



Annual Review 2017

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Lehto in 2017

LEHTO is a fast-growing Finnish construction and real-estate group. We operate in four service areas: Business Premises, Housing, Social Care and Educational Premises, and Building Renovation. We are the innovator and pioneer of the construction sector.

Our economically driven operating model makes construction more profitable, ensures the quality of construction and brings significant time and cost savings to the customer. We employ more than 1,184 people (Dec 31 2017) and our net sales for 2017 amounted to EUR 594 million. Our subsidiary Lehto Sverige Ab operates in the Swedish market.

Lehto in the media 2017

"Lehto reports figures that most constructors can only dream of"
Kauppalehti 20 February 2017

"Lehto to build a school in the municipality of Liminka"
Talotekniikka 11 April 2017

"Construction company to hire one hundred – and pays a reward for referrals for new employees"
Taloussanomati 10 April 2017

"Bathroom modules are lowered in place through the roof – here's how EUR 100,000 two-room flats are made"
Tekniikka&Talous 10 April 2017

"Lehto on the rise - a new milestone reached"
Arvopaperi 2 June 2017

"Lehto founds new subsidiary in Sweden"
Taloussanomati 14 August 2017

"High growth figures for Lehto Group - profitability lags behind"
Arvopaperi 10 August 2017

"Major renovation contract for Lehto in Katajanokka, Helsinki"
Rakennuslehti 18 September 2017

"Lehto invests millions"
Rakennuslehti 13 November 2017

"Lehto Group involved in HIPPOS2020 negotiations"
Projektiutiset 13 December 2017

"Lehto is on a roll – raises its net sales forecast"
Rakennuslehti 22 December 2017



Net sales grew by
64,2 % from
the previous year

Operating profit was
EUR 61.5 million, or
10,4 % of
net sales

Our personnel
grew by **437**
in 2017

We started building a
new factory of
9 000 m²

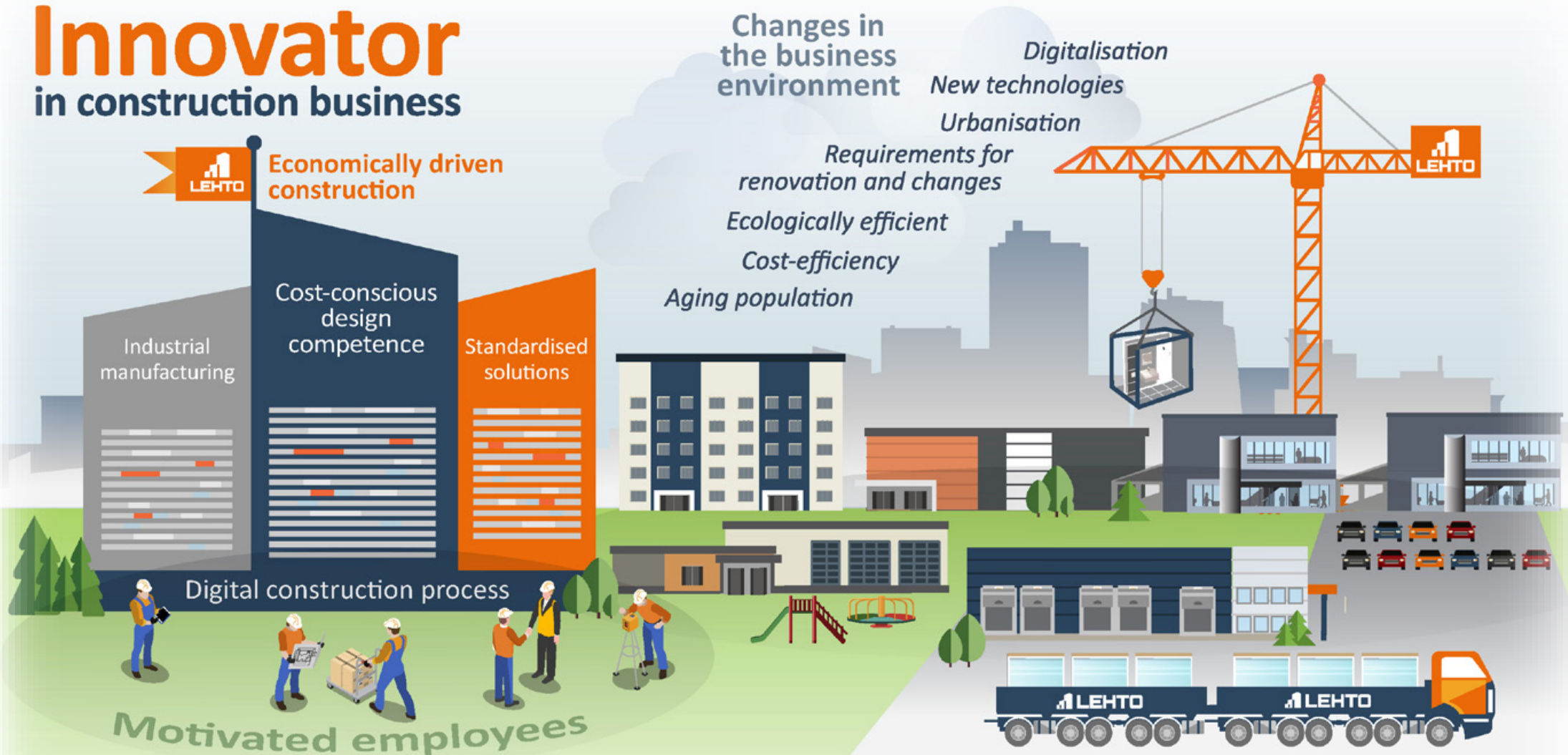
A total of **2 002**
apartments were sold in
during the period

A total of **30**
business premises were
completed during the
period

A total of **29** nursing homes,
1 school, 2 day care centres and care
homes and assisted living facilities
for 100 seniors

Net sales in Building
Renovation grew by
119,5 %
year-on-year

Innovator in construction business



Our customer promise: the most desired partner in the market

- 1 One agreement**
- 2 Fixed price**
- 3 Agreed move-in date**
- 4 Agreed content and quality**

Cost-aware design know-how



Innovative module and element production in the factories



Standardized concepts



What is economically driven construction?

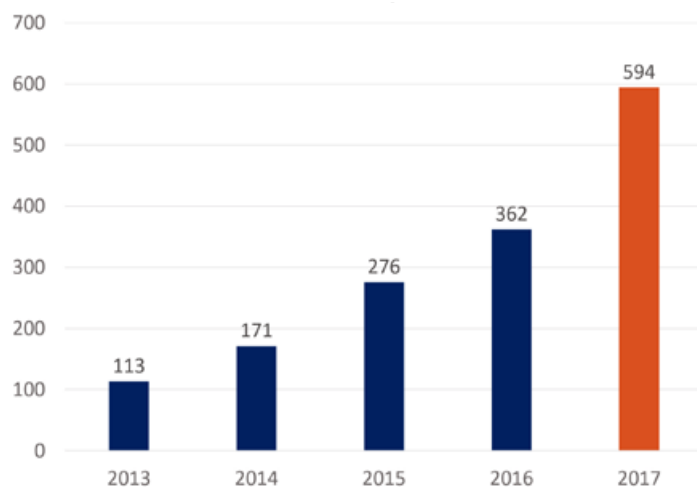
Economically driven construction is the core of our operations, where we integrate design and implementation. Over 80% of construction costs are determined at the architectural design stage, which is why we also keep this phase in our own hands. A key element of economically driven construction is repeatable standard solutions, which speed up design processes and construction. It also involves innovative module and element production at our own factories, which guarantees a moisture-controlled process and more even quality than using traditional construction methods.

OUR CUSTOMER PROMISE

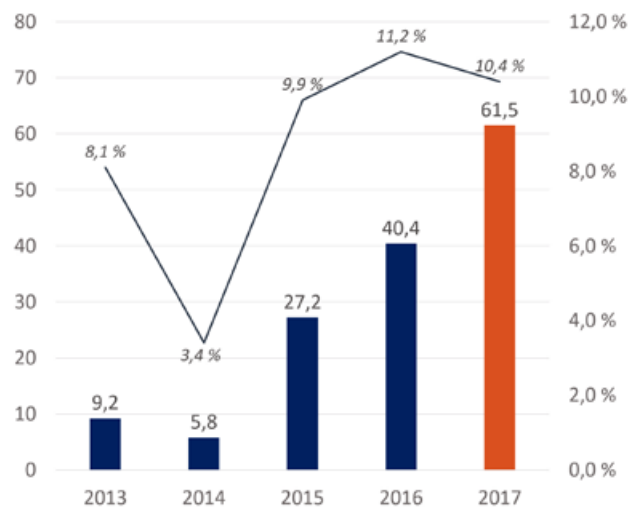
We want to exceed our customers' expectations. In economically driven construction, the customer will have advance knowledge of the total cost of the construction project. We want to operate under the single-agreement principle, in which we agree and implement the construction project all the way from earthworks to cleaning according to the customer's wishes. We adhere strictly to agreed schedules to ensure that customers can move in on the agreed date. We take overall responsibility for the contract to ensure that the content and quality are as agreed.

2017 in brief

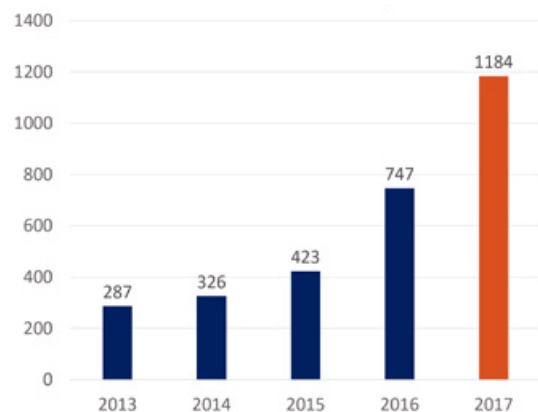
Net sales, EUR million



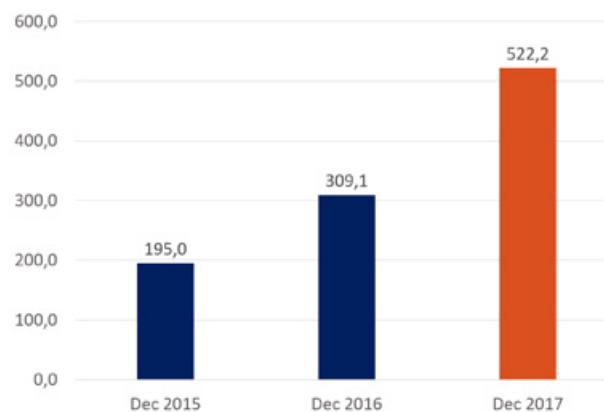
Operating profit, EUR million and operating profit, %



Number of personnel at the end of the year

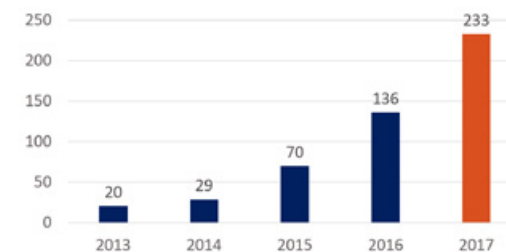


Order backlog, EUR million

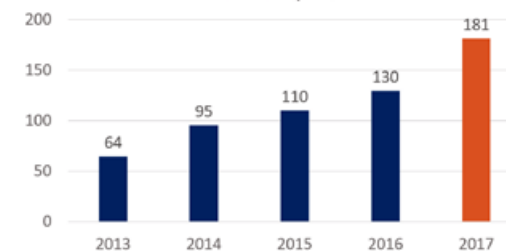


Net sales by service area, EUR million

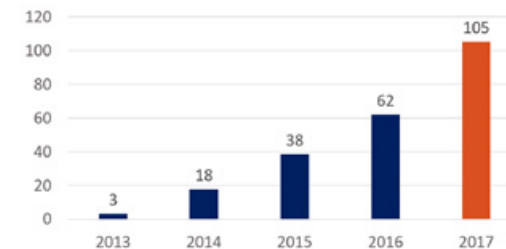
Housing



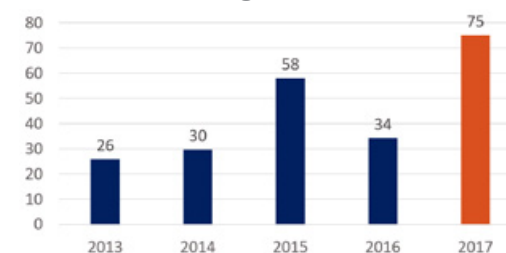
Business Premises



Social Care and Educational Premises



Building Renovation



Statement – CEO Hannu Lehto

Strong growth with good profitability and a can-do attitude!

"2017 was yet another year of exceptionally strong growth for Lehto. Our growth rate was 64.2%, in contrast to the general growth of the construction industry in Finland by about 4%, as reported by the Confederation of Finnish Construction Industries RT. We saw growth in all our service areas. Due to the growth, the capacity of our factory manufacturing also reached its limits. We increased capacity by acquiring a factory and by leasing new business premises in Oulainen, where most of our factory production is located.

Our growth was a bit of a surprise even to ourselves, as our projects progressed according to schedule and we received major new orders. We are extremely pleased about this. Our employees also went the extra mile during the last year.

Our growth was also reflected in the number of employees. At the end of the year, we had 1,184 employees, of whom 51% work at construction sites and 49% are salaried employees. We have been able to manage the growth by transferring specialised personnel from construction sites to factory production. This is also a matter of regional policy, as we can provide skilled employees with work even outside the Helsinki Metropolitan Area.

We expect that the productivity of construction will improve in the medium term as new operating models and technologies are adopted. IoT (Internet of Things),

robotics and improved energy efficiency will also certainly affect construction in the future. New services will be created around these that will also have an impact on construction processes. Lehto will invest in and train its employees for digital development that will combine design, industrial production and construction sites. In accordance with our mission, we intend to continue to be an Innovator in the construction sector."



Events during 2017

APRIL

- Lehto's first architectural competition win in the competition for the Hämeenlinna bus station block

MAY

- An area construction project for 550 apartments starts in Kaivoksela, Vantaa
- Added element capacity for factories in Ii

JUNE

- Agreement with the municipality of Liminka for the construction of a new school

AUGUST

- Lehto expanded its operations to Sweden
- Lehto recruited dozens of professionals through chats
- Contract with international logistics company DSV for the construction of an 11-hectare logistics centre in Päiväkumpu, Vantaa

SEPTEMBER

- First sports arena model range in Finland for the communal sector – tennis star Jarkko Nieminen involved in planning
- Major renovation contract in Katajanokka, Helsinki, for conversion into new luxury apartments
- Lehto was chosen as an innovation partner for the Hippos2020 project in Jyväskylä

NOVEMBER

- Planning of new factory in Oulainen begins
- VTT granted a certificate to Lehto's Technical Studio (module)

DECEMBER

- Lehto kicks off its first day care centre projects in Sweden
- Lehto and eQ Hoivakiinteistöt sign a framework agreement for the construction of care sector properties

Service areas

Lehto Group's business operations are divided into four service areas: Housing, Business Premises, Social Care and Educational Premises, and Building Renovation.

HOUSING

Lehto builds blocks of flats, balcony access blocks, and terraced and semi-detached houses. Lehto builds homes in growth centres, near good traffic connections and versatile services. We build reasonably priced, comfortable and compact homes in growth areas, especially the Helsinki Metropolitan Area, for singles, couples and families – not forgetting investors. Functional layouts, individual decoration options and highly affordable per-square prices make our apartments desirable.

The majority of Lehto's housing projects are developer contracting projects, in which Lehto designs and builds properties on land areas that it has purchased and then sells the completed apartments to customers.

BUSINESS PREMISES

In the Business Premises service area, Lehto builds modifiable and reasonably priced office, retail, logistics, storage and production premises, sports arenas and shopping centres. Business premises are designed according to the customers' needs and are built using structural and spatial solutions developed and tried and tested by Lehto. We build business premises across Finland for local, national and international customers. Most of the business is in the form of contracting, but Lehto also implements some developer contracting-based business premises projects.

SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises service area, Lehto plans and builds nursing homes, day care centres and schools for the communal sector and nationwide service providers as well as assisted living facilities for seniors.

In most cases, Lehto makes a lease agreement with a service provider and sells the finished property to a fund that invests in properties in the sector. In some cases, the properties are implemented as traditional construction contracts.

BUILDING RENOVATION

In the Building Renovation service area, Lehto carries out pipeline renovations for blocks of flats, building renovations and projects in which 1-2 additional floors are built on top of existing buildings.

Most projects are implemented as turnkey projects, where Lehto is responsible for the entire contract and assumes overall responsibility for both planning and construction.

Lehto also carries out some renovation projects in the form of developer contracting, in which Lehto buys an old building, renovates or converts it for residential use, and sells the renovated apartments on to customers. The main market for building renovation is in the Helsinki Metropolitan Area.



"Cooperation with Lehto's professionals is smooth and relaxed, and the goal is always an outcome that benefits both parties. Any problems are resolved quickly and addressed openly, which has created a good framework for a trusted partnership."

*FIM, Investment Manager
Markus Liimatainen*



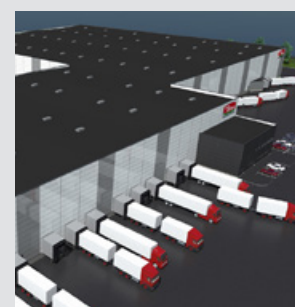
"Together with Lehto, we have been able to create a portfolio that provides modern premises for many different care sector operators. The implementation of several new buildings at once has brought synergy to the transaction parties."

*Northern Horizon, Country Manager
Finland Jussi Rouhento*



"For once, I can say that we have a school project that even our finance manager can approve of."

*Municipality of Liminka,
Technical Director Simo Pöllänen*



"In Lehto, we've found an extremely good partner who understands a logistics company's needs and challenges. We value the open, professional and uncomplicated way in which our cooperation with Lehto has taken off."

*Frøde Laursen, Director
Anders Balle*

Lehto Housing brands



References in 2017

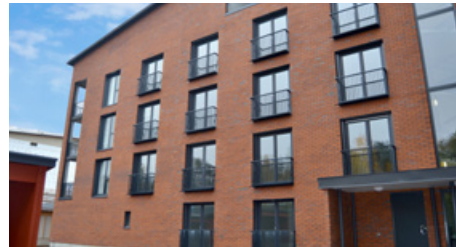
We utilise 3D design, module production and automated in-house factory production in our projects to achieve cost-effective and precise production, and high customer satisfaction. We seek to maximise cost-effectiveness without compromising on quality. We have professionals specialised for each service area and a comprehensive model design portfolio – from detached homes to major commercial centres.



**HOUSING COMPANY
HELSINGIN SILTAPUISTO**



**HOUSING COMPANY KALAJOEN
HERRAIN HIEKAT II**



**HOUSING COMPANY OULUN
LINNANKARTANO**



**HOUSING COMPANY
JÄRVENPÄÄN SINFONIA**



**HOUSING COMPANY
ESPOON ETUNIEMI**



SPORT CENTER ZEMPPI



PRISMA NOKIA



K-SUPERMARKET LAUKAA



II HAMINA SCHOOL



OT-KODIT KERAVA



MEHILÄINEN VIRKKULA JOENSUU



**HOUSING COMPANY
ALAKIVENTIE 3**



**HOUSING COMPANY ISO
ROOBERTINKATU 1**

What is our success based on?



1. KITCHEN AND BATHROOM MODULES

Kitchen and bathroom modules are manufactured at our factory in Oulainen and are used mainly in blocks of flats and care sector buildings. The modules are manufactured under stringent quality control that ensures even quality and better moisture control. The use of modules also facilitates scheduling the construction site phase, which speeds up the completion of the properties and provides significant cost savings. The factory-made modules are lowered into the interior through the roof.



2. APARTMENT ELEMENTS

Lehto's apartment elements are completely finished apartments manufactured on the assembly line. The completed apartments are installed on the construction site on top of prebuilt foundations. This improves the quality of construction, ensures a moisture-controlled process and reduces the construction time on site by almost a half compared to traditional construction. Apartment elements can be used to build 2-4-storey small apartment buildings.



3. LARGE ROOF ELEMENTS

Lehto's large roof elements are manufactured at our Humpilla factory. By using finished elements, we can install up to 1,500 m² of roof a day. Lehto's large roof elements come equipped with lines for sprinkler systems, electricity wiring and installation rails, for example, according to the customer's wishes.

4. BUILDING TECHNOLOGY CENTRES

Lehto's building technology centres are manufactured at our factory in Toppila, Oulu. They contain complete ventilation machine rooms that include pre-installed ventilation equipment, a district heating distribution centre, building cooling equipment, a switchboard, and a central building automation controller. The building technology module can be added as a whole to the building, after which its systems are connected to the piping installed onsite. After connection and technical adjustments, the building technology is ready to use.

5. RISER ELEMENTS

The riser elements developed by Lehto considerably speed up the implementation of plumbing renovations and bring savings on overall costs to housing companies. Our stylish riser elements are manufactured at our factory in Toppila, Oulu, under carefully monitored conditions. The use of riser elements reduces the space needed for new pipelines and ensures both uniform quality and top-class leakage security. It also considerably reduces the logistic challenges of the renovation. The riser elements contain a wide range of prefabricated technology, such as heating, water, drain and electricity rises. A modern, easy-to-clean wall-hung toilet is also integrated into the element. In large pipeline renovation projects, the riser elements can be customised.

Employees

"I really like coming to work in the morning, we have such a great team!"

DURING the year, our personnel number also increased significantly. We recruit two new professionals almost every working day. Our rekryChat, launched in July, was an instant hit and became a channel through which we hired a number of work supervisors, information modelling experts and sourcing and calculating engineers. We went on a joint recruitment tour with the city of Oulainen to hire new employees for our factories in Oulainen.

During the year, we launched Leadership Academy trainings I and II. The first training module is aimed all the Group's salaried employees, whereas the second coaching is attended by supervisors and project managers. The training dealt with the core of economically driven construction and provided supervisors with skills for their managerial work. We arranged labour market training at our Oulainen factory in cooperation with the local employment office. We invested in occupational safety training and launched occupational safety audits at more than eighty construction sites.

At the end of the year, we also adopted a new electronic HR system that will allow us to more effectively maintain and manage the tasks and documents related to the span of an employment relationship.

New factories were established in Oulainen and acquired in Ii. Insinööritoimisto Mäkeläinen also established a new office in Kempele at the end of the year.



Employees



**NOORA JOHANSSON, PROJECT MANAGER,
INSINÖÖRITOIMISTO MÄKELÄINEN**

"It's been a hectic year and no two days have been alike. It's been great to work with this team, and we've even had lots of new top talents join us. There's still room for an engineer or two, though, and finding them will be another challenge this year. Visits to education institution fairs have been a change from regular work, and developing information modelling practices has been a welcome challenge. One of the biggest achievements at the end of the year was getting the operations of Insinööri-toimisto Mäkeläinen's Kempele unit up and running."



**JOONA PENTTILÄ, FINANCE
MANAGER, SOCIAL CARE AND
EDUCATIONAL PREMISES**

"I joined Lehto in August 2017 as Finance Manager. Most of my work involves financing and the management of real estate companies. A capital-intensive sector and a fast-developing company offer excellent challenges even for professionals from outside the construction industry. I have been particularly happy about my colleagues' support and good supervisors, who create an inspiring work environment and encourage employees to boldly take on even major challenges."



**HENRI MÄMMI,
PRODUCTION DIRECTOR,
BUSINESS PREMISES**

"The best thing about Lehto is a corporate culture where things are genuinely questioned and solutions are sought to address the customer's business

needs. Our employees do not shirk challenges or fast delivery times but come up with ways to achieve even the most demanding targets. Lehto has particularly extensive technical and economical expertise that is used to steer planning decisions. At best, our work is an internal alliance with our factories, regular designers and regular suppliers. It has been a pleasure to see how great the demand for our operating model is in practical situations."



**THOMAS ÅKERMARCK,
SITE MANAGER,
HOUSING**

"I have worked for Lehto for almost three years. I really like being here. The main reason is definitely that there's a very good atmosphere and help is always available when needed. I enjoy coming to work in the morning. I have never regretted joining Lehto for one day. On the contrary, I should have joined much sooner. We can propose our own innovations and development ideas – in other words, we are allowed to think differently. I think the career opportunities at Lehto are good, too."



**MIKKO KOSONEN,
PROJECT MANAGER,
BUILDING RENOVATION**

"We have an open, supportive and motivating working environment where we can work independently. My work is very varied; I make schedules and budgets, participate in site meetings and keep in contact with the residents. I learn something new every day. Lehto's own installers and building technology ensure that work at the construction site runs smoothly as a train, as we can clear up any minor obstacles ourselves. We put our heads together and question established practices."



334
open positions
during 2017

About **300**
employees had educated
Leadership Academy

Of the Group's personnel
46% are salaried employees
26% are factory workers
28% are construction site
workers

Offices in **9** cities:
Stockholm, Kajaani, Kempele,
Tampere, Kuopio, Vantaa,
Helsinki, Jyväskylä, Turku

78
summer employees

8
factories

Strategic focus

Digital construction process

Our productivity development is based on a digital construction process. By renewing our procedures we are leading entire production of buildings value chain. Accurately specified information modelling carried out in the right order brings added value to both the client and constructor. Operational efficiency increases, implementation is faster and the quality and usability of the property are improved. The life cycle benefits of information modelling can be achieved when the data generated during construction can be re-used in renovation and complementary building. Added value is produced when the information is used and processed further after the completion of construction for the maintenance, use and asset management of buildings. Our aim to is increase productivity by tens of percents through digitalisation compared to construction on site.

Concept-based operating model

Lehto aims to develop design and building production so that as much as possible of the Group's production is based on standardised solutions.

Increasing the role of factory production

The goal is to continuously develop innovative module-based solutions and to utilise the current modular solutions in an increasing number of projects.

An operating model that emphasises customer benefits

We aim to further develop our operating model that provides customers with an end-to-end solution that includes all the services required for the completion of a construction project. Through this model, we seek to attain significant schedule, cost and quality benefits for our customers.

Inter-nationalisation

Our goal is to further expand our operations in the Nordic countries.

Shares and shareholders

SHAREHOLDERS 31 DECEMBER 2017

	Number of shares	%
Lehto Invest Oy	21,635,216	37.1%
Myllymäki Asko	4,837,562	8.3%
Kinnunen Mikko	1,936,368	3.3%
Winduo Oy	1,665,339	2.9%
Koivukoski Tomi	1,293,925	2.2%
Saartoala Ari	1,223,643	2.1%
Heikkilä Jaakko	942,243	1.6%
Lunacon Oy	660,000	1.1%
Sr SEB Gyllenberg Finlandia	640,000	1.1%
Fondita Nordic Micro Cap Placeringsf	617,163	1.1%
10 LARGEST SHAREHOLDERS	35,451,459	60.9%
Nominee-registered	8,254,959	14.2%
Other shareholders	14,544,334	25.0%
TOTAL	58,250,752	100.0%

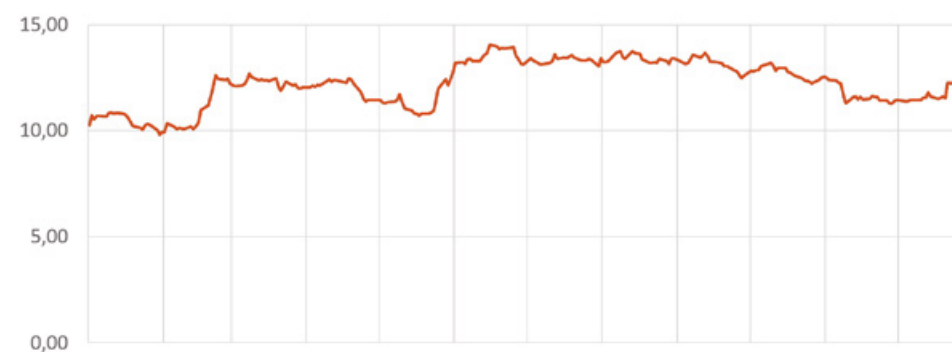
SHAREHOLDING BREAKDOWN

Shares	Number of shares	%
1 – 100 shares	146,045	0.3%
101 – 1,000 shares	1,980,431	3.4%
1,001 – 10,000 shares	1,798,672	3.1%
10,001 – 100,000 shares	2,520,657	4.3%
100,001 – 1,000,000 shares	11,155,644	19.2%
over 1,000,000 shares	40,649,303	69.8%
TOTAL	58,250,752	100.0%
where of Nominee-registered	8,254,959	14.2%

SHAREHOLDINGS BY SECTOR

	Number of shares	%
Companies	25,500,268	43.8%
Financial and insurance institutions	14,292,694	24.5%
Public sector organizations	1,239,115	2.1%
Households	16,857,434	28.9%
Non-profit organizations	170,559	0.3%
Foreign countries	190,682	0.3%
TOTAL	58,250,752	100.0%
where of Nominee-registered	8,254,959	14.2%

SHARE PERFORMANCE 2 JAN–29 DEC 2017



- Closing price of the share (29 December 2017) EUR 12.66
- Lowest rate during the review period EUR 9.79
- Highest rate during the review period EUR 14.26
- Trading: 16,344,696 shares / EUR 196,9 million

Management



HANNU LEHTO
CEO



VELI-PEKKA PALORANTA
Chief Financial Officer



ASKO MYLLYMÄKI
Chief Operating Officer



JAAKKO HEIKKILÄ
EVP, Business Premises
service area



PASI KOKKO
EVP, Housing
service area



TUOMO MERTANIEMI
EVP, Social Care and Educational
Premises service area



PEKKA LINDEMAN
EVP, Building Renovation
service area



TIMO REINILUOTO
EVP, Business
Support Services



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