SRV

FINANCIAL STATEMENTS 2016

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This report describes the SRV Group's financial performance in 2016. SRV Group Plc´s full financial statements for the financial year 1 January–31 December 2016 are included in the company's official financial statements, which are available on the company's website at www.srv.fi.

Report of the Board of Directors 2016

FINANCIAL YEAR 1 JANUARY–31 DECEMBER 2016 IN BRIEF:

- Revenue increased to EUR 884.1 (719.1, 1–12/2015) million. Growth in revenue was driven particularly by large business construction projects in Finland as well as developer-contracted housing units completed in growth centres, a total of 499 (323) of which were recognised as income. Developer-contracted housing units had an impact of EUR 144 (90) million on revenue.
- Operating profit rose to EUR 27.7 (24.4) million, primarily due to improved business margins in Finland. Operating profit from International Operations decreased to EUR -4.2 (-0.1) million.
- The result before taxes was EUR 16.4 (17.6) million. The result was burdened by a EUR -4.7 (-3.3) million fair value revaluation of a ten-year interest rate hedge.
- Earnings per share were EUR 0.15 (0.25).
- At year-end, the order backlog stood at EUR 1,758.5 (1,583.4) million. The largest new projects announced in 2016 included Hospital Nova in Central Finland, the Ring Road I tunnel project, and a contractor agreement for the second phase of the expansion of the Tapiola city centre.
- Equity ratio was 38.3 (42.5) per cent and gearing was 83.4 (83.3) per cent, both remaining at a good level.

GROUP KEY FIGURES

IFRS, EUR million	1-12/2016	1-12/2015	change	change, %
Revenue	884.1	719.1	165.1	23.0
Operating profit	27.7	24.4	3.2	13.2
Financial income and expenses, total[1]	-11.3	-6.8	-4.5	
Profit before taxes	16.4	17.6	-1.2	-7.1
Order backlog	1,758.5	1,583.4	175.1	11.1
New agreements	1,013.1	1,393.5	-380.4	-27.3
Operating profit, %	3.1	3.4		
Net profit	13.9	14.0	-0.1	-0.9
Net profit, %	1.6	1.9		
[1] of which accounted for by derivatives	-4.7	-3.3	-1.4	

OVERALL REVIEW

The Group's order backlog rose to EUR 1,758.5 (1,583.4) million (up 11.1%). The largest new projects announced in 2016 included a new central hospital in Central Finland, the Ring Road I tunnel project, a contractor agreement for the second phase of the expansion of Tapiola city centre, as well as the construction of a new campus building for Aalto University and retail premises in the Metro Centre, both in Otaniemi, Espoo. The order backlog saw growth in operations in Finland in particular, largely in the second quarter. No significant new orders were announced in October-December with the exception of the agreement of Aleksintori in Kerava.

The Group's revenue rose by 23 per cent to EUR 884.1 (719.1) million. Growth in revenue was driven by large business construction projects in Finland and particularly by the developer-contracted housing units completed and sold in the latter part of the year. The major business premises projects agreed on during the spring have entered the construction phase and are now generating revenue. The recognition of income from 499 (323) developer-contracted housing units contributed to revenue growth.

The Group's operating profit rose to EUR 27.7 (24.4) million, primarily due to improved profitability and higher revenue in SRV's operations in Finland. The operating profit was weakened by a rise in the costs of certain projects under construction and by expenses incurred in the aftermath of some completed projects. Operating profit from International Operations decreased to EUR -4.2 (-0.1) million. The rouble exchange rate improved operating profit by a net amount of EUR 1.3 million. Operating profit was weakened by temporary rent discounts granted to tenants, depreciation according to plan and amortisation of EUR 2.5 million.

GROUP KEY FIGURES

IFRS, EUR million	1-12/2016	1-12/2015	change	change, %
Equity ratio, %	38.3	42.5		
Net interest-bearing debt	246.3	230.8	15.5	6.7
Gearing ratio, %	83.4	83.3		
Return on investment, %	6.1	5.9		
Return on equity, %	5.0	5.6		
Earnings per share, EUR[1]	0.15	0.25	-0.10	-40.6
Equity per share, EUR[1]	4.25	3.90	0.35	9.0
Share price at end of period, EUR	5.43	3.10	2.33	75.2
Weighted average number of shares outstanding, millions[1]	59.3	42.6		

[1] The comparison data has been adjusted to reflect the share issue.

Key figures for the segments

REVENUE

EUR million	1-12/2016	1-12/2015	change	change, %
Operations in Finland	832.2	654.1	178.1	27.2
International Operations	52.4	65.1	-12.8	-19.6
Other operations	15.9	14.4	1.5	10.5
Eliminations	-16.3	-14.6	-1.8	
Group, total	884.1	719.1	165.1	23.0

OPERATING PROFIT

EUR million	1-12/2016	1-12/2015	change	change, %
Operations in Finland	38.3	28.9	9.4	32.6
International Operations	-4.2	-0.1	-4.0	
Other operations	-6.4	-4.3	-2.1	
Eliminations	0.0	0.0	0.0	
Group, total	27.7	24.4	3.2	13.2

OPERATING PROFIT

%	1-12/2016	1-12/2015
Operations in Finland	4.6	4.4
International Operations	-7.9	-0.2
Group, total	3.1	3.4

ORDER BACKLOG

EUR million	12/2016	12/2015	change, %
Operations in Finland	1,726.1	1,506.2	14.6
International Operations	32.4	77.1	-58.1
Group, total	1,758.5	1,583.4	11.1
Sold order backlog	1,482	1,261	17.5
Unsold order backlog	276	322	-14.2

The Group's profit before taxes was EUR 16.4 (17.6) million. The result was weakened by higher interest expenses and a EUR -4.7 million fair value revaluation of a ten-year interest rate hedge.

The Group's earnings per share were EUR 0.15 (EUR 0.25). Earnings per share were impacted by the relative increase in the number of shares due to a share issue as well as the non-recurring cost of repaying the hybrid bond.

Variation in SRV's **operating profit and operating profit margin** is affected by several factors. SRV's own projects are recognised as income upon delivery; the part of the order backlog that is continuously recognised as income based on the level of completion mainly consists of low-margin contracting; and the nature of the company's operations (project development).

The Group's equity ratio stood at 38.3 per cent (42.5, 12/2015) and the gearing was 83.4 per cent (83.3, 12/2015). The changes in equity ratio and gearing were due to an increase in interest-bearing debt. Net debt totalled EUR 246.3 (230.8) million and liquid assets EUR 54.6 (35.0) million.

EARNINGS TRENDS FOR THE SEGMENTS

SRV's business segments are Operations in Finland, International Operations, and Other Operations. Operations in Finland are divided into property development, housing construction, and business construction, which includes retail, office, logistics and specialised construction operations and also earthworks, and rock construction operations. International Operations comprises SRV's business activities in Russia and Estonia.

The Other Operations segment primarily consists of the parent company, SRV Group Plc's group operations, property and project development operations in Finland, and equipment service for Finnish construction sites.

OPERATIONS IN FINLAND

Business environment in Finland

Although the European economy is continuing its slow recovery, significant political uncertainty factors in several countries both inside the Euro zone and elsewhere, are increasing financial risks in both Finland and the rest of Europe. Finland's GDP growth is forecast to remain moderate. Construction is estimated to have seen exceptionally steep growth in 2016, about 6–7 per cent. New construction has been brisk in all sectors. However, this year growth is forecast to slow down significantly to about 1–2 per cent. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 10/2016.) RT will release its next review in February 2017.

Urbanisation and population shift will continue to be the main drivers of construction, and will maintain the need for both housing and business construction in growth centres, which are SRV's strategic key points. According to VTT's forecast, urbanisation will continue, as Finland's urbanisation ratio is clearly lagging behind other industrialised nations, such as Sweden. The most optimistic forecasts estimate that about 620,000 people in Finland might move into urban areas by 2040. (Source: VTT, Demand for new dwelling production in Finland 2015–2040, 01/2016.)

Housing, business and infrastructure construction in Finland

Housing sales in growth centres have remained at a moderately good level thanks to the population shift and investor sales. Housing production is still focused on small market-financed apartments in blocks of flats. It is estimated that housing start-ups increased substantially last year to about 36,000 units. The number of start-ups this year is expected to decline to about 34,000 units. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 10/2016)

Business construction start-ups grew significantly in all the main sectors in 2016, but are expected to decline this year with the exception of industrial buildings and warehouses. The growth in the volume of renovation construction and investments in civil engineering is forecast to remain at about 1.5 per cent in 2017. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 10/2016.)

One of SRV's strategic goals is to improve long-term profitability. This will be achieved by not only boosting the efficiency of the company's own operations, but also through the more prudent selection of new projects on the basis of the capital commitment required and their profitability.

HOUSING CONSTRUCTION

Revenue from housing construction in Finland totalled EUR 272.7 (220.1) million. Earnings were impacted above all by the recognition of revenue from developer-contracted housing units. The order backlog for housing construction in Finland rose to EUR 562.6 (554.0) million, resulting from increased investor sales and construction of the REDI tower foundations.

Housing under construction

In line with its strategy, SRV is focusing its housing production on urban growth centres and, above all, locations with good transport connections. SRV is currently one of the largest housing constructors in the Greater Helsinki Area. The company has a total of 2,696 (1,849) housing units under construction, most of them in growth centres. There are 836 (885) developer-contracted housing units currently under construction (12/2016).

There are 978 (477) housing units are currently under construction for investors (12/2016). In June, SRV signed a contractor agreement with Ilmarinen Mutual Pension Insurance Company to build sites in Vantaa and in Suurpelto, in Espoo. Another agreement was signed in September for the construction of a site in Jätkäsaari, Helsinki. They form part of a framework agreement SRV made in March 2016, covering investor sales for a total of 500 housing units. Other significant sites under construction for investors include residential housing units for Elo and LocalTapiola in Tikkurila, Vantaa, and Wood City for Helsinki Housing Production Department (ATT) in Helsinki.

In December, SRV made an agreement with Etera on the sale of a city-centre property with 140 residential units in Kerava. SRV will sell to Etera Mutual Pension Insurance Company a new complex in the Aleksintori block to be implemented in Kerava town centre. The total value of the deal, consisting of the Karuselli shopping centre, housing units and a joint parking facility, is over EUR 50 million.

Completed housing units

A total of 503 (247) developer-contracted housing units were completed. 111 (107) completed housing units remain unsold. In 2016, a total of 1,260 (873) housing units were sold.

A total of 503 developer-contracted residential units in the RS system were completed during 2016. The majority of these units were completed at the end of the year, particularly in December, when 247 units were completed.

Housing units recognised as income

499 (323) developer-contracted housing units were recognised as income, generating total revenue of EUR 144 (90) million. A developer-contracted residential project is a project that is developed by SRV and which has not been sold when construction begins. SRV bears the risks involved in both the sale and construction of such projects, which are recognised as revenue when they have been completed and sold. SRV completed most of its housing units towards the end of the year. As they had already been sold, the vast majority of them were recognised as income in December.

REDI apartments

REDI in Kalasatama, Helsinki is the largest construction project in SRV's history. Pre-marketing of the first REDI residential tower, Majakka, got off to a flying start in January 2016. At the end of December, over 90 per cent of Majakka's 283 apartments had either confirmed reservations (246) or preliminary reservations (18).

The permit process for Majakka's facades has progressed more slowly than expected, and thus the start-up of Majakka has been pushed back. The City Planning Department of the City of Helsinki approved the Majakka facades after the end of the review period on January 2017, and thus sales of housing units will begin in February 2017.

According to current estimates, construction of Majakka's tower section will begin

Housing production in Finland

Units	1-12/2016	1-12/2015	change, units
Units sold, total	1,260	873	387
Developer contracting	509	646	-137
Investor sales[2]	751	227	524
Developer contracting			
Start-ups	454	802	-348
Completed	503	247	256
Recognised as income	499	323	176
Completed and unsold[1]	111	107	4
Under construction, total[1]	2,696	1,849	847
Contracts[1]	441	59	382
Negotiation contracts[1]	441	428	13
Negotiated contracts[1, 2]	978	477	501
Developer contracting[1]	836	885	-49
Sold[1]	444	434	10
Unsold[1]	392	451	-59
of which sold, %[1]	53	49	
of which unsold, %[1]	47	51	

[1] At period-end.
[2] Investor sales under negotiated contracts.

Order backlog, housing construction in Finland

EUR million	1-12/2016	1-12/2015	change
Contracts and negotiated contracts	193	132	61
Under construction, sold developer contracting	105	114	-9
Under construction, unsold developer contracting	222	269	-47
Completed and unsold developer contracting	43	39	3
Housing construction, total	563	554	9

during the first quarter of 2017. A more precise completion date for the Majakka apartments will be given once construction has begun. It is currently estimated that occupants will be able to move into the apartments in spring 2019.

The REDI apartments will be recognised as revenue when each residential tower has been completed and its apartments sold. The apartments in the first tower, Majakka, will be entered into the order backlog when the final construction decision has been made and sales have begun. According to current estimate the apartments in the first of the towers, Majakka, will be included in the order backlog in the first quarter of 2017. Although the REDI residential towers will be completed at a later date, the foundations for all of the towers will be built in one go, by the end of 2018. As the contractor agreement for Majakka's foundations was signed back in 2015, the foundation section of the Majakka residential tower has already been entered into the order backlog.

The largest developer-contracted housing projects under construction in Finland

Project name, location	SRV, contract value, EUR million	Completion level, %[1]	Completion date (estimated)[1]	Units	Sold[1]	For sale[1]
Niittyhuippu, Espoo	57	58	Q4/2017	200	142	58
Satamarannan Masto, Oulu	21	55	Q3/2017	100	47	53
Försti, Helsinki	23	70	Q2/2017	52	24	28
Mantteli, Helsinki	16	65	Q1/2017	55	55	0
Niittyheinä, Espoo	16	59	Q1/2017	59	0	59

[1] Situation as of 31 December 2016.

The largest ongoing housing projects in Finland, investor projects, housing contracting

Project name, location, client	SRV, contract value, EUR million	Completion level, %[1]	Completion date (estimated)[1]
Wood City, Helsinki, ATT	[2]	16	Q1/2018
Vantaan Celica, LocalTapiola	[2]	72	Q2/2017
Vantaan Verso, Elo	[2]	79	Q1/2017
Espoon Niittytori, SATO	[2]	78	Q2/2017
Suurpellon Puistokatu	[2]	28	Q1/2018
Vantaan Neilikkatie, Ilmarinen	[2]	7	Q2/2018
Keravan Ormo, Ilmarinen	[2]	13	Q2/2018
Vantaan Hernetie, OP	[2]	13	Q2/2018
Helsingin Välimerenkatu 10, Ilmarinen	[2]	14	Q3/2018
Aleksinkulma and park, Helsinki	[2]	0	Q1/2019
Suurpellon Puistokatu, Espoo, TA	[2]	6	Q3/2018
Projects, estimated value in total EUR 210 million			

[1] Situation as of 31 December 2016.
[2] The value of individual contracts has not been made public.

SRV is currently building developer-contracted housing projects, development projects, and contracted projects. A developer-contracted residential project is a project that is developed by SRV and which has not been sold when construction begins. SRV bears the risks involved in both the sale and construction of such projects, which are recognised as revenue when they have been completed and sold. A residential development project is a project that is developed by SRV, but which is sold to an investor before construction begins. SRV bears the construction risks in such projects, which are recognised as revenue according to the percentage of completion. Construction contracts are construction projects that are launched by other parties but implemented by SRV. They are recognised as revenue on the basis of the percentage of completion or as set out in the agreement.

In November 2016, the Helsinki District Court announced its judgement in the case between SRV and Kiinteistö Oy Abraham Wetterintie 6. According to the judgement in the Helsinki Distric Court, the AW 6 will be required to pay SRV unpaid payments of the contract price and additional and modification works approved by the client added with penalty interest.

BUSINESS CONSTRUCTION

SRV's revenue from business construction totalled EUR 559.5 (434.0) million. The order backlog rose to a record-breaking EUR 1,163.5 (952.3) million, especially thanks to the many new agreements that were signed in January-September. No major new orders came in during the last quarter with the exception of the agreement of Aleksintori in Kerava.

In line with its strategy, SRV is aiming to increased the share of its business construction order backlog accounted for better margin for projects in average.

The order backlog was boosted by hospital projects, alliance contracts and infrastructure construction in particular. SRV further bolstered its position as an implementer of large-scale spearhead projects in June, when it was selected as the project management contractor for the new Nova hospital in Central Finland. The total value of the contract is about EUR 290 million, and it is the largest contract in SRV's history that does not include the company's own equity. Construction of the hospital has begun, and the project is already generating revenue for SRV. Also contributing to revenue are other large-scale hospital projects that are currently under construction, such as the new construction project for Tampere University Hospital, the New Children's Hospital in Helsinki, the basic renovation of the Women's Hospital and the health and wellbeing centre in Kalasatama, Helsinki.

Renovation and refurbishment projects also increased revenue, such as the basic renovation of an administrative building for the University of Helsinki and the renovation of the Helsinki City Theatre.

SRV's infrastructure construction bolstered its position in summer and early autumn. In June, SRV was selected to implement the Ring Road I construction project in Keilaniemi, Espoo. Ring Road I traffic will be diverted into an underground tunnel, and a park will be built above it. Infrastructure construction volumes are also being boosted by the excavation of the Western Metro tunnel in Kaitaa and the underground parking facilities under the REDI shopping centre.

SRV currently has five alliance projects whose revenue amounts to about one-fifth of the total revenue from business construction. Alliance projects provide additional earnings potential over and above ordinary income recognition. In practice, SRV can gain additional earnings if the project fulfils quality criteria and is completed for less than the target price earlier than scheduled.

SRV's shopping centre development projects also generated revenue during the financial period. SRV is currently building the Niittykumpu and REDI shopping centres.

REDI

The REDI shopping centre is an SRV development project. In addition to SRV, the investor group includes Ilmarinen, OP Group and LocalTapiola. The REDI shopping centre will open in autumn 2018 and negotiations with tenants are currently ongoing. Leasing is proceeding as planned. At the end of December, about 50 per cent of the premises had binding lease agreements or letters of intent (47% 9/2016). The large premises designated for daily consumer goods stores have been leased to K-Supermarket and Lidl. All of the shopping centre's restaurant premises have also been leased.

Niittykumpu Metro Centre

SRV is developing the Niittykumpu Metro Centre in Espoo into a new centre for the area. It will comprise several residential buildings, a shopping centre and metro station. The first phase of the project, comprising the construction of shopping centre Niitty and two residential buildings has been held up due to delays with the Western Metro and challenges encountered during construction of the centre's foundations. The Metro Centre is now scheduled for completion in summer 2017 (the original estimate was October 2016). All of the commercial premises in the Metro Centre's new shopping centre, Niitty, have been leased.

Hanhikivi-1 nuclear power plant

In 2015, SRV announced its participation in the Hanhikivi-1 nuclear power plant construction project as both an investor and project manager. SRV has made a financing commitment equating to a 1.8 per cent holding in the project to Fennovoima's main owner, Voimaosakeyhtiö SF. SRV will have the same rights and obligations as other Voimaosakeyhtiö SF shareholders. SRV has also signed a co-operation agreement with Rosatom Group and the main contractor Titan-2. SRV will act as the project manager, and the exact nature of its activities will be confirmed at a later date. More detailed negotiations on project management activities are ongoing.

The largest ongoing business construction projects

Project, location	SRV total contract value, EUR million	Project type	Completion level, %	Completion date (estimated)
DEVELOPMENT PROJECTS				
REDI, shopping centre and parking facility, Helsinki	390	Retail, parking	48	03/2018
TeHyKe, Kalasatama, Helsinki	[1]	Public services	49	04/2017
Niittykumpu Metro Centre, Espoo	[1]	Retail	71	02/2017
Keravan Aleksintori	[1]	Retail	4	04/2018
BUSINESS PREMISES				
Hospital Nova, Central Finland, Jyväskylä	290	Public	3	03/2018
TAYS Etupiha, Tampere	170	Public	19	03/2018
Tapiola city centre (Ainoa), Espoo	110	Retail	75	01/2017
Tapiola city centre (Phase 2), Espoo	100 +	Retail	0	01/2020
Aalto University, Espoo	76	Public	17	02/2018
Ring Road I, Keilaniemi, Espoo	49	Public	43	04/2018
HK Scan poultry processing plant Rauma	38	Industry	51	02/2017
Helsinki City Theatre renovation	38	Public	74	01/2017
Kaitaa metro station excavation, Espoo	32	Public	36	02/2018
Renovation of Lappeenranta University	31	Public	19	04/2018
Court and police building, Joensuu	30	Public	71	03/2017
Renovation of an administrative building for the University of Helsinki	[1]	Public	37	03/2017
HDC Teliasonera, Helsinki	[1]	Industry	19	01/2018
New Children's Hospital, Helsinki	[1]	Public	63	04/2017–02/2018-

[1] The value of individual contracts has not been made public.

INTERNATIONAL OPERATIONS

International Operations comprises SRV's construction and property development business in Russia and Estonia. SRV has also expanded its operations into shopping centre management in Russia.

Business environment

Expectations concerning the Russian economy have become slightly positive. According to the Russia forecast of the Bank of Finland Institute for Economies in Transition (9/2016), the GDP of the country is recovering gradually. In 2017, Russia's GDP is expected to grow by about one per cent. The price of oil rose in 2016, contributing to the Russian economy, and is expected to see further moderate increases in 2017–2018. In addition, the oil price has affected the exchange rate of the rouble, which strengthened by about 20 per cent in 2016.

The gradual slowdown in inflation supports the recovery in private consumption. Middle-class consumption is domestically focused, as foreign travel has decreased and domestic travel increased. The leading domestic travel destinations for Russians are St Petersburg and Moscow. SRV partly owns modern shopping centres in both cities.

The change in the rouble exchange rate has had a positive impact on SRV's earnings. SRV believes that the strengthening of the rouble will provide a good foundation for operating shopping centres in Russia. Although retail sales declined by -5.1 per cent in Russia during the review year, both sales and visitor numbers have grown at SRV's shopping centres. In 2016, visitor numbers at Pearl Plaza in St Petersburg grew as much as by 11 per cent year-on-year, and rouble-denominated sales were also up almost 19 per cent.

Revenue from International Operations fell to EUR 52.4 (65.1) million and accounted for 6 (9) per cent of the Group's revenue. This decrease was expected, as the bulk of revenue has been generated by the construction of the Okhta Mall and 4Daily shopping centres. The Okhta Mall shopping centre in St Petersburg opened its doors in August 2016 and the 4Daily shopping centre in Moscow was handed over to the client in December 2016.

Operating profit from International Operations decreased to EUR -4.2 (-0.1) million. The rouble exchange rate improved operating profit by a net amount of EUR 1.3 million. Operating profit was weakened by temporary

International Operations

EUR million	1-12/2016	1-12/2015	change	change, %
Revenue	52.4	65.1	-12.8	-19.6
Percentage of associated companies' profits	8.0	0.2	7.8	
Foreign exchange gains/losses	10,1	0,3	9,8	
Forward deal	-8,8	0	-8,8	
Operating profit	-4.2	-0.1	-4.0	
Operating profit, %	-7.9	-0.2		
Order backlog	32.4	77.1	-44.8	-58.1

rent discounts granted to tenants, depreciation according to plan and the amortisation of one property. To date, SRV's operating currency in Russia has primarily been the euro. The company's rental operations have become increasingly rouble-based. In accordance with IAS 21, the operating currency of SRV's property-related subsidiaries and associated companies was therefore changed to the rouble in 2016. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate. The companies affected by the change in operating currency include those that own the Okhta Mall and Pearl Plaza shopping centres.

The order backlog for International Operations fell to EUR 32.4 (77.1) million, as no new projects have been launched. In line with its strategy, SRV instead spent 2016 focusing on finishing the 4Daily shopping centre in Moscow, the opening of the Okhta Mall and operating other completed shopping centres.

Completed projects

Okhta Mall, St Petersburg

The Okhta Mall's opening ceremony was held in St Petersburg in August 2016. The Okhta Mall is located in the heart of downtown St Petersburg, within easy reach of over 1.5 million residents. It is the largest retail project to have been completed in the St Petersburg economic area in recent years. The shopping centre has been SRV's major project in St Petersburg in the past several years.

Considering the numerous challenges that have been faced in the Russian shopping centre market in recent years, leasing of premises in Okhta Mall is proceeding according to plan. The occupancy rate was approximately 70 per cent at the end of December. In addition, negotiations are currently ongoing for 10 per cent of business premises. In December, letters of intent and reservations had been made for 7.4 per cent of the premises. Okhta Mall's footfall has developed according to expectations and is already approaching 10,000 visitors per day.

In line with current trends, only some of the stores were open on the shopping centre's first day of business. Over half of the Okhta Mall's premises have been leased to anchor tenants, of which the majority are international and Russian retail chains. The largest tenant is the Russian daily consumer goods chain Lenta. All of Okhta Mall's anchor tenants opened their doors in autumn 2016. During the autumn, all anchor tenants such as H&M, Decathlon, Detski Mir and Eldorado opened stores in the shopping centre. At the end of January, 54 per cent of the stores were in business. According to current estimate 90 percent of lease contracts will be signed by the end of 2017 and Okhta Mall would be fully leased by summer 2018.

Numerous small gallery stores will be established in the shopping centre in spring 2017. They have rented relatively small retail space in terms of square metres. Thus there will be no great changes in the total percentage of retail space in business in the spring.

That figure will rise again in late summer 2017, when the KARO cinema opens its doors to film goers. KARO has leased about 10 per cent (about 7,000 m2) of the retail space in Okhta Mall.

Pearl Plaza, St Petersburg

Ever since it opened in August 2013, both visitor numbers and total sales figures have risen continuously at the Pearl Plaza shopping and entertainment centre, even though retail sales figures have been declining in Russia. In the year 2016, the number of visitors was about 8.4 million, a year-on-year increase of 11 per cent.

Towards the end of the year, the shopping centre kept breaking visitor records. For instance, Pearl Plaza hit a new high in the last week of December: 225,000 customers visited the shopping centre that week, while 200,000 came in the first week of January. On Christmas Eve alone, 40,000 people came to shop.

Considering the market situation, Pearl Plaza is also performing excellently with respect to the leasing of the premises, as it has been fully leased almost continuously.

The shopping centre's monetary sales increased by 19 per cent (in rouble terms) and 10 per cent (in euro terms) compared with the corresponding period of the previous year. Rouble-denominated sales at Pearl Plaza have increased about 15 per cent more than the market average for retail business.

Other projects

SRV owns 50 per cent of the Etmia II office project in downtown Moscow. 80 per cent of the premises had been leased by the end of December.

The most significant completed projects

Name	Holding, %	Opened	Floor area (m^2)	Occupancy rate 12/2016, %
Pearl Plaza, shopping centre, St Petersburg	SRV 50% Shanghai Industrial Corporation 50%	August 2013	Gross floor area 96,000 Leasable area 48,000	Binding lease agreements 98.5 Letters of intent and reservations 1.5
Okhta Mall, shopping centre, St Petersburg	SRV 45% Russia Invest 55%[1]	August 2016	Gross floor area 144,000 Leasable area 78,000	Binding lease agreements 62.7 Letters of intent and reservations 7.4

[1] Russia Invest's shareholders are Finnish institutional investors. Ilmarinen, Sponda and SRV each own 27 per cent holdings in Russia Invest, Etera owns 13 per cent, and Onvest six per cent.

Projects under construction

4Daily, Moscow

The 4Daily shopping centre in Moscow was handed over to the client in December 2016, but there are still some finalising work to be done. At the end of December, binding lease agreements had been signed for 59.7 per cent of the premises and letters of intent for 5.2 per cent. At the end of January, binding lease agreements had been signed for 60 per cent of the premises and letters of intent for 8 per cent. The anchor tenant of the shopping centre changed in the final phase of construction. The new supermarket operator will be the Russian company Miratorg. A final lease agreement was signed with the company in December 2016. At 4Daily, Miratorg will open its new concept store targeted especially at the middle class. Due to the change in anchor tenant, the opening of the property was postponed to April 2017.

Papula, Vyborg

SRV is building apartment blocks in the Papula district in the northern part of Vyborg. Only one (2) of the apartments in already completed buildings in Papula remains unsold. The construction of the next two buildings, consisting of 110 apartments in total, is under way. 49 apartments have been sold or reserved at the year end 2016.

The largest projects under construction

Name	Holding, %	Total investment, EUR million	Completion level, %	Completion date (estimated)	Floor area (m^2)	Occupancy rate 12/2016, %
4Daily, shopping centre, Moscow	Vicus 26.26% SRV 18.68% Blagosostoyanie 55.06%	61	93	Q1–Q2/2017	52,000	Binding lease agreements 59.7% Letters of intent and reservations 5.2% Total 64.9%

Outlook for operations in Russia

In Russia, SRV is focusing on completing its current construction projects, managing already completed locations, and developing its management operations. The shopping centre market still has massive potential, as the weak exchange rate of the rouble means that middle-class consumption is focused on Russia. There are also twice as many shopping centres per 1,000 inhabitants in Western Europe than there are in Russia.

SRV is an investor in all of its shopping centre projects through its associated companies. SRV is also responsible for leasing and marketing premises in completed shopping centres.

SRV intends to sell its holdings once the target for rental income is achieved, usually 3–4 years after opening. If the current financial situation is prolonged, it may take longer than usual to reach this target.

Although the Russian economy is in a challenging state, financing for these projects has been arranged with long-term loan agreements, which means SRV can wait for the market situation to improve. It is unlikely that the shopping centres or the ETMIA II&III office project will be sold to investors during 2017.

In 2016, the operating currency for SRV's property companies in Russia has been the rouble. This means that SRV subsidiaries and associated companies that operate in the Russian property business and have previously been using the euro will now use the rouble as their operating currency. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate. The companies affected by the change in operating currency include those that own the Okhta Mall and Pearl Plaza shopping centres.

GROUP PROJECT DEVELOPMENT

In accordance with its strategy, SRV is focusing on improving profitability. Developer-contracted and development projects are by far the best way to improve profitability, as they generally yield a better margin than, for instance, contracting. SRV's development projects target growth centres and, in the Greater Helsinki Area, particularly locations close to rail transport.

Rail transport

The Greater Helsinki Area metro is being expanded to run from Ruoholahti to Espoo via Lauttasaari. In the first phase of the Western Metro, a 14 kilometers rail line will be completed from Ruoholahti to Matinkylä, with eight new stations. SRV has numerous projects on the route of this metro line. The Western Metro completion schedule has been revised during the project. In December 2016, it was announced that joint usage tests had been successfully performed at three stations and that the metro can start running to Tapiola and to Matinkylä during the summer. Even though the schedule has fallen behind due to factors beyond SRV's control, areas next to the metro line are currently being designed and built. Among other works, SRV has built the Koivusaari metro station and has been responsible for the excavated work both the Otaniemi metro tunnel and the Kaitaa station and rail line.

Kivenlahti

In January 2016, the Trade and Competitiveness Division of the Espoo City Board reserved an area for SRV and VVO Group Plc to design the Kivenlahti Metro Centre. This area is located between Länsiväylä and Kivenlahdentie, and will form a key section of the future Kivenlahti Metro Centre. The plans for the area comprise about 1,300 housing units and about 45,000 m2 of commercial, office and service premises, and park-and-ride spaces. Construction will begin once zoning has been completed – current estimate 2018–2019 – and the Metro Centre is scheduled for completion in 2020.

Espoonlahti

Apartments covering approximately 100,000 square metres of floor area will be built next to the forthcoming Espoonlahti metro station (Espoonlahden keskus/Mårtensbro). SRV is seeking a holding of around 30 per cent. This is currently a planning reservation. The City of Espoo has temporarily leased the plot to serve as provisional premises for the Lippulaiva shopping centre until 2020. The plan for the Espoonlahti centre was approved by the City Council after the end of the review period in January 2017.

Niittykumpu

The Niittykumpu neighbourhood is well on its way of becoming a modern metro centre and home to thousands of new residents. SRV is building the new Metro Centre and, when it opens, the old Niittykumpu shopping centre will be demolished and apartments will be built in its place. At the second phase of the project three buildings have been planned, encompassing a total floor area of 12,650 square metres. Construction will begin in 2017. SRV made an agreement after the end of the review period in January 2017 about selling two of the buildings to be constructed to LocalTapiola.

Keilaniemi

SRV is forging ahead with its residential tower project in Keilaniemi, Espoo. Four towers and a parking facility are planned for Keilaniemi. The area's city plan is in force, and progress now hinges on tunnelling and traffic arrangements for Ring Road I. SRV was chosen to implement the Ring Road I construction project in June 2016. Ring Road I traffic will be diverted into an underground tunnel, and a park will be built above it. The original plan was to build an approximately 400-metre-long tunnel in two sections. However, in October 2016, the Espoo City Board decided to complete the Ring Road I tunnel in one go.

As part of the overall plan, Espoo City Board's Trade and Competitiveness Division decided to sell two residential plots in Keilaniemi to SRV. Preliminary contracts on the sale of these plots were signed in May 2016. A complaint on the City of Espoo's sale decision has been lodged with the administrative court. SRV has not as yet made a final decision on the construction of the towers. If realised, the Keilaniemi Towers would be the tallest residential buildings in Finland, with the tallest soaring to a height of almost 145 metres.

Raide-Jokeri in Perkkaa

Raide-Jokeri is a rapid tramline planned to link Itäkeskus in Helsinki to Keilaniemi in Espoo. It will also enable numerous residential sites to be built along the line. For instance, SRV is planning to build housing in the vicinity of the future Perkkaa station in cooperation with SATO and Ilmarinen. A total of almost 2,000 housing units will be built on the plot. Construction is planned to start during 2017. SRV also has a planning reservation for the Säterintorni plot, where the company plans to build housing and an office building.

Other projects

Wood City

SRV and Stora Enso are co-operating on the construction of Wood City in the Jätkäsaari district of Helsinki. Wood City will comprise an office building, hotel, and two apartment buildings for Helsinki Housing Production Department (ATT). A shared yard area will connect the buildings to create a vibrant wooden quarter. All of the buildings in this unique wooden quarter will have eight storeys. A three-storey shared car park has also been planned for the area. The construction of Wood City started in spring 2016 and the elements of the first wooden apartment building are currently being installed. It is estimated that the wooden apartment buildings will be completed in February 2018. According to current plans, Wood City will be completely finished towards the end of 2019. Investor and tenant negotiations for the office building are currently ongoing.

Bunkkeri in Jätkäsaari

SRV is highly involved in revitalising the Jätkäsaari district of Helsinki. Bunkkeri, a 13-storey landmark in Jätkäsaari, will feature a wide range of fitness facilities, a swimming hall, and about 300 housing units.

The City Council selected SRV as the developer and new owner of Bunkkeri in May 2016. The total value of the real estate transaction is approximately EUR 23 million. The town plan modification required to implement Bunkkeri was approved at a meeting of the City Council in June. A complaint on the sale decision and city plan has been lodged with the administrative court. It is intended that Bunkkeri construction work will begin in 2017. The fitness facilities will be leased to the City of Helsinki and the handover is set for May 2019. According to current estimates, the first housing units will be completed in 2019. SRV is currently negotiating the sale of the fitness facilities with potential investors.

Tampere Central Deck and Arena

In the beginning of 2016, Tampere City Council selected a consortium formed by SRV to further develop the city's Central Deck and Arena project. The City of Tampere and SRV signed the implementation agreement in summer 2016. The project is valued approximately EUR 500 million and comprises a multi-purpose arena, office, commercial, and hotel premises, and housing. The implementation agreement also involves a plot reservation agreement under which a consortium formed by SRV can buy plots in the new Ranta-Tampella area. A complaint on the implementation agreement has been lodged with the administrative court.

The project is currently in the development phase, during which financing and key lease agreements will be negotiated in preparation for the final investment decision. The project took a big step closer to being realised, as in October 2016 Finland's Slot Machine Association (RAY) chose to locate Finland's second casino in Tampere's new multi-purpose arena. It is intended that the final implementation decision will be taken in summer 2017, depending on the ongoing appeal and investor negotiations. It is intended that construction work will begin in 2017.

Land reserves 31 December 2016	Business construction	Housing construction	International Operations	Total
Unbuilt land areas and land acquisition commitments				
Building rights[1], 1,000m²	164	292	718	1,174
Land development				
Building rights[1], 1,000m²	114	151	0	266

[1] Building rights also include the estimated building rights/construction volume of unzoned land reserves and land areas covered by agreements in projects that are wholly or partly owned by SRV.

Land reserves have declined by about 94,000 m² (-7%) compared to 31 December 2015.

Financing and financial position

IFRS, EUR million	31 December 2016	31 December 2015	Change %
Equity ratio, %	38.3	42.5	-9.9
Gearing ratio, %	83.4	83.3	0.2
Shareholders' equity	295.3	277.2	6.5
Invested capital	596.2	543.0	9.8
Interest-bearing debt	300.9	265.8	13.2
of which short-term	73.7	102.6	-28.1
of which long-term	227.2	163.2	39.2
Cash and cash equivalents	54.6	35.0	
Unused binding liquidity limits and account limit agreements	122.0	122.1	-0.1
Unused project loans that can be drawn immediately	47.5	18.2	161.0

At the end of the year, the Group's financing reserves totalled EUR 224.1 million with the Group's cash assets amounting to EUR 54.6 million, and open-ended account limits and committed undrawn financing reserves and loans to EUR 169.5 million. In addition, EUR 49 million of the non-committed limits of the EUR 100 million commercial paper programme remained unused.

SRV's financing agreements contain standard covenants. The financial covenants are equity ratio (also based on percentage of completion), liquidity, and the interest coverage ratio. The interest coverage ratio is the ratio of the Group's operating margin (EBITDA) to its net financial expenses. The interest cover ratio is tested only if and when new loan financing is withdrawn; the covenant does not prevent the refinancing of existing sources of financing.

SRV Group Plc carried out two significant financial transactions in the first quarter of 2016 with a view to strengthening its equity ratio and financing growth in the years ahead. In March, SRV made a tender offer for its outstanding hybrid bond issued in 2012.

As a result of this tender offer, SRV bought back EUR 28.3 million of the hybrid bond from investors in March 2016, and the remaining EUR 16.7 million in December 2016. The company issued a new EUR 45 million hybrid bond in connection with the buyback. The coupon rate of the new hybrid bond is fixed at 8.750

per cent per annum. The first redemption date of the new hybrid bond is 22 March 2020. On March 2016, SRV Group Plc also issued a EUR 100 million bond. This bond carries a fixed annual interest rate of 6.875 per cent. The company can first redeem the bond three years after its date of issue. The bond matures on 23 March 2021.

Net interest-bearing debt totalled EUR 246.3 (230.8) million at the end of the year. Net interest-bearing debt saw year-on-year growth of EUR 15.5 million mainly due to equity capital employed in REDI. Housing corporation loans account for EUR 42.1 (58.9) million of the interest-bearing debt. The Group's financial position was affected not only by financial transactions but also by net cash flow from operating activities and investments. Net cash flow was EUR 27.8 (51.0) million and net cash flow from investing activities was EUR -39.4 (-119.8) million. An increase in incomplete housing in Finland in particular had an unfavourable impact on net cash flow from operating activities. Net cash flow from investing activities is at the usual level – the comparison figures are mainly explained by investments in the REDI project.

Net financial expenses since the beginning of 2016 totalled EUR -11.3 (-6.8) million. Financial expenses rose due to an increase in interest expenses and, in particular, the EUR -4.7 (-3.3) million fair value revaluation of 10-year interest rate derivatives. The figures for the comparison period also include a EUR 1.4 million release of credit loss provisions. When the 10-year interest level rises from its current level, a positive change in fair value will be recognised in the income statement, and vice versa. The company does not believe that there will be any further significant decreases in the interest rate. EUR 2.0 (1.6) million in interest expenses have been capitalised in accordance with IAS 23 since the beginning of the year.

SRV's investment commitments totalled EUR 31.2 (47.6) million and were earmarked for Fennovoima's Hanhikivi-1 project and the REDI project in Kalasatama.

During the third quarter, the company increased its holding in the associated company Olgino-4 and KOy Perkkaantalo. As a result of the transactions, SRV now exercises authority in the companies and will therefore consolidate these as a subsidiary. Its consolidation will impact the figures for inventories and non-controlling interest in the consolidated balance sheet. Olgino-4, the transaction in question is the acquisition of a company that owns an unbuilt plot in the St Petersburg area. These transactions will not have a significant impact on cash flow.

In 2016, the operating currency for SRV's property companies in Russia has been the rouble. This means that subsidiaries and associated companies that operate in the Russian property business and have previously been using the euro will now use the rouble as their operating currency. The change stems from the challenging state of the Russian economy, which has continued for longer than expected and has caused the shopping centre rental market to become more rouble-based. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate through translation differences. The strengthening rouble led to translation differences of EUR 15.2 (-1.6) million, which impacted both shareholders' equity and the comprehensive result for the period. In addition to currency exchange rate gains of EUR 3.8 (1.3) million in financial income and expenses, the Group also entered similarly derived currency exchange rate gains of EUR 10.1 (0.3) million under the profit accounted for by associated companies. Foreign exchange gains are reduced by EUR 8.8 million in hedging expenses.

PERSONNEL

Personnel by business area	31 December 2016	31 December 2015	Percentage of Group personnel, 31 December 2016
Operations in Finland	806	721	75
International Operations	181	235	17
Other operations	94	90	9
Group, total	1,081	1,046	100
Wages and salaries	-58.2	-53.0	

SRV's payroll increased steadily during 2016, and at the end of December the company had 1,081 (1,046) employees, of whom an average of 857 (785) were salaried employees. Growth has been robust in Operations in Finland thanks to progress in the implementation of numerous large-scale projects such as REDI, the Nova hospital in Central Finland and TAYS. The number of employees in International Operations has declined due to the completion of the Okhta Mall.

The parent company had 61 (56) salaried employees at the end of the review period. At the end of the review period, SRV's Operations in Finland employed a total of 40 (31) trainees (students on work placements and students working on a thesis or diploma).

The SRV STEP Academy remained active during the whole year. 240 people have already participated in the production training programme. An agreement was made with Hanken & Stockholm School of Economics for an executive coaching programme called "SRV Leader 2020". 41 SRV executives from both Finland and Russia have been invited to participate and it will be carried out in 2017.

SRV Group was once again ranked in the AAA category in Corporate Spirit Oy's personnel survey. Operations in Finland gained an AA+ rating in Finland's Most Inspiring Workplaces survey. The survey shows that indices for commitment, leadership, performance and engagement at SRV are clearly above average.

RISKS, RISK MANAGEMENT AND CORPORATE GOVERNANCE

The general business cycle and changes in customers' business environments have immediate effects on the construction, property and financial markets, and this may, for example, alter the volume of SRV's order backlog and the profitability of its operations. It may also hinder the availability of financing and lead to an increased amount of capital being tied up in projects. Political uncertainty has increased, both internationally and within Europe, which will bring risks to the development of the overall economy.

A change in the general level of interest rates has a direct impact on both cash flow from operating activities and financing costs. Even though the general economic climate is improving, there still is uncertainty regarding economic development. This uncertainty coupled with difficulties in securing financing are reducing demand for property investments and delaying the start-up of large-scale projects in particular.

SRV develops, owns and operates shopping centres in Russia. The Ukrainian crisis and its consequences has affected the Russian economy, the availability of project financing and property sales.

The sanctions on the financial market, imposed by the United States and European Union, weaken the Russian bank sector's ability to grant loans. The Russian recession has lasted longer than expected, which has led to the continuation of temporary rent discounts for shopping centre tenants. It may therefore take longer than planned to reach the targeted rental income.

To date, SRV's operating currency in Russia has primarily been the euro. The company's rental operations have become increasingly rouble-based. In accordance with IAS 21, the operating currency of SRV's property-related subsidiaries and associated companies was therefore changed to the rouble in 2016. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate. The companies affected by the change in operating currency include those that own, among others, the Okhta Mall and Pearl Plaza shopping centres. In its Russian business, fluctuations in the rouble exchange rate expose SRV to translation and transaction risks. A ten per cent weakening or strengthening of the rouble against the euro at the closing date would have had an impact of about EUR 13 million on the Group's equity translation differences. SRV's transaction risk largely comprises the foreign currency-denominated loans of associated companies that are partly owned by SRV. Changes in these would correspondingly have had an impact of about EUR 14 million on SRV's earnings.

Stricter banking regulation will affect the availability of financing from banks, the length of loan periods, and loan margin levels. In spite of the extremely low interest rate level, financing costs may grow as loan margins continue to rise. If the availability of financing for clients continues to weaken, client receivables may grow, posing challenges to SRV's liquidity.

In developer-contracted projects, recognition of revenue is largely based on the completed contract method, and recognition depends on the percentage of sold premises in delivered projects. The delivery schedules of developer-contracted projects can have a material impact on the development of revenue and profit for the financial year and the quarters. Factors that affect project sales include the availability of financing for buyers and premises' occupancy rates. When sales are delayed, the recognition of revenue and operating profit are likewise delayed. The sales prices of slow-turnover projects might have to be lowered in order to accelerate sales. Postponed starts in developer-contracted projects increase development expenses, which are recognised as costs.

Slower sales increase both interest expenses and sales and marketing costs for developer- contracted housing production. The economic uncertainty may reduce consumer sales prospects. Key risks affecting demand for housing include changes in consumer confidence in the future, the availability of financing, and a strong rise in interest rates.

Changes in demand for rental housing development projects for investors would affect the volume and profitability of SRV's new order backlog.

The projects carry significant risks with regard to construction, subcontracting. and procurement, and their management requires a high level of systematic operational planning, steering, and monitoring. SRV's operating model requires skilled personnel and a network of professional partners. Depending on the economic situation, subcontracting and material deliveries are subject to a variety of financial and execution risks. The construction industry is now subject to greater administrative regulation, which requires enhanced diligence. Post-construction warranty and liability obligations can last up to ten years after handover. The volume of construction significantly increased in Finland last year, and construction costs have increased slightly. Worksites resourcing has also become more challenging, and the availability and delivery of some materials has encountered problems.

SRV's revenue is generated by construction projects, and the company's result depends on the profitability of individual projects and their progress. Fierce competition for new orders in the construction sector may affect the volume and profitability of SRV's new order backlog. Contract agreements for construction are extremely valuable. Their terms and conditions require all parties to achieve the agreed targets within a set timetable, and to adhere to agreed working methods. In particular, agreeing on additional works and variations may involve financial risks that increase in a poor economic climate. Project receivables can include additional work and variations, and these may involve claims or be the subject of disputes over payment liability. Although segment management estimates the provisions required for receivables, these provisions may prove to be insufficient. If no mutual agreement on payment liability is reached during the final financial analysis of a project, the company may have to instigate legal proceedings against the client. The outcomes of legal proceedings involve uncertainties. In 2013, SRV initiated legal proceedings against client with respect to completed project involving disputes over payment liability for additional work and alteration. SRV initiated legal proceedings against Auroratalo Oy and HDL-Talot over payment liability for construction costs incurred by new construction and the renovation of the Deaconess Institute's Auroratalo building. SRV is claiming a sum of approximately EUR 3.6 million (VAT 0%). SRV's management believes that these cases and their outcomes will not have a significant impact on SRV's financial standing.

In addition to land acquisition risks, property projects face other challenges, such as those related to the outcome of zoning, soil conditions, financing, the liquidity of funding based on financing commitments, the commercialisation of the project, implementation schedules and agreements, partners, the project's geographical location, and the type of project.

In line with IFRS requirements, SRV records its land reserves at acquisition cost. If the acquisition cost plus construction costs are lower than the fair value of the planned project, the value of the property will be reduced. In accordance with its strategy, SRV has been prioritising developer contracting projects and has focused its land acquisition in Finland and, also previously, in Russia. SRV aims to carry out large-scale development projects in cooperation with real estate investors using project financing. The availability and terms of project and investor financing affect the progress of development projects, their profitability for SRV, as well as the amount of financing the company has tied up in the project. SRV's investment commitments in projects require the company to maintain sufficient liquidity and financing capacity. A decline in the availability of investor and project funding may increase SRV's own share of project funding, and this would lower the Group's equity ratio, reduce Group liquidity, and hinder the availability of other funding.

The financial risks related to SRV's operations are interest rate, currency, liquidity, capital structure, and contractual party risks. These are presented in more detail in the Notes to the 2016 Financial Statements. Currency risks are divided into transaction risks and translation risks. Transaction risks are related to currency-denominated business and financing cash flows. Translation risks encompass investments made in foreign subsidiaries, the accounting effects of which are recorded in the translation differences for equity in the consolidated figures.

Liquidity risks may have an effect on the Group's earnings and cash flow if the Group is unable to ensure sufficient financing for its operations. SRV maintains adequate liquidity through the efficient management of cash flows and related solutions, such as binding lines of credit that are valid until further notice. The company has a long-term binding liquidity arrangement of EUR 100 million, which will mature in January 2018. The company's financing agreements contain customary terms and conditions. SRV's financing agreements contain standard covenants. The financial covenants are equity ratio (also based on percentage of completion), liquidity, and the interest cover ratio. The interest coverage ratio is the ratio of the Group's operating margin (EBITDA) to its net financial expenses. The interest cover ratio is tested only if and when new loan financing is withdrawn; the covenant does not prevent the refinancing of existing sources of financing.

Capital structure risks may adversely affect the availability of financing for the Group if the company's equity ratio falls too low. The Group does not have a credit rating issued by a credit institution. In order to maintain its capital structure, the Group may adjust its dividend payment, or issue new shares or hybrid bonds. In autumn 2015, SRV strengthened its capital structure with a share issue worth approximately EUR 50 million. In order to maintain its equity ratio, the Group may be forced to make changes in its business operations or use of capital. The profitability of business operations, delays in selling or turning over developer-contractor projects, plot investments, and other increases in the balance sheet value all affect the equity ratio. The Group monitors its capital structure using its equity ratio, seeking to keep its share of the capital in the balance sheet (minus advances received) above 35 per cent.

In March, SRV made a tender offer for its outstanding hybrid bond issued in 2012. As a result of this tender offer, SRV redeemed EUR 28.3 million of the hybrid bond from investors in March 2016, and the remaining EUR 16.7 million in December 2016. The company issued a new EUR 45 million hybrid bond in connection with the buyback in March 2016. The coupon rate of the new hybrid bond is fixed at 8.750 per cent per annum. The first redemption date of the new hybrid bond is 22 March 2020. On March 2016, SRV Group Plc also issued a EUR 100 million bond. This bond carries a fixed annual interest rate of 6.875 per cent. The company can first redeem the bond three years after its date of issue.

The Group's risk management is carried out in line with the Group's operations system, and control is exercised in accordance with the Group strategy approved by the Board of Directors of the Group's parent company. SRV also makes every effort to cover operational risks by means of insurance and contractual terms. A Corporate Governance Statement is issued as a separate report. Information about risks and risk management is also available in the Notes to the Financial Statements and the Annual Report.

CORPORATE GOVERNANCE AND THE DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of SRV Group Plc was held on 22 March 2016. The AGM adopted the Financial Statements for the period 1 January–31 December 2015 and released the members of the Board of Directors and the President & CEO from liability.

A dividend of EUR 0.10 per share was confirmed, and the dividend was paid on 4 April 2016.

Mr Ilpo Kokkila was elected chairman of the Board of Directors and Ms Minna Alitalo, Mr Arto Hiltunen, Mr Olli-Pekka Kallasvuo, Mr Timo Kokkila, and Mr Risto Kyhälä were elected to seats on the Board.

The authorised firm of public accountants PricewaterhouseCoopers Oy was elected as the company's auditor for the next term of office, which ends at the conclusion of the 2017 Annual General Meeting. PricewaterhouseCoopers Oy has announced that Samuli Perälä, Authorised Public Accountant, will serve as the responsible auditor.

Authorisations to decide on a share issue and an issue of special rights

The Annual General Meeting authorised the Board of Directors to decide on the issue of new shares or the reissue of treasury shares and/or the issue of special rights entitling to shares, as referred to in Chapter 10 Section 1 of the Companies Act either for or without consideration.

Based on the authorisation, the Board of Directors may decide on the issue of shares such that the number of shares issued, including shares issued on the basis of special rights, is in total a maximum of 6,049,957.

The authorisation entitles the Board of Directors to decide on all the terms and conditions of a share issue and special rights entitling to shares, including the right to derogate from the pre-emptive subscription right of shareholders, if there is a weighty financial reason for the company to do so. A directed share issue may be executed without consideration only if there is an especially weighty financial reason for the company to do so, taking the interests of all shareholders into account.

The authorisation may be used, for example, when issuing new shares or conveying shares as consideration in corporate acquisitions, when the company acquires assets relating to its business and for implementing incentive schemes.

The authorisation shall be valid for five years from the decision of the Annual General Meeting.

Authorisation to decide on the acquisition of the company's own shares

The AGM authorised the Board of Directors to decide on the acquisition of the company's own shares, using the company's unrestricted equity. This share acquisition will reduce the company's distributable equity. The Board of Directors was authorised to acquire shares in the company, such that the number of shares acquired on the basis of this authorisation when combined with the treasury shares owned by the company and its subsidiaries does not at any given time exceed a total of 6,049,957 shares (10% of all shares in the company).

On the basis of this authorisation, the Board may acquire a maximum of 6,049,957 shares in public trading arranged by Nasdaq OMX Helsinki Oy at a market price valid at the moment of acquisition, as well as a maximum of 500,000 shares issued on the basis of incentive schemes to individuals employed by SRV Group without consideration, or for no more than the price at which an individual within the sphere of an incentive scheme is obliged to convey a share. Shares may be acquired otherwise than in proportion to the holdings of the shareholders.

The company's own shares can be acquired for use, for example, as payment in corporate acquisitions, when the company acquires assets relating to its business, as part of the company's incentive programmes, or to be otherwise conveyed, held or cancelled.

The authorisations as described above shall be in force for 18 months from the decision of the general meeting and cancel the authorisation granted by the Annual General Meeting to the Board of Directors on 25 March 2015.

The Board of Directors shall decide on all other terms relating to the acquisition of shares.

Organisation of SRV Group Plc's Board of Directors

SRV Group Plc's Board of Directors held its assembly meeting on 22 March 2016. Olli-Pekka Kallasvuo was selected as Vice Chairman of the Board of SRV Group Plc. Minna Alitalo was elected as Chairman and Olli-Pekka Kallasvuo and Timo Kokkila as members of the Audit Committee. Ilpo Kokkila was elected as Chairman of the HR and Nomination Committee (former Nomination and Remuneration Committee) and Arto Hiltunen and Risto Kyhälä as members.

Changes in the Corporate Executive Team

SRV Group's SVP and General Counsel Katri Innanen resigned from her position on 27 April 2016. Johanna Metsä-Tokila, LL.M., was appointed as SRV Group's SVP, General Counsel and as a member of the Corporate Executive Team as of 1 June 2016. Jussi Kuutsa, Vice President, Business Operations in Russia, resigned from SRV on 1 December 2016.

SRV revises its insider guidelines and duration of the closed window

On 15 June 2016, in accordance with a decision made by the Board of Directors, SRV amended its insider guidelines, on the basis of which the duration of the closed window was extended to at least 30 calendar days. The new insider guidelines came into force on 3 July 2016.

The amendment to the insider guidelines was based on the European Union's Market Abuse Regulation (MAR), and on regulations and instructions issued by the European Securities and Markets Authority (ESMA) and other parties on the basis of MAR, which came into force on 3 July 2016.

SRV applies the closed window principle before the publication of its results. From now on, SRV's closed window will always start at least 30 calendar days before the publication of an interim report or financial statement release, excluding the publication of the result for the second quarter of 2016, in which case the closed window only began on 3 July 2016, when the legal amendment came into force. The closed window also applies to the date of publication.

Flagging notifications

- SRV Group Plc has received a flagging notification 22.12.2016 from Ilpo Kokkila, pursuant to Chapter 9 Section 5 of the Finnish Securities Markets Act. According to the flagging notification, the share of Ilpo Kokkila`s ownership and votes in SRV Group Plc has fallen below 20%.
- SRV Group Plc has received a flagging notification 22.12.2016 from Tuomas Kokkila, pursuant to Chapter 9 Section 5 of the Finnish Securities Markets Act. According to the flagging notification, the share of Lauri Kokkila`s ownership and votes in SRV Group Plc has exceeded 10%.
- SRV Group Plc has received a flagging notification 22.12.2016 from Lauri Kokkila, pursuant to Chapter 9 Section 5 of the Finnish Securities Markets Act. According to the flagging notification, the share of Lauri Kokkila`s ownership and votes in SRV Group Plc has exceeded 10%.

SHARES AND SHAREHOLDERS

SRV Group Plc's share capital is EUR 3.1 million. The share has no nominal value and the number of shares outstanding is 60,499,575. The company has one class of shares. SRV had a total of 7,427 shareholders on 31 December 2016. The more detailed information concerning share based incentive schemes and share issue rights are in notes to the consolidated financial statement in note eight: Employee-benefit expenses.

The closing price at OMX Helsinki on 31 December 2016 was EUR 5.43 (EUR 3.10 on 31 December 2015, change +75%). The highest share price during the review period was EUR 5.58 and the lowest EUR 2.60. At the end of 2016, SRV's equity per share excluding the hybrid bond was EUR 4.25. On 31 December 2016, the company had a market capitalisation of EUR 322.4 million, excluding the Group's treasury shares. 6.3 million shares were traded during the review period with a trade volume of EUR 25.8 million.

At the end of December, the Group held 1,125,075 shares (1.9 per cent of the total number of the company's shares and votes). SRV Group Plc divested 49,042 treasury shares in 2016 in order to execute incentive schemes.

FINANCIAL OBJECTIVES

SRV's strategy and all of its operations are guided by the objectives set for the strategy period 2017–2020 confirmed in February 2017:

During the strategy period, the company will seek to outpace industry growth using large-scale projects

- The operating profit margin will rise to more than 8 per cent by the end of the strategy period
- Return on equity will be at least 15 per cent by the end of the strategy period
- The return on investment will rise to at least 12 per cent by the end of the strategy period
- An equity ratio of over 35 per cent will be maintained
- A dividend payment equalling 30–50 per cent of the annual result, taking into account the capital needs of business operations.

The achievement of these strategic objectives will be based on weak but steady economic growth in Finland, and Russia's economy stabilising at a slightly stronger level. Substantial growth in SRV's developer-contracted projects is also required. Our operations in Russia have now entered the shopping centre operating phase. The development of new projects is continued that can be launched when the Group's capital structure allows and the sites' financial criteria are fulfilled.

One of SRV's strategic goals is to improve long-term profitability. This will be achieved by not only boosting the efficiency of the company's own operations but also through the more prudent selection of new projects on the basis of the capital commitment required and their profitability.

EVENTS AFTER THE END OF THE REVIEW PERIOD

- As of 1 January 2017, Veli-Matti Kullas has been appointed to lead SRV's International Operations. According to stick exchange release published in 3.1.2017 Senior Vice President, Financial Administration Valtteri Palin will continue in his former role being in charge of Group finance, controller function

and taxation, but in future will no longer be a member of the Corporate Executive Team.
- SRV and LähiTapiola have signed a framework agreement for the construction of 528 market-financed rental housing units. Under this framework agreement worth approximately EUR 100 million, SRV will construct several apartment houses for LähiTapiola in the Helsinki metropolitan area, Turku and Jyväskylä. Project-specific agreements will be signed before the construction work at each site is started. All buildings will be completed during 2018 and 2019.
- On the basis of a decision taken by the Board of Directors on 2 February, SRV changed its communications policy such that in addition to stock exchange releases and press releases, the company will introduce a new category of releases: investor news.
- On 2 February 2017, SRV Group Plc has decided to assign a total of 206,476 of its shares possessed by the company without remuneration to the members of the company's share-based bonus scheme pursuant to the terms and conditions thereof. The earnings period of the scheme was 2014–2016.The assignment of shares using placing free of commission is based on the authorisation given by the ordinary meeting of SRV Group Plc on 22 March 2016. There is further information of the share-based bonus scheme in a stock exchange release published on 20 February 2014.The shares shall be assigned on 10 March 2017 at the latest. The assigned shares include an assignment deadline, according to which half of the shares gained through the scheme must be owned until 31 December 2017 and the other half until 31 December 2018.
- On 2 February 2017 The Board of Directors of SRV Group Plc has decided on a new share-based incentive scheme for the Group's key personnel. The purpose of the scheme is to combine the goals of shareholders and key individuals for raising the value of company as well as to strengthen key individuals' commitment to the company.
  The scheme covers 40 key SRV personnel.

The key indicators for the scheme's performance period 2017–2019 are the improvement of the Group's profit percentage and the return of the Group's own capital and capital employed. In addition, the rewards will be influenced by other business-specific indicators specified for 2017–2019. The scheme's aims focused especially on the year 2019.

When the indicators are fulfilled, the bonus will be paid partly in the company's shares and partly in cash. Within the context of the scheme, a maximum of 1,000,000 SRV Group Plc shares and a cash payment for tax purposes corresponding to the value of the conveyed shares may be conveyed for no consideration to key individuals. The total recognized IFRS cost of the portion given as shares over the lifetime of the incentive scheme 2017–2019 will be approximately EUR 5.5 million, with the addition of the cash payment. The Black & Scholes model, applied in the pricing of options, has been used to calculate the theoretical cost of the shares, with the following assumptions: share price EUR 5.20, risk-free interest rate 0.0 per cent and volatility 25 per cent.

Personnel belonging to the scheme must hold at least half of the shares received on the basis of the scheme until 31 December 2020 and at least half until 31 December 2021. If a key individual's employment ends during the above commitment period, he/she must surrender the shares for no consideration back to the company.

OUTLOOK FOR 2017

In addition to general economic trends, SRV's revenue and result in 2017 will be affected by several factors, such as: the recognition as income upon delivery of SRV's own projects; the part of the order backlog that is continuously recognised as income consisting mainly of low-margin contracting; trends in the order backlog's profit margins; the sales volume of developer-contracted housing and the completion schedules of the properties; and the launch of new contracts and own-development projects. SRV's largest project is the REDI project in Kalasatama.

Developer-contracted housing will be completed on a steadier schedule than in 2016. However, a significant part of operating profit will still be made in the second half of the year. Based on current schedules, SRV estimates that a total of 816 developer-contracted housing units will be completed during 2017.

Full-year consolidated revenue for 2017 is expected to increase and operating profit to improve on 2016 (revenue EUR 884 million and operating profit EUR 27.7 million). A profitability level in accordance with the strategy will not be attained, however, until the end of the strategy period 2019–2020.

The operating currency of all of SRV's subsidiaries and associated companies in Russia was changed to the rouble in 2016. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate and may impact on full-year operating profit.

PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The parent company's distributable funds on 31 December 2016	EUR 171,197,174.26
of which the loss for the financial year is	EUR 4,140,646.47

The Board of Directors proposes to the Annual General Meeting that distributable funds be disposed of as follows:

A dividend of EUR 0.10 per share be paid to shareholders,	EUR 6,049,957.50
The amount to be transferred to shareholders' equity is	EUR 165,147,216.76

No material changes have taken place in the company's financial position after the close of the financial year. The company's liquidity is good and, in the view of the Board of Directors, the proposed dividend payout does not compromise the company's solvency.

Espoo, 14 February 2017

Board of Directors

KEY FINANCIAL INDICATORS

		2016	2015	2014	2013	2012
Revenue	EUR million	884.1	719.1	684.4	679.4	641.6
Operating profit	EUR million	27.7	24.4	24.9	26.4	6.9
Operating profit, % of revenue	%	3.1	3.4	3.6	3.9	1.1
Profit before taxes	EUR million	16.4	17.6	18.5	22.8	2.8
Profit before taxes, % of revenue	%	1.8	2.4	2.7	3.4	0.4
Net profit for the financial year attributable to equity holders of the parent company	EUR million	13.9	14.0	15.2	18.3	0.8
Return on equity, %	%	5.0	5.6	6.9	8.4	0.5
Return on investment, %	%	6.1	5.9	5.4	5.4	2.2
Equity ratio, %	%	38.3	42.5	43.0	36.4	34.7
Order backlog	EUR million	1,758.5	1,583.4	860.4	825.8	827.8
New agreements	EUR million	1,013.1	1,393.5	700.3	600.7	594.5
Personnel on average		1,089	1,008	937	949	989
Invested capital	EUR million	596.2	543.0	449.8	528.0	513.3
Net interest-bearing debt	EUR million	246.3	230.8	206.1	215.8	267.9
Net gearing ratio, %	%	83.4	83.3	91.6	97.1	126.2
Earnings per share[2]	EUR	0.15	0.25	0.30	0.38	0.02
Earnings per share (diluted)[2]	EUR	0.15	0.25	0.30	0.38	0.02
Equity per share[2]	EUR	5.00	4.66	5.64	5.58	5.88
Equity per share (excluding hybrid bond)[2]	EUR	4.25	3.90	4.51	4.45	4.61
Dividend per share[1, 2]	EUR	0.10	0.10	0.07	0.07	0.06
Dividend payout ratio, %[2]	%	67.6	40.2	23.5	18.4	300.0
Dividend yield, %[2]	%	1.8	3.2	2.6	1.8	1.8
Price per earnings ratio (P/E-ratio)[2]		36.7	12.5	9.5	10.6	163.0
Share price development						
Share price at the end of the period	EUR	5.43	3.10	2.83	4.05	3.26
Average share price	EUR	4.07	2.94	3.81	3.75	3.76
Lowest share price	EUR	2.60	2.36	2.75	2.95	3.00
Highest share price	EUR	5.58	3.42	4.38	4.72	4.89
Market capitalisation at the end of the period[2]	EUR million	322.4	183.9	112.7	160.8	115.7
Trading volume[2]	1,000	6,355	11,463	3,613	3,364	2,937
Trading volume, %[2]	%	10.7	26.9	9.1	8.5	8.3
Weighted average number of shares outstanding[2]	1,000	59,349	42,616	39,771	39,701	35,499
Weighted average number of shares outstanding (diluted)[2]	1,000	59,576	42,648	39,799	39,813	35,532
Number of shares outstanding at the end of the period[2]	1,000	59,375	59,325	39,810	39,700	35,498

[1] The Board of Directors' dividend proposal for 2016.

[2] Comparative data 2013 and 2014 is share issue adjusted.

CALCULATION OF KEY FIGURES

$$\text{Gearing ratio, \%} = 100 \times \frac{\text{Net interest-bearing debt}}{\text{Total equity}}$$

$$\text{Return on equity, \%} = 100 \times \frac{\text{Net result for the financial year}}{\text{Total equity, average}}$$

$$\text{Return on investment, \%} = 100 \times \frac{\text{Result before taxes + interest and other financial expenses (excluding exchange rate gains and losses)}}{\text{Invested capital, average}}$$

$$\text{Equity ratio, \%} = 100 \times \frac{\text{Total equity}}{\text{Total assets – advances received}}$$

Invested capital = Total assets – non-interest bearing debt – deferred tax liabilities – provisions

Net interest bearing debt = Interest bearing debt – cash and cash equivalents

$$\text{Earnings per share}^{1} = \frac{\text{Result for the period – non-controlling interest – hybrid bond interest}}{\text{Average number of shares outstanding}}$$

$$\text{Earnings per share (diluted)}^{1} = \frac{\text{Result for the period – non-controlling interest – hybrid bond interest}}{\text{Average diluted number of shares outstanding}}$$

$$\text{Equity per share}^{1} = \frac{\text{Equity attributable to equity holders of the parent company}}{\text{Number of shares outstanding at the end of the period}}$$

$$\text{Equity per share (without hybrid bond)}^{1} = \frac{\text{Equity attributable to equity holders of the parent company – hybrid bond}}{\text{Number of shares outstanding at the end of the period}}$$

$$\text{Price per earnings ratio (P/E-ratio)}^{1} = \frac{\text{Share price at the end of the period}}{\text{Earnings per share}}$$

$$\text{Dividend payout ratio, \%}^{1} = 100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

$$\text{Dividend yield, \%}^{1} = 100 \times \frac{\text{Dividend per share}}{\text{Share price at the end of the period}}$$

$$\text{Average share price} = \frac{\text{Number of shares traded in euros during the period}}{\text{Number of shares traded during the period}}$$

Market capitalisation at the end of the period = Number of shares outstanding at the end of the period x share price at the end of the period

Trading volume = Number of shares traded during the period and in relation to the weighted average number of shares outstading

[1] Comparative data is share issue adjusted.

SHARES AND SHAREHOLDERS

Share price trend and trading of shares

The shares of SRV Group Plc are quoted on the OMX Nordic Exchange. The trading with SRV Group Plc's shares started on the Main list of OMX on 15 June 2007. During 2016 the highest price was EUR 5.58 and the lowest price EUR 2.60. The average share price for 2016 was EUR 4.07 and the closing price EUR 5.43 giving the company a market capitalisation of EUR 322.4 million as of 31 December 2016. 6.4 million shares were traded in OMX which corresponds to 10.7% of the weighted average number of SRV shares outstanding. The trading value of the shares was EUR 25.8 million.

The authorisations of the Board of Directors

The Annual General Meeting of SRV Group Plc resolved on March 25, 2016, to authorise the Board of Directors to decide on the repurchase of company shares and share issues as proposed by the Board of Directors. The authorisation of repurchase of company shares is valid 18 months and an authorisation of share issue is valid five years from the decision of Annual General Meeting. The share issue authorisation also includes an authorisation to decide on the conveyance on treasury shares (note 25).

Management shareholding

The Members of the Board of SRV Group Plc as well as the President and CEO and the Deputy CEO owned directly a total of 8,658,564 shares on 31 December 2016 which corresponds to 14.3% of SRV shares and voting rights. Ilpo Kokkila owns SRV shares through Kolpi Investments Oy.[1]

Shareholders on 31 December 2016

Shareholder	Number of shares	Holding and voting rights, %
Kolpi Investments Oy	11,505,457	19.0
Kokkila Timo	7,617,216	12.6
Kokkila Lauri	6,494,422	10.7
Kokkila Tuomas	6,494,422	10.7
Tiiviste-Group Oy	6,111,821	10.1
OP-Suomi Arvo	1,337,067	2.2
OP-Suomi Pienyhtiöt	1,204,798	2.0
Valtion Eläkerahasto	1,170,000	1.9
SRV Yhtiöt Oyj	1,125,075	1.9
Keskinäinen Työeläkevakuutusyhtiö Varma	716,666	1.2
Keskinäinen Eläkevakuutusyhtiö Etera	656,666	1.1
Nieminen Timo	655,390	1.1
Sundholm Göran	539,842	0.9
Skandinaviska Enskilda Banken	485,637	0.8
Taaleritehdas Mikro Markka sijoitusrahasto	400,000	0.7
Nordea Pankki Suomi Oyj	395,177	0.7
4capes Oy	340,000	0.6
Keskinäinäinen Eläkevakuutusyhtiö Ilmarinen	308,003	0.5
Säästöpankki Kotimaa -sijoitusrahasto	303,896	0.5
Taaleritehdas Arvo Markka sijoitusrahasto	280,000	0.5
20 largest shareholders	**48,141,555**	**79.6**
Nominee registration	914,298	1.5
Other	11,443,722	18.9
Total number of shares	**60,499,575**	**100.0**

Breakdown of share ownership on 31 December 2016[1] By number of shares owned

Number of shares	Number of shareholders	% of share-holders	Number of shares	% of shares
1–100	1,024	13.8	59,630	0.1
101–500	3,346	45.0	904,971	1.5
501–1,000	1,216	16.4	963,577	1.6
1,001–5,000	1,439	19.4	3,247,665	5.4
5,001–10,000	215	2.9	1,556,831	2.6
10,001–50,000	143	1.9	2,876,665	4.8
50,001–100,000	13	0.2	845,580	1.4
100,001–500,000	19	0.3	4,415,814	7.3
500,001–	13	0.2	45,628,842	75.4
Total	**7,428**	**100.0**	**60,499,575**	**100.0**
of which nominee registrations	9	0.1	914,298	1.5

By shareholder category

	% of shares
Corporations	36.3
Financial and insurance institutions	6.5
Public institutions	4.7
Households	51.7
Non-profit organisations	0.7
Non-Finnish shareholders	0.1
	100.0

[1] Ilpo Kokkila's sales of shares 22 December 2016 to Tuomas and Lauri Kokkila were not registered to Euroclear -register.

Consolidated financial statements 2016

CONSOLIDATED INCOME STATEMENT

EUR 1,000	Note	2016	2015
Revenue		**884,142**	**719,064**
Other operating income	5	2,106	1,810
Change in inventories of finished goods and work in progress		37,787	24,659
Use of materials and services		-797,802	-639,081
Employee benefit expenses	8	-73,031	-64,628
Share of profits of associated and joint venture companies	17	7,408	-62
Depreciation and impairments	7	-6,633	-3,477
Other operating expenses	6	-26,303	-13,838
Operating profit		**27,674**	**24,445**
Financial income	10	7,046	4,985
Financial expenses	10	-18,368	-11,833
Financial income and expenses, total		**-11,322**	**-6,848**
Profit before taxes		**16,351**	**17,598**
Income taxes	11	-1,970	-3,612
Net profit for the financial year		**14,382**	**13,985**
Attributable to			
Equity holders of the parent company		13,863	13,984
Non-Controlling interests		519	1
Earnings per share attributable to equity holders of the parent company	12	**0.15**	**0.25**
Earnings per share attributable to equity holders of the parent company (diluted)	12	**0.15**	**0.25**

STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	Note	2016	2015
Net profit for the financial year		**14,382**	**13,985**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gains and losses on remeasuring available-for-sale financial assets		326	-528
Gains and losses arising from translating the financial statements of a foreign operation		3,792	-1,566
Share of other comprehensive income of associated companies and joint ventures		11,443	-347
Income tax relating to components of other comprehensive income		-65	106
Other comprehensive income for the year, net of tax		**15,496**	**-2,336**
Total comprehensive income for the year		**29,879**	**11,650**
Total comprehensive income attributable to:			
Equity holders of the parent company		29,360	11,649
Non-Controlling interests		519	1

CONSOLIDATED BALANCE SHEET

EUR 1,000	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	11,954	10,688
Goodwill	15	1,734	1,734
Other intangible assets	15	1,887	1,859
Shares in associated and joint venture companies	17	211,454	206,647
Other financial assets	16, 18	13,913	11,741
Receivables	16, 19	36	656
Loan receivables from associated companies and joint ventures	16, 22	55,896	31,240
Deferred tax assets	20	9,202	7,298
Non-current assets, total		**306,076**	**271,863**
Current assets			
Inventories	21	400,264	336,573
Trade and other receivables	16, 23	116,579	111,947
Loan receivables from associated companies and joint ventures	16, 22	1,100	5,600
Current tax receivables		3,885	1,611
Cash and cash equivalents	24	54,583	35,026
Current assets, total		**576,411**	**490,757**
ASSETS TOTAL		**882,486**	**762,620**

EUR 1,000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent company			
Share capital	25	3,063	3,063
Share premium reserve	25	0	0
Invested free equity fund	25	141,506	141,185
Fair value reserve	25	-1,101	-1,362
Translation differences	25	8,005	-7,230
Hybrid Bond	25	45,000	45,000
Retained earnings		100,591	95,719
Equity attributable to equity holders of the parent company, total		**297,065**	**276,376**
Non-controlling interests		**-1,793**	**812**
Equity, total		**295,272**	**277,189**
Non-current liabilities			
Deferred tax liabilities	20	4,202	2,344
Provisions	26	7,799	6,297
Interest-bearing liabilities	16, 27	227,191	163,198
Other liabilities	16, 28	14,002	3,988
Non-current liabilities, total		**253,195**	**175,827**
Current liabilities			
Trade and other payables	16, 28	253,408	201,374
Current tax payable		33	822
Provisions	26	6,836	4,779
Interest-bearing liabilities	16, 27	73,741	102,629
Current liabilities, total		**334,019**	**309,604**
Liabilities, total		**587,214**	**485,431**
EQUITY AND LIABILITIES, TOTAL		**882,486**	**762,620**

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	Note	2016	2015
Cash flow from operating activities			
Net result for the period		**14,381**	**13,985**
Adjustments:			
Depreciation and impairments	7	6,633	3,477
Non-cash transactions	32	-3,020	1,850
Financial income and expenses	10	11,322	6,848
Income taxes	11	1,970	3,612
Adjustments, total		**16,906**	**15,787**
Changes in working capital:			
Change in trade and other receivables		-3,334	-29,308
Change in inventories		-33,629	-24,559
Change in trade and other payables		50,492	95,110
Changes in working capital, total		**13,530**	**41,242**
Interest and other financial costs paid		-13,160	-14,747
Interest received		214	16
Income taxes paid		-4,040	-5,327
Net cash from operating activities		**27,831**	**50,956**

EUR 1,000	Note	2016	2015
Cash flow from investing activities			
Purchase of property, plant and equipment		-4,914	-2,392
Purchase of intangible assets		-507	-1,561
Purchase of other financial assets		-7,767	-110,115
Sale of tangible and intangible assets		36	22
Increase in loan receivables from associated companies		-30,714	-5,787
Decrease in loan receivables from associated companies		4,500	0
Net cash used in investing activities		**-39,366**	**-119,833**
Cash Flow from financing activities			
Proceeds from loans		171,446	29,614
Repayments of loans		-116,229	-58,195
Withdrawal of hybrid bond		45,000	0
Repayment of hybrid bond		-45,000	0
Expenses related to hybrid bond		-1,588	0
Change in housing corporation loans		-16,784	13,148
Change in credit limits		96	56,629
Net cash from share issue		0	48,562
Purchase of treasury shares		0	0
Dividends paid		-5,934	-4,306
Net cash from financing activities		**31,007**	**85,452**
Net change in cash and cash equivalents		**19,473**	**16,576**
Cash and cash equivalents at the beginning of financial year		35,026	18,449
Effects on exchange rate fluctuations on cash held		84	1
Cash and cash equivalents at the end of financial year		**54,583**	**35,026**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Equity attributable to equity holders of the parent company								
	Share capital	Invested free equity fund	Fair value reserve	Translation differences	Hybrid Bond	Retained earnings	**Total**	Non-controlling interests	**Equity Total**
Equity, total, 1 Jan. 2016	3,063	141,185	-1,362	-7,230	45,000	95,719	276,376	812	277,189
Net profit for the financial year	0	0	0	0	0	13,863	13,863	519	14,382
Other comprehensive income items (with the tax effect)									
Foreign currency translation differences for foreign operations	0	0	0	3,792	0	0	**3,792**	0	**3,792**
Share of other comprehensive income of associated companies and joint ventures	0	0	0	11,443	0	0	**11,443**	0	**11,443**
Available-for-sale financial assets	0	0	261	0	0	0	**261**	0	**261**
Total comprehensive income	0	0	261	15,235	0	13,863	29,359	519	29,877
Transactions with the owners									
Dividends paid	0	0	0	0	0	-5,969	**-5,969**	0	**-5,969**
Share based incentive plan	0	0	0	0	0	49	**49**	0	**49**
Sale of treasury shares	0	20	0	0	0	0	**20**	0	**20**
Purhchase of treasury shares	0	0	0	0	0	0	**0**	0	**0**
Share issue	0	0	0	0	0	0	**0**	0	**0**
Tax cost related to share issue	0	302	0	0	0	0	**302**	0	**302**
Hybrid Bond	0	0	0	0	0	-3,072	**-3,072**	0	**-3,072**
Other changes[1]	0	0	0	0	0	0	**0**	-3,123	**-3,123**
Transactions with the owners, total	0	323	0	0	0	-8,991	-8,669	-3,123	-11,792
Equity, total, 31 Dec. 2016	3,063	141,506	-1,101	8,005	45,000	100,591	297,065	-1,793	295,272
Equity, total, 1 Jan. 2015	3,063	92,267	-939	-5,317	45,000	90,279	224,353	811	225,164
Net profit for the financial year	0	0	0	0	0	13,984	13,984	1	13,985
Other comprehensive income items (with the tax effect)									
Foreign currency translation differences for foreign operations	0	0	0	-1,565	0	0	**-1,565**	0	**-1,565**
Share of other comprehensive income of associated companies and joint ventures	0	0	0	-347	0	0	**-347**	0	**-347**
Available-for-sale financial assets	0	0	-423	0	0	0	**-423**	0	**-423**
Total comprehensive income	0	0	-423	-1,913	0	13,984	11,649	1	11,650
Transactions with the owners									
Dividends paid	0	0	0	0	0	-4,306	**-4,306**	0	**-4,306**
Share based incentive plan	0	0	0	0	0	-499	**-499**	0	**-499**
Sale of treasury shares[2]	0	356	0	0	0	-356	**0**	0	**0**
Purhchase of treasury shares	0	0	0	0	0	0	**0**	0	**0**
Share issue	0	50,073	0	0	0	0	**50,073**	0	**50,073**
Cost related to share issue	0	-1,511	0	0	0	0	**-1,511**	0	**-1,511**
Hybrid Bond	0	0	0	0	0	-3,383	**-3,383**	0	**-3,383**
Other changes	0	0	0	0	0	0	**0**	0	**0**
Transactions with the owners, total	0	48,919	0	0	0	-8,544	40,374	0	40,374
Equity, total, 31 Dec. 2015	3,063	141,185	-1,362	-7,230	45,000	95,719	276,376	812	277,189

[1] Other changes, the company increased its holding in the associated company Olgino-4 and now exercises authority in the company and will therefore consolidate it as a subsdiary. Its consolidation will impact the figures for inventories and non-controlling interests in the consolidated balance sheet.
[2] Sale of treasury shares includes a transfer between an invested free equity fund and retained earnings.

Notes to the consolidated financial statements

Description of operations

SRV Group Plc and its subsidiaries (SRV Group) comprise one of the Finland's leading project management contractors that builds and develops commercial and business premises, residential units as well as industrial and logistics projects in Finland, Russia and the Baltic countries. In line with the Group's strategy, business operations are organised into two business areas: operations in Finland and international operations. The main companies are SRV Construction Ltd, SRV Ehituse AS and SRV Russia Oy. Operations in Finland comprise the construction of business premises and housing. The construction of business premises comprises retail, office, logistics, earthworks and rock construction operations and property development. Housing construction comprises developer contracting and residential contracting for external clients in the Greater Helsinki Area and its surrounding municipalities as well as in other Finnish growth centres. International operations comprise business activities in Russia and in Estonia. SRV Group Plc's Project Development Unit and Group Administration support and serve all the Group's operations.

The Group's parent company, SRV Group Plc (the Company), is a Finnish public limited company which is domiciled in Espoo, Finland. The Company's registered address is Tarvonsalmenkatu 15, 02601 Espoo.

Board of Directors has approved these consolidated financial statements for issue on 14 February 2017.

Accounting policies

Basis of presentation

The consolidated financial statements have been prepared on 31 December 2016 in accordance with IFRS (International Financial Reporting Standards). International Financial Reporting Standards refer to the standards and their interpretations issued and approved for application within the EU in accordance with the procedure prescribed in EU regulation (EC) 1606/2002. The financial statements are presented in thousands of euros unless otherwise stated.

The consolidated financial statements have been prepared based on a historical cost basis, except for available-for-sale investments, financial assets and liabilities measured at fair value through income statement and derivative contracts measured at fair value as well as share-based payments which are measured at fair value.

The following standards, interpretations and amendments shall be applied for a period beginning on 1.1.2017 or later (in brackets effective date). The Group is reviewing the impact of future standards, amendments and interpretations.

- IFRS 15 Revenue from Contracts with Customers (1 January 2018). The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of the new standard is that sales revenue is recognised when the customer obtains control of the good or service – therefore control is examined rather than the previously used risks and rewards. The customer obtains control when it is able to direct the use of the good or service and obtains the benefit from it.
- In recognising revenue, a new five-step process must be applied:
- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the specific performance obligations, and
- Recognise when each performance obligation has been satisfied.

The Group's management has, in its study of SRV's business operations, identified a number of different projects and has evaluated the impact of IAS 15 on the revenue recognition of these project types. The identified project types include the following: fixed-price contract, project management contract, turnkey contract (overall responsibility for the construction), alliance contract, own-development housing project, own-development business premises project, developer contracting housing projects and developer contracting business premise projects. The study has also identified individual significant contracts that have special characteristics or exceptional terms and conditions. The revenue recognition of these must be handled on a case-by-case basis.

In the study, every identified project type was analysed. In the future, new sales contracts will be analysed according to the above five-step process.

In the study, no material differences were perceived in revenue recognition compared with the standards previously applied. The identified project types mainly form a single integrated entity that is handled as one performance obligation. Revenue recognition may deviate from current practice with respect to the following items:

- Contracts in which there are separate performance obligations. The number of performance obligations taken into account in revenue recognition might grow in situations where a contract also covers services other than construction services (parking space or removal service).
- Contracts in which there is a financing component. In terms of own-development and developer-contracted projects, accounting procedure might differ in future from the current practice. In developer-contracted projects, advances are received from customers. The arrangement might include a significant financing component, in which case the company has to adjust the amount of the promised consideration with the impact of the time value of money (revenue to be recognised and financing expenses).

- Changes and additional work are handled as separate performance obligations, when this involves a separate entity not included in the original contract.

With respect to own-development projects, a study on the right way to handle a plot in revenue recognition is under way, in a situation where the customer has already obtained control over the plot at the start of construction.

In the assessment of the Group's management, the differences in receivable recognition identified in the study compared with the standards applied earlier are not expected to have a material impact on the consolidated financial statements. The study is still partly under way and the quantitative effects on the financial statements will be specified later. Possible differences in revenue recognition will vary from one contract to another and from one financial period to another.

The new standard is applicable to financial periods beginning on or after 1 January 2018. The Group will adopt the new standard retroactively according to IAS 8 on 1 January 2018 and will present adjusted comparison figures. The Group will make disclosures in accordance with IFRS 15 when the standard is adopted in 2018 both for the said financial period and comparison periods. The Group will supplement information relating to the new standard in the 2017 interim reports and financial statements.

- IFRS 9 Financial Instruments (1.1.2018). IAS39 -standard will bring changes to classification and measurement of financial assets their impairment assessment hedge accounting. A debt instrument is measured at amortised cost only if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest.

  All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be measured at fair value. All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss). In addition debt instruments can be classified at fair value through other comprehensive income according to entity's business model.

  According to the Group's preliminary assessment, the standard will have no significant impact on the consolidated financial statements.

- IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

  The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

  Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

  The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

  The Group is assessing the impact of the standard. The entry into force of the standard might result in changes in the handling of rental plots generally in use on the sector.

- IAS 12 Income taxes, Recognition of Deferred Tax Assets for Unrealised Losses amendment (in financial periods beginning on or after 1 January 2017). In January 2016, amendments were made to IAS 12 that clarified the recognition of deferred tax assets when an asset is measured at fair value and the said fair value is lower than the taxable value of the asset. The amendment is not expected to have any material impact on the consolidated financial statements. The amendments have not yet been adopted for application in the EU.

- IAS 7 Statement of Cash Flows, Disclosure Initiative amendment (in financial periods beginning on or after 1 January 2017). Companies must now submit a description of changes in liabilities arising from financing activities. This covers changes arising from cash flows (e.g. drawdowns and repayments of borrowings) as well as non-cash changes, such as acquisitions, disposals, accrued interest and unrealised exchange differences. The Group will give the required information for the first time in the 2017 consolidated financial statements. The amendments have not yet been adopted for application in the EU.

- IFRS 2 Share-based Payments amendment (to be applied in financial periods beginning on or after 1 January 2018). Clarifications on the classification and measurement of share-based payments. The amendment is not expected to have any material impact on the consolidated financial statements. The amendments have not yet been adopted for application in the EU.

Use of estimates

The preparation of financial statements in accordance with IFRS requires the management to make certain estimates and to use the judgement in applying accounting policies. The estimates and assumptions have an effect on assets and liabilities as well as on revenues and expenses for the reporting period. Estimates and assumptions have been used for example in the impairment testing of goodwill, property, plant and equipment and intangible assets, in the revenue recognition of construction contracts, in the measurement of current assets, in the measurement of warranty and other provisions, in the valuation of investments in associates and joint venture and in the recognition of income taxes.

Revenues and expenses related to the construction contracts are recognised based on the percentage of completion method, when the outcome of the project can be estimated reliably. Revenue recognition according to the percentage of completion is dependent on estimates of the expected revenue and expenses from the project. The estimate of the expected revenue from the project is also affected by the estimated amount of the rental liabilities. If the estimates of the project's outcome change, the revenues and the profit will be correspondingly changed during the financial period that the change is discovered and can be estimated.

The Group carries out an annual impairment testing of goodwill and intangible assets having an indefinite useful life. The recoverable amounts of cash-generating units have been defined on the basis of value in use calculations. The preparation of these calculations requires use of estimates.

Warranty provisions and 10-year warranty provisions are recorded when the amount of the provision can be estimated reliably. The recorded amount is the best estimate of the expected cost that will be required to meet the claim as of the balance sheet date. The estimate concerning probability of costs is based on previous similar events and previous experience and it requires judgement from the Group management.

When preparing the financial statements the Group estimates the net realisable value of current assets and the possible consequent need for write down. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realise. Assessing the need for impairment of inventory items may require management to make estimates of matters such as the future costs of development and construction, the future income and expenses accruing from the item, the market return requirement at the time of realisation and the sale value of the item.

The Group's relevant holdings in associated companies and joint ventures are investments in construction projects, particularly shopping centres, together with other investors. The Group assesses the value of these investments in connection with financial statements and when there are indication of impairment. Based on an assessment of the value of the associated companies and joint ventures that own completed properties, a valuation calculation is prepared for properties. For significant investments, the Group obtains external property assessments, if necessary. The determination of the present value of investments is subject to assessment because present value calculations include, for example, future rental income, rental discounts given, occupancy rate, the running costs of the property, the required return (yield) and, with respect to shopping centres in Russia, assumptions about changes in the currency exchange rate.

When preparing the financial statements the Group especially estimates if there is a need for recognition of deferred taxes. The Group prepares an estimate about the probability of the profits of subsidiaries against which the unused tax losses or unused tax credits can be used.

Consolidated Financial Statements

Subsidiaries

The consolidated financial statements comprise all such companies that belong to parent company SRV Yhtiöt Oy where the Group has authority. The Group has authority in a company if the Group, by being involved in it, is susceptible to or entitled to its changing revenue, and is capable of exerting an impact on the revenue concerned by applying its authority in a manner that affects the company concerned. The subsidiaries will be combined within the consolidated financial statements from the day that authority is transferred to the Group, and the combination will end on the day when this authority ceases. The balance sheet items of self-sufficient construction projects are comprised within the consolidated financial statements.

The financial statements of the SRV Group have been consolidated using the purchase method. Acquisition cost is determined by taking into account funds given as consideration and measured at fair value, and liabilities assumed, as well as the direct costs of an acquisition. Acquired and identifiable assets and liabilities are measured at fair value at the acquisition date, irrespective of the size of any non-controlling interests. The amount by which the cost exceeds the fair value of Group's share of the net identifiable assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the acquired subsidiary's net assets, this difference is recorded directly to the income statement.

The accounting policies of subsidiaries have been changed as necessary to correspond the Group's accounting policies. Intra-group transactions, receivables and liabilities as well as unrealised gains on intra-group transactions are eliminated in the consolidated financial statements. Unrealised losses are eliminated if the loss is not caused by impairment.

Non-controlling interests has been presented separately after Net profit for the period and in Total equity. Losses applicable to non-controlling interests in a subsidiary are allocated to non-controlling interests, even if doing so causes the non-controlling interests to have a negative balance.

Changes in the ownership share of the parent company in the subsidiary that do not lead to the loss of authority are treated as business operations affecting equity. When the authority of the Group ceases, the remaining ownership share is appreciated to the fair value of authority on the loss date, and the change in book value is entered as effect on income. This fair value functions as an original book value when the remaining share is later treated as an associated company, joint venture or as financial assets. In addition, amounts entered previously into other comprehensive income-based items respective to the enterprise concerned will be treated as if the Group had directly transferred the assets and liabilities connected with them. This may mean that amounts entered previously into other comprehensive income-based items will be transferred as effect on income.

Associated companies and Joint ventures

Associated companies are all enterprises in which the Group has considerable influence, but not authority. This is generally based on share ownership that generates 20–50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the jointly agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, whereas in a joint operation the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to arrangement.

The Group has applied the IFRS 11 standard to all joint arrangements from the outset of 2014 onwards. According to IFRS 11, the joint arrangements are classified as joint operations or joint ventures in compliance with the investors' contractual rights and obligations. The Group has assessed the character of its joint arrangements and has determined that they are joint ventures.

The associated companies and joint ventures are combined in the consolidated financial statements by using the capital share method. If the Group's share of associated company and joint venture losses exceeds the book value of the investment, the investment will be entered into the balance sheet with a value of zero, and the losses exceeding book value will be combined, unless the Group is not obligated to fulfilling the obligations of the associated company and joint venture. Associated company and joint venture investment contains the goodwill that has been generated from its acquisition. Non-realized profits and losses between the Group and associated companies and joint ventures are eliminated in accordance with the Group's ownership share. Non-realized losses are not eliminated if the transaction suggests a reduction in value of the transferred asset. The Group's ownership share from the share of financial year results from an associated company and joint venture is presented before business profit. The Group's share of the comprehensive income items of associated companies and joint ventures is presented, however, in consolidated comprehensive income. These arise particularly from the Group's share of the translation differences of associated companies and joint ventures operating in foreign currency.

The financial statement formulation principles observed by an associated company and joint venture have been amended as required to comply with the principles the Group observes. Depreciation entries on asset items must begin no later than three years after the completion of the asset item.

Foreign currency transactions

Functional and presentation currency

Items of each group company included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to group company (the functional currency). The functional currency of a group company may therefore differ from the currency used in its country of location. The consolidated financial statements are presented in euros, which is the parent company's functional currency.

Group companies

The income statements of those subsidiaries whose functional currency is not Euro are translated into euros using the average rate for the financial period. The balance sheets of subsidiaries are translated into euros using the rates at the balance sheet date. The translation differences arising from the use of different exchange rates are recorded in Translation differences under equity. In so far as the loans between the group companies are considered part of net investment in foreign subsidiaries, the currency exchange differences are recorded in Translation differences. When a foreign subsidiary is sold, the cumulative translation differences are recognised in the income statement as part of the capital gain or loss.

Transactions and balance sheet items

Transactions denominated in foreign currency are recorded using the exchange rate on the date of the transaction. Monetary foreign currency items in the balance sheet are measured using the exchange rate at the closing date. Non-monetary items denominated in foreign currency are measured using the exchange rate on date of the transaction. Exchange rate gains and losses on business operations are included in corresponding items above operating profit. Exchange rate differences of financing items are included in financial income and expenses.

Income recognition

Construction contracts

Income and costs of construction contracts are recorded as revenue and expenses on the basis of the percentage of completion, when the outcome of the project can be estimated reliably. The percentage of completion is calculated on the basis of the estimated total cost of a contract and the cumulative costs at the balance sheet date. Revenues are recognised based on the percentage of completion method.

In the developer contracting of housing projects will be recognised upon completion at the earliest. The share of revenue and expenses corresponding to the percentage of sale at the time of completion will be recognised as revenue. The revenue recognition method to be employed in the developer contracting of business premises is determined on a project-by-project basis. Sold developer contracting projects are recognised on a percentage of completion base method if the risks and rewards of the project are transferred substantially to the buyer when the project is sold. The relative share recognised as revenue is calculated in accordance with the combined percentage of completion, which is derived from the percentage of completion of construction and percentage of sale. If the risks and rewards cannot be deemed to have been transferred to the buyer during construction, the project is recognised when it has been completed and the risks and rewards have been transferred.

If it is probable that the total expenditure required to complete a contract will exceed the total income from the project, the expected loss is expensed immediately. Revenue from projects which comprise construction and rental liability are recognised as one construction contract. Gross profit is recognised on projects containing a rental liability starting from the point when the total revenue from the fixed construction contract and the rental agreements concluded exceeds the estimated total cost of the project. The recognition of revenues is deferred in respect of the estimated rental liability and this estimated deferral is recognised in Advance payments in Liabilities. The rental security deposits reduce the Advance payments of the project. Uncertainty associated with lease agreements is taken into account in income recognition.

If the costs and recorded profits of construction contracts exceed the amount of progress billings, the difference is disclosed in Trade and other receivables. If costs and recorded profits of construction contracts are less than the amount of progress billings, the difference is disclosed in Trade and other payables. Other operating income consists mainly from sale of land area and rental income from current assets.

Order backlog

A construction project is included in the order backlog when the construction contract of the project has been signed or the decision to start construction has been made, and the contract agreement has been signed in developer contracting projects. In developer-contracted projects, the order backlog includes the plot in addition to construction. Moreover, in own-development projects, the order backlog may include the plot, and in revenue recognition it is part of the project. The order backlog consists of the share of the projects not yet recognised as revenue (including the plot). The order backlog also includes completed and unsold housing and business properties. The value of the order backlog is the expected amount of revenue to be recognised for projects.

Borrowing costs

Borrowing costs in projects that are implemented for clients outside the Group are recognised as expenses in the period in which they are incurred. In developer contracted housing projects, part of interest on borrowing costs is activated during the construction period in according to Group's the capitalisation rate and is recognised as an expense when the project is sold. These interest expenses are entered as project expenses above operating profit. In developer contracting of business premises, interest expenses are activated on the basis of management's estimates, as the sales prices of projects are not always known in advance.

Research and development expenditure

SRV's research and development expenditures are planning costs of developer contracting projects and development projects for which the decision to start has not yet been made. These costs are recorded as an expense in the income statement.

Property, plant and equipment

Property, plant and equipment is valued at historical cost less accumulated depreciation and possible accumulated impairment losses. Historical cost consists of the costs directly related to acquiring the asset.

Land and water areas are not amortised because the economic life of these assets cannot be determined. Depreciation on other tangible assets than land and water areas is calculated by using the reducing balance method or on a straight-line basis by recording acquisition costs as expense over their estimated economic lives as follows:

- Buildings and structures, reducing balance method: 4–7% or amortised on a straight-line basis over their estimated economic life
- Machinery and equipment, reducing balance method: 25%
- Other intangible assets, straight-line method: 3–5 years

The carrying amounts and economic lives of property, plant and equipment are estimated and values adjusted as needed. The Group estimates at every balance sheet date if there is a need for impairment. If the carrying amount of an asset item exceeds the estimated recoverable amount, the carrying amount is lowered to correspond the recoverable amount. When controlling interest is lost in current asset company in a transaction carried out, its remaining holding is measured at fair value.

Capital gains and losses on property, plant and equipment are included in the income statement, other operating income or other operating expenses.

Intangible assets

Intangible assets which have a limited useful life are valued at historical cost and amortised over their estimated economic life (3–5 years). Intangible assets which have an unlimited useful life are tested yearly for impairment.

Goodwill is the excess of the cost of the business combination over the fair value of the Group's share of acquired net assets. Goodwill is subject to an annual impairment test. For this purpose, goodwill has been allocated to cash-generating units. Goodwill is measured at historical cost less impairment. Impairment is expensed directly to the income statement.

Assets which are depreciated or amortised are always tested for impairment when events or changes in circumstances indicate the carrying amount may not be recovered. Impairment is recorded through profit and loss to the extent that the carrying amount of the asset item exceeds the recoverable amount. The recoverable amount is the higher of the following: the fair value of the asset item less selling costs or its value in use.

Financial assets and liabilities

The Group classifies its financial assets and liabilities into the following categories: financial assets held for trading, loans and other receivables, available-for-sale financial assets, financial liabilities held for trading that are recognised at fair value through profit or loss, and financial liabilities measured at amortised cost.

The classification is made in accordance with the purpose for which the financial assets were initially acquired. The Group records financial assets and liabilities in the balance sheet when it becomes a party to the contractual terms and conditions of the instrument. Group management defines the classification of financial assets and liabilities in the initial recognition. Purchases and sales of financial assets are recognised on the clearing day and derivatives on their trade date. Financial assets are derecognised from the balance sheet when the contractual right to the cash flows of the item included in financial assets ceases or when the Group has transferred a significant part of the risks and returns associated with the financial assets. Financial liabilities are derecognised when the obligation specified in the contract has been fulfilled, cancelled or the liability has ceased.

Derivative Financial Instruments

At the time of entering into derivative instrument the Group designates them as either cash flow hedges of business or financing cash flows or as hedges of investments in foreign entities.

Group's Treasury unit is responsible for the hedge transactions according to the policy approved by the Board of Directors.

During the fiscal year 2016 and 2015 there were no hedges qualifying for IAS 39 hedge accounting.

Financial assets and liabilities held for trading

The derivative instruments are classified as financial assets or liabilities held for trading. Derivatives are initially recognised in the balance sheet at cost, which corresponds to their fair value on the transaction day and thereafter measured at fair value on each balance sheet date. Changes in fair values are recognised in the income statement under other financial income and expense and in the balance sheet under long-term financial assets or liabilities.

However, changes in the fair value of forward foreign exchange contracts are recognised in the income statement under other operating income or expenses, because foreign exchange forward contracts are used to hedge primarily against currency rate gains and losses included in the share of associated companies' income presented above the operating profit.

Financial assets and liabilities are long-term when their maturity period lasts over 12 months, and short-term when their remaining maturity period is under 12 months.

Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or definable payments. They are not quoted on the market and it is not a primary intention of the company to sell them in the short term. Loans and other receivables are included in non-current financial assets, except for items whose maturity is shorter than twelve months. These items are classified as current financial assets.

Loans and other receivables, including trade receivables, are recorded in the balance sheet at amortised cost. Interest is recognised in the income statement over the maturity of the loan using the effective interest method. Impairment loss is recognised if there is evidence that the Group will not recover the receivable in full or in part according to the original terms. Matters that constitute evidence of this kind can be a debtor's serious financial problems, the probability that a debtor will end up in bankruptcy or is subjected to other financial arrangements as well as payment delinquency. The amount of the impairment is the difference between the receivable in the balance sheet and the present value of estimated future cash flows.

Available-for-sale financial assets

The available-for-sale financial assets are financial assets that are either specified as belonging to this item or which have not been classified in any other group. These include long-term financial assets unless there is the intention to relinquish the investment within 12 months from the date of the balance sheet.

The available-for-sale financial assets can include both quoted and non-quoted shares. The investments in the sorts of non-quoted shares whose fair value is not reliably specified are valued at the purchase price. The fair value of the investment is determined on the basis of the investment's bid price. In the event that there are no quoted bid prices for the available-for-sale financial assets, the Group will apply various valuation methods to their valuation. These are, for example, the recent transactions between independent interests, discounted cash flows, or other similar types of instrument valuations.

The changes in the fair value of the available-for-sale financial assets will be entered into the other comprehensive income and presented in an equity instalment, the Revaluation Reserve, whilst taking into consideration its tax impact. The accumulated fair value changes are transferred from equity as corrections owing to changes in the classification of items affecting income when the investment is sold or its value has declined to the extent that impairment loss from the investment should be entered.

The available-for-sale financial assets are derecognized when the rights to cash flows cease being valid or they are transferred, and the Group has transferred the risks and benefits connected with ownership to a substantive extent.

The Group assesses on each balance sheet date as to whether or not there is objective evidence that the value of the item or group of items respective to the financial assets for sale has declined.

Cash and cash equivalents

Cash and cash equivalents consist of cash, current bank deposits as well as other current liquid investments with a maturity not exceeding three months. Bank overdrafts are included in current liabilities in the balance sheet.

Hybrid bond

Shareholders' equity includes a hybrid bond which issued in 2016. The bond has no maturity date, but the company has the right to redeem it four years after the date of issue.

An equity bond (hybrid loan) is a bond that is subordinated to the company's other debt instruments but is senior to other equity instruments. The interest on a hybrid loan is paid if the Annual General Meeting decides to pay a dividend. If a dividend is not paid, the company decides separately on whether to pay the interest. Unpaid interest accumulates.

Hybrid loan holders have no control over the company and no right to vote at shareholders' meetings.

Financial liabilities measured at amortised costs

Financial liabilities are initially recognised at fair value. Transaction expenses have been included in the original carrying amount of financial liabilities. Interest is recognised in the income statement over the maturity of the loan using the effective interest method. Financial liabilities are recognised in the balance sheet under non-current and current liabilities and they can be interest-bearing or non-interest-bearing

An external loan from a financial institution taken out by housing corporations in connection with developer contracting contracts is recognised as a liability until the project is completed. In completed developer contracting housing projects the loan is derecognised when the purchaser assumes the liability.

Leases

Operating leases

Lease agreements in which the risks and benefits are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense in the income statement on a straight-line basis over the lease term.

Inventories

The costing of raw materials and consumables is measured using weighted average cost method.

The balance sheet item "Work in progress" comprises the cost of construction work and plot for uncompleted construction projects not yet expensed. The acquisition costs included in the Work in progress are raw materials, direct cost of labour, other direct costs, indirect costs of purchase and construction as well as borrowing costs in certain cases.

The balance sheet item "Land areas and plot-owning companies" comprises costs of development stage projects. The costs that are considered to increase the value of land areas and plot-owning companies are capitalised.

The balance sheet item "Shares in completed housing corporations and real-estate companies" comprises unsold completed projects.

The balance sheet item "Advance payments" comprises advance payments in connection with the inventories.

The balance sheet item "Other inventories" comprises share capitals from projects of which the decision to start construction has not yet been made and the property bought for resale.

Inventories are valued at the lower of cost and net realisable value. In ordinary business, net realisable value is the estimated selling price which is obtainable, less the estimated costs incurred in bringing the product to its present condition and selling expenses.

The net realisable value of land areas and plot-owning companies is based on their expected use. The net realisable value of land areas and plot-owning companies expected to be used in project operations is evaluated as part of the net realisable value of the entire project. Land areas and plot-owning companies are impaired only if it is forecast that the project as a whole will result in a loss. If it is expected that a land area or plot-owning company will be realised by sale, the net realisable value is based on the estimated market price. The net realisable value of work in progress and completed housing corporations and real-estate companies is based on their selling price at the expected time of sale.

Rental costs remitted to an external party can be activated to book value for the asset assigned to rent; such as, e.g. the rental agency's fees. Sales and marketing costs are not activated costs. In preparing the asset, the activated rental costs should be entered as expenditure along with the average duration of the rental agreements. The margin generated from rental services sold by the associated company and joint venture should be eliminated in relation to the ownership share.

Income taxes

Tax expense in the income statement comprises current taxes and deferred taxes. Current tax is calculated based on the taxable income for the financial period using the statutory tax rate that is force in each country at the balance sheet date (and local tax legislation). Taxes are adjusted for any taxes for previous periods.

Deferred tax assets or liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred taxes are not recognised in connection with investments made in subsidiaries when the Group can control the timing of the reversal of the temporary difference, and the temporary difference will probably not be reverse in the foreseeable future. A tax asset is recognised to the extent when it is probable that the asset can be utilised against future taxable income. If a Group company has made a loss in the immediate past then, of the taxable loss, an imputed tax asset is recognised only up to the amount where the company has sufficient taxable temporary differences or other convincing evidence of the ability to utilise the taxable loss.

Employee benefits

Pension liabilities

Group companies have various pension plans in accordance with the local regulations and practices of each country of operation. Pension plans are funded through contributions paid to insurance companies based on paid salaries and wages. The Group has only defined contribution plans. The payments in connection with Group's defined contribution plans are recognised in the income statement in the period which they relate to.

Share-based payment

The Group applies IFRS 2 Share-based Payment standard on its share-based incentive schemes. Share-based incentive scheme share settled transaction are valued at fair value by using the Black&Scholes pricing model at the time of granting and paid in cash are valued at fair value in every interim and annual closing. Changes in value are recognised in the income statement over their effective period. The share-based payments of the Group are cash or share settled transactions.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event, the payment obligation is probable and the amount of obligation can be reliably estimated. If compensation can be received from a third party for a part of the obligation, the compensation is recognised as a separate item when it is virtually certain that the compensation will be received. A provision is recognised for a loss-making contract when the costs required to meet the obligations exceed the benefits received from the contract.

SRV and its subsidiaries are reengaged in several legal proceedings which relate to ordinary business or to other processes. The result of these legal proceedings and processes is difficult to predict. In case of litigation a provision is recognised in the financial statements according to the mentioned accounting policies when there is a legal or constructive obligation against third-party, payment obligation is probable and the amount of an obligation can be reliably estimated.

Warranty provisions comprise the costs resulting from the repair of completed projects if the warranty period is still in effect at the balance sheet date. A warranty provision is recognised at the time of the project handover, and the amount of provision is based on prior experience of the materialisation of warranty expenses. It is expected that warranty provisions are used during the two years from the completion of the project.

The level of the construction industry's 10-year warranty provision is based on index-adjusted historical information or the estimated total costs of certain individual projects. It is expected that a 10-year provision will be used over the ten years following the completion of the project.

Dividends

The dividend payout proposed by the Board of Directors to the Annual General Meeting is recognised in the financial statements when the company's shareholders have approved the relevant resolution at the Annual General Meeting.

1 SEGMENT INFORMATION

Segment information has been prepared in compliance with IFRS 8 and it follows the accounting standards of Group's financial statements as well as the Group's management and organisational structure.

Pricing of transactions between the operating segments equals the market price. Segments assets and liabilities are those assets and liabilities that the segment uses in its operations or which can be allocated to the segments on a reasonable basis. Unallocated items include income taxes and financial items as well as Group level items.

Operating segments

SRV Group has the following operating segments:

OPERATIONS IN FINLAND

SRV is an innovative construction company that provides end-to-end solutions. The company assumes customer-focused responsibility for project development, commercialisation and construction. The product selection of Finnish business operations is comprised of residential, office and infrastructure construction. In Finland, SRV operates in the Greater Helsinki Area, Turku, Tampere, Oulu, Jyväskylä and Joensuu. The construction of business premises primarily comprises office and commercial premises, logistics facilities and rock construction. Housing construction comprises the developer contracting of housing and residential contracting for external clients.

INTERNATIONAL OPERATIONS

International Operations is specialised in the implementation of construction projects in Estonia and in Russia's regional centres as well as in developer construction of residential projects in selected markets. Business operations in Russia also includes facility management. The product range covers housing, office and commercial premises as well as logistics and industrial sites. The clientele consists primarily of Finnish and international companies expanding into this region as well as real-estate investors and consumers.

Operating segments derive the revenues from construction services.

Other operations include Group services and the services related to rental of construction equipment.

The geographical distribution of the Group's operations is in line with the operating segments. International Operations comprise the operations in Russia and in Estonia. The operations of other business segments comprise the operations in Finland.

Operating segment information

The amount reported for each operating segment is to be the measure reported internally to the chief operating decision maker (CODM, Chief Operating Decision Maker according to IFRS 8). The chief operating decision maker is the Corporate Chief Executive Officer assisted in decision making by the Corporate Executive Team. Internal management information reported is in accord with reported operating segment information.

In accordance with the IFRS 8 definition, the Group didn't have any significant individual customers during the year 2016. During the year 2015 Group had one.

2016 EUR 1,000	Operations in Finland	International Operations	Other	**Total**
Revenue, external	831,834	52,148	160	**884,142**
Business construction	559,481			
Housing construction	272,714			
Revenue, internal	361	206	15,782	**16,350**
Total	**832,195**	**52,354**	**15,942**	**900,492**
Operating profit	**38,267**	**-4,152**	**-6,442**	**27,674**
Segment's assets				
Non-current	121,449	169,027	270,612	**561,088**
Current				
Land areas and plot-owning companies	95,183	88,510	0	**183,692**
Work in progres	162,157	8,180	0	**170,336**
Shares in completed housing corporations and real estate companies	38,135	155	0	**38,290**
Other inventories	7,784	156	5	**7,946**
Inventories total	303,258	97,001	5	**400,264**
Other current assets	144,477	21,985	232,071	**398,533**
Total	**569,184**	**288,013**	**502,689**	**1,359,885**
Segment's liabilities				
Non-current	59,274	9,817	184,104	**253,195**
Current	294,598	166,093	95,714	**556,405**
Total	**353,872**	**175,910**	**279,819**	**809,600**
Invested capital				
At the end of period	333,001	250,824		**596,206**
Return on investment, %	12.0	0.9		**6.1**
Order backlog	**1,726,122**	**32,356**		**1,758,478**
Business construction	1,163,504			
Housing construction	562,618			

2015

EUR 1,000	Operations in Finland	International Operations	Other	Total
Revenue, external	653,578	64,878	607	**719,064**
Business construction	433,968			
Housing construction	220,098			
Revenue, internal	487	246	13,817	**14,550**
Total	**654,065**	**65,124**	**14,425**	**733,614**
Operating profit	**28,866**	**-110**	**-4,310**	**24,445**
Segment's assets				
Non-current	116,547	143,110	182,198	**441,856**
Current				
Land areas and plot-owning companies	116,652	67,980	0	**184,633**
Work in progress	99,432	2,418	0	**101,850**
Shares in completed housing corporations and real estate companies	37,602	500	0	**38,103**
Other inventories	6,913	5,071	5	**11,988**
Inventories total	260,600	75,969	5	**336,573**
Other current assets	126,312	26,679	241,936	**394,926**
Total	**503,459**	**245,758**	**424,139**	**1,173,356**
Segment's liabilities				
Non-current	87,532	6,914	81,402	**175,848**
Current	266,320	167,568	116,460	**550,348**
Total	**353,852**	**174,482**	**197,862**	**726,195**
Invested capital				
At the end of period	315,412	216,681		**543,015**
Return on investment, %	9.8	2.1		**5.9**
Order backlog	**1,506,246**	**77,132**		**1,583,378**
Business construction	952,255			
Housing construction	553,991			

Revenue

EUR 1,000	2016	2015
Segment's revenue	884,550	719,189
Revenue, others	15,942	14,425
Eliminations and other adjustments	-16,350	-14,550
Total	**884,142**	**719,064**

Operating profit

EUR 1,000	2016	2015
Segment's operating profit	34,115	28,756
Operating profit, others	-6,442	-4,310
Eliminations and other adjustments	0	0
Total	**27,674**	**24,445**

Assets

EUR 1,000	2016	2015
Segment's assets	857,196	749,216
Assets, others	502,689	424,139
Eliminations and other adjustments	-477,400	-410,738
Total	**882,485**	**762,617**

Liabilities

EUR 1,000	2016	2015
Segment's liabilities	529,782	528,334
Liabilities, others	279,819	197,862
Eliminations and other adjustments	-222,386	-240,765
Total	**587,214**	**485,431**

Order backlog

EUR 1,000	2016	2015
Order backlogs of the segments	1,758,478	1,583,378
Total	**1,758,478**	**1,583,378**

2 ACQUISITIONS

SRV Group did not acquire any significant new businesses in 2016 and the previous year.

3 DISPOSALS

SRV Group did not have significant disposals of businesses in 2016 and the previous year.

4 CONSTRUCTION CONTRACTS

2016

EUR 1,000	
Revenue recognised from construction contracts based on the percentage of completion	732,436
Revenue recognised from other construction projects upon delivery	144,607
Contract costs and profits at the end of financial year (less recognised losses) related to the work in progress	747,030

EUR 1,000	Total 2016	Cost incurred plus regognised profits	The sum of recognised losses and progress billings
The gross amount due from customers for contract work[1]	**31,476**		
Operations in Finland	29,803	287,367	257,564
International operations	1,673	1,646	-28
The gross amount due to customers for contract work[1]	**101,809**		
Operations in Finland	100,788	542,756	643,544
International operations	1,021	42,245	43,266

2015

EUR 1,000	
Revenue recognised from construction contracts based on the percentage of completion	619,489
Revenue recognised from other construction projects upon delivery	93,016
Contract costs and profits at the end of financial year (less recognised losses) related to the work in progress	553,330

EUR 1,000	Total 2015	Cost incurred plus regognised profits	The sum of recognised losses and progress billings
The gross amount due from customers for contract work[1]	**28,050**		
Operations in Finland	26,518	191,708	165,190
International operations	1,531	15,215	13,683
The gross amount due to customers for contract work[1]	**104,131**		
Operations in Finland	99,018	392,835	491,853
International operations	5,113	13,597	18,710

[1] The gross amount due from customers for contract work are disclosed in Note 23 Accounts and other receivables. Gross liabilities to customers are disclosed in Note 28, Other Liabilities, on the line Advance payments related to construction contracts

5 OTHER OPERATING INCOME

EUR 1,000	2016	2015
Capital gains on sales of property, plant and equipment and intangible assets	2	32
Rental income	1,109	1,542
Other income	995	236
Total	**2,106**	**1,810**

6 OTHER OPERATING EXPENSES

EUR 1,000	2016	2015
Rental expenses	2,668	2,779
Voluntary indirect personnel expenses	2,113	1,865
Car and travel expenses	901	954
Entertainment and marketing	1,341	1,002
Communications and IT	2,170	1,856
Other external services	1,890	1,253
Other fixed expenses	6,444	4,129
Currency forward deal	8,778	0
Total	**26,303**	**13,838**

Auditing fees

EUR 1,000	2016	2015
Audit	293	294
Auditors' statements	8	4
Tax services	22	7
Other services	67	141
Total	**390**	**446**

7 DEPRECIATION AND IMPAIRMENTS

EUR 1,000	2016	2015
Depreciation		
Intangible assets		
Other intangible assets	438	403
Property, plant and equipment		
Buildings and structures	648	724
Machinery and equipment	2,906	2,250
Other tangible assets	115	99
Impairment		
Impairment	2,526	0
Total	**6,633**	**3,477**

An impairment of EUR 2.5 million made for one project is directed at the International Operations segment.

8 EMPLOYEE-BENEFIT EXPENSES

EUR 1,000	2016	2015
Wages and salaries[1]	58,208	52,985
Pension expenses - defined contribution plans	10,470	9,497
Share-based incentive scheme	489	-939
Other indirect personnel expenses	3,865	3,087
Total	**73,031**	**64,628**

[1] Information on management's compensation as well as employee benefits is disclosed in Section Related party transactions. SRV Group has only defined contribution plans in connection with the pensions.

Average number of personnel	2016	2015
Operations in Finland	787	690
International Operations	210	224
Other	93	94
Total	**1,089**	**1,008**

Share-based incentive schemes

Grant year	2009[1]	2011[2]	2012[3]	2014[4]	2014[5]	Total
Reward principle	Employment	Employment	Set targets	Set targets	Employment	
Exercise price	4.80	6.81	-	-	3.14	
Dividend and right issue adjusted exercise price 31.12.2016*	4.00	4.59	-	-	2.61	
Subscrition period	2010–2016	2011–2016	2012–2013	2014–2016	2015–2020	
Total amount*	2,000,000	2,000,000	404,000	588,000	720,000	
Share incentives 1.1.2015	**800,000**	**771,000**	**0**	**553,000**	**600,000**	**2,724,000**
Additions	0	0	0	138,740	120,000	258,740
Share incentives used	0	0	0	5,000	0	5,000
Share incentives returned or expired	700,000	386,000	0	384,028	0	1,470,028
Share incentives 31.12.2015	**100,000**	**385,000**	**0**	**302,712**	**720,000**	**1,507,712**
Share incentives 1.1.2016	**100,000**	**385,000**	**0**	**302,712**	**720,000**	**1,507,712**
Additions	0	0	0	0	0	0
Share incentives used	100,000	0	0	0	288,000	388,000
Share incentives returned or expired	0	385,000	0	96,236	0	481,236
Share incentives 31.12.2016	**0**	**0**	**0**	**206,476**	**432,000**	**638,476**
IFRS-Costs 2015, EUR 1,000**	-196	-95	1,794	-309	-255	939
IFRS-Costs 2016, EUR 1,000**	0	0	0	-333	-156	-489
Shares granted based on incentives, 2015	0	0	0	5,000	-	5,000
Shares granted based on incentives, 2016	7,598	0	0	-	41,444	49,042

[1] On 15 December 2009, the Board of Directors of SRV decided on a long-term share-based incentive scheme that includes two key employees of the Group, one of whom is the CEO of the Group. The amount to be paid as a share bonus is based on the price development of SRV Group Plc's share. SRV Group Plc has decided that half of the bonus shall be paid as shares and half in cash. According to the terms of the scheme, half of the post-tax value of the rewards must be tied to SRV Group Plc shares and the shares are subject to a two-year transfer restriction. The bonus paid as shares in this share-based incentive scheme is valued at its value at the time of granting. Changes in value are recognised in the income statement over their effective period. Exercise price is not adjusted by dividends. The total recognized IFRS value of shares conveyed over the lifetime of incentive scheme will be approximately EUR 2.1 million with the addition of the cash payments.

[2] On 16 February 2011, SRV's Board of Directors decided on a new long-term share-based incentive scheme. The scheme will be in effect from 2011 to 2016 and the rewards are tied to the appreciation of the company's share. The scheme continues SRV's share-based incentive scheme for 2008–2010. The comparison price is the volume-weighted average price in January 2011, orginal EUR 6.81/share. Annually, the dividends paid will be deducted from the comparison price. A maximum total of 2 million reward rights will be granted to key employees. Rewards, if any, will be paid half in shares and half in cash. Any shares granted are subject to transfer restrictions and a commitment period. This share-based incentive scheme was valued using the Black & Scholes pricing model with a volatility of 33%. The total recognized IFRS value of shares conveyed over the lifetime of incentive scheme will be approximately EUR 2.0 million with the addition of the cash payments.

[3] On 4 September 2012, the Board of Directors decided on a new share-based incentive scheme for the Group's key personnel. The scheme covers 28 key SRV personnel. The scheme will be in effect from 2012 to 2013 and rewards are tied to Group's result and specific business indicators. The potential reward will be paid partly as shares in the company and partly in cash. The proportion to be paid in cash will cover taxes and tax-related costs arising from the reward. A maximum of 404,000 SRV Group shares will be granted to key employees. The theoretical market value is calculated by the Black & Scholes -model used for pricing options with the following criteria: share price EUR 3.60, risk-free interest rate 0.58% and volatility 37 per cent. If a key person's employment or service ends during said restriction period, he/she must return the shares rewarded under the scheme to the company without compensation. Restriction period ends by the end of 2015. The total recognized IFRS value of shares conveyed over the lifetime of incentive scheme will be approximately EUR 0.4 million with the addition of the cash payments.

[4] On 13 February 2014, the Board of Directors decided on a new share-based incentive scheme for the Group's key personnel. The scheme covers 26 key SRV personnel. The scheme will be in effect from 2014 to 2016 and rewards are tied to Group's result and specific business indicators. The potential reward will be paid partly as shares in the company and partly in cash. The proportion to be paid in cash will cover taxes and tax-related costs arising from the reward. A maximum of 558,000 SRV Group shares will be granted to key employees. The theoretical market value is calculated by the Black & Scholes -model used for pricing options with the following criteria: share price EUR 4.00, risk-free interest rate 0.86% and volatility 32 per cent. If a key person's employment or service ends during said restriction period, he/she must return the shares rewarded under the scheme to the company without compensation. The total recognized IFRS value of shares conveyed over the lifetime of incentive scheme will be approximately EUR 2.5 million with the addition of the cash payments.

[5] In December 2014, the Board of Directors of SRV decided on new CEO's, starting from the beginning of January 2015, long-term share-based incentive scheme. The scheme will be in effect from 2014 to 2022 and the reward is based on the price development of SRV Group Plc's share. The company's Board of Directors will make a decision on the manner of implementation each time separately According to the terms of the scheme, half of the post-tax value of the rewards must be tied to SRV Group Plc shares and the shares are subject to a two-year transfer restriction. The theoretical market value is calculated by the Black & Scholes -model used for pricing options with the following criteria: original share price EUR 3.12, reference share price EUR 3.1374, risk-free interest rate 0.37% and volatility 25 per cent. The total recognized IFRS value of shares conveyed over the lifetime of incentive scheme will be approximately EUR 0.5 million

The liabilities related to share-based payment transactions amounted to EUR 765 thousand (2016) and EUR 408 thousand (2015) in the consolidated financial statements.

*The Board of Directors of SRV Group Plc decided on 17 December 2015 to modify the company's share-based incentive scheme as a result of the rights issue implemented in September 2015. The purpose of the modifications is to assure that the value of the benefit remains unchanged for participants within the schemes.

** IFRS-Costs recognised in the income statement.

9 RESEARCH AND DEVELOPMENT EXPENSES

SRV Group's research and development costs attribute to the planning costs of the developer contracting projects and the development projects for which construction decision has not been made. These costs are recognised as an expense in the income statement.

10 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2016	2015
Financial income		
Interest income from loans and receivables	2,624	3,569
Foreign exchange gains	3,845	1,262
Other financial income	576	153
Total	**7,046**	**4,985**
Financial expenses		
Expenses for financial liabilities at amortised cost	-11,077	-6,110
Financial asset/liabilities at fair value	-4,677	-3,323
Other financial expenses	-2,615	-2,399
Total	**-18,368**	**-11,833**
Financial income and expenses, total	**-11,322**	**-6,848**

11 INCOME TAXES

Income taxes in the income statement

EUR 1,000	2016	2015
Current taxes	1,847	2,832
Taxes for previous financial years	-7	185
Other taxes	0	0
Deferred taxes	129	595
Total	**1,970**	**3,612**
Effective income tax rate	12.0%	20.5%

The income taxes in the consolidated income statement differ from the statutory income tax rate in Finland (20% in 2016 and in 2015) as follows:

Income tax reconciliation

EUR 1,000	2016	2015
Profit before taxes	**16,351**	**17,598**
Income taxes at statutory tax rate in Finland (20%)	3,270	3,520
Differing tax rates of foreign subsidiaries	-58	-4
Tax exempt income	-22	-216
Non-deductible expenses	511	549
Unrecognized and reversed tax losses	-242	-433
Taxes for previous financial years	-7	185
Share of profits of associated and joint venture companies	-1,482	13
Adjustments	0	0
Income taxes	**1,970**	**3,612**

Income taxes recognized in other comprehensive income

	2016			2015		
EUR 1,000	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Financial assets available for sale	-326	65	-261	528	-106	423
Total	**-326**	**65**	**-261**	**528**	**-106**	**423**

The income tax credited directly to equity

EUR 1,000	2016	2015
Hybrid Bond interest tax adjustment	1,289	846
Total	**1,289**	**846**

12 EARNINGS PER SHARE

EUR 1,000	2016	2015
Profit/loss for the year attributable to equity holders of the parent	13,863	13,984
Profit/loss for the year attributable to Hybrid Bond investors, tax adjusted	-5,088	-3,383
Profit/loss for the calculate the earnings per share	8,775	10,602

Number of shares	2016	2015
Weighted average number of shares outstanding, (1,000)[1]	59,349	42,616
Weighted average number of shares outstanding (diluted), (1,000)[1]	59,576	42,648
Earnings per share attributable to equity holders of the parent company, EUR per share[1]	**0.15**	**0.25**
Earnings per share attributable to equity holders of the parent company (diluted), EUR per share[1]	**0.15**	**0.25**

[1] Adjusted weighted number of shares, comparative data is share issue adjusted.

13 DIVIDEND PER SHARE

The dividends paid in 2016 was EUR 0.10 per share, totalling EUR 6.0 million. The dividends paid in 2015 was EUR 0.12 per share, totalling EUR 4.3 million. A dividend of EUR 0.10 per share will be proposed at the Annual General Meeting on 23 March 2017 corresponding to total dividends of EUR 6.0 million. This proposed dividend is not recorded as liability in the financial statements.

14 PROPERTY, PLANT, AND EQUIPMENT

2016

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Historical cost, 1 Jan.	**271**	**10,760**	**29,409**	**622**	**41,062**
Increases	0	227	5,084	44	**5,355**
Decreases	0	0	-118	-2	**-120**
Transfer	0	0	-1	0	**-1**
Foreign exchange differences	0	17	92	52	**161**
Historical cost, 31 Dec.	**271**	**11,004**	**34,466**	**716**	**46,457**
Accumulated depreciation and impairments, 1 Jan.	**0**	**-7,437**	**-22,721**	**-216**	**-30,374**
Depreciation	0	-648	-2,906	-115	**-3,669**
Accumulated depreciations of decreases	0	0	-89	-11	**-99**
Foreign exchange differences	0	-246	-135	-30	**-412**
Transfer	0	0	50	0	**50**
Accumulated depreciation and impairments, 31 Dec.	**0**	**-8,331**	**-25,801**	**-371**	**-34,504**
Carrying amount, 31 Dec.	**271**	**2,673**	**8,665**	**344**	**11,954**

2015

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Historical cost, 1 Jan.	**272**	**10,825**	**27,116**	**459**	**38,672**
Increases	0	0	2,348	173	**2,522**
Decreases	0	0	-22	-3	**-25**
Transfer	0	0	3	0	**3**
Foreign exchange differences	-1	-65	-37	-7	**-110**
Historical cost, 31 Dec.	271	10,760	29,409	622	**41,062**
Accumulated depreciation and impairments, 1 Jan.	**0**	**-6,717**	**-20,507**	**-112**	**-27,336**
Depreciation	0	-724	-2,250	-99	**-3,073**
Accumulated depreciations of decreases	0	0	11	-2	**9**
Foreign exchange differences	0	5	38	0	**43**
Transfer	0	0	-14	-3	**-16**
Accumulated depreciation and impairments, 31 Dec.	**0**	**-7,437**	**-22,721**	**-216**	**-30,374**
Carrying amount, 31 Dec.	**271**	**3,323**	**6,687**	**407**	**10,688**

SRV Group had no significant value of finance lease agreements in 2016 and 2015.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

2016

EUR 1,000	Intangible rights	Goodwill	Other intangible assets	Total
Historical cost, 1 Jan.	759	1,734	2,502	4,994
Foreign exchange differences	0	0	5	5
Increases	102	0	375	477
Decreases	0	0	-15	-15
Historical cost, 31 Dec.	861	1,734	2,866	5,461
Accumulated amortisation, 1 Jan.	-503	0	-898	-1,401
Amortisation	-2	0	-436	-438
Accumulated depreciations of decreases	0	0	4	3
Foreign exchange differences	-5	0	0	-5
Accumulated amortisation, 31 Dec.	-510	0	-1,330	-1,841
Carrying amount, 31 Dec.	351	1,734	1,536	3,621

2015

EUR 1,000	Intangible rights	Goodwill	Other intangible assets	Total
Historical cost, 1 Jan.	734	1,734	978	3,446
Foreign exchange differences	18	0	-7	11
Increases	7	0	1,561	1,568
Decreases	0	0	-30	-30
Historical cost, 31 Dec.	759	1,734	2,502	4,995
Accumulated amortisation, 1 Jan.	-481	0	-492	-973
Foreign exchange differences	-20	0	-5	-25
Amortisation	-2	0	-402	-403
Accumulated amortisation, 31 Dec.	-503	0	-898	-1,402
Carrying amount, 31 Dec.	256	1,734	1,603	3,593

SRV Group's goodwill is allocated to operating segments and to cash-generating units as follows:

Goodwill

EUR 1,000	2016	2015
Operations in Finland		
SRV Rakennus Oy	1,734	1,734
Total	1,734	1,734

Impairment test

The recoverable amount of cash-generating units is based on value in use calculation model in which cash flows are based on base year figures
and on business units growing cash flows for the next 5 years strategy period.

On 2 February 2017, SRV's Board of Directors confirmed the Group's strategic goals for the years 2017–2020, as follows:

- With large-scale projects, the company will seek to outpace the growth of the industry during the strategy period.
- The operating margin will rise to more than 8 per cent by the end of the strategy period.
- The return on equity will be at least 15 per cent by the end of the strategy period.
- The return on investment will rise to at least 12 per cent by the end of the strategy period.
- The equity ratio will be kept at over 35 per cent.
- Steady dividend payments equalling 30–50 per cent of the annual result, taking into account the capital needs of business operations.

In the impairment test of goodwill performed in December 2016, a growth factor of 2 per cent was used and it does not exceed the actual long-term growth of the business. The main factors in impairment test are operating profit margin and discount factor. The discount factor used is the latest weighted average cost of capital (WACC) pre-tax. In the value in use calculation a WACC of 9.3 per cent was used. The calculation parameters of WACC are risk-free interest rate, market risk and company specific premium, industry specific beta, the cost of liabilities and equity ratio.

The recoverable amount exceeded the carrying amounts significantly in all cash-generating unit with goodwill. According to the impairment tests there were no need for impairments.

Sensitivity analysis

The performed sensitivity analysis does not cause impairments for cash-generating units when using moderate changes in default factors.

16 FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES

2016

EUR 1,000	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial asset							
Long-term interest bearing receivables	0	36	0	0	36	36	19
Loan receivables from associated companies and joint ventures	0	55,896	0	0	55,896	55,896	22
Other financial assets	0	0	13,913	0	13,913	13,913	18
Current financial assets				0			
Accounts receivables	0	49,995	0	0	49,995	49,995	23,29
Construction contracts receivables	0	31,476	0	0	31,476	31,476	23
Other interest bearing receivables	0	5	0	0	5	5	23
Derivative instruments	0	0	0	0	0	0	30
Loan receivables from associated companies and joint ventures	0	1,100	0	0	1,100	1,100	22
Cash and cash equivalents	0	54,583	0	0	54,583	54,583	24
Total	0	193,091	13,913	0	207,003	207,003	
Non-current financial liabilities							
Interest bearing liabilities	0	0	0	227,191	227,191	229,540	27
Derivative instruments	12,390	0	0	0	12,390	12,390	31
Other non-current liabilities	0	0	0	14,002	14,002	14,002	28
Current financial liabilities							
Interest bearing liabilities	0	0	0	73,741	73,741	73,741	27
Accounts payables	0	0	0	0	62,703	62,703	28
Total	12,390	0	0	314,935	390,028	392,377	

2015

EUR 1,000	Financial assets and liabilities at fair value through profit and loss	Loans and receivables	Available-for-sale financial assets	Financial liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
Non-current financial asset							
Long-term interest bearing receivables	0	656	0	0	**656**	**656**	19
Loan receivables from associated companies and joint ventures	0	31,240	0	0	**31,240**	**31,240**	22
Other financial assets	0	0	11,741	0	**11,741**	**11,741**	18
Current financial assets							
Accounts receivables	0	43,187	0	0	**43,187**	**43,187**	23, 29
Construction contracts receivables	0	28,049	0	0	**28,049**	**28,049**	23
Other interest bearing receivables	0	21	0	0	**21**	**21**	23
Derivative instruments	0		0	0	**0**	**0**	30
Loan receivables from associated companies and joint ventures	0	5,600	0	0	**5,600**	**5,600**	22
Cash and cash equivalents	0	35,026	0	0	**35,026**	**35,026**	24
Total	**0**	**143,779**	**11,741**	**0**	**155,520**	**155,520**	
Non-current financial liabilities							
Interest bearing liabilities	0	0	0	163,198	**163,198**	**165,547**	27
Derivative instruments	3,323	0	0	0	**3,323**	**3,323**	31
Other non-current liabilities	0	0	0	3,988	**3,988**	**9,888**	28
Current financial liabilities							
Interest bearing liabilities	0	0	0	102,629	**102,629**	**102,629**	27
Accounts payables	0	0	0	0	**44,210**	**44,210**	28
Total	**3,323**	**0**	**0**	**269,814**	**317,347**	**325,597**	

Carrying amounts do not differ substantially from Fair value excluded bonds.
The fair value of a bond is based on discounted cash flows. Interest by means of which the Group would obtain a corresponding external loan on the ending date of the reporting period is used as the discount rate.
Price quotations are used to determine the fair value of derivatives. These price quotations are based on predominant market circumstances and generally accepted pricing models.
Carrying amounts of financial assets represent the maximum amount of credit risk at the balance sheet date.

17 SHARES IN ASSOCIATED AND JOINT VENTURE COMPANIES

Shares in associated and joint venture companies

EUR 1,000	2016	2015
Shares in associated companies	75,501	81,089
Shares in joint venture companies	135,953	125,558
Total	**211,454**	**206,647**

Shares in associated and joint venture companies are investments into construction projects together with other investors.

Information about the substantial associated companies

	Domicile	Direct ownership (%)	
Name		2016	2015
Jupiter Realty 1 B.V	Netherlands	45	45

The associated company is investing into Okhta Mall project in St Petersburg. SRV is investing into the project also through partnership in Russia Invest.

Information about the substantial joint venture companies

	Domicile	Direct ownership (%)	
Name		2016	2015
Netherland Pearl Plaza B.V	Netherlands	50	50
KSK Redi Ky	Finland	40	40
KSK Parking I Ky	Finland	40	40

Netherland Pearl Plaza B.V the joint venture company is investing into Pearl Plaza project in St Petersburg. REDI joint venture companies are investing in construction of Helsinki Kalasatama shopping center and parking facility.

Financial information about the substantial associated and joint venture companies

	Jupiter Realty 1 B.V		Netherland Pearl Plaza B.V		REDI	
EUR 1,000	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	-	-	2,401	2,427	10,408	9,512
Other short term assets	17,498	28,604	2,867	3,981	11,748	9,057
Short term assest	**17,498**	**28,604**	**5,268**	**6,408**	**22,157**	**18,569**
Long term assets	**198,165**	**128,497**	**171,355**	**153,197**	**255,711**	**157,298**
Long term liabilities	**23,856**	**6,522**	**14,506**	**16,222**	**1,810**	**5,230**
Long term financial liabilities	-	-	94,278	95,000	36,726	21,855
Long term liabilities	110,470	82,272	-	-	-	-
Other long term liabilities	**110,470**	**82,272**	**94,278**	**95,000**	**36,726**	**21,855**
Net sales	0	0	17,309	17,223	0	0
Depreciation	-	-	-3,563	-1,538	0	0
Interest income	-	-	0	55	3	3
Interest expenses	-	-	-5,293	-5,660	-8	-32
Income taxes	-	-	-2,685	-1,479	370	157
Profit for the financial period	1,042	-1,553	12,451	790	-1,479	-629
The reconciliation of the associated companies financial information to Group's book value:						
Group's ownership-%	45	45	50	50	40	40
Group's share of net assets	36,602	30,738	33,920	24,191	96,307	59,870
Adjustment to purchase price of associated companies	15,381	15,381	-	-	853	853
SRV's front-loaded equity investments[1]	-	-	-	-	-	37,032
The balance sheet value of the associated companies in Group balance sheet	51,983	46,119	33,920	24,191	97,160	97,755

[1] SRV's equity investments are front-loaded in relation to investments by other equity investors.

Summary of financial information

	Other associated companies		Other joint venture companies	
	2016	2015	2016	2015
The Group's share of the profit	154	263	1,155	233
The total book value in Group's balance sheet	23,518	34,970	4,873	3,612

18 OTHER FINANCIAL ASSETS

Other financial assets may include quoted or unquoted shares, which are classified as available-for-sale financial assets. The valuation methods and the fair value hierarchy of the available-for-sale financial assests are presented in note 29.

EUR 1,000	2016	2015
Opening balance at 1 Jan. 2016	**11,741**	**9,250**
Increases	1,882	3,046
Decreases	-36	-26
Amount of available-for-sale financial assets, transferred into the income statement	326	-528
Closing balance, 31 Dec. 2016	**13,913**	**11,741**
Non-current	13,913	11,741
Current	0	0
Unquoted shares	13,913	11,741

19 RECEIVABLES

EUR 1,000	Carrying amount 2016	Carrying amount 2015
Non-current receivables		
Loan receivables	36	656
Total	**36**	**656**

20 DEFERRED TAX ASSETS AND LIABILITIES

2016

EUR 1,000	1 Jan.	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Exchange rate difference	31 Dec.
Deferred tax assets						
Tax losses	2,690	2,120	0	0	0	4,809
Employee-benefits	15	1	0	0	0	16
Unrealised losses of financial instruments	349	5	-65	0	0	289
Accrual differences in developer contracting	2,237	-588	0	0	0	1,649
The fair value of derivatives	665	-665	0	0	0	0
Other temporary differences	1,344	856	0	73	167	2,439
Total	**7,298**	**1,729**	**-65**	**73**	**167**	**9,202**
Deferred tax liabilities						
Borrowing costs	1,257	-87	0	0	0	1,169
Other temporary differences	1,087	1,946	0	0	0	3,032
Total	**2,344**	**1,859**	**0**	**0**	**0**	**4,202**
Net deferred taxes	**4,954**	**-129**	**-65**	**73**	**167**	**5,000**

2015

EUR 1,000	1 Jan.	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Exchange rate difference	31 Dec.
Deferred tax assets						
Tax losses	3,375	-685	0	0	0	2,690
Employee-benefit	170	-155	0	0	0	15
Unrealised losses of financial instruments	243	0	106	0	0	349
Accrual differences in developer contracting	2,834	-597	0	0	0	2,237
The fair value of derivatives	0	665	0	0	0	665
Other temporary differences	332	995	0	0	17	1,344
Total	**6,954**	**222**	**106**	**0**	**17**	**7,298**
Deferred tax liabilities						
Borrowing costs	1,070	187	0	0	0	1,257
Other temporary differences	477	629	0	0	-20	1,087
Total	**1,548**	**816**	**0**	**0**	**-20**	**2,344**
Net deferred taxes	**5,406**	**-595**	**106**	**0**	**37**	**4,954**

The Group's accumulated losses for which no deferred tax assets have been recognised were 4.6 million euros (4.4 million euros) because realisation of the tax benefit is not considered probable.

The deferred tax liability has been recognised in the consolidated financial statements in connection with for the undistributed profits of subsidiaries whose income tax is determined on the basis of profit distribution. The deferred tax liability has not been recognised when Group is able to control the timing of profit distribution and the distribution is not probable at the balance sheet date.

21 INVENTORIES

EUR 1,000	2016	2015
Raw materials and consumables	139	2,226
Work in progress	170,336	101,850
Land areas and plot-owning companies	183,692	187,472
Shares in completed housing corporations and real estate companies	38,290	38,103
Advance payments	7,469	6,550
Other inventories	337	373
Inventories, total	**400,264**	**336,573**

During the financial year capitalized interests the amount of which was EUR 2.0 million (2015: EUR 1.6 million) was included in the value of work in progress. The capitalisation rate used was 4,5% on average. The carrying amount of completed inventories used as security for loans in 2016 amounted to EUR 31.6 million (2015 EUR 31.3 million) and the carrying amount of inventories under construction in 2016 was EUR 35.4 million (2015 EUR 87.0 million).

During the financial year 2016 there was impairment losses in shares in completed housing companies for 162 thousand euros and in land-areas and plot owning companies for 738 thousand euros. During the financial year 2015 there was impairment losses for land areas for EUR 269 thousand and for shares in completed housing corporations for 188 thousand EUR.

OOO Olgino-4 and SRV Espoon Perkkaantalo Oy were transferred from fixed assets, shares in associated companies into subsidiaries, when the company obtained control in these companies.

22 LOAN RECEIVABLES FROM ASSOCIATED COMPANIES AND JOINT VENTURES

EUR 1,000	2016	2015
Long term loan receivables from associated companies	31,240	29,953
Increases	15,713	3,672
Decreases	-6,057	-2,385
	40,896	**31,240**
Long term loan receivables from joint ventures	-	-
Increases	15,000	-
Decreases	0	-
	15,000	-
Short term loan receivables from joint ventures	5,600	1,100
Increases	0	4,500
Decreases	-4,500	0
	1,100	**5,600**

23 ACCOUNTS AND OTHER RECEIVABLES

EUR 1,000	Carrying amount 2016	Carrying amount 2015
Accounts receivables	49,995	43,187
Loan receivables	5	21
Gross amount due from customers related to construction contracts	31,476	28,049
Accrued income and prepaid expenses	31,841	37,758
Other receivables	3,263	2,931
Total	**116,579**	**111,947**
Interest bearing receivables	5	21
Non-interest bearing receivables	116,574	111,925
Total	**116,579**	**111,947**

Carrying amount does not substantially differ from fair value In 2016 the Group's accounts receivables were on average EUR 47 million. The accounts receivables are non-interest bearing and they are normally about 21 days by age.

24 CASH AND CASH EQUIVALENTS

EUR 1,000	2016	2015
Cash and cash equivalents	54,583	35,026
Total	**54,583**	**35,026**

25 EQUITY

Share capital, share premium reserve and invested free equity fund

EUR 1,000	Number of shares	Share capital	Invested free equity fund
1 Jan. 2015	**35,593,161**	**3,063**	**92,267**
Return of treasury shares	-3,810	0	0
Transfer of treasury shares	5,000	0	356
Share issue	23,731,107	0	48,562
31 Dec. 2015	**59,325,458**	**3,063**	**141,185**
1 Jan. 2016	**59,325,458**	**3,063**	**141,185**
Return of treasury shares	0	0	-3
Transfer of treasury shares	49,042	0	22
Share issue	0	0	302
31 Dec. 2016	**59,374,500**	**3,063**	**141,506**

Shares, share capital and share premium reserve

On 31 December 2016, the total number of SRV Group Plc's shares outstanding was 59,374,500 and the share capital amounted to EUR 3,062,520. The share has no nominal value and the total number of shares is 60,499,575.

The Annual General Meeting of SRV Group Plc authorised on 22 March 2016 the Board of Directors to acquire the company's own shares (treasury shares) using the company's non-restricted equity. A maximum of 6,049,957 own shares, or a lower amount that, in addition to the shares already owned by the company and its subsidiaries, is less than 10 per cent of all shares, may be acquired on the basis of the authorization. The authorisation includes the right to acquire own shares in proportion other than the holdings of the shareholders. The authorisation is in force for five years from the decision of the Meeting.

The company's own shares can be acquired among others in order to be used as part of the company's incentive programs, as payment in corporate acquisitions or when the company acquires assets relating to its business.

At the end of December there were 1,125,075 own shares in Group´s possession.

Invested free equity fund

Invested free equity fund consists of the net proceeds from the Offering of SRV Group Plc reduced by the cost related to share issue as well as received and cancelled SRV shares. Invested free equity fund includes also the share subscription of own shares conveyance.

Translation difference

Translation difference comprises the differences of the translation of financial statetements of the foreign subsidiaries to the functional currency of the parent company.

Fair value reserve

Fair value reserve comprises of the cumulative changes in available-for-sale financial assets.

Hybrid bond

Shareholders' equity includes a EUR 45 million hybrid bond issued in 2016. The bond coupon is 8.75 per cent per year. The bond has no maturity date, but the company has the right to redeem it four years after the date of issue. The hybrid bond is unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights.

Dividends

After the balance sheet date, the Board of Directors proposed a dividend of EUR 0.10 per share.

26 PROVISIONS

2016

EUR 1,000	Warranty provisions	10-year warranty	Other provisions for construction contracts	Other provisions	Total
1 Jan.	**5,926**	**4,871**	**280**	**0**	**11,077**
Currency exchange differences	11	0	32	0	43
Increase in provisions	5,107	1,317	175	0	6,599
Provisions used	-2,522	-207	-145	0	-2,874
Reversals of unused provisions	-209	0	0	0	-209
31 Dec.	**8,313**	**5,981**	**341**	**0**	**14,635**
Non-current	3,539	4,187	73	0	7,799
Current	4,774	1,794	268	0	6,836
Total	**8,313**	**5,981**	**341**	**0**	**14,635**

2015

EUR 1,000	Warranty provisions	10-year warranty	Other provisions for construction contracts	Other provisions	Total
1 Jan.	**6,169**	**4,057**	**271**	**0**	**10,497**
Currency exchange differences	0	0	-22	0	-22
Increase in provisions	2,432	821	156	0	3,409
Provisions used	-2,674	-8	-124	0	-2,806
Reversals of unused provisions	0	0	0	0	0
31 Dec.	**5,926**	**4,871**	**280**	**0**	**11,076**
Non-current	2,773	3,410	114	0	6,297
Current	3,153	1,461	165	0	4,779
Total	**5,926**	**4,871**	**280**	**0**	**11,076**

Other provisions for construction contracts include warranty for potential disputes and other provisions for construction contracts. The level of the construction industry's 10-year warranty provision is based on index-adjusted historical information or the estimated total costs of certain individual projects.

27 INTEREST-BEARING LIABILITIES

EUR 1,000	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Non-current				
Loans from financial institutions	11,009	11,009	29,452	29,452
Bonds	174,289	193,578	75,000	77,349
Housing corporation loans	41,893	41,893	58,858	58,858
Total	**227,191**	**246,480**	**163,311**	**165,660**

EUR 1,000	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Current				
Loans from financial institutions	22,510	22,510	16,579	16,579
Commercial papers	51,000	51,000	86,000	86,000
Housing corporation loans	231	231	50	50
Total	**73,741**	**73,741**	**102,629**	**102,629**

Carrying amounts do not differ substantially from Fair value excluded bonds. The fair value of a bond is based on discounted cash flows. Interest by means of which the Group would obtain a corresponding external loan on the ending date of the reporting period is used as the discount rate.

28 OTHER LIABILITIES

EUR 1,000	Carrying amount 2016	Carrying amount 2015
Non-current		
Derivative liabilities	8,000	3,323
Other liabilities	6,002	664
Total	**14,002**	**3,988**
Current		
Accounts payables	62,703	44,210
Advance payments related to construction contracts	101,809	104,130
Other advance payments	9,533	6,473
Other current liabilities	46,561	27,761
Accrued expenses and prepaid income	32,803	18,800
Total	**253,408**	**201,374**
Accrued expenses and prepaid income		
Wages and salaries and related expenses	11,573	10,133
Interest and other financial liabilities	5,542	262
Periodisations of project expenses	14,547	7,560
Other	1,141	845
Total	**32,803**	**18,800**

29 FINANCIAL RISK MANAGEMENT

SRV Group is exposed to several financial risks in its business operations. The most significant financial risks are related to interest, currency, liquidity and credit. The management of the Group's financial risks is concentrated in the Group's finance department. The management of financial risks is implemented in accordance with the financial policies approved by the Board of Directors. The financial policy is updated as required to respond to changes in the marketplace. The objective of the management of the Group's financial risks is to reduce the uncertainty that the financial markets incur on the financial result of the Group.

Interest rate risks

The cash flows and fair values of the Group's debts and receivables subject to interest are susceptible to changes in interest rates. Interest rate risk is composed primarily of the short- and long-term loans connected with the funding of business operations as well as receivables sold to financing companies. The majority of the Group's credit is obtained for project-specific financing requirements. Construction period financing is typically either re-financed or paid off at the time of completion. The Group can assume long-term debt at both a variable and fixed interest rate. The weighted average interest rate respective to the entire loan portfolio when the accounts were closed was 3.4%. Euribor is primarily the reference rate of variable interest loans.

Interest rate risk is monitored and measured from the perspective of the income statement by means of gap analysis as well as via the average interest rate linkage period. Interest rate risk is managed by changing the ratio of variable and fixed interest debts in the loan portfolio. The proportion of fixed-interest loans in the entire loan portfolio (contains off-balance sheet receivables sold to banks and financing companies) when the accounts were closed was 54%. Interest rate risk is also managed by interest period selection or by changing the content of the loan portfolio afterwards via derivatives. SRV Group Plc signed two interest rate swap contracts totaling 100 milj. euro in 2015. Swaping of interest started in July 2016 and both contracts mature in 2025. By means of derivatives, protection is sought from market interest rate changes, and changes in the fair value of interest rate derivatives are entered into financial returns or expenditures for the financial year during which they occur. The fair values for derivatives correspond to the prices that the Group would be required to pay or would obtain if it were to dissolve the derivative agreement. Price quotations are used to determine the fair value of interest rate derivatives. These price quotations are based on predominant market circumstances and generally accepted pricing models. Hedge accounting has not been applied to interest rate derivatives used in 2016 and 2015. The effect of fair valuation of interest rate swaps would have been 8,3 milj. euro on the profit of the period when interest rates rise one percent. If interest rates decrease one percentage the effect on the profit of the period would have been -9,2 milj. euro. General interest rate change also has direct impacts on the investment decisions of the Group's customers and, via the same, cash flows from Group business operations.

The accompanying sensitivity analysis compliant with IFRS7 contains variable interest rate financial debts and receivables in which there is an interest rate inspection during the next 12 months, in accordance with the closing balance sheet. Variable interest rate financial debts are composed

2016						2015	
EUR 1,000	Interest risk position	Average interest rate	Average maturity, months	Sensitivity EUR[1] -1%	+1%	Carrying amount	Sensitivity, EUR
Debt, floating rate	-193,678	1.59%	4.1	877	-877	-132,618	-656
Derivatives	100,000	-0,17%[2]	6.4	-958	958	0	0
Receivables	15,000	2.93%	3.0	-125	125	0	0
	-78,678			**-206**	**206**		

[1] Effect of one percentage point in market interest rates on the Group's interest expenses and revenue during the next 12 months. All other variables assumed unchanged.
[2] Interest rate swap contracts first interest fix was in July 2016. Forward rates have been used to predict fixing date interest rates.

of project-specific company loans and variable interest rate loans related to the Group's general financing. Sensitivity analysis for financial debts contains off-balance sheet receivables sold to banks and financing companies in the amount of MEUR 123.4. Variable interest rate receivables consist of loans given to joint venture companies. The sensitivity analysis also includes interest rate derivatives that started during 2016.

Currency Risks

The Group is exposed to currency risks relating to the international business' commercial cash flows, financing of the ongoing projects during the construction period and equity and other investments in foreign subsidiaries, associated companies and project companies. The most significant currency to pose currency risk in 2016 was the Russian ruble. The foreign subsidiaries are, in accordance with the Group's financial policies, responsible for identifying and reporting currency risks connected with currency-based cash flows to the finance department. The objective of currency risk management is to minimise the effect of currency fluctuation on earnings and equity. Open positions can be hedged with derivatives or currency loans according to Group financing policy. At the end of year 2016 there were open currency hedge instruments. On the closing date, the Group had short-term foreign exchange forward contracts, hedging against currency risk, with capital totalling EUR 37 million and maturity date in January 2017.

Currency risks are divided into transaction risk and translation risk. Transaction risk relates to business (sales and purchases) and financing (loans) cash flows in non-functional currencies. Translation risk relates to investments in foreign subsidiaries and project companies and the effect is shown in translation differences in Group consolidated equity. The Group is exposed to RUB risk in those entities where the operational currency is not euro. During 2016 the operational currency of all SRV's Russian associated and joint venture companies was changed to RUB. The change was caused by the lease terms in SRV's Russian shopping centre's shifting mostly to RUB. Currency risk is also present in project financing in Russia as the value of project collateral can be affected by changes in the currency. Declining project collateral value can lead to a need for additional collateral or re-negotiation of loan terms and amounts.

Sensitivity to currency fluctuation

The change in foreign exchange rates increased the value of the Group's net investments in equity by EUR 15,2 million compared to the end of the previous year. A ten per cent weakening or strengthening of the rouble against the euro at the closing date would have had an impact of about EUR 13 million on the Group's equity translation differences. SRV's transaction risk largely comprises the foreign currency-denominated loans of associated companies that are partly owned by SRV. Changes in these would correspondingly have had an impact of about EUR 14 million on SRV's financial result.

Foreign currency denominated capital employed at the balance sheet date

EUR 1,000	**2016**	2015
Ruble	234,670	200,689
Total	**234,670**	**200,689**

Liquidity and Refinancing risks

Liquidity and refinancing risk may have an impact on Group result, cash flow and developer contracting projects if the Group is not able to secure sufficient financing for the operations. The Group maintains adequate liquidity by efficient cash management and related instruments, like committed current account overdraft limits (EUR 22 million). Financing for developer contracting projects is secured by sales process, project loans and use of general liquidity reserves. Project receivables are also sold to banks and financing companies as a part of liquidity management when needed. The Group has a long-term committed Revolving Credit Facility (EUR 100 million) and in addition to that an uncommitted Commercial Paper Programme (EUR 100 million) for short-term financing needs. Refinancing risk is managed by maintaining the maturity of the commited credit lines in relation to the cash flows of debt payments. At the end of December 2016 the amount of commited undrawn credit lines and cash in hand and in bank accounts amounted to EUR 224.1 million, of which Group's cash assets were amounting to EUR 54.6 million, and open-ended account limits and committed undrawn financing reserves to EUR 169.5 million.

The total amount of accounts receivable and undrawn project loans in SRV's housing and business developer contracting projects was EUR 137.3 million. SRV estimates that total cost to finish these projects is EUR 129 million. The equity ratio, liquidity and the interest coverage ratio covenant are the Group's financial covenants. The equity ratio is also reported as a statistical parameter based on percentage of completion. Liquidity refers to the Group's immediately available cash, cash equivalents and deposits, committed limits and non-drawn loans in which the maturity period exceeds 12 months, as well as the non-drawn share of the revolving credit facility.

Financial liabilities

2016

EUR 1,000	Carrying amount	Contractual liability[1]	Maturity 2017	2018	2019	2020	later
Bonds	174,289	216,875	10,625	85,625	6,875	6,875	106,875
Loans from financial institutions[2]	33,519	28,194	22,109	5,802	0	181	103
Housing loans[3]	42,125	60,051	929	3,320	3,248	1,326	51,227
Commercial Papers	51,000	51,000	51,000	0	0	0	0
Other liabilities	5,961	5,961	5,961	0	0	0	0
Derivative liabilities[4]	12,390	12,390	5,949	1,534	1,422	1,259	2,226
Accounts payables	62,703	62,703	62,703	0	0	0	0
Investment commitment[5]	31,186	31,184	3,161	2,293	2,482	2,671	20,577
Total	**413,173**	**468,358**	**162,437**	**98,574**	**14,027**	**12,312**	**181,008**

2015

EUR 1,000	Carrying amount	Contractual liability[1]	Maturity 2016	2017	2018	2019	later
Bonds	74,887	86,250	3,750	3,750	78,750	0	0
Loans from financial institutions[2]	46,031	56,134	22,987	23,445	9,702	0	0
Housing loans[3]	58,858	77,237	907	1,407	1,537	1,699	71,687
Commercial Papers	86,000	86,000	86,000	0	0	0	0
Other liabilities	2	2	2	0	0	0	0
Derivative liabilities[4]	3,324	3,324	672	1,367	1,117	800	-631
Accounts payables	44,210	44,210	44,210	0	0	0	0
Investment commitment[5]	47,614	47,614	17,634	2,125	2,293	2,482	23,080
Total	**360,926**	**400,771**	**176,162**	**32,094**	**93,399**	**4,981**	**94,136**

[1] Includes all contractual payments, e.g. interest and commitment fees.
[2] Commmitted current account overdrafts are assumed to expire 2017.
[3] Loan and interest payment liability is noted for the full contractual amount until the completion of the property and thereafter in proportion of the sales rate.
[4] Price quotations are used to determine the fair value of derivatives.
[5] Off-balance sheet liability.

Available liquidity reserves

EUR 1,000	**31 Dec. 2016**	31 Dec. 2015
Committed credit facility	100,000	100,000
Committed current account overdraft limits	22,000	22,100
Cash and cash equivalents	54,583	35,026
Total	**176,583**	**157,126**

In addition to the above the Group has EUR 47,5 million of undrawn housing loans and other project financing facilities available for ongoing projects.

Credit risk

The Group is exposed to credit risk relating to receivables from ongoing projects, accounts receivables, loan receivables, cash investments and receivables from derivative instrument counterparties. The Group does not have any significant investment activities. The investments relate to daily cash management and are mainly short-term bank deposits with the Group's relationship banks. The Group Treasury unit is responsible for investment and derivative instrument counterparty risks in accordance with the Group financing policy approved by the Board of Directors. Business units are responsible for credit risk management relating to ongoing projects and accounts receivables in accordance with the Group credit policy which defines the requirements for credit decision process, sales terms and collection process. The Group's commercial counterparties are mainly publicly listed companies or notable institutional- and property investors. In Housing business there are mainly individuals as buyers of completed apartments. The same Group credit policy principles are applied to tenant selection. Tenants are usually required to deposit a guarantee payment equivalent to two months rent. The loan receivables relate to financing the construction period for ongoing projects where the Group also has an equity interest.

SRV's revenue is generated by construction projects, and the company's result depends on the profitability of individual projects as well as their progress. Competition for new orders in the construction sector is fierce, which may affect the volume and profitability of SRV's new order backlog. Contracts concerning construction have a significant value. Agreements set specific terms and schedules for the agreed parties concerning achievement of set targets and adhering to agreed procedures. In particular, execution of additional works and variations may involve financial risks that grow when the economic situation is poor. Contract receivables may involve additional and alteration works involving customer complaints or disputes concerning the payment obligations of the client. Based on the business operation directors' estimations adequate provisions have been made and receivables don't include need for depreciations. If the project parties cannot agree on payment obligations during the final financial review, the company may have to enter into legal proceedings against the client.

The outcomes of legal proceedings involve uncertainties. It is also impossible to precisely assess the time required by court procedures owing to disputes. In 2013 SRV initiated a legal process against Auroratalo Oy and HDL-Talot Oy, connected with payment liability for construction costs in the renovation and new construction contract on the Auroratalo building. The amount of SRV's claim is approximately MEUR 3.6 (VAT 0%). SRV's management believes that this case and its outcome will not significantly affect SRV's financial position.

Ageing of accounts receivables

EUR 1,000	2016	2015
Current	37,207	32,224
1–30 days past due	4,551	4,009
31–60 days past due	340	27
61–90 days past due	89	124
91–180 days past due	3,659	86
181–360 day past due	23	462
Over 361 days past due[1]	4,125	6,253
Total	**49,995**	**43,187**

[1] Includes accounts receivables from disputes which are specified in section credit risk.

There were no past due receivables in other group financial assets.
Accounts receivables do not contain provisions for credit losses.

Fair value hierarchy of financial assets and liabilities

Financial assets at fair value through profit or loss

There were no financial assets at fair value through profit or loss at 31.12.2016 or 31.12.2015.

Derivative financial instruments at fair value through profit or loss

EUR million	Level 1	Level 2	Level 3	Total
31 Dec. 2016				
Derivative financial assets	0	0	0	**0**
Derivative financial liabilities	0	12.4	0	**12.4**
31 Dec. 2015				
Derivative financial assets	0	0	0	**0**
Derivative financial liabilities	0	3.3	0	**3.3**

Available-for-sale financial assets

EUR million	Level 1	Level 2	Level 3	Total
31 Dec. 2016				
Unlisted shares	0	0.5	13.4	**13.9**
31 Dec. 2015				
Unlisted shares	0	0.5	11.3	**11.7**

Level 1 instruments are traded in active markets and their fair values are directly based on the market price. The fair values of level 2 instruments are derived from market data. The fair values of level 3 instruments are not based on observable market data but on amortised cost, quotations provided by brokers and market valuation reports.

Unlisted shares and investments consist mainly of investments in leasure facilites, which are used by SRV's employees (level 2) and of investments in and related to real estate funds (level 3).

The table below presents movements in level 3 instruments for 2016

EUR million	Unquoted shares and holdings
Opening balance at 1 Jan. 2016	11.3
Increases	1.8
Decreases	0.0
Amount of available-for-sale financial assets, transferred into the income statement	0.3
Gains and losses recognised in profit or loss	0.0
Total	**13.4**

The table below presents movements in level 3 instruments for 2015

EUR million	Unquoted shares and holdings
Opening balance at 1 Jan. 2015	8.7
Increases	3.0
Decreases	0.0
Amount of available-for-sale financial assets, transferred into the income statement	-0.5
Gains and losses recognised in profit or loss	0.0
Total	**11.3**

Capital risk management

With an efficient capital structure the Group secures that the group can give support to its businesses and can grow the shareholder value of the investors. The Group does not have a public credit rating. The capital structure of the Group is reviewed by the Board of Directors of SRV on a regular basis.

To maintain the capital structure the Group can balance the dividends, issue new shares or equity loans. Additionally the Group can adjust the businesses and capital to be used to maintain the capital structure. The Group monitors its capital on the basis of equity ratio. Group's objective is to maintain the ratio of total equity to total assets less advance payments above 35%. Total equity consists of equity attributable to equity holders of the parent company, non-controlling interests and Hybrid Bond.

EUR 1,000	2016	2015
Total equity	295,272	277,189
Total assets	882,486	762,620
Advance payments	-111,342	-110,624
	771,144	**651,996**
Equity ratio, %	**38.3%**	**42.5%**

30 OPERATING LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

Group as lessee

The future minimum lease payments under non-cancellable operating leases:

EUR 1,000	2016	2015
In less than a year	2,864	3,047
In more than one but less than five years	8,613	9,023
In more than five years	9,622	11,102
Total	**21,099**	**23,171**

Liabilities in connection with the operating lease agreements of employee cars generally have duration of three to four years.

The Group's maximum duration in the operating lease agreements is 150 months. Open-ended leasing agreements duration time is estimated to be 12 months. The various terms and conditions of the office premises contracts including the index, renewal and other terms differ from each other.

EUR 1,000	2016	2015
Collateral given for own liabilities		
Real-estate mortgages given	70,814	90,356
Other commitments		
Investment commitments given	31,186	47,614
Landarea commitments	37,852	116,144
Contingent liabilities (rented plots)	59,841	6,427

The Group has guaranteed obligations of its subsidiaries. At 31 December 2016, the total amount of these guarantees was EUR 292.1 million (EUR 301.8 million).

31 FAIR AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR 1,000	2016		2015	
Fair values	**Positive**	**Negative**	Positive	Negative
Foreign exchange forward contracts	0	4,390	0	0
Interest rate swap	0	8,000	0	3,323
	0	**12,390**	**0**	**3,323**

EUR 1,000	2016	2015
Nominal values of derivative instruments		
Foreign exchange forward contracts	37,000	0
Interest rate swap	100,000	100,000
	137,000	**100,000**

32 ADJUSTMENTS TO CASH FLOWS FROM OPERATION

EUR 1,000	2016	2015
Non-cash transactions		
Change in provisions	0	580
Fair value valuation	0	106
Items transferred into cash flow from investing activities	-7,408	0
Share of profits in associated companies	4,388	0
Others	0	1,164
Total	**-3,020**	**1,850**

33 SUBSIDIARIES

Name	Domicile	Group's holding, %	Group's voting right, %
Shares in subsidiaries			
SRV Rakennus Oy	Espoo	100.00	100.00
SRV Investments S.à r.l	Luxemburg	100.00	100.00
Rakennusliike Purmonen Oy	Joensuu	65.00	65.00
SRV Kalusto Oy	Vihti	100.00	100.00
SRV Infra Oy	Kerava	100.00	100.00
KOy Nummelanrinne	Vihti	100.00	100.00
SRV Voima Oy	Espoo	100.00	100.00
SRV Russia Oy	Espoo	100.00	100.00
000 SRV Development	Pietari	100.00	100.00
SRV Stroi 000	Moskova	100.00	100.00
000 SRV 360	Pietari	100.00	100.00
SRV Ehituse AS	Tallinna	100.00	100.00
SRV Realty B.V	Amsterdam	100.00	100.00
Jupiter Realty B.V	Amsterdam	100.00	100.00

The list does not include project companies.

34 RELATED PARTY TRANSACTIONS

2016

EUR 1,000	Selling of goods and services	Purchase of goods and services	Interest income	Receivables	Liabilities
Management and Board of Directors	0	0	0	0	0
Joint ventures	123,101	0	737	19,024	194
Associate company	53,622	19	2,294	48,730	1,040
Other related parties	0	0	0	0	0
Total	**176,723**	**19**	**3,031**	**67,754**	**1,234**

2015

EUR 1,000	Selling of goods and services	Purchase of goods and services	Interest income	Receivables	Liabilities
Management and Board of Directors	0	5,300	0	0	0
Joint ventures	113,878	0	111	1,515	1
Associate company	49,808	159	3,244	41,145	5,112
Other related parties	0	2	0	0	0
Total	**163,686**	**5,461**	**3,355**	**42,660**	**5,113**

The related parties of Group include parent company, subsidiaries and associated companies as well as joint ventures. The related parties also include Board of Directors and Corporate Executive Team.

Other related parties include transactions carried out with other companies under the control of the Group's management or with companies under control of minority shareholders.

Goods and services are sold to related parties at market price.

Subsidiaries included in related parties are listed above in note 33 Subsidiaries. Subsidiaries are included in the consolidated financial statements and therefore the transactions between Group companies are not included in note 34 Related party transactions.

Itemisation of management salaries and employment-based benefits

EUR 1,000	2016	2015
Management salaries and other short-term employment-based benefits	2,801	2,652
Share-based payments	411	0
Post-employment benefits, statutory pensions	687	664
Post-employment benefits, voluntary additional pensions	136	127
Benefits paid upon termination	0	54
Total	**4,035**	**3,497**

The statutory occupational pension insurance of the company's employees is handled through Ilmarinen. Pension payments are made on the basis of the statutory pension percentage, 24.5 (24.5%). In 2014, severance pay remitted in connection with resign was entered as expenditure in the 2014 financial statements, but this compensation was not paid until 2015.

Salaries and compensations of CEO & Board of Directors

EUR 1,000	2016	2015
Ojala Juha Pekka, President and CEO, from January 1, 2015	556	428
Hienonen Jukka, President and CEO, until December 31, 2014	0	531
Nieminen Timo, Deputy CEO	223	212
Members of the Board		
Kokkila Ilpo, Chairman	71	74
Kallasvuo Olli-Pekka, Vice Chairman	59	63
Alitalo Minna	48	49
Hiltunen Arto	47	49
Kokkila Timo	47	50
Kyhälä Risto	47	49
Members of the Board, total	**318**	**333**

The CEO's period of notice is 6 months. If SRV Group Plc dismisses the CEO a termination compensation amounting to 12 months' salary will be paid. If the CEO terminates the agreement, a termination compensation amounting to 12 months' salary is paid.

The president and CEO is entitled to retire at 60 years of age.

The 2016 paid statutory occupational pension insurance of the president and CEO and deputy CEO were 191 thousand euros (150 thousand euros in 2015).

35 EVENTS AFTER THE BALANCE SHEET DATE

On 2 February 2017, SRV Group Plc has decided to assign a total of 206,476 of its shares possessed by the company without remuneration to the members of the company's share-based bonus scheme pursuant to the terms and conditions thereof. The earnings period of the scheme was 2014–2016. The assignment of shares using placing free of commission is based on the authorisation given by the ordinary meeting of SRV Group Plc on 22 March 2016. There is further information of the share-based bonus scheme in a stock exchange release published on 20 February 2014. The shares shall be assigned on 10 March 2017 at the latest. The assigned shares include an assignment deadline, according to which half of the shares gained through the scheme must be owned until 31 December 2017 and the other half until 31 December 2018.

On 2 February 2017, the Board of Directors of SRV Group Plc has decided on a new share-based incentive scheme for the Group's key personnel. The purpose of the scheme is to combine the goals of shareholders and key individuals for raising the value of company as well as to strengthen key individuals' commitment to the company. The scheme covers 40 key SRV personnel. The key indicators for the scheme's performance period 2017–2019 are the improvement of the Group's profit percentage and the return of the Group's own capital and capital employed. In addition, the rewards will be influenced by other business-specific indicators specified for 2017–2019. The scheme's aims focused especially on the year 2019. When the indicators are fulfilled, the bonus will be paid partly in the company's shares and partly in cash. Within the context of the scheme, a maximum of 1,000,000 SRV Group Plc shares and a cash payment for tax purposes corresponding to the value of the conveyed shares may be conveyed for no consideration to key individuals. The total recognized IFRS cost of the portion given as shares over the lifetime of the incentive scheme 2017–2019 will be approximately EUR 5.5 million, with the addition of the cash payment. The Black & Scholes model, applied in the pricing of options, has been used to calculate the theoretical cost of the shares, with the following assumptions: share price EUR 5.20, risk-free interest rate 0.0 per cent and volatility 25 per cent. Personnel belonging to the scheme must hold at least half of the shares received on the basis of the scheme until 31 December 2020 and at least half until 31 December 2021. If a key individual's employment ends during the above commitment period, he/she must surrender the shares for no consideration back to the company.

Parent company's financial statements, FAS

INCOME STATEMENT OF THE PARENT COMPANY

EUR 1,000	Note	2016	2015
Revenue	1	**9,321**	**8,319**
Other operating income		29	351
Purchase during the financial year		0	-433
Personnel costs	23	-5,984	-4,361
Indirect personnel costs			
Pension costs		-984	-1,044
Other indirect personnel costs		-311	-283
Depreciation and impairments	3		
Depreciation		-304	-304
Other operating expenses	4	-10,510	-7,707
Operating loss		**-8,743**	**-5,462**
Financial income and expenses	5	-24,181	-10,993
Loss before appropriations and taxes		**-32,924**	**-16,455**
Appropriations			
Group contributions +/-	6	27,700	12,875
Loss before appropriations and taxes		**-5,224**	**-3,580**
Income taxes	7	1,083	407
Loss for the financial year		**-4,141**	**-3,173**

BALANCE SHEET OF THE PARENT COMPANY

EUR 1,000	Note	31 Dec 2016	31 Dec 2015
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	938	732
Property, plant and equipment	8	599	693
Investments			
Shares in group companies	9	261,965	176,925
Other financial assets	9	2,611	2,306
Non-current assets, total		**266,112**	**180,656**
CURRENT ASSETS			
Inventories		5	5
Long-term receivables	11	2,951	1,404
Short-term receivables	11	195,569	221,808
Cash and cash equivalents		43,443	24,525
Current assets, total		**241,969**	**247,742**
ASSETS, TOTAL		**508,081**	**428,399**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	3,063	3,063
Invested free equity fund	13	142,714	142,696
Retained earnings	13	32,623	41,730
Loss for the financial year	13	-4,141	-3,173
Equity, total		**174,260**	**184,316**
Provisions	**15**	**242**	**245**
Liabilities			
Non-current liabilities	16	221,800	123,169
Current liabilities	17	111,779	120,669
Liabilities, total		**333,580**	**243,838**
EQUITY AND LIABILITIES, TOTAL		**508,081**	**428,399**

CASH FLOW STATEMENT OF THE PARENT COMPANY

EUR 1,000	2016	2015
Cash flow from operating activities		
Net profit/loss for the year	**-4,141**	**-3,173**
Adjustments:		
Depreciation	304	304
Non-cash transactions	-26,791	-3,602
Financial income and expenses	24,481	10,993
Income taxes	-1,083	-407
Adjustments, total	**-3,090**	**7,287**
Changes in working capital:		
Change in loan receivables	0	6,122
Change in trade and other receivables	2,349	-11,046
Change in group accounts	49,572	-74,291
Change in inventories	0	2
Change in trade and other payables	488	-22,278
Working capital, total	**52,409**	**-101,490**
Interest paid and other financial expenses		
Interest paid	-14,943	-10,941
Interest received	6,647	4,454
Dividends received	65	65
Income taxes paid	-565	-4,482
Net cash from operating activities	**36,383**	**-108,279**

EUR 1,000	2016	2015
Cash flow from investing activities		
Property, plant and equipment	-55	-87
Intangible assets	-361	-170
Other financial assets	-87,192	-3,075
Net cash used in investing activities	**-87,607**	**-3,332**
Cash flow from financing activities		
Proceeds from loans	163,500	0
Repayments of loans	-100,300	-1,800
Withdrawal of hybrid bond	45,000	0
Repayment of hybrid bond	-45,000	0
Group contributions, given and received	12,875	24,183
Change in credit limits	0	56,500
Net cash from share issue	0	50,073
Dividends paid	-5,934	-4,271
Net cash from financing activities	**70,141**	**124,684**
Net change in cash and cash equivalents	**18,917**	**13,073**
Cash and cash equivalents at the beginning of financial year	24,525	11,452
Cash and cash equivalents at the end of financial year	**43,443**	**24,525**

Notes to parent company financial statements

Accounting principles:

Basic data

SRV Oyj (reg 1707186-8) is a finnish company based in Espoo, Tarvonsalmenkatu 15, 02601 Espoo, Finland.

Parent company's financial statements and the comparable information

The parent company's financial statements are prepared in accordance with the principles of Finnish accounting legislation. The financial statements are prepared for 12 months in the financial period January 1–December 31, 2016.

Current assets

Tangible and intangible asset are recognized on the balance sheet at historical cost less depreciation according to plan and impairment. Depreciation according to plan is calculated as straight-line depreciation on the basis of the estimated economic life of tangible and intangible assets

Depreciations are booked using reducing balance method of depreciation or straight-line depreciation during the economical lifetime of the asset as follows:

- buildings and structures reducing balance method of depreciation 4–7%
- machinery and equipment reducing balance method of depreciation 25%
- other capitalized expenditures, straight-line depreciation, 3–5 years
- investments are stated at the original purchase cost less accumulated impairment if the future income from the investment is probably going to be smaller compared to purchase price.

No depreciation is booked on land and water areas and intangible rights Development costs are recognized as annual costs during the year they arise

Items denominated in foreign currency

Foregn currency business transactions are recognized at the exchange rate of transaction date.

Pensions

The statutory pension security in the parent company is provided by an external pension insurance company.

Taxes

The taxes in the income statement include the taxes for the financial year and adjustments for previous periods. The defferred tax liability and receivable is calculated from the temporary difference in bookkeeping vs taxation using the confirmed tax rate for the coming fiscal years.

The valuation of financial instruments

Financial instruments have been valued as of 1 January 2015 at fair value in accordance with the Chapter 5 Section 2(a) of Finnish Accounting Act. The fair value of derivatives is estimated based on the present value of future cash flows using market prices on the closing date. The change in fair value of the interest rate swaps are recognized in interest income/expenses in the P/L and the the cumulative change in fair values is recognized in the accrued income/expenses at the balance sheet Hedging instruments are booked in the P/L in financial income and expenses and the accrued interests in balance sheet in accrued expenses

Commitments

The parent company has given absolute guarantees on behalf of group companies. The guarantees are related to construction projects.

NOTES TO INCOME STATEMENT

1 REVENUE

EUR 1,000	2016	2015
Construction	0	433
Other revenues	9,321	7,887
Total	**9,321**	**8,319**
Geographical information		
Finland	9,321	8,319

2 INFORMATION CONSERNING PERSONNEL AND KEY MANAGEMENT

	2016	2015
Number of personnel		
Office employees	60	60

3 DEPRECIATION AND IMPAIRMENTS

EUR 1,000	2016	2015
Depreciation on Intangible assets	155	126
Depreciation on buildings and structures	5	6
Depreciation on machinery and equipment	143	173
Total	**304**	**304**

4 OTHER OPERATING EXPENSES

EUR 1,000	2016	2015
Rent expenses	1,053	1,329
Voluntary indirect personnel expenses	559	654
Car and travel expenses	211	201
Entertainment and marketing expenses	741	673
Communication and IT expenses	945	735
Other external services	1,361	767
Other fixed expenses	5,640	3,348
Total	**10,510**	**7,707**

Auditing fees included in other operating expenses

EUR 1,000	2016	2015
Auditing	67	75
Tax advisory services	0	0
Other services	66	141
Total	**132**	**216**

5 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2016	2015
Dividend income		
From group companies	65	65
Total	**65**	**65**
Interest and other financial income		
From group companies	6,826	4,559
From other companies	115	135
Total	**6,941**	**4,694**
Interest and other financial expenses		
Interest expenses to group companies	-53	-35
Interest expenses on derivates	-4,677	-3,323
Interest expenses to others	-16,549	-9,096
Total	**-21,278**	**-12,455**
Other financial expenses		
Fair value of the currency forwards	-8,778	0
Impairments from non-current assets	300	-528
Other financial expenses	-1,431	-2,769
Total	**-9,909**	**-3,297**
Total financial income and expenses	**-24,181**	**-10,993**

6 APPROPRIATIONS

EUR 1,000	2016	2015
Group contributions, received	27,700	14,655
Group contributions, given	0	-1,780
Total	**27,700**	**12,875**

7 INCOME TAXES

EUR 1,000	2016	2015
Income taxes from group contributions	-5,540	-2,575
Income taxes on operating activities	5,540	2,473
Change in deferred taxes	1,082	509
Income taxes on previous years	1	0
Total	**1,083**	**407**

NOTES TO BALANCE SHEET

8 CHANGES IN NON-CURRENT ASSETS

EUR 1,000		2016	2015
Intangible assets			
Intangible rights			
Historical cost	1 Jan.	250	250
Historical cost	**31 Dec.**	**250**	**250**
Other capitalized expenditures			
Historical cost	1 Jan.	312	438
Increase		332	311
Depreciation		-155	-126
Historical cost	**31 Dec.**	**488**	**312**
Unfinished acquisitions			
Historical cost	1 Jan.	170	0
Increase		326	170
Decrease		-297	0
Historical cost	**31 Dec.**	**199**	**170**
Non-current assets total		**938**	**732**
Property, plant and equipment			
Land and water areas			
Historical cost	1 Jan.	41	41
Historical cost	**31 Dec.**	**41**	**41**
Buildings			
Historical cost	1 Jan.	139	139
Depreciation		-6	-6
Historical cost	**31 Dec.**	**133**	**133**
Machinery and equipment			
Historical cost	1 Jan.	519	604
Increase		55	87
Decrease		0	0
Depreciation		-143	-173
Historical cost	**31 Dec.**	**430**	**519**
Property, plant and equipment total		**599**	**693**

9 INVESTMENTS

EUR 1,000		2016	2015
Shares in subsidiaries			
Historical cost	1 Jan.	176,925	177,285
Increase		85,040	43
Decrease		0	-403
Historical cost	**31 Dec.**	**261,965**	**176,925**
Other shares and holdings			
Historical cost	1 Jan.	2,306	2,810
Increase		73	126
Decrease		-58	-101
Impairment and reversing of impairment		290	-528
Historical cost	**31 Dec.**	**2,611**	**2,306**
Investments total		**264,576**	**179,231**

10 GROUP COMPANIES

	Domicile	2016	2015
SRV Rakennus Oy	Espoo	100.0	100.0
SRV Infra Oy	Kerava	100.0	100.0
SRV Voima Oy	Espoo	100.0	100.0
SRV Russia Oy	Espoo	100.0	100.0
SRV Investment S.à r.l.	Luxembourg	100.0	100.0
SRV Ehituse AS	Tallinna	100.0	100.0
Rakennusliike Purmonen Oy	Joensuu	65.0	65.0
SRV Kalusto Oy	Vihti	100.0	100.0

11 LONG-TERM AND SHORT-TERM RECEIVABLES

EUR 1,000	2016	2015
Deferred tax receivable	2,173	1,091
Other receivbales	779	313
Long-term receivables total	**2,951**	**1,404**
Short-term receivables		
From Group companies		
Accounts receivable	153	178
Loan receivables	6,322	4,175
Other receivables	156,952	199,031
Accrued receivables	28,328	15,238
Total	**191,754**	**218,622**
From others		
Accounts receivable	317	312
Other receivables	546	287
Accrued receivables	2,952	2,587
Total	**3,815**	**3,186**
Short-term receivables	**195,569**	**221,808**

12 ACCRUED RECEIVABLES:

EUR 1,000	2016	2015
Appropriations	27,700	14,655
Taxes	4,652	1,915
Other	1,100	1,255
Total	**31,280**	**17,826**

13 CHANGES IN EQUITY

EUR 1,000	2016	2015
Share capital 1 Jan.	3,063	3,063
Share capital 31 Dec.	**3,063**	**3,063**
Share premium reserve 1 Jan.	142,696	92,267
Share Issue	0	50,073
Transfer between items	18	356
Share premium reserve 31 Dec.	**142,714**	**142,696**
Retained earnings 1 Jan.	38,557	46,357
Dividens	-5,934	-4,271
Transfer between items	0	-356
Retained earnings 31 Dec.	**32,623**	**41,730**
Loss for the financial year	**-4,141**	**-3,173**
Equity 31 Dec.	**174,260**	**184,316**

14 CALCULATION ON THE DISTRIBUTABLE EQUITY

EUR 1,000	2016	2015
Share premium reserve	142,714	142,696
Retained earnings	32,623	41,730
Loss for the financial year	-4,141	-3,173
Total	**171,197**	**181,253**

15 PROVISIONS

EUR 1,000	2016	2015
Other provisions		
Provision for share-based incentives	242	245

16 LONG-TERM LIABILITIES

EUR 1,000	2016	2015
To other companies		
Bonds	175,000	75,000
Hybrid Bond	45,000	45,000
Pension loans	1,800	3,148
Total	**221,800**	**123,148**
To Group Companies		
Accrued liabilities	0	21
Total	**221,800**	**123,169**

17 SHORT-TERM LIABILITIES

EUR 1,000	2016	2015
To Group Companies		
Accounts payable	32	14
Accrued expenses	1	66
Other liabilities	23,201	23,646
Total	**23,234**	**23,727**
To other companies		
Commercial papers	51,000	86,000
Interest rate swap	12,390	3,323
Pension loans	1,348	1,800
Accounts payable	548	244
Advances received	1	1
Accrued expenses	22,969	5,303
Other loans	290	3,593
Total	**88,545**	**96,942**
Short term liabilities total	**111,779**	**120,669**

18 ACCRUED LIABILITIES

EUR 1,000	2016	2015
Salaries including social costs	1,651	1,571
Accrued liability related to currency forward deal	4,390	0
Accruedliability related to interest rate swap	8,000	3,323
Interest and other financial expenses	8,597	230
Taxes	0	2
Other	331	243
Total	**22,970**	**5,369**

19 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments include interest rate swaps where the the given changing interest rate is changed into into fixed, and hedging instruments where financial items are hedged against currency fluctuatios. The interst rate swaps will terminate 2025 and currency forward deals in 2017.

Derivative financial instruments:

EUR 1,000	2016	2015
Interest rate swaps		
Fair value positive	-	-
Fair value negative	8,000	3,323
Nominal value of underlying instruments	100,000	100,000
Hedging instruments:		
Fair value positive	–	–
Fair value negative	4,390	-
Nominal value of underlying instruments	37,000	-

Fair value hierarcy of financial instruments:

Fair value hierarcy of financial instruments is described in the note 29 in SRV group notes

20 RISK MANAGEMENT

The group has a systematic and structured approach to risk management across business operations and processes. There are no separate or individual risk management policies or procedures for the parent company. Refer to note for the group risk management.

21 LEASING AND OTHER RENT AGREEMENTS

EUR 1,000	**2016**	2015
Payable in less than a year	155	140
Payable later	115	186
Total	**270**	**326**
Rental lease liabilities		
Payable in less than a year	1,491	1,491
Payable later	17,023	18,503
Total	**18,514**	**19,995**

22 OTHER LIABILITIES

EUR 1,000	**2016**	2015
Guarantee obligations given on behalf of Group companies	292,068	301,783
Investment commitments	30,666	32,614

The group has committed to invest 35,009 thousand euros in Voimaosakeyhtiö SF in order to finance Hanhikivi 1 project. At the end of 2016 the investments made are 4,860 thousand euros in total.

23 RELATED PARTY TRANSACTIONS

With related parties, there were no transactions deviating from normal.

Itemisation of management salaries and employment-based benefits

EUR 1,000	**2016**	2015
Salaries and other benefits	2,000	1,829
Share-based payments	341	-
Salaries and other benefits:		
CEO	556	428
Members of the board:		
Kokkila Ilpo, chairman	71	74
Olli-Pekka Kallasvuo, vice chairman	59	63
Risto Kyhälä	47	49
Hiltunen Arto	47	49
Minna Alitalo	48	49
Kokkila Timo	47	50
Total	**318**	**333**

The president and CEO is entitled to retire at 60 years of age.
In 2016 the paid voluntary occupational pension insurance of the CEO was 75,991 (75,753 in 2015) euros.

Signatures to the financial statements and Report of The Board of Directors, auditor´s note

SIGNATURES TO THE FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

Espoo, 14 February 2017

Ilpo Kokkila
Chairman

Kallasvuo Olli-Pekka
Vice Chairman

Minna Alitalo

Arto Hiltunen

Timo Kokkila

Risto Kyhälä

Juha-Pekka Ojala
President and CEO

AUDITOR´S NOTE

Our auditor's report has been issued today.

Espoo, 23 February 2017

PricewaterhouseCoopers Oy
Authorized Public Accounting Firm

Samuli Perälä
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of SRV Yhtiöt Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion
- the consolidated financial statements give a true and fair view of the group's financial performance and financial position 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 the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of SRV Yhtiöt Plc (business identity code 1707186-8) 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
- the parent company's balance sheet, income statement, statement of cash flows and notes.

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

Independence

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.

Our Audit Approach

Overview

- Overall group materiality: € 3,900,000, which has been determined based on a combination of profit before taxes, net sales and total assets.
- Audit scope: The group audit was focused on parent company and its Finnish subsidiaries. In addition to this we performed specified procedures in relation to the most significant subsidiaries in Russia.

Key audit matters

- Revenue recognition, margin as well as related receivables and payables of projects for which percentage of completion method is used
- Valuation of investments in associated companies and joint ventures
- Valuation of land area as well as completed apartments and constructions included in inventories

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality
€ 3,900,000

How we determined it
We determined the overall materiality for the consolidated financial statements as a weighted average of profit before taxes, net sales and total assets. In our calculation we predetermined the weight of each of the three components upon which the materiality has been determined.
Rationale for the materiality benchmark applied
We chose the combination described above as it, in our opinion, reflects the volume of the operations and capital invested by the business, which in our view are key elements in addition to the result of the operations. The percentages applied in the calculations for the selected benchmarks are in accordance with generally applied thresholds.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of SRV Yhtiöt group, the accounting processes and controls, and the industry in which the group operates.

SRV Yhtiöt group consists of two business areas; Operations in Finland and International Operations. In addition to this the supporting functions form the other operations. As the majority of the operations are in Finland, the focus of our audit has mainly been on the parent company and its Finnish subsidiaries. In addition to this we have performed specified procedures on the major subsidiaries in Russia.

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.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

- **Key audit matter in the audit of the group**

  Revenue recognition, margin as well as related receivables and payables of projects for which percentage of completion method is used.
  Notes 4, 16, 23 and 28
  Revenue recognized based on percentage of completion includes significant management estimates affecting the revenue, margin and certain balance sheet items for the period. The most integral estimates are the estimates of the total turnover of the project, estimated total expenses and estimated margin as well as the estimate of the realization of a possible rental liability in a project.

  Income and costs of construction contracts are recorded as revenue and expenses on the basis of the percentage of completion, when the outcome of the project can be estimated reliably. The percentage of completion is calculated on the basis of the estimated total cost of a contract and the cumulative costs at the balance sheet date. In the developer contracting of housing, projects will be recognized upon completion with the level of sold apartments also affecting the amount recognized as revenue and expenses.

  Revenue recognized based on percentage of completion is considered as a key audit matter, because revenue is a significant item in the financial statements and because revenue recognized based on percentage of completion includes significant management judgements, which affects the revenue recognized as well as the profitability of the projects.

- **How our audit addressed the key audit matter**

  Our procedures included the following but was not limited to:
  - We verified, by sampling new contracts signed during the accounting period, that the revenue is recognized in accordance with the group's accounting policies.
  - We assessed reliability of the forecasted margins for projects by comparing margins of unfinished projects in the previous year-end to the final outcome.
  - We had discussions with relevant personnel, concerning the most significant projects, about the progress of the projects and focusing especially on income recognized from additional work as well as on uncertainty in relation to the estimated total expenses of the projects.
  - We tested the mathematic accuracy of the spreadsheets used to determine the percentage of completion and revenue and thereby also the margin for projects.
  - We read minutes from meetings for certain ongoing projects to acquire detailed information of the progress and possible uncertainty in relation to the progress of the projects as well as information relating to recognition of revenue from the projects.
  - We tested a sample of new projects and bids to ensure that they have been processed in accordance with the group's decision making policy.
  - We tested a sample of the estimates of total expenses for new construction projects to ensure that they are made based on appropriate documentation.

- **Key audit matter in the audit of the group**

  Valuation of investments in associated companies and joint ventures
  Note 17
  The group's investments in associated companies and joint ventures are investments in construction projects together with other investors. After completion of the construction the investments' operations consist of owning and operating commercial centers.

  The group estimates the value of their investments based on discounted future cash flows generated by the commercial centers. The determination of discounted future cash flows includes managements estimates as the calculations includes future rental income, granted reductions of rent, vacancy rate, operating expenses, return requirement and, as concerns the commercial centers located in Russia, assumptions in relation to fluctuations in the exchange rate.

  Investments in associated companies and joint ventures are considered as a key audit matter, because they form a significant balance sheet item and their valuation includes significant management judgements.

- **How our audit addressed the key audit matter**

  Our procedures included the following but was not limited to:
  - Management has acquired external valuation concerning the most significant real estate owned by the associated companies and joint ventures. We read the valuation reports and discussed the most significant assumptions in the valuation models with management. Furthermore, we ascertained that the information in the valuation reports was used by management in their impairment calculations of the investments.
  - We assessed the applicability of the valuation models used by management to test the impairment of the investments in associated companies and joint ventures. Furthermore, we tested by sampling the mathematical accuracy of the calculations.
  - We for example verified the appropriateness of the level of return requirement used in the above mentioned valuation calculations with information publicly available.
  - We prepared sensitivity analysis for the above mentioned calculations prepared by management for the most important variables. These variables include, but are not limited to, rental income, vacancy rate and return requirement.

- **Key audit matter in the audit of the group**

  Valuation of land area as well as completed apartments and constructions included in inventories
  Note 21
  Inventories consist primarily of construction and land area expenses of construction projects in progress, land areas and plot-owning companies related to projects under development or for which the decision to start construction has not yet been made, as well as completed unsold apartments and buildings. Inventories in the balance sheet are valued at the lower of cost and net realizable value. Calculation of the net realizable value involves management judgement.

  The net realizable value of land areas is depends on the type of construction that will be built on it. The net realizable value of a land area is estimated as a part of the net realizable value for the whole construction project. The net realizable value of completed apartments and constructions is based on management's estimates of the future sales price at the year-end.

  Land areas as well as completed apartments and constructions are considered as a key audit matter, because they form a significant balance sheet item and their valuation includes significant management judgements.

- **How our audit addressed the key audit matter**

  Our procedures included the following but was not limited to:
  - We assessed the applicability of the valuation models used by management. Furthermore, we have tested by sampling the mathematic accuracy of the calculations.
  - We investigated by sampling the construction plans and timetables for unconstructed land areas as well as changes made to these plans during the year.
  - We compared, through sampling, the actual sales prices of sold apartments during the period, to the value of unsold completed apartments in the previous year-end, to confirm the appropriateness of the valuation of unsold completed apartments.
  - We assessed the valuation of unsold completed apartments through sampling, by comparing sales prices of sold apartments in the current year with the value of unsold apartments included in inventory in the prior year financial statements.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance 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 to 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.

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
- 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, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 23 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Samuli Perälä
Authorised Public Accountant

GROUP AND SEGMENT INFORMATION BY QUARTER (UNAUDITED)

Group key figures

EUR million	IFRS 10-12/2016	IFRS 7-9/2016	IFRS 4-6/2016	IFRS 1-3/2016	IFRS 10-12/2015	IFRS 7-9/2015	IFRS 4-6/2015	IFRS 1-3/2015
Revenue	328.7	193.1	218.5	143.8	226.6	155.1	164.5	172.9
Operation profit	16.2	7.3	4.1	0.0	17.0	4.1	0.8	2.5
Financial income and expenses, total	3.2	-3.4	-5.6	-5.6	-2.1	-4.0	-1.5	0.8
Profit before taxes	19.4	3.9	-1.5	-5.5	14.9	0.1	-0.7	3.3
Order backlog[1]	1,758.5	1,888.1	2,021.6	1,572.1	1,583.4	1,517.5	1,258.8	1,179.8
New agreements	183.2	54.9	648.6	126.5	286.9	389.9	227.6	489.1
Earnings per share, eur[2]	0.26	0.04	-0.04	-0.11	0.27	-0.03	-0.04	0.05
Equity per share, eur[1, 2]	4.25	3.81	3.71	3.71	3.90	3.80	4.51	4.53
Share closing price, eur[1]	5.43	4.40	4.00	3.53	3.10	2.53	3.71	3.39
Equity ratio, %[1]	38.3	37.8	36.9	36.7	42.5	41.6	36.3	39.8
Net interest-bearing debt[1]	246.3	285.0	291.2	247.2	230.8	248.3	251.0	228.5
Gearing, %[1]	83.4	99.7	103.1	87.5	83.3	91.5	111.4	101.0

[1] At the end of the period.
[2] Comparative data is share issue adjusted.

Revenue

EUR million	IFRS 10-12/2016	IFRS 7-9/2016	IFRS 4-6/2016	IFRS 1-3/2016	IFRS 10-12/2015	IFRS 7-9/2015	IFRS 4-6/2015	IFRS 1-3/2015
Operations in Finland	319.3	180.9	200.4	131.5	212.8	137.3	146.9	157.1
Business construction	167.4	141.4	143.8	106.9	119.8	105.6	94.5	114.0
Housing construction	151.9	39.5	56.6	24.6	92.9	31.7	52.4	43.1
International Operations	9.4	12.1	18.4	12.4	13.8	17.9	17.6	15.9
Other operations	4.0	4.0	4.0	4.0	3.7	3.5	3.4	3.8
Eliminations	-4.1	-3.9	-4.3	-4.0	-3.7	-3.6	-3.4	-3.8
Group, total	**328.7**	**193.1**	**218.5**	**143.8**	**226.6**	**155.1**	**164.5**	**172.9**

Operating profit

EUR million	IFRS 10-12/2016	IFRS 7-9/2016	IFRS 4-6/2016	IFRS 1-3/2016	IFRS 10-12/2015	IFRS 7-9/2015	IFRS 4-6/2015	IFRS 1-3/2015
Operations in Finland	21.8	6.6	7.6	2.2	18.3	4.9	2.4	3.3
International Operations	-2.8	1.2	-1.5	-1.1	-0.6	-0.3	0.1	0.7
Other operations	-2.8	-0.4	-2.0	-1.1	-0.7	-0.5	-1.6	-1.5
Eliminations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group, total	**16.2**	**7.3**	**4.1**	**0.0**	**17.0**	**4.1**	**0.8**	**2.5**

Operating profit

%	IFRS 10-12/2016	IFRS 7-9/2016	IFRS 4-6/2016	IFRS 1-3/2016	IFRS 10-12/2015	IFRS 7-9/2015	IFRS 4-6/2015	IFRS 1-3/2015
Operations in Finland	6.8	3.6	3.8	1.7	8.6	3.5	1.6	2.1
International operations	-29.4	9.5	-8.0	-8.6	-4.0	-1.7	0.5	4.1
Group, total	**4.9**	**3.8**	**1.9**	**0.0**	**7.5**	**2.6**	**0.5**	**1.5**

Order backlog

EUR million	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016	31 Dec. 2015	31 Sep. 2015	31 Jun. 2015	31 Mar. 2015
Operations in Finland	1,726.1	1,851.3	1,972.6	1,511.7	1,506.2	1,431.7	1,159.3	1,062.9
Business construction	1,163.5	1,293.8	1,426.6	972.9	952.3	1,023.6	806.9	801.1
Housing construction	562.6	557.5	546.0	538.9	554.0	408.1	352.4	261.8
International operations	32.4	36.8	49.0	60.3	77.1	85.7	99.5	116.9
Group, total	**1,758.5**	**1,888.1**	**2,021.6**	**1,572.1**	**1,583.4**	**1,517.5**	**1,258.8**	**1,179.8**
Sold order backlog	1,482	1,623	1,720	1,269	1,261	1,295	1,074	1,037
Unsold order backlog	276	265	301	303	322	222	185	142

Order backlog, housing construction in Finland

EUR million	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016	31 Dec. 2015	31 Sep. 2015	31 Jun. 2015	31 Mar. 2015
Negotiation and construction contracts	193	122	107	115	132	83	88	88
Under construction, sold	105	181	150	134	114	117	86	39
Under construction, unsold	222	227	251	249	269	166	131	79
Completed and unsold	43	28	37	40	39	42	47	56
Housing construction, total	**563**	**557**	**546**	**539**	**554**	**408**	**352**	**262**

Invested capital

EUR million	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016	31 Dec. 2015	31 Sep. 2015	31 Jun. 2015	31 Mar. 2015
Operations in Finland	333.0	364.5	357.0	324.6	315.4	326.3	290.8	273.3
International operations	250.8	227.3	224.7	217.4	216.7	214.6	217.7	211.3
Other operations and eliminations	12.4	16.9	46.0	110.7	10.9	6.8	-1.7	-15.5
Group, total	**596.2**	**608.7**	**627.7**	**652.7**	**543.0**	**547.7**	**506.8**	**469.1**

Housing production in Finland

Units	10-12/2016	7-9/2016	4-6/2016	1-3/2016	10-12/2015	7-9/2015	4-6/2015	1-3/2015
Housing sales, total	681	335	151	93	397	166	236	74
Sales, developer contracting	151	165	100	93	207	129	236	74
Sales, negotiation contracts[2]	530	170	51	0	190	37	0	0
Developer contracting								
Start-ups	199	52	148	55	116	244	376	66
Completed	420	0	53	30	225	0	22	0
Recognized in revenue	389	26	58	26	228	16	48	31
Completed and unsold	111	80	106	111	107	110	126	152
Under construction, total[1]	2,696	2,443	2,082	1,830	1,849	1,855	1,628	1,356
Construction contracts[1]	441	319	138	138	59	153	123	190
Negotiation contracts[1]	441	619	661	555	428	345	375	302
Negotiated contracts[1, 2]	978	448	278	227	477	363	380	468
Developer contracting[1]	836	1,057	1,005	910	885	994	750	396
of which sold[1]	444	681	543	502	434	455	342	154
of which unsold[1]	392	376	462	408	451	539	408	242

[1] At the end of the period.
[2] Investor sales, under negotiation contracts.

Information for shareholders

BASIC INFORMATION ABOUT THE SHARE

SRV Group Plc's shares are quoted on NASDAQ OMX Helsinki, under the sector heading Industrial Products and Services in the mid-cap group. The share's trading code is SRV1V. The ISIN code of the share is FI0009015309.

SRV'S FINANCIAL INFORMATION IN 2017

Financial Statement Release 2017: 2 February 2017
Interim Report for January–March 2017: 27 April 2017
Interim Report for January–June 2017: 20 July 2017
Interim Report for January–September 2017: 26 October 2017

Annual Report 2016 (including the Financial Statements and the Report of the Board of Directors): on Friday, 24 February 2017.

SRV Group Plc's Annual General Meeting is planned to be held on Thursday, 23 March 2017. The Board of Directors will convene the meeting separately in due course.

SILENT PERIOD

SRV's silent period always starts at least 30 calendar days before the publication of an interim report or financial statement release. The silent period ends on the publication of the financial statement release or interim report.

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ORDERING PUBLICATIONS

SRV's annual reports and other financial bulletins can be ordered from SRV's website www.srv.fi/en/investorsor by e-mail investor.relations@srv.fi.