

SRV

ANNUAL REVIEW 2016



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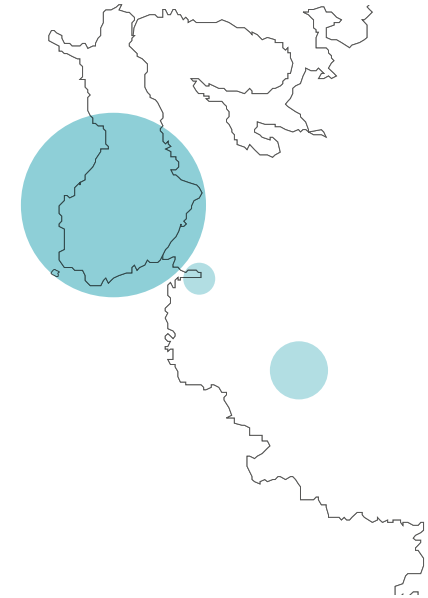
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SRV is a bold developer and innovator in the construction industry. We want to offer the best customer experience as a constructor of urban city centres, while also being the most attractive employer in the industry. Our genuine cooperation and enthusiasm for our work comes across in every encounter. Established in 1987, we are a publicly listed company that operates in selected growth centres in Finland, Russia and Estonia. Our revenue in 2016 was EUR 884 million. Just over 1,000 people work for SRV, and we also employ a network of almost 4,000 subcontractors in our projects.

SRV IN BRIEF

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OBJECTIVES AND VALUES

Mission

Our mission is to improve quality of life by building sustainable solutions for the built environment.

Vision


SRV creates the best customer experience as a constructor of urban city centres.

Values

Our operations are guided by our shared values:

- Sustainability
- Enthusiasm at work
- Courage in development
- Result driven
- Open collaboration

SRV's business segments are Operations in Finland, International Operations, and Other Operations. Operations in Finland are divided into property development, housing construction, and business construction, which includes retail, office and logistics and specialised construction operations and also earthworks, and rock construction operations. International Operations comprises SRV's business activities in Russia and Estonia. The Other Operations segment primarily consists of the parent company, SRV Group Plc's group operations, property and project development operations in Finland, and equipment service for Finnish construction sites.

 OPERATIONS IN FINLAND REPRESENT 94 PER CENT OF SRV'S REVENUE.

	Operations in Finland		International Operations
	Housing construction	Business construction ¹	
Percentage of revenue	31%	63%	6%
Segments	SRV primarily focuses its housing construction on urban growth centres. Our largest construction projects are located in Helsinki, Espoo, Vantaa, Jyväskylä, Turku, Tampere and Oulu.	SRV primarily focuses its business construction on urban growth centres. Our largest construction projects are located in Helsinki, Espoo, Vantaa, Jyväskylä, Turku, Tampere and Oulu.	SRV operates in two Russian cities: Moscow and St Petersburg. Two already completed shopping centres are located in St Petersburg: Okhta Mall and Pearl Plaza. The 4Daily shopping centre will open in Moscow in April 2017.
Market position	One of Finland's largest housing constructors in urban growth centres.	One of the main operators in Finland.	One of the largest international constructors and managers of shopping centres in Russia.
Customers	Households, private persons, and institutional investors.	Companies, the public-sector, and institutional investors.	Institutional investors, shopping centre tenants and consumers.
Main competitors	YIT, Bonava, Skanska, Peab, Hartela, Lehto, and smaller local companies in various towns and cities.	Lemminkäinen, YIT, Skanska, NCC, Peab, Hartela, and Destia.	Mainly local companies.
Strengths	Thanks to its strong project development, SRV has plots in urban growth centres next to good transport connections. SRV has been able to increase its number of developer-contracted housing sites for several years now, and this can be seen in our results.	SRV is known for its demanding construction projects, many of which we also partially own. SRV is one of Finland's largest constructors of healthcare and hospital premises. SRV currently has five alliance projects whose revenue amounts to about one-fifth of the total revenue from business construction.	SRV partially owns and manages some of the most modern shopping centres in Russia.

¹Retail, office and logistics construction, earthworks, and specialised and rock construction.

CEO'S REVIEW 2016

2016 was another busy year for SRV, and drew us several large steps closer towards our strategic targets. Our next strategic milestone is 2020. Although we still have a way to go before we achieve our financial targets. Many of the actions we took during 2016, in our processes, financing, contractual formats and projects, are continually driving us in the right direction.

Looking at 2016 as a whole, one thing once again stands out in particular: our order backlog. SRV's order backlog peaked at over EUR 2 billion and remained at a record high level throughout the year. Growth in the order backlog was driven particularly by business construction projects in Finland, and this growth bolsters our position as one of Finland's major urban centre developers. Although we did not receive any major new orders at the end of 2016, our order backlog remains at a record high and we are expecting more interesting new entries in our order book in 2017.

There have also been favourable trends in our revenue. In 2016, our full-year revenue exceeded EUR 800 million for the first time in SRV's history, and it will continue to grow over the coming years. Regardless of our strong revenue growth, our primary goal is to improve profitability in line with our strategic objectives.

In 2016's growing market, we focused on the implementation of development projects and only prudently engaged in tender-based contracting. In the housing business, we stepped up our developer-contracted units, which has also contributed to our earnings.

We maintained our position as one of the largest housing constructors for the consumer market in the Greater Helsinki Area. We have almost 1,900 homes currently under construction, which is over 200 more than a year ago. Our main focus is still on developer-contracting, that is, apartments targeted directly at the consumer market, and this will be visible in the future as improved profitability.

Our major projects in Finland and Russia received enormous visibility during the year, but fantastic work was also being done on all of our 100 construction sites in a variety of growth centres. REDI is progressing according to the schedule with a workforce of almost 1,000, and the shopping centre's opening in autumn 2018 is fast approaching. Over half of the 283 apartments in REDI's first residential tower (Majakka) were reserved at record breaking speed as soon as pre-marketing began in early 2016. At the beginning of 2017, when actual sales started, there were reservations for almost 250 apartments.

A fundamental change to the cityscape is also occurring in Espoo, where we are building a new urban centre in Tapiola, the Niittykumpu shopping centre and apartments, and likewise



“FOR THE FIRST TIME IN SRV'S HISTORY, REVENUE ROSE IN 2016 ABOVE EUR 800 MILLION. DESPITE THIS RAPID GROWTH IN REVENUE, THE PRIORITY, HOWEVER, IS TO IMPROVE PROFITABILITY IN ACCORDANCE WITH THE COMPANY'S STRATEGIC OBJECTIVES.”





“WE ALSO REINFORCED OUR
ROLE AS A PIONEER IN HOSPITAL
CONSTRUCTION IN FINLAND.”

in Keilaniemi, where the Ring Road I project is progressing. When you add the Aalto University Campus project in Otaniemi in Espoo, our sites in Jätkäsaari in Helsinki, the Tampere Deck and Arena in Tampere, and numerous other projects, you get an indication of how both our current and forthcoming projects genuinely support our strategy as a developer of urban centres.

During 2016, we also bolstered our position as a pioneer in hospital construction in Finland. The total value of our hospital construction already exceeds a staggering EUR 500 million. The largest order we received in 2016 was for the Hospital Nova in Central Finland, which is valued at about EUR 290 million, and whose construction was launched in the summer. The Tays front yard project in Tampere and the New Children’s Hospital in Helsinki are likewise progressing according to the plan. The basic renovation of the Women’s Hospital in Helsinki was also completed in late 2016.

The lengthy recession in Russia is naturally being reflected in our operations, for example, in temporary rent discounts granted to shopping centre tenants. In view of the circumstances, our shopping centres in St Petersburg are performing excellently. In late 2016 and early 2017, Pearl Plaza broke its previous records for both visitor numbers and sales. The Okhta Mall in St Petersburg has also seen a continually increasing number of visitors since it opened in August 2016, and its occupancy rate is also improving according to the schedule. The Russian shopping centre market has become increasing rouble-based, and we therefore changed our operating currency to the rouble in September. However, this leaves us more susceptible to currency exchange rate fluctuations. In the current market situation we will naturally not be launching new projects. We will instead focus on the development and management of our existing shopping centres, and locating new business opportunities.

One of our strategic objectives is to improve profitability, and we are still nowhere near achieving this. Numerous projects aimed at improving profitability and the cost-effectiveness of projects were run during 2016. SRV’s developer-contracted housing projects and our own development projects are recognised as income in accordance with the level of completion. This is the sole reason why SRV’s earnings were unevenly distributed over the quarters and were largely geared towards the latter part of the year. A similar trend will be seen in 2017, when we expect to recognise income from almost 800 apartments, again mostly in the second half of the year. On a positive

note, our own housing developments have clearly grown in number, especially in the Greater Helsinki Area, and this trend is expected to continue during 2017.

We also re-assessed the SRV brand as part of the strategy revision process launched in autumn 2015. Our brand work has genuinely been part of our strategy work, and I believe that the new SRV brand, which was publicly launched in February, is truly based on the things that are most important to our stakeholders. The colours are the most obvious change in our brand’s outward appearance. SRV will henceforth use a strong yellow in place of our former cold, pale tones. Warm and inspirational yellow was chosen to support SRV’s renewal phase. Yellow is also seen as a colour that embodies creativity and new ideas, and helps people find new ways of doing things – and is therefore made for us. However, more important than colours are the themes of our brand: encounters and mood builder.

Encounters are important for every one of us, whether they are interpersonal or between us and a building. What, then, do these things mean in practice? How will we make them a genuine part of our activities, operating models and approach? We have already begun working on this throughout the organisation, and the pace will only increase as the year progresses.

2017 will not be an easy year for us, but we will meet it with an open mind. We are expecting both revenue and operating profit to grow compared to 2016. However, we will only reach our strategic target for profitability towards the end of the strategic period, in 2019–2020.

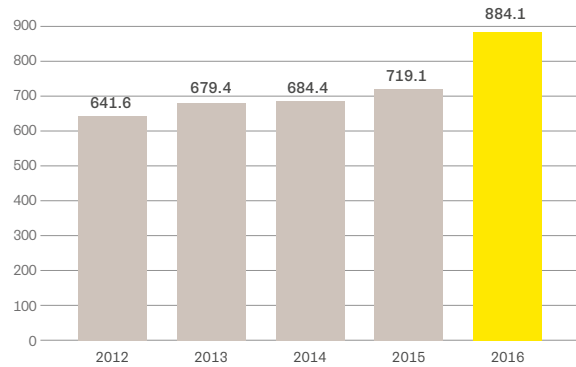
2017 also marks an anniversary for us – SRV will turn 30 in June. We have played a part in renewing cityscapes both in Finland and abroad in many ways, and this story will continue also in the future.

Juha Pekka Ojala
CEO

KEY FIGURES 2016

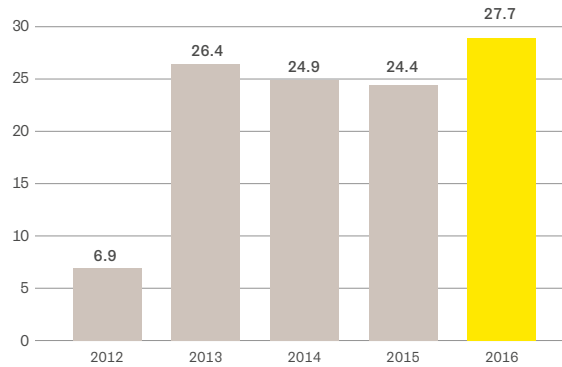
Revenue grew during 2016, while operating profit improved and the order backlog remained at a record level throughout the year. Operations in Finland increased its share of the Group's total revenue.

Revenue (EUR million)



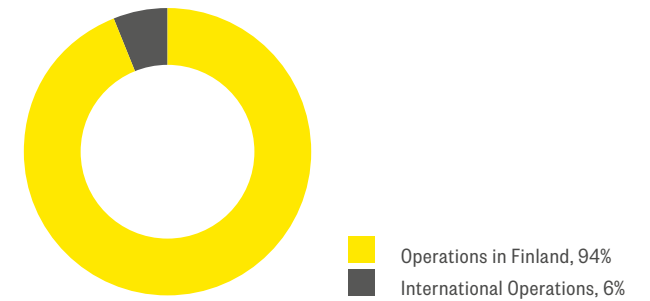
Change from 2015: 23.0%

Operating profit (EUR million)

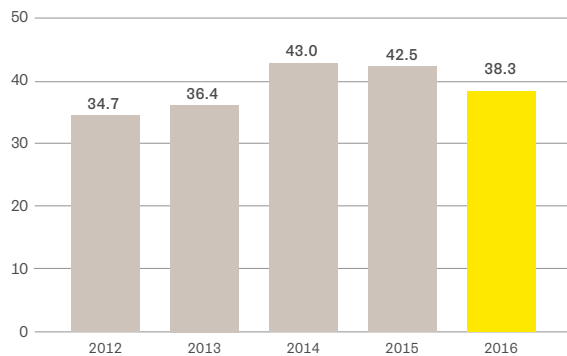


Change from 2015: 13.2%

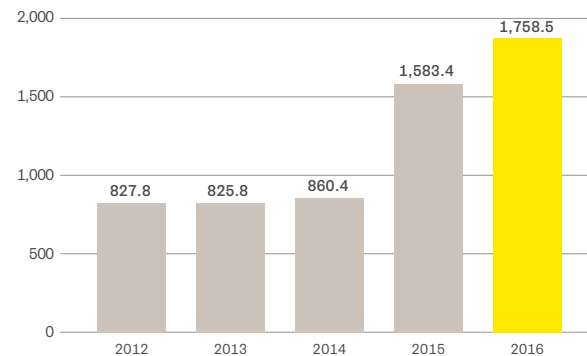
Revenue by Operations 2016 (%)



Equity ratio (%)

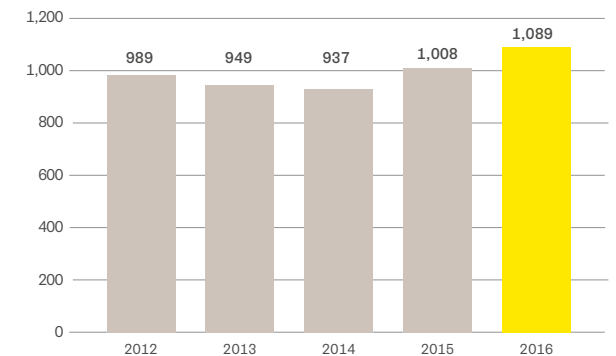


Order backlog (EUR million)



Change from 2015: 11.1%

Personnel (persons)



Change from 2015: approx. 8%

MAJOR EVENTS OF THE YEAR 2016

SRV's order backlog remained at a record high level throughout the year. Several major contracts were received during 2016. Pre-marketing for the first REDI residential tower began rapidly. SRV also bolstered its financial base with the issue of a new bond.

12 January

Pre-marketing of the first REDI residential tower in the Kalasatama neighbourhood of Helsinki started and it exceeded expectations. Over half of Majakka's 283 apartments were immediately reserved.

15 February

A multipurpose arena, with adjoining office, commercial and hotel premises and also apartments, is planned for Tampere city centre. The City of Tampere selected a consortium formed by SRV to further develop this project.

16 March

Almost 500 rental apartments in Helsinki, Espoo, Vantaa and Kerava will be built for Ilmarinen. The total value of the framework agreement is about EUR 100 million.

The company further strengthened its financing with the issue of a EUR 100 million bond that was oversubscribed two times. These funds will be allocated to, among other things, developer-contracted projects.

21 April

L Arkkitehdit Oy and the team won the New Vantaankoski competition, which sought concepts for an innovative corporate campus.

JANUARY

FEBRUARY

MARCH

APRIL

18 February

SRV is involved in the development of the Aalto University campus with the construction of a new campus building in Otaniemi and commercial premises in the Metro Centre. The total value of the contract exceeds EUR 100 million.

SRV in January–December 2015: Full-year revenue grew, order backlog almost doubles – good housing sales and result in the fourth quarter.

9 March

SRV bolsters its financial base with the successful issue of a EUR 45 million hybrid bond. The new hybrid bond was oversubscribed, and sold to 79 investors.

22 March

All of the 38 restaurant, café, bar and takeaway premises in the REDI shopping and experience centre – scheduled to open in Kalasatama, Helsinki in 2018 – were reserved.

The Annual General Meeting elects **Minna Alitalo, Arto Hiltunen, Olli-Pekka Kallasvuo, Ilpo Kokkila** (chairman), **Timo Kokkila** and **Risto Kyhälä** to the Board of Directors. A dividend of EUR 0.10 per share is confirmed.

Pre-marketing of REDI's apartments began and exceeded expectations.

Thousands of new homes are being built on the Western Metro route.



24 May

The largest construction project in Pirkanmaa – construction of the Tays Central Hospital front yard in Tampere – is going full steam ahead. The cornerstone was laid in May.

6 June

Finland's largest open data centre will be built in the Pitäjänmäki district of Helsinki. SRV is selected as the project management contractor.

8 July

The complete renovation of central Tapiola (in Espoo) will continue until 2020. LähiTapiola awards SRV a contract worth more than EUR 100 million.

27 August

The largest retail project in St Petersburg was completed when the Okhta Mall opened its doors. The shopping centre was implemented by SRV and the investment fund Russia Invest.

MAY

JUNE

JULY

AUGUST

4 May

SRV in January–March 2016: First-quarter result bland as expected, order backlog at record high.

31 May

A EUR 94 million transaction is made with the City of Helsinki for the six residential towers in the REDI project, which is being implemented by SRV in Kalasatama, Helsinki.

3 June

SRV confirms its role as the project management contractor for a new central hospital in Jyväskylä by signing an approximately EUR 290 million contract agreement. It is the largest contract in SRV's history in which the company is not committing its own equity.

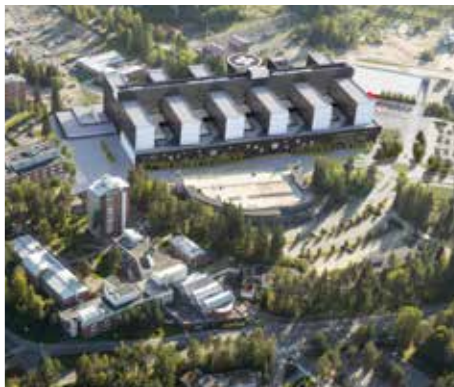
9 June

In the Keilaniemi district of Espoo, Ring Road I will be diverted through a tunnel and a park built on top of the tunnel. SRV was chosen to implement this EUR 50 million construction project.

21 July

SRV in January–June 2016: The order backlog rose to over EUR 2 billion and the full-year earnings forecast remained unchanged.

The Okhta Mall shopping centre, constructed in St Petersburg, opened its doors in August.



19–23 September

What kinds of services are needed in the REDI shopping centre and residential towers? New ideas were sought from 12 start-ups at the #REDIHACK event.

14 October

The Central Deck and Arena project being developed by SRV in Tampere is now one step closer to becoming a reality, as Finland's Slot Machine Association (RAY) selected the new multipurpose arena in Tampere to house its new Casino.

24 November

REDI will place new experiences in a shopping centre setting. Visitors will be able to try everything from flight to a 7D virtual theatre that will excite all the senses.

20 December

A new hotel is being planned for the Kalasatama neighbourhood of Helsinki. Soini & Horto Oy's entry 'HILA' won an architectural competition that is organised to aid city planning.

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

2 September

SRV changed the operating currency of its property companies in Russia from the euro to the rouble. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate.

3 November

SRV in January–September 2016: The Interim Report announced a rise in both revenue and operating profit.

1 December

Anders Liljenstolpe was appointed Senior Vice President and Head of Business Operations in Russia. Liljenstolpe has been part of SRV's Russian organisation since 2011, and has been responsible for the development and management of SRV's shopping centre projects in Russia.

29 December

A new downtown block will be built in Kerava. Aleksintori, which will comprise the Karuselli shopping centre, apartments and a shared parking facility, was sold to Etera for over EUR 50 million.

If the Tampere's Central Deck and Arena project is realised, the Arena will include a casino.



SRV'S STRATEGY

SRV revised its strategy for the period 2016–2020 in early 2016. We defined our mission and vision, three strategic objectives, and six Must Win Battles. Focusing on these programmes will ensure that SRV successfully implements its strategy by 2020. These strategic subareas, along with values and the megatrends affecting the strategy are described in SRV's strategy picture.

SRV's strategy centres around our objective of developing and building homes and spaces where people can live comfortably and enjoy life. Our strengths include long-term development work and a profound understanding of our customers' needs – things SRV has been doing for almost 30 years. SRV operates responsibly and sustainably in Finland's growth centres, and in Russia in St Petersburg and in Moscow. All the operations seek to strengthen our role as a sustainable, high-quality and customer-oriented real-estate developer and constructor, and to become the most attractive employer in the industry. We are enhancing Customer experience by creating brand-new digital solutions and services for housing and living.

SRV's strategy and operations are based on long-term co-operation. Our own personnel number is just over 1,000 people and we also have almost 4,000 partners through our unique network. SRV's entrepreneurial spirit can genuinely be seen in our daily work at all levels of the organisation.

In addition to mobilising our strategy and involving personnel, SRV's strategy efforts during 2016 focused on improving profitability, creating an outstanding customer experience, developing a sustainability operating model, and enhancing reporting.

SRV's financial objective is to raise our operating profit margin to over eight per cent by the end of the strategy period in 2020. Our return on equity will also be increased at least 15 per cent and our return on investment at least 12 per cent. Our revenue is expected to grow faster than in the industry. SRV will achieve these targets by focusing on Finland's growth centres, improving the project cost-effectiveness of our projects, shifting our focus towards residential development projects, and lightening our balance sheet.



SRV VISION 2020

SRV CREATES THE BEST CUSTOMER EXPERIENCE AS A CONSTRUCTOR OF URBAN TOWN CENTRES.

MISSION
SRV's mission is to improve quality of life by building sustainable solutions.

- Long term targets
- Values
- Must win battles
- Megatrends

THE AIM IS TO BUILD 15,000–20,000 NEW HOMES IN GROWTH CENTRES OVER THE NEXT 10 YEARS.

SRV builds homes in growth centres

SRV is already one of the largest housing constructors in Finland. In line with the strategy, SRV will continue to focus on residential developer contracting and investor projects on urban centres. Our target is to increase the market share of SRV's housing business accounted for by market-financed terrace and apartment block production in the Helsinki and Tampere regions to over 15 per cent by 2020, and thereby significantly increase revenue

from our housing business. SRV has currently have over 2,700 housing units under construction, of which 64 per cent are located in Southern part of Finland. We intend to build another 15–20,000 new homes over the next ten years.

In our business premises, SRV is placing a greater focus on project management through the use of cooperation models. SRV is seeking growth opportunities via new areas of expertise, such as lifecycle models, hospital construction, and infrastructure construction. Our current revenue from hospital construction is already in excess of EUR 500 million.

Focusing on shopping centres in Russia

SRV's international operations continue to focus on Russia, where company already owns and operates shopping centres, and develops those for exit. We are also analysing opportunities to develop shopping centre operations and business operations related to those.

Megatrends and crucial success factors

People have become used to quickly picking up on even the smallest changes that are continually happening around them. However, we still need to handle the broader-reaching changes that are occurring in the background and will completely revolutionise our way of living, such as global economic trends, continual urbanisation, and the increasing role technology plays in our daily lives.

Community, ecology and wellbeing will become increasingly important as we live longer and healthier lives. New growth will stem from services, as our ways of working and consuming are in continual flux. At the same time, prosperity and an aging population will raise demand for goods and services. Purchasing behaviour and approach to work are changing. We are buying an increasing number of products online and want them delivered directly to our doors. Permanent workstations are also becoming a thing of the past – we work at home, in cafés, at our summer cabins, or in new-style co-work spaces. In urban centres, there is a visible need for large 'packages' that combine infrastructure, shops, services and housing – which is exactly what SRV is doing in the RED1 project.

The dynamics of the operating environment of SRV and our customers



URBANISATION IS ONE OF THE MEGATRENDS MOST CHANGING THE WORLD – THE SAME IS ALSO HAPPENING IN FINLAND, WHERE PEOPLE ARE MOVING TO GROWTH CENTRES.

General economic trends and social changes are increasing migration and urbanisation. For SRV, urbanisation is the most significant of the current megatrends. It will affect SRV's operations today, tomorrow and well into the future. According to the VTT Technical Research Centre of Finland the population of Helsinki is expected to increase by 10–15 per cent over the next 25 years. Some estimates predict that three out of four people in the world will already be living in urban areas by 2050. Increased income can clearly be seen in the structure of consumer expenditure.

Leisure-time and recreational spending is increasing. People both want and need more services.

All these success factors and megatrends will affect what kind of company SRV desire to be in 2020, what our future operating environment will be like and, above all, what our customers, shareholders and stakeholders will expect and demand of us.

> Watch SRV strategy video

FINANCIAL OBJECTIVES FOR THE STRATEGY PERIOD 2017–2020

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

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

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

Financial objectives for the strategy period 2017–2020

	TARGETS SET FOR 2020	STATUS IN 12/2016 ¹	STATUS	
REVENUE (EUR million)	Faster than industry growth	884.1	●	Revenue: For the first time in SRV's history, revenue rose in 2016 above EUR 800 million, and it will also continue to grow in the coming years. Despite this rapid growth in revenue, the priority, however, is to improve profitability in accordance with the company's strategic objectives.
OPERATING PROFIT	More than 8%	3.1	●	
RETURN ON EQUITY	At least 15%	5.0	●	Operating profit: the strategic profitability target will not be achieved until the latter part of the strategy period.
RETURN ON INVESTMENT	At least 12%	6.1	●	Capital: Capital has been committed to shopping centre projects under construction (Okhta Mall, 4Daily and REDI). Capital will be released only when the investments are sold.
EQUITY RATIO	Above 35%	38.3 ²	●	Equity ratio: Two significant financing arrangements were finalised in the first quarter of 2016. Through these, the SRV Group aims to strengthen its equity ratio and to finance growth in the coming years.
DIVIDEND (EUR)	Dividend of 30–50 per cent of the annual result	0.10 ³	●	SRV has distributed a dividend in line with targets for a number of years.

¹ Based on rolling 12 months.

² Based on situation 12/2016.

³ Dividend proposal by the Board of Directors 2 February 2017.

ACCORDING TO A PERSONNEL SURVEY, STRATEGY COMMUNICATIONS HAVE BEEN A GREAT SUCCESS.

CASE: Making strategy a routine

SRV revised its strategy at the beginning of 2016. We wanted to make this strategy a genuine part of everyone's daily work from the outset, so that everyone is aware of how their work supports the implementation of our strategy.

We acquainted our employees with SRV's strategy at a variety of events throughout the year. The official launch was held in January 2016 in Helsinki. Almost 180 SRV supervisors and experts from Finland and Russia met for a two-day event.

During the spring, we went over our strategy again at the REDI Living Lab, where we arranged a total of ten strategy days targeted at our business units. Almost 400 SRV employees attended these events, which

focused on examining the concrete effect of our revised strategy on everybody's own work.

At the beginning of summer, we opened Window2020 (Ikkuna2020), which presented our outlook for 2020 in calendar format. The calendar sought to introduce common phases and themes into daily work

as naturally as possible. New items relating to a variety of areas – everything from strategic targets and megatrends to our mission – were added to the calendar throughout the year.

We continued to work with our strategy during the autumn, when both 60 site managers and 25 business managers applied themselves to training days focusing on

a range of different topics. We also made strategic advancements through a variety of development projects that involved a broad range of SRV personnel throughout the year. Strategic development work will also continue this year, so we can complete our common mission – to create the best customer experience as a constructor of urban city centres.



In strategy communications, the focus has been particularly on events that have been arranged in Living Lab, located in close proximity to the REDI construction site.

COST-EFFICIENCY IS THE KEY TO THE BEST PROFITABILITY IN THE INDUSTRY

SRV is increasingly focusing on significant projects in which we are involved as both owner and constructor. These projects are centred on growth centres with sufficient demand.

In recent decades, people of working age with good purchasing power have clearly been moving to southern growth centres, and demand for housing has therefore risen in the capital city area. Finland's housing market is also divided between a number of growing cities and a declining population throughout the rest of the country. As internal and, in particular, foreign migration is focused on growth centres, demand for housing is exceeding supply in growth centres – and vice versa elsewhere. This is why SRV is focusing its own projects on growing city centres alone. A significant proportion of our projects, including mega-projects such as REDI in Kalasatama, are located near good public transport connections in the Greater Helsinki Area. SRV is currently one of the largest housing constructors in the capital city area.

One of SRV's strategic objectives is to be the most profitable company in the industry. This will be achieved through the more prudent selection of new projects, and increasing the percentage of developer-contracted projects. We are currently engaging in several major projects as both owner and constructor. These projects include shopping centres in Russia and REDI in Kalasatama, Helsinki. SRV's goal is to build about 500–700 developer-contracted housing units per year. A total of 500 developer-contracted housing units were completed in 2016.

SRV's profitability target requires us to improve our project margins. During 2016, SRV launched numerous internal projects that focused on areas such as boosting the efficiency of procurements, improving planning, shortening construction stages, and improving the management of additional and alteration work. For example, a new operating model for additional and alteration work will already bring practical changes to construction sites in 2017. One of these will be that additional and alteration work will be discussed with the client at separate meetings.



CASE: Future construction workers will not work from eight to four

The rule of thumb is that the longer a construction stage lasts, the more it costs. If we want to lower project costs, how can we shorten construction stages without compromising on quality? A project led by Production Director **Auno Mutikainen** sought a solution to this problem. The project team studied a variety of options, such as the additional use of pre-fabricated elements, a more efficient foundation structure stage, project segmentation, and carrying out structural work in two shifts.

One option is just to carry out work in two shifts. Although this would lead to an increase in labour costs, the team's calcu-



Cost-efficiency can be improved by shortening the construction stage. Two-shift working makes a valuable contribution to achieving this.

lations indicated that shift work would be worthwhile.

"Hourly wages form only part of our expenses during the construction phase, as we also incur a range of usage and general costs, such as work supervision, the use of machinery, portacabin rental, electricity, district heating, and site security. Of course, we've also considered the drawbacks to shift work in addition to cost savings and schedul-

ing benefits. Shift work in urban areas can disturb local residents with noise or the bright lights required to work in the dark," says Mutikainen.

However, if shift work is well planned, construction time can be dramatically reduced. This will also have a clear impact on project margins. Work has been carried out in two shifts on, for example, the Niitykumpu construction site in Espoo.

TANGIBLE ACTIONS TO PROVIDE THE BEST CUSTOMER EXPERIENCE IN THE INDUSTRY

The customer experience is the sum of all the experiences a customer has in their various encounters with SRV.

SRV seeks to offer the best customer experience in the industry, so every encounter should be smooth enough to result in our customers being willing to recommend us. Encounters are vital in all activities, whether you are managing long-term customer relations with pension and investment companies, meeting home buyers or showing a buyer around their new home for the first time.

Taking measurements and developing internal processes are essential elements in creating an outstanding customer experience. For example, we collect data about home buyers in three stages: after the sale, when they are moving in, and after the completion of one-year inspection repairs. We ask our customers about a number of things, such as their satisfaction with their apartment and SRV in general, our sales personnel's conduct, the success of any alteration work, and the quality of basic interior decor. Our Net Promoter Score (NPS), which indicates how willing home buyers are to recommend SRV, was an excellent 41 in 2016 (2015: 24). Scores in the construction industry are typically much lower. SRV has achieved its strategic targets with regard to our customer experience.

Our NPS scores indicate that our customers are satisfied with SRV, especially after buying an apartment. However, this figure falls slightly after the completion of one-year inspection repairs, which is why we have been honing both our alteration concept and warranty repairs during 2016.

Our revised customer segments for 2016 will also help us improve our customer experience. This information will allow us to better plan and implement apartments to meet the needs of different target groups.

Moreover, a customer survey of business premises customers will again be conducted, so that better information is obtained from customers about how SRV should act at different stages of the project. Previously, business customers' opinions have been surveyed after the end of a project, but in the future feedback will be sought from them throughout the process; information will be collected during planning, the construction phase and about one year after the end of the project.



DELIVER SUPERIOR
CUSTOMER EXPERIENCE

CASE: Future residents are helping to build REDI

REDI's 'heights' go beyond the great physical height of the first tower to be completed. Majakka's new service concept is the height of originality, and will create a completely new standard and culture of high-rise living in Finland. Future REDI residents have also been closely involved in this pioneering work.

The service concept is extensive. Residents will have use of public areas on floors 33 and 5, as well as a concierge service to make everyday life that little bit easier. Helsinki's largest downtown shopping and experience centre will also be only an elevator ride away. All of this will be supported by brand-new smart solutions.

As we are seeking to create a brand-new culture for high-rise living, we brought



REDI's future residents have been enthusiastically involved in designing their new homes. They have already influenced facility use specifications and interior design choices.

the first tower's future residents on board from the outset. To date, we have organised two briefings and two workshops for future residents, which focused on use of the club rooms at the top of the tower and plans for the common areas located on the Park Deck. A total of almost 1,000 visitors participated in our various workshops and events during 2016 in Living Lab. The Living Lab also boasts virtual reality headsets that let you step into a 3D REDI virtual world.

AN INTERIOR DESIGN EVENING, SEEKING IDEAS FOR THE FUTURE LOOK OF HOMES, WAS HELD FOR RESIDENTS.

NEW TECHNOLOGIES SPEED UP DESIGN AND THE CONSTRUCTION PHASE

Construction is often thought of as rather a traditional industry in which digitalisation is still in its infancy. But this is not the case – technology is rapidly changing how companies operate, how properties are used, and the entire construction process.

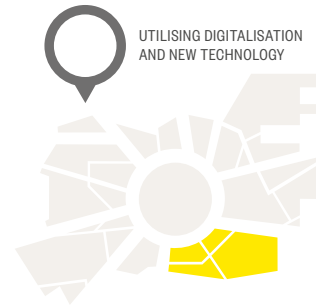
At SRV, we employ digitalisation and new technology in a broad range of areas, such as project development and planning, building services engineering, construction site management, communications and marketing, and product manufacture and service provision. One of the goals of our strategic development programme is to systematically harness digitalisation and introduce new technologies.

Digitalisation at SRV is particularly visible in the use of data models during project planning and construction. Data models are being harnessed in project management, plan inspection and reconciliation, cost calculation and scheduling, procurement, logistics, and work planning. One of the most important targets in SRV's digitalisation programme is to vastly increase the use of data models. This is why SRV implemented an extensive training programme to increase data model competence in 2016.

Construction projects involve several parties and failure to reach a common understanding may cause significant problems and delays. The development project seeks to significantly increase explanatory and participatory interaction between different parties. The introduction of a variety of shared Smart Space premises has already contributed to this.

A new intranet was developed in 2016 to facilitate communications and open dialogue. Its design pays particular attention to mobile usability and the needs of construction sites. The new intranet was launched at the beginning of 2017.

The construction industry plays a significant role in the community when it comes to shaping our homes and environment. To support us in both this role and the implementation of our strategy, SRV arranged its first ever hackathon in autumn 2016. Our aim was to come up with new ideas for services for both visitors to the REDI shopping centre, which will open in autumn 2018, and the residents of its adjoining towers. The five-day #REDIHACK was won by Get Jenny, which developed an AI solution that will make everyday life that little bit easier for both REDI residents and shoppers.



CASE: REDI already exists – as a 3D model

The REDI shopping centre and eight towers glimmer in the morning sun in Kalasatama, Helsinki. Although they do not yet exist physically, a 3D model has been created to support their design and construction.

A generation ago, 3D modelling was largely used only for computer games. But in the 2010s, data-intensive 3D models charged onto the construction scene and become a commonplace feature of major projects. Thorough planning leads to better progress on site.

“We have been harnessing the full potential of building information modelling for the REDI buildings and their surroundings. This change is visible to construction workers as printouts of 3D plans



Three-dimensional view helps in the coordination of plans.

and the use of mobile devices at installation sites,” says Planning Manager **Jyrki Maalahti**, who heads up SRV's building information modelling (BIM).

The final 3D models combine everything from precise construction plans, HVAC plans and architectural plans to rock structures and bridges. BIM for a project of REDI's vast size requires you to

factor in a variety of elements all the way down to streets and civil engineering.

“We use a lifelike 3D view during our meetings to help us coordinate work and other plans. We can even calculate REDI's construction costs using BIM,” says Maalahti.

There is also a 4D model made out of REDI. In this model 4th dimension represents time.

SUSTAINABILITY IS PART OF SRV'S STRATEGY

Sustainability plays an important role in building and maintaining a company's reputation. The importance of sustainability increases as requirements for companies tighten.

Year 2016 has seen major developments in sustainability at SRV. Since SRV's strategy revision in the early spring, sustainability has been one of SRV's six Must Win Battles. The objective for 2016 has also been to create a new sustainability programme and operating model in line with the revised strategy.

Key sustainability themes were defined during the spring at meetings led by an external expert. These meetings were attended by representatives from the Corporate Executive Team, businesses, and other important functions. The sustainability team gained a new recruit in August when **Anne-Maria Flanagan** became SRV's Sustainability Director. Work continued internally throughout the rest of the year, as the key themes were revised and elaborated on. The themes and framework for SRV's sustainability programme were approved by the Corporate Executive Team in the autumn.

In addition to strengthening sustainability efforts, sustainability reporting was also improved and further developed to meet future requirements. Particular attention was paid to the EU Directive and the changes it will bring to national legislation related to requirements for non-financial reporting. It was also determined what action will be required from SRV in this area. Other reporting frameworks and development tools are also taken into consideration when sustainability reporting is developed.

Sustainability will gain increasing importance as requirements for companies become ever stricter. Stakeholders are expecting increased openness and concrete action from industry players to tackle major sustainability challenges. Construction industry's success in this area plays a significant role in building a more sustainable society and enables advancements in many aspects of sustainability.

SRV seeks to ensure that its sustainability work best supports the attainment of strategic objectives and increases businesses' chances for success in an increasingly demanding operating environment. SRV also seeks to be an innovative and continually evolving professional in sustainability issues.



CASE: SRV's reputation good – sustainability most in need of development


Arvopaperi together with communications agency Pohjoisranta Burson-Marsteller, performs an annual analysis of the reputations of listed companies. SRV's reputation grew in the eyes of private investors in 2016. SRV was ranked 42nd among listed companies, compared to 47th in the 2015 study.

Reputation is measured through six different dimensions. Respondents assessed each company's corporate culture and governance, success, public image, products and services, sustainability, and ability to change and evolve. 1,226 people answered the survey, the majority of whom were private investors who managed their own portfolios.



Respondents thought that SRV was strongest in 'products and services' and 'ability to change and evolve'. SRV's success and public image also received good scores, while sustainability was considered to be in a slightly weaker state.

"Things are going in the right direction, but there's still plenty of work to do. This survey only measures reputation from the perspective of one target group. However, it still gives us a vital picture of how we are perceived compared not only to our competitors but also to other listed companies. We'll be taking many major steps forward in 2017, above all in sustainability," says SRV's **Päivi Kauhanen**, SVP, Communications.

 **STAKEHOLDERS INCREASINGLY EXPECT COMPANIES TO ACT MORE RESPONSIBLY.**

ENTHUSIASM IS EVIDENT IN OCCUPATIONAL SATISFACTION AT SRV

One of SRV's targets is to be the most attractive employer in its industry. A personnel survey conducted in late 2016 indicated that we have dedicated employees who are committed to the company's values and ready to put in extra effort to attain SRV's most important objectives.

The construction industry has grown rapidly in recent years and experts are sometimes in high demand. This is why it is vital for SRV to be considered a desirable workplace.

"Our revenue has increased during several years and our personnel survey indicates that we have been managing this growth well," says **Pirjo Ahanen**, SVP, Human Resources.

Since 2015, SRV has been measuring overall personnel satisfaction using the PeoplePower index¹. SRV's employees, who number just over 1,000, are on average extremely satisfied with their workplace and SRV was one of Finland's Most Inspiring Workplaces for the second year in a row. The index for SRV personnel working in Finland was 73.3, meaning that we received the second-highest rating of AA+. Our index rises by several points when those working in Russia are included. This score is clearly better than the norm for salaried personnel (66.7).

"SRV's greatest strengths are to be found in company-wide elements: its employer image, and its leadership and working culture. Our communications about our strategy have also been very successful. The only areas that fell slightly short of the norms were inter-unit cooperation and information flow in the workplace."

The results are even more significant than before, as the response rate noticeably increased on last year. The response rate for the Group as a whole was 77 per cent, and the response rate for those working on construction sites saw a fantastic rise from 25 to 54 per cent.



CASE: Putting together a top team

One of SRV's targets is to be the most attractive employer in its industry by 2020. We have increased our personnel's competence and interest in their own work in a number of ways, such as investing in training to support each employee's own learning path. SRV broke records in training in 2016, as over 620 employees took part in SRV Step Academy programmes and online courses.

We also started thinking about new ways to recruit the top experts in our industry. In July 2016, SRV decided to implement a completely new kind of recruiting campaign by making a pit stop at Jyväskylä's Neste Rally.

"We wanted to go out and meet potential employees in the places they go

We needed new people in Jyväskylä in particular, thanks to the launch of the Nova hospital project last summer, and what could be a better place to meet them than the traditional Neste Rally?" says SRV's Pirjo Ahanen, SVP, Human Resources.

SRV's 'recruitment pit stop' – the Rekryvarikko – was erected in the Neste Rally event area for two days at the end of July. Visitors were able to hit the gas in a driving simulator, battle for pole position, and learn about open positions at SRV. More than 1,000 people visited the Rekryvarikko over the two days, and the feedback was enthusiastically favourable. Our innovative recruiting method also caught the attention of the local media. SRV Central Finland's Regional Director **Timo Kauppi**, who ran the Rekryvarikko, gave several interviews.

"It was a great success. Through the Rekryvarikko, we found many seasoned professionals to help us build the new hospital in Central Finland," says Kauppi.

As the hospital Nova team included some new faces, SRV decided to try out the new Dream Team concept – an external consultant spars with the team from the outset, to promote smooth and productive cooperation and forge cohesion

and a good team spirit. This trial produced excellent results, so we will be using Dream Team sparring again to form other top teams at SRV.



SRV has recruited professionals into its ranks using the most innovative means: for example, with the Rekryvarikko recruitment drive at the Neste Rally.

¹ The PeoplePower® index is a benchmark used by Corporate Spirit Oy. It measures factors such as commitment, leadership and performance. Companies are categorised according to the overall results of their personnel surveys (C-AAA) on the basis of personnel's dedication. Corporate Spirit Oy presents Most Inspiring Workplace in Finland awards to companies that achieve the highest results (categories AA+ and AAA). SRV was ranked 11th in Finland in 2016. Our most inspiring workplace ranking for 2017 was once again an excellent 14.

FUTURE GROWTH FROM URBANISATION

SRV is seeking future growth in three areas above all: the housing business, developing a new model for public-sector construction, and expansion of shopping centre operations.

Helsinki's master plan has been based on its predicted population: Helsinki will have about 860,000 residents and 560,000 jobs by 2050. Estimates indicate that Finland will require a lot of new housing in growth centres. House prices in growth centres have risen and stricter bank regulation has made it more difficult for Finns to obtain mortgages, which means that more affordable housing is required in growth centres. For example, SRV has studied modular construction models used elsewhere in Europe and their suitability for Finland.

Municipalities are increasingly being left with ageing housing stock but money and resources to maintain them or start new construction is all the time less. A greater shift towards lifecycle construction is also predicted in public-sector service construction. In this model, the service provider is responsible for project design, planning, construction and maintenance throughout the contractual period (15–25 years). This is a new type of project for SRV and as yet only accounts for a tiny fraction of our business.

Over the coming years, SRV will be seeking growth from shopping centre construction and management projects in particular, as this market is expected to increase in both Finland and Russia. In recent years, we have implemented several shopping centre projects in Russia, and have also successfully developed our shopping centre operations in St Petersburg and Moscow. Our aim is to harness this expertise more extensively in the future, for example, in shopping centre management, further developing existing shopping centres, and in the design and construction of future concepts.



CASE: Tricky questions about shopping centres

Your objective is to seek growth from shopping centre operations? How will you go about this?

One of the jewels in our crown is the Kamppi Centre, which we sold soon after it was completed. We are currently managing two partially owned shopping centres in Russia, and are currently building four shopping centres in Finland and Russia. These include REDI in Helsinki and 4Daily in Moscow.

Finland already has almost 100 shopping centres. Is it worth building more?

Yes, it is. Shopping centre sales and visitor numbers have seen year-on-year growth of about 3–6 per cent over the last five years. According to the 2016 Shopping Centre Barometer, large shopping centres in the


capital city area are going strong in spite of increasing competition.

How are Russia's shopping centres doing?

The lengthy recession in Russia is naturally being reflected in its shopping centres, for example, in temporary rent discounts granted to tenants. On the other hand, middle-class consumption is domestically focused, as foreign travel has decreased and domestic travel increased. In 2016, visitor numbers at the Pearl Plaza shopping centre in St Petersburg rose by 11 per cent and rouble-denominated sales by 19 per cent.

What are the occupancy rates for REDI (still under construction) and the Okhta Mall, which opened a few months ago?

REDI currently has an occupancy rate of 50 per cent, and Okhta Mall 70 per cent.

 SHOPPING CENTRES IN FINLAND HAVE INCREASED THEIR SALES OVER MANY YEARS.

How do your shopping centres differ from others?

People are expecting more and more from shopping centres these days, as there is stiff competition for their time. Shopping opportunities alone no longer suffice – people want a shopping centre where they can also spend time and have experiences. For example, if you want to take a break from shopping at REDI, you will be able to try your hand at climbing or jump in a flight simulator.

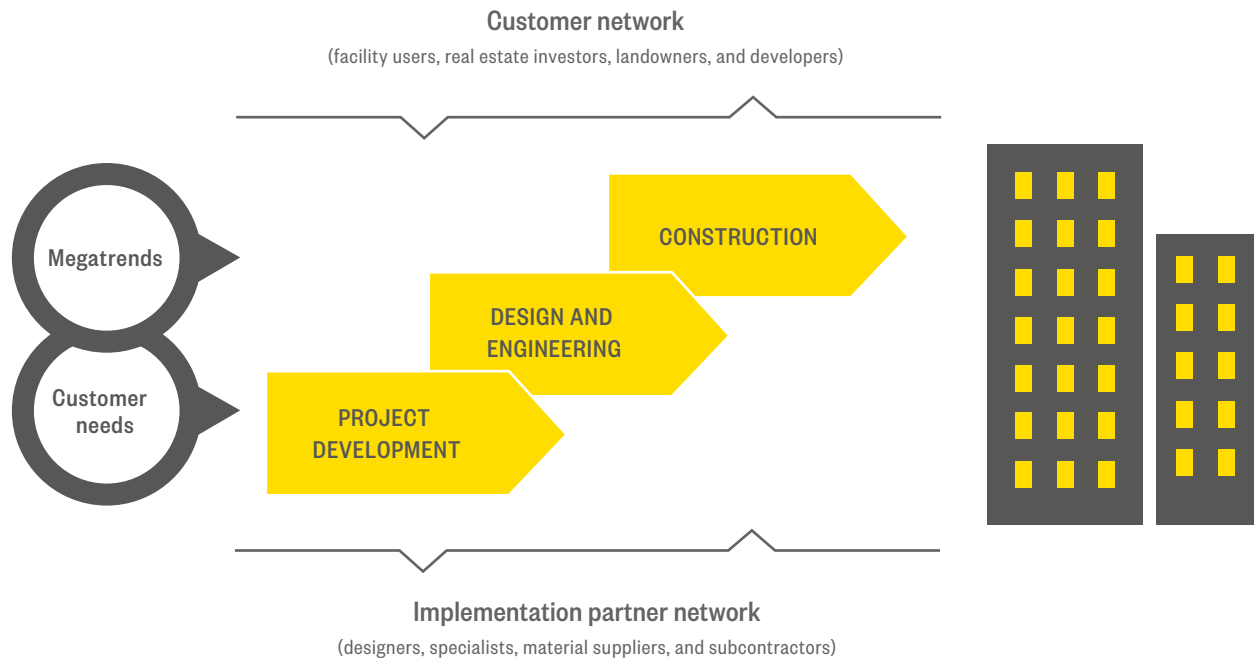
You can read more about our Russian shopping centres on page 27.



Pearl Plaza, St Petersburg.

THE SRV APPROACH UTILISES THE SUBCONTRACTING NETWORK, CO-OPERATION, AND FINANCIAL PARTNERS

SRV is not a traditional construction company that only gets to work after winning a price-competitive tender. Quite the opposite. SRV is increasingly engaging in projects in which we play a greater role as a more influential developer or as a temporary owner.



Thanks to its end-to-end approach, SRV has stood out from the crowd throughout its 30-year history. The SRV Approach covers not only the entire construction value chain but also an increasing proportion of the property investment value chain, all the way from identifying trends and future requirements to leading project brainstorming, implementation, planning, financing, land acquisition and construction. In the case of shopping centres, it even extends to property management right up to the exit phase.

The SRV Approach differs from that of many other companies in the industry, not only due to its extent but also due to its high level networking. The SRV Approach is a highly scalable model, as it

harnesses our subcontractor network, financing partners and other partners. For example, we primarily employ subcontractors on our construction sites. This is why SRV can undertake many large-scale projects at once, whilst also being able to agilely scale down its volume and costs as required.

The income SRV obtains from our own development projects is significantly better than that from competitive contracting, so the company's strategy is to increase the proportion of revenue accounted for by our own development projects. Examples of such projects are REDI in the Kalasatama neighbourhood of Helsinki, Finland and the Okhta Mall in St Petersburg, Russia.

The cornerstones of the SRV Approach

Own project development

SRV's project development unit serves all business operations and is responsible for tasks such as land acquisition, zoning, concept design, and locating investors and anchor tenants. SRV has its own project development both in Finland and in Russia.

Project financial management

Capital management is an essential element of project value formation. SRV seeks funding for specific projects from banks, investors and other partners. We also invest our own funds in some projects.

Efficient construction

The efficiency of SRV's project implementation is based on the SRV Approach, a project management model that centres around our customers' needs. Projects are implemented in open cooperation with our customers, with SRV professionals responsible for project management. When implementing the project, they are able to harness our extensive and skilled partner network. In 2016, SRV cooperated with a total of 4,000 subcontractors, through which SRV employed 25,000 construction industry professionals.

Optimising rental income

SRV is responsible for locating users for its own development projects. Finding anchor tenants is the cornerstone of any development project, and the success of this phase impacts its start-up schedule. Construction is only launched when a sufficient occupancy rate has been achieved.

Management of the end investor market

A fully leased shopping centre, office or residential building is an attractive investment, as the annual rental yield from these projects is already known.



A modern Metro Centre, the Niitty shopping centre meadow and homes for thousands of new residents will be built at Niittykumpu, Espoo.

DIVERSE PROJECTS

SRV is currently building developer-contracted projects, development projects, and construction contracted projects.

1. **A developer-contracted project** is a project that is developed by SRV and which has not been sold when construction begins. SRV bears the risks involved in both the sale and construction of such projects, which are recognised as revenue when they have been completed and sold.
2. **A development project** is a project that is developed by SRV, but which is sold to an investor before construction begins. SRV bears the construction risks in such projects, which are recognised as revenue according to the percentage of completion.
3. **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.

CASE: Thousands of homes along the Western Metro line

The extension of the capital region's metro line – the Western Metro – is being built from Helsinki's Ruoholahti to Espoo via Lauttasaari. During the first phase, 14 kilometres of track with eight new stations will be completed between Ruoholahti and Matinkylä.

Although the Western Metro is behind schedule due to factors beyond SRV's control, areas along the metro line are currently being designed and built at a fast pace. SRV has sites close to almost every station.

Koivusaari's beautiful seaside metro station was built by SRV. And when the

metro sweeps up from under the sea on its way to Keilaniemi, it passes another SRV construction site near the station, where Ring Road I is being diverted into a tunnel. Once a peaceful park has finally been placed above the busy ring road, SRV will be turning its sights to a new goal in the park's vicinity: building Espoo's highest residential buildings. In Tapiola, the entire city centre is being refurbished, and a new shopping centre and residential buildings are being erected above Espoo's Niittykumpu metro station.

WESTERN METRO SITES
BEGAN TO BE ACQUIRED
OVER TEN YEARS AGO.

"SRV is working as a project management contractor for both the Koivusaari metro station and Tapiola city centre, but many of the sites along the Western Metro are SRV's own development projects," says **Jouko Pöyhönen**, Director, Project Development.

"In project development, we are always thinking about how urban areas and their infrastructure are developing. We follow EU decisions, port decisions, regional plans and urban master plans. We also consider how foreign cities are developing and, of course, what people will want from their homes in the future. This enables us to make accurate predictions of which direction the capital region will grow in," says Pöyhönen.

The groundwork carried out by project development is now concretely visible along the Western Metro line. Pöyhönen says that SRV already began acquiring sites along the Western Metro over 10 years ago. In practice, this meant locating and purchasing suitable plots, making planning reservations, and taking part in development competitions.

"In Kaitaa, we found out who owned the land alongside the future metro station. We then negotiated its purchase with the

Espoo Lutheran Church (Espoon Seurakunta). In Kivenlahti, we entered the area's development competition with an idea that would harmonise the district's community structure. In Nittykumpu, our plans helped us acquire a team of investors. With them, we drew up a proposal for a shopping centre and new housing that would enable the city to build a metro station during the first phase of the Western Metro," says Pöyhönen.

With the instincts of a private detective

A diverse range of professionals work in SRV's project development. One has worked as an architect, another in city planning, and a third for an investment company. Project development profession-



Project Development sought ideas by exploring the world's largest urban development.

als combine expertise in land acquisition, planning, financing, and customer understanding. It's not something you can study for at school – it is experience that can only be acquired over the years.

"Nowadays, there is plenty of information available in digital format. You can easily examine maps and plans on screen, but nothing beats hopping in your car and driving around, looking closely at buildings and plots first hand," says Pöyhönen.

Pöyhönen, like the others working in project management, knows the buildings and traffic routes of the capital city region like the back of his hand. But the people working in project development are also familiar with major cities in other countries, whose development they also follow closely.

"Almost inevitably, many of the changes that have happened in major foreign cities will also occur in Finland," says Pöyhönen.

One such example can be found in England. London's old docklands began to be converted into residential areas back in the late 70s. For example, the construction of housing on the former port area of Canary Wharf began in the early 1980s. A similar decision was made in Helsinki in the 1990s, when the city decided to locate its new port in Vuosaari. This freed up the Kalasatama and Jätkäsaari areas for new uses. And the rest is history. Today, SRV's cranes soar above Kalasatama, building the shopping centre and Finland's highest buildings.

And in which direction will the city grow in the future? Pöyhönen will not say – it is a million-euro secret.

EARTHWORKS, A METRO STATION AND SKYSCRAPERS – examples of SRV's projects along the Western Metro line



Koivusaari metro station

The seaside metro station built by SRV in Koivusaari is unique in many ways. "Construction 30 metres below sea level and a tight schedule guaranteed that this would be a real showcase project for us," says Production Director **Antti Raunemaa**. The station was implemented as a project management contract, and was selected by the journal *Rakennuslehti* as Construction Site of the Year 2015.



Aalto University

SRV is involved in the development of the Aalto University campus with the construction of a new campus building in Otaniemi and commercial premises in the Metro Centre. In 2018, the Aalto University School of Arts, Design and Architecture will be moving into a new building designed by Verstas Arkkitehdit Oy.



Ring Road I in Keilaniemi

In early 2016, the City of Espoo chose SRV to implement alterations to Ring Road I. In this major project, Ring Road I traffic will be diverted into an underground tunnel, and a park will be built above it. The diversion of Ring Road I into a tunnel is an essential element of development plans for the Keilaniemi area. The tunnel will enable the construction of the skyscrapers planned for the area. If realised, the Keilaniemi Towers will be the highest residential buildings in Finland, with the tallest soaring to a height of almost 145 metres.



Niittykumpu

The Niittykumpu neighbourhood in Espoo will become a modern metro centre and home to thousands of new residents. The area is getting a new metro station with a shopping centre above it. Residential towers will be built on both sides of the station, and several other apartment blocks will also be going up in the vicinity. The higher of the residential towers going up in conjunction with the shopping centre is the 26-storey Niittyhuippu building.




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 to implement around 30 per cent of these residences.

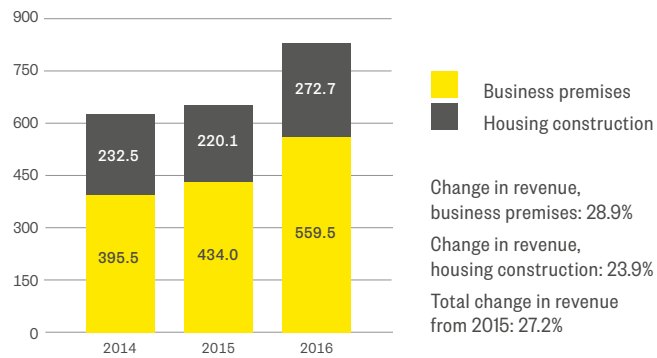
OPERATIONS IN FINLAND

Construction is expected to increase in the coming years, particularly due to urbanisation.

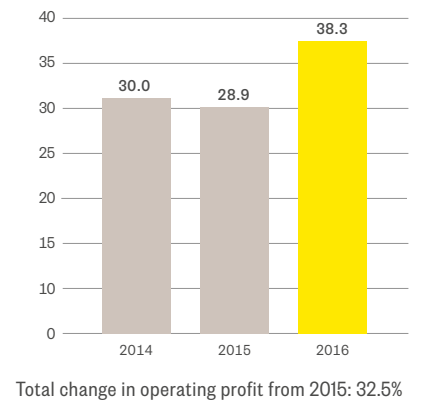
- Construction is estimated to have seen exceptionally steep growth in 2016, about 6–7 per cent. New construction has been brisk in all sectors. However, this year growth is forecast to slow down significantly to about 1–2 per cent. (Source: Business cycle review by the Confederation of Finnish Construction Industries RT 10/2016) RT will release its next review in February 2017.
- Urbanisation and population shift will continue to be the main drivers of construction and will maintain the need for both housing and business construction in growth centres, which are SRV's strategic key points. According to VTT's forecast, urbanisation will continue, as Finland's urbanisation ratio is clearly lagging behind other industrialised nations, such as Sweden. The most optimistic forecasts estimate that about 620,000 people in Finland might move into urban areas by 2040. (Source: VTT Technical Research Centre of Finland, Demand for new dwelling production in Finland 2015–2040, 01/2016.)

 IN FINLAND, THE RATE OF URBANISATION IS SLOW COMPARED TO OTHER INDUSTRIALISED COUNTRIES.

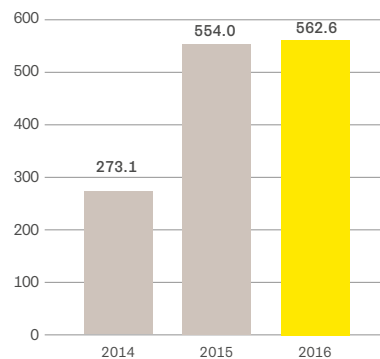
Revenue, Finnish business (EUR million)



Operating profit in Finland (EUR million)

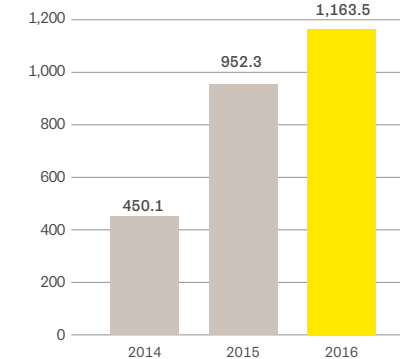


Order backlog, housing construction (EUR million)



Change in order backlog, housing construction: 2%

Order backlog, business premises (EUR million)



Change in order backlog, business premises: 22.0%

HOUSING CONSTRUCTION IN FINLAND

SRV is focused on building homes particularly in growth centres. SRV is one of the Helsinki Metropolitan Area's largest builders of housing.

- Housing construction revenue and order backlog in Finland increased in January–December 2016.
- The construction of developer-contracted housing contributed to this revenue growth, and the order backlog received a boost from increased investor sales.
- In line with its strategy, SRV is focusing its housing production on urban growth centres and, above all, locations with good transport connections. SRV is currently one of the largest housing constructors in the Greater Helsinki Area. The company has a total of 2,696 housing units under construction, 63 per cent of which are in Uusimaa. More than 800 developer-contracted housing units are currently under construction.
- REDI in Kalasatama, Helsinki is the largest construction project in SRV's history. Sales of REDI's first residential tower (Majakka) apartments began in February 2017. At that stage over 90 per cent of the 283 apartments have been reserved.
- SRV intends to build another 15–20,000 new homes over the next 10 years.
- SRV is focusing on housing construction alongside rail routes. For example, over 1,000 homes have been built along the Western Metro line in 2014–2016. Over 2,500 homes are to be built over the coming years.
- In addition to REDI, SRV's largest ongoing developer-contracted housing projects are Niittyhuippu in Espoo and Satamarannan Masto in Oulu.



CASE: Did you know this about high-rise construction?

1. SRV is building some of Finland's highest buildings.
2. Eight towers are being built in REDI in the Kalasatama neighbourhood of Helsinki, with the tallest reaching 132 metres. Espoo's tallest building, Niittyhuippu, is also going up in Niittykumpu. A 50-metre, 16-storey building – Satamarannan Masto – is also under construction in Oulu. SRV is also planning more skyscrapers for the Keilaniemi district of Espoo, with the tallest having 40 storeys.
3. The world's tallest building is the 828-metre Burj Khalifa in Dubai. Finland's largest skyscraper is Hotel Tornii Tampere, which is 88.5 metres high.
4. The introduction of a high-rise building into an area can lead to the formation of strong winds between buildings. Wind generally does not cause problems in a low-rise cityscape. It can be controlled with windbreakers, for example.
5. A wind tunnel test is almost always conducted when designing high-rise buildings. A miniature model of the building and its surroundings is built and laboratory tested in a wind tunnel.
6. Construction workers on high-rise sites are shielded with a Sky Deck protective structure.
7. A stack effect can also be observed in the stairwells and lifts of high-rise buildings, that is, a strong upwards air current. This is prevented with draught lobbies and a range of door solutions.
8. It is also important to ensure that facade maintenance, such as window washing and seam replacement, can be performed efficiently.

WE ASKED WHAT PEOPLE WERE LOOKING FOR IN A HOME

Location was still a key criterion when choosing a new home, but other factors are having an increasing impact.

THE TOP 3 WERE


- 1 A BALCONY
- 2 GOOD SOUND INSULATION
- 3 GOOD PUBLIC TRANSPORT CONNECTIONS

Source: Interview survey 4/2016, n=779, Gemic/Norstat panel

BUSINESS CONSTRUCTION IN FINLAND

SRV is currently building several hospitals in Finland, such as the new Hospital Nova in Central Finland.

- Business construction revenue and order backlog increased in 2016.
- SRV aims to increase order backlog in line with strategy, so that the average margin of order backlog will rise.
- Business was boosted by hospital projects, alliance contracts and infrastructure construction in particular.
- SRV further bolstered its position in infrastructure construction during 2016. In summer 2016, SRV was selected to implement the Ring Road I construction project in Keilaniemi, Espoo. Ring Road I traffic will be diverted into an underground tunnel, and a park will be built above it. Infrastructure construction volumes are also being boosted by the underground parking facilities under the REDI shopping centre and the excavation of the Western Metro tunnel in Kaitaa.
- SRV currently has five alliance projects on-going whose revenue amounts to about one-fifth of the total revenue from business construction. Alliance projects provide additional earnings potential over and above ordinary income recognition.
- SRV's major shopping centre projects, such as the REDI shopping centre in Kalasatama, Helsinki and the Niitty shopping centre in Espoo, are also reflected in its revenue.

 SRV'S SHOPPING CENTRE DEVELOPMENT PROJECTS ALSO GENERATED REVENUE.



CASE: Implementing Finland's largest hospital projects

SRV has profound expertise in the construction of healthcare and other demanding specialised premises. SRV is currently Finland's largest implementer of hospital projects, and the total value of the several hospital projects now under construction exceeds EUR 500 million.

One significant hospital project launched in 2016 was the construction of the new Hospital Nova in Central Finland. Two figures illustrate the magnitude of this project: the

building itself is four times the size of Helsinki Railway Station (a gross floor area totalling about 106,800 brm²) and the construction of the new hospital is valued at a total of about EUR 290 million. Hospital Nova will be the largest public investment ever made in Central Finland, and is also the largest contractor agreement in SRV's history in which we have not committed our own capital. The new hospital will replace the majority of the existing central hospital. Construction work

in Kukkumäki began in August 2016 with earthworks, and the hospital is scheduled for completion in stages by 2020.

In many ways, SRV's role in the community as a city-centre developer and constructor culminates in hospital projects such as these. The company's handiwork can also be seen in the New Children's Hospital in Helsinki, the additional emergency room building at Jorvi Hospital in Espoo, and the new building in Tays front yard in Tampere.

INTERNATIONAL OPERATIONS

Positive signals are perceptible in Russia's economy. SRV believes that the strengthening of the rouble provides a good foundation for the operation of shopping centres in Russia.

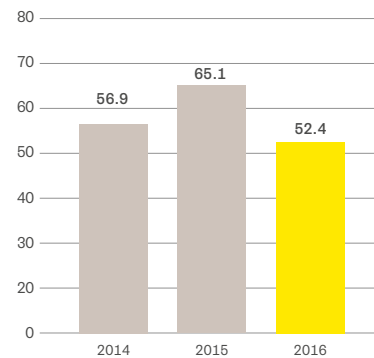
Operating environment

- Expectations for the Russian economy have become slightly more positive. The Bank of Finland's Institute for Economies in Transition forecast (September 2016) that Russian gross domestic product will gradually recover. In 2017, gross domestic product is expected to grow by approximately one per cent. The price of oil rose in 2016, contributing to the Russian economy, and is also expected to see further moderate increases in 2017–2018. In addition, the oil price has affected the exchange rate of the rouble, which strengthened by about 20 per cent in 2016.

International Operations

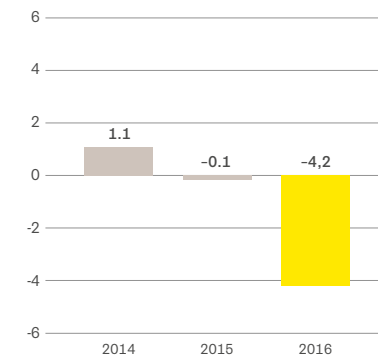
- The gradual slowdown in inflation supports the recovery in private consumption. Middle-class consumption focuses on domestic markets as foreign travel has declined and domestic travel has increased. The most popular destinations among Russian domestic tourists are St Petersburg and Moscow. SRV partly owns modern shopping centres in both cities.
- SRV believes that the appreciation of the rouble provides a strong foundation for operating shopping centres in Russia. Although retail sales fell by 5.1 per cent in Russia over the year, sales and footfall increased in SRV's shopping centres.
- Full-year revenue in the International Operations decreased as expected in 2016. The majority of the revenue accrued from the construction of the Okhta Mall and 4Daily shopping centres. The Okhta Mall shopping centre in St Petersburg opened its doors in August 2016, while the 4Daily shopping centre in Moscow was handed over to the client in December 2016.
- Operating profit from the International Operations decreased. Operating profit was boosted by the exchange rate of the rouble but weakened by fixed-term rent discounts granted to tenants, the commencement of planned depreciation and an asset impairment on one site.

Revenue, international business (EUR million)

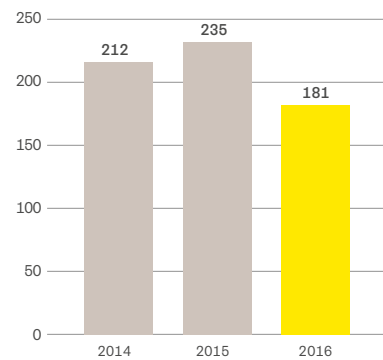


Change from 2015: -19.5%

Operating profit, international business (EUR million)

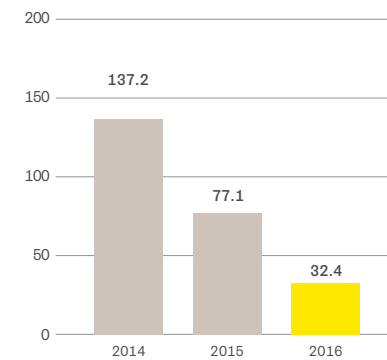


Personnel, internationally (persons)



Change from 2015: -23.0%

Order backlog internationally (EUR million)



Change from 2015: -58.0%

- SRV's operating currency in Russia has been mainly the euro. However, the company's rental activities have begun using the rouble to the extent that SRV's subsidiaries and associate companies in the property sector changed their operating currency to the rouble during 2016. The change of the operating currency used for accounting exposes SRV to greater fluctuations in the exchange rate of the rouble.

SHOPPING CENTRES IN RUSSIA

Pearl Plaza, St Petersburg

- SRV's ownership: 50 per cent
- Opened in 2013
- Full-year rouble-denominated sales increased by 19 per cent, and euro-denominated sales increased by ten per cent in comparison with the corresponding period in the previous year
- Fully leased

Okhta Mall, St Petersburg

- SRV's ownership: 45 per cent. SRV also owns 27 per cent of the other owner, Russia Invest
- Opened in August 2016
- At the end of December, 70 per cent of the units in the shopping centre had been let
- Footfall at Okhta Mall has developed as expected, with almost 10,000 daily visitors
- The largest tenant is Lenta, a Russian grocery chain

4Daily, Moscow

- SRV's ownership: 18.68 per cent
- The 4Daily shopping centre was handed over to the client in December 2016, but some minor work remains in progress on the site
- Occupancy: 65 per cent
- Opening in April 2017
- The largest tenant is Miratorg, a Russian supermarket



Okhta Mall opened its doors to St Petersburg consumers in August 2016. The shopping centre has won awards for its architecture and marketing.

CASE: St Petersburg's city centre moves to Okhta

St Petersburg's largest equestrian statue rides slowly along the River Neva. Tourists stare. A young man shares a photo of this strange event on social media. The brass rider continues his journey past the Winter Palace towards Okhta, a neighbourhood located only a few kilometres from the centre, east of the Neva.

Closer examination reveals that this is merely a copy of the famous statue. But what's it all about? Moving the statue was part of an advertising campaign whose theme was 'St Petersburg's city centre moves to Okhta'.

The idea was to entice people to the Okhta district, where the Okhta Mall

opened in August. Valued at about EUR 200 million, it is one of SRV's top projects in Russia.

In addition to traditional advertising, visitor numbers were boosted with a variety of weekend events – everything from street food festivals to children's carnivals. An Astrid Lindgren event was the highlight of the autumn, when Pippi Longstocking and Emil of Lönneberga also made their way to Okhta.

Both the shopping centre's architecture and marketing quickly received recognition when the Okhta Mall was given an award at the esteemed European Property Awards 2016 in October.



HELLO! WHAT HAVE YOU DONE TODAY AT PEARL PLAZA –SHOPPING CENTER?

Natalia, 46
 "Today we came to Plaza to make a haircut in Voo Brazhulya and before it we made a purchase in Detskyi Mir. My kid likes to visit this shopping mall so do I."



Valeriy, 32
 "We live near Plaza and often come here. Today we had breakfast on the food court while our mom was shopping."



Tatiana, 27
 "I came to Plaza today to make a little shopping. I've bought a t-shirt in Modis and I'll try to find something else. Now it's sales time and there are a lot of good offers."



SUSTAINABILITY MANAGEMENT IS PART OF DAILY WORK

SRV seeks to ensure that sustainability supports SRV's business and the attainment of its strategic targets. Sustainability work is target oriented, well managed, and part of daily work in all units and on every construction site.


Several policies govern the sustainability of SRV's operations, such as SRV's Code of Conduct (revised during 2016, approved in February 2017), environmental policy, HR policy, procurement policy, communications policy and safety policy. Practical instructions supplement and elaborate on the guidelines laid down in the Code of Conduct and other policies.

The Group's President & CEO is ultimately responsible for the outcome of SRV's sustainability work. The Group's SVP, Communications is in charge of practical sustainability work, assisted by the sustainability and communications teams. The Sustainability Director is responsible for collating, developing and reporting on SRV's sustainability programme and targets. The sustainability programme and its associated targets are honed in cooperation with a network of representatives from SRV's businesses and functions.

Sustainability related statements and action plans, such as the sustainability programme and its targets, are approved by the Group's Corporate Executive Team and are also discussed by SRV's Board of Directors when necessary. The Corporate Executive Teams for Finland and International Operations discuss sustainability issues as part of routine business management and development.

SRV's risk management is responsible for identifying and reporting on sustainability-related risks, and also for taking any required action. Identified sustainability risks include environmental risks, work safety risks, and reputational risks related to contractors' unethical conduct. SRV's risk management framework will be revised during 2017 to provide better coverage of any sustainability risks that may arise.

SRV has an ethical channel that anyone can use to report failings in SRV's operations, such as activities that contravene the Code of Conduct. Any observed or suspected activities may be reported confidentially.

 TRUST IS EARNED BY MEETING CONSTANTLY GROWING DEMANDS.

Sustainability work is largely the same work that SRV has been doing for a long time, such as appropriate waste management on construction sites, improving work safety for both SRV's own and subcontractors' employees, good governance, and making procurements in a manner that stands up to critical scrutiny.

Implementing sustainability practises

Managing and implementing sustainability practices means all the work that SRV does to be a trustworthy and reliable partner. Trust is earned by meeting continually growing demands relating to, for example, ethical working principals, openness and transparency.

On a practical level, sustainability work is largely the same work that SRV has been doing for a long time, such as appropriate waste management on construction sites, improving work

safety for both SRV's own and subcontractors' employees, good governance, and making procurements in a manner that stands up to critical scrutiny.

During 2016, sustainability issues were collated into one package: SRV's sustainability programme. Grouping these issues under a single heading makes them easier to manage, that is, makes it easier to set targets, measure progress, and make practical improvements where required.



SUSTAINABILITY REPORTING REQUIREMENTS ARE INCREASING

SRV develops its sustainability reporting on a basis of openness and transparency.

SRV's sustainability reporting is founded on a principle of relevance. SRV develops its sustainability reporting on a basis of openness and transparency, so that it will serve the information needs of both internal decision-makers and stakeholders. SRV's aims to adhere to all of the (legal or common industry) requirements for sustainability reporting. In its development work SRV also takes voluntary reporting initiatives and other tools into consideration.

Unless otherwise mentioned in conjunction with a specific item, the limitations of SRV's sustainability reporting are identical to those of SRV's financial reporting. SRV's long-term goal is to widen the scope of reporting coverage regarding both the themes and the value chain.

Requirements for non-financial reporting

As a public listed company, SRV will be governed by the EU Directive's new requirements for non-financial reporting, which will be brought into effect via amendments in national legislation (Directive 2014/95/EU of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups). The disclosure of non-financial information seeks to promote openness and transparency in this area for a variety of stakeholders, thereby boosting both growth and market confidence.

Reporting requirements govern areas such as environmental issues, social issues, employees, human rights, prevention of bribery and corruption, processes to ensure due diligence, and significant risks and how they are being managed. The requirements also contain principles governing the diversity of the board of directors.

SRV's reporting will be in line with the new requirements as of 2017.

Theme	Status 2016	Where to find information?
Environmental impact	<ul style="list-style-type: none"> Code of Conduct and environmental policy state principles and focus areas Data collection and reporting are on a good level Long term target setting requires development Not included in the procurement criteria Not part of risk management (safety aspects included in the risk management) Value chain viewpoint requires development 	Construction quality means future proof spaces p.35
Occupational health and safety	<ul style="list-style-type: none"> Occupational safety principles, target setting and follow-up are on a good level Data collection and reporting are on a good level Part of risk management Value chain points of view are presented (subcontractors, suppliers) Not included in procurement criteria 	Safe and inspiring workplace attracts future employees p.39
Respecting human rights	<ul style="list-style-type: none"> Basic principles (commitment to respect human rights) are stated in the updated Code of Conduct (approved 2/2017) Requires research and development of targets, data gathering and reporting Not included in procurement criteria 	A responsible actor is a desirable and trustworthy partner p.32 Safe and inspiring workplace attracts future employees p.39
Work against corruption and bribery	<ul style="list-style-type: none"> For fighting economic crime principles, targets, follow-up, data collection and reporting on a good level For other aspects statements included in the updated Code of Conduct (approved 2/2107) Requires longterm development and target setting Value chain points of view are presented (subcontractors, suppliers) 	A responsible actor is a trustworthy and desirable partner p.32 A reliable partner network enables success p.42
Personnel wellbeing and corporate social responsibility	<ul style="list-style-type: none"> For wellbeing and leadership development the principles, targets and follow-up are on a good level Data collection and reporting require development For other aspects long-term goals need to be set and data collection and reporting require development Social responsibility aspects are not yet part of procurement criteria Social responsibility aspects are not included in the risk management processes Value chain perspective requires development 	Safe and inspiring workplace attracts future employees p.39 A reliable partner network enables success p.42
Risk management	<ul style="list-style-type: none"> Economic responsibility is part of risk identification, management and follow-up Social and environmental aspects have to be systematically included in the processes Identification, management and follow-up processes need to be developed in order to respond to growing demands 	Sustainability management is part of daily work p.28 A responsible actor is a desirable and trustworthy partner p.32 Risk management p.52
Diversity principles of governing bodies	<ul style="list-style-type: none"> Diversity principles are presented as a part of Corporate Governance Statement 	Corporate Governance Statement p.47 Read more: www.srv.fi/en/srv-company/investors/corporate-governance



TARGETS ARE PRESENTED IN THE SUSTAINABILITY PROGRAMME

Construction involves long-term decisions that have a broad impact on the environment and the lives of many people.

SRV wants to be active in the sustainability field and involved in the creation of new and better operating models. SRV takes a long-term approach to the development of both its projects and its operations as a whole, and sustainability is an aspect of that development work.


Sustainability is part of SRV's strategy, and everyone at SRV has a duty to promote compliance with our sustainability programme in their own work. SRV also encourages its subcontractors and other partners to contribute to the implementation of the sustainability programme.

SRV's sustainability programme is based on the material sustainability aspects that SRV identified during spring 2016 at meetings led by an external expert. A variety of source material was prepared for use at these meetings: stakeholder surveys, management interviews, and prevailing and emerging trends in SRV's operating environment. The meetings SRV attended by representatives from SRV's businesses and all of its most important functions.

As a result of these meetings, SRV identified the following material sustainability aspects: quality, customer experience, work safety, competence development, ethics and good governance, risk management, environmental issues, and communications. Work continued to hone these themes before the Corporate Executive Team approved SRV's sustainability programme in autumn 2016.

The sustainability programme's specified themes and content, and their associated targets, are presented in the accompanying table. The aim is to define key numerical targets and long-term objectives during 2017.



 SRV ENCOURAGES ITS SUBCONTRACTORS TO PROMOTE THE IMPLEMENTATION OF THE SUSTAINABILITY PROGRAMME.

Sustainability programme – year 2016 and goals for 2017

Theme	Year 2016 in brief	Plans and goals for the year 2017
Strategy, sustainability management and reporting	<ul style="list-style-type: none"> · Sustainability was included among the strategic development programs · Sustainability reporting has been developed to better respond to future requirements · Stakeholder survey was conducted and material sustainability aspects were defined at working meetings · Sustainability program was approved by the management team 	<ul style="list-style-type: none"> · Sustainability reporting according to new 2017 reporting requirements · More detailed and long-term goals will be defined · Risk management framework will be updated to cover sustainability related risks · Role of sustainability to value creation will be defined
Responsible actor in society	<ul style="list-style-type: none"> · Code of Conduct was updated (approved in February 2017) · Two grey economy prevention days were organised · Authorities conducted nine separate inspections related to contractor's obligations and liability and no deviations were detected 	<ul style="list-style-type: none"> · Implementation of new Code of Conduct will be initiated (e-learning and road-shows) · Grey economy prevention days will be organised quarterly
Quality in construction and future proof spaces and environments	<ul style="list-style-type: none"> · Characteristic waste volume and sorting degree targets per construction type were set for construction sites · Design management tool was developed for optimising energy efficiency · Idea contest was organised for construction sites as part of Energy Awareness Week · Energy and water consumption reporting was sharpened 	<ul style="list-style-type: none"> · Updating environmental policy and setting long-term environmental targets · More detailed reporting of energy consumption and GHG emissions will be made possible by collecting all construction site data in to SRV Environment reporting system
Safe and inspiring workplace supporting personnel wellbeing	<ul style="list-style-type: none"> · SRV reached positions five and seven in the national work safety competition · 42,181 people were given an introduction training at construction sites in Finland · New electronic application was taken into use for introductory training at construction sites · Letter highlighting the importance of work safety was sent to subcontractors and suppliers before summer holiday season · Work safety communication was boosted · Importance of making and reporting safety observations was highlighted, the number of safety observations increased significantly · Over 620 SRV employees took part of training programs and e-learning courses · Remuneration was developed according to strategy · Definition of leadership competencies was initiated 	<ul style="list-style-type: none"> · Long-term goal of zero accidents applies, the indicators are lost-time injury frequency and number of lost-time injuries · Work safety training of partners will be strengthened · Looking for and applying best practices also from outside industry borders · Boosting collection and reporting of safety observations · Internal work safety competition will be developed · Electronic tools and implementation of work safety will be developed · New tools will be developed for management walks · Strong investment in wellbeing, training and development, remuneration and leadership quality will be continued · Mapping the risk for human rights violations in supply chain
Trustworthy and cooperating partner network	<ul style="list-style-type: none"> · Sustainability related requirements in the building contract programme were updated · Use of Network Register was boosted and improved 	<ul style="list-style-type: none"> · Development of procurement processes and practices to better include sustainability viewpoints · Follow-up and monitoring of subcontractors' and suppliers' sustainability related issues will be improved
Communications and stakeholder relations	<ul style="list-style-type: none"> · SRV became a member of Finnish Business and Society · "Companies and Biodiversity" Master Class organised by FIBS was completed and "Carbon Neutral Business" -Master Class initiated 	<ul style="list-style-type: none"> · Develop and strengthen sustainability communications and content creation · Taking part to "Carbon Neutral Business" -Master Class organised by FIBS

A RESPONSIBLE ACTOR IS A DESIRABLE AND TRUSTWORTHY PARTNER

By operating sustainably, SRV ensures that its customers, subcontractors and other partners will continue to think of us as a desired and reliable partner.

SRV has been known for the 'SRV Approach' throughout its history. The SRV Approach has won the company the trust of customers and partners, and strengthened a favourable corporate image.

SRV's operations are guided by values and Code of Conduct

SRV's values, sustainability, enthusiasm, profitability, bold in development and open cooperation, create a firm foundation for further development. The Code of Conduct defines the principles by which SRV makes decisions and acts under all circumstances.

SRV's revised Code of Contact was approved in February 2017. All of SRV's companies, Board members, management and employees are obligated to comply with it regardless of their position. SRV also seeks to get third parties, such as subcontractors and other partners, to commit to SRV's Code of Conduct, or to ensure that third parties adhere to similar practices. SRV primarily seeks this commitment by including the content of Code of Conduct in contracts.

SRV has an ethical channel that anyone can use to report failings in SRV's operations, such as activities that contravene the Code of Conduct. Any observed or suspected activities may be reported confidentially. Two reports were received through the ethical channel in 2016, and both cases were investigated by SRV's internal audit function.

SRV is committed to developing industry best practices and transparency

SRV complies with laws and regulation in all of its operations and requires the same of its employees, subcontractors and other partners. SRV only operates with reliable partners with a good reputation. SRV checks the backgrounds of subcontractors and other partners before engaging in any cooperation.

Sound and effective market competition promotes the de-

velopment of the industry as a whole and benefits the industry's different stakeholders and companies' shareholders. SRV complies with current competition legislation and promotes fair and undistorted competition in its customer and supplier network. SRV requires the same operating methods from its subcontractors and other partners.

No person at SRV is allowed to accept or give gifts that could have influence on business-related decision-making. Business-related hospitality should be moderate and of low value. Anti-corruption practices are an unconditional requirement in SRV's operations, and subcontractors and other partners are also required to have zero tolerance for corruption.

Fighting the grey economy makes sense

The grey economy distorts competition, weakens the position of employees, and undermines customers' legal protection and reputation. The construction industry has a long tradition of fighting against the grey economy. SRV is committed to promoting the prevention of economic crime, and is continually developing its operating practices and new tools to ensure work safety, transparency, legal compliance and controllability of its entire operating chain.

SRV has industry's best tools and operating methods at its disposal in the fight against the grey economy. Fighting economic crime has formed part of SRV's basic operations throughout its history, both in procurement and on-site supervision of subcontractors. The effectiveness of this preventative work is based on both long-term cooperation with the authorities and strong investment in the development of SRV's own processes.

At SRV, preventing economic crime is a natural part of overall construction quality and project management. Construction site induction training and advance checks of partners' obligations regarding reporting to authorities are important tools in the fight against the grey economy. In addition



AN ACTIVE APPROACH TO FIGHTING THE GREY ECONOMY IS PART OF DAILY WORK.

to the above, SRV also uses the Network Register developed by SRV for the electronically managed process of reporting to authorities in compliance with the Act on the Contractor's Obligations and Liability. More on Network Register can be found on page 42.

It is of utmost importance for SRV to always be aware of the true cost structure of construction projects, the parties handling each phase of the work and of the full traceability of procurement. Using the Network Register, it is easy to ensure that each task is carried out by a contractor approved by SRV, and also to detect issues such as false documents related to contractor's obligations and liability. The cases of grey-economy on SRV's construction sites have been very rare.

Grey economy prevention days

SRV takes a proactive approach to fighting the grey economy as part of daily work. At SRV's grey economy prevention days these issues are highlighted and guidance for personnel is provided on contractors' obligations and liabilities. Attention is also paid to electronic site attendance monitoring and systematic use of site access control systems.

In 2016, two grey economy prevention days were organised, the first during week 20 and the second during week 50. The construction sites inspected the contractors' and their subcontractors' documents required under the Act on the Contractor's Obligations and Liability. The sites also inspected all the personal identification documents of all people working on the site,



determined their employers, inspected their tax numbers, and ensured they had received proper induction training. In addition to each site's own controls, a separate inspection was carried out on three sites. The 2016 inspection covered all construction sites, 4,265 people and 2,021 companies.

Two particular issues were highlighted as a result of the inspections: the proper use of personal IDs and the correctness and validity of documentation required under the Act on the Contractor's Obligations and Liability. Construction sites have been instructed to continue their daily efforts against the grey economy and not to hesitate in requesting support should problematic situations arise. As part of SRV's strategy, even more attention will be paid to fighting the grey economy in 2017, and the grey economy prevention days will be held quarterly. SRV is seeking to strengthen its position as the industry's best actor via a systematic approach also in this area.

In 2016, the authorities performed nine separate inspections relating to contractors' obligations and liability. No deviations were found and SRV retained its zero-error status.

Effective risk management

SRV's identified sustainability risks include environmental risks, work safety risks, and reputational risks related to contractors' unethical conduct. As of 2017, the amended legislation related to non-financial reporting requires companies to provide a more detailed description of sustainability-related risks and their management.

SRV's risk management framework will be revised during 2017 to provide better coverage of any sustainability risks that may arise. Risks relating to for instance the supply chain and international procurement will be assessed in relation to, among other things, respecting human rights.

SRV as an employer

Construction and maintenance provide employment for one in five people working in Finland. SRV's Finnish construction projects are mostly own development projects, developer-contracted projects or project management contracts carried out using SRV's project management model. SRV's impact on employment therefore extends a long way down the value

CASE: Street art to delight city dwellers

Kerava city centre will be developed and modernised over the coming years, as SRV builds a new shopping centre and five apartment blocks on the site of the current Aleksintori, Kahveri and Petteri buildings. The demolition of these properties began in autumn 2016, but before that the old buildings spent the summer being used as canvases for numerous artists.

Kerava resident and graphic artist **Jouni Väänänen** was in charge of Demolition Art, a collaboration project between SRV and the City of Kerava.

"The project sought to create a brand-new kind of artistic experience for the general public, demonstrate the cultural potential of a transitional period in a construction project, and act as an example for future projects," says Väänänen.

Numerous graffiti and street artists painted their works on the condemned buildings over the summer. The youngest artist was 16 and the oldest 62. Although the first walls received a colourful coat of paint in May, the greatest flurry of activity was seen around Kahveri and Petteri in June,

on the weekend of Kerava's 'town fair'. During the event, top street artists covered several hundred square metres of wall with artworks.

Their street art livened up the cityscape until October 2016, when SRV and the City of Kerava and its citizens swung the sledgehammer for the first time at a joint demolition event. The name of the new shopping centre was also announced at the event: Karuselli (Carousel) in honour of Kerava's circus history. The shopping centre and first residential blocks are scheduled for completion in 2018.



For summer 2016, graffiti and street artists were granted the use of buildings due to be demolished in Kerava city centre.



chain. Although SRV has a lower number of own employees in relation to its competitors, SRV employs significantly more subcontractors and suppliers due to its project management model.

In 2016, SRV had a total of 4,297 (3,759 in 2015) contractors working on a total of 93 (117) construction sites. 27,391 (22,681) people were recorded as working on SRV's construction sites, of which 75.8 (76.6) per cent were Finnish and 24.2 (23.4) per cent were foreign. The most common foreign nationalities found on SRV's construction sites were Estonian, Polish, Russian and Latvian. People of over 90 nationalities work on SRV's sites. According to the construction industry tax number register maintained by the Tax Administration, over 95 per cent of those working on construction sites pay taxes in Finland.

When SRV makes contracts with foreign employees for work to be performed in Finland, their employment contracts will comply with the same legislation and norms as for Finnish employees. The construction industry's current collective agreements apply to all employees hired by Finnish companies, both Finnish and foreign alike.

SRV as a tax payer in Finland

SRV has a significant impact on the surrounding community as both an employer and tax payer. At the end of 2016, SRV employed 1,081 (1,046) people, of which 181 (235) worked for foreign subsidiaries. SRV pays its taxes and tax-like charges in accordance with local legislation.

A significant proportion of tax-like charges consist of salary-related taxes and VAT on goods and services. SRV also pays other taxes, such as income tax, transfer tax, and property tax. SRV's impact as an indirect taxpayer is also considerable, SRV generates indirect revenue for the Finnish state from the income tax and social security payments paid via subcontracting and hired labour. More information about the taxes and tax-like charges paid by SRV in 2016 is presented in the accompanying table.

Collected taxes paid and Indirectly paid taxes in Finland

Collected taxes paid in Finland (EUR million)	2016	2015	2014
Payroll taxes	16.0	15.0	14.0
Social cost	1.2	1.0	1.0
Net VAT ¹	43.8	43.1	31.0
Corporate income tax	1.8	3.3	3.9
Collected taxes paid, total	62.8	62.4	49.9
Indirectly paid taxes in Finland²			
Indirectly paid payroll taxes	47.6	38.3	34.9
Indirectly paid social cost	8.4	6.8	6.2
Indirectly paid taxes, total (subcontractors and suppliers)	56.0	45.1	41.1
Subcontracting			
Subcontracting	174.0	155.1	134.0
External services			
External services	508.2	386.8	313.2

¹ The figures include SRV's share related to holding from the largest joint venture in Finland.

² Based on company's estimation.

CASE: Not alone, but together

As a developer and constructor of urban town centres, SRV wants to create and support opportunities for people to meet and spend time together. This is why SRV continued its Christmas tradition of donating the funds allocated to gifts for customers and stakeholders to a cause that aligns with the company's values. The chosen recipient for 2016 was Terhokerho. Terhokerho is a place where people of different generations can meet and play together.

The club welcomes children, pensioners and other adults to spend a few unhurried hours together. Visitors can seize the

moment together and let themselves be carried away with fun and games. At best, everyone benefits from a meeting between generations: children get fun, comfort and undivided attention from adults, and seniors something to brighten up their day. Play creates a feeling of equality, as everyone is an expert in this field regardless of age.

It is just these kinds of encounters that SRV is hoping to promote when we build all kinds of spaces for people to spend time in and enjoy life. Terhokerho aims to open a club in every Finnish



SRV HAS A SIGNIFICANT IMPACT ON THE SURROUNDING COMMUNITY AS AN EMPLOYER AND A TAX PAYER.

municipality. Its operating model is part of Koko Suomi leikkii (The whole of Finland is playing), a major project launched by the Finnish Cultural Foundation.



CONSTRUCTION QUALITY MEANS FUTURE PROOF SPACES

The hallmarks of high quality are an absence of errors, a smooth construction process and successful customer encounters.

SRV's quality development work focuses on improving the flow of the construction process and ensuring that production operates in an uninterrupted manner as planned. The goal is to ensure the quality of the end product. SRV measures the quality of construction in terms of the flawlessness of end products, finished buildings, and also by evaluating the operating model for the construction process and the functions promised to customers.

High quality is essential in creating a positive customer experience. SRV steers the quality of its activities by ensuring good advance planning at every stage of each project. Operating in accordance with the SRV Model, the risks and opportunities of each phase in the execution of a project are analysed, and measures are planned specifically for the project in question. The plans and documentation templates corresponding to the operating model include timetables for the various work phases, the project's inspection document, instructions and plans for safety planning and management, quality control plans, and the documents, audits and instructions related to commissioning of the building project.

Careful advance planning ensures that implementation proceeds with the minimum of disruption. In addition, construction is steered and monitored systematically. Potential disruptions, such as delays or quality errors, are addressed immediately while work is underway.

The inspections, trials and measurements planned for each work phase in advance are conducted during construction. In addition, all structures that will be hidden are inspected before they are covered. A final inspection of each work phase is conducted when the phase is complete to inspect and assure the quality of the work. The foundations of high quality are sufficient professional expertise, creating a strong basis for delivering quality and a will to do things well.



GOOD QUALITY IS BASED ON SUFFICIENT EXPERTISE, CREATING CONDITIONS TO PRODUCE QUALITY AND THE WILL TO DO THINGS WELL.





In relation to monitoring of concrete structure strength characteristics throughout the country, special quality control inspections have been made at SRV sites in different parts of Finland. In respect of some sites, test results have uncovered slight deviations that require further study. Studies in collaboration with independent parties have been initiated immediately and, in cooperation with SRV's customers, the authorities, site clients and possible tenants and residents have been informed about the situation.

Sustainable construction is better for the environment

Developing more sustainable construction methods are better for the environment is important in terms of SRV's values and operating model. SRV considers the environmental impacts of buildings throughout their life cycles.

The built environment accounts for approximately 40 per cent of greenhouse gas emissions and energy consumption. The majority of the energy is used for heating. Reducing the energy used by buildings plays a major role in curbing climate change. The goal of SRV's environmental activities is to prevent the destruction of nature and reduce the harmful environmental impacts of its operations.

SRV's environmental work is based on environmental legislation, the terms of permits applying to the company's operations and other regulations, environmental policy, as well as a commitment to continuous operational development in accordance with the principles of sustainable development and reporting the impacts of the company's business. SRV requires its subcontractors and partners to operate in accordance with the same principles and the more detailed instructions SRV has prepared. Violation of environmental laws and regulations is not accepted under any circumstances.

SRV strives to realise projects and buildings with a lower environmental burden by working together with its customers and other partners. For SRV's own construction projects, project specific environmental targets are defined in collaboration with the customer. SRV's goal is to provide customers with sufficient information for decision making during the planning

phase about the key factors with regard to environmental impacts.

In procurement and arranging logistics for construction sites, SRV aims to operate in a manner that has the minimum possible environmental impact. SRV avoids unnecessary deliveries and takes environmental matters into consideration selecting suppliers.

In 2017, the target is to update the group environmental policy and create more specific and long-term goals for SRV's environmental work.

Construction sites play a decisive role in environmental work

SRV's construction sites impact the environment through construction waste, site noise and dust, vibrations, consumption of energy, water and materials, and transportation. Storing fuels and machinery on construction sites could lead to water or soil being polluted in the event of an accident. Managing run-off water and excavation water plays an important role in managing the sewer network, bodies of water and erosion. The state of the environment can also improve if issues such as contaminated soil are removed and landscape restored.

On SRV's construction sites in Finland, practical environmental work is based on the environmental plan, waste management plan and other management plans deriving from the special features of the site. Waste management training is held on construction sites, and the storage of fuels and other potentially hazardous substances is arranged appropriately. In addition, care is taken to keep the list of chemicals up to date and to use chemicals appropriately.

The environmental risks associated with work conducted by subcontractors, along with means of reducing these risks, are always reviewed during contract negotiations and during weekly site meetings. The means of minimising harm to local environments are taken into consideration in planning for each construction site. The site looks after the reporting and communication in relation to surrounding local communities.

When operations at a construction site begin, a kick-off meeting is held to review the key safety and environmental matters on the site. On each site, a person is designated to take





responsibility for environmental matters, to coordinate the site's environmental activities and to ensure that site operations and reporting function as planned.

Monitoring and reporting of environmental indicators is constantly developed

The Group's environmental manager is responsible for developing, coordinating, supporting, steering and arranging reporting on environmental activities within the entire group of companies. Environmental indicators are monitored using a browser-based system where waste figures and data on energy and water consumption are entered for each construction site. Reporting is constantly being developed to meet the internal requirements and the stakeholder requirements. The information is used to set environmental performance targets and improve environmental performance.

Materials and waste management

The main goals of SRV's environmental activities are ensuring material efficiency and minimising the amount of waste. Every decision made during the construction process, from design and planning to implementation, affects the achievement of these goals. The choices made have a major effect on the environmental impact of the building over its life cycle.

Design management, planning and procurement seek to influence selection of materials and technical solutions, but especially to ensure that plans enable successful procurement. Together, these factors enable successful construction. Precise plans and procurement prevent material waste and allow time for work to be planned, while facilitating internal recycling on the construction site. Waste is managed on construction sites to ensure 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.

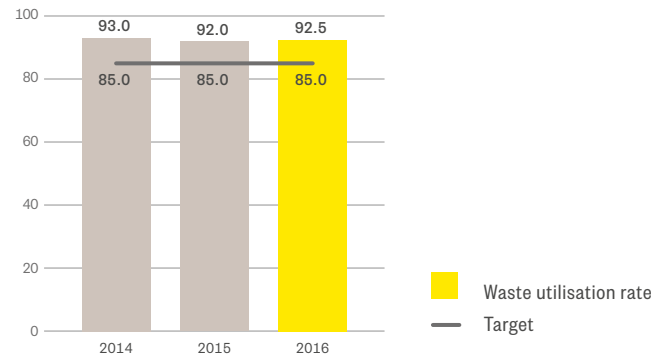
Construction type specific targets for volume of characteristic waste and the sorting degree have been set for the construction sites that started operating in 2016. Both indicators are important for the environment as well as for cost-efficiency.

The construction sites that started operating in 2016 are the first to be applying SRV's own construction type specific waste targets. The previous target for the degree of utilisation

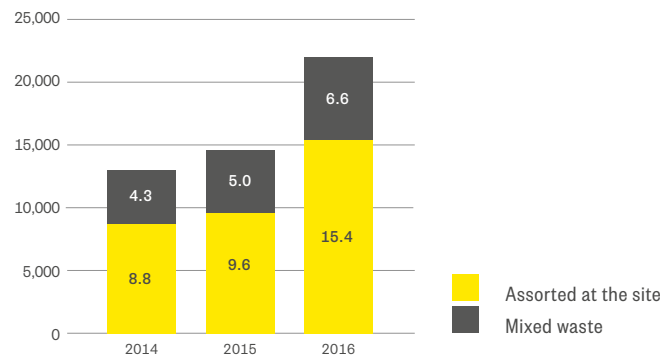


DECISIONS MADE DURING CONSTRUCTION HAVE GREAT SIGNIFICANCE FOR ENVIRONMENTAL IMPACTS DURING THE ENTIRE LIFE CYCLE OF BUILDINGS.

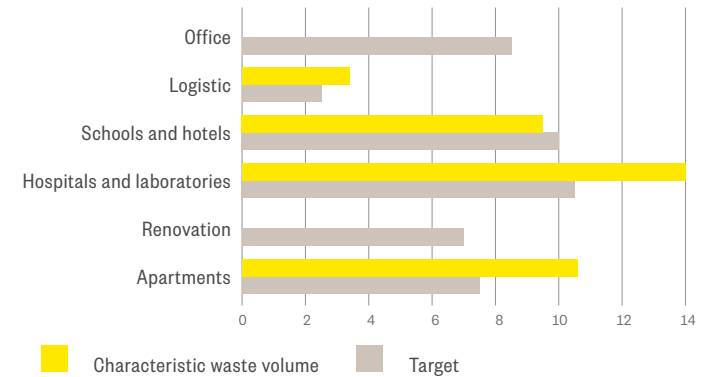
Waste utilisation rate¹ (%)



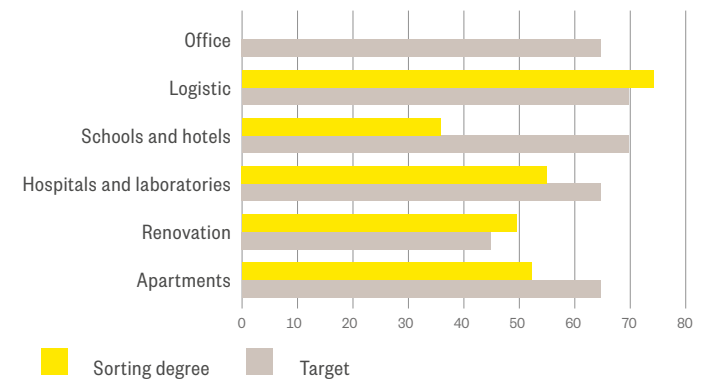
Construction waste¹ (1,000 tonnes)



Characteristic waste volume per construction type² (kg/rm³)



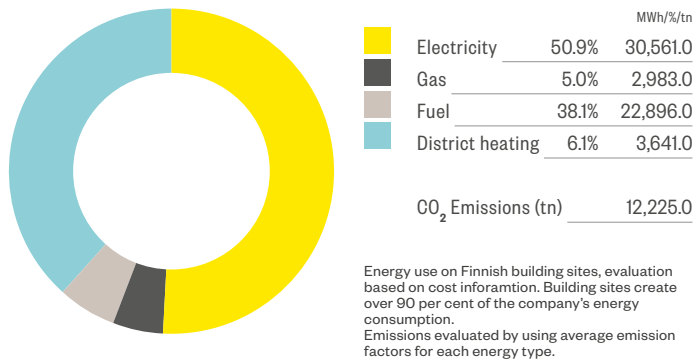
Sorting degree per construction type² (%)



¹ Domestic worksites. Reported amounts do not include demolition waste or soil excavation waste.

² Domestic worksites, average of projects completed during 2016. Reported amounts do not include demolition waste or soil excavation waste.

Energy use (%)



MUCH ENERGY, IN DIFFERENT FORMS, IS USED ON CONSTRUCTION SITES: ELECTRICITY, GAS, LIQUEFIED GAS, FUELS, OIL AND DISTRICT HEAT. MOST ENERGY IS USED FOR HEATING.

of building waste, which applied to all sites equally, was 85 per cent, and this has now been achieved as waste management companies now generally reach a rate of 90 per cent.

The targets set in 2015 for the volume of characteristic waste and the waste sorting degree are more challenging. None of the construction sites covered by the targets have yet reached completion, so there are not yet any results to indicate whether the targets were reached. However, information on these indicators have been collected for several years now, and the construction sites that were completed in 2016 are now reporting figures that will be used to describe SRV's initial state. As the indicators vary throughout projects depending on which work phase is underway, the situation on construction sites where work is still in progress cannot yet be compared with the target.

Energy efficiency plays an important role

As with material efficiency, energy efficiency is significant in terms of both environmental impacts and costs. A large amount of energy is used on construction sites in different forms: electricity, gas, liquefied gas, fuels, oil and district heating. Due to the climate in nordic countries, most energy is used for heating. Efforts are made to improve energy efficiency by optimising equipment and updating devices to use the latest technology. Making inlets and

covering openings carefully and protecting sites against weather conditions can also affect the amount of energy required. Energy consumption is directly connected to carbon dioxide emissions.

During 2016, a design management tool was developed to optimise energy efficiency. SRV also participated in the annual Energy Saving Week for the second consecutive year, arranging an idea contest for construction sites. The contest yielded feasible ideas for matters such as preparing and developing new construction site instructions. Several discussion events were held on drafts for a decree on "nearly zero-energy building", which has been opened for statements. Several seminars and workshops were held, particularly on matters concerning floor material moisture and emissions.

An initiative to sharpen the reporting practices for energy and water consumption was started in 2016 in order to enable more comprehensive reporting based on the data collected in 2017. Until now, depending on the project, energy and water consumption data were included either in regular environmental reports or in the final report after completion of the project. As reporting was developed in 2016, the data for 2017 will now be collected from every construction site and entered into the SRV Environment system. The change will enable more precise reporting of energy consumption and carbon dioxide emissions in the future.

Local environment and biodiversity

Biodiversity has become an important topic in the debate around companies' environmental impacts. Construction directly affects the local environment during the construction process, and it also has an indirect effect when new, long-term environments are created. The effects are caused by e.g. noise, dust, vibration, traffic arrangements and changes to ecosystems.

The effects are taken into consideration and efforts are made to reduce them as effectively as possible during the planning phase. Environmental management plans are prepared on construction sites in accordance with the site conditions, and information about the site's impacts and schedule is communicated to officials and local communities. Special nature characteristics, such as protected living environments and species, are taken into consideration when construction is planned.

Construction aims to create pleasant living environments and, in the best cases, the diversity of species may even increase thanks to construction projects if new green areas or recreational areas are built. SRV focuses on building in urban centres near existing transport connections and services. As such, our projects cause the minimum possible impact on biodiversity and untouched nature.

SRV participated in the Companies and Biodiversity Master Class organised by the FIBS corporate responsibility network. The Master Class began in 2015 and was completed in 2016. More information about this and other projects that SRV is involved in is on page 45.

Environmental certification systems are becoming more widespread

Environmental certification systems for buildings continue to be a popular way of demonstrating the environmental performance of construction and buildings. SRV had several projects underway in 2016 with the aim of obtaining LEED, BreeAm or Promise certification. The Niittykumpu metro centre, REDI and the Karuselli shopping centre are aiming for LEED Gold certification, Ainoa in Tapiola is aiming for LEED Platinum and the Lappeenranta University of Technology's Verso project is aiming for BreeAm Very Good certification.

SAFE AND INSPIRING WORKPLACE ATTRACTS FUTURE EMPLOYEES

SRV is committed to offering all its employees and subcontractors a safe workplace. Equal treatment and zero-tolerance for discrimination and harassment are also important guiding principles.

Work safety is of utmost importance to SRV. The company complies with current occupational safety legislation, permit terms and conditions, and other operational regulations. SRV also requires its subcontractors and partners to do the same.

SRV's safety activities are based on a principle of exceeding legal requirements and acting as a safety pioneer in the construction industry. On-site safety is based on preventative measures, induction training, and following work safety instructions. Everyone working on SRV's construction sites has both the right and obligation to look after their own safety and the safety of others. The grey economy and economic crime hinder work safety risk management. Therefore transparency and knowing your business partners are important requirements also for promoting work safety. The Network Register also increases the level of safety of sites and employees. The electronic contract management system has been connected to for instance the site access control system and the real-time electronic system also makes it possible to receive up-to-date information on employees working on the site to support the evacuation process in case of an accident.

Long term target of zero accidents

SRV's long-term target is to achieve a zero-accident level. SRV is committed to practices supporting the zero-accident target in its operations. In Finland, the company is also strongly involved with the Confederation of Finnish Construction Industries RT's project of zero accidents by 2020 and the Zero Accident Forum. Members of the Zero Accident Forum can apply for an annual evaluation of their work safety level. The evaluation criteria include the company's lost-time injury rate and the seriousness of injuries.

SRV Construction was awarded a level-3 honourable mention in the 2016 Zero Accident Forum. SRV is now at level 3: "Aiming to be one of world's leading companies". As a result of

the evaluation, the companies' are divided into three categories based on their level of work safety, and each company is evaluated against their previous year results, not against other companies' results. The evaluation helps companies in monitoring trends in their own work safety level and encourages companies to aim at the next level.

Every year, SRV takes part in regional and national work safety contests run by both the Confederation of Finnish Construction Industries (RT) and RT INFRA. SRV also simultaneously holds an annual internal work safety contest. SRV was ranked fifth and seventh in the 2016 national contest (category: building construction).

SRV's management takes an ongoing interest in work safety and its supervision. All safety deviations are investigated and reported. Site supervision is continuous, and the statutory weekly site inspection, TR measurement (for building construction) or MVR measurement (for civil engineering), is performed on a weekly basis. SRV also harnesses purpose-designed mobile application to record these measurements.

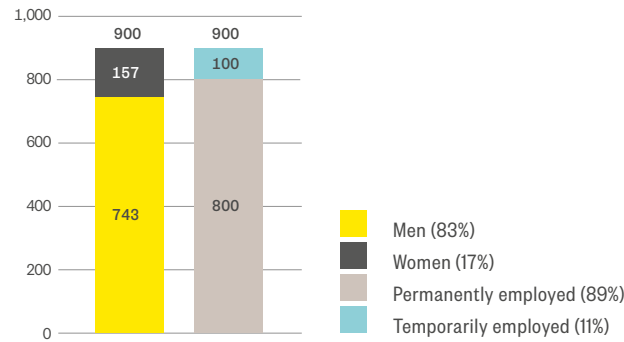
One practical challenge in terms of safety are getting all safety observations reported. Making and recording safety observations is important, as early intervention into even the smallest of deviations can prevent serious consequences, such as an accident that leads to injury.

Successful, high-class induction training has a significant impact on improving work safety. During induction training, everyone working on a project receives all of the essential information about the project and its special features. In Finland, 42,181 people attended induction training at SRV's construction sites in 2016. Digital tools were introduced for both guidance and for supervision purposes. A new electronic induction training practice was also introduced for construction sites. It has been piloted on three sites since autumn 2016.



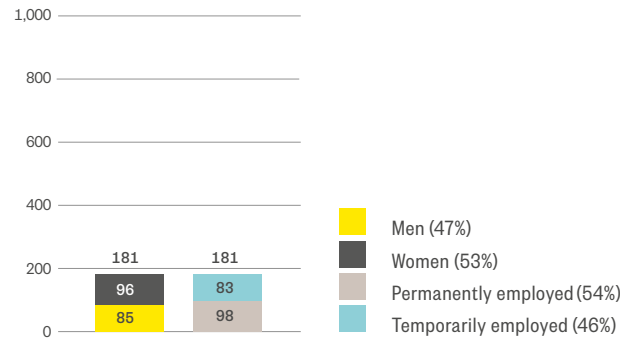


Employees in Finland 2016 (persons)



Personnel on 31 December 2016.

Employees internationally 2016 (persons)



Personnel on 31 December 2016.

Another challenge is to make all partners to comply with SRV's safety instructions. In the summer 2016, SRV reached out to its suppliers and subcontractors with a letter underlining the importance of work safety. Work safety issues were also discussed at four partner meetings organised by SRV.

Work safety events and regular competence training sessions were held for SRV's own personnel during 2016. Wallboards stating SRV's guiding safety slogans were introduced as part of safety communications. TR guidance material and videos on a variety of safety topics also provided practical assistance for safety work.

SRV's work safety theme highlighted for 2016 was making and recording safety observations (reporting deviations). Other targets for 2016 were reducing the frequency rate of lost-time injuries and improving the results of TR measurements.

Work safety challenges still lie ahead

Two distinct developments were seen in work safety in 2016. There was a favourable increase in the number of safety observations made, with about 3,500 observations being recorded in 2016. This was a clear rise on 2015, when about 2,000 observations were recorded. Communications about the importance of safety observations contributed to this favourable development, as did people's proactivity in putting the message into practice on site.

Yet in spite of this, the lost-time injury frequency rate did not develop in the right direction. The lost-time injury frequency rate for SRV's own personnel rose by about 60 per cent on 2015. In 2016, SRV's lost-time injury frequency rate was 14.6 (number of injuries per million hours worked) for its own personnel and 20.8 for contractors' employees. A total of 115 accidents leading to injuries occurred on SRV construction sites during 2016, two of which were serious.

The 2016 goal for the average of the weekly statutory construction site safety measurement (TR-measurement) was 95.0 per cent. SRV fell short of this target by a fraction, with an average TR measurement of 94.6 per cent. The most accidents, dangerous situations, slips and falls involved hoisting. The most typical injuries were to the limbs. Site TR measurement and MVR measurements were well in line with measurements taken by the authorities.

No compromises policy continues

Systematic work to improve safety on a practical level is ongoing. Reaching zero accidents (in terms of the number and frequency rate of lost-time injuries) is still SRV's most important objective. SRV will improve training sessions with its partners, and negotiations will emphasise the importance of attitude in work safety issues. Best practices are also being sought from outside the construction industry.

SRV's goal is to continue and further enhance the collection and analysis of safety observations using a new TAVA (= accident and danger) system. SRV aims to further develop the internal safety contest to support systematic safety improvements on the construction sites. Another general objective is to develop and fully introduce electronic tools for practical safety work. A new tool is also being developed for management's site walks.

Personnel development supports wellbeing and commitment

SRV's employees have been steadily growing in number. SRV employed 1,089 people in 2016. At the end of the year, 806 worked in operations in Finland and 181 in International Operations. 23 per cent of SRV's personnel were women and 77 per cent men. In Group operations and in Russia the ratio of men and women is more equal but on construction sites women are a clear minority.

SRV wants to be a communal and inspiring workplace that promotes and supports personnel wellbeing. Personnel are given the chance to continually develop their competences and professional skills. E-learning has become a major element of SRV's training activities. In 2016, over 620 SRV employees participated in SRV Step Academy internal training programmes and e-learning courses.

SRV has invested in internal mobility, and also learning paths have been created to support internal mobility. Remuneration has been developed in line with the strategy, the most important indicators being operating profit, customer experience, customer satisfaction and work safety. Leadership competence definition work was also launched in 2016. It is vital to develop leadership, as it helps SRV to attain its strategic objectives.

Based on the results of the 2016 personnel survey, the communications on SRV's strategy have also been successful.



Employees appreciate SRV's investments in training opportunities and general wellbeing. This also can be seen in the results of the survey.

Good team spirit and enthusiasm lead to commitment, which is also visible from outside and has a positive impact on SRV's employer image. One of SRV's targets is to be the most desirable workplace in its industry by 2020. In 2016, special attention was paid to recruitment and this has paid off, top experts have been applying to SRV.

The personnel survey conducted in late 2016 indicated that SRV has dedicated personnel who are committed to the company's values. SRV also participated in Corporate Spirit Oy's Finland's Most Inspiring Workplaces contest for the second time.

The personnel survey response rate rose from 74 per cent in 2015 to 77 per cent in 2016, and SRV achieved the second-highest classification of AA+ in the survey. More about the survey and its results can be found on page 18.

Considerable investments in wellbeing, training, and the further development of remuneration and leadership quality will continue in 2017. Processes are being improved so that they support the attainment of strategic goals to the greatest possible extent. SRV employees are competent and satisfied with their work, but SRV is still continuously seeking to improve all aspects of its operations, including personnel competence and wellbeing.

Equality and human rights

Everyone at SRV is treated equally regardless of gender or gender identity, language, religion, nationality or ethnic origin, opinions, family relations, age, union or political affiliations, or health. Discrimination or harassment is not tolerated under any circumstances.

SRV adheres to a principle of equality in recruitment, task definition and transfers to other tasks, ending employment, payroll administration, and in planning training. SRV is committed to compliance with its equality plan, which is part of the personnel plan. The personnel plan is updated annually.

As part of our updated Code of Conduct, SRV is committed to respecting internationally recognised human rights in all of its operations. SRV will not tolerate the violation of human rights in any form, and aims to ensure that its subcontractors and other partners are also committed to respecting human rights. One of SRV's objectives for 2017 is to analyse the risk of human rights violations in its value chain.

CASE: Site induction training for over 40,000 workers in 2016

All new construction site employees receive induction training from SRV. The training gives an overview of the site and its organisation, and information on any special site features, important safety issues, and practical matters from employee facilities to access control. Each site has drawn up its own presentation material consisting of text, photos and videos on the induction training topics.

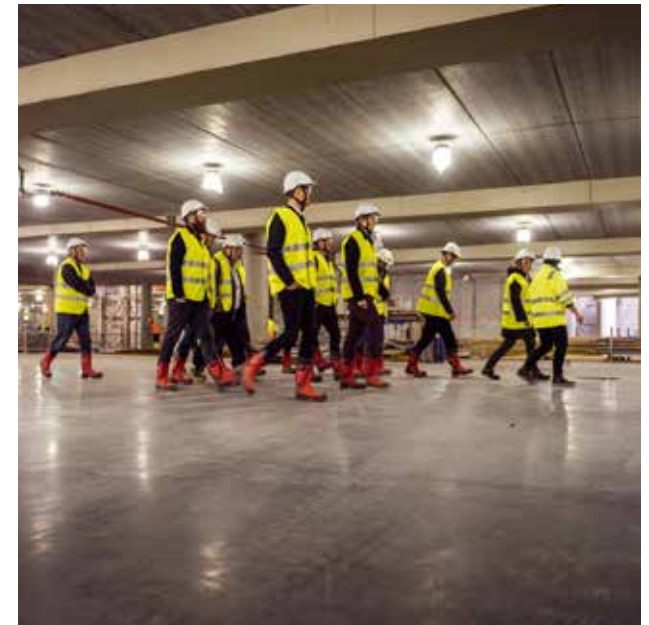
Construction site induction training is a mandatory and statutory practice. 42,181 workers attended induction training courses for SRV's construction sites during 2016. There have been a total of 27,391 people working on SRV's construction sites, 6,616

of whom are foreign. Part of site induction training has been conducted in English, Russian or Estonian in addition to Finnish. Speakers of foreign languages sometimes have an interpreter with them. One challenging aspect of induction training is to ensure that foreign-language speakers in particular have understood the content of the training. The instructor is not fully able to evaluate the interpreter's professional skills or whether the employee has internalised SRV's safety culture. In order to tackle these challenges, SRV piloted its new online induction training system during 2016. The system will be introduced on all construction sites in 2017. Online induction

ACCORDING TO A PERSONNEL SURVEY EMPLOYEES APPRECIATED SRV'S INVESTMENTS IN TRAINING OPPORTUNITIES AND GENERAL WELLBEING.

training seeks to standardise induction training practices, facilitate the collection of data on employees and their employers, and provide comprehensive induction training for everyone, including foreign-language speakers. A Polish-language version will also be released. This year, it has also been compulsory for every foreign company to have a contact person who can act as an interpreter for employees whenever necessary.

Occupational safety	2016	2015
Lost-time injury frequency (LTIF) rate (SRV personnel, number/one million hours worked)	14.6	8.7
Lost-time injury frequency (LTIF) rate (subcontractors, number/one million hours worked)	20.8	9.8
Lost-time injuries (SRV personnel, number/year)	11	9
Lost-time injuries (serious) (SRV personnel, number/year)	2	3
Lost-time injuries (SRV personnel, number/year)	103	74
Lost-time injuries (serious) (SRV personnel, number/year)	11	8
Weekly statutory construction site safety measurement, average, SRV sites (%)	94.6	95.5
Weekly statutory construction site safety measurements performed (number/year)	2,500	2,250
Safety observations (number/year)	3,500	2,000





A RELIABLE PARTNER NETWORK ENABLES SUCCESS

SRV cooperates with established subcontractors and partners, who commit to agreed operating principles and can demonstrate the sustainability of their operations.

SRV is primarily involved in developer-contractor projects, its own development projects, or project management contracting. SRV experts and network of construction partners implement projects in accordance with SRV's project management model, the SRV Approach. Therefore SRV has a lower number of employees in relation to its competitors. However, SRV employs significantly more subcontractors and suppliers due to this project management model.

When operating in a network, smooth and reliable cooperation is vital. SRV's success is tied also to the successes of network partners. This makes a common responsible way of working crucial. In a network of thousands of people, the majority of whom are partners' employees, long-term efforts are required to implement common ways of working on a practical level.

SRV Network Register

SRV supervises its subcontractors and partners and provides them training and support for implementation of common working methods. SRV also keeps them informed of, for example, amendments to work safety legislation. SRV adheres to official procurement procedures in the management of new suppliers and existing supplier relationships. The SRV Network Register also supports this process.

The Network Register, developed by SRV, is an IT system that helps SRV to fight the grey economy, promote cooperation with the authorities, increase construction site safety, and ensure a continuous overall picture of large projects. The Network Register makes it easy to monitor the status of contractors' liability documentation and ensure that tasks are performed only by skilled contractors approved by SRV.

As SRV acts as the project management contractor for major projects, its sites employ a broad range of contractors and their subcontractors for different phases. As a responsible

CASE: Network Register increases construction site transparency

SRV has developed an IT system, the Network Register, to combat the grey economy and promote work safety and cooperation with the authorities.

27,391 workers and 4,297 contractors were employed on SRV's construction sites in 2016. Using the Network Register, it is easy to ensure that tasks are performed only by skilled employees and contractors approved by SRV that have the up-to-date official documents required by SRV and the Act on the Contractor's Obligations and Liability, such as accident insurance, a valid collective agreement, and appropriately arranged occupational healthcare. The Network Register also provides real-time data on the number of employees and contractors on each of SRV sites.

SRV utilises the Network Register to provide the tax authorities a statutory monthly report on employees on SRV construction sites. The Network Register is an undisputed pioneer in the industry when it comes to cooperation with the authorities and fighting the grey economy. SRV approach has also been



developed in close cooperation with the tax administration.

SRV started developing the Network Register back in 2008 for selected construction sites, and it has been in use

throughout the Group since 2011. SRV is currently using a completely revised version that is being continually developed to meet changes in requirements, regulations and other information.

The Network Register always contains documented data on each site's

- Contractors
- Contractors' employees with a breakdown of their competency
- Contractors' subcontractors and their employees
- Work schedules on SRV's construction sites
- The status of documents required by contractors under the Act on the Contractor's Obligations and Liability



company, SRV always wants to be aware of how the entire contractor chain is being managed, all the way down to individual workers' employment contracts and the status of their salary payments. The Network Register was created to support this contractor chain management goal in particular.

One of SRV's principles is that its subcontractors must commit to undertaking the agreed project themselves, projects may not be sold or passed on without SRV's express permission. The SRV Network Register ensures that tasks are only performed by contractors and skilled professionals approved by SRV. SRV's electronic invoice payment system has also been integrated into the register. This means that any deficiencies in a subcontractor network with regard to the Act on the Contractor's Obligations and Liability will, in practice, prevent the payment of invoices.

The Network Register also helps SRV to manage its foreign workforce. The register contains details of every foreign employee's statutory documentation, such as a copy of their passport, their employer's accident insurance, and information about the collective agreement applied. Foreign companies also supply documents required by the Act on the Contractor's Obligations and Liability, as per their country of domicile. These could be an extract from the Trade Register and tax payment register, an account of whether the company is registered as VAT-liable, or pension and liability insurance policies.

The introduction of the Network Register has generated practical benefits for SRV as a whole, the authorities and, indirectly, also the entire industry. The centralised management of contractual documentation for employees and subcontractors has benefited the procurement process, as a variety of up-to-date reports and project documents can be found quickly and reliably.

More extensive sustainability requirements for procurements

In its procurement, SRV is committed to operating responsibly and sustainably throughout the lifecycle of products. SRV proactively monitors and anticipates market changes and evolving sustainability requirements.


The SRV Construction Contract Programme (conditions specific to the building contract) requires all of SRV's part-

ners to comply with legislation. The Construction Contract Programme is appended to every agreement, and it requires the contractor or subcontractor to comply also with SRV's sustainability requirements. These requirements cover areas such as integrity and ethical business, fraud prohibition, compliance with competition legislation, ensuring data privacy, equality and fair treatment, ensuring a safe working environment, and minimising environmental impact. The Construction Contract Programme also requires SRV's contractors' subcontractors to commit to compliance with the programme's requirements. The Construction Contract Programme sustainability related requirements were updated in 2016.

The contractor or subcontractor is obliged to provide SRV quality certificates and proof of any other operational requirements for any materials supplied. In order to reduce risks and ensure that requirements are met, the quality of materials sourced from outside Finland is assured through audits conducted by an external party.

SRV supervises the financial responsibility of its contractors and subcontractors. Requirements in this area include the subcontractor's financial position, fighting the grey economy and financial crime, and preventing money laundering. In 2017 SRV's aim is to develop the procurement processes and practices to better take into account also the sustainability aspects. SRV is also seeking to enhance the supervision and monitoring of contractors' and subcontractors' sustainability aspects. A risk-based approach is taken to this work.



 SRV AIMS TO CREATE TRANSPARENT RELATIONSHIPS WITH ITS PARTNERS.



OPEN COMMUNICATIONS AND ENCOUNTERS WITH STAKEHOLDERS

The significance of open sustainability communications, transparency and genuine encounters is increasing as companies seek to meet their stakeholders' growing demands with regard to sustainability. These demands stem from legislative bodies and society in general, but also increasingly from customers, investors and partners.

SRV is an important element in the extensive and complex network of actors in the construction industry. SRV's way of working and managing issues has a major impact, also on company's reputation and the SRV brand. Stakeholders are expecting more concrete plans and action from industry players to tackle major sustainability challenges. Urbanisation, climate change and rapid technological advancements pose challenges but also create opportunities. Construction industry's success in this area plays a significant role in building a more sustainable society and enables advancements in many aspects of sustainability.

SRV's most important stakeholders are its own personnel, customers, shareholders, investors, financiers, partners, local communities, the authorities, the media, NGOs and other partner associations. In spring 2016, SRV surveyed its stakeholders' views and opinions on sustainability. Stakeholders were asked their opinion on e.g. the most important themes of financial responsibility, social responsibility and environmental responsibility, and the current state and visibility of SRV's sustainability actions.

The stakeholders' opinions were used to help SRV define the material aspects in the sustainability programme. These material aspects were: profitable business, transparency, openness, safety and wellbeing at work, good leadership and management, and material and energy efficiency.

SRV wants to build a straightforward and genuine relationship with all of its stakeholders, thereby making it easier to make their expectations a part of SRV's continuous development work. The sustainability programme also facilitates internal, but especially external communications on SRV's targets and activities.

Stakeholder groups	Main expectations, needs	How SRV interacts with stakeholder groups?
Own personnel	Safety and wellbeing at work, training and development, good corporate spirit, strong reputation, ethically sound behaviour, financial performance and stability	Personnel survey, development discussions, internal communications, day to day manager work, personnel initiatives, recreational activities, personnel representation, advisory board
Customers, clients (apartment buyers, business premises end-users)	Customer experience, quality, tailor made solutions, flexibility, easiness and safety of buying, predictability, innovations, location, services, return on investment, brand and reputation, ecological viewpoints, ethically sound behaviour, financial performance and stability	Sales and marketing, face to face meetings, content creation, joint development projects, research, surveys, customer engagement, events, external communication
Shareholders, investors, analysts	Share value development, building and protecting brand and reputation, risk management, ESG requirements, financial performance and stability	Investor relations activities, answering to e.g. ESG inquiries, participating investor events, presentations, external communications
Partners (subcontractors, suppliers, designers, other partners)	Trustworthiness, fair competition, good reputation, interesting projects, financial performance and stability	Face to face meetings, tenders, training, information events, external communications
Industry associations	Promoting industry interests, agreements, joint statements, preparing for future legislation	Participating to activities, meetings, committee work, events, presentations
Authorities, decision makers	Facts, background information, expertise, efficiency, quality, addressing societal challenges	Continuous dialogue, meetings, providing information
Media	Interesting topics, openness and transparency, short response time, providing information and answers to questions, proactive communication	Interviews, meetings, providing information, events
Non-governmental organisations, general public, the society	Facts, background information, expertise, common interest, addressing societal challenges, openness and transparency, ethically sound behaviour	Answering to inquiries, providing information, meetings, external communications
Local communities, neighbourhoods	Being fair neighbours, low impact on everyday lives of communities, staying within pre-agreed schedules, minimising heavy traffic, danger, disturbance, noise, providing timely and accurate information, well organised site and surroundings, functioning walkways and driveways	Information events, everyday work and dialogue at sites, neighbour communications, external communications



Open communications about successes and challenges

SRV's communications are always timely, open and consistent. SRV communicate both on successes and challenges. SRV's communications seek to provide information about SRV's business activities and operating environment so that the various stakeholders can form a correct and justified view of the company. In crisis situations, SRV adheres to three general principles: communications must be fast, based on facts, and seek to establish open discussion with other parties impacted by the crisis.

Proactive cooperation with industry actors

SRV is involved in construction industry development via close cooperation with other industry actors, such as the Confederation of Finnish Construction Industries RT. SRV became a member of Finnish Business and Society in 2016.

SRV is actively involved in environmental responsibility in particular, participating in the activities of, for example, the City of Helsinki's Climate Partners network and the Confederation of Finnish Construction Industries' Environment and Energy group. SRV has also been involved in the TEHO project, which seeks to improve product information management, and have given a statement on development work for the Building Information Foundation's HOT project steering tool. At a progress seminar for the Ministry of the Environment's National Material Efficiency Programme (RAMATE), SRV and Skanska gave a joint presentation on the topic 'The almost zero-waste construction site'.

2016 saw the end of the Companies and Biodiversity Master Class, which was launched in 2015 by the Finnish Business & Society (FIBS) CSR network. This series of workshops resulted in the publication 'Corporate Responsibility is the New Black – Master Class 2015'. The next Master Class, Carbon-neutral Business, began just before Christmas and will continue into 2017. The Confederation of Finnish Construction Industries RT launched the 'Biodiversity and Construction' steering and action groups, and SRV is involved in both.

CASE: Stakeholders appreciate an active approach

As part of defining material sustainability aspects SRV conducted a stakeholder survey to elicit the views of its most important stakeholders on the subject of sustainability. The survey was conducted in spring 2016. The highest number of answers were obtained from own personnel, partners, different customer groups and shareholders. The stakeholders were asked to select the sustainability perspectives that are most important to them, and also to tell us what they think about SRV in terms of sustainability.

The most important sustainability perspectives included profitable business operations, transparency and open communication. Fighting the grey economy is naturally important for this sector, and it ranked highly in the survey. It is also understandable that a safe and healthy working community and good management were considered extremely important. These matters are emphasised when work is done in networks in collaboration with several different parties. In terms of the environment, important matters included the energy efficiency and material efficiency of built sites, as well as the related aspects of recycling and reducing waste.

Practically all of the respondents considered active interaction with stakeholders to be important. More than half of the respondents were satisfied with the current state of dialogue. SRV is considered by its stakeholders to be a pioneer of sustainabil-



ity in the sector, but also representative of the average level. More than one in four customers finds it difficult to define the current level of SRV's sustainability. The same group also desired even more active stakeholder dialogue from SRV.

When respondents were asked about the forms of sustainability communica-

tions, the most popular sources were the sustainability content on the website, the newsletter, communications on social media and communications in conjunction with services. Customers and partners consider the newsletter to be a good way of sustainability issues.

Why a pioneer?

- "Asking about sustainability."
- "Liability and obligations."
- "Combating the grey economy."
- "A way of working."
- "Innovation."
- "New residential environments."
- "REDI."


Expectations for the future

- "Affordable living."
- "Pleasant residential environment."
- "Healthy indoor air."
- "Good design, quality."
- "Ecological."
- "Transparency, openness."
- "New partnerships."
- "Personnel well-being, safety."

CORPORATE GOVERNANCE

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 SRV'S CORPORATE GOVERNANCE IS BASED ON FINNISH LEGISLATION, SRV'S ARTICLES OF ASSOCIATION AND THE 2015 FINNISH CORPORATE GOVERNANCE CODE FOR LISTED COMPANIES. SRV'S SHARES ARE LISTED ON NASDAQ OMX HELSINKI, AND SRV OBSERVES THIS EXCHANGE'S RULES AND REGULATIONS FOR LISTED COMPANIES. THE COMPANY ALSO COMPLIES WITH THE REGULATIONS OF THE FINANCIAL SUPERVISORY AUTHORITY.



CORPORATE GOVERNANCE STATEMENT

SRV's corporate governance is based on Finnish legislation, SRV's Articles of Association and the 2015 Finnish Corporate Governance Code for listed companies. SRV's shares are listed on NASDAQ OMX Helsinki, and SRV observes this exchange's rules and regulations for listed companies. The company also complies with the regulations of the Financial Supervisory Authority.

SRV Group Plc (hereinafter SRV or the company) adheres to the 2015 Finnish Corporate Governance Code for listed companies.

The 2015 Finnish Corporate Governance Code for listed companies is available at the Internet site of the Securities Market Association, www.cgfinland.fi.

This statement is published separately from the Report of the Board of Directors.

ADMINISTRATIVE BODIES

The administration, management and supervision of SRV are divided between the General Meeting of Shareholders, the Board of Directors, and the President & CEO. An internal auditing unit reporting to the Board of Directors is responsible for internal auditing, and external auditing is carried out by auditors. The President & CEO attends to line operations with the assistance of the Corporate Executive Team.

General Meeting of Shareholders

The General Meeting of Shareholders is SRV's highest decision-making body. Each SRV share confers its holder the right to one vote at a General Meeting. The company's Annual General Meeting (AGM) was held on 22 March 2016. A total of 58 shareholders attended the meeting, representing about 63 per cent of the company's shares and votes. The minutes of the AGM are available on the company's website.

The AGM makes decisions on matters such as the election and remuneration of Board members, the Chair of the Board, the auditor and deputy auditor; the adoption of the financial statements and consolidated financial statements;

the release of Board members and the President & CEO from liability; and the disposal of profits as shown in the balance sheet. The General Meeting may also deal with other matters specified in the Companies Act as being the business of General Meetings, such as increases or decreases in share capital, share issues or buybacks, and amendments to the Articles of Association. As per the Companies Act, the General Meeting will also deal with matters added to the agenda by shareholders. An Extraordinary General Meeting shall be held when the Board of Directors deems it necessary or when required by law.

The President & CEO, the Chair of the Board and the members of the Board of Directors are present at General Meetings in order to ensure dialogue between shareholders and the company's administrative bodies, and so that shareholders can exercise their right to request information. Anyone nominated for the Board of Directors must be present at the General Meeting that will decide on their election.

Board of Directors

SRV's Board of Directors comprises five to eight members who are elected by the General Meeting. The General Meeting elects one of the Board members as its chair. The Board of Directors elects the vice chair from amongst its number. The term of office for Board members begins at the General Meeting at which they are elected and ends at the close of the next Annual General Meeting. The Board of Directors evaluates the independence of its members and announces which of its members have been deemed to be independent of the company and of its major shareholders.

The Annual General Meeting of 22 March 2016 elected six members to the Board of Directors. The following members were elected¹:

Ilpo Kokkila	Chair, MSc. (Tech.), b. 1947 Pontos Oy, Chair of the Board
Olli-Pekka Kallasvuo	Vice Chair, Master of Laws, LL.D.h.c., b. 1953 Board professional
Minna Alitalo	MSc. (Econ.), b. 1962 Alko Oy, Executive Vice President, Purchasing and Logistics
Arto Hiltunen	MSc. (Econ.), b. 1958 Board professional
Timo Kokkila	MSc. (Tech.), b. 1979 Pontos Group, Investment Director
Risto Kyhälä	MSc. (Tech.), b. 1963 Avara Oy, Chair of the Board

¹ Position on the date of reporting.

The General Meeting elected **Ilpo Kokkila** as Chair of the Board. The Board chose **Olli-Pekka Kallasvuo** as Vice Chair from among its members.

Of the Board members, **Minna Alitalo**, **Arto Hiltunen**, **Olli-Pekka Kallasvuo** and **Risto Kyhälä** are independent of both the company and its major shareholders. **Ilpo Kokkila** and **Timo Kokkila** are major shareholders and are not independent of the company.

The Board of Directors convened 21 times in 2016. Members had an average attendance rate of 97.6 per cent at Board meetings. The attendance record of Board members is as follows:

Ilpo Kokkila	21/21
Minna Alitalo	21/21
Arto Hiltunen	21/21
Olli-Pekka Kallasvuori	19/21
Timo Kokkila	20/21
Risto Kyhälä	21/21

The Board of Directors has prepared written standing orders for its activities, specifying the key tasks and operating principles of the Board and its Chair. The Chair of the Board ensures and supervises that the Board efficiently and appropriately discharges the tasks set for it in legislation, the Articles of Association, and its rules of procedure.

The Board's task is to lead and supervise the company's operations in accordance with the Companies Act, SRV's Articles of Association, and any other applicable legislation and regulations. The Board of Directors decides on matters of principle and far-reaching significance to the Group, including:

- Approving and overseeing the Group's strategy
- Approving and overseeing the annual budget and action plan
- Approving and overseeing the principles for risk management and internal control
- The most important business matters (such as acquisitions and significant contract agreements, investments and divestments)
- Appointing the President & CEO and other members of the Corporate Executive Team, and approving the terms and conditions of their service contracts and remuneration schemes
- Approving remuneration schemes for other personnel.

The standing orders of the Board of Directors are available in their entirety on the company's website.

The Board of Directors meets regularly according to a pre-set schedule, and also when necessary. The Board of Directors is quorate when more than half of its members are present and one of them is the chair or the vice chair. The CEO and General Counsel, who serves as the secretary of the Board, participate in Board meetings. Other members of the Corporate Executive

Team participate in Board meetings by invitation of the Board.

The Board of Directors conducts an annual assessment of its activities and working procedures, and develops its activities based on the results.

Diversity of the Board of Directors

The purpose of Board diversity

The diversity of the Board of Directors supports the company's business operations and their development. Diversity enhances the work of the Board of Directors through the various perspectives on the company's development and operational steering that are brought to the table by people of different ages and with differing educational backgrounds and experience. Diversity fosters open discussion and strengthens Board members' decision-making.

Accounting for diversity in the election of Board members

The Board of Directors' HR & Nomination Committee prepares a proposal to the General Meeting on the number of Board members to be elected, the candidates, and their remuneration.

The committee must take the diversity requirement into consideration when preparing this proposal. In its preparatory work, the committee must evaluate the requirements set for the qualifications of Board members in light of the company's situation. It must also assess how sufficiently diverse the Board is in terms of members' age and gender distribution, and other factors such as their experience, knowledge of the company's business functions, and education. Board members must have sufficient competence and the ability to devote enough time to Board work, considering the current and planned needs of the company. There must be an adequate number of Board members.

Members must have a range of different areas of expertise that support the achievement of the company's current strategic objectives. In addition to knowledge of the company's fields of business, these areas of expertise include:

- Finance and funding
- Business management
- Strategy development and management
- Business in Russia.

Board members must have sufficient education that supports the company's operations and achievement of objectives.

The majority of Board members must be independent of the company. At least two members who are independent of the company must also be independent of the company's major shareholders.

Ensuring diversity

The company has met the requirements set for diversity in the composition of the Board of Directors. All members of SRV's Board of Directors have a university degree: three have a masters in technology, two in economics, and one in law (trained on the bench). All members are serving or have served in corporate managerial positions in different fields of business. Most of these companies have engaged in international operations. The Board also has professional expertise in construction and property investments. Both genders are represented on the Board, with the age of the members ranging from 37 to 69. The longest term of office held by a Board member is 30 years (Chair Ilpo Kokkila, who is one of the Company's founders) and the shortest is four, with a median term of six years.

Board Committees

The Board of Directors has established two committees: an Audit Committee and an HR & Nomination Committee. The committees operate in accordance with the standing orders approved by the Board of Directors, and report to the Board. The committees do not have independent power of decision. Their task is to enhance the effectiveness of the Board of Directors by preparing matters for decision by the Board and the General Meeting.

Audit Committee

The Audit Committee assists the Board of directors in its role in the supervising the Company's financial reporting, as well as matters relating to the audit. The Audit Committee monitors the company's financial reporting and prepares matters concerning financial reporting, assessments and risk management for the Board. In order to discharge its tasks, the Audit Committee follows trends in SRV's financial position, asks questions of the auditors, reviews drafts of the financial statements and interim reports, and monitors the effectiveness of internal control,

internal auditing and risk management systems. The Audit Committee also prepares a proposal on the election of the auditor for presentation to the General Meeting and evaluates and monitors the independence of the Company's audit firm as well as evaluates the non-audit services provided to SRV by the audit firm.

The audit committee is composed of three members which are elected among The Board. The Audit Committee Rules of Procedure are available on the company's website.

Minna Alitalo chaired the Audit Committee in 2016, the other members being Olli-Pekka Kallasvuo and Timo Kokkila. Of the members, Minna Alitalo and Olli-Pekka Kallasvuo are independent of the company and its major shareholders. Timo Kokkila is a major shareholder and is not independent of the company.

The Audit Committee convened four times during 2016. The attendance rate at Committee meetings is shown below:

Minna Alitalo	4/4
Olli-Pekka Kallasvuo	4/4
Timo Kokkila	3/4

HR & Nomination Committee

The HR & Nomination Committee (formerly the Nomination and Remuneration Committee before March 2016) prepares matters concerning the election and remuneration of members of the Board of Directors and its chair for presentation to the General Meeting. The committee also considers matters relating to the appointment and remuneration of the CEO and other management, and remuneration and incentives for personnel. The committee assesses the activities of senior management, oversees successor planning, plans competence development for management and personnel, and monitors personnel satisfaction and working capacity.

HR and Nomination Committee is composed of three members which are elected among The Board. The HR and nomination Committee Rules of Procedure are available on the company's website.

Ilpo Kokkila chaired the HR & Nomination Committee in

2016, the other members being Arto Hiltunen and Risto Kyhälä. Of the members, Arto Hiltunen and Risto Kyhälä are independent of the company and its major shareholders. Ilpo Kokkila is a major shareholder and is not independent of the company.

The HR & Nomination Committee convened four times during 2016. The attendance rate at Committee meetings is shown below:

Ilpo Kokkila	4/4
Arto Hiltunen	4/4
Risto Kyhälä	4/4

President & CEO

The President & CEO attends to the practical management of SRV's business operations and administration. The CEO is responsible for preparing matters to be dealt with and decided by the Board of Directors, implementing the Board's decisions, and ensuring that any goals set by the Board are attained. The CEO ensures that the company's bookkeeping complies with applicable legislation, and that funds are managed in a reliable manner. The CEO also serves as the Chair of the Corporate Executive Team. The Board of Directors appoints the CEO and Deputy CEO, and relieves them of their duties.

Juha Pekka Ojala (1963–), BSc. (CE), was President & CEO of SRV Group Plc in 2016. SRV's Deputy CEO is **Timo Nieminen** (1958–), MSc. (Tech.).

Corporate Executive Team

The Corporate Executive Team and its working committee assist the President & CEO in operational planning, line management, and decision-making. They also prepare matters to be dealt with by the company's Board of Directors. The Corporate Executive Team and its working committee handle matters concerning business operations and operational control and development. The most significant issues handled by the Corporate Executive Team in 2016 were planning and supervising the implementation of the company's current strategy, planning SRV's strategy revision, and overseeing major projects (both ongoing and under development).

Corporate Executive Team 2016

Juha Pekka Ojala	President & CEO, Chair of the Corporate Executive Team b. 1963, BSc. (CE)
Timo Nieminen	Executive Vice President, Property Development Finland Deputy CEO, Vice Chair of the Corporate Executive Team b. 1958, MSc. (Tech.)
Pirjo Ahanen	Senior Vice President, Human Resources b. 1958, MSc. (Econ.)
Katri Innanen	Senior Vice President, General Counsel (until 31 May 2016) b. 1960, LL. M. (trained on the bench)
Päivi Kauhanen	Senior Vice President, Communications b. 1975, high-school graduate
Veli-Matti Kullas	Vice President, Project Development in Russia b. 1956, MSc. (Tech.)
Jussi Kuutsa	Vice President, Business Operations in Russia (until 30 November 2016) b. 1964, MSc. (Econ.)
Johanna Metsä-Tokila	General Counsel (as of 1 June 2016) b. 1977, LL. M. (trained on the bench)
Antero Nuutinen	Senior Vice President, Housing and Regional Offices b. 1963, BSc. (CE)
Valtteri Palin	Senior Vice President, Financial Administration b. 1973, MSc. (Econ.)
Ilkka Pitkänen	CFO b. 1966, MSc. (Econ.)
Juha Toimela	Senior Vice President, Operations in Finland b. 1963, MSc. (Tech.), MBA

The Corporate Executive Team's 2016 working committee consisted of Juha Pekka Ojala, Timo Nieminen, **Päivi Kauhanen**, **Veli-Matti Kullas**, **Antero Nuutinen**, **Ilkka Pitkänen**, **Johanna Metsä-Tokila** (as from 1 June 2016), and **Juha Toimela**. The Group's development director acts as the secretary of the Corporate Executive Team and its working committee. In 2016, the Corporate Executive Team convened 13 times and its working committee¹ 32 times.

¹ The composition and meeting procedures of SRV's Corporate Executive Team was revised from the beginning of 2017. The working committee, which convened weekly and consisted of only some of the Corporate Executive Team members, was completely abolished.

REMUNERATION

The General Meeting decides on the remuneration paid to the members of the Board of Directors and its committees. The Board of Directors decides on the terms of employment and other compensation of the President & CEO, Deputy CEO, and members of the Corporate Executive Team. For more detailed information on remuneration, see the Salary and remuneration report published on SRV Group Plc's website.

AUDIT

The auditor is elected at the Annual General Meeting to a term of office that ends at the close of the next Annual General Meeting following the auditor's election. In a public limited company, at least one auditor elected by the Annual General Meeting must be an authorised public accountant or a firm of authorised public accountants.

The Annual General Meeting of 22 March 2016 elected PricewaterhouseCoopers Oy, Authorised Public Accountants, as the company's auditor with **Samuli Perälä**, Authorised Public Accountant, as the chief auditor.

The auditor was paid auditing fees of EUR 293,000 in 2016. The auditor was paid an additional EUR 97,000 for other services (including all the companies belonging to the same group or chain).

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS FOR SRV'S FINANCIAL REPORTING

SRV continuously monitors its functions to ensure the reliability of its result. Internal control seeks to ensure that the company's operations are efficient and productive, reporting is reliable, and laws and regulations are complied with. However, the internal control system cannot provide full certainty that risks will not be realised.

SRV's business operations are guided by consistent Group-wide business principles, decision-making authorisations and the company's values. Internal control is founded on a healthy corporate and management culture, and on specified reporting and its fundamental principles. In particular, internal control is based

on financial reports, management reports, risk reports and internal audit reports. The company's key operations are controlled by means of written internal operating policies and procedures.

SRV's business is based on the implementation of construction projects. SRV's revenue is generated by construction projects, and the company's result depends on both the profitability of individual projects and their progress.

Financial control

The internal control system applied to business operations is the responsibility of the executive teams of SRV's business areas and the Group's controller function, in accordance with SRV's Group policies and instructions. Monthly financial reporting is a key control process in ensuring the effectiveness and efficiency of operations. It also includes analyses of deviations between actual results, budgets, and continuously updated forecasts for overall financial performance and individual construction projects.

The internal control system is the responsibility of SRV Group Plc's Board of Directors and Audit Committee, the Corporate Executive Team and its working committee, the executive teams of SRV's business areas, and financial administration. Management's monthly financial reporting is a key control process in ensuring the accuracy of the Group's financial reporting. It includes analyses of deviations between actual results, budgets and continuously updated forecasts. An external auditor audits financial reporting on a regular basis and reports directly to the Audit Committee.

Financial management and operational control are supported and coordinated by the Group's financial administration and the SRV's controller function. SRV has drafted Group-level reporting models for standardising the financial reporting of its business functions. Their reports seek to ensure that control covers all the major aspects of SRV's business operations. This ensures that any deviations from financial objectives are identified, communicated and reacted to efficiently and effectively, in a standardised and timely manner.

Financial control measures also include management's continual business control procedures. Financial reports define key control indicators that aim to measure and support business efficiency and consistency, and to monitor progress towards the attainment of SRV's objectives.

The Board of Directors has approved the Group's internal decision-making authorisations.

Reliability of financial reporting

The monitoring of financial reporting reliability is based on the principles and guidelines SRV has defined for the financial reporting process.

The interpretation and application of financial statement standards are centralised in the Group's financial administration, which maintains the SRV IFRS Accounting Manual under the supervision of the company's Audit Committee. The Group's financial administration supervises compliance with these standards and instructions.

The supervision of budgeting and reporting processes is based on SRV's budgeting instructions. The Group's financial administration is responsible for drafting and maintaining these instructions centrally. The principles are applied consistently throughout the Group.

Risk management system

SRV engages in systematic risk management, both to protect itself against factors that might hinder its business operations and to recognise new opportunities. The company improves the profitability and stability of its operations by identifying and reacting to strategic and operational risks in time. Risk management is part of SRV's management system. It supports the company's values, vision, strategy and the attainment of its earnings objectives.

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

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

INTERNAL AUDIT

The duties of the internal auditing function include making an unbiased and objective assessment of the appropriateness and efficiency of the company's internal control system, risk management, and management and administrative processes. The internal audit supports the organisation's development and assists the Board of Directors in its supervisory responsibilities.

The internal audit operates under SRV's Board of Directors, and is the responsibility of the Head of Internal Audit. If required, the internal audit may use the services of an external provider. The audits are based on the Audit Plan, which is approved annually by the Audit Committee. Audit reports are submitted to the Audit Committee, and also annually to the company's Board of Directors.

INSIDER ADMINISTRATION

The company complies with the insider guidelines approved by the Board of Directors. SRV revised its insider policy to comply with the EU Market Abuse Directive and Regulation ("MAR") that came into force on 3 July 2016, and has followed these revised guidelines since 3 July 2016. This insider policy describes essential rules, instructions and procedures concerning market abuse and, in particular, the prohibition on market manipulation and using insider information.

According to the MAR, the company's management includes the members of SRV Group Plc's Board of Directors and the President & CEO. Management and their close circle must report all business transactions involving the company's securities to both SRV and the Financial Supervisory Authority. The company will issue a stock exchange release on all such transactions.

SRV's management may not trade in the company's securities (either in person or through a third party) during a 30-day closed window before the publication of each of the company's financial statement bulletins or interim reports. SRV applies a "closed window" from the end of every quarter to the day following the publication of the company's financial statement bulletin or interim report. The closed window covers at least the 30 calendar days before the publication of a financial statement bulletin or interim report, as well as the day of

publication itself. This prohibition remains in force whether or not the person in question is in possession of any insider information at the time.

The company maintains and updates a register of those who regularly receive unpublished financial information via their position or authorisations ("those who participate in the preparation of financial reviews"). The closed window and non-disclosure obligations also apply to these individuals, and they are also forbidden from providing information or advice to others for the purpose of trading in the company's securities.

SRV draws up a list of individuals who have access to insider information and who have signed an employment contract with the company, or who otherwise perform duties which grant them access to insider information. SRV does not maintain a permanent insider register. Instead, all individuals participating in insider projects are included in project-specific insider lists. Anyone whose name appears on one of these lists may not trade in the company's securities until they have been notified that any trading restrictions have been lifted.

SRV recommends that trading be restricted to situations in which the market is in possession of the most comprehensive information about factors affecting the company's securities, that is, after the publication of an interim report or financial statement bulletin. SRV recommends that those who are in a management position or prepare financial reviews should make long-term investments rather than trading in securities belonging to or related to the company. Insider policy forbids the aforementioned individuals from engaging in short-term trading and speculative activities with securities belonging to or related to the company.

SRV's insider administration organisation consists of the General Counsel, the person responsible for insiders, and the insider register custodian. Insider administration is responsible for the daily management and supervision of compliance with the MAR and SRV's insider policy, which includes tasks such as maintaining insider registers, supervising insider issues, arranging training, giving advice, and sending notifications to management, insiders and other relevant organisations. SRV's insider administration function cooperates with Group communications, which handles the publication of management's business activities.

SHARE OWNERSHIP AT 31 DECEMBER 2016

Members of the Board of Directors	Holdings
Ilpo Kokkila ¹	[No holdings]
Share ownership in a company under his control (Kolpi Investments Oy)	11,505,457
Olli-Pekka Kallasvuo	133,332
No holdings in companies under his control	
Minna Alitalo	[No holdings]
No controlled companies	
Arto Hiltunen	[No holdings]
No controlled companies	
Timo Kokkila	7,617,216
No controlled companies	
Risto Kyhälä	10,000
No controlled companies	

¹ Shareholding notified in accordance with the flagging notification received by the company on 22 December 2016. The change of shareholding had not been recorded in the Euroclear system on 31 December 2016.

President & CEO, and Deputy CEO	Holdings
Juha Pekka Ojala	242,626
Timo Nieminen	655,390
No controlled companies	

Corporate Executive Team	Holdings
Pirjo Ahanen	2,832
Päivi Kauhanen	[No holdings]
Veli-Matti Kullas	199,330
Johanna Metsä-Tokila	31,000
Antero Nuutinen	77,240
Valtteri Palin	[No holdings]
Ilkka Pitkänen	[No holdings]
Juha Toimela	3,332

RISK MANAGEMENT

SRV will publish a separate Corporate Governance Statement in its 2016 Annual Report and on the company's website. Detailed information about the company's business risks and risk management will be provided in the 2016 Notes to the Financial Statements and 2016 Annual Report, and on the company's website.

The most significant risks currently concern the REDI project, the Russian economy, and the rouble exchange rate. To date, SRV's operating currency in Russia has primarily been the euro. The company's rental operations have become increasingly rouble-based. In accordance with IAS 21, the operating currency of SRV's property-related subsidiaries and associated companies was therefore changed to the rouble in 2016. This accounting change will make SRV more susceptible to fluctuations in the rouble exchange rate. The companies affected by the change in operating currency include those that own the Okhta Mall and Pearl Plaza shopping centres. In its Russian business, fluctuations in the rouble exchange rate expose SRV to translation and transaction risks. A ten per cent weakening or strengthening of the rouble against the euro at the closing date would have had an

impact of about EUR 13 million on the Group's equity translation differences. SRV's transaction risk largely comprises the foreign currency-denominated loans of associated companies that are partly owned by SRV. Changes in these would correspondingly have had an impact of about EUR 14 million on SRV's earnings.

The Russian recession has lasted longer than expected, which has led to the continuation of temporary rent discounts for shopping centre tenants. It may therefore take longer than planned to reach the target for rental income.

REDI is a major project in relation to the size of the company and therefore includes risks associated with its implementation and financing.

The bond SRV issued in March 2016 has improved the company's equity.

BOARD OF DIRECTORS



Minna Alitalo
b. 1962, M.Sc.(Econ.)
Executive Vice President,
Purchasing and Logistics,
Alko Oy
Member of the Board (2012-)
Chairman of the Audit
Committee (2013-)
Member of the Audit
Committee (2012-)



Olli-Pekka Kallasvuo
b. 1953, Master of Laws,
LL.D.h.c.
Board professional
Vice Chairman of the Board
of Directors (2011-)
Member of the Audit
Committee (2011-)



Timo Kokkila
b. 1979, M.Sc.(Eng.)
CEO, Pontos Group
Member of the Board (2010-)
Member of the Audit
Committee (2010-)



Arto Hiltunen
b. 1958, M.Sc.(Econ.)
Board professional
Member of the Board (2010-)
Member of the Human
Resources and Nomination
Committee (2010-)



Ilpo Kokkila
b. 1947, M.Sc.(Eng.)
Chairman of the Board, SRV
Group Plc and Pontos Group
Chairman of the Board
(1987-)
Chairman of the Human
Resources and Nomination
Committee (2007-)



Risto Kyhälä
b. 1963, M.Sc.(Eng.)
Chairman of the Board,
Avara Oy
Member of the Human
Resources and Nomination
Committee (2013-)

More information:

www.srv.fi > srv as a company > board of directors

CORPORATE EXECUTIVE TEAM



Juha Pekka Ojala
b. 1963, B.Sc.(CE)
President and CEO
Joined the Group in 1997.



Päivi Kauhanen
b. 1975
Senior Vice President,
Communications
Joined the Group in 2015.



Antero Nuutinen
b. 1963, B.Sc.(CE)
Senior Vice President,
Housing and Regional Offices
Joined the Group in 1988.



Timo Nieminen
b. 1958, M.Sc.(Eng.)
Executive Vice President,
Project Development in
Finland, Deputy to CEO
Joined the Group in 1987.



Veli-Matti Kullas
b. 1956, M.Sc.(Eng.)
Senior Vice President,
International Operations
Joined the Group in 2004.



Ilkka Pitkänen
b. 1966, M.Sc.(Econ.)
CFO
Joined the Group in 2014.



Pirjo Ahanen
b. 1958, M.Sc.(Econ.)
Senior Vice President,
Human Resources
Joined the Group in 2006.



Johanna Metsä-Tokila
b. 1977 LL.M.
Senior Vice President,
General Counsel
Joined the Group 2016.



Juha Toimela
b. 1963, M.Sc.(Eng.), MBA
Senior Vice President,
Business Operations in
Finland
Joined the Group in 2009.

More information:

www.srv.fi > srv as a company > corporate executive team

MORE INFORMATION

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