



ARE

ANNUAL REVIEW 2016

ARE'S YEAR 2016

Are's year 2016 could be summarised as a year of customer work. We worked extensively to serve our customers in a more agile way and to improve their satisfaction.

Our aim was to make our customers succeed together with us. We had several very successful projects with outcomes with which all of the parties were satisfied. Moreover, long customer relationships in property maintenance indicate how cooperation can result in mutual success at its best.

EBITDA continued to improve

Are Group's EBITDA improved significantly on the previous year, while net sales decreased slightly. The profitability of operations improved in both Building Services Contracting and Property Services. The improvement in the result of Building Services Contracting Central and Northern Finland can be seen as a particularly positive thing. We also succeeded in making our operations in Russia profitable.

Growth in building services systems lags behind other construction

Unlike our estimate of a year ago, strong growth in construction did not yet translate into growth in the net sales of Building Services Contracting in 2016. In several projects included in the order backlog of large construction companies, building services systems will only be implemented this year. The old rule of thumb according to which building systems lag cyclically 3–6 months seems to be rather more like 6–12 months nowadays. The competition for contracts has been fierce and the price levels have been low.

Yet, we have succeeded in growing our order backlog by 20% year-on-year. Investments in project development before the actual bidding phase has had a significant effect. The outlook

for this year seems to be better than the previous years in Building Services Contracting.

Demand for property maintenance has remained stable. Are has fared well in significant nationwide competitive bidding processes, and we have gained a foothold in various industries. Our Smart Maintenance concept has contributed to this success. The value of maintenance agreements increased by approximately 30% year-on-year.

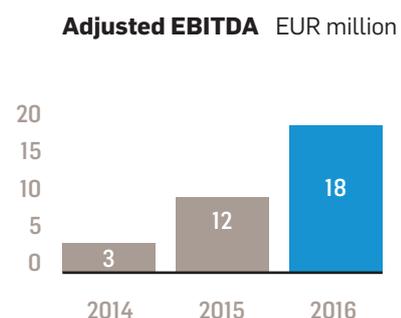
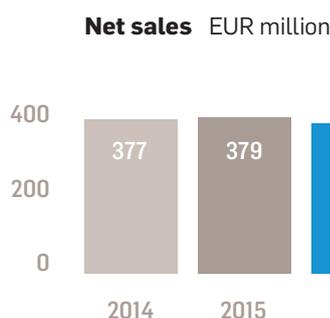
Focus on the customer in strategy work as well

During this year, we will prepare a new strategy for 2018–2020. The new strategy focuses increasingly on the customer, and we are aiming for the best customer experience in the industry. Megatrends that particularly affect the building services industry include the continuous increase of technology in properties, energy efficiency and urbanisation. They will also be highlighted strongly in our new strategy.

Being a company with 104 years of history, Are has played a significant role in building the independent Finland, which is celebrating its centenary. Our work can be seen in thousands of buildings and infrastructure projects. We appreciate having been able to employ a large number of Finns, and we are hoping that we will be able to continue to do so. Let us be proud of our strong Finnish expertise.

I would like to thank our customers, partners, shareholders and personnel for the success so far.

Heikki Pesu, Managing Director



* The figures in the Annual Review are pro forma numbers.

PROPERTY SERVICES

The net sales from Property Services amounted to EUR 187 million. Net sales in Finland increased slightly. The operating result improved as well. During the year, we focused particularly on the development of customer relationships and sales, as well as improving service quality and efficiency.

Striving for the best customer experience

We took a number of measures to improve our customer work and generate added value to our customers during the year.

We divided our customers into different segments based on the operating environment and types of property. We named portfolio responsables for different segments whose tasks include active monitoring of the industry and implementing the best operating practices in the customer accounts in the portfolio. The customer account steering group of Property Services review objects for development emerging in customer relationships and segments, actively monitor customer satisfaction and develop customer work and activities in the customer relationships.

Digitisation in the property business

As digital technologies are developing at a tremendous rate, new products and opportunities to cost-efficiently collect, analyse and learn from existing data continuously enter the market. The use of digital technologies in the property business and building systems services in particular are transforming the business and creating new value and revenue generation opportunities.

The Internet of Things plays a significant role in digitisation. In properties, applications are primarily based on separate sensing of the property, access control and measurement data from building automation. The data can be used for improving building management, occupational safety and preventive maintenance and for visualising the operations of the property, among other things.

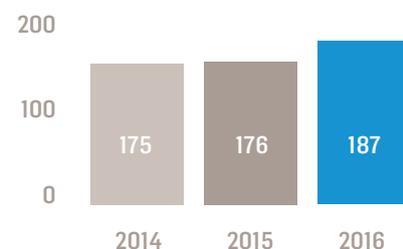
Improved profitability in Russia

Our operations in Russia became more profitable during the year. We have kept the focus of operations on maintenance and service agreements, which we are increasingly also extending to local customer accounts.

New maintenance contracts

- Turun Osuuskauppa
- Senate Properties in Turku, Vaasa, Ylivieska, Kannus and Helsinki Metropolitan Area
- Clarion hotels
- Helsinki Deaconess Institute
- Teboil service station chain
- Logicor logistics centre in St Petersburg
- Extension of the maintenance agreement with Technopolis
- Extension and expansion of maintenance services for the ST1 service station chain

Net sales EUR million



BUILDING SERVICES CONTRACTING

The net sales from Building Services Contracting amounted to EUR 187 million, decreasing slightly from the previous year. The operating result improved clearly, especially in Central and Northern Finland. Major successful projects contributed to the favourable result. The order backlog increased to a considerably higher level compared to the previous year.

Systematic customer work

It is in the benefit of all parties in construction projects that the client has access to the best information about the effects of different systems and operating methods on the outcome. With this need in mind, we appointed project development managers at Are to support the clients in finding the best solutions. Our project development managers can, for example, investigate the various building system options, their usability and benefits in different parts of the property in a potential future construction project. The client can utilise the information as they best see fit. Our operating model has received a lot of praise from the customers, as they have considered it to make their work significantly easier. We will continue the development of customer work and extend the project development manager model to different parts of Finland.

Strong expertise in large projects

Are is Finland's biggest technical building system expert, which can be seen in our ability to take part in projects of different sizes. However, our strengths are particularly emphasised in large projects in which we can utilise our diverse expertise and provide sufficient resources. Centralising a bigger share of the implementation of a project with a single party ensures good communication, schedule and quality. Various project models, such as the alliance model, are also best suited for bigger projects.

One of our most successful completed projects last year was the Rantatunneli tunnel in Tampere, which is an excellent example of well-working alliance work. Close cooperation between all parties at the site helped the different parties to determine which assignments should be given priority at different stages of the project. The benefits of the alliance model was also evident in the flexibility of the site. If it became necessary to postpone a work phase, the means for continuing the work in the different areas of the construction site were considered together. This way, there were no breaks in operation but the project proceeded at a steady rate all the time. With all of the parties committed to a common goal, materials could be approved flexibly, resources used efficiently and financial benefits generated for the client and the implementing parties alike. We will continuously seek opportunities to utilise alliance-like work in other large projects as well.

Common working methods to ensure quality

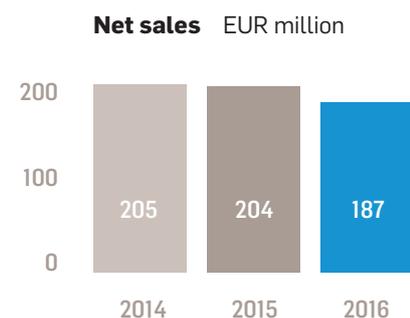
Our aim is to offer the best quality to our customers across Finland. To ensure this, we have focused on improving project and risk management and harmonising our ways of working. During the year, we developed the project management model, and we will adopt a new project management system in 2017.

Significant completed projects

- Tampere Rantatunneli tunnel project
- Pudasjärvi school campus
- Expansion of Mylly Shopping Centre in Turku
- Helsinki Main Post Office
- Finnish National Opera
- Tikkurila Onninen MegaExpress, Are Sensus
- Kuopio University Hospital Säde building electrical work
- Valio's Oulu dairy, 2nd phase

New projects

- Helsinki Central Library Oodi
- Seppä Shopping Centre, Jyväskylä
- Ratina shopping centre, HVAC contract, Tampere
- Lönnrotinkatu 11 office building, Are Sensus
- Metsä Fibre HVAC work, Äänekoski
- Lappeenranta Central Hospital electrical contract



DEVELOPING ARE

In 2016, our operations as one Are had already become well established following the merger in 2014. The shared ways of working, systems and corporate culture in particular have been smoothed. Now that we have succeeded in getting the internal processes to support our business, we have been able to focus on developing customer work and our own personnel.

We restarted training for supervisors during the year. The purpose of the supervisor training programme is to support Are's supervisors in their work. The four-day courses provide supervisors with tools for finding their own strengths and development targets, developing their supervisory work, interactive management and well-being at work. Networking with other Are employees across business and geographical boundaries has also been considered very rewarding by those who have completed the training. The aim is that approximately 80% of Are supervisors have completed the programme by the end of the year. In addition, an electronic learning module on meeting day-to-day challenges has been built for supervisors.

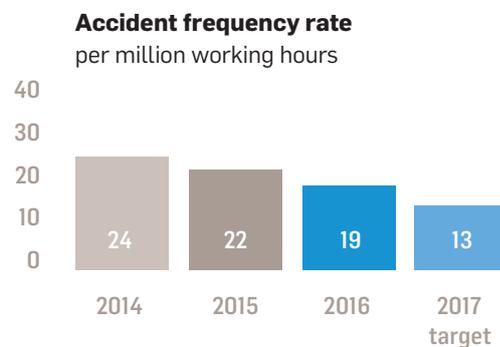
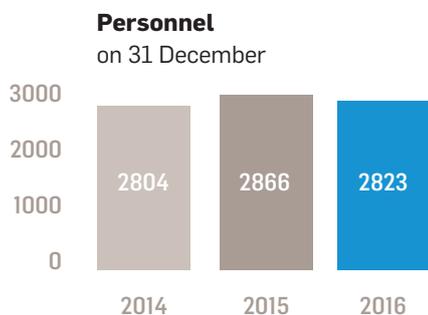
The preconditions for success in both project management and customer work were improved through several means of development. Foreman work will be one of the focus areas of competence development this year.

Team meetings in the calendar

Towards the end of 2015, we conducted an extensive review of the functioning of internal flow of information, wanting to recognise any problems and seek the best practices. The lack of team meetings turned out to be a stumbling block in many units, while the units that held meetings commended them. After the review, we have implemented ways to lower the threshold for organising local meetings and briefings. Regular weekly or monthly meetings have been made functional even with very small measures. We believe that the resulting improvement in the flow of information will be visible in our employees' job satisfaction.

Strong safety work continues

Accident frequency rate continued to decrease further last year, but not as much as expected. The accident frequency rate target (16) was reached in 12 locations, while 6 reached the target of zero accidents. We will aim to increase the number of safety observations this year, as the number of observations is directly proportional to the number of accidents and injuries. Other safety measures include post-accident discussions, actively intervening in safety deviations and safety walks.



MANAGEMENT BOARD on 31 December 2016



Vesa Hakkarainen
Business Area Director
Building Services Contracting,
Southern Finland
on the Management Board since 2015



Laura Kekkarainen
CFO
on the Management Board since 2013



Seppo Korhonen
Business Area Director
Property Services
on the Management Board since 2007



Sari Kulmala
HR Director
on the Management Board since 2010



Jarmo Liimatainen
Business Area Director
Building Services Contracting,
Central Finland
on the Management Board since 2014



Heikki Pesu
Managing Director
on the Management Board since 2011

BOARD OF DIRECTORS on 31 December 2016



Jaakko Aspara
M.Sc. (Eng.), D.Sc. (Econ.), D.A.
on the Board of Directors since 2016



Teija Andersen
M.Sc. (Agr. & For.), eMBA
on the Board of Directors since 2012



Jouko Ketola
Industrial Counsellor, M.Sc. (Tech.)
on the Board of Directors since 2002



Timo Kohtamäki
Lic.Sc. (Tech.)
on the Board of Directors since 2015



Ilkka Koivisto
M.Sc. (Tech.)
on the Board of Directors since 2011



Kimmo Lautanen
M.Sc. (Econ. & Bus.Adm.)
on the Board of Directors since 2011



Maarit Toivanen-Koivisto
Hon. D.B.
on the Board of Directors since 2000
Chairwoman of the Board since 2009

CONTACT

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Jyväskylä	Ohjelmakaari 10, 40500 Jyväskylä
Kerava	Jäspilänkatu 18, 04250 Kerava
Kokkola	Tervahovintie 2, 67101 Kokkola
Kotka	Valajantie 5, 48230 Kotka
Kouvola	Kanervistontie 46, 45200 Kouvola
Kuopio	Itkonniemenkatu 29 E, 70500 Kuopio
Lahti	Väinämöisentie 6, 15170 Lahti
Lappeenranta	Moreenikatu 4, 53810 Lappeenranta
Lohja	Pysäkkitie 14, 08680 Lohja
Oulu	Jääsalontie 17, 90400 Oulu
Pori	Kuriirintie 8, 28430 Pori
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Rovaniemi	Koskikatu 27 B 203, 96100 Rovaniemi
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Turku	Juhana Herttuan puistokatu 21, 20100 Turku
Vaasa	Olympiakatu 3 B, 65100 Vaasa
Valkeakoski	Tehtaankatu 7, 37630 Valkeakoski
Ylivieska	Ratakatu 22, 84100 Ylivieska
Äänekoski	Yrittäjänkatu 2, 44100 Äänekoski

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