Sponda shares in the financial year 2017 and the new owner refinanced Sponda's interest-bearing debts preceding the change in ownership in the international financial markets. The remaining previous debt consists of the corporate bond whose terms make it impossible to redeem before maturity. The corporate bond is due in May 2020. All new financing has been arranged using real securities.

In 2019 a new interest-bearing debt was introduced for EUR 204.3 million in nominal value. The company has invested EUR 0.1 million in publicly listed notes during 2019. In 2019 the nominal value of interest-bearing debt has reduced by EUR 206 million explained by repayments of interest-bearing loans related to sold properties.

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

M€	2019	2018
Financial income		
Interest income		
Loans and receivables	0.8	0.8
Other financial income	0.1	0.1
Interest income from foreign currency derivatives	0.0	0.0
Exchange rate gains		
Exchange rate gains, realised	0.1	0.2
Exchange rate gains, recognised at fair value through profit or loss	0.0	0.0
Change in fair value		
Recognised at fair value through profit or loss	0.0	0.0
Total	**1.0**	**1.2**
Financial expenses		
Interest expenses		
Interest expenses on liabilities recognised at amortised cost	-77.8	-90.1
Interest expenses from foreign currency derivatives	-0.0	-0.0
Interest expenses from IFRS 16 lease liabilities	-0.9	-
Other financial expenses, loan management expenses	-17.7	-20.7
Exchange rate losses		
Exchange rate losses, realised	-0.0	-0.0
Exchange rate losses, recognised at fair value through profit or loss	-0.0	-0.0
Unrealised exchange rate losses from foreign currency loans	0.0	0.0
Change in fair value		
Recognised at fair value through profit or loss	-0.2	-0.4
Total	**-96.6**	**-111.2**
*Capitalised borrowing costs incurred in the acquisition, construction or production of a qualifying asset**	-	1.9
Financial expenses, total	**-96.6**	**-109.2**
Net financing costs	**-95.6**	**-107.9**

*See 2. Investment properties: Borrowing costs

3.2 Cash and cash equivalents

Accounting principle

Cash and cash equivalents comprise cash in 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€	2019	2018
Euro	99.8	106.2
US dollar	1.5	0.2
Russian rouble	3.3	0.3
Total	**104.6**	**106.7**

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. The company's treasury unit identifies and assesses risks and is responsible for practical risk management measures together with the sole shareholder of the company. Sponda's main financial risks are interest rate risk, risks concerning access to financing, credit risk and exchange rate risk. The Group's operational financing activities are centrally handled by its treasury unit.

Accounting principle

Derivative instruments

Sponda uses derivative contracts mainly to hedge its interest rate risk exposure.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently recognised at fair value. 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 almost exclusively uses floating rate loans in financing its operations, and these are the source of the company's interest rate risk. The Group has hedged against interest rate risk by purchasing interest rate options. Interest rate options are used to reduce growth in future interest flows caused by a rise in short-term market rates. Interest rate options are what are referred to as purchased interest rate caps.

On the balance sheet date, the aggregate nominal value (hedging rate) of fixed-rate loans with a maturity of more than one year and of the interest rate derivatives used to manage interest rate risk was 96.3 (87) % of the Group's interest-bearing liabilities. The average fixed interest rate period was 0.2 (0.2) 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 bank. In addition, Sponda Plc checks the valuations using methods that are generally available on the market, employing public market data 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".

The interest rate derivatives used by the company have been defined as derivatives that do not meet the criteria for hedge accounting. Sponda does not apply hedge accounting to interest rate options. The change in the fair value of interest rate caps is recognised in profit or loss.

Net losses/gains for the period recognised in other comprehensive income items are presented under "Consolidated statement of comprehensive income".

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 (rise by one percentage point or fall by 0.1 percentage points)*

– the calculation includes the nominal value of interest-bearing liabilities 2,517 (2,723) million

– the calculation includes current derivative contracts, totalling EUR 2,500 (2,208) million

The calculation aims to measure the impact of changes in 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.

Sponda Plc and the Sponda Group did not apply hedge accounting to interest rate derivatives in the 2019 financial statements. In the sensitivity analysis, changes in the fair value of interest rate derivatives are presented in full through profit or loss. The nominal amount of Group's interest-bearing liabilities decreased by approximately EUR 206 million in 2019 (in 2018 increased by EUR 480 million).

* On 31 December 2019 and 31 December 2018, all short-term market rates relevant to the calculation were negative.

Sensitivity to interest rate risk

	31.12.2019		31.12.2018	
M€	Income statement	Fair value reserve	Income statement	Fair value reserve
One percentage point rise in market rates	-23.2	0.0	-21.9	0.0
0.1 percentage point fall in market rates	-0.0	0.0	- 0.0	0.0

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 Group estimates that the risk of the availability of financing is low due to the new owner having access to very extensive international financing sources. The Group's major creditors are large international banks with very substantial lending resources. Sponda expects to be able to renew the loans that fall due in the future.

The Group has already refinanced all other financing agreements entered into before the change in ownership that was completed in autumn 2017. All of the Group's new loans arranged in autumn 2017 are secured. The new interest-bearing debt introduced in 2019 is also secured. The only remaining unsecured financing agreements consist of the corporate bonds issued by Sponda Plc maturing in May 2020 covered by a repayment Guarantee.

On the balance sheet date, the Group's cash and cash equivalents totalled EUR 104.6 (106.7) million.

The table below and the table "Maturity of non-current liabilities" in section 3.3.2 present a maturity analysis of the Group's agreements. The average maturity of the Group's loans on 31 December 2019 was 1.6 (1.8) years. There are certain extension options in loans from financial institutions that Sponda can exercise and partly has.

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

31.12.2019 M€	**2020**	**2021**	**2022**	**2023**	**2024**	**2025+**
Bond	174.5	-	-	-	-	-
Loans from financial institutions	408.9	1,985.7	0.0	0.0	0.0	1.3
- Recognised through profit or loss	0.0	-	-	-	-	-
Trade and other payables	7.8	-	-	-	-	-
*Interest liabilities **	11.7	-	-	-	-	-
Total	**602.9**	**1,985.7**	**-**	**-**	**-**	**1.3**

31.12.2018, M€	2019	2020	2021	2022	2023	2024+
Bonds	4.0	174.5	-	-	-	-
Loans from financial institutions	75.2	2,580.8	-	-	-	1.3
- Recognised through profit or loss	0.0	-	-	-	-	-
Trade and other payables	12.5	-	-	-	-	-
*Interest liabilities**	11.7	-	-	-	-	-
Total	**103.4**	**2,755.3**	**-**	**-**	**-**	**1.3**

*) Interest liabilities are included also in the figures for Bond and Loans from financial institutions

Maturity analysis of IFRS 16 lease liability is presented in note 9 of the consolidated financial statements.

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 corresponding institutions. The maximum amount of credit risks is the carrying amount of the financial assets EUR 109.5 (112.8) million. The itemisation is presented in section 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 38.5 (46.8) 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 fulfilment of lease obligations may be used to cover the company's receivables without hearing the tenant on the matter. Colliers Oy monitors the Group's rent receivables.

The total amount of rent receivables on the balance sheet date was EUR 3.9 (4.0) million. The total rent unpaid for more than three months was EUR 1.4 million. The Group recorded credit losses of EUR 0.4 million for rent receivables in 2019. 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 2019 were composed almost entirely of rent receivables. The company considers the overall 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 had no selling price receivables on the balance sheet date, 31 December 2019.

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 5.1 (3.3) million is small in proportion to the carrying amount of the companies owned. The amount of guarantees does not include such guarantees without exact guarantee amount still in 2020. 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 or 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 gross cash flows from lease agreements are approximately USD 1.6 (2.7) million annually and RUB-denominated gross cash flows approximately RUB 443 (329) million. The corresponding expenses are RUB 230 million (226). The company uses currency hedges.

Sponda had bought a EURUSD currency option on the balance sheet date. The difference between incoming RUB-denominated cash flows and outgoing RUB-denominated expenses are minor when measured in euros, due to which the hedging of this net cash flow has not been deemed necessary. 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 or 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. The Group finances its capital expenditure in Russia with internal loans denominated in euros.

The company does not apply hedge accounting according to IAS 39 and IFRS 9 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 company's new owner has, according to plan, adjusted the Group's capital structure in such a way that the Group's debt to equity ratio has increased. The Group's equity ratio fell to 26.6 (29.8) % on the balance sheet date.

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 loan agreements do not include any covenants the breach of which would lead directly to liquidation procedures.

Sponda Group's interest-bearing liabilities decreased by approximately EUR 192 million during 2019, totalling EUR 2,514.1 (2,705.9) million at the end of the year. Sponda Group sold property assets during 2019 for altogether EUR 604.7 million. The funds received were used to pay off the company's interest-bearing loans. 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€	2019	2018
Interest-bearing liabilities	2,514.1	2,705.9
Cash, funds in bank and interest-bearing receivables	104.6	106.7
Interest-bearing net liabilities	2,409.5	2,599.2
Shareholders' equity, total	984.1	1,247.3
Balance sheet total	3,708.1	4,195.9
Equity ratio	26.6%	29.8%

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 or loss and financial assets measured at amortised cost. Correspondingly, financial liabilities are classified as financial liabilities recognised at fair value through profit or loss and financial liabilities measured at amortised cost. The classification is based on the business models defined by the company and the purpose for which the financial assets or liabilities 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 or loss. Transaction costs related to financial assets and liabilities measured at fair value through profit or 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 or 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 category. Assets in this category as 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 amortised cost *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.*

The assets in question 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 measured at amortised cost is impaired. An item or group measured at amortised cost 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 or loss** include derivative liabilities to which hedge accounting is not applied. Financial assets and liabilities have not been offset in the financial statements.*

Carrying amounts of financial assets and liabilities by category

2019 Balance sheet item, M€	Financial assets/liabilities recognised at fair value	Financial assets recognised at amortised cost	Financial liabilities recognised at amortised cost	Carrying amount of balance sheet items	Fair value	Level 1	Level 2	Level 3	Total
Non-current financial assets									
Other investments		0.2		0.2	0.2			0.2	0.2
Derivative contracts	0.0			0.0	0.0		0.0		0.0
Current financial assets									
Derivative contracts									
Trade receivables and other financial assets		4.8		4.8	4.8				
Cash and cash equivalents		104.6		104.6	104.6				
Carrying amount by category	**0.0**	**109.6**		**109.6**	**109.6**				
Non-current financial liabilities									
*Interest-bearing loans and borrowings**			2,312.9	2,312.9	2,312.9		2,312.9		2,312.9
IFRS 16 lease liability			29.1	29.1	29.1		29.1		29.1
Derivative contracts									
Current financial liabilities									
Interest-bearing loans and borrowings			170.4	170.4	171.9		171.9		171.9
IFRS 16 lease liability			1.6	1.6	1.6		1.6		1.6
Derivative contracts									
Interest liabilities			12.4	12.4	12.4				
Trade payables and other financial liabilities			8.0	8.0	8.0				
Carrying amount by category			**2,534.5**	**2,534.5**	**2,536.0**				

* Includes EUR 336.8 million of interest-bearing liabilities associated with non-current assets held for sale.

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 0.0 million in derivative instruments and financial liabilities include EUR 0.0 million in derivative instruments.

2018 Balance sheet item, M€	Financial assets/liabilities recognised at fair value	Financial assets recognised at amortised cost	Financial liabilities recognised at amortised cost	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	0.0			0.0	0.0		0.0		0.0
Current financial assets									
Derivative contracts									
Trade receivables and other financial assets		6.0		6.0	6.0				
Cash and cash equivalents		106.7		106.7	106.7				
Carrying amount by category	**0.0**	**112.8**		**112.8**	**112.8**				
Non-current financial liabilities									
*Interest-bearing loans and borrowings**			2,705.9	2,705.9	2,707.9		2,707.9		2,707.9
Derivative contracts									
Current financial liabilities									
Interest-bearing loans and borrowings			0.0	0.0	0.0		0.0		0.0
Derivative contracts									
Interest liabilities			12.2	12.2	12.2				
Trade payables and other financial liabilities			12.5	12.5	12.5				
Carrying amount by category			**2,730.6**	**2,730.6**	**2,732.6**				

* Includes EUR 189.7 million of interest-bearing liabilities associated with non-current assets held for sale.

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 0.0 million in derivative instruments and financial liabilities include EUR 0.0 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 zero. The netting of derivative instruments would be done according to ISDA or an equivalent master agreement.

The Group's interest-bearing liabilities

Long-term liabilities, M€	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Bonds	-	-	170.3	172.3
*Loans from financial institutions**	2,312.9	2,312.9	2,535.6	2,535.6
Total	**2,312.9**	**2,312.9**	**2,705.9**	**2,707.9**

Current liabilities, M€	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Bonds	170.4	171.9	-	-
*Loans from financial institutions**	-	-	0.0	0.0
Total	**170.4**	**171.9**	**0.00**	**0.00**

* non-current asset held for sale includes EUR 336.8 (189.7) million of interest-bearing liabilities.

The fair values of bonds are based on the average of a market quote published by at least one external bank and the indicative market quote of publics market data system.

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 company has calculated the fair values of loans from financial institutions 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.

Derivative contracts

M€	Fair value 2019	Nominal value 2019	Fair value 2018	Nominal value 2018	Maturity
Interest derivatives					
Interest rate caps, bought					
Recognised through profit or loss	0.0	2,500.4	0.0	2,207.6	2020-2022
Foreign currency derivatives					
Currency options					
Currency options	0.0	0.4	-	-	2020

The fair value of Interest rate caps, bought was 11 577 (4 186) euros. The fair value of currency options is zero.

The interest derivative agreements were made in order to hedge the loan portfolio and currency derivatives in order to hedge against currency risk. On the balance sheet date, hedge accounting was not applied to interest rate caps or currency options.

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 accuracy of derivative instruments' fair value internally by using the public market data system in making the estimates.

Maturity of non-current liabilities

Maturity of non-current liabilities 31 December 2019, M€	2020*	2021**	2022	2023	2024	2025+
Loans from financial institutions	-	2,314.4	0.0	0.0	0.0	1.3

Maturity of non-current liabilities 31 December 2018, M€	2019*	2020	2021	2022	2023	2024+
Bonds and FRNs	-	170.5	-	-	-	-
Loans from financial institutions	0.0	2,551.5	-	-	-	1.3

This table shows the maturities of non-current liabilities, showing the *nominal value* at the reporting date.
* Loans maturing in the year following the balance sheet date are presented in the balance sheet under current loans.
** Includes EUR 336.8 million of interest-bearing liabilities associated with non-current assets held for sale.

Maturity analysis of IFRS 16 lease liability is presented in note 9 of the consolidated financial statements.

The average interest rate of all the Group's loans, including derivatives, was 3.7 (3.6) %. The average maturity of loans was 1.6 (1.8) years.

Secured Loan type	Signed	Nominal amount, M€	Carrying amount, M€	Secured	Original loan period	Arranged by
Bank Loans	November 2017	2,248.4	1,795.9	Yes	2+1+1+1 years	Several banks
Bank Loans	December 2017	377.5	314.2	Yes	2+1+1+1 years	Several banks
Bank Loan	August 2019	204.3	204.3	Yes	2+1+1+1 years	Several banks

Listed Loan type	Issued	Nominal amount, M€	Carrying amount, M€	Coupon	Listed	Secured	Original loan period	Arranged by
Corporate bond	May 2015	175.0	170.5	2.375%	NASDAQ OMX Helsinki	No	5 years	OP Corporate bank &Swedbank

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.

In Sponda's operations, the principle is to realise shareholdings of property companies by selling the shares held by the Group, not the property that is the basis of deferred taxes.

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.

Individual acquisitions of investment properties at Sponda are classified as acquired assets. The acquisitions of investment properties classified as assets involve the transfer of assets, and such acquisitions do not involve the transfer of particular business processes or people responsible for them, let alone the related marketing and development activities or the management of tenancies, property repairs and renovation.

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€	**2019**	**2018**
Current tax expense	0.8	0.6
Deferred taxes	-25.0	12.7
Total	**-24.2**	**13.3**

Taxes relating to other comprehensive income items

			2019			**2018**
M€	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Defined benefit plans	0.0	0.0	0.0	0.1	0.0	0.1
Cash flow hedges	-	-	-	-	-	-
Translation differences	-0.2	-	-0.2	-0.2	-	-0.2
Total	**-0.2**	**0.0**	**-0.2**	**-0.2**	**0.0**	**-0.2**

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%):

	2019	2018
Profit before taxes	50.8	47.1
Income tax using the parent company's domestic corporate tax rate	10.2	9.4
Tax exempt income/non-deductible expenses	5.4	4.9
Tax effect of Goodwill depreciation	-	0.7
Shelf life amortisation and previously unrecognised confirmed losses	-	-0.0
Deferred tax related to sold assets	-39.5	-3.8
Other items*	-0.4	2.1
Tax expense in the income statement	**-24.2**	**13.3**

Deferred tax liabilities and assets in the balance sheet

M€	31.12.2018	Recognised in income statement	Transfers and other changes	Recognised in other comprehensive income items	31.12.2019
Deferred tax assets					
Assessments at fair value:					
Investment properties	-				-
Other items/transfers	22.3	0.2	3.1	-0.1	25.5
Total	**22.3**	**0.2**	**3.1**	**-0.1**	**25.5**
Deferred tax liabilities					
Assessments at fair value:					
Investment properties	166.4	-24.7			141.7
Other items/transfers	0.8	-0.1	2.9		3.6
Total	**167.2**	**-24.8**	**2.9**		**145.3**

M€	31.12.2017	Recognised in income statement	Transfers and other changes	Recognised in other comprehensive income items	31.12.2018
Deferred tax assets					
Assessments at fair value:					
Investment properties	6.3		-6.3		-
Other items/transfers	7.6	8.3	6.3	0.2	22.3
Total	**13.9**	**8.3**	**0.0**	**0.2**	**22.3**
Deferred tax liabilities					

Assessments at fair value:					
Investment properties	145.3	21.1			166.4
Other items/transfers	0.8	-0.1	0.1		0.8
Total	**146.1**	**21.0**	**0.1**		**167.2**

On 31 December 2019, the Group had EUR 3.6 (3.3) million of confirmed losses and EUR 34.7 (55.8) 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.

Number of shares

M€	No. of shares (1,000)	Share capital	Share premium reserve	Invested non-restricted equity reserve	Total
31.12.2006	**79,307**	**79.3**	**159.4**	**-**	**238.8**
Share issue	31,723	31.7	-	209.7	241.4
31.12.2007	**111,030**	**111.0**	**159.4**	**209.7**	**480.2**
31.12.2008	111,030	111.0	159.4	209.7	480.2
Share issue	166,545	-	-	202.3	202.3
31.12.2009	**277,575**	**111.0**	**159.4**	**412.0**	**682.5**
31.12.2010	277,575	111.0	159.4	412.0	682.5
Share issue	5,500	-	-	21.7	21.7
31.12.2011	**283,075**	**111.0**	**159.4**	**433.8**	**704.2**
31.12.2012	283,075	111.0	159.4	433.8	704.2
31.12.2013	283,075	111.0	159.4	433.8	704.2
31.12.2014	283,075	111.0	159.4	433.8	704.2
31.12.2015	283,075	111.0	159.4	433.8	704.2
Share issue	56,615	-	-	219.0	219.0
31.12.2016	339,691	111.0	159.4	652.7	923.2
Capital repayment				-80.0	-80.0
31.12.2017	339,691	111.0	159.4	572.7	843.2
Increase of invested non-restricted equity reserve				184.0	184.0
31.12.2018	339,691	111.0	159.4	756.7	1,027.1
Capital repayment				-189.0	-189.0
31.12.2019	**339,691**	**111.0**	**159.4**	**567.7**	**838.1**

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. Due to financing arrangements, Sponda had no derivative instruments at the end of the financial year.

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. Sponda redeemed the EUR 95 million hybrid bond in December 2017 in accordance with its terms and conditions.

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€	2019	2018
At beginning of financial year	217.3	503.9
Profit for the period attributable to equity holders of the parent company	75.5	33.8
Defined benefit pension obligations	0.0	0.1
Dividend payment	-149.0	-320.5
At end of financial year	**143.8**	**217.3**

Dividend

After the balance sheet date, the Board of Directors has proposed that no dividend will be distributed. Dividends paid during the financial year were EUR 149.0 million. Dividend per share was 0.44 €/share.

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€	2019	2018
Profit for the period attributable to equity holders of the parent company	75.5	33.8
Weighted average number of shares during the period (million), pcs	339.7	339.7
Diluted earnings per share attributable to parent company equity holders, €	**0.22**	**0.10**

There were no diluting instruments in 2019 and 2018.

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 2019, the Sponda Group had 136 (119) employees on average.

Salaries and fees, M€	**2019**	**2018**
Management remuneration		
President and CEO	3.7	1.4
Other Executive Board members	2.0	3.8
Board of Directors	0.0	0.0
Management remuneration, total	5.7	5.2
Other wages and salaries	10.5	8.4
Defined benefit pension plans	0.0	0.0
Defined contribution pension plans	3.0	2.0
Other social security costs	0.4	0.6
Total	**19.7**	**16.2**

The President and CEO is paid a full salary. The salary and exceptional fees paid to Sponda Plc's President and CEO totalled EUR 3.7 (1.4) million.

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 and pension of Sponda Plc's President and CEO is determined in accordance with the Finnish Employees' Pension Act (TyEL).

Under the terms of the service contract, CEO's term of notice is six months. In the event of the company terminating the service contract, CEO is entitled, in addition to the terms of notice, to compensation equal to 18 months' pay if the termination occurs not more than 24 months from the beginning of the service contract. If the termination occurs more than 24 months from the beginning of the service contract, CEO is entitled, in addition to the terms of notice, to compensation equal to 12 months' pay.

The President and CEO and the members of the Executive Board appointed before 2019 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 amounted to 15 per cent of the fixed annual salary of each member of the Executive Board. In 2019, the premiums of the voluntary group pension scheme of the President and CEO and other Executive Board members were EUR 136.0 (287.5) thousand. The scheme does not apply to members of the Executive Board appointed in 2018 other than the President and CEO.

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€	**2019**	**2018**
Defined benefit obligation	1.8	2.2
Fair value of employee benefit plan assets	1.4	1.8
Net defined benefit (asset) liability 31.12.	**0.4**	**0.4**

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 2019 or on 31 December 2018

The members of the Board of Directors and the Executive Board did not own any shares in Sponda Plc at the end of 2018 or 2019.

Of the members of Sponda Plc's Board of Directors, Outi Henriksson was paid a fee of EUR 2.8 thousand per month until 2 May, 2019. Svein Erik Lilleland is paid a fee of EUR 2.8 thousand per month for the term ending at the 2019 Annual General Meeting.

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€	**2019**	**2018**
Kai Aejmelaeus, President and CEO until 20 December 2019	3.7	0.7
Ari Käkelä, Interim CEO as of 20 December 2019	0.0	-
Kari Inkinen, President and CEO until 16 April 2018	-	0.6
Board of Directors	-	-
Michael Swank	-	-
James Seppälä	-	-
Svein Erik Lilleland	0.0	0.0
Andrew Lax[3]	-	-
Jean-Francois Bossy	-	-
Leif Andersson	-	-
Outi Henriksson[5]	0.0	0.0
Kari Inkinen[1]	-	-
Laurent Machenaud	-	-

Diana Hoffmann[2]	-	-
Adam Shah[4]	-	-
Board of Directors	0.0	0.0
Total	**3.7**	**1.5**

1) until 20 March 2019
2) as of 20 March 2019
3) until 4 December 2019
4) as of 4 December 2019
5) until 2 May 2019

Business transactions carried out with related parties; receivables from and liabilities to related parties as of 31 December 2019

There were no material business transactions with related parties during the period under review.

Business transactions carried out with related parties; receivables from and liabilities to related parties as of 31 December 2018

M€	**Income**	**Expenses**
Polar Bidco S.à r.l.	-	8.8
Total	**-**	**8.8**

M€	**Liabilities**	**Receivables**
Polar Bidco S.à r.l.	5.0	-
Total	**5.0**	**-**

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

M€	2019	2018
Authorised Public Accountants KPMG Oy		
Audit	0.2	0.2
Tax advice	0.2	0.1
Other services	0.1	0.0
Total	**0.5**	**0.3**

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

The IFRS 16 Leases standard has replaced the IAS 17 standard at the beginning of the 2019 financial period. The application of the standard did not result in any changes to the accounting treatment of leases where Sponda acts as the lessor.

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. Sponda's leases are mainly leases with contingent rent payments in accordance with IFRS 16.

Leases including incentives, such as rent-free periods or rental discounts, are recognised on a straight-line basis over the lease term.

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.

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

The impacts of IFRS 16 on Sponda as a lessee mainly arise from leased plots of land as well as leases for cars. The right-of-use assets recognized as part of investment properties consist of land leases subject to Sponda's core business. The right-of-use assets recognized as property, plant and equipment, on the other hand, are leased cars.

At the time of the standard's adoption, on 1 January 2019, the Group recognised in its balance sheet a lease liability reflecting lease payments. The Group's lease liability has been measured by discounting the lease liabilities of the leases that fall within the scope of the standard at their present value using the Group's view of the incremental borrowing rate as a discount factor.

Sponda has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4

More information on the adoption of IFRS 16 is presented in General accounting principles and in note 9 of the consolidated financial statements.

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".

	2019		2018	
	Investment FV, M€	Holding	Investment FV, M€	Holding
First Top LuxCo S.à r.l	0.0	20.0%	0.0	20.0%
YESS Ky	-	-	0.0	60.0%
Russia Invest B.V.	18.3	27.2%	16.2	27.2%
Total	**18.3**		16.2	

First Top LuxCo 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 due to the company being in liquidation.

YESS Ky is a fund established by Sponda Plc and Yleisradion eläkesäätiö that develops the Forum Virium project. No capital investments have been made in the fund. YESS Ky fund has been liquidated June 19, 2019.

Sponda has indirect investment of 14.9% in the Oktha Mall center project as Sponda Plc owns 27.2% of Russia Invest B.V. which has a 55% stake in the in the Okhta Mall shopping centre in St. Petersburg. As at 31 December 2019 the fair value of the investment amounted to approximately EUR 18.3 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).

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 include, 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 2019 amounted to EUR 0.6 (0.3) million. EUR 0.2 million is related to depreciations from IFRS 16 right-of-use assets.

The Group's depreciation on other intangible assets in 2019 amounted to EUR 0.5 (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.

When a trading property becomes an investment property that is measured on the balance sheet at fair value, the difference between the fair value on the transfer date and its previous carrying amount is recognised in the profit or loss under profit/loss on sales of trading assets.

Trading properties comprise 16 properties that are owned mainly through real estate or housing limited companies.

Trading properties

M€	**2019**	**2018**
Trading properties at the start of the period	6.6	6.6
Disposals and other changes	-0.1	0.0
Trading properties at the end of the period	**6.5**	**6.6**

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.

M€	**2019**	**2018**
Current non-interest-bearing receivables		
Trade receivables	4.9	4.1
Other receivables	0.1	1.9
VAT receivables	18.5	19.9
Advances paid	0.1	0.2
Other prepaid expenses and accrued income	6.8	2.7
Total	**30.4**	**28.8**

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

In 2019 for trade receivables impairment of EUR 1.4 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.

M€	2019	2018
Current non-interest bearing debt		
Advances received	9.5	9.1
Trade payables	6.3	6.0
Interest liabilities	11.7	11.7
Other current liabilities	2.1	8.0
VAT debt	16.6	21.3
Accrued expenses and deferred income	15.6	17.0
Total	**61.8**	**73.2**
Interest and financial items	-	-
Personnel expenses	8.6	6.0
Taxes	0.0	0.3
Investments	2.4	6.4
Other items	4.6	4.3
Total accrued expenses and prepaid income	**15.6**	**17.0**

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 2019	Group 2018
Loans from financial institutions, covered by collateral	2,314.4	2,551.5
*Mortgages**	2,314.4	2,551.5
Fair value of properties in such companies where no property mortgages are given (only pledge of shares)	159.0	186.7
*Fair values of properties in such companies where, in addition the pledge of shares, property mortgages are given***	3,099.1	3,147.9
Cash and cash equivalents on pledged bank accounts	92.4	75.1

**) Starting from 30 June 2019, the figure for mortgages also includes the effect of secondary mortgages. The comparison figures have been adjusted to reflect this change.*
***)Sponda office building Korkeavuorenkatu 45 hasn't been included as this property isn't classified as investment property according to IAS 40 and therefore it has no Fair Value.*

For clarification, it is stated that in 2019 the fair value of pledged properties amounted to EUR 3,258.1 (3,334.6) million, containing both property mortgages and share pledges. Including cash and cash equivalents in 2019, the pledges amount to EUR 3,350.5 (3,409.7) million.

Commitments arising from land lease and other contracts, M€	Group 2019	Group 2018	Parent company 2019	Parent company 2018
Lease liabilities	-	50.0	-	-
Mortgages	4.2	4.5	-	-
Guarantees	5.1	3.3	5.1	3.3
Total	**9.3**	**57.8**	**5.1**	**3.3**

Operating leases, M€	Group 2019	Group 2018	Parent company 2019	Parent company 2018
Contractual maturities on lease contracts:				
During the following financial year	0.2	0.3	-	-
Due after the following year	0.1	0.3	-	-
Total	**0.3**	**0.6**	**-**	**-**

The decline in off-balance sheet lease liabilities is due to the adoption of IFRS 16 on 1 January 2019, the effects of which are described in more detail in the Accounting principles section. After the adoption of IFRS 16 on 1 January 2019, off-balance sheet lease liabilities consist of liabilities related to short-term leases and leases of low value.

Other leases consist of leases for 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 63.0 (80.3) million.

Investment commitments

On 31 December 2019, the remaining investment commitments related to real estate funds totalled EUR 3.2 (3.5) million.

7.9 Events after the balance sheet date

After the reporting period, between January and February 2020, Sponda have sold properties with a total balance sheet value of 412 million euros

8. Group structure

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

Sponda Group comprises the parent company Sponda Plc and its wholly or partly-owned subsidiaries.

Non-controlling interests did not have significant holdings in the Group on 31 December 2019 and 31 December 2018.

The following is a list of shares and holdings owned by the Group and the parent company on 31 December 2019.

Real estate companies:		Group holding %	Parent company holding %
Arif Holding Oy	Kempele	100.00	
Arkadiankatu 4-6	Helsinki	100.00	
Atomitie1	Helsinki	100.00	100.00
Backaksenpelto	Vantaa	100.00	
Bulevardi1	Helsinki	100.00	
Design House Hattutehdas	Helsinki	100.00	
Dianapuisto	Helsinki	100.00	
Drawer Oy	Helsinki	100.00	100.00
Elovainion Kauppakiinteistöt	Ylöjärvi	100.00	
Espoon Esikunnankatu 1	Espoo	100.00	100.00
Espoon Kuusiniementie 2	Espoo	100.00	
Espoon Upseerinkatu 1-3	Espoo	100.00	
Espoonportti	Espoo	100.00	
Estradi 2	Helsinki	100.00	100.00
Fabianinkatu 23	Helsinki	100.00	
Gohnt-talo	Helsinki	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	77.07	
Helsingin Forum	Helsinki	100.00	
Helsingin Erottajanmäki	Helsinki	100.00	
Helsingin Harkkoraudantie 7	Helsinki	100.00	100.00
Helsingin Hämeentie 105	Helsinki	60.63	
Helsingin Itämerenkatu 21	Helsinki	100.00	
Helsingin Itämerentalo	Helsinki	100.00	
Helsingin Kaivokatu 8	Helsinki	100.00	
Helsingin Kalevankatu 30	Helsinki	100.00	
Helsingin Kirvesmiehenkatu 4	Helsinki	100.00	100.00
Helsingin Nuijamiestentie	Helsinki	100.00	
Helsingin Pieni Roobertinkatu 9	Helsinki	100.00	
Helsingin Porkkalankatu 22	Helsinki	100.00	
Helsingin Ruoholahden Parkki	Helsinki	90.78	
Helsingin Silkkikutomo	Helsinki	100.00	
Helsingin Sörnäistenkatu 2	Helsinki	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	
Helsingin Valimotie 27 B	Helsinki	100.00	
Helsingin Valimotie 27 C	Helsinki	100.00	
Helsingin Valimotie 27 D	Helsinki	100.00	
Helsingin Valuraudankuja 7	Helsinki	100.00	100.00
Helsingin Vanhanlinnantie 3	Helsinki	100.00	
Helsingin Veneentekijäntie 8	Helsinki	100.00	
Helsingin Vuorikatu 14	Helsinki	100.00	

Helsingin Värjäämö	Helsinki	100.00	
Hermian Pulssi	Tampere	100.00	100.00
Hiukkasvaaran Kasarmit	Oulu	100.00	
Hyvinkään Varikko	Hyvinkää	100.00	100.00
Hämeenkatu 20	Tampere	100.00	
Hämeenlinnan Hallituskatu 10	Hämeenlinna	100.00	
Hämeentie 103	Helsinki	100.00	100.00
Höyläämöntie 5	Helsinki	100.00	
Insinöörinkatu	Helsinki	100.00	
Isontammentie 4	Vantaa	100.00	100.00
Iso-Roobertinkatu 21-25	Helsinki	100.00	
Kaisaniemenkatu 2 B	Helsinki	100.00	
Kaivokadun Tunneli	Helsinki	100.00	
Kalkkipellontie 6	Espoo	100.00	
Kappelitie 8	Espoo	100.00	
Karapellontie 4C	Espoo	100.00	100.00
Kasarmikatu 36	Helsinki	100.00	
Kaupintie 3	Helsinki	100.00	
Kauppa-Häme	Tampere	100.00	
Keimolan Radioasema Koy	Vantaa	100.00	100.00
Kenkätie 16 Koy	Pirkkala	100.00	100.00
Korkeavuorenkatu 45	Helsinki	100.00	
Kumpulantie 11	Helsinki	100.00	
Kylvöpolku 1	Helsinki	100.00	100.00
Kuusamon Sesaju	Kuusamo	100.00	100.00
Liikekeskus Zeppelin Oy	Kempele	85.66	
Läkkitori	Espoo	100.00	
Länsi-Keskus	Espoo	58.64	
Malmin Postitalo Koy	Helsinki	100.00	
Malmin Yritystalo	Helsinki	100.00	100.00
Mannerheimintie 6	Helsinki	100.00	
Mansku 4	Helsinki	100.00	
Martinkyläntie 53	Vantaa	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	
Mikonkatu 17	Helsinki	100.00	
Mikonkatu 19	Helsinki	100.00	
Mikonlinna	Helsinki	100.00	
Mäkkylän Toimistotalo	Helsinki	100.00	
Oulun Alasintie 3-7	Oulu	100.00	
Oulun Korjaamotie 2	Oulu	100.00	100.00
Oulun Liikevärttö 1	Oulu	100.00	
Oulun Liikevärttö 2	Oulu	100.00	
Oulun Liikevärttö 3	Oulu	100.00	
PaulonTalo	Helsinki	100.00	
Pieni Roobertinkatu 7	Helsinki	99.79	
Piispanpiha 5	Helsinki	100.00	
Porkkalankatu 20	Helsinki	100.00	
Porkkalankadun alitus Koy	Helsinki	62.64	
Pronssitie 1	Helsinki	100.00	
Ratapihantie 11	Helsinki	100.00	
Ratinan Kauppakeskus	Tampere	100.00	40.00
Ratinanlinna	Tampere	100.00	
Robert Huberintie 2	Vantaa	100.00	
Ruoholahden Ankkuri	Helsinki	100.00	
Ruoholahden Sulka	Helsinki	100.00	
Ruoholahden Yhteissuoja Koy	Helsinki	100.00	100.00
Salmisaaren Liiketalo	Helsinki	100.00	
Scifin Beta	Espoo	100.00	
Scifin Gamma	Espoo	100.00	

Sinikalliontie 10	Espoo	100.00	
Sinimäentie 14	Espoo	100.00	
Sp-kiinteistöt Oy Kilo	Espoo	100.00	
SRK-Kiinteistöt Oy	Helsinki	100.00	100.00
Säästötammela	Tampere	100.00	
Tallbergintalo	Helsinki	100.00	
Tamforest Oy	Tampere	100.00	100.00
Tampereen Enqvistinkatu 7	Tampere	100.00	
Tampereen Hallituskatu 8	Tampere	100.00	
Tampereen Hämeenkatu 18 Koy	Tampere	100.00	
Tampereen Naulakatu 3	Tampere	100.00	
Tampereen Näsilinnankatu 39-41	Tampere	100.00	
Tampereen Vuolteenkatu 2	Tampere	100.00	
Tamsilva Oy	Tampere	100.00	100.00
Tulli Koy	Tampere	100.00	
Turunlinnantie 12	Helsinki	100.00	
Tuusulan Teollisuuskuja 6	Tuusula	100.00	100.00
Tuusulan Tärkkelystehdas	Tuusula	100.00	100.00
Unioninkatu 18	Helsinki	100.00	
Unioninkatu 20-22	Helsinki	100.00	
Unioninkatu 24	Helsinki	100.00	
Upseerinkadun Pysäköintitalo	Espoo	100.00	
Vaajakosken Tikkutehtaantie 1	Vaajakoski	100.00	
Vantaan Harkkokuja 2	Vantaa	100.00	100.00
Vantaan Jokiniementie Koy	Vantaa	100.00	100.00
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	
Vilhonkatu 5	Helsinki	100.00	
Vuosaaren LC Koy	Helsinki	100.00	100.00
Vuosaaren PC Koy	Helsinki	100.00	100.00
Värtönparkki 1	Oulu	100.00	
Ylä-Malmintori 6	Helsinki	100.00	
Zeppelinin City-Keskus	Kempele	94.83	
Zeppelinin Kauppakeskus	Kempele	91.47	
Zeppelinin Kauppakulma	Kempele	100.00	
Zeppelinin Kauppapörssi	Kempele	91.44	
Zeppelinin Markkinapaikka	Kempele	100.00	
Zeppelinin Pikkukulma	Kempele	100.00	
Zeppelinin Tavaratori	Kempele	78.87	

Limited liability companies			
MOW Mothership Of Work Oy	Helsinki	100.00	100.00
MOW Stargate Oy	Helsinki	100.00	100.00
MOW Supernova 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	
Sponda Russia Finance Oy Ltd	Helsinki	100.00	
Sponda Russia Oy Ltd	Helsinki	100.00	100.00
Sponda Real Estate Oy	Helsinki	100.00	100.00
Sponda Investment Properties A Oy	Helsinki	100.00	
Sponda PledgeCo A Oy	Helsinki	100.00	
Sponda Mezza Financing A Oy	Helsinki	100.00	

Sponda Mezza Holding A Oy	Helsinki	100.00	100.00
Sponda Investment Properties B Oy	Helsinki	100.00	
Sponda PledgeCo B Oy	Helsinki	100.00	
Sponda Mezza Financing B Oy	Helsinki	100.00	
Sponda Mezza Holding B Oy	Helsinki	100.00	100.00
Sponda Investment Properties C Oy	Helsinki	100.00	
Sponda PledgeCo C Oy	Helsinki	100.00	
Sponda Mezza Financing C Oy	Helsinki	100.00	
Sponda Mezza Holding C Oy	Helsinki	100.00	100.00
Sponda Investment Properties D Oy	Helsinki	100.00	
Sponda PledgeCo D Oy	Helsinki	100.00	
Sponda Mezza Financing D Oy	Helsinki	100.00	
Sponda Mezza Holding D Oy	Helsinki	100.00	100.00
Sponda Newco 1 Oy	Helsinki	100.00	
Sponda Newco MH 2 Oy	Helsinki	100.00	
Sponda Newco MF 3 Oy	Helsinki	100.00	
Sponda Newco P 4 Oy	Helsinki	100.00	
Sponda Newco SIP 5 Oy	Helsinki	100.00	100.00

Associates and joint ventures			
Erottajan Pysäköintilaitos Oy	Helsinki	49.29	
Kaisaniemen Metrohalli	Helsinki	25.17	18.23
Kluuvin Pysäköinti Koy	Helsinki	25.35	
Zeppelinin Kulmatori Kiinteistö Oy	Kempele	49.67	

Real estate fund companies			
First Top LuxCo 1 S.a.r.l	Luxembourg	20.00	20.00
Russia Invest B.V.i.o	The Netherlands	27.23	27.23

Foreign subsidiaries		
OOO Veika	St. Petersburg, 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

Changes in Group structure in 2019

Companies sold		
Aleksi-Hermes	Helsinki	100.00
Espoon Komentajankatu 5	Espoo	100.00
Estradi	Helsinki	100.00
Helsingin Ilmalanrinne 1	Helsinki	100.00
Helsingin Itäkatu 11	Helsinki	100.00
Helsingin Salmisaarentalo	Helsinki	100.00
Keskuskatu 1 B	Helsinki	100.00
Kilonkallio 1	Espoo	100.00
Oulun Alasintie 8 Koy	Oulu	100.00
Poijupuisto	Espoo	100.00
Tampereen Hämeenkatu 13 Koy	Tampere	100.00
Tiistilän Miilu	Espoo	100.00
Tiistinhovi	Espoo	100.00
Quartetton Cello	Espoo	100.00

Companies Liquidated		
YESS Ky	Helsinki	60.00

9. Information related to adoption of the new standards

Sponda has adopted the new IFRS 16 Leases -standard effective January 1, 2019. In adopting the standard, Sponda applied the modified retrospective approach along with the exemptions provided by the standard. Hence, the comparison figures were not adjusted and the cumulative effect, excluding short-term leases and leases of low value, was recognised in the opening balance sheet of 1 January 2019.

Impact of IFRS 16 adoption on consolidated balance sheet 31 December 2018

M€	**31.12.2018**	**IFRS 16 impact***	**1.1.2019***
ASSETS			
Non-current assets			
Investment properties	3,755.8	33.9	3,789.7
Investments in real estate funds	16.2	-	16.2
Property, plant and equipment	13.9	0.4	14.3
Other intangible assets	1.3	-	1.3
Finance lease receivables	2.7	-	2.7
Other investments	0.1	-	0.1
Deferred tax assets	22.3	-	22.3
Non-current assets total	**3,812.5**	**34.3**	**3,846.8**
Current assets			
Trading properties	6.6	-	6.6
Trade and other receivables	28.8	-	28.8
Cash and cash equivalents	106.7	-	106.7
Current assets total	142.1	-	142.1
Non-current assets held for sale	241.4	-	241.4
Total assets	**4,195.9**	**34.3**	**4,230.1**
SHAREHOLDERS' 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	756.7	-	756.7
Revaluation reserve	0.7	-	0.7
Translation differences	0.3	-	0.3
Retained earnings	217.3	-	217.3
Equity attributable to equity holders of the parent company	**1,245.5**	**-**	**1,245.5**
Non-controlling interest	1.9	-	1.9
Shareholders' equity, total	**1,247.4**	**-**	**1,247.4**
Liabilities			
Non-current liabilities			
Deferred tax liabilities	167.1	-	167.1
Interest-bearing loans and borrowings	2,516.2	32.6	2,548.8
Other liabilities	0.4	-	0.4
Non-current liabilities total	**2,683.8**	**32.6**	**2,716.4**
Current liabilities			
Current interest-bearing liabilities	0.0	1.7	1.7
Trade and other payables	73.2	-	73.2
Current liabilities total	73.3	1.7	75.0

Liabilities associated with non-current assets held for sale	191.5	-	191.5
Total borrowings	**2,948.6**	**34.3**	**2,982.9**
Total equity and liabilities	**4,195.9**	**34.3**	**4,230.1**

* Figures are revised from H1 release due to update on index calculation

During the period under review, leases recognised in the balance sheet had an effect of EUR 2.6 million on lease expenses, EUR -1.9 million on the change in fair value, EUR -0.2 million on depreciation and EUR -0.9 million on financial expenses. The impact on Sponda's net operating income for the period was EUR 2.6 million and the impact on the result before taxes was EUR -0.4 million. The impact on Sponda's cash flow from operating activities during the period was EUR 3.5 million and from financing activities was EUR -3.5 million.

The impact that leases recognised in the balance sheet had on Sponda's income statement and balance sheet during the period are presented in more detail in the table below:

Specification of changes to the income statement and balance sheet during the reporting period related to IFRS 16

M€	**Right-of-use assets**			**Lease liabilities**
	Investment properties	Property, plant and equipment	Total	
31 December 2018	-	-	-	-
Impact of IFRS 16 adoption	33.9	0.4	34.3	34.3
1 January 2019	33.9	0.4	34.3	34.3
Increase	-	0.1	0.1	0.1
Decrease	-1.9	-	-1.9	-1.9
Depreciation and amortisation	-	-0.2	-0.2	-
Change in fair value	-1.9	-	-1.9	-
Interest expenses	-	-		0.9
Payments	-	-		-2.6
31 December 2019	30.1	0.3	30.4	30.8

Reconciliation from IAS 17 Lease commitments to IFRS 16 opening balance lease liability

M€	
IAS 17 operating leases commitments as at December 31, 2018	50.6
Impact from discounting the future lease payments	-16.1
*Other changes**	-0.2
IFRS 16 lease liability in the opening balance sheet as at January 1, 2019	34.3

* Other changes include impact from the exclusion of short-term and low-value leases.

Maturity of IFRS 16 Lease liabilities

M€	
Less than 1 year	1.6
1-5 years	3.3
5-10 years	6.6
Over 10 years	19.3
Total	**30.8**

Parent company income statement (FAS)

M€	Note	1.1.-31.12.2019	1.1.-31.12.2018
Total revenue			
Rental income and recoverables	1	10.6	50.7
Management fees		0.0	0.0
		10.6	50.7
Cost of goods sold			
Expenses from leasing operations	2	-6.4	-19.6
		-6.4	-19.6
Net operating income		**4.2**	**31.1**
Sales and marketing expenses		-0.7	-2.4
Administrative expenses	5 6	-2.4	-6.0
Other operating income	3	37.7	164.5
Profits on sale of investment properties		0.2	0.2
Other operating expenses	4	-2.2	-1.8
Operating profit		**36.9**	**185.7**
Financial income and expenses	16	1.5	-27.8
Profit/loss before appropriations		**38.4**	**157.9**
Appropriations	7	12.4	0.2
Profit/loss before tax		**50.8**	**158.0**
Income taxes	8	-6.9	-38.4
Profit/loss for the period		**43.9**	**119.6**

Parent company balance sheet (FAS)

M€	Note	31.12.2019	31.12.2018
Assets			
Non-current assets			
Intangible assets	9	2.7	3.7
Property, plant and equipment	10		
Advances paid		0.3	0.3
Total property, plant and equipment		0.3	0.3
Investments	11		
Holdings in Group companies		1,108.4	1,026.1
Receivables from Group companies		493.4	578.0
Holdings in associated companies		21.8	32.5
Investments in real estate funds		16.0	15.1
Other investments		7.6	134.9
Total investments		1,647.1	1,786.7
Total non-current assets		**1,650.1**	**1,790.8**
Current assets			
Other current assets		5.5	5.5
Current receivables	12	124.5	57.8
Cash and bank deposits		2.5	22.4
Total current assets		**132.5**	**85.7**
Total assets		**1,782.6**	**1,876.5**
Equity and liabilities			
Equity	13		
Share capital		111.0	111.0
Share premium reserve		159.1	159.1
Invested non-restricted equity reserve		581.7	770.7
Retained earnings		278.4	307.9
Profit/loss for the period		43.9	119.6
Total equity		**1,174.3**	**1,468.3**
Liabilities			
Non-current liabilities	15	290.2	235.5
Current liabilities	15	318.2	172.7
Total liabilities		**608.3**	**408.2**
Total equity and liabilities		**1,782.6**	**1,876.5**

Parent company statement of cash flows

M€		1.1.-31.12.2019	1.1.-31.12.2018
Cash flow from operating activities			
Profit for the period		43.9	119.6
Adjustments	1)	-39.8	-95.6
Change in net working capital	2)	-67.5	-78.4
Interest received		7.7	4.6
Interest paid		-7.3	-7.4
Other financial items		0.9	-14.4
Net cash flow generated by operating activities		**-62.1**	**-71.6**
Cash flow from investing activities			
Investments in shares and holdings		-0.9	-0.1
Acquisition of tangible and intangible assets		-2.2	-13.3
Proceeds from disposal of shares and holdings		1.5	0.6
Loans granted		-28.0	-35.2
Repayments of loan receivables		409.8	711.4
Net cash flow used in investing activities		**380.2**	**663.5**
Cash flow from financing activities			
Increase of invested non-restricted equity reserve		-	184.0
Non-current loans, repayments		-	-154.5
Current loans, raised/repayments		-	-318.5
Dividend distribution and other capital repayments		-338.0	-320.5
Net cash flow generated from financing activities		**-338.0**	**-609.5**
Change in cash and cash equivalents		**-19.9**	**-17.6**
Cash and cash equivalents at 1 Jan.		22.4	40.0
Cash and cash equivalents at 31 Dec.		**2.5**	**22.4**

Notes to the cash flow statement

M€		**1.1.-31.12.2019**	1.1.-31.12.2018
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 operating expenses	1.6	-
	Other operating income	-34.7	-164.6
	Depreciation and amortisation	0.3	3.0
	Dividends	-2.3	-
	Financial income and expenses	0.8	27.8
	Group contributions	12.4	-0.2
	Merger loss	-	0.3
	Provisions	-	-0.4
	Taxes	6.9	38.4
	Adjustments, total	**-39.8**	**-95.6**
2)	*Statement of change in net working capital*		
	Current receivables		
	increase (-), decrease (+)	10.4	-15.4
	Non-interest-bearing current liabilities		
	increase (+), decrease (-)	-78.0	-62.9
	Change in net working capital	**-67.5**	**-78.4**

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 capitalised 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 capitalised 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 depreciation. 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 capitalised to other long-term expenditure are depreciated over the lease period, 1–10 years.

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. Starting from the financial year 2017 investments in shares are measured at fair value in the parent company's balance sheet. Shares were previously measured at cost. The effect of measuring shares at fair value with respect to the starting balances is recognised directly in equity. Permanent write-downs on items excluded from fair value measurement are deducted from cost.

The measurement principles are documented in Note 2 of the consolidated financial statements.

Trading property

Trading properties are properties or shares in property companies that are meant to be sold or that are developed to be sold. Receivables from such companies are reported as long-term receivables.

Research and development costs

The company has no research activities. Building project costs equivalent to R&D costs are capitalised 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

Sponda Plc's financing was restructured in the final quarter of 2017 due to ownership arrangements. Under the new structure, the debtors are property companies and the financial items in Sponda are reversed.

Income taxes

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 differences between taxation and the financial statements is calculated based on the known tax rate confirmed for the following years on the balance sheet date. The balance sheet includes the deferred tax liability in its entirety and deferred tax assets are recognised based on the probable amount.

Other principles

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

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

The Group has no significant finance leases.

1. Rental income and recoverables

Rental income and recoverables by type of property, M€	**2019**	**2018**
Office and Retail Properties	3.0	43.3
Logistics Properties	7.4	7.1
Property Development	0.2	0.2
Total	**10.6**	**50.7**

Rental income and recoverables by geographical area, M€	**2019**	**2018**
Helsinki Metropolitan Area	8.4	44.3
Rest of Finland	2.3	6.4
Total	**10.6**	**50.7**

2. Depreciation, amortisation and impairment losses

M€	**2019**	**2018**
Intangible assets		
Other long-term expenditure	0.3	3.0
Total	**0.3**	**3.0**

Depreciation, amortisation and impairment losses are included in the income statement under expenses from leasing operation

3. Other operating income

M€	**2019**	**2018**
Share of bankruptcy estate	0.0	0.0
Change in fair value of shares	34.5	164.4
Other operating income	3.2	0.1
Total	**37.7**	**164.5**

4. Other operating expenses

M€	**2019**	**2018**
Other expenses	2.1	1.7
Credit losses	-0.0	-0.1
Doubtful receivables	0.1	0.2
Total	**2.2**	**1.8**

5. Auditor fees

M€	2019	2018
Authorised Public Accountants KPMG Oy		
Audit	0.1	0.0
Tax advice	0.0	0.0
Other services	0.0	0.0
Total	**0.1**	**0.1**

6. Other administrative expenses

M€	2019	2018
External services	0.9	0.6
Other services	1.4	5.4
Total	**2.3**	**5.9**

7. Appropriations

M€	2019	2018
Group contributions received	46.2	0.2
Group contributions paid	-33.8	-
Total	**12.4**	**0.2**

8. Income taxes

M€	2019	2018
Deferred taxes	-6.9	-38.4
Total	**-6.9**	**-38.4**

9. Intangible assets

2019, M€	Other long-term expenditure	Assets under construction	Total
Acquisition cost 1 January	23.6	1.6	25.2
Increases	0.9	2.4	3.3
Transfers	-0.1	-3.6	-3.7
Acquisition cost 31 December	**24.5**	**0.4**	**24.9**
Accumulated depreciation and impairment losses 1 January	-21.5	-	-21.5
Transfers	-0.3	-	-0.3
Amortisation for the period	-0.3	-	-0.3
Accumulated depreciation 31 December	**-22.1**	**-**	**-22.1**
Net carrying amount 31 December	**2.4**	**0.4**	**2.7**

2018, M€	Other long-term expenditure	Assets under construction	Total
Acquisition cost 1 January	148.2	32.1	180.3
Increases	11.9	32.6	44.5
Transfers	-136.4	-63.1	-199.5
Acquisition cost 31 December	**23.6**	**1.6**	**25.2**
Accumulated depreciation and impairment losses 1 January	-101.6	-	-101.6
Transfers	83.1	-	83.1
Amortisation for the period	-3.0	-	-3.0
Accumulated depreciation 31 December	**-21.5**	**-**	**-21.5**
Net carrying amount 31 December	**2.1**	**1.6**	**3.7**

10. Property, plant and equipment

2019, M€	Advance payments	Total
Acquisition cost 1 January	0.3	0.3
Increases	0.0	0.0
Decreases	-0.1	-0.1
Acquisition cost 31 December	**0.3**	**0.3**
Net carrying amount 31 December	**0.3**	**0.3**

2018, M€	Advance payments	Total
Acquisition cost 1 January	0.3	0.3
Increases	0.0	0.0
Decreases	-0.0	-0.0
Acquisition cost 31 December	**0.3**	**0.3**
Net carrying amount 31 December	**0.3**	**0.3**

11. Investments

2019, M€	Shares in Group companies	Receivables from Group companies	Holdings in associated companies	Investments in property funds	Other investments *)	Total
Acquisition cost 1 January	1,026.1	578.0	32.5	15.1	134.9	1,786.7
Increases	172.6	238.6	-	0.8	0.1	412.2
Decreases	-90.3	-323.2	-10.8	-	-127.5	-551.8
Net carrying amount 31 December	**1,108.4**	**493.4**	**21.8**	**16.0**	**7.6**	**1,647.1**

*) Other investments, M€	Other shares	Receivables from associated companies	Receivables from funds	Other investments	Total
Acquisition cost 1 January	0.0	127.5	7.4	-	134.9
Increases	-	-	0.0	0.1	0.1
Decreases	-	-127.5	-	-	-127.5
Net carrying amount 31 December	**0.0**	**-**	**7.4**	**0.1**	**7.6**

2018, M€	Shares in Group companies	Receivables from Group companies	Holdings in associated companies	Investments in property funds	Other investments *)	Total
Acquisition cost 1 January	2,118.5	1,427.9	23.0	15.1	93.0	3,677.5
Increases	1,951.5	1,180.8	16.7	0.1	146.0	3,295.0
Decreases	-3,043.9	-2,030.7	-7.2	-	-104.0	-5,185.8
Net carrying amount 31 December	**1,026.1**	**578.0**	**32.5**	**15.1**	**134.9**	**1,786.7**

*) Other investments, M€	Other shares	Receivables from associated companies	Receivables from funds	Total
Acquisition cost 1 January	9.4	76.2	7.4	93.0
Increases	3.0	143.0	-	146.0
Decreases	-12.3	-91.7	-	-104.0
Net carrying amount 31 December	**0.0**	**127.5**	**7.4**	**134.9**

12. Current receivables

M€	2019	2018
Trade receivables	0.6	11.5
Other receivables	0.4	4.8
Loan receivables		
Loan receivables, Group companies	2.5	-
Prepaid expenses and accrued income		

From Group companies	118.9	39.9
Other prepaid expenses and accrued income	2.1	1.6
Prepaid expenses and accrued income, total	**121.0**	**41.6**
Current receivables, total	**124.5**	**57.8**
Main items in prepaid expenses and accrued income		
Interest and financial items	16.5	9.8
Other	104.4	31.7
Total	**121.0**	**41.6**

13. Equity

M€	2019	2018
Share capital 1 January	111.0	111.0
Share capital 31 December	**111.0**	**111.0**
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	770.7	586.7
Change	-189.0	184.0
Invested non-restricted equity reserve 31 December	**581.7**	**770.7**
Retained earnings 1 January	427.4	591.5
Fair value of shares	-	36.8
Dividend payment	-149.0	-320.5
Retained earnings 31 December	**278.4**	**307.9**
Profit/loss for the period	43.9	119.6
Total equity	**1,174.3**	**1,468.3**

Calculation of distributable funds 31 December, M€	**2019**	**2018**
Retained earnings	278.4	307.9
Invested non-restricted equity reserve	581.7	770.7
Profit/loss for the period	43.9	119.6
Total	**904.1**	**1,198.1**

14. Provisions

M€	2019	2018
Provisions 1 January	-	0.6
Increases	-	-
Decreases	-	-0.6
Provisions 31 December	**-**	**-**

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

15. Liabilities

M€	2019	2018
Non-current interest-bearing liabilities		
Bonds	-	170.3
Other non-current liabilities, internal	243.5	22.7
Total non-current interest-bearing liabilities	**243.5**	**193.0**
Deferred tax liabilities	46.7	42.5
Total non-current liabilities	**290.2**	**235.5**
Current interest-bearing liabilities		
Bonds	170.4	-
Current interest-free liabilities		
Advances received	0,0	0,0
Trade payables		
To Group companies	2.4	10.3
To other companies	0.3	0.5
Total trade payables	**2.6**	**10.8**
Accrued expenses and prepaid income		
Payable to Group companies	71.7	35.1
Payable to other companies	2.8	3.0
Total accrued expenses and prepaid income	**74.5**	**38.2**
Other current debt receivable from Group companies	70.1	118.3
Other current liabilities	0.5	5.4
Total current interest-free liabilities	**147.7**	**172.7**
Total current liabilities	**318.2**	**172.7**

Main items in accrued expenses and prepaid income		
Interest and financial items	2.5	2.5
Other	72.0	35.7
Total	**74.5**	**38.2**

16. Financing

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€	2019	2018
Dividends		
Intra-group dividends	2.3	-
Financial income		
Interest income		
Loans and receivables	0.5	0.6
Other financial income	0.1	0.1
Interest income from foreign currency derivatives	0.0	0.0
Exchange rate gains		
Exchange rate gains, realised	0.0	0.0
Exchange rate gains, recognised at fair value through profit or loss	0.0	0.0
Change in fair value		
Recognised at fair value through profit or loss	0.0	0.0
Intra-group financial income	11.0	23.8
Total	**13.9**	**24.5**

Financial expenses		
Interest expenses		
Interest expenses on liabilities recognised at amortised cost	-4.1	-14.9
Interest expenses from foreign currency derivatives	0.0	0.0
Other financial expenses, loan management expenses	-0.2	-0.5
Exchange rate losses		
Exchange rate losses, realised	0.0	0.0
Exchange rate losses, recognised at fair value through profit or loss	-0.0	0.0
Unrealised exchange rate losses from foreign currency loans	0.0	0.0
Interest rate derivatives subject to hedge accounting, ineffective portion	0.0	0.0
Change in fair value		
Recognised at fair value through profit or loss	0.0	0.0
Intra-group financial charges	-4.9	-31.1
Intra-group interest expenses	-3.2	-5.8
Financial expenses, total	**-12.4**	**-52.3**
Net financing costs	**1.5**	**-27.8**

Cash and cash equivalents

Cash and cash equivalents are all denominated in euros.

Liquidity and refinancing risk

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

31.12.2019 M€	**2020**	**2021**	**2022**	**2023**	**2024**	**2025+**
Bonds	174.5	-	-	-	-	-
Currency derivatives, recognised at fair value through profit or loss	0	-	-	-	-	-
Trade and other payables	3.6					-
*Interest payable **	2.5	-	-	-	-	-
Intra-group loans	-	244.3	-	-	-	-
Total	**180.6**	**244.3**	**0**	**0**	**0**	**0**

*) Interests Payable are included in the Bond figure.

Capital structure and equity ratio

M€	**2019**	**2018**
Interest-bearing liabilities	170.4	170.3
Cash, funds in bank and interest-bearing receivables	2.5	22.4
Interest-bearing net liabilities	167.9	147.9
Shareholders' equity, total	1,174.3	1,468.3
Balance sheet total	1,782.6	1,876.5
Equity ratio	66.6%	78,3%

Financial assets and liabilities

Carrying amounts of financial assets and liabilities by category

2019 Balance sheet item, M€	Financial assets/liabilities recognised at fair value through profit or 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		0.1			0.1	0.1			0.1	0.1
Intra-group financial assets	493.4				493.4	493.4				493.4
Current financial assets										
Trade receivables and other financial assets		0.6			0.6	0.6				0.6
Cash and cash equivalents		2.6			2.6	2.6				2.6
Carrying amount by category	**493.4**	**3.3**			**496.7**	**496.7**				**496.7**
Non-current financial liabilities										
Intra-group financial liabilities			243.5		243.5	243.5				243.5
Current financial liabilities										
Interest-bearing loans and borrowing			170.4		170.4	171.9		171.9		171.9
Interest payable			2.5		2.5	2.5				2.5
Trade payables and other financial liabilities			0.6		0.6	0.6				0.6
Carrying amount by category			**417.0**		**417.0**	**418.5**				**418.5**

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.

There are no derivative instruments in financial assets and liabilities.

Interest-bearing liabilities

Long-term liabilities, M€	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Bonds)*	-	-	170.3	172.3
Total	**-**	**-**	**170.3**	**172.3**

Short-term liabilities, M€	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Bonds)*	170.4	171.9	-	-
Total	**170.4**	**171.9**	**-**	**-**

Derivative contracts

M€	Fair value 2019	Nominal value 2019	Fair value 2018	Nominal value 2018
Foreign currency derivatives				
Currency options				
Currency options, call	0.0	0.4	-	-

The Fair value 2019 of Currency options is zero.

Maturity of non-current liabilities

Maturity of non-current liabilities 31 December 2019, M€	2020	2021	2022	2023	2024	>5 years
Intra-group loans		243.5				

This table shows the maturities of non-current liabilities, showing the *nominal value* at the time the loan was taken. Loans maturing in 2020 are presented in the balance sheet under current loans.

The average interest rate of all the Group's loans, including derivatives, was 3.7 (3.6) %. The average maturity of loans was 1.6 (1.8) years.

17. Collateral and contingent liabilities

Contingent liabilities given on behalf of Group companies, M€	2019	2018
Guarantees given on behalf of Group companies	5.1	3.3

Other commitments, M€	2019	2018
Investment commitments to real estate funds	3.2	3.5

List of accounting books and document types and their method of storage

List of accounting books and methods of storage

Financial Statements	separately bound
Journal and general ledger	electronic archive
Accounts payable and receivable	electronic archive
Itemisations of fixed assets	electronic archive
Accounts payable receipts	electronic archive
Accounts receivable receipts	electronic archive
Memoranda	electronic archive
Cash receipts	electronic archive

Voucher types used

AMC	Internal
BCMEMO	Memo BC
IP	Invoices from IP
IW	Invoices from IW
KASSA	Cash receipts
KOM	Fixed assets
KONV	Conversion
LT	Credit losses
M2	Travel invoices
MEMO	Memoranda
PALKAT	Wages and salaries
PKULU	Project, expense
RESK	Internal accounts payable/receivable transactions
TILIOTE	Bank statements
UFW	Financing transactions
VIITTEET	Trade receivables

Proposal of the Board of Directors on the disposal of the profit/loss (-) for the financial year

SPONDA PLC

GROUP

PROPOSAL BY THE BOARD OF DIRECTORS ON THE DISPOSAL OF THE PROFIT FOR THE YEAR

The parent company's distributable funds amount to EUR 904,084,935.08, of which the result for the financial year is EUR 43,944,811.54.

The Board of Directors proposes to the general meeting that no dividend shall be paid for the financial year 2019.

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, 11 March 2020

Signatures of the Board of Directors and CEO and the auditor's statement

SPONDA PLC

Board of Directors

James Seppälä	Michael Swank	Leif Andersson
Jean-Fraincois Bossy	Svein Erik Lilleland	Laurent Machenaud
Adam Shah	Diana Hoffmann	

Christian Hohentahl

President and CEO

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

Helsinki, 11 March 2020

KPMG Oy Ab

Esa Kailiala APA	Petri Kettunen 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, 2019. 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 position, financial performance and cash flows 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.

Our opinion is consistent with the additional report submitted to the Audit Committee.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7 to the consolidated financial statements.

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. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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 (Note 2 to the Consolidated Financial Statements and Note 11 to the parent company financial statements)	
— Investment properties (€3,505 million) represent 95% of the consolidated total assets as at 31 December 2019. 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 on 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. — Shareholdings in the parent company's balance sheet are carried at fair value of the underlying shares.	— 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 have interviewed the 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 (Note 2.3 to the Consolidated Financial Statements)	
— 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.

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 a 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 about 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 the 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

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 21 April 1998, and our appointment represents a total period of uninterrupted engagement of 22 years.

Other Information

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

Helsinki, 11 March 2020

KPMG OY AB

ESA KAILIALA

Authorised Public Accountant, KHT

PETRI KETTUNEN

Authorised Public Accountant, KHT