



Annual Report
2017
Lehto Group Plc



Annual Report 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"
Taloussanommat 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"
Taloussanommat 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?

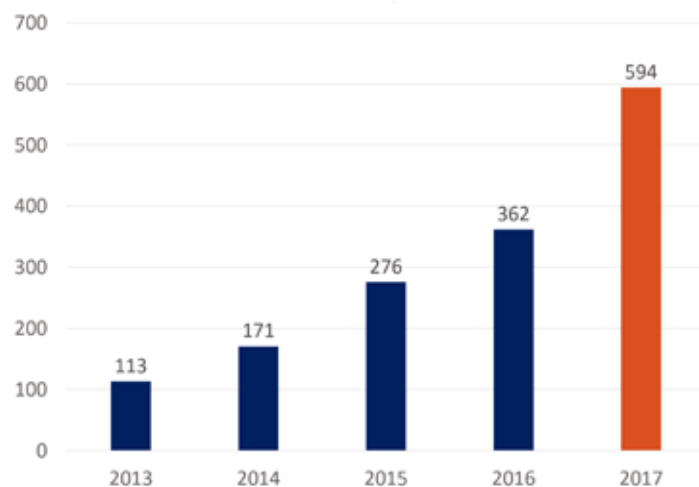
Economically driven construction is the core of our operations, where we integrate design and implementation. Over 80% of construction costs are determined at the architectural design stage, which is why we also keep this phase in our own hands. A key element of economically driven construction is repeatable 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

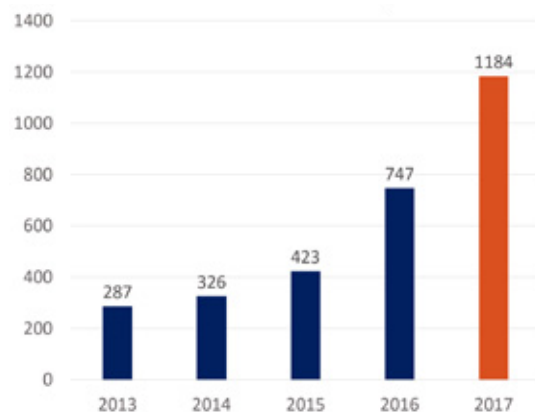
Net sales, EUR million



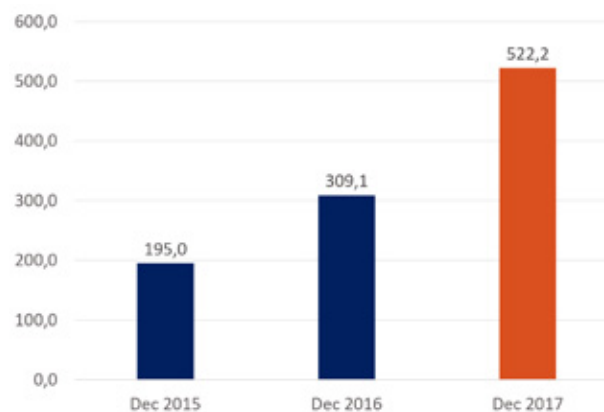
Operating profit, EUR million and operating profit, %



Number of personnel at the end of the year

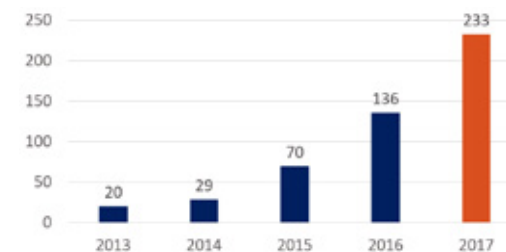


Order backlog, EUR million

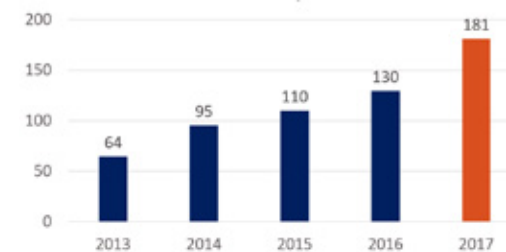


Net sales by service area, EUR million

Housing



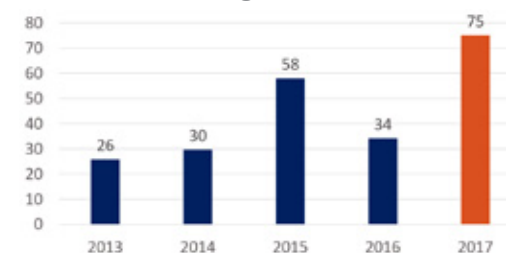
Business Premises



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*



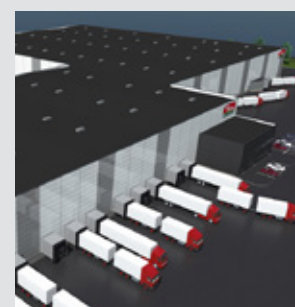
"Together with Lehto, we have been able to create a portfolio that provides modern premises for many different care sector operators. The implementation of several new buildings at once has brought synergy to the transaction parties."

*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."

*Frode Laursen, Director
Anders Balle*

Lehto Housing brands



References in 2017

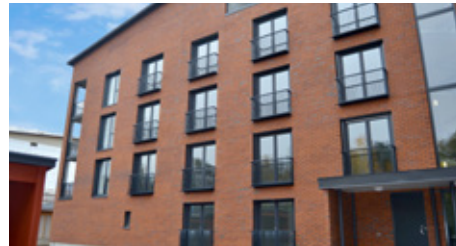
We utilise 3D design, module production and automated in-house factory production in our projects to achieve cost-effective and precise production, and high customer satisfaction. We seek to maximise cost-effectiveness without compromising on quality. We have professionals specialised for each service 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 Humpila 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."



**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."



**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."



**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 is to 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%

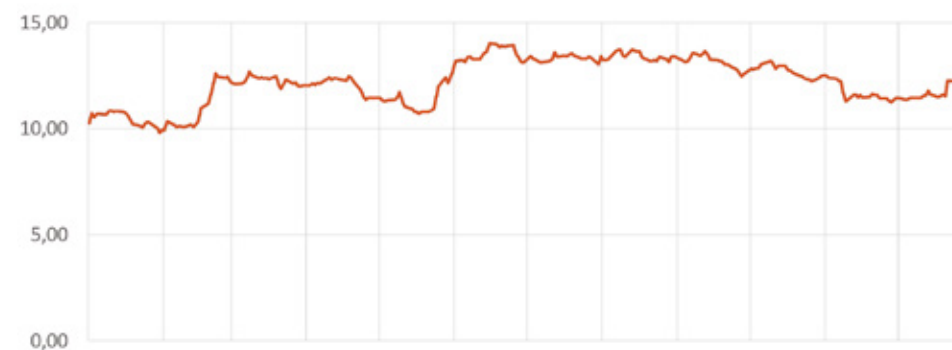
SHAREHOLDING BREAKDOWN

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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Lehto Group Plc

Innovator in the construction sector

Business model

Vast amounts of materials are moved in construction, from land masses to a variety of products and coatings. The construction industry has a major role in reducing the carbon footprint and cutting down on waste. Lehto Group's goal is to build efficiently and save resources, and to reduce the material waste generated in construction. Key elements of our competitiveness include planning control, the use of standardised solutions and building elements and modules prefabricated in our own factories.

Lehto Group's business operations are divided into four service areas: Business Premises, Housing, Social Care and Educational Premises, and Building Renovation. Lehto has eight factories that produce roof and wall elements, bathroom and kitchen modules, housing modules, building technology centres, renovation elements, and doors and windows. All our factories are located in Finland, and a significant proportion of outsourcing is contracted in Finland and the European Union.

Subcontracting and temporary work are used at constructions sites for specific work phases, at the start of activities and for short-term, urgent work.

The built environment has a major impact on the development of the urban landscape. The trend in urban development is towards sustainable housing, mobility and services. Together with other players that have an impact

on urban development, we are also creating a better urban landscape through renovation, for instance, by converting old factory premises into apartments.

Thanks to our efficient factory construction, we are able to reduce building and housing costs and offer people reasonably priced homes with excellent public transportation connections even in growth centres. In 2017, Lehto provided new homes for about 3,000 people.

Lehto Group's corporate responsibility comprises four focus areas: responsible building, employee wellbeing, caring for the environment and responsible business practices. The company will define more detailed metrics and targets for these focus areas during 2018.

This is Lehto Group's first statement on non-financial information. We will develop our responsibility reporting in 2018 in order to respond to the requirements of our stakeholders and new market areas even better.

Environmental responsibility

The greatest environmental impacts of buildings arise during their use, but the solutions that affect them are already made at the design and construction phase. A key role in the reduction of environmental impacts is played by methods to measure and control energy and water consumption as well as the education of the building users to adopt energy- and environment-saving practices.





The key environmental impacts during construction include:

- consumption of natural resources such as energy, materials and water
- impacts on people's health and biodiversity (e.g. the harmful effects of chemicals on humans, organisms, soil and waters)
- waste and emissions, including liquid and gaseous emissions (e.g. carbon dioxide)

At Lehto Group, the CEO is ultimately responsible for environmental issues. Responsibility for practical environmental management is assigned as follows: EVPs of the service areas for construction; the factory production manager for factory production; and the Group Sourcing Director for centralised purchasing. Environmental issues are discussed in the management teams as part of normal business management and development.

Lehto Group's key targets and action plans in the area of environmental impacts are:

- The reduction of mixed waste through prefabrication, purchasing, production planning and higher recycling rates. Waste that can be recycled as material is delivered for reuse depending on the local recycling options available.
- Reducing the environmental impacts of electricity consumption by using electricity produced with renewable energy sources and increasing the prefabrication rate of construction.
- Using renewable energy sources for the heating of the constructed buildings, where economically and technically feasible.
- Energy-efficient use of own office premises.

- Reducing the greenhouse gas emissions caused by travel by using video and Skype meetings.

Targets

The reduction of mixed waste through prefabrication, purchasing, production planning and higher recycling rates.

The company aims to define the common and standardised Group-level processes for environmental management as well as the related targets and measures during 2018. The first key figures related to environmental issues will be published in connection with annual reporting for 2018.

In Lehto Group's business, the risks of major environmental damage are low. Local damage may be caused if a limited amount of chemicals is released into the environment or in the event of a fuel leak of a machine operated at a construction site, for example. Factories and construction sites have guidelines for avoiding and containing such risks.

Special protection of endangered species is implemented on a case-by-case basis in cooperation with the authorities in order to avoid negative construction-phase impacts on the environment.

Town planning and construction are governed by the Finnish Nature Conservation Act. The authorities provide regulations for nature protection at the town planning phase, if needed. If there are populations of endangered animals and/or plants in the planned area, the area should not be planned for building use.

Social responsibility and personnel

Our employees are the most important asset for Lehto Group's growth strategy. In accordance with the Group's growth strategy, the number of personnel is expected to increase in the next few years in all business units, especially factory production.

The HR plan based on the company strategy takes into account the changes occurring in the Group's operations that have an effect on the structure, number and professional skills of the personnel. Most recruitment needs arise from new tasks, and only some recruitment is replacement.

Lehto Group has a Career Promise trainee programme that aims to secure the personnel number required by our growth strategy with the help of students in the field. The trainee programme also strengthens the development of the economically driven operating philosophy among the personnel. The Group is committed to employing 5% of the personnel number as students from different fields of study and offering them trainee and summer jobs during their studies, as well as providing them with topics for their theses or diplomas to the extent possible. The Group

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Lehto Group has a Career Promise trainee programme that aims to secure the personnel number required by our growth strategy with the help of students in the field.

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also commits to hiring the employees obtained through the trainee programme when they graduate, if allowed by the company's production-related and financial situation and upon their successful completion of the trainee programme.

Lehto Group operates in an industry that is susceptible to economic fluctuations. Any need for reduction in the labour force caused by economic fluctuations is evaluated carefully and comprehensively. For persons at risk of losing their capacity to work or being dismissed, the company seeks to take advantage of vocational training in accordance with the training plan. In layoff or redundancy situations, we seek to use the possibilities provided by change security to help the situation of employees under threat of redundancy.

On the basis of the company's economically driven operating model, the proportion of inhouse personnel covers a major part of the work, especially in factory production. Lehto Group uses subcontracting and temporary work at construction mainly at construction sites for specific work phases, at the start of activities and for short-term, urgent work.

HUMAN RESOURCES MANAGEMENT AND GUIDING POLICIES

Lehto Group has a Group-level management team with representatives from the company's top management, which sets the strategy-based key objectives for the Group's operative activities on an annual basis. Operative issues are discussed in more detail in the monthly service area management team meetings. The extended management team convenes two to four times a year.



HR management is a Group-level function that supports, steers and serves the business units. Personnel matters are regularly discussed at the initiative of the HR Director in the business unit management teams, where the adequate level of human resources is evaluated especially with regard to the growth strategy objectives. Lehto Group's HR management is responsible for ensuring that legislation, HR policies, local agreements and operating models as well as the fair and uniform treatment of employees are implemented and that they are followed in every Group business unit. Lehto Group's values (efficiency, courage, responsibility, customer orientation and cooperation) are the cornerstone of all our activities and guide the Group's business operations.

In the spring, part of Lehto Group's management team visits each site and factory to communicate the Group strategy, key financial figures and HR policy to the employees at personnel info sessions. Management also communicates these issues through the company's internal communication channel (intranet).

In Lehto Group, employees are managed according to the annual management clock, which describes the Group-level procedures related to management and supervisory work in more detail. In biannual performance reviews, strategy-based personal key objectives are defined and documented in the electronic HR system. Supervisors also regularly monitor the fulfilment of the objectives in short-term review discussions.

Lehto Group currently has nine local agreements that are reviewed and updated once a year as needed. The local agreements describe Lehto Group's way of working and outline the HR policy on a topic-specific basis. Working

at Lehto Group is based on flexible cooperation, trust and common agreement. Lehto Group's HR and training plan as well as the equality and non-discrimination plan are updated on an annual basis, and they form part of operations planning.

HR-RELATED KEY FIGURES AND OBJECTIVES

The total personnel of Lehto Group on 31 December 2017 amounted to 1 184 persons. The Group's personnel grew by 59% from the previous year. Of the Group's personnel, 46% are salaried employees, 26% are factory workers and 28% are construction site workers. Lehto Group's payroll in 2017 amounted to 48,3 Meur. Of Lehto Group's personnel on 31 December 2017, over 90% were employed under contracts for an indefinite period and under 10% had fixed-term employment contracts. Fixed-term contracts are generally based on a project, replacement, summer job or traineeship.

Personnel 2017

The total personnel on 31 Dec 2017 1 184 persons

Personnel grew by 59% from the previous year

Salaried employees 46%

Factory workers 26%

Construction site workers 28%

Lehto Group's HR and training plan is based on the company's growth strategy and serves as the basis for HR planning as well as creating guidelines for employee competence maintenance and development. Industrial manufacturing, a repeatable concept and planning control





require innovative ways of working from the employees, as well as a commitment to economically driven construction.

Lehto Group is positive towards employee competence development and supports it in a variety of ways. Lehto Group offers Group-level coaching programmes such as Leadership Academy I, which is attended by all salaried employees. Leadership Academy II is aimed at employees in a supervisory role or in charge of project management. In 2018, we will implement the Production Academy, which will be attended by all employees in production roles. In addition, Lehto Group arranges Occupational Safety Card, first aid and occupational health and safety training for its personnel.

HR management plans Group-level training on an annual basis after the completion of the performance review round.

The objective of Lehto Group's occupational health care action plan is

- to ensure safe and healthy work, working environment and work community
- the prevention of occupational health hazards and harmful health effects
- employees' self-motivated maintenance, improvement and monitoring of their working and functional capacity
- preventing illness at different phases of a career.

The action plan includes preventive occupational health care services and medical care at a general practitioner level beyond the statutory requirements, with an emphasis on occupational health.

Occupational health care services focus on preventive measures (60%) and medical care (40%). The company is investing in the adoption of a model to monitor sick leaves and the deployment of an early-support model throughout the Group in cooperation with occupational health care services.

Occupational safety was highlighted as a particular focus area in Lehto Group in 2017, and management continues to pay particular attention to occupational safety. The Group's objective is that every day is an accident-free day and that the construction sites and factories are orderly and safe. In 2017, accident frequency rate of the Group was 28. (1 or more days absence due injury/million hours worked)

Lehto Group's policy is that all employees in production-related work must have a valid Occupational Safety Card. In addition, the Group arranges training on occupational safety. Through preventive measures and training, Lehto Group seeks to prevent accidents at work and influence employees' attitudes.

Lehto Group's personnel is committed and turnover is not particularly high. The Group's pay policy and employee benefits are competitive. In addition to basic salary, the company has a range of commission, bonus and performance remuneration models that are annually confirmed by the Group's Board of Directors. There are two different share-based incentive plans for Group key employees, which aim to align the goals of shareholders and key employees in order to increase the value of the Company in the long term, to commit the key employees to the Company, and to offer them

competitive remuneration plans based on the earnings of the Company's shares. The restricted share plan is directed at selected key employees only.

PERSONNEL-RELATED RISKS AND THEIR MANAGEMENT

Lehto Group's strategy-based spearhead initiative LEKA (business-driven renewal of operating methods) requires an innovative attitude and the adoption of new ways of working from our personnel. The initiative aims to create a foundation for future digital development and competitiveness in construction. The goal of the LEKA initiative is that an information-modelling-based approach will run through all project activities throughout the entire production chain. Adopting the new operating model will require employee competence development; for this reason, Lehto Group will arrange basic training in information modelling for its employees in cooperation with Metropolia University of Applied Sciences in spring 2018.

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The initiative LEKA aims to create a foundation for future digital development and competitiveness in construction.

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The growth of the Group's business and personnel has been very rapid in recent years, which poses particular challenges for employees in coping at work. HR management regularly reviews sick leave reports and the reasons for absences together with occupational health care services and implements measures targeted at them. Lehto Group's occupational health care action

plan describes the early support policy. In addition, occupational health meetings are held in cooperation with occupational health care services to confidentially discuss how the employer can support employees' coping at work and the preconditions for working.

Personnel-related risks include the availability of labour, which can delay the progress of building projects and the accrual of net sales and operating profit. The competition for highly educated employees on the job market is particularly fierce in the construction and building technology fields.

Human rights, anti-corruption and bribery

Lehto Group seeks to prevent the occurrence of corrupt practices generally acknowledged as a problem in the construction industry by following detailed compliance processes. The processes aim to ensure that the company management and all employees as well as the company's partners comply with applicable laws, regulations, internal guidelines and ethical values. Lehto Group's risk management policy is described on the company website www.lehto.fi.

Lehto Group is committed to respecting human rights in its operations and to promote their implementation.

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Lehto Group is committed to respecting human rights in its operations and to promote their implementation.

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The company inducts its personnel to combat corruption and other illegal practices. The content and scope of the training is partly dependent on the employee's role. In purchasing, for example, operating practices are continually developed to ensure that corruption can be combated increasingly effectively in the subcontracting chain. The relevant guidelines will be published during 2018 on Lehto's website and appended to new contracts concluded in 2018.

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Operating practices are continually developed to ensure that corruption can be combated increasingly effectively in the subcontracting chain.

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The company will also adopt an anti-corruption and anti-bribery agreement for all employees in 2018, which outlines Lehto Group's zero tolerance towards corruption and bribery and defines policies for hospitality, business gifts and travel costs.

Up to the present, violations of the guidelines and grievances have been reportable by discussing the matter with the closest supervisor or their supervisor. In December 2017, the company management team decided that a reporting channel shall be prepared in cooperation with personnel at Lehto Group and is aimed to be implemented during spring 2018. In future, violations and grievances could be reported through this reporting channel, by phone, to an automatic answering service or on an online form. The report can be submitted also anonymously. The Group Legal Counsel is responsible for initiating investigation into the reported cases together with the CEO.

THE KEY ENVIRONMENTAL IMPACTS

RESPONSIBLE BUILDING

- The reduction of mixed waste through prefabrication
- On production planning higher recycling rates
- Waste that can be recycled as material is delivered for reuse
- Using electricity produced with renewable energy source
- Increasing the prefabrication rate of construction
- Using renewable energy sources
- Energy-efficient use of own office premises
- Using video and Skype meetings

CARING FOR THE ENVIRONMENT

- Constant education of practices that save energy and environment
- Common, standardized processes, goals and metrics for sustainability actions
- Re-evaluation of environmental risks and their control measures
- Following conservation legislation in zoning

SOCIAL RESPONSIBILITY AND PERSONNEL

- Safe and healthy work, working environment and work community
- The prevention of occupational health hazards and harmful health effects
- Employees' self-motivated maintenance, improvement and monitoring of their working and functional capacity
- A range of commission, bonus and performance remuneration models
- Preventive measures and training

HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

- Following detailed compliance processes
- Training for compliance processes
- Anti-bribery agreement for all employees in 2018
- A proposal violations and grievances can be reported through this reporting channel, by phone, to an automatic answering service or on an online form during spring 2018





Summary 2017

GROUP	1-12/2017	1-12/2016
Net sales, EUR million	594.1	361.8
Change in net sales, %	64.2%	31.3%
Operating profit, EUR million	61.5	40.4
Operating profit, % of net sales	10.4%	11.2%
Profit for the period, EUR million	49.2	31.9
Order backlog at period end, EUR million	522.2	309.1
Earnings per share, EUR	0.84	0.59
Cash and other liquid assets, EUR million	68.0	67.7
Interest-bearing liabilities, EUR million	36.9	16.4
Equity ratio, %	56.6%	60.4%
Net gearing ratio, %	-20.3%	-44.2%

- Net sales grew in 2017 by 64.2% (31.3%) to EUR 594.1 (361.8) million. All service areas grew, with the greatest growth in euros seen in the Housing service area.
- Operating profit was EUR 61.5 (40.4) million, or 10.4% (11.2%) of net sales.
- Lehto established a subsidiary in Sweden. The subsidiary's financial significance is currently minor.
- Factory production capacity was increased. A new factory is under construction.
- The Board proposes a dividend of EUR 0.34 per share

NET SALES BY SERVICE AREA	1–12/2017	1–12/2016	Change
Business Premises	181.2	129.5	39.9%
Housing	232.6	136.0	71.1%
Social Care and Educational Premises	105.3	62.1	69.4%
Building Renovation	75.1	34.2	119.5%
Total	594.1	361.8	64.2%

Order backlog at the end of the year was EUR 522.2 million (EUR 309.1 million in December 31, 2016). Major part of the backlog is expected to be recognized as revenue during year 2018.

A construction project is included in the order backlog when the construction agreement has been signed. Own developed housing projects are included in the order backlog when the construction decision has been made and the construction contract agreement with the limited liability housing company has been signed.

NET SALES AND OPERATING PROFIT, MEUR	1Q 2017	2Q 2017	3Q 2017	4Q 2017	2017 TOTAL
Net Sales					
Business Premises	34.2	38.4	35.4	73.2	181.2
Housing	10.7	66.5	54.6	100.8	232.6
Social Care and Educational Premises	19.3	29.8	28.5	27.7	105.3
Building Renovation	16.5	16.1	17.3	25.2	75.1
Net Sales Total	80.6	150.8	135.8	226.9	594.1
Operating Profit	6.8	13.1	13.5	28.1	61.5
Operating Profit, % of Net Sales	8.5%	8.7%	10.0%	12.4%	10.4%

In August, Lehto established a subsidiary, Lehto Sverige AB, in Sweden. Lehto Group Oyj owns 88% of the company and four Swedish minority shareholders own 12%. The minority shareholders work in the company.

Outlook for 2018

Lehto estimates that the Group's net sales for 2018 will grow by 20-30% from 2017 (EUR 594.1 million in 2017) and operating profit is expected to be above 10% of net sales (2017: 10.4%). The accrual of net sales and operating profit is expected to concentrate at the end of the year.

The outlook is based on the information available to the company on the progress of ongoing construction projects and the company's estimate of construction projects to be started and sold in 2018.

The most significant risks related to net sales and operating profit are delays in the start of business projects currently at the negotiation phase, higher than expected implementation costs of renovation contracts, and a decline in the demand for housing. For more information on the risks, see the "Risks and uncertainties".

Business environment and business development in 2017

In 2017, growth in construction continued in Finland for the third year running. According to the estimate made by the Confederation of Finnish Construction Industries RT in October 2017, the construction industry grew by about 4% in Finland in 2017, which was about the same as in 2016. The construction trends group led by the Ministry of Finance estimated in September 2017 that total construction output would grow by 3–6%. The growth is primarily attributable to new construction; the growth rate of renovation construction is estimated to have slowed down somewhat from 2016.

The increase in new construction was driven particularly by the strong growth in housing construction. According to the estimate of the Confederation of Finnish Construction Industries RT, there were around 43,000 housing starts in 2017, which is clearly higher than the historical average of some 31,000 apartments. The main focus of construction is in apartments in blocks of flats. The construction of business premises remained about the same in 2017 as in the previous year.

Growth in the construction market has increased competition. The availability of skilled labour, in particular, has slightly delayed the start of new projects. The most severe shortage applies to experienced supervisors, project managers and designers. Lehto has partly been able to manage the shortage of labour by building modules and elements in its own factories, which has reduced the need for labour at construction sites.

According to the estimate of the Confederation of Finnish Construction Industries RT and the construction industry

working group led by the Ministry of Finance, the rate of growth in construction will slow down slightly in 2018 and new construction will increasingly be concentrated in large growth areas. Seventy per cent of residential building permits are already granted to projects in the four largest regions, for example, and about 70–80 per cent of all office buildings are being built in the Helsinki Metropolitan area. The new offices will be located with good access to public transport.

BUSINESS PREMISES

In the Business Premises service area, Lehto builds office premises, retail premises, logistics, warehouse and production facilities, leisure facilities and large shopping and activity centres. Business premises are designed according to the customers' needs and are built by using structural and spatial solutions developed or tried and tested by Lehto. The service area serves local, national and international customers.

Most of the business in the Business Premises service area are implemented as turnkey projects, where Lehto assumes overall responsibility for both planning and construction. Lehto also builds some business premises in the form of developer contracting, which means that Lehto acquires the plot and designs and builds the property either wholly or partly at its own risk.

Net sales in the Business Premises service area grew by 39.9% year-on-year to EUR 181.2 (129.5) million in 2017. A total of 30 properties were completed during the period, including the Prisma Centre in Nokia, the commercial centre in the Seppälä central square in Jyväskylä and shopping centre Pikkulaiva in Espoo.

Lehto continued the development project of the Lippulaiva shopping centre, in Espoonlahti, together with Citycon Oyj and designers. In October, Lehto and Citycon signed the main contract to complete the development phase of the shopping centre. According to the main contract, Lehto



and Citycon will continue to develop and plan the project with the aim of signing a final construction contract agreement for the shopping centre and a housing contract for the construction of the residential units by 31 March 2018. The project involves uncertainties that are typical of property development projects.

In May, Lehto signed a contract to build two separate commercial properties in the Jyväskylä region. One of the properties will be located in the Seppälä area of Jyväskylä and is about 10,000 m² in size. Tenants of the property include Gigantti, Leo's Leikkimaa and a medical centre. The other, approximately 2,500 m² property is located in Laukaa and has K-Supermarket as main tenant. The total value of the contracts is about EUR 20 million. The properties were completed at the end of November.

In August, Lehto started to build a new commercial centre of approximately 11,800 m² in the centre of Kalajoki. The ground floor of the commercial centre will house business premises, while the first floor will contain premises for the city library as well as cinema and cultural facilities and the related services. The client is the city of Kalajoki and a group of local private investors.

In August, Lehto signed a contract with global logistics company DSV on the construction of a logistics centre in Päiväkumpu, Vantaa. The project comprises the construction of a logistics centre of around 50,000 m², a terminal building of around 10,000 m² and an office building of around 4,000 m² in size. Lehto estimates that the project will be completed during 2018.

In September, Lehto signed a contract with Danish logistics company Frode Laursen for the construction of

a new logistics centre in Kerava. The area of the logistics centre will be around 27,000 m² and it is expected to be completed in August 2018.

In December, the City of Jyväskylä chose a consortium consisting of Lehto, Fennia Asset Management Ltd and a group of potential smaller investors to continue negotiations for the implementation of the Hippos2020 project. The goal of the project is to build the largest sports and wellbeing centre of expertise in the Nordic countries in the Hippos area in Jyväskylä. The centre would comprise a total area of 100,000 m² of new facilities. The final construction decision is expected in spring 2018, when the final terms of the concession agreement signed with the city as well as the final project plans, cost estimates, contracts, land use and other technical agreements, financing and shareholder agreements as well as the conditions for the city to purchase bookings for sports facilities will be clear.

The order backlog of the Business Premises service area grew during the review period and was EUR 127.3 million at year end (EUR 75.5 million on 31 December 2016). The order backlog does not include the possible revenue stream from the Lippulaiva and Hippos2020 projects.

SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises business area, Lehto plans and builds nursing homes, day care centres and schools to meet the needs of nationwide care service providers and municipalities. The majority of the properties built by the service area are 1-2-storey wooden buildings.



The construction projects are implemented either under ordinary construction contracts or as investment transactions, where Lehto signs a lease agreement with the service operator and sells the completed property to a fund that invests in properties in the sector.

Net sales of Social Care and Educational Premises grew by 69.4% from the previous year to EUR 105.3 (62.1) million in 2017. Nursing homes for the elderly account for most of the net sales. Net sales grew for both new and existing accounts. A total of 29 nursing homes were completed during the period, and 25 nursing homes were under construction at the end of the year. Two new day care centres and one school were completed during the review period, and one day care centre and one school were under construction at year end.

In April, the municipality of Liminka chose Lehto to build a new school for 450 pupils in Ojanperäkangas based on competitive tendering. The contract specifies a five-year warranty for the new school instead of the prevailing construction-industry standard of two years. The contract also included Lehto's maintenance service.

In December, Lehto won a tender to build three modular day care centres in Sweden in the municipality of Botkyrka. Lehto will build the day care centre modules in Finland and deliver them to Sweden. The day care centres have two floors and are designed to accommodate a total of 180 children.

In December, Lehto signed a framework agreement with eQ Hoivakiinteistöt for the construction and sales of 10 care sector properties in different parts of Finland. The total value of the framework agreement is approximately

EUR 32 million, with additional option properties. Lehto will build the properties and sell them to the fund upon completion. The financing for the construction will be arranged by Lehto using both equity and borrowed capital. The users of the premises will be nationwide service providers for elderly care and groups with special needs.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 84.8 million (EUR 57.2 million on 31 December 2016).

HOUSING

In the Housing service area, Lehto builds new blocks of flats, balcony access houses and terraced and detached houses as part of area construction in Finland's growth centres, especially in the Helsinki metropolitan area. 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. Customers include private persons as well as private and institutional investors.

Most housing properties are concrete apartment buildings and are built using the kitchen/bathroom modules developed by Lehto. The modules are completely prefabricated at Lehto's own factory and transported to the construction site, where they are lowered into the building through the roof. This building method ensures rapid completion of construction, improves quality and produces cost savings. Lehto's factories also manufacture wall elements, windows, fixtures and fittings, as well as wooden room elements that can be used to rapidly build



terraced houses and balcony access blocks particularly well suited for urban environments.

Net sales in the Housing service area grew by 71.1% from the previous year to EUR 232.6 (136.0) million. A total of 2,002 apartments were sold in during the period. At the end of the period, 2,029 new apartments were under construction, of which 309 had not yet been sold. There were 12 completed, unsold apartments. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other growth centres. The largest housing developments underway are located in Kaivoksela, Vantaa, where we are building a total of approximately 550 apartments and Kilo, Espoo, where we are building around 370 apartments.

The number of unsold apartments under construction has remained very moderate and the percentage of sale is actively monitored to minimise balance sheet risk. The growth in own housing production is reflected in the growth in inventories, as net sales are only recognised upon delivery.

The housing construction order backlog at year end was approx. EUR 216.5 million (EUR 132.8 million on 31 December 2016). The housing production order backlog includes the proportion of started developer contracting projects that has not been recognised as net sales.

BUILDING RENOVATION

Lehto's Building Renovation service area carries out pipeline renovations, 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 in Finland is in the Helsinki Metropolitan Area.

Demand for building renovation remained high in the period, and the focus remained on the renovation of residential buildings. Net sales in Building Renovation grew by 119.5% year-on-year to EUR 75.1 (34.2) million. Most of the growth in net sales was due to growth brought about by the acquisition of Rakennus Oy Warecon in October 2016, but net sales were also increased by the growing volume of plumbing renovations and the completion of three developer contracting projects during the review period.

In June, Lehto signed a contract worth around EUR 13 million for the renovation of old premises and their conversion into apartments in Töölö, Helsinki. The property, currently housing an educational institution, will be renovated into modern apartments in 2018-2020. At the same time, new apartments will be added to the property as a complementary building project.

In July, Lehto signed a contract for the conversion of office premises into hotel and accommodation facilities. In December, a contract was signed for a similar project.





Both projects are located in Helsinki, and their combined floor area is about 23,000 m².

In September, Lehto signed a contract for the renovation of the A section of Kesko's former head office in Katajanokka, Helsinki. Part of the current office premises (7,500 m²) will be converted into apartments and the grocery shop at street level will be expanded. The renovation includes replacing the brick facing of the facade and insulation as well as renovation of the windows. The project will be implemented using a contract model in which Lehto assumes responsibility for all phases of the renovation under the turn-key principle.

In December, two developer contracting projects were completed: a residential building in central Helsinki and a project to add floors to an existing apartment building in the Myllypuro district of Helsinki. The buildings contain a total of 78 apartments and five commercial premises. At the end of the financial period, two developer contracting renovation projects were under construction.

The order backlog of Building Renovation grew to EUR 93.6 million at year end (EUR 43.5 million on 31 December 2016). Growth in the order backlog is due to the major renovation and conversion contracts signed during the period.

FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its production facilities for its own use. Due to strong business growth, Lehto has expanded and will continue to expand its manufacturing capacity. In May,

Lehto acquired the production facilities and installations of the bankrupt Iin Fasadi Oy in Northern Finland. The goal of this acquisition was to ensure the availability of wall elements, particularly for projects in the Social Care and Educational Premises service area.

In addition to the factory acquisition, capacity will be increased by acquiring or building new production facilities, improving production processes and increasing the utilisation rate of production facilities. In December, Lehto started building a new factory of about 9,000 m² in Oulainen. The plan is to concentrate logistics and warehouse functions and the manufacturing of bathroom modules, kitchen furniture and other fixtures and fittings in the factory. The total value of the investment is some EUR 7.5 million. It is estimated that the factory will be ready for production in August 2018.

Significant events during the financial period

On 17 February 2017, Lehto announced the new composition of its executive board as of 1 March 2017. The Group executive board is the following: Hannu Lehto, CEO; Veli-Pekka Paloranta, CFO; Asko Myllymäki, COO; Pasi Kokko, EVP, Housing; Jaakko Heikkilä, EVP, Business Premises; Tuomo Mertaniemi, EVP, Social Care and Educational Premises; Pekka Lindeman, EVP, Building Renovation; and Timo Reiniluoto, EVP, Business Support Services.

On 24 April 2017, Lehto announced that its significant shareholders are exploring options for reducing their

ownership in Lehto Group Plc. Shareholders representing 69.7 per cent of the outstanding shares in the company had informed the company that they had mandated OP Corporate Bank and Pareto Securities to jointly explore options for reducing their ownership in the company in one or several stages. Lehto believed that the planned share sale might improve the liquidity of the company's shares.

The intention of the shareholders was to sell no more than ca. 30 per cent of their ownership in the company with the exception of the company's CEO Hannu Lehto, who had agreed to reduce his ownership (held through Lehto Invest Oy) by not more than 5.0 per cent. The shareholders would thus remain significant shareholders in Lehto after any potential transactions.

It was announced that the amount of shares to be potentially sold would depend on the demand and price achieved, but would not, in total, represent more than 7,200,000 shares in the company or 12.4 per cent of all the company's shares. The shareholders had agreed not to sell the remainder of their holdings in Lehto during a 180-day period if the transaction(s) to reduce their ownership were completed.

On 24 May 2017, Lehto updated the financial outlook for the year 2017. According to the updated outlook, the Group's net sales for 2017 is expected to grow by 40-50% from the previous year (net sales in 2016: EUR 361.8 million) and operating profit is expected to be above 10% of net sales (2016: 11.2%). The reason for the improved outlook was the better than estimated progress in the Business Premises, Housing and Social Care and

Educational Premises service areas. According to the previously published outlook, Lehto's net sales in 2017 were expected to grow by at least 30% (growth in net sales in 2016 was 31.3%), and operating profit was expected to exceed 10% (2016: 11.2%) of net sales.

On 31 May 2017, Lehto announced that its significant shareholders intend to sell up to 4,971,845 shares in the company, corresponding to approximately 8.5 per cent of all the outstanding shares of the company, using an accelerated book-building process.

On 1 June 2017, Lehto announced that its significant shareholders had sold a total of 4,971,845 shares in the company, corresponding to an approximate maximum of 8.5 percent of all the shares in the company. Lehto announced that the company's CEO Hannu Lehto sold 0.5 per cent (100,000 shares) of the shares owned by him through Lehto Invest Oy. The company also announced that after the share sale, the shareholders who participated in the sale continue to own approximately 61.2 per cent of all the shares and votes in the company and that the shareholders had agreed not to sell the remainder of their holdings in Lehto during a 180-day period.

On 1 June 2017, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from Asko Myllymäki. According to the notification, Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 31 May 2017. In connection with the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell below the 10 per cent threshold to 8.25 per cent.

On 14 August 2017, Lehto Group Plc signed an agreement for establishing a subsidiary, Lehto Sverige AB, in Sweden. Lehto Group Oy owns 88% of the company and four Swedish minority shareholders own 12%.

On 19 October 2017, Lehto and Citycon signed a main contract to complete the development phase of the planned Lippulaiva shopping centre. According to the main contract, Lehto and Citycon will continue to develop and plan the project with the aim of signing a final construction contract agreement for the shopping centre and a housing contract for the construction of the residential units by 31 March 2018. These final contracts are contingent on the parties reaching unanimity on the technical content of the project and the construction schedules; in addition, the Espoo Cityscape Committee must issue a preliminary statement in favour of the residential buildings planned to be built adjacent to Lippulaiva shopping centre.

On 24 November 2017, Lehto Group Plc announced that three of its biggest shareholders have named their representatives for the shareholders' Nomination Committee whose job is to prepare the proposals concerning Board members and remuneration for the Annual General Meeting of 2018. The members of the Nomination Committee are Hannu Lehto, Asko Myllymäki and Mikko Kinnunen.

On 22 December 2017, Lehto updated the financial outlook for the year 2017. Net sales were estimated to grow over 55% and operating profit was expected to exceed 10% of net sales. The previously announced outlook estimated net sales to grow by 40-50%.

Balance sheet and financing

The Group's financial standing remained excellent. At the end of the financial period, the equity ratio was 56.6% (31 Dec 2016: 60.4%) and net gearing was -20.3% (-44.2%).

Consolidated balance sheet, EUR million	31 Dec 2017	31 Dec 2016
Non-current assets	24.5	21.5
Current assets		
Inventories	119.9	77.5
Current receivables	127.1	92.0
Cash and cash equivalents	68.0	67.7
Total assets	339.4	258.7
Equity	153.0	115.6
Financial liabilities	36.9	16.6
Advances received	69.2	67.3
Other payables	80.2	59.2
Total equity and liabilities	339.4	258.7

Equity and liabilities

Equity grew to EUR 153.0 million (EUR 115.6 million on 31 December 2016). The increase in equity is due to positive profit development. The amount of equity was reduced by

a dividend payout of EUR 12.8 million in April, representing 40.2% of the profit of the 1 January-31 December 2016 financial period.

Financial liabilities grew to EUR 36.9 (16.6) million. Loans were drawn mainly for acquiring plots for the Housing service area and other building rights. Interest-bearing liabilities include normal bank loans as well as loans drawn by housing companies to the extent these are allocated to unsold apartments.

Advances received grew to EUR 69.2 (67.3) million. Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

Other liabilities grew to EUR 80.2 (59.2) million. Other liabilities include trade payables of EUR 38.9 million and VAT debt of EUR 13.2 million.

Assets

Non-current assets amounted to EUR 24.5 million at the end of the review period (EUR 21.5 million on 31 December 2016). Non-current assets include goodwill of EUR 4.6 million, EUR 5.0 million in factory buildings and EUR 4.4 million in machinery and equipment.

Inventories grew to EUR 119.9 (77.5) million. The growth was attributable to strong business volume growth, and most of the inventories are related to costs accrued from incomplete construction projects.

Current receivables grew to EUR 127.1 (92.0) million, including trade receivables of EUR 65.9 (40.2) and

percentage-of-completion receivables of EUR 55.0 (41.7) million. The growth in receivables is related to the increased business volume.

Cash flow statement, EUR million	1-12/2017	1-12/2016
Cash flow from operating activities	-2.8	8.3
Cash flow from investments	-0.3	-14.1
Cash flow from financing	3.4	48.9
Change in cash and cash equivalents	0.3	43.1

Cash and cash equivalents remained at the same level as in the previous year, amounting to EUR 68.0 (67.7) million. Net cash from operating activities was EUR 2.8 million negative, which includes a negative impact of EUR 52.4 million due to the growth in net working capital.

Net working capital grew relatively more than net sales. The main factors attributing net working capital growth was the increase in accounts receivable and inventories. As a result of business growth, the costs tied to incomplete projects have increased and the Group has acquired more building rights than previously for future construction projects. The growth of inventories is also attributable to growth in factory production and the resulting increase in stock of materials. Growth in accounts receivable is mainly due to high amount of project deliveries at the end of the year.

Net cash flow from investments was EUR -0.3 million, including EUR 4.1 million investments in tangible assets mainly relating to factory production. Investments in intangible rights amounted to EUR 0.4 million. Cash flow from investment also includes additional purchase prices of EUR 0.8 million paid during the period for minority interests in subsidiaries and a EUR 6.2 million repayment of loan receivables related to construction projects carried out with partners.

Net cash flow from financing was EUR 3.4 million positive. A total of EUR 51.7 million was drawn in loans and EUR 34.9 million was repaid. Cash flow from financing also includes cash expenses of EUR 12.8 million due to dividends paid.

At the end of the financial period the Group had credit limits of EUR 5.0 million available with Danske Bank and EUR 3.7 million with Nordea Bank. The credit limits are in force until further notice and no credit limits were in use at the end of the financial period.

Risks and uncertainties

In its business operations, Lehto is exposed to operative risks as well as risks relating to the availability of financing, overall economic trends and political decision-making and other risks relating to the activities of the public sector.

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These two business models involve different risks.

In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed.

The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price. In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

Part of Lehto's business involves agreements according to which Lehto builds premises in line with the customer's needs and sells the premises upon their completion or at a later stage to a fund. Although Lehto works with well-known and established funds, Lehto cannot be certain that the funds have the capacity to provide the cash required for the purchase of the premises at the agreed time of payment.

The project business the Group carries out is characterised by variation, which can be significant, in profit between different reporting periods due to the accounting methods of projects. The Group's cash flow is usually generated in step with a project's degree of completion, however such that the last instalment payable after the completion is bigger than the other instalments. Thereby a delay of an individual large project can have an effect on the sufficiency of working capital.

Changing building regulations or zoning policies can also have significant effects on the company's business.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them.

Personnel

The average number of personnel during the review period was 1,013 (566). The number of personnel at year end was 1,184 (747). About 49% (52%) of the Group's personnel are salaried employees and 51% (48%) employees working at construction sites.

Lehto's personnel grew by 437 in 2017. Most of the new employees, approximately 200 persons, were employed in Lehto's factories in Oulainen, Humppila, Oulu and Ii.

The majority of Lehto's employees participate in the performance bonus plan, which is based on targets set on a project-specific or annual basis. In addition, no more than 70 key employees participate in a long-term share-based incentive plan with a one-year vesting period and a two-year restriction period. Targets are set for the key employees for each vesting period, and the employee's performance bonus is calculated on the basis of the achievement of the targets. The performance bonus is converted into an increased number of shares multiplied by a bonus factor determined by the Board. The equivalent bonus is paid to the employee after the end of the two-year restriction period. The bonus is paid to the key employees after the restriction period partly in the form of shares and partly in the form of cash.

Research and development

Lehto develops and manufactures building modules and components, such as bathroom/kitchen modules, housing space elements, wall elements, large roof elements, technical building modules, windows and some smaller building renovation modules at its own production facilities. The purpose of developing modules is to enhance building quality and to accelerate the construction process.

The development of modules, components and concepts is part of continuing operations, and the related costs are recorded as an expense in the income statement. The most significant development investments during the financial period are related to product design and the development of product factory operations.

Responsibility and environmental issues

Lehto is committed to responsible operational development. The Group has four focus areas related to sustainability: responsible construction, employee wellbeing, caring for the environment and responsible business practices.

During the financial period, Lehto initiated efforts to create concrete measures and metrics for the above-mentioned focus areas. At the end of the financial period, this work was still in progress and will be continued in 2018.

Lehto sees its own factory production as a key sustainability factor, as it enables better management of

environmental issues and building quality, in particular, than allowed by traditional building practices.

The Group's legal structure

At the end of the financial period, the Group was comprised of the parent company, Lehto Group Plc and its seven operative subsidiaries. The subsidiaries operating in Sweden have four minority shareholders who own 12.0% per cent of the subsidiary's shares. In the other subsidiaries, the parent company has a 100% shareholding. The Group also comprises temporary real-estate companies or shareholdings in them.

The Group's parent company is not engaged in actual business operations but serves as a hub for a number of shared Group functions which are relevant for the manageability and cost efficiency of the Group's operations. These include human resources management, accounting, coordination of financial affairs, legal affairs, business development, sourcing and purchasing, communications, marketing and information management.

After the end of the financial period, Lehto Group implemented the merger of six separate Group companies into three subsidiaries on 1 January 2018. The goal of the merger is to simplify the Group structure and reduce administrative work.

Decisions by the Annual General Meeting 2017

Lehto Group Plc held its Annual General Meeting 2017 on 11 April 2017 in Oulu at Yrttipellontie 1. The Annual

General Meeting confirmed the financial statements for the financial period 2016 and granted discharge from liability for the Members of the Board and the Managing Director.

In accordance with the proposal of the Board of Directors, the Annual General Meeting decided that the dividend payable for the financial year ending on 31 December 2016 was EUR 0.22 per share, or a total of EUR 12,815,165.44. The dividend was paid to shareholders who on the record date for the dividend payment, 13 April 2017, were recorded in the shareholders' register held by Euroclear Finland Oy. The dividend payment date was 24 April 2017.

The AGM confirmed the number of Board members to be five. Pertti Huuskonen was re-elected as Chairman of the Board and Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi as the other members. The Board members' term of office will expire at the 2018 Annual General Meeting.

In its organisational meeting, the Board of Directors decided to establish an Audit Committee and elected Mikko Räsänen as its Chairman and Päivi Timonen and Sakari Ahdekivi as members.

The Annual General Meeting decided that a monthly remuneration of EUR 1,900 be paid to members of the Board of Directors and EUR 3,400 to the Chairman of the Board. In addition, an attendance fee of EUR 750 was confirmed for the members of the Board and EUR 1,500 for the Chairman of the Board for each Board meeting, with the exception of meetings held via telephone or email.

The attendance fee for the members of the committees of the Board of Directors for each committee meeting attended by the member, with the exception of meetings held via telephone or email, was confirmed as EUR 400 for members of the committees and EUR 600 for the Chairman of the committee. Reasonable travel expenses related to Board meetings or committee meetings were confirmed to be paid in accordance with the instructions of the Tax Administration.

The firm of authorised public accountants KPMG Oy Ab was elected as the company's auditor. KPMG Oy Ab has informed the company that C.A. Tapio Raappana would continue as the chief auditor. It was decided that the auditor's fee be paid on the basis of an invoice approved by the company.

The Annual General Meeting decided to authorise the Board to decide on the purchase of the company's own shares as one or several items using assets belonging to the shareholders' equity, such that the maximum quantity purchased would be no more than 5,800,000 shares. The shares shall be purchased through public trading organised by NASDAQ OMX Helsinki in accordance with its rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation also entitles the Board of Directors to decide on the purchase of shares other than in proportion to the shares owned by the shareholders (directed purchase). Then, there should be sound financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the

company's share-based incentive systems or otherwise to be transferred or cancelled. The shares purchase can also be stored by the company. The Board of Directors makes decisions on all other conditions and circumstances pertaining to the purchase of own shares. The purchase of own shares reduces the shareholders' surplus. The authorisation will remain valid until the 2018 Annual General Meeting.

The AGM decided to authorise the Board of Directors to decide on the issue of a maximum of 5.800.000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several items. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a cogent financial reason for it from the point of view of the company or, in case of a bonus issue, a particularly cogent financial reason from the point of view of the company and the benefit of all its shareholders. The Board of Directors decides on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares.

Among other things, the authorisation can be used to develop the capital structure, to expand the ownership base, to use as consideration in transactions, when the company purchases assets linked to its operations, and to implement incentive systems. The authorisation is valid until 31 October 2019 and replaces the company's previous share issue and option authorisations.

The AGM decided to amend sections 5 (Signing for the company), 6 (Auditor), 9 (Annual General Meeting) and 10 (Book-entry system) of the company's Articles of Association in accordance with the proposal of the Board.

The AGM decided to found a shareholders' Nomination Committee, which shall prepare annual proposals regarding the members of the Board of Directors and their fees for the next AGM deciding on the election of members.

The AGM approved the charter of the shareholders' Nomination Committee substantially according to the draft proposed by the Board.

The AGM discussed Kari Toivanen's proposal to arrange a special audit, but this was not supported by the required shares representing at least one tenth of all shares issued by the Company or one third of the shares represented at the meeting.

Flagging notifications

On 1 June 2017, Lehto received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act from Asko Myllymäki. According to the notification, Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 31 May 2017. In connection with the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell below the 10 per cent threshold to 8.25 per cent.

Significant events after the reporting period

No such events have occurred after the end of the reporting period that would have a significant or exceptional effect on the company's result, financial position or business development.

Annual general meeting

The Annual General Meeting of Lehto Group Plc will be held on Wednesday 11 April 2018 at 1.00 p.m. at the address Yrttipellontie 1, Oulu.

Board proposal for the use of the profit shown on the balance sheet and for deciding on payment of dividends

The parent company's distributable funds on the balance sheet of 31 December 2017 are EUR 86,936,107.26, of which the operating profit is EUR 12,196,949.24.

The Board of Directors proposes to the Annual General Meeting gathering on 11 April 2018 that the dividend payable on the basis of the balance sheet confirmed for the financial year 1 January–31 December 2017 be EUR 0.34 per share, or a total of EUR 19,805,255.68. The dividend shall be paid to shareholders who on the

record date for the dividend payment, 13 April 2018, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 20 April 2018.

Vantaa, 14 February 2018

Lehto Group Plc

Board of Directors



Financial Statements 2017

Financial Statements (audited)

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Consolidated statement of comprehensive income, IFRS

	Note	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Net sales	2	594 139	361 789
Other operating income	3	1 480	387
Changes in inventories of finished goods and work in progress		45 355	23 921
Capitalised production		796	
Raw materials and consumables used		-245 074	-133 137
External services		-251 406	-162 146
Employee benefit expenses	4	-61 268	-36 921
Depreciation and amortisation	5	-3 161	-2 167
Other operating expenses	6	-19 320	-11 375
Operating profit		61 541	40 351
Financial income	7	307	233
Financial expenses	7	-710	-442
Share of associated company profits (losses)	13	24	3
Profit before taxes		61 162	40 146
Income taxes	8, 16	-11 983	-8 243
Profit for the financial year		49 179	31 904
Profit attributable to			
Equity holders of the parent company		49 217	31 903
Non-controlling interest		-38	1
		49 179	31 904
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Earnings per share, basic		0,84	0,59
Earnings per share, diluted		0,84	0,59

Consolidated balance sheet, IFRS

ASSETS	Note	31 Dec 2017	31 Dec 2016
Non-current assets			
Goodwill	10	4 624	4 624
Other intangible assets	10	2 132	3 398
Property, plant and equipment	11	10 621	8 001
Investment properties	12	757	777
Investments in associated companies	13	820	796
Other financial assets	14	199	199
Receivables	15	1 006	1 050
Deferred tax assets	16	4 325	2 688
Non-current assets total		24 483	21 534
Current assets			
Inventories	17	119 855	77 460
Trade and other receivables	18	127 066	91 689
Current tax assets	18	3	317
Financial assets at fair value through profit or loss	19	23 269	30 120
Cash and cash equivalents	20	44 739	37 570
Current assets total		314 932	237 155
TOTAL ASSETS		339 415	258 689

EQUITY AND LIABILITIES	Note	31 Dec 2017	31 Dec 2016
Equity			
Share capital		100	100
Invested non-restricted equity reserve		69 155	69 155
Translation adjustment		-79	1
Retained earnings		34 346	14 398
Profit for the financial year		49 217	31 903
Capital attributable to equity holders of the parent company		152 740	115 557
Non-controlling interest		271	3
Equity, total	21	153 011	115 560
Non-current liabilities			
Deferred tax liabilities	16	427	432
Provisions	22	4 098	3 044
Financial liabilities	23	11 109	4 093
Other non-current liabilities	24	2 485	3 634
Non-current assets, total		18 119	11 203
Current liabilities			
Advances received	24	69 237	67 287
Trade and other payables	24	72 510	49 418
Current income tax liabilities	24	700	2 681
Financial liabilities	23	25 840	12 540
Current assets, total		168 285	131 927
Liabilities, total		186 404	143 129
TOTAL EQUITY AND LIABILITIES		339 415	258 689

Consolidated cash flow statement, IFRS

	Note	31 Dec 2017	31 Dec 2016
Cash flow from operating activities			
Profit for the financial year		49 179	31 904
<i>Adjustments:</i>			
Non-cash items	22	707	1 783
Depreciation and amortisation		3 161	2 167
Share of associated company profits (losses)		-24	-3
Financial income and expenses		403	224
Capital gains		-4	-71
Dividends received		-1	-16
Income taxes		11 983	8 243
<i>Changes in working capital:</i>			
Change in trade and other receivables		-40 616	-32 850
Change in inventories		-42 396	-25 316
Change in trade and other payables		30 579	30 345
Interest paid and other financial expenses		-764	-441
Financial income received		307	214
Income taxes paid		-15 292	-7 878
Net cash from operating activities		-2 777	8 304
Cash flow from investments			
Investments in property, plant and equipment		-4 082	-7 413
Investments in intangible assets		-412	-144
Acquisition of subsidiaries ¹⁾		-1 053	-4 490
Proceeds from sale of property, plant and equipment and intangible assets		4	53
Purchases of available-for-sale financial assets and proceeds		0	91
Repayments of loan receivables		6 216	65
Loans granted		-933	-2 311
Dividends received		1	16
Net cash from investments		-259	-14 133

	Note	31 Dec 2017	31 Dec 2016
Cash flow from financing			
Loans drawn	23	51 673	9 130
Loans repaid	23	-34 870	-8 992
Equity loans interest paid			-174
Acquisition of non-controlling interest ¹⁾		-939	-921
Dividends paid		-12 815	-7 929
Share issue		306	60 505
Direct cost related to paid share issue			-2 714
Net cash used in financing activities		3 354	48 903
Change in cash and cash equivalents (+/-)		318	43 074
Effects of exchange rate change		-1	
Cash and cash equivalents at the beginning of the financial year		67 690	24 616
Cash and cash equivalents at the end of the financial year	19, 20	68 008	67 690

1) The acquisition of non-controlling interest is due to the additional purchase prices paid to the sellers of non-controlling interest acquired in previous financial periods.

Consolidated statement of changes in equity, IFRS

CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Invested non-restricted equity reserve	Equity loan	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2016	100	5 830	4 992	22 432	33 354	38	33 391
Comprehensive income							
Profit or loss for the financial period				31 903	31 903	1	31 904
Total comprehensive income				31 903	31 903	1	31 904
Transactions with equity holders							
Distribution of dividends				-7 929	-7 929		-7 929
Share issue		65 497	-4 992		60 505		60 505
Direct expenses related to share issue		-2 172			-2 172		-2 172
Share-based compensation				33	33		33
Equity loan interest				-138	-138		-138
Other changes				1	1	-35	-34
Transactions with equity holders, total		63 325	-4 992	-8 033	50 300	-35	50 265
Equity at 31 December 2016	100	69 155		46 301	115 557	3	115 560
Equity at 1 January 2017	100	69 155		46 301	115 557	3	115 560
Comprehensive income							
Profit or loss for the financial period				49 217	49 217	-38	49 179
Total comprehensive income				49 217	49 217	-38	49 179
Transactions with equity holders							
Distribution of dividends				-12 815	-12 815		-12 815
Share-based compensation				858	858		858
Other changes				-76	-76	306	230
Transactions with equity holders, total				-12 034	-12 034	306	-11 728
Equity at 31 December 2017	100	69 155		83 485	152 740	271	153 011

Accounting principles for the consolidated financial statements

Group basic information

Lehto Group is a construction and real estate group. The parent company is Lehto Group Plc and its business operations are organised for its subsidiaries. The parent company is domiciled in Kempele. The registered address is Voimatie 6 B, 90440 Kempele, Finland.

Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc's Board of Directors approved the financial statements on 14 February 2018. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2017. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

The Group adopted the IFRS in the financial reporting on 1 January 2013 and applied in this connection IFRS 1 First-time Adoption of International Financial Reporting Standards. The date of transition was 1 January 2012.

The consolidated financial statements are prepared on historical cost basis except for available-for-sale financial assets which are measured at fair value. The financial information is presented in thousands of euro.

Principles of consolidation

The consolidated financial statements include the parent company Lehto Group Plc and all subsidiaries in which the parent company directly or indirectly holds more than 50% of the voting rights or in which the Group otherwise has control. The criteria for control are fulfilled when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. Subsidiaries acquired are consolidated from the date when the Group obtains control. Mutual holdings are eliminated using the acquisition method. All intra-Group transactions and internal profits, receivables and liabilities are eliminated in the consolidated financial statements. The number of shareholders' equity attributable to non-controlling shareholders is shown as a separate item under shareholders' equity.

Property, plant and equipment

Property, plant and equipment are measured at the original acquisition price less accumulated depreciation and impairments. They are depreciated during their estimated useful lives. The Group's property, plant and equipment include machinery and equipment, factory property in own use as well as other tangible assets, which mainly consist of capitalised renovation expenses for rental apartments. The residual value, useful lives and method of depreciation of property, plant and equipment are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

Goodwill and other intangible assets

Goodwill

Goodwill arising in business combinations is measured as the excess of the total of the consideration transferred, the non-controlling interest in the acquiree and the previously held interest over the fair value of the acquired net assets.

The Group has applied a relief in accordance with IFRS 1 from applying IFRS 3 on business transactions before the transition date; therefore, the deemed cost of goodwill is measured at carrying amount in accordance with previous GAAP.

Goodwill is tested for impairment annually and whenever there is any indication that an asset may be impaired. For this purpose, goodwill is allocated to cash-generating units. Goodwill is recognised at cost less accumulated impairment losses.

Other intangible assets

An intangible asset is recognised in the balance sheet at the original acquisition cost if its acquisition cost can be determined reliably and it is likely that an expected economic benefit will flow to the Group from it.

Intangible rights are software and licenses as well as customer relationships based on agreements acquired through business combinations. Customer relationships based on agreements acquired in business combinations are recognised at the fair value at the acquisition date. Their useful lives are finite, so they are recognised in the balance sheet at acquisition cost less accumulated amortisation. The group's intangible assets have finite useful lives and they are amortised in straight-line instalments during their estimated useful lives.

The amortisation period for intangible rights and other intangible assets is 3–5 years. The residual value, useful lives and method of amortisation are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

Investment properties

Investment properties are properties which the Group holds in order to obtain rental income or appreciation in value or both. At inception investment properties are recognised at acquisition cost, which includes transaction costs. Investment properties are subsequently valued at the original acquisition price less accumulated depreciation and impairments. Investment properties are depreciated in straight-line instalments during their estimated useful lives. Land areas are not depreciated. Investment properties are business and residential properties and the estimated useful life of buildings and structures on these properties is 20 years. The residual value, useful lives and method of depreciation of investment properties are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

The fair values of investment properties are disclosed in the notes to the financial statements. Rental income obtained from investment properties is recorded on a straight-line basis over the period of the lease.

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount from the asset item is estimated. Goodwill's recoverable amount is estimated annually regardless of whether there is any indication of impairment. Goodwill is also tested for impairment whenever there is any indication that the value of a unit may be impaired. Goodwill is tested for impairment at the level of individual cash-generating units, which is the lowest unit level mainly independent of other units and the cash flows of which are separable and mainly independent of cash flows of other corresponding units. A cash-generating unit is the lowest level within the Group at which goodwill is monitored for the purposes of internal management.

Recoverable amount is the higher of a unit's fair value less costs of disposal and its value in use. Value in use is the estimated discounted future net cash flows expected to be derived from the cash-generating unit. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is recognised as an expense. An impairment loss on a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. At recognition of the impairment loss, the useful life of the depreciated assets is reassessed. Impairment loss of other assets than goodwill is reversed in the case that a change has occurred in the estimates used in measuring the recoverable amount of the asset. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed.

Associated companies

Associated companies are companies over which the Group has significant influence. Significant influence exists when the Group owns more than 20% of the company's voting power or when it otherwise has significant influence but not control. Associated companies have been consolidated using the equity method of accounting.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. There are two types of joint arrangements: joint operations and joint ventures. Joint ventures arise where the Group has rights to the net assets of the arrangement, whereas joint operations arise where the Group has rights to the assets and obligations relating to the liabilities of the arrangement. Joint ventures are consolidated using the equity method of accounting. The Group has no such companies. The Groups interest in joint operations are consolidated in proportion to holding. Each item of assets, liabilities, income and expenses of jointly controlled entities are consolidated line by line into corresponding assets in the consolidated financial statement in proportion to holding.

Inventories

Inventories are valued at the lower of acquisition cost and expected net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are comprised of sites under construction, completed sites intended for sale and raw materials and supplies used in the operations. The acquisition cost of these comprises the value of the plot and other raw materials, borrowing costs, planning costs, direct costs of labour and other direct and indirect costs relating to the construction projects.

Financial assets and liabilities

Financial assets

The Group has classified its financial assets into the following categories: loans and other receivables and available-for-sale financial assets. Financial assets are classified according to their purpose when acquired and at the time of acquisition. Transaction costs have been included in the original carrying amount. Purchases and sales of financial assets and liabilities are recognised on the trade date at fair value. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not held for sale or not specifically classified as available-for-sale at the time of original recognition. Their valuation is based on the amortised cost using the effective interest method. These are included in the balance sheet according to their nature in current or, if they mature in more than 12 months, in non-current assets.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the end of the reporting period, whereby they are included in current assets. Available-for-sale financial assets may comprise shares and interest-bearing investments. Change in fair value is recognised in other comprehensive income and presented under shareholder's equity within the fair value reserve included in the item Other reserves, net of tax.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. However, investments are subject to a greater risk of change in value than cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. Items included in cash and cash equivalents have original maturities of three months or less.

Financial liabilities

Financial liabilities are recognised initially at fair value. Transaction costs are included in the original carrying amount of financial liabilities at periodised acquisition cost. Financial liabilities are subsequently carried at amortised cost using the effective interest method. Financial liabilities are classified as non-current or current. The latter group comprises all those financial liabilities for which the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Derivatives

Derivatives are originally carried at fair value at the trade date and are subsequently measured at fair value. The Group does not apply hedge accounting on derivatives. At the balance sheet date, the Group had no derivatives.

Capitalisation of borrowing costs

Borrowing costs directly arising as a result of the acquisition, construction or manufacturing of a qualifying asset are capitalised as part of the acquisition cost of the asset in question. A qualifying asset is one that takes a substantial period of time to complete for its intended purpose. Capitalisation commences when the company first incurs expenditures for a qualifying asset giving rise to borrowing costs, and when it undertakes activities that are necessary for preparation of the asset for its intended use or for sale. Capitalisation ceases when all activities necessary to complete the asset for its intended use or sale have been carried out. In developer contracting housing projects, borrowing costs are capitalised in construction stage and recorded above operating profit as project cost upon delivery.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The Group's provisions are guarantee provisions based on estimated supplementary work expenses of completed contracts. The amount of a guarantee provision is estimated on the basis of experience of the materialisation of such guarantee expenses. If guarantee provisions materialise in an amount greater than estimated, the portion in excess is recorded as expense at the same time. If the provision is deemed excessive after the end of the guarantee period, the provision is released through profit or loss.

10-year liabilities in own building developments are presented as provisions to the extent their realisation is deemed probable and the amount of liability arising from them can be estimated reliably.

Provision is made for onerous contracts when the amount of expenditure required by the agreement to fulfil the obligations exceeds the benefits that may be derived from it.

A contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is only confirmed by one or more uncertain future events not wholly within the control of the group or when there is an obligation that is not recognised as a liability or provision because it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably estimated. Contingent liabilities are not recognised, but disclosed in the notes to the financial statements. At the balance sheet date, the Group had no contingent liabilities.

Leases

Group as lessee

Property, plant and equipment leases in which a significant portion of the risks and rewards of ownership are transferred to the Group are classified as finance leases. Lease agreements concerning assets in which the Group holds a material share of the risks and benefits of ownership are treated as other lease agreements. Rents paid on other lease agreements are expensed in even instalments in the income statement over the duration of the rental period. All of the Group's lease agreements are classified as other lease agreements.

Revenue recognition principles

Long-term construction contracts and service agreements

Income from a construction project is recognised according to the stage of completion of the project if the project meets the criteria for a construction contract and its outcome can be estimated reliably. Construction contract projects are especially negotiated agreements and the buyer can influence on project features before construction start-up or during construction. If the outcome of the project cannot be reliably estimated, income is recognised only to the extent the amount corresponding to actually occurred costs are probably recoverable and expenses are recognised during the financial year they occur. The stage of completion is determined mainly as the ratio of actually incurred costs to estimated total costs if it does not materially differ from the physical degree of completion of construction. If physical stage of completion is applied in revenue recognition, the stage of completion is based on a stage of completion certificate issued by a third party. If it is likely that the total costs of project completion exceed the total income from the project, the expected loss is recorded entirely as an expense.

Revenue recognised upon delivery

Income from property construction projects where the buyer has no right to influence the main features of the property is recognised upon completion in accordance with revenue recognition principles for sale of goods when risks and benefits related to the property have been transferred to the buyer. For apartments sold in construction phase, risks and benefits are deemed to have transferred upon completion, and for completed apartments, upon sale.

Sales of real estate properties and goods

Income from sales of real-estate properties and goods is recorded when the significant risks and benefits associated with the ownership of the goods have transferred to the buyer. This mainly refers to the point of time when the product is delivered to the customer in accordance with the agreed terms and conditions. Net sales include income recorded at fair value, adjusted with indirect taxes and any discounts granted.

Recognition of interest and dividend income

Interest income is recognised using the effective interest method. Dividends are recorded when the right to receive payment is established.

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group has defined it as follows: operating profit is the net sum which is formed by adding other operating income to net sales and then deducting changes in the inventory of finished goods and work in progress, raw materials and consumables used, external services, cost of employee benefits, depreciation, amortisation and possible impairment losses and other operating expenses. All other items of income statement are presented below operating profit.

Employee benefits

Pension obligations

Group companies have pension plans. The plans are classified as either defined benefit plans or defined contribution plans. A defined contribution plan is a pension plan under

which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the pension benefits. All arrangements that do not meet these criteria are defined benefit plans. Payments made to the defined contribution plans are recognised in the income statement in the period in which they were incurred. All of the Group's pension plans are defined contribution plans.

Share-based incentive plans

The company has two share-based incentive plans in place. Rewards are paid under the incentive plan partly in the form of shares and partly in the form of cash. The portion that is paid in shares is recognised at fair value at the grant date. The expense recognised for the incentive plan is based on the Group's estimate on the number of shares that eventually vest at the end of the vesting period. The costs of share-based rewards are recognised as employee benefit expenses and in equity over the vesting period. The costs of cash rewards are recognised as employee benefit expenses and liabilities over the vesting period. The liability is revalued at each balance sheet date.

Related party transactions

The Group's related parties include Group companies, members of the Board of Directors and the Group's top managements as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures. Transactions with related parties are disclosed in Note "Related party transactions".

Income taxes

Tax expenses on the consolidated income statement include taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred tax liabilities and assets. Tax consequences relating to items recognised directly in equity are similarly recognised as equity.

Changes in deferred taxes are calculated on temporary differences between the carrying amount and taxable value on the basis of the tax rate in force at the balance sheet date or confirmed tax rates entering into force subsequently. Deferred tax assets have been recognised to the extent that it is probable that taxable income against

which the temporary difference can be applied will materialise in the future. The most significant temporary differences arise from unused taxable losses, revenue recognised for construction contracts by stage of completion and capitalisation of and financial expenses.

Tax-deductible losses have been taken into account as deferred tax assets to the extent that it is probable that the company can use them in the near future. No deferred taxes are calculated on goodwill that is not deductible in taxation.

Accounting principles requiring management judgement and the main factors of uncertainty affecting the estimates

When financial statements are prepared, the management must make estimates and exercise judgement in the application of the accounting policies. These estimates and decisions have an effect on the amounts of assets, liabilities, income and expenses and contingent liabilities recorded for the reporting period. The estimates and assumptions are based on historical experience and other justifiable assumptions deemed reasonable in the conditions where items entered in the financial statements have been estimated.

Management has exercised judgement in determining the economic lives of intangible assets and property, plant and equipment and investment properties. The most significant estimates at the balance sheet date and assumptions about the future relating to stage of completion revenue recognition, inventories, provisions and impairment testing. Below are presented the most significant items of the financial statements where management judgement and estimates were required.

Stage of completion revenue recognition

In construction contracts recognised using the stage of completion method revenue is based generally on the contract and revenue projections for the projects are estimated on a regular basis. Project total costs are based on the management's best estimate of the trend in total cost of project completion. The actual income and costs incurred and the estimated result are monitored regularly on a monthly basis.

Inventories

The Group assess the valuing of inventory and possible decrease in value on its best estimate on a regular basis. The value of finished, unsold sites included in inventories is the lower of their acquisition cost and the probable selling price. When estimating the probable selling price, the management takes into account the market situation and possible demand for the site.

Provisions

Provisions mainly consist of guarantee provisions typical for the industry. The amount is estimated on the basis of experience of the materialisation of such guarantee expenses.

Goodwill impairment testing

Goodwill is tested for impairment annually. Recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The cash flows in value-in-use calculations are based on the management's best estimate of profit and market development. Estimates used in goodwill testing are disclosed in Note 10.

New and revised standards and interpretations

The Group has applied the following new and amended standards as from 1 January 2017:

- Amendment to IAS 7 Disclosure Initiative
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 12 (not yet endorsed for use by the European Union)
- Annual improvements to IFRSs, 2014–2016 cycle

New or amended standards have no significant impact on the financial statements. Due amendments to IAS 7 minor changes has been made to presentation of financial statements.

The following new and amended standards relating to preparing consolidated financial statements must be applied on financial periods starting on 1 January 2017 or thereafter:

- IFRS 4 Insurance Contracts
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 and IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- IAS 40 Investment properties

New or amended standards mentioned above have no significant impact on the financial statements or the affect only requirements for the notes to financial statements.

The Group is still assessing the impacts of the following new standards:

The entry into force of the IFRS 15 Revenue from Contracts with Customers standard does not have a material impact on the consolidated financial statements apart from changing disclosure requirements. The Company's contracts with customers are generally less than 12 months in duration; hence, the final impact can only be assessed closer to the time of application. Based on our initial analysis, we have identified sections in our customer contracts that may be affected by the standard to a minor degree. These include the combination of customer contracts, the recognition of revenue from additional work not part of the contracts and the treatment of variable consideration. The long-term projects that are recognised using the percentage-of-completion method in accordance with the current standards mostly meet the IFRS 15 criteria for revenue recognition over time. Therefore, the time of revenue recognition for projects is not expected to significantly change. Developer contracting revenue will continue to be recognised when control is passed, i.e. at a certain point in time, if it does not meet the criteria for recognition over time. Based on our analysis, the Company does not expect the time of revenue recognition for projects to significantly change. The new standard will be applied in the financial year beginning on 1 January 2018. The Group will apply

the new standard retroactively from 1 January 2018 in accordance with IAS 8, and will present adjusted comparative data for 2017. The impact on the company's net sales for 2017 is minor.

IFRS 16 Leases will replace the IAS 17 standard. Most of the company's lease agreements are for office premises and small machinery and equipment. These can be terminated at short notice. The Company estimates that the new standard will not have a material impact on the consolidated financial statements, at least with regard to the current leases. However, as the lessee, the company has a long-term business-premises leasing contract, which will begin in 2018. The liabilities related to this contract are presented under business-premises leasing liabilities, and classified as assets and liabilities in accordance with IFRS 16.

IFRS 9 Financial Instruments will bring major changes to the classification and measurement of financial instruments, liabilities and investments as well as to the recognition of credit losses and hedge accounting. The new standard primarily applies to banks, but it also affects businesses in other sectors. The Group estimates that the new standard will not have a material impact except for changing disclosure requirements. For the purpose of determining the impairment of financial assets, a simplified model based on expected credit losses will apply from January 1, 2018, when impairment losses on trade receivables are recognised at an amount equal to the expected credit losses for the entire term of validity.

IFRS 2 Share-based payments in light of the standard's amendment The Group's share plans are fully accounted for as shares to be settled as plans, when they were previously treated as shares to be settled in cash. As of 1 January 2018, the portion of the plan previously recognised as a liability in the application of the standard's amendment will be recognised in equity. However, the amendment will have no material impact on the consolidated financial statements.

Notes to the consolidated financial statements

1. OPERATING SEGMENTS

The Group has one operating segment, Building Services. The company operates geographically mainly in Finland only. The Group Management Team is the chief operating decision-making body responsible for estimating the profitability of the operating segment and for resourcing decisions. Group management reporting is based on financial statements prepared in accordance with the IFRS standards.

Profit or loss	2017	2016
Net sales	594 139	361 789
Other operating income	1 480	387
Other operating expenses	-530 917	-319 658
Depreciation and amortisation	-3 161	-2 167
Operating profit	61 541	40 351
Interest income	307	233
Interest costs	-710	-442
Shares of associated company results	24	3
Segment's profit/loss before income taxes	61 162	40 146
Assets		
Segment's assets	339 415	258 689
Investments in associated companies	820	796
Investments	4 493	4 493
Liabilities		
Segment's liabilities	186 404	143 129

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 42.5 million in 2017 (EUR 40.3 million in 2016), corresponding to approx. 7% (11%) of the segment's net sales. In 2017, the share of net sales of the largest individual customer was 3% (3% in 2016).

2. NET SALES

	2017	2016
Long-term construction contracts and service agreements	459 041	225 613
Revenue from housing units recognised upon delivery	134 414	135 961
Rental income	684	215
Total	594 139	361 789

Rental income shown in net sales relates to items that form the company's actual business. Rental income relates to items that the company has itself built.

By the end of the financial year, costs incurred and recognised profits (net of losses) for construction contracts in progress amounted to EUR 239.1 million (EUR 196.9 million in 2016) and receivables to EUR 55.0 million (EUR 41.7 million) and advances received to EUR 11.4 million (EUR 24.2 million).

3. OTHER OPERATING INCOME

	2017	2016
Rental income	100	147
Subsidies	2	4
Damages	27	165
Capital gains	4	71
Change in estimated additional purchase price liabilities from acquired business	1 326	
Other income	22	0
Total	1 480	387

Rental income shown in other operating income relates to items that doesn't arise from the company's actual business. Capital gains consist of the gain on sales of share investments.

4. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and wages	48 296	29 558
Share-based incentives, portion to be paid out in cash	758	42
Share-based incentives, to be paid out in shares	858	33
Pension costs— defined contribution plans	8 900	6 541
Other personnel costs	2 455	748
Total	61 268	36 921

More detailed description of share-based incentive plans is in note "Equity".

Number of personnel in average during the year, Group

	2017	2016
Salaried employees	512	296
Workers	501	270
Total	1 013	566

Number of personnel at the end of the financial year, Group

	2017	2016
Salaried employees	579	392
Workers	605	355
Total	1 184	747

5. DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment	2017	2016
Machinery and equipment	995	493
Other tangible assets	90	8
Total	1 085	501

Amortisation of intangible assets	2017	2016
Customer relationships	1 218	993
Other intangible assets	460	321
Total	1 678	1 314

Depreciation of investment properties	2017	2016
Properties in own use	377	350
Buildings and structures	20	3
Total	397	353
Depreciation and amortisation, total	3 161	2 167

6. OTHER OPERATING EXPENSES

	2017	2016
Voluntary personnel expenses	2 346	1 442
Business premises expenses	2 361	1 600
Equipment expenses	3 140	1 627
Travel expenses	2 840	2 120
Product development expenses	509	217
Office expenses	966	530
Marketing expenses	2 157	1 302
Administrative services	1 721	1 367
Other operating expenses	3 281	1 170
Total	19 320	11 375

Fees paid to auditor:	2017	2016
Audit fees	192	142
Professional services related to share issue		238
Certificates and statements	20	9
Other services	28	52
Total	240	441

7. FINANCIAL INCOME AND EXPENSES

Financial income	2017	2016
Dividend income from available-for-sale financial assets	1	16
Other financial income	307	218
Total	307	233

Financial expenses	2017	2016
Interest costs	804	718
Capitalised interest costs	-468	-586
Other financial expenses	373	310
Total	710	442
Financial income and expenses, total	-403	-208

8. INCOME TAXES

	2017	2016
Current income tax	-13 627	-8 121
Change deferred tax assets	1 640	-87
Change deferred tax liabilities	5	-34
Total	-11 983	-8 243

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country

	2017	2016
Tax rate	20.0%	20.0%
Profit before taxes	61 162	40 146
Taxes calculated at the tax rate of the domicile country	12 232	8 029
Tax-exempt income	-592	-27
Non-deductible expenses	361	250
Taxes for the previous financial years	-11	-10
Other items	-7	
Total	11 983	8 243

9. SHARE-BASED KEY FIGURES

	2017	2016
Profit for the financial year attributable to equity holders of the parent company	49 217	31 903
Issue-adjusted average number of shares during the year, basic	58,250,752	54,067,297
Earnings per share, basic, EUR/share	0.84	0.59
Issue-adjusted average number of shares during the year, diluted	58,432,315	54,073,804
Earnings per share, diluted, EUR/share	0.84	0.59
Issue-adjusted average number of shares at the end of year	58,250,752	58,250,752
Equity / share	2.63	1.98
Dividend / share	0.34 ^{*)}	0.22

^{*)} Dividend proposal

10. OTHER INTANGIBLE ASSETS

Intangible assets 2017	Goodwill	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2017	4 624	4 282	1 616	10 521
Increases			412	412
Acquisition cost at 31 Dec. 2017	4 624	4 282	2 027	10 933
Accumulated depreciation and amortisation at 1 Jan. 2017		-1 758	-741	-2 499
Amortisation			-198	-198
Depreciation		-1 218	-262	-1 480
Accumulated depreciation and amortisation at 31 Dec. 2017		-2 976	-1 202	-4 178
Carrying amount at 1 Jan. 2017	4 624	2 524	874	8 022
Carrying amount at 31 Dec. 2017	4 624	1 306	826	6 755

Intangible assets 2016	Goodwill	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2016	1 682	2 782	961	5 425
Increases	2 942	1 500	654	5 096
Acquisition cost at 31 Dec. 2016	4 624	4 282	1 616	10 521
Accumulated depreciation and amortisation at 1 Jan. 2016		-765	-421	-1 186
Depreciation		-993	-321	-1 314
Accumulated depreciation and amortisation at 31 Dec. 2016		-1 758	-741	-2 499
Carrying amount at 1 Jan. 2016	1 682	2 017	540	4 239
Carrying amount at 31 Dec. 2016	4 624	2 524	874	8 022

Cash-generating unit: Building Services	2017	2016
Goodwill	4 624	4 624

Allocation of and recording impairment losses

There was no indication of impairment within the Group.

Impairment tests

Goodwill is allocated to the cash-generating unit, Building Services. For the purposes of impairment testing, recoverable amounts at company level have been determined based on value-in-use calculations. Cash flow forecasts are based on forecasts accepted by the management, covering the time span of two years. Cash flows after the forecast period accepted by the management have been extrapolated at a constant growth factor of 2 per cent in the relevant units based on the estimate of future level of inflation. Key assumptions used in value-in-use calculation were the following:

1. Budgeted operating profit – Determined based on the management's estimate of the development of company-level expenses and the actual average operating profit level in applying the concept of economically driven construction. No material changes are expected for operating profit.
2. Budgeted net sales – Determined based on the market share according to the materialised industry statistics from the previous year and the management's estimate of future market development. The market share is not expected to change substantially.
3. Discount rate – Determined with weighted average cost of capital (WACC) which describes the total cost of equity and borrowed capital, taking into account special risks relating to asset items. The discount rate is determined before taxes.
4. Growth rate during the period – The growth factor used corresponds to the management's estimate of the future development of the companies during the next two financial years.

	2017	2016
Discount rate	7.34%	7.85%
Growth rate	2.00%	2.00%

Sensitivity analysis

According to sensitivity analyses prepared by the management no reasonably possible change in any of the key assumptions used would result in a situation where the recoverable amounts of the units would fall below their carrying amounts.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2017	Properties in own use	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1 Jan. 2017	5 129	5 019	68	10 216
Increases	864	2 266	951	4 082
Acquisition cost at 31 Dec. 2017	5 993	7 286	1 019	14 298
Accumulated depreciation and amortisation at 1 Jan. 2017	-350	-1 847	-18	-2 215
Depreciation	-377	-995	-90	-1 462
Accumulated depreciation and amortisation at 31 Dec. 2017	-727	-2 842	-107	-3 677
Carrying amount at 1 Jan. 2017	4 779	3 172	50	8 001
Carrying amount at 31 Dec. 2017	5 266	4 444	911	10 621

Property, plant and equipment 2016	Properties in own use	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1 Jan. 2016		2 117	153	2 270
Increases	5 129	2 902	-85	7 946
Acquisition cost at 31 Dec. 2016	5 129	5 019	68	10 216
Accumulated depreciation and amortisation at 1 Jan. 2016		-1 354	-10	-1 364
Depreciation	-350	-493	-8	-851
Accumulated depreciation and amortisation at 31 Dec. 2016	-350	-1 847	-18	-2 215
Carrying amount at 1 Jan. 2016		763	143	906
Carrying amount at 31 Dec. 2016	4 779	3 172	50	8 001

12. INVESTMENT PROPERTIES

Investment properties 2017	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2017	202	809	1 011
Acquisition cost at 31 Dec. 2017	202	809	1 011
Accumulated depreciation and amortisation at 1 Jan. 2017		-234	-234
Depreciation		-20	-20
Accumulated depreciation and amortisation at 31 Dec. 2017		-255	-255
Carrying amount at 1 Jan. 2017	202	575	777
Carrying amount at 31 Dec. 2017	202	554	757

Investment properties 2016	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2016	202	808	1 011
Increases		1	1
Acquisition cost at 31 Dec. 2016	202	809	1 011
Accumulated depreciation and amortisation at 1 Jan. 2016		-231	-231
Depreciation		-3	-3
Accumulated depreciation and amortisation at 31 Dec. 2016		-234	-234
Carrying amount at 1 Jan. 2016	202	577	779
Carrying amount at 31 Dec. 2016	202	575	777

Net rental income	2017	2016
Rental income from investment properties	85	74
Direct maintenance costs for investment properties	30	25
	55	49

Fair values of investment properties

The Group's investment properties are properties available for rent. Investment properties are recognised using the acquisition cost method and they are not valued at fair value through profit and loss.

Balance sheet values and fair values of investment properties	Valuation method	Balance sheet value 2017	Fair value 2017	Level
Business property	Acquisition cost	554	611	3
Land area	Acquisition cost	202	202	3
		757	813	

The fair values of investment properties are determined by the company itself using the cash flow method. Fair values of level 3 asset items are based on input data concerning the asset item, which are not based on verifiable market information but are based substantially on management estimates and their use in generally accepted valuation models.

13. INVESTMENTS IN ASSOCIATED COMPANIES

	2017	2016
Investments in associated companies at 1 Jan.	796	793
Increases		34
Elimination of Group's internal profit		-34
Share of profit or loss for the financial year	24	3
Investments in associated companies at 31 Dec.	820	796

Associated companies 2017	Koy Zemppe	Koy Limingan Arvo-kiinteistöt	Koy Haukiputaan Arvo-kiinteistöt
Holding	33.33%	38.10%	29.41%
Assets	9 552	4 035	4 309
Liabilities	9 452	1 897	4 290
Net sales	0	416	397
Profit/loss for the financial year	0	50	16

Associated companies owned by the Group are immaterial investments from the Group's viewpoint, when considered separately.

14. OTHER FINANCIAL ASSETS

Available-for-sale financial assets	2017	2016
Available-for-sale financial assets at 1 Jan.	199	277
Decreases		-78
Available-for-sale financial assets at 31 Dec.	199	199

Available-for-sale financial assets are unlisted share investments and housing-company shares in the Group's own use or in rental use. The shares are recognised at acquisition cost because there is no quoted price for fully similar instruments in active market. Available-for-sale financial assets are classified at level 3 in the hierarchy.

15. NON-CURRENT RECEIVABLES

	2017	2016
Receivables from associated companies	475	485
Loan receivables	363	388
Other receivables	169	178
Total	1 006	1 050

16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2017	1 Jan 2017	Increases	Recognised in income statement	31 Dec 2017
Inventory item internal margin	81		-81	0
Fixed assets internal margin			28	28
Confirmed losses	375		-38	337
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	2 224		1 737	3 961
Other temporary differences	8		-8	
Exchange rate difference in opening balance	-1		3	-1
Total	2 688		1 640	4 325
Deferred tax liabilities 2017				
Temporary differences from capitalisation of financial expenses	33		-16	17
Other temporary differences	399		11	410
Total	432		-5	427

Deferred tax assets 2016	1 Jan 2016	Increases	Recognised in income statement	31 Dec 2016
Inventory item internal margin	23		59	81
Confirmed losses	797		-422	375
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	1 956		268	2 224
Other temporary differences			8	8
Exchange rate difference in opening balance				-1
Total	2 776		-87	2 688

Deferred tax liabilities 2016

Temporary differences from capitalisation of financial expenses	34		-1	33
Other temporary differences	64	300	36	399
Total	97	300	34	432

17. INVENTORIES

	2017	2016
Materials and supplies	2 845	697
Work in progress	105 729	64 194
Completed products	9 336	4 939
Inventory shares	1 109	6 115
Other inventories	835	1 514
Total	119 855	77 460

18. TRADE AND OTHER RECEIVABLES

	2017	2016
Trade receivables	65 932	40 189
Loan receivables	1 812	7 060
Current tax assets	3	317
Other receivables	3 311	2 341
Receivables from customers for constructing contracts	54 966	41 742
Adjusting entries for assets	1 046	357
Total	127 069	92 005

Ageing analysis of trade receivables

	2017	2016
Not yet due	60 071	30 049
Due for		
less than 30 days	3 833	4 045
30–60 days	507	2 011
61–90 days	919	650
more than 90 days	602	3 434
Total	65 932	40 189

No significant concentrations of credit risk are associated with the receivables. The balance sheet values equal reasonably to fair values.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
Financial assets at fair value through profit or loss	23 269	30 120
Total	23 269	30 120

Financial assets at fair value through profit or loss include held-at-call fund units, which are short-term and highly liquid investments. The fair value of the investment is determined using the buying rate of the counterparty at the end of the reporting period.

20. CASH AND CASH EQUIVALENTS

	2017	2016
Cash in hand and at banks	44 739	37 570
Total	44 739	37 570

21. EQUITY

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
31 December 2015	22,655,202	100	5 830	5 930
Share split 30 March 2016	22,655,202			
Directed share issue on 28 April 2016	11,874,705		58 333	58 333
Conversion of equity loan on 28 April 2016	1,065,643		4 992	4 992
31 December 2016	58,250,752	100	69 155	69 255
31 December 2017	58,250,752	100	69 155	69 255

SHARES AND SHARE CAPITAL*Annual General Meeting on 11 April 2017*

The Annual General Meeting held on 11 April 2017 decided to authorise the Board to decide on the purchase of the company's own shares as one or several items using assets belonging to the shareholders' equity, such that the maximum quantity purchased would be no more than 5,800,000 shares. The shares shall be purchased through public trading organised by NASDAQ OMX Helsinki in accordance with its rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation also entitles the Board of Directors to decide on the purchase of shares other than in proportion to the shares owned by the shareholders (directed purchase). Then, there should be sound financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the company's share-based incentive systems or otherwise to be transferred or cancelled. The shares purchase can also be stored by the company. The Board of Directors makes decisions on all other conditions and circumstances pertaining to the purchase of own shares. The purchase of own shares reduces the shareholders' surplus. The authorisation will remain valid until the 2018 Annual General Meeting.

The AGM decided to authorise the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through a share issue or by granting rights of option or other special rights entitling to shares as one or several items. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or as a bonus issue. In contrast to the company's shareholders' privilege, new shares can be directly issued and own shares held by the company directly transferred if there is a cogent financial reason for it from the point of view of the company or, in case of a bonus issue, a particularly cogent financial reason from the point of view of the company and the benefit of all its shareholders. The Board of Directors decides on all other conditions and circumstances pertaining to a share issue, to the granting of special rights entitling to shares, and to the transfer of shares.

At balance sheet date, the number of shares totalled 58,250,752. The share capital is EUR 100,000. The company has one series of shares and all shares are of the same class. Each share entitles its holder to one vote in the General Meeting of Shareholders and to an equal amount of dividend.

Invested non-restricted equity reserve

The invested non-restricted equity reserve contains equity investments and that part of the share subscription price that has not specifically been allocated to share capital. The funds received from the IPO, less total fees and expenses for the IOP, have been recorded to invested non-restricted equity reserve.

Share-based compensations

On 20 December 2016, The Board of Directors of Lehto Group Plc resolved to launch two new share-based incentive plans for the Group key employees. The aim of the plans is to combine the objectives of the shareholders and the key employees in order to increase the value of the Company in the long-term, to commit the key employees to the Company, and to offer them competitive reward plans based on earning the Company's shares.

The potential reward from the long-term incentive plan will be paid to the key employees after a two-year restriction period partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2016 and 2017 correspond to the value of an approximate maximum total of 1,000,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

After the earning period, the gross performance bonus entered for the participant in the performance bonus plan will be converted into shares. When converting the performance bonus into shares, the trade volume weighted average quotation on Nasdaq Helsinki Oy (conversion rate) will be the weighted trading rate of the 20 trading days following the date of release of the company's financial statement bulletin. For the earning period 2016, the performance bonus for members of the share plan was EUR 771,000, which was converted into 63,215 shares.

Arrangement	Earning period	
	2016	2017
Nature of arrangement	Shares	Shares
Date of issue	11 April 2017	11 April 2017
Number of instruments issued	63,215	118,348 (estimate)
Share price on grant date	12.46	12.46
Period of validity	2 years	3 years
Expected performance, %	100%	100%
Terms and conditions of conferral of right	Variable terms based on the fulfilment of non-market, performance-based terms	Variable terms based on the fulfilment of non-market, performance-based terms
Carried out	As shares	As shares

For the 2016 and 2017 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2017 will be adjusted according to the terms and conditions once the conversion rate (subscription price) has been established. The number of shares issued on the balance sheet date is based on an estimate.

The fair value of the shares is based on the quoted share price. EUR 800 thousand is recognised as a liability payable in cash. The amount recognised as an expense is presented under "Employee benefit expenses" in the Notes.

Furthermore, the Board of Directors resolved on the Group's new restricted share plan. The reward from the restricted share plan is based on a key employee's valid and continuing employment or service during the restriction period. The reward will be paid

after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2017.

22. PROVISIONS

	2017	2016
Provisions at 1 Jan.	3 044	1 265
Increases	2 753	2 757
Decreases	-1 698	-977
Provisions at 31 Dec.	4 098	3 044

The provisions for the financial year include estimated supplementary work expenses for construction projects completed during the financial year and actual supplementary work expenses incurred for construction projects completed during the previous financial year as a decrease. The provision is based on experience from previous years. Provisions are recorded as an expense in the item in which they are expected to materialise.

23. FINANCIAL LIABILITIES

	2017	2016
Non-current loans from financial institutions	10 139	2 963
Non-current instalment debts	970	1 130
Total	11 109	4 093

	2017	2016
Current loans from financial institutions	18 283	8 516
Current instalment debts	288	267
Debts on shares in unsold housing and real estate company shares in progress	5 672	2 836
Debts on shares in unsold housing and real estate company shares completed	1 597	921
Total	25 840	12 540

Financial liabilities, total **36 948** **16 633**

Financial liabilities are mainly market loans with a floating rate and their carrying amounts correspond to their fair values.

	1 Jan 2017	Cash flows	31 Dec 2017
Non-current financial liabilities	4 093	7 016	11 109
Current financial liabilities	12 540	13 299	25 840
Total	16 633	20 315	36 948

	1 Jan 2016	Cash flows	31 Dec 2016
Non-current financial liabilities	8 244	-4 151	4 093
Current financial liabilities	8 712	3 828	12 540
Total	16 956	-322	16 633

24. TRADE PAYABLES AND OTHER NON-INTEREST-BEARING LIABILITIES

Non-current non-interest-bearing liabilities	2017	2016
Estimated additional purchase prices from acquired business	1 684	3 634
Share-based incentives, portion to be paid out in cash	800	
Total	2 485	3 634

Current non-interest-bearing liabilities	2017	2016
Advances received		
From customers for constructing contracts	11 427	24 178
For projects with revenue recognised upon delivery	56 888	42 154
Other advances received	922	955
Trade payables	38 910	22 661
Other liabilities		
Liabilities paid to the Tax Administration	14 535	12 772
Other liabilities	2 303	3 134
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	12 637	8 580
Income tax debt	700	2 681
Other adjusting entries for liabilities	4 123	2 271
Total	142 446	119 386

25. FINANCIAL RISK MANAGEMENT

The Group's principal capital resources consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has revolving credit limits available. At the end of 2017, the cash and cash equivalents were EUR 68.0 million (EUR 67.7 million 31 December 2016). The credit limits were not in use at the end of 2017.

The Group has taken out so-called RS loans for its developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites. Despite the growth of its housing business, the Group has not invested significant capital in housing construction sites such as land lots.

Foreign exchange risk

The Group is not active in international market and therefore the foreign exchange risk is currently minimal. The Group's income and expenses are mainly in euros. If an order is agreed on in a foreign currency, the method of hedging the exchange rate and the hedge ratio is determined separately in each case. Foreign exchange differences arising from hedging is recorded in the income statement under financial income and expenses. During the financial period and at balance sheet date the Group had no currency hedges.

The Group's functional currency is euro. At the balance sheet date, the Group had liabilities denominated in foreign currency EUR 737 thousand (EUR 494 thousand in 31 December 2016) and receivables denominated in foreign currency totalling EUR 198 thousand at 31 December 2017 (EUR 154 thousand in 2016).

Interest rate risk

Due to the relatively small amount of interest-bearing non-current liabilities, interest rate risk is not very significant for the Group. Interest rate risk is mainly included in interest-bearing liabilities on the balance sheet, which mainly consist of market loans with a floating rate. If necessary, the Group can convert the loans into fixed-rate loans of 2–10 years by rearranging its loan portfolio, with interest rate swaps or with other derivative instruments. The hedge ratio can vary between 0 and 100 per cent. The company monitors the interest rate risk of its loan portfolio and can change the interest rate duration as necessary.

Sensitivity analysis for loans with floating rates

	2017		2016	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	89	-89	27	-27

Credit risk

The credit risk is managed by only granting customers regular payment terms. Payment terms applied in the Group currently range from 7 days to 30 days and the most typical payment term is 14 days. Furthermore, arrangements can be made in individual projects where the payment term for trade receivables is long and the payment is made as a one-off payment at the end of the project.

Liquidity risk

The liquidity risk is managed through adequate planning of financing, monitoring and cash flow management. To secure immediate liquidity the Group has credit and guarantee limits available, totalling EUR 219.7 million. The amount of credit and guarantee limits outstanding at 31 December 2017 was EUR 127.0 million (EUR 82.3 million in 2016).

Analysis of debt maturity

2017	31 Dec 2017	less than 1 year	1–5 years
Financial liabilities	36 948	25 840	11 109
Trade payables and other non-interest-bearing liabilities	57 434	55 749	1 684

2016	31 Dec 2016	less than 1 year	1–5 years
Financial liabilities	16 633	12 540	4 093
Trade payables and other non-interest-bearing liabilities	42 201	38 567	3 634

Capital management

The objective of the Group's capital management is to support business operations through an optimal capital structure and to increase shareholder value with the objective of achieving the best possible return. Another aim with optimal capital structure is to guarantee smaller capital costs. The most significant covenant relating to bank loans are the amount of equity and the stability of holding.

EUR 1,000

Net liabilities

	2017	2016
Interest-bearing liabilities	36 948	16 633
Cash and cash equivalents and interest-bearing receivables	-68 008	-67 690
	-31 060	-51 057
Equity, total	153 011	115 560
Gearing	11.5%	9.4%
Net gearing ratio	-20.3%	-44.2%

26. JOINT ARRANGEMENTS

The Group have a 50% holding in two joint operations, Työyhteisliittymä Kastelli-Optimikodit Kirkkonummen Aurinkopuisto and Työyhteisliittymä Rakennuskartio/Kastellitalot Oy. The joint operations are consolidated in proportion to holding. The joint operations had no actual activities during the financial year.

Assets, liabilities, expenses and revenue of joint operations included in the consolidated balance sheet and the comprehensive income statement were as follows:

	2017	2016
Current assets	20	39
Current liabilities	0	0
Revenue	34	29
Expenses	17	18

27. OTHER LEASES

Group as lessee

The Group has leased office premises and other premises necessary for business operations. Premises rent liabilities have increased significantly in 2017 due new long-term premises lease agreement that starts during 2018. In addition, the Group has leased some small machinery and equipment.

Minimum lease payments payable for non-cancellable other leases:

	2017	2016
Within one year		
Premises rents	2 036	1 356
Other rents	491	422
1-5 years		
Premises rents	4 293	
Other rents	813	703
More than 5 years		
Premises rents	693	
Total	8 326	2 481

Lease expenses for premises lease agreements were recorded in the income statement in 2017 to a total amount of EUR 1,436 thousand (EUR 1,297 thousand in 2016).

28. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2017	2016
Loans from financial institutions	28 204	11 227
Debts on shares in unsold housing company shares	7 269	3 757
Instalment debts	1 131	1 415
Total	36 605	16 398

Guarantees	2017	2016
Corporate mortgages	1 800	1 800
Real-estate mortgages	4 580	4 580
Pledges	12 910	5 658
Absolute guarantees	325	1 227
Total	19 614	13 265

Contract guarantees	2017	2016
Production guarantees	33 793	21 734
Warranty guarantees	10 393	9 406
RS guarantees	29 256	19 496
Payment guarantees	14 214	15 410
Rent guarantees	1	
Total	87 656	66 047

Liability to adjust value added tax (VAT) on property investments

	2017	2016
Liability to adjust VAT	1 354	1 390

The collateral for instalment debt is the financed equipment. Absolute guarantees include contract guarantees given on behalf of another Group company and loan guarantees for housing companies under construction. Pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans for housing companies under construction. Pledges are presented at carrying amount. Furthermore, a right of claim to a lease agreement entered into by the company was given as a collateral for a loan to a subsidiary.

29. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

Company	Country of domicile	Holding, %	Share of votes, %
Parent company Lehto Group Plc:			
Rakennusliike Lehto Oy	Finland	100%	100%
Rakennusliike Koivukoski Oy	Finland	100%	100%
Rakennuskartio Oy	Finland	100%	100%
OptimiKodit Oy	Finland	100%	100%
Takuuelementti Oy	Finland	100%	100%
Remonttipartio Oy	Finland	100%	100%
Insinööritoimisto Mäkeläinen Oy	Finland	100%	100%
Rakennus Oy Wareco	Finland	100%	100%
Kiinteistö Oy Ylivieskan Arvokiinteistö	Finland	80%	80%
Kiinteistö Oy Oulun Eteläkeskus	Finland	100%	100%
Lehto Bygg Ab	Sweden	100%	100%
Lehto Sverige Ab	Sweden	88%	88%

During the comparison year, Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco. A more detailed description and acquisition calculation is presented in note "Acquired business".

After the end of the financial period, Lehto Group implemented the merger of six separate Group companies into three subsidiaries on 1 January 2018. The goal of the merger is to simplify the Group structure and reduce administrative work.

A list of associated companies is presented in note "Investments in associated companies" and a list of joint ventures is presented in note "Joint arrangements".

A summary of financial information on subsidiaries with a substantial non-controlling interest

The Group has no subsidiaries with a substantial non-controlling interest.

30. RELATED PARTY TRANSACTIONS

The Group's related parties include Group companies, members of the Board of Director and the Group's top management as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

Transactions with related parties

	Sales 2017	Sales 2016	Purchases 2017	Purchases 2016
Associated companies		10 647	2	1
Key personnel and their controlled entities	77 461	10 102	3 904	2 005
Total	77 461	20 750	3 906	2 006

	Receivables 31 Dec 2017	Receivables 31 Dec 2016	Liabilities 31 Dec 2017	Liabilities 31 Dec 2016
Associated companies		1 394	1	1
Key personnel and their controlled entities	2 225	798	182	227
Total	2 225	2 192	183	228

A major part of related party transactions are connected with purchase of apartments and other premises from the company. The transactions are valued at the debt-free selling price of the completed site. Purchases are mainly equipment rents and other service purchases.

Management employee benefits	2017	2016
Salaries and other short-term employee benefits	936	357
Total	936	357

Salaries and remuneration	2017	2016
Chief Executive Officer, CEO		
Hannu Lehto	126	110
Members of the Board of Directors:		
Pertti Huuskonen, chairman	53	51
Martti Karppinen	29	28
Mikko Räsänen	31	29
Päivi Timonen	30	28
Sakari Ahdekivi	29	22

31. ACQUIRED BUSINESS

IFRS 3 is applied on business acquisitions, whereby identifiable assets, liabilities and contingent liabilities are valued at fair value on the acquisition date and all costs relating to the acquisition are recorded in the income statement.

There was no business acquisitions in 2017.

Acquired business 2016

The assets and liabilities arising from the acquisition of subsidiary Rakennus Oy Wareco

Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco on October 3, 2016. Wareco is a building renovation company operating in Finnish capital region, operating in real estate renovations, plumbing services of apartment house companies, renovation and modification projects for facades as well as accessory and complementary building.

Through the acquisition Lehto strengthens and expands its business in building renovation and gets more professional personnel for example for large renovation projects and plumbing renovations. Wareco employed almost 70 persons at the time of acquisition and its net sales in 2015 was EUR 28.7 million and the operating profit was EUR 0.7 million.

The purchase price of the shares on a debt and cash free basis was about EUR 2.6 million. Final purchase price paid was EUR 4.2 million. The final purchase price divergence from estimated because net working capital was higher than estimated. The purchase price was paid in cash from Lehto's cash reserves.

Lehto will also pay additional purchase price on the basis of the profit that Wareco will achieve in 2016, 2017 and 2018. The company has estimated additional purchase price to be about EUR 3.4 million.

For 2016, Lehto paid an additional purchase price of 0.8 million euros for the acquisition of Wareco's share capital. The company estimates that the remaining additional purchase prices amount to EUR 1.5 million. The effect of the estimated unrealised additional purchase price is presented in the notes to the section "Other operating income".

Acquired assets

Customer relationships	1 500
Other intangible assets	55
Property, plant and equipment	533
Inventories	1 197
Non-current receivables	763
Current receivables	4 561
Cash at bank and in hand	49

Assets, total 8 658

Acquired liabilities

Deferred tax liabilities	300
Current liabilities	3 688

Liabilities, total 3 988

Net assets 4 670

Goodwill

Consideration transferred	7 612
Identifiable net assets of the acquired business	4 670

Goodwill 2 942

The acquisition resulted in goodwill of EUR 2.9 million, attributable to the synergy benefits from the acquired business upon the sale of the business operations. Goodwill is not deductible in taxation.

Purchase price paid in cash	4 219
Contingent additional purchase price	3 393

Acquisition cost, total 7 612

Cash and cash equivalents of the acquired company -49

Effect on cash flow in acquisition 4 170

Effect on cash flow after the payment of the additional purchase price 7 563

Direct costs from the acquisition, which are recorded in the income statement, totalled EUR 192 thousand

Dometalot business acquisition

In June 2016 Optimikodit Oy, a Lehto Group company, bought the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. Dometalot Oy's personnel continued at Lehto under their existing terms and conditions of employment. The net sales of the acquired business were approximately EUR 1.5 million in 2015. The acquisition had no significant impact on the Lehto Group's 2016 revenues, operating result or financial position.

The consolidated statement of income in comprehensive year includes post-acquisition net sales from the acquired business operations of EUR 4.6 million and an operating loss of EUR 0.3 million. Were the business acquisitions described above carried out at the beginning of the financial year, the Group's estimated net sales in 2016 would have been EUR 386.2 million and operating profit EUR 41.6 million.

Income statement for parent company, FAS

	1 Jan – 31 Dec 2017	1 Jan – 31 Dec 2016
Net sales	6 360	3 626
Other operating income	41	33
Personnel expenses		
Salaries and fees	-2 600	-1 991
Personnel expenses		
Pension costs	-439	-342
Indirect employee costs	-92	-80
Depreciation according to plan and impairment	-291	-302
Other operating expenses	-3 254	-2 283
Operating loss	-275	-1 339
Financial income and expenses		
Income from holdings in Group companies	9 342	1 066
Income from other investments held as non-current assets, from others		15
Interest and other financial income		
From Group companies	536	236
From others	163	126
Amortisation from other investments held as non-current assets		-4
Interest and other financial expenses		
To Group companies	-10	-12
To others	-94	-2 763
Financial income and expenses, total	9 937	-1 335
Profit / loss before appropriations and taxes	9 662	-2 674
Appropriations		
Group contribution	3 150	7 200
Profit/loss before taxes	12 812	4 526
Taxes	-615	
Profit for the financial year	12 197	4 526

Balance sheet for the parent company, FAS

ASSETS	31 Dec 2017	31 Dec 2016
Non-current assets		
Intangible assets	450	232
Machinery and equipment	204	162
Holdings in Group companies	29 265	27 889
Investments in associated companies	781	781
Other shares and investments	1	1
Non-current assets, total	30 700	29 065
Current assets		
Inventories	83	83
<i>Non-current receivables</i>		
Receivables from Group companies	2 050	2 550
Receivables from associated companies	475	485
Other receivables	157	178
<i>Current receivables</i>		
Trade receivables	18	9
Receivables from Group companies	21 474	22 335
Other receivables	25	21
Adjusting entries for assets	40	52
Financial securities	23 269	30 120
Cash and cash equivalents	39 274	34 380
Current assets total	86 864	90 213
ASSETS TOTAL	117 564	119 278

EQUITY AND LIABILITIES	31 Dec 2017	31 Dec 2016
Equity		
Share capital	100	100
Invested non-restricted equity reserve	71 335	71 335
Retained earnings	3 405	11 694
Profit for the financial year	12 197	4 526
Equity, total	87 036	87 654
Liabilities		
<i>Non-current liabilities</i>		
Loans from financial institutions	250	450
Other liabilities	1 774	3 256
<i>Non-current liabilities, total</i>	<i>2 024</i>	<i>3 706</i>
<i>Current liabilities</i>		
Loans from financial institutions	200	200
Trade payables	264	336
Liabilities to Group companies	26 589	24 388
Other liabilities	650	2 000
Adjusting entries for liabilities	801	994
<i>Current liabilities, total</i>	<i>28 504</i>	<i>27 917</i>
Liabilities, total	30 528	31 624
EQUITY AND LIABILITIES TOTAL	117 564	119 278

Cash flow statement for the parent company, FAS

	31 Dec 2017	31 Dec 2016
Cash flow from operating activities		
Profit for the financial year	9 662	-2 674
<i>Adjustments:</i>		
Depreciation according to plan and impairment	291	302
Non-cash items		4
Financial income and expenses	-9 937	1 331
<i>Changes in working capital:</i>		
Change in trade and other receivables	1 164	-260
Change in trade and other payables	-705	922
Interest paid and other financial expenses	-107	-2 867
Interests received from operations	699	363
Dividends received from operations	9 342	1 066
Income taxes paid	-612	
Net cash from operating activities	9 797	-1 814
Investointien rahavirta		
Investments in intangible and tangible assets	-550	-210
Investments in other investments	-3 773	-5 424
Proceeds from sale of investments		65
Repayment of loan receivables	16 100	
Loans granted	-8 300	-8 940
Dividends received		15
Net cash from investments	3 478	-14 493
Cash flow from financing		
Loans repaid	-200	-200
Change in Group financing	-9 418	12 317
Dividends paid	-12 815	-7 929
Group contribution	7 200	
Share issue paid		60 505
Net cash used in financing activities	-15 233	64 693
Change in cash and cash equivalents (+/-)	-1 958	48 386
Cash and cash equivalents at 1 Jan.	64 500	16 115
Cash and cash equivalents at 31 Dec.	62 542	64 500

Notes to the Financial Statements for the parent company

Measurement and timing principles

Inventories are measured at variable cost by applying the FIFO principle and the lowest value principle pursuant to Chapter 5, Section 6(1) of the Finnish Accounting Act.

Depreciable fixed assets are measured at variable cost and depreciated according to plan.

Bases of depreciation

Machinery and equipment	3 - 5 years straight-line depreciation
Intangible rights	3 - 5 years straight-line depreciation
Other long-term expenditure	3 years straight-line depreciation

No changes in the bases of depreciation.

Items denominated in foreign currency

There are no items denominated in foreign currency.

NOTES TO THE INCOME STATEMENT

Net sales by business area	2017	2016
Group internal service charges	6 008	3 494
Other net sales, internal	343	121
Other net sales, external	9	11
Total	6 360	3 626
Auditors' fees	2017	2016
Statutory auditing	55	56
Tax services	5	18
Other services	8	265
Total	69	339

Financial income and expenses	2017	2016
Dividend income from Group companies	9 342	1 066
Dividend income from others		15
Interest income from Group companies	536	236
Interest income from others	163	126
Amortisation from other investments held as non-current assets		-4
Interest costs on intra-Group liabilities	-10	-12
Interest costs to others	-33	-113
Other financial expenses	-61	-2 650
Total	9 937	-1 335

Taxes	2017	2016
Current taxes	-615	
Total	-615	

NOTES ON BALANCE SHEET ASSETS

Intangible rights	2017	2016
Acquisition cost at 1 Jan.	390	304
Increases	184	86
Acquisition cost at 31 Dec.	574	390
Accumulated depreciation at 1 Jan.	-233	-132
Depreciation and amortisation	-108	-101
Accumulated depreciation at 31 Dec.	-341	-233
Book value at 1 Jan.	157	172
Book value at 31 Dec.	233	157

Other long-term expenditure	2017	2016
Acquisition cost at 1 Jan.	358	358
Increases	217	
Acquisition cost at 31 Dec.	575	358
Accumulated depreciation at 1 Jan.	-283	-167
Depreciation and amortisation	-76	-116
Accumulated depreciation at 31 Dec.	-359	-283
Book value at 1 Jan.	75	191
Book value at 31 Dec.	216	75

Machinery and equipment	2017	2016
Acquisition cost at 1 Jan.	372	248
Increases	147	124
Acquisition cost at 31 Dec.	520	372
Accumulated depreciation at 1 Jan.	-210	-126
Depreciation and amortisation	-107	-84
Accumulated depreciation at 31 Dec.	-317	-210
Book value at 1 Jan.	162	123
Book value at 31 Dec.	202	162

Other tangible assets	2017	2016
Increases	1	
Acquisition cost at 31 Dec.	1	
Amortisation		
Accumulated amortisation at 31 Dec.		
Book value at 1 Jan.		
Book value at 31 Dec.	1	

Investments	2017	2016
Acquisition cost at 1 Jan.	28 765	21 063
Increases	2 504	7 804
Decreases	-1 128	-101
Acquisition cost at 31 Dec.	30 142	28 765
Accumulated amortisation at 1 Jan.	-95	-91
Amortisation		-4
Accumulated amortisation at 31 Dec.	-95	-95
Book value at 1 Jan.	28 670	20 972
Book value at 31 Dec.	30 047	28 670

Non-current receivables from Group companies	2017	2016
Loan receivables	2 050	2 550
Total	2 050	2 550

Current receivables from Group companies	2017	2016
Trade receivables	431	1 536
Loan receivables	724	8 024
Other receivables	3 468	7 545
Group limit	16 851	5 230
Total	21 474	22 335

Essential items included in adjusting entries for assets	2017	2016
Total	40	52
Yhteensä	40	52

NOTES ON BALANCE SHEET LIABILITIES

	2017	2016
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	100	100
Invested non-restricted equity reserve at 1 Jan.	71 335	5 830
Changes during for the financial year		65 505
Invested non-restricted equity reserve at 31 Dec.	71 335	71 335
Retained earnings at 1 Jan.	11 694	11 610
Retained earnings	4 526	8 013
Distribution of dividends	-12 815	-7 929
Retained earnings at 31 Dec.	3 405	11 694
Profit/loss for the financial year	12 197	4 526
Equity, total	87 036	87 654

Statement of distributable funds	2017	2016
Invested non-restricted equity reserve	71 335	71 335
Retained earnings	3 405	11 694
Profit/loss for the financial year	12 197	4 526
Total	86 936	87 554

Liabilities to Group companies	2017	2016
Trade payables	2	4
Group limit	26 587	24 384
Total	26 589	24 388

Essential items included in adjusting entries for liabilities

	2017	2016
Salary debt	240	493
Holiday pay debt with related costs	309	165
Non-wage labour cost debt	249	213
Tax debt	2	
Interest debt	0	1
Other liabilities		122
Total	801	994

GUARANTEES AND CONTINGENT LIABILITIES**Loans covered by pledges on assets**

	2017	2016
Loans from financial institutions	450	650
Total	450	650

Guarantees

Absolute guarantees	325	1 174
Total	325	1 174

Amount of credit limits

Credit limits available	2 009	2 005
Credit limits in use	364	

Credit limits outstanding

	1 645	2 005
Guarantee limits available	204 729	130 000
Guarantee limits in use	86 579	63 434
Guarantee limits outstanding	118 149	66 566

Guarantees given on behalf of other Group companies

	2017	2016
Guarantees given and other commitments	103 892	35 476

Leasing agreements not included in balance sheet

Expiring in 12 months	51	11
Expiring in more than 12 months	87	23

Total

	138	35
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Lease liabilities

Construction leases	6 195	702
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Total

	6 195	702
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NOTES ON PERSONNEL AND MEMBERS OF ADMINISTRATIVE PERSONNEL**Average number of company personnel at the end of the financial year**

	2017	2016
Salaried employees	44	26
Total	44	26

Remuneration of the CEO and members of the Board of Directors are specified in note "Related party transactions" to the consolidated financial statements.

Board of Directors' proposal for the distribution of profits

The parent company's distributable funds are EUR 86,936,107.26, of which the profit for the year is EUR 12,196,949.29.

The Board of Directors proposes to the Annual General Meeting that the dividend payable for the financial year 1 January–31 December 2017 would be EUR 0.34 per share, or 19,805,255.68 euros.

No significant changes occurred in the company's financial position after the end of the financial year.

The company's liquidity is good, and in the Board of Directors' opinion, the proposed distribution of profits does not compromise the company liquidity.

Signatures to the Annual Report and Financial Statements

Vantaa, 14 February 2018

Pertti Huuskonen

Chairman of the Board of Directors

Martti Karppinen

Member of the Board of Directors

Mikko Räsänen

Member of the Board of Directors

Päivi Timonen

Member of the Board of Directors

Sakari Ahdekivi

Member of the Board of Directors

Hannu Lehto

CEO

The Auditor's Note

A report on the audit performed has been issued today.

Vantaa, 14 February 2018

KPMG Oy Ab

Audit firm

Tapio Raappana

APA

Group key figures

	2017	2016	2015	2014	2013
Net sales, EUR million	594.1	361.8	275.6	171.1	113.4
Net sales, change from the previous year %	64.2%	31.3%	61.1%	50.8%	-0.4%
Operating profit, EUR million	61.5	40.4	27.2	5.8	9.2
Operating profit, as % of net sales	10.4%	11.2%	9.9%	3.4%	8.1%
Profit or loss for the financial year, EUR million	49.2	31.9	21.2	4.1	6.7
Profit or loss for the financial year, as % of net sales	8.3%	8.8%	7.7%	2.4%	5.9%
Return on investments (ROE), %	36.6%	42.8%	85.1%	25.6%	51.7%
Return on equity (ROI), %	38.4%	44.5%	66.5%	21.6%	49.0%
Equity ratio, %	56.6%	60.4%	37.2%	27.3%	40.7%
Gearing, %	11.5%	9.4%	32.6%	48.8%	26.7%
Net gearing ratio, %	-20.3%	-44.2%	-22.9%	50.9%	-16.2%
Gross expenditure on assets, EUR million	4.5	7.6	1.1	0.8	2.3
Personnel during the period, average	1,013	566	402	312	246
Personnel at Dec 31	1,184	747	423	326	287
Equity / share	2.63	1.98	0.74	0.41	0.38
Earnings per share, EUR, basic ¹⁾	0.84	0.59	0.52	0.07	0.13
Earnings per share, EUR, diluted ¹⁾	0.84	0.59	0.52	0.07	0.13
Average number of shares during the year, basic ¹⁾	58,250,752	54,067,297	41,062,559	40,000,000	40,000,000
Average number of shares during the year, diluted ¹⁾	58,432,315	54,073,804	41,062,559	40,000,000	40,000,000
Number of shares at the end of the year ¹⁾	58,250,752	58,250,752	45,310,404	40,000,000	40,000,000
Market value of share on Dec 31, EUR million	737.5	593.6	-	-	-
Share turnover, shares	16,334,696	11,912,330	-	-	-
Share turnover out of average number of shares, %	28.0%	22.0%	-	-	-
Share prices, EUR					
Highest price, EUR	14.26	10.19	-	-	-
Lowest price, EUR	9.79	5.52	-	-	-
Average price, EUR	12.25	8.03	-	-	-
Price at Dec 31, EUR	12.66	10.19	-	-	-
Dividend / share, EUR ^{1) 2)}	0.34	0.22	0.18	0.13	0.04
Dividend payout ratio, % ^{1) 2)}	40.2%	37.3%	33.8%	184.9%	25.9%
Effective dividend yield % ²⁾	2.7%	2.2%	-	-	-
Price / Earnings	15.03	17.27	-	-	-

¹⁾ Years 2013-2015 adjusted for share issue (split) in March 30, 2016 ²⁾ Year 2017 dividend proposal

DEFINITIONS OF KEY FIGURES

Earnings per share	$\frac{\text{Profit for the financial year}}{\text{Issue-adjusted average number of shares during the year}}$
Equity / share	$\frac{\text{Equity}}{\text{Issue-adjusted average number of shares at the end of year}}$
Dividend / share	$\frac{\text{Dividend}}{\text{Issue-adjusted number of shares on Dec 31}}$

The company has taken into consideration new guidelines of the European Securities and Markets Authority (ESMA) regarding Alternative Performance Measures that were entered into force on July 3, 2016. Key figures used by the company are well-known figures, which are mainly derived from the result and balance sheet. Alternative performance measures may not be considered as a substitute for measures of performance in accordance with the IFRS.

ALTERNATIVE PERFORMANCE MEASURES BY ESMA

Return on equity (ROE), %	$100 \times \frac{\text{Profit for the financial year}}{\text{Equity (average)}}$
Return on investments (ROI), %	$100 \times \frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Balance sheet total - Non-interest bearing liabilities (average)}}$
Equity ratio, %	$100 \times \frac{\text{Equity}}{\text{Balance sheet total - Advances received}}$

Gearing, %	$100 \times \frac{\text{Non-current liabilities}}{\text{Equity + Provisions}}$
Net gearing ratio, %	$100 \times \frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$
Dividend payout ratio, %	$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$
Effective dividend yield, %	$100 \times \frac{\text{Dividend per share}}{\text{Share price on Dec 31}}$
Price / Earnings (P/E)	$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$

Shares and shareholders

At balance sheet date, the number of shares is 58,250,752. The share capital is EUR 100,000. The company has one share class and all shares are of the same class. The company's shares have no par value, and the Articles of Association do not specify the minimum or maximum value of shares or share capital. Each share entitles its holder to one vote and to an equal amount of dividend. The company held no own shares.

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%
OP-Suomi Arvo	1,665,339	2.9%
Winduo Oy	1,293,925	2.2%
Koivukoski Tomi	1,223,643	2.1%
Saartoala Ari	942,243	1.6%
Fondita Nordic Micro Cap Placeringsf	660,000	1.1%
Heikkilä Jaakko	640,000	1.1%
Sr Danske Invest Suomi Yhteisöosake	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	%	Number of share-holders	%
1 – 100 shares	146,045	0.3%	2,736	30.5%
101 – 1,000 shares	1,980,431	3.4%	5,414	60.3%
1,001 – 10,000 shares	1,798,672	3.1%	710	7.9%
10,001 – 100,000 shares	2,520,657	4.3%	75	0.8%
100,001 – 1,000,000 shares	11,155,644	19.2%	33	0.4%
over 1,000,000 shares	40,649,303	69.8%	8	0.1%
TOTAL	58,250,752	100.0%	8,976	100.0%
where of Nominee-registered	8,254,959	14.2%	9	10.0%

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share-holders	%
Companies	25,500,268	43.8%	412	4.6%
Financial and insurance institutions	14,292,694	24.5%	24	0.3%
Public sector organizations	1,239,115	2.1%	9	0.1%
Households	16,857,434	28.9%	8,462	94.3%
Non-profit organizations	170,559	0.3%	44	0.5%
Foreign countries	190,682	0.3%	16	0.2%
TOTAL	58,250,752	100.0%	8,967	100.0%
where of Nominee-registered	8,254,959	14.2%	9	0.1%



This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2017. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the **Auditor's Responsibilities for the Audit of the Financial Statements** section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 6 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements, section “Revenue recognition principles” and notes 2, 18 and 24 to the consolidated financial statements)

Key audit matters

- The nature of operations of Lehto Group comprises the sale of construction contracts, related services, new apartments and real estate properties within the confines of a number of types of customer projects. The terms of delivery and invoicing of these deliverables are set in agreements entered into with customers.
- The quantity and timing of revenue recognition is dependent on the content of different types of customer projects and related contracts. The revenue recognition principles are described under Accounting principles for the consolidated financial statements. Factors of uncertainty related to revenue recognition for the Group concern principally the projects for which revenue is recorded according to the percentage-of-completion method.
- The project revenue recognized under the percentage-of-completion method is based on project-specific margin projections, which involve management judgement. Revenue recognition has a material influence on the balances of receivables and received advance payments arising from long-term contracts, which constitute significant components of the consolidated balance sheet.

Audit approach to the matters

- We evaluated the internal control over revenue and tested the effectiveness of controls over accuracy of revenue.
- We considered significant customer contracts entered into during the financial year and evaluated adherence to the company’s internal operation principles. We evaluated the definition, classification and recording of transactions arising from the

contracts in relation to both Group accounting principles applied in the preparation of consolidated financial statements as well as to provisions governing the preparation of financial statements.

- In regard to invoicing and revenue recognition, we evaluated the accuracy of entries recorded in the Group’s enterprise resource planning system. We performed project-based substantive audit procedures on the project revenue calculations with the objective of assessing the accuracy of both the said calculations and profit margin recognized as well as the balances of receivables and received advance payments arising from long-term contracts presented in the financial statements.

Valuation of inventories

(Refer to Accounting principles for the consolidated financial statements, section “Inventories” and note 17 to the consolidated financial statements)

Key audit matters

- The balance of Inventories comprises 30% of the total assets in the consolidated balance sheet.
- A significant proportion of the balance of inventories is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system.

Audit approach to the matters

- We considered both the integrity of operations of the enterprise resource planning system, material to the reporting of Group companies’ inventories, as well as the effectiveness of related general IT controls.
- We tested the internal controls in place over the cost monitoring of projects and performed substantive audit procedures aimed at assessing the accuracy of inventory valuation.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International

Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the CEO are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate

with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting for the financial year ended 31 December 2013 and our appointment represents a total period of uninterrupted engagement of 5 years. Lehto Group Plc became a public interest entity on 28 April 2016. We have been acting as the auditors of the company for the entirety of the duration that it has been a public interest entity.

Other Information

The Board of Directors and the CEO are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering

whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Vantaa, 14 February 2018

KPMG Oy Ab

Tapio Raappana

Authorised Public Accountant, KHT



Corporate Governance Statement 2017

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Introduction

Corporate governance at Lehto Group Plc (hereinafter “Lehto Group” or “Company”) is based on the laws in force and the Company’s Articles of Association. Lehto Group follows the rules and regulations of Nasdaq Helsinki Ltd (hereinafter “Nasdaq Helsinki” or the “Helsinki Stock Exchange”) and the Finnish Corporate Governance Code 2015 (hereinafter “Corporate Governance Code”) issued by the Securities Market Association. The Corporate Governance Code is available in its entirety on the website of the Securities Market Association at www.cgfinland.fi.

On 14 February 2018, the Company’s Board of Directors approved this Corporate Governance Statement (hereinafter “CG Statement”), which was drawn up separately from the report by the Board of Directors. This CG statement will be published on Lehto Group’s website at www.lehto.fi/en.

Descriptions concerning Corporate Governance

The responsibility for Lehto Group’s corporate governance has been divided in accordance with the Limited Liability Companies Act between its General Meeting of Shareholders, the Board of Directors and the CEO. Shareholders exercise their rights mainly in the General Meeting of Shareholders, which is normally convened by the Company’s Board of Directors. Furthermore, a General Meeting of Shareholders must be held if so required in writing by the Company’s auditor or shareholders representing at least one tenth of all shares issued by the Company.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is Lehto Group’s highest decision-making body. According to the Limited Liability Companies Act, the shareholders exercise their power of decision in matters related to the Company at the General Meeting of Shareholders. The General Meeting of Shareholders decides on matters required by the Limited Liability Companies Act and the Company’s Articles of Association. The shareholders participate in the General Meeting of Shareholders either personally or through a representative. Each share entitles its holder to one vote.

The Annual General Meeting is held annually on the date determined by the Board of Directors, within six months from the termination of the financial year. In accordance with the Limited Liability Companies Act and the Articles of Association, the Annual General Meeting decides on matters that fall within its competence, such as adoption of the financial statements, the use of the profit shown on the balance sheet, and the appointment of the members of the Board of Directors and the auditor and their remuneration. The Annual General Meeting also decides on the discharge of the Members of the Board of Directors and the Chief Executive Officer from liability. An Extraordinary General Meeting shall be held if the Board of Directors considers it necessary or if the Company’s auditor or shareholders whose shares represent at least one tenth of all shares issued by the Company so demand in writing in order for a given matter to be dealt with.

In accordance with the Company’s Articles of Association, a written notice of a General Meeting of Shareholders shall be given to shareholders no earlier than three (3) months and no later than three (3) weeks prior to the shareholders’ meeting, however, no later than nine (9) days prior to the record date of the General Meeting of Shareholders. A notice of a General Meeting of Shareholders shall be given by publishing it on the Company’s website or in some other verifiable written form.

BOARD OF DIRECTORS

The Company’s Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors shall be responsible for the appropriate arrangement of the control of the Company’s accounts and finances. The Board of Directors or a member of the Board of Directors shall not comply with a decision of the General Meeting of Shareholders or the Board of Directors where it is invalid owing to being contrary to the Limited Liability Companies Act or the Company’s Articles of Association. The General Meeting of Shareholders elects the members of the Board of Directors.

The Board of Directors is elected annually at the Annual General Meeting. By virtue of the Company’s Articles of Association, the Company has a Board of Directors which consists of 3–8 ordinary members. The Board members’ term of office shall expire at the end of the next Annual General Meeting following their election.

Composition and operations of the Board of Directors

The Board of Directors has drawn up a charter of the Board of Directors, which defines the Board's key duties and operating principles.

The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board of Directors, among its other duties, controls and supervises the Company's operative management, appoints and discharges the CEO, determines the duties and conditions of employment of the CEO, approves the strategic objectives and the principles of risk management for the Company and its businesses and ensures the proper operation of the management system. The Board of Directors also ensures that the Company has defined the operating principles for internal control and that the Company monitors the functioning of the internal control. The Board of Directors approves the policies and guidelines for internal control, risk management and corporate governance, as well as the Company's information dissemination policy. Based on the Company's strategy, the Board of Directors approves the action plan and budget and supervises their implementation. Furthermore, the Board of Directors annually approves the total amount and priorities of investments in the Company's business operations and decides on major and strategically important investments, acquisitions and divestments. The Board of Directors confirms the Company's ethical values and working methods and monitors their implementation. The Board of Directors also defines the Company's dividend policy on the basis of which it submits a dividend proposal to the Annual General Meeting for consideration.

The Company aims to ensure that its Board of Directors has, as a whole and taking into account its duties, sufficient and versatile expertise and experience. In the preparation of the proposal for the composition of the Board of Directors, particular attention shall be paid to the requirements set by the company's operations and development stage. A person elected as a Board member must have the competence required by the position and the possibility to devote a sufficient amount of time to attending to the duties. The number of Board members and the composition of the board of directors shall be such that they enable the Board of Directors to see to its duties efficiently. For the evaluation of the diversity and composition of the Board of Directors, individuals who have been proposed as members shall, in confidence and as instructed by the Company, provide the information required to evaluate their competence and the amount of time they can devote to the task to the Shareholders' Nomination Committee.

The Board of Directors shall also evaluate the independence of its members. The majority of the Board members shall be independent of the Company. Furthermore, at least two members who are independent of the Company shall also be independent of the significant shareholders of the Company. Board members' independence shall be evaluated on an annual basis.

The Board of Directors elected by the Annual General Meeting of 11 April 2017 consisted of Pertti Huuskonen, Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi. Pertti Huuskonen has acted as Chairman of the Board of Directors. During the financial year 2017, the Board of Directors had a total of 10 meetings, one of which was conducted by email. The average attendance rate of Board members was 98 per cent.

Basic information on Board members, their independence, remuneration, holdings and attendance in Board meetings is provided in the following tables.

MEMBERS OF THE BOARD OF DIRECTORS

Name	Position	Year of birth	Education	Independence of the Company	Independence of significant shareholders
Pertti Huuskonen	Chairman of the Board of Directors	1956	M.Sc. (Tech.), eMBA, Marketing Degree (MKT)	Yes	Yes
Sakari Ahdekivi	Member of the Board of Directors	1963	M.Sc. (Econ.)	Yes	Yes
Martti Karppinen	Member of the Board of Directors	1947	M.Sc. (Tech.)	Yes	Yes
Mikko Räsänen	Member of the Board of Directors	1978	M.Sc. (Econ.)	Yes	Yes
Päivi Timonen	Member of the Board of Directors	1970	LL.M. Trained on the Bench	Yes	Yes

BOARD MEMBERS DIRECT AND INDIRECT HOLDINGS OF SHARES, 31 DECEMBER 2017

Name	No. of shares held	Share-holding ratio
Pertti Huuskonen	568,570	0.98%
Sakari Ahdekivi	0	0.0%
Martti Karppinen	0	0.0%
Mikko Räsänen	0	0.0%
Päivi Timonen	0	0.0%
Board of Directors in total	568,570	0.98%

REMUNERATION OF THE MEMBERS OF THE BOARD (INCLUDING REMUNERATION OF AUDIT COMMITTEE), SERVICES SOLD TO THE COMPANY AND ATTENDANCE IN MEETINGS

Name	Remuneration for 2017, EUR	Sale of services to the Company in 2017, EUR	Attendance in Board meetings
Pertti Huuskonen	53,138	46,335	9/9
Sakari Ahdekivi	29,317	0	8/9
Martti Karppinen	28,867	0	9/9
Mikko Räsänen	30,667	0	9/9
Päivi Timonen	30,467	0	9/9
Board of Directors in total	172,456	46,335	98%

Presentation of Board members

Pertti Huuskonen has been Chairman of the Board of Directors since 2014. Prior to that, he served as member of the Board in 2013-2014. Huuskonen has over 25 years of experience in executive positions and the management of strong growth in Technopolis Oyj, a company listed on the Helsinki Stock Exchange, as President and CEO in 1985–

2008 and Chairman of the Board of Directors in 2008–2012. Since 2012, Huuskonen has also been a member of the Board of Directors of AS Pro Kapital Grupp, a real estate development company listed on the Tallinn Stock Exchange. Furthermore, Huuskonen is the Chairman of the Board of Suomen Hoivatilat Oyj and Kaleva Oy. Huuskonen has acted as the Vice Chairman of the Board of A. Ahlström Kiinteistöt Oy since 2017. Since 2012, Huuskonen has functioned as an academic advisor and lecturer at Oulu Business School (part of the University of Oulu). In 1997–2013, he was the honorary consul of Sweden in the Province of Oulu. Huuskonen holds a Finnish honorary title of Industrial Counselor and the degrees of Master of Science in Technology, eMBA and MKT (Marketing Degree).

Martti Karppinen has been member of the Board of Directors since 2014. Prior to that, he served as an advisor to the Board of Directors in 2012–2014. His previous positions include a member of the Board of Directors and Chairman of the Board of Directors of iLOQ Oyj. Since 2007, Karppinen has been CEO and Chairman of the Board of Directors of MKA Consulting Oy. Karppinen holds the degree of Master of Science in Technology.

Mikko Räsänen has been a member of the Board of Directors since 2013. He has experience in Nordic property markets, property development, property investment and the financing of property transactions. Räsänen is a co-owner and Chairman of the Board of the property investment company NREP Oy as well as the Chairman or a member of the Board in several companies that form part of NREP's investment portfolio. Räsänen joined NREP Oy in 2006. He previously worked as a management consultant in the Boston Consulting Group in 2004–2006. Räsänen holds the degree of Master of Science in Economics.

Päivi Timonen has been a member of the Board of Directors since 2014. She currently works as General Counsel at Fiskars Corporation and as a member of the executive board and previously worked as General Counsel at Elektrobit Oyj (currently Bittium Oyj), and she has previously been a member of the Board of Directors in several of the Group companies of Fiskars and Elektrobit. Timonen holds the degree of Master of Laws and is Trained on the Bench.

Sakari Ahdekivi has been a member of the Board of Directors since 2016. He has been working in Ahlstrom-Munksjö Plc since 2014. Mr. Ahdekivi currently acts as a member of

the Supervisory Board of the Helsinki Deaconess Institute. Previously between 2014 and 2017 Mr. Ahdekivi was the CFO of Ahlstrom Plc and the interim President and CEO for six months between 2016 and 2017. Mr. Ahdekivi was the Managing Director of Tamro Corporation between 2012 and 2013. He was also member of the Board of Directors of Tamro Corporation in 2013 and CFO of Tamro Corporation between 2009 and 2011, YIT Corporation between 2007 and 2009 and Huhtamäki Oyj between 2005 and 2007. He has also held various financial controlling positions at ABB in the United States, Switzerland, the United Kingdom and Finland between 1994 and 2005. Mr. Ahdekivi holds a Master of Science degree in Economics from the Helsinki School of Economics.

Statement on the implementation of the Board Diversity Policy 2017

In 2017, the Board of Directors confirmed that the Company's Board Diversity Policy shall be followed in the selection of the persons proposed as Board members. The implementation of the diversity policy will be monitored on an annual basis in connection with the Corporate Governance Statement.

In order to be able to comprehensively support and develop the Company's business, the composition of the Board of Directors shall be sufficiently diverse. When selecting the persons to be proposed as Board members a balance with regard to the educational background, professional skills, experience, nationality as well age and gender distribution of its members shall be considered. As a whole, the composition of the Board of Directors shall be such that the directors have sufficiently comprehensive competence, skills and experience. The shareholders' Nomination Committee shall take into consideration the sufficient diversity of the Board when preparing the suggestion for the composition of the Board.

In the 2017 Annual General Meeting, the shareholders, who together represented 62.43% of the Company's shares, proposed that Pertti Huuskonen continue as Chairman of the Board of Directors and that Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi continue as members of the Board.

The defined diversity goal is well implemented in the Company Board of Directors. The Board comprises members with an educational background in commerce, law and technology. The Board is composed of members representing different ages, genders

and educational backgrounds who all have strong expertise in the real estate business. The Board members additionally have experience in international duties, and they have the capacity to assess the view of parties that use the Company's services. According to the self-assessment of the Board of Directors, the members of the Board have been able to devote a sufficient amount of time to Board duties to ensure the Board's operating conditions.

BOARD COMMITTEES

The preparation of matters within the competence of the Board of Directors may be made more efficient by the establishment of Board committees allowing more extensive concentration on matters. The committees have no independent decision-making power, but they prepare issues which will be resolved by the Board. The Board of Directors remains responsible for the duties assigned to the Committee. The Committee shall regularly report on its work to the Board of Directors. The reports shall include at least a summary of the matters addressed and measures proposed by the Committee. The Annual General Meeting decides on the remuneration of the members of the Board committees.

Audit Committee

The Audit Committee is tasked with preparing matters relating to the Company's financial reporting and control. The key duties and operating principles of the Committee are described below.

The main duties of the Audit Committee are:

- to monitor the financial statements reporting process
- to supervise the financial reporting process
- to monitor the efficiency of the company's internal control, internal audit, if applicable, and risk management systems
- to review the description of the main features of the Company's internal control and risk management systems related to the financial reporting process
- to monitor the statutory audit of the financial statements and consolidated financial statements

- to evaluate the independence of the statutory auditor or auditing firm, particularly the provision of related services to the Company
- to prepare a proposal for the election of an auditor.

The Company's Board of Directors shall nominate the Chairman and members of the Audit Committee. The Audit Committee consists of at least three members of the Board of Directors. At least one of them must have special expertise in accounting, bookkeeping or auditing. Board members to be elected as members of the Audit Committee must have extensive knowledge of Lehto Group's business operations and business segments and sufficient knowledge of accounting and accounting policies. In its organisational meeting of 30 March 2016, the Board of Directors elected Mikko Räsänen (Chairman), Sakari Ahdekivi and Päivi Timonen as members of the Audit Committee. The members of the Committee are independent of the Company and its significant shareholders.

The Audit Committee convenes at least twice a year. In addition to the Committee members, the meetings shall be attended by the Company's CEO and Chief Financial Officer and, optionally, the Company's auditors. Further, the Committee members may meet the external auditors without the operative management being present in such meetings. During the financial year 2017, the Audit Committee had four meetings.

GROUP MANAGEMENT

CEO

The CEO is in charge of the day-to-day management of the company in accordance with the instructions and orders issued by the Board of Directors. The CEO is responsible for ensuring that the Company's accounting practices are in compliance with the law and that the financial matters are organised in a reliable manner. The CEO has a duty to provide the Board of Directors and its member(s) with any information that the Board of Directors may need in order to see to its duties.

The CEO may undertake measures that are unusual or extensive, considering the scope and nature of the Company's operations, only with the authorisation of the Board of Directors or if it is not possible to wait for a decision of the Board of Directors without

causing essential harm to the Company's operations. In the latter case, the Board of Directors shall be notified of the measures as soon as possible.



Hannu Lehto, born 1963, has been Lehto Group's CEO since 2014. In 2008–2013, he was the CEO of the Company's predecessor, the Päätoimija Group. Lehto is the Company's founding shareholder, and he has also acted as the Chairman of the Board of Directors in 2008–2014. In 2014–2016, he was a member of the Board of Directors. Lehto became the Company's shareholder through an arrangement in which the Company, in connection with its establishment, bought the entire share capital of the construction

company Rakennusliike Lehto Oy. Hannu Lehto has worked in Rakennusliike Lehto Oy since its foundation in 1985, when he and Tapio Mustonen established a limited partnership by the name Rakennusliike Mustonen & Lehto Ky. Hannu Lehto is a Construction Engineer by education.

At the end of the financial period 2017 Hannu Lehto owns directly or indirectly 21,635,216 shares of the Company which are 37.14 per cent of the Company's shares.

Group's executive team

The CEO is supported by the Group's executive team which comprises in addition to CEO:

- **Asko Myllymäki**, COO, Chief Operating Officer
- **Veli-Pekka Paloranta**, CFO, Chief Financial Officer
- **Pasi Kokko**, EVP, Housing
- **Jaakko Heikkilä**, EVP, Business Premises
- **Tuomo Mertaniemi**, EVP, Social Care and Educational Premises
- **Pekka Lindeman**, EVP, Building Renovation
- **Timo Reiniluoto**, EVP, Business Support Services

The Group's executive team supports the CEO in duties falling within the CEO's competence, as well as their implementation and monitoring, particularly as regards business development, financing, asset management, internal control and risk management.



Asko Myllymäki, born 1968, has been the Company's Chief Operating Officer since 2014. He has also served as the Company's Chief Development Officer in 2008–2013 and as CEO in 2013–2014. He previously worked as Chief Development Officer of Myllymäki Trading Oy in 2005–2007 and as CEO of Myllymäen Rauta Oy in 1994–2005. Myllymäki holds a Vocational Qualification in Business and Administration and an eMBA degree.



Veli-Pekka Paloranta, born 1972, has been the Company's Chief Financial Officer since November 2015. In 2010–2015, he was the CFO of Bittium Oy (former Elektrobit Oy), in addition to which he has served as Chairman of the Board of several subsidiaries of the Elektrobit Group. Paloranta holds the degree of Master of Science in Economics.



Pasi Kokko, born 1968, served as Managing Director of Lehto's subsidiary Rakennuskartio Oy from 2013 to the end of 2017. He previously acted in managerial positions in the forest industry in Finland and abroad. Between 2008 and 2013, he worked at Danske Bank as a corporate banker and bank manager. Kokko holds the degree of Forestry Engineer.



Jaakko Heikkilä, born 1971, has been employed by the Group since 2011. Prior to his current position as service area EVP, he served in the Group as Area Manager, Chief Business Officer and Deputy Managing Director of Rakennusliike Lehto. Previously, Heikkilä worked in construction tasks for the Ministry of Defence administrative sector and Finnish Customs as well as various managerial positions in production in the building sector. Heikkilä holds the degree of Master of Civil Engineering.



Tuomo Mertaniemi, born 1972, has worked for Lehto Group for over six years, first as Chief Financial Officer and, since November 2014, in charge of the Social Care and Educational Premises business. Before Lehto Group, he worked in the finance sector in Finnvera Oy and Sampo Pankki. Mertaniemi holds the degree of Master of Science in Economics.



Pekka Lindeman, born 1959, has served as EVP of Lehto's Building Renovation service area since December 2016. Before joining Lehto, Lindeman acted as Business Director of Pro-Source Oy in 2016, Head of Sales Finland at SOL Palvelut in 2014–2015 and CEO of Nab Labs Oy in 2013–2014 and Turvatiimi Oy in 2010–2012. Lindeman holds a vocational qualification in business and administration.



Timo Reiniluoto, born 1966, served from November 2014 to May 2017 as CEO of Lehto's subsidiary Rakennusliike Lehto Oy. From the beginning of March 2017, he has acted as EVP, Business Support Services at Lehto Group. He has 30 years' experience in various tasks in the construction sector, including as EVP and Head of Commercial Construction Southern Finland at Skanska. He also has ten years' work experience in Russia. In addition, Reiniluoto served as Board member of Oy Lautex Ab in 2006–2013. Reiniluoto holds the degrees of Master of Science in Technology and Hanken MBA in Real Estate Finance.

**DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM,
31 DECEMBER 2017**

Name	No. of shares held	Shareholding ratio
Asko Myllymäki	4,837,562	8.30%
Veli-Pekka Paloranta	320,000	0.55%
Pasi Kokko	140,000	0.24%
Jaakko Heikkilä	640,000	1.10%
Tuomo Mertaniemi	84,720	0.15%
Pekka Lindeman	25	0.00%
Timo Reiniluoto	8,342	0.01%
Total	6,030,649	10.35%

Business operations management

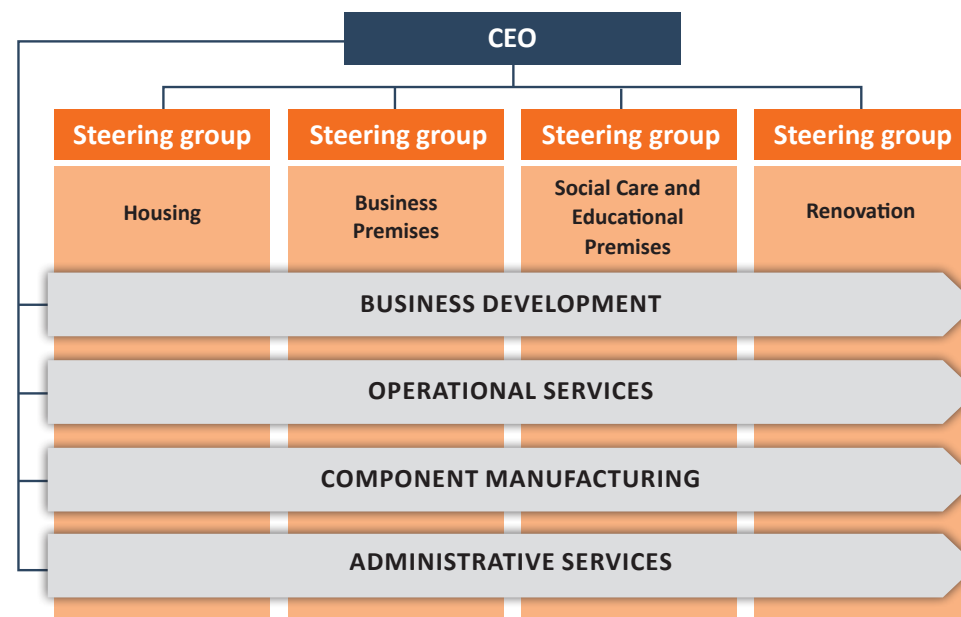
The Group's operational business is divided into four service areas: Business Premises, Social Care and Educational Premises, Housing, and Building Renovation. These service areas are led by separate EVP's who, with the service area executive group, oversee the planning of the service area's products and services, production and sales as well as the general development of the service area. The EVP's report monthly to the CEO of the Group and to the service area steering group. The steering group includes the EVP of the service area, the CEO, COO, CFO, HR manager and the EVP of Business Support Services.

The actual operative business of the company takes place in the subsidiaries of the company. Four of the subsidiaries are focused on the functions of the service areas, one is focused on industrial scale production, one in designing and planning and two for functions in the Swedish markets. On 2017 the company streamlined its subsidiary structure to follow the service area structure the company had applied. The new subsidiary structure became in force from the beginning of 2018.

The Group's parent company is not engaged in actual business operations but serves as a hub for a number of shared Group functions which are relevant for the manageability and cost efficiency of the Group's operations. These include human

resources management, bookkeeping, coordination of financial affairs, legal, business development, sourcing and purchasing, communications, marketing and information management.

The following graph illustrates the functioning of the Group's operational organization.



Main features of the internal control and risk management systems related to the financial reporting process

RISK MANAGEMENT

The purpose of risk management is to secure positive development of earnings of the Company and the continuation of the business by implementing risk management cost-effectively and systematically throughout the different businesses. Risk management is part of the Company's strategic and operative planning, daily decision-making process

and internal control system. Business objectives, risks and risk management operations are combined through risk management as one chain of events.

The Company adheres to the risk management policy approved by the Board of Directors. Risk management contains all actions, which are connected to setting up targets, identification of risks, measurement, review, handling, reporting, follow-up, monitoring and reacting to risks.

In connection with the strategy process and annual planning, the CEOs of the Company and the EVP's of business areas review business risks which could prevent or endanger the achievement of the Group's strategic or profit targets. The service areas produce risk assessment reports for each business to support the strategy process. Strategic and operative risks are monitored through reporting by the businesses and considered by service area-specific steering groups that convene monthly. The service areas must produce assessments of risks in their own units and provide action plans to manage risks as well as to report on measures taken including the stage and effectiveness of such measures.

The Company's CEO reports the identified risks concerning the Group as well as all planned and effected measures to control such risks to the Company's Board of Directors.

The aim of risk management is to:

- systematically and thoroughly identify and assess all major risks, which threaten the achievement of objectives, including risks related to business operations, property, agreements, competence, currencies, financing and strategy
- optimise business opportunities and secure continuation of business
- recognise and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks
- take only calculated and carefully assessed risks with respect to e.g. expanding the business, increasing market share and creating new businesses
- avoid or minimise liability risks
- ensure the safety of products, solutions and services

- establish a safe working environment for the employees
- minimise possibilities for unhealthy occurrences, crimes or misconduct by operating procedures, control and immediate response
- inform interest groups of risks and risk management, and
- be cost-effective in risk management.

The aim of risk management is not to:

- remove all risks in their entirety
- adapt unnecessary controlling mechanisms, or
- create unnecessary administrative burden.

INTERNAL CONTROL

Internal control is a process applied by the Board of Directors, management and all Group personnel to ensure that management has reasonable assurance that

- operations are effective, efficient and aligned with strategy
- financial reporting and management information is reliable, complete and timely made, and
- the Company is in compliance with applicable laws and regulations as well as the Company's internal policies and ethical values

The first category addresses the basic business objectives, including performance and profitability goals, strategy, implementation of objectives and actions and safeguarding resources.

The second category relates to the preparation of reliable published financial statements, including interim reports and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly.

The third deals with complying with those laws and regulations to which the Company is subject to.

Lehto Group's internal control framework consists of:

- the internal control, risk management and corporate governance policies and principles set by the Company's Board of Directors
- management overseeing the implementation and application of the policies and principles
- the Finance department monitoring the efficiency and effectiveness of the operations and reliability of the financial and management reporting
- the Company's risk management process identifying, assessing and mitigating risks threatening the realisation of the Company's objectives
- compliance procedures making sure that all applicable laws, regulations, internal policies and ethical values are adhered to
- effective control environment at all organisational levels including control activities tailored for defined processes and creating minimum requirements for the Group's business segments and geographical areas
- shared ethical values and strong internal control culture among all employees, and
- internal audit assignments reviewing the effectiveness of the internal controls as needed.

Risk management procedures are in place for business processes in the form of defined control points:

- relevant process risks are identified
- common control points/Group's minimum requirement control points are identified
- common control points are implemented in business processes
- additional control points can be determined as needed at business or functional levels.

Control activities are the policies and procedures that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks in order to achieve the Company's objectives. Control activities are set throughout the organisation, at all levels and in all functions. They include a wide range of activities,

such as approvals, authorisations, verifications, reviews of operating performance, security of assets and segregation of duties.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The purpose of internal controls over financial reporting is to ensure the accuracy, reliability, timeliness and appropriateness of financial information.

Financial reporting organisation and duties

The Group's financial administration is handled centrally by the parent company, whose organisation provides financial administration services to all Group companies. Although the subsidiaries have no actual financial administration organisation, their personnel produce financial data which is used as part of the Group's financial reporting.

The main duties of financial administration include:

- Group accounting
- subsidiaries' accounting
- sales invoicing and accounts receivable management
- accounts payable management
- remittance of payments
- compilation of monthly financial reports supporting the business operations
- cash management and the coordination of financing
- control of the forecast and budgeting process
- taxation and transfer pricing
- company law-related duties.

The financial administration organisation implements operative supervision under the CFO who reports any supervisory findings to the Audit Committee.

The tasks of the financial administration organisation have been divided between individuals and documented in the job descriptions of the teams and employees.

Financial reporting systems

The Group's main financial information system is a modular V10 enterprise resource planning system which has been tailored to the needs of Lehto Group. Since the Group's business operations are mainly project-based, financial and other basic data of the project is entered in the V10 system at the beginning of the project. All income and expenses as well as payments made and received are entered in the system and are further processed for the needs of internal and external accounting.

The general ledger accounting of the Group's special purpose vehicles is handled in the V10 system, and Group consolidation is handled in the Cognos Controller system. Payment process is handled through a system provided by Basware.

Project and initiative management monitors project progress directly through the V10 system, but the profit reports of internal accounting are drawn up in Excel format. In the compilation of profit reports, data from Group and subsidiary accounting as well as project data obtained from the V10 system is used.

Supervision of financial reporting

The correctness of financial reporting is ensured through internal instructions, job and process descriptions, authorisation matrices, segregation of obligations and duties related to general ledger accounting, and financial reporting review meetings.

Service area-specific performance data is reviewed in the regular meetings of the service areas' steering groups, where the subsidiaries' management provides background and rationale for the results achieved.

The competences of financial administration personnel are maintained through regular training. Auditors assess the correctness of reporting in connection with, for example, the compilation of interim reports and through their other auditing work performed during the financial year.

RISK MANAGEMENT AND INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The key roles and responsibilities regarding the Company's internal control and risk management are defined as follows:

Board of Directors

The Board of Directors is ultimately responsible for the administration of the Company and for the proper organisation of its operations. According to good corporate governance, the Board also ensures that the company has duly endorsed the corporate values applied to its operations. The Board of Directors approves the policies and guidelines concerning internal control, risk management and corporate governance. The Board establishes the risk-taking level and risk bearing capacity of the Company and re-evaluates them on a regular basis as part of the strategy and goal setting of the Company. The Board reports to the shareholders of the Company.

Audit Committee

The Audit Committee of the Board of Directors is responsible for the following internal control related duties:

- monitor the reporting process of financial statements
- supervise the financial reporting process
- monitor the efficiency of the Company's internal control, internal audit if applicable, and risk management systems;
- process the descriptions included in the Corporate Governance statement's chapter Main features of the internal control and risk management systems related to the financial reporting process, and
- monitor the statutory audit of the financial statements and consolidated financial statements.

A more detailed description on how the Audit Committee is fulfilling its supervisory role is available in the Committee's annual plan. The Audit Committee reports to the Company's Board of Directors.

CEO

The CEO is in charge of the day-to-day management of the Company in accordance with the instructions and orders issued by the Board of Directors. The CEO sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. The CEO is in charge of the Company's risk management process and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. The CEO reports to the Board on risk management as part of the monthly reporting. The CEO as well as the members of the Group's executive team, who are subordinate to the CEO of the Lehto Group, are in charge of risk management in their own areas of responsibility.

Chief Financial Officer and financial administration

The CFO ensures and controls that the Group's accounting and financial reporting practices comply with the law and that both internal and external financial reporting is reliable.

The financial administration:

- ensures a setup of adequate control activities for service areas in cooperation with their management
- follows the adequacy and effectiveness of control activities, and
- ensures that external reporting is correct, timely and in compliance with regulations.

Group Legal Counsel

The Group Legal Counsel works as a subordinate for the CFO to ensure and monitor the manageability of the legal and contract risks. He also assists service areas in the risk assessment process of the undertakings. The Group Legal Counsel continuously develops the processes of legal risk managing in the Group.

HR Director

The HR Director ensures and controls that the Group's payroll administration and the

administrative procedures related to employment relationships comply with the law and are duly implemented.

EVP's of service areas

The EVP's of service areas are responsible for the implementation of internal control in their respective services areas. More specific internal control policies and procedures are established within each service area within the principles set by the Group functions. The service area's management is responsible for implementing risk management practices in the planning cycle and daily operations, and ensure the adherence of laws, regulations, internal policies and ethical values in their designated responsibility areas.

Some areas of risk management, in particular the management of financial risks and insurance, have been centralised for the purpose of scale advantage and for securing sufficient Group-level control.

The EVP's of service areas must also ensure that contractual risks related to their business operations have been assessed with sufficient accuracy.

Other information to be provided

INSIDER ADMINISTRATION

The Board of Directors of Lehto Group Plc has ratified on 9 August 2017 the company's Insider Guidelines which include directives and policies concerning insider administration, such as manager's transactions, trading restrictions and insider's register. The Insider Guidelines supplement the provisions of the Market Abuse Regulation (EU No 596/2014, the "MAR") and any rules and regulations based on it, Finnish regulations, such as the Criminal Act (39/1889, as amended) and the Securities Markets Act (746/2012, as amended), as well as Nasdaq Helsinki's Insider Guidelines effective from 3 of July 2016.

In accordance with MAR the disclosure of insider information data has been suspended and the Company has not updated a public insider information after the MAR came into force.

Lehto Group's insiders are divided into two groups. Persons obliged to declare insider holdings are members of the Board, CEO and other senior management of the company, who have regular access to inside information and are in the position to make decisions about the company and its future development.

Project-specific insiders are persons who have access to specified inside information. Project-specific insiders may also include persons acting on behalf of the company, such as lawyers and consultants. The company maintains a project-specific insider's register of any such confidential project that can be described as projects as defined by Nasdaq Helsinki and that can have a material effect on the value of the company's financial instruments.

Lehto Group complies with the EU Regulation on Market Abuse (MAR), which declares that managers under the obligation to report insider holdings may not trade the company's financial instruments during the 30 days prior to the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release (so called "closed period"). In accordance with the Lehto Group's regulation, the closed period ends the second day from the publication of a Lehto Group half year financial report, interim reviews on financial position and development or financial statements release. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information. According to Nasdaq Helsinki's insider guidelines the closed window shall be applied to persons that take part in the company's half year financial reports and financial statements and to other persons defined by the company, i.e. extended closed window. The extended closed window implies that trading with the company's financial instruments is prohibited of persons subject to the extended closed window in the 30 days prior to publication of quartal financial information and financial statements including information concerning the financial development of the company. These trading restrictions end on the second day following the publication of financial information. In addition Lehto recommends that trading with the company's financial instruments takes place after the end of the closed window, i.e. on the 2nd to 32nd day after the release of financial information.

RELATED PARTY ADMINISTRATION

Lehto Group's related parties include Group companies, members of the Board of Directors, the CEO, the Group's executive team as well as entities on which related parties have influence through ownership or management. Related parties also include associated companies and joint ventures.

On 17 August 2016, the Company's Board of Directors approved the guidelines for related party transactions, which determine the principles governing any related party transactions at Lehto Group. In addition to the above-defined related parties, these guidelines are applied more extensively to the Lehto Group's entire personnel. According to the guidelines, all related party transactions shall take place, and prices and other terms shall be set, under market conditions, i.e. under the same principles as with independent parties, and clear reporting and advance approval procedures are in place for these.

INTERNAL AUDITING

The Company has no separate internal audit organisation. This is taken into account in the content and scope of the annual audit plan. On the one hand, external auditing focuses on specific areas in turn to be audited, and on the other hand, on separately agreed priority areas.

AUDITING

According to Section 6 of the Company's Articles of Association, an audit firm whose chief auditor is a Chartered Accountant shall be elected as the company's auditor. The auditor's term of office shall expire at the end of the next Annual General Meeting following their election. In 2017, KMPG Oy Ab, a firm of authorised public accountants, acted as the Company's auditor, with APA Tapio Raappana as the principal auditor. The fees for audit services totaled approximately EUR 192,000. Furthermore, the Company paid the auditor approximately EUR 48,000 for services not related to auditing.



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