FINANCIAL STATEMENTS 2017

Table of contents

This report describes the SRV Group's financial performance in 2017. SRV Group Plc's full financial statements for the financial year 1 January–31 December 2017 are included in the company's official financial statements, which are available on the company's website www.srv.fi.

Report of the Board of Directors 2017

FINANCIAL YEAR 1 JANUARY–31 DECEMBER 2017 IN BRIEF:

- **Revenue** grew to a new all-time high at EUR 1,116.1 (884.1 1–12/2016) million (up 26 per cent). Revenue growth was driven by an increase in the revenue of Operations in Finland. Business construction in Finland posted the greatest growth, while in percentage terms the highest increase was seen in the housing business.
- **Operative operating profit**[1] amounted to EUR 28.7 (26.3) million (up 9.1 per cent). Revenue growth in Operations in Finland and the recognition of almost twice as many developer-contracted housing units than in 2016 had a favourable impact on operative operating profit. Operative operating profit was weakened by longer delivery periods and a rise in costs due to the market situation, which led to lower-than-expected margins in certain projects that are under construction as well as by the cost impact of one project that has already been completed.
- **Operating profit** decreased to EUR 17.1 (27.7) million. Operating profit was weakened by the decline in the operating profit of International Operations to EUR -18.4 (-4.2) million. The operating profit of International Operations was impacted above all by the change in the rouble exchange rate, which had a net effect of EUR -11.7 million. The exchange rate impact is caused by the conversion of euro-denominated loans to roubles and because of the hedging expenses.
- **The result before taxes** was EUR 4.6 (16.4) million.
- **Earnings per share** were EUR 0.05 (0.15).
- At period-end, **the order backlog** stood at EUR 1,547.9 (1,758.5) million. The order backlog declined slightly because many large projects, such as the Nova Hospital in Central Finland, were recorded in the order backlog during the comparison year.
- **Equity ratio** was 35.5 (38.3) per cent and **gearing** was 105.0 (83.4) per cent. The growth in net debt due to invested capital and the weaker exchange rate of the rouble contributed to the change in the equity ratio and gearing.
- **Proposed dividend** per share is EUR 0.06 (0.10).

[1] In order to improve comparability in the case of actual earnings, as from 20 July 2017 SRV has adopted the new concept of "operative operating profit". It differs from the IFRS definition of operating profit in that it eliminates the calculated currency exchange differences included in financial items in Russian operations and their potential hedging impacts.

OUTLOOK FOR 2018

- Fewer developer-contracted housing units will be completed in 2018 than in the comparison period. It is estimated that a total of 526 housing units will be completed in 2018 (782 in 2017). Although housing will be completed on a steadier schedule in 2018 than in the previous year, a significant part of operating profit will still be made in the second half of the year. In addition, earnings in 2018 will be impacted by the lower-than-expected margins of certain ongoing projects.
- Full-year consolidated revenue for 2018 is expected to decline compared with 2017 (revenue EUR 1,116.1 million). Operative operating profit is expected to be lower than in 2017 (operative operating profit EUR 28.7 million)
- After 2018, an atypical year, the company anticipates that it will achieve its strategic earnings level by the end of 2022.

OVERALL REVIEW

January–December 2017

The Group's revenue grew to a new all-time high at EUR 1,116.1 (884.1 in 1–12/2016) million (up 26 per cent). Revenue growth was driven by an increase in the revenue of Operations in Finland. Business construction in Finland posted the greatest growth, while in percentage terms the highest increase was seen in the housing business. Large business premises projects, such as the construction of hospitals and shopping centres, also increased revenue. The recognition of income from twice as many developer-contracted housing units than in 2016, a total of 825 (499), particularly contributed to revenue growth.

The Group's operative operating profit amounted to EUR 28.7 (26.3) million (up 9.1 per cent). Revenue growth in Operations in Finland and the recognition of more developer-contracted housing than in the corresponding period of the previous year had a favourable impact on the operative operating profit. Operative operating profit was weakened by longer delivery periods and a rise in costs due to the market situation, which led to lower-than-expected margins in certain projects that are under construction as well as by the cost impact of one project that has already been completed.

GROUP KEY FIGURES

IFRS, EUR million	1-12/2017	1-12/2016	Change	Change, %
Revenue	1,116.1	884.1	232.0	26.2
Operative operating profit[3]	28.7	26.3	2.4	9.1
Operative operating profit, %	2.6	3.0		
Operating profit[1]	17.1	27.7	-10.6	-38.3
Operating profit, %	1.5	3.1		
Financial income and expenses, total[2]	-12.4	-11.3	-1.1	
Profit before taxes	4.6	16.4	-11.7	-71.6
Net profit for the period	5.8	14.4		
Net profit for the period, %	0.5	1.6		
Order backlog[4]	1,547.9	1,758.5	-210.6	-12.0
New agreements	771.4	1,013.1	-241.7	-23.9
[1] Net effect of currency exchange fluctuations	-11.7	1.3	-13.0	
[2] Of which accounted for by derivatives	0.3	-4.9	5.2	

[3] Operative operating profit is determined by deducting the calculated currency exchange differences included in financial items in Russian operations and their potential hedging impacts from operating profit. Exchange rate differences during the review period amounted to EUR -11.7 (1.3) million, with hedging expenses of EUR -2.5 (-8.8) million.
[4] At period-end

GROUP KEY FIGURES

IFRS, EUR million	1-12/2017	1-12/2016	Change	Change, %
Equity ratio, %	35.5	38.3		
Net interest-bearing debt	297.6	246.3	51.3	20.8
Gearing ratio, %	105.0	83.4		
Return on investment, %	3.4	6.1		
Return on investment, construction, %	8.1	9.2		
Return on investment, property development, %	-4.8	0.2		
Invested capital	604.5	596.2	8.3	1.4
Invested capital, construction	276.6	247.0	29.6	12.0
Invested capital, property development	327.9	349.2	-21.3	-6.1
Return on equity, %	2.0	5.0		
Earnings per share, EUR	0.05	0.15	-0.10	-67.8
Equity per share, EUR	4.03	4.25	-0.22	-5.2
Share price at end of period, EUR	3.60	5.43	-1.83	-33.7
Weighted average number of shares outstanding, millions	59.5	59.3		

The Group's operating profit declined to EUR 17.1 (27.7) million. Operating profit was weakened by the decline in the operating profit of International Operations to EUR -18.4 (-4.2) million. The result of International Operations was impacted above all by the change in the rouble exchange rate, which had an effect of EUR -11.7 million. The exchange rate impact is primarily caused by the conversion of euro-denominated loans to roubles. Exchange rate differences vary in each financial statement in line with fluctuations in the exchange rate of the rouble. The difference has no impact on cash flow.

The Group's order backlog stood at EUR 1,547.9 (1,758.5) million. The order backlog declined because many large projects, such as the Nova Hospital in Central Finland, were recorded in the order backlog in 2016. Several new agreements valued at a total of almost EUR 771.4 million were signed in January–December 2017. In the last quarter, Phase I agreements valued at a total of EUR 210 million for the Tampere Central Deck and Arena were recognised in the order backlog. After the review period, many other new projects have already been included in the order backlog in early 2018, such as the Siltasairaala Hospital in Meilahti, Helsinki, recognised in January. Other projects that are expected to be included in the order backlog later in 2018 include the remaining Phase 1 agreements for the Tampere Central Deck and Arena, the expansion of Helsinki Airport and the renovation of its Terminal 2.

The Group's profit before taxes totalled EUR 4.6 (16.4) million.

The Group's earnings per share were EUR 0.05 (EUR 0.15). The earnings per share for the comparison period were impacted by, for instance, the non-recurring cost of repaying the hybrid bond.

The Group's equity ratio stood at 35.5 (38.3) per cent and **gearing** at 105.0 (83.4) per cent. An increase in net interest-bearing debt due to growth in invested capital and the weaker exchange rate of the rouble contributed to the change in the equity ratio and gearing.

SRV has added the capital invested in the construction and property development businesses to its financial report, as well as the returns on these investments. By nature, SRV's businesses consist of construction and related property development, as well as investment in SRV's own projects. As these two businesses differ in nature, the segment reporting is considered to be changed from the beginning of 2019 and begin providing additional information about the capital invested in these and the return on investmen already during 2018.

The construction business includes all of the capital required for construction and developer contracting for housing production, as well as the required plots of land. The property development business consists of projects for commercial premises in which the company is an investor, and the primary intention is to sell the projects several years after construction is complete and the property has attained a normal occupancy rate and standard. The property development operations report on commercial premises that are under development and completed and where the company acts as a longer-term investor. Plots that the company develops itself and where the expected returns arise from the development are also reported as part of property development.

All of the relevant balance sheet items have been allocated to operations, as well as the operating expenses. The Group's invested capital is accounted for by the construction and property development operations calculated together, but the difference between them is in the elimination of construction profit margins. This division of the businesses aptly describes the company's capital requirements and profitability levels. Construction generates a stable operating profit, the requirement for invested capital is lower and

REVENUE

EUR million	1-12/2017	1-12/2016	Change	Change, %
Operations in Finland	1,097.8	832.2	265.6	31.9
International Operations	18.0	52.4	-34.4	-65.7
Other operations and eliminations	0.3	-0.4	0.8	
Group, total	1,116.1	884.1	232.0	26.2

OPERATIVE OPERATING PROFIT

EUR million	1-12/2017	1-12/2016	Change	Change, %
Operations in Finland	40.3	38.3	2.0	5.3
International Operations	-6.7	-5.5	-1.2	
Other operations and eliminations	-4.8	-6.4	1.6	
Group, total	28.7	26.3	2.4	9.1

OPERATIVE OPERATING PROFIT

%	1-12/2017	1-12/2016
Operations in Finland	3.7	4.6
International Operations	-37.4	-10.5
Group, total	2.6	3.0

OPERATING PROFIT

EUR million	1-12/2017	1-12/2016	Change	Change, %
Operations in Finland	40.3	38.3	2.0	5.3
International Operations[1]	-18.4	-4.2	-14.2	
Other operations and eliminations	-4.8	-6.4	1.6	
Group, total[1]	17.1	27.7	-10.6	-38.3
[1] Effect of currency exchange fluctuations	-11.7	1.3	-13.0	

OPERATING PROFIT

%	1-12/2017	1-12/2016
Operations in Finland	3.7	4.6
International Operations	-102.3	-7.9
Group, total	1.5	3.1

ORDER BACKLOG

EUR million	12/2017	12/2016	Change	Change, %
Operations in Finland	1,526.7	1,726.1	-199.4	-11.6
International Operations	21.2	32.4	-11.1	-34.4
Group, total	1,547.9	1,758.5	-210.6	-12.0
Sold order backlog	1,273	1,482	-210	-14.1
Unsold order backlog	275	276	-1	-0.3
Sold order backlog, %	82	84		
Unsold order backlog, %	18	16		

the turnover rate is higher. Property development ties up more capital for a longer period. In the construction business, revenue and profit are realised more rapidly than in property development, where profits are usually only obtained when the sites are sold off.

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 comprises retail, office, logistics and specialised construction, and earthworks and rock construction). 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.

SRV's business model and value creation

SRV's business model, the SRV Approach covers not only the entire construction project but also an increasing proportion of the entire property investment value chain, all the way from identifying future requirements to project brainstorming and implementation. The SRV Approach harnesses the company's subcontractor network, financing partners and other partners, and thus scales well in accordance with the needs of the market and SRV. The cornerstones of the SRV Approach are in-house project development, management of project financing, efficient and high-quality construction, optimisation of rental income and management of the end-investor market.

Project development serves all of the business segments and is responsible for matters such as land acquisition, zoning, concept design and finding investors and anchor tenants. Capital management is an essential element of project value formation. SRV seeks funding for specific projects from banks, investors and other partners. The company also invests its own funds in some projects.

The efficiency of SRV's project implementation is based on a project management model that centres around customers' needs. Projects are implemented in open cooperation with customers. When implementing the project, the SRV professionals in charge of project management harness the company's extensive and skilled partner network.

Value creation

From the perspective of value creation, the types of capital particularly emphasised at SRV are financial, human, intangible and social capital. With respect to human capital, the following aspects are particularly important: expertise in different kinds of customer relationships, interaction, design expertise, zoning expertise, management of the supplier pool and management expertise. The major elements of intangible capital are the SRV Approach, SRV Network Register, references, brand, concepts and operating models. The key areas in social capital are stakeholder relationships with cities, investors and the local environment as well as the employer image and partnerships.

SRV has identified the following as phases that have a strong impact on value creation in addition to the construction phase, depending on the project: property development and zoning phase, commercial concept, user negotiations, design and design steering. Harmonising different interests, management of the cost impacts of changes, the selection of partners and accumulation of learning are also considered extremely important.

Stakeholders consider that SRV's strengths include not only project development and expertise in project management and building systems, but also understanding customers' needs, agility, flexibility, creativity and the desire to be involved in developing top-quality projects. Stakeholders view that project management, technical expertise and the long-term development of resources are areas in particular need of development. (Sources: Stakeholder interviews in summer 2017 and internal work meetings in autumn 2017.)

OPERATIONS IN FINLAND

Business environment in Finland

Although the European economy is continuing to grow, significant financial and political uncertainty factors in several countries, both inside the Euro zone and elsewhere, are continuing to pose risks in development. The Finnish economy is continuing to see broad-scale growth. Exports and industrial investments have increased, supporting the growth started by domestic consumption and construction. According to different sources, GDP is expected to grow by 2.3–3.3 per cent in 2018.

On the heels of economic growth, activity in new construction has been stronger than forecast, but total growth in construction is estimated to continue this year at a slightly slower rate than last year, at about 2 per cent. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT 10/2017)

Urbanisation and population shift will continue to be the general drivers of construction growth and will maintain the need for both housing and business construction in growth centres, which are SRV's strategic focal points. The most optimistic forecasts estimate that as many as 620,000 people in Finland will move into urban areas by 2040. For instance, the Helsinki master plan enables the population of the city to grow to 860,000 by 2050. (Sources: new Helsinki master plan 10/2017 & VTT, Demand for new dwelling production in Finland 2015–2040, 01/2016.)

Housing, business and infrastructure construction in Finland

In general, housing sales in growth centres have remained at a good level thanks to population shift and investor sales. Housing production is still focusing on small apartments. Last year, construction was launched on a total of as many as 43,000 housing units in Finland, a high figure in historical terms, and housing start-ups this year are expected to amount to about 40,000 units. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 10/2017.)

On the whole, new business construction start-ups increased in 2017, but are expected to decline slightly in 2018. The growth rate in renovation is forecast to remain at last year's level of about 1.5 per cent. Civil engineering investments are expected to grow by about one per cent. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 10/2017.)

According to Statistics Finland, construction costs have seen a moderate increase of 1.1 per cent from January to December 2017. The prices of equipment and supplies in particular have risen over the past 12 months. (Source: Statistics Finland, Building Cost Index.)

HOUSING CONSTRUCTION

January–December 2017

SRV's **revenue** from housing construction in Finland rose to EUR 379.9 (272.7) million in the January–December period. The recognition of income from a significantly higher number of completed developer-contracted housing units had by far the greatest impact on revenue. In January–December, almost twice as many housing units, a total of 825 (499), were recognised as income than in 2016. The **order backlog** for housing construction in Finland was EUR 606.4 (562.6) million. The order backlog rose and remains at a high level.

OPERATIONS IN FINLAND

EUR million	1-12/2017	1-12/2016	Change	Change, %
Revenue	1,097.8	832.2	265.6	31.9
Business construction	717.9	559.5	158.4	28.3
Housing construction	379.9	272.7	107.2	39.3
Operating profit	40.3	38.3	2.0	5.3
Operating profit, %	3.7	4.6		
Order backlog[1]	1,526.7	1,726.1	-199.4	-11.6
Business construction[1]	920.3	1,163.5	-243.2	-20.9
Housing construction[1]	606.4	562.6	43.8	7.8

HOUSING CONSTRUCTION IN FINLAND

Units	1-12/2017	1-12/2016	Change, units
Units sold, total	1,627	1,260	367
Developer contracting	983	509	474
Investor sales[2]	644	751	-107
Developer contracting			
Start-ups	1,018	454	564
Completed	782	503	279
Recognised as income	825	499	326
Completed and unsold[1]	68	111	-43
Under construction, total[1]	3,254	2,696	558
Contracts[1]	504	441	63
Negotiation contracts[1]	293	441	-148
Sold to investors[1,2]	1,385	978	407
Developer contracting[1]	1,072	836	236
Sold[1]	602	444	158
Unsold[1]	470	392	78
of which sold, %[1]	56	53	
of which unsold, %[1]	44	47	

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

ORDER BACKLOG, HOUSING CONSTRUCTION IN FINLAND

EUR million	12/2017	12/2016	Change
Contracts and negotiated contracts	179	193	-13
Under construction, sold developer contracting	161	105	56
Under construction, unsold developer contracting	241	222	18
Completed and unsold developer contracting	25	43	-18
Housing construction, total	606	563	44

Housing under construction

In line with its strategy, SRV is focusing on housing development in urban growth centres in locations with good transport connections. For some time now, SRV has been one of the largest housing constructors in the Helsinki metropolitan area. SRV currently has a total of 3,254 (2,696) housing units under construction in Finland, mostly in growth centres.

One of SRV's strategic targets is to increase its developer-contracted housing production. A total of 1,072 (836) developer-contracted housing units were under construction at the end of December. The large number of developer-contracted units currently under construction will continue to contribute to strengthening SRV's result in the future. (The average construction period is about 18 months)

The number of units under construction has been boosted by high consumer and investor demand. At the end of December, a total of 1,385 (978) units were under construction for investors, mainly in Helsinki, Espoo, Vantaa and Kerava.

The major investor projects under construction consist of around 300 housing units for LocalTapiola in Niittykumpu (Espoo) and Tapiola (Espoo), and also in the centre of Kerava and Turku as well as projects for Ilmarinen in Jätkäsaari (Helsinki), Neilikkatie (Vantaa) and Kerava.

Completed housing units

A total of 782 (503) developer-contracted housing units were completed in 2017. A record low number of completed housing units remained unsold at the end of December, 68 (111). Housing sales were very strong during the entire year, with a total of 1,627 (1,260) units sold, 29 per cent more than in 2016. The number of unsold units declined steadily during the year and the current unsold units mainly consist of individual apartments at different sites in Tampere, Turku, Helsinki, and Espoo.

Housing units recognised as income

The majority of units under construction were completed in late 2017. In 2017, 825 (499) developer-contracted housing units were recognised as income, generating total revenue of EUR 209.2 (144.0) million. A developer-contracted 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 the project has been completed and as the units are sold.

Future housing units

SRV assesses the demand for a future housing project with advance marketing. At this stage, preliminary information on the future project is available, but the actual start-up decision will only be made on the basis of the advance marketing phase. By the end of December 2017, start-up decisions had been made on 188 RS housing units (i.e. units under the scope of the RS system, which protects the interests of homebuyers in the construction phase). Units will be built in Espoo, Vantaa, Kerava, Helsinki, Tampere and Turku. Such units are recognised as revenue when the project has been completed and as the units are sold.

In addition to start-up decisions, in 2017 SRV made plot reservations for upcoming projects. In June, SRV signed a preliminary agreement to acquire the entire share capital of Kalevala Kartano Oy. Kalevala Kartano owns a plot on Strömbergintie 4 in Pitäjänmäki, Helsinki, on which SRV plans to build three apartment buildings with 170 housing units.

In September, SRV announced that it had been selected to implement an apartment building with just under 200 housing units in the Kivistö school area in Vantaa after winning the design and site allocation competition organised by the City of Vantaa.

Also in September, the company announced that the Lapinmäentie project in Munkkivuori, Helsinki was moving forward. Seven new residential towers are planned for the area in addition to the existing office tower, which will remain. The new residential towers will contain over 700 apartments. Demolition work started at the beginning of October and it is intended that the construction of the first 200 housing units will begin in summer 2018.

In October 2017, SRV announced that it has developed a new housing concept with the aim of building owner-occupied homes whose monthly living expenses will be lower than rent levels in the area. Construction of the first model site will begin in Keimolanmäki, Vantaa in summer 2018. The homes are targeted at families with children and first-time homebuyers. Advance marketing of the homes will begin in March.

After the period in February 2018 SRV announced it is changing the pricing of its apartments. In the future there are two different prices for all apartments sold on the consumer market during advance marketing. Customers can buy their home several per cent lower than the normal price. In such cases, a participation in a housing corporation loan will not be allocated to the apartment; customers will pay the whole debt-free selling price of the apartment according to the progress of construction.

REDI apartments

REDI in Kalasatama, Helsinki is the largest construction project in SRV's history. By the end of December, 90 per cent of the 282 units in REDI's first residential tower (Majakka) had been sold, a total of 254 units.

Construction of Majakka is ongoing and 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 as its apartments are sold.

After the end of the review period, SRV announced that advance marketing for Loisto, the second REDI residential tower, will begin in April. The actual start-up decision will only be made on the basis of the advance marketing phase. Construction of Loisto will most likely begin in summer 2018.

BUSINESS CONSTRUCTION

January–December 2017

SRV's **revenue** from business construction grew to EUR 717.9 (559.5) million, and the **order backlog** was EUR 920.3 (1,163.5) million.

The greatest contribution to year-on-year revenue growth has been made by large-scale ongoing hospital projects, such as Hospital Nova in Central Finland, a new construction project at Tampere University Hospital, and the New Children's Hospital in Helsinki. Revenue from hospital projects accounts for about 17 per cent of consolidated revenue. The Health and Wellness Centre implemented in Kalasatama, Helsinki, was completed and handed over to the client towards the end of 2017. In addition, after completing the HUS Siltasairaala development phase in Meilahti, Helsinki, SRV has proceeded into the implementation phase. The construction of the Siltasairaala Hospital, the largest construction project in the history of the Hospital District of Helsinki and Uusimaa, started after the end of the review period at the beginning of 2018.

THE LARGEST DEVELOPER-CONTRACTED HOUSING PROJECTS UNDER CONSTRUCTION IN FINLAND

Project name, location	SRV, contract value, EUR million	Completion date (estimated)[1]	Units	Sold[1]	For sale[1]
REDI Majakka, Helsinki	106	02/2019	282	254	28
Espoo, Piruetti	31	01/2019	113	48	65
Espoo, Kulmaniitty	22	01/2019	67	9	58
Kerava, Aleksinkaarre	22	04/2019	80	15	65
Vantaa, Maalisuora	17	04/2018	96	63	33
Vantaa, Tikkurila Starlet	14	04/2018	55	6	49
Helsinki, Smokki	13	02/2019	32	3	29
Total value of projects approximately EUR 225 million					

THE LARGEST ONGOING HOUSING PROJECTS IN FINLAND, INVESTOR PROJECTS AND HOUSING CONTRACTING

Project name, location, developer	Completion level, %[1]	Completion date (estimated)[1]
Suurpellon Puistokatu 12, Espoo, Ilmarinen	84	01/2018
Wood City, Helsinki, ATT[2]	65	02/2018
Neilikkatie, Vantaa, Ilmarinen	78	02/2018
Orno, Kerava, Ilmarinen	79	02/2018
Hernetie, Vantaa, OP	71	02/2018
Välimerenkatu 10, Helsinki, Ilmarinen	55	03/2018
Suurpellon Puistokatu D, Espoo, TA	72	03/2018
HOAS Kumpula, Helsinki	43	03/2018
Aleksinkulma and park Kerava, Etera[3]	28	01/2019
Aleksinhuippu, Kerava, LocalTapiola	20	01/2019
Espoon Pihapuisto and Puistoniitty, LocalTapiola	8	03/2019
Helsingin Punanotko, Ilmarinen	1	02/2020
Total value of projects approximately EUR 258 million		

[1] Situation as of 31 December 2017
[2] Schedule will be specified in Q1 2018
[3] Ilmarinen and Etera merged on 1 January 2018

SRV is currently building housing as developer-contracted, development, and contracted projects. A developer-contracted 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 the project has been completed and as the units are 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.

Growth in SRV's shopping centre construction also boosted revenue from business construction during the January–December period. SRV is currently building two shopping centres as developer-contracted projects: REDI in Helsinki and Karuselli in Kerava. The Niitty shopping centre in Espoo, completed in June, and the construction of Ainoa shopping centre as part of the renewal of Tapiola city centre in Espoo also contributed to revenue. Revenue from shopping centre construction accounts for about 16 per cent of consolidated revenue.

SRV currently has five alliance projects whose revenue amounts to about seven per cent of consolidated revenue. These projects provide additional earnings potential over and above the ordinary profit margin. In practice, SRV can gain additional earnings if the project fulfils quality criteria and is completed for less than the target cost and on or under schedule.

SRV's infrastructure construction has bolstered its position in Operations in Finland. For example, SRV is currently implementing the Ring Road I tunnel project, in which traffic will be diverted into an underground tunnel above which a park will be built. It will be completed in spring 2019. An excavation contract for the Kaitaa metro tunnel also boosts infrastructure construction.

SRV is currently building several educational institutions. In July, SRV signed a contractor agreement with the property management centre of the City of Helsinki for the construction of the Jätkäsaari comprehensive school. The project is valued at around EUR 23 million. SRV is serving as the project management contractor. Construction began in autumn 2017 and the school will be completed in 2019. In addition, SRV has agreed on the construction of Kurittula school in Masku. SRV is currently responsible for the construction of buildings for Aalto University School of Arts, Design and Architecture and Aalto University School of Business. In addition, the company is implementing renovation projects for Helsinki University Properties Ltd and University Properties of Finland Ltd.

SRV's business constructions order backlog has decreased slightly in 2017. Many large projects, such as the Nova Hospital in Central Finland, were recorded in the order backlog during the comparison year, and this contributed to the decline in the order backlog. SRV has numerous projects in the development phase, which will be included in the order backlog in 2018. In 2017, an agreement was signed for the expansion of Helsinki Airport and the renovation of its Terminal 2. This project will be recognised in the order backlog when Finavia decides on its construction, which is expected in the latter half of 2018.

After the review period, the Siltasairaala Hospital in Helsinki and Tampere Central Deck and Arena projects were also confirmed. The value of the Phase 1 agreements for the Tampere Central Deck and Arena recognised in SRV's order backlog in 2017 amounted to about EUR 210 million. In addition, it is estimated that about EUR 130 million will be recognised in SRV's order backlog in 2018 when the final contract agreements are signed. Revenue will be recognised for the construction of Phase I during the period from 2018 to 2022. A proportion equivalent to SRV's holding is eliminated from the profit margin of construction.

EUR 243 million will be recognised in SRV's order backlog in 2018 for the Siltasairaala Hospital project in Meilahti, Helsinki.

The Kanta-Häme Hospital District has an ongoing competition for the construction of Kantasairaala, a new healthcare service centre planned for Hämeenlinna. In October 2017, SRV was accepted to participate in the last phase of the competition to make an offer for an alliance project valued at about EUR 170 million (according to the preliminary budget). It is expected that this competition will be decided in the first quarter of 2018.

REDI shopping centre

The REDI shopping centre is an SRV development project. In addition to SRV, the investor group includes Ilmarinen, OP Group and LocalTapiola. Construction work on the project is progressing on schedule. The parking facility is almost complete. The REDI shopping centre will open in autumn 2018 and leasing is proceeding as planned. By the end of January 2018, there were already binding lease agreements for more than 70 per cent of its 200-plus premises. Negotiations with prospective tenants are also currently ongoing for almost all of the remaining premises. The REDI shopping centre is expecting over 12 million visitors in its first full year of operation.

Tampere Central Deck and Arena

The Central Deck and Arena project will be built in the heart of Tampere on top of the railway station. It includes a multipurpose arena, residential towers, office and business premises, and a hotel. The agreements also include apartment buildings in Ranta-Tampella, which will be built separately. The Central Deck and Arena project will connect the eastern and western parts of Tampere, forming a new kind of hybrid block that combines housing, work and leisure. In addition, Finland's second casino will be built at the arena.

The implementation of the project was confirmed after the review period in January 2018, when all the terms and conditions of the agreements signed in October 2017 had been fulfilled. In addition, on 12 January 2018, the future owner of the multipurpose arena – a joint venture of SRV, LocalTapiola, OP Financial Group's insurance and pension insurance companies, and the City of Tampere – signed a financing agreement with Nordea, OP Tampere, Handelsbanken and LocalTapiola (Yritysrahoitus I Ky), the financiers of the arena.

The project schedule and total value have been specified as design has progressed. According to the current estimated schedule, Phase 1 consisting of the southern deck, arena and two tower buildings will be completed in 2022 and the whole project in 2024. The total value of the project has been specified to be about EUR 550 million, of which the Phase I investment agreement accounts for around EUR 340 million.

The share of Phase I agreements recognised in SRV's order backlog in 2017 amounts to about EUR 210 million. In addition, it is estimated that about EUR 130 million will be recognised in SRV's order backlog in 2018 when the final contract agreements are signed. Revenue will be recognised for the construction of Phase I during the period from 2018 to 2022. A proportion equivalent to SRV's holding is eliminated from the profit margin of construction.

Wood City

For many years, SRV has been developing Wood City in the Jätkäsaari neighbourhood 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.

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	85	03/2018
Aleksintori/Karuselli, Kerava	1	Retail	45	04/2018
Tampere Central Deck and Arena, southern deck and infrastructure[2]	1	Public	6	03/2021
Tampere Central Deck and Arena, multipurpose arena and arena hotel[2]	1	Retail	0	03/2021
BUSINESS PREMISES				
Central Finland Hospital Nova, Jyväskylä	290	Public	20	03/2020
TAYS Etupiha, Tampere	170	Public	53	02/2019
Tapiola city centre (Phase 2), Espoo	100+	Retail	11	01/2020
Aalto University, Espoo	76	Public	60	02/2018
Ring Road I, Keilaniemi, Espoo	49	Public	68	04/2018
Kaitaa metro station excavation, Espoo	32	Public	94	02/2018
Renovation of Lappeenranta University	31	Public	78	04/2018
HDC TeliaSonera, Helsinki	1	Industry	75	01/2018
New Children's Hospital, Helsinki	1	Public	85	04/2017–02/2018
Autokeskus Konala, Helsinki	1	Retail	21	02/2019
Jätkäsaari comprehensive school, Helsinki	1	Public	7	03/2019
Hotel Marriot, Tampere	1	Retail	0	02/2019

Situation as of 31 December 2017.
[1] The value of individual contracts has not been made public.
[2] The total value of the Tampere Central Deck and Arena project is EUR 550 million.

BUSINESS PREMISES PROJECTS TO BE RECOGNISED IN THE ORDER BACKLOG AFTER THE END OF THE REVIEW PERIOD

Project, location	SRV total contract value, EUR million	Project type	Agreement status	In order backlog (estimate)
BUSINESS PREMISES				
Wood City, Helsinki	1	Commercial	The final contracts are required before the transaction can be completed, and it is expected that they will be signed in the first quarter of 2018.	01/2018
Siltasairaala hospital, Helsinki	243	Public	In January 2018, HUS decided to start the Siltasairaala Hospital implementation phase with SRV. The project will be recognised in SRV's order backlog valued at its target budget of EUR 243 million.	01/2018
Expansion of the Helsinki Airport and renovation of Terminal 2, Vantaa	2	Commercial	SRV has been selected to participate in an alliance project for the expansion of Helsinki Airport and alteration works in the area in front of its Terminal 2 (6/2017). The plans will be implemented if Finavia decides to go ahead with the investment.	H2/2018

[1] The total value of the project has not been disclosed.
[2] It is intended that the project development phase and its implementation, if greenlit, will be carried out using the alliance model, which has become common in Finland. The total value of the project will be determined during the development phase.

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 schedule of Wood City apartments will be specified in the first quarter of 2018 once the project partners have agreed on how the overall schedule is impacted by repairs of problems in the wood structures.

In October 2017, SRV and Supercell signed a conditional agreement for the purchase of an office building and car park in Wood City. The final contracts are required before the transaction can be completed, and it is expected that they will be signed in the first quarter of 2018. Construction work can be started in spring 2018 at the earliest. The final sale price will not be published. Investor and tenant negotiations for the Wood City hotel building are currently ongoing.

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 cooperation agreement with Rusatom 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. The related negotiations on SRV's role are ongoing, and their content and schedule will be specified later.

INTERNATIONAL OPERATIONS

SRV's International Operations currently largely comprise the management of shopping centres in Russia.

Business environment

Economic growth in Russia finally recovered last year. Russia's GDP is still growing, but at a slow rate. The Bank of Finland Institute for Economies in Transition BOFIT predicts that Russia's GDP will grow by about 1.5 per cent this year, with the price of oil remaining at around its current level. Growth is driven by domestic private demand and the recovery of foreign trade. Russia's growth is expected to continue to be slow in the next few years. In the short term, the price of oil poses the key risk to economic development, as its variations may slow down or accelerate growth compared to the forecast.

Although favourable developments in the price of oil have strengthened the Russian economy, oil price fluctuations and geopolitical tensions continue to cause uncertainty. The rouble exchange rate weakened significantly in early 2017, but has since improved and was around 68–69 roubles at the turn of the year. Pressures on the nominal exchange rate of the rouble have decreased, as the price of oil is expected to remain at around its current level and the outflow of capital from the country has waned. Inflation has declined rapidly and is significantly below the central bank's target of 4 per cent. This anticipates future interest rate decreases, which supports the domestic market. (Source: Bank of Finland Institute for Economies in Transition BOFIT, OP business cycle forecast. January 2018.)

January–December 2017

Revenue from International Operations in 2017 decreased to EUR 18.0 (52.4) million and accounted for about two per cent of the Group's revenue. This decrease was expected, as the bulk of the revenue of International Operations in 2016 was generated by the construction of the Okhta Mall and 4Daily shopping centres. The Okhta Mall opened its doors in St Petersburg in August 2016 and 4Daily opened in Moscow in April 2017. SRV's revenue for January-December mainly comprises finishing work for 4Daily, interior decoration for tenant premises in the Okhta Mall and sales of housing in two apartment buildings in Vyborg.

Operative operating profit from International Operations decreased to EUR -6.7 (-5.5) million. The occupancy rates and rental income of the shopping centres owned by associated companies improved, but earnings were burdened by the fact that management and financing expenses after opening were higher than income. The Okhta Mall shopping centre was opened in St Petersburg in 2016 and the 4Daily shopping centre in Moscow in 2017. During the construction phase, interest expenses on loans are capitalised, but once the shopping centres are completed the interest expenses are presented in full in the result of the company that owns the property.

Operating profit from International Operations decreased to EUR -18.4 (-4.2) million. Operating profit was decreased particularly by the weaker rouble exchange rate; exchange rate movements had a net impact of EUR -11.7 (1.3) million. The exchange rate impact is caused by the conversion of euro-denominated loans to roubles and because of the hedging expenses. Exchange rate differences with no impact on cash flow vary in each interim report in line with fluctuations in the exchange rate of the rouble. In January–December 2016, SRV's primary operating currency in Russia was still the euro. However, 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 switched to the rouble in September 2016. This accounting change makes SRV more susceptible to fluctuations in the rouble exchange rate.

SRV's **share in its associated companies'** profit, which is included in operating profit, was EUR -13.0 (8.0) million. A weaker rouble exchange rate was the main reason for the lower profits generated by associated companies. A positive aspect of the results of the associated companies is that the operating result of the associated company that owns Pearl Plaza has improved thanks to, for instance, lease agreements that have been renewed under better terms.

The **order backlog** for International Operations fell to EUR 21.2 (32.4) million, as no new projects were launched.

INTERNATIONAL OPERATIONS

EUR million	1-12/ 2017	1-12/ 2016	Change	Change, %
Revenue	18.0	52.4	-34.4	-65.7
Percentage of associated companies' profits	-13.0	8.0	-21.0	
Of which exchange rate gains/losses	-9.2	10.1	-19.3	
Hedging expenses	-2.5	-8.8	6.3	
Operative operating profit[1]	-6.7	-5.5	-1.2	
Operative operating profit, %	-37.4	-10.5		
Operating profit	-18.4	-4.2	-14.2	
Operating profit, %	-102.3	-7.9		
Order backlog	21.2	32.4	-11.1	-34.4
[1] Net effect of currency exchange fluctuations	-11.7	1.3	-13.0	

Shopping centres

Pearl Plaza, St Petersburg

Visitor numbers and total sales at Pearl Plaza, SRV's shopping and entertainment centre in St Petersburg, continued to rise throughout 2017. The shopping centre has broken visitor records several times, with no less than a 10 per cent rise in visitors during 2017 compared with the previous year. In December, the shopping centre set a new record with 900,000 visitors. Christmas sales provided a particular boost to the visitor numbers.

Pearl Plaza is also performing excellently with respect to the leasing of the premises, as it has been fully leased almost continuously. When the shopping centre opened in August 2013, fixed-term contracts of 3–5 years were signed with most tenants, and some of these have now expired or are about to expire. It was possible to improve the terms and conditions of these agreements on their renewal thanks, for instance, to the constant improvement in sales and visitor numbers at the shopping centre. Many renewal negotiations for lease agreements will be held in 2017 and 2018. It has also been possible to reduce the number of temporary rent discounts that were previously granted. In January-December, Pearl Plaza's monetary sales increased by 12 per cent (in terms of roubles).

Okhta Mall, St Petersburg

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. Okhta Mall opened its doors in August 2016 and has been SRV's major project in St Petersburg over the last few years.

Considering the numerous challenges that have been faced in the Russian shopping centre market in recent years, the leasing of premises in Okhta Mall has proceeded according to plan. The shopping centre's occupancy rate stood at about 84 per cent at the end of December, and agreements for a further three per cent of leasable premises are about to be signed. The Okhta Mall is expected to be fully leased by the end of 2018.

About 75 per cent of its stores were open at the end of December. That figure rose significantly when the KARO cinema opened its doors to film goers in August. KARO has leased about 10 per cent (7,000 m^2) of the Okhta Mall's commercial floor area, and it has boosted visitor numbers. In September, the fashion stores UNIQLO (1,400 m^2) and New Yorker (1,200m^2) were also opened in prime locations in the shopping centre.

Okhta Mall saw a record high number of visitors in December, when the shopping centre broke the 700,000 visitors per month mark for the first time.

4Daily, Moscow

The 4Daily shopping centre opened its doors in Moscow in April 2017. 4Daily is the only shopping centre to open in Moscow in 2017.

About 64 per cent of the centre's 25,500 square metres of premises have been leased, with reservations and letters of intent signed for about 13 per cent (12/2017). The shopping centre's anchor tenant is the Russian company Miratorg, whose new concept store is targeted at the middle-class in particular. Other major tenants include Ohana Fitness and the clothing stores Nataly and Tsenopad, and the Zamania entertainment centre. About 55 per cent of its stores are open.

Other projects

SRV owns 50 per cent of the Etmia II office project in downtown Moscow. 86 per cent of the premises had been leased by the end of December.

Projects under construction

Papula, Vyborg

SRV is building apartment blocks in the Papula district in northern Vyborg. All of the apartments in the first phase, which comprises two apartment buildings, have been sold. Both of the apartment buildings in the second phase were completed in January 2017. Of the 110 apartments, 82 had been sold or reserved by the end of December.

Outlook for operations in Russia

In Russia, SRV is focusing on leasing and managing already completed locations, and developing its management operations. The shopping centre market still holds great potential, as the rouble's weak exchange rate means that foreign travel has declined among the middle-class, and consumption is therefore focused on Russia. In relation to its population, Russia does not have many modern shopping centres. For example, there are twice as many shopping centres per inhabitant 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, marketing and managing premises in completed shopping centres.

Activity in the Russian real estate market is picking up after several quiet years and many large property deals were made in Russia in 2017.

SRV intends to sell its holdings once stable rental income has been achieved or the market situation allows. Stable rental income is usually reached 3–4 years after opening. For instance, the rental income of Pearl Plaza, which was opened in 2013, is now stable. In February 2018, SRV announced that it is investigating the possible sale of the Pearl Plaza shopping centre in St Petersburg and has discussed the matter at events after the end of the review period.

GROUP PROJECT DEVELOPMENT

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

Projects close to rail transport

The Greater Helsinki Area metro has been expanded to run from Ruoholahti to Espoo via Lauttasaari. In the first phase of the Western Metro, a 14-kilometres rail line was completed from Ruoholahti to Matinkylä, with eight new stations. SRV has numerous projects along the route of this metro line. The Western Metro completion schedule has been revised during the project. 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. For example, SRV has built the Koivusaari metro station and excavated both the Otaniemi metro tunnel and the Kaitaa station and rail line. In addition, SRV is building and planning many projects around the stations.

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 square mertres of commercial, office and service premises, plus park-and-ride spaces. Construction will begin once zoning has been completed – current estimate 2019–2020 – and the Metro Centre is scheduled for completion by the time the Western Metro extension is opened. The city plan proposal for the area was put on display in August 2017.

Espoonlahti

Apartments covering approximately 100,000 square metres of floor area will be built next to the future 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 leased the plot to serve as provisional premises for the Lippulaiva shopping centre until 2020. The plan for the Espoonlahti Centre came into force in March 2017.

Keilaniemi

SRV is moving 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, which SRV is currently implementing.

As part of the overall plan, Espoo City Board's Trade and Competitiveness Division decided in spring 2016 to sell two residential plots in Keilaniemi to SRV. Preliminary contracts on the sale of these plots were signed in May 2016. On 18 October 2017, the Administrative Court of Helsinki dismissed a complaint made about the sale of the plots. A complaint was then lodged with the Supreme Administrative Court.

If realised, the Keilaniemi residential towers would be the tallest residential buildings in Finland, with the tallest soaring to a height of almost 145 metres. SRV has not as yet made a final decision on the construction of the towers.

Raide-Jokeri Vermonniitty

Raide-Jokeri is a rapid tramline that will 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 Vermonniitty station in cooperation with SATO and Ilmarinen. A total of almost 2,000 housing units will be built on the plot. Construction and sales of the first residential building, Piruetti, have begun. SRV also has a planning reservation for the Säterintorni plot, where the company plans to build housing and an office building. The design of Säterinkallionkulma in Leppävaara progressed after the end of the review year, when the Espoo City Planning Committee reviewed the proposed city plan in January 2018. The city is planning housing for about 800 people in Säterinkulma.

Other projects

Lapinmäentie

The Lapinmäentie project in Munkkivuori, Helsinki, is progressing well. SRV is continuing to develop the area in accordance with the city plan approved in August 2016. Seven new residential towers are planned for the area in addition to the existing Tower A, which will remain. It is planned that the new residential towers will contain over 700 apartments; the construction of 200 of these units is intended to begin in summer 2018. Different concepts are currently being considered for Tower A, and it may contain shops, services and office space. The demolition permit for the Pohjola building came into force in December and demolition work is currently ongoing.

THE MOST SIGNIFICANT COMPLETED PROJECTS

Site	Holding, %	Opened	Floor area (m²)	Occupancy rate 12/2017, %
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 100
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 84 Letters of intent and reservations 3
4Daily, shopping centre, Moscow	Vicus 26.26 SRV 18.68 Blagosostoyanie 55.06	April 2017	Gross floor area 52,000 Leasable area 25,500	Binding lease agreements 64 Letters of intent and reservations 13

[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 6 per cent.

Bunkkeri in Jätkäsaari

SRV is highly involved in revitalising the Jätkäsaari district of Helsinki. It is intended that Bunkkeri will be a 13-storey landmark in Jätkäsaari, featuring 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 was approximately EUR 23 million. SRV has a building permit for the fitness facilities. It was intended that the Bunkkeri fitness facilities would be leased to the City of Helsinki, with the handover scheduled for May 2019. The first residential units were intended to be completed in 2019.

A time-out was called on the development of Bunkkeri in autumn 2017, when the Administrative Court of Helsinki overturned an acquisition decision that had been made in April 2016 concerning the sale of Bunkkeri to SRV. The Administrative Court held that the deal did not constitute a public procurement, but a real estate transaction. On 21 December 2017, the City of Helsinki announced that the city had decided to continue negotiations about Bunkkeri with SRV and is preparing the project as a real estate transaction.

FINANCING AND FINANCIAL POSITION

At the end of the reporting period, the Group's financing reserves totalled EUR 163.5 million with the Group's cash and cash equivalents amounting to EUR 23.5 million. Unused committed liquidity facilities, account limit agreements and undrawn project loans amounted to EUR 140.0 million. In addition, EUR 31.5 million uncommitted limits of the EUR 100

LAND RESERVES

31 December 2017	Business construction	Housing construction	International Operations	Total
Unbuilt land areas and land acquisition commitments				
Building rights[1], 1,000m²	133	256	702	1,091
Land development agreements				
Building rights[1], 1,000m²	114	196	0	310

[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 declined by about 83,000 square metres (-7 per cent) compared to 31 December 2016.

FINANCING AND FINANCIAL POSITION

IFRS, EUR million	31 Dec. 2017	31 Dec. 2016	Change %
Equity ratio, %	35.5	38.3	-7.4
Gearing ratio, %	105.0	83.4	25.9
Shareholders' equity	283.4	295.3	-4.0
Invested capital	604.5	596.2	1.4
Net interest-bearing debt	297.6	246.3	20.8
Interest-bearing debt	321.1	300.9	6.7
of which short-term	150.3	73.7	103.9
of which long-term	170.8	227.2	-24.8
Cash and cash equivalents	23.5	54.6	
Unused binding liquidity limits and account limit agreements	122.0	122.0	0.0
Unused project loans that can be drawn immediately	18.0	47.5	-62.1

million commercial paper programme remains unused.

In June 2017, SRV signed a long-term, binding liquidity arrangement of EUR 100 million with a Nordic banking syndicate. This replaces the syndicated credit limit agreement of 2014. The same banking syndicate is also arranging the new liquidity arrangement. The new loan arrangement matures on 16 June 2020. SRV has started preparations to refinance the EUR 75 million bond maturing towards the end of 2018.

SRV's financing agreements contain standard covenants. The financial covenants are equity ratio (also based on percentage of completion), gearing, 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.

Net interest-bearing debt totalled EUR 297.6 (246.3) million at the end of the review period. Net interest-bearing debt saw year-on-year growth of EUR 51.3 million. Housing corporation loans account for EUR 56.1 (42.1) million of the interest-bearing liabilities. Cash flow from operating activities was EUR -32.5 (31.1) million and net cash flow from investing activities was EUR -8.5 (-39.4) million. In particular, plot acquisitions and an increase in incomplete production in Finland had an unfavourable impact on net cash flow from operating activities.

The cash flow from financing activities for the comparison period was impacted by the renewal of the hybrid loan in 2016 and the withdrawal of a new EUR 100 million bond.

Net financial expenses since the beginning of the year totalled EUR -12.4 (-11.3) million. Net financial expenses were impacted by the positive fair value revaluation of a ten-year interest rate hedge by EUR 1.9 (-4.7) million and the capitalisation of interest on incomplete production. 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. EUR 1.5 (2.0) million in interest expenses have been capitalised in accordance with IAS 23 since the beginning of the year. Exchange rate losses in financial expenses totalled EUR -2.1 (3.8) million.

SRV's investment commitments totalled EUR 81.9 (31.2) million, and mainly consisted of investments in Fennovoima's Hanhikivi-1 project and the Tampere Central Deck and Arena project.

The operating currency for SRV's property companies in Russia was changed from the euro to the rouble during 2016. This means that subsidiaries and associated companies that operate in the Russian property business and had previously been using the euro now use the rouble as their operating currency. This accounting change makes SRV more susceptible to fluctuations in the rouble exchange rate through translation differences. The weakening rouble led to translation differences of EUR -8.1 (15.2) million, which impacted both shareholders' equity and the comprehensive result for the period. In addition to currency exchange rate losses of EUR -2.1 (3.8) million in financial income and expenses, the Group also entered similarly derived currency exchange rate losses of EUR -9.2 (10.1) million with no cash flow impact under the profit accounted for by associated companies, which are due primarily to the conversion of currency-denominated loans to roubles. Currency exchange rate losses were increased by EUR -2.5 million (EUR -8.8 million) in hedging expenses.

PERSONNEL, SOCIAL RESPONSIBILITY AND HUMAN RIGHTS

The number of people employed by SRV has seen growth. SRV employed 1,134 people (1,089) on average in 2017. At the end of the year, 853 (806) of these worked in Operations in Finland and 156 (181) in International Operations. 99 (94) people worked in Group operations and SRV Kalusto. 24 per cent of SRV's personnel were women and 76 per cent men.

HR work in 2017 focused on occupational wellbeing, training and quality of management. SRV was one of the Finland's Most Inspiring Workplaces for the third time running. The company intends to rise into one of the top companies. Delightfully, the personnel survey response rate rose to 82.1 per cent and the results across the board were clearly higher than the norm for salaried employees.

Personnel development

There were 2.6 training days per employee in Finland (2.2) and more than 270 people were in the SiteSTEP training programme. The Leader 2020 management training programme was completed by 38 executives, including the Corporate Executive Team. In addition, SRV is making outlays on project management, such as by organising the Manager 2020 programme, which about 140 SRV supervisors are participating in.

One important concrete goal is to increase and develop cooperation with educational institutions. A long-term objective is to attract the best experts in different subareas to enter SRV's employ, in line with the company's needs. At the practical level, this requires enhancing the company's employer image and employee experience.

Occupational health and safety

SRV complies with current occupational safety legislation, permit terms and conditions, and other operational regulations. The company also requires the same from its subcontractors and other partners. As set out in SRV's safety policy, safety activities are based on exceeding legal requirements and being a safety pioneer in the construction industry. On-site safety is based on preventative measures, orientation, and following instructions. Everyone who works on SRV's construction sites has both the right and obligation to look out for their own and others' safety.

SRV's long-term objective is to achieve a zero-accident level. Management continuously supervises occupational safety, and all safety deviations are investigated and reported. Site supervision is continuous, and statutory weekly inspections (TR or MVR measurements) are carried out. Internal audits and corporate executive inspections are also performed on sites. Making and recording safety observations is also important, as early intervention into even the smallest of deviations can prevent serious consequences.

In addition to a zero-accident level, SRV's objectives in 2017 were to provide occupational safety training for partners, increase efficiency in the collection and analysis of safety observations, develop an occupational safety competition and electronic tools (including e-orientation) and adopt a new tool for corporate executive inspections.

The objectives were achieved quite well. Occupational safety training for partners continued and there was a favourable increase in the number of safety observations made. Successful, high-quality orientation also has a significant impact on improving safety. A new remote orientation model was also introduced for site orientation. During orientation, everyone working on a project receives all of the essential information about the project and its special features. In 2017, 64,508 people completed orientation on SRV's sites in Finland, and 1,100 completed the new remote orientation online. Corporate executive inspections became an established practice and a new tool was adopted for them.

Occupational safety developed favourably in 2017. The number of safety observations remained on a par with the previous year, with about 3,600 recorded. The accident frequency for SRV's own personnel decreased by about 60 per cent on 2016. In 2017, SRV's accident frequency was 5.6 (accidents per million hours worked) for its own personnel and 17.6 for contractors' employees.

A total of 126 accidents leading to absence occurred on SRV construction sites during 2017, eight of which were serious. 95 per cent was SRV's 2017 goal for the TR measurements taken during the statutory weekly safety inspection required on building construction sites. The company fell short of this target by a fraction, with an average TR measurement of 93.6 per cent in 2017. Injuries on upper limbs, most of which were cuts or compressed fingers, were the most common injuries in 2017. They were followed by lower limb injuries, 24 per cent, of which the most common injury was a sprained ankle.

PERSONNEL

Personnel by business area	31 Dec. 2017	31 Dec. 2016	Percentage of Group personnel, 31 Dec. 2017, %
Operations in Finland	853	806	77
International Operations	156	181	14
Other operations	99	94	9
Group, total	1,108	1,081	100

Equality and human rights

Everyone at SRV is treated equally regardless of gender or gender identity, language, religion, nationality or ethnic origin, opinions, family relations, age, union or political affiliations, and health. Discrimination or harassment is not tolerated under any circumstances. SRV is committed to compliance with its equality plan, which is part of the HR plan. The HR plan is updated annually.

As part of its revised Code of Conduct, SRV is committed to respecting and promoting internationally identified human rights in all of its operations. The most important human rights themes are right to life, health, a safe and healthy working environment, right to enough rest, leisure and reasonable working hours, the right to reasonable and sufficient pay, and privacy. SRV takes practical steps to promote a safe working environment and to prevent negative human rights impacts in its own operations and value chain. The company also seeks to ensure that its subcontractors and other partners are also committed to respecting human rights.

SRV provides supervision, training and support for subcontractors and partners, so they can internalise sustainable working methods. SRV also keeps them informed of, for example, amendments to occupational safety legislation. The company adheres to official procurement procedures in the management of new suppliers and existing supplier relationships, and the SRV Network Register is an element of this.

The SRV Network Register also facilitates the management of foreign employees. The register contains details of every foreign employee's statutory documentation, their employer's accident insurance, and information about their employment contract. Foreign companies also supply documents required by the Act on the Contractor's Obligations and Liability, as per their country of domicile. These include, for instance, a certificate of tax payment, an account of whether the company is registered as VAT-liable, or pension and liability insurance policies.

SRV's Construction Contract Programme is appended to every agreement, and it requires the contractor or subcontractor to comply with sustainability requirements. These requirements cover areas such as ethical business, fraud prohibition, ensuring data security, equality and fair treatment, and ensuring a safe working environment. The Construction Contract Programme also requires contractors' subcontractors to commit to compliance with the programme's requirements.

In 2017, SRV aimed to start the planning of the mobilisation of the Code of Conduct and to increase the number of Anti-Grey Economy Days to four per year. Both objectives were achieved. E-training materials on the Code of Conduct will be introduced and the training will begin in early 2018. At the same time, SRV will raise awareness of the Ethics Channel. Another aim was to update the sustainability requirements of the Construction Contract Programme. This was done in October 2017. The assessment of human rights impacts and risks was kicked off in late 2017 and this work is continuing in 2018.

CODE OF CONDUCT

The policies that guide SRV's operations include its Code of Conduct. All of SRV's companies, Board members, management and employees are obligated to comply with the Code of Conduct regardless of their position. SRV also seeks to get third parties, such as subcontractors and other partners, to commit to the Code of Conduct, or to ensure that third parties adhere to similar practices. SRV primarily implements this commitment by including the content of the Code of Conduct in the Construction Contract Programme.

Prevention of bribery and corruption

SRV complies with legislation and official regulations in all of its operations and requires the same of its employees, subcontractors and other partners. The company only works with reliable and reputable partners. SRV checks the backgrounds of subcontractors and other partners before engaging in any cooperation.

As set out in the Code of Conduct, no one at SRV accepts or gives gifts that could impact on business-related decision-making. Business-related hospitality should be moderate and of minimal value. Anti-corruption practices are an unconditional requirement of SRV's operations, and subcontractors and other partners are also required to have zero tolerance for corruption.

SRV is committed to the prevention of economic crime, and is continually developing its operating methods and new tools to improve the transparency, legality and controllability of the entire operating chain. The company's efforts are based on both long-term cooperation with the authorities and considerable investments in the development of its own processes. Preventing economic crime is a natural part of overall construction quality and project management.

Construction site orientation and advance checks of partners' social obligations are important tools in the fight against the grey economy. In addition to the above, the company also has the SRV Network Register, which SRV developed for official reporting, and an electronically managed process for compliance with the Act on the Contractor's Obligations and Liability.

In 2017, the authorities performed six (6) separate inspections relating to contractors' obligations and liability. No deviations were found and SRV retained its zero-error status. In addition, a client carried out two inspections relating to these obligations at its sites (which are being implemented by SRV). These, too, found no errors.

SRV has an Ethics Channel through which anyone can report observed or suspected behaviour that contravenes the Code of Conduct, either in their own name or anonymously. Two reports were received through the Ethics Channel in 2017, and both cases were investigated by the internal audit function.

ENVIRONMENT

SRV's operations are based on the legislation in force, permit terms and conditions, and other compulsory regulations and instructions. In accordance with the company's environmental policy, SRV's environmental efforts are based on commitment to environmental protection, the development of operations in line with sustainable development, and the continuous improvement of the standard of environmental protection by means of the development of the environmental system.

Operations in Finland, excluding infra construction, have an ISO 14001 certified environmental system. The environmental system of infra construction will be certified in 2018. SRV requires its subcontractors and partners to follow the same principles and comply with its guidelines. Environmental requirements are included in the Construction Contract Programme, which is binding to subcontractors and partners.

The most significant direct environmental impacts are the wastes generated by construction and the emissions caused by both traffic and the production of the energy consumed on sites and business premises. The most significant indirect environmental impacts comprise the energy consumed by buildings during their use and the emissions they generate during production.

Sites have a critical importance in environmental efforts. Each site drafts an environmental plan that is intended to help it identify the environmental aspects of site activities and to plan measures to either prevent or minimise harmful environmental impacts. A waste management plan and any additional plans concerning special characteristics of the site are appended to the environmental plan.

The objectives in 2017 were to update the environmental policy in connection with the application for ISO 14001 certification and to make building start-up meetings an established part of environmental and safety activities in every project. Both objectives were achieved. The constant objective of SRV's environmental activities is to develop the material efficiency and waste management of sites, reduce energy consumption on sites, plan site procurements efficiently and sustainably, and implement projects that place a smaller burden on the environment in cooperation with customers and other stakeholders.

Finnish operations generated about 24,500 tonnes of construction waste in 2017, of which about 3 per cent comprised mixed wastes. The recycling rate for construction waste was 91.8 per cent, meaning that the 85 per cent target was surpassed by a good margin. Indicator targets for specific building types are only monitored for completed projects. In the case of office buildings, SRV fell short of the target for characteristic waste volume (8.5 kilograms/building cubic metre), with a result of 14.7 kilograms/building cubic metre. On the other hand, the sorting rate target of 65 per cent was exceeded brilliantly, by 80.7 per cent.

Similar results were achieved at basic renovation sites: the characteristic waste volume was 14.7 kilograms/building cubic metre, falling more than 7 per cent points short of the target, but the sorting rate was almost 20 per cent points more than the target at 63.4 per cent. In the case of housing production, SRV underperformed in both categories by a few percentage points, with a characteristic waste volume of 11 kilograms/building cubic metre and a sorting rate of 52.9 per cent.

Collection of data on the energy and water consumption of sites for the shared reporting system got off to a good start, although there is still plenty of room for improvement in how these activities are organised. In 2017, sites consumed 126,014 MWh of energy and CO_2 emissions amounted to 24,574 tonnes.

RISKS, RISK MANAGEMENT AND CORPORATE GOVERNANCE

SRV engages in systematic risk management, both to protect itself against factors that might hinder its business operations and to recognise new opportunities. Risk management is part of SRV's management system. It supports the company's values, vision, strategy and the attainment of its earnings objectives.

Risk management seeks to ensure that controllable risks do not jeopardise SRV's operations. To this end, SRV ensures that it has a systematic and comprehensive approach for identifying and assessing risks, and also for

Risks related to HR issues, social responsibility, human rights, environmental issues, and the prevention of bribery and corruption

Topic	Most important risks identified with respect to HR, social responsibility, human rights, environmental issues, and the prevention of bribery and corruption	Risk identification and management
HR issues: own operations, targeted at own personnel	• Occupational health and safety: accidents, coping at work (right to life, health, a safe and healthy working environment) • Coping at work (right to enough rest, leisure and reasonable working hours)	• TR measurements • Investigating and reporting safety deviations • Corporate executive inspections • External audits • Safety Support Group and Safety Team • Internal audits • External audits • Ethics Channel • Personnel survey
Social responsibility: own operations, targeted at subcontractors and contractors + operations of subcontractors and contractors	Subcontractors • Occupational health and safety: accidents (right to life, health, and a safe and healthy working environment) • Neglect of terms of employment (pay, working hours – right to reasonable and sufficient pay) • Neglect of social responsibilities (grey economy)	• Construction Contract Programme • Background studies on procurements • Ethics Channel • SRV Network Register
Human rights: own operations and the operations of subcontractors and contractors	• See: HR issues and social responsibility • Violation of privacy (right to privacy)	• Construction Contract Programme • Background studies on procurements • Mobilising the Code of Ethics • Ethics Channel • SRV Network Register
Prevention of bribery and corruption: own operations and the operations of subcontractors and contractors	• Illegal or inappropriate activities • Neglect of social responsibilities	• Internal audit • Mobilising the Code of Ethics • SRV Network Register • Ethics Channel
Environmental issues: own operations and operations of subcontractors and contractors	• Environmental damage and accidents • Illegal or inappropriate activities	• Project risk management process • Internal audits • Ethics Channel

reporting on operations and implementing any required risk management measures.

Overall responsibility for risk management rests with the company's Board of Directors and the President & CEO. The Board of Directors approves SRV's risk management strategy and policy, and assesses its Group-wide framework for risk management. The Audit Committee reviews a quarterly report on operational risks. Line management is in charge of implementing, leading and supervising day-to-day risk management.

SRV will publish a separate Corporate Governance Statement in its 2017 Annual Report and on the company's website. Detailed information about the company's business risks and risk management is provided in the 2017 Notes to the Financial Statements and Annual Report, and on the company's website.

The most significant risks currently concern the REDI project, the Russian economy, and the rouble exchange rate. 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 reporting date would have had an impact of about EUR 11 million on the Group's equity translation differences.

SRV's transaction risk largely comprises the euro-denominated loans of associated companies that are partly owned by SRV. In order to reduce exchange rate risks, the company intends to convert a substantial share of the loans of associated companies to roubles in the first half of 2018, and to hedge the remaining exchange rate risk in accordance with the hedging policy approved by the Board of Directors. A 10 per cent change in the exchange rate would correspondingly have an impact of about EUR 13 million on SRV's earnings.

In order to improve comparability in the case of actual earnings, as from 20 July 2017 SRV has adopted the new concept of "operative operating profit". It differs from the IFRS definition of operating profit in that it eliminates the calculated currency exchange differences included in financial items in Russian operations and their potential hedging impacts. The Group's risk management function supports the application of risk management principles and develops Group-wide ways of working. It is also coordinating the identification and reporting of risks related to HR issues, social responsibility, human rights, environmental issues, and the prevention of bribery and corruption as well as risk management measures. The adjacent table presents the identified risks and the measures taken to manage them.

CORPORATE GOVERNANCE AND THE DECISIONS OF THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) of SRV Group Plc was held on 23 March 2017. The AGM adopted the Financial Statements and granted release from liability to the members of the Board of Directors and the President & CEO for the financial year 1 January–31 December 2016.

Dividends paid

As proposed by the Board of Directors, a dividend of EUR 0.10 per share was approved. The record date was 27 March 2017 and the dividend was paid on 3 April 2017.

The Members and Chair of the Board of Directors

The AGM verified that the Board of Directors shall have six (6) members. **Minna Alitalo, Olli-Pekka Kallasvuo, Ilpo Kokkila,** and **Timo Kokkila** were re-elected to the Board of Directors. **Juhani Elomaa** and **Juhani Hintikka** were elected as new members. Ilpo Kokkila was elected as Chair of the Board.

Auditor

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 2018 Annual General Meeting. PricewaterhouseCoopers Oy has announced that **Samuli Perälä**, Authorised Public Accountant, will serve as chief auditor.

AUTHORISATION TO DECIDE ON THE ACQUISITION OF TREASURY 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 was authorised to acquire a maximum of 6,049,957 of the company's own shares in such a manner that the number of shares acquired on the basis of this authorisation, when combined with the shares already owned by the company and its subsidiaries, does not at any given time exceed 6,049,957 shares, or 10 per cent of all shares of the company. Based on 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 SRV shares issued on the basis of incentive schemes to individuals employed by SRV Group, either 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, such that the maximum number of acquired shares nevertheless remains at 6,049,957.

The aforementioned authorisations include the right to acquire shares other than in proportion to the holdings of shareholders. Shares acquired on the basis of this authorisation may be acquired in one or several instalments.

Treasury shares can be acquired for use 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 AGM's decision and cancel the authorisation granted by the AGM to the Board of Directors on 22 March 2016. The Board of Directors shall decide on all other terms relating to the acquisition of shares.

Amendment to the Articles of Association

In accordance with the Board of Directors' proposal, Section 8 of the company's Articles of Association was amended as follows: *Section 8 The company's auditor must be a firm of Authorised Public Accountants approved by the Finnish Patent and Registration Office, and the chief auditor must be an Authorised Public Accountant. The auditor's term of office runs until the end of the following Annual General Meeting.*

THE ORGANISATION OF SRV GROUP PLC'S BOARD OF DIRECTORS AND THE COMPOSITION OF ITS COMMITTEES

SRV Group Plc's Board of Directors held its organisational meeting on 23 March 2017. **Olli-Pekka Kallasvuo** was selected as Vice Chair of the Board of SRV Group Plc. **Minna Alitalo** was elected as Chair and **Juhani Elomaa** and **Timo Kokkila** as members of the Audit Committee. **Ilpo Kokkila** was elected Chair and **Juhani Hintikka** and Olli-Pekka Kallasvuo as members of the HR and Nomination Committee.

SRV Group Plc allocated treasury shares as part of a multi-year incentive scheme

On 2 February 2017, SRV Group Plc decided to allocate a total of 206,476 of its treasury shares to members of its share-based incentive scheme without consideration and in accordance with the terms and conditions of the scheme. The earnings period for the scheme was the calendar years 2014–2016.

The allocation of shares using a directed share issue without payment was based on the authorisation given by the Annual General Meeting of SRV Group Plc on 22 March 2016. Further information about the share-based incentive scheme can be found in a stock exchange release published on 20 February 2014.

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 7,158 shareholders on 31 December 2017.

The closing price at OMX Helsinki on 31 December 2017 was EUR 3.60 (EUR 5.43 on 31 December 2016, change -33.7 per cent). The highest share price during the review period was EUR 5.74 and the lowest EUR 3.52. At the end of the period, SRV's equity per share excluding the hybrid bond was EUR 4.03. On 31 December 2017, the company had a market capitalisation of EUR 214.5 million, excluding the Group's treasury shares. 6.4 million shares were traded during the review period with a trade volume of EUR 29.3 million.

At the end of December, the Group held 918,599 shares (1.5 per cent of the total number of the company's shares and votes). During 2017, SRV Group Plc has surrendered 206,476 treasury shares to implement its share-based incentive scheme.

FINANCIAL OBJECTIVES

SRV's strategy and all of its operations are guided by the 2018–2022 strategic financial objectives that were approved in February 2018:

- After a phase of rapid revenue growth, SRV primarily seeks to increase annual operative operating profit.
- The operative operating profit margin of construction will rise to 8 per cent. Of this objective, 6 percentage points will arise from construction margin and 2 percentage points from shopping centre rental income as part of associated company holdings.
- Return on equity will be at least 15 per cent by the end of the strategy period
- Return on investment will rise to at least 12 per cent by the end of the strategy period
- The equity ratio will remain above 35 per cent
- The long term objective is to distribute dividend of 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 moderate but steady economic growth in Finland, and Russia's economy stabilising at a slightly stronger level. Growth in SRV's developer-contracted projects is also required. SRV seeks to divest shopping centres that are in the management phase when the market situation allows. SRV will continue to develop projects in Russia that can be launched when the Group's capital structure allows and the financial criteria of the properties are fulfilled.

Reaching the profitability targets requires not only boosting the efficiency of the company's own operations, but also the more prudent selection of new projects with regard to profitability and capital commitment.

OUTLOOK FOR 2018

In addition to general economic trends, SRV's revenue and result in 2018 will be affected by several factors, such as: the trend in the exchange rate of the rouble; 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 owndevelopment projects. SRV's largest project is the REDI project in Kalasatama.

Fewer developer-contracted housing units will be completed in 2018 than in the comparison year. It is estimated that 526 housing units will be completed in 2018 (782 in 2017). Although housing will be completed on a steadier schedule in 2018 than in the comparison year, a significant part of operating profit will still be made in the second half of the year. In addition, earnings in 2018 will be impacted by the lower-than-expected margins of certain ongoing projects.

Full-year consolidated revenue and operative operating profit for 2018 are expected to decrease compared with 2017 (revenue EUR 1,116.1 million and operative operating profit EUR 28.7 million). After 2018, an atypical year, the company anticipates that it will achieve its strategic earnings level by the end of 2022.

PROPOSAL FOR THE DISTRIBUTION OF PROFITS

The parent company's distributable funds on 31 December 2017	EUR 169,838,837.83
of which net profit for the financial year is	EUR 4,599,761.17

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

A dividend of EUR 0.06 per share be paid to shareholders,	EUR 3,629,974.50
The amount to be transferred to shareholders' equity is	EUR 166,208,863.33

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.

EVENTS AFTER THE PERIOD

- On 12 January 2018, the implementation of the Central Deck and Arena, a project developed by SRV in the heart of Tampere was confirmed in January 2018. Construction work has begun in the vicinity of the Tampere railway station. At the same time, the project schedule and total value were specified. Central Deck and Arena is valued at a total of about EUR 550 million and its final sections are currently scheduled to be completed in 2024. The investment agreement for Phase I of the project accounts for about EUR 340 million of the total value. SRV, LocalTapiola and OP Financial Group's insurance and pension insurance companies comprise the project investor group, with equal shareholdings.
- On 5 January 2018, the Hospital District of Helsinki and Uusimaa HUS decided to start up the implementation phase of the Siltasairaala Hospital with SRV. Construction work on the site in Meilahti, Helsinki, started at the beginning of 2018. It is the largest construction project in the history of HUS. The Siltasairaala project will be recognised in SRV's order backlog valued at its target budget of EUR 243 million.
- On 6 February 2018, SRV's Board of Directors has decided to investigate the possible sale of the Pearl Plaza shopping centre in St Petersburg with the other owner of the centre, the Chinese company Shanghai Industrial Investment Holdings. SRV does not express detailed views about the probability, date or target price of the potential sale. The refinancing of Pearl Plaza was completed in February 2018 when the real estate company that owns the shopping centre signed a largely rouble-denominated ten-year loan agreement valued at about EUR 95 million. The previous Pearl Plaza loan agreement was denominated in euros. SRV's transaction risk largely comprises the euro-denominated loans of associated companies that are partly owned by SRV, and thus the new Pearl Plaza loan agreement reduces the risk posed by changes in the rouble exchange rate.

GENERAL MEETING

It is planned that the Annual General Meeting of SRV Group Plc will be held on 20 March 2018. The Annual General Meeting will deal with the matters specified in Article 11 of the Articles of Association and any other Board proposals. The Board of Directors will decide on the notice of meeting and the proposals to be included therein at a later date.

15 February 2018, Espoo
Board of Directors

All forward-looking statements in this review are based on management's current expectations and beliefs about future events, and actual results may differ materially from the expectations and beliefs such statements contain.

For further information, please contact

Juha Pekka Ojala, CEO,
+358 (0)40 733 4173, jp.ojala@srv.fi

Ilkka Pitkänen, CFO,
+358 (0)40 667 0906, ilkka.pitkanen@srv.fi

Päivi Kauhanen, SVP, Communications,
+358 (0)50 598 9560, paivi.kauhanen@srv.fi

KEY FINANCIAL INDICATORS

EUR million	2017	2016	2015	2014	2013
Revenue	1,116.1	884.1	719.1	684.4	679.4
Operative operating profit[1,*]	28.7	26.3	-	-	-
Operative operating profit, % of revenue	2.6	3.0	-	-	-
Operating profit	17.1	27.7	24.4	24.9	26.4
Operating profit, % of revenue	1.5	3.1	3.4	3.6	3.9
Profit before taxes	4.6	16.4	17.6	18.5	22.8
Profit before taxes, % of revenue	0.4	1.8	2.4	2.7	3.4
Net profit for the financial year attributable to equity holders of the parent company	6.0	13.9	14.0	15.2	18.3
Return on equity, %	2.0	5.0	5.6	6.9	8.4
Return on investment, %	3.4	6.1	5.9	5.4	5.4
Return on investment, construction, %[1]	8.1	9.2	-	-	-
Return on investment, real estate development, %[1]	-4.8	0.2	-	-	-
Equity ratio, %	35.5	38.3	42.5	43.0	36.4
Order backlog[2]	1,547.9	1,758.5	1,583.4	860.4	825.8
New agreements	771.4	1,013.1	1,393.5	700.3	600.7
Personnel on average	1,134	1,089	1,008	937	949
Invested capital	604.5	596.2	543.0	449.8	528.0
Invested capital, construction[1]	276.6	247.0	-	-	-
Invested capital, real estate development[1]	327.9	349.2	-	-	-
Net interest-bearing debt	297.6	246.3	230.8	206.1	215.8
Net gearing ratio, %	105.0	83.4	83.3	91.6	97.1
Earnings per share[3], EUR	0.05	0.15	0.25	0.30	0.38
Earnings per share (diluted), EUR	0.05	0.15	0.25	0.30	0.38
Equity per share, EUR	4.78	5.00	4.66	5.64	5.58
Equity per share (excluding hybrid bond), EUR	4.03	4.25	3.90	4.51	4.45
Dividend per share[3,4], EUR	0.10	0.10	0.10	0.07	0.07
Dividend payout ratio, %[3]	209.9	67.6	40.2	23.5	18.4
Dividend yield, %[3]	2.8	1.8	3.2	2.6	1.8
Price per earnings ratio (P/E-ratio)	75.6	36.7	12.5	9.5	10.6
Share price development					
Share price at the end of the period, EUR	3.60	5.43	3.10	2.83	4.05
Average share price, EUR	4.60	4.07	2.94	3.81	3.75
Lowest share price, EUR	3.52	2.60	2.36	2.75	2.95
Highest share price, EUR	5.74	5.58	3.42	4.38	4.72
Market capitalisation at the end of the period	214.5	322.4	183.9	112.7	160.8
Trading volume, 1,000	6,362	6,355	11,463	3,613	3,364
Trading volume, %	10.7	10.7	26.9	9.1	8.5
Weighted average number of shares outstanding, 1,000	59,540	59,349	42,616	39,771	39,701
Weighted average number of shares outstanding (diluted), 1,000	59,540	59,576	42,648	39,799	39,813
Number of shares outstanding at the end of the period, 1,000	59,581	59,375	59,325	39,810	39,700
* Effect of currency exchange fluctuations	-11.7	1.3	-	-	-

[1] **Alternative performance measures used in financial reporting**
The company discloses certain other widely used performance measures that can for the most part be derived from the income statement and balance sheet. The formulas for these performance measures are provided in the next page. In the company's view, these measures clarify the result of operations and financial position based on the income statement and balance sheet.

SRV has added key figures for operative operating profit and operating profit margin to the financial statement release
The key figure for operative operating profit is considered to provide a better picture of the Group's operations when comparing the reported period to earlier periods.

* The currency exchange rate gains and losses of associated companies as well as income and expenses from hedging are eliminated from operating profit. The currency exchange rate gains and losses of associated companies are recorded above operating profit. Income and expenses from currency hedging are included above operating profit on the line "other operating expenses".

SRV has added the capital invested in the construction and property development businesses to its financial statement release, as well as the returns on these investments
By nature, SRV's businesses consist of construction and related property development, as well as investment in SRV's own projects. As these two businesses differ in nature, the company considers it justified to begin providing additional information about the capital invested in these and the return on investment. The construction business includes all of the capital required for construction and developer contracting for housing production, as well as the required plots of land.

The property development business consists of projects for commercial premises in which the company is an investor, and the primary intention is to sell the projects several years after construction is complete and the property has attained a normal occupancy rate and standard. The property development operations report on commercial premises that are under development and completed and where the company acts as a longer-term investor. Plots that the company will develop itself and where the expected return will arise from the development are also reported as part of property development.

All of the relevant balance sheet items have been allocated to operations, as well as the operating expenses. The Group consists of these businesses calculated together, taking into consideration the construction balance sheet elimination between them. This division of the businesses aptly describes the company's capital requirements and profitability levels. Construction generates a stable operating profit, the requirement for invested capital is lower and the turnover rate is higher. Property development ties up more capital for a longer period. In the construction business, revenue and profit are realised more rapidly than in the property business, where profits are usually only obtained when the sites are sold off.

[2] At the period end.
[3] Comparative data 2013 and 2014 is share issue adjusted.
[4] Dividend paid during the financial year.

CALCULATION OF KEY FIGURES

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

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

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

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

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

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

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

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

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

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

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

Dividend payout ratio, %* = $100 \times \dfrac{\text{Dividend per share}}{\text{Earnings per share}}$

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

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

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 weihted average number of shares outstanding

* 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 2017 the highest price was EUR 5.74 and the lowest price EUR 3.52. The average share price for 2017 was EUR 4.60 and the closing price EUR 3.60 giving the company a market capitalisation of EUR 214.5 million as of 31 December 2017. 6.4 million shares were traded in OMX which corresponds to 10.7 per cent of the weighted average number of SRV shares outstanding. The trading value of the shares was EUR 29.3 million.

The authorisations of the Board of Directors

The Annual General Meeting of SRV Group Plc resolved on March 23, 2017, to authorise the Board of Directors to decide on the repurchase of company shares as proposed by the Board of Directors. The authorisation of repurchase of company shares is valid 18 months from the decision of Annual General Meeting (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 8,696,063 shares on 31 December 2017 which corresponds to 14.4 per cent of SRV shares and voting rights. Ilpo Kokkila owns SRV shares through Kolpi Investments Oy.

Shareholders on 31 December 2017

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	6,311,821	10.4
Nordea Henkivakuutus Suomi Oy	1,197,843	2.0
Valtion Eläkerahasto	1,170,000	1.9
OP-Suomi sijoitusrahasto	968,251	1.6
OP-Suomi Pienyhtiöt	928,601	1.5
SRV Yhtiöt Oyj	918,599	1.5
Skandinaviska Enskilda Banken	773,588	1.3
Keskinäinen Työeläkevakuutusyhtiö Varma	716,666	1.2
Nieminen Timo	676,310	1.1
Keskinäinen Eläkevakuutusyhtiö Etera	654,819	1.1
Sundholm Göran	539,842	0.9
Taaleritehdas Mikro Markka sijoitusrahasto	400,000	0.7
4capes Oy	340,000	0.6
Keskinäinäinen Eläkevakuutusyhtiö Ilmarinen	308,003	0.5
Säästöpankki Kotimaa -sijoitusrahasto	303,896	0.5
Nordea Pankki Suomi Oyj	292,455	0.5
20 largest shareholders	**48,612,211**	**80.4**
Nominee registration	1,100,800	1.8
Other	10,786,564	17.8
Total number of shares	**60,499,575**	**100.0**

Breakdown of share ownership on 31 December 2017 By number of shares owned

Number of shares	Number of shareholders	% of share-holders	Number of shares	% of shares
1–100	1,106	15.5	61,930	0.1
101–500	3,174	44.3	856,007	1.4
501–1,000	1,159	16.2	919,943	1.5
1,001–5,000	1,340	18.7	3,075,959	5.1
5,001–10,000	195	2.7	1,419,924	2.3
10,001–50,000	140	2.0	2,783,764	4.6
50,001–100,000	12	0.2	815,913	1.3
100,001–500,000	17	0.2	3,598,278	5.9
500,001–	15	0.2	46,967,857	77.6
Total	**7,158**	**100.0**	**60,499,575**	**100.0**
of which nominee registrations	7	0.1	1,100,800	1.8

By shareholder category

	% of shares
Corporations	36.0
Financial and insurance institutions	7.5
Public institutions	4.7
Households	50.9
Non-profit organisations	0.7
Non-Finnish shareholders	0.1
	100.0

Consolidated financial statements 2017

CONSOLIDATED INCOME STATEMENT

EUR 1,000	Note	2017	2016
Revenue		**1,116,129**	**884,142**
Other operating income	5	2,446	2,106
Change in inventories of finished goods and work in progress		1,866	37,787
Use of materials and services		-985,632	-797,802
Employee benefit expenses	8	-77,688	-73,031
Share of profits of associated and joint venture companies	17	-13,377	7,408
Depreciation and impairments	7	-5,716	-6,633
Other operating expenses	6	-20,957	-26,303
Operating profit		**17,070**	**27,674**
Financial income	10	5,322	7,046
Financial expenses	10	-17,755	-18,368
Financial income and expenses, total		**-12,433**	**-11,322**
Profit before taxes		**4,638**	**16,351**
Income taxes	11	1,173	-1,970
Net profit for the financial year		**5,811**	**14,382**
Attributable to			
Equity holders of the parent company		5,987	13,863
Non-Controlling interests		-176	519
Earnings per share attributable to equity holders of the parent company	12	**0.05**	**0.15**
Earnings per share attributable to equity holders of the parent company (diluted)	12	**0.05**	**0.15**

STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	Note	2017	2016
Net profit for the financial year		**5,811**	**14,382**
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		48	326
Gains and losses arising from translating the financial statements of a foreign operation		-1,091	3,792
Share of other comprehensive income of associated companies and joint ventures		-7,008	11,443
Income tax relating to components of other comprehensive income		-10	-65
Other comprehensive income for the year, net of tax		**-8,061**	**15,496**
Total comprehensive income for the year		**-2,250**	**29,879**
Total comprehensive income attributable to:			
Equity holders of the parent company		-2,074	29,360
Non-Controlling interests		-176	519

CONSOLIDATED BALANCE SHEET

EUR 1,000	Note	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	11,048	11,954
Goodwill	15	1,734	1,734
Other intangible assets	15	1,512	1,887
Shares in associated and joint venture companies	17	190,458	211,454
Other financial assets	16, 18	15,991	13,913
Receivables	16, 19	945	36
Loan receivables from associated companies and joint ventures	16, 22	66,778	55,896
Deferred tax assets	20	11,690	9,202
Non-current assets, total		**300,158**	**306,076**
Current assets			
Inventories	21	418,821	400,264
Trade and other receivables	16, 23	145,091	116,579
Loan receivables from associated companies and joint ventures	16, 22	0	1,100
Current tax receivables		981	3,885
Cash and cash equivalents	24	23,475	54,583
Current assets, total		**588,368**	**576,411**
ASSETS TOTAL		**888,526**	**882,486**

EUR 1,000	Note	2017	2016
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	141,506
Fair value reserve	25	-1,062	-1,101
Translation differences	25	-94	8,005
Hybrid Bond	25	45,000	45,000
Retained earnings		96,605	100,591
Equity attributable to equity holders of the parent company, total		**285,019**	**297,065**
Non-controlling interests		**-1,627**	**-1,793**
Equity, total		**283,391**	**295,272**
Non-current liabilities			
Deferred tax liabilities	20	5,130	4,202
Provisions	26	8,760	7,799
Interest-bearing liabilities	16, 27	170,769	227,191
Other liabilities	16, 28	17,722	14,002
Non-current liabilities, total		**202,380**	**253,195**
Current liabilities			
Trade and other payables	16, 28	244,472	253,408
Current tax payable		105	33
Provisions	26	7,839	6,836
Interest-bearing liabilities	16, 27	150,338	73,741
Current liabilities, total		**402,754**	**334,019**
Liabilities, total		**605,135**	**587,214**
EQUITY AND LIABILITIES, TOTAL		**888,526**	**882,486**

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	**2017**	2016
Cash flows from operating activities		
Cash receipts from customers	1,082,903	881,632
Cash receipts from other operating income	2,446	2,106
Cash paid to suppliers and employees	-1,098,558	-838,918
Net cash before interests and taxes	-13,209	44,820
Interests received and other financial income	371	214
Interests paid and other expenses from financial costs	-22,110	-9,864
Income taxes paid	2,411	-4,040
Cash flows from operating activities	**-32,538**	**31,127**
Cash flow from investing activities		
Purchase of tangible and intangible assets	-3,464	-5,421
Sale of tangible and intangible assets	0	36
Purchase of investments	-2,030	-7,767
Investments in associated companies and joint ventures	-389	0
Increase in loan receivable from associated companies and joint ventures	-2,635	-30,714
Decrease in loan receivable from associated companies and joint ventures	0	4,500
Net cash used in investing activities	**-8,517**	**-39,366**

EUR 1,000	**2017**	2016
Cash flow from financing activities		
Proceeds from loans	16,901	171,446
Repayment of loans	-28,317	-116,229
Proceeds from Hybrid bond	0	45,000
Repayment of Hybrid bond	0	-45,000
Hybrid bond costs	0	-1,588
Hybrid bond intrests	-3,927	-3,296
Change in housing corporation loans	13,978	-16,784
Net change in short-term loans	17,498	96
Dividends paid	-5,992	-5,933
Net cash flow from financing activities	**10,141**	**27,711**
Net change in cash and cash equivalents	**-30,914**	**19,472**
Cash and cash equivalents at the beginning of period	54,583	35,026
Effect of exchange rate changes in cash and cash equivalents	-194	84
Cash and cash equivalents at the end of period	**23,475**	**54,583**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity holders of the parent company								
EUR 1,000	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. 2017	3,063	141,506	-1,101	8,005	45,000	100,591	297,065	-1,793	295,272
Net profit for the financial year	0	0	0	0	0	5,987	5,987	-176	5,811
Other comprehensive income items (with the tax effect)									
Foreign currency translation differences for foreign operations	0	0	0	-1,091	0	0	-1,091	0	-1,091
Share of other comprehensive income of associated companies and joint ventures	0	0	0	-7,008	0	0	-7,008	0	-7,008
Available-for-sale financial assets	0	0	39	0	0	0	39	0	39
Total comprehensive income	0	0	39	-8,099	0	5,987	-2,073	-176	-2,249
Transactions with the owners									
Dividends paid	0	0	0	0	0	-5,958	-5,958	-35	-5,993
Share based incentive plan	0	0	0	0	0	-1,006	-1,006	0	-1,006
Hybrid Bond	0	0	0	0	0	-3,150	-3,150	0	-3,150
Other changes[1]	0	0	0	0	0	141	141	377	518
Transactions with the owners, total	0	0	0	0	0	-9,973	-9,973	342	-9,631
Equity, total, 31 Dec. 2017	3,063	141,506	-1,062	-94	45,000	96,605	285,019	-1,627	283,391
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		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
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[2]	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

[1] Other changes includes update of the acquisition calculation.

[2] 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.

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, 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 15 February 2018.

Accounting policies

Basis of presentation

The consolidated financial statements have been prepared on 31 December 2017 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 1.1.2018 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). This standard replaces IAS 18, which applied to the sales of goods and services, and IAS 11, which applied to long-term projects. The core principle of the new standard is that sales revenues are recognised when control over goods or services is transferred to the customer – whereas the previous standards called for an analysis of risks and benefits.

The customer has obtained control when it is able to direct the use of goods or services and obtain all of the related benefit.

A new five-step model must be applied when recognising sales revenues:

- Identify the contracts with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when a performance obligation is satisfied

Group management has, in its IFRS 15 -study evaluated the impact of revenue recognition for the different project types.

The project types include fixed-price contracts, project management contracts, turnkey contracts (overall responsibility for the construction), alliance contracts, residential development projects, commercial development projects, residential developer contracting projects and commercial developer contracting projects. In addition, the study identified significant individual contracts with special characteristics or unusual terms and conditions. Revenue recognition for these must be handled on a case-by-case basis.

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

The study did not identify any substantial differences in revenue recognition compared with the standards previously applied. The identified project types mainly constitute a single integrated entity that is handled as a single performance obligation.

Revenue recognition for contracts with several discrete performance obligations will differ from the present practice. 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). Parking space and removal services are considered separate performance obligations. Separate additional services (removal service) and parking spaces are typically handed over and recognised as revenue at the same time as the apartment itself. In its study, the Group determined that these do not have a material impact on the consolidated financial statements.

The study determined that development and developer contracting projects may include a separate financing component. In such projects, the treatment procedure for a substantial financing component will apply to factoring and this will be recognised as an adjustment to revenue. In projects where the average financing period is less than one year, the Group will apply the "practical expedient" for periods of less than 12 months as set out in IFRS 15.63. The Group also has projects with an average financing period of more than one year. In such projects, the treatment procedure for a substantial financing component will apply with regard to factoring. The corresponding zwould have meant EUR -1.7 million a reduction in revenue and addition in interest income.

According to SRV's study, there will be no change in the practice for recognising revenue on plots of land for development projects in comparison with the present practice. However, the timing of revenue recognition from plots will always be assessed on a case-by-case basis.

The new standard must be applied in financial periods beginning on or after 1 January 2018. The new standard has not material impact on the consolidated financial statements. The Group will apply the new standard retrospectively in accordance with IAS 8 on 1 January 2018 and present adjusted comparable information. The Group will provide notes to the financial statements in accordance with IFRS 15 when the standard is applied in 2018, both for the financial period in question and for the comparison period.

- IFRS 9 will take effect on 1 January 2018 and the standard will replace IAS 39 Financial Instruments: Recognition on and Measurement

  The standard introduces changes to the classification and measurement of financial assets, the determination of impairment on such assets, and the principles of hedge accounting.

  Bond investments held as financial assets will be valued at deferred acquisition cost but only when the aim of the business model is to hold these investments and collect all of the cash flows accruing from the contract, and when the cash flows based on the instrument's contract consist exclusively of capital and interest payments. The fair value of all other financial assets are measured and recognised in the income statement.

  As of 1 January 2018, classification and subsequent measurement are based on both of the following grounds:

  1) The organisation's business model when managing financial assets
  2) The cash flow characteristics based on the contracts for items included in financial assets.

  As of 1 January 2018, the Group classifies its financial assets and liabilities in the following groups:

  Financial assets: at deferred acquisition cost, fair value through other comprehensive income or fair value through profit or loss.

  Financial liabilities: financial liabilities recognised at fair value through profit or loss and at deferred acquisition cost using the effective interest rate.

  The change of the financial assets classification and measurement are not expected to have a substantial impact the Group financial statement. As of 1 January 2018, the cumulative changes EUR -1.1 million in the fair values of other financial assets will be recognised as adjustments to retained earnings rather than to the fair value reserve.

Impairment

As of 1 January 2018, the impairment of financial assets is assessed on the basis of expected credit losses.

Trade receivables and receivables related to long-term projects involves a credit loss risk. The Group has estimated that there are no material expected credit losses with respect to these items. However, the Group constantly assesses the probability of credit loss risks and changes in the status of these.

The new standard also includes more extensive requirements for notes to financial statements than before, as well as changes to the presentation. The Group does not apply hedge accounting, so the related changes have no effect.

The Group intends to apply the new rules retrospectively as of 1 January 2018 in such a way that the aids permitted by the standard are utilised.

- IFRS 16 Leases (1 January 2019) will mainly affect the accounting practices of lessees and it will result in all leases except low-value and short-term leases being recognised in the balance sheet. From the lessee's perspective, the standard has dispensed with the present division between operating leases and finance leases and, according to the standard, an asset will in practice be recognised for all leases (the right to use the leased asset), as well as a financial liability for the obligation to pay rent. The standard will also affect the income statement because the total expenses are typically higher in the first half of a lease and lower in the final half. In addition, the costs of rent that are currently included in operating expenses will be replaced by interest and depreciation, which will affect key indicators such as operating profit.

  There will be no major changes to the accounts of lessors – leases will continue to be classified as either finance or operating leases. According to IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is studying the impacts of the standard on the treatment of rented plots and other leases.

The standard will affect items in the income statement, the consolidated balance sheet and the method for presenting cash flow. It is not possible to estimate the quantitative impacts in full in advance.

The standard must be applied in financial periods beginning on or after 1 January 2019. The Group intends to apply the method retrospectively.

Other standards that have not yet taken effect are not expected to have a material impact on current or future reporting periods or on expected business transactions.

Cash flow statement

SRV changed the method for presenting its cash flow statement to the direct presentation method recommended by the IAS 7 standard as of the beginning of 2017. In addition, the interest paid on equity loans is now presented under financial cash flow rather than operating cash flow. The cash flow statements for the comparison period have been adjusted to reflect the new presentation method.

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, turn-over based rental income, 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.

The group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of acquired entity's net identifiable assets. 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 valuated 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. In accordance with the Group's accounting principles, Group management judges the depreciation period for an available-for-sale asset as beginning after a period of two years, when the probability of sale, occupancy rate and other important criteria will be evaluated. 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.

A share equivalent to SRV's own holding is eliminated from the margin of construction carried out for associated companies and joint ventures. This elimination is recognised as a reduction in revenue and is entered into the balance sheet under Advances received. The margin is realised when the holding is sold to an external party.

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 (this is described in the section of the accounting policies covering inventories) 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 Group does not have any actual research and development expenses. The Group has business-related project development costs, and the treatment of these is described in the section of the accounting policies covering inventories.

Property, plant and equipment

Property, plant and equipment is entered into the consolidated balance sheet at acquisition cost less accumulated depreciation and any accumulated impairment losses. Acquisition cost includes the expenses directly related to acquiring the asset. Assets are subject to straight-line depreciation over the estimated useful financial life of the asset.

Land and water areas are not depreciated because the useful financial life of these assets cannot be determined. Depreciation is recognised as an expense over the estimated useful financial life of an asset as follows:

- Buildings: 40–60 years
- Production machinery and equipment: 3–10 years
- Office fittings: 3–10 years
- IT equipment: 3–5 years
- Vehicles and rolling stock: 5 years
- Other tangible assets: 5–10 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 2017 and 2016 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. The fair value of foreign exchange options is the day of the acquisition date. Changes in fair values are recognised in the income statement under other financial income and expense and in the balance sheet under financial assets or liabilities.

However, changes in the fair value of forward foreign exchange contracts and foreign exchange options 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. 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. 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.

In SRV's developer-contracted housing projects, part of interest expenses on borrowing is capitalized during the construction period in current assets in accordance with the Group's capitalization rate. During the reporting period, SRV changed its capitalization practice such that, with respect to developer-contracted housing projects, interest expenses on borrowing are capitalized primarily using the project-specific financing cost. If the proportion of project-specific financing is not significant, the Group's capitalization rate is used in capitalizing interest expenses. The significance of project financing obtained for developer-contracted housing projects has grown during the reporting period and, in addition, the cost of borrowing is currently significantly lower than the Group's average interest rate, so the new practice will, in the company's view, result in a more correct capitalization of interest expenses. In the comparison year, the Group's general financing was mainly used for developer-contracted housing projects, and as a result the revision of the capitalization practice would not, in the company's view, have a substantial impact on the comparison periods presented in the financial statements.

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.

From the beginning of 2017, SRV revised its practice for capitalizing expenses incurred by construction plans that are managed mainly by SRV and classified as current assets. According to the new practice, these expenses can be capitalized when they can be reliably considered to have a favourable impact on the value of the plot or project. Previously, the capitalisation of expenses required a decision to be made on the launch of construction. In the company’s view, the revised practice would not have had a material impact on the comparison figures presented in the financial statements.

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 recognised in the income statement, other than those related to items of other comprehensive income or items directly recognised as equity.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. The deferred tax asset is recognized for unused losses and all temporary differences. 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 share price 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 and eliminations itemization include Group services and the services related to rental of construction equipment and eliminations of group internal transactions.

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 had one significant individual customer during the year 2017. During the year 2016 Group had one.

2017

EUR 1,000	Operations in Finland	International Operations	Other operations and eliminations	Total
Revenue, external	1,097,766	17,910	452	**1,116,129**
Business construction	717,820			
Housing construction	379,946			
Revenue, internal	45	62	-107	**0**
Total	**1,097,811**	**17,973**	**345**	**1,116,129**
Included in operating profit:				
Depriciations and write-downs	-1,767	-1,702	-2,247	**-5,716**
Operating profit	**40,296**	**-18,394**	**-4,832**	**17,070**
Segment's assets				
Shares in associated and join venture companies	98,940	91,518	0	**190,458**
Inventories total	329,399	89,417	5	**418,821**
Land areas and plot-owning companies	101,699	84,591	0	**186,290**
Work in progres	195,269	0	0	**195,269**
Shares in completed housing corporations and real estate companies	24,958	4,788	0	**29,745**
Other inventories	7,474	39	5	**7,517**
Loan receivables from accociated companies and joint ventures	16,664	50,114	0	**66,778**
Other assets	168,348	35,414	8,706	**212,468**
Total	**613,351**	**266,464**	**8,711**	**888,526**
Segment's liabilities				
Total	**386,935**	**169,780**	**48,420**	**605,135**
Invested capital				
At the end of period	368,404	241,706	-5,612	**604,498**
Return on investment, %	11.9	-6.7		**3.4**
Order backlog	**1,526,684**	**21,238**		**1,547,922**
Business construction	920,272			
Housing construction	606,411			

2016

EUR 1,000	Operations in Finland	International Operations	Other operations and eliminations	Total
Revenue, external	831,834	52,148	160	**884,142**
Business construction	559,120			
Housing construction	272,714			
Revenue, internal	361	206	-568	**0**
Total	**832,195**	**52,354**	**-407**	**884,142**
Included in operating profit:				
Depriciations and write-downs	-1,744	-3,224	-1,665	**-6,633**
Operating profit	**38,267**	**-4,152**	**-6,442**	**27,674**
Segment's assets				
Shares in associated and join venture companies	99,066	112,389	0	**211,454**
Inventories total	303,258	97,001	5	**400,264**
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**
Loan receivables from accociated companies and joint ventures	15,000	41,996	0	**56,996**
Other assets	151,860	36,628	25,285	**213,772**
Total	**569,184**	**288,013**	**25,290**	**882,486**
Segment's liabilities				
Total	**353,872**	**175,910**	**57,432**	**587,214**
Invested capital				
At the end of period	333,001	250,824	12,381	**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			

SRV Group has clarified the presentation of other operations in 2017. Group internal eliminations are now included to other operations and eliminations.

2 ACQUISITIONS

SRV Group did not acquire any significant new businesses in 2017 and the previous year.

3 DISPOSALS

SRV Group did not have significant disposals of businesses in 2017 and the previous year.

4 CONSTRUCTION CONTRACTS

2017

EUR 1,000	
Revenue recognised from construction contracts based on the percentage of completion	889,078
Revenue recognised from other construction projects upon delivery	212,439
Contract costs and profits at the end of financial year (less recognised losses) related to the work in progress	933,148

EUR 1,000	Total 2017	Cost incurred plus regognised profits	The sum of recognised losses and progress billings
The gross amount due from customers for contract work [1]	**36,583**		
Operations in Finland	36,114	620,825	584,710
International operations	469	469	0
The gross amount due to customers for contract work[1]	**81,311**		
Operations in Finland	81,311	472,562	553,873
International operations	0	0	0

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

[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	2017	2016
Capital gains on sales of property, plant and equipment and intangible assets	136	2
Rental income	1,083	1,109
Other income	1,227	995
Total	**2,446**	**2,106**

6 OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
Rental expenses	2,754	2,668
Voluntary indirect personnel expenses	2,512	2,113
Car and travel expenses	1,095	901
Entertainment and marketing	1,888	1,341
Communications and IT	2,834	2,170
Other external services	1,868	1,890
Other fixed expenses	5,484	6,444
Forward deal of currency hedging	2,521	8,778
Total	**20,957**	**26,303**

Auditing fees

EUR 1,000	2017	2016
Audit	287	293
Auditors' statements	10	8
Tax services	6	22
Other services	77	67
Total	**381**	**390**

PricewaterhouseCoopers Oy has provided non-audit services to the entities of SRV Group in total of 87 thousand euros during financial year 2017.

7 DEPRECIATION AND IMPAIRMENTS

EUR 1,000	2017	2016
Depreciation		
Intangible assets		
Other intangible assets	520	438
Property, plant and equipment		
Buildings and structures	628	648
Machinery and equipment	3,475	2,906
Other tangible assets	92	115
Impairment		
Impairment	1,000	2,526
Total	**5,716**	**6,663**

An impairment of EUR 1.0 million in 2017 (2.5 million EUR in 2016) made for one project is directed at the International Operations segment.

8 EMPLOYEE-BENEFIT EXPENSES

EUR 1,000	2017	2016
Wages and salaries[1]	62,025	58,208
Pension expenses - defined contribution plans	11,349	10,470
Share-based incentive scheme	1,243	489
Other indirect personnel expenses	3,071	3,865
Total	**77,688**	**73,031**

[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	2017	2016
Operations in Finland	867	787
International Operations	170	210
Other	97	93
Total	**1,134**	**1,089**

Share-based incentive schemes

Grant year	2009[1]	2011[2]	2014[3]	2014[4]	2017[5]	Total
Reward principle	Employment	Employment	Set targets	Employment	Set targets	
Original exercise price	4.80	6.81	-	3.14	-	
Dividend and right issue adjusted exercise price 31.12.17*	-	-	-	2.61	-	
Subscrition period	2010-2016	2011-2016	2014-2016	2015-2021	2017-2019	
Total amount*	2,000,000	2,000,000	588,000	720,000	1,000,000	
Share incentives 1.1.2016	**100,000**	**385,000**	**302,712**	**720,000**	-	**1,507,712**
Additions	0	0	0	0	-	**0**
Share incentives used	100,000	0	0	288,000	-	**388,000**
Share incentives returned or expired	0	385,000	96,236	0	-	**481,236**
Share incentives 31.12.2016	**0**	**0**	**206,476**	**432,000**	-	**638,476**
Share incentives 1.1.2017	**0**	**0**	**206,476**	**432,000**	-	**638,476**
Additions	0	0	0	0	946,000	**946,000**
Share incentives used	0	0	206,476	0	0	**206,476**
Share incentives returned or expired	0	0	0	0	545,434	**545,434**
Share incentives 31.12.2017	**0**	**0**	**0**	**432,000**	**400,566**	**832,566**
IFRS-Costs 2016, EUR 1,000**	0	0	-333	-156	0	**-489**
IFRS-Costs 2017, EUR 1,000**	0	0	-380	-83	-779	**-1,243**
Shares granted based on incentives, 2016	7,598	0	0	41,444	0	**49,042**
Shares granted based on incentives, 2017	0	0	206,476	0	0	**206,476**

[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 33per cent. 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 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 per cent 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.

[4] On 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 2015 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 per cent 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.

[5] In February 2017, the Board of Directors decided on a new share-based incentive scheme for the Group's key personnel. The scheme covers 40 key SRV personnel. The scheme will be in effect from 2017 to 2019 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 1,000,000 SRV Group shares will be granted to key employees. The original cost of the share-based incentive scheme is calculated by using the share price EUR 5.20, which makes the IFRS-cost for the scheme EUR 5.5 million with the addition of the cash payments. Actual cost is based how the company will achieve the financial targets and the market value of the share. 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.

The liabilities related to share-based payment transactions amounted to EUR 761 thousand (2017) and EUR 765 thousand (2016) 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 does not have any actual research and development expenses. The Group has business-related project development costs, and the treatment of these is described in the section of the accounting policies covering inventories.

10 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2017	2016
Financial income		
Interest income from associated and jv-companies	3,677	2,432
Interest income from the other receivables	661	192
Foreign exchange gains	0	3,845
Other financial income	983	576
Total	**5,322**	**7,046**
Financial expenses		
Expenses for financial liabilities at amortised cost	-14,013	-11,077
Financial asset/liabilities at fair value	1,902	-4,677
Foreign exchange losses	-2,127	-
Other financial expenses	-3,517	-2,615
Total	**-17,755**	**-18,368**
Financial income and expenses, total	**-12,433**	**-11,322**

11 INCOME TAXES

Income taxes in the income statement

EUR 1,000	2017	2016
Current taxes	713	1,847
Taxes for previous financial years	88	-7
Other taxes	0	0
Deferred taxes	-1,974	129
Total	**-1,173**	**1,970**
Effective income tax rate	-25.3 %	12.0 %

The income taxes in the consolidated income statement differ from the statutory income tax rate in Finland (20 per cent in 2017 and in 2016) as follows:

Income tax reconciliation

EUR 1,000	2017	2016
Profit before taxes	**4,638**	**16,351**
Income taxes at statutory tax rate in Finland	928	3,270
Differing tax rates of foreign subsidiaries	-7	-58
Tax exempt income	-69	-22
Realization of previously unrecognized deferred tax receivables	-1,581	0
Realization of temporary accrual differences arising from business combinations recognized as deferred tax receivables	-2,771	0
Non-deductible expenses	408	511
Unrecognized and reversed tax losses	-845	-242
Taxes for previous financial years	88	-7
Share of profits of associated and joint venture companies	2,675	-1,482
Adjustments	0	0
Income taxes	**-1,173**	**1,970**

Income taxes recognized in other comprehensive income

	2017			2016		
EUR 1,000	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Financial assets available for sale	-48	10	-38	-326	65	-261
Total	**-48**	**10**	**-38**	**-326**	**65**	**-261**

The income tax credited directly to equity

EUR 1,000	2017	2016
Hybrid Bond interests tax	810	1,289
Total	**810**	**1,289**

12 EARNINGS PER SHARE

EUR 1,000	2017	2016
Profit/loss for the year attributable to equity holders of the parent	5,987	13,863
Profit/loss for the year attributable to Hybrid Bond investors, tax adjusted	-3,150	-5,088
Profit/loss for the calculate the earnings per share	2,837	8,775

Number of shares, 1,000	2017	2016
Weighted average number of shares outstanding	59,540	59,349
Weighted average number of shares outstanding (diluted)	59,540	59,576
Earnings per share attributable to equity holders of the parent company, eur per share	**0.05**	**0.15**
Earnings per share attributable to equity holders of the parent company (diluted), eur per share	**0.05**	**0.15**

13 DIVIDEND PER SHARE

The dividends paid in 2017 was EUR 0.10 per share, totalling EUR 6.0 million. The dividends paid in 2016 was EUR 0.10 per share, totalling EUR 5.9 million. A dividend of EUR 0.06 per share will be proposed at the Annual General Meeting on 20 March 2018 corresponding to total dividends of EUR 3.6 million. This proposed dividend is not recorded as liability in the financial statements.

14 PROPERTY, PLANT, AND EQUIPMENT

2017

EUR 1,000	Land and water areas	Build-ings and structures	Machinery and equipment	Other tangible assets	Total
Historical cost, 1 Jan.	**271**	**11,004**	**34,466**	**716**	**46,457**
Increases	0	-12	2,974	378	**3,340**
Decreases	0	-214	-644	0	**-859**
Transfer	0	0	0	0	**0**
Foreign exchange differences	0	-6	-42	-19	**-67**
Historical cost, 31 Dec.	**271**	**10,772**	**36,753**	**1,075**	**48,871**
Accumulated depreciation and impairments, 1 Jan.	**0**	**-8,331**	**-25,801**	**-372**	**-34,504**
Depreciation	0	-628	-3,475	-92	**-4,196**
Accumulated depreciations of decreases	0	0	582	-1	**581**
Foreign exchange differences	0	246	41	8	**295**
Transfer	0	0	0	0	**0**
Accumulated depreciation and impairments, 31 Dec.	**0**	**-8,713**	**-28,654**	**-457**	**-37,823**
Book value, 31 Dec.	**271**	**2,059**	**8,100**	**618**	**11,048**

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**
Book value, 31 Dec.	**271**	**2,673**	**8,665**	**344**	**11,954**

SRV Group had no significant value of finance lease agreements in 2017 and 2016.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

2017

EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	Total
Historical cost, 1 Jan.	861	1,734	2,866	5,461
Foreign exchange differences	0	0	-2	-2
Increases	90	0	57	147
Decreases	-16	0	0	-16
Historical cost, 31 Dec.	934	1,734	2,922	5,590
Accumulated amortisation, 1 Jan.	-510	0	-1,330	-1,841
Amortisation	-2	0	-518	-520
Accumulated depreciations of decreases	-31	0	31	0
Write downs	16	0	0	16
Foreign exchange differences	0	0	0	0
Accumulated amortisation, 31 Dec.	-527	0	-1,818	-2,344
Carrying amount, 31 Dec.	408	1,734	1,104	3,246

2016

EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	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

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

Goodwill

EUR 1,000	2017	2016
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.

In the impairment test of goodwill performed in December 2017, 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

2017 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	945	0	0	945	945	19
Loan receivables from associated companies and joint ventures	0	66,778	0	0	66,778	66,778	22
Other financial assets	0	0	15,991	0	15,991	15,991	18
Current financial assets							
Accounts receivables	0	53,447	0	0	53,447	53,447	23,29
Construction contracts receivables	0	36,583	0	0	36,583	36,583	23
Other interest bearing receivables	0	6	0	0	6	6	23
Derivative instruments	446	0	0	0	446	446	31
Loan receivables from associated companies and joint ventures	0	0	0	0	0	0	22
Cash and cash equivalents	0	23,475	0	0	23,475	23,475	24
Total	446	181,235	15,991	0	197,672	197,672	
Non-current financial liabilities							
Interest bearing liabilities	0	0	0	170,769	170,769	185,078	27
Derivative instruments	6,098	0	0	0	6,098	6,098	31
Other non-current liabilities	0	0	0	17,722	17,722	17,722	28
Current financial liabilities							
Interest bearing liabilities	0	0	0	150,338	150,338	151,461	27
Accounts payables	0	0	0	0	79,780	79,780	28
Total	6,098	0	0	338,828	424,706	440,139	

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							
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	246,480	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	

Carrying amounts do not differ substantially from Fair value excluding bonds.
The fair value of a bond is based on discounted cash flows. The discount rate is the interest rate by which the Group would obtain a corresponding external loan on the ending date of the reporting period.
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	2017	2016
Shares in associated companies	60,366	75,501
Shares in joint venture companies	130,093	135,953
Total	**190,458**	**211,454**

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		2017	2016
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		2017	2016
Netherland Pearl Plaza B.V	Netherlands	50	50
KSK Redi Ky (REDI)	Finland	40	40
KSK Parking I Ky (REDI)	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	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	-	-	5,089	2,401	11,768	10,408
Other short term assets	12,043	17,498	2,365	2,867	12,507	11,748
Short term assest	**12,043**	**17,498**	**7,455**	**5,268**	**24,275**	**22,157**
Long term assets	**180,501**	**198,165**	**155,494**	**171,355**	**369,813**	**255,711**
Long term liabilities	**24,091**	**23,856**	**21,325**	**14,506**	**1,378**	**1,810**
Long term financial liabilities	-	-	81,379	94,278	154,432	36,726
Long term liabilities	108,724	110,470	-	-	-	-
Other long term liabilities	**108,724**	**110,470**	**81,379**	**94,278**	**154,432**	**36,726**
Net sales	0	0	19,370	17,309	0	0
Depreciation	-	-	-3,487	-3,563	0	0
Interest income	-	-	0	0	2	3
Interest expenses	-	-	-5,279	-5,293	-41	-8
Income taxes	-	-	18	-2,685	263	370
Profit for the financial period	-14,415	1,042	-2,783	12,451	-1,053	-1,479
Other comprehensive income	-4,348	7,193	-2,446	3,453	-	-
The reconciliation of the associated companies financial information to Group's unbooked book value::						
Group's ownership-%	45	45	50	50	40	40
Group's share of net assets	26,878	36,602	30,123	33,920	95,883	96,307
Adjustment to purchase price of associated companies	15,381	15,381	-	-	853	853
The balance sheet value of the associated companies in Group balance sheet	42,258	51,983	30,123	33,920	96,736	97,160

Summary of financial information

	Other associated companies		Other joint venture companies	
	2017	2016	2017	2016
The Group's share of the profit	-3,516	154	-1,559	1,155
The total book value in Group's balance sheet	18,108	23,518	3,234	4,873

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 assets are presented in note 29.

EUR 1,000	2017	2016
Opening balance at 1 Jan.	**13,913**	**11,741**
Increases	2,060	1,882
Decreases	-30	-36
Amount of available-for-sale financial assets, transferred into the income statement	48	326
Closing balance, 31 Dec.	**15,991**	**13,913**
Non-current	15,991	13,913
Current	0	0
Quoted shares	0	0
Unquoted shares	15,991	13,913

19 RECEIVABLES

EUR 1,000	Carrying amount 2017	Carrying amount 2016
Non-current receivables		
Loan receivables	945	36
Total	**945**	**36**

20 DEFERRED TAX ASSETS AND LIABILITIES

2017

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	4,809	158	0	-260	0	4,707
Employee-benefits	16	20	0	0	0	36
Unrealised losses of financial instruments	289	-5	-10	0	0	274
Accrual differences in developer contracting	1,649	-405	0	0	0	1,244
Undeductible depreciations in taxation	0	3,906	0	0	0	3,906
Other temporary differences	2,439	-772	0	-22	-121	1,523
Total	**9,202**	**2,901**	**-10**	**-282**	**-121**	**11,690**
Deferred tax liabilities						
Borrowing costs	1,169	-103	0	0	0	1,066
Other temporary differences	3,032	1,030	0	0	1	4,063
Total	**4,202**	**927**	**0**	**0**	**1**	**5,130**
Net deferred taxes	**5,000**	**1,975**	**-10**	**-282**	**-123**	**6,561**

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-benefit	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**

On 31 December 2017, the Group's accumulated losses for which no deferred tax assets have been recognised were 4 663 thousand euros (4 604 thousand 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	**2017**	2016
Raw materials and consumables	31	139
Work in progress	195,269	170,336
Land areas and plot-owning companies	186,290	183,692
Shares in completed housing corporations and real estate companies	29,745	38,290
Advance payments	6,970	7,469
Other inventories	516	337
Inventories, total	**418,821**	**400,264**

With respect to developer-contracted housing projects, interest expenses on borrowing are capitalised primarily using the project-specific financing cost. If the proportion of project-specific financing is not significant, the Group's capitalisation rate is used in capitalising interest expenses. The capitalisation rate used was 4,5 per cent on average. During the financial year capitalized interests the amount of which was EUR 1,535 thousand (EUR 1,978 thousand) was included in the value of work in progress.

The carrying amount of completed inventories used as security for loans in 2017 amounted to EUR 18,710 thousand (EUR 31,599 thousand) and the carrying amount of inventories under construction in 2017 was EUR 99,881 thousand (EUR 35,368 thousand).

During the financial year 2017 there was impairment losses in shares in completed housing companies for 157 thousand euros. During the financial year 2016 there was impairment losses in shares in completed housing companies for EUR 162 thousand and in land-areas and plot owning companies EUR 738 thousand. There was no reversed impairment losses in financial year 2017 and 2016.

22 LOAN RECEIVABLES FROM ASSOCIATED COMPANIES AND JOINT VENTURES

EUR 1,000	**2017**	2016
Long term loan receivables from associated companies	40,896	31,240
Increases	8,365	15,713
Decreases	0	-6,057
Transfer from the short-term	1,100	0
Foreign exchange difference	-247	0
Total	**50,114**	**40,896**
Long term loan receivables from joint ventures	15,000	0
Increases	1,664	15,000
Decreases	0	0
Total	**16,664**	**15,000**
Short term loan receivables from joint ventures	1,100	5,600
Increases	0	0
Decreases	0	-4,500
Transfer to the long-term	-1,100	
Total	0	**1,100**

23 ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

EUR 1,000	**Carrying amount 2017**	Carrying amount 2016
Accounts receivables	53,447	49,995
Loan receivables	6	5
Gross amount due from customers related to construction contracts	36,583	31,476
Accrued income and prepaid expenses	53,089	31,841
Other receivables	1,966	3,263
Total	**145,091**	**116,579**
Interest bearing receivables	6	5
Non-interest bearing receivables	145,085	116,574
Total	**145,091**	**116,579**

Carrying amount does not substantially differ from fair value. In 2017 the Group's accounts receivables were on average EUR 52 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	2017	2016
Cash and cash equivalents	23,475	54,583
Total	**23,475**	**54,583**

25 EQUITY

Share capital, share premium reserve and invested free equity fund

	Number of shares
1 Jan. 2016	**59,325,458**
Return of treasury shares	0
Transfer of treasury shares	49,042
Share issue	0
31 Dec. 2016	**59,374,500**
1 Jan. 2017	**59,374,500**
Return of treasury shares	0
Transfer of treasury shares	206,476
Share issue	0
31 Dec. 2017	**59,580,976**

Shares, share capital and share premium reserve

On 31 December 2017, 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 23 March 2017 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 18 months 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 918,599 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 0.06 per share.

26 PROVISIONS

2017 EUR 1,000	Warranty provisions	10-year warranty	Other provisions for construction contracts	Other provisions	Total
1 Jan.	**8,313**	**5,981**	**341**	**0**	**14,635**
Currency exchange differences	0	0	-26	0	-26
Increase in provisions	3,688	1,063	456	0	5,207
Provisions used	-2,093	-808	-315	0	-3,216
Reversals of unused provisions	0	0	0	0	0
31 Dec.	**9,908**	**6,236**	**455**	**0**	**16,600**
Non-current	4,189	4,366	206	0	8,760
Current	5,720	1,871	249	0	7,839
Total	**9,908**	**6,236**	**455**	**0**	**16,600**

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**

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	**Book value 2017**	**Fair value 2017**	Book value 2016	Fair value 2016
Non-current				
Loans from financial institutions	15,295	15,295	11,009	11,009
Bonds	99,474	113,783	174,289	193,578
Housing corporation loans	55,999	55,999	41,893	41,893
Total	**170,769**	**185,078**	**227,191**	**246,480**
Current				
Loans from financial institutions	6,734	6,734	22,510	22,510
Commercial papers	68,500	68,500	51,000	51,000
Bonds	75,000	76,123	0	0
Housing corporation loans	104	104	231	231
Total	**150,338**	**151,461**	**73,741**	**73,741**

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

28 OTHER LIABILITIES

EUR 1,000	**Book value 2017**	Book value 2016
Non-current		
Derivative liabilities	6,098	8,000
Other liabilities	11,624	6,002
Total	**17,722**	**14,002**
Current		
Accounts payables	79,780	62,703
Advance payments related to construction contracts	81,311	101,809
Other advance payments	8,385	9,533
Other current liabilities	39,711	46,561
Accrued expenses and prepaid income	35,286	32,803
Total	**244,472**	**253,408**
Accrued expenses and prepaid income		
Wages and salaries and related expenses	12,854	11,573
Interest and other financial liabilities	5,617	5,542
Periodisations of project expenses	15,407	14,547
Other	1,407	1,141
Total	**35,286**	**32,803**

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 reflect 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 variable and fixed interest rates. The weighted average interest rate of the entire loan portfolio at 31st December 2017 was 3.8 per cent. 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. Interest rate risk is managed by adjusting the ratio of variable and fixed interest debt 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 76 per cent. Interest rate risk is also managed by interest period selection or by derivatives. SRV Group Plc signed two interest rate swap contracts totaling EUR 100 million 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 booked into financial income and expenses 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 receive if it were to exit 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. The effect of fair valuation of interest rate swaps would have been EUR 7,6 million on the profit of the period when interest rates increase one percent. If interest rates decrease one percentage the effect on the profit of the period would have been EUR -8,3 million. General interest rate change also has direct impact on the investment decisions of the Group's customers and, via the same, cash flows from Group operating activies.

The accompanying sensitivity analysis compliant with IFRS7 contains variable interest rate financial debts and receivables in which there is an interest rate fixing during the next 12 months, in accordance with the closing balance sheet. Variable interest rate financial debts include project-specific housing 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 EUR 17,7 million. Variable interest rate receivables consist of loans given to joint venture companies. The sensitivity analysis also includes interest rate derivatives.

EUR 1,000	2017 Interest risk position	Average interest rate	Average maturity, months	Interest rate sensitivity EUR[1] Financial expenses and income -1%	+1%	2016 Carrying amount	Interest rate sensitivity, EUR
Debt, floating rate	-79,965	1.34 %	3.3	581	-581	-193,678	-877
Derivatives	100,000	-0,21%[2]	6.4	-958	958	100,000	958
Receivables	15,786	3.25 %	3.0	-132	132	15,000	125
Total	**35,821**			**-509**	**509**		

[1] Effect of one percentage point in market interest rates on the Group's interest expenses and income during the next 12 months. All other variables assumed unchanged.
[2] Three and twelve month Euribor forward rates have been used to predict fixing date interest rates in order estimate interest rate sensitivity to interest rate changes.

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 2017 was the Russian ruble. The foreign subsidiaries are, in accordance with the Group's financial policies, responsible for identifying and reporting currency exchange 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 2017 there were open currency hedge instruments. On the closing date, the Group had short-term foreign exchange option contracts, hedging against currency risk, with capital totaling EUR 80 million.

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 decreased the value of the Group's net investments in equity by EUR 8,1 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 11 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. Ten per cent changes in these would correspondingly have had an impact of about EUR 13 million on SRV's financial result.

Foreign currency denominated capital employed at the balance sheet date

EUR 1,000	2017	2016
Ruble	225,129	234,670
Total	**225,129**	**234,670**

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, such as 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 an uncommitted Commercial Paper Programme (EUR 100 million) for short-term financing needs. Refinancing risk is managed by aligning the maturity of the commited credit lines in relation to the cash flows of debt payments. At the end of December 2017 the amount of commited undrawn credit lines and cash in hand and in bank accounts amounted to EUR 163,5 million. of which Group's cash assets were amounting to EUR 23,5 million, and open-ended account limits and committed undrawn financing reserves to EUR 140,0 million. The group has an outstanding EUR 75 million bond maturing in December 2018 which it aims to refinance or repay with its financing reserves. The total amount of accounts receivable and undrawn project loans in SRV's housing and business developer contracting projects was EUR 171,7 million. SRV estimates that total cost to finish these projects is EUR 176,9 million.

The equity ratio, gearing ratio, liquidity and the interest coverage ratio are the Group's financial covenants. The equity ratio is also reported based on percentage of completion. Liquidity refers to the Group's immediately available cash, cash equivalents and deposits, committed limits and undrawn loans in which the maturity period exceeds 12 months, as well as the undrawn share of the Revolving Credit facility.

Financial liabilities

2017

EUR 1,000	Book value	Contractual liability[1]	Maturity 2018	2019	2020	2021	later
Bonds	174,474	206,250	85,625	6,875	6,875	106,875	0
Loans from financial institutions[2]	22,029	21,581	5,965	10,380	2,364	846	2,025
Housing loans[3]	56,103	54,190	699	727	939	2,288	49,536
Commercial Papers	68,500	68,500	68,500	0	0	0	0
Other liabilities	0	0	0	0	0	0	0
Derivative liabilities[4]	6,098	6,098	1,618	1,525	1,163	822	970
Accounts payables	79,780	79,780	79,780	0	0	0	0
Investment commitment[5]	81,930	81,930	22,839	17,391	17,000	4,500	20,200
Total	**488,914**	**518,328**	**265,027**	**36,898**	**28,340**	**115,331**	**72,732**

2016

EUR 1,000	Book value	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**

[1] Includes all contractual payments, e.g. interest and commitment fees.
[2] Committed current account overdrafts are assumed to expire 2018. Loans from financial institutions includes pension loans.
[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.

Liquidity reserves

EUR 1,000	31 Dec. 2017	31 Dec. 2016
Committed credit facility	100,000	100,000
Committed current account overdraft limits	22,000	22,000
Undrawn housing loans and loans from financial institutions	18,000	47,500
Cash and cash equivalents	23,475	54,583
Total	**163,475**	**224,083**

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 main 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 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 to three months rent. The loan receivables relate to financing the construction period for ongoing or development projects where the Group also has 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 and variation works may involve financial risks. Contract receivables may involve additional and variation 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 do not include the 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 per cent). SRV's management believes that this case and its outcome will not significantly affect SRV's financial position.

Overdue accounts receivables

EUR 1,000	2017	2016
Current	45,058	37,207
1–30 days past due	5,040	4,551
31–60 days past due	1,155	340
61–90 days past due	546	89
91–180 days past due	1,041	3,659
181–360 day past due	100	23
Over 361 days past due[1]	508	4,125
Total	**53,447**	**49,995**

[1] Includes accounts receivables from disputes in year 2016.

There were no past due receivables in other group financial assets.

Credit loss provisions are not included in accounts receivables, because SRV Group does not have any substantial credit losses.

Fair value hierarchy of financial assets and liabilities

Financial assets at fair value through profit or loss

On 31 December 2017 the company had foreign exchange options and interest rate swap and on 31 December 2016 foreign exchange forward contracts and interest rate swap.

Derivative financial instruments at fair value through profit or loss

EUR million	Level 1	Level 2	Level 3	Total
31 Dec. 2017				
Derivative financial assets	0	0.4	0	**0.4**
Derivative financial liabilities	0	6.1	0	**6.1**
31 Dec. 2016				
Derivative financial assets	0	0	0	**0**
Derivative financial liabilities	0	12.4	0	**12.4**

Available-for-sale financial assets

EUR million	Level 1	Level 2	Level 3	Total
31 Dec. 2017				
Unlisted shares	0	0.5	15.5	**16.0**
31 Dec. 2016				
Unlisted shares	0	0.5	13.4	**13.9**

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 and projects (level 3).

The table below presents movements in level 3 instruments for 2017

EUR million	Unquoted shares and holdings
Opening balance at 1 Jan. 2017	13.4
Increases	2.0
Decreases	0.0
Net changes of available-for-sale financial assets, transferred into the equity	0.0
Gains and losses recognised in profit or loss	-
Total	**15.5**

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
Net changes of available-for-sale financial assets, transferred into the equity	0.3
Gains and losses recognised in profit or loss	0.0
Total	**13.4**

Capital risk management

With an efficient capital structure the Group ensures 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. The 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	2017	2016
Total equity	283,391	295,272
Total assets	888,526	882,486
Advance payments	-89,696	-111,342
Total	**798,831**	**771,144**
Equity ratio, %	**35.5**	**38.3**

30 OPERATING LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

Group as lessee

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

EUR 1,000	2017	2016
In less than a year	2,837	2,864
In more than one but less than five years	8,495	8,613
In more than five years	8,141	9,622
Total	**19,473**	**21,099**

Liabilities in connection with the operating lease agreements of employee leasing cars generally have duration of three to four years. The Group's maximum duration in the operating lease agreements is 138 months. The term of open-ended lease agreements 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	2017	2016
Collateral given for own liabilities		
Real-estate mortgages given	70,014	70,814
Other commitments		
Investment commitments given	81,930	31,186
Landarea commitments	41,473	37,852
Contingent liabilities (rented plots)	105,834	59,841

The Group has guaranteed obligations of its subsidiaries. At 31 December 2017, the total amount of these guarantees was EUR 281.7 million (EUR 292.1 million).

31 FAIR AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR 1,000	2017		2016	
Fair values	Positive	Negative	Positive	Negative
Foreign exchange forward contracts and options	446	0	0	4,390
Interest rate swap	0	6,098	0	8,000
Total	**446**	**6,098**	**0**	**12,390**

EUR 1,000	2017	2016
Nominal values of derivative instruments		
Foreign exchange forward contracts and options	80,000	37,000
Interest rate swap	100,000	100,000
Total	**180,000**	**137,000**

32 RECONCILIATION OF DEBTS REPORTED IN FINANCING ACTIVITIES

	Long term		Short term	
EUR 1,000	Interest-bearing debts	Hybrid bond	Interest-bearing debts	Total
Debt 31.12.16	**227,191**	**45,000**	**73,741**	**345,933**
Proceeds from loans	16,901	0	0	16,901
Repayment of loans	-28,317	0	0.0	-28,317
Transfer long term/short term debts	-59,226	0	59,226	0
Change in housing corporation loans	14,106	0	-127	13,978
Net change in short-term loans	0	0	17,497	17,497
Change in debt, non cash:				
Efective interest	6	0	0	6
Other non-cash changes	109	0	1	110
Debt 31.12.17	**170,769**	**45,000**	**150,338**	**366,107**

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

2017

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	150,300	111	613	18,406	0
Associate company	10,052	5	3,362	53,106	0
Other related parties	0	0	0	0	0
Total	**160,352**	**117**	**3,975**	**71,511**	**0**

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**

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	2017	2016
Management salaries and other short-term employment-based benefits	2,261	2,801
Share-based payments	1,030	411
Post-employment benefits, statutory pensions	553	687
Post-employment benefits, voluntary additional pensions	114	136
Benefits paid upon termination	0	0
Total	**3,958**	**4,035**

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%).

Salaries and compensations of CEO & Board of Directors

EUR 1,000	2017	2016
Ojala Juha Pekka, President and CEO	753	897
Nieminen Timo, Deputy CEO	459	223
Members of the Board		
Kokkila Ilpo, Chairman	73	71
Kallasvuo Olli-Pekka, Vice Chairman	59	59
Alitalo Minna	49	48
Elomaa Juhani, from March 23, 2017	36	0
Hiltunen Arto, until March 23, 2017	14	47
Hintikka Juhani, from March 23, 2017	35	0
Kokkila Timo	49	47
Kyhälä Risto, until March 23, 2017	14	47
Members of the Board, total	**327**	**318**

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 SRV Group Plc 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 2017 paid statutory occupational pension insurance of the president and CEO and deputy CEO were 205 thousand euros (191 thousand euros in 2016).

35 EVENTS AFTER THE BALANCE SHEET DATE

The implementation of the Central Deck and Arena, a project developed by SRV in the heart of Tampere was confirmed on 12 January 2018. Construction work has begun in the vicinity of the Tampere railway station. At the same time, the project schedule and total value were specified. Central Deck and Arena is valued at a total of about EUR 550 million and its final sections are currently scheduled to be completed in 2024. The investment agreement for Phase I of the project accounts for about EUR 340 million of the total value. SRV, LocalTapiola and OP Financial Group's insurance and pension insurance companies comprise the project investor group, with equal shareholdings.

The Hospital District of Helsinki and Uusimaa HUS decided to start up the implementation phase of the Siltasairaala Hospital with SRV on 5 January 2018. Construction work on the site in Meilahti, Helsinki, started at the beginning of 2018. It is the largest construction project in the history of HUS. The Siltasairaala project will be recognised in SRV's order backlog valued at its target budget of EUR 243 million.

SRV's Board of Directors has decided to investigate, on 6 February 2018, the possible sale of the Pearl Plaza shopping centre in St Petersburg with the other owner of the centre, the Chinese company Shanghai Industrial Investment Holdings. SRV does not express detailed views about the probability, date or target price of the potential sale. The refinancing of Pearl Plaza was completed in February 2018 when the real estate company that owns the shopping centre signed a largely rouble-denominated ten-year loan agreement valued at about EUR 95 million. The previous Pearl Plaza loan agreement was denominated in euros. SRV's transaction risk largely comprises the eurodenominated loans of associated companies that are partly owned by SRV, and thus the new Pearl Plaza loan agreement reduces the risk posed by changes in the rouble exchange rate.

Parent company's financial statements, FAS

INCOME STATEMENT OF THE PARENT COMPANY

EUR 1,000	Note	2017	2016
Revenue	1	**11,180**	**9,321**
Other operating income		470	29
Purchase during the financial year		0	0
Personnel costs	2	-6,664	-5,984
Indirect personnel costs			
Pension costs		-1,060	-984
Other indirect personnel costs		-244	-311
Depreciation and impairments	3	-566	-304
Other operating expenses	4	-10,100	-10,510
Operating profit		**-6,983**	**-8,743**
Financial income and expenses	5	-12,050	-24,181
Profit before appropriations and taxes		**-19,034**	**-32,924**
Appropriations			
Group contributions +/-	6	24,884	27,700
Profit before appropriations and taxes		**5,850**	**-5,224**
Income taxes	7	-1,251	1,083
Net profit for the financial year		**4,600**	**-4,141**

BALANCE SHEET OF THE PARENT COMPANY

EUR 1,000	Note	31 Dec 2017	31 Dec 2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	8	781	938
Property, plant and equipment	8	699	599
Investments			
Shares in group companies	9	262,915	261,965
Other financial assets	9	2,644	2,611
Non-current assets, total		**267,039**	**266,112**
CURRENT ASSETS			
Inventories		5	5
Long-term receivables	11	1,782	2,951
Short-term receivables	11	214,443	195,569
Cash and cash equivalents		19,579	43,443
Current assets, total		**235,809**	**241,969**
ASSETS, TOTAL		**502,847**	**508,081**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	3,063	3,063
Invested free equity fund	13	142,714	142,714
Retained earnings	13	22,525	32,623
Net profit for the financial year	13	4,600	-4,141
Equity, total		**172,901**	**174,260**
Provisions	**15**	**179**	**242**
Liabilities			
Non-current liabilities	16	145,000	221,800
Current liabilities	17	184,767	111,779
Liabilities, total		**329,767**	**333,580**
EQUITY AND LIABILITIES, TOTAL		**502,847**	**508,081**

CASH FLOW STATEMENT OF THE PARENT COMPANY

EUR 1,000	2017	2016
Cash flow from operating activities		
Cash receipts from customers	10,359	8,290
Cash receipts from other operating income	470	966
Cash paid to suppliers and employees	-16,565	-13,648
Net cash before interests and taxes	-5,736	-4,392
Interest paid	7,500	6,712
Interest received	-26,112	-14,943
Income taxes paid	2,378	-565
Net cash from operating activities	**-21,971**	**-13,187**
Cash flow from investing activities		
Purchase of property, plant and equipment	-509	-54
Purchase of intangible assets	0	-361
Purchase of investments	-935	-87,192
Loan receivables from group companies	-10,003	0
Net cash used in investing activities	**-11,447**	**-87,607**

EUR 1,000	2017	2016
Cash flow from financing activities		
Proceeds from loans	0	163,500
Repayments of loans	-1,800	-100,300
Group contributions received	27,700	12,875
Withdrawal of hybrid bond	0	45,000
Repayment of hybrid bond	0	-45,000
Change in group accounts	-27,889	49,572
Change in short term loans	17,500	0
Dividends paid	-5,958	-5,934
Net cash from financing activities	**9,553**	**119,713**
Net change in cash and cash equivalents	**-23,865**	**18,919**
Cash and cash equivalents at the beginning of financial year	43,443	24,525
Cash and cash equivalents at the end of financial year	**19,579**	**43,443**

Notes to parent company financial statements

Basic data

SRV Plc (reg 1707186-8) is a finnish company based in Espoo, Tarvonsalmenkatu 15, 02600 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 Januari 1–December 31, 2017.

ACCOUNTING PRINCIPLES

Non-Current assets

The company has changed depreciation method in tangible assets beginning of January 2017. Previously used redusing balance method is replaced with straight-line depriaciation method.

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. Depreciation periods are as follow:

- Other intangible rights, 3–5 years
- Buildings and structures, 40–60 years
- Machinery and equipment, 3–10 vuotta
- IT-programs, 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 versus 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 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 expenses and the accrued interests in balance sheet in accrued expenses. Currency forward deal premium cost are recongnized in financial expenses at transaction date.

Commitments

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

Comparative information

Parent company has changed presentation method of cash flow statement beginning of 2017.
Comparative figures of 2016 have been restated to reflect the change.

NOTES TO INCOME STATEMENT

1 REVENUE

EUR 1,000	2017	2016
Group services	9,856	8,271
Other revenues	1,324	1,050
Total	**11,180**	**9,321**

2 INFORMATION CONSERNING PERSONNEL AND KEY MANAGEMENT

	2017	2016
Number of personnel		
Office employees	66	60

3 DEPRECIATION AND IMPAIRMENTS

EUR 1,000	2017	2016
Depreciation on Intangible assets	212	155
Depreciation on buildings and structures	3	5
Depreciation on machinery and equipment	351	143
Total	**566**	**304**

4 OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
Rent expenses	1,214	1,053
Voluntary indirect personnel expenses	1,443	559
Car and travel expenses	494	211
Entertainment and marketing expenses	1,254	741
Communication and IT expenses	1,204	945
Other external services	1,158	1,361
Other fixed expenses	3,332	5,640
Total	**10,100**	**10,510**

Auditing fees included in other operating expenses

EUR 1,000	2017	2016
Auditing	62	67
Other services	44	66
Total	**106**	**132**

5 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2017	2016
Dividend income		
From group companies	65	65
Total	**65**	**65**
Interest and other financial income		
From group companies	7,130	6,826
From other companies	532	115
Total	**7,662**	**6,941**
Interest expenses		
Interest expenses to group companies	-171	-53
Interest expenses to others	-16,893	-16,549
Total	**-17,065**	**-16,602**
Other financial expenses		
Interest expenses on derivates	1,902	-4,677
Change in fair value of interest rate swaps	-2,968	-8,778
Impairment and reversing from non-current investments	48	300
Other financial expenses	-1,695	-1,431
Total	**-2,713**	**-14,585**
Financial income and expenses total	**-12,050**	**-24,181**

6 APPROPRIATIONS

EUR 1,000	2017	2016
Group contributions, received	24,884	27,700
Total	**24,884**	**27,700**

7 INCOME TAXES

EUR 1,000	2017	2016
Income taxes on operating activities	0	0
Change in deferred taxes	-1,251	1,082
Income taxes on previous years	0	1
Total	**-1,251**	**1,083**

NOTES TO BALANCE SHEET

8 CHANGES IN NON-CURRENT ASSETS

Intangible assets:

2017

EUR 1,000	Intangible assets	Other intangible expenditures	Total
Historical cost 1 Jan.	715	1,154	1,869
Increase	0	55	55
Historical cost 31 Dec.	**715**	**1,209**	**1,924**
Accumulated depreciation and impairments, 1 Jan.	-465	-466	-931
Depreciation	0	-212	-212
Accumulated depreciation and impairments, 31 Dec.	**-465**	**-678**	**-1,142**
Book value, 31 Dec.	**250**	**531**	**781**

2016

EUR 1,000	Intangible assets	Other intangible expenditures	Total
Historical cost 1 Jan.	715	793	1,508
Increase	0	361	361
Historical cost 31 Dec.	**715**	**1,154**	**1,869**
Accumulated depreciation and impairments, 1 Jan.	-465	-310	-776
Depreciation	0	-155	-155
Accumulated depreciation and impairments, 31 Dec.	**-465**	**-465**	**-931**
Book value, 31 Dec.	**250**	**688**	**938**

Property, plant and equipment:

2017

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Total
Historical cost 1 Jan.	41	208	1,619	1,869
Increase	0	229	225	454
Historical cost 31 Dec.	**41**	**437**	**1,844**	**2,322**
Accumulated depreciation and impairments, 1 Jan.	0	-81	-1,189	-1,270
Depreciation	0	-3	-351	-354
Accumulated depreciations of decreases	0	0	0	0
Write-off	0	0	0	0
Transfer	0	0	0	0
Accumulated depreciation and impairments, 31 Dec.	**0**	**-84**	**-1,540**	**-1,624**
Book value, 31 Dec.	**41**	**353**	**304**	**699**

2016

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Total
Historical cost 1 Jan.	41	208	1,564	1,813
Increase	0	0	55	55
Historical cost 31 Dec.	**41**	**208**	**1,619**	**1,869**
Accumulated depreciation and impairments, 1 Jan.	0	-75	-1,046	-1,121
Depreciation	0	-5	-143	-149
Accumulated depreciation and impairments, 31 Dec.	**0**	**-81**	**-1,189**	**-1,270**
Book value, 31 Dec.	**41**	**128**	**430**	**599**

9 INVESTMENTS

EUR 1,000	2017	2016
Shares in subsidiaries		
Historical cost, 1 Jan.	261,965	176,925
Increases	950	85,040
Historical cost, 31 Dec.	**262,915**	**261,965**
Other shares and holdings		
Historical cost, 1 Jan.	2,611	2,306
Increases	15	73
Decreases	-30	-58
Impairment and reversing of impairment	48	290
Historical cost, 31 Dec.	**2,644**	**2,611**
Investments total	**265,559**	**264,576**

10 GROUP COMPANIES

	Domicile	2017	2016
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	2017	2016
Long-term receivables		
From others		
Loan receivables	32	0
Other receivables	828	779
Deferred tax receivable	922	2,173
Long-term recaivables Total	**1,782**	**2,951**
Short-term receivables		
From Group companies		
Accounts receivable	130	153
Loan receivables	17,071	6,322
Other receivables	170,048	156,952
Accrued receivables	25,712	28,328
Total	**212,962**	**191,754**
From others		
Accounts receivable	29	317
Other receivables	612	546
Loan receivables	0	0
Accrued receivables	840	2,952
Total	**1,481**	**3,815**
Short-term receivables total	**214,443**	**195,569**

12 ACCRUED RECEIVABLES

EUR 1,000	2017	2016
Appropriations	24,884	27,700
Taxes	1,024	4,652
Other	3,614	1,100
Total	**27,474**	**31,280**

13 CHANGES IN EQUITY

EUR 1,000	2017	2016
Share capital 1 Jan.	3,063	3,063
Share capital 31 Dec.	**3,063**	**3,063**
Share premium reserve 1 Jan.	142,714	142,696
Transfer between items	0	18
Share premium reserve 31 Dec.	**142,714**	**142,714**
Retained earnings 1 Jan.	28,483	38,557
Dividens	-5,958	-5,934
Retained earnings 31 Dec.	**22,525**	**32,623**
Net profit for the financial year	**4,600**	**-4,141**
Unrestricted shareholders' equity total	**169,839**	**171,197**
Equity 31 Dec.	**172,901**	**174,260**

14 CALCULATION ON THE DISTRIBUTABLE EQUITY

EUR 1,000	2017	2016
Share premium reserve	142,714	142,714
Retained earnings	22,525	32,623
Net profit for the financial year	4,600	-4,141
Total	**169,839**	**171,197**

15 PROVISIONS

EUR 1,000	2017	2016
Other provisions		
Provision for share-based incentives	179	242

16 LONG-TERM LIABILITIES

EUR 1,000	2017	2016
To other companies		
Bonds	100,000	175,000
Hybrid Bond	45,000	45,000
Pension loans	0	1,800
Total	**145,000**	**221,800**
Long-term liabilities total	**145,000**	**221,800**

17 SHORT-TERM LIABILITIES

EUR 1,000	2017	2016
To Group Companies		
Accounts payable	305	32
Accrued expenses	0	1
Other liabilities	20,799	35,591
Total	**21,104**	**35,624**
To other companies		
Bonds	75,000	0
Commercial papers	68,500	51,000
Pension loans	1,348	1,348
Accounts payable	616	548
Advances received	2	1
Accrued expenses	17,663	22,969
Other loans	534	290
Total	**163,663**	**76,155**
Short term liabilities total	**184,767**	**111,779**

18 ACCRUED LIABILITIES

EUR 1,000	2017	2016
Salaries including social costs	1,645	1,651
Accrued liability related to currency forward deal	0	4,390
Accrued liability related to interest rate swap	6,098	8,000
Interest and other financial expenses	8,602	8,597
Other	1,318	331
Total	**17,663**	**22,970**

19 DERIVATIVE FINANCIAL INSTRUMENTS

On the closing date, parent company had short-term foreign exchange option contracts, hedging against currency risk, with capital totaling EUR 80 million. Currency forward deal was terminated beginning of financial year 2017. By means of interest rate swap contracts, protection is sought from market interest rate changes during the financial year. Interst rate swap contracts mature during the financial year 2025.

Derivative financial instruments:

EUR 1,000	**2017**	2016
Interest rate swaps		
Fair value positive	0	0
Fair value negative	6,098	8,000
Nominal value of underlying instruments	100,000	100,000
Hedging instruments		
Fair value positive	446	0
Fair value negative	0	4,390
Nominal value of underlying instruments	80,000	37,000

Fair value hierarchy 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 29 note for the group risk management.

21 LEASING AND OTHER RENT AGREEMENTS

EUR 1,000	**2017**	2016
Payable in less than a year	133	155
Payable later	97	115
Total	**230**	**270**
Rental lease liabilities		
Payable in less than a year	1,495	1,491
Payable later	15,542	17,023
Total	**17,037**	**18,514**

22 OTHER LIABILITIES

EUR 1,000	**2017**	2016
Guarantee obligations given on behalf of Group companies	281,710	292,068
Investment commitments	28,591	30,666

The group has committed to invest 35,009 thousand euros in Voimaosakeyhtiö SF in order fo finance Hanhikivi 1 project. At the end of 2017 the investments made are 6,809 thousand euros in total.

23 RELATED PARTY TRANSACTIONS

With related parties, there were no tansactions which would not been carried out under ordinary commercial terms or which would be neceserry to provide a true and fair view of the transactions.

Itemisation of management salaries and employment-based benefits

EUR 1,000	**2017**	2016
Salaries and other benefits	1,323	2,000
Share-based payments	331	341
Total	1,654	2,341
Salaries and other benefits:		
CEO	587	556
Members of the board:		
Kokkila Ilpo, Chairman	73	71
Kallasvuo Olli-Pekka, Vice Chairman	59	59
Alitalo Minna	49	48
Elomaa Juhani, from March 23, 2017	36	0
Hiltunen Arto, until March 23, 2017	14	47
Hintikka Juhani, from March 23, 2017	35	0
Kokkila Timo	49	47
Kyhälä Risto, until March 23, 2017	14	47
Members of the Board, total:	**327**	**318**

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 SRV Group Plc 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 paid coluntary occupational pension insurance of the CEO was EUR 76,510 (75,991) thousand.

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, 15 February 2018

Ilpo Kokkila
Chairman

Olli-Pekka Kallasvuo
Vice Chairman

Minna Alitalo

Juhani Elomaa

Juhani Hintikka

Timo Kokkila

Juha Pekka Ojala
President and CEO

AUDITOR’S NOTE

Our auditor’s report has been issued today.

Espoo, 22 February 2018

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 Oyj

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 position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

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

What we have audited

We have audited the financial statements of SRV Yhtiöt Oyj (business identity code 1707186-8) for the year ended 31 December 2017. 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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6 to the Financial Statements.

Our Audit Approach

Overview

- Overall group materiality: 4,000,000 euros, which has been determined based on a combination of net sales, profit before taxes 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 recognized from construction contracts, estimated project margin and the related receivables and payables. Valuation of investments in associated companies and joint ventures. Valuation of slow moving land areas.

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
4,000,000 euros (previous year 3,900,000 euros)

How we determined it
We determined the overall materiality for the consolidated financial statements based on as a weighted average of net sales, profit before taxes and total assets.

Rationale for the materiality benchmark applied
We chose the combination described above as it, in our opinion, reflects the volume and result of the operations and the capital invested in the business.

How we tailored our group audit scope
We tailored the scope of our audit, taking into account the structure of the 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 Group services and services related to rental of construction equipment are reported as 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 main 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 recognized from construction contracts, estimated project margin and the related receivables and payables
Refer to Accounting policies for consolidated financial statements and Notes 4, 16, 23 and 28
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.

Revenue recognized based on percentage of completion includes significant management estimates affecting the recognised revenue and margin as well as the valuation of certain balance sheet items. Particularly the estimated total margin and estimated total expenses of the projects include management judgement. Estimates include also, for example, the margins of additional work not yet approved by customers and the possible rental liabilities related to contracts. An error in one or several of the estimates can lead to significant discrepancies in revenue recognition.

Revenue recognized from construction contracts is considered a key audit matter, because revenue is a significant item in the financial statements and because the percentage of completion method includes significant management judgement, which affects the revenue recognized as well as the margins of the projects.

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

Our procedures included the following but was not limited to:
- We have updated our understanding of processes in relation to revenue recognition and estimates of projects as well as tested the operation of selected controls.
- We have read contracts and assessed the appropriateness of accounting principles used to recognize revenue for selected projects.
- We compared for a sample of projects the estimated net sales with the contracts.
- We assessed the reliability and accuracy of management estimates by comparing the estimated margins and total cost to complete for uncompleted projects in the previous year-end to their actual outcome.
- We had discussions with relevant personnel concerning the progress of the most significant projects, focusing especially on estimation uncertainties related to cost estimates, and read memos from selected project meetings.
- We tested the mathematic accuracy of the spreadsheets used to determine the percentage of completion as well as the revenue and margin that was recognised based on that.
- We tested a sample of new projects to ensure that they have been approved and processed in accordance with the group's decision making policy.
- We tested a sample of the first estimates of total expenses for new construction projects to ensure that they are based on appropriate documentation.

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

Valuation of investments in associated companies and joint ventures
Refer to Accounting policies for consolidated financial statements and 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 group can own and operate these investments.

The group estimates the value of these investments, for example commercial centers, based on their discounted future cash flows. The determination of discounted future cash flows includes estimates of future rental income, vacancy rate, operating expenses, yield, and, as concerns the commercial centers located in Russia, assumptions in relation to exchange rates.

Valuation of investments in associated companies and joint ventures is considered a key audit matter because they form a significant balance sheet item and their valuation includes 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 reports concerning the most significant completed 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 evaluated the appropriateness of the yields used in the above-mentioned valuation calculations by comparing to observable market data.
- We prepared sensitivity analysis for the above-mentioned calculations prepared by management for the key variables. These variables include, for example, rental income, vacancy rate and yield.

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

Valuation of slow moving land areas

Refer to Accounting policies for consolidated financial statements and Note 21

Inventories consist primarily of the cost of construction work and land plot for 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 includes management judgement.

The net realizable value of land areas depends on the intended use of the land area. The net realizable value of a land area intended to be used in a construction project is estimated as a part of the net realizable value for the whole construction project.

Valuation of land areas is considered a key audit matter because they form a significant balance sheet item and their valuation includes management judgement.

- **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 the mathematic accuracy of the calculations on a sample basis.
- We have discussed with management about their action plans in relation to slow moving land plots.
- Specifically for the unconstructed land plots with the largest net realizable value, we investigated the construction plans and timetables as well as plans to change the intended use during the financial year.

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

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or 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 a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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

Appointment

We were first appointed as auditors by the annual general meeting on 26 March 2014.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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 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, 22 February 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Samuli Perälä
Authorised Public Accountant (KHT)

GROUP AND SEGMENT INFORMATION BY QUARTER (UNAUDITED)

Group key figures

EUR million	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Revenue	339.3	268.3	284.8	223.7	328.7	193.1	218.5	143.8
Operation profit	11.4	7.7	-9.3	7.3	16.2	7.3	4.1	0.0
Financial income and expenses, total	-2.0	-4.4	-6.0	0.0	3.2	-3.4	-5.6	-5.6
Profit before taxes	9.3	3.3	-15.3	7.3	19.4	3.9	-1.5	-5.5
Order backlog[1]	1,547.9	1,535.7	1,594.6	1,722.0	1,758.5	1,888.1	2,021.6	1,572.1
New agreements	313.0	162.6	140.5	155.4	183.2	54.9	648.6	126.5
Earnings per share, EUR	0.18	0.04	-0.26	0.09	0.26	0.04	-0.04	-0.11
Equity per share, EUR	4.03	3.88	3.84	4.32	4.25	3.81	3.71	3.71
Share closing price, EUR	3.60	4.41	4.99	4.40	5.43	4.40	4.00	3.53
Equity ratio, %	35.5	34.0	33.5	36.4	38.3	37.8	36.9	36.7
Net interest-bearing debt	297.6	338.7	310.3	311.0	246.3	285.0	291.2	247.2
Gearing, %	105.0	123.4	114.4	103.4	83.4	99.7	103.1	87.5

[1] At the end of the period.

Revenue

EUR million	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Operations in Finland	337.0	263.7	277.8	219.3	319.3	180.9	200.4	131.5
Business construction	198.8	173.5	181.1	164.4	167.4	141.4	143.8	106.9
Housing construction	138.1	90.2	96.8	54.8	151.9	39.5	56.6	24.6
International Operations	2.3	4.2	7.0	4.4	9.4	12.1	18.4	12.4
Other operations	4.5	4.8	4.4	4.4	4.0	4.0	4.0	4.0
Eliminations	-4.6	-4.4	-4.5	-4.5	-4.1	-3.9	-4.3	-4.0
Group, total	**339.3**	**268.3**	**284.8**	**223.7**	**328.7**	**193.1**	**218.5**	**143.8**

Operating profit

EUR million	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Operations in Finland	18.4	10.2	6.7	5.0	21.8	6.6	7.6	2.2
International Operations	-5.2	-2.4	-14.0	3.2	-2.8	1.2	-1.5	-1.1
Other operations	-1.8	-0.1	-2.1	-0.8	-2.8	-0.4	-2.0	-1.1
Eliminations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group, total	**11.4**	**7.7**	**-9.3**	**7.3**	**16.2**	**7.3**	**4.1**	**0.0**

Operating profit

%	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Operations in Finland	5.5	3.9	2.4	2.3	6.8	3.6	3.8	1.7
International operations	-222.5	-57.5	-199.6	71.3	-29.4	9.5	-8.0	-8.6
Group, total	**3.4**	**2.9**	**-3.3**	**3.3**	**4.9**	**3.8**	**1.9**	**0.0**

Order backlog

EUR million	31 Dec. 2017	31 Sep. 2017	31 Jun. 2017	31 Mar. 2017	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016
Operations in Finland	1,526.7	1,513.9	1,570.7	1,691.3	1,726.1	1,851.3	1,972.6	1,511.7
Business construction	920.3	850.6	950.0	1,057.7	1,163.5	1,293.8	1,426.6	972.9
Housing construction	606.4	663.3	620.7	633.7	562.6	557.5	546.0	538.9
International operations	21.2	21.7	23.9	30.6	32.4	36.8	49.0	60.3
Group, total	**1,547.9**	**1,535.7**	**1,594.6**	**1,722.0**	**1,758.5**	**1,888.1**	**2,021.6**	**1,572.1**
Sold order backlog	1,273	1,251	1,309	1,437	1,482	1,623	1,720	1,269
Unsold order backlog	275	284	286	285	276	265	301	303

Order backlog, housing construction in Finland

EUR million	31 Dec. 2017	31 Sep. 2017	31 Jun. 2017	31 Mar. 2017	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016
Negotiation and construction contracts	179	195	166	196	193	122	107	115
Under construction, sold	161	195	180	164	105	181	150	134
Under construction, unsold	241	241	232	243	222	227	251	249
Completed and unsold	25	34	43	30	43	28	37	40
Housing construction, total	**606**	**663**	**621**	**634**	**563**	**557**	**546**	**539**

Invested capital

EUR million	31 Dec. 2017	31 Sep. 2017	31 Jun. 2017	31 Mar. 2017	31 Dec. 2016	31 Sep. 2016	31 Jun. 2016	31 Mar. 2016
Operations in Finland	368.4	383.2	347.6	342.9	333.0	364.5	357.0	324.6
International operations	241.7	239.5	241.4	270.1	250.8	227.3	224.7	217.4
Other operations and eliminations	-5.6	12.1	28.0	40.0	12.4	16.9	46.0	110.7
Group, total	**604.5**	**634.9**	**617.0**	**653.0**	**596.2**	**608.7**	**627.7**	**652.7**

Housing production in Finland

Units	10-12/2017	7-9/2017	4-6/2017	1-3/2017	10-12/2016	7-9/2016	4-6/2016	1-3/2016
Housing sales, total	253	543	475	356	681	335	151	93
Sales, developer contracting	208	249	260	266	151	165	100	93
Sales, negotiation contracts[2]	45	294	215	90	530	170	51	0
Developer contracting								
Start-ups	172	248	316	282	199	52	148	55
Completed	319	200	221	42	420	0	53	30
Recognized in revenue	362	213	174	76	389	26	58	26
Completed and unsold	68	111	124	77	111	80	106	111
Under construction, total[1]	3,254	3,346	3,098	2,894	2,696	2,443	2,082	1,830
Construction contracts[1]	504	424	458	586	441	319	138	138
Negotiation contracts[1]	293	363	472	164	441	619	661	555
Negotiated contracts[1,2]	1,385	1,340	997	1,068	978	448	278	227
Developer contracting[1]	1,072	1,219	1,171	1,076	836	1,057	1,005	910
of which sold[1]	602	756	720	634	444	681	543	502
of which unsold[1]	470	463	451	442	392	376	462	408

[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 2018

Financial Statement Release 2017: 16 February 2018
Interim Report for January–March 2018: 26 April 2018
Interim Report for January–June 2018: 19 July 2018
Interim Report for January–September 2018: 25 October 2018

Annual Report 2017 (including the Financial Statements and the Report of the Board of Directors): on Friday, 23 February 2018.

SRV Group Plc's Annual General Meeting is planned to be held on Tuesday, 20 March 2018. 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.

INVESTOR RELATIONS CONTACTS

CFO
Ilkka Pitkänen
Telephone: +358 (0)40 667 0906
E-mail: ilkka.pitkanen@srv.fi

SVP, Communications
Päivi Kauhanen
Telephone: +358 (0)50 598 9560
E-mail: paivi.kauhanen@srv.fi

Communications manager
Tiina Niemi
Telephone: + 358 (0) 40 5027549
E-mail: tiina.niemi@srv.fi

ORDERING PUBLICATIONS

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