VVO Group plc

Board of Directors' Report and Financial Statements 2016

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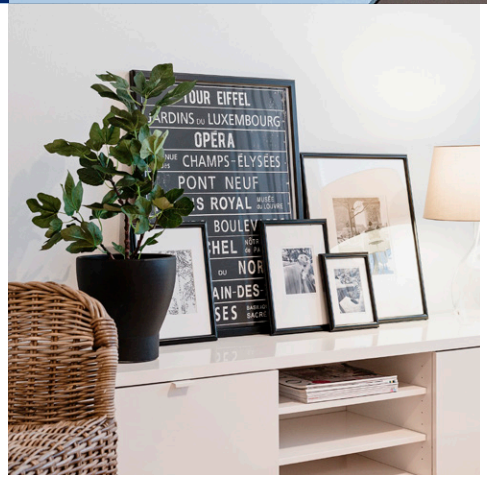

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Board of Directors' Report

VVO Group plc in brief

VVO Group plc offers rental apartments and housing services in Finnish growth centres. At the end of 2016, VVO Group owned approximately 34,974 rental apartments across Finland. VVO Group aims to invest heavily in increasing housing supply in the next three years by developing new properties and buying existing properties.

VVO Group's turnover in 2016 was EUR 351.5 (370.9) million. The Group's net rental income totalled EUR 222.0 (227.4) million, representing 63.2 (61.3) per cent of turnover. The financial occupancy rate was 97.4 (97.6) per cent. The fair value of VVO Group's investment properties at the end of the financial year was EUR 4.3 (4.0) billion.

Key facts and events of the financial year 2016

VVO Group's gross investments totalled EUR 696.0 million. The year-on-year increase in gross investments was 196.2 per cent, or EUR 461.1 million. The fair value of investment properties at the end of the financial year was EUR 4.3 billion, including EUR 70.6 million classified into non-current assets held for sale.

Turnover totalled EUR 351.5 million. Year on year, VVO Group's turnover decreased by 5.3 per cent, or EUR 19.5 million, mainly due to the property transactions carried out in early 2016.

The financial occupancy rate remained high, standing at 97.4 per cent during the financial year. There were 1,536 rental apartments under construction at the end of the financial year. Of the apartments under construction, 1,220 are located in the Helsinki region and 316 in other Finnish growth centres. At the end of the financial year, VVO Group owned 34,974 rental apartments. The Lumo segment accounted for approximately 90 per cent of these apartments.

VVO Group developed the Lumo business with investments of approximately EUR 700 million. Among other transactions, VVO Group acquired ICECAPITAL Housing Fund II, which owns 2,274 market-based rental apartments, mainly located in the Helsinki Metropolitan Area and in Tampere. Our Group's binding acquisition agreements, amounting to more than EUR 300 million at the end of the year, are key to the completion of 2,635 new Lumo homes.

VVO Group also succeeded in diversifying its financing sources. The company issued a EUR 200 million senior secured bond on 17 October 2016 and had it listed on the official list of Nasdaq Helsinki Ltd.

An agreement was signed with the European Investment Bank on EUR 170 million of long-term financing, which will be used to fund new nearly zero-energy buildings (nZEBs) over the next few years. Financing will be used to fund new apartments in the Helsinki Metropolitan Area and other major growth centres. The financing from the EIB is part of an investment programme in which we will implement a total of 1,800 apartments.

VVO Group divested properties that do not support the Group's strategy due to their characteristics or location. During the year, 8,571 non-profit cost principle apartments were sold to Y-Foundation and, towards the end of the year, the Group signed an SPA whereby a total of 1,344 non-restricted apartments, located around Finland, were sold after the review period to a company managed by Avant Capital Partners.

Strategy

VVO Group underwent a major transformation during 2016. The strategic decision to focus, as a housing investment company, on market-based operations and rental housing service design was turned into concrete action in the past review period: the Group made the largest investments in its history and divested non-profit properties subject to long-term restrictions.

The Group's operational transformation aims to ensure future competitiveness in an environment where Finland is becoming increasingly urbanised, digitalisation is proceeding and people's housing preferences are developing rapidly. As stated in its mission, the company creates better urban housing. The Group has developed its operations and innovated housing solutions and services, with the aim of generating even better customer experience. Significant investments in Lumo apartments and service solutions facilitate employment-based migration in urbanising Finland. In five years, VVO Group has invested nearly EUR 1.5 billion in the Lumo business operations, and in addition to acquisitions, the Group has launched the construction of 3,872 private-

ly financed rental apartments. The Lumo brand has achieved a strong market position, and it already constitutes 90 per cent of the Group's business. The Lumo online store has revolutionised the customer's role in renting an apartment.

In line with its strategy, the Group will continue making significant investments both through the development of new properties and through the acquisition of existing properties in the largest growth centres. The company wants to respond to the demand for rental housing, particularly in the Helsinki region, making it easier for people to move around in pursuit of employment in urbanising Finland. By investing in profitable growth, VVO Group is building the future and believes that the Lumo brand and service design will lead the way in the housing sector.

During the strategy period, the company will also divest properties that do not support the Group's strategy due to their characteristics or location.

Summary of performance 2016

- The Group's gross investments during the period totalled EUR 696.0 (235.0) million. Gross investments were 198.0 (63.3) per cent of turnover. Of these gross investments, EUR 664.9 million consisted of acquisition costs related to new properties and housing stock acquisitions.
- The fair value of investment properties was EUR 4.3 (4.0) billion. Return on investment was 8.8 (7.6) per cent.
- The Group's turnover totalled EUR 351.5 (370.9) million. Turnover is entirely generated by rental income. Turnover decreased mainly due to the rental housing stock divestments carried out early in the year.
- Profit before taxes amounted to EUR 289.7 (224.7) million. The profit includes EUR 163.3 (70.3) million in net valuation gain on the fair value assessment of investment properties and EUR -10.4 (2.7) million in capital gains and losses on investment properties. The Group's favourable profit performance is based on changes in the fair value of investment properties, low financial costs, a good financial occupancy rate and the successful management of maintenance costs.
- Net rental income was EUR 222.0 (227.4) million, representing 63.2 (61.3) per cent of turnover. Net rental income was decreased by rental housing stock divestments.
- The financial occupancy rate remained high, standing at 97.4 (97.6) per cent during the review period.
- There were 1,536 (1,189) rental apartments under construction at the end of the review period.
- The Group owned 34,974 (41,153) rental apartments on 31 December 2016. The Lumo segment accounted for 31,108 (28,716) and the VVO segment for 3,866 (12,437) of these apartments.

VVO Group's strategic key indicators

	Actual 2016	Target 2021
Apartment assets	EUR 4.3 billion 34,974 apartments	EUR 5.8 billion 38,000 apartments
Operative result of the Lumo segment as a percentage of turnover	34.7	32.0
Equity ratio of the Lumo segment, %	40.0	40.0
Net promoter score	35	40

Future outlook for 2017

Market outlook

The Finnish economy is cautiously resuming growth, but growth is expected to remain slower than in the rest of the eurozone in 2017. Growth is based on household consumption and construction. Export has not yet grown significantly although the export outlook is better than in the past few years. Furthermore, the outlook for the Finnish economy is influenced by the structural change in industry, the decreased cost competitiveness and the contraction in the number of working-age population. The outlook for employment has improved slightly, and the competitiveness pact is expected to strengthen overall production, although with a delay. Interest rates have started to rise in the United States. In the eurozone, interest rates are predicted to remain low even though it is estimated that the bottom of the interest rate cycle has now been passed.

Demand for rental housing is expected to remain strong in major growth centres, even if supply has increased significantly. Continuing intensive urbanisation increases regional differences. Even in the Helsinki Metropolitan Area, differences between regions are increasing and, in some regions, supply and demand are now in balance. New development is expected to continue focusing on privately financed rental apartments.

Price trends in owner-occupied apartments are expected to continue to be stable in growth centres. A slight rise is expected in the prices of small, centrally located apartments. The prices of large apartments on the outskirts may fall slightly.

Outlook for VVO Group

VVO Group estimates that in 2017, net rental income will be EUR 208–220 million. Investments in new development and housing stock acquisitions are forecast to exceed EUR 300 million. VVO Group estimates that in 2017, its operative result will be EUR 96–107 million. The outlook takes into account the effects of both the significant housing divestments carried out in 2016 and the housing divestments and acquisitions planned for 2017, the estimated occupancy rate and the number of apartments under construction.

Operating environment

General operating environment

The eurozone's economy has continued to develop favourably. The positive development of the United States' economy and rising inflation have caused an increase in interest rates. Economic development may be significantly affected by political uncertainty especially in Europe and the United States.

In Finland, the development of the economic outlook has been cautiously positive. The development of the world economy is a key factor that influences the development of export and industrial production. The confidence of households and companies has strengthened. This was seen in, for example, demand for owner-occupied apartments and construction investments.

According to Statistics Finland, the prices of old apartments in apartment blocks and row houses rose somewhat throughout the country.

Industry operating environment

Demand for rental housing remained high in growth centres. However, differences between regions increased and, in some regions, supply and demand were in balance. The strongest demand focused on smaller apartments, that is, studios and one-bedroom apartments. The increase in rents slowed.

New construction clearly focused on privately financed rental apartments. The market situation for the construction of owner-occupied apartments facilitated contract project negotiations in rental housing development. Continuing urbanisation can be seen in the growing number of apartment buildings being built in growth centres.

Slow zoning and the lack of suitable plots remain bottlenecks in operations.

Business operations

VVO Group plc offers rental apartments and housing services in Finnish growth centres. The vision of the housing investment company is to be a pioneer in housing and the customer's number-one choice.

The fair value of investment properties at the end of the financial year was EUR 4.3 (4.0) billion, including EUR 70.6 (534.3) million classified into non-current assets held for sale. At the end of the financial year, VVO Group owned 34,974 (41,153) rental apartments.

The rental housing business is characterised by stability and predictability, which provide a good foundation for development. The nature of the company's business, its solid financial position and good financial performance enable it to make significant investments.

On 4 July 2016, VVO Kodit Oy acquired ICECAPITAL Housing Fund II, which owns 2,274 rental apartments. The apartments covered by the transaction are market-based, and most of them are located in Helsinki, Espoo, Vantaa and Tampere. In addition, a real estate development site in the centre of Helsinki was acquired on 30 September 2016.

During the first half of 2016, VVO Group sold 8,571 apartments to Kiinteistö Oy M2-Kodit, owned by Y-Foundation. The first phase of the transaction was executed on 31 March 2016 and the remaining phase on 20 June 2016. As the divestment was delayed from the original schedule, realised net income and capital losses for the entire financial year were approximately EUR 14.7 million higher than expected in January–September. In October 2016, the Housing Finance and Development Centre of Finland ARA issued an adjustment decision on 20 October 2016 to increase the transfer price for the sale of 8,571 apartments by EUR 9.7 million. The increase decision has a positive effect of EUR 9.7 million on profit, which was allocated to the period 1 October–31 December 2016.

Segment reporting

VVO Group's business operations are divided into two segments: Lumo (formerly VVO Non-subsidised) and VVO (formerly VVO State-subsidised). The segments were renamed as of the beginning of 2016. The changes had no effect on the reported figures.

The Lumo segment contains the Group's parent company VVO Group plc and the group companies VVO Kodit Oy, VVO Vuokratalot Oy and VVO Palvelut Oy, as well as those other group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end by the close of 2018. Some of the housing included in the Lumo segment is subject to property-specific restrictions in accordance with the ARAVA Act.

The group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end after 2018 belong to the VVO segment. The companies of the VVO segment are subject to the profit distribution restriction, and they can

pay their owner an eight per cent return on own funds invested in them that have been confirmed by the Housing Finance and Development Centre of Finland (ARA). The return payable from the annual profits of companies subject to revenue recognition restrictions totals approximately EUR 2.2 million.

Turnover

VVO Group's turnover during the period 1 January–31 December 2016 amounted to EUR 351.5 (370.9) million. The Lumo segment recorded a turnover of EUR 291.1 (208.8) million, and the VVO segment EUR 61.5 (165.8) million. Turnover is entirely generated by rental income. Turnover decreased mainly due to the rental housing stock divestments carried out early in the year.

Result and profitability

The Group's net rental income totalled EUR 222.0 (227.4) million, representing 63.2 (61.3) per cent of turnover. The Lumo segment recorded a net rental income of EUR 190.3 (134.6) million, and the VVO segment EUR 32.8 (94.9) million.

The Group's profit before taxes amounted to EUR 289.7 (224.7) million. The profit includes EUR 163.3 (70.3) million in net valuation gain on the fair value assessment of investment properties, and capital gains and losses of EUR -10.4 (2.7) million. The good result is based on changes in the fair value of investment properties, low financial costs, good financial occupancy rate and successful management of maintenance costs.

Financial income and expenses totalled EUR -46.0 (-37.1) million. Financial income and expenses include EUR -7.3 (0.5) million in changes in the fair value of derivatives.

Balance sheet, cash flow and financing

The Group's balance sheet total at year end amounted to EUR 4,572.2 (4,236.1) million. Equity totalled EUR 1,859.5 (1,739.1) million. On 31 December 2016, the equity ratio stood at 40.7 (41.1) per cent. Equity per share on 31 December 2016 was EUR 251.20 (234.85). The equity ratio of the Lumo segment stood at 40.0 (45.7) per cent. The Group's return on equity was 12.9 (10.8) per cent and return on investment 8.8 (7.6) per cent.

The Group's liquidity remained good throughout the financial year. At the end of the financial year, the Group's liquid assets totalled EUR 132.0 (116.0) million. EUR 141.3 (108.8) million of the EUR 200 million commercial paper programme were issued at the end of the financial year. In addition, the Group has committed credit facilities of EUR 100 million and an uncommitted credit facility of EUR 5 million which were unused at the end of the financial year.

At year end, interest-bearing liabilities stood at EUR 2,122.8 (1,494.6) million, of which EUR 1,726.1 (1,114.9) million were market-based loans. During the financial year, EUR 482.6 (195.9) million of new long-term financing was raised. At the end of the financial year, the Group's loan to value was 46.7 (39.4) per cent.

The average interest rate of the loan portfolio stood at 2.0 (2.2) per cent, including interest rate derivatives. The average maturity of loans at the end of the financial year was 5.7 (9.8) years.

During 2016, significant new loan agreements were signed in order to finance the Group's growth investments:

In March, VVO Kodit Oy signed a contract with Swedbank AB, concerning a five-year secured loan of EUR 100 million.

During the second quarter, VVO Kodit Oy signed secured credit agreements worth a total of EUR 120 million: A 7-year loan of EUR 50 million was signed with Aktia Bank Plc, and 10-year loans were agreed upon with Danske Bank Plc (EUR 20 million) and with Svenska Handelsbanken AB (publ) (EUR 50 million).

VVO Group plc issued a new EUR 200 million bond on 17 October 2016. The term of the senior secured bond is 7 years and the fixed coupon rate is 1.625 per cent per annum. The bond is secured by collateral mainly in the form of residential properties located in Finland. The bond was listed on the Nasdaq Helsinki Ltd stock exchange on 21 October 2016.

VVO Kodit Oy and the European Investment Bank agreed on EUR 170 million of long-term financing, which will be used to fund new nearly zero-energy buildings (nZEBs) over the next few years in the Helsinki Metropolitan Area and in Tampere. The financing from the EIB is part of an investment programme in which VVO Group will implement 1,800 apartments. In November, an agreement on the first EUR 75 million loan was signed. At the end of the financial year, the loan was still unwithdrawn.

In December, VVO Group plc signed an agreement with Danske Bank Plc on a 10-year secured loan of EUR 30 million.

Real estate property and fair value

VVO Group owned a total of 34,974 (41,153) rental apartments at the end of the financial year. The Lumo segment accounted for 31,108 (28,716) and the VVO segment for 3,866 (12,437) of these apartments. At the end of the financial year, the Group owned apartments in 40 (40) municipalities.

The fair value of the investment properties owned by VVO Group was 4,298.9 (3,999.2) million at the end of the financial year, including the EUR 70.6 (534.3) million amount classified as non-current assets held for sale. During the financial year, the fair value increased by EUR 299.7 (290.4) million. The change includes EUR 163.3 (70.3) million in net valuation gain on the

fair value assessment of investment properties. The fair value of the Group's investment properties is determined quarterly on the basis of the company's own evaluation. An external expert gives a statement on the valuation of the Group's investment properties. The last valuation statement was issued on the situation as on 31 December 2016. The criteria for determining fair value are presented in the Notes to the Financial Statements.

At the end of the financial year, the plot reserve held by the Group totalled about 125,000 floor sq m (130,000 floor sq m) and its fair value was approximately EUR 63 (60) million.

Rental housing

Demand for rental housing remained strong in growth centres. Differences between regions increased and, in some regions, supply and demand are now in balance. As in previous years, the strongest demand focused on smaller apartments, that is, studios and one-bedroom apartments.

The financial occupancy rate remained at a good level, standing at 97.4 (97.6) per cent for the financial year. At the end of the year, 161 (334) apartments were vacant due to renovations. The tenant turnover rate, which includes internal transfers, increased slightly when compared to the corresponding period of the financial year 2015 and was 31.0 (27.2) per cent.

The average rent for the market-based Lumo apartments, which totalled 30,823 (28,167) apartments on the basis of the brand division, was 14.44 (13.72) per sq m per month during the financial year, and EUR 14.63 (13.99) at year end. The average rent for Lumo apartments is increased by the renewal of the property portfolio due to strong investment activities. The corresponding figures for the 4,151 (12,986) apartments rented at cost price (VVO) was EUR 12.88 (12.87) during the financial year and EUR 12.96 (12.93) at year end.

At the end of the financial year, there were 12,282 (14,456) active applications. (Applications are active for three months.) The average number of active applications per rental agreement termination was 12.4 (18.6). A total of 50,988 (61,201) new housing applications were received during the financial year. The change in the number of applications is related to the rapidly growing Lumo online store in which customers can rent the apartment they want directly online without submitting an application. The number of applications decreased also due to the divestment of cost principle apartments. The online store has convinced customers of its merits: more than 1,000 tenancy agreements have been signed through it.

Thanks to successful rental control and our housing advisory service, the proportion of annual turnover from rental operations accounted for by rent receivables remained low and stood at 1.1 (0.9) per cent at the end of the financial year.

A new housing concept called Lumo Kompakti was announced during the financial year. It was designed for the needs of urbanising Finland, especially the Helsinki Metropolitan Area. In terms of overall rent, Lumo Kompakti is a more affordable option than what is generally available on the market. Lumo Kompakti, developed in cooperation with Fira Oy, is a good housing option for those who appreciate efficient multi-use space and convenient connections to work, hobbies and services. Lumo Kompakti was also developed through crowdsourcing among young people. Currently, we are looking for suitable plots for the concept.

In 2016, Lumo customers' opportunity for car sharing was expanded to most of the cities where VVO Group operates.

Investments, divestments and real estate development

VVO Group launched construction of 996 (798) apartments during the financial year. There were a total of 1,536 (1,189) privately financed apartments under construction at the end of the financial year. Of the apartments under construction, 1,220 (908) are located in the Helsinki region and 316 (281) in other Finnish growth centres.

During the financial year, VVO Group acquired 2,274 (64) apartments and sold 9,011 (458) apartments.

649 (736) new apartments were completed during the financial year.

The Group's gross investments totalled EUR 696.0 (235.0) million. Total repair costs and modernisation investments during the financial year amounted to EUR 68.4 (92.3) million, of which modernisation investments accounted for EUR 29.3 (45.8). The Lumo segment accounted for EUR 695.6 (228.1) million of gross investments, and the VVO segment for EUR 0.5 (6.9) million.

At the end of the financial year, binding acquisition agreements for new development totalled EUR 342.7 (253.9) million. A total of 2,635 (1,768) new apartments will be built under the acquisition agreements, of which 1,536 (1,189) were under construction at the end of the financial year.

During the financial year, properties' consumption of heating energy was 310 (346) GWh.

The most significant investments in 2016:
On 4 July 2016, VVO Kodit Oy acquired ICECAPITAL Housing Fund II, which owns 2,274 rental apartments. The apartments covered by the transaction are market-based, and most of them are located in Helsinki, Espoo, Vantaa and Tampere. In addition, a real estate development site in the centre of Helsinki was acquired on 30 September 2016.

The most significant real estate development projects:
On 21 December 2016, VVO Group signed a preliminary agreement whereby its various group companies sold a total of 1,344 non-restricted rental apartments, located around Finland, to a company managed by Avant Capital Partners.

VVO Group has reached a preliminary agreement on the acquisition of seven properties currently occupied by Metropolia University of Applied Sciences. VVO Group's VVO Kodit Oy signed a preliminary agreement on the purchase of properties at Onnentie 18, Sofianlehdonkatu 5, Tukholmankatu 10, Agricolankatu 1–3, Albertinkatu 40–42, Abrahaminkatu 1–3 and Bulevardi 29–31 with the City of Helsinki and Merasco Real Estate Ltd Oy. Under the terms of the agreement, the fixed sales price is set at EUR 80.9 million, as determined by a valuation based on existing building rights to develop further commercial provision. The sales price may be adjusted in the event that the building rights are amended following a revision of the local plan as applied for by the purchaser. Negotiations on completing the transaction are still underway.

VVO Group signed an agreement with Pohjola Rakennus Oy Uusimaa on the construction of rental apartments in Helsinki, Vantaa and Hyvinkää, with a total value of nearly EUR 50 million. All in all, this agreement involves the construction of 263 Lumo rental apartments, most of which will be completed during the next two years.

VVO Kodit Oy has signed a contract with MM-Yritysrakentaja Oy regarding the conversion of the office building located at Lönnrotinkatu 30 in Helsinki, known as Eliaksentalo, into rental apartments and business premises.

Personnel

At the end of 2016, VVO Group had a total of 286 (356) employees, of which 267 (323) were on permanent contracts and 19 (33) were on temporary contracts. The number of personnel decreased as 66 employees transferred to Kiinteistö Oy M2-Kodit in connection with the transaction concerning 8,571 rental apartments. The average number of personnel during the year was 298 (364). The average length of service was 10.6 (11.4) years. Personnel turnover in 2016 was 16.3 (13.5) per cent, excluding those who transferred to Kiinteistö Oy M2-Kodit.

The salaries and fees paid during the financial year totalled EUR 16.3 (18.0) million.

Sustainability

VVO Group plc's mission is to create better urban housing. The goal is to create more offering and new service solutions in rental housing and to make it easier to acquire rental apartments and to live in them.

The anti-grey economy models used by the company exceed legislative requirements in many respects. We continuously monitor the fulfilment of contractor obligations for all of the companies in our supplier network through the Reliable Partner service at the tilaajavastuu.fi website.

VVO Group's estimated taxes and tax-like charges in 2016 exceed EUR 100 million. As estimated on the basis of the 2016 performance in RT's/VTT's report, the share of taxes and tax-like charges in VVO Group's EUR 696 million investments in 2016 was 41 per cent; in the entire procurement chain, this amounts to approximately EUR 285 million, including the tax effect of the properties acquired during the financial year. VVO Group's tax footprint was published in the 2016 Annual Report.

VVO Group will continue its climate partnership agreement with the City of Helsinki. VVO Group has also committed to following the Rental Property Action Plan (VAETS), which set a 2016 heating energy savings target of seven per cent compared to 2009. The Rental Property Action Plan savings targets for 2016 have already been achieved and, with regard to property electricity consumption, have even been exceeded. VVO Group decided to join the VAETS II agreement on 14 October 2016. During the new agreement period, the housing investment company pursues energy savings of 7.5 per cent by 2025.

The Virkeä programme is a cooperation programme between VVO Group and promising young athletes that supports young talents financially. In 2017, the programme covers not only individual sports but also team sports. The recipients of Virkeä team sponsorship for 2017 are the FC Honka women's championship team and four girls' teams. In 2017, the Virkeä athletes are Anna Haataja (orienteering), Riikka Honkanen (alpine skiing), Joona Kangas (ski slopestyle), Henry Manni (wheelchair racing), Oskari Mörö (hurdles), Nooralotta Neziri (athletics) and Emmi Parkkisenniemi (snowboarding). Sponsorships under the Virkeä programme were again awarded to 50 promising athletes in 2016. The sponsorship grant may be awarded to a young athlete of 12–20 years of age.

Risks and risk management

VVO Group's risk management is based on the company's risk management and treasury policy, corporate governance and ethical guidelines, and the risk assessments carried out in connection with the strategy and annual planning process. Risk assessments identify the most significant risks and define means to manage them.

The most notable risks associated with customer management relate to a potential drop in the financial occupancy rate, an increase in tenant turnover and an increase in rent receivables. Factors affect-

ing these risks include economic fluctuations and shifts in demand, both nationally and locally. The rental occupancy rate of rental apartments, tenant turnover, the number of applicants and the amount of rent receivables and changes thereto are monitored by region on a monthly basis.

VVO Group is developing its rental operations and property renovation activities and strengthening its customer relations. These measures seek to maintain a high occupancy rate and decrease tenant turnover.

Ensuring that the value of VVO's housing stock continues to rise requires investments in growth centres and systematic renovations across all apartments and properties.

Apartment price trends affect the fair value of real estate property.

The financial risks associated with VVO Group's business are managed in accordance with the treasury policy confirmed by VVO Group plc's Board of Directors. The treasury policy defines the objectives of VVO Group's financing activities, division of responsibilities, operating principles, financial risk management principles as well as monitoring and reporting principles. The objectives of VVO Group's treasury function are to ensure the availability of financing, maintain liquidity cost-efficiently at all times and manage financial risks.

The most significant financial risks are associated with the availability and cost of financing. The refinancing risk is mitigated by diversifying the financing sources and instruments in the loan portfolio, spreading the maturity of loans and by maintaining a strong balance sheet structure. The interest rate risk associated with the loan portfolio is managed by dividing loans between fixed and floating rate loans, by different interest rate renewal periods and by using interest rate derivatives. The company's financial risks and risk management are described in more detail in Note 25 to the Financial Statements.

The most notable risks associated with properties are liability risks, such as water damage and fire. Liability risks are managed with appropriate preventive safety measures and by insuring properties against damage. VVO Group regularly reviews its insurance policies as part of overall risk management. The main insurance policies are property, liability, loss of profits, accident, travel and vehicle insurance.

Internal auditing

The company's internal auditing is an independent function with no operative responsibility. Internal auditing is carried out by one person. If necessary, the services of an external partner can be used for internal auditing. The job description, authorisations and responsibilities of internal auditing are defined in the operating instruction for internal auditing approved by the Board of Directors. Internal auditing is responsible for inspecting internal control and risk management and reports to the CEO and the Audit Committee.

Group structure and changes

At the end of the financial year, the legal VVO Group comprised 310 (235) subsidiaries and 33 (32) associated companies. In addition, VVO Group plc has a holding of more than 50 per cent in 2 (2) limited liability companies or real estate companies and a 50 per cent holding in SV-Asunnot Oy.

Subsidies wholly owned by VVO Group plc are VVO Kodit Oy, VVO Vuokratalot Oy, VVO Korkotuki 2016 Oy, VVO Korkotuki 2017 Oy, VVO Korkotuki 2018 Oy, VVO Korkotuki 2019 Oy, VVO Korkotuki 2020 Oy, VVO Korkotuki 2021 Oy, VVOhousing 2 Oy, VVOhousing 4 Oy, VVOhousing 5 Oy, VVOhousing 6 Oy, VVOhousing 7 Oy, VVOhousing 8 Oy, VVOhousing 9 Oy, VVOhousing 10 Oy, VVOhousing 11 Oy, VVOhousing 12 Oy, VVO Hoivakiinteistöt Oy, VVO Asunnot Oy and VVO Palvelut Oy.

The following companies merged with VVO Kodit Oy: VVO Vuokra-asunnot Oy on 1 January 2016, VVOhousing 1 Oy on 1 April 2016, and VVOhousing 3 Oy and VVO Korkotuki 2015 Oy on 1 June 2016.

Group structure 31 December 2016	Subsidiaries	Associated companies
VVO Group plc	[1] 23	2
Parent companies of sub-groups		
VVO Korkotuki 2016 Oy		1
VVO Korkotuki 2017 Oy	1	2
VVO Korkotuki 2018 Oy	1	
VVO Korkotuki 2020 Oy		1
VVO Korkotuki 2021 Oy	1	
VVO Kodit Oy	269	[2] 26
VVO Vuokratalot Oy	13	[2] 3
Parking and maintenance companies	1	2
VVO Palvelut Oy	1	
Total	**310**	**37**

[1] Includes the parent companies of the sub-group and other subsidiaries listed, excluding parking and maintenance companies

[2] 4 of the associated companies are subsidiaries at VVO Group level.

Events after the period

VVO Group's sale of 1,344 non-restricted rental apartments to a company managed by Avant Capital Partners was completed on 31 January 2017.

Administration 2016

Board of Directors

Until 17 March 2016, the Board of Directors consisted of Chairman Riku Aalto and Vice Chairman Tomi Aimonen, with Matti Harjuniemi, Olli Luukkainen, Jorma Malinen, Reima Rytsölä, Jan-Erik Saarinen and Ann Selin as members.

Riku Aalto was elected Chairman of the Board of Directors for the term beginning on 17 March 2016. Matti Harjuniemi, Olli Luukkainen, Jorma Malinen, Mikko Mursula, Reima Rytsölä, Jan-Erik Saarinen and Ann Selin were elected as members. The Board chose Mikko Mursula as Vice Chairman.

Nomination Board

Until 17 March 2016, the Nomination Committee, now called the Nomination Board, was chaired by Jarkko Eloranta and included Ville-Veikko Laukkanen, Pasi Pesonen and Esko Torsti as members. As of 17 March 2016, the Nomination Board was chaired by Jarkko Eloranta and included Ville-Veikko Laukkanen, Pasi Pesonen and Esko Torsti as members.

Board committees

Board of Directors has two committees: the Remuneration Committee and the Audit Committee.

The Remuneration Committee was chaired by Riku Aalto and included Olli Luukkainen, Reima Rytsölä and Ann Selin as members.

Until 17 March 2016, the Audit Committee was chaired by Tomi Aimonen and included Matti Harjuniemi, Jorma Malinen and Jan-Erik Saarinen as members. As of 17 March 2016, the Audit Committee was chaired by Mikko Mursula and included Matti Harjuniemi, Jorma Malinen and Jan-Erik Saarinen as members.

CEO

Jani Nieminen, M.Sc. (Tech.), MBA was CEO during the financial year. The CEO's deputy was CFO Erik Hjelt, Licentiate in Laws, eMBA

Management Group

The VVO Group Management Group was composed of CEO Jani Nieminen (Chairman), CFO Erik Hjelt, Director of Customer Relations Juha Heino, Investment Director Mikko Suominen, Real Estate Development Director Kim Jolkkonen, Marketing and Communications Director Irene Kantor, and ICT and Development Director Mikko Pöyry. At the CEO's discretion, Jouni Heikkinen, the company's internal auditor, also attended Management Group meetings.

Auditor

The auditor is KPMG Oy Ab, with APA Esa Kailiala as the principal auditor.

Annual General Meeting

The Annual General Meeting of VVO Group plc was held on 17 March 2016. The Annual General Meeting adopted the financial statements and consolidated financial statements for 2015. At the Annual General Meeting it was decided, as proposed in the presentation of the Board of Directors, that for the financial year 2015, the company will pay a dividend of EUR 5.00 for every Series A share, a total of EUR 37,012,800.00, and EUR 151,710,864.19 will be retained in unrestricted shareholders' equity. The Annual General Meeting discharged the members of the Board of Directors and the CEO from liability for the financial year ending on 31 December 2015. Furthermore, the Annual General Meeting decided to confirm the attendance allowance for Board meetings as EUR 600 per meeting and set the following annual fees for the term beginning on 17 March 2016: EUR 20,000 for the Chairman, EUR 11,000 for the Deputy Chairman and EUR 8,000 for each of the members.

The number of members of the Board of Directors of VVO Group plc was confirmed as eight (8). Riku Aalto, Matti Harjuniemi, Olli Luukkainen, Jorma Malinen, Reima Rytsölä, Jan-Erik Saarinen, Ann Selin and Mikko Mursula as a new member were elected as members of the Board of Directors for the term that ends with the Annual General Meeting of 2017. Riku Aalto was elected Chairman of the Board of Directors.

KPMG Oy Ab, with Esa Kailiala, APA, as its principal auditor, was elected the auditor for the company for the term lasting until the next Annual General Meeting.

A decision was made about establishing a Nomination Board that replaces the former Nomination Committee and the term of which lasts until the end of the next Annual General Meeting.

The Annual General Meeting elected the following persons to the Nomination Board: Jarkko Eloranta (Chairman, Trade Union for the Public and Welfare Sectors), Ville-Veikko Laukkanen (Director, Varma Mutual Pension Insurance Company), Pasi Pesonen (President, Trade Union of Education in Finland OAJ), Esko Torsti (Director, Ilmarinen Mutual Pension Insurance Company). In addition, the Chairman of the Board, Riku Aalto, has the right to attend the meetings. The attendance allowance for the Nomination Board meetings is EUR 600 per meeting.

Decisions of the Board of Directors of VVO Group plc

At its Organising Meeting after the Annual General Meeting, the Board of Directors

elected Mikko Mursula Vice Chairman of the Board of Directors.

The following persons were elected to the Audit Committee:

Mikko Mursula
Matti Harjuniemi
Jorma Malinen
Jan-Erik Saarinen

The following persons were elected to the Remuneration Committee:

Riku Aalto
Olli Luukkainen
Reima Rytsölä
Ann Selin

Extraordinary General Meeting on 15 September 2016

The Extraordinary General Meeting of VVO Group plc was held on 15 September 2016. The General Meeting decided on the payment of an extra dividend. At the General Meeting, it was decided, as proposed in the presentation of the Board of Directors, that the company will pay an extra dividend of EUR 9.00 for every Series A share, a total of EUR 66,623,040.00.

The description of VVO Group's administration and the description of corporate governance are publicly available on VVO's website at www.vvo.fi/en.

Shares and shareholders

Share capital and shares

According to the Articles of Association of VVO Group plc, the company's minimum capital is EUR 30,000,000 and its maximum capital EUR 120,000,000, within which limits the share capital may be raised or lowered without amending the Articles of Association. Under the Articles of Association, the company's shares are divided into Series A and B shares. There may be no fewer than 1,000,000 and no more than 100,000,000 Series A shares. There may be no more than 100,000,000 Series B shares.

The company's paid-up share capital entered in the Trade Register on 31 December 2016 was EUR 58,025,136.00. The company has issued only Series A shares. The share has no nominal value. At the Annual General Meeting, a Series A share has 20 votes and a Series B share has one vote. The number of shares issued as at 31 December 2016 was 7,402,560.

	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013	31 Dec. 2012
Share capital (€)	58,025,136.00	58,025,136.00	58,025,136.00	58,025,136.00	58,025,136.00
Shares, Series A (no.)	7,402,560	7,402,560	7,402,560	7,402,560	7,402,560

Board authorisations

The Annual General Meeting held on 17 March 2016 authorised the Board to decide within one year of the AGM on one or several share issues and/or issuing a convertible bond as specified in chapter 10 section 1(2) of the Limited Liability Companies Act, with a maximum of 1,480,512 new Series A shares in the company to be issued in the share issue or subscribed to with the convertible bond, and with a maximum of 600,978 Series A shares currently held by the company itself to be transferred in a share issue.

The authorisation permits the Board to derogate from the shareholders' pre-emption right in subscribing new shares or transferring the company's own shares or issuing a convertible bond as specified in chapter 10 section 1(2) of the Limited Liability Companies Act, and to decide on subscription prices and other terms and conditions of subscription, the terms and conditions of transfer including the transfer price, which must, however, be the fair value at the time of transfer, and on the terms and conditions of the convertible bond. A derogation may be made from the shareholders' pre-emption right if the company has a substantial financial reason for doing so, such as developing the capital structure of the company, financing real estate purchases and company acquisitions, and enabling mergers and acquisitions or other corporate development. When the share capital is raised by issuing new shares, the Board of Directors is entitled to decide that the shares may be subscribed for against non-cash property or otherwise under particular terms.

The Board of Directors has not exercised the authorisation.

Shareholdings

There are a total of 53 shareholders in VVO Group plc, the largest 10 being (share register at 31 December 2016):

Shareholder	No. of Series A shares	Holding, %
Ilmarinen Mutual Pension Insurance Company	1,338,076	18.08
Varma Mutual Pension Insurance Company	1,256,981	16.98
Finnish Metalworkers' Union	717,780	9.70
Trade Union for the Public and Welfare Sectors	646,320	8.73
Finnish Construction Trade Union	615,300	8.31
Trade Union PRO	554,591	7.49
Service Union United PAM	554,180	7.49
Trade Union of Education in Finland	552,482	7.46
Industrial Union TEAM	443,270	5.99
Union of Health and Social Care Professionals TEHY	102,560	1.39
Others	621,020	8.38
Total	**7,402,560**	**100.00**

Distribution of shareholdings

	No. of owners	Holding, %	No. of shares	% of shares
1–1,000	9	16.98	5,560	0.10
1,001–2,000	6	11.32	9,998	0.14
2,001–20,000	18	33.96	113,265	1.99
20,001–100,000	10	18.87	492,197	6.26
100,001–200,000	1	1.89	102,560	1.39
200,001–	9	16.98	6,678,980	90.13
Total	**53**	**100.00**	**7,402,560**	**100.00**

Members of VVO Group plc's Board of Directors, operational management and employees do not own company shares.

Proposal by the Board of Directors for the distribution of profits

The parent company VVO Group plc's distributable unrestricted shareholders' equity at 31 December 2016 was EUR 152,587,002.95, of which the profit for the financial year was EUR 67,499,178.76. No significant changes have taken place in the company's financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that the distributable funds be used as follows: a dividend of EUR 6.80 per share to be paid for every Series A share, totalling EUR 50,337,408.00, and EUR 102,249,594.95 to be retained in unrestricted shareholders' equity.

Consolidated income statement, IFRS

M €	Note	1–12/2016	1–12/2015
Total revenue		**351.5**	**370.9**
Maintenance expenses		-90.3	-97.0
Repair expenses		-39.1	-46.5
Net rental income		**222.0**	**227.4**
Administrative expenses	5, 7	-37.4	-39.7
Other operating income	4	2.3	2.1
Other operating expenses	4	-3.1	-0.4
Profit/loss on sales of investment properties	4	-10.4	2.7
Profit/loss on sales of trading properties		0.1	0.0
Fair value change of investment properties	11	163.3	70.3
Depreciation, amortisation and impairment losses	6	-1.2	-1.2
Operating profit / loss		**335.6**	**261.2**
Financial income		2.4	7.8
Financial expenses		-48.4	-44.8
Total amount of financial income and expenses	**8**	**-46.0**	**-37.1**
Share of result from associated companies		0.1	0.6
Profit before taxes		**289.7**	**224.7**
Current tax expense	9	-35.4	-22.1
Change in deferred taxes	9	-22.1	-23.2
Profit/loss for the period		**232.3**	**179.4**
Profit of the financial period attributable to			
Shareholders of the parent company		232.3	179.3
Non-controlling interests		0.0	-0.1
Earnings per share based on profit attributable to equity holders of the parent company			
Basic, euro	10	31.38	24.23
Diluted, euro	10	31.38	24.23
Average number of the shares, millions	10	7.4	7.4

Consolidated statement of the comprehensive income

M €	Note	1–12/2016	1–12/2015
Profit/loss for the period		**232.3**	**179.4**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedgings	8	-9.9	4.6
Available-for-sale financial assets		0.4	-1.6
Deferred taxes	9	1.9	-0.6
Items that may be reclassified subsequently to profit or loss		**-7.6**	**2.4**
Total comprehensive income for the period		**224.7**	**181.8**
Total comprehensive income attributable to			
Shareholders of the parent company		224.7	181.7
Non-controlling interests		0.0	-0.1

Consolidated balance sheet, IFRS

M €	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	13	0.8	1.1
Investment properties	3, 11	4,228.3	3,464.9
Property, plant and equipment	12	31.0	31.2
Investments in associated companies		1.2	1.0
Financial assets	14	0.6	0.5
Non-current receivables	15	5.6	2.2
Derivatives		2.0	
Deferred tax assets	16	15.4	12.0
Non-current assets total		**4,284.8**	**3,513.1**
Investment properties held for sale	3, 11	70.7	541.0
Current assets			
Trading properties	17	0.9	1.0
Derivatives	22	0.3	
Current tax assets		7.7	1.7
Trade and other receivables	18	6.8	8.8
Financial assets	14	69.0	54.6
Cash and cash equivalents	19	132.0	116.0
Current assets total		**216.7**	**182.0**
ASSETS TOTAL		**4,572.2**	**4,236.1**
SHAREHOLDER' EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	20	58.0	58.0
Share issue premium		35.8	35.8
Fair value reserve		-40.2	-32.6
Invested non-restricted equity reserve		17.9	17.9
Retained earnings		1,788.0	1,659.4
Equity attributable to shareholders of the parent company		**1,859.5**	**1,738.5**
Non-controlling interests			0.6
Total equity		**1,859.5**	**1,739.1**
LIABILITIES			
Non-current liabilities			
Liabilities	21	1,796.1	1,259.8
Deferred tax liabilities	16	453.4	429.8
Derivatives	22	68.3	48.4
Provisions	23	1.0	0.9
Other non-current liabilites	23	7.1	7.1
Non-current liabilities total		**2,325.9**	**1,746.0**
Liabilities held for sale	3	1.0	467.1
Current liabilities			
Current liabilities	21	326.8	234.7
Derivatives	22	0.9	1.3
Current tax liabilities		9.9	9.9
Trade and other payables	24	48.3	38.0
Current liabilities total		**385.8**	**283.9**
Total liabilities		**2,712.6**	**2,497.1**
TOTAL EQUITY AND LIABILITIES		**4,572.2**	**4,236.1**

Consolidated statement of cash flows, IFRS

M €	Note	1–12/2016	1–12/2015
Cash flow from operating activities			
Profit for the period		232.3	179.4
Adjustments	27	-46.6	9.0
Change in net working capital		-1.8	0.0
Interest paid		-38.0	-42.4
Interest received		0.7	0.6
Other financial items		-2.7	-0.5
Taxes paid		-41.4	-24.8
Net cash flow from operating activities		**102.4**	**121.3**
Cash flow from investing activities			
Acquisition of investment properties		-421.8	-230.9
Acquisition of associated companies		0.0	
Acquisition of property, plant and equipment and intangible assets		-0.1	-0.5
Proceeds from sale of investment properties		89.9	15.4
Proceeds from sale of associated companies		0.6	0.0
Proceed from sale of property, plant and equipment and intangible assets		0.0	
Purchases of financial assets		-28.0	-39.0
Proceeds from sale of financial assets		14.0	53.7
Non-current loans, granted		-0.4	-0.2
Repayments of non-current receivables		0.2	0.5
Interest and dividends received on investments		0.4	1.3
Net cash flow from investing activities		**-345.1**	**-199.8**

M €	Note	1–12/2016	1–12/2015
Cash flow from financing activities			
Non-current loans, raised		482.6	195.9
Non-current loans, repayments		-154.9	-134.2
Current loans, raised		390.1	252.3
Current loans, repayments		-358.0	-209.1
Dividends paid		-103.6	-22.2
Net cash flow from financing activities		**256.1**	**82.7**
Change in cash and cash equivalents		**13.4**	**4.2**
Cash and cash equivalents in the beginning of period		**118.6**	**114.4**
Cash and cash equivalents at the end of period *)		**132.0**	**118.6**

*) Includes cash and cash equivalents related to assets held for sale

Consolidated statement of changes in shareholders' equity, IFRS

M €	Share capital	Shareissue premium	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Equity at 1 Jan 2016	58.0	35.8	-32.6	17.9	1,659.4	1,738.5	0.6	1,739.1
Comprehensive income								
Cash flow hedging			-7.9			-7.9		-7.9
Available-for-sale financial assets			0.3			0.3		0.3
Result for the financial period					232.3	232.3	0.0	232.3
Total comprehensive income			**-7.6**		**232.3**	**224.7**	**0.0**	**224.7**
Transactions with shareholders								
Dividend payment					-103.6	-103.6		-103.6
Total transactions with shareholders					**-103.6**	**-103.6**	**0.0**	**-103.6**
Changes in shareholdings							-0.6	-0.6
Total change in equity			-7.6		128.6	121.0	-0.6	120.5
Equity at 31 Dec 2016	**58.0**	**35.8**	**-40.2**	**17.9**	**1,788.0**	**1,859.5**	**0.0**	**1,859.5**

M €	Share capital	Shareissue premium	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Equity attributable to shareholders of the parent company	Non-controlling interests	Total equity
Equity at 1 Jan 2015	58.0	35.8	-35.0	17.9	1,502.3	1,579.0	0.5	1,579.5
Comprehensive income								
Cash flow hedging			3.7			3.7		3.7
Available-for-sale financial assets			-1.3			-1.3		-1.3
Result for the financial period					179.3	179.3	0.1	179.4
Total comprehensive income			**2.4**		**179.3**	**181.7**	**0.1**	**181.8**
Transactions with shareholders								
Dividend payment					-22.2	-22.2		-22.2
Total transactions with shareholders					**-22.2**	**-22.2**	**0.0**	**-22.2**
Total change in equity			2.4		157.1	159.5	0.1	159.6
Equity at 31 Dec 2015	**58.0**	**35.8**	**-32.6**	**17.9**	**1,659.4**	**1,738.5**	**0.6**	**1,739.1**

Notes to the consolidated financial statements

1. Accounting policies for consolidated financial statements

Basic information of the Group

VVO Group plc is Finland's largest market-based, private housing investment company that offers rental apartments and housing services in Finnish growth centres. Its range of apartments is extensive. On 31 December 2016, the Group owned 34,974 rental apartments across Finland. Of these, 31,108 are Lumo apartments and 3,866 are VVO apartments.

VVO Group's parent company, VVO Group plc, is a Finnish company domiciled in Helsinki. Its registered address is Mannerheimintie 168, 00300 Helsinki, Finland. The Board of Directors approved the financial statements for 2016 on 3 March 2017. A copy of the consolidated financial statements is available at www.vvo.fi/en or the parent company head office.

In its meeting on 3 March 2017, VVO Group plc's Board of Directors has approved these financial statements to be published. According to the Finnish Limited Liability Companies Act, the shareholders may approve or reject the financial statements in a General Meeting held after the publication of the financial statements. Moreover, the General Meeting may make a decision on altering the financial statements.

Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs). All IFRS and IAS, as well as SIC and IFRIC interpretations in force on 31 December 2016 and approved by the EU for application have been applied to the preparation of the financial statements. The International Financial Reporting Standards refer to the standards and associated interpretations in the Finnish Accounting Act and in regulations issued under it that are approved by the EU for application in accordance with the procedure laid down in Regulation (EC) No. 1606/2002. VVO has not early adopted any standards or interpretations. The notes to the consolidated financial statements are also in accordance with the requirements of the Finnish accounting and corporate legislation supplementing the IFRS rules.

The figures in the consolidated financial statements are in euro, presented mainly as million euro. All the figures presented are rounded. Consequently, the sum of individual figures may deviate from the aggregate amount presented. The key figures have been calculated using exact values. The consolidated financial statements are presented for the calendar year, which is also the reporting period for the parent company and the Group.

Investment properties, derivative instruments and available-for-sale financial assets are measured at fair value after initial recognition. In other respects, the consolidated financial statements are prepared on the basis of original acquisition cost, unless otherwise stated in the accounting policies.

Consolidation policies

The consolidated financial statements include the parent company VVO Group plc, the subsidiaries, interests in joint arrangements (joint operations) and investments in associated companies.

More detailed information on entities consolidated on the consolidated financial statements for 2016 is provided in Note 31 to the consolidated financial statements.

Subsidiaries

Subsidiaries are companies that are under the parent company's control. VVO is considered to control an entity when VVO is exposed to, or has rights to, variable returns from its involvement in the entity and has the ability to affect those returns through its control over the entity. The control is usually based on the parent company's direct or indirect holding of more than 50 per cent of the voting rights in the subsidiary. Should facts or circumstances change in the future, VVO will reassess whether it continues to have control over the entity.

Mutual shareholdings are eliminated using the acquisition cost method. Subsidiaries acquired during the financial year are consolidated in the financial statements from the day of acquisition, when the Group gained control of the company. Divested subsidiaries are consolidated until the date of divestment, when control ceases. Intra-Group transactions, receivables, liabilities, essential internal margins and internal profit distribution have been eliminated in the consolidated financial statements.

The result for the financial year and total comprehensive income are allocated to the owners of the parent company and non-controlling interests, and this allocation is presented in the income statement and comprehensive income. The result for the financial year and total comprehensive income are 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. Equity attributable to non-controlling interests is presented on the balance sheet separate from equity attributable to shareholders of the parent company.

Joint arrangements

A joint arrangement is an arrangement in 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 joint venture. In a joint operation, VVO has rights to the assets and obligations for the liabilities relating to the arrangement, whereas a joint venture is an arrangement in which VVO has rights to the net assets of the arrangement. All of VVO's joint arrangements are joint operations. They include those housing companies and mutual real estate companies in which VVO has a holding of less than 100 per cent. In these companies, the shares held by VVO carry entitlement to control over specified premises.

VVO includes in its consolidated financial statements on a line-by-line basis and in proportion to its ownership its share of the assets and liabilities on the balance sheet related to joint operations, as well as its share of any joint assets and liabilities. In addition, VVO recognises its income and expenses related to joint operations, including its share of the income and expenses from joint operations. VVO applies this proportional consolidation method to all the joint operations described above, regardless of the Group's holding. If the proportionally consolidated companies have such items on the consolidated comprehensive income statement or balance sheet that solely belong to VVO or other owners, these items are dealt with accordingly also in VVO's consolidated financial statements.

Associated companies

Associated companies are entities over which VVO has considerable influence. Considerable influence is basically defined as VVO holding 20–50 per cent of the votes in the company or VVO is otherwise exercising considerable influence but does not have control in the company. Holdings in associated companies are consolidated in the financial statements using the equity method from the date of acquiring considerable influence until the date when the considerable influence ends. VVO's share of the results of associated companies is shown on a separate line on the income statement.

Business combinations and asset acquisition

Acquisitions of investment properties by VVO are accounted for as an acquisition of asset or a group of assets, or a business combination within the scope of IFRS 3 Business Combinations. Reference is made to IFRS 3 to determine whether a transaction is a business combination. This requires the management's judgment.

IFRS 3 is applied to the acquisition of investment property when the acquisition is considered to constitute an entity that is treated as a business. Usually, a single property and its rental agreement does not constitute a business entity. To constitute a business entity, the acquisition of the property should include acquired operations and people carrying out these operations, such as marketing of properties, management of tenancies and property repairs and renovation.

The consideration transferred in the business combination and the detailed assets and accepted liabilities of the acquired entity are measured at fair value on the acquisition date. Goodwill is recognised at the amount of consideration transferred, interest of non-controlling shareholders in the acquiree and previously held interest in the acquiree minus VVO's share of the fair value of the acquired net assets. Goodwill is not amortised, but it is tested for impairment at least annually.

Acquisitions that do not meet the definition of business in accordance with IFRS 3 are accounted for as asset acquisitions. In this event, goodwill or deferred taxes, etc., are not recognised.

Translation of foreign currency items

Transactions in foreign currency are recorded in EUR at the exchange rate on the transaction date. On the last date of the reporting period, monetary receivables and liabilities denominated in foreign currencies are translated into EUR at the exchange rate of the last date of the reporting period. Gains and losses arising from transactions denominated in foreign currency and from translating monetary items are recognised in profit or loss, and they are included in financial income and expenses. Consolidated financial statements are presented in EUR, which is the parent company's functional and presentation currency.

The Group has very few transactions denominated in foreign currencies. VVO has no units abroad.

Investment properties

General recognition and measurement principles for investment property

Investment property refers to an asset (land, building or part of a building) that VVO retains to earn rental income or capital appreciation, or both. An investment property can be owned directly or through an entity. Properties used for administrative purposes are owner-occupied property and included in the balance sheet line item "Property, plant and equipment". An investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from owner-occupied property.

Investment property is measured initially at acquisition cost, including related transaction costs, such as transfer taxes and professional fees, as well as capitalised expenditure arising from eligible modernisation. The acquisition cost also includes related borrowing costs, such as interest costs and arrangement fees, directly attributable to the acquisition or construction of an investment property. The capitalisation of borrowing costs is based on the fact that an investment property is a qualifying asset, i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The capitalisation commences when the construction of a new building or extension begins and continues until such time as the asset is substantially ready for its intended use or sale. Capitalisable borrowing costs are either directly attributable costs accrued on the funds borrowed for a construction project or costs attributable to a construction project.

After initial recognition, investment property is carried at fair value. The resulting changes in fair values are recognised in profit or loss as they arise. Fair value gains and losses are presented netted as a separate line item in the income statement. According to IFRS 13, Fair value measurement, fair value refers to the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Some of the investment properties are subject to legislative divestment and usage restrictions. The so-called non-profit restrictions apply to the owning company, and the so-called property-specific restrictions apply to the investment owned. The non-profit restrictions include, among other things, permanent restrictions on the company's operations, distribution of profit, lending and provision of collateral, and the divestment of investments. The property-specific restrictions include fixed-term restrictions on the use of apartments, the selection of residents, the determination of rent and the divestment of apartments.

VVO's investment property portfolio incorporates the completed investment property, investment property under construction and under major renovation and VVO Group's plot reserve. Properties classified as trading properties as well as properties classified as held for sale are included in the Group's property portfolio but excluded from the balance sheet item "Investment properties". A property is reclassified from "Investment properties" under "Trading properties" in the event of a change in the use of the property, and under "Investment property held for sale", when the sale of an investment property is deemed highly probable.

An investment property is derecognised from the balance sheet on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses on disposals are presented netted as a separate line item in the income statement.

In the property measurement model, the properties within the scope of balance sheet value and income value methods will be moved to the transaction value method after their property-specific restrictions end. The change of the valuation technique affects the fair value of the property.

Valuation techniques

The fair value of investment property determined by VVO is based on transaction value, income value and acquisition cost.

Transaction value

Properties of which apartments can be sold by VVO Group without restrictions are measured using transaction value. The value as of the measurement date is based on actual sales prices of comparable apartments for the two preceding years. The source of market data applied by VVO Group is price tracking service provided by the Central Federation of Finnish Real Estate Agencies (KVKL), including pricing information on sales of individual apartments in Finland provided by real estate agents. The resulting transaction value is individually adjusted based on the condition, location, and other characteristics of the rental property.

Income value (yield value)

Yield value is applied when a property is required to be kept in rental use based on state-subsidised loans (so-called ARAVA loans) or interest subsidy loans, and it can be sold just as an entire property and to a restricted group of buyers. In the yield value method, the fair value is determined by capitalising net rental income, using a property-specific required rate of net rental income. The method also considers the im-

pact of future renovations and the present value of any interest subsidies.

Acquisition cost (Balance sheet value)
VVO Group estimates that the acquisition cost of properties under construction, interest subsidised (long-term) rental properties and state-subsidised rental properties (so-called ARAVA properties) approximate their fair values. State-subsidised and interest subsidised (long-term) rental properties are carried at original acquisition cost, deducted by the depreciation accumulated up to the IFRS transition date and any impairment losses.

Fair value hierarchy
Inputs used in determining fair values (used in the valuation techniques) are classified on three levels in the fair value hierarchy. The fair value hierarchy is based on the source of inputs.

Level 1 inputs
Quoted prices (unadjusted) in active markets for identical investment property.

Level 2 inputs
Inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.

Level 3 inputs
Unobservable inputs for investment property.

An investment property measured at fair value is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The fair value measurement for all of the investment property of VVO has been categorised as a Level 3 fair value, as observable market information for the determination of fair values has not been available.

Investment properties classified as held for sale
If the sale of an operative investment property is deemed highly probable, such a property is transferred from the balance sheet item "Investment property" to "Investment property held for sale". On that date, the carrying amount of the property is considered to be recovered principally through a sale transaction rather than through continuing use in rental. Reclassification requires that a sale is deemed highly probable and:

- the investment property is available for immediate sale in its present condition subject to usual and customary terms
- management is committed to an active plan to sell the property and VVO has initiated a programme to locate a buyer and complete the plan
- the property is actively marketed for sale at a price that is reasonable in relation to its current fair value
- the sale should be expected to qualify for recognition as a completed sale within 12 months of the date of classification.

Investment properties classified as held for sale are measured at fair value.

Trading properties
Trading properties include properties meant for sale which do not meet the objectives of the company due to their location, type or size. A property is reclassified from the balance sheet item "Investment properties" under "Trading properties" in the event of a change in the use of the property. This is evidenced by the commencement of development with a view to sale. If an investment property is being developed with a view to a sale, it will be accounted for as a trading property.

Trading properties are measured at the lower of the acquisition cost or the net realisation value. The net realisation value is the estimated selling price in the ordinary course of business deducted by the estimated costs necessary to make the sale. If the net realisation value is lower than the carrying amount, an impairment loss is recognised.

When a trading property becomes an investment property measured at fair value, the difference between the fair value on the transfer date and its previous carrying amount is recognised in the income statement under "Profit/loss on sales of trading properties".

VVO's trading properties include mainly single apartments ready for sale, business premises and parking facilities that are meant for sale but have not been sold by the balance sheet date.

Property, plant and equipment
Property, plant and equipment are measured at their original acquisition cost, less accumulated depreciation and possible impairment losses, adding capitalised costs related to modernisations. VVO's property, plant and equipment consist mainly of buildings, land and machinery and equipment.

The acquisition cost includes costs that are directly attributable to the acquisition of the property, plant and equipment item. If the item consists of several components with different useful lives, they are treated as separate items of property, plant and equipment. In this case, costs related to the replacement of a component are capitalised, and any remaining carrying amount is derecognised from the balance

sheet in connection with the replacement. Government grants received for the acquisition of property, plant and equipment are recorded as a reduction of the acquisition cost of said property, plant and equipment asset. The grants are recognised in income as lower depreciation charges over the useful life of the asset.

Costs that arise later as a result of additions, replacements of parts or maintenance, such as modernisation costs, are included in the carrying amount of the property, plant and equipment asset only in the event that the future financial benefit related to the asset will probably benefit VVO and the acquisition cost can be reliably determined. Maintenance and repair expenses are recognised immediately through profit and loss.

Depreciation on property, plant and equipment is recognised as straight-line depreciation during the useful life. No depreciation is charged on land, as land is considered to have an indefinite useful life.

The depreciation periods according to plan, based on the useful life, are as follows:

Buildings	67 years
Machinery and equipment in buildings	10–50 years
Office machinery and equipment	4 years
Cars	4 years

Gains and losses from sales and disposals of property, plant and equipment are recognised in the income statement and presented as other operating income and expenses.

Intangible assets

Intangible assets are recognised in the balance sheet only in the event that the acquisition cost of the asset can be reliably determined and the expected future financial benefit related to the asset will probably benefit VVO. Any other costs are immediately recognised as expenses. Intangible assets are valued at acquisition cost less amortisation and any impairment loss. The Group's intangible assets consist of licences and IT systems. Intangible assets are amortised on a straight-line basis over their estimated useful lives. Intangible assets with a time limit are amortised over the life of the contract. The amortisation periods for intangible assets are four to five years.

Research costs are recognised as an expense as incurred. Development costs are recognised as intangible assets in the balance sheet, providing that they can be reliably determined, the product or process is technically and commercially feasible, it will probably generate financial benefit in the future and the Group has the resources required for completing the research work and for using or selling the intangible asset.

The residual value, useful life and amortisation method of the asset are checked at least at the end of each financial year. When necessary, they are adjusted to reflect changes in the expectations on financial benefit.

VVO's consolidated balance sheet did not include goodwill in the periods being presented.

Impairment of intangible assets and property, plant and equipment

At least once a year, VVO carries out an assessment of possible signs of impairment of intangible assets and property, plant and equipment. In practice, this is usually an asset group-specific assessment. If any signs of impairment are detected, the recoverable amount of the asset is determined.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is based on the expected future net cash flows resulting from the asset, discounted to the present. The recoverable amount is compared with the asset's carrying amount. An impairment loss is recognised if the recoverable amount is lower than the carrying amount. Impairment losses are recognised in the statement of income. In connection with the recognition of the impairment loss, the useful life of the amortisable/depreciable asset is reassessed.

The impairment loss will be reversed later if the circumstances change and the recoverable amount has increased after the recognition of the impairment loss. However, reversal of impairment loss shall not exceed the asset's carrying amount less impairment loss. An impairment loss recognised for goodwill cannot be reversed under any circumstances.

Financial assets and liabilities

VVO applies the following principles to the classification of financial assets and liabilities and their recognition, derecognition and measurement.

The fair value hierarchy related to the fair value determination of financial assets and liabilities is similar to the hierarchy described in the Fair value hierarchy note to the consolidated financial statements.

Financial assets have been classified as follows for the determination of measurement principles:

Financial asset group	Instruments	Measurement principle
1. Financial assets recognised at fair value through profit or loss	Derivative instruments: interest rate and electricity, non-hedge accounting	Fair value, changes in value are recognised in the income statement
2. Available-for-sale financial assets	a) Investments in unlisted securities b) Investments in other instruments with a reliably determinable fair value: fund investments and investments in bonds	a) Original acquisition cost less impairment losses b) Fair value, changes in value are basically recognised through other comprehensive income less impairment losses
3. Loans and other receivables	Sales and loan receivables, fixed-term deposits and similar receivables	Amortised cost
4. Held-to-maturity investments	Bonds and similar assets	Amortised cost

The classification depends on the purpose for which the financial assets were acquired and takes place at initial recognition. Transaction costs are included in the original carrying amount of financial assets for items that are not measured at fair value through profit and loss. At the end of the financial year, VVO had no held-to-maturity investments. All purchases and sales of financial assets and liabilities are recognised on the transaction date, which is the date on which the VVO undertakes to purchase or sell the financial instrument. Financial assets are derecognised from the balance sheet when VVO has lost its contractual right to the cash flows or when it has transferred a significant part of the risks and yield outside the Group.

Financial assets recognised at fair value through profit or loss

VVO uses derivative instruments only for hedging purposes. Those derivative instruments that do not meet the requirements of IAS 39 Financial instruments: Recognition and Measurement concerning the application of hedge accounting, or if VVO has decided not to apply hedge accounting to the instrument, are included in financial assets or liabilities recognised at fair value through profit and loss. These instruments are classified as held for trading.

Derivative instruments are initially recognised at fair value and are subsequently recognised at fair value on the last day of each reporting period.

VVO's derivative instruments consist of interest rate derivatives and electricity derivatives. The Group uses interest rate derivatives to hedge its interest rate risk exposure related to long-term loans. This refers to changes caused by fluctuating market interest rates to future interest payment cash flows (cash flow hedging) and resulting volatility in profits. The purpose of electricity derivatives is to limit fluctuations in the Group's result caused by changing electricity prices. The positive fair values of derivative instruments are recognised in the balance sheet under non-current or current receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated to this category or not classified in any other financial asset category. They are included in non-current assets, unless the investment matures or the company intends to dispose of the investment within 12 months of the reporting date.

Available-for-sale financial assets are measured at fair value. If the fair value cannot be reliably determined (unlisted securities), they are measured at cost less any impairment loss. The fair value is determined using quoted market rates and market prices and other appropriate valuation methods, such as recent transaction prices. Fair value changes of available-for-sale financial assets are recognised as other comprehensive income and presented in the fair value reserve net of tax. When a financial asset classified as available for sale is sold or an impairment is recognised on it, the cumulative change in fair value is transferred from equity and recognised through profit or loss.

Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments. They do not have quoted market prices and they are not held for trading. Loans and other receivables include VVO's financial assets obtained by handing over cash, goods or services directly to a debtor. VVO's loans and other receivables consist of sales receivables and other receivables.

Loans and other receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method. They are included in current financial assets if they mature within 12 months of the end of the reporting period. Otherwise, they are included in non-current financial assets.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or definable related payments. They mature on a given date and VVO firmly intends and is able to keep them until this date. They are measured at amortised cost less any impairment loss, using the effective interest method. They are included in non-current assets, providing that they do not mature within 12 months of the end of the reporting period.

Cash and cash equivalents
Cash and cash equivalents consist of cash and other liquid assets. Cash equivalents include bank deposits that can be raised on demand and other short-term highly liquid investments, such as interest securities. Items classified as cash equivalents mature within three months of the date of acquisition. They are readily convertible to a known amount of cash, and the risk of changes in value is insignificant. The cash and cash equivalents of non-profit companies are kept separate from those of other companies.

Impairment of financial assets
At the end of each reporting period, VVO assesses whether there is objective evidence of the impairment of any single financial asset or group of assets. 'Objective evidence' may refer to evidence such as a significant or long-lasting decrease in the value of an equity instrument, falling below the instrument's acquisition cost. Impairment loss is immediately recognised in the income statement. If the value is later restored, the reversal of the impairment is recognised in equity for equity instruments and through profit or loss for other investments.

Sales receivables are amounts that arise from renting our apartments. VVO recognises an impairment loss on an individual sales receivable when there is objective evidence that VVO will not be able to collect the full amount due. Credit losses are included in other operating expenses. Subsequent recoveries of amounts recognised as expenses are credited against other operating expenses in the income statement.

A financial liability is classified as current unless VVO has the unconditional right to defer the payment of the debt to at least 12 months from the end of the reporting period. Financial liabilities, or parts thereof, are not derecognised from the balance sheet until the debt has extinguished, i.e. once the contractually specified obligation is discharged or cancelled or expires.

Financial liabilities are classified as follows:

Financial liability group	Instruments	Measurement principle
1. Financial liabilities recognised at fair value through profit and loss	Derivative instruments: interest rate and electricity, non-hedge accounting	Fair value, changes in value are recognised in the income statement
2. Financial liabilities measured at amortised cost (other financial liabilities)	Various debt instruments	Amortised cost

Financial liabilities recognised at fair value through profit and loss
Financial liabilities recognised at fair value through profit and loss include electricity derivatives and those interest rate derivatives that are not subject to hedge accounting in accordance with IAS 39. Realised and unrealised gains and losses from changes in fair value are recognised in the income statement in the period in which they have arisen. In the balance sheet, the negative fair values of interest rate derivatives and electricity derivatives are included in non-current or current liabilities.

Financial liabilities measured at amortised cost (other financial liabilities)
Financial liabilities measured at amortised cost are initially recognised at fair value. Transaction costs directly attributable to the acquisition of loans, such as arrangement fees that can be allocated to a particular loan, are deducted from the original amortised cost of the loan. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. The difference between the proceeds and the redemption value is recognised as financial cost through profit and loss over the loan period.

Derivative instruments and hedge accounting
VVO Group uses interest rate derivatives to hedge its exposure to changes in future interest payment cash flows concerning long-term loans. The majority of interest rate derivatives is subject to cash flow hedge accounting in accordance with IAS 39. Fluctuations in the Group's result caused by changing electricity prices are restricted by using electricity derivatives. Electricity derivatives are not subject to hedge accounting in accordance with IAS 39, even though

these instruments are used for hedging.

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently recognised at fair value.

At the beginning of the hedging relationship, the Group documents the relationships between each hedging instrument and hedged item as well as the objectives of risk management and the hedging strategy. The hedge effectiveness is assessed both at the beginning of and during hedging in all financial statements. This includes demonstrating whether the derivatives are effective in reversing the changes in the cash flows of the hedged items.

Changes in the fair values of derivatives within hedge accounting are recognised in components of other comprehensive income insofar as the hedging is effective. Changes in value are reported in fair value reserve in equity. Interest payments arising from interest rate derivatives are recognised in interest costs. If market interest rates are negative, interest rate swap hedges may lead to a situation in which both fixed and variable interest must be paid, and both of these interests are recognised in interest costs. The ineffective portion of a hedge is immediately recognised in financial items in the income statement. The gains and losses accumulated in equity are recognised in the income statement at the same time with the hedged item.

Changes in value from derivatives not included in hedge accounting are recognised in financial items through profit and loss.

Government grants

VVO may receive various grants for its operations from different representatives of public administration. State-subsidised loans granted by the State Treasury constitute the most important form of government grants. VVO may receive a state-subsidised low-interest loan for specific properties supported by the government. The actual net interest rates of these loans may be lower than interest expenses of market-based loans. The interest advantage obtained through the support from government is therefore netted into interest expenses in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and is not shown as a separate item in interest income.

Government grants are recognised only where it is reasonably certain that they will be received and VVO meets the criteria attached to the grant. Public grants are accounted for as part of the effective interest rate of the loan in question. The amount of government grants was low in the financial year.

Borrowing costs

Borrowing costs are usually recognised as financial costs in the financial year during which they are incurred. However, borrowing costs attributable to qualifying assets, that is, mainly borrowing costs attributable to VVO's investment properties, such as interest costs and arrangement fees, directly resulting from the acquisition or construction of the above assets, are capitalised as part of the cost of the asset. The capitalisation principles of borrowing costs are described in more detail in section 1.2.1 of the Accounting policies for consolidated financial statements, General recognition and measurement principles for investment property.

Equity

An equity instrument is any contract that demonstrates a residual interest in VVO's assets after deducting all of its liabilities. The share capital consists of the parent company's ordinary shares classified as equity. Transaction costs directly attributable to the issue of new shares are presented in equity as a deduction, net of tax, from the proceeds.

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

Dividend distribution to the parent company's shareholders is recognised as a liability in the consolidated balance sheet in the period in which the dividends are approved by the company's General Meeting of Shareholders.

Provisions and contingent liabilities

Provisions are recognised in the balance sheet when all the following criteria are met:

- VVO has a present legal or constructive obligation as a result of past events
- it is probable that an outflow of resources will be required to settle the obligation
- the amount of the obligation can be reliably estimated.

Provisions may result from restructuring plans, onerous contracts or obligations related to the environment, legal action or taxes. The Group's provisions on 31 December 2016 consisted ten-year guarantee reserves for VVO Kodit Oy's (VVO Rakennuttaja Oy's) founder construction. Their amount is based on VVO's experience of costs arising from the realisation of such liabilities.

The amount recognised as provision is the management's best estimate of costs required for settling an existing obliga-

tion on the last day of the reporting period. Where it can be expected some of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a potential obligation resulting of past events and may be incurred depending on the outcome of an uncertain future event that is beyond the Group's control (such as the result of pending legal proceedings). In addition, an existing obligation that will probably not require meeting the liability to pay or the amount of which cannot be reliably determined is considered as a contingent liability. Contingent liabilities are presented in the notes.

Turnover and revenue recognition principles

VVO's turnover consists of rental income and charges for utilities. The turnover has been adjusted with indirect taxes and sales adjustment items. In addition, VVO recognises income for the selling of investment properties and financial income.

VVO's turnover consists mainly of rental income from investment properties. Rental agreements of investment properties with VVO as the lessor are classified as other rental agreements, as VVO retains a substantial proportion of the risks and rewards of ownership. Most of the rental agreements are in force until further notice. Rental income accrued from other rental agreements is distributed evenly across the rental period. As a lessor, VVO does not have rental agreements that could be classified as financial leasing agreements.

Relating to the rental agreements, VVO collects utility charges, mainly sauna fees. This income is allocated to the period during which the related cost is recognised as expense.

Interest income is recognised using the effective interest method, and dividend income is recognised when a right to receive payment has arisen.

An existing property owned by VVO is considered as sold, once the substantial risks and rewards associated with ownership have been transferred from VVO to the buyer. This usually takes place when control over shares is transferred. Income from selling property is presented in the income statement under Profit/loss on sales of investment properties.

Other operating income

Other operating income includes income not related to the actual business. It includes items such as sales profit from intangible assets and property, plant and equipment, as well as income from debt collection activities.

Net rental income

Net rental income is calculated by deducting property maintenance and repair costs from turnover. These expenses comprise 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

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. At VVO, operating profit is defined as the net amount after adding other operating income to net rental income, then deducting sales and marketing expenses, administrative expenses and other operating expenses, the share in profits of associated companies and amortisation, depreciation and impairment, and then adding/deducting gains/losses from the disposal of investment properties, from assessment at fair value, and from the disposal of trading properties. All the other income statement items except those mentioned above are presented below operating profit. Changes in the fair values of derivative instruments are included in the business result if they arise from items related to business operations; otherwise they are recognised in financial items.

Employee benefits

The Group's employee benefits include the following:

- short-term employee benefits
- post-employment benefits
- termination benefits (benefits provided in exchange for the termination of an employment)
- other long-term employee benefits.

Short-term employee benefits

Wages, salaries, fringe benefits, annual leave and bonuses are included in short-term employee benefits.

Post-employment benefits (pension plans)

Post-employment benefits are payable to employees after the completion of employment. At VVO, these benefits are related to pensions. Pension coverage in the Group is arranged through external pension insurance companies.

Pension schemes are classified as defined contribution and defined benefit plans. VVO has only defined contribution schemes. A defined contribution plan is a pension plan under which VVO pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the payee does not hold sufficient assets to pay out all pension benefits. Pension plans that are not defined contribution plans are defined benefit plans. Payments made in-

to defined contribution systems are recognised through profit and loss in the periods that they concern.

Termination benefits
Termination benefits are not based on work performance but the termination of employment. These benefits consist of severance payments. Termination benefits result either from the Group's decision to terminate the employment or the employee's decision to accept the benefits offered by VVO in exchange for the termination of employment.

Other long-term employee benefits
VVO has a remuneration scheme that covers the entire personnel, entitling them to benefits after a specific number of years of service. The discounted present value of the obligation resulting from the arrangement is recognised as a liability in the balance sheet on the last day of the reporting period

Operating leases

Group as lessee
Leases in which the risks and rewards of ownership substantially remain with the lessee are accounted for as operating leases. Payments made under operating leases are recognised as expense through profit and loss as balance sheet items over the lease term. More information about VVO's operating leases is available in Note 26 to the consolidated financial statements (Operating leases).

Income tax

Recognition and measurement principles
The tax expense in the income statement comprises current tax and the change in deferred tax liabilities and receivables. Income tax is recognised in profit and loss, except when income tax is related to items recognised directly in equity or components of other comprehensive income. In this event, the tax is also included in these items.

Current taxes are calculated from taxable profit determined in Finnish tax legislation with reference to a valid tax rate, or a tax rate that is in practice approved by the balance sheet date. Taxes are adjusted by possible taxes related to previous years.

As a rule, deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts and tax bases of assets and liabilities using the liability method. Acquisitions of individual assets as defined in IAS 12.15 b constitute an exception to this rule. In VVO, these assets include such investment property acquisitions that do not meet the criteria of business entities and are therefore classified as asset acquisitions.

The most significant temporary difference in the Group is the difference between the fair values and tax bases of investment properties owned by VVO. After the initial recognition, the investment property is measured at fair value through profit and loss at the end of the reporting period. Other temporary differences arise, for example, from the measurement of financial instruments at fair value.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available to VVO against which temporary differences can be utilised. The eligibility of the deferred tax asset for recognition is reassessed on the last day of each reporting period. Deferred tax liabilities are usually recognised in the balance sheet in full.

Deferred taxes are determined applying those tax rates (and tax laws) that will probably be valid at the time of paying the tax. Tax rates in force on the last day of the reporting period are used as the tax rate, or tax rates for the year following the financial year if they are in practice approved by the last day of the reporting period.

Accounting policies that require management's judgement and key sources of estimation uncertainty

Management's judgement related to the application of the accounting policies
The preparation of financial statements in accordance with the IFRS requires VVO's management to make judgement-based decisions on the application of the accounting policies, as well as estimates and assumptions that affect the amounts of reported assets, liabilities, income and expenses and the presented notes.

Management's judgment-based decisions affect the choice of accounting policies and their application. This particularly applies to cases for which the current IFRS norms include alternative recognition, measurement or presentation methods.

VVO's management must make judgement-based decisions when applying the following accounting policies:

Classification of properties:
VVO classifies its property portfolio into investment properties, trading properties and investment properties held for sale, in accordance with the principles described above. For instance, determining when selling is considered to be very likely in different circumstances requires judgement from the management. The classification has an effect on the financial statements, as the character of the intended use of a property held by VVO affects the content of the required IFRS financial statements information.

Classification of long-term leases:
Long-term leases are classified as finan-

cial leases or operating leases. These leases signed by VVO with different municipalities have been analysed and on the basis of the analyses VVO has deemed them to be operating leases. This is based on the management's opinion that the significant risks and rewards associated with these lease arrangements are not transferred to VVO. More information about VVO's operating leases is available in Note 26 to the consolidated financial statements (Operating leases).

Business acquisitions and asset acquisitions:
Acquisitions of investment properties are classified either as acquisitions of asset or assets (IAS 40) or business combinations (IFRS 3). If the acquisition of an investment property involves other operations in addition to the property, it is considered as a business combination.

Deferred tax assets:
Determining whether to recognise a deferred tax asset on the balance sheet requires the management's judgement. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to VVO against which deductible temporary differences or tax losses carried forward can be utilised. A deferred tax asset recognised in a previous reporting period is recognised as an expense in the income statement, if VVO is not expected to accrue enough taxable income to utilise the temporary differences or unused losses that constitute the basis for the deferred tax asset.

Recognition principle of deferred taxes:
As a rule, the deferred tax for investment properties measured at fair value is determined assuming that the temporary difference will reverse through selling. VVO can usually dispose of an investment property either by selling it in the form of property or by selling the shares in the company, such as a housing company.

Exception to the initial recognition of deferred taxes:
As a rule, deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts and tax bases of assets and liabilities. An exception to this principal rule is constituted by acquisitions of single investment properties, which are not considered to meet the definition of business according to IFRS 3. In this case, they are classified as asset acquisitions, for which no deferred tax is recorded in the balance sheet at initial recognition. Therefore, the classification of property acquisitions described above has an effect on the recognition of deferred taxes.

Key sources of estimation uncertainty
The estimates and related assumptions are based on VVO's historical experience and other factors, such as expectations concerning future events. These are considered to represent the management's best understanding at the time of evaluation and believed to be reasonable considering the circumstances. The actual results may differ from the estimates and assumptions used in the financial statements. Estimates and related assumptions are continually evaluated. Changes in accounting estimates are recorded for the period for which the estimate is being checked, if the change in the estimate concerns only that period. If the change in the estimate concerns both the period in question and later periods, the change in the estimate is recorded both for the period in question and the future periods.

Below are presented the most significant sections of the financial statements where the judgement described above has been applied by management, as well as the assumptions about the future and other key uncertainty factors in estimates at the end of the reporting period which create a significant risk of change in the carrying amounts of VVO's assets and liabilities within the next financial year.

The key sources of estimation uncertainty concern the following sections of the financial statements:

Fair value measurement of investment property:
In VVO's consolidated financial statements, the determination of the fair value of investment property is the key area that involves the most significant uncertainty factors arising from the estimates and assumptions that have been used. The determination of the fair value of investment property requires significant management discretion and assumptions, particularly with respect to return requirements, vacancy rates, the development of rent levels and the comparability of transaction values in relation to the property being evaluated. More information about the fair value determination for VVO's investment properties is available in Note 11 to the consolidated financial statements (Investment properties).

VVO uses valuation techniques that are appropriate under those circumstances, and for which sufficient data is available to measure fair value. VVO aims to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Determination of the fair value and impairment of financial instruments:
If there is no active market for the financial instrument, judgement is required to determine fair value and impairment. External mark to market valuations may be used for some interest rate derivatives. Recognition of impairment is considered if the im-

pairment is significant or long-lasting. If the amount of impairment loss decreases during a subsequent financial year and the decrease can be considered to be related to an event occurring after the recognition of impairment, the impairment loss will be reversed. More information about VVO's financial instruments is available in Note 14 to the consolidated financial statements (Values of financial assets and liabilities by category).

New and revised standards and interpretations to be applied in subsequent financial years

IASB has issued new and amended standards and interpretations, the application of which is mandatory in financial years beginning on or after 1 January 2017. VVO has not applied these standards and interpretations to the preparation of these consolidated financial statements. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

New IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard replaces the current IAS 18 and IAS 11 standards and related interpretations. IFRS 15 includes a five-step model for recognising revenue: to which amount and when it is recognised. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the number of notes presented. In 2016, VVO assessed the impact of the change by analysing the key concepts of IFRS 15 with regard to the company's cash flows. Due to the nature of the company's business, the change of the standard will not have a material impact on VVO's consolidated financial statements.

New IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): The standard replaces the existing standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments. This also covers a new expected credit loss model for determining impairment on financial assets. The requirements concerning general hedge accounting have also been revised. The requirements on recognition and derecognition of financial instruments from IAS 39 have been retained. The Group will start applying the standard as of 1 January 2018. The implementation of the re-classification and measurement of financial assets or new hedge accounting principles will result in some changes in current recognition practices, but their impact is minor when compared to the financial statements. It is also estimated that along with the IFRS 9 standard, hedge accounting can be applied more extensively. Changes in impairment principles will mainly affect expected credit losses recorded for sales receivables. The Group estimates that the impact will not be material.

New IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The standard replaces the currently applied IAS 17 standard and related interpretations. The IFRS 16 standard requires lessees to record leases in the balance sheet as a lease liability and a related asset. Recording in the balance sheet is highly similar to the accounting for financial leasing in accordance with IAS 17. There are two exemptions to recording in the balance sheet, applicable to short-term leases with a lease term of 12 months or less and assets with a value of USD 5,000 or less. For lessors, the accounting will largely remain as defined in the current IAS 17. The Group has started to assess the impact of the standard. The assessment is expected to be completed in 2017.

The adoption of the other amended standards and interpretations is not expected to have any material effect on the Group's financial statements.

2. Operating segment information

An operating segment is a component of VVO Group that engages in business activities from which it may earn revenues and incur expenses. Separate financial information is available about it and VVO's chief operating decision-maker evaluates it on a regular basis in order to make decisions on the allocation of resources to the segment and to assess its performance.

VVO Group's business operations are divided into two segments: Lumo and VVO.

The Lumo segment contains the Group's parent company VVO Group plc and the group companies VVO Kodit Oy, VVO Vuokratalot Oy and VVO Palvelut Oy, as well as those other group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end by the close of 2018. Some of the housing included in the Lumo segment is subject to property-specific restrictions in accordance with the ARAVA Act.

The group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end after 2018 belong to the VVO segment. The companies of the VVO segment are subject to the profit distribution restriction, and they can pay their owner an eight per cent return on own funds invested in them that have been confirmed by the Housing Finance and Development Centre of Finland (ARA). The return payable from the annual profits of companies subject to revenue recognition restrictions totals approximately EUR 2.2 million. Some of the housing in the VVO segment is not subject to property-spe-

cific restrictions in accordance with the ARAVA Act.

The principles for preparing operating segment information are the same as the accounting principles for the Group.

Group consolidation measures include mainly expenses, assets and liabilities of the Group's joint operations.

M €	Lumo 1–12/2016	VVO 1–12/2016	Group consolidation methods	VVO Group Total 1–12/2016
Rental income	288.4	61.1	0.4	349.9
Sales income, other	1.7	0.3	-0.4	1.6
Internal income	1.0	0.1	-1.2	0.0
Total revenue	**291.1**	**61.5**	**-1.2**	**351.5**
Maintenance expenses	-72.3	-18.1	0.1	-90.3
Repair expenses	-28.5	-10.6	0.0	-39.1
Net rental income	**190.3**	**32.8**	**-1.0**	**222.0**
Administrative expenses	-31.7	-6.8	1.0	-37.4
Other operating income	1.8	0.5	0.0	2.3
Other operating expenses	-0.7	-2.5	0.0	-3.1
Profit/loss on sales of investment properties	-1.2	-10.0	0.7	-10.4
Profit/loss on sales of trading properties	0.1	0.0	0.0	0.1
Fair value change of investment properties	159.3	4.0	0.0	163.3
Depreciation, amortisation and impairment losses	-1.2	0.0	0.0	-1.2
Operating profit / loss	**316.8**	**18.1**	**0.7**	**335.6**

M €	Lumo 1–12/2016	VVO 1–12/2016	Group consolidation methods	VVO Group Total 1–12/2016
Financial income				2.4
Financial expenses				-48.4
Total amount of financial income and expenses				**-46.0**
Share of result from associated companies				0.1
Profit before taxes				**289.7**
Current tax expense				-35.4
Change in deferred taxes				-22.1
Profit/loss for the period				**232.3**
Investments	**695.6**	**0.5**	**0.0**	**696.0**
Investment properties	4,088.9	138.5	0.9	4,228.3
Investments in associated companies	1.2	0.0	0.0	1.2
Investment properties held for sale	70.7	0.0	0.0	70.7
Liquid assets	30.3	101.7	0.0	132.0
Other assets	147.3	79.5	-86.8	140.0
Total Assets	**4,338.4**	**319.7**	**-86.0**	**4,572.2**
Interest bearing liabilities	2,028.8	178.0	-84.0	2,122.8
Liabilities held for sale	1.0	0.0	0.0	1.0
Other liabilities	573.6	17.0	-1.8	588.8
Total Liabilities	**2,603.4**	**195.0**	**-85.8**	**2,712.6**

M €	Lumo 1–12/2015	VVO 1–12/2015	Group consolidation methods	VVO Group Total 1–12/2015
Rental income	203.3	164.4	1.9	369.6
Sales income, other	1.9	1.0	-1.6	1.4
Internal income	3.6	0.4	-3.9	0.0
Total revenue	**208.8**	**165.8**	**-3.6**	**370.9**
Maintenance expenses	-53.5	-44.9	1.4	-97.0
Repair expenses	-20.6	-25.9	0.0	-46.5
Net rental income	**134.6**	**94.9**	**-2.2**	**227.4**
Administrative expenses	-24.1	-18.9	3.3	-39.7
Other operating income	1.3	1.9	-1.1	2.1
Other operating expenses	-0.4	-0.2	0.2	-0.4
Profit/loss on sales of investment properties	2.2	0.6	0.0	2.7
Fair value change of investment properties	32.7	38.4	-0.8	70.3
Depreciation, amortisation and impairment losses	-1.2	0.0	0.0	-1.2
Operating profit / loss	**145.1**	**116.7**	**-0.6**	**261.2**
Financial income				7.8
Financial expenses				-44.8
Total amount of financial income and expenses				**-37.1**
Share of result from associated companies				0.6
Profit before taxes				**224.7**
Current tax expense				-22.1
Change in deferred taxes				-23.2
Profit/loss for the period				**179.4**

M €	Lumo 1–12/2015	VVO 1–12/2015	Group consolidation methods	VVO Group Total 1–12/2015
Investments	**228.1**	**6.9**	**-0.1**	**235.0**
Investment properties	3,331.7	133.1	0.2	3,464.9
Investments in associated companies	1.0	0.0	0.0	1.0
Investment properties held for sale	0.0	541.0	0.0	541.0
Liquid assets	14.9	101.2	0.0	116.0
Other assets	213.5	81.3	-181.7	113.1
Total Assets	**3,561.2**	**856.5**	**-181.6**	**4,236.1**
Interest bearing liabilities	1,435.1	235.2	-175.7	1,494.6
Liabilities held for sale	0.0	467.1	0.0	467.1
Other liabilities	500.7	39.8	-5.1	535.4
Total Liabilities	**1,935.7**	**742.1**	**-180.8**	**2,497.1**

3. Non-current assets held for sale

VVO Group sold 8,571 cost principle apartments in different parts of Finland to Kiinteistö Oy M2-Kodit which is part of the Y-Foundation group. The first phase of the transaction was executed on 31 March 2016 and the remaining phase on 20 June 2016.

On 21 December 2016, VVO Group signed an SPA whereby its various group companies sold a total of 1,344 non-restricted apartments, located around Finland, to a company managed by Avant Capital Partners. The transaction was completed on 31 January 2017.

M €	31 Dec 2016	31 Dec 2015
Investment properties	70.6	534.3
Investments in associated companies		3.0
Receivables	0.1	1.2
Liquid assets		2.6
Assets total	**70.7**	**541.0**
Liabilities	0.1	460.7
Trade and other payables	0.9	6.4
Liabilities total	**1.0**	**467.1**
Net asset value	**69.7**	**73.9**

The investment properties have been subsequently measured at fair value in the financial statements (fair value hierarchy level 3).

The collateral and contingent liabilities related to these items are presented in Note 28.

4. Profit/loss on sales of investment properties and Other operating income and costs

Profit/loss on sales of investment properties

M €	1–12/2016	1–12/2015
Profit on sales of investment properties	36.8	3.2
Loss on sales of investment properties	-47.2	-0.4
Total	**-10.4**	**2.7**

The most significant sales in 2016 were: Kiinteistö Oy M2-Kodit, 8,571 apartments; Rautatienkatu 12, Tampere, 81 apartments; Pinsiöntie 29, Nokia, 41 apartments.

Other operating income

M €	1–12/2016	1–12/2015
Income from the sales of fixed assets	0.0	0.3
Income from debt collection	1.5	1.3
Other	0.8	0.4
Total	**2.3**	**2.1**

Other operating expenses

M €	1–12/2016	1–12/2015
Costs on construction contracting	0.6	0.4
Loss on sales	2.5	0.0
Total	**3.1**	**0.4**

Auditors fee

M €	1–12/2016	1–12/2015
KHT-yhteisö KPMG Oy Ab		
Audit	0.2	0.2
Tax consultancy	0.4	0.1
Other services	0.1	0.0
Total	**0.7**	**0.3**

5. Employee benefits expense

M €	1–12/2016	1–12/2015
Salaries and wages	16.3	18.0
Defined contribution pension plans	3.1	3.6
Other social security costs	0.8	0.7
Total	**20.2**	**22.4**

The management's employee benefits are presented in Note 29, Related party transactions.

	31 Dec 2016	31 Dec 2015
Number of personnel, average	298	364

6. Amortisation, depreciation and impairment

Amortisation and depreciation by asset group

M €	1–12/2016	1–12/2015
Intangible assets	0.4	0.4
Property, plant and equipment	0.8	0.7
Total	**1.2**	**1.2**

No impairment has been recognised on intangible assets or property, plant and equipment.

7. Research and development expenditure

M €	1–12/2016	1–12/2015
Research and development	0.3	0.3
Total	**0.3**	**0.3**

VVO has no capitalised development expenditure. Development activities focus on the development of product concepts, improvement of electronic services and renewal of information systems.

8. Financial income and expenses

M €	1–12/2016	1–12/2015
Dividend income	0.0	0.2
Interest income	1.0	1.8
Change in fair value recognised at fair value through profit and loss	1.3	3.0
Other financial income	0.2	2.8
Financial income, total	**2.4**	**7.8**
Interest expenses		
Interest expenses on liabilities recognised at amortised cost	-26.3	-31.2
Interest expenses from derivatives	-14.3	-9.8
Change in fair value recognised at fair value through profit and loss	-8.5	-2.6
Other financial expences	0.7	-1.3
Financial expenses, total	-48.4	-44.8
Financial income and expenses, total	**-46.0**	**-37.1**

Other comprehensive income

M €	1–12/2016	1–12/2015
Cash flow hedges	-9.9	4.6
Available-for-sale financial assets	0.4	-1.6
Total	**-9.5**	**3.0**

The changes to cash flow hedging come from interest rate derivatives.

9. Income tax

The tax expense in the income statement is broken down as follows:

M €	2016	2015
Current tax expense	35.4	22.1
Change in deferred taxes	22.1	23.2
Total	**57.5**	**45.3**

Tax effects relating to components of other comprehensive income:

2016

M €	Before taxes	Tax effect	After taxes
Cash flow hedges	-9.9	2.0	-7.9
Available-for-sale financial assets	0.4	-0.1	0.3
Total	**-9.5**	**1.9**	**-7.6**

2015

M €	Before taxes	Tax effect	After taxes
Cash flow hedges	4.6	-0.9	3.7
Available-for-sale financial assets	-1.6	0.3	-1.3
Total	**3.0**	**-0.6**	**2.4**

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

M €	2016	2015
Profit before taxes	289.7	224.7
Taxes with current tax rate	57.9	44.9
Tax-free Income / nondeductible costs	1.3	0.7
Confirmed losses recognised through profit and loss	-0.9	-1.3
Write-off in deferred tax receivables from confirmed losses recognised through profit and loss	1.1	-0.3
Taxes from the previous periods	-1.4	0.0
Share of result of associated companies	0.0	-0.1
Acquired investment properties	0.2	1.2
Proceeds from sale of investment properties	-0.9	0.0
Other	0.0	0.2
Adjustments total	**-0.5**	**0.3**
Taxes total recognised in profit and loss	**57.5**	**45.3**

10. Earnings per share

Earnings per share is calculated by dividing the profit for the financial year attributable to equity holders of the parent company by the weighted average number of shares outstanding during the financial year.

M €	1–12/2016	1–12/2015
Profit of the financial period attributable to shareholders of the parent company	232.3	179.3
Average number of the shares during the period, millions	7.4	7.4
Earnings per share		
Basic, euro	31.38	24.23
Diluted, euro	31.38	24.23

The company has no diluting instruments.

11. Investment properties

M €	2016	2015
Fair value of investment properties, at 1 Jan	3,999.2	3,708.8
Acquisition of investment properties *)	664.9	187.1
Modernisation investments	29.3	45.8
Disposals of investment properties	-559.0	-14.9
Capitalised borrowing costs	1.7	2.0
Transfer to own use	-0.7	
Valuation gains/losses on fair value assessment	163.3	70.3
Fair value of investment properties, at 31 Dec	**4,298.9**	**3,999.2**

*) Includes the acquisition costs of new properties under construction.

The fair values include the investment properties classified into Non-current assets held for sale, totalling EUR 70.6 (534.3) million.

The Group has acquisition agreements for new development and renovations, presented in Note 28.

The change in the fair value of investment properties results from investments, changes in market prices and parameters used in valuation as well as from expiry of restrictions on some properties.

Some of the investment properties are subject to legislative divestment and usage restrictions. Usage and divestment restrictions are mainly related to balance sheet value properties and usage restrictions to yield value properties. The so-called non-profit restrictions apply to the owning company, and the so-called property-specific restrictions apply to the investment owned. The non-profit restrictions include, among other things, permanent restrictions on the company's operations, distribution of profit, lending and provision of collateral, and the divestment of investments. The property-specific restrictions include fixed-term restrictions on the use of apartments, the selection of residents, the determination of rent and the divestment of apartments.

Investment properties by valuation classes

M €	31 Dec 2016	31 Dec 2015
Properties measured at market value	3,287.7	2,417.6
Properties measured at yield value	602.9	697.2
Properties measured at acquisition method	408.3	884.4
Total	**4,298.9**	**3,999.2**

The above fair values include the investment properties classified into Non-current assets held for sale on 31 December 2016, totalling EUR 70.6 (534.3) million.

Measurement process of investment property

In the transaction value method, the measurement is performed with the help of the price tracking service provided by the Central Federation of Finnish Real Estate Agencies (KVKL), including pricing information on sales of individual apartments in Finland provided by real estate agents. The resulting property-specific transaction value is individually adjusted based on the condition, location, and other characteristics of the rental property.

In the yield value method, the fair value is determined by capitalising net rental income, using a property-specific required rate of net rental income.

In the acquisition cost method, rental properties are carried at original acquisition cost, deducted by the depreciation accumulated up to the IFRS transition date and any impairment losses.

VVO Group performs intra-company measurement of investment property each quarter. The results of the assessment are reported to the Management Group, Audit Committee and Board of Directors. The measurement process, market conditions and other factors affecting the assessment of the fair value of properties are reviewed on a quarterly basis with the CEO and CFO in accordance with the Group's reporting schedule. Each quarter, an external independent expert, Realia Management Ltd, issues a statement on the valuation methods applied in the valuation of rental apartments and business premises owned by VVO Group as well as on the quality and reliability of the valuation.

Sensitivity analysis of investment property fair value

Sensitive analysis of investment properties

31 Dec 2016

Change %	**-10%**	**-5%**	**0%**	**5%**	**10%**
Properties measured at market values					
Change in market prices (M€)	-328.8	-164.4		164.4	328.8
Properties measured at yield values					
Yield requirement (M€)	66.4	31.4		-28.4	-54.3
Lease income (M€)	-99.7	-49.8		49.8	99.7
Maintenance costs (M€)	35.7	17.9		-17.9	-35.7
Financial Occupancy rate (change in procent points)	**-2%**	**-1%**	**0%**	**1%**	**2%**
Rent income	-1.4	-0.7		0.7	1.4

31 Dec 2015

Change %	**-10%**	**-5%**	**0%**	**5%**	**10%**
Properties measured at market values					
Change in market prices (M€)	-241.8	-120.9		120.9	241.8
Properties measured at yield values					
Yield requirement (M€)	76.9	36.4		-33	-62.9
Lease income (M€)	-118.8	-59.4		59.4	118.8
Maintenance costs (M€)	45	22.5		-22.5	-45
Financial Occupancy rate (change in procent points)	**-2%**	**-1%**	**0%**	**1%**	**2%**
Rent income	-1.5	-0.7		0.7	

All of VVO's investment properties are classified into the fair value hierarchy level 3 in accordance with IFRS 13. Hierarchy level 3 includes assets the fair value of which is measured using input data concerning the asset that are not based on observable market data.

The weighted average for the return requirement was 6.3 (7.2) per cent for rental homes included within the scope of the yield value method in 2016, and 10.0 (11.0) per cent for business premises.

12. Property, plant and equipment

M €	Land areas	Entry fees	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Balance at 1 Jan 2016	5.5	0.2	27.6	3.7	1.6	38.5
Increases				0.1		0.1
Decreases			-0.3	-0.1	0.0	-0.4
Transfer from investment properties	0.0	0.0	0.9	0.0	-0.1	0.9
Balance at 31 Dec 2016	5.5	0.2	28.2	3.7	1.6	39.0
Accumulated depreciation 1 Jan 2016			-4.0	-3.2	-0.1	-7.3
Depreciation for the period			-0.4	-0.3	0.0	-0.7
Decreases				0.1		0.1
Transfer from investment properties			-0.2	0.0		-0.2
Accumulated depreciation 31 Dec 2016			-4.6	-3.4	-0.1	-8.1
Carrying value at 1 Jan 2016	5.5	0.2	23.5	0.5	1.6	31.2
Carrying value at 31 Dec 2016	**5.5**	**0.2**	**23.5**	**0.3**	**1.5**	**31.0**

M €	Land areas	Entry fees	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Balance at 1 Jan 2015	5.5	0.2	27.6	3.6	1.6	38.4
Increases				0.2	0.1	0.3
Decreases				-0.1		-0.1
Balance at 31 Dec 2015	5.5	0.2	27.6	3.7	1.6	38.5
Accumulated depreciation 1 Jan 2015			-3.6	-3.0	-0.1	-6.7
Depreciation for the period			-0.4	-0.3		-0.7
Decreases				0.1		0.1
Accumulated depreciation 31 Dec 2015			-4.0	-3.2	-0.1	-7.3
Carrying value at 1 Jan 2015	5.5	0.2	23.9	0.6	1.5	31.7
Carrying value at 31 Dec 2015	**5.5**	**0.2**	**23.5**	**0.5**	**1.6**	**31.2**

13. Intangible assets

M €	Intangible rights	Other intangible assets	Total
Balance at 1 Jan 2016	2.5	3.0	5.5
Increases	0.1	0.0	0.1
Balance at 31 Dec 2016	2.6	3.0	5.6
Accumulated depreciation 1 Jan 2016	-2.2	-2.2	-4.4
Depreciation for the period	-0.2	-0.3	-0.4
Accumulated depreciation 31 Dec 2016	-2.3	-2.5	-4.8
Carrying value at 1 Jan 2016	0.3	0.8	1.1
Carrying value at 31 Dec 2016	**0.2**	**0.5**	**0.8**

M €	Intangible rights	Other intangible assets	Total
Balance at 1 Jan 2015	2.5	2.8	5.3
Increases		0.2	0.2
Balance at 31 Dec 2015	2.5	3.0	5.5
Accumulated depreciation 1 Jan 2015	-2.0	-1.9	-4.0
Depreciation for the period	-0.2	-0.3	-0.4
Accumulated depreciation 31 Dec 2015	-2.2	-2.2	-4.4
Carrying value at 1 Jan 2015	0.5	0.9	1.4
Carrying value at 31 Dec 2015	**0.3**	**0.8**	**1.1**

14. Values of financial assets and liabilities by category

M €	31 Dec 2016 Carrying value total	LEVEL 1	LEVEL 2	LEVEL 3	Fair value total
Financial assets					
Measured at fair value					
Interest rate derivatives	2.2		2.2		2.2
Electricity derivatives	0.2	0.2			0.2
Available-for-sale financial assets	46.5	43.9	2.0	0.6	46.5
Measured at amortised cost					
Loans and receivables	23.1	23.1			23.1
Trade receivables	4.2				4.2
Financial liabilities					
Measured at fair value					
Interest rate derivatives	-68.6		-68.6		-68.6
Electricity derivatives	-0.5	-0.5			-0.5
Measured at amortised cost					
Other interest-bearing liabilities	1,824.9		1,825.4		1,825.4
Bond	297.9		300.0		300.0
Trade payables	19.3				19.3

M €	31 Dec 2015 Carrying value total	LEVEL 1	LEVEL 2	LEVEL 3	Fair value total
Financial assets					
Measured at fair value					
Interest rate derivatives	1.9		1.9		1.9
Electricity derivatives	0.8	0.8			0.8
Available-for-sale financial assets	29.7	27.3	2.0	0.5	29.7
Measured at amortised cost					
Held-to-maturity investments	6.2	2.0	4.2		6.2
Loans and receivables	19.0	19.0			19.0
Trade receivables	3.6				3.6
Financial liabilities					
Measured at fair value					
Interest rate derivatives	-50.3		-50.3		-50.3
Electricity derivatives	-2.0	-2.0			-2.0
Measured at amortised cost					
Other interest-bearing liabilities	1,395.0		1,395.0		1,395.0
Bond	99.6		100.0		100.0
Trade payables	10.6				10.6

The fair value of loans is the same as their nominal value. During the year there were no transfers between the fair value hierarchy levels.

A more detailed analysis of the fair values of interest rate derivatives included and not included in hedge accounting is presented in Note 22.

Financial assets and liabilities measured at fair value are classified into three fair value hierarchy levels in accordance with the reliability of the valuation technique:

Level 1:
The fair value is based on quoted prices for identical instruments in active markets.

Level 2:
A quoted market price exists in active markets for an instrument on the same terms, but the price may be derived from directly or indirectly quoted market data.

Level 3:
There is no active market for the instrument, the fair value cannot be reliably derived and input data used for the determination of fair value are not based on observable market data.

Level 3 reconciliation

Non-current assets held for sale

M €	31 Dec 2016	31 Dec 2015
Beginning of period	0.5	0.6
Deductions	0.0	0.0
End of period	**0.6**	**0.5**

Non-current assets held for sale on hierarchy level 3 are investments in unlisted securities. They are measured at cost, as their fair value cannot be reliably measured in the absence of an active market.

15. Non-current receivables

M €	31 Dec 2016	31 Dec 2015
Loan receivables from associated companies	0.3	0.5
Other long-term receivables	3.1	0.0
Loan receivables from others	2.1	1.7
Total	**5.6**	**2.2**

16. Deferred tax assets and liabilities

Changes to deferred tax assets and liabilities in 2016 are as follows:

M €	1 Jan 2016	Recognised in profit and loss	Recognised in other comprehensive income	Other changes	31 Dec 2016
Deferred tax assets					
Confirmed losses	1.3	-0.5			0.9
Cash flow hedges	8.2		2.5		10.6
Electricity derivatives measured at fair value	0.2	-0.1			0.1
Other items/transfers	2.2	1.6			3.8
Total	**12.0**	**1.0**	**2.5**		**15.4**
Deferred tax liabilities					
Investment properties measured at fair value	429.6	23.1		0.0	452.6
Cash flow hedges			0.5		0.5
Financial instruments measured at fair value	0.0		0.1		0.1
Other items/transfers	0.2	0.0			0.2
Total	**429.8**	**23.1**	**0.6**	**0.0**	**453.4**

M €	1 Jan 2015	Recognised in profit and loss	Recognised in other comprehensive income	Other changes	31 Dec 2015
Deferred tax assets					
Confirmed losses		1.3			1.3
Cash flow hedges	9.1		-0.9		8.2
Electricity derivatives measured at fair value	0.2	0.1			0.2
Other items/transfers	2.5	-0.3			2.2
Total	**11.8**	**1.1**	**-0.9**	**0.0**	**12.0**
Deferred tax liabilities					
Investment properties measured at fair value	405.3	24.3			429.6
inancial instruments measured at fair value	0.3		-0.3		0.0
Other items/transfers	0.2				0.2
Total	**405.9**	**24.3**	**-0.3**	**0.0**	**429.8**

Expiration years for unrecognised confirmed losses

Year of expiration	2017–2018	2019–2020	2021–2022	2023–2024	2025–2026	Total
Confirmed losses	0.4	0.6	0.6	0.6	0.3	2.5
Unrecognised defered tax	0.1	0.1	0.1	0.1	0.1	0.5

Unrecognised deferred taxes include EUR (0.0) 0.7 million of tax assets from tax losses carried forward for properties transferred to Non-current assets held for sale.

17. Trading properties

M €	31 Dec 2016	31 Dec 2015
Trading properties	0.9	1.0
Yhteensä	**0.9**	**1.0**

18. Sales receivables and other receivables

M €	31 Dec 2016	31 Dec 2015
Trade receivables	4.2	3.6
Receivables from associated companies	0.0	0.1
Loan receivables	0.9	0.3
Other receivables	0.7	3.1
Prepaid expenses and accrued income	0.9	1.7
Total	**6.8**	**8.8**

Specification of prepaid expenses and accrued income

M €	31 Dec 2016	31 Dec 2015
Rental services	0.5	0.6
Investments		0.8
Prepayments	0.2	0.2
Interests	0.0	0.0
Other prepaid expenses and accrued income	0.2	0.1
Total	**0.9**	**1.7**

The term of notice for rental agreements is usually one month. The fair value of sales receivables and other receivables matches their carrying amount.

19. Cash and cash equivalents

M €	31 Dec 2016	31 Dec 2015
Cash and cash equivalents	132.0	116.0
Total	**132.0**	**116.0**

20. Share capital and other equity funds

M €	Number of shares (1.000)	Share capital	Share premium reserve	Fair value reserve	Invested non-restricted equity reserve	Total
1 Jan 2016	7,403	58.0	35.8	-32.6	17.9	79.0
Change in other comprehensive income				-7.6		-7.6
31 Dec 2016	**7,403**	**58.0**	**35.8**	**-40.2**	**17.9**	**71.5**

M €	Number of shares (1.000)	Share capital	Share premium reserve	Fair value reserve	Invested non-restricted equity reserve	Total
1 Jan 2015	7,403	58.0	35.8	-35.0	17.9	76.7
Change in other comprehensive income				2.4		2.4
31 Dec 2015	**7,403**	**58.0**	**35.8**	**-32.6**	**17.9**	**79.1**

VVO Group plc has one share class. The share has no nominal value. All issued shares have been paid for in full.

Description of equity funds:

Shares

- The number of VVO Group plc shares issued as at 31 December 2016 was 7,402,560.

Share premium

- VVO Group plc has no such instruments in force that would accrue a share premium under the new Limited Liability Companies Act. The share premium was generated under the previous Limited Liability Companies Act.

Fair value reserve

- The fair value reserve contains the changes in fair values of the derivatives used to hedge cash flow and the current assets held for sale.

Reserve for invested unrestricted equity

- The reserve for invested unrestricted equity contains equity investments and that part of the share subscription price that has not specifically been allocated to share capital.

Dividends

- A dividend of EUR 14.00 per share was paid in 2016. After the balance sheet date, 31 December 2016, the Board of Directors has proposed that a dividend of EUR 6.80 be paid per share.

Non-controlling interest

The non-controlling interest consists mainly of the 2015 result of Kiinteistö Oy Oulun Kotkankynsi. The company was fully (100%) acquired in 2016 and the name has been changed to Asunto Oy Oulun Jalohaukantie 1.

Restrictions related to the Group's equity

- VVO Group's retained earnings for 2016, EUR 1,788.0 (1,659.4) million, include a total of EUR 521.8 (531.2) million of equity subject to profit distribution restrictions relating to non-profit operations. Equity subject to profit distribution restrictions includes the measurement of investment property at fair value.
- Some of the Group companies are subject to revenue recognition restrictions under the non-profit provisions of housing legislation, according to which an entity cannot pay its owner more than the profit regulated by housing legislation.

21. Interest-bearing liabilities

Non-current

M €	31 Dec 2016	31 Dec 2015
Interest subsidy loans	271.2	223.4
Annuity and mortgage loans	60.3	68.3
Market-based loans	1,461.2	964.5
Other loans	3.4	3.6
Total	**1,796.1**	**1,259.8**

Current

M €	31 Dec 2016	31 Dec 2015
Interest subsidy loans	53.6	75.3
Annuity and mortgage loans	1.3	1.7
Market-based loans	123.6	41.6
Other loans	7.0	7.3
Commercial papers	141.3	108.8
Total	**326.8**	**234.7**
Total interest-bearing liabilities	**2,122.8**	**1,494.6**

Liabilities do not include the liabilities related to Non-current assets held for sale, totalling EUR 0.1 (460.7) million.

Market-based loans include the bonds issued by VVO Group plc. The EUR 100 million secured bond issued in 2013 matures in 2020. The bond has a fixed annual interest rate of 3.25%. In 2016, a EUR 200 million secured bond was issued and listed on Nasdaq Helsinki Ltd. The loan matures in 2023 and its fixed coupon rate is 1.625%. The committed and non-committed credit limit agreements, signed for short-term financing, were unused at the balance sheet date.

Other long-term loans include the EUR 2.4 million capital loan received by VVO Kodit Oy from City of Tampere in 2001. The interest rate is six-month Euribor + 0.75%. The loan is repaid in 20 years.

22. Derivative instruments

Fair values of derivative instruments

	31 Dec 2016			31 Dec 2015
M €	Positive	Negative	Net	Net
Interest rate derivatives				
Interest rate swaps, cash flow hedges	2.2	-59.1	-56.9	-40.9
Interest rate swaps, not in hedge accounting		-3.0	-3.0	-2.6
Interest rate options, not in hedge accounting		-6.5	-6.5	-4.9
Electricity derivatives	0.2	-0.5	-0.4	-1.2
Total	**2.4**	**-69.2**	**-66.8**	**-49.7**

Nominal values of derivative instruments

M €	31 Dec 2016	31 Dec 2015
Interest rate derivatives		
Interest rate swaps, cash flow hedges	1,107.0	690.4
Interest rate swaps, not in hedge accounting	61.6	10.0
Interest rate options, not in hedge accounting	104.7	28.0
Total	**1,273.3**	**728.4**
Electricity derivatives, MWh	196,367	245,494

During the financial year, EUR -9.9 (4.6) million were recognised in the fair value reserve from interest rate derivatives classified into cash flow hedging. The interest rate derivatives hedge the loan portfolio interest flows against increases in market interest rates. The interest rate derivatives mature from 2017 to 2035. At the balance sheet date, the average maturity of the interest rate swaps was 6.2 (7.1) years. Electricity derivatives hedge against increases in electricity prices and mature from 2017 to 2021. Electricity derivatives are not included in hedge accounting.

23. Provisions and other non-current liabilities

M €	31 Dec 2016	31 Dec 2015
Provisions	1.0	0.9

Provisions include EUR 1.0 (0.9) million of ten-year guarantee reserves for VVO Kodit Oy's (VVO Rakennuttaja Oy's) founder construction, estimated on the basis of experience.

Other non-current liabilities

M €	31 Dec 2016	31 Dec 2015
Accrued expenses and deferred income	0.8	1.4
Collaretal payments	6.3	5.8
Total	**7.1**	**7.1**

24. Trade payables and other debts

M €	31 Dec 2016	31 Dec 2015
Advances received	4.6	5.6
Trade payables	19.3	10.6
Other current liabilities	1.3	1.1
Accrued expenses and deferred income	23.1	20.8
Total	**48.3**	**38.0**

Specification of accrued expenses and deferred income

M €	31 Dec 2016	31 Dec 2015
Rental services	4.8	2.6
Investments	1.1	0.3
Personnel expenses	6.8	6.8
Interest	10.3	10.9
Other items	0.2	0.2
Total	**23.1**	**20.8**

25. Financial risk management

The financial risks associated with VVO Group's business are managed in accordance with the treasury policy confirmed by VVO Group plc's Board of Directors. The objective is to protect the Group against unfavourable changes in the financial markets. The management of financial risk is centralised in the Group's Treasury unit.

Interest rate risk

The most significant financial risk is related to interest rate fluctuations affecting the loan portfolio. This risk is managed through fixed interest rates and interest rate derivatives. The most significant interest rate risk is associated with the market-based loans which are hedged with interest rate derivatives according to VVO Group's treasury policy. The targeted hedging ratio is 50–100 per cent. At the balance sheet date, the hedging ratio was 77 (72) per cent.

The interest rate risk associated with interest subsidy loans is decreased by the State's interest subsidy. Interest subsidy loans are not hedged with interest rate derivatives, with the exception of some 10-year interest subsidy loans. The interest rate of loans with annual payments is tied to changes in Finnish consumer prices, and the interest costs for the following year are known in the preceding autumn. Rent in properties with state-subsidised loans is determined according to the cost principle. Therefore, any changes in interest rates are transferred to rents. In accordance with the treasury policy, VVO does not hedge these loans with interest rate derivatives.

The impact of changes in market interest rates on the income statement and equity are evaluated in the table below. The interest rate position affecting the income statement includes variable-rate loans and interest rate derivatives not included in hedge accounting. The effect on equity results from changes in the fair values of interest rate derivatives included in hedge accounting. Some market-based loan agreements include a condition that the reference rate is minimum zero. As the short interest rates are currently negative, both fixed and variable interest legs must be paid in some interest rate swaps.

	31 Dec 2016				31 Dec 2015			
	Income Statement		Other Comprehensive Income		Income Statement		Other Comprehensive Income	
M €	1%	-0.1%	1%	-0.1%	1%	-0.1%	1%	-0.1%
Floating rate loans	-10.2	0.6			-7.7	0.5		
Interest rate derivatives	12.0	-1.2	71.2	-7.5	9.3	-1.1	49.0	-5.2
Total effect	**1.8**	**-0.7**	**71.2**	**-7.5**	**1.6**	**-0.6**	**49.0**	**-5.2**

Deferred tax effect is not included in the calculation.

Liquidity and refinancing risk

The Group secures its liquidity through sufficient cash funds, the commercial paper programme and supporting credit limit agreements. Cash flow from the rental business is stable, and the sufficiency of liquidity is monitored with regular cash forecasts.

The Group's liquidity remained good in the financial year. In order to ensure its liquidity, the Group has a EUR 200 million parent company commercial paper programme, EUR 100 million committed credit facility agreements and a EUR 5 million non-committed credit facility agreement. A total of EUR 141.3 (108.8) million of the commercial paper programme was in use at the end of the financial year. All credit facilities were unused at the balance sheet date.

The functioning of the money market has been affected by tightened bank regulation, which has reflected on lending and the cost of funding. Due to VVO's strong financial position and stable cash flow, the risk associated with the availability of financing is not considered significant.

The availability of financing is ensured by maintaining VVO's good reputation among financiers and by keeping the equity ratio at an appropriate level. The risk associated with the availability of financing is mitigated by diversifying the maturities and financial instruments in the loan portfolio and by expanding the financier base. The maturing of bigger loans are planned well in advance.

The following table shows the contractual repayment and interest cash flows of loans and derivative instruments.

31/12/2016

M €	Within 1 year	2–5 years	6–10 years	11–15 years	Later
Interest subsidy loans	55.8	242.3	7.1	4.0	27.8
Annuity and mortgage loans	3.9	15.8	20.2	27.3	42.2
Market-based loans	142.8	668.4	686.9	146.8	61.8
Other loans	0.4	3.2	6.3	0.1	0.9
Commercial papers	141.5	0.0	0.0	0.0	0.0
Interest rate derivatives	15.8	49.6	33.1	9.0	3.9
Total	**360.2**	**979.4**	**753.5**	**187.2**	**136.7**

31/12/2017

M €	Within 1 year	2–5 years	6–10 years	11–15 years	Later
Interest subsidy loans	79.1	182.8	17.9	3.9	29.0
Annuity and mortgage loans	5.1	19.4	23.7	26.9	37.2
Market-based loans	60.3	447.3	405.4	120.9	89.7
Other loans	0.2	1.0	2.6	0.1	0.3
Commercial papers	109.3	0.0	0.0	0.0	0.0
Interest rate derivatives	11.5	39.3	28.6	10.4	4.5
Total	**265.7**	**689.8**	**478.2**	**162.2**	**160.7**

The figures do not include liabilities related to Non-current assets held for sale.

Price risk

The Group uses electricity derivatives to hedge against exposure to electricity price risk. The electricity derivatives hedge highly probable future electricity purchases, and the derivatives trading has been outsourced to an external expert. Electricity derivatives are not included in hedge accounting.

The Group's surplus cash may be invested in accordance with the approved principles of the treasury policy. Available-for-sale financial assets are subject to a price risk that is mitigated through diversification of investment assets. The investments do not involve a currency risk.

The sensitivity of the electricity derivatives and available-for-sale financial assets to +/-10% changes in the market price are shown in the table below.

	31 Dec 2016				31 Dec 2015			
	Income Statement		Other Comprehensive Income		Income Statement		Other Comprehensive Income	
M €	10%	-10%	10%	-10%	10%	-10%	10%	-10%
Electricity derivatives	0.3	-0.3			0.3	-0.3		
Available-for-sale financial assets			4.6	-4.6			2.9	-2.9
Total effect	**0.3**	**-0.3**	**4.6**	**-4.6**	**0.3**	**-0.3**	**2.9**	**-2.9**

Deferred tax effect is not included in the calculation.

Credit risk

VVO Group does not have any significant credit risk concentrations. The majority of sales receivables consists of rent receivables, which are efficiently diversified. In addition, the use of rental deposits decreases the credit risk associated with rent receivables.

Age distribution of sales receivables

M €	31 Dec 2016		31 Dec 2015	
Less than a month	1.1	29.0%	1.0	28.5%
1–3 months	2.2	57.4%	2.2	60.2%
3–6 months	0.3	8.8%	0.2	6.8%
6–12 months	0.1	3.1%	0.1	1.8%
More than a year	0.1	1.7%	0.1	2.7%
Total	**3.9**	**100.0%**	**3.6**	**100.0%**

Investments and derivative instruments involve a counterparty risk to financing activities. This risk is managed by choosing financially sound counterparties and with enough diversification.

Currency risk

The Group's cash flows are euro-denominated, and the business does not involve any currency risk.

Management of capital structure

The objective of the management of the Group's capital structure is to optimise the capital structure in relation to the current market conditions. The objective is to achieve a capital structure that best ensures the Group's strategic long-term operations and promotes the Group's growth targets.

In addition to the financial result, the Group's capital structure is affected by factors such as capital expenditure, asset sales, acquisitions, dividend payments, equity-based transactions and measurement at fair value. At the end of the financial year, the Group's loans did not involve financial covenants, but in the future, unsecured financing agreements will include ordinary financial covenants.

VVO Group plc's Board of Directors has set the Lumo segment's long-term equity ratio target at 40 per cent. On 31 December 2016, VVO Group's equity ratio was 40.7 (41.1) per cent and the interest cover ratio, representing ability to pay interest costs, was 4.8 (4.6). VVO Group's interest-bearing liabilities totalled EUR 2,122.8 (1,494.6) million. EUR 0.1 (460.7) million of interest-bearing liabilities have been transferred to Non-current assets held for sale. The equity ratio determination principle is presented in the financial statements under Formulas used in the calculation of the key figures.

M €	31 Dec 2016	31 Dec 2015
Interest-bearing liabilities	2,122.8	1,494.6
Cash and cash equivalents	132.0	116.0
Interest-bearing net liabilities	1,990.9	1,378.5
Shareholders' equity total	1,859.5	1,739.1
Balance sheet total	4,572.2	4,236.1
Equity ratio, %	40.7	41.1

26. Operating leases

Site leasehold agreements

Group as lessee

M €	31 Dec 2015	31 Dec 2015
Contractual maturities on lease contracts		
During the following financial year	3.3	5.1
Due after following year and before five yeares	13.0	19.6
Due after five years	106.7	168.5
Total	**123.0**	**193.2**

Non-current assets held for sale include EUR 0.9 (94.6) million from rental agreement liabilities.

The rental agreements are mainly site leasehold agreements from municipalities and cities. The maximum durations of the remaining agreements are 84 years, the average being 30 years.

Operating leases

Operating leases, vehicles

M €	31 Dec 2015	31 Dec 2015
During the following financial year	0.6	0.7
Due in 2-5 years	0.9	0.8
Total	**1.5**	**1.5**

The operating leases are four-year car leases.

27. Adjustment to cash flow from operating activities

M €	31 Dec 2016	31 Dec 2015
Depreciation	1.2	1.2
Financial income and expenses	45.9	37.1
Income taxes	57.5	45.3
Share of result of associated companies	-0.1	-0.6
Profit/loss from investment properties measured at fair value	-163.3	-70.3
Profit/loss on sales of investment properties	10.4	-2.7
Other adjustments	1.8	-1.0
Total	**-46.6**	**9.0**

28. Collateral and contingent liabilities

M €	31 Dec 2016	31 Dec 2015
Loans covered by pledges on property and shares as a collateral	1,986.5	1,849.7
Mortgages	2,446.2	2,551.5
Shares	312.0	213.6
Pledged collaterals total	**2,758.1**	**2,765.1**
Other collaterals given		
Mortgages and shares	5.8	12.8
Guarantees*)	479.9	433.3
Pledged deposits	0.2	
Other collaterals total	**485.9**	**446.1**

*) The guarantees granted are mainly absolute guarantees granted as collateral for liabilities contracted by Group companies

The figures for 31 December 2016 include liabilities related to Non-current assets held for sale: Liabilities with EUR 0.1 (493.0) million of pledges given as a guarantee; the collateral given totals EUR 0.4 (816.3) million.

Other liabilities

The most significant unrecognised acquisition agreements related to work in progress:

M €	31 Dec 2016	31 Dec 2015
New construction	342.7	253.9
Renovation	17.1	22.5
Total	**359.9**	**276.4**

The figures for 31 December 2015 include a total of EUR 0.7 million of renovation liabilities related to Non-current assets held for sale.

Value added tax refund liabilities

M €	31 Dec 2016	31 Dec 2015
Value added tax refund liabilities	2.6	3.1

Land purchase liabilities

M €	31 Dec 2016	31 Dec 2015
Purchase prices for target building rights and draft plans	4.5	14.3
Liabilities for municipal infrastructure	4.3	4.4

Construction liability

The land use agreement related to the zoned areas Suurpelto I and II in Espoo is subject to schedules for construction sanctioned with delay penalties.

The zoned areas are divided into three execution areas in the agreement. VVO holds building rights in these areas as follows: area 2 – 18,217 (18,217) floor sq m; and area 3 – -7,600 (16,125) floor sq m. The agreement stipulates that all of the residential building rights have to be used up by November 2013 in area 2 and by November 2016 in area 3. This schedule has not been fully met. The delay penalty is graded based on the period of delay and can at most, if the delay has continued for at least five years, be equal to half of the land use payments in accordance with the agreement. According to the agreement, the City of Espoo may, should circumstances change, lower the penalty or waive it altogether.

The land use agreement related to quarters 62007 and 62025 in Jokiniemi, Vantaa is subject to schedules for construction sanctioned with delay penalties. The construction liability is divided into various forms of financing and ownership. The plot 92-62-7-2 is subject to a contingent EUR 0.6 million contractual sanction, payable to the City of Vantaa, related to changing the form of financing. The potential sanction falls due and is recognised in accounting in 2017 if the sanction criteria are met.

A plot located in the City of Helsinki (92-70-118-5) is subject to a schedule for construction sanctioned with delay penalties.

A plot located in the City of Espoo (49-12-220-1) is subject to a schedule for construction sanctioned with delay penalties.

A plot located in the City of Helsinki (91-40-176-8) is subject to a schedule for construction sanctioned with delay penalties. The construction started in 2016.

Plots located in the City of Helsinki (91-54-3-2, 91-54-1-3) are subject to an obligation to use them for rental housing. There is a contractual penalty for breaching this obligation.

VVO Group has some individual disputes pending, but the company considers these to be of negligible value.

Group companies have made commitments restricting the assignment and pledging of shares owned by them.

Other commitments

VVO Group signed a preliminary agreement on the acquisition of seven properties currently occupied by Metropolia University of Applied Sciences. VVO Group's VVO Kodit Oy signed a preliminary agreement on the purchase of properties at Onnentie 18, Sofianlehdonkatu 5, Tukholmankatu 10, Agricolankatu 1–3, Albertinkatu 40–42, Abrahaminkatu 1–3 and Bulevardi 29–31 with the City of Helsinki and Merasco Real Estate Ltd Oy. Under the terms of the agreement, the fixed sales price is set at EUR 80.9 million, as determined by a valuation based on existing building rights to develop further commercial provision. The sales price may be adjusted in the event that the building rights are amended following a revision of the local plan as applied for by the purchaser.

29. Related party transactions

Related parties

VVO Group's related parties are the parent company, subsidiary and associated companies and joint arrangements. Other related parties are the key persons included in company management, comprising the members of the Board of Directors and Management Group, the CEO and the close members of their families. Parties holding 20 per cent or more of the shares of VVO Group are always considered as related parties. Shareholders whose shareholding remains below 20 per cent are considered as related parties if they otherwise are considered to have considerable influence, such as through Board membership.

Business transactions with shareholders consist of rental and insurance agreements and a single share transaction. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

The relationships between the parent and subsidiaries in the Group are presented in Note 31.

Transactions with shareholders

M €	31 Dec 2016	31 Dec 2015
Rental agreements		0.1
Insurance fees	4.5	3.9
Total	**4.5**	**4.0**

Balance of account with other related parties

M €	31 Dec 2016	31 Dec 2015
Other current liabilities	0.2	0.3

Management employee benefits

M €	31 Dec 2016	31 Dec 2015
Salaries and other short-term employee benefits	2.0	2.1

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

1,000 €	31 Dec 2016	31 Dec 2015
Jani Nieminen, Chief executive officer	738.3	744.7
Board of Directors		
Riku Aalto	28.4	27.8
Matti Harjuniemi	16.4	13.4
Olli Luukkainen	15.2	13.4
Jorma Malinen	15.8	12.2
Mikko Mursula, from 17th March 2016	17.6	
Reima Rytsölä	14.0	14.0
Jan-Erik Saarinen	16.4	14.0
Ann Selin	13.4	12.8
Tomi Aimonen, until 17th March 2016	1.2	17.0
Eloranta Jarkko	1.2	1.2
Laukkanen Ville-Veikko	1.2	1.2
Pesonen Pasi	1.2	1.2
Torsti Esko	1.2	
Ritakallio Timo		1.2
Board of Directors total	143.2	129.4
Total	**881.5**	**874.1**

Employees of VVO Group do not receive additional compensation for serving as Board members or the CEO of Group companies.

No shares or share derivatives were given to members of the Board of Directors during the financial year.

The retirement age for members of the Management Group is 63 years. Members of the Management Group belong to a contribution-based pension system in which an insurance premium corresponding to two months' taxable income is paid annually into a group pension insurance plan.

The period of notice for terminating the CEO's employment relationship is twelve months.

30. Borrowing costs

M €	31 Dec 2016	31 Dec 2015
Capitalised borrowing costs	1.7	2.0
Total	**1.7**	**2.0**

Capitalisation, 2.2 (2.1) per cent

31. Subsidiaries, joint arrangements and associated companies owned by the Group and the parent

Subsidiaries and joint arragements

	VVO Group plc holding %	Group holding %
VVO-Yhtymä Oyj		
VVO Asunnot Oy	100.00%	100.00%
VVO Hoivakiinteistöt Oy	100.00%	100.00%
VVO Kodit Oy	100.00%	100.00%
VVO Korkotuki 2016 Oy	100.00%	100.00%
VVO Korkotuki 2017 Oy	100.00%	100.00%
VVO Korkotuki 2018 Oy	100.00%	100.00%
VVO Korkotuki 2019 Oy	100.00%	100.00%
VVO Korkotuki 2020 Oy	100.00%	100.00%
VVO Korkotuki 2021 Oy	100.00%	100.00%
VVO Palvelut Oy	100.00%	100.00%
VVO Vuokratalot Oy	100.00%	100.00%
VVOhousing 2 Oy	100.00%	100.00%
VVOhousing 4 Oy	100.00%	100.00%
VVOhousing 5 Oy	100.00%	100.00%
VVOhousing 6 Oy	100.00%	100.00%
VVOhousing 7 Oy	100.00%	100.00%
VVOhousing 8 Oy	100.00%	100.00%
VVOhousing 9 Oy	100.00%	100.00%
VVOhousing 10 Oy	100.00%	100.00%
VVOhousing 11 Oy	100.00%	100.00%
VVOhousing 12 Oy	100.00%	100.00%
Kiinteistö osakeyhtiö Pikkuhirvas	100.00%	100.00%
Kotinyt Oy	100.00%	100.00%

	Parent company holding %	Group holding %
VVO Kodit Oy		
As Oy Kuopion Havuketo	100.00%	100.00%
As Oy Turun Puistokatu 12	100.00%	100.00%
As Oy Vantaan Junkkarinkaari 7	100.00%	100.00%
As. Oy Heinolan Korvenkaarre	73.30%	73.30%
As. Oy Helsingin Haapaniemenkatu 11	100.00%	100.00%
As. Oy Kuopion Kaarenkulma	100.00%	100.00%
As. Oy Malski 3, Lahti	100.00%	100.00%
As. Oy Pihavaahtera	100.00%	100.00%
Asunto Oy Espoon Henttaan Puistokatu C	100.00%	100.00%
Asunto Oy Espoon Henttaankaari A	100.00%	100.00%
Asunto Oy Espoon Kilonportti 3	100.00%	100.00%
Asunto Oy Espoon Klariksentie 6	100.00%	100.00%
Asunto Oy Espoon Koivu-Mankkaan tie 1 b	100.00%	100.00%
Asunto Oy Espoon Likusterikatu A	100.00%	100.00%
Asunto Oy Espoon Marinkallio 4	100.00%	100.00%
Asunto Oy Espoon Marinkallio 6	100.00%	100.00%
Asunto Oy Espoon Marinkallio 8	100.00%	100.00%
Asunto Oy Espoon Nihtitorpankuja 3	100.00%	100.00%
Asunto Oy Espoon Reelinkikatu 2	100.00%	100.00%
Asunto Oy Espoon Saunalahdenkatu 2	100.00%	100.00%
Asunto Oy Espoon Servinkuja 3	100.00%	100.00%
Asunto OY Espoon Soukanrinne	100.00%	100.00%
Asunto Oy Espoon Suurpelto 44	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Espoon Suurpelto 5	100.00%	100.00%
Asunto Oy Espoon Tietäjäntie 3	100.00%	100.00%
Asunto Oy Espoon Uuno Kailaan katu 4	100.00%	100.00%
Asunto Oy Espoon Uuno Kailaan katu 5	100.00%	100.00%
Asunto Oy Espoon Uuno Kailaan katu 6	100.00%	100.00%
Asunto Oy Hattulan Jukolankuja 3	100.00%	100.00%
Asunto Oy Helsingin Capellan puistotie 4	100.00%	100.00%
Asunto Oy Helsingin Haapsalunkuja 4	100.00%	100.00%
Asunto Oy Helsingin Henrik Borgströmin tie 2	100.00%	100.00%
Asunto Oy Helsingin Hesperiankatu 18	100.00%	100.00%
Asunto Oy Helsingin Hilapellontie 2c	100.00%	100.00%
Asunto Oy Helsingin Hilapellontie 2d	100.00%	100.00%
Asunto Oy Helsingin Hopeatie 9	100.00%	100.00%
Asunto Oy Helsingin Kadetintie 6	100.00%	100.00%
Asunto Oy Helsingin Kahvipavunkuja 3	100.00%	100.00%
Asunto Oy Helsingin Kahvipavunkuja 4	100.00%	100.00%
Asunto Oy Helsingin Karavaanikuja 2	100.00%	100.00%
Asunto Oy Helsingin Karhulantie 13	100.00%	100.00%
Asunto Oy Helsingin Katariinankartano	100.00%	100.00%
Asunto Oy Helsingin Katariinankoski	100.00%	100.00%
Asunto Oy Helsingin Kauppakartanonkuja 3	100.00%	100.00%
Asunto Oy Helsingin Koirasaarentie 23	100.00%	100.00%
Asunto Oy Helsingin Kontulantie 19	100.00%	100.00%
Asunto Oy Helsingin Koskikartano	100.00%	100.00%
Asunto Oy Helsingin Kotkankatu 9	100.00%	100.00%
Asunto Oy Helsingin Lauttasaarentie 27	100.00%	100.00%
Asunto Oy Helsingin Leikkikuja 2	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Helsingin Leonkatu 21	100.00%	100.00%
Asunto Oy Helsingin Maasälväntie 5 ja 9	100.00%	100.00%
Asunto Oy Helsingin Marjatanportti	100.00%	100.00%
Asunto Oy Helsingin Messeniuksenkatu 1B	100.00%	100.00%
Asunto Oy Helsingin Oulunkylän tori 1	100.00%	100.00%
Asunto Oy Helsingin Palmsenpolku 2	100.00%	100.00%
Asunto Oy Helsingin Pertunpellontie 6	100.00%	100.00%
Asunto Oy Helsingin Pertunpellontie 8	100.00%	100.00%
Asunto Oy Helsingin Plazankuja 5	100.00%	100.00%
Asunto Oy Helsingin Posetiivari	100.00%	100.00%
Asunto Oy Helsingin Pärnunkatu 6	100.00%	100.00%
Asunto Oy Helsingin Ratarinne	100.00%	100.00%
Asunto Oy Helsingin Retkeilijänkatu 1	100.00%	100.00%
Asunto Oy Helsingin Risupadontie 6	100.00%	100.00%
Asunto Oy Helsingin Sörnäistenkatu 12	100.00%	100.00%
Asunto Oy Helsingin Tilketori 2	93.06%	93.06%
Asunto Oy Helsingin Tuulensuunkuja 3	100.00%	100.00%
Asunto Oy Helsingin Valanportti	100.00%	100.00%
Asunto Oy Helsingin Vuorenpeikontie 5	100.00%	100.00%
Asunto Oy Helsingin Välimerenkatu 8	100.00%	100.00%
Asunto Oy Hilapellontie 4	100.00%	100.00%
Asunto Oy Hyvinkään Merino	100.00%	100.00%
Asunto Oy Hyvinkään Mohair	100.00%	100.00%
Asunto Oy Hyvinkään Värimestarinkaari 3	100.00%	100.00%
Asunto Oy Hämeenlinnan Aurinkokatu 10	100.00%	100.00%
Asunto Oy Hämeenlinnan Hilpi Kummilantie 16	100.00%	100.00%
Asunto Oy Hämeenlinnan Kajakulma	73.97%	73.97%

	Parent company holding %	Group holding %
Asunto Oy Hämeenlinnan Turuntie 38	100.00%	100.00%
Asunto Oy Hämeenlinnan Uusi-Jukola	100.00%	100.00%
Asunto Oy Hämeentie 48	100.00%	100.00%
Asunto Oy Jyväskylän Kukkumäentie	100.00%	100.00%
Asunto Oy Jyväskylän Runkotie 3 B	100.00%	100.00%
Asunto Oy Jyväskylän Runkotie 5 C	100.00%	100.00%
Asunto Oy Jyväskylän Tellervonkatu 8	97.58%	97.58%
Asunto Oy Jyväskylän Väinönkatu 15	100.00%	100.00%
Asunto Oy Järvenpään Antoninkuja 3	100.00%	100.00%
Asunto Oy Järvenpään Metallimiehenkuja 2	100.00%	100.00%
Asunto Oy Järvenpään Peltotilkku	100.00%	100.00%
Asunto Oy Järvenpään Reki-Valko	100.00%	100.00%
Asunto Oy Järvenpään Rekivatro	100.00%	100.00%
Asunto Oy Järvenpään Sibeliuksenkatu 27	100.00%	100.00%
Asunto Oy Kalasääksentie 6	100.00%	100.00%
Asunto Oy Kauniaisten Asematie 10	100.00%	100.00%
Asunto Oy Kauniaisten Asematie 12-14	100.00%	100.00%
Asunto Oy Kauniaisten Bredantie 8	100.00%	100.00%
Asunto Oy Kauniaisten Kavallinterassit	100.00%	100.00%
Asunto Oy Kauniaisten Thurmaninpuistotie 2	100.00%	100.00%
Asunto Oy Kaustisenpolku 5	100.00%	100.00%
Asunto Oy Keravan Eerontie 3	100.00%	100.00%
Asunto Oy Keravan Palopolku 3	99.57%	99.57%
Asunto Oy Kirkkonummen Vernerinkuja 5	100.00%	100.00%
Asunto Oy Kivivuorenkuja 1	100.00%	100.00%
Asunto Oy Kivivuorenkuja 3	100.00%	100.00%
Asunto Oy Konalantie 14	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Kuopion Kelkkailijantie 4	100.00%	100.00%
Asunto Oy Kuopion Sompatie 7	100.00%	100.00%
Asunto Oy Kuopion Sompatie 9	100.00%	100.00%
Asunto Oy Lahden Sorvarinkatu 5	100.00%	100.00%
Asunto Oy Lahden Vanhanladonkatu 2	100.00%	100.00%
Asunto Oy Lahden Vihdinkatu 4	100.00%	100.00%
Asunto Oy Lahden Vihdinkatu 6	100.00%	100.00%
Asunto Oy Lappeenrannan Gallerianpolku	100.00%	100.00%
Asunto Oy Lappeenrannan Koulukatu 13	100.00%	100.00%
Asunto Oy Lappeenrannan Nurmelanpirtti	100.00%	100.00%
Asunto Oy Lappeenrannan Sammonkatu 3-5	100.00%	100.00%
Asunto Oy Lappeenrannan Upseeritie 12	100.00%	100.00%
Asunto Oy Lintukallionrinne 1	100.00%	100.00%
Asunto Oy Oulun Kitimenpolku 21	100.00%	100.00%
Asunto Oy Oulun Tervahanhi 1	98.65%	98.65%
Asunto Oy Oulun Tietolinja 11	100.00%	100.00%
Asunto Oy Pirtinketosato	63.55%	63.55%
Asunto Oy Pohtolan Kynnys	100.00%	100.00%
Asunto Oy Pohtolan Kytö	100.00%	100.00%
Asunto Oy Porin Kansankulma	100.00%	100.00%
Asunto Oy Rautamasuuni	100.00%	100.00%
Asunto Oy Rientolanhovi	100.00%	100.00%
Asunto Oy Riihimäen Mäkiraitti 17	93.22%	93.22%
Asunto Oy Rovaniemen Koskikatu 9	100.00%	100.00%
Asunto Oy Rovaniemen Pohjolankatu 11	100.00%	100.00%
Asunto Oy Rovaniemen Tukkivartio	100.00%	100.00%
Asunto Oy Salamankulma	66.18%	66.18%

	Parent company holding %	Group holding %
Asunto Oy Tampereen Koipitaipaleenkatu 9	100.00%	100.00%
Asunto Oy Tampereen Nuolialantie 44	100.00%	100.00%
Asunto Oy Tampereen Pohtolan Pohja	100.00%	100.00%
Asunto Oy Tampereen Satakunnankatu 21	100.00%	100.00%
Asunto Oy Tampereen Tuomiokirkonkatu 32	100.00%	100.00%
Asunto Oy Toppilan Tuulentie 2	100.00%	100.00%
Asunto Oy Tuiran Komuntalo	100.00%	100.00%
Asunto Oy Turun Aurinkorinne	81.50%	81.50%
Asunto Oy Turun Vänrikinkatu 2	100.00%	100.00%
Asunto Oy Tuusulan Bostoninkaari 2	100.00%	100.00%
Asunto Oy Tuusulan Kievarinkaari 4	100.00%	100.00%
Asunto Oy Tuusulan Metsontie 2	82.55%	82.55%
Asunto Oy Tuusulan Männistöntie 1	100.00%	100.00%
Asunto Oy Vantaan Aerolan A-talot	100.00%	100.00%
Asunto Oy Vantaan Elmontie 11	100.00%	100.00%
Asunto Oy Vantaan Hiiritornit	100.00%	100.00%
Asunto Oy Vantaan Keikarinkuja 3	100.00%	100.00%
Asunto Oy Vantaan Kilterinaukio 4	100.00%	100.00%
Asunto Oy Vantaan Kilterinkaari 2	100.00%	100.00%
Asunto Oy Vantaan Krassitie 8	97.17%	97.17%
Asunto Oy Vantaan Lauri Korpisen katu 10	100.00%	100.00%
Asunto Oy Vantaan Lauri Korpisen katu 8	100.00%	100.00%
Asunto Oy Vantaan Lehtikallio 4	100.00%	100.00%
Asunto Oy Vantaan Leinelänkaari 13	100.00%	100.00%
Asunto Oy Vantaan Leinelänkaari 14	100.00%	100.00%
Asunto Oy Vantaan Leineläntie 3	100.00%	100.00%
Asunto Oy Vantaan Neilikkapolku	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Vantaan Pyhtäänkorvenkuja 4 ja 6	100.00%	100.00%
Asunto Oy Vantaan Pyhtäänkorventie 25	100.00%	100.00%
Asunto Oy Vantaan Tammistonvuori	100.00%	100.00%
Asunto Oy Verkkotie 3	100.00%	100.00%
Asunto Oy Vähäntuvantie 6	100.00%	100.00%
Eerikinkatu 7 Kehitys Oy	100.00%	100.00%
Kiint. Oy Taivaskero 2	100.00%	100.00%
Kiinteistö Oy Helsingin Eliaksentalo 1	100.00%	100.00%
Kiinteistö Oy Malminhaka	90.00%	90.00%
Kiinteistö Oy Mannerheimintie 168	82.61%	82.61%
Kiinteistö Oy Saarensahra	100.00%	100.00%
Kiinteistö Oy Saariniemenkatu 6	100.00%	100.00%
Kiinteistö Oy Satonkaarre	90.00%	90.00%
Kiinteistö Oy Siilinjärven Kirkkorinne	100.00%	100.00%
Kiinteistö Oy Tuureporin Liiketalo	100.00%	100.00%
Kiinteistö Oy Uuno Kailaan kadun pysäköinti	100.00%	100.00%
Kiinteistö Oy Vantaan Pyhtäänpolku	100.00%	100.00%
Kiinteistö Oy Ylä-Malmintori	100.00%	100.00%
Kiinteistöosakeyhtiö Näsilinnankatu 40	100.00%	100.00%
Kilterin Kehitys Oy	100.00%	100.00%
Lumo Eerikinkatu VII Holding 1 Oy	100.00%	100.00%
Lumo Eerikinkatu VII Holding 2 Oy	100.00%	100.00%
Lumo Hankeyhtiö 1 Oy	100.00%	100.00%
Lumo Hankeyhtiö 2 Oy	100.00%	100.00%
Lumo Hankeyhtiö 3 Oy	100.00%	100.00%
Lumo Hankeyhtiö 4 Oy	100.00%	100.00%
Lumo Holding 1 Oy	100.00%	100.00%

	Parent company holding %	Group holding %
Lumo Holding 2 Oy	100.00%	100.00%
Lumo Holding 3 Oy	100.00%	100.00%
Lumo Holding 4 Oy	100.00%	100.00%
Lumo Holding 5 Oy	100.00%	100.00%
Lumo Holding 6 Oy	100.00%	100.00%
Lumo Holding 7 Oy	100.00%	100.00%
Lumo Holding 8 Oy	100.00%	100.00%
Lumo Holding 9 Oy	100.00%	100.00%
Lumo Holding 10 Oy	100.00%	100.00%
Lumo Holding 11 Oy	100.00%	100.00%
Lumo Holding 12 Oy	100.00%	100.00%
Lumo Holding 13 Oy	100.00%	100.00%
Lumo Holding 14 Oy	100.00%	100.00%
Lumo Holding 15 Oy	100.00%	100.00%
Lumo Holding 16 Oy	100.00%	100.00%
Lumo Holding 17 Oy	100.00%	100.00%
Lumo Holding 18 Oy	100.00%	100.00%
Lumo Holding 19 Oy	100.00%	100.00%
Lumo Holding 20 Oy	100.00%	100.00%
Lumo Holding 21 Oy	100.00%	100.00%
Lumo Holding 22 Oy	100.00%	100.00%
Lumo Holding 23 Oy	100.00%	100.00%
Lumo Holding 24 Oy	100.00%	100.00%
Lumo Holding 25 Oy	100.00%	100.00%
Lumo Holding 26 Oy	100.00%	100.00%
Lumo Holding 27 Oy	100.00%	100.00%
Lumo Holding 28 Oy	100.00%	100.00%

	Parent company holding %	Group holding %
Lumo Holding 29 Oy	100.00%	100.00%
Lumo Holding 30 Oy	100.00%	100.00%
Lumo Holding 31 Oy	100.00%	100.00%
Lumo Holding 32 Oy	100.00%	100.00%
Lumo Holding 33 Oy	100.00%	100.00%
Lumo Holding 34 Oy	100.00%	100.00%
Lumo Holding 35 Oy	100.00%	100.00%
Lumo Holding 36 Oy	100.00%	100.00%
Lumo Holding 37 Oy	100.00%	100.00%
Lumo Holding 38 Oy	100.00%	100.00%
Lumo Holding 39 Oy	100.00%	100.00%
Lumo Holding 40 Oy	100.00%	100.00%
Lumo Holding 41 Oy	100.00%	100.00%
Lumo Housing Fund II Oy	100.00%	100.00%
Lumo Real Estate Asset Management II Oy	100.00%	100.00%
Volaria Oy	100.00%	100.00%
Lumo Housing Fund II Oy subsidiaries:		
Asunto Oy Espoon Leimu	100.00%	100.00%
Asunto Oy Espoon Rastasniityntie 1 A	100.00%	100.00%
Asunto Oy Espoon Rastasniityntie 1 B	100.00%	100.00%
Asunto Oy Espoon Reimari	100.00%	100.00%
Asunto Oy Espoon Valakuja 8	100.00%	100.00%
Asunto Oy Helsingin Ajuri	100.00%	100.00%
Asunto Oy Helsingin Aries	100.00%	100.00%
Asunto Oy Helsingin Kivensilmänkuja 3	100.00%	100.00%
Asunto Oy Helsingin Leikeri	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Helsingin Malmin Vasalli	100.00%	100.00%
Asunto Oy Helsingin Malminholvi	100.00%	100.00%
Asunto Oy Helsingin Rauduskoivu	100.00%	100.00%
Asunto Oy Helsingin Toimittaja	100.00%	100.00%
Asunto Oy Jyväskylän Kerkkäkatu 1	100.00%	100.00%
Asunto Oy Jyväskylän Kesäkuu	100.00%	100.00%
Asunto Oy Jyväskylän Kommodori	100.00%	100.00%
Asunto Oy Jyväskylän Pisara	100.00%	100.00%
Asunto Oy Jyväskylän Tervalankatu 6	100.00%	100.00%
Asunto Oy Keravan Keijukainen	100.00%	100.00%
Asunto Oy Keravan Tapulitori 1	100.00%	100.00%
Asunto Oy Keravan Tervahovi	100.00%	100.00%
Asunto Oy Kuopion Ratavahti	100.00%	100.00%
Asunto Oy Lahden Helkalanpolku	100.00%	100.00%
Asunto Oy Mäntsälän Nallentassu	100.00%	100.00%
Asunto Oy Mäntsälän Pelto-Orvokki	100.00%	100.00%
Asunto Oy Nurmijärven Poolo	100.00%	100.00%
Asunto Oy Nurmijärven Rajakivi	100.00%	100.00%
Asunto Oy Oulun Kurkelanpuisto	100.00%	100.00%
Asunto Oy Oulun Repolinna	100.00%	100.00%
Asunto Oy Oulun Sokurin Nisu	100.00%	100.00%
Asunto Oy Tampereen Kaneli	100.00%	100.00%
Asunto Oy Tampereen Meesakatu	100.00%	100.00%
Asunto Oy Tampereen Muskotti	100.00%	100.00%
Asunto Oy Tampereen Tieteenkatu 3	100.00%	100.00%
Asunto Oy Tampereen Tutkijankatu 7	100.00%	100.00%
Asunto Oy Turun Westparkin Kataja	100.00%	100.00%

	Parent company holding %	Group holding %
Asunto Oy Vantaan Kultapiisku	100.00%	100.00%
Asunto Oy Vantaan Omenatarha	100.00%	100.00%
Asunto Oy Vantaan Rinkeli	100.00%	100.00%
Asunto Oy Vantaan Tikkurilan Sonaatti	100.00%	100.00%
Eerikinkatu 7 Kehitys Oy subsidiary:		
Asunto Oy Helsingin Eerik VII	100.00%	100.00%

	Parent company holding %	Group holding %
VVO Vuokratalot Oy		
Asunto Oy Espoon Asemakuja 1	100.00%	100.00%
Asunto Oy Espoon Piilipuuntie 25	100.00%	100.00%
Asunto Oy Espoon Piilipuuntie 31	100.00%	100.00%
Asunto Oy Kaarinan Hovirinnan Luumu	100.00%	100.00%
Asunto Oy Kuopion Niemenkatu 5	100.00%	100.00%
Asunto Oy OulunTuiranmaja	100.00%	100.00%
Kiinteistö Oy Kanavanpirtti	100.00%	100.00%
Kiinteistö Oy Nummenperttu	100.00%	100.00%
Kiinteistö Oy Oulun Kotkankynsi	100.00%	100.00%
Kiinteistö Oy Vaakamestarinpolku 2	100.00%	100.00%
Kiinteistö Oy Vehnäpelto	100.00%	100.00%
Tikantupa Oy	100.00%	100.00%
Kiinteistö Oy Vehnäpelto subsidiary:		
Kiinteistö Oy Viljapelto	55.56%	76.67%

	Parent company holding %	Group holding %
VVO Palvelut Oy		
Kiinteistö Oy Mannenrheimintie 168a	100.00%	100.00%

	Parent company holding %	Group holding %
VVO Korkotuki 2017 Oy		
Kiinteistö Oy Tampereen Kyllikinkatu 15	76.50%	100.00%

	Parent company holding %	Group holding %
VVO Korkotuki 2018 Oy		
Kiinteistö Oy Vantaan Karhunkierros 1 C	86.58%	86.58%

	Parent company holding %	Group holding %
VVO Korkotuki 2021 Oy		
Asunto Oy Kuopion Vilhelmiina	78.38%	100.00%

	Parent company holding %	Group holding %
VVO-konserni		
Katajapysäköinti Oy		50.93%

Associated companies

	Parent company holding %	Group holding %
VVO-yhtymä Oyj		
Asunto Oy Nilsiän Ski	28.33%	28.33%
SV-Asunnot Oy	50.00%	50.00%
VVO Vuokratalot Oy		
Asunto Oy Viljapelto	21.11%	76.67%
Kiinteistö Oy Keinulaudantie 4	41.62%	41.62%
Pajalan Parkki Oy	31.44%	44.06%
VVO Korkotuki 2016 Oy		
Kiinteistö Oy Myllytullin Autotalo	24.39%	24.39%
VVO Korkotuki 2017 Oy		
Paavolan Parkki Oy	24.93%	24.93%
Virvatulentien Pysäköinti Oy	25.15%	25.15%
VVO Korkotuki 2020 Oy		
Lintulammenkadun Pysäköintilaitos Oy	39.19%	39.19%

	Parent company holding %	Group holding %
VVO Kodit Oy		
Asunto Oy Kuopion Vilhelmiina	21.62%	100.00%
Fastighets Ab Lovisa Stenborg Kiinteistö Oy,	45.50%	45.50%
Hatanpäänhovin Pysäköinti Oy	41.88%	41.88%
Katajapysäköinti Oy	34.26%	50.93%
Kiinteistö Oy Jyväskylän Torikulma	42.63%	42.63%
Kiinteistö Oy Oulun Tullivahdin Parkki	33.60%	33.60%
Kiinteistö Oy Bäckisåker	50.00%	50.00%
Kiinteistö Oy Lappeenrannan Koulukatu 1	24.45%	24.45%

	Parent company holding %	Group holding %
Kiinteistö Oy Mannerheimintie 40	29.42%	29.42%
Kiinteistö Oy Pohjois-Suurpelto	50.00%	50.00%
Kiinteistö Oy Tampereen Kyllikinkatu 15	23.50%	100.00%
Marin autopaikat Oy	21.00%	21.00%
Mummunkujan pysäköinti Oy	26.51%	26.51%
Pihlajapysäköinti Oy	30.56%	30.56%
Ristikedonkadun Lämpö Oy	34.40%	34.40%
Ruukuntekijäntien paikoitus Oy	26.24%	26.24%
SKIPA Kiinteistöpalvelut Oy	20.63%	20.63%
Suurpellon Kehitys Oy	50.00%	50.00%
Asunto Oy Vantaan Lehtikallio 4: Kiinteistö Oy Lehtikallion pysäköinti	39.84%	39.84%
Asunto Oy Järvenpään Sibeliuksenkatu 27: Kiinteistö Oy Järvenpään Tupalantalli	33.51%	33.51%
Asunto Oy Vantaan Leinelänkaari 13: Leinelänkaaren Pysäköinti Oy	21.63%	21.63%
Asunto Oy Oulun Repolinna: Kiinteistö Oy Revonparkki,	20.37%	20.37%
Asunto Oy Tampereen Kaneli: Kiinteistö Oy Tampereen Seponparkki,	29.91%	45.98%
Asunto Oy Vantaan Rinkeli: Kiinteistö Oy Arinaparkki Vantaa	25.59%	25.59%
Asunto Oy Lahden Helkalanpolku: Asemantaustan Pysäköinti Oy	39.76%	39.76%
Lumo Housing Fund II Oy: Koy Tampereen Tieteen Parkki	41.71%	41.71%

32. Events after the reporting period

VVO Group signed an SPA whereby its various group companies sold a total of 1,344 non-restricted apartments, located around Finland, to a company managed by Avant Capital Partners. The transaction was completed on 31 January 2017. Note 3 *Non-current assets held for sale* specifies the effects of the transaction on the Group in detail.

Key indicators

M €	2016	2015	2014 *)	2013	2012
Revenue, M €	351.5	370.9	356.5	346.6	335.4
Net rental income, M €	222.0	227.4	210.0	198.4	197.3
% revenue	63.2	61.3	58.9	57.2	58.8
Net financial expenses, M €	46.0	37.1	47.3	40.3	50.2
Profit before taxes, M €	289.7	224.7	146.5	75.9	62.5
Operative result, M €	116.9	121.4	103.2		
Balance sheet total, M €	4,572.2	4,236.1	3,957.2	2,468.5	2,276.1
Investment properties, M € 1) 5)	4,298.9	3,999.2	3,708.8	3,351.1	3,120.0
Rental occypancy rate, %	97.4	97.6	98.1	98.5	98.7
Tenant turnover, % 4)	27.6	23.7	21.6	21.2	
Equity attributable to equity holders of the parent company, M €	1,859.5	1,738.5	1,579.0	497.9	438.4
Interest-bearing liabilities, M € 2)	2,122.8	1,494.6	1,850.1	1,795.1	1,664.3
Return on equity, % (ROE)	12.9	10.8	7.2	15.5	10.6
Return on investments, % (ROI)	8.8	7.6	5.9	5.5	5.5
Equity ratio, % 1)	40.7	41.1	40.0	41.3	38.8
Loan to Value, % 1) 2) 3)	46.7	39.4	46.4	48.6	48.4
Earnings per share, €	31.38	24.23	14.95	10.07	6.19
Equity per share, € 1)	251.20	234.85	213.30	209.16	178.60
Dividend per share, € 6)	15.80	5.00	3.00	2.20	2.00
Dividend per earnings, %	50.35	20.64	20.07	21.85	32.31
Gross investments, M€	696.0	235.0	200.5	223.2	74.8
Number of personnel, average	298	364	339	341	343

*) As of 2014, the Group adopted IFRS for itsfinancial reporting. For 2012–2013, figures are presented according to the FAS financial statements.

1) Calculated with FAS 2013–2012 fair values

2) Does not include items held for sale

3) The calculation formula is changed 2016 and the comperative figures adjusted to correspond to the current calculation method

4) Excluding internal turnover

5) Including items held for sale

6) 2016: including extra dividend 9 € and the Board of Directors proposed that a dividend of 6.80 € per share.

Formulas used in the calculation of the key figures

Operative result = Result for the period - gains/losses on sales of properties - fair value change in investment properties - taxes on the adjustments

Return on equity (ROE), % = $\frac{\text{Profit for the period}}{\text{Total equity (average during the period)}} \times 100$

Return on investment (ROI), % = $\frac{\text{Profit before taxes + interests and other financial expenses}}{\text{Balance sheet total - Non-interest-bearing liabilities (average during the period)}} \times 100$

Equity ratio, % = $\frac{\text{Total equity}}{\text{Balance sheeet total - Advanced received}} \times 100$

Loan to Value, % = $\frac{\text{Interest-bearing liabilities - Cash}}{\text{Investment properties + Property, plant and equipment}} \times 100$

Earnings per share, € = $\frac{\text{Earnings attributable to equity holders}}{\text{Number of shares at the end of the financial period}}$

Shareholders' equity per share, € = $\frac{\text{Equity attributable to shareholders of the parent company}}{\text{Number of shares at the end of the financial period}}$

Dividend per earnigs, % = $\frac{\text{Dividend per share}}{\text{Earnigs per share}} \times 100$

Parent company's income statement, FAS

M €	Note	1–12/2016	1–12/2015
Rental income		0.5	0.6
Sales revenue from administration		10.9	11.3
Turnover	**1**	**11.5**	**11.8**
Other operating income	2	2.6	0.3
Personnel costs	3	-3.9	-4.3
Amortisations and depreciation	4	-0.7	-0.7
Other operating costs	5. 6	-9.2	-8.8
Operating loss		**0.3**	**-1.6**
Investment income		0.0	125.1
Financial income		8.2	9.9
Value adjustments on financial assets			0.4
Financial expenses		-6.0	-4.8
Financial income and expenses	7	2.2	130.7
Profit before appropriations and taxes		**2.5**	**129.1**
Appropriations	8	81.9	39.0
Income tax	9	-16.9	-8.5
Profit for the period		**67.5**	**159.6**

Parent company's balance sheet, FAS

M €	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	10		
Intangible rights		0.2	0.3
Other long-term expenses		0.4	0.6
Intangible assets, total		0.6	1.0
Tangible assets	11		
Land areas		4.9	5.2
Machinery and equipment		0.2	0.4
Other tangible assets		0.2	0.2
Tangible assets, total		5.3	5.8
Investments	12		
Shares in subsidiaries		82.6	82.6
Shares in associates		0.2	0.2
Other securities and shares		0.9	0.9
Investments, total		83.6	83.6
Non-current assets, total		**89.5**	**90.4**
Current assets			
Non-current receivables	13	571.4	340.5
Current receivables	14	87.6	99.9
Cash and cash equivalents		14.0	3.0
Current assets, total		**673.0**	**443.4**
ASSETS		**762.5**	**533.8**

M €	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity	15		
Share capital		58.0	58.0
Share premium		35.8	35.8
Contingency fund		0.0	0.0
Reserve for invested unrestricted equity		17.9	17.9
Retained earnings		67.2	11.3
Profit for the period		67.5	159.6
Equity, total		**246.4**	**282.6**
Accumulated appropriations	**16**	**0.0**	**0.0**
Liabilities			
Non-current liabilities	17	336.5	108.1
Current liabilities	18	179.6	143.1
Total liabilities		**516.1**	**251.2**
SHAREHOLDERS' EQUITY AND LIABILITIES		**762.5**	**533.8**

Parent company's cash flow statement, FAS

M €	1–12/2016	1–12/2015
Cash flow from operating activities		
Profit before appropriations and taxes	2.5	129.1
Adjustments:		
Depreciation according to plan and impairment	0.7	0.7
Asset purchase	0.0	0.0
Financial income and expenses	-2.2	-130.7
Other adjustments	-2.6	-0.3
Cash flow from operating activities before change in working capital	**-1.6**	**-1.2**
Change in working capital:		
Change in sales receivables and other receivables	-0.7	0.4
Change in accounts payable and other liabilities	0.5	0.1
Cash flow from operating activities before financial items, provisions and taxes	**-1.8**	**-0.8**
Interest paid and payments on other operational financial costs	-6.5	-4.2
Financial income from operating activities	0.6	0.8
Direct taxes paid	-11.5	-6.9
Cash flow from operating activities	**-19.2**	**-11.1**
Cash flow from investing activities		
Investments in tangible and intangible assets	-0.1	0.0
Capital gains from the disposal of tangible and intangible assets	2.9	0.1
Capital gains on other investments		0.2
Long-term loans granted	-198.2	-179.1
Repayments on long-term loan receivables	0.0	0.1
Asset purchase		0.0

M €	1–12/2016	1–12/2015
Capital gains from financial securities		4.1
Interest and dividends received on investments	9.5	133.1
Cash flow from investing activities	**-186.0**	**-41.6**
Cash flow from financing activities		
Withdrawals of long-term loans	230.0	
Repayments on long-term loans	-0.4	-0.4
Withdrawals of short-term loans	412.4	317.0
Repayments on short-term loans	-361.2	-264.6
Dividends paid	-103.6	-22.2
Group contributions received	39.0	25.0
Cash flow from financing activities	**216.1**	**54.7**
Change in cash and cash equivalents	**11.0**	**2.1**
Cash and cash equivalents at beginning of period	**3.0**	**0.9**
Cash and cash equivalents at end of period	**14.0**	**3.0**

Parent company accounting policies

VVO Group plc's financial statements have been prepared in accordance with the provisions of the Finnish Accounting Act and the Finnish Limited Liability Companies Act.

Income related to rental operations and compensation for administration costs

Income related to rental operations and compensation for administration costs are recognised on an accrual basis during the agreement period.

Valuation of fixed assets

Tangible and intangible assets are recognised in the balance sheet at original acquisition cost less depreciation according to plan and possible impairment. Depreciations according to plan are calculated as straight-line depreciation on the basis of the estimated useful life of the assets.

The depreciation periods according to plan, based on the useful life, are as follows:

IT hardware and software..... 4–5 years
Office machinery and equipment... 4 years
Cars ..... 4 years

Costs that arise later are included in the book value of a tangible asset only if it is likely that the future economic benefit related to the asset will benefit the Group. Other maintenance and repair expenses are recognised as incurred through profit and loss.

Capital gains from the sale of fixed assets are recorded under other operating income and losses under other operating costs.

Development expenditure

Development costs are recognised as expenses in the income statement in the financial year in which they are generated.

Valuation of financial assets

Financial securities have been recognised at the lower of purchase price or market price on the balance sheet date.

Changes in the fair value of derivative instruments are presented in the notes to the financial statements.

Statutory provisions

Future costs and apparent losses with a reasonably estimable monetary value which will no longer generate future income and which the Group is obligated or committed to perform are recognised as expenses in the income statement and as statutory provisions in the balance sheet.

Accumulated appropriations

Appropriations consist of accumulated depreciation differences.

Accrual of pension costs

The pension cover of Group companies is handled by external pension insurance companies in all respects. Pension costs are recognised as costs in the income statement on an accrual basis.

Accounting principles for the cash flow statement

The cash flow statement has been compiled on the basis of the information in the income statement and balance sheet and their supplementary information.

Cash and cash equivalents include bank accounts, liquid deposit notes and certificates of deposit.

Items denominated in foreign currencies

All of the receivables and liabilities are euro-denominated.

Derivative instruments

Derivative instruments that hedge against the interest rate risks of long-term loans have not been entered into the balance sheet. They are reported in the notes to the financial statements.

The interest income and expenses based on derivative instruments are allocated over the agreement period and are used to adjust the interest rates of the hedged asset.

Notes to the parent company financial statements

1. Turnover

M €	1–12/2016	1–12/2015
Plot rental income	0.5	0.6
Other rents	0.0	0.0
Rental income, total	0.5	0.6
Central administration services	6.9	7.2
IT rental income	3.8	3.8
Other sales revenue from administration	0.3	0.3
Other sales revenue, total	10.9	11.3
Turnover, total	**11.5**	**11.8**

2. Other operating income

M €	1–12/2016	1–12/2015
Capital gains on fixed assets	2.6	0.3
Income from debt collection	0.0	0.0
Other operating income	0.0	0.0
Total	**2.6**	**0.3**

3. Personnel costs

M €	1–12/2016	1–12/2015
Wages, salaries and fees	3.2	3.4
Pension costs	0.6	0.8
Other employer contributions	0.1	0.1
Total	**3.9**	**4.3**

Salaries, fees and other benefits of the Group Exeutive Team

M €	1–12/2016	1–12/2015
CEO Jani Nieminen	0.7	0.7
Salaries of Bord Members and Commitee		
Riku Aalto	0.0	0.0
Matti Harjuniemi	0.0	0.0
Olli Luukkainen	0.0	0.0
Jorma Malinen	0.0	0.0
Mikko Mursula, from 17 March 2016	0.0	
Reima Rytsölä	0.0	0.0
Jan-Erik Saarinen	0.0	0.0
Ann Selin	0.0	0.0
Tomi Aimonen, until 17 March 2016	0.0	0.0
Eloranta Jarkko	0.0	0.0
Laukkanen Ville-Veikko	0.0	0.0
Pesonen Pasi	0.0	0.0
Torsti Esko	0.0	
Ritakallio Timo		0.0
Total	**0.9**	**0.9**

	2016	2015
Average number of personnel	21	30

VVO Group plc's CEO and Management Group are paid in accordance with a total remuneration policy, and their retirement age is 63 years. Pension liability is covered with a pension insurance, in which an insurance premium corresponding to two months' taxable income is paid annually into a group pension insurance plan. The period of notice for terminating the CEO's employment relationship is twelve months.

4. Depreciation according to plan

M €	1–12/2016	1–12/2015
Intangible assets	0.2	0.2
Other long-term expenses	0.3	0.3
Machinery and equipment	0.2	0.2
Total	**0.7**	**0.7**

5. Other operating costs

M €	1–12/2016	1–12/2015
Property tax	0.2	0.2
Other property-related administrative costs	0.0	0.0
Rents and maintenance charges	0.4	0.4
Central administration	8.6	8.2
Total	**9.2**	**8.8**

6. Auditor's fee

1,000 €	1–12/2016	1–12/2015
KPMG Oy Ab, authorised public accounting firm		
Audit fees	51.5	48.4
Tax advice	404.6	94.2
Advisory services	76.0	20.4
Total	**532.1**	**162.9**

7. Financial income and expenses

M €	1–12/2016	1–12/2015
Dividend income		
From Group companies		125.0
From others	0.0	0.1
Total	**0.0**	**125.1**

M €	1–12/2016	1–12/2015
Interest income		
From Group companies	8.2	8.8
From others	0.0	0.0
Other financial income		1.2
Total	**8.2**	**9.9**
Dividend, interest and financial income total	**8.2**	**135.1**

M €	1–12/2016	1–12/2015
Value adjustments in investments		
Value adjustments in financial securities		0.4
Total		**0.4**

M €	1–12/2016	1–12/2015
Interest and other financial expenses		
To Group companies		0.0
To others	-6.0	-4.8
Total	**-6.0**	**-4.8**
Total financial income and expenses	**2.2**	**130.7**

8. Appropriations

M €	1–12/2016	1–12/2015
Group contributions, received	81.9	39.0
Depreciation difference for machinery and equipment	0.0	0.0
Total	**81.9**	**39.0**

9. Income tax

M €	1–12/2016	1–12/2015
Income tax on operational income	16.9	8.5
Income tax from previous financial years		0.0
Total	**16.9**	**8.5**

10. Intangible assets

M €	Rights	Other long-term expenses	Total
Acquisition cost as at 1 Jan 2016	2.5	2.8	5.3
Increases	0.1		0.1
Acquisition cost as at 31 Dec 2016	2.6	2.8	5.4
Accumulated depreciation as at 1 Jan 2016	-2.2	-2.2	-4.4
Depreciation for the financial year	-0.2	-0.3	-0.4
Accumulated depreciation as at 31 Dec 2016	-2.3	-2.4	-4.8
Book value as at 31 Dec 2016	**0.2**	**0.4**	**0.6**

M €	Rights	Other long-term expenses	Total
Acquisition cost as at 1 Jan 2015	2.5	2.8	5.3
Decreases	0.0		0.0
Acquisition cost as at 31 Dec 2015	2.5	2.8	5.3
Accumulated depreciation as at 1 Jan 2015	-2.0	-1.9	-3.9
Depreciation for the financial year	-0.2	-0.3	-0.4
Accumulated depreciation as at 31 Dec 2015	-2.2	-2.2	-4.4
Book value as at 31 Dec 2015	**0.3**	**0.6**	**1.0**

11. Tangible assets

M €	Land areas	Machinery and equipment	Other tangible assets	Total
Acquisition cost as at 1 Jan 2016	5.2	1.7	0.2	7.1
Increases		0.0		0.0
Decreases	-0.3	0.0	0.0	-0.3
Acquisition cost as at 31 Dec 2016	4.9	1.7	0.2	6.8
Accumulated depreciation as at 1 Jan 2016		-1.3		-1.3
Depreciation for the financial year		-0.2		-0.2
Decreases		0.0		0.0
Accumulated depreciation as at 31 Dec 2016		-1.5		-1.5
Book value as at 31 Dec 2016	**4.9**	**0.2**	**0.2**	**5.3**

M €	Land areas	Machinery and equipment	Other tangible assets	Total
Acquisition cost as at 1 Jan 2015	5.2	1.7	0.2	7.1
Increases		0.1		0.1
Decreases	0.0	-0.1		-0.1
Acquisition cost as at 31 Dec 2015	5.2	1.7	0.2	7.1
Accumulated depreciation as at 1 Jan 2015		-1.1		-1.1
Depreciation for the financial year		-0.2		-0.2
Decreases		0.1		0.1
Accumulated depreciation as at 31 Dec 2015		-1.3		-1.3
Book value as at 31 Dec 2015	**5.2**	**0.4**	**0.2**	**5.8**

12. Investments

M €	Shares in subsidiaries	Shares in associates	Other securities and shares	Total
Acquisition cost as at 1 Jan 2016	82.6	0.2	0.9	83.6
Acquisition cost as at 31 DecJan 2016	82.6	0.2	0.9	83.6
Book value as at 31 Dec 2016	**82.6**	**0.2**	**0.9**	**83.6**

M €	Shares in subsidiaries	Shares in associates	Other securities and shares	Total
Acquisition cost as at 1 Jan 2015	82.6	0.2	0.9	83.6
Decreases			0.0	0.0
Book value as at 31 Dec 2015	82.6	0.2	0.9	83.6
Appreciations as at 1 Jan	2.1			2.1
Decreases	-2.1			-2.1
Appreciations as at 1 Jan/31 Dec 2015	0.0			0.0
Book value as at 31 Dec 2015	**82.6**	**0.2**	**0.9**	**83.6**

13. Non-current receivables

M €	31 Dec 2016	31 Dec 2015
Loan receivables from Group companies	569.6	340.1
Loan receivables from others	0.1	0.1
Accrued income	1.7	0.3
Total	**571.4**	**340.5**

M €	31.12.2016	31.12.2015
Bond issuance costs recorded in non-current receivables	1.7	0.3

14. Current receivables

M €	31 Dec 2016	31 Dec 2015
Accounts receivable		0.0
From Group companies		
Accounts receivable	2.1	1.6
Other receivables	85.1	96.2
Accrued income		1.9
From Group companies, total	87.1	99.7
Loan receivables	0.1	0.1
Other receivables	0.0	0.0
Accrued income	0.4	0.1
Total	**87.6**	**99.9**

M €	31 Dec 2016	31 Dec 2015
Bond issuance costs recorded in current receivables	0.4	0.1

15. Equity

M €	31 Dec 2016	31 Dec 2015
Share capital as at 1 Jan	58.0	58.0
Share capital as at 31 Dec	**58.0**	**58.0**
Share premium as at 1 Jan	35.8	35.8
Share premium as at 31 Dec	**35.8**	**35.8**
Revaluation reserve as at 1 Jan		2.1
Decreases		-2.1
Revaluation reserve as at 31 Dec		**0.0**
Other reserves at 1 Jan		
Contingency fund as at 1 Jan	0.0	0.0
Contingency fund as at 31 Dec	0.0	0.0
Reserve for invested unrestricted equity as at 1 Jan	17.9	17.9
Reserve for invested unrestricted equity as at 31 Dec	17.9	17.9
Other reserves at 31 Dec	**17.9**	**17.9**
Retained earnings as at 1 Jan	170.9	33.5
Dividend distribution	-103.6	-22.2
Retained earnings as at 31 Dec	67.2	11.3
Profit for the period	67.5	159.6
Total	**246.4**	**282.6**

Calculation on distributable equity

M €	31 Dec 2016	31 Dec 2015
Reserve for invested unrestricted equity	17.9	17.9
Retained earnings	67.2	11.3
Profit for the period	67.5	159.6
Total	**152.6**	**188.7**

The parent company's share capital by share class

million shares	31 Dec 2016	31 Dec 2015
Series A (20 votes per share)	7.4	7.4

16. Accumulated appropriations

M €	31 Dec 2016	31 Dec 2015
Accumulated depreciation difference		
Machinery and equipment	0.0	0.0
Total	**0.0**	**0.0**

17. Non-current liabilities

M €	31 Dec 2016	31 Dec 2015
Loans from financial institutions	35.9	7.0
Bonds	300.0	100.0
Accrued expenses, wages and salaries	0.5	1.1
Total	**336.5**	**108.1**

18. Current liabilities

M €	31 Dec 2016	31 Dec 2015
Loans from financial institutions, instalments in the next financial year	1.0	0.4
Trade payables	0.8	0.4
Liabilities to Group companies		
Trade payables	0.1	0.0
Other debts	22.9	26.4
Other debts	142.2	110.0
Accrued expenses		
Financial liabilities	2.7	2.0
Payroll including social security contributions	1.6	0.8
Tax liabilities	8.4	3.0
Total	**179.6**	**143.1**

19. Derivative instruments

M €	31 Dec 2016	31 Dec 2015
Interest rate swaps		
Nominal value	86.4	56.8
Fair value	-0.9	-0.5

Hedge accounting is applied to interest rate swaps as their terms and conditions are similar to the terms and conditions of the hedged loan agreements. Interest rate swaps have not been recognised through profit and loss. If the duration of the derivative is longer than that of the loan, it is highly likely that the loan will be extended.

20. Collateral and contingent liabilities

M €	31 Dec 2016	31 Dec 2015
Loans that mature in more than five years		
Market-based loans	228.2	1.4
Loans for which mortgage on and shares in property have been given as a guarantee		
Loans from financial institutions	2.2	2.4
Mortgages given	4.1	4.9
Guarantees given		
Counter-guarantee	191.7	210.4
Counter-guarantees for received external guarantees	8.1	8.6

21. Other liabilities

Car leasing liabilities

M €	31 Dec 2016	31 Dec 2015
Car leasing liabilities		
Payable during the next financial year	0.1	0.1
Payable later	0.0	0.8

Electricity hedging

Electricity procurement was hedged with electricity derivatives quoted on the Nordic electricity exchange Nord Pool in accordance with the risk policy approved by VVO Group. The market value of the hedges for 2017–2021 was EUR -386,419.01 (-1,209,081.75) at the closing date. Unrealised changes in fair value have not been taken into account in the income statement or balance sheet of VVO Group plc.

Signatures to the annual report and financial statements

Helsinki, 3 March 2017

Riku Aalto
Chairman of the Board of Directors

Mikko Mursula
Vice-Chairman of the Board of Directors

Matti Harjuniemi

Olli Luukkainen

Jorma Malinen

Reima Rytsölä

Jan-Erik Saarinen

Ann Selin

Jani Nieminen
CEO

A report on the audit has been issued today.

Helsinki, 3 March 2017
KPMG Oy Ab

Esa Kailiala, APA

Auditor's report

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

To the Annual General Meeting of VVO Group plc

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of VVO Group plc (business identity code 0116336-2) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion
- the consolidated financial statements give a true and fair view of the group's financial performance, financial position 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.

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

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

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

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

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

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

The key audit matter	How the matter was addressed in the audit
Valuation of investment properties (Refer to notes 1 and 11 to the consolidated financial statements)	
– Investment properties (€4,228 million) represent 92"% of the consolidated total assets as at 31 December 2016. Valuation of investment properties is considered a key audit matter due to management's estimates used in forecasts underlying the valuations, and significance of the carrying amounts involved. – The fair values of investment properties are determined a property-specific basis using the transaction value, income value or acquisition cost. Determining the underlying key assumptions requires management to make judgements in respect of return requirements, maintenance costs and choice of actual sales considered comparable, among others.	– We assessed the assumptions used requiring management judgement, as well as the grounds for substantial changes in fair values. We also tested controls in place in the company over the fair value accounting. – We involved KPMG valuation specialists, to test the technical appropriateness of the calculations, and to compare the assumptions used to market and industry data, on a sample basis. – We met with the external property valuer (Authorised Property Valuer, AKA) used by the Group, to evaluate the appropriateness of the valuation method applied by VVO. – We assessed the appropriateness of the disclosures provided on the investment properties.

The key audit matter	How the matter was addressed in the audit
Total revenue: recognition of rental income (Refer to notes 1 to the consolidated financial statements)	
– The Group's total revenue consists almost solely of rental income from investment properties. – The industry is marked by a large lease portfolio with a substantial number of invoicing and payment transactions monthly.	– We evaluated and tested controls over the accuracy of rental income, to assess the completeness and accuracy of total revenue.
Property Acquisitions, Divestments and Investments (Refer to notes 1 and 11 to the consolidated financial statements)	
– During the financial year, VVO carried out two major property transactions. The Group acquired 2,274 apartments and sold 9,011 apartments. Furthermore, 649 apartments were completed in 2016 and 1,536 were under construction at the end of the financial year. The sale and purchase agreements for property acquisitions and disposals may have terms, which require judgement from management to consider the timing and amount of gains or losses arising from disposals.	– We evaluated the internal control environment and tested controls over the approval process for investment projects and property transactions. – Our substantive procedures included assessing the appropriateness of the documentation underlying the accounting for major property transactions.

The key audit matter	How the matter was addressed in the audit
Accounting for interest-bearing liabilities and derivative instruments (Refer to notes 1, 21 and 22 to the consolidated financial statements)	
– At the year-end 2016, VVO's interest-bearing liabilities totaled € 2,123 million, representing 46 percent of the consolidated balance sheet total. – The Group utilizes interest rate derivative contracts, measured at fair value. The nominal value of these derivatives totaled €1,273 million as at 31 December 2016. VVO uses derivative contracts mainly to hedge its interest rate risk exposure. The Group applies hedge accounting to qualifying interest rate derivative instruments.	– Our audit procedures included evaluation of the appropriateness of the recognition and measurement policies for financial instruments, and testing of the controls relevant to the accuracy and measurement of financial instruments. – We tested the accuracy of the measurements and the accruals for financial items on a sample basis. – We assessed the appropriateness of the hedge accounting as applied by VVO. – We assessed the appropriateness of the disclosures provided on the interest bearing liabilities and derivative instruments.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we

are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Other Information

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

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

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

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

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

Other Opinions

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

Helsinki, 3 March 2017
KPMG OY AB

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