

VVO Group plc
Annual Report 2015



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Main » Year 2015



Year 2015

Both VVO Group's turnover and profit increased in 2015. The occupancy rate remained high, and there were 1,189 apartments under construction at the end of the year. In 2015, the Group spent approximately EUR 235 million on new development, housing acquisitions, and apartment repairs.

Summary of the Year 2015 (comparison period 1 Jan–31. Dec 2014)

- The Group's gross investments during the period totalled EUR 235.0 (200.5) million. Gross investments were 63.3 (56.2) per cent of turnover.

- The fair value of our rental apartments was EUR 4.0 (3.7) billion. Return on investment was 7.6 (5.9) per cent.
- Turnover totalled EUR 370.9 (356.5) million. Turnover is entirely generated by rental income.
- Profit before taxes amounted to EUR 224.7 (146.5) million. The profit includes changes of EUR 70.3 (26.2) million in the fair value assessment of investment properties. Our favourable profit performance was based on changes in the fair value, low financial costs, a good occupancy rate and the successful management of maintenance costs.
- Net rental income was EUR 227.4 (210.0) million, representing 61.3 (58.9) per cent of turnover.
- The rental occupancy rate remained high, standing at 97.6 (98.1) per cent.
- There were 1,189 (1,127) rental apartments under construction at the end of the review period.
- The Group owned 41,153 (40,793) rental apartments on 31 December 2015.

Summary of 1 Oct.– 31 Dec. 2015 (comparison period 1 Oct.– 31 Dec. 2014)

- Turnover totalled EUR 94.7 (90.9) million. Turnover is entirely generated by rental income.
- Profit before taxes amounted to EUR 57.4 (50.0) million, showing an increase of EUR 7.4 million.
- Net rental income was EUR 56.9 (46.9) million, representing 60.1 (52.1) per cent of turnover.
- The Group's gross investments during the period totalled EUR 81.1 (68.1) million.

Main » Year 2015 » VVO Group in brief

VVO Group in brief

Under the Lumo and VVO brands, VVO Group Plc offers versatile and effortless rental solutions coupled with an extensive range of housing services for different life situations. VVO Group aims to invest heavily in increasing housing supply in the next three years by developing new properties and buying existing properties. Urbanisation and migration to growth centres provides VVO Group with good growth opportunities in the Finnish rental housing market.

Main » Year 2015 » CEO's review

CEO's review



VVO Group's turnover and profit were excellent in 2015, despite the overall economic situation. At the end of the year, the fair value of our investment properties was EUR 4.0 billion. We invested more than EUR 235 million in new development, in acquiring old housing stock, and in renovation. Our goal is to increase the number of apartments by 1,000 per year. A total of 1,189 privately financed rental apartments were under construction at the end of the review period.

The year 2015 included many changes that were essential for the implementation of our strategy.

We started using the International Financial Reporting Standards (IFRS) to ensure that financing channels can be utilised in a more versatile manner and that we can invest strongly in the future, too.

To fulfil the wishes of customers, we launched an online apartment rental service at www.lumo.fi/kotinyt. The Lumo kotinyt.fi is a completely new way to rent an apartment immediately. We believe that the customer is the expert when it comes their living choices, so we handed over the decision-making power to them: the customer chooses a suitable Lumo rental apartment, pays the rent for the first month and can move in on the next weekday, for instance. The first couple of days already showed that the new apartment rental service is a great success.

Our customers are also interested in environmentally friendly car sharing. In Helsinki, Espoo, Tampere, Jyväskylä, and Turku, we introduced car sharing in certain Lumo properties.

With these and other innovative services, we offer our customers easy and flexible housing.

At the end of 2015, VVO Group declared that, in the future, it will focus on market-based operations and announced the transfer of 8,631 cost principle, state-subsidised ARA rental apartments to Y-Asunnot.

We also commented on the strategic Government Programme and issued our own theses. The Government Programme contains a lot of good and long-awaited measures that would improve the preconditions for building rental apartments.

In the spirit of the climate agreement, we joined the Climate Leadership Council and committed to developing climate-friendly housing solutions.

As a one VVO team, we want to develop in order to be able to serve our customers even better. For this reason, we also participate in the Great Place to Work survey, the results of which provide us with a good benchmark for our journey towards becoming a better employer and landlord.

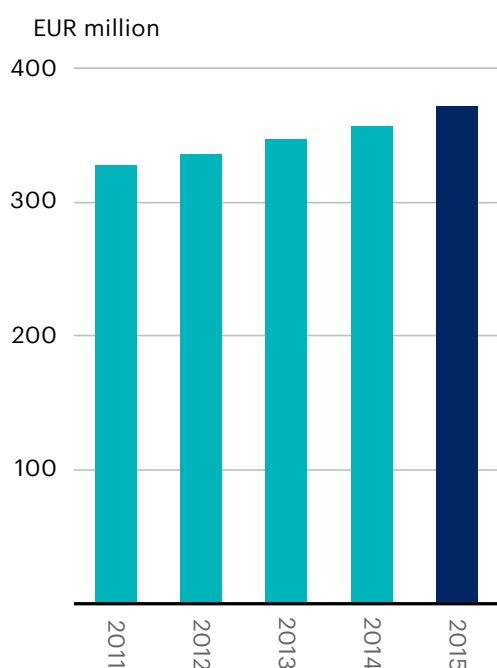
I would like to thank everyone for the good review period!

Jani Nieminen
CEO

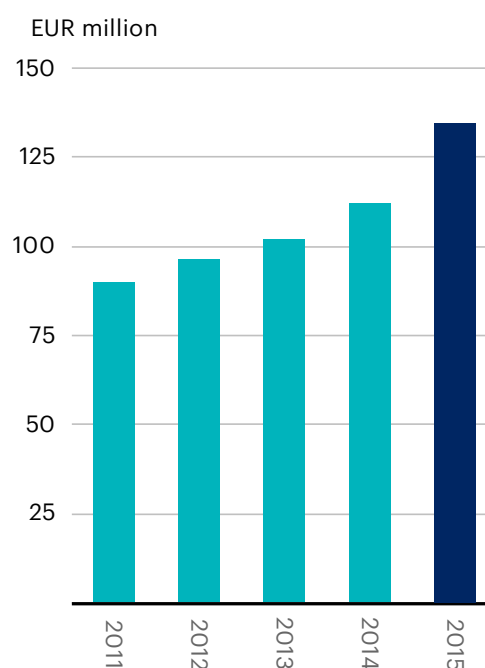
Main » Year 2015 » Key indicators

Key indicators

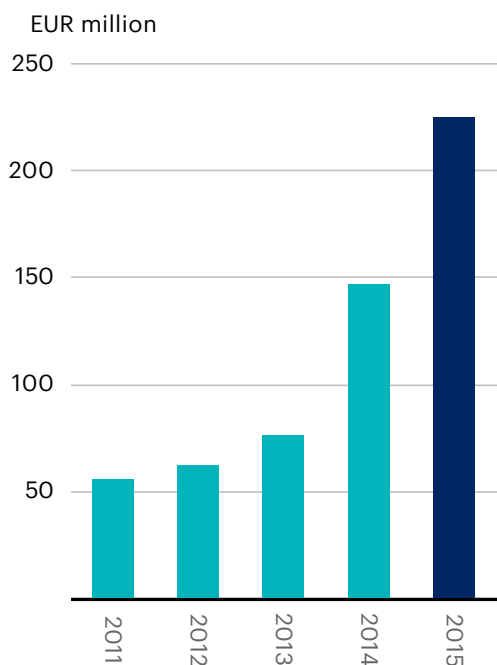
Turnover



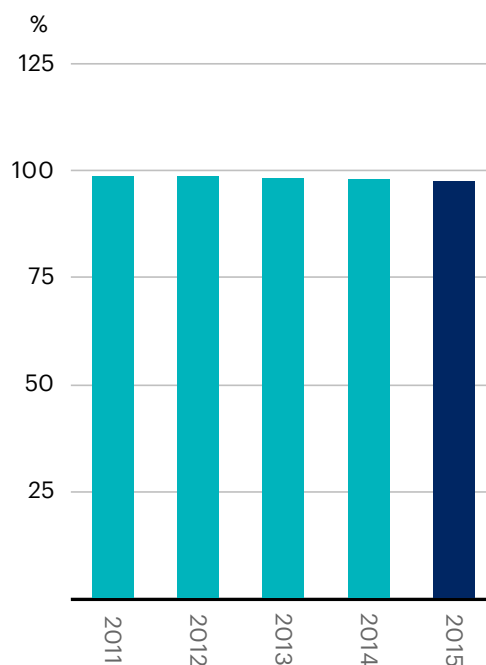
Net rental income, Non-subsidised segment



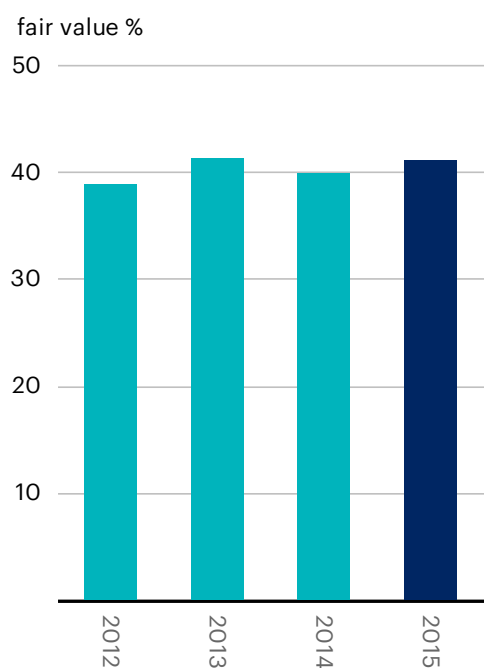
Profit trend



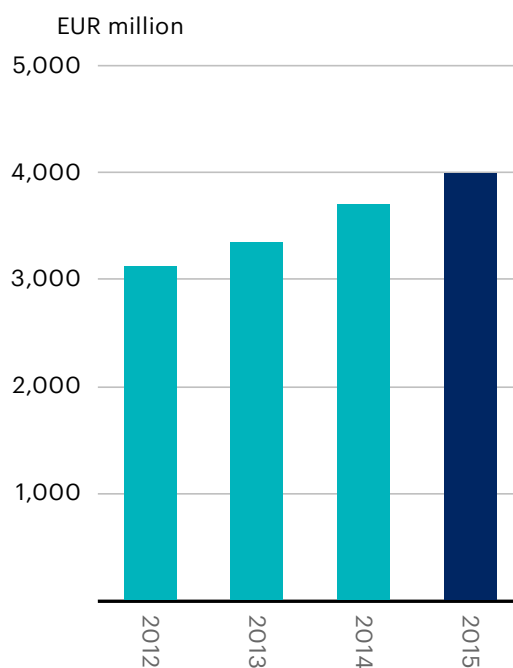
Rental occupancy rate



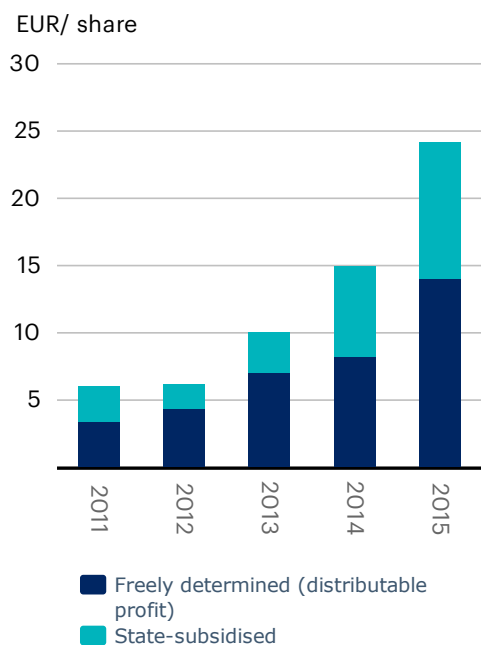
Equity ratio



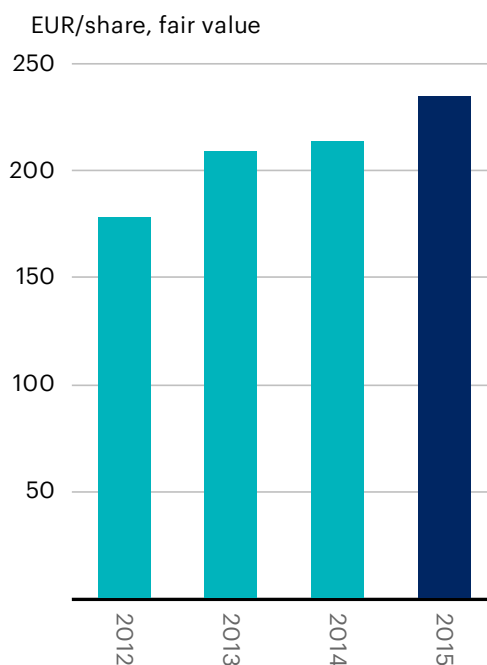
Value development



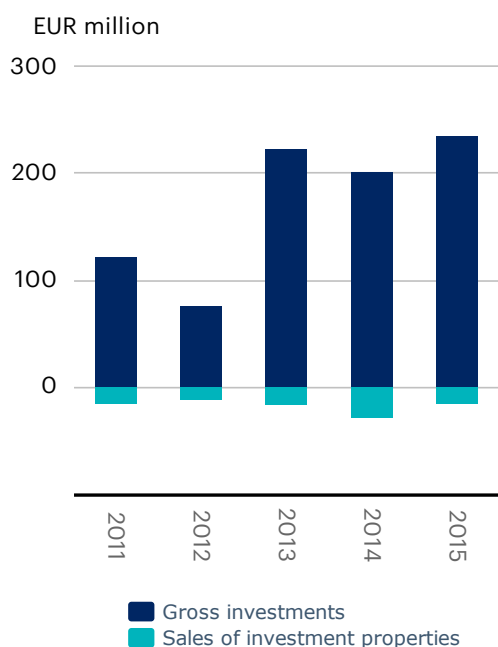
Share-specific indicators



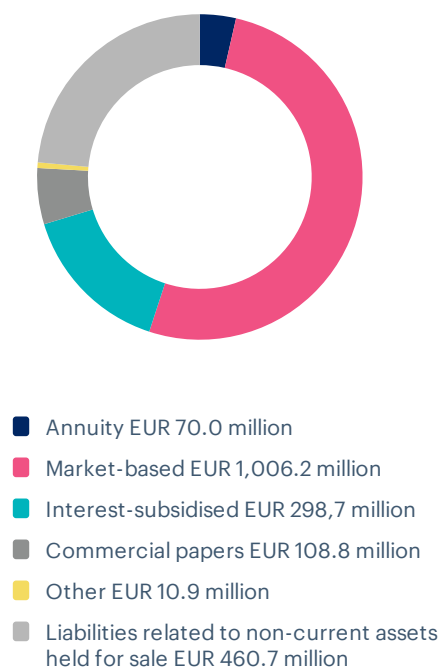
Equity



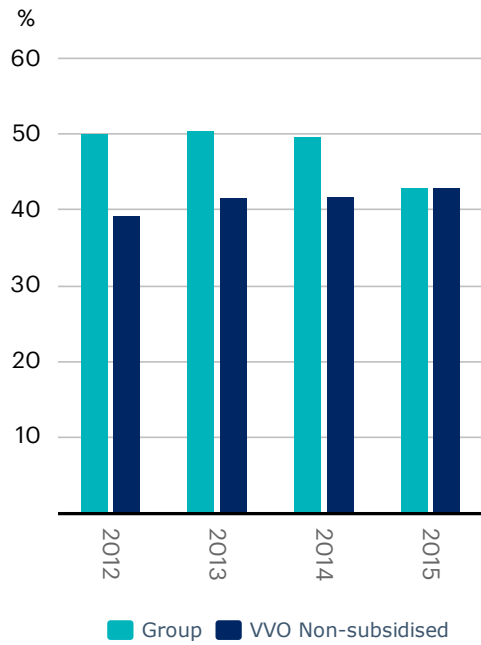
Gross investments and sales of investment properties



Structure of debt portfolio



Loan to Value



Rental housing stock 2015



As of 2014, the Group adapted IFRS for its financial reporting.

Main » Year 2015 » Strategy

Strategy

VVO Group's mission: We create safer and better rental housing.

VVO Group plc's business consists of the ownership and rental of apartments and the provision of innovative housing services. Our key product is the rental apartment.

The company's values are profitability, innovativeness, reliability and client satisfaction.

Our vision is to be the most desirable and efficient landlord. Our 45,000 apartments in growth centres provide homes to 80,000 satisfied residents, to whom VVO Group offers good and safe rental housing and innovative Lumo housing services. The Group is the number-one choice for rental housing. The Group can achieve the best efficiency in its sector with economies of scale and progressive operating models.

The realisation of the vision requires

- extensive supply and continuous service development
- safety both in the tenancy and in the living environment
- easy and effortless service and innovative housing services
- utilisation of best practices

The strategic key indicators until the end of 2018

Apartment assets	EUR 5.0 billion
Rental apartments	45,000
Operative result of the Non-subsidised segment as a percentage of turnover	32%
Equity ratio	
- Non-subsidised segment	>35%
- State-subsidised segment	>12%
Net promoter score	40

The following have been defined as the strategic focal points for 2015–2018:

1. a long-term increase in supply and shareholders' value
2. the best solutions for rental housing and a good customer experience
3. sustainable operations and efficient operating models
4. a pioneer in rental housing
5. a competent and attractive company

Main » Year 2015 » Strategy » Strategy implementation in 2015

Strategy implementation 2015

In 2015, VVO implemented the following strategic priorities:

Increasing supply and shareholders' value

- There were 1,189 apartments under construction.
- Gross investments totalled EUR 235.0 million.
- Property and housing stock renovation and repairs amounted to EUR 92.3 million.
- Operational efficiency increased.
- Divestments were made according to plan.
- IFRS reporting was launched in the first quarter of 2015.
- VVO Group declared that, in the future, it will focus on market-based operations and announced the transfer of 8,631 cost principle, state-subsidised ARA rental apartments to Y-Asunnot.

The best solutions for rental housing and a good customer experience

- The [Lumo kotinyt.fi](http://Lumo.kotinyt.fi) apartment rental service gave the customers the freedom to choose the rental apartment they want, sign the tenancy agreement online and move in even immediately.
- The Lumo service concepts were expanded: for instance, car sharing was introduced in several locations.
- Electronic services for customers were increased, and, for instance, it became possible to book parking spaces online.
- Nearly 90 per cent of customers would recommend VVO Group as a landlord.

Sustainable operations and efficient operating models

- The housing advisory service went nationwide.
- Competitive bids created economies of scale.
- Energy was used wisely without compromising on residents' comfort and living

conditions.

- As part of the development of climate-friendly housing solutions, VVO Group plc joined the Climate Leadership Council.

A pioneer in rental housing




- VVO Group issued its housing policy theses.
- The innovative Lumo housing services were developed further, and Lumo kotinyt.fi introduced an entirely new service concept to customers.

A competent and attractive company

- Employee satisfaction was at a high level.
- The Group was successful in the Responsible Summer Job campaign and was recognised as one of Finland's most inspiring places to work in the Suomen innostavimmat työpaikat assessment.
- For the first time in its history, the Group participated in the Great Place to Work survey and management practices audit.

Main » Year 2015 » Strategy » Megatrends

Megatrends

Trend	Effects on the VVO Group
 <p data-bbox="199 824 373 853">Urbanisation</p> <ul data-bbox="432 685 831 936" style="list-style-type: none">• Population shift to the Helsinki Metropolitan Area is continuing.• Regional separation in Finland is strengthening.• The risk of segregation between residential areas in cities is increasing.	<ul style="list-style-type: none">• Demand is rising in the largest growth centres.• The development volume will remain high.• Number of municipalities with business locations will be cut to 30 by 2018.
 <p data-bbox="199 1149 357 1205">Smaller family sizes</p> <ul data-bbox="432 1010 879 1261" style="list-style-type: none">• There are more households with one or two people.• The number of the elderly is rising.• Easier labour mobility.• Need for the sense of community and for sharing economy is increasing.	<ul style="list-style-type: none">• In line with the changes in demand, design must aim at smaller floor area and more efficient use of space.• The service business will be developed further.• More diverse shared use opportunities.
 <p data-bbox="199 1496 379 1525">Digitalisation</p> <ul data-bbox="432 1357 831 1541" style="list-style-type: none">• The willingness to use electronic services is increasing.• The Internet of Things (IoT) is transforming housing solutions.• Telecommuting is increasing.	<ul style="list-style-type: none">• Electronic services will be increased.• The requirements of digital solutions will be taken into account in design and service development.• Working at home will be facilitated.



Internationalisation

- A large share of growth in the Helsinki Metropolitan Area is due to immigration.
- It is increasingly common for Finns to work in international positions.
- The use of the English language is increasing.
- Customer service will be provided in many languages. The use of the English language will become a more everyday phenomenon.
- Finding an apartment abroad will be facilitated.



Experiences

- Individuality is being emphasised.
- Homing, interior decoration, details and efficiency are emphasised.
- Kitchens are becoming smaller and integrated with other spaces, and people are spending more time outside their homes, in restaurants and cafés, for instance.
- Innovative housing solutions and services will be developed.
- Common areas in properties will develop and become more versatile.

Main » Year 2015 » Business operations

Business operations

VVO Group's business consists of the ownership and rental of apartments. In the future, the company will focus on market-based operations. VVO Group declared that, in the future, it will focus on market-based operations and announced the transfer of 8,631 cost principle, state-subsidised ARA rental apartments to Y-Asunnot.

In the future, VVO Group will offer rental apartments in 30 locations in Finland. The Group will invest even more heavily in the development of the new and innovative Lumo housing service concepts.



28,167
Lumo rental apartments

VVO Group rents out apartments mainly under the market-based Lumo brand (28,167 apartments). The [range of services](#) related to the Lumo brand rental apartments is extensive and is constantly being developed. A total of 12,986 apartments were rented out under the VVO brand (cost principle).

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

At the end of the financial year, the Group's project commitments and opportunities covered approximately 2,000 rental apartments, or EUR 300 million.

VVO Group plc started using the IFRS reporting practices. The first interim report for 2015 was prepared pursuant to the International Financial Reporting Standards (IFRS) and comparison data was adjusted according to IFRS reporting. The transition and its effects are described in the financial statements under Financial Statements, Notes: Transition to IFRS ([link](#)).

Customers, investments, and real estate development

Our business is organised into the following activities: customers, investments, and real estate development.

The Customers function is responsible for the management and development of VVO Group's rental business, client satisfaction, and cost efficiencies in customer management. This function is responsible for market monitoring, controls building management and rental operations, and guides cooperation with residents through the nationwide VVO Home Centre network.

When renting out apartments, VVO seeks to offer a good service experience for the customer and to provide rental apartments that meet existing demand, with the aim of extending tenancy periods and improving customer profitability. Furthermore, cost efficiency is achieved by managing fixed costs, leveraging economies of scale, and continuously ensuring operational efficiency.

The Investments function prepares, manages and executes corporate investments and divestments. It also acts as VVO Group's internal property owner and develops the Group's property-owning corporate structure and management. The Investments function makes long-term investment plans that enable the Group to achieve its strategic targets, and steers investment decisions on property repairs and renovations.

The Real Estate Development function manages the development and technical lifecycle of VVO's apartments, optimises apartment maintenance, manages plot reserves, and carries out technical building management in the Helsinki Metropolitan Area. By utilising its own plot reserves and negotiating with partner organisations, the Real Estate Development function seeks opportunities for the construction of new properties. The function engages in systematic real estate development and leverages economies of scale to enable cost-efficient property maintenance and the achievement of VVO's strategic targets.



Main » Year 2015 » Business operations » Value creation

Value creation

With its rental apartments, housing services and active housing supply development, VVO Group creates value for shareholders, customers, other stakeholders and the surrounding society.

A responsible way of working boosts the company's profitability and builds a solid foundation for future operations, making it possible to increase the number of rental apartments in growth centres.

VVO Group's key strengths include rental apartments with good transport connections and services, service business development, systematic real estate development, good investment opportunities, and skilled personnel.

Input and resources (internal + external)

Financial capital

- Equity EUR 1,739 million
- Liabilities, financial risk management
- Fair value EUR 4.0 billion

Production capital

- 41,153 apartments
- Property portfolio 2.3 million dwelling m²
- Plot reserve 130,000 floor m²
- Investments exceeding EUR 230 million

Human resources and competence capital

- Committed personnel
- Training input
- Input related to well-being in the workplace

Intangible capital

- Customer relationships, cooperation with residents
- Customer and consumer information, product development, brand s
- Ways of working that create market differentiation, such as VVO Home Centres and Lumo kotinyt.fi

Relationship capital, structural

- Reliable partner network
- Cooperation with authorities
- Cooperation with the sector and other organisations

Natural resources

- Consumption of heating energy 346 GWh
- 99% of properties use district heating
- Water consumption 3.6 Mm³
- Electricity consumption 50.1 GWh, carbon-neutral energy for property electricity
- Waste treatment efficiency improvements and pilot projects

Business model





Main » Year 2015 » Rental housing market

Rental housing market

In Finland, there are approximately 2.5 million apartments with permanent residents, of which roughly 32 per cent, or 800,000, are rental apartments. In 2014, there were approximately 1,340,000 rental housing residents. It is estimated that the popularity of rental housing continues to increase. According to [Statistics Finland](#), already more than half of 20–29-year-olds were rental housing residents in 2014. A total of 41 per cent of rental apartments were privately financed.

The majority of rental apartments in Finland are owned by individual private landlords. In addition to them, the operators in the rental housing market include professional rental apartment owners, housing investors, housing funds and municipal rental housing companies.



Overall demand for rental housing remained stable. The disparity of the market between growth centres and other parts of the country intensified further. The weak economy and uncertainty with regard to economic development were seen in a slight fall in the prices of owner-occupied apartments throughout the country, except in the capital region.

Demand for rental housing was good in the Helsinki Metropolitan Area. Once again, the highest demand was for studios and one-bedroom apartments. In other urban growth centres, demand for rental housing mainly continued along the same lines as in the previous year, again centring on smaller apartments and newly constructed locations, as in the Helsinki Metropolitan Area. Demand for old large apartments declined. In areas where the economy is slowing down, supply exceeded demand. For many players, this was reflected in decreasing occupancy rates in 2015. Demand for the most expensive rental apartments continued to decline.

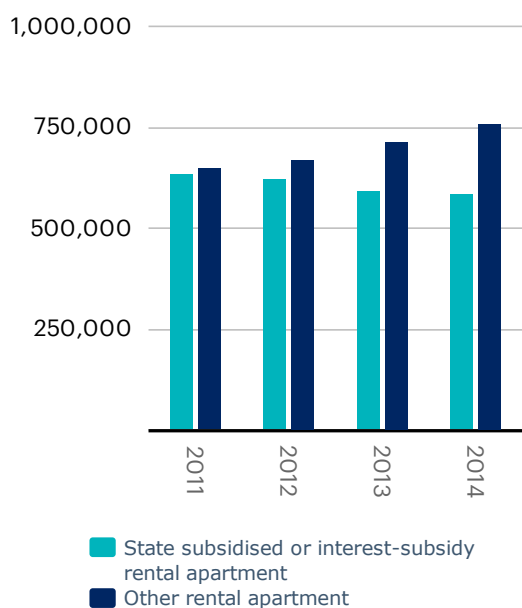
New construction clearly focused on privately financed rental apartments. However, it was impossible to take advantage of the slight fall in contractors' prices as desired, because

slow zoning processes and expensive design solutions resulting from strict plan provisions weakened the conditions for the production of rental housing.

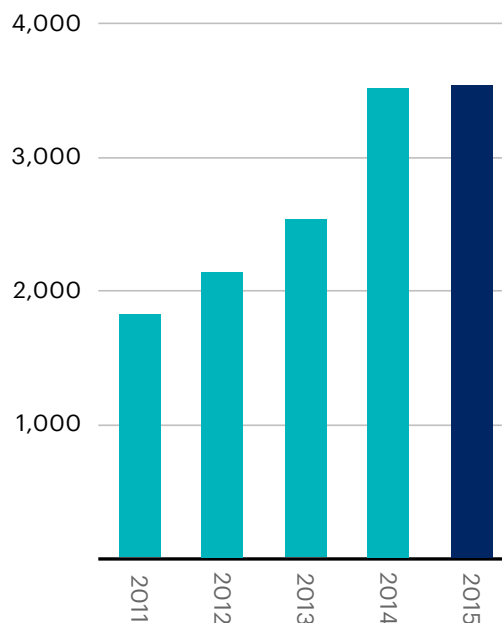
Local market situations were also reflected in local tenant turnover: the lowest turnover was experienced in the Helsinki Metropolitan Area and the surrounding municipalities, the highest in Oulu.

Rents across VVO's apartments as a whole increased by an average of approximately 3.2 per cent year-on-year. Rents for privately financed apartments increased by about 2.9 per cent. Rents for state-subsidised ARA apartments rose faster than those for privately financed rental apartments: the annual increase amounted to 3.6 per cent. Rents are expected to rise again in 2016, but at a more moderate rate.

Rental housing residents in Finland 2015



Developer-contracted start-ups of privately financed terraced houses and apartment buildings, rental housing



Source: The Confederation of Finnish Construction Industries RT (CFCI), Asuntotuotantokysely

Main » Year 2015 » Financing sources

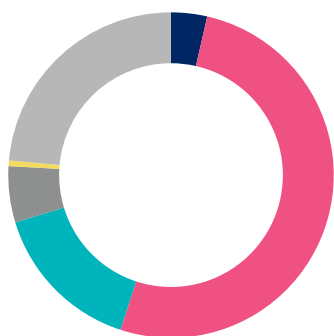
Financing sources

VVO Group's strong financial performance and stable operations ensure the availability of funding. Profitable investment activities require long-term, predictive financial planning. In recent years, VVO's sources of funding have been diversified with a EUR 100 million secured bond and by increasing the utilisation of the commercial paper programme, among other measures.

In 2015, binding credit limit agreements amounting to EUR 100 million were signed in order to ensure the company's good liquidity. Strong investment growth in the future will require versatile funding sources. The aim continues to be to broaden the financing base and the selection of financial instruments used. The management of refinancing risk is based on an even distribution of loan maturities. Another important aspect in ensuring funding is to maintain the company's reputation as a reliable debtor and sustain openness with financiers.

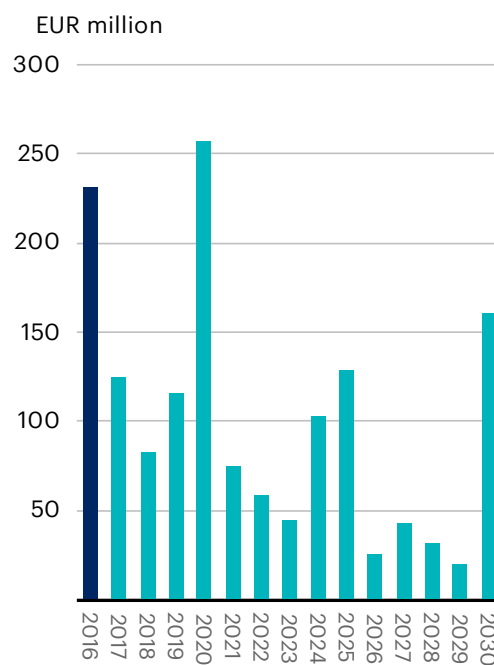
The company seeks optimal solutions for financing its long-term investments.

Structure of debt portfolio

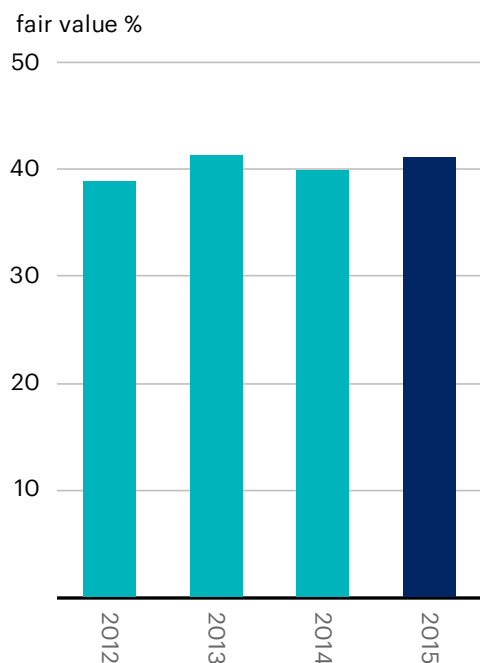


- Annuity EUR 70.0 million
- Market-based EUR 1,006.2 million
- Interest-subsidised EUR 298,7 million
- Commercial papers EUR 108.8 million
- Other EUR 10.9 million
- Liabilities related to non-current assets held for sale EUR 460.7 million

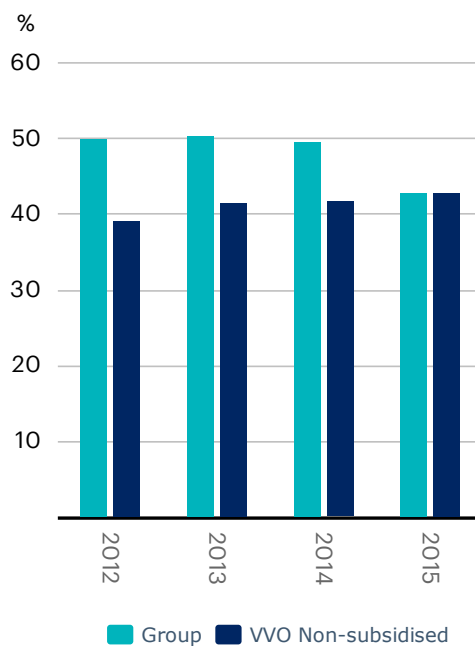
Distribution of long-term loan maturities



Equity ratio



Loan to Value



Main » Year 2015 » Information for shareholders

Information for shareholders

Financial reporting in 2016

Interim Report January–March 2016	11 May 2016
Interim Report January–June 2016	25 August 2016
Interim Report January–September 2016	3 November 2016
Financial Statements 2016	3 March 2017

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VVO Group's Communications, tel. +358 40 561 7269, viestinta@vvo.fi

Main » Good rental housing



Good rental housing

As a long-term rental housing owner, the Group is a safe landlord that invests strongly in increasing the number of rental apartments. VVO Group is Finland's largest private-sector landlord, offering new housing services and sustainable solutions.



Main » Good rental housing » New housing services and solutions


New housing services and solutions

VVO Group's operations focus on offering good rental housing and developing innovative housing services.

The Group's latest service innovation, the [Lumo kotinyt.fi](http://Lumo.kotinyt.fi) site launched on 12 October 2015, is another step in the development of the Lumo service concept. The online apartment rental service is revolutionising the rental housing sector: the decision-making power and the freedom of choice are handed over to the customers – they can rent the apartment they want immediately. The customer chooses a suitable Lumo rental apartment, pays the rent for the first month and can move in the apartment marketed in the online service on the next weekday, for instance, without a rental deposit. In addition, the service comes with a satisfaction guarantee. The first days already showed that the new apartment rental service is a great success among new customers.

On the basis of extensive survey data*, Finns appreciate ease, speed and good service in rental housing. The ease of finding an apartment is important for consumers also according to the "Pääkaupunkiseudun vuokranantajat ja vuokravälittäjät 2015" survey, conducted by Taloustutkimus and assessing landlords and rental housing agencies in the Helsinki Metropolitan Area. The respondents rated the VVO Group the best-known landlord and in reputation assessment, the Group improved its position to number one.

In addition to the above, another distinguishable phenomenon is the intense increase in experience seeking and digitalisation in the operating environment. These [megatrends](#) are also influencing housing markets and set requirements for operating as a landlord.



more than
70 %
of tenancy agreements
are signed electronically

VVO Group is continuously developing its electronic service offering in order to make services as convenient as possible. Currently, more than 70 per cent of tenancy agreements are signed electronically. The latest development gave residents around

Finland the opportunity to book and rent parking spaces easily in a new online service.

VVO Group tenants may also use online services to check their rent payment history, update their contact details, use the home swap service, report any faults, contact the house manager, and give notice of termination.

In Helsinki, Espoo, Tampere, Jyväskylä, and, as the latest addition, [Turku](#), car sharing was introduced in certain Lumo properties in cooperation with 24Rent. For residents, car sharing is approximately 30 per cent cheaper than an equivalent rental car. The car-share vehicles can be reserved by the residents and picked up from the building's own designated car park. In addition, the car-share scheme allows us to reduce the number of parking places by 30–40 per cent per building.

The agreements signed with DNA and Elisa on faster broadband connections entered into force on 1 January 2015: a 10-megabit broadband connection that is included in the rent is now available in nearly all of VVO Group's apartments.



**New tenant surveys, surveys of leaving tenants and the annual tenant satisfaction survey conducted by VVO Group among its customers.*

Main » Good rental housing » New housing services and solutions » Cooperation with residents

Cooperation with residents

In VVO Group, cooperation with residents is a decades-long tradition, a way of working and a competitive advantage. Cooperation with residents has been developed over the entire 46-year span of VVO's operations.

This cooperation gives VVO Group's residents the opportunity to influence their living arrangements and any practices concerning the residents. Some 2,300 residents have been nominated to specific posts in residents' associations, such as Chairs and Vice Chairs of house committees, experts, and building security managers. Approximately 5,000 further active residents are involved in residents' associations; for example, by serving as members of house committees.

VVO's Board of Residents is the highest body representing all residents and includes a member and deputy member from each Home Centre area. The Board of Residents is elected for a four-year term, and Jarmo Natunen from Helsinki was Chairman in 2015.

VVO Group receives direct feedback from customers through the Board of Residents. The Board may also give its view on topical housing issues and serves as an active panel of tenants whose opinions are used to support VVO Group's decisions on housing policies. The Board of Residents also issues an annual statement on the criteria for rent determination.

In 2015, a total of 14 economic theme evenings were organised for residents, attended by altogether 515 Chairs of house committees. The topics discussed at these gatherings included the most significant events of the year and the budgeting and rent determination criteria for 2016.

Through the Board of Residents, VVO regularly engages in open discussion with residents about maintenance-related guidelines and operating models. 2015 saw debate on issues such as property maintenance.

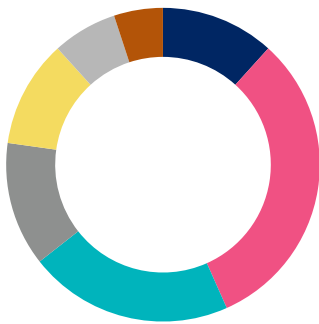
VVO Group presents an annual award to residents who maintain exemplary community spirit and a high standard of living environment in their building. The Building of the Year 2015 was Koulukatu 1 in Lappeenranta. Koulukatu's active residents' association takes all residents into account and offers them comfort, wellbeing and community spirit through joint activities. The award was announced at the national Housing Day event. The event is a meeting place for Chairs of house committees where they can have a dialogue on common issues every other year.

The housing advisory service launched in 2014 has proved its usefulness. During the financial year, VVO Group's housing advisory service was expanded to the entire country. Ideally, the advisory service can reduce tenant turnover and provide solutions to problems related to the payment of rent. The advisory service supports business operations, and its effects can also be seen in the development of the amount of rent receivables.

In 2015, events open to all tenants were organised around Finland, with the largest at Helsinki Zoo and the Särkänniemi amusement park in Tampere. As an honorary contributor to the New Children's Hospital 2017 project, VVO Group also organised a raffle for tenants; the winners received tickets to the Live Aid New Children's Hospital 2017 concert held at the Helsinki Olympic Stadium. In addition, tenants were offered the opportunity to attend the Kohti joulua Christmas concert tour in 11 locations around the country. A total of about 20,000 people took part in the events during the year.

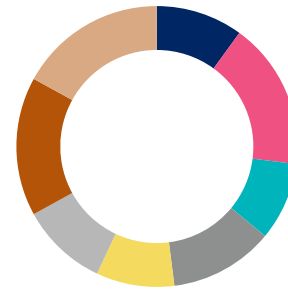
All tenants receive the [Kodikas](#) customer magazine delivered at home. The magazine reached the second position in the customer and stakeholder magazine category ProCom's annual Magazine Review Day.

Rental housing applications by type of apartment



- 1 room 1,693 units
- 1 room and 2 rooms 4,571 units
- 2 rooms 3,046 units
- 2 rooms and 3 rooms 1,853 units
- 3 rooms 1,598 units
- 3 rooms and 4 rooms 964 units
- 4 rooms+ 731 units

Resident structure



- Young people (16-24 years)
- Singles (25-44 years)
- Singles (45-54 years)
- Couples without children
- Child families
- Single parents
- Seniors (55-64 years)
- Seniors over 65 years

Main » Good rental housing » New housing services and solutions » A reliable landlord

A reliable landlord

The rents for 68 per cent of our apartments are market-based. Rents for market-based rental properties are determined on the basis of markets and cost development.

VVO determines its market-based rents so as to support the sustainable growth objectives. During the financial year, the national average rent for market-based Lumo apartments was EUR 13.72 per sq m per month. Water and broadband are included in the rent.

VVO Group's rent trends are predictable. The Group determines maximum rent increases in accordance with its rental practice. The criteria for determining rents are discussed and approved annually by the Board of Residents and at regional economic theme evenings organised by the residential management.

VVO Group offers rental housing in growth centres, in areas where demand is high. Sound financial management, systematic property maintenance, and preventative repairs facilitate predictable rent trends. The construction of new properties and the acquisition of existing ones increase the supply of rental housing in the areas with strongest demand.

A good customer experience, encompassing easy and effortless service, is the guiding principle behind VVO Group's operations. Dialogue with residents and close cooperation with residents' associations increase safety and comfort.



Nearly
90 %
of customers recommend
VVO Group as a landlord



5.9
Average period of tenancy
in years

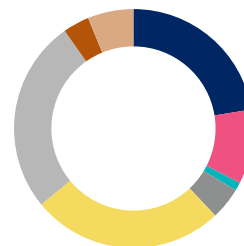
According to the annual client satisfaction survey, tenant satisfaction has remained high. According to the 2015 client satisfaction survey, nearly 90 per cent of our clients have recommended or would recommend VVO Group as a landlord. Tenants are satisfied with, among other things, customer service, the location of apartments, improved property maintenance, online services and the small rental deposit. VVO Group uses the results of the tenant satisfaction survey to continuously develop its operations. In 2015, we developed pioneering housing services that increase the flexibility and the sense of community in housing and paid particular attention to property maintenance. In 2015, the net promoter score was 38 (New tenant survey).

Our customer relationships are long: the average period of tenancy in our rental homes is 5.9 years.

VVO Group manages and develops its properties through long-term investments, cost-efficient maintenance and repairs. Our focus is on ensuring that the value of our property portfolio increases and that our properties are available for rent. In 2015, client satisfaction with maintenance services improved and the property management quality control system (Laaki) score rose.

VVO is strengthening its balance sheet by developing and steering its financial and property portfolio management. VVO Group invests in risk management, leadership and expertise, and in enhancing our capacity for innovation.

VVO's tax footprint 2015, EUR million



- Income taxes 22.1
- Property taxes 9.9
- Transfer taxes 1.1
- Employer contributions 4.3
- VAT not remitted included in investments 25.6
- VAT not included in other procurements 25.8
- VAT remitted 3.5
- Withholding tax for fees 6.1

Main » Good rental housing » Housing investments in growth centres

Housing investments in growth centres

Our goal is to start the construction of a minimum of 1,000 new apartments each year and to increase the number of apartments by acquiring old housing stock, too. In 2015, VVO Group decided to invest approximately EUR 300 million in new construction, housing acquisitions, and repairs and renovations.



300

Investment decisions
amounting to EUR million

There were more new development start-ups than in the previous year, mainly in the Helsinki Metropolitan Area. During the financial year, VVO launched the development of 798 new Lumo apartments. At the end of the year, 1,189 privately financed rental apartments were under construction.

VVO Group's divestments largely took place in municipalities where demand for rental housing is expected to decrease in the long term. VVO sold a total of 458 apartments during 2015.

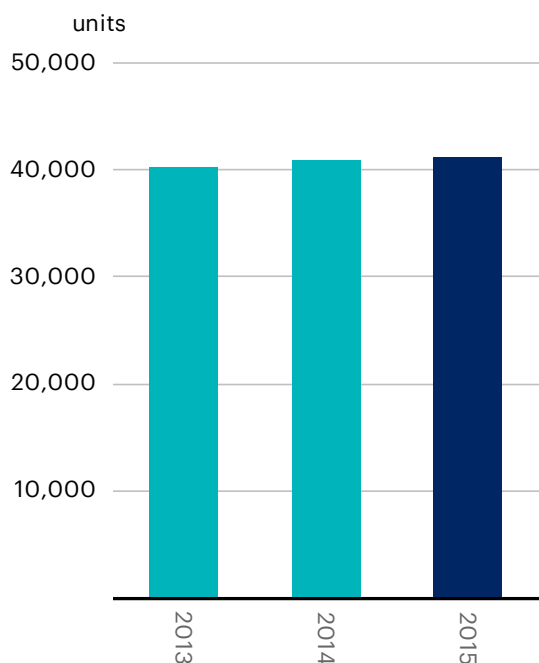


1,189

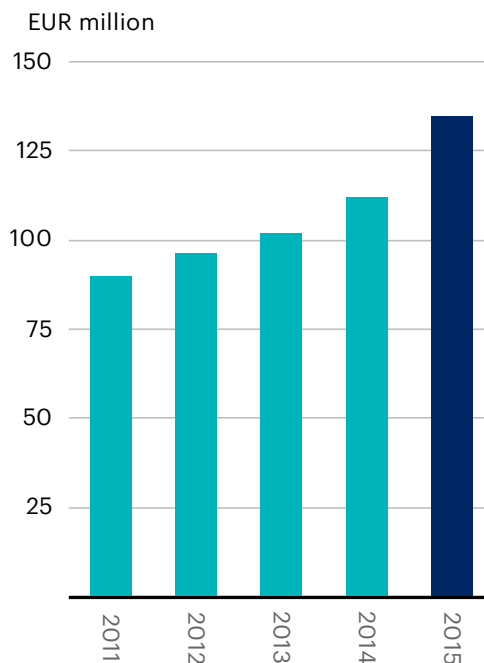
privately financed rental
apartments under
construction

The Group spent a total of EUR 92.3 million on repairs and renovations during 2015.

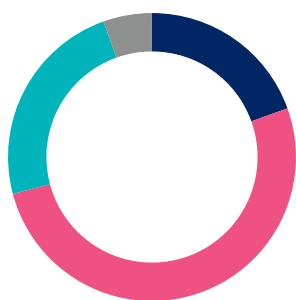
Number of apartments



Net rental income, Non-subsidised segment

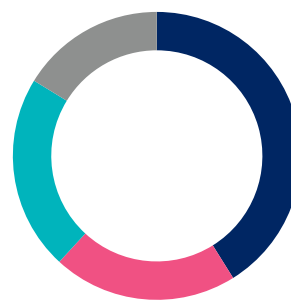


Apartment distribution



- 1 room 7,961
- 2 rooms 20,949
- 3 rooms 9,653
- 4 rooms+ 2,230

Nationwide apartment distribution



- Helsinki Metropolitan area 16,767
- Rest of Southern Finland 8,461
- Western Finland 8,935
- Eastern and Northern Finland 6,630

Main » Good rental housing » Housing investments in growth centres » Real estate development and renovations

Real estate development and renovations

In 2015, VVO Group developed the cost efficiency of maintenance and repairs, among other things. The cost efficiency of apartment renovations and repairs improved, and cost control was developed. In addition, a new operating model was created to increase the efficiency of waste management at renovation and repair sites.

All VVO Home Centres started using a procurement system. Economies of scale were leveraged in smaller expense items that previously were outside the scope of centralised procurement. Terminating cooperation agreements were renewed through competitive bidding (household appliances, lift maintenance, apartment cleaning).

In addition, the energy consumption of the property portfolio was reduced by, for instance, starting to adjust heating in properties in the Helsinki Metropolitan Area according to seasons, without compromising residents' comfort.

Real estate development and renovation sites

Hernesaarekatu 17, Helsinki

VVO Group renovated Hernesaarekatu 17, a building in the Hernesaari district of Helsinki dating from 1929. After the renovation, the building now contains 76 top quality Lumo rental apartments, five of which are brand new loft apartments. The average size of the apartments is 49 m². Two new sauna areas, a laundry room and a club room were also built.

Malmiintie 12, Vantaa

The major renovation of VVO Group's buildings in Malmiintie, Vantaa, started in 2011 and was completed in 2015. There are altogether fifteen renovated apartment blocks, with 591 apartments. These are the Group's first buildings, completed in 1970–1972. The renovation

included, among other things, replacing existing HPAC systems. At the same time, the apartments were extensively repaired: kitchens and bathrooms were renovated and the ceiling, wall and floor surfaces in all apartments were refurbished. The renovation project proceeded from building to building, the apartments of one stairwell at a time.

Opiskelijankatu 10, Tampere

The 60 rental apartments at Opiskelijankatu 10, Tampere, were renovated in phases in spring 2015. The building underwent a major renovation project, including plumbing and sewer renovation. Kitchens and bathrooms were fully renovated, and the kitchens are now equipped with not only basic household appliances but also glass-ceramic stoves and dishwashers. In addition, the residents now have the opportunity to use car sharing.

Saarenavainionkatu 17, Tampere

The renovation of Saarenavainionkatu 17, in the Kaukajärvi district of Tampere, will be completed in early 2016. Revised floor plans, surface materials and glazed balconies increase comfort in these rental homes.

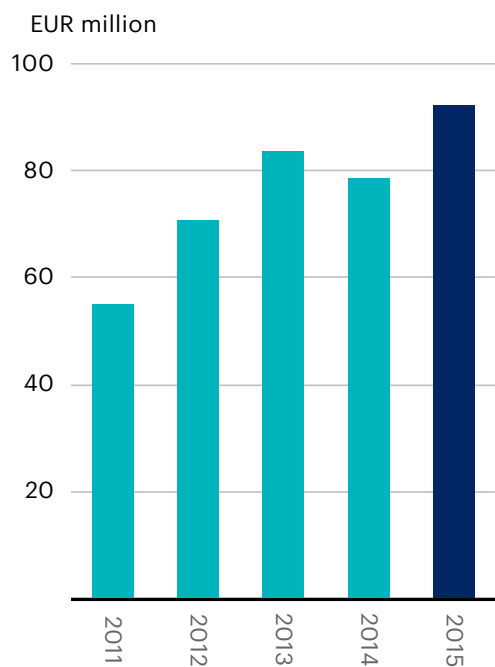
Istuttajantie 2, Jyväskylä

In Jyväskylä, the renovation of Istuttajantie 2, located in the Kangaslampi district, was completed. The 42 rental homes in the seven-storey building were renovated using high-quality materials.

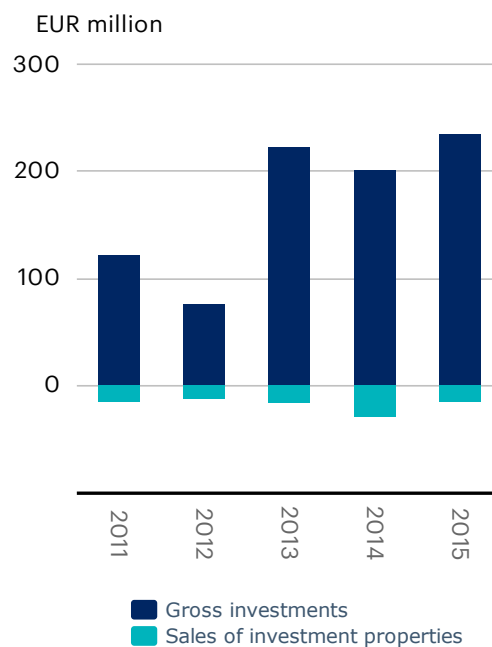
Antinkatu 14, Pori

In the centre of Pori, the former restaurant and office premises at Antinkatu 14 were converted into 19 unique rental apartments. The fully modernised apartments feature individualistic floor plans. Higher rooms, large windows and deep windowsills create a historical atmosphere in the otherwise fully renovated apartments.

Repairs and renovations 2015



Gross investments and sales of investment properties



As of 2014, the Group adapted IFRS for its financial reporting.

Main » Good rental housing » Housing investments in growth centres » New development and acquisitions

New development and acquisitions

Properties under construction

During the review period, VVO Group signed an agreement with Rakennusosakeyhtiö Hartela on the development of rental apartments in Helsinki, Espoo, Tuusula and Lahti, with a total value of approximately EUR 41 million. This agreement involves the construction of 205 apartments and is a continuation to the more than EUR 100 million agreement published in autumn 2014. In addition, the City of Espoo decided to sell a specified parcel of an apartment block plot to VVO Group in an open competitive tendering. The plot is located in the Jousenpuisto city plan zone in the Tapiola district of Espoo. The purchase price of the plot was EUR 9 million.

In the Jätkäsaari district of Helsinki, the Low2No block project proceeded: VVO Group and SRV signed a contract on a 63-apartment property on 17 September. This energy-efficient property is due for completion in 2017. Each party to the Airut block project invests in researching and developing new sustainable solutions as well as in design and implementation, in the proportion determined by their building rights. The block is a combination of apartments, offices and business premises. VVO Group is responsible for the rental housing production in the project.

Completed properties

A total of 44 new Lumo rental homes were built at Capellan Puistotie 4, Helsinki. The property is located by the sea in the Kalasatama district, next to the bridge leading to Mustikkamaa island.

At Lauri Korpisen katu 10 in the Tikkurila district of Vantaa, 188 apartments were completed in phases, utilising new kinds of energy-efficient solutions with the aid of innovative

building automation. The building has solar panels installed on the roof to generate electricity that covers part of the building's energy consumption. Advanced ventilation control is based on motion detection connected to an apartment-specific control system. Furthermore, in some apartments, ventilation is controlled with humidity sensors. Water-based underfloor heating installed to increase thermal comfort in toilets and bathrooms is also controlled apartment by apartment.

Three apartment blocks with a total of 114 new Lumo rental apartments were completed at Lehtikallio 4 in the Pähkinärinne district of Vantaa.

On the slopes of Puijonlaakso in Kuopio, the first phase of 153 new Lumo rental homes was completed at Kelkkailijantie 4. The new residential area is located close to Kuopio University Hospital, a diverse range of services and good opportunities for hobbies and recreation. The University of Eastern Finland and Kuopio's Technopolis are nearby and the city centre is not far either.

In the Taka-Töölö district of Helsinki, we carried out a thorough renovation of a seven-storey building in a central location at Messeniuksenkatu 1. The building, equipped with lifts and dating back to 1941, was renovated in 2015, with due care and respect for its protected facade. VVO Group also brought district cooling to these 25 Lumo rental apartments.

In the heart of Tampere, we were building Satakunnankatu 21, the apartment block that won the land conveyance competition. The building will house 37 Lumo rental apartments and three business premises. The building will be completed in early 2016.

Acquired properties

VVO acquired a property at Saariniemenkatu 6, in the Hakaniemi district of Helsinki, from the Social Democratic Party of Finland (SDP). The acquired property has 24 privately financed rental apartments, with an average size of 48 m², as well as approximately 1,200 m² of business and office premises. The purchase price of the property was approximately EUR 7.4 million. SDP sold the property through competitive bidding.

VVO Kodit Oy acquired a real estate development site located at Lönnrotinkatu 30. VVO Kodit Oy already owned rental apartments at the same address. VVO Group will build high-quality Lumo rental apartments in the acquired business and office premises.

Main » Good rental housing » Housing investments in growth centres » Cooperation network

Cooperation network

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

VVO Group complies with the obligations of the Contractor's Obligations Act in its procurements, and any party in our procurement chain or in a permanent business relationship with us must also commit to compliance with the Act, as well as the other components of our ethical code. Furthermore, the Group requires all parties in the procurement chain that are involved in renovation, new development and property maintenance to be members of the tilaajavastuu.fi register, to not use illegal labour, to take care of their statutory social obligations, and to commit to achieving VVO Group's environmental objectives.

In addition to providing employment to its personnel, VVO Group is a significant indirect employer as a purchaser and investor. The indirect employment effect of VVO's property maintenance, cleaning, and renovation and building contracting totalled approximately 4,500 person-years in 2015.



4,500

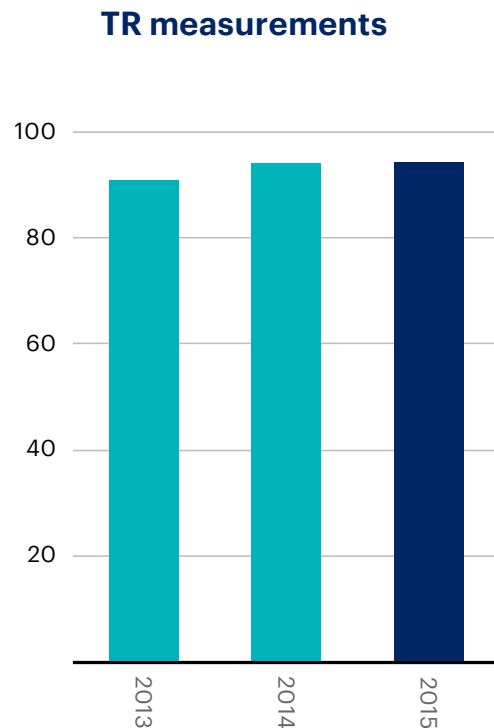
Indirect employment
effect in person-years

Jani Huttunen was elected VVO Group's Property Manager of the Year 2015. Huttunen achieved the highest score in the annual property maintenance quality measurement. Employed by Kiinteistöhuolto Reilax Oy, Huttunen looks after five of the Group's properties in Kerava.

An occupational safety index for construction sites

TR measurements (working conditions assessment) are a means of observing occupational safety on construction sites. These measurements monitor key factors affecting on-site accidents. From VVO Group's perspective, these measurements are important for maintaining occupational safety at a good level. The Group has collected this information as from 2013.

In the tender stage, the project manager sets the minimum level of TR measurements. At the site start-up meeting, the target levels are specified with the contractor. At monthly construction site meetings, these TR figures are compared with actual figures measured on the site.



Main » Good rental housing » Housing investments in growth centres » Taking the environment into consideration

Taking the environment into consideration

Wise energy consumption has been a key aspect of our strategy ever since the company was established. The Group's most significant environmental impacts are associated with construction and property maintenance. The most significant impact comes from the carbon dioxide emissions caused by our housing stock's energy consumption. In Finland, the energy used by buildings accounts for 39 per cent of total energy consumption, which corresponds to 30 per cent of greenhouse gas emissions.

We boost the energy efficiency of our property portfolio with maintenance and operational measures without compromising on residents' comfort. Annual property maintenance costs total approximately EUR 140 million, of which just over a third is spent on energy. Greater energy efficiency curbs rises in property maintenance costs and reduces greenhouse gas emissions. If VVO had not used its energy wisely, our costs would have risen dramatically since the turn of the millennium due to increased energy prices.

In 2015, the temperature-corrected consumption of heating energy in VVO Group's properties decreased by 0.8 per cent (2014: -0.8%) when compared to the previous year. Likewise, water consumption decreased by 1.1 per cent (-0.6%) and electricity consumption by 2.6 per cent (2014: -0.7%).

VVO Group's operations are based on safe and healthy living conditions. Our property management quality control system (Laaki) helps us maintain energy-efficient building technology settings and ensure healthy living conditions.

Room temperatures and ventilation are automatically monitored in new properties. A good example of this is the advanced ventilation control at Lauri Korpisen katu 10. In older properties, regular sample measurements are taken. Measurement data is utilised in ensuring good living conditions in compliance with the Decree of Housing Health and the energy-efficient use of properties.

In addition to its own developments, VVO Group also engages in energy efficiency partnerships. The Group signed the climate partnership agreement with the City of Helsinki in 2012, and this cooperation continued in 2015. The Group has previously committed to following the Rental Property Action Plan (VAETS), which has set a heating energy savings target of seven per cent compared to 2009. This commitment means that VVO's savings targets are higher in Helsinki than elsewhere. The Rental Property Action Plan (VAETS) targets for 2016 have already been achieved and, with regard to property electricity consumption, have even been exceeded.

As part of our renovations and new construction projects, VVO Group contributes to the development of efficient lifecycle solutions for residential buildings. Stricter construction regulations also steer us towards more energy-efficient solutions. In the coming years, we will use heat pumps to increase heat recovery ventilation in our existing housing stock.

CO2 emissions caused by heating energy production for VVO's properties were approximately 54,000 (63,000) tonnes. VVO Group seeks to alleviate the environmental impacts of energy consumption by using carbon-neutral energy for property electricity. District heating is used in 99 per cent of VVO's properties.

In addition to reducing the environmental impacts of energy consumption, VVO's environmental work encompasses the recycling of waste, among other things. Utilisation of municipal waste as material or for energy has more than doubled during the past 15 years. The increase in the amount of waste has eaten away some of this achievement. Only approximately one third of all waste is recycled in Finland, but the target for 2016 is 50 per cent.

Waste container sensors in Lumo properties in Helsinki

In late 2015, Enevo Oy's sensors that monitor the fill level of waste containers were installed in four Lumo properties in Helsinki. Their aim is to increase the transparency, real-time monitoring and cost efficiency of waste management as well as to enable the on-demand emptying of waste containers in the future. The sensors collect and analyse data received from waste containers, enabling cost-efficient waste collection.

The device transmits the waste container status data over a 3G network to a cloud service. VVO Group's goal is to be among the first to harness the Internet of Things (IoT) for on-

demand waste management.

Climate Leadership Council and climate work in housing

VVO Group has joined the Climate Leadership Council ry (CLC), an active group developing corporate climate work. CLC was established by Finnish top companies and organisations, and its members include 23 leading companies and organisations from various fields, with new members constantly joining.

Green Office

VVO Group head office in Helsinki has been a [Green Office](#) ever since the programme was established. In 2015, the VVO Home Centres in Hämeenlinna and Tampere became Green Offices, and the goal is that eventually, VVO Group will be a national Green Office operator.

Energy consumption

	2015	2014
Heating energy, total consumption (GWh)	346	384
Heat index, entire housing stock (kWh/rm3)	39.0	39.4
Water, total consumption (l/m3 building volume)	3.6	3.7
Water consumption (l/m3 building volume)	347	351
Property electricity, total consumption (GWh)	50.1	51.3
Property electricity consumption (kWh/m3 building volume)	4.8	4.9
CO2 (tonnes)	54,000	63,000

Main » Good rental housing » Actively promoting developments in rental housing

Actively promoting developments in rental housing

VVO Group participates in debate on housing policy, so that the number of rental apartments can be further increased to meet, for example, the needs of those relocating for work. The Group's stable financial development and long-term owner base enable development of responsible rental housing in Finland.

The Group issued its housing policy theses in early 2015 to ensure an extensive range of rental apartments and a sufficient volume of new development.

Theses on the development of housing policy

1. Increasing rental housing production is important for labour mobility

Ensuring an extensive range of rental apartments and a sufficient volume of new development serve to benefit a home seeker and increase their freedom of choice. Rental housing production activity must be boosted by deregulation and investment in promoting an increase in the housing supply.

Factors that slow down residential construction must be tackled actively. Rental apartments must be built according to demand and customer needs, focusing on small apartment types. Municipalities must zone a sufficient amount of plots suitable for construction, and vacant offices must be converted for residential use. Zoning, as well as building and environmental permit processes, must be streamlined.

2. The conditions required for improving new construction

Factors that make construction expensive must be tackled systematically. Decreasing the amount of norms and regulations does not generate costs, and good and safe apartments can also be constructed under looser regulation. Detailed apartment size, facade,

accessibility, parking space and air-raid shelter requirements must be lightened. In zoning and design solutions, the focus must be on overall financial and operational scrutiny. With sufficient zoning and supply of plots suitable for construction, the constant rise in plot prices can be stopped.

3. Control must be gained over the constant pressure on the cost of living, resulting from increasing costs

In decision-making, attention must be paid to its effects on the cost of living. Taxation-related solutions, such as energy taxation and property tax, create a clear pressure to make constant rent increases. Similarly, mending the municipal economy with changes in municipal waste, water and energy companies' tariffs has an immediate effect on living.

4. Responsible and sustainable operations must be brought to centre stage

Development and ownership of rental apartments is a long-term activity that must be carried out responsibly. In the operating environment, it is important to ensure the predictability and stability of regulation: rental housing investments are made for decades.

Anti-grey economy work and wise energy consumption in properties must be promoted through economically viable solutions. Provisions for housing stock renovation and repairs must be made, and methodical efforts must be carried out to implement these activities. Long-term and systematic operations throughout the lifecycle of the properties as well as the stable development of the cost of living are in the best interests of the tenant. Renovation and repairs must be carried out during the entire lifecycle of the property, and residential areas must not be allowed to deteriorate due to neglect of these activities.

5. Support for living must meet housing needs

The difference between support for living and support for housing production must be clarified. Labour mobility is improved by targeting support for living at those who need it and directly at the cost of living. Everyone must be able to choose a home according to their needs. Housing allowance is targeted at the tenant and follows them if they move. Site-specific interest subsidy in own-risk rent determination is "wall-bound" housing allowance, which should be replaced with direct support for the cost of living.

Support for housing production should be provided through models that genuinely

encourage the construction of properties, such as start-up assistance.

Main » Good rental housing » Sponsorship

Sponsorship

Under VVO Group's Virkeä programme, sponsorships were awarded to 50 promising athletes in 2015. A total of 220 grants have been awarded since 2012. The sponsorship grant may be awarded to a young athlete of 12–20 years of age who has shown commitment and desire to succeed in his/her sport.

In 2015, the Virkeä athletes are Lassi Etelätalo (athletics), Henry Manni (wheelchair racing), Nooralotta Neziri (athletics), Venla Paunonen (athletics), Tommi Pulli (speed skating), Mimosa Jallow (swimming) and Jenni Saarinen (figure skating). The first Virkeä team sponsorship programme was opened for applications towards the end of the review period.

Main » Good rental housing » Committed personnel

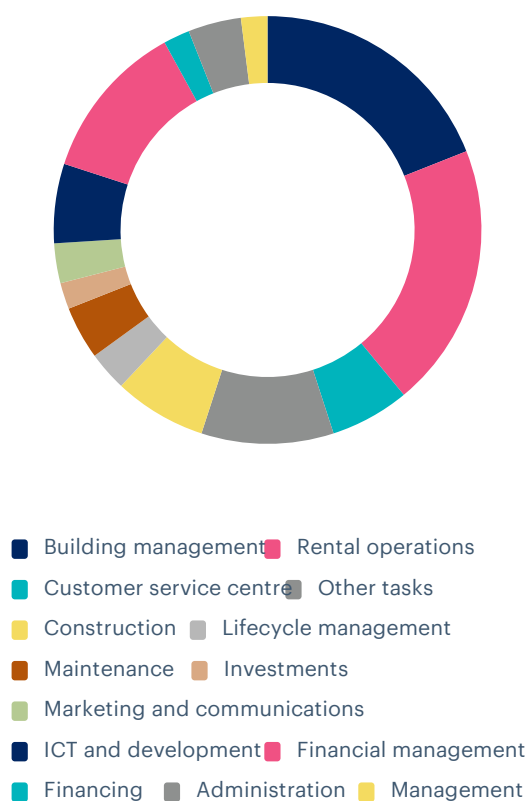
Committed personnel

Our personnel works in positions related to customers, investments and real estate development as well as in support functions. Our work creates safer and better rental housing. We continuously strive to be the most desirable and efficient landlord in Finland. Operating responsibly and managing corporate responsibility are part of what we do every day throughout our organisation. Our responsible business operations are based on our values: reliability, client satisfaction, profitability and innovativeness.

Fairness and transparent operating models and methods are at the core of VVO Group's responsible human resource management. Interesting tasks, good managerial work, clear targets and the opportunity to improve their circumstances and develop themselves give employees a passion for their work.

To strengthen their competencies, VVO Group offers managers and other personnel training and various development paths. In 2015, all managers learned more about the skills needed in the changing managerial work by taking part in the strategy-based J360 group coaching programme. As for personnel, the comprehensive A2 sales and customer service training programme was continued, among other things. Opportunities to learn new things were also offered by many different projects, such as the development of the VVOon1 innovation process and the Lumo kotinyt.fi online service.

Distribution of employees among various tasks

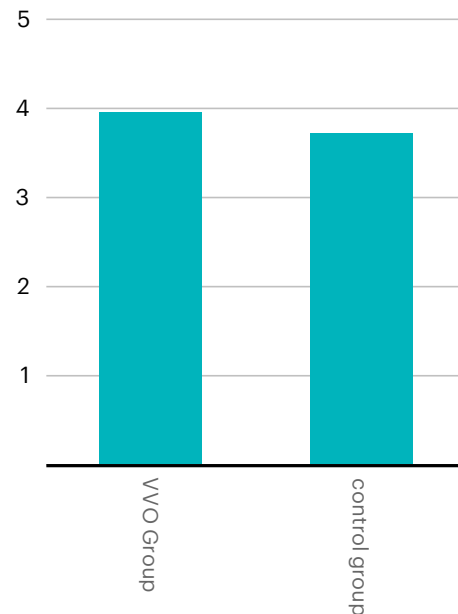


VVO Group again among the best employers in the Responsible Summer Job campaign

In 2015, VVO Group hired 50 summer employees in different locations around Finland. For the second time in its history, the Group participated in the [Responsible Summer Job 2015](#) campaign which recognises the most responsible summer job employers in Finland with awards. VVO Group came second among the 60 companies in the major employer category. The aspects that the summer employees considered particularly positive were VVO's application process, the warm and fair atmosphere as well as the induction and guidance provided. In addition, summer employees came up with innovative ideas for developing VVO Group's operations, inspired by the CEO.

Summer employee satisfaction

On a scale from 1 to 4



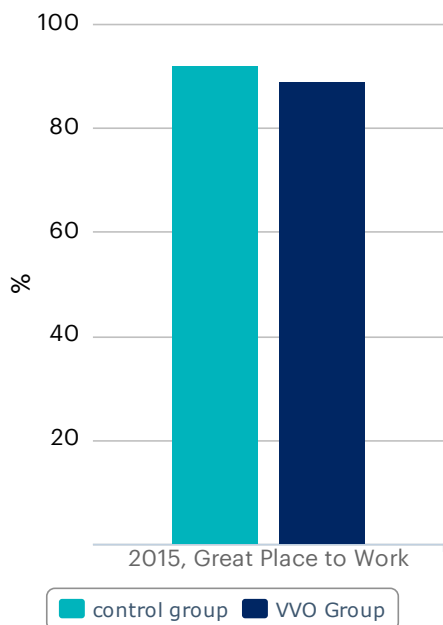
#HyväMe

During 2015, the Group wanted to strengthen the recognition of the good and the successful in everyday work. To support this, we launched the #HyväMe (#WayToGo) hashtag and invited the entire personnel to use it. The #HyväMe hashtag increased the visibility of and enthusiasm about common successes, encouraging managerial work, good team work, benefits, events and other causes for happiness. In addition, we opened a #HyväMe page on the Intranet, giving the personnel an opportunity to share good and inspiring practices.

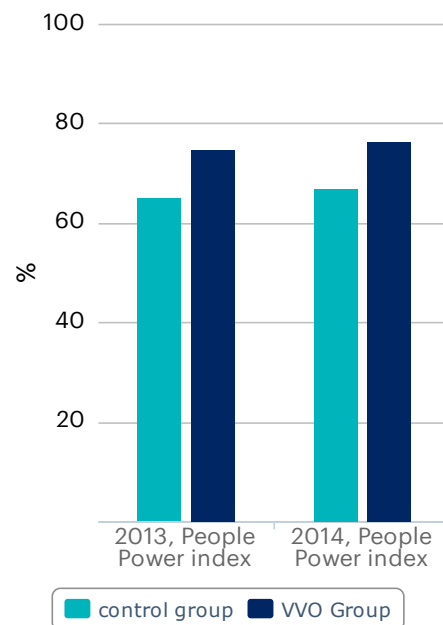
Participating in the Great Place to Work survey

The #HyväMe page on the Intranet also proved useful in identifying good management practices as VVO Group, for the first time in its history, participated in the [Great Place to Work](#) survey and management practices audit. On the basis of the Trust Index results describing the personnel's views, VVO Group, as a whole, was considered a very good place to work (89 per cent of the personnel). The result were nearly on a par with Finland's best places to work. By participating in the Great Place to Work employer image survey, the Group could learn what to improve in order to become one of Finland's greatest places to work in the future.

**Great Place to Work, Trust Index
 2015**



**Personnel satisfaction 2013 and
 2014**



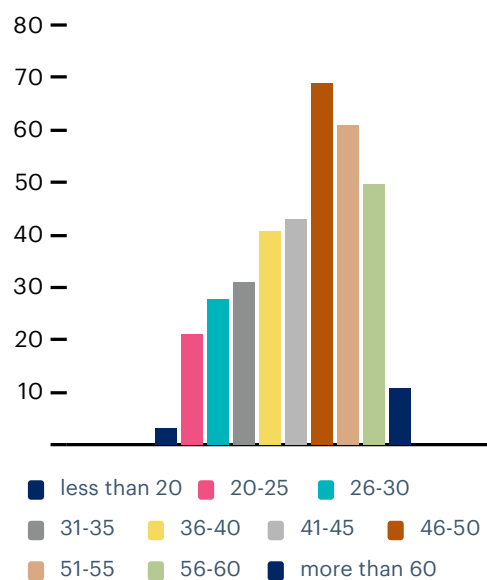
Recognition as one of Finland’s most inspiring places to work

VVO Group was recognised as one of Finland’s most inspiring places to work in the Suomen innostavimmat työpaikat 2015 assessment, on the basis of the results of the previous year’s personnel survey. This recognition was only awarded to approximately six per cent of the hundreds and hundreds of Finnish companies that conducted the People Power® personnel survey. The Suomen innostavimmat työpaikat recognition is based on the personnel’s views on how VVO Group has invested in developing operations and listening to the personnel. According to the assessment results, the Group’s personnel is enthusiastic, motivated and dedicated to work towards the company’s goals.

Gender distribution of employees



Age distribution of employees



At the end of 2015, VVO had a total of 356 (343) employees, of which 323 (317) were on permanent contracts and 33 (26) were on temporary contracts.

The average number of personnel during the year was 364 (339). The average length of service was 11.4 (11.2) years. Personnel turnover in 2015 was 13.5 (14.0) per cent.

Main » Good rental housing » Committed personnel » Target-based well-being in the workplace

Target-based well-being in the workplace

A background factor for the successes and efficiency of our enthusiastic and committed personnel is VVO Group's comprehensive and extensive investments in supporting and developing well-being in the workplace. Coping with work is supported by flexible working hours and work arrangements, comprehensive occupational health services and diverse opportunities for sports and recreation.

Throughout 2015, team spirit was strengthened at common parties and events, such as the joint sports event arranged for all employees in the Helsinki Metropolitan Area, the units' well-being afternoon events and the entire Group's strategy meeting.

As of the beginning of 2015, the responsibility for the overall occupational healthcare was transferred and centralised to Terveystalo at the national level. The Työoptimi survey was arranged in early 2015 to chart the likelihood of risks to the personnel's ability to work. On the basis of this survey, methodical support measures and systematic preventive monitoring were launched to avoid health risks and to ensure the ability to cope with work.

A campaign was organised for promoting good office ergonomics and for encouraging the personnel to take necessary breaks, to change work positions, to hold meetings standing up, and to reduce excessive sitting that is harmful to health. The Ylös sohvalta (Get up from the couch) campaign aimed at increasing overall physical activity and its health effects and involved the monitoring of the number and diversity of physical activities as well as the overall healthiness of the lifestyle with a new mobile application.

In 2015, VVO Group's Equality and equal opportunities plan was updated to meet the requirements of legislative amendments. The most important target of the plan is to increase equality-related awareness and transparency as well as to take the jointly planned measures to promote more equal treatment at work.

Main » Corporate Governance » Description of corporate governance 2015

Description of corporate governance 2015

VVO Group plc is a public limited company registered in Finland that operates as VVO Group's parent company.

In its decision-making and administration, VVO Group adheres to Finnish laws and decrees, regulations and VVO Group plc's Articles of Association. In addition, the Group complies with the administrative principles laid down by the Board of Directors.

This description is presented separately from the Board of Directors' report.

Corporate Governance

Pursuant to the Finnish Limited Liability Companies Act and VVO's Articles of Association, control and administration in the company is divided among the shareholders presented at the Annual General Meeting, the Board of Directors and the CEO. The CEO is assisted by the Management Group.

VVO Group plc prepares annual consolidated financial statements, parent company financial statements, and interim reports pursuant to the International Financial Reporting Standards and the supplementary requirements of the Finnish accounting and corporation legislation.

Main » Corporate Governance » Description of corporate governance 2015 »
Administrative bodies

Administrative bodies

Annual General Meeting

The General Meeting is VVO Group plc's highest decision-making body. General Meetings are arranged so that shareholders can exercise their rights as owners effectively. The Annual General Meeting must, as per the Articles of Association, be arranged once a year on a date defined by the Board of Directors, at the latest six months after the financial year has ended.

The Annual General Meeting decides on the matters specified in Section 12 of the Articles of Association and any other business proposed for the agenda of the AGM. Sufficient information concerning the issues to be discussed at a General Meeting must be made available to shareholders before the meeting.

Shareholders must be invited to a General Meeting at least two weeks before the meeting or by the last day of registration for the meeting, by means of a registered letter of invitation. The invitation is sent to the address recorded in the share register for the shareholder in question. The earliest possible registration deadline is ten days before the meeting.

Nomination Committee

The Annual General Meeting appoints the Nomination Committee, consisting of four members elected at the Annual General Meeting and the Chairman of the Board of Directors. The Annual General Meeting is where members of the Board of Directors and/or the chairman of the Board are elected and/or the fees and/or number of Board members are determined. Therefore, the task of the Nomination Committee is to prepare a proposal for these decisions before the meeting, to be submitted to the next Annual General Meeting.

Until 19 March 2015, the Nomination Committee was chaired by Jarkko Eloranta and included Timo Ritakallio, Pasi Pesonen and Ville-Veikko Laukkanen as members. As of 19 March 2015, the Nomination Committee was chaired by Jarkko Eloranta and included Ville-Veikko Laukkanen, Pasi Pesonen and Esko Torsti as members.

The Nomination Committee met twice during the financial year, with an attendance rate of 100 per cent.

Board of Directors

The Board of Directors of VVO Group plc is elected by the Annual General Meeting, based on the Nomination Committee's proposal. The Board of Directors consists of a minimum of five and a maximum of eight members who are elected for a one-year term.

A majority of the Board members must be independent of the company. At least two of the members belonging to the aforementioned majority must be independent of the company's major shareholders.

The term of the Board of Directors is one year and ends at the close of the next Annual General Meeting following the election.

At the Annual General Meeting on 19 March 2015, Riku Aalto was elected Chairman of the Board of Directors, and Tomi Aimonen (Vice Chairman), Matti Harjuniemi, Olli Luukkainen, Jorma Malinen, Reima Ryttsölä, Jan-Erik Saarinen and Ann Selin were elected members.

The Board of Directors convened eight times in 2015, with an average attendance rate of 90 per cent.

The Board oversees the management and operations of the company in accordance with the Limited Liability Companies Act. The Board of Directors guides and supervises the operational management. The Board's tasks include the approval of financial statements, consolidated financial statements and interim reports; approval of the Group's strategic plans, annual budget and investment and divestment plans; and making appropriate arrangements for the Group's risk management and internal auditing. The Board also nominates the CEO, Deputy CEO and the members of the Management Group.

The Board of Directors has compiled a written working order for its operations, defining

the main tasks and operating principles of the Board.

Board committees

The company has two committees appointed by the Board of Directors: the Audit Committee and the Remuneration Committee. The Committees have no decision-making authority in themselves; their purpose is to pre-prepare issues within their remit to the Board of Directors or the General Meeting for a decision. The Committees report regularly to the Board of Directors.

The Board of Directors appointed an Audit Committee and a Remuneration Committee for 2015 from among its members. These committees have four members each.

The main task of the Audit Committee is to monitor the company's financial position and oversee its financial reporting. The committee also assesses the sufficiency and adequacy of internal control and risk management.

Until 19 March 2015, the Audit Committee was chaired by Riku Aalto and included Matti Harjuniemi and Reima Rytsölä as members. As of 19 March 2015, the Audit Committee was chaired by Tomi Aimonen and included Matti Harjuniemi, Jorma Malinen and Jan-Erik Saarinen as members.

The Audit Committee convened four times during the financial year, with an attendance rate of 100 per cent.

The main task of the Remuneration Committee is to prepare matters concerning the remuneration and benefits of the company CEO and Deputy CEO, and other matters concerning the company's reward systems.

Until 19 March 2015, the Remuneration Committee was chaired by Riku Aalto and included Tomi Aimonen and Ann Selin as members. As of 19 March 2015, the Remuneration Committee was chaired by Riku Aalto and included Olli Luukkainen, Reima Rytsölä and Ann Selin as members.

The Remuneration Committee convened three times during the financial year, with an attendance rate of 100 per cent.

CEO

The Board of Directors appoints the CEO and Deputy CEO. The CEO is responsible for running the operating activities of VVO Group in accordance with the Limited Liability Companies Act and the administrative regulations and as instructed and ordered by the Board of Directors.

The CEO is responsible for the company's business in general, and for ensuring that its operations are properly organised and its objectives achieved. The CEO reports to the Board of Directors on the company's financial position and business environment, and on other significant matters relating to the company's business operations. The CEO also chairs the Management Group.

Jani Nieminen, M.Sc. (Tech.), MBA was CEO during the review period. The CEO's deputy was CFO Raimo Vehkaluoto, M.Sc. (Econ.) until 18 May 2015, at which date Erik Hjelt started his employment as the new CFO and Deputy CEO.

Management Group

The Management Group supports the CEO in the preparation of Group strategy issues, in the handling of significant and fundamental operational issues, and in facilitating internal communications.

The Management Group is responsible for implementing the Board of Directors' decisions under the leadership of the CEO.

The VVO Group Management Group was composed of CEO Jani Nieminen (Chairman), CFO Raimo Vehkaluoto until 18 May 2015 and CFO Erik Hjelt as of 18 May 2015, Customer Director Juha Heino, Investment Director Mikko Suominen, Real Estate Development Director Kim Jolkkonen, Marketing and Communications Director Irene Kantor, and ICT & Development Director Mikko Pöyry. At the CEO's discretion, Tiina Heinonen, the Group's legal counsel, and Jouni Heikkinen, the company's internal auditor, may also attend Management Group meetings.

Main » Corporate Governance » Description of corporate governance 2015 » Auditing the accounts

Auditing the accounts

Audits are completed by the auditors elected at the Annual General Meeting. The company has one to three auditors and their deputies. If an auditing firm is selected as an auditor, no deputy is required. All auditors and deputy auditors must be chartered accountants or accounting firms as stipulated in the Auditing Act. In addition, one (1) auditor and one (1) deputy auditor must be an Authorised Public Accountant (KHT) or an Authorised Public Accounting Firm, approved by the Central Chamber of Commerce.

The term of the auditors is one (1) year and ends at the close of the Annual General Meeting.

The auditor for the financial year 1 January–31 December 2015 was KPMG Oy Ab. The auditor with principal responsibility for the auditing firm has been Kai Salli, KHT.

During the statutory annual audit, the auditor inspects the company's accounts, annual report, financial statements, and governance for the period under review. The auditor of the parent company also inspects the consolidated financial statements and relationships between Group companies.

Main » Corporate Governance » Description of corporate governance 2015 » Internal control of the financial reporting process and the main features of the risk management systems

Internal control of the financial reporting process and the main features of the risk management systems

Risk management

VVO Group's risk management is based on the company's risk management and financing policy, corporate governance and ethical guidelines, and the risk assessments carried out in connection with the annual strategic planning process. Risk management forms part of the company's internal control, its purpose being to ensure that the company achieves its business objectives. Responsibility for arranging risk management rests with the Board of Directors. Risk management is based on the risk assessments carried out in connection with the strategy and annual planning processes, which involve identifying the most notable risks, evaluating their likelihood and potential impacts, and defining means to manage them. Any significant changes in risks in business operations and the business environment are evaluated regularly and reported to the Board of Directors as part of quarterly interim reporting.

Control environment

Principal responsibility for the internal control of financial reporting rests with the Board of Directors. The working order of the Board of Directors outlines the responsibilities of the Board and the division of duties within the Board and among its committees. The principal task of the Audit Committee appointed by the Board of Directors is to ensure that the principles outlined for financial reporting, risk management and internal control are complied with, and that appropriate contact is kept with the company's auditors. It is the duty of the CEO to maintain an organisational structure in which responsibility, authority

and reporting relationships are clearly and comprehensively defined in writing, and to ensure that the internal control environment is adequately resourced.

Financial reporting is governed by VVO Group's operating principles, HR policy, financing policy, data security policy, accounting principles, and reporting instructions.

Control measures

VVO Group's financial and operational reporting process complies with the Group's operating instructions and current process descriptions. VVO Group's financial management is responsible for the content of the reporting process and for compliance with instructions. The quality of reporting is ensured through process control measures. These include the reconciliation of accounts, system-generated controls, and inspections and other measures undertaken by management or others. Control functions have designated managers who are responsible for their sufficiency and the efficacy of their execution.

Control of the reporting and budgeting processes is based on VVO Group's standardised reporting principles drawn up and maintained by the Group's financial management.

Main » Corporate Governance » Description of corporate governance 2015 » Internal control

Internal control

Internal control seeks to ensure that VVO Group's operations comply with current legislation and regulations and the company's operating principles, and that the company's financial and business reporting is reliable. Internal control also seeks to safeguard VVO Group's assets and ensure that its operations are efficient and reliable, thereby enabling its strategic goals to be achieved.

The internal control and risk management operating model for financial reporting is designed so as to gain sufficiently dependable information on the reliability of financial reporting and to ensure that the financial statements are drawn up according to current legislation and regulations.

VVO Group's internal control system is based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Organisation of internal control is the responsibility of the Board of Directors and the CEO. However, responsibility for carrying out internal control is shared by the entire organisation: each individual Group employee is responsible to his/her supervisor for internal control in his/her area of responsibility.

Main » Corporate Governance » Description of corporate governance 2015 »
Communications and publicity

Communications and publicity

To ensure an efficient and effective internal control environment, VVO Group strives to keep internal and external communications open and transparent at all times. The key operating principles and instructions are available to the entire organisation via VVO's Intranet.

The purpose of communications is to inform VVO's stakeholders of matters concerning the company, with the goal of providing correct, sufficient and up-to-date information regularly and equitably to all parties at the same time.

All bulletins and principal management presentation materials concerning the company's finances are available immediately after publication on the company websites www.vvo.fi and www.vvokonserni.fi.

Main » Corporate Governance » Description of corporate governance 2015 »
Monitoring

Monitoring

The effectiveness of internal financial reporting control is monitored by the Board of Directors, the Audit Committee, the CEO, Group management, the internal auditing department, and the managers of the various units and departments. Internal control encompasses monitoring monthly financial and business reports, reviews of prognoses and plans, reports prepared by internal auditing, and quarterly interim reports from the external auditors.

Any significant changes in risks in business operations and the business environment are regularly evaluated as part of quarterly interim reporting.

Internal auditing submits a summary report to the Audit Committee every six months concerning the inspections conducted, principal observations made, and actions agreed upon.

Main » Corporate Governance » Description of corporate governance 2015 » Internal auditing

Internal auditing

Internal auditing supports the organisation by providing independent and systematic evaluation of the efficiency and appropriateness of business processes. It also monitors the effectiveness of internal control and risk management. Internal auditing seeks to ensure that the company's financial and business reporting is correct, its business operations are legal, and its assets are being appropriately managed. On the basis of its inspections, internal auditing issues recommendations for improving the company's operations. Internal auditing seeks to support and promote risk management development in the company's various functions.

The internal auditing action plan is drawn up for one calendar year at a time. Each year, inspections are carried out in areas considered important to the risks at hand and the Group's objectives. The relevance and feasibility of the action plan are reviewed with management at six-month intervals.

The internal auditing officer reports administratively to the CEO.

In 2015, internal audits focused on operational and supervisory process inspections of principal and support processes.

Main » Corporate Governance » Description of corporate governance 2015 »
Description of salaries and fees

Description of salaries and fees

Board of Directors and auditors

The Annual General Meeting decides on the remuneration of the Board of Directors and the auditor. The Annual General Meeting held on 19 March 2015 confirmed the attendance allowance for Board meetings as EUR 600 per meeting and set the following annual fees for the term beginning 19 March 2015: EUR 20,000 for the Chairman, EUR 11,000 for the Deputy Chairman, and EUR 8,000 for each of the members.

The fees paid to members of the Board of Directors for the year 2015 came to a total of EUR 112,000.

The fees paid to the members of the Board committees for the year 2015 amounted to EUR 22,200.

It was decided that the auditors' fee will be paid to invoice.

CEO and other management

The company's Board of Directors decides on the pay received by the CEO and members of the Management Group, and on the principles and disbursement of their performance bonuses. Group employees do not receive additional compensation for serving as Board members or the CEO of a Group company.

The salaries and other benefits paid to the CEO in 2015 came to EUR 744,672.96, of which EUR 367,095.87 was fixed pay and EUR 377,577.09 was variable pay. The salaries and other benefits paid to the Deputy CEOs came to EUR 456,098.50, of which EUR 238,754.19 was fixed pay and EUR 217,344.31 was variable pay.

The retirement age for members of the Management Group is 63 years. Members of the Management Group belong to a contribution-based pension system in which an insurance premium corresponding to two months' taxable income is paid annually into a group pension insurance plan.

The period of notice for terminating the CEO's employment relationship is twelve months.

Members of the Management Group have been part of a long-term incentive plan since the beginning of 2010. The incentive plan is based on the Group's profit performance and is divided into three-year earning periods, starting each year.

Main » Corporate Governance » Board of Directors

Board of Directors



From left to right: Reima Rytsölä, Tomi Aimonen, Ann Selin, Matti Harjuniemi, Jorma Malinen, Riku Aalto, Olli Luukkainen, Jan-Erik Saarinen

Riku Aalto

Chairman of the Board of Directors of VVO-group plc

- Qualifications: M.Sc.(Admin.)
- Year of birth: 1965
- Currently: President, Finnish Metalworkers' Union

Principal employment experience:

- Finnish Metalworkers' Union: President since 2008, Financial Manager 2003–

Tomi Aimonen

Vice Chairman and Member of the Board of Directors of VVO-group plc

- Qualifications: M.Sc.(Tech.)
- Year of birth: 1973
- Currently: Business Director, Real Estate, Ilmarinen Mutual Pension Insurance Company

Principal employment experience:

- Ilmarinen Mutual Pension Insurance

2008

- Member of the Board of Directors of VVO-group plc since 2003

Matti Harjuniemi

Member of the Board of Directors of VVO-group plc

- Qualifications: MA
- Year of birth: 1958
- Currently: President, Finnish Construction Trade Union

Principal employment experience:

- Finnish Construction Trade Union: President 2005–
- Teacher
- Joiner
- Department Secretary
- Assistant Department Manager
- Member of the Board of Directors of VVO-group plc since 2010

Jorma Malinen

Member of VVO Group plc's Board of Directors and Audit Committee

- Qualifications: Automation designer
- Year of birth: 1959
- Currently: Chairman, Trade Union Pro

Company: Business Director, Real Estate 2006–

- Ilmarinen Mutual Pension Insurance Company: Property Analyst 2001–2006
- Jaakko Pöyry Infra, JP-Talotekniikka Oy: Consultant of Property Economics 2000–2001
- Member of the Board of Directors of VVO-group plc since 2008

Olli Luukkainen

Member of the Board of Directors of VVO-group plc

- Qualifications: Ph.D.(Ed.)
- Year of birth: 1957
- Currently: President, Trade Union of Education in Finland OAJ

Principal employment experience:

- Trade Union of Education in Finland OAJ: Head of Education 2009–2010, Development Manager 2007–2009
- HAMK University of Applied Sciences, The School of Vocational Teacher Education at Tampere University of Applied Sciences (TAOKK): Director 2004–2007
- Association of Finnish Local and Regional Authorities: Development Manager 2004, Specialist 2001–2004
- Finnish National Board of Education:

Principal employment experience:

- Trade Union Pro, Chairman, 2014–
- 1983–2014:
STX Finland, Design Coordinator
Kvaerner Masa-Yards, Designer
Wärtsilä/Masa-Yards, Commissioning
Engineer
- Member of VVO Group plc's Board of
Directors 2015–
- Member of VVO Group plc's Audit
Committee 2015–

Jan-Erik Saarinen

**Member of the Board of Directors of
VVO-group plc**

- Qualifications: MBA, Financing, Helsinki
Business School
- Year of birth: 1967
- Currently: Financial Manager, Trade
Union for the Public and Welfare
Sectors JHL from January 2013

Principal employment experience:

- Ajanta Oy: Director of Investments
2010–2013
- Working in business management and
finance 1998–2010 inc. Evli Bank plc,
Trainers' House plc, 3C Asset
Management Oy
- Member of the Board of Directors of
VVO-group plc since 2013

- Head of Teacher Education Services
Unit 2000–2001, Project Manager
1997–2000, Teacher, Director of school
or institution both in general and
vocational education
- Member of the Board of Directors of
VVO-group plc since 2011

Reima Rytsölä

**Member of the Board of Directors of
VVO-group plc**

- Qualifications: M.Soc.Sc., CEFA, AMP
- Year of birth: 1969
- Currently: Varma Mutual Pension
Insurance Company, Chief Investment
Officer

Principal employment experience:

- Pohjola Bank Plc: Senior Executive Vice
President, Banking, with Group-level
responsibility for major corporate and
institutional customers, 2008–2013
- Pohjola Bank Plc and its subsidiaries:
managerial and investment-related
positions, 1998–2007
- Member of the Board of Directors of
VVO-group plc since 2014

Ann Selin

**Member of the Board of Directors of
VVO-group plc**

- Qualifications: Trade Union Officer
Qualification, eMBA

- Year of birth: 1960
- Currently: President, Service Union United PAM

Principal employment experience:

- Service Union United PAM: President 2002–
- Service Union United PAM: Regional Manager 2000–2002
- Business Sector Trade Union: Regional Supervisor, Occupational Safety Secretary and Youth Worker 1987–2000, various posts in the Union since 1976
- Member of the Board of Directors of VVO-group plc since 2006

Main » Corporate Governance » Management Group

Management Group



From left to right: Juha Heino, Kim Jolkkonen, Mikko Suominen, Jani Nieminen, Irene Kantor, Erik Hjelt, Mikko Pöyry

Jani Nieminen

CEO

- Qualifications: M.Sc.(Tech.), MBA
- Year of birth: 1968

Principal employment experience:

- VVO Group plc: CEO 2011–
- Realia Group Oy: Deputy CEO 2006–2011
- Sato Oyj: Unit Manager 1997–2006

Juha Heino

Customer Director

- Qualifications: B.Sc.
- Year of birth: 1960

Principal employment experience:

- VVO Group plc: Customer Director 2011–
- VVO Group plc: Unit Manager, Marketing, 2009–2011
- VVO Group plc: Marketing Manager

Erik Hjelt

CFO (as of 18 May 2015)

- Qualifications: Licentiate in Laws, eMBA
- Year of birth: 1961

Principal employment experience:

- VVO Group plc 2015–
- Sponda Plc: CFO 2009–2015
- Sponda Plc: SVP, Legal Affairs and Treasury 2007–2009
- Kapiteeli Oyj: SVP, Finance, Legal Affairs, HR and Communications 1999–2006
- Asset Management Company Arsenal Plc: Chief Legal Counsel and VP 1994–1999

Irene Kantor

Marketing and Communications Director

- Qualifications: MA
- Year of birth: 1968

Principal employment experience:

- VVO Group plc: Marketing and Communications Director 2013–
- DNA Oy: Communications Director 2012–2013
- SEK Public Oy: CEO 2010–2012
- Aidema Oy: CEO, owner 2006–2010
- BNL Euro RSCG: Communications Consultant 2001–2006

2008–2009

- Realia Group Oy: sales management, 2003–2008
- VVO Group plc: Marketing Manager 2002–2003
- Sato Oyj: Sales Manager 1997–2002

Kim Jolkkonen

Real Estate Development Director

- Qualifications: Licentiate of Science (Technology)
- Year of birth: 1971

Principal employment experience:

- VVO Group plc: Real Estate Development Director 2013–
- FCG Suunnittelu ja tekniikka Oy: CEO 2012–2013
- Helsingin kaupungin asunnot Oy: Technical Manager 2011–2012
- Vahanen-yhtiöt: Business Area Manager 2008–2011

Mikko Pöyry

ICT and Development Director

- Qualifications: M.Sc.(Tech.), M.Sc.(Econ.)
- Year of birth: 1956

Principal employment experience:

- VVO Group plc: Development Director 2011–
- VVO Group plc: Information

Mikko Suominen

Investment Director

- Qualifications: Master of Laws
- Year of birth: 1971

Principal employment experience:

- VVO Group plc: Investment Director 2013–
- VVO Group plc: Unit Manager, Investments 2009–2013
- VVO Group plc: Investments Negotiator 2007–2009
- VVO Group plc: Attorney 2002–2007

- Management Director 2003–2010
- Mecrator Oy (Mecrator PricewaterhouseCoopers Oy, PwC Consulting Oy): Management Consultant, Consultant Director 1995–2002
- Oy International Business Machines Ab: System Engineer, Sales Manager, Marketing Manager 1983–1995

Raimo Vehkaluoto

CFO (until 18 May 2015)

- Qualifications: M.Sc.(Econ.)
- Year of birth: 1952

Principal employment experience:

- VVO Group plc: CFO 1998–2015
- Municipal Sector Trade Union KTV: Financial Manager 1987–1997
- The Finnish Metalworkers' Union Unemployment Fund: Office Manager 1983–1985

Main » Corporate Governance » Risks and risk management

Risks and risk management

VVO Group's proactive approach to risk management is aimed at ensuring that operations run smoothly and that key objectives can be achieved.

Risk management

Risk management at VVO Group is based on the risk management policy approved by the Board of Directors. Risk management has been incorporated into the company's integrated management system and internal control. Risk management seeks to ensure that strategic and operational objectives can be achieved by identifying and assessing the most notable risks associated with VVO's operations and defining means to manage them.

Risk management is ultimately the responsibility of the company's Board of Directors, which lays down the objectives of risk management and monitors the most notable risks. The Audit Committee appointed up by the Board of Directors is responsible for evaluating the adequacy and appropriateness of risk management within the company. Responsibility for the practical implementation of risk management rests with the company's operational management. Regular, quarterly reports of the most notable risks are produced for the Audit Committee and the Board of Directors.

Risk management is based on the risk assessments carried out in connection with the strategy and annual planning processes, which involve identifying the most notable risks, evaluating their likelihood and potential impacts, and defining means to manage them. VVO Group's most notable risks have been grouped under strategic and operational risks on one hand and under financial and liability risks on the other.

Most notable risks

The most notable risks associated with customer management relate to a potential drop in the rental occupancy rate and an increase in tenant turnover. Factors affecting these risks include economic fluctuations and shifts in demand both nationally and locally. The financial and operational occupancy rate of rental homes, tenant turnover, number of

applicants, and changes in these figures are monitored by region on a monthly basis.

VVO strives to increase occupancy rates and to reduce tenant turnover by boosting the rental business, repairing apartments and properties, and strengthening relationships with customers. VVO Group's cooperation with residents plays an important role in improving customer relations.

Ensuring that the value of VVO's housing stock continues to rise requires investments in urban growth centres, measures to ensure that units are fit to rent, and systematic repairs across all properties.

Major fluctuations in market interest rates and margins may have a negative impact on VVO Group's financial performance and delay the launch of new development and repairs. The interest rate risk associated with market-based loans is controlled by interest rate swaps and hedging. The interest rate of state-subsidised loans is tied to the Finnish consumer price index, which can cause considerable fluctuations in annual interest costs. The company's investment activity may also be affected by access to finance. Investments with long economic lives also require long-term financing, and the risk of refinancing increases with shorter maturities. The risk associated with access to finance is controlled by securing new sources of finance.

The most notable risks associated with properties are liability risks, such as water damage and fire. Liability risks are managed with appropriate preventive safety measures and by insuring properties against damage. VVO Group regularly reviews its insurance policies as part of overall risk management. The main insurance policies are property, liability, loss of profits, accident, travel and vehicle insurance.

Financial risks

The Group's treasury function has two main tasks: 1) to acquire a sufficient amount of financing for the Group's needs at a competitive price, and 2) to identify and assess the Group's financial risks and arrange hedging required by the group companies.

VVO Group's treasury policy has been approved by the Board of Directors. Financial risks are described in more detail in the notes to the 2015 financial statements.