VVO Group plc's
Interim Report
1 Jan.–30 Sept. 2016

VVO-yhtymä Oyj

Table of contents

Unless otherwise stated, the comparison figures in brackets refer to the corresponding period of the previous year. The figures in this Interim Report have not been audited.

SUMMARY OF JANUARY–SEPTEMBER 2016 (comparison period 1 Jan.–30 Sept. 2015)

- The Group’s gross investments during the period totalled EUR 609.4 (159.2) million. Gross investments were 228.4 (57.6) per cent of turnover.
- The fair value of investment properties was EUR 4.1 (3.9) billion. Return on investment was 7.0 (7.7) per cent.
- The Group’s turnover totalled EUR 266.8 (276.3) million. Turnover is entirely generated by rental income.
- Profit before taxes amounted to EUR 154.4 (167.3) million. The profit includes EUR 68.6 (52.5) million in net valuation gain on the fair value assessment of investment properties and EUR -20.3 (1.4) million in capital gains and losses on investment properties. The capital losses will be reduced as a result of a decision made by the Housing Finance and Development Centre of Finland ARA after the end of the review period. Net income and capital losses resulting from the delay of the divestment of 8,571 apartments were approximately EUR 14.7 million higher than expected. Nevertheless, the delay of the transaction does not have a substantial effect on the Group’s operating profit. The Group’s favourable profit performance is based on changes in the fair value, low financial costs, a good financial occupancy rate and the successful management of maintenance costs.
- Net rental income was EUR 172.4 (170.5) million, representing 64.6 (61.7) per cent of turnover. Net rental income was increased by completed new development, acquisitions, higher rental income and the successful management of maintenance and repair costs. Divestments decreased net rental income.
- The financial occupancy rate remained high, standing at 97.2 (97.5) per cent during the review period.
- There were 1,415 (1,199) rental apartments under construction at the end of the review period.
- The Group owned 34,926 (40,899) rental apartments on 30 September 2016.
- The company specifies its outlook with regard to investments.

SUMMARY JULY–SEPTEMBER 2016 (comparison period 1 July–30 Sept. 2015)

- Turnover totalled EUR 84.6 (93.1) million. Turnover decreased due to rental housing stock divestments.
- Profit before taxes amounted to EUR 49.0 (42.9) million. The profit includes EUR 12.4 (5.3) million in net valuation gain on the fair value assessment.
- Net rental income was EUR 55.9 (57.3) million, representing 66.1 (61.5) per cent of turnover. Net rental income was decreased by rental housing stock divestments.
- The financial occupancy rate remained high, standing at 97.8 (97.8) per cent during the review period.
- The Group’s gross investments during the period totalled EUR 519.5 (44.2) million.

KEY INDICATORS

VVO Group	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Revenue, M€	84.6	93.1	266.8	276.3	370.9
Net rental income, M€	55.9	57.3	172.4	170.5	227.4
% revenue	66.1	61.5	64.6	61.7	61.3
Profit before taxes, M€	49.0	42.9	154.4	167.3	224.7
Earnings per share, €	5.27	4.86	16.80	18.09	24.23
Equity per share, €			233.93	228.57	234.85
Return on equity, % (ROE)			9.6	10.9	10.8
Return on investments, % (ROI)			7.0	7.7	7.6
Loan to Value, %			47.7	47.9	42.8
Equity ratio, %			39.5	41.2	41.1
Financial Occupancy rate, %	97.8	97.8	97.2	97.5	97.6
Gross investments, M€	519.5	44.2	609.4	159.2	235.0
Investment properties, M€			4 127.5	3 907.9	3 999.2
Interest bearing liabilities, M€			1 984.8	1 888.4	1 494.6
Number of personnel, end of period			290	363	356

CEO'S REVIEW

The housing investment company increases its investments in rental apartments

In approximately five years' time, the company has invested nearly EUR 1.5 billion in market-based rental housing. In 2016, our investments in Finnish rental housing will be approximately EUR 650 million, and at the end of the review period, there were 1,415 new rental apartments under construction, of which 1,233 were in the Helsinki region. We want to respond to the demand for rental housing, particularly in the Helsinki region, making it easier for people to move around in pursuit of employment in urbanising Finland. We are actively fighting the grey economy well beyond the legislative requirements. VVO Group's share of the entire rental housing market is approximately 4.4 per cent.

VVO Group plc issued a new EUR 200 million secured bond after the review period on 17 October 2016. The transaction attracted a wide audience from investors in Finland, other Nordic countries and Europe and it was clearly oversubscribed, with subscriptions from over 40 investors. The bond was listed on the Nasdaq Helsinki Ltd stock exchange on 21 October 2016. The company's goal is to diversify its funding sources in order to finance growth.

As a housing investment company, our annual investment target is 1,000 rental apartments. This target can be reached, but it would be significantly easier to increase the number of rental apartments if there was a sufficient supply of plots suitable for immediate construction in growth centres. It is possible to influence the housing situation in the Helsinki Metropolitan Area and the market price of rents by increasing the amount of plots suitable for construction and by enhancing the supply.

This year, we have divested our ARA properties that are subject to long-term restrictions and focused on market-based operations, where we can develop our operations extensively and carry out service design. Our goal is to create more offering and new service solutions in rental housing in order to make it easier to acquire rental apartments and to live in them. In rental operations, we apply overall rent without any separate additional charges – a convenient approach for our customers! Nearly all of our rents include water and broadband Internet, for example. The Lumo homenow.fi online service channel, now up and running for approximately a year, revolutionised the rental housing sector and has convinced customers of its merits: more than 760 tenancy agreements have been signed through the apartment rental service.

We believe in the power of strong expertise and an energetic working culture, which could again be seen in the Responsible Summer Job campaign: we were again at the front of the competition, coming third in the major employer category.

I wish you all the best for the remainder of the year!

Jani Nieminen
CEO

OPERATING ENVIRONMENT

General operating environment

The euro zone's economy has continued to recover. The Brexit referendum has not turned this trend, at least over the short term. The US economy developed moderately.

In Finland, economic development continued to be subdued. Export and industrial production have not picked up to a significant degree. The confidence of households and companies has strengthened. This was seen in, for example, demand for owner-occupied apartments and construction investments.

According to Statistics Finland, the prices of old apartments in apartment blocks and row houses rose somewhat throughout the country. In the Helsinki Metropolitan Area, the increase in prices was higher than in other parts of the country.

Industry operating environment

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

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

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

OUTLOOK FOR 2016

Market outlook

Although the Finnish economy is resuming growth, economic growth in Finland in 2016 is expected to remain slower compared with the rest of the euro zone. Growth is based on household consumption and construction. The outlook for the Finnish economy is influenced by factors such as weak exports, the structural change in industry, the decreased cost competitiveness and the contraction in the number of working-age population. The outlook for employment is weak. General interest rates are forecast to remain low.

Demand for rental housing is expected to remain strong in major growth centres. Differences between regions are increasing and, in some regions, supply and demand are now in balance. New development is expected to continue focusing on privately financed rental apartments.

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

Outlook for VVO Group

VVO Group specifies its outlook for 2016 with regard to investments.

VVO Group estimates that net rental income will remain at the 2015 level. Investments are forecast to be approximately EUR 650 million (previous estimate: over EUR 600 million). The outlook takes into account the effects of the divestment of 8,571 apartments and the acquisition of 2,274 apartments, the estimated occupancy rate for the remainder of the year and the number of apartments under construction. VVO Group's rental occupancy rate is expected to remain at the current level throughout 2016, due to continuing stable demand for rental housing. The estimate is based on currently valid tenancy agreements and the stable demand in growth centres.

BUSINESS OPERATIONS

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

The fair value of VVO Group's investment properties at the end of the review period was EUR 4.1 (3.9) billion. At the end of the review period, VVO Group owned 34,926 (40,899) rental apartments.

The rental housing business is characterised by stability and predictability, which provide a good foundation for development. The nature of our business, our solid financial position, and our good financial performance enable us to make investments in different kinds of economic situations.

On 16 June 2016, ARA made the decision on the transaction between VVO Group and Kiinteistö Oy M2-Kodit, owned by Y-Foundation. The first phase of the transaction was executed on 31 March 2016 and the second phase on 20 June 2016. The sales price will be raised later as a result of the appeal.

SEGMENT REPORTING

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

The Lumo segment contains the Group's parent company VVO Group plc and the group companies VVO Kodit Oy, VVO Vuokratalot Oy and VVO Palvelut Oy, as well as those other group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end by the close of 2017. Some of the housing included in the Lumo segment is subject to property-specific restrictions in accordance with the ARAVA Act.

The group companies in whose apartments the restrictions on the determination of rent, related to the ARAVA and interest subsidy legislation, will end after 2017 belong to the VVO segment. The companies of the VVO segment are subject to the profit distribution restriction, and they can pay their owner an eight per cent return on own funds invested in them that have been confirmed by the Housing Finance and Development Centre of Finland (ARA). The return payable from the annual profits of companies subject to revenue recognition restrictions totals approximately EUR 1 million.

TURNOVER

VVO Group had a turnover of EUR 266.8 (276.3) million for the period 1 January–30 September 2016. The Lumo segment recorded a turnover of EUR 214.8 (141.4) million, and the VVO segment EUR 53.0 (138.0) million. Turnover is entirely generated by rental income.

RESULT AND PROFITABILITY

The Group's net rental income totalled EUR 172.4 (170.5) million, representing 64.6 (61.7) per cent of turnover. The Lumo segment recorded a net rental income of EUR 144.3 (93.2) million, and the VVO segment EUR 29.0 (79.1) million.

The Group's profit before taxes amounted to EUR 154.4 (167.3) million. The profit includes EUR 68.6 (52.5) million in net valuation gain on the fair value assessment of investment properties, and capital gains and losses of EUR -20.3 (1.4) million. Our favourable profit performance is based on changes in the fair value of investment properties, low financial costs, a good financial occupancy rate and the successful management of maintenance costs.

Financial income and expenses totalled EUR -38.6 (-27.9) million. Financial income and expenses include EUR -10.3 (-0.0) million in unrealised changes in the fair value of derivatives.

BALANCE SHEET, CASH FLOW AND FINANCING

At the end of the review period, the Group's balance sheet total was EUR 4,385.2 (4,109.4) million. Equity totalled EUR 1,731.7 (1,692.5) million. The equity ratio stood at 39.5 (41.2) per cent. Equity per share was EUR 233.93 (228.57). The equity ratio of the Lumo segment stood at 38.8 (45.2) per cent. The Group's return on equity was 9.6 (10.9) per cent and return on investment 7.0 (7.7) per cent.

At the end of the review period, the Group's liquid assets totalled EUR 106.6 (74.2) million. The Group maintained good liquidity throughout the period. EUR 193.2 (67.9) million of the EUR 200 million commercial paper programme had been issued by the end of the review period. In addition, the Group has committed credit facilities of EUR 100 million and an uncommitted credit facility of EUR 5 million that remained unused at the end of the review period.

At period end, interest-bearing liabilities stood at EUR 1,984.8 (1,888.4) million, of which EUR 1,560.2 (1,054.1) million was accounted for by market-based loans. At the end of the review period, the Group's loan to value was 47.7 (47.9) per cent.

The average interest rate of the loan portfolio stood at 2.1 (2.3) per cent, including interest rate derivatives. The average maturity of loans at the end of the review period was 5.5 (10.2) years.

On 29 March 2016, VVO Kodit Oy signed a contract with Swedbank AB, concerning a five-year secured loan worth EUR 100 million. During the second quarter, VVO Kodit Oy signed secured credit agreements worth a total of EUR 120 million: A 7-year loan worth EUR 50 million was signed with Aktia Bank Plc. Longer, 10-year loans were agreed upon with Danske Bank Plc (EUR 20 million) and with Svenska Handelsbanken AB (publ) (EUR 50 million).

The central conditions of the contracts correspond to those of other credit agreements by VVO Group.

REAL ESTATE PROPERTY AND FAIR VALUE

VVO Group owned a total of 34,926 (40,899) rental apartments at period end. The Lumo segment accounted for 31,060 (24,481) and the VVO segment for 3,866 (16,418) of these apartments. At the end of the review period, the Group owned apartments in 40 (41) municipalities.

At the end of the review period, the fair value of VVO Group's investment properties stood at EUR 4.1 (3.9) billion. During the review period, the fair value increased by EUR 128.3 (199.2) million. The change includes EUR 68.6 (52.5) million in net valuation gain on the fair value assessment of investment properties. The fair value of the Group's investment properties is determined quarterly on the basis of the company's own evaluation. An external expert gives a statement on the valuation of the Group's investment properties. The last valuation statement was issued on the situation as on 30 September 2016. The criteria for determining fair value are presented in the Notes to the Interim Report.

At period end, the plot reserve held by the Group totalled about 124,000 floor sq m (110,000 floor sq m) and its fair value was approximately EUR 62.1 (44.2) million.

M€	30 Sept 2016	30 Sept 2015	31 Dec 2015
Fair value of investment properties, beginning of period	**3 999.2**	**3 708.8**	**3 708.8**
Acquition of investment properties *)	584.6	125.1	187.1
Other investments on investment properties	23.6	27.2	45.8
Disposals of investment properties	-548.9	-7.2	-14.9
Capitalised borrowing costs	1.2	1.6	2.0
Transfer to own use	-0.7	0.0	0.0
Valuation gains/losses on fair value assessment	68.6	52.5	70.3
Fair value of investment properties, end of period	**4 127.5**	**3 907.9**	**3 999.2**

RENTAL HOUSING

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

The financial occupancy rate remained at a good level, standing at 97.2 (97.5) per cent for the review period. At the end of the review period, 193 (472) apartments were vacant due to renovations. The tenant turnover rate, which includes internal transfers, increased slightly when compared to the corresponding period of the financial year 2015 and was 23.0 (20.4) per cent.

The average rent for the Group's 30,734 (27,233) market-based rental apartments (Lumo) was 14.38 (13.74) per sq m per month during the review period, and EUR 14.48 (13.92) at period end. The average rent for Lumo apartments is increased by the renewal of the property portfolio due to strong investment activities. The corresponding figures for the 4,192 (13,666) apartments rented at cost price (VVO) was EUR 12.85 (12.72) during the review period and EUR 12.94 (12.80) at period end.

At the end of the review period, there were 13,958 (18,733) active applications. (Applications are active for three months.) The average number of active applications per rental agreement termination was 16.9 (19.7). A total of 39,063 (48,422) new rental housing applications were received during the review period. The change in the number of applications is related to the rapidly growing Lumo homenow.fi service in which customers can rent the apartment they want directly online without submitting an application. Lumo homenow.fi has convinced customers of its merits: more than 760 tenancy agreements have now been signed through the apartment rental service.

Thanks to successful rental control and our housing advisory service, the proportion of annual turnover from rental operations accounted for by rent receivables remained low and stood at 1.1 (1.2) per cent at the end of the review period.

VVO Group continues to apply overall rent without any separate additional charges, which is convenient for the customers. In nearly all of the Group's apartments, the rent includes water and broadband Internet.

During the review period, the Group has decided to prohibit smoking on balconies in all new and future renovated properties. After the reform, smoking in these properties will only be allowed in designated areas. The first new and renovated properties with a ban on smoking on balconies will be completed in February 2017. The aim is to ensure healthy and comfortable living conditions for all tenants.

INVESTMENTS, DIVESTMENTS AND REAL ESTATE DEVELOPMENT

VVO Group launched construction of 678 (382) apartments during the review period. There were a total of 1,415 (1,199) privately financed apartments under construction at the end of the period. Of the apartments under construction, 1,233 (820) are located in the Helsinki region and 182 (379) in other Finnish growth centres.

During the review period, VVO Group acquired 2,274 (40) apartments and sold 8,862 (244) apartments.

452 (310) new apartments were completed during the period. An estimated 567 (736) apartments are scheduled for completion by the end of the year.

The Group's gross investments totalled EUR 609.4 (159.2) million. Total repair costs and modernisation investments during the review period amounted to EUR 51.0 (61.6) million, of which modernisation investments accounted for EUR 23.6 (27.2) million. The Lumo segment accounted for EUR 609.2 (152.6) million of gross investments, and the VVO segment for EUR 0.2 (6.6) million.

At period end, there were binding acquisition agreements worth a total of EUR 358.2 (268.7) million. A total of 2,473 new apartments will be built under the acquisition agreements, of which 1,415 were under construction at the end of the review period.

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

VVO Kodit Oy signed a preliminary agreement with Rakennus Omera Oy and e-House Oy with regard to the entire share capital of Helsingin Ristiretkeläisenkatu 19, resulting in 30 new Lumo rental apartments. VVO Kodit Oy and Lehto Group Plc signed a cooperation agreement on the construction of more than 100 rental apartments in the Helsinki Metropolitan Area. Furthermore, Peab and VVO Group signed an agreement on the construction of two privately financed rental apartment blocks, consisting of 190 rental apartments and a parking facility, in Marinkallio, Espoo.

EXTRAORDINARY GENERAL MEETING

At the Extraordinary General Meeting on 15 September 2016, it was decided, as proposed in the presentation of the Board of Directors, that the company will pay an extra dividend of EUR 9.00 per share, i.e. EUR 66,623,040, and that this dividend will be paid on 31 October 2016. The extra dividend is based on the fact that the Group has divested the business that was subject to long-term restrictions and the assets invested in this business were now returned as the extra dividend.

PERSONNEL

At the end of the review period, VVO Group had a total of 290 (363) employees. The average number of personnel during the period was 302 (366).

SHAREHOLDERS

No significant changes occurred in the company's ownership during the review period.

VVO Group plc's 10 major shareholders on 30 September 2016

Shareholders	Holding, %
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	18.08
Keskinäinen työeläkevakuutusyhtiö Varma	16.98
Metallityöväen Liitto ry	9.70
Julkisten ja hyvinvointialojen liitto JHL ry	8.73
Rakennusliitto ry	8.31
Palvelualojen ammattiliitto PAM ry	7.49
Ammattiliitto Pro ry	7.49
Opetusalan Ammattijärjestö OAJ ry,	7.46
TEAM Teollisuusalojen ammattiliitto ry	5.99
Tehy ry Tehy rf	1.39
Muut	8.38
Total	**100.00**

SUSTAINABILITY

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

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

VVO Group's estimated taxes and tax-like charges in 2016 amount to approximately EUR 100 million. As estimated on the basis of the 2014 performance in RT's/VTT's report, the share of taxes and tax-like charges in VVO Group's EUR 235 million investments in 2015 was 41 per cent; in the entire procurement chain, this amounts to approximately EUR 96 million. VVO Group's tax footprint was published in the 2015 Annual Report. (http://annualreport2015.vvo.fi/good-rental-housing/new-housing-services-and-solutions/a-reliable-landlord)

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

The Responsible Summer Job campaign again rewarded the most responsible summer job employers in Finland. VVO Group plc came third in the major employer category.

The Virkeä programme is a cooperation programme between VVO Group and promising young athletes that supports young talents financially. This year, the programme covers not only individual sports but also team sports. The recipients of Virkeä team sponsorship for the 2016–2017 season are the FC Honka women's championship team and four girls' teams. In 2016, the Virkeä athletes are Lassi Etelätalo (athletics), Henry Manni (wheelchair racing), Nooralotta Neziri (athletics), Venla Paunonen (athletics), Tommi Pulli (speed skating), Mimosa Jallow (swimming) and Jenni Saarinen (figure skating). Under the Virkeä programme, sponsorships were again awarded to 25 promising athletes in the application round of autumn 2016. The sponsorship grant may be awarded to a young athlete of 12–20 years of age who has shown commitment and desire to succeed in his/her sport. A total of 225 grants have been awarded since 2012.

NEAR-TERM RISKS AND UNCERTAINTIES

VVO Group estimates that the risks and uncertainties in the current financial year are first and foremost related to the development of the Finnish economy. The weak economic development is reflected in both the housing and financial markets. This may impair VVO Group's cash flow.

The weak development in the Finnish economy may bring on a fall in house prices, which could have an impact on the fair value of VVO Group's real estate property.

Disturbances in the financial market may impair the availability and costs of financing. This may influence the financing of VVO Group's growth.

A more detailed description of risks and uncertainties can be found in the 2015 financial statements. (http://annualreport2015.vvo.fi/financial-statements/board-of-directors-report/risk-and-risk-management)

EVENTS AFTER THE REVIEW PERIOD

VVO Group plc issued a new EUR 200 million bond on 17 October 2016. The term of the secured bond is 7 years and the fixed coupon rate is 1.625 per cent per annum. The bond is secured by collateral mainly in the form of residential properties located in Finland. The transaction attracted a wide audience from investors in Finland, other Nordic countries and Europe and it was clearly oversubscribed, with subscriptions from over 40 investors. The bond will be used for financing growth investments. The bond was listed on the Nasdaq Helsinki Ltd stock exchange on 21 October 2016.

The Housing Finance and Development Centre of Finland ARA issued an adjustment decision on 20 October 2016 to increase the transfer price for the sale of 8,571 apartments by EUR 9.7 million. The decision has a positive effect of EUR 9.7 million on profit, which the company will allocate to the period 1 October–31 December 2016.

CONSOLIDATED INCOME STATEMENT, IFRS

M €	Note	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Total revenue		**84.6**	**93.1**	**266.8**	**276.3**	**370.9**
Maintenance expenses		-18.4	-21.8	-67.0	-71.2	-97.0
Repair expenses		-10.2	-14.0	-27.4	-34.5	-46.5
Net rental income		**55.9**	**57.3**	**172.4**	**170.5**	**227.4**
Administrative expenses		-8.6	-9.0	-26.0	-29.4	-39.7
Other operating income		0.4	0.5	1.7	1.4	2.1
Other operating expenses		0.2	-0.1	-2.5	-0.4	-0.4
Profit/loss on sales of investment properties		6.6	0.0	-20.3	1.4	2.7
Profit/loss on sales of trading properties		0.0	0.0	0.1	0.0	0.0
Fair value change of investment properties	3	12.4	5.3	68.6	52.5	70.3
Depreciation, amortisation and impairment losses		-0.3	-0.3	-0.9	-0.9	-1.2
Operating profit / loss		**66.5**	**53.6**	**193.0**	**195.2**	**261.2**
Financial income		0.5	0.3	1.3	6.9	7.8
Financial expenses		-18.0	-11.1	-40.0	-34.9	-44.8
Total amount of financial income and expenses		**-17.4**	**-10.8**	**-38.6**	**-27.9**	**-37.1**
Share of result from associated companies		0.0	0.0	0.0	0.0	0.6
Profit before taxes		**49.0**	**42.9**	**154.4**	**167.3**	**224.7**
Current tax expense		-6.3	-3.6	-26.1	-10.7	-22.1
Change in deferred taxes		-3.7	-3.3	-4.0	-22.6	-23.2
Profit/loss for the period		**39.0**	**36.0**	**124.4**	**134.0**	**179.4**
Profit of the financial period attributable to						
Shareholders of the parent company		39.0	36.0	124.3	133.9	179.3
Non-controlling interests		0.0	0.0	0.0	-0.1	-0.1
Earnings per share based on profit attributable to equity holders of the parent company						
Basic, euro		5.27	4.86	16.80	18.09	24.23
Diluted, euro		5.27	4.86	16.80	18.09	24.23
Average number of the shares, millions				7.4	7.4	7.4

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

M €	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Profit/loss for the period	**39.0**	**36.0**	**124.4**	**134.0**	**179.4**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Cash flow hedgings	-4.4	-6.6	-34.9	2.8	4.6
Available-for-sale financial assets	0.2	-0.2	0.5	-1.2	-1.6
Deferred taxes	0.8	1.4	6.9	-0.3	-0.6
Items that may be reclassified subsequently to profit or loss	**-3.3**	**-5.4**	**-27.5**	**1.3**	**2.4**
Total comprehensive income for the period	**35.7**	**30.6**	**96.8**	**135.3**	**181.8**
Total comprehensive income attributable to					
Shareholders of the parent company	35.7	30.6	96.8	135.2	181.7
Non-controlling interests	0.0	0.0	0.0	-0.1	-0.1

CONSOLIDATED BALANCE SHEET, IFRS

M €	Note	30 Sept 2016	30 Sept 2015	31 Dec 2015
ASSETS				
Non-current assets				
Intangible assets		0.9	1.2	1.1
Investment properties	3	4 127.5	3 907.9	3 464.9
Property, plant and equipment	4	31.1	31.3	31.2
Investments in associated companies		1.0	3.5	1.0
Financial assets	7	0.6	0.5	0.5
Non-current receivables		3.2	2.3	2.2
Deferred tax assets		21.0	13.4	12.0
Non-current assets total		**4 185.3**	**3 960.1**	**3 513.1**
Investment properties held for sale		0.0	0.0	541.0
Current assets				
Trading properties		0.9	1.2	1.0
Current tax assets		5.0	3.2	1.7
Trade and other receivables		24.5	16.1	8.8
Financial assets		62.8	54.6	54.6
Cash and cash equivalents		106.6	74.2	116.0
Current assets total		**199.9**	**149.3**	**182.0**
ASSETS TOTAL		**4 385.2**	**4 109.4**	**4 236.1**
SHAREHOLDER' EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent company				
Share capital		58.0	58.0	58.0
Share issue premium		35.8	35.8	35.8
Fair value reserve		-60.1	-33.7	-32.6
Invested non-restricted equity reserve		17.9	17.9	17.9
Retained earnings		1 680.1	1 614.0	1 659.4
Equity attributable to shareholders of the parent company		**1 731.7**	**1 692.0**	**1 738.5**
Non-controlling interests		0.0	0.6	0.6
Total equity		**1 731.7**	**1 692.5**	**1 739.1**
LIABILITIES				
Non-current liabilities				
Liabilities	5, 7	1 684.0	1 709.9	1 259.8
Deferred tax liabilities		435.9	430.3	429.8
Derivatives	6, 7	93.7	50.4	48.4
Provisions		0.8	1.0	0.9
Other non-current liabilities		6.3	8.2	7.1
Non-current liabilities total		**2 220.7**	**2 199.8**	**1 746.0**
Liabilities held for sale	9	0.0	0.0	467.1
Current liabilities				
Current liabilities	5, 7	300.8	178.4	234.7
Derivatives	6, 7	1.1	1.6	1.3
Current tax liabilities		10.6	3.6	9.9
Trade and other payables		120.3	33.4	38.0
Current liabilities total		**432.8**	**217.0**	**283.9**
Total liabilities		**2 653.5**	**2 416.8**	**2 497.1**
TOTAL EQUITY AND LIABILITIES		**4 385.2**	**4 109.4**	**4 236.1**

CONSOLIDATED STATEMENT OF CASH FLOWS, IFRS

M €	1-9/2016	1-9/2015	1-12/2015
Cash flow from operating activities			
Profit for the period	124.4	134.0	179.4
Adjustments	22.9	7.7	9.0
Change in net working capital	-19.5	-7.7	0.0
Interest paid	-29.3	-34.1	-42.4
Interest received	0.4	0.5	0.6
Other financial items	-0.8	-0.3	-0.5
Taxes paid	-28.6	-21.2	-24.8
Net cash flow from operating activities	69.4	78.9	121.3
Cash flow from investing activities			
Acquisition of investment properties	-345.6	-158.9	-230.9
Acquisition of property, plant and equipment and intangible assets	-0.1	-0.3	-0.5
Proceeds from sale of investment properties	84.4	8.5	15.4
Proceeds from sale of tangible and intangible assets	0.0		
Proceeds from sale of associated companies	0.6	0.0	0.0
Purchases of financial assets	-13.0	-13.0	-39.0
Proceeds from sale of financial assets	5.2	27.4	53.7
Non-current loans, granted	-0.4	0.0	-0.2
Repayments of non-current receivables	0.1	0.5	0.5
Interest and dividends received on investments	0.3	1.1	1.3
Net cash flow from investing activities	-268.4	-134.8	-199.8
Cash flow from financing activities			
Non-current loans, raised	232.6	145.6	195.9
Non-current loans, repayments	-92.5	-110.5	-134.2
Current loans, raised	316.2	151.4	252.3
Current loans, repayments	-232.3	-148.6	-209.1
Dividends paid	-37.0	-22.2	-22.2
Net cash flow from financing activities	187.0	15.7	82.7
Change in cash and cash equivalents	-12.0	-40.2	4.2
Cash and cash equivalents in the beginning of period	118.6	114.4	114.4
Cash and cash equivalents at the end of period*)	106.6	74.2	118.6

*) 31 Dec 2015 includes liquid assets related to Assets held for sale EUR 2.6 million.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, IFRS

M €	Share capital	Share issue premium	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Equity attri-butable to share-holders of the	Non-controlling interests	Total equity
Equity at 1 Jan 2016	58.0	35.8	-32.6	17.9	1 659.4	1 738.5	0.6	1 739.1
Comprehensive income								
Cash flow hedging			-27.9			-27.9		-27.9
Available-for-sale financial assets			0.4			0.4		0.4
Result for the financial period					124.3	124.3	0.0	124.4
Total comprehensive income	**0.0**	**0.0**	**-27.5**	**0.0**	**124.3**	**96.8**	**0.0**	**96.8**
Transactions with shareholders								
Dividend payment					-103.6	-103.6		-103.6
Total transactions with shareholde	**0.0**	**0.0**	**0.0**	**0.0**	**-103.6**	**-103.6**	**0.0**	**-103.6**
Changes in shareholdings							-0.6	-0.6
Total change in equity	0.0	0.0	-27.5	0.0	20.7	-6.8	-0.6	-7.4
Equity at 30 Sept 2016	**58.0**	**35.8**	**-60.1**	**17.9**	**1 680.1**	**1 731.7**	**0.0**	**1 731.7**

M €	Share capital	Share issue premium	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Equity attri-butable to share-holders of the	Non-controlling interests	Total equity
Equity at 1 Jan 2015	58.0	35.8	-35.0	17.9	1 502.3	1 579.0	0.5	1 579.5
Comprehensive income								
Cash flow hedging			2.4			2.4		2.4
Available-for-sale financial assets			-1.1			-1.1		-1.1
Result for the financial period					133.9	133.9	0.1	134.0
Total comprehensive income	**0.0**	**0.0**	**1.3**	**0.0**	**133.9**	**135.2**	**0.1**	**135.3**
Transactions with shareholders								
Dividend payment					-22.2	-22.2		-22.2
Total transactions with shareholde	**0.0**	**0.0**	**0.0**	**0.0**	**-22.2**	**-22.2**	**0.0**	**-22.2**
Total change in equity	0.0	0.0	1.3	0.0	111.7	113.0	0.1	113.1
Equity at 30 Sept 2015	**58.0**	**35.8**	**-33.7**	**17.9**	**1 614.0**	**1 692.0**	**0.6**	**1 692.5**

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

NOTES TO THE INTERIM REPORT

Since 1 January 2015, VVO Group has prepared its consolidated financial statements, including the Interim Reports, in accordance with International Financial Reporting Standards (IFRSs).

1. Accounting policies

Basis for preparation

These interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS standards.

The preparation of IFRS financial statements requires application of judgement by VVO Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities on the balance sheet date and the reported amounts of income and expenses for the financial year. Management has to make judgements also when applying the accounting policies of the Group. As the estimates and related assumptions are based on management's view at the end of the interim period, they include risks and uncertainties. Actual results may differ from the estimates and assumptions used. Below are presented the most significant items of the interim financial statements where judgement has been applied by management, as well as the assumptions about the future and other key uncertainty factors in estimates at the end of the reporting period which create a significant risk of change in the carrying amounts of VVO Group's assets and liabilities within the next financial year.

- Classification of properties in the Group's operating activities as well as classification of investment property acquisitions either as business combinations or asset acquisitions
- Recognition principle of deferred taxes
- Classification of financial instruments
- Classification of long-term leases into operating leases
- Fair value measurement of investment property: In the consolidated financial statements, the determination of the fair value of investment property is the key area that involves the most significant uncertainty factors arising from the estimates and assumptions that have been used. The determination of the fair value of investment property requires significant management discretion and assumptions, particularly with respect to market prices and amounts of future rental income. VVO uses valuation techniques that are appropriate under those circumstances, and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The figures for the income statement and balance sheet are consolidated. The figures in the report are rounded, and consequently the sum of individual figures may deviate from the aggregate amount presented. The Interim Report is unaudited.

General recognition and measurement principles for investment property

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

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

After initial recognition, investment property is carried at fair value. The resulting changes in fair values are recognised in profit or loss as they arise. Fair value gains and losses are presented netted as a separate line item in the income statement. According to IFRS13, fair value refers to the price that would be received from selling an asset or paid for transferring a liability in an ordinary transaction between market participants on the measurement date.

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

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

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

Fair value hierarchy

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

- Level 1 inputs – Quoted prices (unadjusted) in active markets for identical investment property.
- Level 2 inputs – Inputs other than quoted prices included within Level 1 that are observable for the investment property, either directly or indirectly.
- Level 3 inputs – Unobservable inputs for investment property.

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

Investment property held for sale

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

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

Investment property held for sale is recognised at fair value.

Trading properties

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

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

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

VVO Group's trading properties include mainly single apartments ready for sale, business premises and parking facilities that are meant for sale but have not been sold by the end of the reporting period.

2. Segment information

M €	VVO Non-subsidised 1-9/2016	VVO State subsidised 1-9/2016	Group consolidation methods	VVO Group Total 1-9/2016
Rental income	212.7	52.6	0.3	265.6
Sales income, other	1.3	0.3	-0.3	1.2
Internal income	0.9	0.1	-1.0	0.0
Total revenue	**214.8**	**53.0**	**-1.0**	**266.8**
Maintenance expenses	-51.5	-15.6	0.1	-67.0
Repair expenses	-19.0	-8.4	0.0	-27.4
Net rental income	**144.3**	**29.0**	**-0.9**	**172.4**
Administrative expenses	-21.1	-5.8	0.9	-26.0
Other operating income	1.4	0.3	0.0	1.7
Other operating expenses	-0.1	-2.5	0.0	-2.5
Profit/loss on sales of investment properties	-1.3	-19.7	0.7	-20.3
Profit/loss on sales of trading properties	0.1	0.0	0.0	0.1
Fair value change of investment properties	68.5	0.0	0.0	68.6
Depreciation, amortisation and impairment losses	-0.9	0.0	0.0	-0.9
Operating profit / loss	**190.9**	**1.4**	**0.7**	**193.0**
Financial income				1.3
Financial expenses				-40.0
Total amount of financial income and expenses				**-38.6**
Share of result from associated companies				0.0
Profit before taxes				**154.4**
Current tax expense				-26.1
Change in deferred taxes				-4.0
Profit/loss for the period				**124.4**
Investments	**609.2**	**0.2**	**0.0**	**609.4**
Investment properties	3 992.4	134.2	0.9	4 127.5
Investments in associated companies	1.0	0.0	0.0	1.0
Liquid assets	22.8	83.9	0.0	106.6
Other assets	157.0	99.8	-106.9	149.9
Total Assets	**4 173.2**	**317.9**	**-106.0**	**4 385.2**
Interest bearing liabilities	1 917.8	171.1	-104.1	1 984.8
Other liabilities	636.3	34.1	-1.7	668.7
Total Liabilities	**2 554.0**	**205.2**	**-105.8**	**2 653.5**

M €	VVO Non-subsidised 1-9/2015	VVO State subsidised 1-9/2015	Group consolidation methods	VVO Group Total 1-9/2015
Rental income	137.0	136.6	1.6	275.2
Sales income, other	1.5	0.9	-1.4	1.0
Internal income	2.9	0.4	-3.4	0.0
Total revenue	**141.4**	**138.0**	**-3.2**	**276.3**
Maintenance expenses	-35.7	-36.9	1.3	-71.2
Repair expenses	-12.6	-21.9	0.0	-34.5
Net rental income	**93.2**	**79.1**	**-1.8**	**170.5**
Administrative expenses	-16.2	-16.2	3.0	-29.4
Other operating income	0.7	1.8	-1.1	1.4
Other operating expenses	-0.3	-0.2	0.2	-0.4
Profit/loss on sales of investment properties	0.9	0.6	0.0	1.4
Fair value change of investment properties	14.0	38.4	0.0	52.5
Depreciation, amortisation and impairment losses	-0.9	0.0	0.0	-0.9
Operating profit / loss	**91.4**	**103.6**	**0.3**	**195.2**
Financial income				6.9
Financial expenses				-34.9
Total amount of financial income and expenses				**-27.9**
Share of result from associated companies				0.0
Profit before taxes				**167.3**
Current tax expense				-10.7
Change in deferred taxes				-22.6
Profit/loss for the period				**134.0**
Investments	**147.6**	**6.2**	**0.0**	**153.9**
Investment properties	2 959.2	948.3	0.4	3 907.9
Investments in associated companies	0.9	2.6	0.0	3.5
Liquid assets	27.0	47.1	0.0	74.2
Other assets	198.5	23.2	-97.9	123.8
Total Assets	**3 185.6**	**1 021.3**	**-97.5**	**4 109.4**
				4 109.4
Interest bearing liabilities	1 296.9	682.4	-91.0	1 888.4
Other liabilities	451.2	79.6	-2.3	528.5
Total Liabilities	**1 748.1**	**762.0**	**-93.2**	**2 416.8**

M €	VVO Non-subsidised 1-12/2015	VVO State subsidised 1-12/2015	Group consolidation methods	VVO Group Total 1-12/2015
Rental income	203.3	164.4	1.9	369.6
Sales income, other	1.9	1.0	-1.6	1.4
Internal income	3.6	0.4	-3.9	0.0
Total revenue	**208.8**	**165.8**	**-3.6**	**370.9**
Maintenance expenses	-53.5	-44.9	1.4	-97.0
Repair expenses	-20.6	-25.9	0.0	-46.5
Net rental income	**134.6**	**94.9**	**-2.2**	**227.4**
Administrative expenses	-24.1	-18.9	3.3	-39.7
Other operating income	1.3	1.9	-1.1	2.1
Other operating expenses	-0.4	-0.2	0.2	-0.4
Profit/loss on sales of investment properties	2.2	0.6	0.0	2.7
Fair value change of investment properties	32.7	38.4	-0.8	70.3
Depreciation, amortisation and impairment losses	-1.2	0.0	0.0	-1.2
Operating profit / loss	**145.1**	**116.7**	**-0.6**	**261.2**
Financial income				7.8
Financial expenses				-44.8
Total amount of financial income and expenses				**-37.1**
Share of result from associated companies				0.6
Profit before taxes				**224.7**
Current tax expense				-22.1
Change in deferred taxes				-23.2
Profit/loss for the period				**179.4**
Investments	**228.1**	**6.9**	**-0.1**	**235.0**
Investment properties	3 331.7	133.1	0.2	3 464.9
Investments in associated companies	1.0	0.0	0.0	1.0
Investment properties held for sale	0.0	541.0	0.0	541.0
Liquid assets	14.9	101.2	0.0	116.0
Other assets	213.5	81.3	-181.7	113.1
Total Assets	**3 561.2**	**856.5**	**-181.6**	**4 236.1**
Interest bearing liabilities	1 435.1	235.2	-175.7	1 494.6
Liabilities held for sale	0.0	467.1	0.0	467.1
Other liabilities	500.7	39.8	-5.1	535.4
Total Liabilities	**1 935.7**	**742.1**	**-180.8**	**2 497.1**

3. Investment properties

M€	30 Sept 2016	30 Sept 2015	31 Dec 2015
Fair value of investment properties, beginning of period	**3 999.2**	**3 708.8**	**3 708.8**
Acquition of investment properties *)	584.6	125.1	187.1
Other investments on investment properties	23.6	27.2	45.8
Disposals of investment properties	-548.9	-7.2	-14.9
Capitalised borrowing costs	1.2	1.6	2.0
Transfer to own use	-0.7	0.0	0.0
Valuation gains/losses on fair value assessment	68.6	52.5	70.3
Fair value of investment properties, end of period	**4 127.5**	**3 907.9**	**3 999.2**

The Group has acquisition agreements for new development and renovations, presented in Note 8.

Value development of investment property results from investments, changes in market prices and parameters used in valuation as well as from expiry of restrictions on some properties.

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

Measurement principles of investment property

Investment property is measured initially at its acquisition cost, including related transaction costs. Subsequently it is measured at fair value, and the resulting changes in fair values are recognised in profit or loss as they arise. Fair value refers to the price that would be received from selling an asset or paid for transferring a liability in an ordinary transaction between market participants at the measurement date.

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

Transaction value

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

Income value (yield value)

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

Acquisition cost

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

Fair value sensitivity analysis for investment properties 30 September 2016					
			Change %		
EUR million	**-10 %**	**-5 %**	**0 %**	**5 %**	**10 %**
Properties measured at transaction value					
Change in market prices	-314.5	-157.3		157.3	314.5
Properties measured at yield value					
Yield requirement	65.5	31		-28.1	-53.6
Rental income	-102.6	-51.3		51.3	102.6
Maintenance costs	39.7	19.8		-19.8	-39.7
Financial occupancy rate (change in percentage points)	**-2**	**-1**	**0 %**	**1**	**2**
Rental income (EUR)	-2.4	-1.7		0.4	

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

4. Property, plant and equipment

M€	30 Sept 2016	30 Sept 2015	31 Dec 2015
Book value, beginning of period	31.2	31.7	31.7
Increases	0.0	0.1	0.3
Decreases	-0.3	0.0	0.0
Depreciations for accounting period	-0.5	-0.6	-0.7
Transfer from Investment properties	0.7	0.0	0.0
Book value, end of period	**31.1**	**31.3**	**31.2**

5. Interest-bearing liabilities

Non-current

M €	30 Sept 2016	30 Sept 2015	31 Dec 2015
Interest subsidy loans	297.0	507.4	223.4
Annuity and mortgage loans	62.9	243.7	68.3
Market-based loans	1 320.7	953.9	964.5
Other loans	3.5	5.0	3.6
Total	**1 684.0**	**1 709.9**	**1 259.8**

Current

M €	30.9.2016	30.9.2015	31 Dec 2015
Interest subsidy loans	52.6	58.7	75.3
Annuity and mortgage loans	1.6	11.2	1.7
Market-based loans	46.3	32.3	41.6
Other loans	7.0	8.3	7.3
Commercial papers	193.2	67.9	108.8
Total	**300.8**	**178.4**	**234.7**
Total interest-bearing liabilities	**1 984.8**	**1 888.4**	**1 494.6**

6. Derivative instruments

Fair values of derivative instruments		**30 Sep 2016**		**30 Sep 2015**	**31 Dec 2015**
M€	Positive	Negative	Net	Net	Net
Interest rate derivatives					
Interest rate swaps, cash flow hedges	0.4	-82.8	-82.5	-42.7	-40.9
Interest rate options, cash flow hedges	0.0	0.0	0.0	0.0	0.0
Interest rate derivatives, not in hedge accounting	0.0	-11.6	-11.6	-7.8	-7.6
Electricity derivatives	0.2	-0.9	-0.7	-1.5	-1.2
Total	**0.6**	**-95.4**	**-94.9**	**-52.0**	**-49.7**

Nominal values of derivatives instuments

M€	**30 Sep 2016**	**30 Sep 2015**	**31 Dec 2015**
Interest rate derivatives			
Interest rate swaps, cash flow hedges	1007.2	607.5	690.4
Interest rate options, cash flow hedges	0.0	0.0	0.0
Interest rate derivatives, not in hedge accounting	166.3	38.3	38.0
Total	**1173.5**	**645.8**	**728.4**
Electricity derivatives, MWh	218 123	282 330	245 494

The interest risk of the market loans and commercial papers is hedged with interest rate derivatives according to VVO Group’s treasury policy. The targeted hedging ratio is 50–100%. The hedging ratio was 71 (71) per cent at the end of the review period and the average maturity of the interest rate derivatives was 6.3 (7.2) years.

7. Fair values of financial instruments

Fair values of financial assets and liabilities by category

M€	Carrying value total	LEVEL 1	LEVEL 2	LEVEL 3	Fair value total
			30 Sept 2016		
Financial assets					
Measured at fair value					
Interest rate derivatives	0.4	-	0.4	-	0.4
Electricity derivatives	0.2	0.2	-	-	0.2
Available-for-sale financial assets	42.2	39.7	2.0	0.6	42.3
Measured at amortised cost					
Held-to-maturity investments	2.0	0.0	2.0	-	2.0
Loans and other receivables	19.2	19.2	-	-	19.2
Trade receivables	4.2				4.2
Financial liabilities					
Measured at fair value					
Interest rate derivatives	-94.5	-	-94.5	-	-94.5
Electricity derivatives	-0.9	-0.9	-	-	-0.9
Measured at amortised cost					
Other interest-bearing liabilities	1 885.2	-	1 885.2	-	1 885.2
Bond	99.7	-	100.0	-	100.0
Trade payables	9.5				9.5

M€	Carrying value total	LEVEL 1	LEVEL 2	LEVEL 3	Fair value total
			31 Dec 2015		
Financial assets					
Measured at fair value					
Interest rate derivatives	1.9	-	1.9	-	1.9
Electricity derivatives	0.8	0.8	-	-	0.8
Available-for-sale financial assets	29.7	27.3	2.0	0.5	29.7
Measured at amortised cost					
Held-to-maturity investments	6.2	2.0	4.2	-	6.2
Loans and other receivables	19.0	19.0	-	-	19.0
Trade receivables	3.6				3.6
Financial liabilities					
Measured at fair value					
Interest rate derivatives	-50.3	-	-50.3	-	-50.3
Electricity derivatives	-2.0	-2.0	-	-	-2.0
Measured at amortised cost					
Other interest-bearing liabilities	1395.0	-	1395.0	-	1395.0
Bond	99.6	-	100.0	-	100.0
Trade payables	10.6				10.6

The fair value of the loans is equal to the nominal amount of the loan. There have not been any changes between fair value hierarchy levels during the reporting period.

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

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

Level 2:
A market price quoted on the active market exists for similar instruments. The price may, however, be derived directly or indirectly from quoted price information.

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

Level 3 reconciliation

M€	30 Sept 2016	31 Dec 2015
Beginning of period	0.5	0.6
Deductions	0.0	0.0
Transfer from Investment properties	0.0	
End of period	0.6	0.5

Available-for-sale financial assets at hierarchy level 3 are unquoted shares measured at historical cost less any impairment losses as their fair values cannot be measured reliably.

8. Collateral and contingent liabilities

M€	30 Sept 2016	30 Sept 2015	31 Dec 2015
Loans covered by pledges on property			
and shares as a collateral	1 796.9	1 823.2	1 849.7
Mortgages	2 175.8	2 501.9	2 551.5
Shares*)	357.5	213.6	213.6
Pledged collaterals total	**2 533.4**	**2 715.5**	**2 765.1**
Other collaterals given			
Pledges given	5.8	12.9	12.8
Guarantees given*)	499.7	367.3	433.3
Other collaterals total	**505.5**	**380.30**	**446.1**

Other liabilities

M€	30 Sept 2016	30 Sept 2015	31 Dec 2015
New construction	338.2	247.9	253.9
Renovation	20.0	20.8	22.5
Total	358.2	268.7	**276.4**

*) Pledged mortgages and shares relate in some cases to same properties.

**) Guarantees given mainly relate to parent company guarantees given on behalf of Group companies' loans, and these loar are also given mortgages as collaterals.

9. Non-current assets held for sale

M €	30 Sept 2016	30 Sept 2015	31 Dec 2015
Investment properties			534.3
Investments in associated companies			3.0
Receivables			1.2
Liquid assets			2.6
Assets total			541.0
Liabilities			460.7
Trade and other payables			6.4
Liabilities total			467.1
Net asset value			73.9

There were no non-current assets held for sale during the review period.

10. Key figures

VVO-group	7-9/2016	7-9/2015	1-9/2016	1-9/2015	1-12/2015
Revenue, M€	84.6	93.1	266.8	276.3	370.9
Net rental income, M€	55.9	57.3	172.4	170.5	227.4
% revenue	66.1	61.5	64.6	61.7	61.3
Profit before taxes, M€	49.0	42.9	154.4	167.3	224.7
Earnings per share, €	5.27	4.86	16.80	18.09	24.23
Equity per share, €			233.93	228.57	234.85
Return on equity, % (ROE)			9.6	10.9	10.8
Return on investments, % (ROI)			7.0	7.7	7.6
Loan to Value, %			47.7	47.9	42.8
Equity ratio, %			39.5	41.2	41.1
Financial Occupancy rate, %	97.8	97.8	97.2	97.5	97.6
Gross investments, M€	519.5	44.2	609.4	159.2	235.0
Investment properties, M€			4 127.5	3 907.9	3 999.2
Interest bearing liabilities, M€			1 984.8	1 888.4	1 494.6
Number of personnel, end of period			290	363	356

Formulas used in the calculation of the key figures

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

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

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

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

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

Loan to Value, % = $\dfrac{\text{Adjusted interest-bearing liabilities}}{\text{Investment properties + Property, plant and equipment}} \times 100$