



SRV

FINANCIAL STATEMENTS 2019

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This report describes the SRV Group's financial performance in 2019. SRV Group Plc's full financial statements for the financial year 1 January–31 December 2019 are included in the company's official financial statements, which are available on the company's website at [www.srv.fi](http://www.srv.fi).



# Report of the Board of Directors 2019

## JANUARY–DECEMBER 2019 IN BRIEF:

- > **Revenue** rose by 10.6 per cent to EUR 1,060.9 million (959.7 1–12/2018). Revenue was up in both business construction and housing construction. Revenue from housing construction grew because more developer-contracted housing units were recognised as income than in the comparison period, a total of 833 (537).
- > **Operative operating profit** amounted to EUR -96.8 (-10.0) million. Operative operating profit was weakened especially by the classification of the REDI shopping centre as an asset held for sale and its consequent measurement at impairment in the fourth quarter as well as other impairments and expense entries made for holdings. Impairments with an impact on operative operating profit during the entire year totalled EUR 96.5 million. Operative operating profit was also impacted by the weakening of the margins of two projects – by a total of EUR 11.0 million – completed in 2019, expense entries of EUR 6.0 million for the water damage at Majakka and the loss of EUR 1.9 million from the sale of a plot in Estonia. Operative operating profit was improved by slight growth in the revenue of Construction and a year-on-year increase in housing units recognised as income. Operative operating profit for the comparison period is burdened particularly by the losses on the construction of the REDI shopping centre.
- > **Operating profit** was EUR -93.0 (-19.8) million. The change in the rouble exchange rate had an impact on the operating profit of the Investments segment, which totalled EUR -92.5 (-17.5) million. The net effect of the exchange rate change was EUR 3.8 (-9.8) million. The exchange rate impact, which had mainly no effect on cash flow, was caused by the valuation of the euro-denominated loans of associated companies in roubles and hedging expenses. Operating profit exclusive of the above impairments amounted to EUR 3.5 (-15.8) million.
- > **Operating profit from Construction** rose to EUR 7.0 (-13.4) million. Operating profit was positively impacted by the completion of the REDI shopping centre contract, but was reduced particularly by the weakening of the margins of two projects – by a total of EUR 11.0 million. The result also includes EUR 6.0 million in expense entries due to water damage at REDI Majakka and a EUR 1.9 million loss on the sale of a plot in Estonia.
- > **The result before taxes** amounted to EUR -122.4 (-37.3) million, including the EUR -2.1 (-0.6) million impairment revaluation of interest rate derivatives. Profit before taxes included impairments and extraordinary expense items of EUR 107.4 million in total, of which impairments and extraordinary expense items of loan receivables of associated companies and joint ventures recognised in financial expenses accounted for EUR 10.8 million.
- > **Cash flow from operating and investing activities** was EUR -16.7 (22.4) million. Cash flow was weakened primarily by a decrease in non-interest-bearing debt.
- > **Earnings per share** were EUR -1.85 (-0.56).
- > At period-end, **the order backlog** stood at EUR 1,344.2 (1,816.0) million. In January–December, the order backlog saw a year-on-year decline of 26.0 per cent. The sold share of the order backlog was 80.5 (88.7) per cent. New agreements valued at EUR 487.6 (1,133.0) million were signed in January–December.
- > In May, **SRV** issued a EUR 58.4 million hybrid bond. EUR 20.5 million of the proceeds were used for early repayment of the existing hybrid bond and EUR 37.9 million for early repayment of current notes.
- > **Equity ratio** was 21.2 (28.5) per cent and gearing was 240.3 (121.1) per cent. Impairments and the effect of the adoption of IFRS 16 at the beginning of the year weakened the equity ratio and gearing, while the loan arrangement carried out in May improved them. The comparable figures (without the impact of IFRS 16) were 26.4 (28.5) per cent for the equity ratio and 151.2 (121.1) for gearing. The company sought the necessary approvals from the financing banks in advance and the loan covenants were not broken.
- > The Board of Directors proposes to the General Meeting that no **dividend** be paid for the 2019 financial year (0,00 euros year 2018).
- > After the review period on 6 February 2020 SRV announced new actions under the recovery programme. On 7 February 2020 SRV sold its 40% stake in REDI and REDI Parking, reduce its ownership in the Tampere Central Deck and Arena project and commence measures to strengthen its equity. Simultaneously SRV has agreed with its principal lenders on the conversion of its existing EUR 100 million revolving credit facility into two separate revolving credit facilities of EUR 60 million and EUR 40 million. In addition, the Board of Directors will ask the Annual General Meeting to authorize the conversion of the existing hybrid bonds into equity and fulfil a separate share issue of approximately EUR 50 million.

The company publishes alternative key figures that have been adjusted to exclude the impact of IFRS 16 Leases on the balance sheet and result. SRV is applying a simplified approach to adopting this standard, which is why the figures for the comparison period have not been adjusted to comply with the standard. The company also discloses its operative operating profit, which is determined by deducting the calculated rouble exchange differences included in financial items and their potential hedging impacts from operating profit.

## RECOVERY PROGRAMME MEASURES

- > In connection with the publication of the Q3 interim report, SRV announced that it will kick off a recovery programme. The short-term target is to ensure that operative operating profit and cash flow in 2020 are in the black and to return operative operating profit in 2021 to the 2017 level. The recovery programme focuses on renewing the organisation and operating culture, lightening the balance sheet, strengthening cash flow and achieving cost-savings.
- > As part of the programme, the company carried out cooperation negotiations with personnel in Finland. As a result of the negotiations, the number of personnel will decrease by no more than 48 people. In addition, layoffs and part-time assignments will be implemented, with an effect amounting to around 12 person-years. The combined effect of the adjustment measures and other attrition is about 80 person-years. The estimated cost impact amounts to annual savings of EUR 6.0 million.
- > Completed housing units have been sold at an accelerated pace, mainly to investors. Negotiations on several plots are currently under way and one plot has been sold in Estonia.
- > On 7 February 2020 SRV sold its stake in REDI and REDI Parking, reduce its ownership in the Tampere Central Deck and Arena project and commence measures to strengthen its equity. Simultaneously SRV has agreed with its principal lenders on the conversion of its existing EUR 100 million revolving credit facility into two separate revolving credit facilities of EUR 60 million and EUR 40 million.

## OUTLOOK FOR 2020

- > The company's main focus in 2020 will be on major business premises contracts, hospital projects, and housing development projects for investors. Fewer developer-contracted housing units will be completed in 2020 than in the comparison period. It is estimated that a total of 586 developer-contracted housing units will be completed in 2020 (808 in 2019).
- > Measures to boost operational efficiency and achieve savings in procurement are expected to improve the company's earnings performance. In addition, the recovery programme measures that were carried out in late 2019 are expected to improve the company's cost structure.
- > Full-year consolidated revenue for 2020 is expected to fall in comparison with 2019 (revenue in 2019: EUR 1,060.9 million). Operative operating profit is expected to improve on 2019 and to be positive (operative operating profit EUR -96.8 million).

## OVERALL REVIEW

### GROUP KEY FIGURES

IFRS, EUR million	1-12/2019	1-12/2018	Change	Change, %
Revenue	1,060.9	959.7	101.3	10.6
Operative operating profit <sup>1</sup>	-96.8	-10.0	-86.8	
Operative operating profit, %	-9.1	-1.0		
Operating profit <sup>2</sup>	-93.0	-19.8	-73.3	
Operating profit, %	-8.8	-2.1		
Operating profit, excl. IFRS 16 <sup>2</sup> *	-94.3	-19.8	-74.6	
Operating profit, %, excl. IFRS 16 <sup>2</sup>	-8.9	-2.1		
Financial income and expenses, total**	-29.3	-17.5	-11.8	
Profit before taxes	-122.4	-37.3	-85.1	
Net profit for the period	-103.6	-31.2	-72.4	
Net profit for the period, %	-9.8	-3.3		
Order backlog (unrecognised) <sup>3</sup>	1,344.2	1,816.0	-471.8	-26.0
New agreements	487.6	1,133.0	-645.3	-57.0
* Net effect of currency exchange fluctuations	3.8	-9.8	13.5	
** Derivatives included in financial income and expenses	-3.7	-2.2	-1.6	

<sup>1</sup> Operative operating profit is determined by deducting the calculated rouble exchange differences included in financial items and their potential hedging impacts from operating profit. Net exchange rate differences during the review period amounted to EUR 3.8 (-9.8) million, of which the effect of currency hedging was EUR -3.8 (0.6) million.

<sup>2</sup> The impacts of IFRS 16 in 2019 have been adjusted out of the figure. Due to this adjustment, the figure is comparable with the figures for 2018.

<sup>3</sup> The Group's order backlog consists of the Construction business. The unrecognised margin corresponding to the holding is not included in the order backlog comparison figures.

### GROUP KEY FIGURES

IFRS, EUR million	1-12/2019	1-12/2018	Change	Change, %
Equity ratio, % <sup>1</sup>	21.2	28.5		
Equity ratio, %, excl. IFRS 16 <sup>2</sup>	26.4	28.5		
Net interest-bearing debt <sup>1</sup>	422.0	282.8	139.2	49.2
Net interest-bearing debt, excl. IFRS 16 <sup>2</sup>	271.9	282.8	-10.9	-3.9
Net gearing ratio, % <sup>1</sup>	240.3	121.1		
Net gearing ratio, %, excl. IFRS 16 <sup>2</sup>	151.2	121.1		
Return on investment, % <sup>3</sup>	-15.2	-2.9		
Return on investment, %, excl. IFRS 16 <sup>2</sup> <sup>3</sup>	-17.5	-2.9		
Capital employed <sup>1</sup> <sup>3</sup>	625.3	611.0	14.4	2.4
Capital employed, excl. IFRS 16 <sup>2</sup> <sup>3</sup>	479.4	611.0	-131.6	-21.5
Return on equity, %	-50.6	-12.1		
Earnings per share, EUR	-1.85	-0.56	-1.29	230.7
Equity per share (without hybrid bond), EUR	1.59	3.21	-1.62	-50.5
Share price at end of period, EUR	1.36	1.70	-0.34	-20.0
Weighted average number of shares outstanding, million pcs	59.6	59.6		

<sup>1</sup> The figures for 2019 are not comparable with the figures for 2018. The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative data has also been adjusted. The key figure also includes assets designated as held for sale in the balance sheet.

<sup>2</sup> The impacts of IFRS 16 in 2019 have been removed from this figure. Due to this adjustment, the figure is comparable with the figures for 2018.

<sup>3</sup> The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative data has also been adjusted. The key figure also includes assets designated as held for sale in the balance sheet.

## REVENUE

EUR million	1-12/2019	1-12/2018	Change	Change, %
Construction	1,057.7	955.4	102.3	10.7
Investments	5.9	4.6	1.3	27.8
Other operations and eliminations	-2.6	-0.3	-2.3	
Group, total	1,060.9	959.7	101.3	10.6

## OPERATIVE OPERATING PROFIT

EUR million	1-12/2019	1-12/2018	Change	Change, %
Construction	7.0	-13.4	20.4	
Investments	-96.3	-7.8	-88.5	
Other operations and eliminations	-7.6	11.1	-18.7	
Group, total	-96.8	-10.0	-86.8	

## OPERATIVE OPERATING PROFIT

%	1-12/2019	1-12/2018
Construction	0.7	-1.4
Investments	-	-
Group	-9.1	-1.0

## OPERATING PROFIT

EUR million	1-12/2019	1-12/2018	Change
Construction *	7.0	-13.4	20.4
Investments *	-92.5	-17.5	-75.0
Other operations and eliminations	-7.6	11.1	-18.7
Group, total *	-93.0	-19.8	-73.3
*Effect of currency exchange fluctuations	3.8	-9.8	13.5

## OPERATING PROFIT

%	1-12/2019	1-12/2018
Construction	0.7	-1.4
Investments	-	-
Group	-8.8	-2.1

CAPITAL EMPLOYED<sup>1</sup>

EUR million	1-12/2019	1-12/2018	Change	Change, %
Construction	372.9	212.8	160.0	75.2
Investments	245.7	337.8	-92.1	-27.3
Other operations and eliminations	6.7	60.3	-53.6	-88.9
Group	625.3	611.0	14.4	2.4

## EARNINGS TRENDS FOR THE SEGMENTS

SRV's new organisation, which is divided into the Construction and Investments segments, came into force at the beginning of 2019. As a result of this change, SRV has reported on two business segments since the first-quarter interim report of 2019: Construction and Investments. The comparison figures were published in a separate bulletin in April 2019.

The **Construction** segment covers all of SRV's construction activities, including the capital and plots required for developer-contracted housing production. It is SRV's intention to develop, build and sell these plots to a faster schedule than those we report on in the Investments segment. Construction encompasses housing construction, business construction, technical units and procurement, as well as internal services in Finland and Russia.

The **Investments** segment encompasses both complete and incomplete sites in which the company is a long-term investor. Plots that SRV will develop itself, and whose expected profits will be generated through development and longer-term ownership, are also reported on under In-

vestments. Investments focuses on the management and realisation of the Group's real estate investments, and on the creation and ownership of new joint investment structures.

**Other operations and eliminations** include the group functions of the parent company, SRV Group Plc, and the Project Development Unit's property and project development activities. Group eliminations are also included in this unit.

## VALUE CREATION

Responsibility and sustainability have rapidly assumed a more significant role. People are talking about tackling climate change and circular economy solutions.

SRV seeks to ensure that, in addition to considering business sustainability and environmental perspectives, we also operate in a socially and ethically sustainable manner. Certified management systems – ISO9001 (quality), ISO14001 (environmental) and ISO45001 (occupational health and safety) – ensure compliance and create a credible base for our sustainability efforts. The sustainability programme and its associated business concepts form part of this work.

## RETURN ON INVESTMENT

% <sup>1</sup>	1-12/2019	1-12/2018
Construction	3.0	-4.6
Investments	-32.6	-5.2
Group	-15.2	-2.9

<sup>1</sup> The figures for 2019 are not comparable with the figures for 2018, as the 2019 figures include the impact of IFRS 16. The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative data has also been adjusted. The key figure also includes assets designated as held for sale in the balance sheet.

## Sustainability programme

Our operating environment and its associated risks and opportunities change rapidly and our sustainability programme should therefore reflect these changes as well. The programme was revised in 2019 and its themes have now been structured around value creation. The themes in this annual review are also presented according to the programme's structure. Our goal for 2020 is to ensure that the sustainability programme's themes are closely tied to our updated strategy, and that they also support business development and the attainment of SRV's strategic targets in the best possible way.

A picture of SRV's value creation has been built around the SRV Approach. To obtain background information, we interviewed customers, investors, financiers, decision-makers and influencers. Internally, we also considered important types of capital, inputs, the role of value creation in projects, what kind of value SRV creates for stakeholders, society and the environment, and what kind of outputs and impacts result from our business.

The value creation model provides a new way of describing and presenting SRV's value creation, and also caters to investors' new information requirements. SRV seeks to be in demand as a project implementer, and wants partners to feel that working with SRV yields sustainable value for their own business. It takes into account all kinds of capital, not just financial capital, and presents a broad range of inputs, outputs and impacts.

The most important of SRV's different types of capital are human, intangible and social capital – we create value through a variety of different types of expertise. With respect to human capital, the following aspects are particularly important: customer expertise, interaction, design expertise, zoning expertise, management of the supplier pool and management expertise. The major elements of intangible capital are the SRV Approach, the SRV Network Register, ref-

erences, 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.

## MARKETS

The growth of the global economy slowed down in 2019 due to uncertainty caused by trade conflicts. That said, economic growth is already expected to recover this year, driven by the eurozone and many developing economies. (Ministry of Finance: 18 December 2019)

The outlook for the eurozone is overshadowed by the vulnerable German industry. Industry survey indicators are quite low, although the trend has levelled off slightly towards the end of 2019. Economic growth in the eurozone is expected to be about one per cent this year. In the years ahead, Finnish economic growth will be more restrained than in earlier years. The economy is estimated to have grown by 1.6 per cent in 2019. In 2020, economic growth will slacken to about 1.0 per cent. (Ministry of Finance: 18 December 2019.)

Construction began to decline last year. Construction will decrease further this year, while the rest of the economy will continue to grow. In 2019, start-ups of building construction work declined from their level in the two previous years, about 40 million cubic metres, to under 37 million cubic metres. This year, construction volume will most likely amount to less than 35 million cubic metres. (Business cycle review by the Confederation of Finnish Construction Industries RT, 2/2019.)

Construction of new housing has been at a record high in recent years, especially in the Greater Helsinki Area and other large growth centres such as Tampere and Turku. However, housing construction is expected to become muted this year. Housing start-ups in Finland began to decline last year and are forecast to decrease

further this year from about 38,000 to around 32,000 units. The slowdown in housing construction is offset by brisk construction of housing in the Greater Helsinki Area, low interest rates and investor demand, which remains strong (Business cycle review by the Confederation of Finnish Construction Industries RT, 2/2019.)

In business construction, start-ups of non-industrial and non-warehouse buildings will decrease this year. Construction of healthcare buildings and schools remains brisk. Renovation construction is expected to see stable growth of 1.5 per cent this year, while civil engineering investments are forecast to swing to growth of a couple of per cent. According to Statistics Finland, construction costs have risen by 0.2 per cent compared with December 2018. Labour input prices in particular have grown during the past 12 months. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT, 2/2019, Statistics Finland, Building Cost Index.)

Both Finnish and foreign investors are maintaining a good level of interest in projects in Finnish growth centres. The trading volume in the real estate market is expected to remain high, as in the past few years. Apartments have become an increasingly attractive class of property investment in recent years, and interest remains high. (Source: KTI market review, autumn 2019.)

The Russian economy has continued to grow slowly. A dearth of investments and weak consumer demand will continue to hamper economic growth in Russia over the coming years. The Bank of Finland Institute for Economies in Transition (BOFIT) estimates that the Russian economy grew by 1% in 2019 and will see growth of 1.8% in 2020. The major forecast risks are still posed by changes in the price of oil and the weaker-than-expected development of the outlook for the global economy and international relations. (Source: The Bank of Finland Institute for Economies in Transition (BOFIT), 3 October 2019.)

## CONSTRUCTION

The Construction segment focuses on implementation services for demand-driven, high-quality and efficient building projects, for both the company's own sites and those for external developers. This segment is also responsible for the development of SRV's own residential sites, including housing sales and services for residents, and for the lifecycle maintenance of commercial properties.

Construction's main objective is to harness its specialist expertise in order to provide an excellent customer experience in project management and production, and to help improve the profitability of SRV's business. It takes the SRV Approach, which is based on understanding customer needs and the effective implementation of projects in collaboration with our extensive network of professional partners. This segment focuses on housing, business and infrastructure construction in selected urban growth centres, as per the company's strategy.

### January–December 2019

**Revenue** from Construction rose to EUR 1,057.7 million (955.4 1–12/2018) in the January–December period. Revenue was up in both business construction and housing construction. Revenue from housing construction was up 30.7 per cent because more housing units were recognised as income than in the comparison period. Revenue from business construction was up 2.0 per cent.

Construction's **operating profit** rose to EUR 7.0 (-13.4) million. Operating profit was positively impacted by the completion of the REDI shopping centre contract, but was reduced particularly by the weakening of the margins of two projects by a total of EUR 11.0 million. The result also includes EUR 6.0 million in expense entries due



to water damage at REDI Majakka and a EUR 1.9 million loss on the sale of a plot in Estonia.

Operating profit was also burdened by impairments of the following plots:

- EUR 6.7 million impairment of the Papula plot in Vyborg, Russia (Q4/2019)
- EUR 0.8 million impairment of two already sold plots in Estonia (Q1/2019)
- **Total impairments of EUR 7.5 million in operative operating profit**

Construction's order backlog stood at EUR 1,344.2 (1,816.0) million. Although the order backlog has declined, it remains at a good level, and 80.5 per cent of the order backlog has been sold. New agreements valued at EUR 487.6 (1,133.0) million were recognised in January–December. The most significant agreements were for REDI Loisto in the first quarter, the Finnish-Russian School in the second quarter, Wallesmanni and Opaali in Tampere and the Raisio produc-

tion facility in the third quarter, and Siltasaari 10 and the Kirkkonummi wellbeing centre in the fourth quarter.

Construction's capital employed totalled EUR 372.9 (212.8) million. IFRS 16 had an accounting effect of EUR 133.3 million on this growth in capital employed.

## HOUSING CONSTRUCTION

### January–December 2019

SRV's **revenue** from housing construction rose to EUR 377.9 (289.1 1–12/2018) million in the January–December period. 833 housing units were recognised as income in January–December, more than in the corresponding period of the previous year (537). The **order backlog** for housing construction was EUR 482.7 (582.7) million.

#### CONSTRUCTION

EUR million	1-12/2019	1-12/2018	Change	Change, %
Revenue	1,057.7	955.4	102.3	10.7
business construction	679.7	666.2	13.5	2.0
housing construction	377.9	289.1	88.8	30.7
Operating profit	7.0	-13.4	20.4	
Operating profit, %	0.7	-1.4		
Capital employed <sup>2</sup>	372.9	212.8	160.0	75.2
Return on investment, % <sup>2</sup>	3.0	-4.6	7.6	
Order backlog <sup>1</sup>	1,344.2	1,816.0	-471.8	-26.0
business construction	861.5	1,233.3	-371.8	-30.1
housing construction	482.7	582.7	-100.0	-17.2
Group, total <sup>1</sup>	1,344	1,816	-472	-26.0
sold order backlog	1,082	1,612	-530	-32.9
unsold order backlog	262	204	58	28.4
sold order backlog, %	80.5	88.7		
unsold order backlog, %	19.5	11.3		

<sup>1</sup> The Group's order backlog consists of the Construction business. The unrecognised margin corresponding to the holding is no longer included in the order backlog comparison figures.

<sup>2</sup> The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative data has also been adjusted. The key figure also includes assets designated as held for sale in the balance sheet.

### Housing under construction

SRV's strategic target has been to increase developer-contracted housing production in urban growth centres in the vicinity of good transport connections. For some time now, SRV has been one of the largest housing constructors in the Helsinki metropolitan area. At the end of December, SRV had a total of 2,142 (December 2018: 2,759) housing units under construction in Finland, mostly in growth centres. No housing units were under construction in Russia during the year.

SRV is currently building housing as developer-contracted, development, and contracted projects. A developer-contracted residential project is a project that is developed by SRV and which has not been sold when construction begins. SRV bears the risks involved in both the sale and construction of such projects, which are recognised as income 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 income 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.

A total of 835 (863) developer-contracted housing units were under construction at the end of December. The number of developer-contracted units currently under construction will affect SRV's result in the future when the units are sold. The average construction period is about 18 months.

The Kalasatama Towers in Kalasatama, Helsinki are the largest construction project in SRV's history. By the end of December, 275 of the 282 units in the first residential tower (Majakka) had been sold. Majakka's completion was delayed

by the water damage that occurred in February 2019. Some of the apartments had to be dried, and their floor and wall materials replaced. SRV incurred additional costs of about EUR 10 million from this water damage. However, insurance will cover almost all of the direct repair costs. Due to delays, the indirect costs that are not covered by insurance will be substantial. To date, expense entries totalling EUR 6.0 million have been made for the estimated indirect costs. The residents moved in during November and December 2019.

SRV began sales of Kalasatama's second residential tower (Loisto) in February 2019. By the end of December, 127 apartments had been sold or reserved. Loisto will rise to a height of 124 metres above sea level. Its 249 apartments are located on top of the REDI shopping centre, on floors 6–32. Construction is proceeding according to plan and will be completed in autumn 2021.

The developer-contracted housing project Tampereen Pynnin Pyhärinta (65 units) was recorded in the order backlog during the fourth quarter. Construction has been started. The apartments will be recognised as income according to level of sales completion in 2020. A total of 780 new developer-contracted housing units targeted at consumers went on sale in January–December.

At the end of December, a total of 1,032 (1,329) units were under construction for investors, mainly in Helsinki, Espoo, Vantaa and Kerava. During the fourth quarter, the construction of Tammelan Kustaa (62 units) in Tampere for OP was recorded in the order backlog. In the third quarter, Opaali, which will be built on the Tampere Central Deck for Tampereen Tornit Ky and will include 150 housing units and both office and retail premises, was recognised in the order backlog. In August, SRV and Kojamo Oyj signed a cooperation agreement valued at about EUR 120 million to implement rental housing in Helsinki, Espoo, Vantaa and Kerava. The agreement is for six housing sites built as



development projects with a total of 527 units. The units are primarily studio flats and one-room flats with a living room. The realisation of the individual projects included in the agreement requires the fulfilment of customary contractual terms and conditions. The first project was completed during the review period. In the first half of the year, Aalto and Tyrsky in Oulu (a total of 66 housing units) were sold to TA. In addition, negotiations on several investor sales packages are under way.

### Completed housing units

A total of 808 (526) developer-contracted housing units were completed during January–December. The number of unsold housing units has remained low. At the end of December, there were 87 (116) unsold completed housing units, 76 (71) in Finland and 11 (45) in Russia. Although housing sales are going moderately well, a slight slowdown has been observed, particularly outside the capital city region and Tampere. Demand from private housing investors has de-

clined compared with the previous year. Demand is currently focusing on small apartments in good locations. A total of 649 (494) developer-contracted housing units were sold during January–December.

### Housing units recognised as income

In January–December, 833 (537) developer-contracted housing units were recognised as income, generating total revenue of EUR 225.4 million. A developer-contracted residential project is a pro-

ject 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 income when the project has been completed and as the units are sold.

### HOUSING CONSTRUCTION, GROUP

Units	1-12/2019	1-12/2018	Change, units
Units sold, total	937	1,400	-463
developer contracting	649	494	155
investor sales	288	906	-618
Developer contracting			
start-ups	780	317	463
completed	808	526	282
recognised as income	833	537	296
completed and unsold	87	116	-29
Under construction, total	2,142	2,759	-617
contracts	80	80	0
negotiated contracts	195	487	-292
sold to investors	1,032	1,329	-297
developer contracting	835	863	-28
sold	371	559	-188
unsold	464	304	160
sold, %	44	65	
unsold, %	56	35	

### ORDER BACKLOG, HOUSING CONSTRUCTION

EUR million	12/2019	12/2018	Change
Contracts and negotiated contracts	154	213	-59
Under construction, sold developer contracting	79	169	-91
Under construction, unsold developer contracting	220	180	39
Completed and unsold developer contracting	30	20	11
Housing construction, total	483	583	-100

### THE GROUP'S LARGEST DEVELOPER-CONTRACTED HOUSING PROJECTS UNDER CONSTRUCTION IN FINLAND

Project name	Location	SRV, contract value, EUR million	Completion date (estimated)*	Units	Sold*	For sale*
REDI Loisto	Helsinki	105	Q4/2021	249	62	187
Wallesmanni	Tampere	42	Q4/2020	217	85	132
Neulansilmä	Vantaa	23	Q2/2020	103	60	43
Väinämöisenrinne	Helsinki	22	Q4/2020	66	26	40
Fyyri	Oulu	10	Q2/2020	96	96	0

Total value of projects approx. EUR 220 million

\* Situation at 31 December 2019.

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

Project name	Location	Developer	Completion level, %*	Completion date (estimated)*
Punanotko	Helsinki	Ilmarinen	52	Q2/2020
Espanranta	Tampere	Tampereen Tornit	57	Q2/2020
Espanhovi	Tampere	Tampereen Tornit	24	Q3/2020
Ilveshovi	Helsinki	LocalTapiola	55	Q4/2020
Aalto and Tyrsky	Oulu	TA	46	Q4/2020
Tikkurilan KK	Vantaa	NREP	28	Q1/2021
Louhenlinna	Helsinki	LocalTapiola	43	Q1/2021
Kannen Opaali	Tampere	Tampereen Tornit	5	Q1/2022
Tammelän Kustaa	Tampere	OP	14	Q1/2021

Total value of projects approx. EUR 206 million

\* Situation at 31 December 2019.

## BUSINESS AND INFRASTRUCTURE CONSTRUCTION

### January–December 2019

SRV's **revenue** from business construction rose slightly to EUR 679.7 million (666.2 1–12/2018) and the **order backlog** contracted by 30.1 per cent to EUR 861.5 (1,233.3) million.

SRV is currently building several public construction projects, such as hospitals and schools, and underground premises, such as the Espoonlahti Metro Station. These are primarily implemented as alliance projects or project management contracts. Alliance projects offer the potential for extra earnings in addition to the basic profit margin if the project is completed under budget or ahead of schedule, or if the quality criteria are met. Project management contracts are based either on a target price and guaranteed maximum price or a target budget. Like alliance projects, they offer the potential for extra earnings.

### Major ongoing business and infrastructure construction projects

#### Basic renovation and modernisation of Siltasaari 10

In the fourth quarter, SRV and real estate investment company Antilooppi signed a project management contract for the basic renovation and modernisation of historical properties in Hakaniemi, Helsinki: Siltasaarenkatu 6 and 8–10 as well as Paasivuorenkatu 4. The Siltasaari 10 project will combine three properties with a total of 36,075 gross m<sup>2</sup> into a unique complex to serve urban residents and employees.

#### Expansion of Helsinki Airport and renovation of Terminal 2

Helsinki Airport's Terminal 2 extension project involves building a new section for check-in, security control, baggage drop and greeting passengers,

plus a travel centre combining different forms of transport. The current departure and arrival halls of Terminal 2 will be transformed into a gate area.

The Terminal 2 extension project was entered into SRV's order backlog in November 2018 and the total cost of the first phase is estimated to be around EUR 260 million. The actual implementation phase agreement for the project was signed in June 2019, under which SRV will continue as the prime contractor of the project.

#### Espoonlahti Metro Station

Construction of the Espoonlahti Metro Station and bus terminal is progressing as planned. The project was recognised in SRV's order backlog in November 2018 and it is valued at around EUR 48 million. The station will be implemented as a project management contract. Work on the Espoonlahti Metro Station started in December 2018. Construction will end and commissioning begin in summer 2022.

#### 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. Topaasi ja Kruunu – to be built on the Tampere Central Deck – is a hybrid building. A tower section with 105 housing units will be built on top of its office section. The sale of Topaasi apartments is under way. At the end of December, 65 per cent of the apartments had been either reserved or sold. The project also includes apartment buildings in Ranta-Tampella, which will be built separately. Construction of the first two sites, Espanranta and Espanhovi, has already begun.

The total value of the project is about EUR 550 million. The share of Phase 1 agreements recognised in SRV's order backlog in 2017–2019 amounts to about EUR 317 million. In addition, about EUR 40 million will be recognised in the

order backlog from Phase 1 of the project when the final contractor agreements are signed. Revenue will be recognised for the construction of Phase I during the period from 2018 to 2022. The remainder of the project will be recognised as income when the Phase 2 contractor agreements are signed in 2020–2023. A proportion equivalent to SRV's holding has been eliminated from the profit margin of construction. The deck's frame structures are currently being built. During the summer, construction of the arena and the first hybrid building on top of the deck was started up. The construction of Tampere Deck is running slightly behind the preliminary schedule, but the delay is not expected to have a significant impact on the completion schedule.

On 6 February 2020, the company published a separate release in which it announced that it had agreed to sell about 75 per cent of its holding in the Central Deck and Arena project to its

co-investors. In addition, co-investors will buy five-sixths of Ranta-Tampella residential project. The transaction will reduce SRV's holding in the project but will not affect the company's role as its contractor. The share of the holding that the company plans to sell has been transferred to assets held for sale in the financial statements.

#### 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). This wooden quarter will also include a multi-storey car park. ATT's apartments were completed in February 2019. According to current estimates, the Wood City quarter is scheduled for completion in stages during 2020–2021. The total value of the Wood City quarter is about EUR 100 million.

### THE LARGEST ONGOING BUSINESS CONSTRUCTION PROJECTS

Project	Location	SRV total contract value, EUR million	Project type	Completion level, %	Completion (estimate)
<b>DEVELOPMENT PROJECTS</b>					
Deck, southern deck and infra**	Tampere	*	Infra	75	Q3/2021
Deck, multipurpose arena**	Tampere	*	Retail	16	Q3/2021
Deck, arena hotel**	Tampere	*	Retail	0	Q3/2021
Topaasi ja Kruunu**	Tampere	*	Office	22	Q3/2021
<b>BUSINESS PREMISES</b>					
Central Finland Hospital Nova	Jyväskylä	325	Public	86	Q3/2020
Expansion of Helsinki Airport	Vantaa	260	Retail	27	Q1/2022
HUS Siltasairaala	Helsinki	243	Public	35	Q4/2022
Tapiola city centre (Phase 2)	Espoo	100 +	Retail	93	Q1/2020
Jokirinne Learning Centre	Kirkkonummi	33	Public	38	Q4/2020
Hämeenlinna Women's Prison	Hämeenlinna	30	Public	48	Q4/2020
Wood City, office	Helsinki	*	Office	56	Q3/2020
Finnish-Russian School	Helsinki	23	Public	18	Q3/2021
Espoonlahti Metro Station	Espoo	48	Public	30	Q3/2021
Monikko school centre	Espoo	39	Public	32	Q2/2021
Siltasaari 10	Helsinki	51	Retail	0	Q3/2021

Situation at 31 December 2019.

\* The value of individual contracts has not been made public.

\*\* The total value of the Tampere Deck and Arena project is EUR 550 million.

SRV is building an office building and parking facility for Supercell in this quarter. Investor and operator negotiations are still ongoing for the hotel planned for the Wood City quarter.

### 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 Rosatom Group and the main contractor Titan-2. SRV will act as the project manager, and the exact nature of its activities will be confirmed at a later date. The related negotiations on SRV's role are ongoing, and their content and schedule will be specified later. In December 2018, Fennovoima announced that construction will start in 2021.

## INVESTMENTS

The Investments segment focuses on the management and realisation of the Group's real estate investments; the creation and ownership of new joint investment structures; and the oper-

ation of selected properties. Investments' key objectives are to increase SRV's financing capacity with the aid of joint financing structures; harness the value chains created by projects more extensively through longer-term ownership; diversify capital risk; and generate positive cash flow. SRV's investment strategy revolves around the Group's strategy of building urban centres and harnessing the key megatrends that are affecting the built environment. "Building urban centres" primarily means the construction and ownership of central urban premises, such as housing, offices and retail premises.

### January–December 2019

Investments' **revenue** totalled EUR 5.9 million in the January–December period (4.6 1-12/2018). It mainly consists of revenue from shopping centre management. The startup of shopping centre management at REDI increased revenue. In accordance with SRV's operating model, revenue from associated companies' projects and joint ventures is reported under the Construction segment; one example is the Tampere Central Deck and Arena project.

The **operative operating profit** totalled EUR -96.3 (-7.8) million. The shares of associated companies' results included in SRV's result include not only the projects' EBITDA, but also

depreciation, financial expenses and taxes. The occupancy rates and rental income of the shopping centres owned by associated companies improved, but earnings were burdened by the fact that the management and financing expenses of recently opened shopping centres were higher than income. In the fourth quarter, the company concluded that it does not have the financial prerequisites to develop all its assets. Due to the planned sale of the REDI shopping centre, the asset was designated as an asset held for sale and measured at impairment. Measurement at impairment weakened operative operating profit substantially. In addition, the company noted that the financial figures of some of its projects had weakened, particularly due to the poor situation in Russia.

The following impairments were allocated to assets in the Investments segment:

- EUR 71.5 million impairment of the investment in the REDI joint venture (Q4/2019)
- EUR 6.9 million impairment of the investment in the associated company Pearl Plaza (Q4/2019)
- EUR 5.9 million impairment of the Eurograd plot in Russia (Q4/2019)
- EUR 1.0 million impairment of the Mytishchi plot in Russia (Q4/2019)
- EUR 1.0 million impairment of the Kuninkaantori commercial property in Finland (Q4/2019)
- EUR 2.3 million impairment of the Etmia office property (Q3/2019)
- EUR 0.6 million impairment related to the dissolution of the VTBC fund (Q1/2019)
- **Impairments totalling EUR 89.2 million in operative operating profit.** The impairments of investments in Pearl Plaza and REDI relate to their assumed or known selling price.

Investments' **operating profit** was EUR -92.5 (-17.5) million. The net effect of currency exchange fluctuations was EUR 3.8 (-9.8) million,

which arose from valuation of the euro-denominated loans of associated companies in roubles. 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.

**Capital employed** totalled EUR 245.7 (337.8) million. Capital employed was reduced by the EUR 89.2 million in impairments listed above and EUR 10.8 million in impairments and extraordinary expense items of financial receivables recognised in financial expenses. Capital employed was impacted by additional capital invested in the Tampere Central Deck and Arena project and the Okhta Mall car park during the financial year. The strengthening of the rouble exchange rate also affected capital employed. Total capital employed decreased by about EUR 92.1 million. The majority of SRV's capital employed consists of investments in associated companies.

The **return on investment** was -32.6 (-5.2) per cent. When calculating the return on investment, the income from interest on loans granted to associated companies and changes in the value of loans are also taken into consideration.

SRV is a co-investor in four shopping centre projects through its associated companies. SRV is also responsible for leasing, marketing and managing premises in completed shopping centres. 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 in St Petersburg, which was opened in 2013, is now stable.

### Shopping centres

#### REDI, Helsinki

The REDI Shopping Centre in Kalasatama, Helsinki opened its doors in September 2018. By the end of December, about 88 per cent of the shopping centre's premises were leased and about 86 per cent of its 200 stores were open.

#### INVESTMENTS SEGMENT

EUR million	1-12/2019	1-12/2018	Change	Change, %
Revenue	5.9	4.6	1.3	27.8
Percentage of associated companies' profits	2.8	-13.1	15.8	
of which exchange rate gains/losses	7.6	-10.3	17.9	
Hedging expenses	-3.8	0.6	-4.4	
Operative operating profit	-96.3	-7.8	-88.5	
Operating profit*	-92.5	-17.5	-75.0	
Capital employed	245.7	337.8	-92.1	-27.3
Return on investment, %	-32.6	-5.2	-27.4	
* Net effect of currency exchange fluctuations	3.8	-9.8	13.5	

## Capital employed

### CAPITAL EMPLOYED

EUR million	31 Dec 2019	31 Dec 2018
REDI, shopping centre and parking facility	24.6	118.4
Okhta Mall, shopping centre	88.6	78.4
Pearl Plaza, shopping centre	25.3	25.3
Tampere Central Deck and Arena	25.8	13.8
4Daily, shopping centre	7.0	10.9
Plots to be developed and other holdings	74.4	91.0
<b>Total</b>	<b>245.7</b>	<b>337.8</b>

Capital employed largely consists of investments in subsidiaries, joint ventures and associated companies; loans issued; accrued income from associated companies; and their impairment and expense entries. Capital employed includes assets held for sale. Fluctuations in the rouble exchange rate also affect the amount of capital employed.

The major new tenants in the shopping centre are XXL, which opened in April, and Terveystalo, which opened in August. A new shopping centre management team started work in February. Visitor numbers and sales improved as a result of marketing and a variety of events.

Although SRV has a 40 per cent holding in the project, the terms and conditions for profit sharing contained in the REDI shareholder's agreement state that SRV's final share of the project's income may vary between 10 and 50 per cent (including cash flow from the ownership period and income from the realisation of assets.) The final division of profit will only be known when the site has been fully developed and sold, and the overall profit has been determined (estimate: in the first half of 2023 at the earliest).

On 6 February, SRV announced its plans to sell its holding to co-investors. SRV will divest its holding in REDI prematurely and before a stable level of rental income has been achieved. For this reason, the selling price reflects the value at the time of premature exit. The selling price of the REDI holding is lower than the original acquisition cost. In the financial statements, the REDI holding has been classified as an asset held for sale in accordance with IFRS 5 and measured at probable selling price less costs of sale. The esti-

mated probable selling price includes a possible additional transaction price that is valued at the company's best estimate of its probable value.

### Pearl Plaza, St Petersburg

This shopping and entertainment centre in St Petersburg is still fully leased. Visitor numbers rose by 5 per cent on the comparison period in January–December. Sales in roubles saw growth of about 5 per cent compared with the corresponding period of the previous year. More of the Pearl Plaza loans were converted to roubles in February 2018 and now only about a third are euro-based.

Pearl Plaza's sales process has progressed. On 12 April 2019, SRV announced that negotiations had been launched on the sale of Pearl Plaza to a Russian fund managed by Sberbank Asset Management JSC. At the St. Petersburg International Economic Forum on 7 June 2019, the parties signed a cooperation agreement on the sale. The agreement confirms their commitment to carrying out the sale of Pearl Plaza.

On 31 December 2019, SRV's holding in the Pearl Plaza shopping centre was designated as an asset held for sale and measured at its probable selling price less costs of sale, as its sale during the next 12 months is considered likely. If the sale is carried out, the elimination of the construction

profit margin corresponding to the holding would be recognised as income and this would have a positive impact on the company's result.

### Okhta Mall, St Petersburg

The Okhta Mall in downtown St Petersburg opened its doors in August 2016. SRV owns 45 per cent of the Okhta Mall directly, and another 15 per cent indirectly through the property investment company Russia Invest. Leasing has progressed according to plan. By the end of December, the shopping centre's occupancy rate had risen to about 97 per cent. 93 per cent of its stores were open at the end of December. In the January–December period, sales rose by 19 per cent and visitor numbers by 10 per cent. All of the Okhta Mall loans were converted to roubles in May 2018. This reduces SRV's rouble-related exchange rate risks.

The construction of the Okhta Mall multi-storey car park was started up in the fourth quarter. Its construction is valued at about EUR 20 million. The construction contract was added to the order backlog of SRV's Construction segment during the last quarter of 2019.

SRV also owns the Okhta City plot next to the Okhta Mall. This will be a major development project in the future. The majority of the Okhta City plot is currently being used as a car park for the Okhta Mall, but the construction of the multi-storey car park will free up the plot for further development.

### 4Daily, Moscow

The 4Daily shopping centre opened its doors in Moscow in April 2017. SRV owns 19 per cent of the shopping centre. By the end of December, about 83 per cent of the centre's premises were leased. At the end of December, 76 per cent of its stores were open. During the review period, one grocery store agreement was terminated and new agreements were made for two smaller grocery and home appliance stores. This change seeks to better meet customer demand. Interest among potential new tenants has risen significantly. In

the January–December period, sales rose by 17 per cent and visitor numbers by 35 per cent on the comparison period.

Although the shopping centre's occupancy rate, and therefore its profitability, are still at an insufficient level, the change in the tenant structure and growing visitor numbers are creating a foundation for increasing the occupancy rate. SRV also owns the Mira-II plots next to 4Daily, which will enable further development in the area when premises demand permits. In the second quarter, an agreement was signed with the international sports store giant Decathlon for the construction of a store building and the sale of part of the Mira-II plot. A building permit is required to start up construction; it is forecast that work will begin in 2020. The value of the contract will be recognised in SRV's order backlog when the startup of construction has been confirmed.

4Daily was subject to EUR 5.9 million in impairment of financial receivables in financial expenses during the fourth quarter.

### Other projects

SRV is a co-investor in the Tampere Central Deck and Arena project. SRV has a 20 per cent holding in the Arena and a 33.3 per cent holding in the other Tampere Deck sites. After the end of the review period, the company sold 75 per cent of its holding to co-investors; this part of the asset has been designated as an asset held for sale and measured at probable selling price in the financial statements.

SRV owns 50 per cent of the Etmia II office project in downtown Moscow. 81 per cent of Etmia had been leased by the end of December. Due to the low occupancy rate, Etmia is in a weak position to manage its loans. Recovery measures did not yield results during the year. SRV wrote down the value of its investment, EUR 2.3 million, the value of its financial receivables, EUR 1.5 million, and the agreed additional payment obligation, EUR 2.4 million. No solutions to revitalise the operations of the company were



found in the fourth quarter. Bankruptcy proceedings have been started for the company. The financing bank will realise the property held as collateral for its loan receivables.

SRV had a 20 per cent holding valued at about EUR 6 million in the VTBC fund, which invests in real estate properties. The investment period was extended to the end of 2019. The fund sold its investments in April 2019. The fund was dissolved at the end of the year and SRV received an approximately EUR 6 million share in the dissolution of the fund during the second quarter. Impairment of about EUR 0.6 million was recognised in the balance sheet value of the investment in the first quarter.

Plots held for future development in Russia include the previously mentioned Okhta City plot next to the Okhta Mall in St Petersburg, the Mirall plots in Mytishchi, and a 51 per cent holding in the Eurograd plot in St Petersburg.

In addition, SRV owns a commercial property in Porvoo (Ratsumestarinkatu 6), and has a 1.8

per cent holding in Voimaosaakeyhtiö SF and a 6.4 per cent holding in Vicus Oy.

## 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 the target margin is generally better than in 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-km rail line was completed from Ruoholahti to

Matinkylä, with eight new stations. SRV has numerous projects along the route of this metro line. For example, SRV has built the Koivusaari metro station and excavated both the Otaniemi metro tunnel and the Kaitaa station and rail line. SRV is currently building the underground metro station in Espoonlahti. 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, the current Kojamo Oy, to design the Kivenlahti Metro Centre. The plans for the area comprise about 1,300 housing units and about 35,000 m<sup>2</sup> of commercial, office and service premises, and park-and-ride spaces. The Espoo City Council approved the city plan for the area on 29 April 2019, but a complaint has been lodged against it. Construction will begin once the complaint has been resolved – current estimate 2020–2021 – and the Metro Centre is scheduled for completion at the time the Western Metro extension is opened.

### 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. The plan for the Espoonlahti Centre came into force in March 2017.

The City of Espoo has leased the plot to serve as provisional premises for the Lippulaiva shopping centre until 2020, which means construction can begin only when Lippulaiva has moved.

### Keilaniemi

SRV is forging ahead with its residential tower project in Keilaniemi, Espoo. Four towers and a parking facility are planned for Keilaniemi. The area's city plan is in force, and progress now hinges on tunnelling and traffic arrangements

for Ring Road I. The tunnel was opened to traffic in June, and the finishing works on the park deck were completed in the fourth quarter.

As part of the overall implementation of the project, SRV bought the plots for two residential towers from the City of Espoo on 29 October 2019. SRV has not as yet made a final decision on the construction of the towers. Construction may begin no earlier than in 2020. The final construction decision will be based on the market situation. When realised, the Keilaniemi residential towers would be the tallest residential buildings in Finland, with the tallest soaring to a height of almost 145 metres.

### 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. It will have a total of almost 2,000 housing units. SRV also has a planning reservation for the Säterintorni plot, where the company plans to build housing and an office building. Processing of the city plan proposal for Säterinkallionkulma in Leppävaara is still in progress. 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. Different concepts are currently being considered for Tower A, and it may contain shops, services and office space. In December 2019, the project was grant-

#### MOST SIGNIFICANT COMPLETED INVESTMENT PROJECTS, 31.12.2019

Project	Holding, %	Opened	Floor area (m <sup>2</sup> )	Occupancy rate 12/2019, %	Target sales date
Pearl Plaza, shopping centre, St Petersburg	SRV 50 Shanghai Industrial Investment Company 50	August 2013	Gross floor area 96,000 Leasable area 48,000	Binding lease agreements 100	2019-
Okhta Mall, shopping centre, St Petersburg	SRV 45 Russia Invest 55*	August 2016	Gross floor area 144,000 Leasable area 78,000	Binding lease agreements 97	2021-
4Daily, shopping centre, Moscow	Vicus 26 SRV 19 Blagosostoyanie 55	April 2017	Gross floor area 52,000 Leasable area 25,500	Binding lease agreements 83	2022-
REDI, shopping centre, Helsinki	SRV 40 Ilmarinen 32 Local Tapiola 15 OP Group 13	September 2018	Gross floor area 110,650 Leasable area 64,000	Binding lease agreements 88	-**

\* Russia Invest's shareholders are Finnish institutional investors. Ilmarinen owns a 40 per cent stake in Russia Invest, Sponda and SRV have 27 per cent holdings, and Conficap owns six per cent.

\*\* SRV sold its holding to co-investors on 7 February 2020, as described earlier in this release.

ed a deviation decision, which permits care and assisted living facilities to be located in Tower A. The decision is not yet in legal force.

Demolition of the Pohjola Building has been completed and the construction of the first two apartment buildings sold to LocalTapiola is in progress. It is planned that the area will have 800 apartments.

### 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 development of Bunkkeri was delayed 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. After this ruling, the City of Helsinki resumed its preparatory work. On 11 April 2018, the Helsinki City Council decided to sell the plot to SRV.

A complaint has been lodged with the Administrative Court of Helsinki on the decision of the City Council to sell Plot 5 in Block 20811 in District 20 (Länsisatama) of the City of Helsinki and the Bunkkeri building located there as well as the related implementation of the decision. With

its decision on 15 June 2018, the Administrative Court rejected the complainant's demand to forbid and halt the execution of the sale decision. With its decision on 5 October 2018, the Supreme Administrative Court upheld the decision of the Administrative Court and did not forbid the execution of the sale decision. The complaint on the sale decision of the City Council is still under review at the Administrative Court.

SRV and the City of Helsinki signed the implementation agreement in October 2018.

## FINANCING AND FINANCIAL POSITION

At the end of the period, the Group's financing reserves totalled EUR 40.0 million (139.7 12/2018), consisting of unused committed liquidity facilities and unused project loans EUR 12.3 million and cash and cash equivalents EUR 27.7 million. SRV also has a EUR 100 million credit facility that matures on 16 June 2021 whose use includes certain restrictions due to an interest coverage ratio covenant. At the end of December, the company made an agreement with the bank syndicate to restrict the use of this credit facility and it can now only be used to refinance commercial papers worth up to EUR 70 million. Sums in excess of this cannot be withdrawn without the unanimous permission

of the bank syndicate. At the end of December, EUR 60 million of the credit facility had been withdrawn.

In May, SRV issued EUR 58.4 million in capital notes that bear interest at a fixed interest rate of 12 per cent. EUR 20.5 million of the proceeds were used for early repayment of the EUR 45 million 8.750 per cent notes and EUR 37.9 million for early repayment of the EUR 100 million 6.875 per cent notes maturing on 23 March 2021. The capital notes do not have a specified maturity date, but SRV is entitled to redeem the capital notes for the first time on the fourth (4) anniversary of the issue date. The capital notes strengthened the company's capital structure and financial position as well as extended the maturity of loans.

SRV's financing agreements contain standard covenants. The financial covenants are equity ratio (also based on percentage of completion), net gearing, minimum liquidity, the interest coverage ratio and certain other restrictions. The interest coverage ratio is the ratio of the Group's operating margin (EBITDA) to its net financial ex-

penses. 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.

The covenant levels of these financing agreements are determined on the basis of the accounting principles in force when the loan agreements were signed. Therefore, although IFRS 16 has recently come into force, it will have no effect on the covenants for existing loan agreements.

At the end of December, the company made a standstill agreement with the bank syndicate that issued the credit facility, that is, the loan covenants will not be tested during the period specified. This arrangement will remain in force until a replacement loan agreement with a new credit limit has been signed. Syndicate banks have made credit decisions to grant a new loan. The loan agreement was being finalised on 28 February 2020 and the company announced the signing of the final loan agreement separately. All of the other covenant levels for the key loan agreements were met on 31 December 2019.

### FINANCING AND FINANCIAL POSITION

EUR million	31 Dec 2019	31 Dec 2018	Change, %
Equity ratio, %	21.2	28.5	-25.7
Equity ratio, %, excl. IFRS 16 <sup>1</sup>	26.4	28.5	-7.6
Net gearing ratio, %	240.3	121.1	98.5
Net gearing ratio, %, excl. IFRS 16 <sup>1</sup>	151.2	121.1	24.9
Shareholders' equity	175.6	233.6	-24.8
Capital employed	625.3	611.0	2.4
Net interest-bearing debt	422.0	282.8	49.2
Net interest-bearing debt, excl. IFRS 16 <sup>1</sup>	271.9	282.8	-3.9
Interest-bearing debt	449.7	375.9	19.7
of which short-term	25.6	91.8	-72.1
of which long-term	424.1	284.1	49.3
Interest-bearing debt, excl. IFRS 16 <sup>1</sup>	299.6	375.9	-20.3
Cash and cash equivalents	27.7	93.1	-70.2
Unused binding liquidity limits and account limit agreements	10.0	31.5	-68.3
Unused project loans that can be drawn immediately	2.3	15.2	-84.8

<sup>1</sup> The impacts of IFRS 16 in 2019 have been removed from this figure. Due to this adjustment, the figure is comparable with the figures for 2018.

LAND RESERVES	Business construction	Housing construction	Investments	Total
31.12.2019				
Unbuilt land areas, land acquisition commitments and rented plots				
Building rights <sup>1</sup> , 1,000 m <sup>2</sup>	135	308	522	965
Land development agreements				
Building rights <sup>1</sup> , 1,000 m <sup>2</sup>	61	251	0	312

<sup>1</sup> 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.

Net interest-bearing debt totalled EUR 422.0 (282.8) million at the end of the review period. Net interest-bearing debt rose by EUR 139.2 million on the comparison period. Lease liabilities arising from the adoption of IFRS 16 accounted for EUR 150.1 million. Excluding the impact of IFRS 16, net interest-bearing debt declined by EUR 10.9 million. Housing corporation loans account for EUR 50.4 (78.3) million of the interest-bearing debt. Cash flow from operating activities was EUR -10.7 (25.5) million and cash flow from investing activities was EUR -5.9 (-3.1) million. Cash flow from operating activities was weakened primarily by a decrease in non-interest-bearing debt. Cash flow from operating activities was favourably affected by the completion of 539 housing units in the last quarter. Most of these units have now been sold.

Net financial expenses since the beginning of the year totalled EUR -29.3 (-17.5) million. Net financial expenses were increased by EUR -3.7 million (-2.2) due to the negative impairment revaluation of a ten-year interest rate hedge and paid interest expenses. When the interest level rises from its current level, a positive change in the impairment of the interest rate hedge will be recognised in the income statement, and vice versa. EUR 0.7 (1.2) million in interest expenses have been capitalised in accordance with IAS 23 since the beginning of the year. Exchange rate gains in financial expenses totalled EUR 4.3 (-3.5) million. IFRS 16 had an impact of EUR -6.5 million on financial expenses. Net financial expenses were increased by an amount of EUR -0.7 (-1.9) million due to the early redemption of a bond.

Net financial expenses also include the following impairments made on Russian subsidiaries' loan receivables and extraordinary expense items:

- An impairment of EUR 1.7 million on the interest and loan receivables and additional financial commitment of EUR 2.4 million of MMSG, a Russian joint venture (Q4/2019)

- An impairment of EUR 5.9 million on the interest and loan receivables of Promenad, a Russian associated company (Q4/2019)
- An impairment of EUR 0.8 million on the loan receivables of the Finnish joint venture RED1 (Q2/2019)
- **Impairments on interest and loan receivables and extraordinary expense items total EUR 10.8 million in financial expenses**

SRV's investment commitments totalled EUR 51.7 (67.5) million at the end of September, and mainly consisted of investments in Fennovoima's Hanhikivi-1 nuclear project and the Tampere Central Deck and Arena project.

SRV is exposed to changes in the exchange rate of the rouble through its Russian subsidiaries. The strengthening rouble led to translation differences of EUR 11.5 (-12.8) million, which impacted both shareholders' equity and the comprehensive result for the period. In addition to currency exchange rate gains of EUR 4.3 (-3.5) million in financial income and expenses, the Group also entered similarly derived currency exchange rate gains of EUR 7.6 (-10.3) million (with no cash flow impact) under the profit account for by associated companies. These are primarily due to the conversion of currency-denominated loans to roubles. Currency exchange rate gains were reduced by EUR -3.8 (0.6) million in hedging expenses.

On 6 February 2020, the company issued a separate release about significant transactions, preliminary financing agreements and its intention to ask the Annual General Meeting for the authorisation to implement two separate share issues during spring 2020. The company has agreed on the replacement of its current EUR 100 million credit facility with two separate credit facilities, one of EUR 60 million and one of EUR 40 million. The company's current EUR 60 million credit facility will be replaced with a new credit facility of equal amount, of which EUR 20 million

will be repaid in January 2021 and the remaining EUR 40 million in January 2022. The undrawn credit facility of EUR 40 million will be used to finance future construction projects and its due date is in January 2022 or otherwise specified date for separate construction project.

In addition, the Board of Directors will request the Annual General Meeting for authorisation to convert the current hybrid bonds into equity and to carry out a separate increase in share capital amounting to about EUR 50 million. Shareholders representing at least 60 per cent of the company's shares and voting rights have committed to supporting the granting of share issue authorisations at the Annual General Meeting. The company has also secured the commitment of holders of hybrid bonds valued at a total of EUR 51 million to participate in the conversion of the bonds into equity and EUR 40 million in advance commitments to participate in a separate share issue.

If the measures described in this release are carried out according to plan, it is expected that the company's balance sheet, liquidity and financial position will improve significantly by the end of the second quarter. The company's equity ratio (excluding the impact of IFRS 16) would then improve to about 35–38 per cent from its current level and gearing to about 75–85 per cent (excluding the impact of IFRS 16), and the measures would have a positive cash flow impact of around EUR 95 million. After these measures, the company would be able to continue to develop its operations with a view to the long term.

## PERSONNEL, SOCIAL RESPONSIBILITY AND HUMAN RIGHTS

SRV employed 1,080 people on average in January–December 2019 (1,129). At period-end, an average of 867 (915) people worked in Construction and 139 (145) people worked in Investments. 74 (68) people worked in Group operations. At the end of the year, a total of 1,044 people worked for SRV.

The operations of SRV Keski-Suomi and SRV Pirkanmaa were merged as from 1 May 2019 to form SRV Sisä-Suomi. The new regional unit still has offices in both Jyväskylä and Tampere. Construction projects will continue unchanged. Thanks to this organisational change, SRV is more competitive and can develop new projects and acquire construction projects in a wider area.

As a result of cooperation negotiations, the number of personnel will decrease by no more than 48 people. In addition, layoffs and part-time assignments will be implemented, with an effect amounting to around 12 person-years. The combined effect of the adjustment measures and other attrition is about 80 person-years. The company initially estimated that the need for personnel adjustments is 90 person-years.

### Personnel development

SRV offers opportunities for competence development and on-the-job learning. Competence is developed not only with training but also through

### PERSONNEL, SOCIAL RESPONSIBILITY AND HUMAN RIGHTS

Personnel by segment at end of period	31 Dec 2019	31 Dec 2018	Percentage of Group personnel, 31 Dec 2019, %
Construction	836	906	80
Investments	132	85	13
Other operations	76	66	7
Group, total	1,044	1,057	100



a variety of different projects and career paths. There were 2.1 (2.4) training days per employee in Finland, and more than 100 people fell within the scope of the SiteSTEP production training programme. The Manager and Work Manager 2020 programmes continued, and a network management coaching programme for experts was implemented. About 220 managers and leading experts participated in these programmes.

An online training course in competition law was created and three training events were organised for target groups. Online training was also created to support learning the new cooperation model for procurement and production. SRV Occupational Health and Safety Manager training also continued. The SRV Trainee programme continued. During summer 2019, a total of about 90 construction students worked under this programme. We made considerable investments in internal communications in 2019, introducing things such as the CEO's video blog.

In 2020, the goal is to develop the availability and coverage of training, build an equal working community and develop the attractiveness of the industry with other actors in the field, such as the Confederation of Finnish Construction Industries.

### Occupational health and safety

SRV's safety activities are always based on exceeding legal requirements and being a safety pioneer in the construction industry. We also require the same standard of operations from our subcontractors and other partners.

In occupational safety, SRV's operations are steered by the Group's health and safety policy. Our certified occupational health and safety management system (ISO 45001) helps to ensure compliance with operational standards. On-site safety is based on preventative measures, orientation, and following instructions.

In 2019, the themes of occupational safety efforts were developing the safety culture and the activities of the Safety Support Group, updat-

ing and further developing tools and operating instructions, internal audits in accordance with ISO 45001 and updates to orientation materials. The special themes of TTT reviews (occupational health and safety reviews) were increasing the number of occupational risk assessments (TRA) and mobilising the use of SRV Safety as a channel for observations and accident investigations. Occupational safety management training was implemented as part of the larger SiteSTEP training programme, and was targeted at occupational safety managers, for instance.

High-calibre orientation also has a significant impact on improving occupational safety. During orientation, everyone working on a site receives all of the essential information about the company, the site and its special features. In 2019, a total of 30,438 people were granted access rights to SRV's construction sites in Finland. This means that all these people received orientation on site practices and occupational safety.

### Level of occupational safety

SRV's long-term target is to reach a level of zero accidents. The short-term target is to reduce the accident frequency by 10 per cent every year. In our own operations, we have committed to practices that are in line with these targets.

In 2019, the accident frequency rate at SRV sites was better than in the previous year. In the case of SRV's own employees, the accident frequency rate was 4.4/million hours worked (10.6). In other words, the accident frequency rate of our own employees fell significantly year-on-year. In the case of contractors, the accident frequency rate was 16.8/million hours worked (16.7), or more or less the same as in 2018. A pleasing increase was also seen in the number of safety observations: 17,155 observations were recorded, representing a rise of over 125 per cent on the previous year.

A total of 125 accidents leading to absence occurred on SRV construction sites during 2019, 12

of which were serious. 96.0 per cent was SRV's 2019 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 95.8 per cent in 2019.

### Safety Support Group celebrates 20th anniversary

One of SRV's standard safety management practices is its Safety Support Group, which seeks to attain construction site safety targets and ensure contractors' obligations are met. This is one of SRV's own practices and was introduced in 1999.

Through the Safety Support Group, it is possible to share information that helps to both identify and tackle risks. For example, the client is able to give the construction site valuable information about the environment in which we are building and working. SRV's Safety Support Group is able to support construction sites in their safety efforts, and also to share information and practices from other sites.

### Equality and human rights

In accordance with its Code of Conduct, SRV is committed to respecting human rights. The company also seeks to ensure that its subcontractors and other partners are also committed to respecting 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. The equality plan is part of our HR plan. The HR plan is updated annually.

### Important human rights in the sector

Human rights are best promoted by example and through supervision in the supply chain. A company's human rights impact and risks strongly depend on its sector and products.

From the perspective of SRV and the entire construction industry, the most significant are the right to life and the right to health. For example, potentially dangerous work that could pose a threat to life and health is carried out on construction sites. Local residents' right to life and health must also be ensured with regard to, for example, logistics. For our customers, product responsibility is another aspect of protecting human rights.

Bans on slave labour and forced labour are fundamental human rights. Preventing labour exploitation also in construction industry is paramount. The protection of personal security protects people from physical or mental threats against their person. For example, bullying and harassment (including sexual harassment/abuse) in the workplace, or threats and harassment towards minorities.

The right to just and favourable working conditions covers things such as appropriate terms and conditions of employment, appropriate working conditions, and workers receiving a living wage.

Principles of equality and non-discrimination run through all human rights norms. These principles require that human rights are ensured for everyone regardless of their personal characteristics (such as gender, ethnic background, religion, etc.). Examples of situations relating to these principles include discrimination in recruitment, compensation, promotion or customer service.

### Promoting human rights

We continued to analyse and assess SRV's human rights impacts during 2019. In conjunction with this assessment, we went through human rights norms, partially linking them together and also adding examples of the human rights impacts of SRV's operations. The norms we focused on in particular were fundamental human rights that are relevant to most sectors in Finland and which should by default be considered in the construction industry as well. As part of our human rights work in 2019, we developed a method to intervene in any potential discrimination and harassment.



This was announced in our internal communication channels. We also added a new section to our induction material, explaining our zero tolerance for discrimination and harassment and providing information about our Ethics Channel.

In 2020, we will finetune our list of important human rights after it has been updated to include concrete impacts with input from, for example, specific construction sites. We will also be considering practical measures in both our own activities and the supply chain. Our goal is to assess any potential discrimination and harassment experienced by our own personnel and everyone working on our construction sites; to further examine and manage the risks related to hired labour; and to analyse the risks of direct purchases in certain significant categories.

### Supervision of the supply chain

SRV provides supervision, training and support for subcontractors and partners, so they can internalise sustainable working methods. We also keep 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.

The SRV Network Register is continually updated to meet both the practical needs of SRV's work and authorities' requirements and wishes. Its 2019 updates included further development of the logistics calendar, integrations that facilitate the calculation of accident frequencies, and a feature that enables orientation forms to be signed digitally.

SRV's Construction Contract Programme is appended to every agreement, and it requires the contractor or subcontractor to comply with basic sustainability requirements. The Construction Contract Programme also requires our contractors' subcontractors to commit to compliance with the programme's requirements.

During 2019, we continued to focus on the ethical issues surrounding hired labour in the supply chain. As part of these efforts, we met a dozen agencies that specialise in the provision of hired labour. We used a pre-prepared list to go through human rights issues with these agencies. These issues primarily concerned identifying and managing the risk of labour exploitation and the challenges involved with foreign employees and vulnerable groups. This work is ongoing and these issues will also be addressed during competitive bids involving labour hire agencies.

One of our longer-term objectives is to continuously (and verifiably) improve the level of sustainability in our partner network and to integrate the management of contractual partner risks into our normal process, also with respect to sustainability. This will also support our aim of increasing awareness of sustainable operations in SRV's partner network.

## CODE OF CONDUCT

### Ethical operations based on transparency

SRV's values – sustainability, enthusiasm, profitability, bold in development and open in cooperation – will continue to create a firm foundation for further development. Our Code of Conduct creates a sustainable foundation for everything we do. All of SRV's companies, Board members, management and employees are obligated to comply with the Code of Conduct regardless of their station. SRV also seeks to get third parties, such as subcontractors and other cooperation partners, to commit to the Code of Conduct.

SRV has an Ethics Channel through which anyone can anonymously report observed or suspected behaviour that contravenes the Code of Conduct. We received one (4) reports via the Ethics Channel in 2019. Some of them were seeking advice on the right way to act in a challenging situation. The reports were investigated in accordance with the agreed process. In 2019, SRV decided to establish a compliance team to enhance compliance. The team will be led by the General Counsel.

### 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. We check 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 man-

aged process for compliance with the Act on the Contractor's Obligations and Liability.

On Anti-Grey Economy Days, we highlight problematic areas and provide guidance for personnel. Four Anti-Grey Economy Days were held in 2019. On these days, construction sites inspected the documents required by contractors and their subcontractors under the Act on the Contractor's Obligations and Liability. The sites also inspected the personal IDs of all those working on site, determined their employers and tax numbers, and ensured they had received proper orientation.

The results of the Anti-Grey Economy Days showed that the challenges we face are still employees not clocking in to construction sites and employees without personal IDs and orientation stickers. The clocking-in rate is being improved by, for example, better fencing around construction sites, the use of turnstiles, and more effective management of SRV Network Register access permits.

## ENVIRONMENT

We meet our stakeholders' needs by ensuring that our operations always fulfil requirements. SRV's environmental efforts are based on a commitment to legislative compliance, environmental protection, business development, and the continuous improvement of standards with the aid of the ISO 14001 environmental system. We also require our subcontractors and partners to follow the same principles and comply with our guidelines.

In accordance with our environmental policy, the goals of SRV's environmental activities are developing material efficiency and waste management on sites, reducing the energy consumption of sites, implementing projects and buildings that place a smaller burden on the environment, and encouraging partners to develop more sustainable operating methods.

### Environmental work requires systematic planning

Our main objectives for 2019 were strongly linked to clarifying our system and guidelines on the basis of feedback. The aim is to further standardise activities that are carried out by many varying organisations across a wide area of Finland. We also revised our waste targets and engaged in closer cooperation with project development.

Our earlier decision to increase training and launch every new construction site with an environment and safety kick off meeting has borne fruit. Over the last two years, working methods have been established and awareness has increased not only in production but also elsewhere in the organisation. We are also expecting positive impacts on environmental efforts from the restructuring of process management that was carried out in 2019. In practice, process descriptions and tools are now given clear owners through which updates and modifications can be introduced in all Group functions in a controlled manner.

The environmental impacts of construction sites are mainly caused by construction waste, noise and dust, vibration, the consumption of energy, water and materials, and transportation. The management of storm water, trench water and chemicals is of key importance in preventing environmental contamination. At SRV's sites in Finland, environmental activities are based on the environmental plan, waste management plan, and other management plans drafted to address the special characteristics of the site. The environmental risks of subcontractors and means of preventing them are reviewed during contract negotiations, weekly site meetings and the risk assessments of each work phase.

When on-site operations begin, a kick-off meeting is held to deal with site safety and environmental issues, and an environmental officer is appointed for each site. In our own construction projects, we define project-specific environmental targets together with our customers. The aim

is to provide customers with enough information on factors with a significant bearing on environmental impacts for use in their decision-making, starting from the design phase. Environmental indicators are monitored with a browser-based system into which information on waste volumes and the energy and water consumption is entered. Statistics on the previous year are compiled and analysed at the beginning of the year for annual reporting and management reviews. Management reviews specify the objectives of environmental system development and the measures to be taken.

### High environmental targets

Material efficiency and minimising the amount of waste are two of the main objectives of SRV's environmental activities. Design and procurement steering seeks to influence the selection of materials and technical solutions, but design in particular should ensure successful procurements. Sites ensure that waste is sorted to the maximum possible extent before it leaves the site. A waste management plan is drawn up on every construction site in collaboration with the waste management contractor. Since 2016, new projects have been covered by targets for the specific waste volume and sorting-at-source rate, which are set by the type of building.

The recycling rate was raised to 92 per cent in 2019. This target was achieved in Finland as a whole, even though some sites and areas did not reach the new goal. From the system's perspective, there is still too much variance in waste indicators for sites completed in 2019. However, SRV has a broad spectrum of projects and there are regional differences in waste management services. It is therefore important for management reviews to run through the reasons for our successes and challenges – and for us to learn from them. Promoting these targets has been facilitated by our partners and the entire chain that utilises raw materials.

Sites use a great deal of energy in different forms. Due to climate conditions in the north, the greatest amount of energy is used on heating. SRV is seeking to improve energy efficiency in a variety of ways, such as optimising and modernising equipment, and naturally by choosing the heating system that best suits the situation. Energy needs can also be impacted by the careful implementation of through-holes, the covering of holes, and weather protection. Energy consumption and specific consumption are monitored in every project.

We also seek to minimise impacts on the surrounding environment when planning construction sites. Impacts arise from factors such as dust, noise, vibration, traffic arrangements, and changes in the ecosystem. The site handles reporting and communication with those in the surrounding area. Management plans are prepared on construction sites in accordance with site conditions, and information about the site's impacts and schedules is communicated to officials and local communities. Special natural features, such as protected habitats and species, are taken into consideration when planning construction.

Environmental deviations are monitored not only with regular TR measurements, but also with an observation tool that studies both accidents at work and environmental damage. No major damage occurred in 2019. The most common deviations related to oil leaks from machinery. As a consequence, we have further emphasised the importance of proper maintenance and inspection for machinery, and have also urged our subcontractors to keep absorption agents near machinery to aid in the speedy clean-up of any damage. More difficulties arising from storm winds are reported than before. The reason for this may be both the changing climate and an increase in high-rise construction. In any case, an increase in the length of time without snow cover has clearly changed the breakdown of observations.

### An increase in environmental classifications and property performance measurements

Environmental certification is becoming increasingly important to customers and property investors. In addition to international favourites, the Finnish RTS Environmental Classification system has been launched, and the well-known Nordic Ecolabel (the Swan) has also entered the construction market. In addition to properties, it will now be possible to seek certification for premises that are currently in use. SRV has lengthy experience in the construction of both Leed and BreeAm sites. For the first time, we now have several ongoing sites that fall within the scope of RTS environmental classification. For office, educational and accommodation buildings, environmental classification is already more of the rule than the exception.

In addition to property owners and users, the environmental performance of properties is also of interest to the authorities, state and international community. Lifecycle Assessments (LCAs) have long been used to compare lifecycle impacts and the effects of different alternatives on a building's lifecycle. In addition to the forthcoming EU's Level(s) framework, there will almost definitely be a Finnish national calculation method for carbon footprints at least. SRV is testing both the EU's Level(s) framework and the version that the Finnish Ministry of the Environment is currently trying and evaluating. There are still a lot of issues to be resolved with regard to both source information and fair practices.

## CHANGES IN THE CORPORATE EXECUTIVE TEAM

On 25 June 2019, SRV Group Plc's Board of Directors appointed Saku Sipola, M.Sc. (Tech), 50 years old, as President and CEO of SRV Group Plc. He started in his position on 1 September 2019. Sipola joined SRV from SATO

Corporation, where he worked as the President and CEO in 2015–2019.

SRV Group Plc overhauled its organisational structure and Corporate Executive Team effective 1 January 2020. This change is part of the recovery programme announced on 31 October 2019. The new organisation structure has four business units, supported by Group Services. The business units are: Business Premises, Regional Units and Infrastructure; Housing; Investments; and Operations in Russia and Estonia.

The members of SRV's Corporate Executive Team as from 1 January 2020 are:

- Saku Sipola, President & CEO
- Timo Nieminen, Executive Vice President, Deputy CEO, Senior Vice President, Strategic Project Development
- Juha Toimela, Executive Vice President, Business Premises, Regional Units and Infrastructure
- Kim Jolkkonen, Senior Vice President, Housing
- Jarkko Rantala, Senior Vice President, Investments
- Jussi Tuisku, Senior Vice President, Russia and Estonia
- Ilkka Pitkänen, CFO
- Johanna Metsä-Tokila, Senior Vice President, General Counsel
- Maija Karhusaari, Senior Vice President, Communications and Marketing
- Antti Nummi, Senior Vice President, Business Development
- Kimmo Kurki, Senior Vice President, Internal Services

## RISKS, RISK MANAGEMENT AND CORPORATE GOVERNANCE

SRV has published a separate Corporate Governance Statement in its Annual Review. More detailed information about the company's

financial risks is provided in the 2019 Notes of the Financial Statement.

The most significant operational risks relate to capital tied up in major business construction projects, SRV's earnings trend, the availability of project financing, ensuring sufficient short-term liquidity, the development of the situation in Russia, and the rouble exchange rate.

According to the latest forecasts, the strong growth that the construction industry has experienced in recent years is now levelling off, or there may even be a downswing in production. This is expected to generate a slow improvement in subcontractor availability and to relieve cost pressures in materials and subcontracting. Coupled with the prudent selection of new projects, it is also expected to improve SRV's cost-competitiveness. Due to long-term procurement agreements, the decline in input prices may have a delayed effect on SRV's earnings improvement.

SRV's ongoing major projects and completed shopping centre projects are tying up a great deal of capital, as does developer-contracted construction. The availability and price of financing are critical to the company's business. Due to the company's earnings performance, SRV has drawn EUR 60 million from its existing EUR 100 million credit facility. For the same reason, the amount available from the credit facility and certain financing and guarantee facilities has decreased or become subject to limitations. SRV's financing agreements contain standard covenants. At the end of December, the company made a standstill agreement with the bank syndicate that issued the credit facility, that is, the loan covenants will not be tested during the period specified. These factors have reduced the company's financial reserves and hindered the availability of financing.

To ensure financing for new projects, the company primarily relies on its general financing reserves. In the case of certain development projects, the receivables from the project may be sold to financial institutions. The company ex-

pects that the number of new RS-financed developer contracting projects started up in 2020 will be quite low. Individual receivables can be sold to manage liquidity only within the limits permitted, which on the closing date was practically in full.

The sale of holdings in REDI and the Tampere Central Deck and Arena, as described earlier, have had a positive effect on the financial position in 2020. If the company receives funding for planned construction projects, SRV's financial position is expected to improve slightly due to positive cash flow and a decrease in tied-up capital in the balance sheet. If the measures to improve equity that were announced on 6 February 2020 are carried out as planned, the company's balance sheet, liquidity and financial position will improve significantly by the end of the second quarter.

Net rental income from SRV's shopping centre investments typically reaches its target level about 3–5 years after opening. Once this occurs, it is SRV's strategy to sell the investment. Developments in rental income are impacted by factors such as general economic trends, consumer behaviour, successful shopping centre management, the shopping centre's reputation and, in Russia, also the rouble exchange rate. Weaker-than-planned developments in different factors and the assumptions made, both when starting up shopping centres and on the scheduled sale date, may result in a need to lower the shopping centre's acquisition-price-based value in the balance sheet. The company decided to divest its holding in the REDI shopping centre prematurely and before a stable level of rental income has been achieved. For this reason, the selling price reflects the impairments at the time of premature exit. The company recognised this difference as impairment in the 2019 financial statements.

In its Russian business, fluctuations in the rouble exchange rate expose SRV to translation and transaction risks. A ten per cent weakening of the rouble against the euro on the reporting date

would have had an impact of about EUR -9.5 million on the Group's equity translation differences. A ten per cent weakening in the exchange rate would correspondingly have an impact of about EUR -6.2 million on SRV's earnings. The exact rouble hedging rate varies over time. SRV's transaction risk largely comprises the euro-denominated loans of associated companies that are partly owned by SRV. Some of the loans taken out by SRV's associated companies in Russia were converted to roubles during early 2018, thereby reducing SRV's exchange rate risk. The remaining exchange rate risk is hedged in accordance with the hedging policy approved by the Board of Directors.

To increase the comparability of operations, the company reports operative operating profit in addition to operating profit. Operative operating profit 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. In order to improve the comparability of the balance sheet structure, SRV will also report its 2019 key figures without the impact of IFRS 16.

### Sustainability risks

Together with the Sustainability Director, SRV's senior management and risk management organisation are responsible for identifying and reporting sustainability risks, and for implementing risk management measures. Sustainability-related risks are reviewed and updated twice a year at the same time as other risks are reviewed. Identified risks include serious accidents, the grey economy, working conditions throughout the supply chain, climate change, and SRV's reputation among stakeholders. This risk analysis has been supplemented by a survey of process risks (environmental and occupational safety) carried out in 2018.

We are continually working to control and reduce risks in both our own operations and our sub-



### Risks related to personnel, social responsibility, human rights, climate and environmental issues and bribery and corruption prevention

Themes	Identified risks	Risk identification and risk management
All themes		<ul style="list-style-type: none"> <li>Ethical operating principles</li> <li>Ethical channel</li> <li>Ethical operating principles for partners and suppliers</li> <li>Improving ESG reporting</li> <li>Work of internal responsible sourcing group</li> <li>Internal audit</li> <li>Compliance work, work of internal compliance group</li> <li>Biannual risk identification and mitigation walk-through</li> </ul>
Personnel, social responsibility, human rights	<ul style="list-style-type: none"> <li>Accidents at work</li> <li>Work exhaustion due to heavy work load</li> <li>Negligence of terms of employment or working conditions</li> <li>Work related discrimination and harassment</li> <li>Negligence of societal obligations</li> <li>Health and safety of local communities</li> <li>Product responsibility to customer customers</li> </ul>	<ul style="list-style-type: none"> <li>OHSAS18001 health and safety management system</li> <li>ISO9001 quality management system</li> <li>Management reviews (at sites)</li> <li>External audits</li> <li>Safety teams</li> <li>TURVA system</li> <li>Safety information meetings</li> <li>Safety observations</li> <li>TR measurements</li> <li>Internal audits</li> <li>Process and instructions for handling potential harassment or discrimination incidents</li> <li>Kick-off meeting for safety and environmental issues</li> <li>Site instructions</li> <li>Personnel survey</li> <li>Construction Contract Programme</li> <li>Procurement background checks</li> <li>Network Register</li> <li>Discussions with suppliers</li> <li>Collecting and analysing customer feedback</li> </ul>
Climate and environmental issues	<ul style="list-style-type: none"> <li>Environmental damage and accidents</li> <li>Illegal or inappropriate activities</li> <li>Climate risks – physical risks</li> <li>Climate risks – adaptation and business</li> <li>Climate risks – investor demands</li> </ul>	<ul style="list-style-type: none"> <li>ISO14001 environmental management system</li> <li>External audits</li> <li>Project risk management process</li> <li>Identification and management of process risks</li> <li>Environmental plan</li> <li>Kick-off meeting for safety and environmental issues</li> <li>Site instructions</li> <li>Internal audits</li> <li>Life Cycle models, LCA calculations</li> <li>Sustainable concepts</li> </ul>
Bribery and corruption prevention	<ul style="list-style-type: none"> <li>Illegal or inappropriate activities</li> <li>Negligence of societal obligations</li> </ul>	<ul style="list-style-type: none"> <li>Training courses in Competition Law</li> <li>Grey economy prevention days</li> <li>Network Register</li> <li>Procurement background checks</li> </ul>

contractor network. For instance, we held discussions about human rights impacts with labour hire agencies and cleaning service providers in 2019.

SRV's Construction Contract Programme defines our basic sustainability requirements, and our Code of Conduct for partners and subcontractors has been actively adopted. We intend to continue this work by introducing a self-assessment process for suppliers as part of our supplier approval process. We also continued our background check cooperation with Asiakastieto in 2019.

In 2020, we will continue to assess human rights impacts and discuss practical measures in both our own operations and our supply chain. In the future, human rights and social sustainability in general will also be highlighted in EU-level inspections alongside environmental sustainability.

The physical and business risks and opportunities associated with climate change will be more extensively analysed, and we will consider what the changing climate will mean for the future of both the sector and SRV. Objectives and indicators will be created on the basis of a climate risk analysis. The areas to be examined include carbon emission price trends (emission rights), the impact of changes in taxation, and Science Based Targets. The Report of the Board of Directors provides a compact summary of sustainability risks and their management.

## CORPORATE GOVERNANCE AND THE DECISIONS OF THE ANNUAL GENERAL MEETING

SRV Group Plc's Annual General Meeting was held on Tuesday, 19 March 2019 at 4.00 pm. The meeting adopted the 2018 financial statements and discharged the Board of directors and the President and CEO from the liability for the financial period 1 January–31 December 2018.

### Dividend distribution

It was decided that no dividend is distributed for the financial year ended on 31 December 2018 based on the adopted balance sheet, as proposed by the Board of Directors.

### Members and Chairman of the Board of Directors and remuneration

The number of members of the Board of Directors was confirmed to be six (6). Minna Alitalo M.Sc. (Econ.), Juhani Hintikka M.Sc. (Eng.), Olli-Pekka Kallasvuo Master of Laws, LL.D.h.c., Ilpo Kokkila M.Sc. (Eng.) and Timo Kokkila M.Sc.(Eng.) were re-elected to the Board of Directors. Tomi Yli-Kyyny M.Sc.(Eng.) was elected as a new member to the Board of Directors. Ilpo Kokkila was elected as the Chairman of the Board of Directors.

### Auditor and remuneration

PricewaterhouseCoopers Oy, a firm of authorised public accountants, was elected as auditor of the company for a term until the close of the Annual General Meeting of 2020. PricewaterhouseCoopers Oy has notified that Samuli Perälä, authorised public accountant, will act as the responsible auditor. The auditors' remuneration was confirmed as payable on the basis an approved invoice.

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

The Annual General Meeting authorised the Board of Directors to decide on the acquisition of the company's own shares, using the company's unrestricted equity as follows:

The Board of Directors is authorised to acquire a maximum of 5,000,000 shares in the company, so that the number of shares acquired on the basis of the authorisation when combined with the shares already owned by the company and its subsidiaries does not at any given time exceed a total of 10% of all shares in the company.

Shares may be acquired in public trading arranged by Nasdaq Helsinki Oy at the market price at the moment of acquisition.



Own shares may be acquired otherwise than in proportion to the existing holdings of shareholders. Shares may be acquired in one or several instalments.

The company's own shares may be acquired for use e.g. 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 Board of Directors shall decide on other terms relating to the acquisition of shares.

The aforementioned authorisation shall be in force for 18 months from the decision of the Annual General Meeting and cancels the authorisation to decide on acquisition of the company's own shares granted by the Annual General Meeting to the Board of Directors on 20 March 2018.

#### **Authorisation to decide on a share issue and on the issue of special rights**

The Annual General Meeting authorised the Board of Directors to decide on a share issue and on the issue of special rights as follows:

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

Based on the authorisation the number of new shares issued or treasury shares conveyed including shares issued on the basis of special rights, is in total a maximum of 12,000,000 corresponding approx. 19.8% of all the shares of the company at the time of the proposal. Eventual shares issued on the basis of special rights are included in the above mentioned total number of shares.

The authorisation entitles the Board of Directors to decide on terms and conditions of a share issue and special rights entitling to shares, including the right to decide whether the subscription price will be recognized in full or in part in the invested unrestricted equity reserve or as an increase to the share capital and including the right

to derogate from the pre-emptive subscription right of shareholders if there is a weighty financial reason for the company to do so. A directed share issue may be executed without consideration only if there is an especially weighty financial reason for the company to do so, taking into account the interests of all shareholders.

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

The aforementioned authorisation shall be in force for 18 months from the decision of the Annual General Meeting and cancels the authorisation to decide on a share issue and on the issue of special rights granted by the Annual General Meeting to the Board of Directors on 22 March 2016.

### **ORGANISATION OF SRV GROUP PLC'S BOARD OF DIRECTORS AND COMPOSITION OF BOARD COMMITTEES**

In its organising meeting, SRV Group Plc's Board of Directors has elected a Vice Chairman and the members of its Board Committees for a term ending at the closing of the Annual General Meeting in 2020. Olli-Pekka Kallasvuo was elected as Vice Chairman of the Board of Directors.

Minna Alitalo was elected as Chairman and Timo Kokkila and Tomi Yli-Kyyry as members of the Audit Committee. Ilpo Kokkila was elected as Chairman and Juhani Hintikka and Olli-Pekka Kallasvuo as members of the HR and Nomination Committee.

### **MULTI-YEAR INCENTIVE SCHEME FOR THE PRESIDENT AND CEO**

SRV Group Plc's Board of Directors resolved on a new share-based incentive scheme on 25 June 2019. The scheme applies to Saku Sipola, who became SRV Group Plc's President and CEO on 1 September 2019. The incentive effect of the scheme is based on the value increase of SRV Group Plc's shares. The stock exchange release and a description of the incentive scheme are available on the company's Internet site at [www.srv.fi/en/investors](http://www.srv.fi/en/investors).

### **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.

The closing price at Nasdaq Helsinki on 31 December 2019 was EUR 1.36 (EUR 1.70 on 31 December 2018, change -20.0%). The highest share price during the reporting period was EUR 2.19 and the lowest EUR 1.25. At the end of the period, SRV's equity per share excluding the hybrid bond was EUR 1.59. On 31 December 2019, SRV had a market capitalisation of EUR 81.0 million, excluding the Group's treasury shares. 14.4 million shares were traded during the review period with a trade volume of EUR 22.0 million.

At the end of December, SRV Group Plc held 918,599 treasury shares (1.5 per cent of the total number of shares and combined number of votes).

### **FINANCIAL OBJECTIVES**

The company will update its strategy in 2020 and will publish its longer-term financial objectives by the end of the year.

### **PROPOSAL FOR THE DISTRIBUTION OF PROFITS**

The parent company's distributable funds on 31 December 2019 are EUR 149,250,195.52, of which net profit for the financial year is EUR -21,418,550.34. The Board of Directors proposes to the General Meeting that no dividend be paid for the 2019 financial year.

### **EVENTS AFTER THE PERIOD**

On 7 February 2020 SRV sold its stake in REDI and REDI Park to the co-investors, reduce its ownership in the Tampere Central Deck and Arena project and commence measures to strengthen its equity. Simultaneously SRV has agreed with its principal lenders on the conversion of its existing EUR 100 million revolving credit facility into two separate revolving credit facilities of EUR 60 million and EUR 40 million.

The new organisation came to effect on 1 January 2020. As a result of the change, the new organisation structure has a of four business units and group functions. Business units are Business premises, regional units and infrastructure, Housing, Investments and Operations in Russia and Estonia. SRV is still reporting two business areas: Construction and Investments.

### **ANNUAL GENERAL MEETING 2020**

SRV Group Plc's Annual General Meeting is planned to be held on Thursday, 26 March 2020. The Board of Directors will convene the Annual General Meeting at a later date.

Espoo, 28 February 2020  
Board of Directors

## FINANCIAL INDICATORS OF THE GROUP

		2019	2018	2017	2016	2015
Revenue	EUR million	1,060.9	959.7	1,114.4	884.1	719.1
Operative operating profit <sup>1</sup>	EUR million	-96.8	-10.0	27.0	26.3	-
Operative operating profit, % revenue	%	-9.1	-1.0	2.4	3.0	-
Operation profit	EUR million	-93.0	-19.8	15.3	27.7	24.4
Operation profit, % revenue	%	-8.8	-2.1	1.4	3.1	3.4
Operation profit, excl. IFRS16 <sup>1</sup>	EUR million	-94.3	-19.8	15.3	27.7	24.4
Operation profit, % revenue excl. IFRS16 <sup>1</sup>	%	-8.9	-2.1	1.4	3.1	3.4
Profit before taxes	EUR million	-122.4	-37.3	4.6	16.4	17.6
Profit before taxes, % of revenue	%	-11.5	-3.9	0.4	1.8	2.4
Net profit attributable to equity holders of the parent company	EUR million	-104.4	-30.1	6.0	13.9	14.0
Return on equity, %	%	-50.6	-12.1	2.0	5.0	5.6
Return on investment, % <sup>4</sup>	%	-15.2	-2.9	3.1	6.1	5.9
Return on investment % excl. IFRS 16 <sup>1 4</sup>	%	-17.5	-2.9	3.1	6.1	5.9
Capital employed	EUR million	625.3	611.0	604.5	596.2	543.0
Capital employed excl. IFRS 16 <sup>1 4</sup>	EUR million	479.4	611.0	604.5	596.2	543.0
Equity ratio %	%	21.2	28.5	35.5	38.3	42.5
Equity ratio excl. IFRS 16, % <sup>1</sup>	%	26.4	28.5	35.5	38.3	42.5
Net interest-bearing debt	EUR million	422.0	282.8	297.6	246.3	230.8
Net interest-bearing debt excl. IFRS 16 <sup>1</sup>	EUR million	271.9	282.8	297.6	246.3	230.8
Net gearing ratio, %	%	240.3	121.1	105.0	83.4	83.3
Net gearing ratio excl. IFRS 16, % <sup>1</sup>	%	151.2	121.1	105.0	83.4	83.3
Order backlog <sup>23</sup>	EUR million	1,344.2	1,816.0	1,547.9	1,758.5	1,583.4
New agreements	EUR million	487.6	1,133.0	771.4	1,013.1	1,393.5
Personnel on average		1,080	1,129	1,134	1,089	1,008
Earnings per share	EUR	-1.85	-0.56	0.05	0.15	0.25
Earnings per share (diluted)	EUR	-1.85	-0.56	0.05	0.15	0.25
Equity per share	EUR	2.98	3.97	4.78	5.00	4.66
Equity per share (excluding hybrid bond)	EUR	1.59	3.21	4.03	4.25	3.90
Dividend per share	EUR	0.00	0.06	0.10	0.10	0.10
Dividend payout ratio, %	%	neg.	neg.	209.9	67.6	40.2
Dividend yield, %	%	0.0	3.5	2.8	1.8	3.2
Price per earnings ratio (P/E-ratio)		neg.	neg.	75.6	36.7	12.5
Share price development						
Share price at the end of the period	EUR	1.36	1.70	3.60	5.43	3.10
Average share price	EUR	1.36	2.63	4.60	4.07	2.94
Lowest share price	EUR	1.25	1.66	3.52	2.60	2.36
Highest share price	EUR	2.19	4.12	5.74	5.58	3.42
Market capitalisation at the end of the period	EUR million	81.0	101.3	214.5	322.4	183.9
Trading volume	1,000	14,412	6,580	6,362	6,355	11,463
Trading volume, %	%	24.2	11.0	10.7	10.7	26.9
Weighted average number of shares outstanding	1,000	59,581	59,581	59,540	59,349	42,616
Weighted average number of shares outstanding (diluted)	1,000	59,581	59,581	59,540	59,576	42,648
Number of shares outstanding at the end of the period	1,000	59,581	59,581	59,581	59,375	59,325
Effect of currency exchange fluctuations	EUR million	3.8	-9.8	-11.7	1.3	-

<sup>1</sup> Alternative performance measures used in interim 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 presents key figures for operative operating profit and operating profit margin in the interim report

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. In accordance with IFRS, 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 included above operating profit on the line "share of results of associated companies". Income and expenses from currency hedging are included above operating profit on the line "other operating expenses".

## SRV presents key figures excluding effect of IFRS16 standard

The company publishes alternative key figures, that is, IFRS 16 key figures that have been adjusted to exclude the impact of the IFRS 16 Leases standard on the balance sheet and result. SRV is applying a simplified approach to adopting this standard, which is why the figures for the comparison period have not been adjusted to comply with the standard. The figures are considered to provide a better comparability to previous year figures.

<sup>2</sup> At the end of the period

<sup>3</sup> The Group's order backlog consists of the Construction business. The income statement, which corresponds to the holding, is no longer included in the comparative figures for the order backlog in year 2019 and 2018.

<sup>4</sup> The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative year 2018 data has also been adjusted. The key figure also includes assets designated as held for sale in the balance sheet.

## CALCULATION OF KEY FIGURES

Return on equity, %	=	100 x	$\frac{\text{Total comprehensive income for the period}}{\text{Total equity, average}}$
Capital employed	=		Total assets – non-interest bearing debt – deferred tax liabilities – provisions
Capital employed, excl. IFRS 16	=		Total assets – non-interest bearing debt – deferred tax liabilities – provisions – property, plant and equipment, right-of-use asset – inventories, right-of-use asset
Return on investment, %	=	100 x	$\frac{\text{Operating profit + interest and other financial income (incl. exchange rate gains and losses) + Financial receivables write-down and sales loss}}{\text{Invested capital, average}}$
Return on investment, % excl. IFRS 16	=	100 x	$\frac{\text{Operating profit excluding IFRS 16 + interest and other financial income (incl. exchange rate gains and losses) + Financial receivables write-down and sales loss}}{\text{Capital employed excl. IFRS 16, average}}$
Equity ratio, %	=	100 x	$\frac{\text{Total equity}}{\text{Total assets – advances received}}$
Equity ratio,% excl. IFRS 16	=	100 x	$\frac{\text{Total equity – IFRS 16 depreciations, leases and interest and financial expenses recognised in income statement}}{\text{Total assets – advances received – IFRS 16 depreciations, leases and interest and financial expenses recognised in income statement}}$
Net interest-bearing debt	=		Interest-bearing debt – cash and cash equivalents
Net interest-bearing debt excl. IFRS 16	=		Interest-bearing debt - interest-bearing lease liabilities – cash and cash equivalents
Net gearing ratio, %	=	100 x	$\frac{\text{Net interest-bearing debt}}{\text{Total equity}}$
Net gearing ratio,% excl. IFRS 16	=	100 x	$\frac{\text{Interest-bearing debt - interest-bearing lease liabilities – cash and cash equivalents}}{\text{Total equity – IFRS 16 depreciations, leases, interest and financial expenses recognized in income statement}}$
Earnings per share attributable to equity holders of the parent company	=		$\frac{\text{Result for the period – non-controlling interest – hybrid bond interest, tax adjusted}}{\text{Average number of shares}}$
Earnings per share attributable to equity holders of the parent company (diluted)	=		$\frac{\text{Result for the period – non-controlling interest – hybrid bond interest, tax adjusted}}{\text{Average number of shares (diluted)}}$
Equity per share	=		$\frac{\text{Shareholders' equity attributable to equity holders of the parent company}}{\text{Average number of shares at end of period}}$
Equity per share (without hybrid bond)	=		$\frac{\text{Shareholders' equity attributable to equity holders of the parent company – hybrid bond}}{\text{Average number of shares at end of period}}$
Price per earnings ratio (P/E-ratio)	=		$\frac{\text{Share price at end of period}}{\text{Earnings per share}}$

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

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

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

$$\text{Market capitalisation at the end of the period} = \text{Number of shares outstanding at the end of the period} \times \text{share price at the end of the period}$$

$$\text{Trading volume} = \text{Number of shares traded during the period and their percentage of the weighted average number of shares outstanding}$$

$$\text{Operative operating profit} = \text{Operating profit} \text{ +/- currency exchange rate gains and losses +/- income and expenses from hedging}$$



## SHARES AND SHAREHOLDERS

### Share price trend and trading of shares

The shares of SRV Group Plc are quoted on the Nasdaq Helsinki Exchange. The trading with SRV Group Plc's shares started on the Main list of Nasdaq Helsinki on 15 June 2007. During 2019 the highest price was EUR 2.19 and the lowest price EUR 1.25. The average share price for 2019 was EUR 1.53

and the closing price EUR 1.36, giving the company a market capitalisation of EUR 81.0 million as of 31 December 2019. 14.4 million shares were traded in Nasdaq Helsinki which corresponds to 24.2% of the weighted average number of SRV shares outstanding. The trading value of the shares was EUR 22.0 million.

### Shareholders on 31 December 2019

Shareholder	Number of shares	Holding and voting rights, %
KOLPI INVESTMENTS OY	11,505,457	19.0
HAVU CAPITAL OY	7,617,216	12.6
KOKKILA LAURI TAPANI	6,494,422	10.7
KOKKILA TUOMAS TAPANI	6,494,422	10.7
TIIVISTE-GROUP OY	6,111,821	10.1
NORDEA HENKIVAKUUTUS SUOMI OY	1,720,685	2.8
VALTION ELÄKERAHASTO	1,170,000	1.9
KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ ILMARINEN	962,822	1.6
SRV YHTIÖT OYJ	918,599	1.5
KESKINÄINEN TYÖELÄKEVAKUUTUSYHTIÖ VARMA	716,666	1.2
NIEMINEN TIMO	676,310	1.1
MERIVIRTA JYRI TAPIO	500,000	0.8
MANDATUM HENKIVAKUUTUSOSAKEYHTIÖ	405,480	0.7
4CAPES OY	340,000	0.6
DREAM BROKER OY	335,597	0.6
SAARELAINEN MIKA	300,000	0.5
NORDEA BANK ABP	276,988	0.5
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN SIVUKONTTORI	271,999	0.4
SÄÄSTÖPANKKI KOTIMAA -SIIJOITUSRAHASTO	256,631	0.4
TUKINVEST OY	225,000	0.4
<b>20 largest shareholders</b>	<b>47,300,115</b>	<b>78.2</b>
Nominee registration	603,951	1
Other	12,595,509	20.8
<b>Total number of shares</b>	<b>60,499,575</b>	<b>100.0</b>

### The authorisations of the Board of Directors

The Annual General Meeting of SRV Group Plc resolved on March 19, 2019, 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 809,642 shares on 31 December 2019 which corresponds to 1.34% of SRV shares and voting rights. Ilpo Kokkila owns SRV shares through Kolpi Investments Oy and Timo Kokkila through Havu Capital Oy.

### Breakdown of share ownership on 31 December 2019 By number of shares owned

Number of shares	Number of shareholders	% of share-holders	Number of shares	% of shares
1-100	1,299	15.6	70,107	0.1
101-500	3,164	37.9	860,934	1.4
501-1 000	1,306	15.7	1,061,151	1.7
1 001-5 000	1,619	19.4	3,828,322	6.0
5 001-10 000	295	3.5	2,290,883	2.9
10 001-50 000	301	3.6	7,243,926	5.4
50 001-100 000	198	2.4	19,049,432	1.9
100 001-500 000	103	1.2	26,009,691	5.3
500 001-	55	0.7	220,081,129	75.2
<b>Total</b>	<b>8,340</b>	<b>100</b>	<b>280,495,575</b>	<b>100.0</b>
of which nominee registrations	8		72,111,951	1.0

### By shareholder category

	% of shares
Corporations	48.0
Financial and insurance institutions	5.2
Public institutions	4.7
Households	41.6
Non-profit organisations	0.4
Non-Finnish shareholders	0.1
<b>Total</b>	<b>100.0</b>

# Consolidated Financial Statements, IFRS

## CONSOLIDATED INCOME STATEMENT

EUR 1,000	Note	2019	2018
Revenue	3	1,060,949	959,667
Other operating income	4	627	16,926
Change in inventories of finished goods and work in progress		-79,800	34,509
Use of materials and services		-897,233	-919,345
Employee benefit expenses	7	-73,063	-75,482
Share of profits of associated and joint venture companies	16	2,784	-13,061
Depreciations	6	-8,705	-3,644
Impairments	6	-81,339	-1,642
Other operating expenses	5	-17,268	-17,708
Operating profit		-93,047	-19,780
Financial income	9	8,441	5,541
Financial expenses	9	-37,745	-23,036
Financial income and expenses, total		-29,304	-17,495
Profit before taxes		-122,351	-37,275
Income taxes	10	18,743	6,057
Net profit for the financial year		-103,608	-31,218
Attributable to			
Equity holders of the parent company		-104,355	-30,121
Non-Controlling interests		747	-1,097
Earnings per share attributable to equity holders of the parent company	11	-1.85	-0.56
Earnings per share attributable to equity holders of the parent company (diluted)	11	-1.85	-0.56

## STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	Note	2019	2018
Net profit for the financial year		-103,608	-31,218
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		0	0
Gains and losses arising from translating the financial statements of a foreign operation		2,351	-2,558
Share of other comprehensive income of associated companies and joint ventures	16	9,148	-10,231
Income tax relating to components of other comprehensive income		0	0
Other comprehensive income for the year, net of tax		11,499	-12,789
Total comprehensive income for the year		-92,109	-44,007
Total comprehensive income attributable to:			
Equity holders of the parent company		-92,856	-42,910
Non-Controlling interests		747	-1,097

## CONSOLIDATED BALANCE SHEET

EUR 1,000	Note	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	5,456	6,032
Property, plant and equipment, Right-of-use asset <sup>1</sup>	13	12,005	-
Goodwill	14	1,734	1,734
Other intangible assets	14	1,510	1,562
Shares in associated and joint venture companies	16	59,530	180,159
Other financial assets	15, 17	11,858	18,320
Receivables	15, 18	15,857	727
Loan receivables from associated companies and joint ventures	15, 21	43,995	67,270
Deferred tax assets	19	36,391	18,555
<b>Non-current assets, total</b>		<b>188,336</b>	<b>294,358</b>
<b>Current assets</b>			
Inventories	20	376,121	438,199
Inventories, Right-of-use asset <sup>1</sup>	20	132,904	-
Account and other receivables	15, 22	118,673	116,750
Loan receivables from associated companies and joint ventures	15, 21	62	4,596
Current tax receivables		184	56
Cash and cash equivalents	23	27,728	93,074
Assets classified as held for sale	24	69,326	-
<b>Current assets, total</b>		<b>724,998</b>	<b>652,675</b>
<b>ASSETS TOTAL</b>		<b>913,334</b>	<b>947,033</b>

<sup>1</sup> Items related to IFRS 16 standard

EUR 1,000	Note	2019	2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	25	3,063	3,063
Invested free equity fund	25	142,543	142,543
Translation differences	25	-1,385	-12,884
Hybrid Bond	25	82,900	45,000
Retained earnings		-49,522	58,651
<b>Equity attributable to equity holders of the parent company, total</b>		<b>177,598</b>	<b>236,372</b>
<b>Non-controlling interests</b>		<b>-2,009</b>	<b>-2,760</b>
<b>Equity, total</b>		<b>175,589</b>	<b>233,612</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	19	2,439	5,075
Provisions	26	10,907	10,656
Interest-bearing liabilities excluding lease liabilities	15, 27	276,453	284,074
Interest-bearing lease liabilities <sup>1</sup>	27	147,672	-
Other liabilities	15, 28	20,858	8,972
<b>Non-current liabilities, total</b>		<b>458,329</b>	<b>308,776</b>
<b>Current liabilities</b>			
Account and other payables	15, 28	244,306	303,876
Current tax payable		668	54
Provisions	26	8,828	8,920
Interest-bearing liabilities excluding lease liabilities	15, 27	23,160	91,794
Interest-bearing lease liabilities <sup>1</sup>	27	2,454	-
<b>Current liabilities, total</b>		<b>279,415</b>	<b>404,645</b>
<b>Liabilities, total</b>		<b>737,745</b>	<b>713,421</b>
<b>EQUITY AND LIABILITIES, TOTAL</b>		<b>913,334</b>	<b>947,033</b>

## CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	2019	2018
<b>Cash flows from operating activities</b>		
Cash receipts from customers <sup>1</sup>	1,061,778	977,407
Cash receipts from other operating income	627	2,081
Cash paid to suppliers and employees <sup>1 2</sup>	-1,043,614	-937,344
Net cash before interests and taxes	18,790	42,144
Interests received and other financial income	325	83
Interests paid and other expenses from financial costs <sup>2</sup>	-29,300	-18,180
Income taxes paid	-542	1,488
<b>Cash flow from operating activities</b>	<b>-10,727</b>	<b>25,535</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible and intangible assets	-1,957	-4,521
Purchase of investments	0	-1,864
Proceeds from sale of investments	5,500	0
Subsidiary shares sold	0	18,581
Investments in associated companies and joint ventures	-15,971	-14,167
Associated companies and joint ventures sold	987	0
Increase in loan receivable from associated companies and joint ventures	-5,970	-5,776
Decrease in loan receivable from associated companies and joint ventures	26,524	4,644
Loans granted	-15,746	0
Proceeds from repayments of loans	684	0
<b>Net cash used in investing activities</b>	<b>-5,948</b>	<b>-3,102</b>

<sup>1</sup> The presentation of comparative data for the year 2018 has been changed for 'cash receipts from customers' and 'cash paid for suppliers and employees'. Advances received will be presented under 'cash receipts from customers'.

<sup>2</sup> Because of the IFRS16 Leases standard, lease payments are from 1 January 2019 presented under the item 'Interest paid and other expenses from financial costs', and the items 'proceeds and repayment of lease liabilities' under cash flow from financing activities, instead of the item 'cash paid to suppliers and employees' under cash flow from operating activities. The comparison figures for 2018 have not been adjusted to conform to the IFRS16 standard.

EUR 1,000	2019	2018
<b>Cash flow from financing activities</b>		
Proceeds from loans	64,978	97,550
Repayment of loans	-41,735	-86,672
Proceeds from Hybrid Bond	58,400	0
Repayment of Hybrid Bond	-20,500	0
Hybrid Bond costs	-1,136	0
Hybrid Bond interests	-4,240	-3,927
Change in housing corporation loans	-27,843	22,157
Net change in short-term loans	-73,294	22,000
Dividends paid	0	-3,610
Repayment of lease liabilities <sup>2</sup>	-3,854	0
<b>Net cash flow from financing activities</b>	<b>-49,224</b>	<b>47,498</b>
<b>Net change in cash and cash equivalents</b>	<b>-65,899</b>	<b>69,931</b>
Cash and cash equivalents at the beginning of period	93,074	23,475
Effect of exchange rate changes in cash and cash equivalents	554	-332
<b>Cash and cash equivalents at the end of period</b>	<b>27,728</b>	<b>93,074</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Equity attributable to equity holders of the parent company							Non-controlling interests	Equity Totalä
	Share capital	Invested free equity fund	Fair value reserve	Translation differences	Hybrid Bond	Retained earnings	Total		
Equity, total 1 Jan. 2019	3,063	142,543	0	-12,884	45,000	58,651	236,372	-2,760	233,612
Net profit for the financial year	0	0	0	0	0	-104,355	-104,355	747	-103,608
<b>Other comprehensive income items (with the tax effect)</b>									
Foreign currency translation differences for foreign operations	0	0	0	2,350	0	0	2,350	39	2,389
Share of other comprehensive income of associated companies and joint ventures	0	0	0	9,148	0	0	9,148	0	9,148
Available-for-sale financial assets	0	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,498</b>	<b>0</b>	<b>-104,355</b>	<b>-92,857</b>	<b>786</b>	<b>-92,071</b>
<b>Transactions with the owners</b>									
Dividends paid	0	0	0	0	0	0	0	-35	-35
Share based incentive plan	0	0	0	0	0	63	63	0	63
Sale of treasury shares	0	0	0	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0	0
Share issue	0	0	0	0	0	0	0	0	0
Tax cost related to share issue	0	0	0	0	0	0	0	0	0
Hybrid Bond	0	0	0	0	-20,500	-3,393	-23,893	0	-23,893
Hybrid Bond	0	0	0	0	58,400	-485	57,915	0	57,915
Other changes	0	0	0	0	0	0	0	0	0
<b>Transactions with the owners, total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37,900</b>	<b>-3,815</b>	<b>34,085</b>	<b>-35</b>	<b>34,050</b>
Equity, total, 31 Dec. 2019	3,063	142,543	0	-1,385	82,900	-49,522	177,598	-2,009	175,589
Equity, total, 31 Dec. 2017	3,063	141,506	-1,062	-94	45,000	96,605	285,019	-1,627	283,391
Change in accounting principles (IFRS9)			1,062			-1,062	0		
Equity, total, 1 Jan. 2018	3,063	141,506	0	-94	45,000	95,543	285,019	-1,627	283,391
Net profit for the financial year	0	0	0	0	0	-30,121	-30,121	-1,097	-31,218
<b>Other comprehensive income items (with the tax effect)</b>									
Foreign currency translation differences for foreign operations	0	0	0	-2,558	0	0	-2,558	0	-2,558
Share of other comprehensive income of associated companies and joint ventures	0	0	0	-10,231	0	0	-10,231	0	-10,231
Available-for-sale financial assets	0	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-12,789</b>	<b>0</b>	<b>-30,121</b>	<b>-42,910</b>	<b>-1,097</b>	<b>-44,007</b>
<b>Transactions with the owners</b>									
Dividends paid	0	0	0	0	0	-3,575	-3,575	-35	-3,610
Share based incentive plan	0	1,037	0	0	0	-47	990	0	990
Sale of treasury shares	0	0	0	0	0	0	0	0	0
Purchase of treasury shares	0	0	0	0	0	0	0	0	0
Share issue	0	0	0	0	0	0	0	0	0
Tax cost related to share issue	0	0	0	0	0	0	0	0	0
Hybrid Bond	0	0	0	0	0	-3,150	-3,150	0	-3,150
Other changes	0	0	0	0	0	0	0	0	0
<b>Transactions with the owners, total</b>	<b>0</b>	<b>1,037</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-6,772</b>	<b>-5,735</b>	<b>-35</b>	<b>-5,770</b>
Equity, total, 31 Dec. 2018	3,063	142,543	0	-12,884	45,000	58,651	236,372	-2,760	233,612

# Notes to the consolidated financial statements

## Description of operations

SRV Group Plc and its subsidiaries (SRV Group) comprise one of Finland's leading project management contractors that builds and develops commercial and business premises, housing as well as industrial and logistics projects in Finland, Estonia and Russia.

In line with the Group's strategy, business operations are organised into two segments: Construction and Investments. The main companies are SRV Construction Ltd, SRV Ehituse AS and SRV Russia Oy.

The Construction segment covers all of SRV's construction activities including the capital and plots required for developer-contracted housing production. It is SRV's intention to develop, build and sell these plots to a faster schedule than those we report on in the Investments segment. Construction encompasses housing construction, business construction, technical units and procurement, as well as internal services in Finland and Russia.

The Investments segment encompasses both complete and incomplete sites in which the company is a long-term investor. Plots that SRV will develop itself, and whose expected profits will be generated through development and longer-term ownership, are also reported on under Investments. The Investments segment focuses on the management and realisation of the Group's real estate investments; the creation and ownership of new joint investment structures; and the operation of selected properties.

Other operations and eliminations include the group functions of the parent company,

SRV Group Plc, and the Project Development Unit's property and project development activities. Group eliminations are also included in this unit. Deferred tax assets and liabilities have been allocated in full to Other operations and eliminations.

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

The Company's Board of Directors approved these consolidated financial statements on 28 February 2020.

## Accounting policies Basis of presentation

The consolidated financial statements have been prepared on 31 December 2019 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.

Following standards, interpretations and amendments have been applied beginning from 1.1.2019:

### IFRS 16

SRV has applied IFRS 16 Leases as from 1 January 2019. Due to the new standard, all leases – with the exception of those in the scope of special exemptions permitted by the standard – have been recognised in the balance sheet. A right-of-use asset has been recognised for all leases (the right to use the leased asset) in the balance sheet, as well as a financial liability for the obligation to pay rent. With respect to the income statement, the presentation

has changed such that lease expenses have been divided into depreciation and financial expenses. In addition, the adoption of the standard affected the presentation of the cash flow statement such that lease payments are presented under the item 'Interest paid and payments for other operating financial expenses' and the item 'Loan disbursements and payments for lease liabilities' under cash flow from financing activities, instead of the item 'Payments for operating expenses' under cash flow from operating activities.

The Company applies a simplified approach to adopting this standard, which is why the figures for the comparison period are not restated. In its

### MEASUREMENT OF LEASE LIABILITIES IN THE OPENING BALANCE SHEET:

EUR 1,000	
Obligations relating to operational leases, 31.12.2018	15,633
Other contingent liabilities (leased plots), 31.12.2018	169,274
	184,907
Transition calculation concerning changes due to IFRS16 Leases	
EUR 1,000	
<b>Lease liabilities and contingent plot liabilities, 31.12.2018</b>	<b>184,907</b>
Short-term agreements	-94
Low-value agreements	-79
Finance lease liability, IAS 17	0
Determination of lease period	-11,381
Changes in agreements	3,235
Effect of discounting	-2,677
<b>Lease liabilities, 1.1.2019</b>	<b>173,910</b>
of which short-term	2,231
of which long-term	171,679

The accounting treatment of lease agreements is described later in the section on lease agreements.

reporting, the Company also observes two exemptions facilitating application included in the standard that relate to low-value and short-term leases. Short-term leases are those in which the lease period is no longer than 12 months and leases that are in effect until further notice in which the mutual period of notice is no longer than 12 months. The most significant short-term leases are mainly for construction site equipment. Low-value assets primarily include IT equipment and small office furniture. In addition, some minor leases – such as for cars and IT hardware – are treated as a group in accordance with the bundling principle.

### IFRIC 23 interpretation

Uncertainty over Income Tax Treatments. The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over tax treatment. The primary question is to assess whether the tax authorities will accept the tax treatment chosen by the Group. The Group's management has taken the effect on uncertain items into consideration in their accounting treatment. The interpretation does not have a material impact on the consolidated financial statements.

The following standards, amendments and interpretations shall be applied as from the financial period beginning on 1 January 2020 or thereafter. The Group's management is reviewing the impact of future standards, amendments and interpretations on the consolidated financial statements:

### IASB has amended IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

IASB has amended IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies,

Changes in Accounting Estimates and Errors: the definition of "material" is now consistent across all IFRS Standards and the Conceptual Framework for Financial Reporting, it has been clarified when information is material and guidance on immaterial information has been included in IAS 1.

### Definition of a business – amendments to IFRS 3

According to the revised definition of a business, the acquired activities and assets must consist of inputs and a substantive process that must together significantly contribute to creating outputs. The definition of "output" is amended such that it focuses on providing goods and services to customers, generating investment returns and other income, and does not include returns in the form of lower costs or other economic benefits. Due to the amendments, it is likely that more acquisitions than before will be treated as acquisitions of assets.

### Use of estimates

The preparation of financial statements in accordance with IFRS requires the Group's management to make certain estimates and exercise judgement in applying accounting policies. The estimates and assumptions have an effect on balance sheet assets and liabilities as well as on revenues, expenses and contingent liabilities 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 ventures, in the recognition of current income tax assets and liabilities, and the measurement of assets held for sale.

The financial statements have been prepared on a going concern basis, as SRV's management considers that there are no material uncertainties concerning the ability to continue as a going concern. The future development of the Group's operations will be affected by factors such as its earnings trend, availability of financing for projects that tie up capital, sufficiency of liquidity and the development of the situation in Russia and the rouble exchange rate. The Group's management has made estimates of the future revenues, operating margins, investments, financial position and working capital requirements of the companies, taking into consideration the recovery programme that was started up in 2019 and the financial arrangement announced after the end of the review period.

Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. The Company has classified the following holdings in associated companies and joint ventures as assets held for sale: REDI shopping centre, Pearl Plaza shopping centre and Tampere Central Deck and Arena. At the time of classification, these investments were measured at the lower of carrying amount or probable selling price. Impairment of EUR 71.5 million was recognised on the REDI shopping centre investment and EUR 6.9 million on the Pearl Plaza shopping centre investment.

Assets recognised as revenue over time are controlled by the customer, and the revenue and expenses of these customer projects are recognised as revenue and expenses based on percentage of completion, when the outcome of the project can be reliably estimated. Percentage of completion is determined by calculating for each project the share of expenses accrued by the balance sheet date relative to total expenses estimated for each project. The amount corresponding to the percentage of completion is recognised as revenue. When it is probable that total costs necessary to complete a project will exceed total

revenue obtained from the project, the expected loss is recognised immediately as an expense.

Development and developer-contracted projects may include variable considerations that may result, for example, from delay penalties and lease liabilities. Recognition of revenue is deferred for the estimated rental liability and this estimated share of project revenue is recognised as an advance received. Rental security deposits reduce project-related advances received. Uncertainties associated with signed lease agreements are taken into account in recognition of revenue.

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, turnover 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 group companies 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 recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the 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 valued 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. 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 the finished 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 corre-

sponding items above operating profit. Exchange rate differences of financing items are included in financial income and expenses.

## Income recognition

### Construction contracts

Sales revenue is recognised when control over goods or services is transferred to the customer. The customer obtains control when it is able to direct the use of goods or services and to obtain the benefit from them. The Group's sales revenues consist of various types of residential and commercial projects as well as other sales. The revenue recognition practice is described in more detail in Note 3.

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.

## IFRS 16 Leases

As a result of the new standard, all leases, except those subject to special exemptions under the standard, are recognised in the balance sheet. For all leases, a right-of-use asset (the right to use the leased asset) is recognised as an asset in the balance sheet and a financial liability representing the obligation to make lease payments is recognised in liabilities. With regard to the income statement, the presentation has changed, such that lease expenses are divided into depreciation and financial expenses. In addition, the adoption of the standard has affected the presentation of the cash flow statement, such that lease payments are presented in the item

'interest paid and other expenses from financial costs' and the items 'proceeds from loans' and 'repayment of lease liabilities' under the cash flow from financing activities, instead of the item 'cash paid to suppliers and employees' under the cash flow from operating activities.

## Group leasing activities and their accounting treatment

Land leases form the most significant proportion of the right-of-use assets on SRV Group's balance sheet. Land leases are usually long-term and are typically made on behalf of a real estate company being established. When the real estate company is sold and its management is transferred to the buyer, the lease and its obligations transfer to the buyer of the property. In addition to land leases, other significant leases include, for example, leases for the company's fixed operating locations, particularly in Finland and Russia, and leases for site equipment and vehicles. Leases for offices are generally made initially for a fixed term. The duration of the fixed term is generally 5 to 10 years, after which the lease continues for an indefinite period with 6–12 months' notice of termination. Leases for site equipment are generally made for an indefinite period with no specific notice of termination. Equipment is typically leased for 1 month to 12 months. Leases for vehicles are made for fixed terms and their duration is generally 24 months.

With regard to the adoption of the standard, the company applies a simplified approach, and therefore does not restate comparison year data in its reporting. In its reporting, the company also applies two exemptions included in the standard that relate to short-term leases and to leases where the underlying asset is of low value. Leases whose lease term is no more than 12 months and indefinite leases whose notice of termination is less than 12 months are considered to be short-term leases. The most significant short-term

leases are mainly for site equipment. Low-value assets mainly include IT equipment and small items of office furniture. In addition, some minor leases, for example for vehicles and IT equipment are treated as a group according to the bundling principle.

At the commencement of the contract, the lease liability is valued at the present value of the lease payments payable over the lease term. In determining the present value of lease payments, an estimate of the lease term is required in some circumstances. Such situations, for example, relate to leases that have options to extend or terminate the lease. Such an option is taken into account in determining the lease term if it is reasonably certain that the option will be exercised. The lease liability also includes the amount to be paid on the basis of any residual value guarantee and the possible exercise price of a purchase option, if it is reasonably certain that the option will be exercised. There may also be penalty payments for terminating the lease. Such penalties are included in the amount of the lease liability if it is considered during the lease term that the Group will exercise this option.

Lease payments are discounted at the interest rate implicit in the lease if the interest rate is readily determinable, otherwise the interest rate on the lessee's incremental borrowing rate is used. Under IFRS 16, the lessee's incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Land leases account for more than 90% of SRV Group's right-of-use assets, and the interest rate implicit in the leases is always used as their discount rate. For other leases, the rate implicit in the lease is primarily used and, alternatively, the incremental borrowing rate. The incremental borrowing rate is an estimate of what the company would have to pay

to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate used by the company in the last financial period was 5%.

The acquisition cost of a right-of-use asset consists of the liability initially measured under the lease, any lease payments paid by the commencement date of the lease, any initial direct costs incurred by the lessee and the costs of restoration to the original condition. Any incentives received are deducted from the acquisition cost of the underlying asset. Subsequent measurement of the right-of-use asset is based on the acquisition cost model, whereby the right-of-use asset is measured at acquisition cost less depreciation and impairment. Depreciation is recognised on a straight-line basis over the lease term. If the lease transfers the ownership of the underlying asset to the lessee by the end of the lease term or if the acquisition cost of the underlying item takes into account that the lessee will exercise the option to purchase, the underlying asset is amortised over its useful life.

The Group is exposed to possible increases in variable rents based on an index or price that are not taken into account in the lease liability until they occur. When changes in rents based on an index or price occur, the lease liability is reassessed and adjusted against the right-of-use asset. The rental payments are allocated to capital and financial expenses. Financial expenses are recognised through profit and loss over the lease term, such that the interest rate of the outstanding liability is the same in each period.

#### **Accounting principle for plot leases**

The SRV Group presents right-of-use assets related to leased plots as inventories, because plots directly owned by the Group are presented as inventories and the same principle is also applied in the presentation of right-of-use assets.

From the beginning of construction, the depreciations of the leased plots are recognised as part of the cost of the construction project. The interest expense on the lease liability presented in balance sheet liabilities is capitalised as part of the cost of the construction project.

#### **Accounting principle for premises leases**

The SRV Group presents right-of-use assets related to premises in balance sheet non-current assets and in financial liabilities in respect of the obligation to make lease payments in liabilities. The most significant premises leases in the SRV Group are the lease for the company's head office leases and leases for regional offices in Finland and Russia.

#### **Accounting principle for site equipment leases**

Leases for site equipment are almost without exception typically leases with an indefinite lease term. Such leases generally entitle the company to decide to terminate the contract for each leased item at its chosen time. Site equipment is generally leased to the site for a special work stage, in which case the lease term is usually for less than 12 months. Due to the short lease terms and flexible termination conditions, the exemption for short-term leases under IFRS 16 is generally applied to site equipment leases. If, however, a site equipment lease is made for a fixed term, and the lease is not low value, the lease is subject to the same accounting principle as described above for premises leases.

#### **Accounting principle for office equipment leases**

Leases for IT equipment typically concern office IT equipment such as printers, multifunction devices and computers. The exemption for low-value asset items is applied to these assets. Leases for IT equipment also include contracts that cannot be considered to be low value and

short term. Such agreements include, for example, IT server leases. The same accounting principle as described above for premises leases is applied to such leases, but such that the asset items are treated as a single entity in accordance with the bundling principle. IT equipment lease terms are typically 24 or 48 months long.

#### **Accounting principle for leased vehicles**

The same accounting principle as described above for premises leases is applied to leased vehicles, but such that the asset items are treated as a single entity in accordance with the bundling principle. Leases for leased vehicles are typically 24 months long.

### **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 recov-

erable 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 in the following groups:

- Financial assets: Financial assets at amortised cost or at fair value through profit or loss
- Financial liabilities: Financial liabilities recog-

nised at fair value through profit or loss, or at amortised cost using the effective interest rate method.

The Group measures financial assets at amortised cost when the objective of the business model is to hold the assets and collect all the contractual cash flows, and when the contractual cash flows of the instrument consist only of payments of principal and interest. All other financial assets are recognised and measured in the Group at fair value through profit or loss.

A Group entity records financial assets and liabilities in its balance sheet when – and only when – it becomes a party to the contractual terms and conditions of the instrument. When an entity recognises a financial asset for the first time, it must classify financial assets and financial liabilities into the categories specified above.

A Group entity derecognises a financial asset item from the balance sheet when the contractual rights to the cash flows from the financial asset cease to exist or when it transfers the financial asset to another party and a significant part of the risks and benefits of ownership have been transferred to the other party.

A financial liability is derecognised from the balance sheet when the obligation specified in the contract has been discharged, cancelled or expired.

Financial assets are long-term when their maturity is over 12 months and short-term when the remaining maturity is less than 12 months. Other financial assets are included in long-term financial assets unless there is an intention to relinquish the investment within 12 months of the balance sheet date. Financial liabilities are classified as short-term if their maturity is under 12 months or if the Group does not have the absolute right to repay them at least 12 months after the end of the reporting period. Otherwise they are classified as long-term.

### Derivative instruments

The Group designates derivative instruments at the time of entering into the contract as either cash flow hedges of business or financing cash flows or as hedges of investments in foreign entities. Derivatives are entered into for hedging purposes and on their basis the receivables and liabilities in the balance sheet are small. Contracts concluded with the counterparties of derivative instruments are based on the ISDA Master Agreement. According to the terms of the arrangements, if certain events occur (such as payment default), the net receivable or liability position of an individual counterparty in the same currency is designated as a liability and all related arrangements are terminated. As SRV does not have a legally enforceable off-setting right at the closing date, said amounts have not been deducted from each other in the balance sheet.

Group's Treasury unit is responsible for the hedge transactions according to the policy approved by the Board of Directors. During the fiscal year 2019 and 2018 there were no hedges qualifying for IFRS hedge accounting.

### Items recognised at fair value through profit or loss

The derivative instruments used by the Group are classified at fair value through profit or loss. Derivatives are initially recognised in the balance sheet at fair value on the transaction day and thereafter measured at fair value on each balance sheet date. The fair value of interest rate swaps is usually zero at the original time of recognition. Changes in fair values of interest rate swaps are recognised in the income statement under other financial income and expenses and in the balance sheet under financial assets or liabilities. Foreign exchange option premiums are considered to amount to the fair value at the time of acquisition.

Changes in the fair values of foreign exchange forward contracts and options are recognised

in the income statement under other financial income and expenses, because they are used primarily to hedge against currency rate gains and losses included in the share of associated companies' income.

Other financial assets may include both quoted and non-quoted shares and they are measured at fair value through profit or loss. 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 other financial assets, the Group will apply various valuation methods to their valuation. These are, for example, recent transactions between independent interests, discounted cash flows, or other similar types of instrument valuations.

### Measured at amortised cost

Financial assets measured at amortised cost are trade receivables, other receivables and loan receivables from associated companies.

Financial assets measured at amortised cost are initially measured at fair value less transaction costs. After initial recognition, they are recognised at amortised cost. Interest is recognised in the income statement over the maturity of the loan using the effective interest method.

### Impairment

The impairment of financial assets is assessed on the basis of expected credit losses. The Group applies a simplified approach to the recognition of expected credit losses, according to which expected credit losses are recognised for all trade receivables and contractual assets over their entire duration.

Loan receivables from associated companies and joint ventures are tested for impairment using a three-stage model.

The Group's management first reviews the expected cash flows of the loan receivables of associated companies and joint ventures as a whole with associated company investments,



and regularly assesses whether the credit risk of the receivables has increased significantly after initial recognition. If the credit risk associated with the receivables is deemed to be low or their credit risk has not significantly increased after initial recognition, the receivable is included in Stage 1 and the impairment is measured based on an estimate of the probability of credit losses occurring within 12 months.

If the measurement reports indicate that the credit risk of certain loan receivables has increased significantly, the loan receivables will be moved to Stage 2 or 3, in which the probability of the expected loss is assessed over their entire lifetime, and the estimated expected cash flows are compared with the contractual cash flows. In such cases, the expected credit losses over the entire lifetime of the loan receivable are recognised.

#### **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.

#### **Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities related to non-current assets classified as held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities related to non-current assets classified as held for sale are presented separately from other liabilities in the balance sheet.

#### **Hybrid bonds**

The hybrid bonds (equity loans) do not have maturity dates. The hybrid bonds are unsecured and subordinated to the Company's other debt instruments but senior to other equity instruments. However, the hybrid bonds do not confer shareholders' rights to bondholders. Interest on hybrid bonds is paid if the Annual General Meeting decides to pay a dividend. If dividends are not paid, the Annual General Meeting decides separately on whether to pay interest.

Equity includes EUR 45.0 million in hybrid bonds issued in 2016. On 16 May 2019, EUR 20.5 million was repaid prematurely and the remaining amount is EUR 24.5 million. The bond has an annual coupon rate of 8.75 per cent. The Company has the right to redeem it four years after issue.

On 16 May 2019, SRV issued a EUR 58.4 million hybrid bond with a fixed interest rate of 12.0 per cent. SRV is entitled to redeem it for the first time four years after issue.

#### **Financial liabilities measured at amortised cost**

Financial liabilities measured at amortised cost are initially recognised at fair value. Transaction costs 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 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 customer projects is recognised as a liability for incomplete housing units in the balance sheet until the project has been handed over. In the case of completed housing projects, the loan is derecognised when the purchaser assumes the liability.

#### **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. If the proportion of project-specific financing is not significant, the Group's capitalization rate is used in capitalizing interest expenses.

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.

Expenses arising from construction plans for plots managed mainly by SRV and classified as current assets are deemed eligible for activation when they can be reliably to have a positive impact on the value of the plot or project. These expenses can be capitalised before a decision is made on the launch of construction.



## 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 hand-over, 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 pay-out 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 presented in accordance with IFRS 8 and following the accounting principles of the consolidated financial statements and the Group's management and organisational structure.

Pricing of transactions between segments takes place at current market prices. The assets and liabilities of segments are business items which the segments use in their operations or which on a reasonable basis can be allocated to the segments. Unallocated items include income tax and financial items as well as items common to the entire Group.

## Operating segments

SRV Group has the following operating segments:

### Construction

The Construction segment, which has operated since the beginning of 2019, covers all of SRV's construction activities, including the capital and plots required for developer-contracted housing production. It is SRV's intention to develop, build and sell these plots to a faster schedule than those we report on in the Investments segment. Construction encompasses housing construction, business construction, technical units and procurement as well as internal services in Finland and Russia. Construction employs approximately 900 people, i.e. the most of SRV's personnel.

### Investments

The Investments segment, which has operated since the beginning of 2019, focuses on the management and realisation of the Group's real estate investments, the creation and ownership of new joint investment structures, and the operation of selected properties. Investments encompasses both complete and incomplete sites in which the company is a long-term investor. Plots that SRV will develop itself, and whose expected profits will be generated through development and longer-term ownership, are also reported on under Investments.

### Other operations and eliminations

Other operations and eliminations include the group functions of the parent company, SRV Group Plc, and the Project Development Unit's property and project development activities. Group eliminations are also included in this unit. Deferred tax assets and liabilities are allocated in full to Other operations and eliminations.

## Operating segment information

Segment information is reported in a manner consistent with internal reporting to the Chief Operating Decision Maker (CODM, as per IFRS 8). The CODM is the Group President & CEO, who is assisted decision-making by the Corporate Executive Team. Internal management reporting is consistent with segment reporting.

In financial year 2019, the Group had two significant customers under the IFRS 8 definition in the Construction operating segment. In 2018, there was one. The largest customer accounted for approximately 13% of the Group's revenue and the second largest approximately 10%.

2019	Construc- tion	Investments	Other oper- ations and eliminations	Total
EUR 1,000				
Revenue				
Revenue recognition at a point in time	214,614	0	0	214,614
Revenue recognition over time	831,889	3,995	0	835,885
Other revenue	11,174	1,875	-2,599	10,450
<b>Total</b>	<b>1,057,677</b>	<b>5,871</b>	<b>-2,599</b>	<b>1,060,949</b>
Revenue, external	1,056,648	5,679	-1,378	1,060,949
Revenue, internal	1,029	192	-1,221	0
<b>Total</b>	<b>1,057,677</b>	<b>5,871</b>	<b>-2,599</b>	<b>1,060,949</b>
Included in operating profit:				
Depreciations and write-downs, excluding Right-of-use asset	-1,683	-81,964	-359	-84,006
Depreciations and write-downs, Right-of-use asset	-4,801	-119	-1,118	-6,038
<b>Operating profit</b>	<b>7,047</b>	<b>-92,511</b>	<b>-7,583</b>	<b>-93,047</b>
Segment's assets				
Shares in associated and joint venture companies	1,380	58,151	0	59,530
Inventories total, excluding Right-of-use assets	312,216	64,264	-360	376,121
Land areas and plot-owning companies	85,826	60,989	269	147,084
Work in progress	190,750	0	-580	190,170
Shares in completed housing corporations and real estate companies	30,508	3,267	0	33,775
Other inventories	5,132	8	-48	5,091
Loan receivables from associated companies and joint ventures	160	43,897	0	44,057
Right-of-use asset	133,331	1,358	11,264	145,953
Other assets	175,128	84,528	28,018	287,673
<b>Total</b>	<b>622,214</b>	<b>252,198</b>	<b>38,922</b>	<b>913,334</b>
Segment's liabilities, excluding Lease Liabilities	364,593	153,141	69,885	587,619
Segment's liabilities, Lease Liabilities	138,295	1,389	10,441	150,125
<b>Total</b>	<b>502,888</b>	<b>154,531</b>	<b>80,326</b>	<b>737,745</b>
Invested capital				
At the end of period	372,868	245,744	6,717	625,328
Return on investment, %	3.0	-32.6		-15.2
Order backlog <sup>1</sup>	1,344,219	0	0	1,344,219
Business construction	861,491			
Housing construction	482,729			

2018				
EUR 1,000	Construc- tion	Investments	Other oper- ations and eliminations	Total
<b>Revenue</b>				
Revenue recognition at a point in time	139,210	0	0	139,210
Revenue recognition over time	802,582	2,841	0	805,423
Other revenue	13,566	1,753	-286	15,033
<b>Total</b>	<b>955,358</b>	<b>4,594</b>	<b>-286</b>	<b>959,667</b>
Revenue, external	954,279	4,268	1,120	959,667
Revenue, internal	1,080	326	-1,406	0
<b>Total</b>	<b>955,358</b>	<b>4,594</b>	<b>-286</b>	<b>959,667</b>
Included in operating profit:				
Depreciations and write-downs, excluding Right-of-use asset	-2,704	-2,268	-314	-5,286
Depreciations and write-downs, Right-of-use asset	-	-	-	-
<b>Operating profit</b>	<b>-13,361</b>	<b>-17,541</b>	<b>11,123</b>	<b>-19,780</b>
<b>Segment's assets</b>				
Shares in associated and joint venture companies	2,235	177,924	0	180,159
Inventories total	370,345	67,582	273	438,199
Land areas and plot-owning companies	81,868	63,161	269	145,298
Work in progress	261,194	0	0	261,194
Shares in completed housing corporations and real estate companies	20,682	4,415	0	25,097
Other inventories	6,601	6	4	6,611
Loan receivables from associated companies and joint ventures	1,499	70,367	0	71,866
Right-of-use asset	0	0	0	0
Other assets	134,605	27,707	94,497	256,809
<b>Total</b>	<b>508,683</b>	<b>343,580</b>	<b>94,770</b>	<b>947,033</b>
<b>Segment's liabilities, excluding Lease Liabilities</b>	<b>351,499</b>	<b>229,336</b>	<b>132,586</b>	<b>713,421</b>
<b>Segment's liabilities, Lease Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>351,499</b>	<b>229,336</b>	<b>132,586</b>	<b>713,421</b>
<b>Invested capital</b>				
At the end of period	212,849	337,821	60,295	610,965
Return on investment, %	-4.6	-5.2		-2.9
<b>Order backlog<sup>1</sup></b>	<b>1,816,024</b>	<b>0</b>	<b>0</b>	<b>1,816,024</b>
Business construction	1,233,295	0	0	1,233,295
Housing construction	582,728	0	0	582,728

<sup>1</sup> The Group order backlog consists of the Construction business. The unrecognised margin corresponding to the holding is no longer included in the order backlog comparison figures. Capital employed and order backlog are unaudited.

## 2 ACQUISITIONS AND DISPOSALS

No business operations were acquired or sold during the financial year. No new business operations were acquired during the comparison period.

### Divestments 2018

In December 2018, SRV sold SRV Kalusto Oy's entire share capital to Ramirent Finland Oy. The company's debt free purchase price was EUR 21 million. Considering the company's debt the purchase price was EUR 18,9 million. SRV recorded capital gain of approximately EUR 14 million.

### Impact of divestments on Group's assets and liabilities

EUR 1,000	SRV Kalusto Oy 2018
Tangible assets	5,448
Trade and other receivables	1,373
Cash and cash equivalents	298
<b>Assets, total</b>	<b>7,119</b>
Deferred tax liabilities	-118
Financial liabilities	-2,333
Trade and other payables	-668
<b>Liabilities, total</b>	<b>-3,119</b>
Net assets	4,000
Adjustment to capital loss	9
Sales price	18,879
Transaction fees paid	-926
<b>Capital gains from divestments (net)</b>	<b>13,962</b>

### Cash flow from sale of operations

EUR 1,000	SRV Kalusto Oy 2018
Sales price	18,879
Cash and cash equivalents of divested operations	-298
<b>Cash flow from sale of operations</b>	<b>18,581</b>

### 3 SALES REVENUE FROM CUSTOMER CONTRACTS

EUR 1,000	2019	2018
<b>Revenue<sup>1 2</sup></b>	<b>1,060,949</b>	<b>959,667</b>
<b>Attributable to</b>		
Revenue recognition at a point in time	214,614	139,210
Revenue recognition over time	835,885	805,423
Other revenue	10,450	15,033
<b>Total</b>	<b>1,060,949</b>	<b>959,667</b>

<sup>1</sup> A breakdown of revenue by segment is reported in Note 1 Segment information.

<sup>2</sup> The allocation of revenue was refined in connection with the change in the segment structure.

Sales revenue for the following SRV project types is recognised at a point in time:

Developer-contracted residential project and commercial project

Sales revenue for the following SRV project types is recognised over time:

Fixed-price contract, project management contract, turnkey contract (overall responsibility for the construction), alliance contract, residential development project, commercial development project and shopping centre management.

EUR 1,000	2019	2018
<b>Assets and liabilities based on customer contracts:</b>		
The Group's trade receivables and trade payables are mainly based on customer contracts. The Group's balance sheet includes the gross amount due related to customer contracts and other short-term advance payments.		
Gross amount due based on customer contracts	12,545	16,037
Advance payments related to customer contracts	74,116	119,675

EUR 1,000	2019	2018
<b>Sales revenue recognised related to liabilities based on customer contracts</b>		
Sales revenue recognised that was included in contract-based liabilities at the beginning of the period	119,675	81,311
Sales revenue recognised for performance obligations fulfilled in earlier periods	16,037	36,583

#### Customer contract performance obligations and significant judgment-based solutions

The Group's most common project types are: fixed-price contract, project management contract, turnkey contract (overall responsibility for the construction), alliance contract, residential development project, commercial development project, developer-contracted residential project and commercial project.

In SRV's contractor agreements and development projects, the management tasks and structural engineering work of a construction or renovation project management contract concerning a property owned by the customer have typically been agreed with the customer. Contract projects may include a number of different work stages and tasks. These mainly, however, form a single integrated entity that is handled as one performance obligation.

In developer-contracted projects, buyers of apartments may be offered a parking space or a removal service. In that case, the parking space and removal service are considered to be separate performance obligations. Typically, these are handed over and recognised as revenue at the same time as the apartment itself. Any possible consideration exemptions are equivalent to discounts and these are taken into account as an adjustment to the selling price.

The Group's contract projects include variable considerations resulting, for example, from penalties or from undershooting or overshooting the target price. Group management monitors and assesses variable considerations at the end of each reporting period. The transaction price used in revenue recognition is based on the most likely estimate. Of the estimated amount of variable consideration, only that portion is included in the transaction price and revenue only recognised up to an amount such that it is highly likely that no significant reversal will have to be made to the amount of accrued recognised sales revenue.

Development and developer-contracted projects also include variable considerations that may result, for example, from delay penalties and lease liabilities. Recognition of revenue is deferred for the estimated rental liability and this estimated share of project revenue is recognised as an advance received. Rental security deposits reduce project-related advances received. Uncertainties associated with signed lease agreements are taken into account in recognition of revenue.

Assets recognised as revenue over time are controlled by the customer, and the revenue and expenses of these customer projects are recognised as revenue and expenses based on percentage of completion, when the outcome of the project can be reliably estimated. Percentage of completion is determined by calculating for each project the share of expenses accrued by the balance sheet date relative to total expenses estimated for each project. The amount corresponding to the percentage of completion is recognised as revenue. When it is probable that total costs necessary to complete a project will exceed total revenue obtained from the project, the expected loss is recognised immediately as an expense. If the expenses and recorded profits arising from a customer project exceed the amount of progress billings, the difference is disclosed in the balance sheet item "trade and other receivables". If expenses and recorded profits arising from a customer project are less than the amount of progress billings, the difference is disclosed in the balance sheet items "trade and other payables". Tables of payments are used in customer billing, and terms of payment for contracts typical for the industry are agreed.

Customer projects recognised as revenue at a point in time are recognised after control of the asset has been transferred and at the earliest after the completion of the project. The share of revenue and expenses corresponding to the percentage of sale at the time of completion is recognised as revenue for the projects.

Development and developer-contracted projects may include a separate financing component. A significant financing component may arise in factoring projects in which the factoring costs are charged from the client. On average, the construction time in Group factoring and developer contracting projects is less than two years, in which case the average financing period is less than a year. In these, the



Group will apply the “practical expedient” for periods of less than a year 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 is applied and the item recognised as a reduction in revenue and an adjustment of interest income on financial items.

Customer project 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 will be used during the two years following 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.

The plots of development projects are recognised as revenue over time. The timing of the revenue recognition of plots is always assessed on a case-by-case basis, however.

EUR 1,000

Transaction price allocated to the remaining performance obligations of customer contracts		Within 1 year	Within 2 years	Within 3 years	Within 4 years
		62%	34%	4%	0%
The aggregate amount of the transaction price allocated to long-term customer project contracts that are partly or completely unfulfilled	1,081,581	677,912	364,748	38,921	0

In practice, table reflects the amount of order backlog sold and its recognition as revenue in future years.

#### Assets from obtaining or fulfilling customer contracts

Sales commissions may be associated with projects recognised as revenue over time. Expenses arising from obtaining these contracts are capitalised in project costs and recognised as an expense over the term of the contract. During the reporting period and in the comparison period, the Group did not have any related assets.

## 4 OTHER OPERATING INCOME

EUR 1,000	2019	2018
Capital gains on sales of property, plant and equipment and intangible assets	84	315
Rental income	529	492
Capital gain on sales of subsidiary	0	14,868
Other income	14	1,251
<b>Total</b>	<b>627</b>	<b>16,926</b>

## 5 OTHER OPERATING EXPENSES

EUR 1,000	2019	2018
Rental expenses	889	2,992
Voluntary indirect personnel expenses	2,163	2,468
Car and travel expenses	1,035	1,154
Entertainment and marketing	1,053	1,237
Communications and IT	3,182	2,763
Other external services	3,369	2,264
Other fixed expenses	1,731	5,398
Forward deal of currency hedging	3,847	-568
<b>Total</b>	<b>17,268</b>	<b>17,708</b>

#### Auditing fees

EUR 1,000	2019	2018
Audit	443	282
Auditors' statements	31	80
Tax services	16	19
Other services	917	48
<b>Total</b>	<b>1,407</b>	<b>429</b>

PricewaterhouseCoopers Oy has provided non-audit services to the entities of SRV Group in total of 964 thousand euros during financial year 2019 (147 thousand). The increase is mainly due to the consultancy costs related to the restructuring program announced in Q3/2019 interim report.

## 6 DEPRECIATION AND IMPAIRMENTS

EUR 1,000	2019	2018
<b>Depreciation, excluding Right-of-use asset</b>		
Intangible assets		
Other intangible assets	576	490
Property, plant and equipment		
Buildings and structures	615	629
Machinery and equipment	1,391	2,428
Other tangible assets	84	96
	2,666	3,644
<b>Depreciation, Right-of-use asset</b>		
Land areas	3,761	-
Buildings and structures	1,428	-
Machinery and equipment	849	-
Other tangible assets	0	-
	6,038	-
<b>Depreciations</b>	<b>8,705</b>	<b>3,644</b>
<b>Impairment in associated and joint ventures<sup>1</sup></b>	<b>81,339</b>	<b>1,642</b>

<sup>1</sup> Impairments in 2019 includes EUR 78,395 thousand impairment recognized in assets classified as held for sale (Note 24).

## 7 EMPLOYEE-BENEFIT EXPENSES

EUR 1,000	2019	2018
Wages and salaries <sup>1</sup>	60,972	62,093
Pension expenses – defined contribution plans	10,315	11,185
Share-based incentive scheme	-98	-488
Other indirect personnel expenses	1,874	2,692
<b>Total</b>	<b>73,063</b>	<b>75,482</b>

<sup>1</sup> 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	2019	2018
Construction	867	915
Investments	139	145
Other operations and eliminations	74	68
<b>Total</b>	<b>1,080</b>	<b>1,129</b>

## Share-based incentive schemes

Grant year	2014	2014	2017 <sup>1</sup>	2019 <sup>2</sup>	Total
Reward principle	Set targets	Employment	Set targets	Employment	
Original exercise price	-	3.14	-	1.62	
Dividend and right issue adjusted exercise price					
31.12.2019 <sup>3</sup>	-	2.61	-	1.62	
Subscription period	2014-2016	2015-2021	2017-2019	2021-2026	
Total amount	588,000	720,000	1,000,000	600,000	
<b>Share incentives 1.1.2018</b>	<b>0</b>	<b>432,000</b>	<b>400,566</b>	<b>0</b>	<b>832,566</b>
Additions	0	0	34,500	0	34,500
Share incentives used	0	0	0	0	0
Share incentives returned or expired	0	0	306,066	0	306,066
<b>Share incentives 31.12.2018</b>	<b>0</b>	<b>432,000</b>	<b>129,000</b>	<b>0</b>	<b>561,000</b>
<b>Share incentives 1.1.2019</b>	<b>0</b>	<b>432,000</b>	<b>129,000</b>	<b>0</b>	<b>561,000</b>
Additions	0	0	0	600,000	600,000
Share incentives used	0	0	0	0	0
Share incentives returned or expired	0	432,000	16,350	0	448,350
<b>Share incentives 31.12.2019</b>	<b>0</b>	<b>0</b>	<b>112,650</b>	<b>600,000</b>	<b>712,650</b>
IFRS-Costs 2018, EUR 1,000*	247	-36	277	0	488
IFRS-Costs 2019, EUR 1,000*	0	0	140	-42	98
Shares granted based on incentives, 2018	0	0	0	0	0
Shares granted based on incentives, 2019	0	0	0	0	0

<sup>1</sup> 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 and 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 zero and EUR 191 thousand in 2018 in the consolidated financial statements.

<sup>2</sup> The Board of Directors of SRV Group Plc has made the decision for a share-based incentive scheme for the President & CEO for 2019-2026. Under the scheme, Saku Sipola has been given 600,000 acquisition rights, entitling him to acquire the number of SRV Group Plc's shares corresponding to the acquisition rights EUR 1.62 per share. Under the scheme, new shares or treasury shares in the possession of the company can be issued. The company's Board of Directors will make a decision on the manner of implementation separately each time. Under the terms of the scheme, the acquired shares are subject to a transfer restriction, which is valid for two years from the acquisition of the shares. The acquisition rights can be exercised in three two-year long exercise periods, the first of which begins on 1 March 2021 and ends on 28 February 2023, the second begins on 1 September 2022 and ends on 31 August 2024, and the third begins on 1 September 2024 and ends on 31 August 2026. During each exercise period, the acquisition rights holder is entitled to exercise 200,000 acquisition rights. The total recognised IFRS cost of the incentive scheme 2019-2026 is approximately EUR 0.3 million.

<sup>3</sup> 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.

## 8 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.

## 9 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2019	2018
<b>Financial income</b>		
Interest income from associated and joint venture companies	2,670	4,098
Interest income from the other receivables	997	972
Financial assets and liabilities at fair value	0	0
Foreign exchange gains	4,346	0
Other financial income	429	471
<b>Total</b>	<b>8,441</b>	<b>5,541</b>
<b>Financial expenses, excluding Lease Liabilities</b>		
Expenses for financial liabilities at amortised cost	-13,082	-13,756
Financial assets and liabilities at fair value	-2,122	-579
Foreign exchange losses	0	-3,474
Other financial expenses <sup>1</sup>	-16,025	-5,226
Financial expenses, Lease Liabilities		
Interests expences	-6,517	-
<b>Total</b>	<b>-37,745</b>	<b>-23,036</b>
<b>Financial income and expenses, total</b>	<b>-29,304</b>	<b>-17,495</b>

<sup>1</sup> Other financial expenses include impairment losses of EUR 8.4 million on financial assets of associated companies and joint ventures and additional financial commitment of EUR 2.4 million of associated companies and joint ventures.

## 10 INCOME TAXES

### Income taxes in the income statement

EUR 1,000	2019	2018
Current taxes	346	691
Taxes for previous financial years	178	-65
Other taxes	51	0
Deferred taxes, Right-of-use asset	-1,043	0
Deferred taxes	-18,276	-6,683
<b>Total</b>	<b>-18,743</b>	<b>-6,057</b>
Effective income tax rate	15.3%	16.2%

The income taxes in the consolidated income statement differ from the statutory income tax rate in Finland (20 percent in 2019 and in 2018) as follows:

### Income tax reconciliation

EUR 1,000	2019	2018
<b>Profit before taxes</b>	<b>-122,351</b>	<b>-37,275</b>
Income taxes at statutory tax rate in Finland	-24,470	-7,455
Differing tax rates of foreign subsidiaries	-31	-25
Tax exempt income	-647	-2,987
Realization of previously unrecognized deferred tax receivables	-277	-
Realization of temporary accrual differences arising from business combinations recognized as deferred tax receivables	-	-
Non-deductible expenses	0	443
Unrecognized and reversed tax losses	7,062	1,421
Taxes for previous financial years	178	-65
Share of profits of associated and joint venture companies	-557	2,612
Adjustments	0	0
<b>Income taxes</b>	<b>-18,743</b>	<b>-6,057</b>

Income taxes recognized in other items in comprehensive income were not material.

### The income tax credited directly to equity

EUR 1,000	2019	2018
Hybrid Bond interests tax	279	810
<b>Total</b>	<b>279</b>	<b>810</b>

## 11 EARNINGS PER SHARE

EUR 1,000	2019	2018
Profit/loss for the year attributable to equity holders of the parent	-104,355	-30,121
Profit/loss for the year attributable to Hybrid Bond investors, tax adjusted	-5,666	-3,150
Profit/loss for the calculate the earnings per share	-110,022	-33,271
Number of shares	2019	2018
Weighted average number of shares outstanding, (1,000 )	59,581	59,581
Weighted average number of shares outstanding (diluted), (1,000)	59,581	59,581
Earnings per share attributable to equity holders of the parent company, eur per share	-1.85	-0.56
Earnings per share attributable to equity holders of the parent company (diluted), eur per share*	-1.85	-0.56

## 12 DIVIDEND PER SHARE

Dividends were not paid in 2019. The dividends paid in 2018 were EUR 0.06 per share, totalling EUR 3.6 million. A proposal for the Annual General Meeting on 26 March 2020 is that dividend from the year 2019 will not be paid.

## 13 PROPERTY, PLANT AND EQUIPMENT

### Tangible assets, excluding Right-of-use asset 2019

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Historical cost, 1.1.	41	10,315	17,458	779	28,593
Increases	0	0	1,580	191	1,771
Decreases	0	0	-297	0	-297
Transfer	0	0	0	0	0
Foreign exchange differences	0	6	70	30	105
Historical cost, 31.12.	41	10,321	18,811	999	30,172
Accumulated depreciation and impairments, 1.1.	0	-9,107	-13,048	-405	-22,560
Depreciation	0	-615	-1,391	-84	-2,091
Accumulated depreciations of decreases	0	0	6	0	6
Foreign exchange differences	0	-7	-64	-9	-80
Transfer	0	0	0	0	0
Accumulated depreciation and impairments, 31.12.	0	-9,729	-14,487	-497	-24,714
Carrying amount, 31.12	41	592	4,323	502	5,456

### Tangible assets, Right-of-use asset 2019

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
Historical cost, 1.1.	0	0	0	0	0
Increases	0	11,502	2,990	0	14,492
Decreases	0	0	-209	0	-209
Transfer	0	0	0	0	0
Foreign exchange differences	0	0	0	0	0
Historical cost, 31.12.	0	11,502	2,782	0	14,283
Accumulated depreciation and impairments, 1.1.	0	0	0	0	0
Depreciation	0	-1,428	-849	0	-2,277
Accumulated depreciations of decreases	0	0	0	0	0
Writedowns	0	0	0	0	0
Transfer	0	0	0	0	0
Foreign exchange differences	0	-1	0	0	-1
Accumulated depreciation and impairments, 31.12.	0	-1,429	-849	0	-2,278
Carrying amount, 31.12	0	10,073	1,933	0	12,005



## Tangible assets 2018

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Total
<b>Historical cost, 1.1.</b>	<b>271</b>	<b>10,758</b>	<b>36,360</b>	<b>998</b>	<b>48,387</b>
Increases	0	0	3,841	1	3,842
Decreases	-230	-437	-22,673	-177	-23,516
Transfer	0	0	0	0	0
Foreign exchange differences	0	-6	-71	-44	-121
<b>Historical cost, 31.12.</b>	<b>41</b>	<b>10,315</b>	<b>17,458</b>	<b>779</b>	<b>28,593</b>
<b>Accumulated depreciation and impairments, 1.1.</b>	<b>0</b>	<b>-8,699</b>	<b>-28,263</b>	<b>-379</b>	<b>-37,341</b>
Depreciation	0	215	17,576	61	17,852
Accumulated depreciations of decreases	0	0	0	0	0
Foreign exchange differences	0	0	2	-1	1
Transfer	0	0	0	0	0
<b>Accumulated depreciation and impairments, 31.12.</b>	<b>0</b>	<b>-9,107</b>	<b>-13,048</b>	<b>-405</b>	<b>-22,560</b>
<b>Carrying amount, 31.12.</b>	<b>41</b>	<b>1,207</b>	<b>4,410</b>	<b>374</b>	<b>6,032</b>

SRV Group had no significant value of finance lease agreements in 2018.

## 14 GOODWILL AND OTHER INTANGIBLE ASSETS

### 2019

EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	Total
<b>Historical cost, 1.1.</b>	<b>934</b>	<b>1,734</b>	<b>3,461</b>	<b>6,130</b>
Foreign exchange differences	0	0	1	1
Increases	0	0	1,191	1,191
Decreases	-23	0	-750	-773
<b>Historical cost, 31.12.</b>	<b>911</b>	<b>1,734</b>	<b>3,904</b>	<b>6,549</b>
<b>Accumulated amortisation, 1.1.</b>	<b>-566</b>	<b>0</b>	<b>-2,269</b>	<b>-2,834</b>
Amortisation	-1	0	-575	-576
Accumulated depreciations of decreases	-14	0	159	145
Write downs	0	0	0	0
Foreign exchange differences	0	0	-39	-39
<b>Accumulated amortisation, 31.12.</b>	<b>-581</b>	<b>0</b>	<b>-2,724</b>	<b>-3,304</b>
<b>Carrying amount, 31.12.</b>	<b>330</b>	<b>1,734</b>	<b>1,180</b>	<b>3,244</b>

### 2018

EUR 1,000	Intangible rights	Goodwill	Other capitalised expenditure	Total
<b>Historical cost, 1.1.</b>	<b>934</b>	<b>1,734</b>	<b>2,922</b>	<b>5,590</b>
Foreign exchange differences	0	0	-3	-3
Increases	0	0	826	826
Decreases	0	0	-284	-284
<b>Historical cost, 31.12.</b>	<b>934</b>	<b>1,734</b>	<b>3,461</b>	<b>6,130</b>
<b>Accumulated amortisation, 1.1.</b>	<b>-527</b>	<b>0</b>	<b>-1,818</b>	<b>-2,344</b>
Amortisation	-1	0	-489	-490
Accumulated depreciations of decreases	-38	0	0	-38
Write downs	0	0	0	0
<b>Accumulated amortisation, 31.12.</b>	<b>-566</b>	<b>0</b>	<b>-2,269</b>	<b>-2,834</b>
<b>Carrying amount, 31.12.</b>	<b>369</b>	<b>1,734</b>	<b>1,193</b>	<b>3,296</b>

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

Goodwill EUR 1,000	2019	2018
Operations in Finland		
SRV Rakennus Oy	1,734	1,734
<b>Total</b>	<b>1,734</b>	<b>1,734</b>

### 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 five years strategy period.

In the impairment test of goodwill performed in December 2019, 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) before taxes. 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.

# 15 FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES

2019

EUR 1,000	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
<b>Non-current financial asset</b>					
Long-term interest bearing receivables	0	15,857	15,857	15,857	18
Loan receivables from associated companies and joint ventures	0	43,995	43,995	43,995	21
Other financial assets	11,858	0	11,858	11,858	17
<b>Current financial assets</b>					
Accounts receivables	0	46,923	46,923	46,923	22, 29
Construction contracts receivables	0	12,545	12,545	12,545	22
Other interest bearing receivables	0	38	38	38	22
Derivative instruments	-402	0	-402	-402	31
Loan receivables from associated companies and joint ventures	0	62	62	62	21
Cash and cash equivalents	0	27,728	27,728	27,728	23
<b>Total</b>	<b>11,456</b>	<b>147,148</b>	<b>158,604</b>	<b>158,604</b>	
<b>Non-current financial liabilities</b>					
Interest bearing liabilities	0	276,453	276,453	262,977	27
Derivative instruments	8,799	0	8,799	8,799	31
Other non-current liabilities	0	12,059	12,059	12,059	28
<b>Current financial liabilities</b>					
Interest bearing liabilities	0	23,160	23,160	23,160	27
Accounts payables	0	81,101	81,101	81,101	28
<b>Total</b>	<b>8,799</b>	<b>392,774</b>	<b>401,573</b>	<b>388,097</b>	

## 2018

EUR 1,000	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities measured at amortised cost	Carrying amounts by balance sheet item	Fair value	Note
<b>Non-current financial asset</b>					
Long-term interest bearing receivables	0	727	727	727	18
Loan receivables from associated companies and joint ventures	0	67,270	67,270	67,270	21
Other financial assets	18,320	0	18,320	18,320	17
<b>Current financial assets</b>					
Accounts receivables	0	47,295	47,295	47,295	22, 29
Construction contracts receivables	0	16,037	16,037	16,037	22
Other interest bearing receivables	0	6	6	6	22
Derivative instruments	1,384	0	1,384	1,384	31
Loan receivables from associated companies and joint ventures	0	4,596	4,596	4,596	21
Cash and cash equivalents	0	93,074	93,074	93,074	23
<b>Total</b>	<b>19,705</b>	<b>229,004</b>	<b>248,709</b>	<b>248,709</b>	
<b>Non-current financial liabilities</b>					
Interest bearing liabilities	0	284,074	284,074	279,720	27
Derivative instruments	6,677	0	6,677	6,677	31
Other non-current liabilities	0	2,295	2,295	2,295	28
<b>Current financial liabilities</b>					
Interest bearing liabilities	0	91,794	91,794	91,794	27
Accounts payables	0	79,503	79,503	79,503	28
<b>Total</b>	<b>6,677</b>	<b>464,342</b>	<b>471,019</b>	<b>466,665</b>	

Carrying amounts do not differ substantially from Fair value excluding bonds. The fair values of the bonds are based on 31.12.2019 market prices. Counterparty 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.

## 16 SHARES IN ASSOCIATED AND JOINT VENTURE COMPANIES

### Shares in associated and joint venture companies

EUR 1,000	2019	2018
Shares in associated companies	53,136	43,946
Shares in joint venture companies	6,395	136,212
<b>Total</b>	<b>59,530</b>	<b>180,159</b>

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

### Information about the substantial associated companies

Name	Domicile	Direct ownership (%)	2019	2018
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. SRV will receive a proportion of the project's income corresponding at least to its holding. The final distribution of the project's income is subject to conditions that entitle SRV to a higher proportion of the profits than its investment holding should income exceed the pre-agreed level.

### Information about the substantial joint venture companies

Name	Domicile	Direct ownership (%)	2019	2018
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. Netherland Pearl Plaza B.V and REDI as well as the KSK Parking I Ky joint venture investments have been classified as assets held for sale in the financial statements of 31 December 2019.

### Financial information about the substantial associated companies

EUR 1,000	Jupiter Realty 1 B.V		Netherland Pearl Plaza B.V		REDI	
	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	-	-	-	10,483	-	4,922
Other short term assets	13,722	11,377	-	1,652	-	11,227
<b>Short term asset</b>	<b>13,722</b>	<b>11,377</b>	-	<b>12,135</b>	-	<b>16,149</b>
<b>Long term assets</b>	<b>175,104</b>	<b>151,925</b>	-	<b>133,441</b>	-	<b>485,369</b>
<b>Long term liabilities</b>	<b>8,295</b>	<b>9,520</b>	-	<b>7,505</b>	-	<b>11,942</b>
Long term financial liabilities	-	-	-	87,516	-	252,972
Long term liabilities	127,179	117,188	-	-	-	-
<b>Other long term liabilities</b>	<b>127,179</b>	<b>117,188</b>	-	<b>87,516</b>	-	<b>252,972</b>
Net sales	0	0	-	19,389	-	6,061
Depreciation	-	-	-	-3,104	-	-80
Interest income	-	-	-	2,152	-	120
Interest expenses	-	-	-	-8,793	-	-376
Income taxes	-	-	-	781	-	76
<b>Profit for the financial period</b>	<b>2,096</b>	<b>-12,964</b>	-	<b>-2,384</b>	-	<b>-1,674</b>
Other comprehensive income	5,362	-6,187	-	-3,763	-	-
<b>The reconciliation of the associated companies financial information to Group's unbooked book value:</b>						
Group's ownership, %	45	45	-	50	-	40
Group's share of net assets	24,008	16,467	-	25,278	-	95,209
Adjustment to purchase price of associated companies	15,381	15,381	-	-	-	853
The combined share of cumulative indirect profit	-3,650	-5,241	-	-	-	-
<b>The balance sheet value of the associated companies in Group balance sheet</b>	<b>35,738</b>	<b>26,606</b>	-	<b>25,278</b>	-	<b>96,062</b>



## Summary of financial information

	Other associated companies		Other joint venture companies	
	2019	2018	2019	2018
The Group's share of the profit <sup>1</sup>	30	-2,960	992	-2,401
The total book value in Group's balance sheet	17,397	17,340	6,395	14,873

## Share of profits of associated and joint venture companies

	2019	2018
The substantial associated company Jupiter Realty 1 B.V	943	-5,834
Netherland Pearl Plaza B.V joint venture company classified as held for sale	3,348	-1,192
REDI joint venture company classified as held for sale	-2,529	-674
Other associated companies	30	-2,960
Other joint venture companies <sup>1</sup>	992	-2,401
<b>Total</b>	<b>2,784</b>	<b>-13,061</b>

## Other comprehensive income

	2019	2018
The substantial associated company Jupiter Realty 1 B.V	5,362	-6,187
Netherland Pearl Plaza B.V joint venture company classified as held for sale	3,647	-3,763
REDI joint venture company classified as held for sale	-	-
Other associated companies	335	-391
Other joint venture companies	-196	110
<b>Total</b>	<b>9,148</b>	<b>-10,231</b>

<sup>1</sup> Includes consolidation of the result of assets classified as held for sale.

## 17 OTHER FINANCIAL ASSETS

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

EUR 1,000	2019	2018
Opening balance at 1.1.	18,320	15,991
Increases	61	2,398
Decreases	-6,523	-69
Closing balance, 31.12.	11,858	18,320
Non-current	11,858	18,320
Current	0	0
Unquoted shares	11,858	18,320

## 18 RECEIVABLES

EUR 1,000	Carrying amount 2019	Carrying amount 2018
Non-current receivables		
Loan receivables related to a construction project	11,817	-
Long-term interest bearing receivables	4,039	727
Total	15,857	727

## 19 DEFERRED TAX ASSETS AND LIABILITIES

### 2019

EUR 1,000	1.1.	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Acquisitions and disposals of business	Exchange rate difference	31.12.
<b>Deferred tax assets</b>							
Tax losses	12,653	21,238	0	0	0	0	33,891
Employee-benefits	18	-18	0	0	0	0	0
Unrealised losses of financial instruments	202	0	0	0	0	0	202
Accrual differences in developer contracting	744	-381	0	0	0	0	363
Undeductible depreciations in taxation	3,854	-2,721	0	0	0	0	1,133
Other temporary differences	1,083	-2,478	0	926	0	227	-241
Right-of-use assets deferred tax receivables	0	1,043	0	0	0	0	1,043
<b>Total</b>	<b>18,555</b>	<b>16,682</b>	<b>0</b>	<b>926</b>	<b>0</b>	<b>227</b>	<b>36,391</b>
<b>Deferred tax liabilities</b>							
Borrowing costs	1,021	-3	0	0	0	0	1,018
Cumulative depreciation differences	104	7	0	0	0	0	111
Other temporary differences	3,950	-2,640	0	0	0	0	1,310
<b>Total</b>	<b>5,075</b>	<b>-2,636</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,439</b>
<b>Net deferred taxes</b>	<b>13,480</b>	<b>19,318</b>	<b>0</b>	<b>926</b>	<b>0</b>	<b>227</b>	<b>33,952</b>

### 2018

EUR 1,000	1.1.	Recognised in the income statement	Recognised in comprehensive income	Recognised in equity	Acquisitions and disposals of business	Exchange rate difference	31.12.
<b>Deferred tax assets</b>							
Tax losses	4,707	7,479	0	0	476	0	12,653
Employee-benefit	36	-18	0	0	0	0	18
Unrealised losses of financial instruments	274	-72	0	0	0	0	203
Accrual differences in developer contracting	1,244	-500	0	0	0	0	744
Undeductible depreciations in taxation	3,906	-1	0	0	-61	0	3,854
Other temporary differences	1,523	-260	0	-22	0	-158	1,083
<b>Total</b>	<b>11,690</b>	<b>6,628</b>	<b>0</b>	<b>-22</b>	<b>417</b>	<b>-158</b>	<b>18,555</b>
<b>Deferred tax liabilities</b>							
Borrowing costs	1,066	-45	0	0	0	0	1,021
Cumulative depreciation differences	0	104	0	0	0	0	104
Other temporary differences	4,063	-113	0	0	0	0	3,950
<b>Total</b>	<b>5,130</b>	<b>-54</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,075</b>
<b>Net deferred taxes</b>	<b>6,561</b>	<b>6,683</b>	<b>0</b>	<b>-22</b>	<b>417</b>	<b>-158</b>	<b>13,480</b>

On 31 December 2019, The Group's accumulated losses for which no deferred tax assets have been recognised were 15,421 thousand euros (6,803 thousand euros) because realisation of the tax benefit is not considered probable.

Deferred tax assets have been recognized for right-of-use 1,043 thousand euros.

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.

## 20 INVENTORIES

EUR 1,000	2019	2018
Inventories excluding Right-of-use assets	376,121	438,199
Raw materials and consumables	134	27
Work in progress	190,170	261,194
Land areas and plot-owning companies	147,084	145,298
Shares in completed housing corporations and real estate companies	33,775	25,097
Advance payments	4,065	6,095
Other inventories	893	489
Inventories, Right-of-use asset	132,904	0
<b>Inventories, total</b>	<b>509,025</b>	<b>438,199</b>

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. Capitalisation rate used was 4,5% on average. During the financial year capitalized interests the amount of which was EUR 618 thousand (2018: EUR 1,164 thousand) was included in the value of work in progress.

The carrying amount of completed inventories used as security for loans in 2019 amounted to EUR 15,772 thousand EUR (16,155), the carrying amount of inventories under construction in 2019 was EUR 93,151 thousand (2018 EUR 131,583 thousand) and the carrying amount of land area was EUR 34,867 thousand euros (15,218).

During the financial year 2019 there was impairment losses in land area for 13,935 thousand euros International operations and in shares in completed housing companies for 1,000 thousand euros. During the financial year 2018 there was impairment losses in land area for 2,080 thousand euros. There was no reversed impairment losses in financial year 2019 and 2018.

## 21 LOAN RECEIVABLES FROM ASSOCIATED COMPANIES AND JOINT VENTURES

EUR 1,000	2019	2018
Long term loan receivables from associated companies	47,578	50,114
Increases	4,585	13,614
Decreases	-7,573	-15,746
Transfer from the short-term	0	0
Foreign exchange difference	-755	-404
<b>Total</b>	<b>43,835</b>	<b>47,578</b>
Long term loan receivables from joint ventures	19,692	16,664
Increases	150	3,933
Decreases	-19,682	-905
<b>Total</b>	<b>160</b>	<b>19,692</b>
Short term loan receivables from joint ventures	4,596	0
Increases	0	4,596
Decreases	-4,535	0
Transfer to the long-term	0	0
<b>Total</b>	<b>62</b>	<b>4,596</b>

## 22 ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES

	Carrying amount 2019	Carrying amount 2018
EUR 1,000		
Accounts receivables	46,923	47,295
Loan receivables	38	6
Gross amount due from customers related to construction contracts	12,545	16,037
Accrued income and prepaid expenses	56,917	52,004
Other receivables	2,250	1,410
<b>Total</b>	<b>118,673</b>	<b>116,750</b>
Interest bearing receivables	38	6
Non-interest bearing receivables	118,635	116,744
<b>Total</b>	<b>118,673</b>	<b>116,750</b>

Carrying amount does not substantially differ from fair value. In 2019 the Group's accounts receivables were on average EUR 47 million. The accounts receivables are non-interest bearing and they are normally about 21 days by age. More information about credit risks in note 29.

## 23 CASH AND CASH EQUIVALENTS

EUR 1,000	2019	2018
Cash and cash equivalents	27,728	93,074
<b>Total</b>	<b>27,728</b>	<b>93,074</b>

## 24 ASSETS CLASSIFIED AS HELD FOR SALE

EUR 1,000	2019	2018
Shares in associated and joint venture companies		
REDI shopping centre and Parking	22,032	-
Pearl Plaza shopping centre	25,322	-
Tampereen Central Deck and Arena investments	19,472	-
Loan and financial receivables, REDI Parking	2,500	-
<b>Total</b>	<b>69,326</b>	<b>-</b>

SRV's Board of Directors has decided to classify the Investments segment's REDI and Parking, Pearl Plaza shopping centre and the Tampere Central Deck and Arena associated company and joint venture investment as assets held for sale.

In connection with the classification, the said investments were measured at the lower of their carrying amount and their probable selling price less costs of sale. As a result of the classification, an impairment of EUR 71.5 million was recognised for the REDI shopping centre and Parking investment and an impairment of EUR 6.9 million for the Pearl Plaza shopping centre investment. The impairments relate to the assumed or known selling price of the said investments, of which the REDI shopping centre's assumed selling price includes a portion of the transaction price amounting to approximately EUR 8.5 million payable in connection with the sale and an earn-out of approximately EUR 13.5 million, which is measured based on the company's best estimate of the probable value. The final value of the earn-out may be up to EUR 50 million and the value will be determined upon the new owners selling the shopping centre within a maximum of seven years. In the future, the company will estimate the fair value of the earn-out receivable at each reporting date and will recognise any change in fair value through profit or loss.

At the closing date, accumulated foreign exchange rate differences recognised in other comprehensive income on assets classified as held for sale amounted to 891 thousand euros.

## 25 EQUITY

### Share capital and invested free equity fund

	Number of shares
<b>1.1.2018</b>	<b>59,580,976</b>
Return of treasury shares	0
Transfer of treasury shares	0
Share issue	0
<b>31.12.2018</b>	<b>59,580,976</b>
<b>1.1.2019</b>	<b>59,580,976</b>
Return of treasury shares	0
Transfer of treasury shares	0
Share issue	0
<b>31.12.2019</b>	<b>59,580,976</b>

### Shares and share capital

On 31 December 2019, the total number of SRV Group Plc's shares outstanding was 59,580,976 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.

At the end of December there were 918,599 own shares in Group's possession.

The Board of Directors' authorisations to decide on a share issue and issue of special rights as well as the acquisition of treasury shares are described in the Report of the Board of Directors. After the end of the review period, SRV's Board of Directors decided, on 6 February 2020, to request the 2020 Annual General Meeting for an authorisation to carry out a targeted share issue of approximately EUR 50 million (rights issue).

### 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.

### Translation difference

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



## Hybrid bond

Equity includes EUR 24.5 million in hybrid bonds issued in 2016 (EUR 45.0 million). The bond has an annual coupon rate of 8.75 per cent.

On 16 May 2019, SRV issued a EUR 58.4 million hybrid bond with a fixed rate of 12.0 per cent.

The hybrid bond has no maturity date, but the company has the right to redeem it four years after issue. The hybrid bond is unsecured and subordinated to other debt instruments. The hybrid bonds do not confer shareholders' rights to bondholders.

SRV's Board of Directors proposes that the 2020 repayment of the 2016 hybrid bond (of which EUR 24.5 million is outstanding) and the payment of interest on hybrid bonds for the most recent re-set period be deferred.

After the review period, SRV's Board of Directors decided, on 6 February 2020, to pursue a targeted share issue in which the holders of hybrid bonds will be offered the opportunity to convert the bonds into new SRV shares. The size of the pursued share issue would correspond to the total nominal amount of the hybrid bonds and accrued interest, and would be approximately EUR 91 million.

As a result of deferred interest and principal repayments, the interest rate of the 2016 hybrid bond remaining after the conversion into shares will increase from 8.75% to the annual fixed interest rate, which equals the four-year swap rate plus an annual margin of 5.00% plus a reoffer spread of 8.819% per annum. Each amount of deferred interest on the 2016 hybrid bond will bear interest (as if it constitutes a principal amount) at an interest rate which equals the then-current interest rate on the 2016 hybrid bond. Deferred interest will not be capitalised to the principal amount of the 2016 hybrid bond.

On 6 February 2020, SRV agreed with its principal lenders that no interest or principal repayments of the hybrid bonds may be made without the prior written consent of SRV's principal lenders, other than (i) any payment of interest which cannot be deferred, provided that such payment is funded through qualifying subordinated instruments and (ii) any payment of interest or repayment of principal, provided that such payment is funded through qualifying subordinated instruments (other than through the contemplated rights issue). Qualifying subordinated instruments include the amount of the net proceeds of the rights issue exceeding EUR 42.5 million, any other equity raised by SRV after the completion of the rights issue, and any hybrid bonds or capital loans with a maturity date or first call date no earlier than on 31 December 2022.

## Dividends

The Board of Directors will not propose a dividend to be paid from the year 2019.

## 26 PROVISIONS

	Warranty provisions	10-year warranty	Other provisions for construction contracts	Other provisions	Total
<b>2019</b>					
EUR 1,000					
<b>1.1.</b>	<b>11,614</b>	<b>7,428</b>	<b>534</b>	<b>0</b>	<b>19,576</b>
Currency exchange differences	7		32	0	39
Increase in provisions	4,020	414	110	0	4,544
Provisions used	-4,049	-178	-143	0	-4,370
Reversals of unused provisions	-54	0	0	0	-54
<b>31.12.</b>	<b>11,538</b>	<b>7,664</b>	<b>533</b>	<b>0</b>	<b>19,735</b>
Non-current	5,009	5,365	533	0	10,907
Current	6,529	2,299	0	0	8,828
<b>Total</b>	<b>11,538</b>	<b>7,664</b>	<b>533</b>	<b>0</b>	<b>19,735</b>

	Warranty provisions	10-year warranty	Other provisions for construction contracts	Other provisions	Total
<b>2018</b>					
EUR 1,000					
<b>1.1.</b>	<b>9,908</b>	<b>6,236</b>	<b>455</b>	<b>0</b>	<b>16,600</b>
Currency exchange differences	-23	0	-58	0	-81
Increase in provisions	5,480	1,291	359	0	7,129
Provisions used	-3,750	-99	-222	0	-4,072
Reversals of unused provisions	0	0	0	0	0
<b>31.12.</b>	<b>11,614</b>	<b>7,428</b>	<b>534</b>	<b>0</b>	<b>19,576</b>
Non-current	4,922	5,200	534	0	10,656
Current	6,692	2,228	0	0	8,920
<b>Total</b>	<b>11,614</b>	<b>7,428</b>	<b>534</b>	<b>0</b>	<b>19,576</b>

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

### Interest-bearing liabilities, excluding lease liabilities

EUR 1,000	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
<b>Non-current</b>				
Loans from financial institutions	69,392	69,392	11,316	11,316
Bonds	136,526	123,051	174,067	169,713
Housing corporation loans	50,379	50,379	78,260	78,260
Other debt	20,157	20,157	20,431	20,431
<b>Total</b>	<b>276,453</b>	<b>262,977</b>	<b>284,074</b>	<b>279,720</b>
<b>Current</b>				
Loans from financial institutions	4,622	4,622	1,294	1,294
Commercial papers	18,500	18,500	90,500	90,500
Bonds	0	0	0	0
Housing corporation loans	38	38	0	0
<b>Total</b>	<b>23,160</b>	<b>23,160</b>	<b>91,794</b>	<b>91,794</b>

Carrying amounts do not differ substantially from Fair value, excluding bonds. The fair values of the bonds are based on 31.12.2019 market price indications.

### Interest-bearing lease liabilities

2019		Buildings and	Machinery and		
EUR 1,000	Land-Areas	structures	equipment	Others	Total
Non-current	137,352	9,199	1,121	0	147,672
Current	511	1,105	837	0	2,454
<b>Total</b>	<b>137,863</b>	<b>10,304</b>	<b>1,958</b>	<b>0</b>	<b>150,125</b>

In addition to the above-mentioned lease liabilities, the Group has committed to enter into a lease agreement for the two Keilaniemi plots when the City of Espoo transfers the management of the plots to new buyers. By agreement, the transfer of management will take place for the first plot in 2021 and for the second plot in 2023. When management is transferred, the lease liability for the plots will be recognised in the consolidated balance sheet in accordance with IFRS 16 Leases. Before the transfer of management, the company will pay compensation to a plot fund for use of capital. Payment of the transaction price of the plots will be phased so that the total expense of leasing the plots will be approximately EUR 0.4 million in 2020, approximately EUR 0.7 million in 2021–2022, approximately EUR 1.4 million in 2023–2024 and approximately EUR 1.8 million per year from 2025.

## 28 OTHER LIABILITIES

1 000 euroa	Carrying amount 2019	Carrying amount 2018
<b>Non-current</b>		
Derivative liabilities	8,799	6,677
Other liabilities	12,059	2,295
<b>Total</b>	<b>20,858</b>	<b>8,972</b>
<b>Current</b>		
Accounts payables	81,101	79,503
Advance payments related to construction contracts	74,116	119,675
Other advance payments	11,775	8,965
Other current liabilities	33,289	45,345
Accrued expenses and prepaid income	44,024	50,388
<b>Total</b>	<b>244,306</b>	<b>303,876</b>
<b>Accrued expenses and prepaid income</b>		
Wages and salaries and related expenses	12,180	10,719
Interest and other financial liabilities	7,090	8,421
Periodisations of project expenses	22,163	30,061
Other	2,590	1,187
<b>Total</b>	<b>44,024</b>	<b>50,388</b>

## 29 FINANCIAL RISK MANAGEMENT

SRV Group is exposed to a number of financial risks in its business operations. The most significant financial risks are related to interest rate, currency, liquidity and credit. The management of the Group's financial risks is centralised 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 Group's financial risk management is to reduce the uncertainty that changes in the financial markets cause for the Group's result and financial position.

### Interest-rate Risks

The cash flows and fair values of the Group's interest-bearing debts and receivables are susceptible to changes in interest rates. Interest rate risk is composed primarily of the short- and long-term loans connected with the financing of business operations. The Group's financing is divided into general financing and project-specific financing. Construction period financing is typically either refinanced 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 (incl. interest rate derivatives) at 31 December 2019 was 4.6% (2018: 4.0%). 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 on the

closing date was 56%. Interest rate risk is also managed by interest period selection or by derivatives. SRV Group Plc entered into two interest rate swap contracts totalling EUR 100 million in 2015. Swap-ping of interest started in July 2016 and both contracts mature in 2025. Interest rate derivatives are used to hedge against changes in market interest rates, and changes in the fair value of interest rate derivatives are recognised in financial income and expenses for the financial period 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 contracts. Counterparty price quotations are used to determine the fair value of interest rate derivatives. These quotations are based on prevailing market circumstances and generally accepted pricing models. Hedge accounting has not been applied to the interest rate derivatives used. The effect on profit and loss of the fair valuation of interest rate derivatives would have been EUR 5.9 million in the event of a one percentage point increase in interest rates. If interest rates decrease by one percentage point, the effect on profit and loss would have been EUR -6.4 million. A general change in the level of interest rates also has a direct impact on the investment decisions of the Group's customers and thereby cash flows from Group operating activities. A decrease in interest rates is not deemed probable in the current market situation.

The accompanying sensitivity analysis under IFRS 7 contains variable interest rate financial liabilities 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 liabilities include project-specific company loans and variable interest rate loans related to the Group's general financing. Variable interest rate receivables consist of loans given to associated companies. The sensitivity analysis also includes interest rate swap contracts.

### 2019

	Interest risk position	Average interest rate	Average maturity, months	Interest rate sensitivity EUR <sup>1</sup> Financial expenses and income		2018	Interest risk position	Interest rate Sensitivity, EUR	
				-1%	+1%			-1%	+1%
EUR 1,000									
Debt, floating rate	-122,342	2.65%	2.6	0 <sup>3</sup>	-627		-84,984	0 <sup>3</sup>	-442
Derivatives	100,000	-0.31% <sup>2</sup>	3.4	-729	729		100,000	-500	500
Receivables							16,271	0 <sup>3</sup>	94
Total	-22,342			-729	102		31,287	-500	152

<sup>1</sup> 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.

<sup>2</sup> Three and twelve month Euribor forward rates have been used to predict fixing date interest rates in order estimate sensitivity to interest rate changes.

<sup>3</sup> If floating market rates are negative, decrease in market rate does not have effect on interest amount, as under the contracts the reference rate is at least 0%.

## Currency Risks

The Group is exposed to currency risks related to the international business operations' commercial cash flows, financing of projects during construction, currency-denominated equity, and investments in foreign project companies and associated companies. The most significant currency to pose currency risk in 2019 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-denominated cash flows to the finance department. The objective of currency risk management is to minimise the effect of currency rate fluctuations on the Group's business earnings and equity. Derivatives or currency loans can be used as hedging instruments in accordance with Group policy to manage currency risk. On the closing date, the Group had short-term foreign exchange option contracts for hedging against currency risk, with capital totalling EUR 50 million.

Currency risks are divided into transaction risk and translation risk. Transaction risk relates to foreign currency-denominated business (sales and purchases) and financing (loans) cash flows. Translation risk relates to investments in foreign subsidiaries, associated companies and project companies in which the functional currency is not the euro, and whose imputed effects are reflected in translation differences in the Group's consolidated equity. Currency risk is also present in project financing in Russia, as the value of project collateral can be affected by changes in the value of the ruble. 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 ruble-denominated currency position that poses a translation risk was EUR 107.3 million. The ruble-denominated currency position that poses transaction risks was EUR 80.2 million. At the closing date, the currency hedging position against transaction risk was EUR 50 million. The change in foreign exchange rates increased the value of net investments in the Group's equity by a total of EUR 20.0 million (2018: EUR -25.7 million) compared with the end of the previous year, and consisted of EUR 11.5 million from changes posing translation risks, EUR 11.9 million from changes posing transaction risks, EUR -3.8 million from foreign currency hedging costs, and EUR 0.4 million from the tax impact of foreign currency hedging.

With regard to translation risk, a ten per cent weakening/strengthening of the ruble against the euro at the closing date would have had a negative/positive impact of approximately EUR 10 million (2018: EUR 8 million) on the Group's equity translation differences. SRV's transaction risk largely comprises the euro-denominated loans of Russian subsidiaries and associated companies partly owned by SRV. A ten per cent weakening in these at the closing date would have had a negative impact of approximately EUR 5.6 million (2018: EUR -1 million) on SRV's financial result and a ten per cent strengthening a positive impact of EUR 5.2 million (2018: EUR 2.8 million). The effect of hedging at the closing date has been taken into account in the sensitivity of the transaction risk.

### Liquidity and Refinancing risks

Liquidity and refinancing risk may have an impact on Group's result, cash flow and the implementation of developer contracting projects if the Group is unable to secure sufficient financing for its operations. Group management monitors continuously the level of financing and takes the necessary measures to ensure sufficient financing. The Group maintains adequate liquidity through efficient cash management.

The Group's main sources of financing are project-specific loans and a committed revolving credit facility. Financing for developer contracting projects is secured by the sales process, project loans and use of the company's general financial reserves. As a rule, the Group mainly starts projects whose financing has been secured. Where appropriate, the sale of individual receivables may be used to manage liquidity within the scope of the available limit. Receivables are transferred with risks and rewards and are not subject to repurchase obligations and are therefore derecognised in full. The arrangement carries the risk that the counterparty to the arrangement may terminate the receivable arrangement unilaterally, whereby receivables can no longer be sold.

The liquidity and refinancing risk indicated by the maturity profile is managed by aligning the maturity of the committed credit lines with the cash flows of debt payments. In the end of the financial year, the Group had available a long-term committed revolving credit facility (EUR 100 million) and an uncommitted commercial paper programme (EUR 100 million) for short-term financing needs. In case the commercial papers could not be renewed, the company was able to use the long-term committed revolving credit facility (EUR 100 million) to pay maturing commercial papers. At end of the financial period, EUR 60 million of the credit facility had been withdrawn. The use of the credit facility is subject to limitations resulting from an interest coverage ratio financial covenant, such that the commercial paper programme (EUR 100 million) and the revolving credit facility (EUR 100 million) can be drawn up to a total amount of EUR 100 million. At the end of the financial year, the company had outstanding commercial papers worth EUR 18.5 million and EUR 10 million available from the credit facility. At the end of December, the company made an agreement with a bank syndicate to restrict the use of this credit facility such that and it can now only be used to refinance commercial papers worth up to EUR 70 million. Sums in excess of this cannot be withdrawn without the unanimous permission of the bank syndicate. At the end of December, EUR 60 million of the credit facility had been withdrawn. The company will not refinance maturing commercial papers within the scope of the commercial paper programme; maturing commercial papers will be paid off in early 2020. The commercial paper programme will be used to a limited extent in the future, due to a new financing agreement signed on 28 February 2020, which will replace the current EUR 100 million revolving credit limit.

On 6 February 2020, the company issued a separate release about significant transactions, preliminary financing agreements and its intention to ask the Annual General Meeting for the authorisation to implement two separate share issues during spring 2020. On 28 February 2020, the company signed a financing agreement to replace the EUR 100 million credit facility with two separate credit facilities, one of EUR 60 million and one of EUR 40 million. The company's current EUR 60 million credit facility will be replaced with a new credit facility of equal amount, of which EUR 20 million will be repaid in January 2021 and the remaining EUR 40 million in January 2022. The undrawn credit facility of EUR 40 million will be used to finance future construction projects and its due date is in January 2022 or otherwise specified repayment date for separate construction projects.

SRV's financing agreements contain standard covenants. The financial covenants during the financial year were equity ratio (also based on revenue recognition over time), net gearing, minimum liquidity and interest coverage ratio. The minimum liquidity comprises the Group's immediately accessible cash and cash equivalents and deposits, committed limits and undrawn loans as well as the undrawn portion of the syndicated credit facility. The interest coverage ratio is the ratio of the Group's operating margin (EBITDA) to its net financial expenses. The covenant levels of these financing agreements are determined accord-



ing to each loan agreement and on the basis of the accounting principles specified in the agreements, and there are cross-default terms in the agreements.

Of the covenants, equity ratio and gearing were reported quarterly and half-yearly during the financial year. Minimum liquidity is reported according to the situation on the last day of each month. The interest coverage ratio covenant is tested only if and when new loan financing is withdrawn; the covenant does not prevent the refinancing of existing and other sources of financing. In the event of a violation of the regularly reported covenants, the creditor has the right to demand immediate repayment of the debts. The covenants and their levels at the closing date are presented in the capital structure management section of Note 29.

At the end of December, the company agreed a temporary arrangement (standstill) with the bank syndicate that issued the credit facility during which the loan covenants related to the credit facility would not be tested. This arrangement was in force until the signing on 28 February 2020 of a loan agreement replacing the credit facility. All of the covenant levels for other key loan agreements were met on 31 December 2019.

The maturity distribution below presents the contractual payment of the Group's financial liabilities at

the closing date. Payments include interest payments and repayments of principal. The maturity table does not show the estimated future payments of the hybrid bonds on equity terms presented in equity. In May, SRV issued a EUR 58.4 million hybrid bond that bears interests at a fixed rate of 12%. The company's Board of Directors proposes that the repayment of principal amounting to EUR 24.5 million and payment of interest under the 2016 hybrid bond agreement be deferred in 2020. As a result the interest payable on the hybrid notes will increase from 8.75% to the annual fixed interest rate, which equals the four-year swap rate plus an annual margin of 5.00% plus a reoffer spread of 8.819% per annum. Further information on the hybrid bonds is given in Note 25 Equity and in the accounting principles of the financial statements.

On the closing date, the Group's financing reserves totalled EUR 40.0 million, of which cash and cash equivalents amounted to EUR 27.7 million and undrawn committed credit facilities and loans amounted to EUR 12.3 million. The amount of accounts receivable in SRV's housing and business developer contracting projects under construction in Finland was EUR 46.9 million and the amount of undrawn project loans EUR 70.3 million on the closing date. SRV estimates that total cost to finish of these projects is EUR 96.8 million. Sources of financing are presented in table form below the maturity table.

## Financial liabilities, excluding lease liabilities

2019

EUR 1,000	Carrying amount	Contractual liability <sup>1</sup>	Maturity				
			2020	2021	2022	2023	Later
Bonds	136,526	156,603	7,925	70,021	78,656	0	0
Loans from financial institutions	74,014	77,760	7,081	68,655	2,024	0	0
Housing loans <sup>3</sup>	50,417	59,840	901	3,883	1,089	1,877	52,090
Commercial Papers	18,500	18,500	18,500	0	0	0	0
Other liabilities	20,234	20,234	78	0	0	0	20,157
Derivative liabilities <sup>4</sup>	9,201	9,201	2,113	1,674	1,562	1,450	2,403
Accounts payables	81,101	81,101	81,101	0	0	0	0
Investment commitment <sup>5</sup>	51,683	51,684	19,923	10,698	2,758	2,951	15,354
<b>Total</b>	<b>441,677</b>	<b>474,923</b>	<b>137,622</b>	<b>154,931</b>	<b>86,089</b>	<b>6,277</b>	<b>90,003</b>

## Financial liabilities, lease liabilities

2019

EUR 1,000	Carrying amount	Maturity				
		2020	2021	2022	2023	Later
Lease liabilities	150,125	2,454	2,654	1,862	1,954	141,201

## Financial liabilities

2018

EUR 1,000	Carrying amount	Contractual liability <sup>1</sup>	Maturity				
			2019	2020	2021	2022	Later
Bonds	174,067	210,250	10,531	10,531	110,531	78,656	0
Loans from financial institutions <sup>2</sup>	12,884	13,521	1,607	5,483	2,421	1,922	2,088
Housing loans <sup>3</sup>	78,260	82,627	858	880	878	946	79,065
Commercial Papers	90,500	90,500	90,500	0	0	0	0
Other liabilities	20,430	20,430	274	0	0	0	20,157
Derivative liabilities <sup>4</sup>	6,677	6,668	1,619	1,531	1,321	997	1,200
Accounts payables	79,503	79,503	79,503	0	0	0	0
Investment commitment <sup>5</sup>	67,461	67,461	26,676	16,821	5,177	2,758	16,029
<b>Total</b>	<b>529,783</b>	<b>570,961</b>	<b>211,568</b>	<b>35,246</b>	<b>120,328</b>	<b>85,281</b>	<b>118,538</b>

<sup>1</sup> Includes all contractual payments, e.g. interest and commitment fees.

<sup>2</sup> Committed current account overdrafts are assumed to expire 2019.

<sup>3</sup> The liability for payment of principal and interest of housing corporation loans is transferred to the buyer at the time of sale. Loan principal 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.

<sup>4</sup> Price quotations are used to determine the fair value of derivatives.

<sup>5</sup> Off-balance sheet liability

## Liquidity reserves

EUR 1,000	31.12.2019	31.12.2018
Committed credit facility <sup>1</sup>	10,000	9,500
Committed current account overdraft limits	0	22,000
Undrawn housing loans and loans from financial institutions	2,298	15,151
Cash and cash equivalents	27,728	93,074
<b>Total</b>	<b>40,026</b>	<b>139,725</b>

<sup>1</sup> The use of the company's EUR 100 million credit facility includes certain limitations due to the level of interest coverage ratio financial covenant.

## Credit risk

The Group is exposed to credit risk related to accounts receivable, amounts due from long-term project customers, associated company and joint venture loan receivables, cash investments, and receivables based on derivative transactions. Credit risk is managed in accordance with credit policy principles. Project customers are mainly large, well-known and financially sound companies. If no information is available on the customer's solvency, a check is made of general trade and credit information records, and collateral requested, if necessary. With regard to international business projects, more detailed customer background checks are made if the customer is not already known. The creditworthiness of home buyers is not checked, but the ownership of an apartment is not transferred to the customer until the purchase price has been paid in full. In transactions made for unfinished apartments, the buyer has the option under the Housing Transactions Act to cancel the transaction prior to the handover of the apartment, but damages are payable for the cancellation. Similarly, a construction company may cancel a transaction if the buyer fails to make the agreed payments.

## Deposits and derivatives

The Group does not have any significant investment activities. 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 managing investment and derivative instrument counterparty risks in accordance with the Group financing policy approved by the Board of Directors. Derivatives are made for hedging purposes and the balance sheet receivables based on them are small. Agreements made with counterparties to derivative contracts are based on the ISDA Convention. Under the terms and conditions of arrangements, the net asset or liability position of an individual counterparty in the same currency is considered should certain events (such as payment default) occur to be a liability and all arrangements related to it are terminated. As SRV does not, at the closing date, have a legally enforceable right of set-off, these amounts have not been deducted from the balance sheet. The credit risk associated with both deposits and derivatives is considered to be low.

## Accounts receivable and amounts due based on customer projects

Business units are responsible for the credit risk related to amounts due and accounts receivable based on customer projects, in accordance with the Group credit policy. Group credit policy defines the requirements for the credit decision process, terms of sale, and debt collection. The Group's commercial counterparties are mainly listed companies or major real estate or institutional investment companies. In the housing business, the counterparties are mainly private individuals. In apartment sales, the customer gains control of the apartment when all of the purchase price items have been paid. The same Group credit policy principles are applied to tenant selection as in commercial projects.

Competition for new orders in the construction industry is intense, which may affect the volume and profitability of SRV's new order backlog. Contracts concerning construction have a significant value. Terms and conditions of agreement require the parties to achieve agreed targets on a specified timetable and to adhere to agreed operating practices. In particular, execution of additional and

alteration work may involve financial risks. Contract receivables may involve additional and alteration work involving customer complaints or disputes concerning the payment obligations of the customer. If agreement cannot be reached on payment obligations during the final financial review, the company may have to enter into legal proceedings against the customer. The outcomes of legal proceedings involve uncertainties. It is also impossible to assess precisely the time required by court procedures in dispute cases. For additional and alteration work in contracts recognised as revenue over time, only the portion likely to be invoiced is recognised, in accordance with IFRS 15 Revenue from Contracts with Customers. Items subject to a significant risk of impairment and which the company does not expect to receive are not taken into account in the contract invoicing forecast.

The Group applies the simplified approach for the recognition of expected credit losses, according to which lifetime expected losses are recognised for all accounts receivable and contract-based assets. The company does not expect any material losses on these items.

#### Overdue accounts receivables

EUR 1,000	2019	2018
Undue accounts receivables	28,689	43,266
1-30 days past due	2,904	1,391
31-60 days past due	448	1,992
61-90 days past due	762	98
91-180 days past due	4,234	271
181-360 day past due	7,041	16
Over 361 days past due	2,845	260
<b>Total</b>	<b>46,923</b>	<b>47,295</b>

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.

#### Loan receivables from associated companies and joint ventures

Loans receivable from associated companies and joint ventures are assessed for impairment using a three-stage model.

Group management first examines the expected cash flows of loan receivables from associated companies and joint ventures as a whole together with associated company investments and regularly assesses whether the credit risk of the receivables has increased significantly since initial recognition. If the credit risk of a receivable is considered to be low or its credit risk has not increased significantly since initial recognition, the receivable is included in stage 1 and the impairment is calculated based on an assessment of the probability of credit losses occurring within 12 months. Group management has assessed that there are no material expected credit losses related to loan receivables on the balance sheet at the closing date. The amount of loan receivables is itemised in Note 21. Group management constantly assesses, however, the probability of credit loss risk and monitors changes in their status.

If it is considered that the credit risk associated with receivables has increased significantly, the receivables are transferred to stage 2, in which case the probability of the loss associated with them

is assessed over their lifetime, and on this basis the estimated future cash flows are compared with contractual cash flows. In that case, the expected credit losses on the loan receivable over its lifetime are recognised. If loan receivables are found to be impaired due to credit risk, they are transferred to stage 3. During the year, loans totalling EUR 14.6 million were transferred to level 3, and an impairment loss of EUR 7.6 million was recognised for them in 2019.

#### Fair value hierarchy of financial assets and liabilities

##### Financial assets at fair value through profit or loss

On 31 December 2019, the company had foreign exchange option contracts and interest rate swaps recognised at fair value through profit or loss.

##### Derivative financial instruments at fair value through profit or loss

EUR 1,000	Level 1	Level 2	Level 3	Total
<b>31.12.2019</b>				
Derivative financial assets	0	0	0	0
Derivative financial liabilities	0	9,201	0	9,201
<b>31.12.2018</b>				
Derivative financial assets	0	1,384	0	1,384
Derivative financial liabilities	0	6,677	0	6,677

##### Other financial assets at fair value through profit or loss

EUR 1,000	Level 1	Level 2	Level 3	Total
<b>31.12.2019</b>				
Unlisted shares	0	583	11,275	11,858
<b>31.12.2018</b>				
Unlisted shares	0	560	17,759	18,320

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 shares purchased for leisure facilities used by SRV's employees (level 2) as well as shares in Voimaosakeyhtiö SF and investments in and related to real estate funds and projects (level 3).

Assets recognised in level 3 consist mainly of SRV Voima's investment in Voimaosakeyhtiö SF (EUR 8.9 million), in addition to which they include investments in and related to real estate funds and projects.

**The table below presents movements in level 3 instruments for 2019**

EUR 1,000	Unquoted shares and holdings
Opening balance at 1.1.2019	17,759
Increases	0
Decreases	-6,484
Gains and losses recognised in profit or loss	0
<b>Closing balance, 31.12.2019</b>	<b>11,275</b>

**The table below presents movements in level 3 instruments for 2018**

EUR 1,000	Unquoted shares and holdings
Opening balance at 1.1.2018	15,491
Increases	2,337
Decreases	-69
Net change of available-for-sale financial assets transferred into the equity	0
<b>Closing balance, 31.12.2018</b>	<b>17,759</b>

**Capital risk management**

Through effective capital structure management, the Group ensures that it is able to support its businesses and can grow shareholder value of investors. The Group does not have a public credit rating issued by a credit rating agency. 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 payment of dividends as well as issue new shares or hybrid bonds. Additionally, the Group can adjust its business operations and use of capital to maintain the capital structure. The Group monitors its capital on the basis of consolidated 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 owners of the parent company and to non-controlling interests as well as a hybrid bond.

On 6 February 2020, the company issued a separate release about significant transactions, preliminary financing agreements and its intention to ask the Annual General Meeting for the authorisation to implement two separate share issues during spring 2020. As a result of the planned transactions, the company has designated several asset items as held for sale and made impairments on them in the 2019 financial statements. If the transactions are carried out as planned, the company's balance sheet and financial position will improve significantly by the end of the second quarter.

EUR 1,000	2019	2018
Total equity	175,589	233,612
Total assets	913,334	947,033
Advance payments	-85,891	-128,640
<b>Total</b>	<b>827,443</b>	<b>818,393</b>
<b>Equity ratio, %</b>	<b>21,2%</b>	<b>28,5%</b>

The Group's loans include covenants, which are described in the section 'Liquidity risk management' above. The covenants are calculated according to the terms of each loan agreement and are based on either FAS or IFRS figures. The table below describes the main reportable covenants of the Group's credit facility in use at the end of the financial year, as well as their levels at 31 December 2019 and 31 December 2018. All of the covenant levels for other key loan agreements were met on 31 December 2019.

Loan agreement covenants	Covenant value	31.12.2019	31.12.2018
Percentage of completion equity ratio % <sup>1</sup>	> 28%	27.2% <sup>2</sup>	32.8%
Minimum liquidity	≥ 30 Meur	26.7 <sup>2</sup>	-
Gearing % <sup>1</sup>	≤ 140%	151.2% <sup>2</sup>	114.0%

<sup>1</sup> In accordance with terms of loan agreements, excluding impact of IFRS 16.

<sup>2</sup> At the end of December, the company agreed a temporary arrangement (standstill) with the bank syndicate that issued the credit facility during which the loan covenants related to the credit facility would not be tested.

The financial covenants of the credit facilities signed by the company on 28 February 2020 are equity ratio (also based on revenue recognition over time), net gearing, minimum operating margin and minimum cash. Of the covenants, equity ratio, net gearing and minimum operating margin will be reported quarterly and half-yearly. Minimum cash will be reported monthly. The covenant levels correspond to those of the previous agreement.



## 30 OPERATING LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

### Group as lessee

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

EUR 1,000	2018
In less than a year	2,894
In more than one but less than five years	7,323
In more than five years	5,415
<b>Total</b>	<b>15,633</b>

Liabilities in connection with the operating lease agreements of employee leasing cars generally have duration of three to four years. The various terms and conditions of the office premises contracts including the index, renewal and other terms differ from each other. The Group's maximum duration in the operating lease agreements is 126 months. The term of open-ended lease agreements is estimated to be 12 months.

EUR 1,000	2019	2018
<b>Collateral given for own liabilities</b>		
Real-estate mortgages given	61,641	82,308
<b>Other commitments</b>		
Investment commitments given	51,683	67,461
Landarea commitments	47,250	47,794
Contingent liabilities (rented plots)	-	169,274

The Group has guaranteed obligations of its subsidiaries. At 31 December 2018, the total amount of these guarantees was EUR 308,4 million (EUR 323.3 million).

### Transition calculation concerning changes due to IFRS 16 Leases

EUR 1,000	
<b>Lease liabilities and contingent plot liabilities, 31 Dec. 2018</b>	<b>184,907</b>
Short-term agreements	-94
Low-value agreements	-79
Finance lease liability, IAS 17	0
Determination of lease period	-11,381
Changes in agreements	3,235
Effect of discounting	-2,677
<b>Lease liabilities, 1.1.2019</b>	<b>173,910</b>
of which short-term	2,231
of which long-term	171,679

### The cost of rental agreements not included in lease liabilities 2019

EUR 1,000	Total
Cost related to short-term leases	-27,721
The cost of low-value assets	-50
<b>Total</b>	<b>-27,771</b>

The cost of rental agreements not included in lease liabilities contains mainly costs related to site equipments (short-term lease).

### Cash flow of lease liabilities 2019

EUR 1,000	Total
<b>Total</b>	<b>-11,037</b>

Cash flow of lease liabilities are presented under the item 'Interest paid and other expenses from financial costs', and the items 'proceeds and repayment of lease liabilities' under cash flow from financing activities, instead of the item 'cash paid to suppliers and employees' under cash flow from operating activities.

## 31 FAIR AND NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

EUR 1,000	2019		2018	
Fair values	Positive	Negative	Positive	Negative
Foreign exchange forward contracts and options	0	402	1,384	0
Interest rate swap	0	8,799	0	6,677
<b>Total</b>	<b>0</b>	<b>9,201</b>	<b>1,384</b>	<b>6,677</b>

EUR 1,000	2019	2018
<b>Nominal values of derivative instruments</b>		
Foreign exchange forward contracts and options	50,000	83,000
Interest rate swap	100,000	100,000
<b>Total</b>	<b>150,000</b>	<b>183,000</b>

## 32 RECONCILIATION OF DEBTS REPORTED IN FINANCING ACTIVITIES

EUR 1,000	Long term		Short term	
	Interest-bearing debts	Hybrid bond	Interest-bearing debts	Total
Debt 31.12.2017	170,769	45,000	150,338	366,107
Proceeds from loans	97,550	0	0	97,550
Repayment of loans	-86,672	0	0	-86,672
Transfer long-term/short-term debts	80,440	0	-80,440	0
Change in housing corporation loans	22,261	0	-104	22,157
Net change in short-term loans	0	0	22,000	22,000
Change in debt, non cash:				
Effective interest	8	0	0	8
Other non-cash changes	-282	0	0	-282
Debt 31.12.2018	284,074	45,000	91,794	420,868
Proceeds from loans	64,978			64,978
Repayment of loans	-40,441		-1,294	-41,735
Transfer long-term/short-term debts	-4,622		4,622	0
Change in Lease Liabilities	147,672		2,454	150,125
Proceeds from Hybrid bond		58,400		58,400
Repayment of hybrid bond		-20,500		-20,500
Change in housing corporation loans	-27,881		38	-27,843
Net change in short-term loans			-72,000	-72,000
Change in debt, non cash:				
Other non-cash changes	345			345
Debt 31.12.2019	424,124	82,900	25,614	532,638

## 33 SUBSIDIARIES

Name	Domicile	Group's holding, %	Group's voting right, %
<b>Shares in subsidiaries</b>			
SRV Rakennus Oy	Espoo	100.00	100.00
SRV Ream Oy	Helsinki	100.00	100.00
SRV Asumisen Palvelut Oy	Espoo	100	100.00
Rakennusliike Purmonen Oy	Joensuu	65.00	65.00
SRV Infra Oy	Kerava	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

The list does not include project companies.

## 34 RELATED PARTY TRANSACTIONS

### 2019

EUR 1,000	Selling of goods and services	Purchase of goods and services	Interest income	Receivables	Liabilities
<b>Management and Board of</b>					
Directors	0	0	0	0	0
Joint ventures	66,809	49	539	9,834	0
Associate company	3,853	0	2,508	55,969	0
Other related parties	0	0	0	0	0
<b>Total</b>	<b>70,663</b>	<b>49</b>	<b>3,047</b>	<b>65,802</b>	<b>0</b>

### 2018<sup>1</sup>

EUR 1,000	Selling of goods and services	Purchase of goods and services	Interest income	Receivables	Liabilities
<b>Management and Board of</b>					
Directors	0	0	0	0	0
Joint ventures	119,295	42	178	7,138	0
Associate company	2,906	0	3,920	78,193	0
Other related parties	0	0	0	0	0
<b>Total</b>	<b>122,201</b>	<b>42</b>	<b>4,098</b>	<b>85,331</b>	<b>0</b>

<sup>1</sup> Comparative information has been restated for associated and joint ventures.

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	2019	2018
Management salaries and other short-term employment-based benefits	1,974	2,177
Share-based payments	0	0
Post-employment benefits, statutory pensions	488	530
Post-employment benefits, voluntary additional pensions	118	130
Benefits paid upon termination	390	-
<b>Total</b>	<b>2,971</b>	<b>2,837</b>

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, 24.4 (24.5%). In 2019, severance pay remitted in connection with resignations was entered as expense in the 2019, but this was not paid until 2020.

#### Salaries and compensations of CEO & Board of Directors

EUR 1,000	2019	2018
Saku Sipola, President and CEO from 1 Sep 2019	145	-
Ojala Juha Pekka, President and CEO until 31 Aug 2019 <sup>1</sup>	463	517
Nieminen Timo, Deputy CEO	203	241
<b>Members of the Board</b>		
Kokkila Ilpo, Chairman	80	76
Kallasvuo Olli-Pekka, Vice Chairman	68	64
Alitalo Minna	57	52
Elomaa Juhani, until 19 Mar 2019	15	51
Yli-Kyyry Tomi, from 19 Mar 2019	43	-
Hintikka Juhani	57	51
Kokkila Timo	56	52
<b>Members of the Board, total</b>	<b>375</b>	<b>345</b>

<sup>1</sup> The President and CEO's employment obligation ended on 31 August 2019 and his employment ended on 31 December 2019.

The CEO's period of notice is 6 months. If SRV Group Plc terminates the contract, the period of notice is twelve months.

The 2019 paid statutory occupational pension insurance of the president and CEO and deputy CEO were 165 thousand euros (185 thousand euros in 2018).

## 35

### EVENTS AFTER THE BALANCE SHEET DATE

On 7 February 2020 SRV sold its 40% stake in REDI and REDI Parking, reduce its ownership in the Tampere Central Deck and Arena project and commence measures to strengthen its equity. Simultaneously SRV has agreed with its principal lenders on the conversion of its existing EUR 100 million revolving credit facility into two separate revolving credit facilities of EUR 60 million and EUR 40 million.

# Parent Company's Financial Statements, FAS

## INCOME STATEMENT OF THE PARENT COMPANY

EUR 1,000	Note	2019	2018
Revenue	1	11,383	12,599
Other operating income	2	-16	16,379
Purchase during the financial year		-18	0
Personnel expenses	3	-7,478	-5,656
Indirect personnel costs			
Pension costs		-1,253	-1,012
Other indirect personnel costs		-194	-236
Depreciation and impairments	4	-366	-324
Other operating expenses	5	-8,448	-9,422
Operating profit		-6,391	12,328
Financial income and expenses	6	-20,274	-11,916
Profit before appropriations and taxes		-26,664	412
Appropriations	7		
Income taxes	8	5,246	2,956
Net profit for the financial year		-21,419	3,368

## BALANCE SHEET OF THE PARENT COMPANY

EUR 1,000	Note	31.12.2019	31.12.2018
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	9	1,398	1,158
Property, plant and equipment	9	513	607
Investments			
Shares in group companies	10	295,857	262,963
Other financial assets	10	2,660	2,778
<b>Non-current assets, total</b>		<b>300,427</b>	<b>267,506</b>
<b>CURRENT ASSETS</b>			
Inventories		4	4
Long-term receivables	12	12,748	6,153
Short-term receivables	12	169,716	154,532
Cash and cash equivalents		18,061	85,059
<b>Current assets, total</b>		<b>200,530</b>	<b>245,748</b>
<b>ASSETS, TOTAL</b>		<b>500,956</b>	<b>513,254</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	3,063	3,063
Invested free equity fund	14	143,751	143,751
Retained earnings	14	26,918	23,550
Profit/loss for the financial year	14	-21,419	3,368
<b>Equity, total</b>		<b>152,313</b>	<b>173,731</b>
<b>Provisions</b>	16	<b>300</b>	<b>388</b>
<b>Liabilities</b>			
Non-current liabilities	17	257,149	221,607
Current liabilities	18	91,195	117,529
<b>Liabilities, total</b>		<b>348,344</b>	<b>339,135</b>
<b>EQUITY AND LIABILITIES, TOTAL</b>		<b>500,956</b>	<b>513,254</b>

## CASH FLOW STATEMENT OF THE PARENT COMPANY

EUR 1,000	2019	2018
<b>Cash flows from operating activities</b>		
Cash receipts from customers	11,076	10,698
Cash receipts from other operating income	891	949
Cash paid to suppliers and employees	-18,128	-15,506
Net cash before interests and taxes	-6,161	-3,859
Interests received and other financial income	10,855	9,490
Interests paid and other expenses from financial costs	-23,981	-20,661
Income taxes paid	0	102
<b>Cash flow from operating activities</b>	<b>-19,288</b>	<b>-14,929</b>
<b>Cash flow from investing activities</b>		
Purchase of tangible and intangible assets	-512	-609
Purchase of investments	0	175
Proceeds from sale of investments	5,500	0
Subsidiary shares sold	0	18,879
Loans granted for subsidiaries	-1,233	-2,089
Proceeds from repayments of subsidiary loans	0	2,103
<b>Net cash used in investing activities</b>	<b>3,756</b>	<b>18 459</b>

EUR 1,000	2019	2018
<b>Cash flow from financing activities</b>		
Proceeds from loans	143,080	75,307
Repayment of loans	-82,904	-76,348
Group contributions received	0	24,884
Net change in short-term loans	-72,000	22,000
Dividends paid	0	-3,575
Change in group accounts	-39,642	19,683
<b>Net cash from financing activities</b>	<b>-51,466</b>	<b>61,950</b>
<b>Net change in cash and cash equivalents</b>	<b>-66,998</b>	<b>65,481</b>
<b>Cash and cash equivalents at the beginning of financial year</b>	<b>85,059</b>	<b>19,579</b>
<b>Cash and cash equivalents at the end of financial year</b>	<b>18,061</b>	<b>85,059</b>



# Notes to parent company financial statements

## Basic data

SRV Plc (reg 1707186-8) is a Finnish company founded in accordance with the Finnish law and 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 January 1–December 31, 2019.

## ACCOUNTING PRINCIPLES

### Non-Current assets

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

Foreign 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 deferred tax liability and receivable is calculated from the temporary difference in book-keeping 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 income and expenses in the income statement and the cumulative change in fair values is recognized in the accrued income and expenses at the balance sheet. Hedging instruments are booked in the income statement in financial expenses and in balance sheet in accrued expenses. Currency forward deal premium cost are recognized 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.

## NOTES TO INCOME STATEMENT

**1 REVENUE**

EUR 1,000	2019	2018
Group services	10,302	9,190
Rent income	907	890
Other revenues	174	2,520
<b>Total</b>	<b>11,383</b>	<b>12,599</b>

**2 OTHER INCOME**

	2019	2018
Other income	-16	16,379

The company sold its rental service subsidiary company SRV Kalusto Oy to Ramirent Finland Oy in 2018.

**3 INFORMATION CONCERNING PERSONNEL**

	2019	2018
Number of personnel on average		
Office employees	81	68

**4 DEPRECIATION AND IMPAIRMENTS**

EUR 1,000	2019	2018
Depreciation on Intangible assets	261	175
Depreciation on Buildings and Structures	10	10
Depreciation on Machinery and Equipment	95	139
<b>Total</b>	<b>366</b>	<b>324</b>

**5 OTHER OPERATING EXPENSES**

EUR 1,000	2019	2018
Rents	1,285	1,297
Voluntary indirect personnel expenses	553	358
Car and travel expenses	445	453
Entertainment and marketing expenses	632	597
Communication and IT expenses	1,421	1,015
Other external services	2,414	1,433
Operating and maintenance costs	250	211
Other fixed expenses	1,698	4,269
<b>Total</b>	<b>8,448</b>	<b>9,422</b>

**Auditing fees included in other operating expenses**

EUR 1,000	2019	2018
Auditing	167	62
Statements	31	0
Tax advisory services	16	-2
Other services	917	44
<b>Total</b>	<b>1,131</b>	<b>108</b>

The increase in services bought from the auditing company was caused by the recovery program disclosed in SRV Group's Q3 Interim Report

## 6 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2019	2018
<b>Dividend income</b>		
From group companies	65	65
<b>Total</b>	<b>65</b>	<b>65</b>
<b>Interest and other financial income</b>		
From group companies	9,054	9,831
From other companies	73	2,278
Fair value returns of currency forward contracts	0	1,846
Other interest and financial income	73	73
Impairment and reversing from non-current investments	0	358
<b>Total</b>	<b>9,128</b>	<b>12,108</b>
<b>Interest expenses</b>		
Interest expenses to group companies	-223	-94
Interest expenses to others	-19,185	-18,164
Hybrid bond interest	-7,085	-3,940
Other	-12,099	-14,224
<b>Total</b>	<b>-19,407</b>	<b>-18,258</b>
<b>Other financial expenses</b>		
To others		
Fair value impact of interest rate swap contracts	-2,122	-579
Fair value impact of currency forward contracts	-1,787	-1,279
Costs from currency forward contracts	-1,303	0
Structuring costs from currency forward contracts	-758	0
Impairment and reversing from non-current investments	-963	0
Other financial expenses	-3,127	-3,973
<b>Total</b>	<b>-10,059</b>	<b>-5,831</b>
<b>Financial income and expenses total</b>	<b>-20,274</b>	<b>-11,916</b>

## 7 APPROPRIATIONS

The company did not have transactions to be recorded in appropriations during the financial year or the comparison period

## 8 INCOME TAXES

EUR 1,000	2019	2018
Change in deferred taxes	5,246	2,956
<b>Total</b>	<b>5,246</b>	<b>2,956</b>

## NOTES TO BALANCE SHEET

## 9 CHANGES IN NON-CURRENT ASSETS

Intangible assets			
2019	Intangible assets	Other intangible expenditures	Total
EUR 1,000			
Historical cost 1.1.	715	1,760	2,476
Increase	0	1,185	1,185
<b>Historical cost 31.12.</b>	<b>715</b>	<b>2,261</b>	<b>2,976</b>
Accumulated depreciation and impairments, 1.1.	-465	-853	-1,318
Depreciation	0	-261	-261
<b>Accumulated depreciation and impairments, 31.12.</b>	<b>-465</b>	<b>-1,113</b>	<b>-1,579</b>
<b>Carrying amount, 31.12.</b>	<b>250</b>	<b>1,148</b>	<b>1,398</b>

2018			
EUR 1,000	Intangible assets	Other intangible expenditures	Total
Historical cost 1.1.	715	1,209	1,924
Increase	0	822	822
Decrease	0	-270	-270
<b>Historical cost 31.12.</b>	<b>715</b>	<b>1,760</b>	<b>2,476</b>
Accumulated depreciation and impairments, 1.1.	-465	-678	-1,143
Depreciation	0	-175	-175
<b>Accumulated depreciation and impairments, 31.12.</b>	<b>-465</b>	<b>-853</b>	<b>-1,318</b>
<b>Carrying amount, 31.12.</b>	<b>250</b>	<b>908</b>	<b>1,158</b>

## Tangible assets

2019				
EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Total
Historical cost 1.1.	41	437	1,901	2,380
Increase	0	0	12	12
<b>Historical cost 31.12.</b>	<b>41</b>	<b>437</b>	<b>1,914</b>	<b>2,392</b>
Accumulated depreciation and impairments, 1.1.	0	-94	-1,679	-1,773
Depreciation	0	-10	-95	-106
<b>Accumulated depreciation and impairments, 31.12.</b>	<b>0</b>	<b>-105</b>	<b>-1,774</b>	<b>-1,879</b>
<b>Carrying amount, 31.12.</b>	<b>41</b>	<b>332</b>	<b>139</b>	<b>513</b>

2018				
EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Total
Historical cost 1.1.	41	437	1,844	2,322
Increase	0	0	58	58
<b>Historical cost 31.12.</b>	<b>41</b>	<b>437</b>	<b>1,901</b>	<b>2,380</b>
Accumulated depreciation and impairments, 1.1.	0	-84	-1,540	-1,624
Depreciation	0	-10	-139	-150
<b>Accumulated depreciation and impairments, 31.12.</b>	<b>0</b>	<b>-94</b>	<b>-1,679</b>	<b>-1,773</b>
<b>Carrying amount, 31.12.</b>	<b>41</b>	<b>343</b>	<b>222</b>	<b>607</b>

## 10 INVESTMENTS

EUR 1,000	2019	2018
<b>Shares in subsidiaries</b>		
Historical cost, 1.1.	262,963	262,915
Increases	39,460	2,608
Decreases	-6,567	-2,559
<b>Historical cost, 31.12.</b>	<b>295,857</b>	<b>262,963</b>
<b>Other shares and holdings</b>		
Historical cost, 1.1.	2,778	2,644
Increases	15	15
Decreases	-134	-239
Impairment and reversing of impairments		358
<b>Historical cost, 31.12.</b>	<b>2,660</b>	<b>2,778</b>
<b>Investments total</b>	<b>298,516</b>	<b>265,741</b>

## 11 SUBSIDIARY COMPANIES

	Domicile	2019	2018
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
SRV Ehituse AS	Tallinna	100.0	100.0
Rakennusliike Purmonen Oy	Joensuu	65.0	65.0
SRV Ream Oy	Helsinki	100.0	100.0

Subsidiary company SRV Investment S.à r.l. is terminated

## 12 LONG-TERM AND SHORT-TERM RECEIVABLES

EUR 1,000	2019	2018
<b>Long-term receivables</b>		
From Group companies		
Loan receivables	1,640	1,607
Interest receivables	51	0
<b>From others</b>		
Loan receivables	0	32
Other receivables	1,933	636
Deferred tax receivable	9,124	3,878
<b>Long-term receivables Total</b>	<b>11,057</b>	<b>4,546</b>
<b>Long-term receivables Total</b>	<b>12,748</b>	<b>6,153</b>
<b>Short-term receivables</b>		
From Group companies		
Accounts receivable	141	97
Loan receivables	10,741	14,932
Other receivables	157,168	135,472
Accrued receivables	899	945
<b>Total</b>	<b>168,949</b>	<b>151,446</b>
<b>From others</b>		
Accounts receivable	6	457
Other receivables	683	797
Loan receivables	32	0
Accrued receivables	46	1,832
<b>Total</b>	<b>767</b>	<b>3,086</b>
<b>Short-term receivables, total</b>	<b>169,716</b>	<b>154,532</b>

## 13 ACCRUED RECEIVABLES

EUR 1,000	2019	2018
Fair value of currency forward	0	1,384
Interest	899	1,274
Other	46	119
<b>Total</b>	<b>945</b>	<b>2,777</b>

## 14 CHANGES IN EQUITY

EUR 1,000	2019	2018
Share capital 1.1.	3,063	3,063
<b>Share capital 31.12.</b>	<b>3,063</b>	<b>3,063</b>
Share premium reserve 1.1.	143,751	142,714
Related to incentives		1,037
<b>Share premium reserve 31.12.</b>	<b>143,751</b>	<b>143,751</b>
Retained earnings 1.1.	26,918	27,125
Dividends		-3,575
<b>Retained earnings 31.12.</b>	<b>26,918</b>	<b>23,550</b>
Net profit for the financial year	-21,419	3,368
<b>Equity 31.12.</b>	<b>152,313</b>	<b>173,731</b>

## 15 CALCULATION ON THE DISTRIBUTABLE EQUITY

EUR 1,000	2019	2018
Share premium reserve	143,751	143,751
Retained earnings	26,918	23,550
Dividends	0	-3,575
Net profit for the financial year	-21,419	3,368
<b>Total</b>	<b>149,250</b>	<b>170,669</b>

## 16 PROVISIONS

EUR 1,000	2019	2018
<b>Other provisions</b>		
Provision for share-based incentives	0	88
Provision related to the selling of SRV Kalusto Oy	300	300



## 17 LONG-TERM LIABILITIES

EUR 1,000	2019	2018
<b>To other companies</b>		
Hybrid Bond	58,400	45,000
Loans from financial institutions	60,000	-
Bonds	137,096	175,000
Other loans	1,473	1,607
<b>Total</b>	<b>256,969</b>	<b>221,607</b>
<b>To Group Companies</b>		
Accrued liabilities	180	0
<b>Total</b>	<b>180</b>	<b>0</b>
<b>Long-term liabilities total</b>	<b>257,149</b>	<b>221,607</b>

## 18 SHORT-TERM LIABILITIES

EUR 1,000	2019	2018
<b>To Group Companies</b>		
Accounts payables	29	66
Other liabilities	23,198	5,906
<b>Total</b>	<b>23,227</b>	<b>5,972</b>
<b>To other companies</b>		
Hybrid bond <sup>1</sup>	24,500	0
Commercial papers	18,500	90,500
Accounts payable	583	659
Accrued expenses	23,827	19,776
Other loans	558	621
<b>Total</b>	<b>67,968</b>	<b>111,557</b>
<b>Short term liabilities total</b>	<b>91,195</b>	<b>117,529</b>

<sup>1</sup> Hybrid bond is classified as short-term liability based on its first possible repayment date stated in the contract.

## 19 ACCRUED LIABILITIES

EUR 1,000	2019	2018
Salaries including social costs	2,176	1,176
Accrued liability related to currency forward deal	402	0
Accrued liability related to interest rate swap	8,799	6,677
Interest and other financial expenses	12,410	11,267
Other	40	657
<b>Total</b>	<b>23,827</b>	<b>19,776</b>

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

On the closing date, parent company had short-term foreign exchange derivative contracts, hedging against currency risk, with capital totaling EUR 50 million. By means of interest rate swap contracts, protection is sought from market interest rate changes during the financial year. Interest rate swap contracts mature during the financial year 2025.

### Derivative financial instruments:

EUR 1,000	2019	2018
<b>Interest rate swaps</b>		
Fair value negative	8,799	6,677
Nominal value of underlying instruments	100,000	100,000
<b>Hedging instruments</b>		
Fair value positive	0	1,384
Fair value negative	402	0
Nominal value of underlying instruments	50,000	83,000

### Fair value hierarchy of financial instruments:

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

## 21 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. Risk management is described in the Report of the Board of Directors and in note 29 in Consolidated Financial Statement.

## 22 LEASING AND OTHER RENT AGREEMENTS

EUR 1,000	2019	2018
Payable in less than a year	183	117
Payable later	173	108
<b>Total</b>	<b>355</b>	<b>225</b>
<b>Rental lease liabilities</b>		
Payable in less than a year	1,319	1,293
Payable later	10,471	11,654
<b>Total</b>	<b>11,790</b>	<b>12,947</b>

## 23 OTHER LIABILITIES

EUR 1,000	2019	2018
Guarantee obligations given on behalf of Group companies	308,352	323,298
Investment commitments	26,098	26,488

The company has committed to invest 26 098 thousand euros in Voimaosakeyhtiö SF in order to finance Hanhikivi 1 project. At the end of 2019 the investments made were 8 911 thousand euros in total.

## 24 RELATED PARTY TRANSACTIONS

There were no related party transactions which would not been carried out under ordinary commercial terms or which would be necessary to provide in order to give true and fair view of the transactions.

### Itemisation of management salaries and employment-based benefits:

EUR 1,000	2019	2018
Salaries and other benefits	735	760
<b>Total</b>	<b>735</b>	<b>760</b>
<b>Salaries and other benefits of CEO</b>		
CEO, Juha-Pekka Ojala	463	517
CEO, Saku Sipola	145	-
Deputy Vice President, Timo Nieminen	203	241
<b>Rewards and benefits of the members of the board:</b>		
Kokkila Ilpo, chairman	80	76
Kallasvuo Olli-Pekka, vice chairman	68	64
Alitalo Minna	57	52
Hintikka Juhani	57	51
Yli-Kyyny Tomi	43	-
Kokkila Timo	56	52
Elomaa Juhani	15	51
<b>Total:</b>	<b>375</b>	<b>345</b>

SRV Group Plc's CEO changed during the reporting period. New CEO Saku Sipola started in his position on 1 September 2019. The amount of the severance pay to Juha-Pekka Ojala is EUR 518,808.

The former CEO Juha-Pekka Ojala has a voluntary supplementary pension of which costs were EUR 78,093 in 2019 (EUR 78,042).

Under the scheme, Saku Sipola has been given 600,000 acquisition rights, entitling him to acquire the number of SRV Group Plc's shares corresponding to the acquisition rights EUR 1.62 per share. Under the terms of the scheme, the acquired shares are subject to a transfer restriction, which is valid for two years from the acquisition of the shares. The acquisition rights can be exercised in three two-year long exercise periods, the first of which begins on 1 March 2021 and ends on 28 February 2023, the second begins on 1 September 2022 and ends on 31 August 2024, and the third begins on 1 September 2024 and ends on 31 August 2026. During each exercise period, the acquisition rights holder is entitled to exercise 200,000 acquisition rights.

# 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, 28 February 2020

Ilpo Kokkila  
Chairman

Olli-Pekka Kallasvuo  
Vice Chairman

Minna Alitalo

Juhani Hintikka

Timo Kokkila

Tomi Yli-Kyyry

Saku Sipola  
President and CEO

## AUDITOR'S NOTE

Our auditor's report has been issued today.

Espoo, 2 March 2020

PricewaterhouseCoopers Oy  
Authorized Public Accounting Firm

Samuli Perälä  
KHT

# 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
- 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 2019. The financial statements comprise:

- the consolidated balance sheet, consolidated income statement, statement of comprehensive income, statement of changes in equity, consolidated cash flow statement 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.

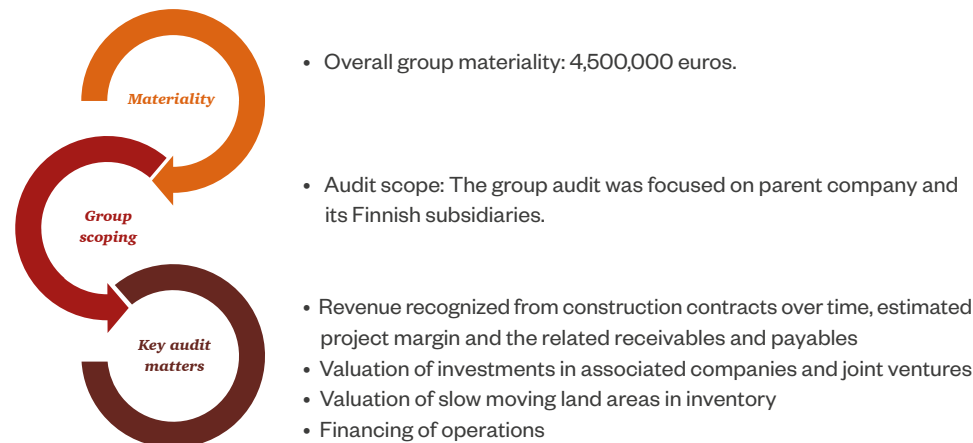
### Independence

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 5 to the Financial Statements.

### Our Audit Approach

#### Overview



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

4,500,000 euros (previous year 4,200,000 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; construction and investments. In addition Group services 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.

## 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 over time, estimated project margin and the related receivables and payables

Refer to Accounting policies for consolidated financial statements and Notes 3, 15, 22 and 28

Income and costs of construction contracts are recorded over time 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.

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 possible 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 over time 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.



- **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 16 and 24

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. Out of associated companies and joint ventures commercial centres REDI and Pearl Plaza and Tampere Central Deck and Arena- project have been classified as assets held for sale at the end of financial year.

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. Assets held for sale have been valued to lower of carrying amounts or fair value less cost to sell.

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.
- We evaluated the valuation of assets held for sale based on the sales contracts and to management estimates about coming sales prices.

- **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 20

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.

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

- Financing of operations**

Refer to Accounting policies for consolidated financial statements and Note 29

The group's main sources of financing are project-specific loans, bonds and committed revolving credit facility. Financing agreements contain standard covenants that are being reported quarterly or bi-annually. At the end of December 2019, the group agreed a temporary arrangement with the banks that issued the credit facility during which the covenants are not tested.

The use of the credit facility is subject to limitations resulting from an interest rate coverage ratio financial covenant. At the end of December 2019, the group made an agreement with the bank syndicate to restrict the use of this credit facility.

After the balance sheet date the group issued a release about financing arrangements to replace the current revolving credit facility and about plans to strengthen its equity through share issues.

Considerations related to sufficiency of financing is considered a key audit matter because of the management judgement involved.

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

Our procedures included the following but was not limited to:

- We evaluated the covenant calculations prepared by the group and the temporary arrangement relating to the credit facility.
- We discussed with the management about planned financing arrangements and read the financing agreements and subscription commitments related to the future share issue obtained after balance sheet date.

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.

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. 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 report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 2.3.2020

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Samuli Perälä  
Authorised Public Accountant (KHT)

## GROUP AND SEGMENT INFORMATION BY QUARTER (UNAUDITED)

### SRV Group

EUR million	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018	1-3/2018
Revenue	403.8	227.1	207.4	222.6	299.8	208.4	235.7	215.7
Operation profit	-86.8	-6.3	-3.2	3.3	0.1	-5.7	-5.4	-8.8
Financial income and expenses, total	-10.4	-7.6	-7.7	-3.6	-6.3	-3.5	-4.3	-3.4
Profit before taxes	-97.2	-14.0	-10.8	-0.3	-6.2	-9.1	-9.8	-12.2
Order backlog <sup>1</sup>	1,344.2	1,592.6	1,667.2	1,782.5	1,816.0	1,661.5	1,716.7	1,634.0
New agreements	142.9	123.3	71.7	149.7	438.0	128.3	282.3	284.4
Earnings per share, eur	-1.43	-0.22	-0.18	-0.02	-0.08	-0.14	-0.15	-0.19
Equity per share, eur	1.59	2.97	3.15	3.28	3.21	3.32	3.52	3.72
Share closing price, eur	1.36	1.44	1.62	1.70	1.70	2.50	2.65	2.90
Equity ratio, %	21.2	27.2	28.5	24.4	28.5	28.0	29.7	32.5
Equity ratio, % excl. IFRS16 <sup>2</sup>	26.4	33.3	35.1	29.7	28.5	28.0	29.7	32.5
Net interest-bearing liabilities	422.0	513.2	480.2	490.8	282.8	346.5	355.7	355.4
Net interest-bearing liabilities excl. IFRS16 <sup>2</sup>	271.9	339.7	306.6	317.3	282.8	346.5	355.7	355.4
Net gearing, %	240.3	199.1	178.9	205.8	121.1	144.2	140.8	134.3
Net gearing, % excl. IFRS16 <sup>2</sup>	151.2	131.4	114.0	132.7	121.1	144.2	140.8	134.3

<sup>1</sup> The Group's order backlog consists of the Construction business. The unrecognised margin corresponding to ownership are not anymore included in order backlog.

<sup>2</sup> The impacts of IFRS 16 in 2019 have been adjusted out of the figure. As a result of the adjustment, the figure is comparable with the figures for 2018.

### Revenue

EUR million	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018	1-3/2018
Construction	403.1	226.0	206.7	221.9	298.4	207.6	234.6	214.8
Business construction	200.5	171.2	163.1	144.9	183.9	160.2	166.7	155.5
Housing construction	202.6	54.7	43.6	77.0	114.6	47.4	67.8	59.3
Investments	1.7	1.4	1.5	1.3	1.0	1.2	1.2	1.2
Other operations and eliminations	-0.9	-0.3	-0.8	-0.6	0.3	-0.4	0.0	-0.3
Group, total	403.8	227.1	207.4	222.6	299.8	208.4	235.7	215.7

### Operating profit

EUR million	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018	1-3/2018
Construction	3.6	-3.4	2.0	4.8	-7.5	-1.6	-1.1	-3.2
Investments	-87.5	-3.1	-1.9	0.1	-5.4	-3.7	-2.9	-5.6
Other operations and eliminations	-2.9	0.2	-3.2	-1.6	13.0	-0.4	-1.5	0.0
Group, total	-86.8	-6.3	-3.2	3.3	0.1	-5.7	-5.4	-8.8

### Operating profit

%	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018	1-3/2018
Construction	0.9	-1.5	1.0	2.2	-2.5	-0.8	-0.5	-1.5
Investments	-	-	-	-	-	-	-	-
Group	-21.5	-2.8	-1.5	1.5	0.0	-2.7	-2.3	-4.1

**Order backlog**

EUR million	31.12.2019	30.9.2019	30.6.2019	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
business construction	861.6	938.7	1,066.8	1,158.4	1,233.3	1,019.3	1,124.7	1,065.2
housing construction	482.7	653.8	600.4	624.1	582.7	642.2	592.0	568.7
<b>Group, total<sup>1</sup></b>	<b>1,344.2</b>	<b>1,592.6</b>	<b>1,667.2</b>	<b>1,782.5</b>	<b>1,816.0</b>	<b>1,661.5</b>	<b>1,716.7</b>	<b>1,634.0</b>
sold order backlog	1,082	1,311	1,402	1,496	1,612	1,409	1,480	1,384
unsold order backlog	263	281	265	286	204	253	237	250

<sup>1</sup> Group's order backlog consists only of construction segment. The unrecognised margin corresponding to ownership are not anymore included in order backlog.

**Order backlog, housing construction in Group**

EUR million	31.12.2019	30.9.2019	30.6.2019	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Negotiation and construction contracts	141	191	168	181	213	210	192	150
Under construction, sold	79	182	167	157	169	196	179	185
Under construction, unsold	232	261	244	253	180	220	199	214
Completed and unsold	30	21	22	33	20	17	22	20
<b>Housing construction, total</b>	<b>483</b>	<b>654</b>	<b>600</b>	<b>624</b>	<b>583</b>	<b>642</b>	<b>592</b>	<b>569</b>

**Capital employed<sup>1</sup>**

EUR million	31.12.2019	30.9.2019	30.6.2019	31.3.2019	31.12.2018	30.9.2018	30.6.2018	31.3.2018
Construction	372.9	462.6	448.1	385.0	212.8	286.0	321.8	316.7
Investments	245.7	331.5	330.3	353.5	337.8	331.7	328.3	327.9
Other operations and eliminations	6.7	1.0	-4.6	53.4	60.3	46.3	14.9	5.5
<b>Group, total</b>	<b>625.3</b>	<b>795.1</b>	<b>773.8</b>	<b>791.9</b>	<b>611.0</b>	<b>664.0</b>	<b>665.0</b>	<b>650.0</b>

<sup>1</sup> The company changed how it allocates deferred tax assets and liabilities; they are now fully allocated to the Other operations and eliminations unit. Comparative data has also been adjusted.

The key figure also includes assets designated as held for sale in the balance sheet.

**Housing production in Group**

Units	10-12/2019	7-9/2019	4-6/2019	1-3/2019	10-12/2018	7-9/2018	4-6/2018	1-3/2018
Housing sales, total	269	326	139	203	346	315	541	198
sales, developer contracting	207	166	73	203	156	133	75	130
sales, negotiation contracts	62	160	66	0	190	182	466	68
Developer contracting								
start-ups	65	283	8	424	0	232	42	43
completed	539	85	0	184	298	26	141	61
recognized in revenue	532	98	42	161	284	49	133	71
completed and unsold	87	84	97	139	116	102	126	117
Under construction, total	2,142	2,773	2,388	2,549	2,759	2,927	3,164	3,211
construction contracts	80	80	80	80	80	80	504	504
negotiation contracts	195	195	195	195	487	293	293	293
negotiated contracts	1,032	1,189	1,002	1,171	1,329	1,393	1,412	1,360
developer contracting	835	1,309	1,111	1,103	863	1,161	955	1,054
of which sold	371	700	632	600	559	687	605	661
of which unsold	464	609	479	503	304	474	350	393



# Information for shareholders

## BASIC INFORMATION ABOUT THE SHARE

SRV Group Plc's shares are quoted on Nasdaq Helsinki, under the sector heading Industrial products and Services in the small-cap group. The share's trading code is SRV1V.  
The ISIN code of the share is FIO009015309.

## SRV'S FINANCIAL INFORMATION IN 2020

Financial Statement Release 2019: 6 February 2020  
Interim Report for January-March 2020: 29 April 2020  
Half-year Report for January-June 2020: 21 July 2020  
Interim Report for January-September 2020: 29 October 2020

Annual Review 2019, including the Financial Statements and the Report of the Board of Directors, 2 March 2020.

SRV Group Plc's Annual General Meeting is planned to be held on Thursday, 26 March 2020 at 4.00 pm. The Board of Directors will convene the meeting separately in due course.

## SILENT PERIOD

SRV's silent period always starts 30 calendar days before the publication of an Interim Report or the Financial Statement Release. The silent period ends on the publication of an Interim Report or the Financial Statement Release.

## INVESTOR RELATIONS CONTACTS

### CFO

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### SVP, Communications and Marketing

**Maija Karhusaari**

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