Q1

**Interim report
1 January –
31 March 2015**

VVO Group plc

VVO Group in brief

VVO Group plc is Finland’s largest market-based, private-sector landlord, offering versatile and effortless rental solutions all over Finland, coupled with an extensive range of housing services. VVO Group has a housing portfolio with a market value of EUR 3.8 billion. VVO Group owns nearly 41,000 apartments, of which almost 27,000 are Lumo apartments and almost 14,000 are VVO apartments.

Review period January–March 2015

- Turnover totalled EUR 90.9 (88.1) million. This growth was generated by increased profit from rental operations.
- Profit before taxes amounted to EUR 60.4 (35.7) million and is based on a good financial occupancy rate, the successful management of maintenance costs, low financial costs, and changes in the fair value of investment properties.
- The financial occupancy rate remained high, standing at 97.4 (98.4) per cent.
- Tenant turnover stayed at the same level as in the comparison period, that is, 6.8 (6.7) per cent.
- There were 1,324 (969) rental apartments under construction at the end of the review period.
- The Group owned 40,760 (40,273) rental apartments on 31 March 2015.
- The fair value of investment properties was EUR 3.8 (3.5) billion. Their fair value amounted to EUR 3.7 billion at the end of the 2014 financial year. Changes in fair value accounted for EUR 26.0 (4.0) million of the Group's profit for the period.
- The Group’s gross investments during the period totalled EUR 53.3 (32.3) million.

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

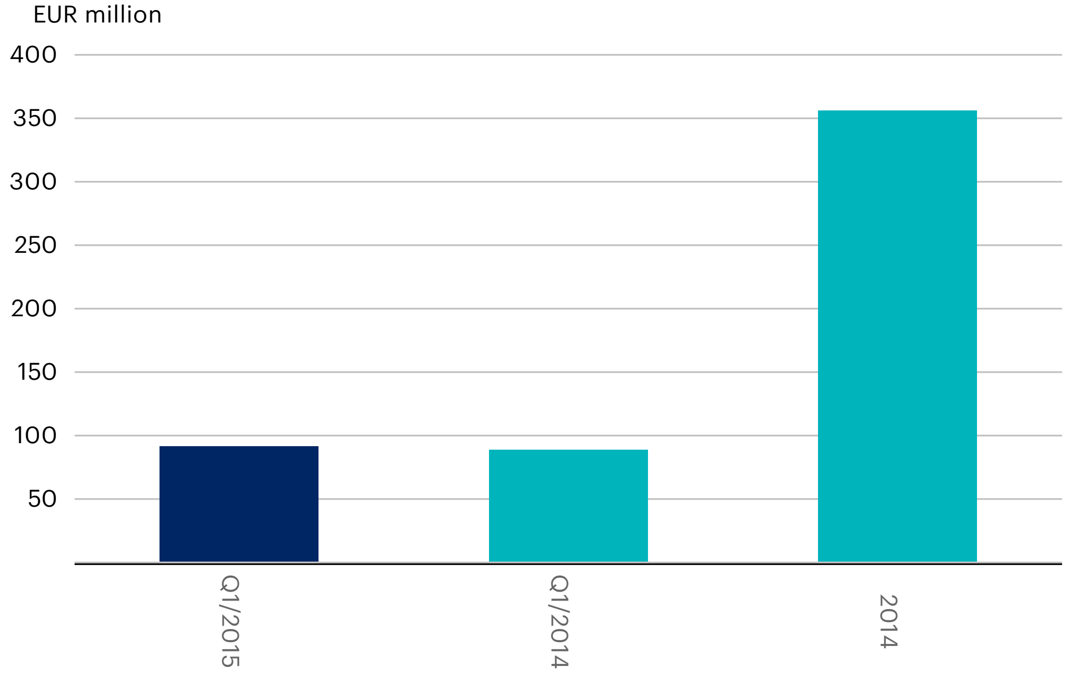
VVO Group Plc adopts IFRS in its financial reporting

The first Interim Report of 2015 has been drawn up in accordance with International Financial Reporting Standards (IFRS) and the comparison figures have been converted to comply with IFRS accounting principles. The transition to IFRS and its impact has been explained in the 'Transition to IFRS' section of the Notes to the Interim Report.

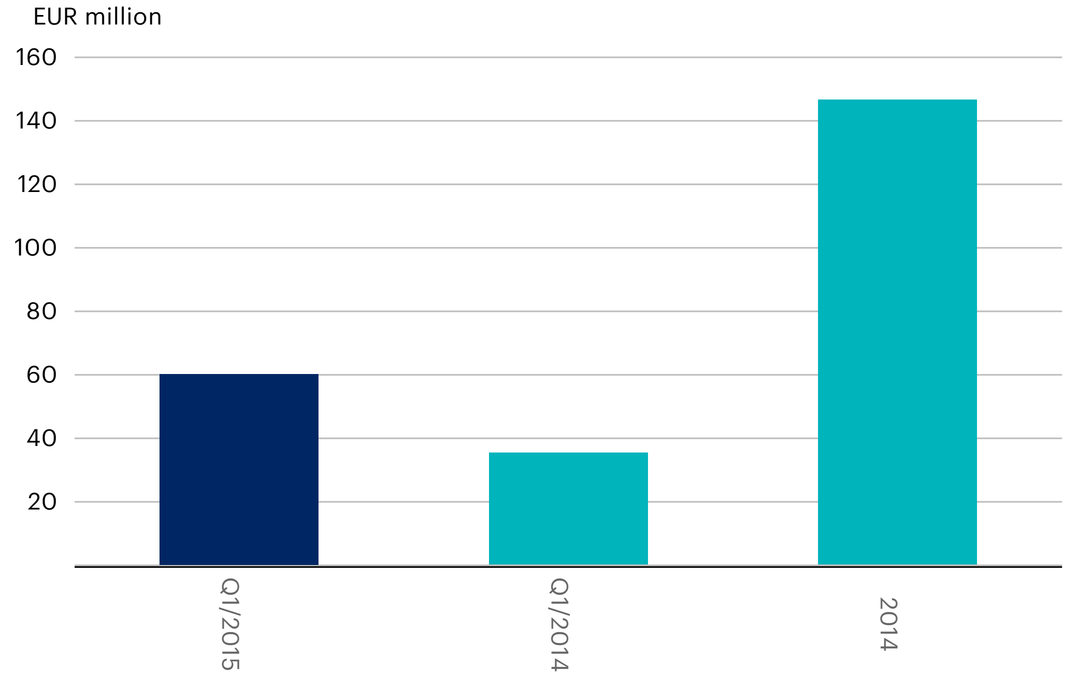
Key indicators

VVO Group	1-3/2015	1-3/2014	1-12/2014
Revenue, EUR million	90.9	88.1	356.5
Net rental income, EUR million	55.4	51.9	210.0
% revenue	61.0	58.9	58.9
Profit before taxes, EUR million	60.4	35.7	146.5
Earnings per share, EUR	6.50	3.88	14.95
Equity per share, EUR	216.64	203.72	213.30
Return on equity, % (ROE)	12.1	7.6	7.2
Return on investments, % (ROI)	8.5	5.8	5.9
Equity ratio, %	39.9	39.3	40.0
Financial Occupancy rate, %	97.4	98.4	98.1
Gross investments, EUR million	53.3	32.3	200.5
Investment properties, EUR million	3,782.1	3,539.4	3,708.8
Interest bearing liabilities, EUR million	1,856.1	1,826.2	1,850.1
Number of personnel, end of period	347	323	343

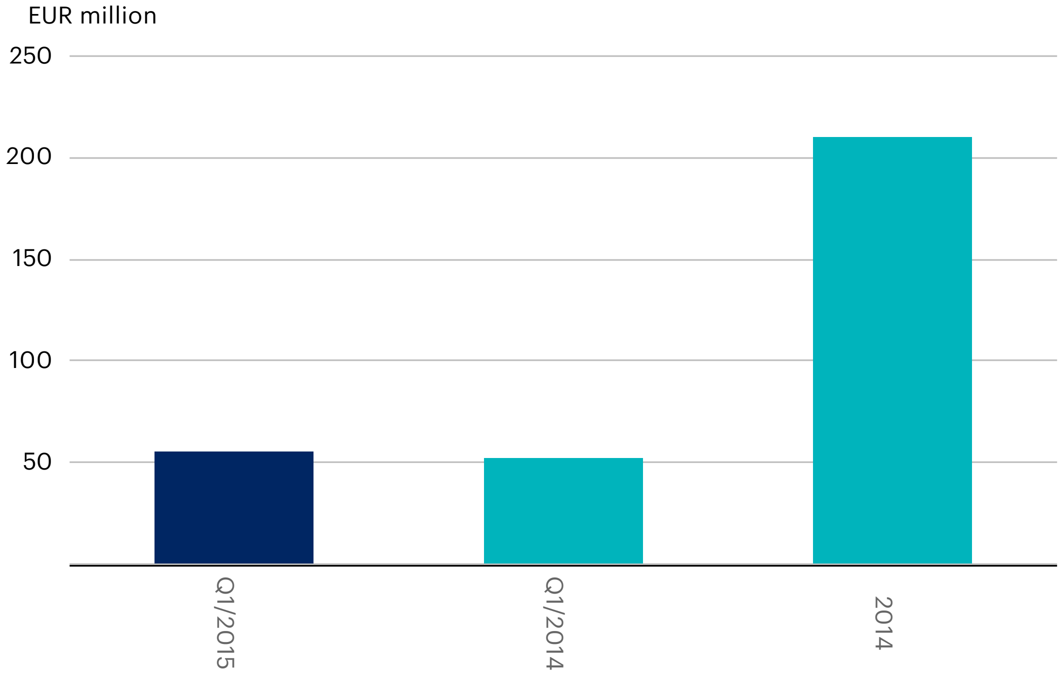
Turnover Q1/2015



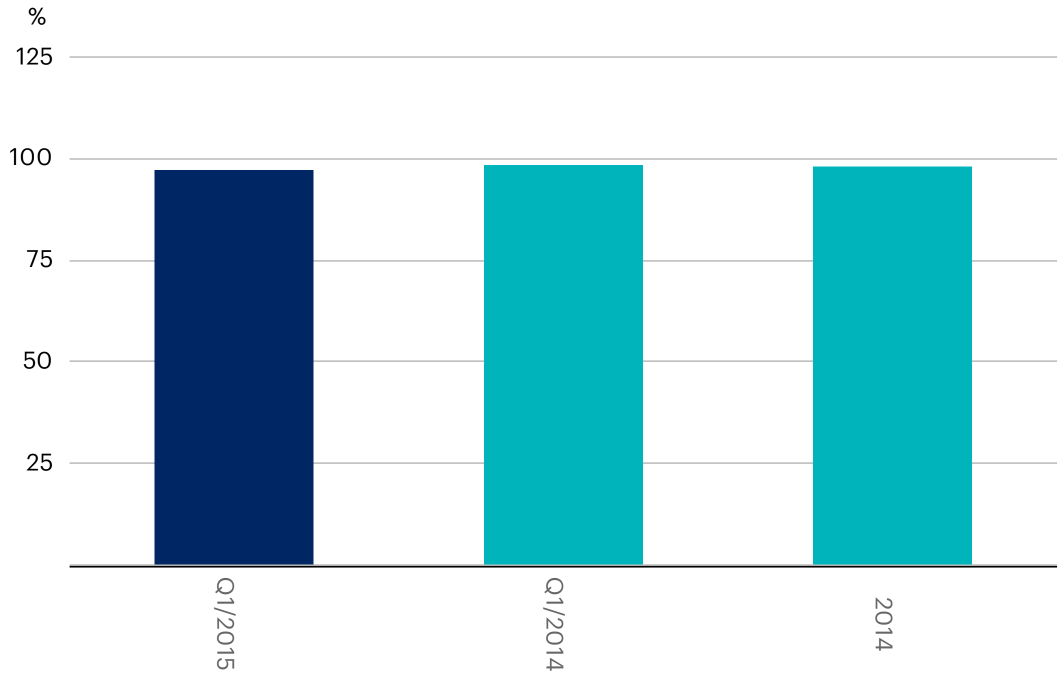
Profit trend Q1/2015



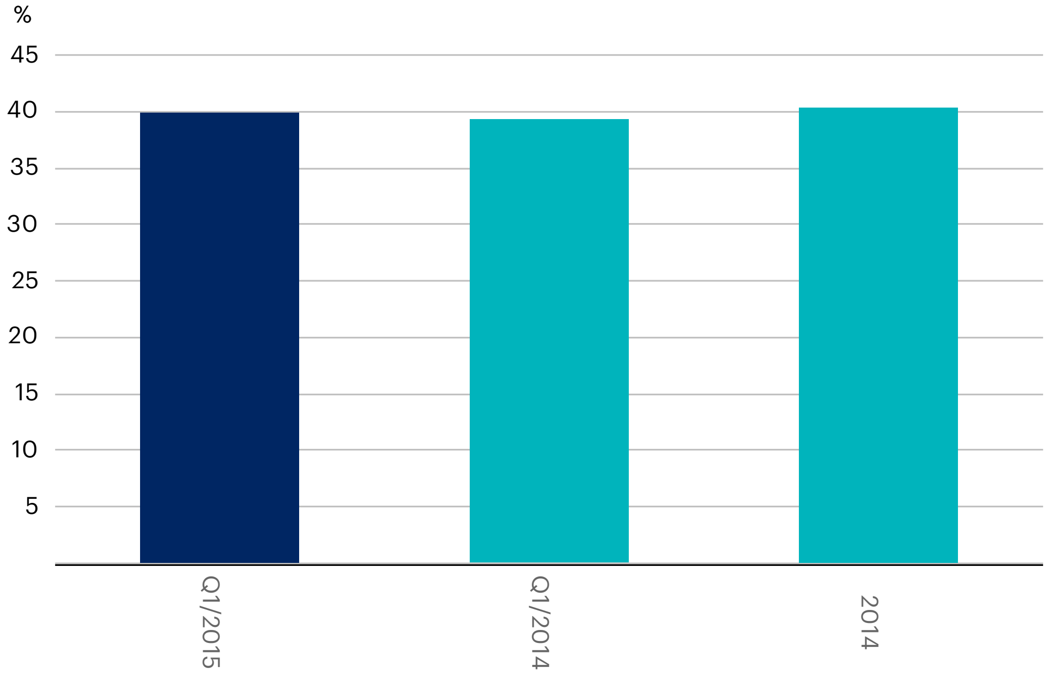
Net rental yield Q1/2015



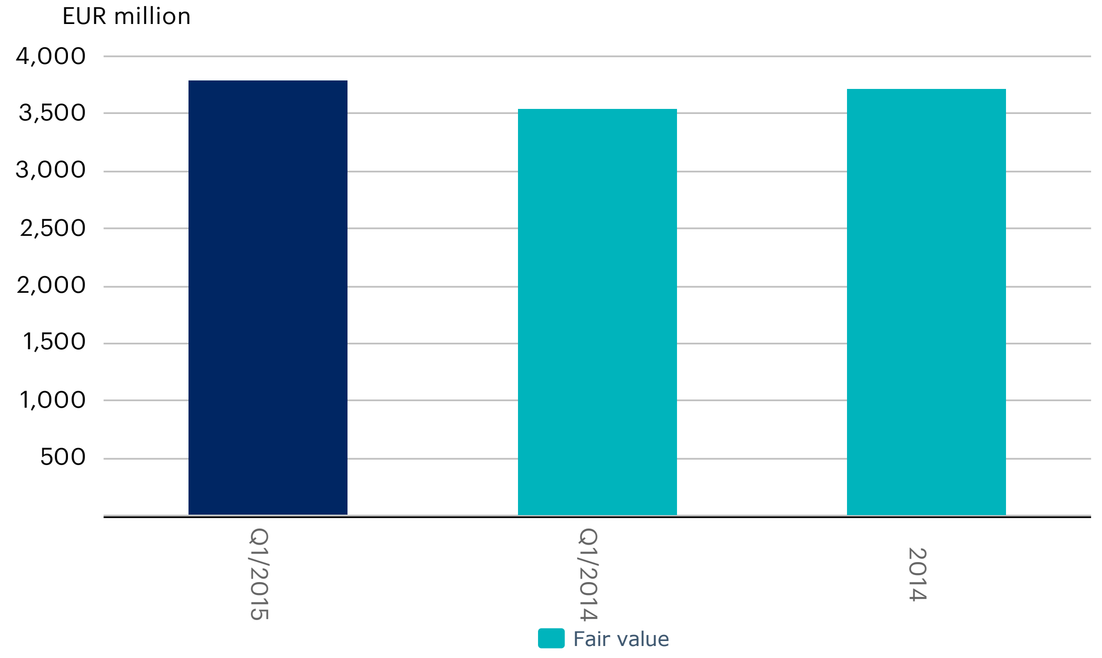
Financial occupancy rate Q1/2015



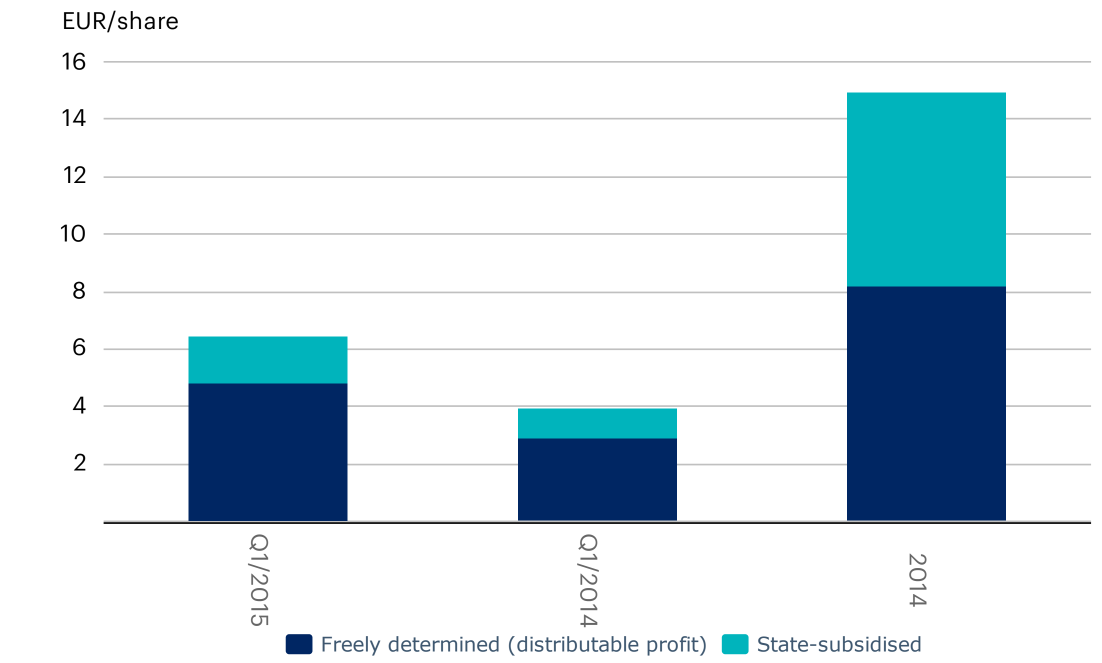
Equity ratio Q1/2015



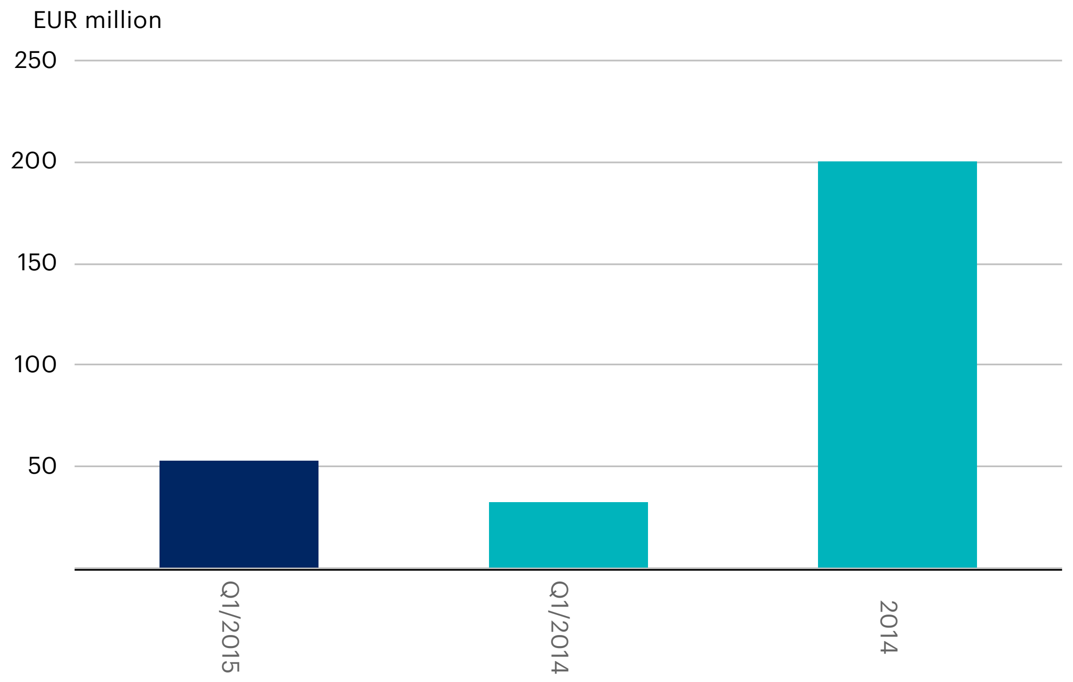
Value development Q1/2015



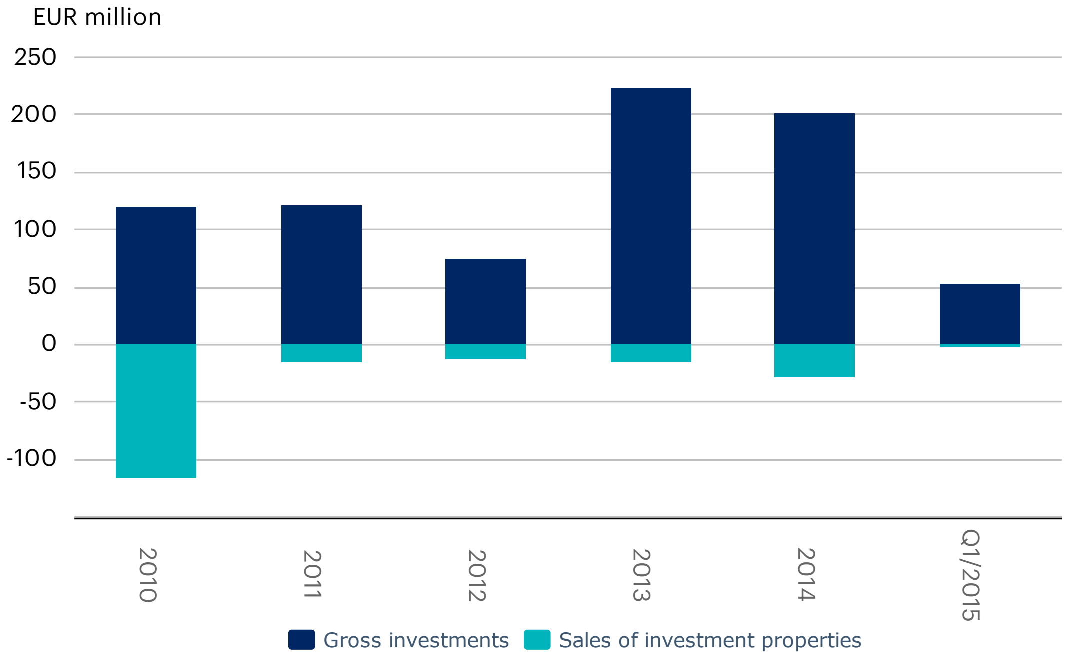
Key ratios per share Q1/2015



Gross investments Q1/2015



Gross investments and divestments Q1/2015



* As of 2014, the Group's financial statements are given according to IFRS.

Rental housing stock 31 March 2015

Strong investments continued: 1,324 rental apartments under construction

VVO Group's turnover and profit performance remained very good during the review period. At period end, the fair value of our investment properties stood at EUR 3.8 billion. According to a market analysis conducted by KTI Kiinteistötieto Oy*, we became Finland's largest property investor in late 2014.

During the review period, the Group invested EUR 53.3 million in new construction and purchasing and renovating existing housing stock. We are continuing to make investments, and are increasing the number of apartments we can offer in Finland's growth centres. We currently have 40,760 rental apartments, and a total of 1,324 privately financed Lumo apartments were under construction at the end of the period.

This year, we adopted International Financial Reporting Standards (IFRS) to enable us to harness a broader range of financing channels and facilitate comparison within the industry.

There continues to be a growing need for rental apartments in the Helsinki Metropolitan Area in particular. An increase in privately financed new construction has only temporarily eased the situation in certain residential areas.

We are attempting to promote growth in the number of rental apartments available, and to make things easier for those seeking rental housing. Lightening regulations and the zoning process, coupled with a sufficient number of available plots, would have an impact on the cost of construction and accelerate growth in the volume of rental housing on offer.

Demand for rental housing has remained brisk. The new brand we introduced last year (Lumo) has been well received, and our customers have found our housing services appealing – environmentally friendly car sharing, for example.

Thank you for this period!

Jani Nieminen
CEO

*KTI Kiinteistötieto Oy's 'The Finnish Property Market 2015'

Outlook for 2015

Market outlook

Uncertainty in the Finnish economy persists. The outlook for employment remains weak. The European Central Bank's decision in early 2015 to purchase EUR 60 billion in securities per month is supporting the euro zone's economy. As a result of the ECB's policy, general interest rates are forecast to remain low.

Demand for rental housing is expected to remain at the same good level. No considerable changes are expected in the overall supply of rental apartments. New development will continue to focus on privately financed rental apartments. Due to the general market situation, construction firms are offering sites for rental housing.

Continuing urbanisation can be seen in the growing number of apartment blocks being built in major growth centres. Price trends in owner-occupied apartments can be expected to continue along the same lines as in 2014. A slight rise is expected in the prices of small, centrally located apartments, while the prices of large apartments in the outskirts may fall slightly.

The number of completed yet unsold apartments remains high, which is curbing new start-ups by construction firms. The volume of renovation construction will continue to rise.

Outlook for VVO Group

VVO Group's financial occupancy rate is expected to remain at a good level throughout the financial year due to continuing stable demand for rental apartments. Strong investments will, therefore, also continue. Net rental income is expected to increase to some extent.

Operating environment

General operating environment

Slow improvements were being seen in the European economy during the review period. Growth in the US economy, a fall in the price of oil, and reflationary fiscal policies supported favourable developments in the world economy. In March, the European Central Bank launched an expanded asset purchase programme for euro-zone sovereign bonds, which weakened the euro and thereby strengthened euro-zone exports. However, political risks overshadowed economic development.

Consumer confidence remained low. Both private households and companies are cautious in their investment decisions. This was seen in, for example, demand for owner-occupied apartments and construction investments. During early 2015, the prices of old owner-occupied apartments fell slightly throughout the country. In the Helsinki Metropolitan Area, prices rose slightly on the corresponding period of 2014.

Interest rates remained exceptionally low.

Industry operating environment

Demand for rental apartments remained at a good level. Business was good for small rental apartments and newly constructed locations, particularly in growth centres. There was still clear demand for new homes in the Helsinki Metropolitan Area.

New construction clearly focused on privately financed rental apartments. There were no noticeable changes in the price level of either new construction or renovations.
The market situation for the construction of owner-occupied apartments enabled better-than-average implementation of negotiated contracts for rental housing development.

The slowness of the zoning process and a lack of suitable plots, particularly in the Helsinki Metropolitan Area, made it harder to launch the construction of new rental apartments.

Business operations

VVO Group Plc is Finland’s largest market-based, private-sector landlord, offering versatile and effortless rental solutions coupled with an extensive range of housing services.

The fair value of VVO's investment properties is EUR 3.8 (3.5) billion. The VVO Group owns 40,760 (40,273) apartments, of which 26,808 (26,218) are Lumo apartments (marked-based rent) and 13,952 (14,055) VVO apartments (cost principle rent).

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

VVO has been engaged in administrative litigation to overturn the designation of Vuokra-asunnot Oy as a non-profit company, and the Supreme Administrative Court has now resolved the case in VVO Group's favour. The case was returned to the Housing Finance and Development Centre of Finland (ARA) for reconsideration.

Segment reporting

VVO Group forms a financial entity that reports on its operations in two segments. The basis for the segment division is the profit distribution limitation defined by the Act on State-Subsidised Housing Loans (ARAVA Act).

The VVO Non-subsidised segment contains VVO Group Plc and the Group companies VVO Kodit Oy, VVO Vuokra-asunnot Oy, VVO Vuokratalot Oy and VVO Palvelut Oy. These companies can freely distribute their profit. Some of VVO Vuokratalot Oy's housing is subject to property-specific limitations in accordance with the ARAVA Act.

The Group companies VVO Asunnot Oy and VVO Korkotukikiinteistöt Oy, which are subject to the profit distribution limitation specified in the ARAVA Act, belong to the VVO State-subsidised segment. These companies can pay their owner an eight per cent return on own funds invested in them that have been confirmed by the Housing Finance and Development Centre of Finland (ARA). The return payable from the annual profits of companies within the VVO State-subsidised segment totals approximately EUR 3 million. Some of the housing in the VVO State-subsidised segment is not subject to property-specific limitations in accordance with the ARAVA Act.

Result and profitability

The Group's net rental income totalled EUR 55.4 (51.9) million, representing 61.0 (58.9) per cent of turnover. The VVO Non-subsidised segment recorded a net rental income of EUR 28.9 (26.9) million, and the VVO State-subsidised segment EUR 27.1 (25.7) million.

Net rental income
55.4
EUR million

The Group's profit before taxes amounted to EUR 60.4 (35.7) million. The result includes a EUR 26.0 (4.0) million change in the fair value of investment properties, and capital gains and losses of EUR 0.9 (-1.4) million. Our favourable profit performance is based on a good financial occupancy rate, the successful management of maintenance costs, low financial costs, and changes in the fair value of investment properties. Financial income and expenses totalled EUR -12.3 (-11.3) million.

Turnover

VVO Group Plc had a turnover of EUR 90.9 (88.1) million for the period 1 January – 31 March 2015. The VVO Non-subsidised segment recorded a turnover of EUR 45.3 (43.5) million, and the VVO State-subsidised segment EUR 46.7 (45.9) million. Turnover is entirely generated by rental income.

Turnover
90.9
EUR million

Balance sheet, cash flow and financing

At the end of the review period, the Group’s balance sheet total was EUR 4,031.3 (3,847.0) million. Equity totalled EUR 1,604.2 (1,508.5) million. The equity ratio stood at 39.9 (39.3) per cent. Equity per share was EUR 216.64 (203.72). The VVO Non-subsidised segment's equity ratio stood at 45.1 (46.0) per cent. The Group's return on equity was 12.1 (7.6) per cent and its return on investment 8.5 (5.8) per cent.

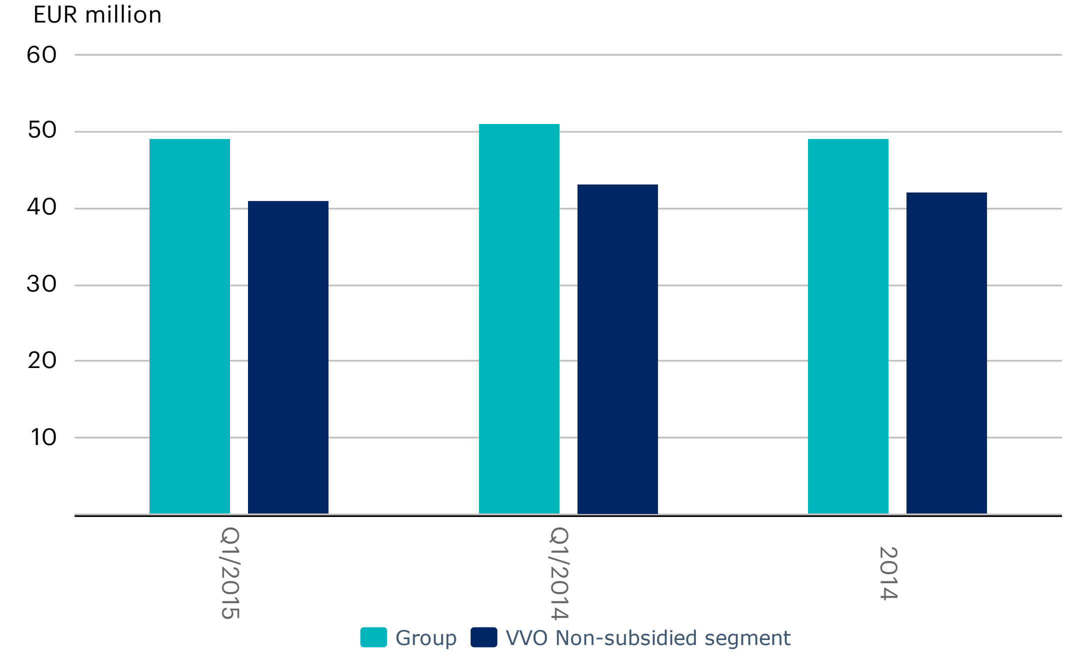
At the end of the review period, the Group's liquid assets totalled EUR 108.5 (167.0) million. The Group maintained good liquidity throughout the period. EUR 69.8 (38.0) million of the EUR 200 million commercial paper programme had been issued by the end of the review period.

At period end, interest-bearing liabilities stood at EUR 1,856.1 (1,826.2) million, of which EUR 905.1 (833.9) million was accounted for by market-based loans.

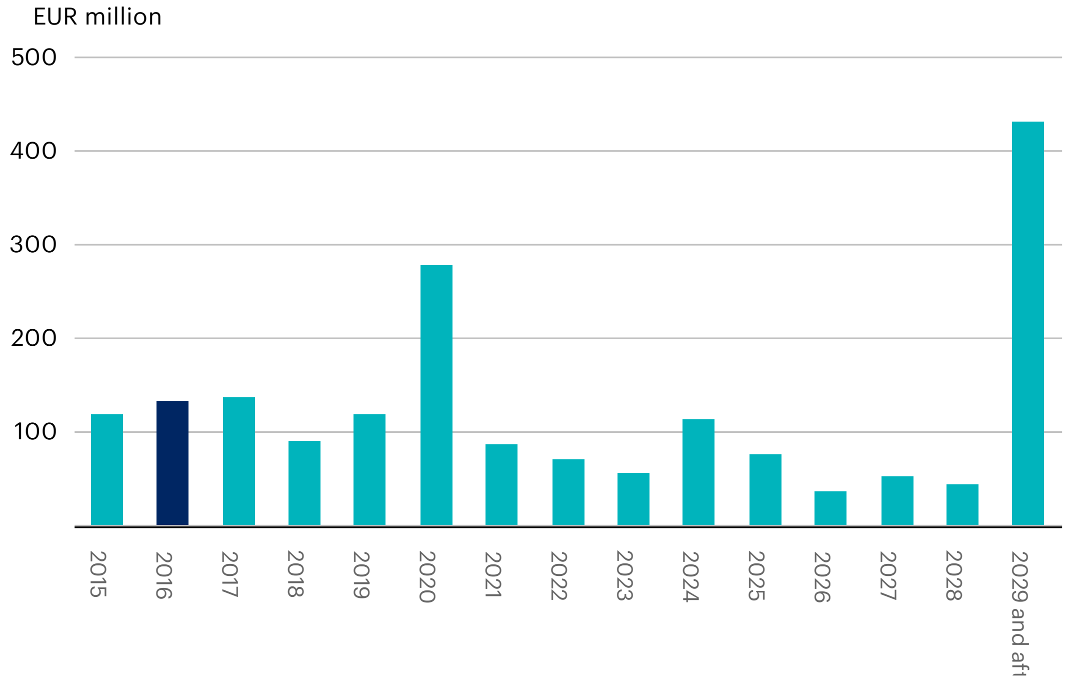
During the review period, VVO Group converted EUR 31.0 million in high-interest government annuity loans into market-based loans. Interest expenses from new local government funding loans are significantly lower than they have been in the past. The new loans have maturities of 10–23 years. At the end of the review period, loan to value was 48.6 per cent.

The average interest rate of VVO's loan portfolio during the review period was 2.5 (2.6) per cent, and the average maturity of its loans was 15.0 (15.7) years at period end.

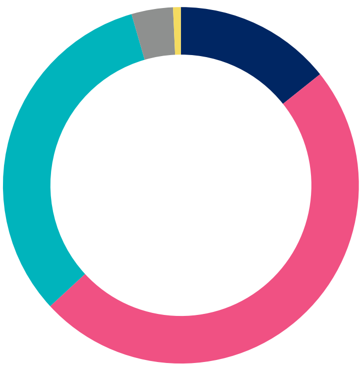
Loan to Value Q1/2015



Loan maturation Q1/2015



Structure of debt portfolio 31 March 2015, Q1/2015



Real estate property and fair value

Fair value
3.8
EUR billion

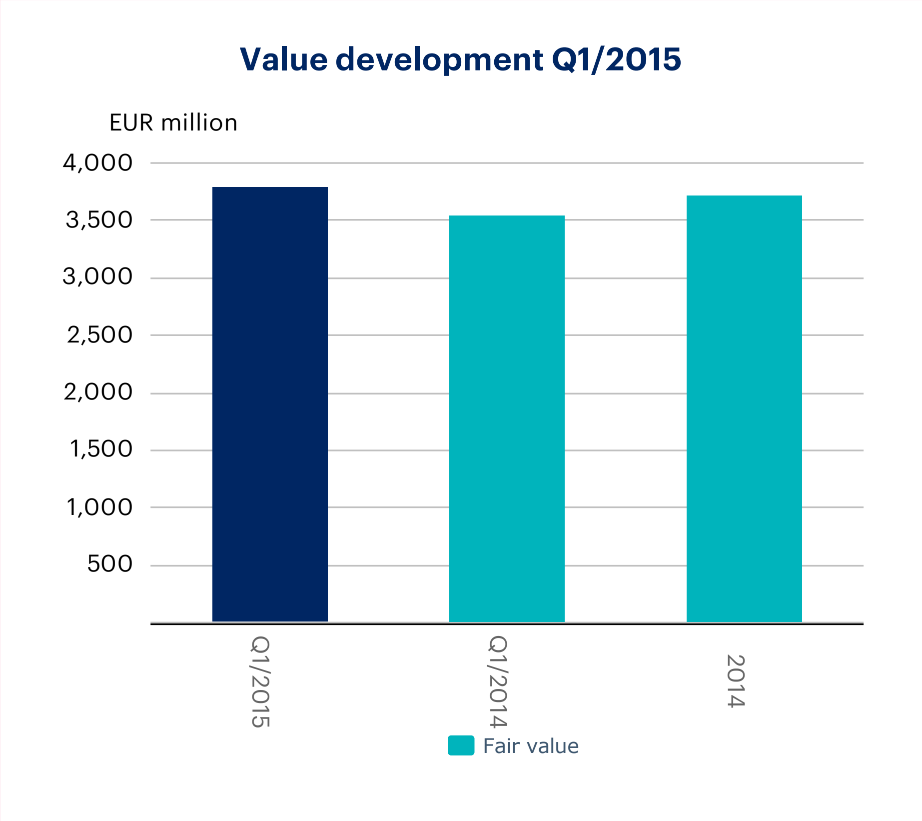
VVO Group owned a total of 40,760 (40,273) rental apartments at period end. The VVO Non-subsidised segment accounted for 20,019 (19,605) of these homes and the VVO State-subsidised segment for 20,741 (20,668). At the end of the review period, VVO owned apartments in 42 (43) municipalities.

The fair value of VVO's investment properties stood at EUR 3.8 (3.5) billion, with a change in fair value of EUR 73.3 (29.1) million during the review period. The fair value of VVO's investment properties is determined quarterly on the basis of the company's own evaluation. An external expert gives a statement on the valuation of VVO's investment properties. The last valuation statement was issued on the situation as at 31 March 2015. The criteria for determining fair value are presented in the Notes to the Interim Report.

At period end, the plot reserve held by the Group totalled about 115,000 floor sq m (115,000 floor sq m) and its fair value was approximately EUR 40.5 (37.5) million.

EUR million	**1-3/2015**	**1-3/2014**	**1-12/2014**
Fair value of investment properties, beginning of period	**3,708.8**	**3,510.3**	**3,510.3**
Acquition of investment properties *)	41.7	24.3	169.5
Other investments on investment properties	7.5	4.2	29.1
Disposals of investment properties	-2.3	-4.0	-28.8
Capitalised borrowing costs	0.4	0.6	2.5
Valuation gains/losses on fair value assessment	26.0	4.0	26.2
Fair value of investment properties, end of period	**3,782.1**	**3,539.4**	**3,708.8**

*) incl acquition costs of the new construction projects


Value development Q1/2015
EUR million
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
Q1/2015
Q1/2014
2014
Fair value

Rental housing

Demand for rental housing remained high in all municipalities where VVO Group has a presence. As in previous years, the strongest demand centred on smaller apartments, that is, studios and one-bedroom apartments.

The financial occupancy rate remained at a good level, standing at 97.4 (98.4) per cent for the review period. At the end of the review period, 527 (301) apartments were vacant due to renovations. The tenant turnover rate, which includes internal transfers, remained at the same level as in the corresponding period of 2014, that is, 6.8 (6.7) per cent.

The average rent for the Group's 26,808 (26,218) market-based rental apartments (Lumo) was EUR 13.52 (12.91) per sq m per month during the review period, and EUR 13.80 (13.17) at period end. The corresponding figure for the 13,952 (14,055) apartments rented at cost price (VVO) was EUR 12.58 (12.27) during the review period and EUR 12.77 (12.41) at period end.

Demand for rental housing remained brisk. At the end of the review period, there were 18,774 (20,284) active applications. (Applications are active for three months.) The average number of active applications per rental agreement termination was 19.0 (20.9). 16,476 (17,709) new rental housing applications were received during the review period.

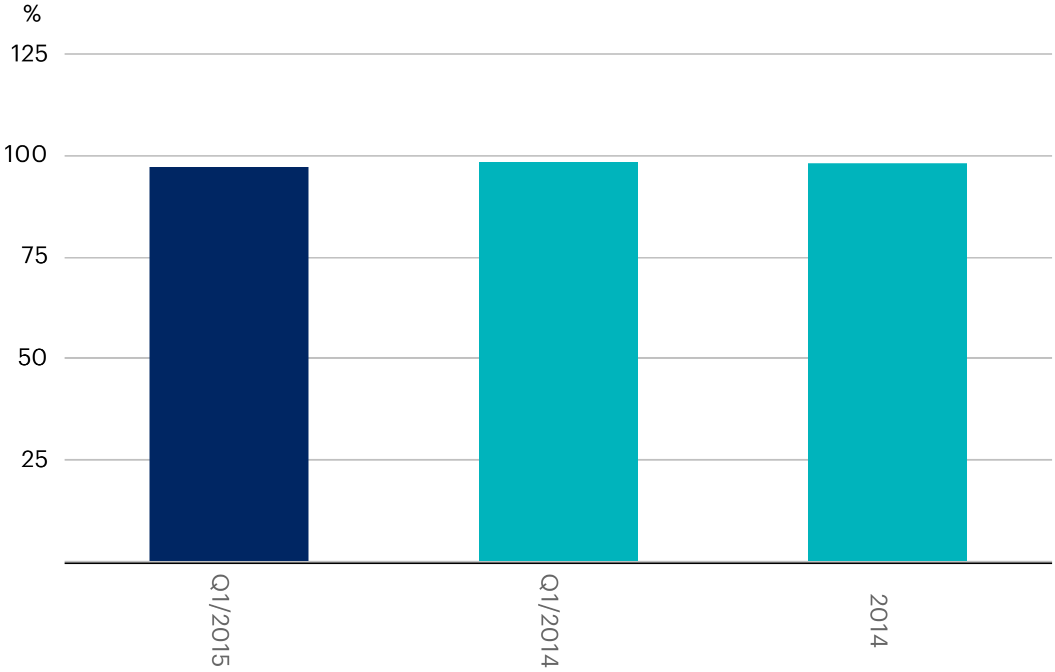
The average period of tenancy remained high, at 5.9 (5.9) years. Thanks to successful rental control and our housing advisory service, the proportion of annual turnover accounted for by rent receivables stood at 1.2 (1.2) per cent at the end of the period.

During the review period, Lumo residents launched a car sharing pilot in the Suurpelto district of Espoo and the Hervanta district of Tampere. Lumo and 24Rent's half-year pilot is seeking to identify residents' interest in ecological motoring. The housing cooperatives keep their shared car in a marked parking space, from where it can be reserved and used by residents.

Contracts with DNA and Elisa for a faster broadband connection came into force on 1 January 2015: the rent for almost every one of our Lumo and VVO apartments now includes a 10 Mbit broadband connection.

The VVO Group presents an annual award to the residents of a VVO house for exemplary community spirit and management of their shared living environment. The 2015 House of the Year was chosen at the National Housing Day. This biennial national event brings together the chairpersons of VVO's house committees to discuss common issues. Koulukatu 1 in Lappeenranta was chosen as VVO House of the Year 2015.

Financial occupancy rate Q1/2015



Rental housing stock 31 March 2015


Lumo 26,808
VVO 13,952

Investments, divestments and real estate development

There were
1,324
rental apartments under construction

Investments were
53.3
EUR million

VVO Group launched construction of 197 (72) apartments during the review period. There were a total of 1,324 (969) apartments under construction at the end of the period – 1,324 (850) privately financed apartments and 0 (119) State-subsidised apartments. Of the apartments under construction, 851 (773) are located in the Helsinki region and 473 (196) in other Finnish growth centres.

During the review period, VVO Group acquired 40 (0) apartments in Espoo and sold 73 (56) apartments. 0 (123) new apartments were completed during the period. An estimated 736 (750) apartments are scheduled for completion by the end of the year.

The Group's gross investments totalled EUR 53.3 (32.3) million. EUR 7.5 (4.2) million of these investments was allocated to capitalised renovation costs. The VVO Non-subsidised segment accounted for EUR 51.8 (27.6) million of gross investments, and the VVO State-subsidised segment for EUR 1.5 (4.9) million.

Repair costs totalled EUR 15.9 (13.1) million, of which EUR 8.5 (8.9) million was recognised as expenses in the income statement.

At period end, there were also binding acquisition agreements worth a total of EUR 269.1 (88.8) million.

Properties' temperature-corrected consumption of heating energy decreased by 2.2% on the corresponding period of the previous year.

Annual general meeting

VVO Group Plc's Annual General Meeting of 19 March 2015 elected Riku Aalto as Chairman of the Board of Directors.

As of 19 March 2015, the Board of Directors has consisted of the following members:

Riku Aalto (Chairman)
Tomi Aimonen (Vice Chairman)
Matti Harjuniemi
Olli Luukkainen
Jorma Malinen
Reima Rytsölä
Jan-Erik Saarinen
Ann Selin

KPMG Oy Ab will continue as VVO's auditor with APA Kai Salli as principal auditor.

The Annual General Meeting decided to pay a dividend of EUR 3.00 per share, to a total of EUR 22.2 million, in accordance with the Board of Directors' proposal. The dividend payment date was 8 April 2015.

Personnel

At the end of the review period, the VVO Group had a total of 347 (323) employees. The average number of personnel during the period was 345 (323).

During the review period, the company decided to hire 50 summer employees.

Management and administration

Erik Hjelt, Master of Laws, eMBA has been appointed as CFO of VVO Group Plc. Hjelt, 53, started in his new position on 18 May 2015. The current CFO, Raimo Vehkaluoto, will retire in summer 2015.

Shareholders

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

VVO Group Plc's 10 major shareholders on 31 March 2015

Shareholder	Holding, %
Ilmarinen Mutual Pension Insurance Company	18.08
Varma Mutual Pension Insurance Company	16.98
The Finnish Metalworkers' Union	9.70
Trade Union for the Public and Welfare Sectors	8.73
Finnish Construction Trade Union	8.31
Service Union United PAM	7.49
Trade Union PRO	7.47
Trade Union of Education in Finland	7.46
Union of Industrial Employees TEAM	5.99
Union of Healt and Social Care Professionals	1.39
Others	8.40
Total	**100.00**

Responsibility

VVO Group Plc's operations are based on the provision of a diverse range of safe, high-quality rental housing. VVO Group seeks to participate in debate on Finnish housing policy to improve the standing of rental housing.

During the review period, the Group published its theses on the development of housing policy. These theses take a stand on several issues: the conditions required for an increase in rental housing production, factors that affect the cost of both construction and living, and support for housing and construction.

We fight the grey economy by ensuring that all the anti-grey economy models used by the company exceed legislative requirements in many respects. We continuously monitor contractor's liability data for all of the companies in our supplier network, whereas the law only requires data checks at three-month intervals.

VVO Group will continue its climate partnership agreement with the City of Helsinki. The Group has also committed to following the Rental Property Action Plan (VAETS), which has set a 2016 heating energy savings target of seven per cent compared to 2009. The Rental Property Action Plan (VAETS) savings targets for 2016 have already been achieved and, with regard to property electricity consumption, have even been exceeded.

VVO Group Plc was approved as a member of the Climate Leadership Council (CLC), an association of Finland's leading companies and organisations. It seeks to encourage both its own members and others to find more sustainable ways of producing goods and services. CLC improves research organisations' and industry and commerce's readiness to respond to both climate change threats and the business opportunities they generate.

During the review period, Lumo residents launched a car sharing pilot in the Suurpelto district of Espoo and the Hervanta district of Tampere. Lumo and 24Rent's half-year pilot is seeking to identify residents' interest in ecological motoring.

During the review period, a new waste disposal area was tested in the Arabianranta district of Helsinki in a joint pilot project run by the Helsinki Metropolia University of Applied Sciences, Lassila & Tikanoja, and VVO Group. The pilot ran until the end of March. According to a residents' survey, clarity, cleanliness and good lighting made the waste disposal area easier and more pleasant to use. The volume of mixed waste also decreased.

A total of seven athletes were sponsored through the Virkeä programme in 2015:
Lassi Etelätalo (athletics), Henry Manni (paracanoeing), Nooralotta Neziri (athletics), Venla Paunonen (athletics), Tommi Pulli (speed skating), Mimosa Jallow (swimming) and Jenni Saarinen (figure skating).

Near-term risks and uncertainties

Slow economic growth continued and was reflected in both the housing and financial markets.

The prolonged rise in owner-occupied apartment prices has now halted at country level. The housing market is split between the Helsinki Metropolitan Area and the rest of the country. Year-on-year price increases in the first quarter of 2015 mainly occurred in the Helsinki Metropolitan Area. A potential fall in house prices could have an impact on the fair value of property assets.

The situation with regard to financial risks has not substantially changed from that described in the 2014 Financial Statements. The financial risks resulting from uncertainty in the money market are mainly associated with increasing market interest rates and interest margins, and the availability of financing. Strong fluctuations in these areas may slow investments in new development and renovation. Interest rate risks are managed by keeping the percentage of fixed-rate market-based loans at around the 80 per cent mark in accordance with the Group's financing policy.

A more detailed description of risks and uncertainties can be found in the financial statements and on our website, vvo.fi.

Consolidated income statement, IFRS

EUR million	Note	1-3/2015	1-3/2014	1-12/2014
Total revenue		**90.9**	**88.1**	**356.5**
Maintenance expenses		-27.0	-27.2	-97.1
Repair expenses		-8.5	-8.9	-49.5
Net rental income		**55.4**	**51.9**	**210.0**
Administrative expenses		-9.9	-8.9	-38.7
Other operating income		0.5	1.2	2.9
Other operating expenses		0.0	-0.1	-0.9
Profit/loss on sales of investment properties		0.9	-1.4	-4.6
Profit/loss on sales of trading properties		0.0	0.0	-0.2
Fair value change of investment properties	3	26.0	4.0	26.2
Depreciation, amortisation and impairment losses		-0.3	-0.3	-1.7
Operating profit / loss		**72.6**	**46.5**	**192.9**
Financial income		0.5	1.2	2.7
Financial expenses		-12.7	-12.5	-50.0
Total amount of financial income and expenses		-12.3	-11.3	-47.3
Share of result of associated companies		0.0	0.5	0.9
Profit before taxes		**60.4**	**35.7**	**146.5**
Current tax expense		-4.3	-3.7	-23.5
Change in deferred taxes		-8.0	-3.2	-12.2
Income taxes total		-12.2	-7.0	-35.7
Profit/loss for the period		**48.1**	**28.7**	**110.8**
Profit of the financial period attributable to				
Shareholders of the parent company		48.1	28.7	110.7

Non-controlling interests	0.0	0.0	-0.1
Earnings per share based on profit attributable to equity holders of the parent company			
Basic, euro	6.50	3.88	14.95
Diluted, euro	6.50	3.88	14.95
Average number of the shares, millions	7.4	7.4	7.4

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

EUR million	**1-3/2015**	**1-3/2014**	**1-12/2014**
Profit/loss for the period	**48.1**	**28.7**	**110.8**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedgings	-2.7	-4.9	-19.5
Available-for-sale financial assets	1.2	-0.1	0.6
Deferred taxes	0.3	1.0	3.8
Items that may be reclassified subsequently to profit or loss, total	-1.2	-4.0	-15.1
Total comprehensive income for the period	**47.0**	**24.7**	**95.7**
Total comprehensive income attributable to			
Shareholders of the parent company	47.0	24.7	95.6
Non-controlling interests	0.0	0.0	-0.1

Consolidated balance sheet, IFRS

EUR million	Note	31 March 2015	31 March 2014	31 December 2014
ASSETS				
Non-current assets				
Intangible assets		1.3	1.6	1.4
Investment properties	3	3,782.1	3,539.4	3,708.8
Property, plant and equipment	4	31.6	32.2	31.7
Investments in associated companies		3.5	3.7	3.5
Financial assets	7	0.5	0.6	0.6
Non-current receivables		2.7	3.7	2.8
Deferred tax assets		12.7	8.8	11.8
Non-current assets total		**3,834.5**	**3,590.0**	**3,760.6**
Current assets				
Trading properties		2.6	4.8	3.0
Current tax assets		2.2	0.9	1.4
Trade and other receivables		16.5	17.9	9.6
Financial assets	7	67.1	66.4	68.3
Cash and cash equivalents		108.5	167.0	114.4
Current assets total		**196.9**	**257.0**	**196.7**
ASSETS TOTAL		**4,031.3**	**3,847.0**	**3,957.2**
SHAREHOLDER' EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent company				
Share capital		58.0	58.0	58.0
Share issue premium		35.8	35.8	35.8

Contingency fund		0.0	0.0	0.0
Fair value reserve		-36.2	-23.9	-35.0
Invested non-restricted equity reserve		17.9	17.9	17.9
Retained earnings		1,528.2	1,420.3	1,502.3
Equity attributable to shareholders of the parent company		**1,603.7**	1,508.1	1,579.0
Non-controlling interests		0.5	0.5	0.5
Total equity		**1,604.2**	**1,508.5**	**1,579.5**
LIABILITIES				
Non-current liabilities				
Liabilities	5, 7	1,662.5	1,700.3	1,689.3
Deferred tax liabilities		414.4	396.4	405.9
Derivatives	6, 7	58.0	35.0	53.7
Provisions		1.5	1.2	1.5
Other non-current liabilites		7.5	8.2	7.4
Non-current liabilities total		**2,143.8**	**2,141.1**	**2,157.7**
Current liabilities				
Current liabilities	5, 7	193.6	125.9	160.8
Derivatives	6, 7	1.1	1.5	1.1
Current tax liabilities		13.9	7.9	12.3
Trade and other payables		74.6	62.1	45.9
Current liabilities total		**283.3**	**197.4**	**220.0**
Total liabilities		**2,427.1**	**2,338.4**	**2,377.8**
TOTAL EQUITY AND LIABILITIES		**4,031.3**	**3,847.0**	**3,957.2**

Consolidated cash flow statement, IFRS

EUR million	1-3/2015	1-3/2014	1-12/2014
Cash flow from operating activities			
Profit for the period	48.1	28.7	110.8
Adjustments	-2.3	15.8	61.7
Change in net working capital	0.1	0.8	2.1
Interest paid	-12.2	-12.7	-45.2
Interest received	0.2	0.3	1.0
Other financial items	-0.2	-0.1	-0.2
Taxes paid	-3.4	-2.5	-18.4
Net cash flow from operating activities	30.4	30.3	111.7
Cash flow from investing activities			
Acquisition of investment properties	-48.3	-32.3	-200.3
Acquisition of property, plant and equipment and intangible assets	-0.1	-0.1	-0.3
Proceeds from sale of investment properties	3.2	2.7	26.4
Proceeds from sale of tangible and intangible assets			0.0
Proceeds from sale of associated companies			0.6
Purchases of financial assets	-1.0	-8.4	-13.2
Proceeds from sale of financial assets	3.7	7.3	11.7
Repayments of non-current receivables	0.0	0.0	0.1
Interest and dividends received on investments	0.2	0.6	1.1
Net cash flow from investing activities	-42.3	-30.1	-173.8
Cash flow from financing activities			
Non-current loans, raised	47.8	57.8	124.2

Non-current loans, repayments	-46.6	-11.5	-60.9
Current loans, raised	54.8	42.2	197.4
Current loans, repayments	-49.9	-51.9	-198.1
Dividends paid			-16.3
Net cash flow from financing activities	6.1	36.7	46.3
Change in cash and cash equivalents	-5.8	36.9	-15.8
Cash and cash equivalents in the beginning of period	114.4	130.2	130.2
Cash and cash equivalents at the end of period	108.5	167.0	114.4

Consolidated statement of changes in shareholders' equity

EUR million	Share capital	Share issue premium	Fair value reserve	Contin-gency fund	Invested non-restricted equity reserve	Retained earnings	Equity attri-butable to share-holders of the parent company	Non-controlling interests	Total equity
Equity at 1 Jan 2014	58.0	35.8	-19.9	0.0	17.9	1,407.9	1,499.7	0.4	1,500.1
Adjustments									0.0
Adjusted equity at 1 Jan 2014	**58.0**	**35.8**	**-19.9**	**0.0**	**17.9**	**1,407.9**	**1,499.7**	**0.4**	**1,500.1**
Comprehensive income									0.0
Cash flow hedging			-3.9				-3.9		-3.9
Available-for-sale financial assets			-0.1				-0.1		-0.1
Result for the financial period						28.7	28.7	0.0	28.7
Total comprehensive income	**0.0**	**0.0**	**-4.0**	**0.0**	**0.0**	**28.7**	**24.7**	**0.0**	**24.7**
Transactions with shareholders									0.0
Dividend payment						-16.3	-16.3		-16.3
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-16.3**	**-16.3**	**0.0**	**-16.3**
Other adjustments									0.0
Total change in equity	0.0	0.0	-4.0	0.0	0.0	12.4	8.4	0.0	8.4
Equity at 31 March 2014	58.0	35.8	-23.9	0.0	17.9	1,420.3	1,508.1	0.5	1,508.5

					Invested		Equity attri-butable to share-		

EUR million	Share capital	Share issue premium	Fair value reserve	Contin-gency fund	non-restricted equity reserve	Retained earnings	holders of the parent company	Non-controlling interests	Total equity
Equity at 1 Jan 2015	58.0	35.8	-35.0	0.0	17.9	1,502.3	1,579.0	0.5	1,579.5
Adjustments									0.0
Adjusted equity at 1 Jan 2015	**58.0**	**35.8**	**-35.0**	**0.0**	**17.9**	**1,502.3**	**1,579.0**	**0.5**	**1,579.5**
Comprehensive income									0.0
Cash flow hedging			-2.1				-2.1		-2.1
Available-for-sale financial assets			1.0				1.0		1.0
Result for the financial period						48.1	48.1	0.0	48.1
Total comprehensive income	**0.0**	**0.0**	**-1.2**	**0.0**	**0.0**	**48.1**	**47.0**	**0.0**	**47.0**
Transactions with shareholders									0.0
Dividend payment						-22.2	-22.2		-22.2
Total transactions with shareholders	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-22.2**	**-22.2**	**0.0**	**-22.2**
Other adjustments									0.0
Total change in equity	0.0	0.0	-1.2	0.0	0.0	25.9	24.8	0.0	24.8
Equity at 31 March 2015	58.0	35.8	-36.2	0.0	17.9	1,528.2	1,603.7	0.5	1,604.2

Transition to IFRS

Since 1 January 2015 VVO Group prepares its consolidated financial statements, including the interim reports, in accordance with International Financial Reporting Standards (IFRSs). For periods up to and including the year ended 31 December 2014, VVO has drawn up its consolidated financial statements in accordance with Finnish Accounting Standards (FAS). The Group's date of transition to IFRS was 1 January 2014. VVO has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in the transition.

The current reporting period presented in this interim report is the first quarter as at and for the period ended 1 January – 31 March 2015, together with the IFRS-compliant comparative data for the period 1 January – 31 March 2014.

The transition from FAS to IFRS has affected the reported financial position, financial performance and cash flows of VVO Group. The most significant impacts relate to the following:

- Measurement of investment property
- Recognition of deferred taxes
- Measurement of financial instruments
- Changes in consolidation methods.

In the following is presented the more detailed transition disclosure on the financial performance, financial position and the most important key ratios of VVO Group. The presented figures are unaudited.

Reconciliations and explanation of the most significant impacts due to the transition

The impacts of the transition from FAS to IFRS on the financial position and financial performance of VVO Group are described accordingly. The following reconciliations are presented below:

- Reconciliations of the consolidated equity reported in accordance with FAS to the consolidated equity in accordance with IFRS, as at 1 January 2014 (opening IFRS balance sheet) and as at 31 December 2014.

- A reconciliation of the total consolidated profit in accordance with FAS to the total consolidated comprehensive profit in accordance with IFRS for the financial year 2014

Consolidated balance sheet at 1 January 2014

EUR million	At 1 Jan 2014 under FAS	Reclassification	Proportional consolidation	Investment property	Financial instruments	Employee benefits	Other adjustments	At 1 Jan 2014 under IFRS
ASSETS								
Non-current assets								
Intangible assets	9.9	-8.2	0.0					1.7
Tangible assets	2,182.5	-2,172.9	-9.7					0.0
Investment properties		2,200.2	0.7	1,311.6			-2.1	3,510.3
Property, plant and equipment		32.3	0.0					32.3
Investments	23.3	-23.3						0.0
Investments in associated companies		3.2	0.0					3.2
Financial assets		0.6	0.0					0.6
Non-current receivables	3.0	-0.5	1.7		-0.5			3.8
Deferred tax assets		0.7	0.0	0.1	5.7	0.3	0.6	7.4
Non-current assets total	**2,218.7**	**32.1**	**-7.3**	**1,311.7**	**5.3**	**0.3**	**-1.5**	**3,559.4**
Current assets								
Trading properties	42.6	-37.3	0.0					5.3
Current tax assets	0.1							0.1
Trade and other receivables	12.7	0.0	0.0		-0.1		0.7	13.2
Financial assets	64.0		0.0		1.8			65.8
Cash and cash								

equivalents	130.4	-0.1	-0.2					130.2
Current assets total	**249.8**	**-37.3**	**-0.3**	**0.0**	**1.7**	**0.0**	**0.7**	**214.6**
ASSETS TOTAL	**2,468.5**	**-5.2**	**-7.5**	**1,311.7**	**7.0**	**0.3**	**-0.9**	**3,774.0**
SHAREHOLDER' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent company								
Share capital	58.0		0.0					58.0
Share issue premium	35.8							35.8
Revaluation reserve	1.7		0.0				-1.7	0.0
Fair value reserve			0.0		-19.9			-19.9
Invested non-restricted equity reserve	17.9							17.9
Other equity fund	0.0							0.0
Retained earnings	384.6	1.5	4.2	1,019.9	-1.6	-1.2	0.6	1,407.9
Equity attributable to shareholders of the parent company	**497.9**	**1.5**	**4.2**	**1,019.9**	**-21.5**	**-1.2**	**-1.1**	**1,499.6**
Non-controlling interests	11.2	-0.5	-10.3					0.4
Total equity	**509.2**	**0.9**	**-6.1**	**1,019.9**	**-21.5**	**-1.2**	**-1.1**	**1,500.1**
LIABILITIES								
Non-current liabilities								
Liabilities	1,680.4	-21.4	-1.2		-0.6			1,657.2
Deferred tax liabilities	100.5	0.7	-0.1	291.8	0.4		-0.4	392.8
Derivatives		1.6	0.0		27.6			29.1
Provisions	1.3							1.3
Other non-current liabilites	8.7	-1.5	0.0				0.8	8.0
Non-current liabilities total	**1,791.0**	**-20.7**	**-1.3**	**291.8**	**27.4**	**0.0**	**0.4**	**2,088.5**
Current liabilities								
Current liabilities	114.7	18.0	-0.1					132.6

Derivatives			0.0		1.2			1.2
Current tax liabilities	5.5	0.4	0.0					5.9
Trade and other payables	48.2	-3.7	0.0			1.5	-0.1	45.7
Current liabilities total	**168.4**	**14.6**	**-0.1**	**0.0**	**1.2**	**1.5**	**-0.1**	**185.4**
Total liabilities	**1,959.4**	**-6.1**	**-1.4**	**291.8**	**28.5**	**1.5**	**0.2**	**2,273.9**
TOTAL EQUITY AND LIABILITIES	**2,468.5**	**-5.2**	**-7.5**	**1,311.7**	**7.0**	**0.3**	**-0.9**	**3,774.0**

Consolidated balance sheet at 31 December 2014

EUR million	At 31 Dec 2014 under FAS	Reclassification	Proportional consolidation	Investment property	Financial instruments	Employee benefits	Other adjustments	At 31 Dec 2014 under IFRS
ASSETS								
Non-current assets								
Intangible assets	9.0	-7.6						1.4
Tangible assets	2,356.2	-2,346.7	-9.5					0.0
Investment properties		2,345.2	0.5	1,365.2			-2.1	3,708.8
Property, plant and equipment		31.7						31.7
Investments	26.6	-26.6						0.0
Investments in associated companies		3.5						3.5
Financial assets		0.6						0.6
Non-current receivables	1.5		1.7		-0.4			2.8
Deferred tax assets		1.3	0.1	0.1	9.9	0.3	0.1	11.8
Non-current assets total	**2,393.3**	**1.3**	**-7.2**	**1,365.3**	**9.5**	**0.3**	**-2.0**	**3,760.6**
Current assets								
Trading properties	3.0							3.0
Current tax assets	1.4							1.4
Trade and other receivables	9.6		0.2		-0.1			9.6
Financial assets	65.9				2.4			68.3
Cash and cash								

equivalents	114.7		-0.3					114.4
Current assets total	**194.5**	**0.0**	**-0.1**	**0.0**	**2.3**	**0.0**	**0.0**	**196.7**
ASSETS TOTAL	**2,587.8**	**1.3**	**-7.3**	**1,365.3**	**11.8**	**0.3**	**-2.0**	**3,957.2**
SHAREHOLDER' EQUITY AND LIABILITIES								
Equity attributable to equity holders of the parent company								
Share capital	58.0							58.0
Share issue premium	35.8							35.8
Revaluation reserve	1.7						-1.7	0.0
Fair value reserve					-35.0			-35.0
Invested non-restricted equity reserve	17.9							17.9
Other equity fund	0.0							0.0
Retained earnings	439.2	0.0	4.0	1,062.9	-2.6	-1.4	0.1	1,502.3
Equity attributable to shareholders of the parent company	**552.6**	**0.0**	**4.0**	**1,062.9**	**-37.6**	**-1.4**	**-1.6**	**1,579.0**
Non-controlling interests	10.6	0.0	-10.1					0.5
Total equity	**563.2**	**0.0**	**-6.2**	**1,062.9**	**-37.6**	**-1.4**	**-1.6**	**1,579.5**
LIABILITIES								
Non-current liabilities								
Liabilities	1,695.2	-4.3	-1.1		-0.5			1,689.3
Deferred tax liabilities	102.2	1.3	-0.1	302.4	0.5		-0.4	405.9
Derivatives		5.3			48.4			53.7
Provisions	1.5							1.5
Other non-current liabilites	7.4							7.4
Non-current liabilities total	**1,806.4**	**2.3**	**-1.2**	**302.4**	**48.3**	**0.0**	**-0.4**	**2,157.7**
Current liabilities								

Current liabilities	156.7	4.3	-0.2					160.8
Derivatives					1.1			1.1
Current tax liabilities	12.3							12.3
Trade and other payables	49.2	-5.3	0.2			1.7		45.9
Current liabilities total	**218.2**	**-1.0**	**0.0**	**0.0**	**1.1**	**1.7**	**0.0**	**220.0**
Total liabilities	**2,024.6**	**1.3**	**-1.2**	**302.4**	**49.4**	**1.7**	**-0.4**	**2,377.8**
TOTAL EQUITY AND LIABILITIES	**2,587.8**	**1.3**	**-7.3**	**1,365.3**	**11.8**	**0.3**	**-2.0**	**3,957.2**

Consolidated income statement and statement of comprehensive income for the financial year 2014

CONSOLIDATED INCOME STATEMENT, BRIDGE 31 DECEMBER 2014

EUR million	FAS 1-12/2014	Reclassifi-cation	Proportional consoli-dation	Investment property	Financial instru-ments	Employee benefits	Other adjustments	IFRS 1-12/2014
Total revenue	**367.9**	**-11.2**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**356.5**
Maintenance expenses		-96.7	-0.3					-97.1
Repair expenses		-49.6	0.1					-49.5
Net rental income			**-0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**210.0**
Materials and services	-8.7	8.7						
Administrative expenses	-21.1	-17.3	0.0			-0.3		-38.7
Other operating income	14.4	0.0	0.0	-11.5				2.9
Other operating expenses	-164.5	163.6	0.0	0.0				-0.9
Profit/loss on sales of investment properties				-4.6				-4.6
Profit/loss on sales of trading properties		2.6		-2.8				-0.2
Fair value change of investment properties				26.2				26.2
Depreciation, amortisation and impairment losses	-52.3			50.6				-1.7
Share of result of associated companies	0.9	-0.9						

Operating profit / loss	**136.7**		**-0.4**	**57.8**	**0.0**	**-0.3**	**0.0**	**192.9**
Financial income	2.3		0.1		0.2			2.7
Financial expenses	-48.7		0.1		-1.4			-50.0
Total amount of financial income and expenses	-46.3		0.2	0.0	-1.2	0.0	0.0	-47.3
Share of result of associated companies		0.9	-0.1					0.9
Profit before taxes	**90.3**		**-0.3**	**57.8**	**-1.2**	**-0.3**	**0.0**	**146.5**
Current tax expense	-23.8			0.4				-23.5
Change in deferred taxes	4.6			-16.3	0.1	0.0	-0.6	-12.2
Income taxes total	-0.1	0.1						
Profit/loss for the period	**71.0**		**-0.3**	**41.9**	**-1.1**	**-0.2**	**-0.6**	**110.8**

Profit of the financial period attributable to

Shareholders of the parent company								110.7
Non-controlling interests		-0.1	0.0					-0.1

Earnings per share based on profit attributable to equity holders of the parent company

Basic, euro								6.50
Diluted, euro								6.50
Average number of the shares, millions								7.4

CONSOLIDATED STATEMENT OF THE COMPREHENSIVE INCOME

EUR million

Profit/loss for the period	**71.0**	**0.0**	**-0.3**	**41.9**	**-1.1**	**-0.2**	**-0.6**	**110.8**

Other comprehensive income

Items that may be reclassified subsequently to profit or loss								
Cash flow hedgings					-19.5			-19.5
Available-for-sale financial assets					0.6			0.6
Deferred taxes					3.8			3.8
Total comprehensive income for the period	**71.0**	**0.0**	**-0.3**	**41.9**	**-16.2**	**-0.2**	**-0.6**	**95.7**

Total comprehensive income attributable to								
Shareholders of the parent company	71.0		-0.3	41.9	-16.2	-0.2	-0.6	95.6
Non-controlling interests		-0.1						-0.1

Explanation of transition to IFRS

The accounting policies that have had the key impact on the income statement and balance sheet of VVO Group in transition to IFRS are described here below.

VVO Group has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in the transition. The Group has elected to apply the following exemptions from the requirements in other IFRSs as allowed in IFRS 1:

- Business combinations: the Group does not apply IFRS 3 *Business Combinations* retrospectively to the past business combinations that occurred before the date of transition but retains instead the same classification and recognition principles of assets and liabilities as applied in the FAS consolidated financial statements.
- Interest subsidy loans: the interest subsidy loans received by VVO Group are accounted as government loans under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. These loans have been provided by an entity representing government and they are grant by nature. In the IFRS transition VVO Group has applied the exception provided under IFRS 1. Based on the exception VVO Group has not adjusted the carrying amounts of these loans in the opening IFRS balance sheet. Subsequently VVO Group accounts for the loans in accordance with IAS 39.

Main » Financial statements » Notes » Transition to IFRS » Consolidation principles

Consolidation principles (joint arrangements)

The consolidation principles applied to those housing companies and mutual real estate companies, in which VVO's ownership is less than 100%, have been adjusted. Since 1 January 2014 these investments are treated as joint operations as defined under IFRS 11 *Joint Arrangements*. In a joint operation VVO Group has rights to the assets, and obligations for the liabilities, relating to the arrangement. The shares held by the Group entitle VVO to control specified premises in the mentioned companies.

In the IFRS financial statements the Group recognizes its interest in housing companies and mutual real estate companies using the proportional consolidation method, based on its shareholding. VVO Group consolidates assets, liabilities, revenues and expenses in these companies in proportion to the Group's holding, on a line-by-line basis to the similar items of the consolidated financial statements, including its share of any assets held, liabilities incurred, revenues as well as expenses incurred jointly.

As a result of the change in the consolidation method the following adjustments have been made to the assets and liabilities in the FAS balance sheet. The adjustments are derived from the fact that the investments in the mentioned companies are no more fully consolidated (100%) and therefore no non-controlling interest is recorded in the consolidated financial statements. The counter entry of the consolidation adjustments is the non-controlling interest under equity.

The impact of these changes on the opening IFRS balance sheet amounted to EUR -7.5 million and on the closing IFRS balance sheet EUR -7.3 million, respectively.

The effect on the profit due to the change in the consolidation method was not significant. The impacts on the items of the income statement for 2014 have been presented above in the reconciliation of the income statement.

Intangible assets

Rights to the parking spaces, civil defence shelters and car parks that meet the definition of an investment property, have been reclassified to the item Investment property from the line item Intangible assets under FAS balance sheet. The adjustment amounted EUR 8.2 million at 1 January 2014 and EUR 7.6 million at 31 December 2014, respectively.

Property, plant and equipment

Land areas, connection charges, rental apartments and business premises in the rental apartment buildings, machinery and equipment, construction in progress and other non-current expenditure that meet the definition of an investment property have been reclassified to the item Investment property from the line item Tangible assets in the FAS balance sheet. The adjustment amounted EUR 2,142.0 million at 1 January 2014 and EUR 2,316.4 million at 31 December 2014, respectively.

Investment property (balance sheet and fair value changes)

VVO Group has decided to measure the investment property of the group by applying the fair value model under IAS 40. This increased the carrying amount of the property portfolio with EUR 1,326.3 million as at 1 January 2014. The resulting increase in deferred tax liability amounts to EUR 288,3 million (applicable tax rate 20%). The fair value change arisen in the financial year 2014, EUR 26.2 million, is recognized in the income statement.

Prior to the transition VVO Group measured the property and apartment portfolio at cost deducted by depreciations and impairment losses. In the transition the Group reversed the deferred taxes related to the allocated reserves and capitalized amounts that previously included in property, plant and equipment and intangible assets.

In the transition VVO Group has reviewed the properties and apartments owned by the group and made reclassifications, as applicable. Nearly all properties and apartments meet the definition of an investment property. Investment property refers to land or building, or part of a building, held by VVO for rental yields or capital appreciation, or both.

Since 1 January 2014 fair value changes are recognized in profit or loss and net value is reported as a separate line item in the income statement. As the fair value model is applied, depreciations are not recorded on investment property any more. In the future, changes in fair values may cause volatility to the result of VVO Group.

The Group determines quarterly the fair value of the rental apartments and business premises in the rental apartment buildings owned by VVO Group based on the company’s own estimates. An external expert has issued a statement on the valuation.

VVO Group has presented the fair value of the investment property in the Board of Director's Report for 2013 and 2014 respectively, as supplementary information. In the transition the fair value accounting principles and procedures of the rental apartments and business premises in the rental apartment buildings have been adjusted to meet the related requirements under various IFRSs. The impacts were not significant.

Shares in associated companies

The FAS balance sheet item Shares in associated companies included investments in housing companies and mutual real estate companies that were consolidated using the equity method of accounting. Since 1 January 2014 the investments in housing and mutual real estate companies, where VVO Group holds voting rights between 20% and 50%, are accounted as joint operations using proportionate consolidation to the similar items of the consolidated financial statements, based on share ownership by VVO Group. The adjustment in the opening balance sheet from the line item Investments to the line item Investment property amounted to EUR -7.7 million at 1 January 2014 and at 31 December 2014, respectively. The impact of the adjustment on the line item *Share of result of associated companies* in the income statement was not significant.

Other investments

Previously the investments in entities below 20% of the voting rights were included in the balance sheet item Investments. Those shareholdings have been reclassified as available-for-sale financial assets (the line item Financial assets under non-current assets). The transfer between the balance sheet items amounted to EUR 0.6 million both at 1 January 2014 and at 31 December 2014. Those investments are measured based on their carrying amounts in the FAS balance sheet at 31 December 2013.

Derivatives

The Group's derivative instruments comprise interest rate derivatives and electricity derivatives. The Group uses interest rate derivatives to hedge against interest risks arising from non-current borrowings and to hedge against a result volatility. Electricity derivatives are used as a hedge against result volatility caused by variation in electricity prices.

All derivative instruments, that are not applied the hedge accounting as defined under IAS 39, are included in the category financial assets and liabilities at fair value through profit or loss. IFRS requires derivative instruments to be initially booked at fair value and subsequently measured at their fair values determined at the end of the each reporting period. Previously VVO Group did not measure derivative instruments at fair value after the initial recognition, with the exception for interest swaption contracts.

The method of recognizing gains and losses arising from fair value changes depends on the purpose of use of the derivative. The fair value changes arising from derivatives that are designated and qualify as hedging instruments are presented congruent with the hedged item. VVO Group has decided to apply hedge accounting, as defined under IAS 39, to majority of interest rate derivatives (cash flow hedging). Fair value changes of the hedging interest rate derivatives are recognized in other comprehensive income, net of tax, and presented in the fair value reserve under equity. Changes in fair value of the derivatives to which hedge accounting is not applied, are recognized in profit or loss in the period in which they arise. VVO Group does not apply hedge accounting to electricity derivatives and certain interest rate derivatives.

The balance sheet adjustments resulting from the changes to the accounting practice of hedging instruments were as follows:

EUR million	1 January 2014	31 December 2014
Interest rate derivatives, hedge accounted (FAS)	0.0	0.0
Fair value reserve	-20.8	-36.4
Deferred tax assets	-5.2	-9.1
Fair value (IFRS)	**-26.0**	**-45.5**
Interest rate derivatives, no hedge accounting (FAS)	-1.6	-5.3

Retained earnings	-1.3	-2.4
Deferred tax assets	-0.3	-0.6
Fair value (IFRS)	**-3.2**	**-8.3**
Electricity derivatives (FAS)	0.0	0.0
Retained earnings	-0.9	-0.8
Deferred tax assets	-0.2	-0.2
Fair value (IFRS)	**-1.2**	**-0.9**

Previously the electricity derivatives were presented in the notes.

The aggregate change in fair value of the interest rate derivatives designated as hedging instruments, arisen in the financial year 2014 and amounting to EUR -19.5 million, has been recognized in other comprehensive income. In 2014, the aggregate fair value changes of the instruments to which hedge accounting is not applied, was EUR -1,4 million for interest rate derivatives and EUR 0.2 million for electricity derivatives, which had not been recognized in profit or loss previously.

Financial assets

Previously VVO Group measured its financial assets at the acquistion cost or the lower market price. As at 1 January 2014 the financial assets were reclassified in the following categories of financial assets:

- Available-for-sale financial assets: These assets include investments in instruments for which fair value can be determined reliably, such as investment funds and investments in other unquoted shares. Since 1 January 2014 the investments measured at fair value are valued using fair values determined at the end of the reporting period. The resulting fair value changes are primarily recognized in other comprehensive income, net of tax, and presented in the fair value reserve under equity.

  The fair-valued investments in the opening IFRS balance sheet at 1 January 2014 amounted to EUR 50.3 million and EUR 55.5 million at 31 December 2014, respectively.

  The impact of the fair value changes on the 2014 income statement was EUR 2.4 million, including a reversal of the impairment loss previously recognized through profit or loss, EUR 0.7 million.

  Unquoted shares are still measured at historical cost deducted by any impairment losses, as their fair values cannot be measured reliably.

- Loans and receivables: This category includes as an example fixed-term bank deposits. Loans and receivables are originally measured at fair value and subsequently at amortized cost using the effective interest rate method. The carrying amount of the assets designated to this category was not impacted in the opening IFRS balance sheet.

- Held-to-maturity investments: Financial assets classified in this category are measured at amortized cost.

Deferred taxes

The adjustments to deferred taxes comprise the following items:

EUR million	1 January 2014	31 December 2014
Deferred tax assets (FAS)	3.9	5.6
Differencies carried forward and temporary differenicies	-2.7	-3.6
Tax losses carried forward confirmed by tax authorities	0.6	0.0
Valuation at fair value		
Interest rate derivatives	5.5	9.7
Available-for-sale financial assets	-0.1	-0.1
Electricity derivatives	0.2	0.2
Deferred tax assets (IFRS)	**7.4**	**11.8**
Deferred tax liabilities (FAS)	104.4	107.9
Residential building provisions	-0.1	-0.1
Valuation at fair value		
Investment properties	288.3	297.7
Available-for-sale financial assets	0.2	0.3
Deferred tax liabilities (IFRS)	**392.8**	**405.9**
Total deferred taxes (FAS)	100.5	102.2
Changes total	284.9	291.8
Total deferred taxes (IFRS)	**385.4**	**394.0**

The deferred taxes in the income statement for the year 2014 have been adjusted with EUR 16.8 million, of which EUR 5.2 million resulted from fair value measurement of the investment property.

Deferred taxes are accounted in accordance with IAS 12 *Income Taxes*. Deferred tax assets and deferred tax liabilities are generally recognized in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using the liability method.

The changes in deferred taxes arise in practice from the fair value measurement of investment property and financial instruments, which has resulted in more items of deferred taxes. The largest single item under deferred taxes, EUR 332 million, arises from the temporary difference between the fair value and taxable value (non-depreciated residual value applied in taxation) of VVO Group's investment property. Subsequent to initial recognition, an investment property is measured at fair value through profit or loss at the end of the reporting period. Following from that, deferred tax is recorded based on the whole temporary difference through profit or loss. The tax is based on the assumption that VVO Group will primarily dispose of an investment property by selling the property and not the shares in the company in question. Prior to the transition the Group has recognized deferred taxes following mainly the IFRS principles and consequently the changes have arisen mostly due to clarifications to the recognition principles previously applied, excluding the new items described above. Deferred taxes have been determined using the tax rates (and laws) effective at 31 December 2014.

Investment properties (depreciation)

The depreciation in the FAS income statement for the financial year 2014, recognized on the items later reclassified as investment property has been reversed. The adjustment amounted to EUR 50.6 million.

Reconciliation of retained earnings and equity

The IFRS adjustments impacting retained earnings comprise the following items:

EUR million	Share capital	Share issue premium	Contin-gency fund	Revaluation reserve	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Non-controlling interests	Total equity
Equity at 1 Jan 2014 under FAS	**58.0**	**35.8**	**0.0**	**1.7**		**17.9**	**384.6**	**11.2**	**509.2**
Changes									
Structual changes and changes in consolidation methods and other adjustments							6.2	-10.8	-4.6
Valuation at fair value of the investment properties							1,061.1		1,061.1
Deferred taxes of investment properties							-41.2		-41.2
Cash flow hedgings					-20.8		-1.3		-22.1
Available-for-sale financial assets					0.9		0.7		1.6
Electricity hedgings							-0.9		-0.9
Employee benefits							-1.2		-1.2
Other items				-1.7					-1.7
Equity at 1 Jan 2014 under IFRS	**58.0**	**35.8**	**0.0**	**0.0**	**-19.9**	**17.9**	**1,407.9**	**0.4**	**1,500.1**

EUR million	Share capital	Share issue premium	Contin-gency fund	Revaluation reserve	Fair value reserve	Invested non-restricted equity reserve	Retained earnings	Non-controlling interests	Total equity
Equity at 31 March 2014 under FAS	**58.0**	**35.8**	**0.0**	**1.7**	**0.0**	**17.9**	**386.7**	**11.3**	**511.4**
Changes									
Structual changes and changes in consolidation methods and other adjustments							7.6	-10.9	-3.3
Valuation at fair value of the investment properties							1,072.5		1,072.5
Deferred taxes of investment properties							-43.1		-43.1
Cash flow hedgings					-24.5		-1.5		-26.0
Available-for-sale financial assets					0.6		0.6		1.2
Electricity hedgings							-1.2		-1.2
Employee benefits							-1.2		-1.2
Other items				-1.7					-1.7
Equity at 31 March 2014 under IFRS	**58.0**	**35.8**	**0.0**	**0.0**	**-23.9**	**17.9**	**1,420.3**	**0.5**	**1,508.5**

Other non-current liabilities (other long-term employee benefit)

VVO Group has a long-term employee benefit plan covering all employees. Under the plan, an employee has a right to certain benefits after certain years of service. The resulting liability, amounting to EUR 1.5 million, has been recognized in the opening IFRS balance sheet in accordance with IAS 19 *Employee Benefits*.

Previously the related expense was recognized when an employee utilized the benefit.

Financial liabilities

In the transition to IFRS the Group has classified the financial liabilities as either financial liabilities at fair value through profit or loss (derivative liabilities) or financial liabilities recognized at amortized cost (other financial liabilities). Other financial liabilities mainly comprise various borrowings and are carried at amortized cost using the effective interest rate method.

The carrying amounts of the Group's financial liabilities were adjusted for the opening IFRS balance sheet at 1 January 2014 in respect of unaccrued loan fees. The amount of the adjustment was not significant.

Other adjustments

The transition had no significant impact on the cash flow statement. After the transition the deposits with maturities beyond three months are treated as a component of cash flows from investing activities instead of cash and cash equivalents.

Main » Financial statements » Notes » Transition to IFRS » Impacts on key figures

Impacts on key figures

VVO Group	FAS 1-12/2014	IFRS 1-12/2014
Revenue, EUR million	367.9	356.5
Operting profit, EUR million	136.7	192.9
Profit before taxes, EUR million	90.3	146.5
Earnings per share, EUR	9.60	14.95
Equity per share, book value, EUR	74.65	213.30
Equity per share, fair value, EUR	223.01	213.30
Current ratio	0.9	0.9
Return on equity, % (ROE)	13.3	7.2
Return on investments, % (ROI)	5.9	5.9
Equity ratio, book value %	21.8	40.0
Equity ratio, fair value %	42.0	40.0
Cash and cash equivalents, EUR million	122.0	114.4
Interest bearing liabilities, EUR million	1,851.9	1,850.1

- Revenue: the IFRS adjustments decreased the revenue by EUR 11.3 million. This concluded mainly due to the fact that sales of inventory are no more recognized under revenue
- Operating profit: the adjustments increased the operating profit by EUR 56.2 million, which resulted in from the reclassification of investment property and related fair value measurement
- Profit before taxes, considering IFRS adjustments, increased by EUR 56.1 million
- Equity per share, based on book value increased by EUR 138.65 arising mainly from fair value measurement of investment property
- Comparable equity per share as calculated with fair values declined by approximately EUR 10, which resulted primarily from fair value measurement of financial instruments and clarifications made to the fair value measurement principles applied to investment property
- The IFRS adjustments weakened the return on equity by 6.1% as equity increased more heavily compared to the result when measuring the investment property at fair value

- Cash and cash equivalents decreased by EUR 7.6 million as the deposits with maturities beyond three months are no more included in cash and cash equivalents.

Other information

The transition to IFRS does not affect the segment reporting of the Group. Therefore VVO Group reports the operations in two segments, VVO Non-subsidised segment and VVO State-subsidised segment, also in future. The basis for the segmentation is the profit distribution limitation defined under the Act on State-Subsidised Housing Loans (ARAVA Act).

Summary of impacts of IFRS on result and equity

Summary of effects of IFRS on profit

EUR million		1-3/2014	1-12/2014
Profit FAS		18.4	71.0
IAS 40 Change in valuation of investment property		13.2	57.8
IAS 12 Change in deferred tax assets and liabilities		-1.2	-12.6
IAS 39 Change in financial instruments		-5.6	-20.1
IAS 19 Employee benefits		-0.1	-0.3
Other adjustments		0.0	-0.2
Changes total		6.3	24.7
Total comprehensive income IFRS		**24.7**	**95.7**

Summary of effects of IFRS on shareholders' equity

EUR million	1 January 2014	31 March 2014	31 December 2014
Total equity and Minority interest FAS	509.2	511.4	563.2
IAS 40 Change in valuation of investment property	1,274.9	1,288.7	1,328.7
IAS 12 Change in deferred tax assets and liabilities	-249.2	-250.5	-255.6
IAS 39 Change in financial instruments	-26.9	-32.5	-47.0
IFRS 11 Change in consolidation methods	-6.1	-6.2	-6.2
IAS 19 Employee benefits	-1.5	-1.5	-1.7
Other adjustments	-0.2	-0.7	-2.0

Changes total	990.9	997.2	1,016.2
Total equity IFRS	**1,500.1**	**1,508.5**	**1,579.5**

The figures are unaudited.

Basis for preparation

These interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* and are VVO's first interim financial statements prepared in accordance with IFRS. The comparative information on the previous periods converted to comply with IFRS and the resulting changes compared to the FAS-based interim financial statements are presented above in this interim report.

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

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

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

General recognition and measurement principles for investment property

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

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

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

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

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

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

Main » Notes to the interim report » Accounting policies » Fair value hierarchy

Fair value hierarchy

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

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

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

Investment property classified as held for sale

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

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

Investment property held for sale is recognised at fair value. VVO had no investment property classified as held for sale at 31 March 2015, 31 March 2014 nor at 31 December 2014.

Main » Notes to the interim report » Accounting policies » Trading properties

Trading properties

Trading properties include properties meant for sale which do not meet the objectives of the company due to their location, type or size. VVO Group transfers a property from Investment property to Trading properties when there is a change in use. This is evidenced by commencement of development with a view to sale. If an investment property is being developed with a view to a sale, it will be accounted as trading property.

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

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

Trading properties of the Group includes mainly single apartments ready for sale, business premises and parking spaces that are meant for sale but have not been sold by the balance sheet date.

Main » Notes to the interim report » Segment information

Segment information

EUR million	VVO Non-subsidised 1-3/2015	VVO State subsidised 1-3/2015	Group consolidation methods	VVO Group total 1-3/2015
Total revenue	**45.3**	**46.7**	**-1.1**	**90.9**
Maintenance expenses	-13.2	-14.3	0.4	-27.0
Repair expenses	-3.2	-5.3		-8.5
Net rental income	**28.9**	**27.1**	**-0.6**	**55.4**
Administrative expenses	-5.2	-5.7	1.0	-9.9
Other operating income	0.3	0.6	-0.4	0.5
Other operating expenses	-0.1	0.0	0.1	0.0
Profit/loss on sales of investment properties	1.0	-0.1		0.9
Profit/loss on sales of trading properties	0.0			0.0
Fair value change of investment properties	25.6	0.4		26.0
Depreciation, amortisation and impairment losses	-0.3			-0.3
Operating profit / loss	**50.2**	**22.4**	**0.1**	**72.6**
Financial income				0.5
Financial expenses				-12.7
Total amount of financial income and expenses				**-12.3**
Share of result of associated companies				
Profit before taxes				**60.4**
Current tax expense				-4.3
Change in deferred taxes				-8.0
Income taxes total				-12.2
Profit/loss for the period				**48.1**
Investments	**48.2**	**1.3**		**49.6**

Investment properties	2,372.8	1,409.1	0.2	3,782.1
Investments in associated companies	0.9	2.6		3.5
Liquid assets	45.9	62.6		108.5
Other assets	157.3	65.8	-85.9	137.2
Total Assets	**2,577.0**	**1,540.0**	**-85.7**	**4,031.3**
Interest bearing liabilities	986.0	949.1	-79.0	1,856.1
Other liabilities	429.7	143.2	-1.9	571.0
Total Liabilities	**1,415.7**	**1,092.3**	**-80.9**	**2,427.1**

EUR million	**VVO Non-subsidised 1-3/2014**	**VVO State subsidised 1-3/2014**	**Group consolidation methods**	**VVO Group total 1-3/2014**
Total revenue	**43.5**	**45.9**	**-1.3**	**88.1**
Maintenance expenses	-13.3	-14.6	0.6	-27.2
Repair expenses	-3.3	-5.7		-8.9
Net rental income	**26.9**	**25.7**	**-0.7**	**51.9**
Administrative expenses	-4.8	-5.0	1.0	-8.9
Other operating income	1.0	0.5	-0.3	1.2
Other operating expenses	-0.1	0.0	0.1	-0.1
Profit/loss on sales of investment properties	-1.4			-1.4
Profit/loss on sales of trading properties	0.0			0.0
Fair value change of investment properties	8.2	-4.2		4.0
Depreciation, amortisation and impairment losses	-0.3			-0.3
Operating profit / loss	**29.5**	**16.9**	**0.1**	**46.5**
Financial income				1.2
Financial expenses				-12.5
Total amount of financial income and expenses				-11.3
Share of result of associated companies				0.5
Profit before taxes				**35.7**

Current tax expense				-3.7
Change in deferred taxes				-3.2
Income taxes total				-7.0
Profit/loss for the period				**28.7**
Investments	**25.0**	**4.0**		**29.0**
Investment properties	2,157.2	1,381.9	0.3	3,539.4
Investments in associated companies	1.5	2.2		3.7
Liquid assets	111.8	55.2		167.0
Other assets	168.5	50.2	-81.8	136.9
Total Assets	**2,439.0**	**1,489.5**	**-81.5**	**3,847.0**
Interest bearing liabilities	932.2	968.6	-74.6	1,826.2
Other liabilities	386.1	128.4	-2.2	512.3
Total Liabilities	**1,318.2**	**1,097.0**	**-76.8**	**2,338.4**

EUR million	**VVO Non-subsidised 1-12/2014**	**VVO State subsidised 1-12/2014**	**Group consolidation methods**	**VVO Group total 1-12/2014**
Total revenue	**176.4**	**184.9**	**-4.7**	**356.5**
Maintenance expenses	-47.5	-51.5	2.0	-97.1
Repair expenses	-17.1	-32.4		-49.5
Net rental income	**111.8**	**100.9**	**-2.7**	**210.0**
Administrative expenses	-20.6	-22.2	4.2	-38.7
Other operating income	2.2	2.1	-1.4	2.9
Other operating expenses	-0.9	-0.3	0.3	-0.9
Profit/loss on sales of investment properties	-4.6	0.0		-4.6
Profit/loss on sales of trading properties	-0.2			-0.2
Fair value change of investment properties	13.3	13.0	-0.1	26.2
Depreciation, amortisation and impairment losses	-1.2	-0.5		-1.7

Operating profit / loss	**99.8**	**92.9**	**0.2**	**192.9**
Financial income				2.7
Financial expenses				-50.0
Total amount of financial income and expenses				**-47.3**
Share of result of associated companies				0.9
Profit before taxes				**146.5**
Current tax expense				-23.5
Change in deferred taxes				-12.2
Income taxes total				-35.7
Profit/loss for the period				**110.8**
Investments	**187.8**	**13.3**		**201.1**
Investment properties	2,300.7	1,407.8	0.2	3,708.8
Investments in associated companies	0.9	2.6		3.5
Liquid assets	52.0	62.4		114.4
Other assets	158.6	62.4	-90.4	130.6
Total Assets	**2,512.3**	**1,535.2**	**-90.2**	**3,957.2**
Interest bearing liabilities	972.7	955.8	-78.4	1,850.1
Other liabilities	390.4	144.4	-7.1	527.7
Total Liabilities	**1,363.1**	**1,100.1**	**-85.5**	**2,377.8**

Main » Notes to the interim report » Investment properties

Investment properties

EUR million	1-3/2015	1-3/2014	1-12/2014
Fair value of investment properties, beginning of period	**3,708.8**	**3,510.3**	**3,510.3**
Acquition of investment properties *)	41.7	24.3	169.5
Other investments on investment properties	7.5	4.2	29.1
Disposals of investment properties	-2.3	-4.0	-28.8
Capitalised borrowing costs	0.4	0.6	2.5
Valuation gains/losses on fair value assessment	26.0	4.0	26.2
Fair value of investment properties, end of period	**3,782.1**	**3,539.4**	**3,708.8**

*) incl acquition costs of the new construction projects

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

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

Fair value measurement of investment property is based on an internal estimation process carried out quarterly. An external expert issues a statement on the applicability of the valuation methods as well as on the quality and reliability used in valuation of rental apartments and business premises in the rental apartment buildings. Latest statement is given of situation at 31 March 2015.

Measurement Principles of Investment Property

Investment property is measured initially at its cost, including related transaction costs. Subsequently it is carried at fair value, and resulting gains and losses arising from changes in fair values are recognized in profit or loss as they arise. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Transaction Value

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

Income Value (Yield Value)

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

Acquisition Value

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

Fair Value Sensitivity Analysis for Investment Properties

			Change %		
EUR million	**-10%**	**-5%**	**0%**	**5%**	**10%**
Properties measured at market values					
Change in market prices	-215.5	-107.8	2,155.30	107.8	215.5

Properties measured at yield values					
Yield requirement	77.8	36.8		-33.3	-63.6
Lease income	-112.7	-56.3		56.3	112.7
Maintenance costs	38.3	19.2		-19.2	-38.3
Financial Occupancy rate (change in procent points)	**-2**	**-1**	**0%**	**1**	**2**
Rent income	-2.4	-1.7		0.4	

All VVO Group's investment properties are classified to hierarchy level 3 under IFRS 13. Items that are included to hierarchy level 3 are measured using input data which is not based on observable market data.

Property, plant and equipment

EUR million	31 March 2015	31 March 2014	31 December 2014
Book value, beginning of period	31.7	32.3	33.9
Increases	0.0	0.0	0.2
Decreases	0.0	0.0	-1.6
Depreciations for accounting period	-0.2	-0.2	-0.7
Book value, end of period	31.6	32.2	31.7

Main » Notes to the interim report » Interest-bearing liabilities

Interest-bearing liabilities

EUR million	31 March 2015	31 March 2014	31 December 2014
Interest subsidy loans	601.0	612.8	602.5
Annuity and mortage loans	265.9	308.0	302.4
Market-based loans	905.1	833.9	865.8
Other loans	14.3	33.5	14.4
Commercial papers	69.8	38.0	64.9
Total interest-bearing liabilities	**1,856.1**	**1,826.2**	**1,850.1**

The interest expenses of the interest subsidy loans guaranteed by the state were EUR 2.2 (2.4) million for the period. The amount of interest subsidy paid by the state to the banks was EUR 0.0 (0.1) million.

Derivative instruments

Fair values of derivative instruments

	31 March 2015			31 March 2014	31 December 2014
EUR million	Positive	Negative	Net	Net	Net
Interest rate derivatives					
Interest rate swaps, cash flow hedges	1.0	-49.1	-48.1	-30.7	-45.4
Interest rate options, cash flow hedges	0.0	0.0	0.0	-0.2	-0.1
Interest rate derivatives, not in hedge accounting	0.0	-10.0	-10.0	-4.1	-8.3
Electricity derivatives	0.5	-1.5	-1.0	-1.5	-0.9
Total	**1.5**	**-60.6**	**-59.1**	**-36.4**	**-54.8**

Nominal values of derivative instruments

EUR million	**31 March 2015**	**31 March 2014**	**31 December 2014**
Interest rate derivatives			
Interest rate swaps, cash flow hedges	486.0	394.1	404.3
Interest rate options, cash flow hedges	0.0	14.7	14.2
Interest rate derivatives, not in hedge accounting	38.8	39.7	38.8
Total	**524.8**	**448.5**	**457.3**
Electricity derivatives, MWh	226,823	258,874	230,087

The interest risk of the market based loans is hedged with interest rate derivatives according to VVO Group's Treasury policy. The targeted hedging ratio is between 50–80%. The hedging ratio was 76 (75) per cent at the end of the period and the average maturity of the interest rate derivatives was 6.7 (6.0) years.

Fair values of financial instruments

	31 March 2015					31 December 2014				
EUR million	**Carrying value total**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**Fair value total**	**Carrying value total**	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**Fair value total**
Assets and liabilities at fair value										
Interest rate derivatives	-59.1	-	-59.1	-	-59.1	-53.8	-	-53.8	-	-53.8
Electricity derivatives	-1.0	-1.0	-	-	-1.0	-0.9	-0.9	-	-	-0.9
Available-for-sale financial assets	53.8	48.2	5.1	0.5	53.8	56.1	49.1	6.4	0.6	56.1
Assets and liabilities at amortised cost										
Held-to-maturity investments	7.8	2.0	5.8	-	7.8	6.8	2.0	4.8	-	6.8
Loans and receivables	6.0	6.0	-	-	6.0	6.0	6.0	-	-	6.0
Other interest-bearing debt	1756.6	-	1,756.6	-	1,756.6	1,750.6	-	1,750.6	-	1,750.6
Bond	99.5	-	100.0	-	100.0	99.5	-	100.0	-	100.0

The fair value of the loans is equal to the nominal amount of the loan.

There has not been any changes between fair value hierachy levels during the reporting period.

Financial assets and liabilities that are valued at fair value are classified on three hierarchy levels according to the estimated reliability of the valuation method:

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

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

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

LEVEL 3 reconciliation

Available-for-sale financial assets

EUR million	31 March 2015	31 December 2014
Beginning of period	0.6	0.6
Deductions	0.0	0.0
End of period	0.5	0.6

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

Collateral and contingent liabilities

EUR million	31 March 2015	31 March 2014	31 December 2014
Loans covered by pledges on property and shares as a collateral	1,788.2	1,788.1	1,787.0
Mortgages	2,534.4	2,445.4	2,554.4
Pledged deposit	0.0	0.8	0.0
Shares	212.5	214.9	212.5
Pledged collaterals total	**2,746.9**	**2,661.1**	**2,766.9**
Other collaterals given			
Pledges given	23.0	22.8	23.0
Guarantees given*)	338.5	305.7	329.6
Other collaterals total	**361.4**	**328.4**	**352.5**

*) Guarantees given mainly relate to parent company guarantees given on behalf of Group companies' loans

Other liabilities

Most significant procurement commitments relating to investments in progress, which are not registered in the balance sheet

EUR million	31 March 2015	31 March 2014	31 December 2014
New construction	235.1	51.0	265.9
Renovation	34.0	37.8	35.0
	269.1	**88.8**	**300.9**

Key figures

VVO Group	1-3/2015	1-3/2014	1-12/2014
Revenue, EUR million	90.9	88.1	356.5
Net rental income, EUR million	55.4	51.9	210.0
% revenue	61.0	58.9	58.9
Profit before taxes, EUR million	60.4	35.7	146.5
Earnings per share, EUR	6.50	3.88	14.95
Equity per share, EUR	216.64	203.72	213.30
Return on equity, % (ROE)	12.1	7.6	7.2
Return on investments, % (ROI)	8.5	5.8	5.9
Equity ratio, %	39.9	39.3	40.0
Financial Occupancy rate, %	97.4	98.4	98.1
Gross investments, EUR million	53.3	32.3	200.5
Investment properties, EUR million	3,782.1	3,539.4	3,708.8
Interest bearing liabilities, EUR million	1,856.1	1,826.2	1,850.1
Number of personnel, end of period	347	323	343

Formulas used in the calculation of the key figures

Return on equity, % =	Profit for the period / Total equity (average during the period)	x 100
Return on investment, % =	Profit before taxes + interests and other financial expenses / Balance sheet total - Non-interest-bearing liabilities (average during the period)	x 100
Equity ratio, % =	Total equity / Balance sheeet total - Advanced received	x 100
Earnings per share, EUR =	Earnings attributable to equity holders / Number of shares at the end of the financial period	
Shareholders' equity per share, EUR =	Equity attributable to shareholders of the parent company / Number of shares at the end of the financial period	

Basis for preparation

These interim financial statements are prepared in accordance with IAS 34 *Interim Financial Reporting* and are VVO's first interim financial statements prepared in accordance with IFRS. The comparative information on the previous periods converted to comply with IFRS and the resulting changes compared to the FAS-based interim financial statements are presented above in this interim report.

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

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

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