Annual Report 2018

LEHTO GROUP PLC

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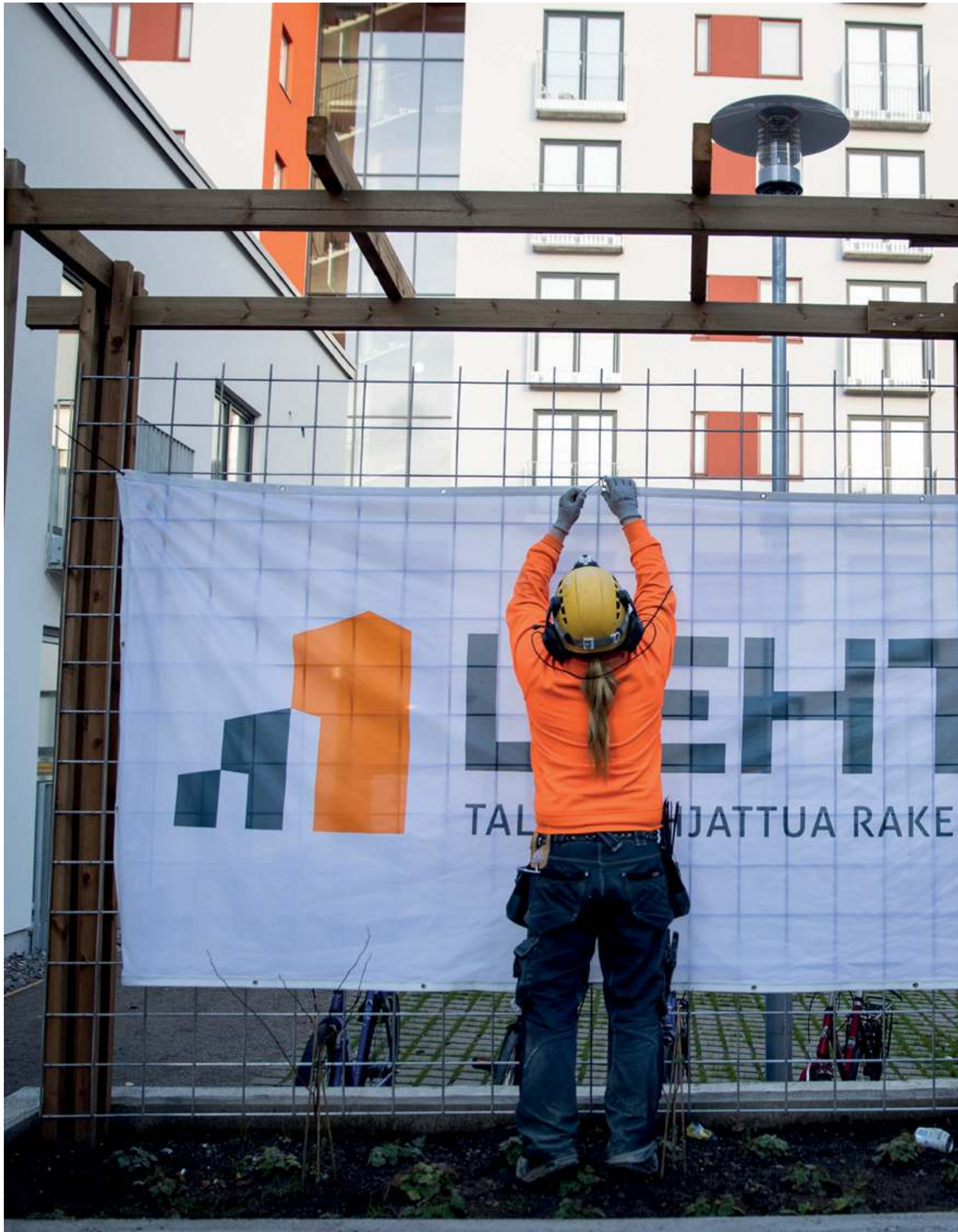


Lehto Group – Innovator in the construction sector

LEHTO is a fast-growing Finnish construction and real-estate group. We operate in three service areas: Housing, Business Premises, and Social Care and Educational Premises. Our mission is to be an innovator in the construction sector.

We are a pioneer in economically driven construction and our innovative operating model makes construction more productive, ensures the quality of construction and brings significant time and cost benefits to the customer.

We employ 1552 (Q4 2018) people and our net sales for 2018 amounted to EUR 721,5 million. Our subsidiary Lehto Sverige Ab is starting up operations in the Swedish market.

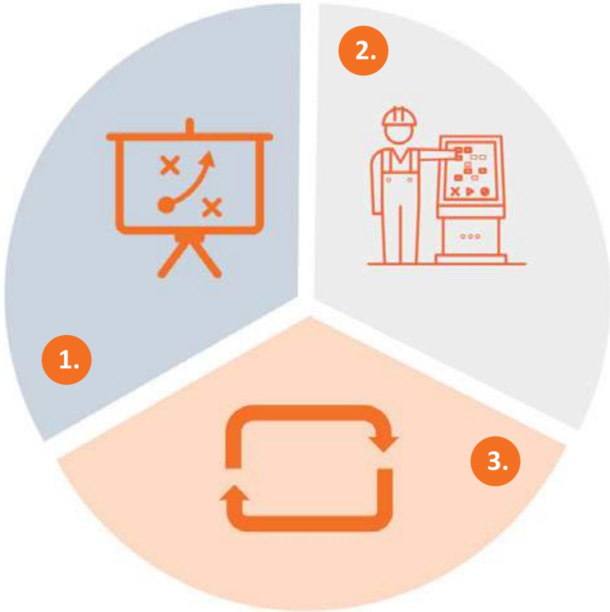
Economically driven construction

ECONOMICALLY DRIVEN CONSTRUCTION is an innovation that integrates design and implementation. The first cornerstone of this approach is **cost-conscious design**: over 80% of construction costs are determined at the design stage, which is why we also keep this phase in our own hands.

Industrial manufacturing is at the heart of the economically driven construction process. It is what separates Lehto from other construction companies. Innovative module and element production at Lehto's own factories across Finland boosts productivity in construction, speeds up schedules, and ensures high quality compared to traditional construction.

The third major cornerstone of economically driven construction is **standardised solutions**. We do not always reinvent the wheel. Instead, we use tried-and-true solutions. Standard solutions speed up both the design and construction phases. This can also mean relying on established partner networks or operating methods.

Above all, economically driven construction is an **ideology and a way of thinking**. It boldly challenges traditional construction. This approach hinges on competent employees who have the right attitude. **Digitalisation** – which is increasingly powering up our business – also supports economically driven construction.



1. DESIGN CONTROL

Up to 80% of construction costs are determined at the design stage.

2. INDUSTRIAL MANUFACTURING

Production at our own factories guarantees a moisture-controlled chain and ensures high, uniform quality.

3. REPEATABLE STANDARD SOLUTIONS

Effective standard solutions speed up design processes and construction.


Innovator
in construction business
LEHTO
Economically driven construction
Industrial manufacturing
Cost-conscious design
Standardised solutions
Digital processes and service chain
Motivated employees
Changes in the business environment
Digitalisation
Social welfare and healthcare reform
Urbanisation
Requirements for renovation and changes
Ecologically efficient
Cost-efficiency
Aging population
Climate change
LEHTO
LEHTO
ENTERPRISE
BUSINESS
LEHTO
LEHTO
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

Lehto's long-term strategy in brief

LEHTO'S long-term strategy is defined until the year 2022. The strategy sets its sights not only in Finland, but also in the other Nordic countries. Lehto will forge ahead with the further development of its operating model. This concept-based model emphasises aspects such as customer benefits. We seek to make even greater use of standardised solutions in both design and production. Furthermore, we intend to increase the share of factory production in construction projects – that is, transfer construction from sites to factories. Through this model, Lehto seeks to attain significant schedule, cost and quality benefits for its customers.

LONG-TERM FINANCIAL TARGETS

- **Average annual growth of net sales 10–20%**
- **Average operating profit approximately 10% of net sales**
- **Equity ratio a minimum of 35%**
- **Distribution of dividends approximately 30–50% of the result of the financial year**

Strategic foci of our operations

DIGITAL PROCESSES AND THE SERVICE CHAIN

- Our productivity development is based on a digital construction process, which guides and steers the entire construction production 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 per cent 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

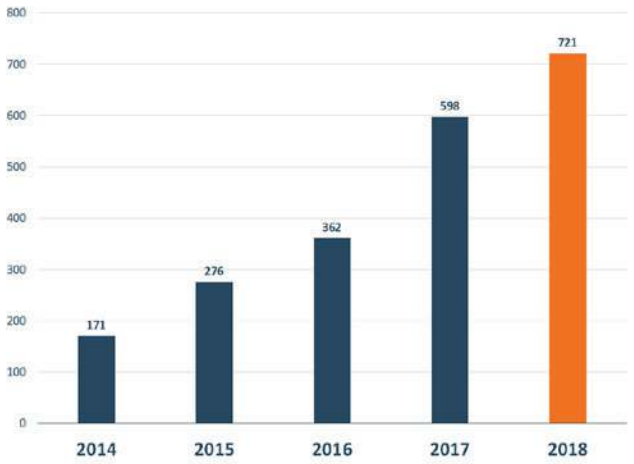
- We aim to further develop our operating model that provides customers with an end-to-end solution that includes all the services required for the completion of a construction project. Through this model, we seek to attain significant schedule, cost and quality benefits for our customers.

INTERNATIONALISATION

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

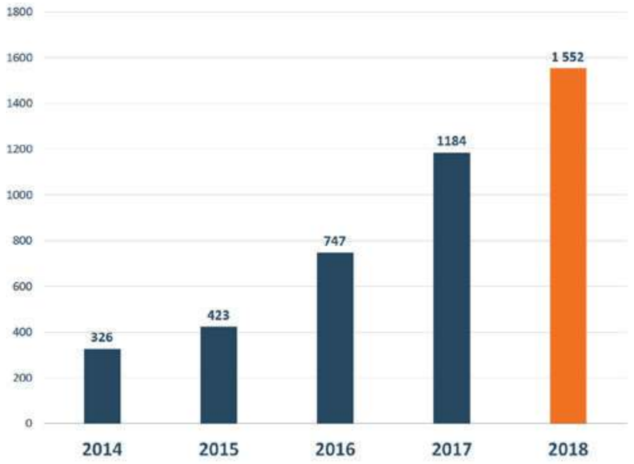
2018 in figures

Net sales, EUR million

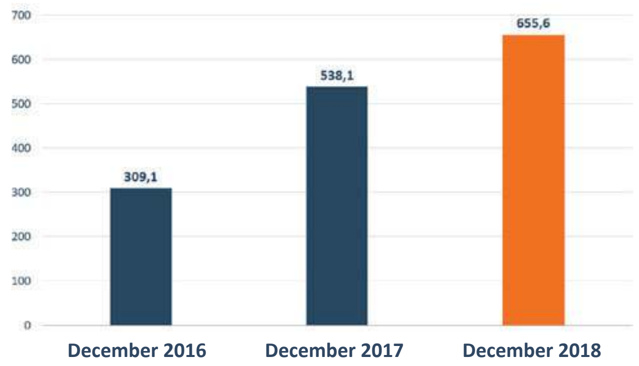


Operating profit, EUR million and operating profit, %

Number of personnel at the end of the year

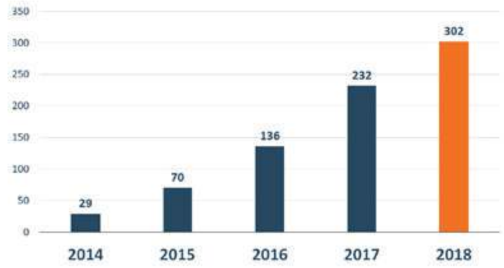


Order backlog, EUR million

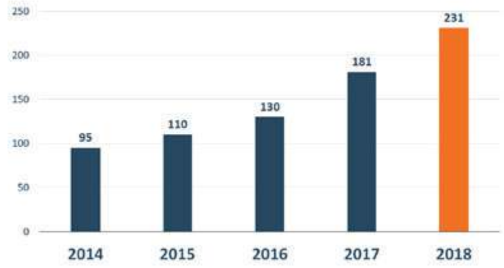


Net sales by service area, EUR million

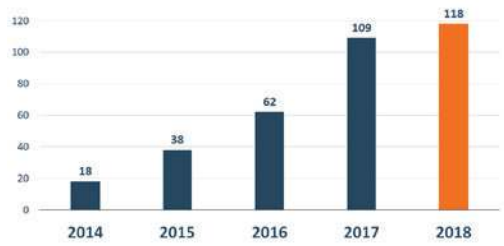
Housing



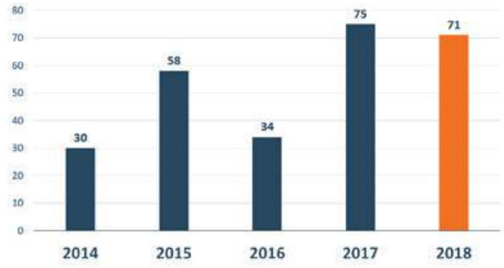
Business Premises



Social Care and Educational Premises



Building Renovation



Net sales grew by **20.7%** from the previous year

Operating profit was EUR 37.2 million, or **5.2%** of net sales

Our personnel grew by **368** in 2018

A new **9,000 m^2** factory was completed in Oulainen

A total of **1,900** apartments were sold in during the period

A total of **31** business premises were completed during the period

Lehto bought a **20,000 m^2** factory in Hartola

A total of **28** care homes and assisted living facilities, **2** day care centres and **1** school were completed

CEO Hannu Lehto

Growth and growing pains – focus on core of our strategy

”2018 was another year of vigorous growth. Our growth was strong, but we stumbled in terms of profitability. We started an analysis of the situation in the autumn. The results show that growth led to growing pains: as hundreds of new Lehto employees joined the company, we could not provide these new professionals with enough orientation to sufficiently familiarise them with the world of economically driven construction.

Lehto has a good, distinctive strategy that has proven its worth. I am convinced that we will succeed and grow profitably when we work on core of our strategy. We should also keep in mind that even though Lehto’s profitability suffered, our earnings are still better than average in the construction sector.

> **Lehto has a good, distinctive strategy that has proven its worth.**

One of the memorable milestones of 2018 was the robust development of our industrial prefabrication. We acquired space for a factory expansion in Hartola and built new production facilities in Oulainen. The production capacity of the Humppila factory doubled. These are important steps in Lehto’s strategy, further improving our productivity in construction. This effort is also supported by our digitalisation drive, in which we made further progress in 2018.

We carried out a personnel survey at the end of the year. The results show that we are rated AA according to People Power®, outperforming the Finnish general norm. Employees also want to recommend Lehto as an employer. I think that this is truly noteworthy considering that 2018 was not the easiest of years. We worked hard, but in spite of that our financial result was disappointing. The survey thus indicates the great commitment of our employees to the company – and this is vitally important for us. After all, our strategy is realised by skilled people who have the right attitude. Economically driven construction is above all an ideology and a new way of thinking and acting. That’s why our employees play a primary role in our success.

We will remember 2018 as a year of learning, a chapter in our growth story. In 2019 we will focus on the core of our strategy. We will continue our work in line with our mission as an innovator in the construction sector.”

Events during 2018

1 JANUARY

- Lehto responds to the shortage of information model experts and opens its own academy
- The Lehto Career Promise is launched

2 FEBRUARY

- Lehto expands its factory capacity and buys a 20,000 m² factory in Hartola
- Lehto Raha service is launched for homebuyers
- Lehto seeks to develop its waste management and signs an agreement with Lassila & Tikanoja

3 MARCH

4 APRIL

- Lehto and Citycon extend their preliminary agreement for Lippulaiva shopping centre
- Faster processing of building permits – Lehto participates in the development of information model-based permit processing

5 MAY

- Lehto and Avara sign a framework agreement for a major housing portfolio
- The City Council of Jyväskylä decides to launch the Hippos2020 project with a consortium consisting of Lehto and Fennia
- Lehto makes inroads into log construction – a new school in Punkalaidun

6 JUNE

- Lehto and Citycon announce they are continuing agreement negotiations for the Lippulaiva shopping centre
- Lehto and Sukari Invest Oy announce they will cooperate on the construction of the Ideapark shopping centre in Seinäjoki
- Lehto announces that it will build a 10,000 m² office property in Aviapolis, Vantaa

7 JULY

8 AUGUST

- Lehto issues its first profit warning of the year
- The Hartola factory wants to hire dozens of employees
- Lehto starts up a new kind of business: building small rental storage units in Espoo

9 SEPTEMBER

- Lehto signs a preliminary agreement with Fennovoima for a major office building complex
- Lehto lands two large projects for sports halls: in Äänekoski and the Myllytulli area of Oulu

10 OCTOBER

- Lehto issues its second profit warning of the year
- Lehto and Citycon announce the termination of turnkey contract negotiations for the construction of the Lippulaiva shopping centre
- Lehto breaks its housing sales record: more than 250 residential units sold
- Lehto announces that it will revitalise the Kalasatama area of Helsinki with about 300 apartments

11 NOVEMBER

- Lehto announces the reorganisation of its building renovation services
- The Housing service area unveils its Carbon Neutral 2030 development project

12 DECEMBER

- Lehto announces it will build a floorball hall in Eerikkilä
- The Lehto Total service package comprising plumbing renovations and complementary building is launched

Our service areas

Lehto Group's business operations were divided into four service areas in 2018: Business Premises, Housing, Social Care and Educational Premises, and Building Renovation. The company announced the discontinuation of the Building Renovation service area in January 2019. Plumbing renovation business is transferred to the Housing service area.

HOUSING

Lehto builds blocks of flats, balcony access blocks 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.

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 2018, in the Building Renovation service area, Lehto carried out pipeline renovations, building renovations and projects in which one to two additional floors were built on top of existing buildings. Most of the projects were implemented as turnkey projects, where Lehto was responsible for the entire contract and assumed overall responsibility for both design and construction.

Lehto also carried out renovation projects in the form of developer contracting, in which Lehto bought an old building, renovated or converted it for residential use, and sold the renovated apartments on to customers. The main market for building renovation in Finland has typically been in the Helsinki Metropolitan Area.

In November 2018, Lehto announced it was planning to discontinue the Building Renovation service area and reorganise operations. In January 2019, the company announced that it had discontinued the service area as planned. Building renovation is being limited in our operations and the profitable plumbing renovation business was transferred to the Housing service area.

Comments from customers

"Lehto Business Premises offered various alternative solutions which enabled us to control the costs of the investment. The project progressed to schedule and met all our quality expectations. The project was efficiently managed from start to finish and our partnership with Lehto ran smoothly. Our new facilities support our business and help our company to succeed."

Arno van Berlo
Senior Manager Group Property
DSV ROAD BV

"Mainiokoti Arwola, a care home for the elderly in Akaa, was completed right on schedule. Cooperation with Lehto went smoothly. The nicest part is that the tried-and-true concepts we and Lehto have come up with are replicated in all the projects we build. It's important for us to know the exact price in advance. Likewise, it's important that Lehto works under the principle of a single contract and takes on responsibility for the success of the entire project."

Janne Heikkilä
Project Manager
Hoiva Mehiläinen

"My friends recommended that I should buy my own home from Lehto. The price was reasonable and I've been satisfied with my new home. My main reason for choosing Lehto was all the details of the home — I got more for my money. During construction, they kept me updated about progress and everything went smoothly."

Markus Bollström
homebuyer


DSV

References from 2018

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.


Housing
Jyväskylän Palokunnanmäen torni


Housing
Hämeenlinnan Eversti


Housing
Helsingin Siltapuisto


Housing
Kuopion Saaristonkruunu


Business premises
DSV


Business premises
Vantaa, Väritehtaankatu


Business premises
Kalajoki cultural and shopping centre


Social care and educational premises
Liminka school


Social care and educational premises
Attendo, Espoo


Social care and educational premises
Pääskynpesä daycare centre, Lahti


Social care and educational premises
Mehiläinen, Kauhava


Building renovation
Sammatti, plumbing renovation


Building renovation
Vehkapolku, plumbing renovation & construction of an additional floor

Industrial manufacturing

Lehto is also transforming construction by harnessing the power of industrial prefabrication. We are transferring challenging phases of construction from sites to factories – indoors, where work is not at the mercy of the weather. Industrial prefabrication enables us to achieve cost and time benefits as well as to ensure quality from start to finish with our sustainable moisture-controlled chain.

Lehto's factory production

Lehto's factory production already employs over 400 persons in rural towns and areas facing regional policy challenges.

OULAINEN FACTORIES:

- Space elements for modular apartment buildings
- Fixtures: kitchens, bedroom closets, hallway closets, kitchen islands, bathroom fixtures (mirror cabinets, etc.)
- Windows and balcony doors
- Technical Studios for apartment buildings, kitchen-bathroom modules for care homes
- Concrete slabs for Technical Studios
- Concrete hallway elements

HARTOLA:

- Space elements for modular apartment buildings
- Space elements for daycare centres
- Space elements for schools

HUMPPILA:

- Large roof elements

II:

- Wooden wall elements
- Partition walls
- Wooden detachable elements

LUOHUA:

- Wooden wall elements
- Partition walls
- Wooden detachable elements

OULU:

- Building technology containers
- Plumbing elements for renovation
- The production will be transferred to Oulainen latest at April 2019

Products from our factories

KITCHEN AND BATHROOM MODULES

Kitchen and bathroom modules are mainly used in the construction of apartment buildings and care homes. The modules are manufactured under stringent quality control that ensures not only even quality, but also considerably better moisture control than in traditional construction. The use of modules also facilitates scheduling the construction site phase, which speeds up the completion of the properties and enables significant cost savings. The completed factory-made modules are lowered into the interior through the roof.

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. Apartment elements are produced at the Oulainen and Hartola factories, for instance.

LARGE ROOF ELEMENTS

Lehto's large roof elements are manufactured at our Humppila 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.

BUILDING TECHNOLOGY CENTRES

Lehto's building technology centres 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.

PLUMBING ELEMENTS

The plumbing elements developed by Lehto considerably speed up the implementation of plumbing renovations and bring savings on overall costs to housing companies. Our stylish plumbing elements are manufactured in our factory under carefully monitored conditions. The use of plumbing 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 plumbing 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 plumbing elements can be customised.

FIXTURES

At the end of 2018, Lehto was already one of the largest manufacturers of fixtures in Finland. We manufacture kitchens, bedroom and hallway closets, kitchen islands, and bathroom fixtures, for instance.

Did you know this about industrial prefabrication?

1. WE IMPROVE THE PRODUCTIVITY OF CONSTRUCTION

It’s a well-known fact that the productivity of Finnish construction has not increased significantly during the past 40 or so years. Industrial prefabrication is one means of substantially improving productivity: construction is partly transferred from construction sites to dry indoor factory premises, from where the completed components are transported to the sites. Not only is it faster to manufacture components, elements and modules in a factory than at the site – but this also speeds up work on the site.

2. CUSTOMERS’ WISHES DIRECT OUR FACTORIES

Did you think that a building that is partly made at a factory cannot be unique or have personality? Our customers’ wishes direct our factories: for instance, they can choose the kitchen layout of their new apartment from a range of tried-and-true alternatives, the colours of interior walls, laminate or parquet, the colours of kitchen doors and the bathroom floor tiles. What’s more, Lehto apartments already come complete with many high-quality details, such as a stone composite kitchen basin, wall-mounted toilet seat and top-notch integrated household appliances. Industrial prefabrication enables catering to customers’ wishes with respect to the new building and quality, while also keeping the price at a reasonable level.

3. INDUSTRIAL PREFABRICATION IMPROVES QUALITY

Repeatability is one of the aspects of industrial manufacture that enhances quality. We rely on tried-and-true materials and work phases, which results in higher quality. In other words, we do not reinvent the wheel every time we build. We make use of good, proven solutions to benefit our customers. We do not think of buildings as “prototypes,” unlike the traditional construction industry.

One of the cornerstones of quality in industrial prefabrication is our moisture-controlled chain, which improves on traditional construction methods: elements that were once built on-site at the mercy of the weather are now manufactured indoors. This ensures significantly better moisture control during construction.

Industrial prefabrication reduces the emissions of logistics

Traditional construction site

Industrial prefabrication and modern construction site

- Lot of small deliveries
- More waste and deliveries due to them
- The challenges in recycling

- Manufacturing in factories enables the minimising of waste and recycling
- From factory to the site: less bigger deliveries

Our employees

ROUGHLY about 49% of Lehto's personnel are salaried employees, and about 51% work on either construction sites or our factories.

We measured our employees' job satisfaction with an extensive personnel survey. The results show that we are rated AA according to People Power®, outperforming the Finnish general norm. The survey indicates that the company's strengths are its fair and equal treatment of employees and listening to personnel in decision-making. In addition, the respondents felt that senior executives are trustworthy and they also want to recommend Lehto as an employer, which is one of the key indicators of job satisfaction.

Lehto's growth strategy was also evident in the company's number of personnel and recruitments in 2018. Our Hartola factory had the greatest need for new employees. In a single recruitment drive in the summer, it hired about 30 new professionals for our innovative factory production. The personnel count at our Oulainen factory also grew in 2018. Another new production facility was opened in the autumn.

At the beginning of the year, we launched the Lehto Career Promise trainee programme for construction students to help them on their career paths. This also secures the personnel we will need in the years ahead and improves awareness of Lehto as an employer. During the review year, about 150 students worked at Lehto.

Lehto provided Management Academy training modules I and II for the second year running. 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. In addition, Lehto wanted to respond to the shortage of information model experts, and opened its own LEKA Academy to meet this need.

Lehto through Lehto employees' eyes

At the end of 2018, we carried out a personnel survey to ask Lehto employees for their opinions about the company. Here are some of the answers we received.

"A good and solution-focused atmosphere. Things can get cramped at a growing company, but otherwise everything's all right."

"Lehto is a great workplace. Thanks to nice workmates and a relaxed atmosphere, the workdays are rewarding."

"We don't have too much bureaucracy. We can react quickly. And we have the boldness to act and do things differently."

"A flat hierarchy is a good thing. It gives you the courage to talk about issues, in spite of your position."

"We have an energetic and encouraging work community."

"The employer's financial outlook is good compared to its competitors."

"Lehto gives you the opportunity to develop in your job."

"You get the feeling that the company also cares about blue-collar workers."

”Humour is important to us, and so is taking care of others and ensuring that everyone can succeed in their work.”

JENNI KEMPPAINEN, INFORMATION MODELLING COACHING COORDINATOR

“LEKA Academy coaching on the digitalisation of our construction process has been attended over 600 times by in-house personnel during the year. We ensure that coaching is as practical and tangible as possible. We’ve received plenty of positive feedback on it. In the LEKA team, we’ve noted that colleagues at Lehto are helpful and approachable. The mood is good and enthusiastic, which is essential for implementing digitalisation.”

KAARLE TÖRRÖNEN, HR DIRECTOR

“I assumed the position of HR Director at Lehto after a 33-year career in the Defence Forces. Lehto has a good workplace atmosphere that we want to foster. We’re also proud of our own work and Lehto as a company. The relationship between the working community and the employer is good. At Lehto, it’s important to implement our strategy by, for instance, translating digitalisation into everyday language and activities: our employees are the most important engine of change.”

TOM WARELIUS, PENSIONER

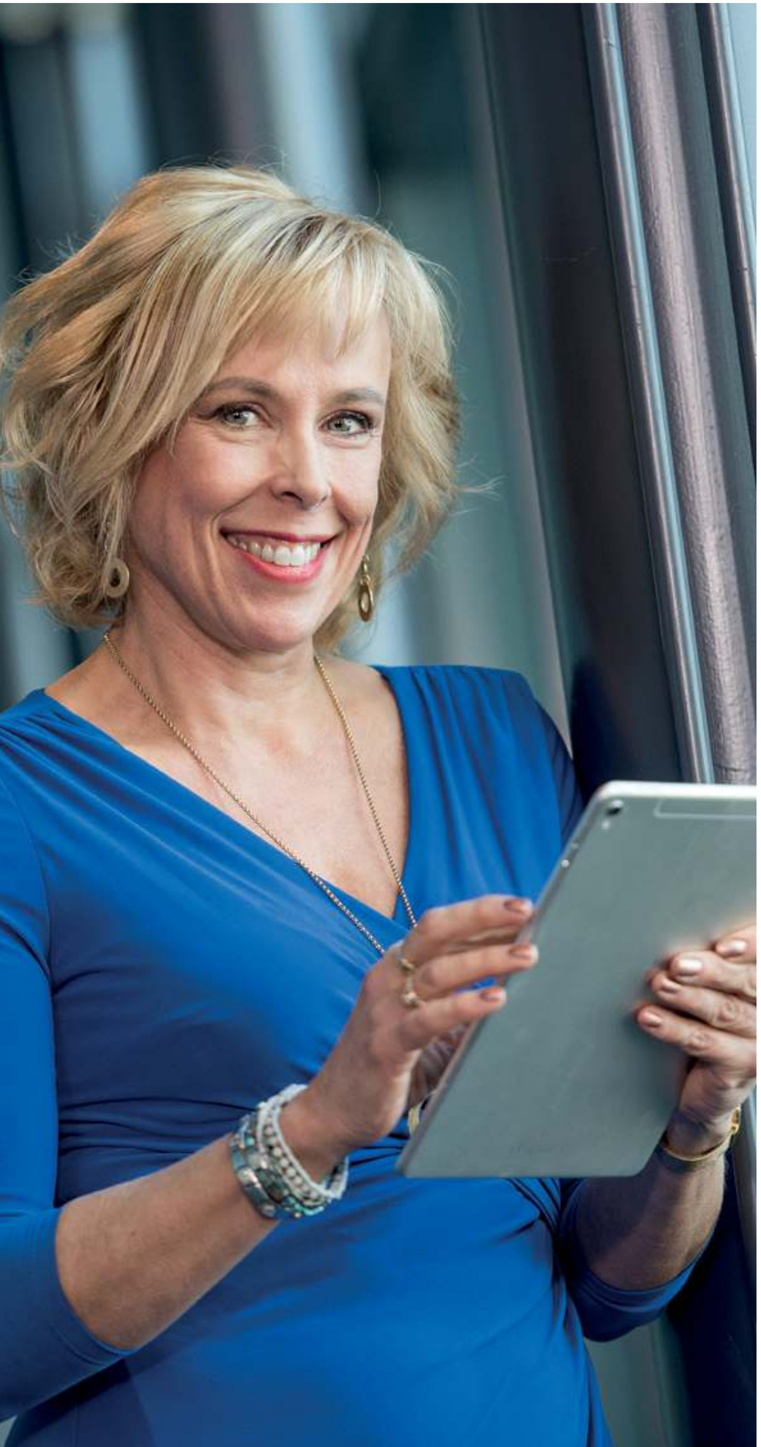
“As the Managing Director of Warecon, I joined Lehto in 2016. That’s when I, at the age of 60, signed the very first employment contract in my life. I was very excited about this change, as ‘innovator in the construction sector’ is not just an advertising slogan – it’s absolutely true. When I joined the company, I thought that every construction professional should come work here, and I still feel that way. During my career, I’ve worked with almost every single large construction company, so I know what I’m talking about. Lehto is a true pioneer in many areas of its business.”

PASI HAMUNEN, PRODUCTION DIRECTOR, LEHTO ASUNNOT OY

“I joined Lehto in 2014 and have worked here ever since. The work is very varied and the days are exceptionally fun. Humour is important to us, and so is taking care of others and ensuring that everyone can succeed in their work. This is a stand-up group of people, funny and hardworking – good friends.”

SAMULI VIRLANDER, LINE SUPERVISOR AND TEAM LEADER, LEHTO COMPONENTS OY

“I’ve worked at the Hartola factory for seven years. After the factory was acquired, I’ve been with Lehto Components for about a year. I have 17 workmates – the employees of the balcony manufacturing point, the roof line and two wall lines. We have a good work atmosphere and transferring to Lehto Components has been positive in many ways, as we are constantly developing our operations. The best thing about this job is that you see your own handiwork.”



Digitalisation

IN OUR STRATEGIC LEKA development project, we are digitalising our construction processes. The project started at the beginning of 2017 and since then digitalisation has been integrated into our operating model. All our projects started year 2018 are based on our BIM based workflow. We utilize building information management throughout our construction processes from design phases to construction and turnover. Thanks to our building information model (BIM) based workflow, people working in different roles can utilise up-to-date information during the entire project.

From the early beginning of a new project, we determine how to utilize BIM models in accordance with our economically driven operating model. We proactively manage design and production to ensure that information models can be utilised with optimal efficiency throughout our production chain. Our aim has been to produce high-quality BIM design models that correspond the constructed buildings and which can thus be further utilized in building lifecycle.

DEVELOPING BIM EXPERTISE

The project's core LEKA team grew to 10 people in 2018. In addition, each service area has their own BIM specialists. We aim to put expertise into practice as part of the day-to-day work of employees in all projects, taking the business and customer requirements of the service area into consideration.

The general challenge that has slowed down the adoption of digitalisation in the construction sector is the small number of BIM specialists. We have solved this problem by creating Lehto's own LEKA Academy coaching programme. About 600 people participated LEKA Academy in it during 2018. LEKA Academy consists of basic coaching periods organised in cooperation with Metropolia University of Applied Sciences in addition to our own advanced coachingperiods. With LEKA Academy, we have significantly increased our in-house level of BIM expertise.

ELECTRONIC BUILDING PERMIT PROCESSING

In 2018, we launched a pilot project for developing the BIM based building permit process together with the building control authorities of Vantaa, Järvenpää and Hyvinkää as part of the KIRA-digi project. This new approach to building permit processing is done straightforward by checking BIM models towards the Building Code ruleset. The aim of the pilot project was to enhance efficiency in building permit processing and reduce ambiguity – and in future, enabling a realtime 3D city model serving both construction companies as well as citizens and other parties.

INFORMATION AS PART OF THE VALUE CREATION OF PROPERTIES

We are enhancing the digital revolution in the construction industry by boldly overhauling traditional operating models. At Lehto, digitalisation does not mean simply transforming our current processes into a digital format – it means rethinking our whole production process and taking new co-operational methods into use. We are laying the groundwork for ensuring that the high-quality desing information created of our buildings can also be further utilized in our buildings' lifecycle. In future, the virtual information of a building will present a substantial part of the real estate's value creation.

Shares and shareholders

SHAREHOLDERS 31 DECEMBER 2018

	Number of shares	%
Lehto Invest Oy	21,685,216	37.2%
OP-Suomi	2,763,375	4.7%
Kinnunen Mikko	1,794,265	3.1%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,252,440	2.2%
Saartoala Ari	862,007	1.5%
Myllymäki Asko	709,215	1.2%
Sr Danske Invest Suomi Yhteisöosake	676,965	1.2%
Heikkilä Jaakko	640,000	1.1%
Lunacon Oy	590,944	1.0%
Sr Säästöpankki Kotimaa	471,470	0.8%
10 LARGEST SHAREHOLDERS	**31,445,897**	**54.0%**
Nominee-registered	10,283,661	17.7%
Other shareholders	16,521,194	28.4%
TOTAL	**58,250,752**	**100.0%**

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%
1 – 100 shares	289,403	0.5%
101 – 1,000 shares	3,546,937	6.1%
1,001 – 10,000 shares	4,719,567	8.1%
10,001 – 100,000 shares	3,318,729	5.7%
100,001 – 1,000,000 shares	8,955,656	15.4%
over 1,000,000 shares	37,420,460	64.2%
TOTAL	**58,250,752**	**100.0%**
where of Nominee-registered	10,283,661	17.7%

SHAREHOLDINGS BY SECTOR

	Number of shares	%
Companies	25,680,800	44.1%
Financial and insurance institutions	15,608,417	26.8%
Public sector organizations	1,764,453	3.0%
Households	14,689,760	25.2%
Non-profit organizations	174,832	0.3%
Foreign countries	332,490	0.6%
TOTAL	**58,250,752**	**100.0%**
where of Nominee-registered	10,283,661	17.7%

SHARE PERFORMANCE 2018

- Closing price of the share EUR 4.25
- Lowest rate during the review period EUR 4.02
- Highest rate during the review period EUR 14.18
- Trading 42 861 908 shares

Group management

HANNU LEHTO
CEO

VELI-PEKKA PALORANTA
Chief Financial Officer

ARTO TOLONEN
Chief Development Officer

PASI KOKKO
EVP, Housing

PEKKA KORKALA
EVP, Factory Production

VILLE KETTUNEN
EVP, Social Care and Educational Premises

JAAKKO HEIKKILÄ
EVP, Business Premises

TIMO REINILUOTO
EVP, Business Support Services

Corporate responsibility report 2018

LEHTO GROUP PLC

Corporate responsibility report 2018

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Business model

LEHTO GROUP is a Finnish innovator in the construction sector. Lehto focuses on the utilisation of the economically driven construction model it has developed. In economically driven construction, design and implementation processes have been integrated in order to achieve cost benefits. Key elements of our competitiveness include design control, the use of standardised solutions and building elements and modules prefabricated in our own factories. Lehto's goal is to build efficiently and save resources, and to reduce the material waste generated in construction.

Lehto Group's net sales amounted to EUR 721.5 million in 2018 and its operations were divided into four service areas: Business Premises, Housing, Social Care and Educational Premises and Building Renovation. At the beginning of 2019, the Building Renovation operations were merged into the other service areas. Operations continue in three service areas: Business Premises, Housing and Social Care and Educational Premises.

Lehto has eight factories that produce large roof and wall elements, bathroom and kitchen modules, housing modules, building technology centres, renovation elements, doors and windows, and fixtures. All our factories are located in Finland, and the bulk of outsourcing is contracted in Finland and the European Union.

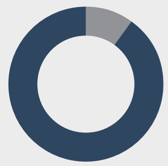
On 31 December 2018, Lehto Group had 1,552 employees, of whom slightly under half were office workers, about a quarter factory workers and the remainder construction workers. In addition, subcontracting and hired resources are used at construction sites for specific work phases, at the start of activities and for short-term, urgent work. Of Lehto Group's personnel, more than 90% are employed under contracts for an indefinite period and fewer than 10% have fixed-term employment contracts. Fixed-term contracts are generally based on a project, replacement, summer job or traineeship. Most of Lehto's employees work in Finland. Swedish operations are handled by a team of fewer than ten people.

Thanks to its efficient factory construction, Lehto Group is able to reduce building and housing costs and offer people reasonably priced homes with excellent travel connections even in growth centres. In 2018, Lehto completed 2,159 new apartments. In addition, 31 new business premises and 28 social care and educational premises were completed in 2018. In building renovation, two developer-contracted renovation projects, two basic renovation projects and 16 pipeline renovation projects were completed in 2018.

Responsibility focus areas and management

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. Vast amounts of materials are moved in construction, from land masses to a variety of products and coatings. The construction industry has a

On 31 December 2018, Lehto Group had 1,552 employees



Of Lehto Group's personnel, more than 90% are employed under contracts for an indefinite period

Lehto's goal is to build efficiently and save resources, and to reduce the material waste generated in construction.

major role in reducing the carbon footprint and cutting down on waste. The construction cluster is Finland's largest employer and many young people work in the industry. The construction industry is also heavily male-dominated.

Responsibility is one of the values guiding Lehto's operations. The key elements of Lehto's competitiveness — design control, the use of standardised solutions and building elements and modules prefabricated in our own factories — comprise the solid core of our responsibility efforts. Lehto's goal is to build efficiently while saving energy and resources, to reduce the material waste generated in construction, and to be a good employer that is fair to everyone.

Lehto Group's corporate responsibility comprises three focus areas: responsible construction, personnel wellbeing and responsible business conduct. The company defined indicators and targets for these focus areas during 2018.

The CEO is responsible for Lehto Group's responsibility and the CFO heads up responsibility reporting. Operational responsibility work is managed on a decentralised basis according to key focus areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The Executive Board regularly monitors the development of the key indicators of responsibility.

Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting and complies in its reporting with the requirements laid down for non-financial information in the Accounting Act.

This report deals with the required issues as follows:

ACCOUNTING ACT REQUIREMENT	LOCATION IN THIS REPORT
Description of the business model	Business model
Environmental matters	Responsible construction
Employee-related matters	Personnel wellbeing
Social responsibility	Personnel wellbeing
Human rights	Responsible business conduct, personnel wellbeing
Anti-corruption matters	Responsible business conduct

Responsible construction

RESPONSIBLE construction is one of Lehto's three focus areas in responsibility and it involves environmental impacts in particular. 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 human health and natural diversity (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)

Economically driven construction utilising optimally standardised solutions and construction elements and modules prefabricated at the company's own factories boost the efficiency of Lehto's operations and also seek to reduce environmental loading. Factory production improves, for instance, the efficiency of logistics and reduces emissions from transport, as elements and modules are transported in large batches and fewer transport runs are required.

The key indicators of responsible construction were defined in 2018: waste recycling rate and share of electricity accounted for by renewable energy. The objective for 2018 was to define indicators and the baseline in accordance with the available information. The baseline for the waste recycling rate is 20%*. Lehto will start to measure the share of electricity accounted for by renewable energy in 2019. The first indicators will be published in connection with 2019 annual reporting.

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.

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. These risks are managed using standardised practices and guidelines at factories and sites.

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.

From the perspective of environmental protection, zoning and construction are guided by the Nature Conservation Act. The authorities provide regulations for nature protection in the zoning phase, if needed. If there are populations of endangered animals and/or plants in the planned area, the area may not be zoned for building use.

*Covers about 80% of wastes; the information is based on figures from the service provider

Personnel wellbeing

EMPLOYEES are the most important asset for Lehto Group's growth strategy. 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.

The construction industry is sensitive to business cycles. 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 hired resources mainly at construction sites for specific work phases, at the start of activities and for short-term, urgent work.

One of Lehto Group's key indicators for responsibility and the most important indicator for HR issues, social responsibility and human rights is lost time accident rate. Lehto Group prioritised occupational safety as a special focus area in 2017 and continued efforts to improve safety in 2018. The company'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 and first aid. Through preventive measures and training, Lehto Group seeks to prevent accidents at work and influence employees' attitudes. Lehto has three employees who work full time on maintaining and developing 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 2018, the lost time accident rate of the Group was 43 (LTI1 index). Due to a change in the measurement method, the figures for 2017 and 2018 are not comparable. As from 2018, lost time accident rate is measured using the LTI1 index (accidents leading to absence from work of more than one day per million hours worked) and the indicator is reported in connection with annual reporting.

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. Lehto Group is positive towards employee competence development and supports it in a variety of ways. In 2018, Lehto had two comprehensive personnel training programmes: Career Promise and Management Academy.

Career Promise is a 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 deployment 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 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. Last year, Lehto offered employment to 153 students. In 2018, Lehto also participated in the Responsible Summer Employer campaign.

The Management Academy is divided into two coaching programmes. Management Academy I is completed by all white collar employees. Management Academy II is aimed at employees in a supervisory role or in charge of project management.

Lehto Group seeks to be a good and fair employer for everyone. Lehto Group's personnel is committed and turnover is not particularly high. In 2018, employee turnover was 3.5%. We measured our employees' job satisfaction with an extensive personnel survey. The results show that we are rated AA according to People Power®, outperforming the Finnish general norm. The survey indicates that the company's strengths are its fair and equal treatment of employees and listening to personnel in decision-making. In addition, the respondents felt that senior executives are trustworthy and they also want to recommend Lehto as an employer, which is one of the key indicators of job satisfaction. The identified development targets were outlays on the high quality of products and services, communicating about the strategy, cooperation between units and the visibility of the company's values and objectives in day-to-day work.

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. Sickness absences in 2018 amounted to 4% (2017: 3%).

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. Equality and non-discrimination are monitored through the gender, age and regional distribution. In 2018, women accounted for 13% of personnel, 0% of the Executive Board and 20% of the Board of Directors. The age distribution of personnel is presented in the table:

Under 30 years of age	36%
30–39 years	27%
40–49 years	18%
Over 50 years	19%

Lehto considers it important to employ people all around Finland, not just in growth centres. For instance, 150 new employees started out in factory operations in 2018. All in all, 426 people worked in factories at the end of 2018, of whom 423 were permanent employees and three on fixed-term contracts. The company's locations in 2018 are shown in this map.

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.

The following potential responsibility risks related to personnel, social responsibility and human rights have been identified: accidents, burnout, discrimination, harassment and neglect of terms and conditions of employment. These risks are managed by means of, for instance, occupational safety training, appropriate HR policies, agreements, operating models and an action plan for occupational healthcare.

Responsible business conduct

LEHTO GROUP is committed to respecting human rights in its operations and to promoting their implementation. 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 and other unethical operating models can be combated increasingly effectively in the subcontracting chain.

Lehto Group seeks to prevent the occurrence of abuse generally acknowledged as a problem in the construction industry by carefully following 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 complies with the means adopted in the construction industry to combat the grey economy. Reverse charge VAT in the construction industry effectively reduces the potential for fraudulent activity in long subcontracting chains. All Lehto Group contracts require the use of construction site tax numbers and personal IDs. In addition, all Lehto employees and those working on site must wear a photo ID, such as a Valtti card, and keep it visible at all times. Lehto maintains a list of those working on site and requires everyone entering its sites to go through the check-in gate. Lehto submits this list to the tax authorities every month.

Lehto and its cooperation partners have also adopted Fair Play Rules, which agree on a shared vision to enhance responsibility in cooperation over and above the statutory requirements. The rules take into account, for instance, requirements concerning corruption, employee wellbeing and respecting the environment and property. Cooperation partners must inform Lehto's contact person immediately if they notice or suspect activities that are illegal or contravene ethical principles. Cooperation partners can also contact Lehto anonymously. The notification is forwarded to the Group's Legal Counsel and the Chair of the Audit Committee of the Board of Directors.

The scope of the training on the ethical guidelines and the scope of the ethical guidelines in procurement agreements are key indicators of responsibility defined in 2018. Ethical guidelines for employees and goods suppliers were drafted in 2018. In addition, a training course on the ethical guidelines was completed in late 2018. It will be launched in early 2019. The company will start monitoring the scope of the training on the ethical guidelines in 2019. These guidelines will be appended to new subcontracting agreements. The first results will be published in connection with 2019 annual reporting.

Violations of the guidelines and suspected abuse can be reported by discussing the matter with one's closest supervisor or their supervisor. The Group's Legal Counsel is responsible for initiating investigations into the reported cases together with the Group's CEO. In addition, Lehto Group launched a project to develop internal reporting mechanisms in 2018. Development of the new reporting channel took longer than expected. In addition, Lehto wanted to include development ideas created during the project. The launch of the channel was thus slightly delayed. The reporting channel will be deployed in the first quarter of 2019 together with the launch of the training on the ethical guidelines.

Lehto Group's risk management policy is described on the company's Internet site (https://lehto.fi/en/investors/corporate-governance/risk-management/).

Key figures for responsibility

LEHTO'S RESPONSIBILITY FOCUS AREAS, INDICATORS AND RESULTS 2018

Focus areas	Indicators	2018 actions	2019 objectives
Responsible construction	Waste recycling rate *	Baseline defined, recycling rate 20 %	45 %
	Share of electricity accounted for by renewable energy	Indicator defined	Baseline defined
Personnel wellbeing	Lost time accident rate**	Baseline defined, LTI1=43	Decreases
Responsible business conduct	Ethical guidelines, scope of training	Guidelines drafted	All personnel trained
	Scope of ethical guidelines in procurement contracts	Guidelines drafted	100 % of new contracts

*Covers about 80% of wastes; the information is based on figures from the service provider

**LTI1 = accidents leading to absence from work of more than one day per million hours worked

Development of responsibility

THE BUILT environment plays a major role in curbing climate change and improving social development and wellbeing. In addition, stakeholders have a constantly growing need to be informed about responsibility issues.

Lehto Group wants to act in line with its values and is continuing to develop its responsibility efforts and open, transparent responsibility reporting. In 2018, Lehto focused strongly on internal work to develop indicators and targets. In 2019, in addition to its internal work, the company intends to turn its attention to listening to stakeholders more actively.

Lehto will continue its work in the three defined focus areas for responsibility: responsible construction, personnel wellbeing and responsible business conduct. The company is making further outlays on promoting occupational safety and developing responsible tools and processes for responsible business practices. In addition, the company is launching a new personnel training programme, the Production Academy, in spring 2019.

Lehto Group wants to do its part in mitigating climate change and is developing new opportunities, particularly in the Housing business. Towards the end of 2018, the company announced its Carbon Neutral 2030 development project (https://lehto.fi/cision/lehdon-hiilineutraali-2030-kehityshanke-kamppailee-ilmastonmuutosta-vastaan/), which aims to create innovations for carbon neutral housing construction and research Smart & Clean solutions. Project implementation will begin in 2019.

Report by the Board of Directors 2018

LEHTO GROUP PLC

Summary 2018

Group	1–12/2018	1–12/2017
Net sales, EUR million	721.5	597.6
Change in net sales, %	20.7%	74.5%
Operating profit, EUR million	37.2	64.6
Operating profit, % of net sales	5.2%	10.8%
Profit for the period, EUR million	28.7	51.6
Order backlog at period end, EUR million	655.6	538.1
Earnings per share, EUR	0.49	0.89
Cash and cash equivalents, EUR million	53.4	68.0
Interest-bearing liabilities, EUR million	115.9	36.9
Equity ratio, %	42.7%	56.3%
Net gearing ratio, %	38.5%	-20.6%

- Net sales grew by 20.7% (74.5%) in 2018 to EUR 721.5 (597.6) million. Net sales grew in the Housing, Business Premises, and Social Care and Educational Premises service areas, but declined slightly in the Building Renovation service area.
- Operating profit was EUR 37.2 (64.6) million, or 5.2% (10.8%) of net sales.
- The operating result was weakened especially by loss-making complete renovation projects and the weak profitability of social care and educational premises projects.
- Complete renovation operations had a negative impact of about EUR 15 million on consolidated operating profit. After the end of the review period, Lehto announced that it had discontinued its Building Renovation service area and will limit its renovation operations. Profitable pipeline renovation activities have been carried out in the discontinued Building Renovation service area. This line of business has been transferred to the Housing service area, where it will be further developed and continued.
- Factory production capacity was increased. Production facilities grew by about 30,000 m^2.
- The Board proposes a dividend of EUR 0.24 per share, representing about 48.7% of the Group’s result for the financial year.

NET SALES BY SERVICE AREA, EUR million	1–12/2018	1–12/2017	Change
Business Premises	231.0	181.2	27.5%
Housing	301.5	232.2	29.9%
Social Care and Educational Premises	117.8	109.1	8.0%
Building Renovation	71.1	75.1	-5.3%
Total	**721.5**	**597.6**	**20.7%**

Business environment and business development in 2018

General market development

In 2018, growth in construction continued in Finland for the fourth year running. According to estimates published in late 2018 by several financial research institutions (including the Confederation of Finnish Construction Industries RT, the Research Institute of the Finnish Economy ETLA, and the construction trends group led by the Ministry of Finance), growth in construction amounted to about 3–4%, while the Finnish economy grew at a rate of about 2.5%. It is estimated that growth of the Finnish economy will slacken in 2019 and that construction growth will slow down, and production may even decline from its 2018 level. In report, published in February 2019, the Ministry of Finance estimates that the total construction output volume is expected to decrease by 0.5–2.5 per cent in 2019 and further 1.5–3.5 per cent in 2020.

Construction growth has been maintained particularly by the construction of new residential buildings. It is estimated that the construction of about 44,000 new residential units was started up in 2018. However, the number of new building permits began to decline in the second half of 2018, and it is generally expected that housing start-ups will decline in 2019. Demand for housing has been maintained by the good availability of financing and urbanisation, which is currently seen as the main driver of housing market trends.

Commercial and office construction remained more or less on a par with the previous year, but construction of industrial and warehouse buildings saw a slight year-on-year decline (RT 10/2018). The boom in construction led to a rise in the costs of labour, subcontracting, raw materials and elements. Availability of skilled labour is still the main factor that has limited production growth.

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 using structural and spatial solutions developed or tried and tested by Lehto and Lehto's own pre-fabricated elements. The service area serves local, national and international customers.

Most of the business in the Business Premises service area comprises turnkey projects, where Lehto assumes overall responsibility for both design 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 27.5% year-on-year to EUR 231.0 (181.2) million in 2018. A total of 31 projects were completed during the review year, the largest of which were a logistics centre for DSV in Vantaa and an office and hotel building in Tikkurila, Vantaa.

In May, Lehto announced that the city council of Jyväskylä had decided, at a meeting held on 28 May 2018, to initiate the Hippos2020 project together with a consortium of

Lehto Group and Fennia Asset Management Ltd and had accepted the main principles of the agreements and plans of the project. The project involves uncertainties typical of all property development projects, such as the availability of financing or finding tenants and the level of the tenants' commitment.

In June, Lehto announced that it had signed a turnkey contract with Koy Seinäjoen Ideapark, a subsidiary of Sukari Invest Oy, and had started for the construction of the Ideapark shopping centre in Seinäjoki. The value of the contract is around EUR 65 million, in addition to which Lehto will be in charge of additional and alteration work to be specified later.

Lehto continued the development project of the Lippulaiva shopping centre in Espoonlahti, together with Citycon Oyj and designers, but Lehto and Citycon decided to end the negotiations on this turnkey project in October. For three years, the parties and designers sought to find a solution that would be in line with the operational and financial objectives of both Citycon and Lehto, but no such suitable solution could be found.

The order backlog of the Business Premises service area grew during the review period and was EUR 134.5 million at year end (EUR 127.4 million on 31 December 2017). The order backlog does not include the possibly starting Hippos2020 project.

SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises service area, Lehto designs and builds care homes, assisted living facilities, daycare centres and schools to meet the needs of municipalities and nationwide care and daycare service providers. 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 8.0% from the previous year to EUR 117.8 (109.1) million in 2018. Care homes for the elderly generated the bulk of the net sales. During the review year, 28 (29) care home and assisted living units were completed, and 8 (25) were under construction at the end of the year. Two (two) daycare centres and one (one) school were completed during the review period. At the end of the review period, three (one) schools and one health centre were under construction.

The majority of the properties built by the service area are 1–2-storey wooden buildings, but it is also building an increasing number of diverse and multi-storey concrete buildings. The implementation of individualised care facility projects requires more planning and work than before, which contributed to the decrease in the project margins of this service area during the review period. The company did not estimate the cost impacts of individualised construction with sufficient accuracy in advance.

Lehto continued to develop its school and daycare centre collection with its concept for the productisation of commercially configurable and technically modular solutions. There is an immediate need in the market for both temporary premises and permanent schools. The first modular daycare centres and schools will be delivered to Helsinki and the municipality of Botkyrka in Sweden.

In addition to nursing homes, the service area is building assisted living housing. The number of elderly people is rising in Finland and they need diverse living solutions with care services. Lehto seeks to harness its strong expertise in housing construction in its assisted living solutions.

The order backlog of the Social Care and Educational Premises service area at the end of the review period was EUR 60.0 million (EUR 100.3 million on 31 December 2017). The decline in the order backlog is due to the decrease in the number of care sector properties under construction.

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 space 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 29.9% from the previous year to EUR 301.5 (232.2) million. A total of 1,900 (2,002) apartments were sold in the review period. At the end of the period, 3,229 (2,029) new apartments were under construction, of which 1,647 (309) had not yet been sold. There were 41 (12) completed, unsold apartments. Most of the completed and ongoing housing projects are developer contracting projects located in the Helsinki Metropolitan Area and other Finnish growth centres: the Tampere, Turku, Jyväskylä and Oulu regions. The largest housing construction projects currently in progress are in Kaivoksela in Vantaa and in the centre of Oulu.

The number of residential units that are under construction but which have not as yet been sold grew during the financial year. This is primarily due to the decline in demand by private investors in the latter half of the year. A larger share of apartments are sold to consumers, and thus sales are concluded closer to the completion of construction, whereas sales to investor customers have historically been made in the early phases of construction. During the financial year, Lehto made outlays on promoting sales to consumers and stepped up marketing to consumer customers. Human resources in housing sales have also been boosted significantly. Demand from institutional investors remained at a good level. In Lehto's view, there is now greater interest in the market for acquiring large housing portfolios.

Availability of financing for housing remained good during the review year and interest rates were low. However, during discussions with banks towards the end of the period, indications came to light that the terms and conditions of financing may be tightened, especially in the case of housing corporations majority-owned by investors. Growth in housing production is also reflected in the growth in inventories, as net sales are only recognised upon delivery. To manage its balance sheet risk, Lehto continuously estimates the trend in housing sales and decides separately on the start-up of each developer-contracted housing project.

The housing construction order backlog at year end was EUR 365.4 million (EUR 216.9 million on 31 December 2017). The housing production order backlog includes the proportion of started developer contracting projects that has not been recognised as net sales. A construction project is included in the order backlog once the decision to start construction has been made and the contract for a developer contracting project has been signed.

BUILDING RENOVATION

In 2018, Lehto's Building Renovation service area carried out pipeline renovations (renovations of apartment building plumbing), renovation contracts, developer-contracted renovation projects (an old residential or office property is renovated for use as housing) and developer-contracted projects to erect additional floors (one to two additional floors are built on top of existing buildings).

Net sales in the Building Renovation service area declined by 5.3% from the previous year to EUR 71.1 (75.1) million. During the review year, 16 pipeline renovation contracts were completed in the Helsinki Metropolitan Area, and 13 were under way at year-end. The pipeline renovation business accounts for about one-third of the net sales of the service area and the project margins have been in line with Lehto's targets.

Two developer-contracted renovation projects were completed during the review year, one in Tikkurila in Vantaa and one in Hämeenlinna. At the end of the review period, Lehto had two developer-contracted renovation projects in progress in which an old residential or office building is renovated for use as housing and new apartments are built next to the renovated property.

Two complete renovation projects were completed during the review period and three were under way at the end of the period with a total sales value of about EUR 56 million. The margin of these projects is deeply in the red. The projects will be completed in the first half of 2019 and the expected losses have been recognised in the 2018 financial statements.

The margins of projects other than pipeline renovation have been weak or negative. The project implementation costs have been considerably higher than expected. Projects other than pipeline renovation had a negative impact of about EUR 15 million on Lehto's operating profit for 2018. As announced in a release published on 2 November 2018, Lehto took steps to reorganise the Building Renovation service area and improve profitability.

After the end of the financial year, the Building Renovation service area was discontinued and the company decided to limit its renovation operations. Building renovation functions have been merged into other service areas. The pipeline renovation

business and further development of the additional floor construction concept have been transferred to the Housing service area, while other complete renovation operations have been transferred to Business Premises. Ongoing complete renovation projects will be concluded by the current project organisation. Once these projects have been completed, the project organisation will be transferred to other projects in the Business Premises service area.

In the future, new complete renovation projects will only be undertaken selectively on condition that the renovation is related to new construction projects or when it is a significant part of a larger commercial entity. Lehto committed to a number of such projects even before the discontinuation of the Building Renovation service area. Lehto will also continue the development of the additional floor construction concept as part of additional and complementary construction.

Lehto will continue and develop its profitable pipeline renovation operations. At the end of the financial year, Lehto launched the Lehto Total service package, which enables housing corporations to finance their plumbing renovations by selling building rights for complementary building.

The order backlog of Building Renovation grew to EUR 95.7 million at year end (EUR 93.6 million on 31 December 2017). Growth in the order backlog was due particularly to an increase in orders for pipeline renovations.

SWEDISH OPERATIONS

Lehto established a subsidiary in Sweden in August 2017. One business premises project was completed during the financial year. The unit is currently carrying out a daycare centre project in which three modular daycare centres will be built in the municipality of Botkyrka. The modules will be built at the Hartola factory in Finland and transported to Botkyrka for final assembly. The unit is also launching its first housing construction project in the Stockholm region.

Lehto is planning measures to develop business in Sweden. In Lehto's view, there is good demand for prefabricated modular products, especially in the market for affordably priced housing and daycare centres and schools. The Swedish unit has eight employees and its number of employees is expected to grow.

FACTORY PRODUCTION

Lehto manufactures a variety of building modules and elements at its own production facilities for its own use. Lehto has building element and module production units in Humppila, Oulainen, Oulu, Ii and Siikajoki. At the end of the review year, more than 400 people worked in factory operations.

During the review period, Lehto continued to expand and boost the efficiency of its factory capacity. In March 2018, Lehto acquired the factory operations of Pyhännän Rakennustuote Oy in Hartola. Leased premises with about 20,000 m^2 of floor area (owned and located in the Municipality of Hartola), production equipment for the manufacture of wood elements and modules, and 75 employees were transferred to Lehto in this transaction.

A new 9 000 m^2 factory was completed in Oulainen in September. Logistics, warehouse functions, and the manufacture of bathroom modules, kitchen furniture and other fixtures and fittings are now concentrated on this factory. The total value of the investment is some EUR 8.0 million.

Balance sheet and financing

The Group's financial standing remained good. At the end of the financial period, the equity ratio was 42.7% (31 Dec. 2017: 56.3%) and net gearing was 38.5% (-20.6%).

Consolidated balance sheet, EUR million	31 Dec 2018	31 Dec 2017
Non-current assets	37.7	25.1
Current assets		
Inventories	238.2	132.9
Current receivables	139.0	111.2
Cash and cash equivalents	53.4	68.0
Total assets	**468.3**	**337.2**
Equity	162.4	150.7
Financial liabilities	115.9	36.9
Advances received	88.3	69.3
Other payables	101.8	80.2
Total equity and liabilities	**468.3**	**337.2**

EQUITY AND LIABILITIES

Equity grew to EUR 162.4 million (EUR 150.7 million on 31 December 2017). Equity increased through earnings and the amount of equity was reduced by a dividend payout of EUR 19.8 million in April, representing 38.4% of the profit of the 1 January-31 December 2017 financial period.

Financial liabilities grew to EUR 115.9 (36.9) million. Loans were withdrawn particularly for the construction-stage financing of projects in the Housing service area and to acquire plots 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 88.3 (69.3) 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 101.8 (80.2) million. Other liabilities include trade payables of EUR 40.3 (38.9) million and VAT debt of EUR 19.7 (13.2) million.

ASSETS

Non-current assets amounted to EUR 37.7 million at the end of the review period (EUR 25.1 million on 31 December 2017). Non-current assets include goodwill of EUR 4.6 (4.6) million, EUR 12.7 (5.0) million in factory buildings and EUR 8.5 (4.4) million in machinery and equipment.

Inventories grew to EUR 238.2 (132.9) million. The growth was attributable to strong business volume growth, and most of the inventories comprise costs accrued from incomplete housing construction projects.

Current receivables grew to EUR 139.0 (111.2) million, including trade receivables of EUR 62.2 (65.9) million and percentage-of-completion receivables of EUR 71.1 (39.1) million. The growth in receivables is related to the increased business volume.

Cash flow statement, EUR million	1-12/2018	1-12/2017
Cash flow from operating activities	-18.3	-2.8
Cash flow from investments	-13.7	-0.3
Cash flow from financing	17.5	3.4
Change in cash and cash equivalents	**-14.5**	**0.3**
Cash and cash equivalents at the beginning of the period	68.0	67.7
Cash and cash equivalents at the end of the period	53.4	68.0

Cash and cash equivalents decreased to EUR 53.4 (68.0) million. Net cash from operating activities was EUR -18.3 (-2.8) million, which includes a negative impact of EUR 52.8 (55.5) million due to the growth in net working capital. The main factor behind net working capital growth was the increase in 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.

Net cash flow from investments was EUR 13.7 million negative, including EUR 14.6 million investments in tangible assets mainly relating to factory production. Investments in intangible rights amounted to EUR 1.3 million.

Net cash flow from financing was EUR 17.5 million positive. A total of EUR 109.3 million was drawn in loans and EUR 72.0 million was repaid. Cash flow from financing also includes cash expenses of EUR 19.8 million due to dividends paid.

On 1 November 2018, Lehto signed a EUR 50 million financing agreement with OP Corporate Bank plc and Nordea Bank plc. This financing agreement is a Revolving Credit Facility (RCF) that is valid for three years. The agreement employs the standard covenants for profitability and indebtedness. At the end of the financial year, the credit facility had not been used.

Other significant events during the financial period

On 15 February 2018, Lehto announced that the company's Board of Directors has decided to continue the share-based incentive plans for Group key employees, adopted in 2016. The aim of the plans is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long term and to commit key employees to the company.

On 1 March 2018, Lehto announced that major shareholders had sold a total of 7,100,000 shares in Lehto Group Plc in an accelerated book-building process, representing about 12.2% of total shares and voting rights.

On 20 March 2018, Lehto announced that Pekka Korkala, M.Sc. (Tech.), in charge of factory production, has been chosen into Lehto Group's Executive Board, effective as of 20 March 2018. Korkala has been CEO of Takuuelementti Oy (currently Lehto Components Oy), a subsidiary of Lehto Group Plc, since 10 July 2017, and will continue in this position. Korkala has long experience in business and factory production management in, for example, the vehicle industry in Finland and abroad. At the same time, it was announced that Chief Operating Officer Asko Myllymäki stepped down from the Group's Executive Board as from 20 March 2018.

On 3 May 2018, Lehto announced that it adopted the new IFRS 15 Revenue from Contracts with Customers retroactively from 1 January 2018 in accordance with IAS 8. Lehto estimates that the new IFRS 15 does not have a material impact on the recognition of net sales at Lehto.

On 24 May 2018, Arto Tolonen, PhD (Tech.), Chief Development Officer (CDO), was appointed as a member of Lehto Group's Executive Board.

On 1 August 2018, Lehto reduced the operating profit forecast for 2018. Lehto estimated that net sales for 2018 will grow by 20–30% from 2017 and that operating profit will be approximately 8–9% of net sales. The decrease in the forecast was due to lower project margins than previously projected, particularly in the Social Care and Educational Premises and Building Renovation service areas, and the postponement until 2019 of the estimated date of completion of some projects that will be recognised as income upon delivery.

On 5 September 2018, Lehto announced that Ville Kettunen (Civil Engineer, construction) had been appointed as Executive Vice President for the Social Care and Educational Premises service area and as a member of Lehto Group's Executive Board.

On 19 October 2018, Lehto downgraded its financial outlook for 2018. Lehto estimated that the Group's net sales for 2018 will grow by 20–25% from 2017 and that operating profit will be approximately 5–6% of net sales. This weaker outlook stemmed from a further decline in project margins, particularly in the Social Care and Educational Premises and the Building Renovation service areas, combined with a slightly lower estimate for the Group's total net sales. It was reported that the decline in net sales is primarily due to delays in launching Social Care and Educational Premises projects.

The release noted that business in the Housing and Business Premises service areas is progressing as planned.

On 2 November 2018, Lehto announced its plans to discontinue the Building Renovation service area and merge renovation functions into other service areas. It was planned that the pipeline renovation unit would be transferred to the Housing service area and other renovation operations to the Business Premises service area, where ongoing complete renovation projects would be completed by the current project organisation. Upon the completion of these projects, the project organisation would then be transferred to other projects in the Business Premises service area. The planned changes were not expected to result in a need to reduce personnel.

On 2 November 2018, Lehto announced a change in Lehto Group's Executive Board as of 5 November 2018. Pekka Lindeman, Executive Vice President of the Building Renovation service area, stepped down from the Group Executive Board. The change is due to the reorganisation of the Building Renovation service area, which Lehto announced in a stock exchange release on 2 November 2018.

As of 5 November 2018, the Executive Board consists of the following:

- **Hannu Lehto**, CEO
- **Veli-Pekka Paloranta**, CFO
- **Pasi Kokko**, EVP, Housing service area
- **Jaakko Heikkilä**, EVP, Business Premises service area
- **Ville Kettunen**, EVP, Social Care and Educational Premises service area
- **Timo Reiniluoto**, EVP, Business Support Services
- **Pekka Korkala**, EVP, Factory production
- **Arto Tolonen**, Chief Development Officer

On 20 November 2018, 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 2019. The members of the Nomination Committee are Hannu Lehto, Vesa Vanha-Honko and Mikko Kinnunen.

Risks and factors of uncertainty

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 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.

Especially in the changing market environment 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. During the 2018 financial year, the number of residential units under construction that Lehto had not yet sold grew significantly. This increases the sale and price risk related to housing business.

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 1,457 (1,013). The number of personnel at year end was 1,552 (1,184). About 49% (49%) of the Group's personnel are salaried employees and 51% (51%) employees working at construction sites.

Lehto's personnel grew by 368 in 2018. The major share of this increase is due to growth in the Housing service area and factory operations.

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 space concepts is part of continuing operations, and the related costs are largely recorded as an expense in the income statement. Capitalised development expenditure during the financial year amounted to EUR 0.5 million. The most significant development investments are related to product design and the development of product factory operations.

Responsibility and environmental issues

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. 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.

Responsibility is one of the values guiding Lehto's operations. The key elements of Lehto's competitiveness — design control, the use of standardised solutions and building elements and modules prefabricated in our own factories — comprise the solid core of our responsibility efforts. Lehto's goal is to build efficiently while saving energy and resources, to reduce the material waste generated in construction, and to be a good employer that is fair to everyone.

Lehto Group's corporate responsibility comprises three focus areas: responsible construction, personnel wellbeing, and responsibility of business practices. The company defined indicators and targets for these focus areas during 2018.

The CEO is responsible for Lehto Group's responsibility and the CFO heads up responsibility reporting. Operational responsibility work is managed on a decentralised basis according to key focus areas, primarily by the HR Director, Sourcing Director and Legal Counsel. The Executive Board regularly monitors the development of the key indicators of responsibility.

Lehto Group reports to external stakeholders on its responsibility in connection with annual reporting and complies in its reporting with the requirements laid down for non-financial information in the Accounting Act.

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 beginning 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.

Resolutions of Annual General Meeting 2018

Lehto Group Plc held its Annual General Meeting 2018 on 11 April 2018 in Oulu at Yrttipellontie 1. The Annual General Meeting confirmed the financial statements for the financial period 2017 and granted discharge from liability for the Members of the Board and the CEO.

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 2017 was EUR 0.34 per share, or a total of EUR 19,805,255.68. The dividend was paid to shareholders who on the record date for the dividend payment, 13 April 2018, were recorded in the shareholders' register held by Euroclear Finland Oy. The dividend payment date was 20 April 2018.

The AGM confirmed the number of Board members to be five. Pursuant to the proposal made by the shareholders nomination committee Martti Karppinen, Mikko Räsänen, Päivi Timonen and Sakari Ahdekivi were re-elected and Pertti Korhonen was elected as members of the Board of directors. The term of the Board members will expire at the end of the Annual General Meeting 2019.

The Annual General Meeting resolved that the monthly remuneration of the Members of the Board shall be EUR 2,300 and that of the Chairman of the Board EUR 4,600. In addition, for each Board meeting other than ones held via telephone or email, EUR 750 shall be paid for the Members of the Board, and EUR 1,500 for the Chairman of the Board.

For each meeting of the Audit Committee other than ones held via telephone or email the Board members shall be paid a remuneration of EUR 400 for the Member of the Committee and EUR 600 for the Chairman of the Committee.

Reasonable travel expenses incurred in connection with Board meetings or Committee meetings shall be paid in accordance with the instructions of the tax authority.

The audit firm KPMG Oy Ab was re-elected as the auditor. KPMG Oy Ab has informed the company that C.A. Tapio Raappana would continue as the responsible auditor. The auditor's fee shall be paid on the basis of an invoice approved by the company.

The Annual General Meeting authorised the Board to decide on the purchase of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq 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 entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty 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 programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2019.

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. Contrary to the shareholders' pre-emptive rights, new shares may be issued directly and own shares held by the company transferred directly if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and considering the benefit of all its shareholders. The Board of Directors is authorised to decide on all other terms and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the disposal of shares. Among other things, the authorisation may be used to develop the capital structure, to expand the ownership base, as consideration in M&A transactions, when acquiring assets linked to the operations of the company, and to implement incentive programmes. The term of the authorisation extends until 31 October 2020. The authorisation shall replace the company's previous share issue and option right authorisations.

Flagging notifications

On 1 March 2018, it was announced that Asko Myllymäki had sold shares in Lehto in an accelerated book-building process (the "Share Sale") on 28 February 2018. Following the completion of the Share Sale, Asko Myllymäki's ownership of shares and voting rights in Lehto fell from 8.25% to 1.10%.

On 2 March 2018, it was announced that the total shares and voting rights in Lehto owned by funds administered by OP Fund Management Company Ltd had exceeded the 5% threshold to 5.37%.

On 7 June 2018, it was announced that the total shares and voting rights in Lehto owned by funds administered by OP Fund Management Company Ltd had risen from 5.37% to 6.27%.

On 28 December 2018, it was announced that the Lehto shares and voting rights owned by OP-Suomi investment fund, which is managed by OP Fund Management Company Ltd, had fallen from 5.01% to 4.83%. The release noted that the total holding in Lehto of the investment funds managed by OP Fund Management Company Ltd still exceeds the 5% threshold. Its total holding on 21 December 2018 was 5.29%.

Events after the reporting period

After the end of the review period, Lehto announced that it had discontinued its Building Renovation service area and will limit its renovation operations.

Annual General Meeting and Annual Report

The Annual General Meeting of Lehto Group Plc will be held on Friday 29 March 2019 at 1.00 p.m. at Elektroniikkatie 8, 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 2018 are EUR 82,813,733.01, of which the operating profit is EUR 15,674,875.79.

The Board of Directors proposes to the Annual General Meeting gathering on 29 March 2019 that the dividend payable on the basis of the balance sheet confirmed for the financial year 1 January - 31 December 2018 be EUR 0.24 (0.34) per share, total of EUR 13,980,180.48 (19,805,255.68). The dividend shall be paid to shareholders who on the record date for the dividend payment, 2 April 2019, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 9 April 2019.

Outlook for 2019

Lehto estimates that the Group's net sales for 2019 will be at the level of 2018 net sales (EUR 721.5 million in 2018) and that operating profit will be approximately 5–7% of net sales (5.2% in 2018).

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 2019, and on the current outlook of the development of housing market.

The most significant risks related to net sales and operating profit are the decline in the demand for apartments, the postponement of start of new care home and school projects, and the delay in starts of business premises projects currently at the negotiation phase.

Vantaa, 11 February 2019

Lehto Group Plc
Board of Directors

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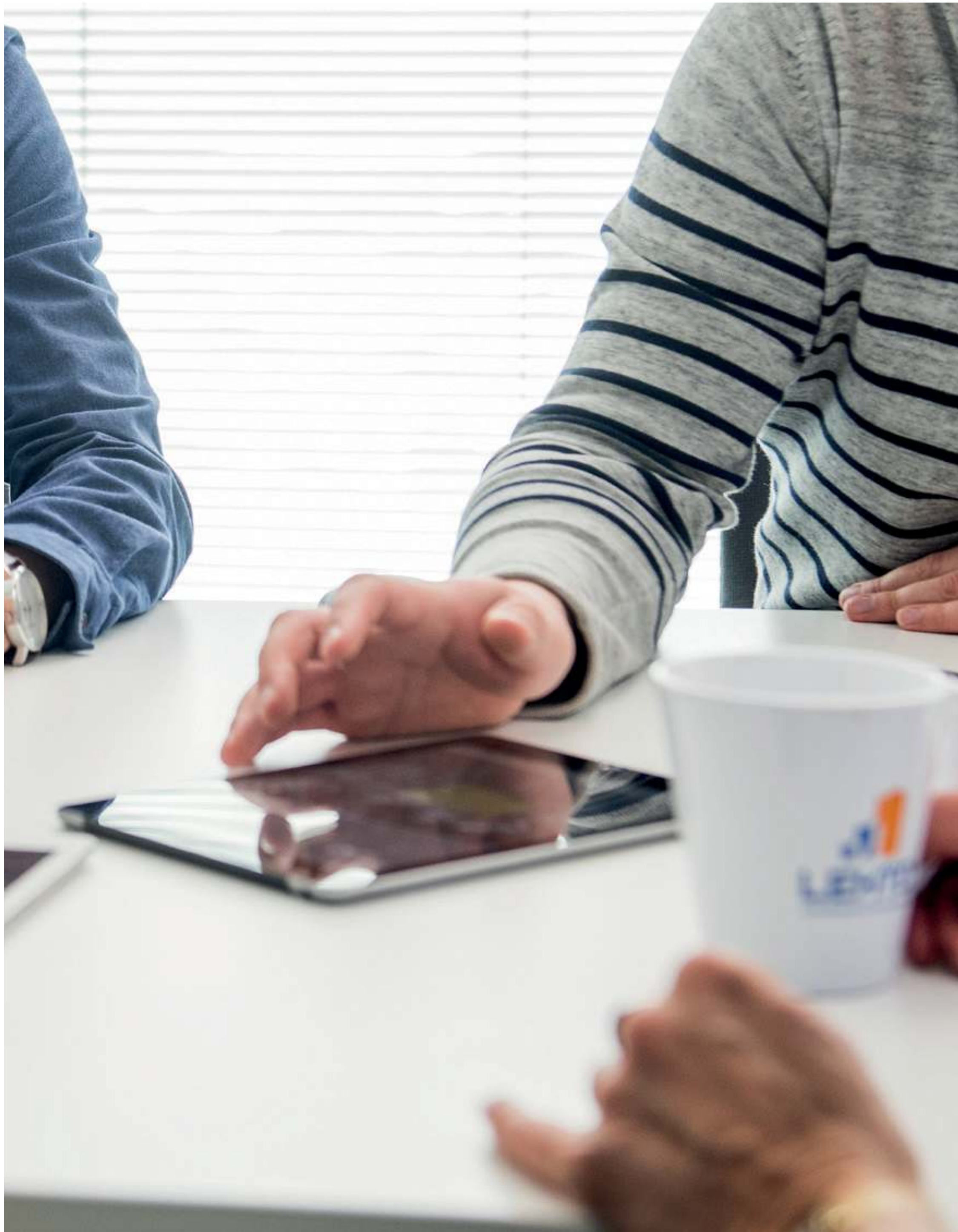

Consolidated statement of comprehensive income, IFRS

	Note	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Net sales	2	721,479	597,558
Other operating income	3	2,988	1,480
Changes in inventories of finished goods and work in progress		107,063	44,954
Capitalised production		8,001	796
Raw materials and consumables used		-331,740	-245,074
External services		-359,467	-251,406
Employee benefit expenses	4	-82,856	-61,268
Depreciation and amortisation	5	-3,492	-3,161
Other operating expenses	6	-24,794	-19,320
Operating profit		**37,181**	**64,559**
Financial income	7	171	307
Financial expenses	7	-1,184	-710
Share of associated company profits (losses)	13	44	24
Profit before taxes		**36,213**	**64,180**
Income taxes	8, 16	-7,504	-12,587
Profit for the financial year		**28,709**	**51,593**
Profit attributable to			
Equity holders of the parent company		28,708	51,631
Non-controlling interest		1	-38
		28,709	51,593
Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share	9		
Earnings per share, basic		0.49	0.89
Earnings per share, diluted		0.49	0.88

EUR 1,000

Consolidated balance sheet, IFRS

ASSETS	Note	31 Dec 2018	31 Dec 2017
Non-current assets			
Goodwill	10	4,624	4,624
Other intangible assets	11	2,242	2,132
Property, plant and equipment	12	22,940	10,621
Investment properties	13	737	757
Investments in associated companies	14	859	820
Other financial assets	15	214	199
Receivables	16	24	1,006
Deferred tax assets	17	6,093	4,898
Non-current assets total		**37,731**	**25,056**
Current assets			
Inventories	18	238,213	132,874
Trade and other receivables	19	136,584	111,220
Current tax assets	19	2,383	3
Financial assets at fair value through profit or loss	20	311	23,269
Cash and cash equivalents	21	53,070	44,739
Current assets total		**430,561**	**312,105**
TOTAL ASSETS		**468,292**	**337,161**

EQUITY AND LIABILITIES	Note	31 Dec 2018	31 Dec 2017
Equity			
Share capital		100	100
Invested non-restricted equity reserve		69,155	69,155
Translation adjustment		-173	-79
Retained earnings		64,302	29,639
Profit for the financial year		28,708	51,631
Capital attributable to equity holders of the parent company		**162,093**	**150,447**
Non-controlling interest		264	271
Equity, total	22	**162,357**	**150,718**
Non-current liabilities			
Deferred tax liabilities	17	715	427
Provisions	23	10,375	4,098
Financial liabilities	24	20,101	11,109
Other non-current liabilities	25	5,591	2,485
Non-current assets, total		**36,782**	**18,119**
Current liabilities			
Advances received	25	88,252	69,275
Trade and other payables	25	83,360	72,510
Current income tax liabilities	25	1,738	700
Financial liabilities	24	95,802	25,840
Current assets, total		**269,153**	**168,323**
Liabilities, total		**305,935**	**186,442**
TOTAL EQUITY AND LIABILITIES		**468,292**	**337,161**

EUR 1,000

Consolidated cash flow statement, IFRS

	Note	31 Dec 2018	31 Dec 2017
Cash flow from operating activities			
Profit for the financial year		28,709	51,593
Adjustments:			
Non-cash items	23	4,852	707
Depreciation and amortisation		3,492	3,161
Share of associated company profits (losses)		-44	-24
Financial income and expenses		1,013	403
Capital gains		-442	-4
Dividends received		-0	-1
Income taxes		7,504	12,587
Changes in working capital:			
Change in trade and other receivables		-26,161	-44,073
Change in inventories		-105,339	-41,994
Change in trade and other payables		78,657	30,617
Interest paid and other financial expenses		-971	-764
Financial income received		171	307
Income taxes paid		-9,753	-15,292
Net cash from operating activities		**-18,312**	**-2,777**
Cash flow from investments			
Investments in property, plant and equipment		-14,579	-4,082
Investments in intangible assets		-1,323	-412
Acquisition of subsidiaries 1)			-1,053
Capital gains from other investments		166	
Sales of associated companies		291	
Proceeds from sale of property, plant and equipment and intangible assets		9	4
Purchases of available-for-sale financial assets and proceeds		1	0
Repayments of loan receivables		1,746	6,216
Loans granted			-933
Dividends received		0	1
Net cash from investments		**-13,689**	**-259**

	Note	31 Dec 2018	31 Dec 2017
Cash flow from financing			
Loans drawn	24	109,342	51,673
Loans repaid	24	-72,036	-34,870
Acquisition of non-controlling interest 1)		-45	-939
Dividends paid		-19,797	-12,815
Share issue		-0	306
Net cash used in financing activities		**17,464**	**3,354**
Change in cash and cash equivalents (+/-)		**-14,537**	**318**
Effects of exchange rate change		-89	
Cash and cash equivalents at the beginning of the financial year		68,008	67,690
Cash and cash equivalents at the end of the financial year	20, 21	**53,382**	**68,008**

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

EUR 1,000

Consolidated statement of changes in equity, IFRS

	CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
	Share capital	Invested non-restricted equity reserve	Translation adjustment	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	Equity, total
Equity at 1 January 2017	**100**	**69,155**	**1**	**41,594**	**110,850**	**3**	**110,853**
Comprehensive income							
Profit or loss for the financial period				51,631	**51,631**	-38	**51,593**
Translation difference			-79		**-79**		**-79**
Total comprehensive income			*-79*	*51,631*	***51,552***	*-38*	***51,514***
Transactions with equity holders							
Distribution of dividends				-12,815	**-12,815**		**-12,815**
Share-based compensation				858	**858**		**858**
Other changes				3	**3**	306	**309**
Transactions with equity holders, total				*-11,954*	***-11,954***	*306*	***-11,649***
Equity at 31 December 2017	**100**	**69,155**	**-79**	**81,271**	**150,447**	**271**	**150,718**
Equity at 1 January 2018	**100**	**69,155**	**-79**	**81,271**	**150,447**	**271**	**150,718**
Effect of IFRS 2 standard amendment				2,299	**2,299**		**2,299**
Adjusted equity at 1 January 2018	**100**	**69,155**	**-79**	**83,569**	**152,746**	**271**	**153,017**
Comprehensive income							
Profit or loss for the financial period				28,708	**28,708**	1	**28,709**
Translation difference			-94		**-94**		**-94**
Total comprehensive income			*-94*	*28,708*	***28,614***	*1*	***28,615***
Transactions with equity holders							
Distribution of dividends				-19,797	**-19,797**		**-19,797**
Share-based compensation				514	**514**		**514**
Other changes				16	**16**	-8	**8**
Transactions with equity holders, total				*-19,267*	***-19,267***	*-8*	***-19,275***
Equity at 31 December 2018	**100**	**69,155**	**-173**	**93,010**	**162,093**	**264**	**162,357**

EUR 1,000

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 2019. 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 2018. 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.

Research costs are recognised as expenses in the income statement. Development expenses is capitalised in the balance sheet once development phase expenses can be reliably estimated and it can be demonstrated that the development target will probably generate future economic benefit. Development expenses recognised in the balance sheet includes material and labour costs as well as any capitalised borrowing costs directly attributable to bringing the asset to working condition for its intended use. Prior development expenses recognised as expenses is not capitalised later.

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

Based on the Group's business model for managing the financial assets and their contractual cash flow characteristics, financial assets are classified in two categories: those recognised at amortised cost and those at fair value through profit or loss.

Transaction costs are included in the original carrying amount of financial assets in the case of items that are not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are recognised at fair value in the balance sheet at the time of original recognition and transaction costs are recognised through profit or loss.

All purchases and sales of financial assets are recognised on the transaction date when the Group commits to the purchase or sale of the financial instrument. 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.

Financial assets recognised at amortised cost

Financial assets recognised at amortised cost include financial assets, which are held until the due date in order to collect contractual cash flows. The cash flows of these items consist solely of principal and interest on the principal outstanding.

After initial measurement, the value of these financial assets is measured at amortised cost using the effective interest method, deducting any impairment. The Group recognises a deduction for expected credit losses from an asset item recognised at amortised cost in financial assets. Expected credit losses are disclosed in other operating expenses in the income statement. Impairment losses are recognised in the income statement.

The Group's financial assets recognised at amortised cost include trade and other receivables that are non-derivative financial assets. The carrying amount of short-term trade and other receivables is deemed to correspond to their fair value. Trade and other receivables are presented in the balance sheet as current assets if they are expected to be realised within 12 months of the end of the reporting period.

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 on 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

Sales recognised as revenue over time

Construction projects are recognised as revenue over time according to progress if the customer controls the asset as the asset is created or enhanced and the company has an enforceable right to payment for performance completed to date. Revenue from a performance obligation satisfied over time is recognised over time by measuring the progress towards complete satisfaction of the performance obligation in question. Satisfaction of the performance obligation is determined mainly based on costs incurred compared to estimated total costs if it does not materially differ from the satisfaction of the performance obligation determined otherwise.

A single method of measuring progress is applied for each performance obligation satisfied over time, and this method is consistently applied to similar performance obligations in similar circumstances. If the company is not able to reasonably measure the outcome of a performance obligation but expects to recover the costs incurred in satisfying the performance obligation, the company recognises revenue only to the extent of the costs incurred until the outcome of the performance obligation can reasonably be measured. If it is likely that the total costs of project completion exceed the total income from the project, the expected loss is entirely expensed.

If the agreement includes variable consideration, the variability is taken into account based on probability. In determining the transaction price, the company adjusts the promised amount of consideration with a financing component if the payment schedule agreed by the parties provide the customer or the entity with a significant financing component in relation to the transfer of goods or services to the customer and if the duration is longer than one year.

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. Property construction projects in which the buyer has not control over the property are recognised upon delivery when the property has been completed and control has been transferred to the buyer. For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale.

Sales of real-estate properties and goods

Sales of real-estate properties and goods are recognised as revenue when control of the product has been 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 are recognised at the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or properties to a customer, with the exception of amounts collected on behalf of third parties.

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 payments

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 granted benefits are measured at fair value at the time of granting and are recognised as expenses in the income statement and equity evenly over the vesting period of the rights. 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.

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 "Goodwill".

New and revised standards and interpretations

The Group has applied the following new and amended standards as from 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 – Classification and measurement of share-based payment transactions
- Amendments to IAS 40 – Transfers of investment property
- Interpretation IFRIC 22 – Foreign currency transactions and advance consideration
- Annual improvements to IFRS, 2014-2016 cycle

The entry into force of IFRS 15 Revenue from Contracts with Customers does not have a material effect on the consolidated financial statements with the exception of changing disclosure requirements. The duration of the company's customer agreements is primarily under 12 months. Adoption of IFRS 15 had minor effects. 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 Group applies IFRS 15 retroactively from 1 January 2018 in accordance with IAS 8, and will present adjusted comparative data for 2017. The changes have a slight impact on the company's net sales for 2017.

IFRS 9 Financial Instruments brought 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 has not had a material impact on the Group except for changing disclosure requirements. For the purpose of determining the impairment of financial assets, a simplified model based on expected credit losses has been applied from 1 January 2018, in which impairment losses on trade receivables are recognised at an amount equal to the expected credit losses for the entire term of validity.

Based on Amendments to IFRS 2 Share-based Payment Transactions, the Group's share plans are fully accounted for equity-settled share-based payment transactions, while they were previously treated as equity-settled and cash-settled share-based payment transactions. At the date of transition, 1 January 2018, the portion of the plan previously recognised as a liability was recognised in equity. However, the amendment did not have a material impact on the consolidated financial statements.

Other standards did not have a material impact on the consolidated financial statements. With respect to amendments to IFRS 15, IFRS 9 and IFRS 2, minor changes have been made to the presentation of the consolidated financial statements.

The following new and amended standards relating to preparing consolidated financial statements must be applied in financial periods starting on 1 January 2019 or thereafter.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 and IAS 28 Investments in Associates and Joint Ventures

In the Group's opinion, the above new or amended standards and interpretations, with the exception of IFRS 16, have no significant impact on the consolidated financial statements or they have an effect on the disclosure requirements in the notes.

The Group has made a preliminary assessment of the impact of IFRS 16 on the financial statements. IFRS 16 Leases will replace IAS 17. The lease agreements of the company in effect on the balance sheet date were primarily leases of business premises and leases for small machinery and equipment that can be terminated with a short period of notice and which have no material impact on the consolidated financial statements with respect to the company's current leases. In addition, the company has long-term leases of plot areas related to inventories. Land lease agreements related to inventories are often limited to less than a year, but under IFRS 16 they must be classified as assets and liabilities. The adoption of IFRS 16 therefore has a material impact on the company's balance sheet. The Group will use a simplified procedure in the adoption of the standard, without adjusting comparative information. At the time of adoption on 1 January 2019, EUR 156.4 million in right of use assets and lease liabilities were recognised.

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	2018	2017
Net sales	***721,479***	***597,558***
Other operating income	2,988	1,480
Other operating expenses	-683,794	-531,318
Depreciation and amortisation	-3,492	-3,161
Operating profit	***37,181***	***64,559***
Interest income	171	307
Interest costs	-1,184	-710
Shares of associated company results	44	24
Segment's profit/loss before income taxes	***36,213***	***64,180***
Assets		
Segment's assets	***468,292***	***337,161***
Investments in associated companies	859	820
Investments	15,848	4,493
Liabilities		
Segment's liabilities	***305,935***	***186,442***

Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 81.6 million in 2018 (EUR 42.5 million in 2017), corresponding to approx. 11% (7%) of the segment's net sales.

In 2018, the share of net sales of the largest individual customer was 6% (3% in 2017).

2. NET SALES

	2018	2017
Revenue recognised over time	463,577	459,041
Revenue recognised upon delivery	257,416	137,833
Rental income	487	684
Total	**721,479**	**597,558**

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.

Revenue recognised that was included in the contract liability balance at the beginning of the year was EUR 69.3 million.

EUR 1,000

3. OTHER OPERATING INCOME

	2018	2017
Rental income	75	100
Grants	97	2
Damages	133	27
Capital gains	460	4
Change in estimated additional purchase price liabilities from acquired business	1,939	1,326
Other income	284	22
Total	**2,988**	**1,480**

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

	2018	2017
Salaries and wages	65,686	48,296
Share-based incentives, portion to be paid out in cash		758
Share-based incentives, to be paid out in shares	1,593	858
Pension costs– defined contribution plans	12,239	8,900
Other personnel costs	3,339	2,455
Total	**82,856**	**61,268**

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

Number of personnel in average during the year, Group	2018	2017
Salaried employees	720	512
Workers	737	501
Total	**1,457**	**1,013**

Number of personnel at the end of the financial year, Group	2018	2017
Salaried employees	772	579
Workers	780	605
Total	**1,552**	**1,184**

5. DEPRECIATION AND AMORTISATION

Depreciation and amortisation of property, plant and equipment	2018	2017
Machinery and equipment	2,101	995
Properties in own use	421	377
Other tangible assets	9	90
Total	**2,531**	**1,462**

Depreciation and amortisation of intangible assets	2018	2017
Customer relationships	481	1,218
Other intangible assets	460	460
Total	**941**	**1,678**

Depreciation of investment properties	2018	2017
Buildings and structures	20	20
Total	**20**	**20**
Depreciation and amortisation, total	**3,492**	**3,161**

EUR 1,000

6. OTHER OPERATING EXPENSES

	2018	2017
Voluntary personnel expenses	3,223	2,346
Business premises expenses	2,552	2,361
Equipment expenses	3,761	3,140
Travel expenses	3,428	2,840
Product development expenses	117	509
Office expenses	1,299	966
Marketing expenses	2,399	2,157
Administrative services	1,701	1,721
Reduction from expected credit loss	12	
Other operating expenses	6,303	3,281
Total	**24,794**	**19,320**

Fees paid to auditor	**2018**	**2017**
Audit fees	280	192
Certificates and statements	18	20
Other services	75	28
Total	**373**	**240**

7. FINANCIAL INCOME AND EXPENSES

Financial income	**2018**	**2017**
Dividend income from available-for-sale financial assets	0	1
Other financial income	171	307
Total	**171**	**307**

Financial expenses	**2018**	**2017**
Interest costs	1,469	804
Capitalised interest costs	-915	-468
Other financial expenses	630	373
Total	**1,184**	**710**
Financial income and expenses, total	**-1,012**	**-403**

8. INCOME TAXES

	2018	2017
Current income tax	8,416	13,627
Change deferred tax assets	-1,199	-1,036
Change deferred tax liabilities	287	-5
Total	**7,504**	**12,587**

Reconciliation of the tax expense in the income statement and taxes calculated at the tax rate of Group domicile country	**2018**	**2017**
Tax rate	20.0%	20.0%
Profit before taxes	36,213	64,180
Taxes calculated at the tax rate of the domicile country	7,243	12,836
Tax-exempt income	-136	-592
Non-deductible expenses	397	361
Taxes for the previous financial years	0	-11
Other items	1	-7
Total	**7,504**	**12,587**

EUR 1,000

9. SHARE-BASED KEY FIGURES

	2018	2017
Profit for the financial year attributable to equity holders of the parent company	28,708	51,631
Issue-adjusted average number of shares during the year, basic	58,250,752	58 250,752
Earnings per share, basic, EUR/share	0.49	0.89
Issue-adjusted average number of shares during the year, diluted	58,380,598	58,432,315
Earnings per share, diluted, EUR/share	0.49	0.88
Issue-adjusted average number of shares at the end of year	58,250,752	58,250,752
Equity / share	2.78	2.58
Dividend / share	0.24*)	0.34

*) Dividend proposal

10. GOODWILL

Cash-generating unit: Building Services	2018	2017
Goodwill	4,624	4,624

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.

	2018	2017
Discount rate	7.92%	7.34%
Growth rate	2.00%	2.00%

Allocation of and recording impairment losses

There was no indication of impairment within the Group.

EUR 1,000

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. OTHER INTANGIBLE ASSETS

Intangible assets 2018	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2018	4,282	2,027	6,309
Increases		1,052	1,052
Acquisition cost at 31 Dec. 2018	**4,282**	**3,079**	**7,361**
Accumulated depreciation and amortisation at 1 Jan. 2018	-2,976	-1,202	-4,178
Depreciation	-481	-460	-641
Accumulated depreciation and amortisation at 31 Dec. 2018	**-3,457**	**-1,662**	**-5,119**
Carrying amount at 1 Jan. 2018	1,306	826	2,132
Carrying amount at 31 Dec. 2018	**825**	**1,417**	**2,242**

Intangible assets 2017	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2017	4,282	1,616	5,897
Increases		412	412
Acquisition cost at 31 Dec. 2017	**4,282**	**2,027**	**6,309**
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	2,524	874	3,398
Carrying amount at 31 Dec. 2017	**1,306**	**826**	**2,132**

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment 2018	Properties in own use	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1 Jan. 2018	5,993	7,286	1,019	14,298
Increases	8,064	6,114	673	14,851
Acquisition cost at 31 Dec. 2018	**14,057**	**13,400**	**1,691**	**29,148**
Accumulated depreciation and amortisation at 1 Jan. 2018	-727	-2,842	-107	-3,677
Amortisation		-272		-272
Depreciation	-421	-1,829	-9	-2,260
Accumulated depreciation and amortisation at 31 Dec. 2018	**-1,149**	**-4,943**	**-116**	**-6,209**
Carrying amount at 1 Jan. 2018	5,266	4,444	911	10,621
Carrying amount at 31 Dec. 2018	**12,908**	**8,457**	**1,575**	**22,940**

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**

EUR 1,000

13. INVESTMENT PROPERTIES

Investment properties 2018	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2018	202	809	1,011
Acquisition cost at 31 Dec. 2018	**202**	**809**	**1,011**
Accumulated depreciation and amortisation at 1 Jan. 2018		-255	-255
Depreciation		-20	-20
Accumulated depreciation and amortisation at 31 Dec. 2018		**-274**	**-274**
Carrying amount at 1 Jan. 2018	202	554	757
Carrying amount at 31 Dec. 2018	**202**	**535**	**737**

Investment properties 2017	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2017	202	808	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**

Net rental income	2018	2017
Rental income from investment properties	85	85
Direct maintenance costs for investment properties	47	30
	38	**55**

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 2018	Fair value 2018	Level
Business property	Acquisition cost	535	612	3
Land area	Acquisition cost	202	202	3
		737	**814**	

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.

14. INVESTMENTS IN ASSOCIATED COMPANIES

	2018	2017
Investments in associated companies at 1 Jan.	820	796
Decreases	-5	
Share of profit or loss for the financial year	44	24
Investments in associated companies at 31 Dec.	**859**	**820**

Associated companies 2018	Koy Limingan Arvokiinteistöt
Holding	38.10%
Assets	3,885
Liabilities	1,631
Net sales	417
Profit/loss for the financial year	116

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

EUR 1,000

15. OTHER FINANCIAL ASSETS

Financial assets recognised through profit and loss	2018	2017
Financial assets recognised through profit and loss at 1 Jan.	199	199
Increases	14	
Financial assets recognised through profit and loss 31 Dec.	**214**	**199**

Financial assets recognised through profit or loss 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. Financial assets recognised through profit or loss are classified at level 3 in the hierarchy.

16. NON-CURRENT RECEIVABLES

	2018	2017
Receivables from associated companies		475
Loan receivables		363
Other receivables	24	169
Total	**24**	**1,006**

17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets 2018	1 Jan 2018	Recognised in income statement	31 Dec 2018
Fixed assets internal margin	28	20	47
Tax losses carried forward	337	-253	84
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	4,534	1,430	5,965
Other temporary differences		2	2
Exchange rate difference in opening balance	-1		-5
Total	**4,898**	**1,199**	**6,093**

Deferred tax liabilities 2018	1 Jan 2018	Recognised in income statement	31 Dec 2018
Temporary differences from capitalisation of financial expenses	17	68	85
Depreciation difference with taxation	158	236	394
Other temporary differences	252	-16	236
Total	**427**	**287**	**715**

Deferred tax assets 2017	1 Jan 2017	Recognised in income statement	31 Dec 2017
Inventory item internal margin	81	-81	
Fixed assets internal margin		28	28
Confirmed losses	375	-38	337
Temporary differences from stage-of-completion revenue recognition and depreciation and	3,401	1,133	4,534
Other temporary differences	8	-8	
Exchange rate difference in opening balance	-1	3	-1
Total	**3,865**	**1,036**	**4,898**

Deferred tax liabilities 2017	1 Jan 2017	Recognised in income statement	31 Dec 2017
Temporary differences from capitalisation of financial expenses	33	-16	17
Depreciation difference with taxation	90	68	158
Other temporary differences	309	-57	252
Total	**432**	**-5**	**427**

EUR 1,000

18. INVENTORIES

	2018	2017
Materials and supplies	5,536	2,845
Work in progress	213,302	118,748
Completed products	18,033	9,336
Inventory shares	579	1,109
Other inventories	764	835
Total	**238,213**	**132,874**

19. TRADE AND OTHER RECEIVABLES

	2018	2017
Trade receivables	62,186	65,932
Loan receivables	903	1,812
Current tax assets	2,383	3
Other receivables	1,288	3,311
Receivables from customers for constructing contracts	71,145	39,119
Adjusting entries for assets	1,062	1,046
Total	**138,967**	**111,223**

Ageing analysis of trade receivables	2018	2017
Not yet due	54,245	60,071
Reduction from expected credit loss	-12	
Due for		
less than 30 days	5,719	3,833
30–60 days	406	507
61–90 days	232	919
more than 90 days	1,595	602
Total	**62,186**	**65,932**

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
Financial assets at fair value through profit or loss	311	23,269
Total	**311**	**23,269**

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.

21. CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand and at banks	53,070	44,739
Total	**53,070**	**44,739**

22. 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 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**
31 December 2018	**58,250,752**	**100**	**69,155**	**69,255**

EUR 1,000

SHARES AND SHARE CAPITAL

Annual General Meeting on 11 April 2018

The Annual General Meeting authorised the Board to decide on the purchase of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq 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 entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty 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 programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2019.

The Annual General Meeting authorised the Board of Directors to decide on the issue of a maximum of 5,800,000 shares through share issue or by granting option rights or other special rights entitling to shares in one or several instalments. The authorisation includes the right to issue either new shares or own shares held by the company either against payment or without consideration. Contrary to the shareholders' pre-emptive rights, new shares may be issued directly and own shares held by the company transferred directly if there is a weighty financial reason for it from the company's point of view or, in case of an issue without consideration, a particularly weighty financial reason from the company's point of view and considering the benefit of all its shareholders. The Board of Directors is authorised to decide on all other terms and matters pertaining to a share issue, to the granting of special rights entitling to shares, and to the disposal of shares. Among other things, the authorisation may be used to develop the capital structure, to expand the ownership base, as consideration in M&A transactions, when acquiring assets linked to the operations of the company, and to implement incentive programmes. The term of the authorisation extends until 31 October 2020. The authorisation shall replace the company's previous share issue and option right authorisations.

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 has 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 2016-2018 correspond to the value of an approximate maximum total of 1,300,000 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 707,000, which was converted into 57,927 shares. For the earning period 2017, the performance bonus for members of the share plan was EUR 880,000, which was converted into 75,203 shares.

		Earning period	
Arrangement	**2016**	**2017**	**2018**
Nature of arrangement	Shares	Shares	Shares
Date of issue	11 April 2017	11 April 2017	14 Feb 2018
Number of instruments issued	57,927	75,203	68,600 (estimate)
Share price on grant date	12.46	12.46	12.40
Period of validity	2 years	3 years	3 years
Expected performance,%	100%	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	Variable terms based on the fulfilment of non-market, performance- based terms
Carried out	As shares	As shares	As shares

For the 2016, 2017 and 2018 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2018 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. The amount recognised as an expense is presented under "Employee benefit expenses" in the Notes.

Furthermore, the Board of Directors decided to continue the Group's 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 2018.

23. PROVISIONS

	2018	**2017**
Provisions at 1 Jan.	4,098	3,044
Increases in guarantee provisions	6,678	2,753
Decreases in guarantee provisions	-3,017	-1,698
Onerous projects	2,616	
Provisions at 31 Dec.	**10,375**	**4,098**

Guarantee provisions 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. Onerous projects include the estimated amount of expenditure that exceeds the benefits that may be derived from it.

EUR 1,000

24. FINANCIAL LIABILITIES

	2018	2017
Non-current loans from financial institutions	19,425	10,139
Non-current instalment debts	676	970
Total	**20,101**	**11,109**

	2018	2017
Current loans from financial institutions	46,585	18,283
Current instalment debts	298	288
Debts on shares in unsold housing and real estate company shares in progress	44,885	5,672
Debts on shares in unsold housing and real estate company shares completed	4,033	1,597
Total	**95,802**	**25,840**
Financial liabilities, total	**115,903**	**36,948**

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

	1 Jan 2018	Cash flows	31 Dec 2018
Non-current financial liabilities	11,109	8,992	20,101
Current financial liabilities	25,840	69,963	95,802
Total	**36,948**	**78,955**	**115,903**

	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**

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

Non-current non-interest-bearing liabilities	2018	2017
Estimated additional purchase prices from acquired business		1,684
Estimated purchase prices from inventory shares	5,591	
Share-based incentives, portion to be paid out in cash		800
Total	**5,591**	**2,485**

Current non-interest-bearing liabilities	2018	2017
Advances received		
From projects where revenue recognised over time	20,179	11,427
From projects where revenue recognised upon delivery	68,055	56,926
Other advances received	18	922
Trade payables	40,343	38,910
Other liabilities		
Liabilities paid to the Tax Administration	21,328	14,535
Other liabilities	3,534	2,303
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	13,228	12,637
Income tax debt	1,738	700
Other adjusting entries for liabilities	4,926	4,123
Total	**173,351**	**142,484**

26. FINANCIAL RISK MANAGEMENT

The Group’s main sources of funding consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has some revolving credit limits available. At the end of 2018, the cash and cash equivalents amounted to EUR 53.4 million (EUR 68.0 million 31 December 2017). The amount of credit limits available at the end of 2018 was EUR 58.8 million. Credit limits were unused at the end of 2018.

EUR 1,000

The Group has taken out so-called RS loans for it developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites.

Foreign exchange risk

The Group's foreign exchange risk is currently somewhat low because income and expenses are denominated mainly in euros. If an order is agreed on in a foreign currency, the method of hedging the exchange rate risk 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 open currency hedges.

The Group's functional currency is euro. At the balance sheet date the Group had not significant liabilities denominated in foreign currency (EUR 0,7 million in 31 December 2017) and receivables denominated in foreign currency totalling EUR 1,1 million at 31 December 2018 (EUR 0,2 million in 2017). Most of the foreign currency exposure came from Swedish Crown.

Interest rate risk

Due to the relatively small amount of interest-bearing non-current liabilities, interest rate risk of related balance sheet items is not very significant for the Group. Interest rate risk originates mainly from interest-bearing liabilities on the balance sheet, which mainly consist of floating rate bank loans. 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	2018		2017	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	-161	161	-89	89

Credit risk

The Group's most significant credit risk is related to trade receivables from the customers. The aging distribution of trade receivables and the solvency of largest customers is monitored on group level and by the Group companies. The credit risk is also managed bygranting customers regular payment terms only. Payment terms applied in the Group currently range from 7 days to 30 days and the most typical payment term is 14 days. Furthermore, for individual projects a longer payment term can be agreed on, where the payment is made as a one-off payment at the end of the project.

Liquidity risk

The liquidity risk in managed through maintaining an adequate infrastructure for planning and monitoring of funding and cash management. To secure immediate liquidity the Group has credit limits available. The amount of un-used credit limits at 31 December 2018 was EUR 58.8 million (EUR 8.8 million in 2017).

Analysis of debt maturity

2018	31 Dec 2018	Less than 1 year	1–5 years
Financial liabilities	115,903	95,802	20,101
Trade payables and other non-interest-bearing liabilities	70,797	65,206	5,591

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

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	2018	2017
Interest-bearing liabilities	115,903	36,948
Cash and cash equivalents and interest-bearing receivables	-53,381	-68,008
	62,522	**-31,060**
Equity, total	162,357	150,718
Gearing	21.3%	11.7%
Net gearing ratio	38.5%	-20.6%

27. JOINT ARRANGEMENTS

The Group have a 50% holding in two joint operations, Työyhteenliittymä Kastelli-Optimikodit Kirkkonummen Aurinkopuisto and Työyhteenliittymä 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:

	2018	2017
Current assets	20	20
Current liabilities	0	0
Revenue		34
Expenses	1	17

28. OTHER LEASES

Group as lessee

The Group has leased office premises and other premises necessary for business operations. In addition the Group has leased some small machinery and equipments.

Minimum lease payments payable for non-cancellable other leases:

	2018	2017
Within one year		
Premises rents	1,640	2,036
Rents related to plots in inventories	156,372	N/A
Other rents	576	491
1-5 years		
Premises rents	5,379	4,293
Other rents	796	813
More than 5 years		
Premises rents	19	693
Other rents	76	
Total	**164,858**	**8,326**

Lease expenses for premises lease agreements were recorded in the income statement in fiscal year to a total amount of EUR 1 459 thousand (EUR 1 436 thousand in 2017).

29. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2018	2017
Loans from financial institutions	65,837	28,204
Debts on shares in unsold housing company shares	48,918	7,269
Instalment debts	845	1,131
Total	**115,601**	**36,605**

Guarantees	2018	2017
Corporate mortgages	1,800	1,800
Real-estate mortgages	4,930	4,580
Pledges	65,359	12,910
Absolute guarantees	347	325
Total	**72,436**	**19,614**

EUR 1,000

Contract guarantees	2018	2017
Production guarantees	49,904	33,793
Warranty guarantees	14,259	10,393
RS guarantees	36,838	29,256
Payment guarantees	10,479	14,214
Rent guarantess		1
Total	**111,479**	**87,656**

Liability to adjust value added tax (VAT) on property investments	2018	2017
Liability to adjust VAT	3,164	1,354

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.

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

Company	Country of domicile	Holding, %	Share of votes, %
Parent company Lehto Group Plc	**Finland**		
Lehto Tilat Oy	Finland	100%	100%
Lehto Asunnot Oy	Finland	100%	100%
Lehto Remontit Oy	Finland	100%	100%
Lehto Components Oy	Finland	100%	100%
Insinööritoimisto Mäkeläinen Oy	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%

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.

31. 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 2018	Sales 2017	Purchases 2018	Purchases 2017
Associated companies				2
Key personnel and their controlled entities	56,295	77,461	5,208	3,904
Total	**56,295**	**77,461**	**5,208**	**3,906**

EUR 1,000

	Receivables 31 Dec 2018	Receivables 31 Dec 2017	Liabilities 31 Dec 2018	Liabilities 31 Dec 2017
Associated companies				1
Key personnel and their controlled entities	7,773	2,225	104	182
Total	**7,773**	**2,225**	**104**	**183**

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	**2018**	**2017**
Salaries and other short-term employee benefits	1,091	936
Total	**1,091**	**936**

Salaries and remuneration	**2018**	**2017**
Chief Executive Officer, CEO		
Hannu Lehto	126	126
Members of the Board of Directors:		
Martti Karppinen, chairman from April 11, 2018	58	29
Sakari Ahdekivi	35	29
Pertti Korhonen	26	
Mikko Räsänen	33	31
Päivi Timonen	35	30
Pertti Huuskonen (until April 11, 2018)	13	53

Income statement for parent company, FAS

	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Net sales	8,975	6,360
Other operating income	514	41
Personnel expenses		
Salaries and fees	-3,206	-2,600
Personnel expenses		
Pension costs	-596	-439
Indirect employee costs	-129	-92
Depreciation according to plan and impairment	-517	-291
Other operating expenses	-4,834	-3,254
Operating profit/loss	**206**	**-275**
Financial income and expenses		
Income from holdings in Group companies	15,520	9,342
Interest and other financial income		
From Group companies	1,117	536
From others	113	163
Amortisation from other investments held as non-current assets	0	
Interest and other financial expenses		
To Group companies	-13	-10
To others	-431	-94
Financial income and expenses, total	*16,305*	*9,937*
Profit / loss before appropriations and taxes	**16,511**	**9,662**
Appropriations		
Group contribution	-800	3,150
Profit/loss before taxes	**15,711**	**12,812**
Taxes	**-36**	**-615**
Profit for the financial year	**15,675**	**12,197**

EUR 1,000

Balance sheet for the parent company, FAS

ASSETS	31 Dec 2018	31 Dec 2017
Non-current assets		
Intangible assets	1,130	450
Machinery and equipment	660	204
Holdings in Group companies	27,326	29,265
Investments in associated companies	780	781
Other shares and investments		1
Non-current assets, total	**29,897**	**30,700**
Current assets		
Inventories	83	83
Non-current receivables		
Receivables from Group companies	1,350	2,050
Receivables from associated companies		475
Other receivables		157
Current receivables		
Trade receivables	40	18
Receivables from Group companies	65,863	21,474
Other receivables	111	25
Adjusting entries for assets	25	40
Financial securities	311	23,269
Cash and cash equivalents	40,792	39,274
Current assets total	**108,576**	**86,864**
ASSETS TOTAL	**138,473**	**117,564**

EQUITY AND LIABILITIES	31 Dec 2018	31 Dec 2017
Equity		
Share capital	100	100
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-4,196	3,405
Profit for the financial year	15,675	12,197
Equity, total	**82,914**	**87,036**
Liabilities		
Non-current liabilities		
Loans from financial institutions	50	250
Other liabilities	50	1,774
Non-current liabilities, total	*100*	*2,024*
Current liabilities		
Loans from financial institutions	20,200	200
Trade payables	335	264
Liabilities to Group companies	33,910	26,589
Other liabilities	272	650
Adjusting entries for liabilities	743	801
Current liabilities, total	*55,460*	*28,504*
Liabilities, total	**55,559**	**30,528**
EQUITY AND LIABILITIES TOTAL	**138,473**	**117,564**

EUR 1,000

Cash flow statement of the parent company, FAS

	31 Dec 2018	31 Dec 2017
Cash flow from operating activities		
Profit for the financial year	16,511	9,662
Adjustments:		
Depreciation according to plan and impairment	517	291
Gain on sale of non-current assets	-431	
Non-cash items	0	
Financial income and expenses	-16,306	-9,937
Changes in working capital:		
Change in trade and other receivables	170	1,164
Change in trade and other payables	853	-705
Interest paid and other financial expenses	-460	-107
Interests received from operations	1,181	699
Dividends received from operations	15,520	9,342
Income taxes paid	-2	-612
Net cash from operating activities	**17,552**	**9,797**
Cash flow from investments		
Investments in intangible and tangible assets	-1,655	-550
Proceeds from sale of intangible and tangible assets	0	
Investments in other investments	-45	-3,773
Proceeds from sale of investments	166	
Repayment of loan receivables	1,175	16,100
Loans granted	-1,441	-8,300
Sales of associated companies	267	
Net cash from investments	**-1,533**	**3,478**

	31 Dec 2018	31 Dec 2017
Cash flow from financing		
Loans drawn	30,000	
Loans repaid	-10,200	-200
Change in Group financing	-40,611	-9,418
Group contribution	3,150	7,200
Dividends paid	-19,797	-12,815
Share issue paid		
Net cash used in financing activities	**-37,458**	**-15,233**
Change in cash and cash equivalents (+/-)	**-21,439**	**-1,958**
Cash and cash equivalents at 1 Jan.	62,542	64,500
Cash and cash equivalents at 31 Dec.	**41,104**	**62,542**

EUR 1,000

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	2018	2017
Group internal service charges	8,850	6,008
Other net sales, internal	125	343
Other net sales, external		9
Total	**8,975**	**6,360**

Auditors' fees	2018	2017
Statutory auditing	124	55
Tax services	2	5
Other services		8
Total	**127**	**69**

Financial income and expenses	2018	2017
Dividend income from Group companies	15,520	9,342
Interest income from Group companies	1,117	536
Interest income from others	113	163
Amortisation from other investments held as non-current assets	0	0
Interest costs on intra-Group liabilities	-13	-10
Interest costs to others	-136	-33
Other financial expenses	-295	-61
Total	**16,305**	**9,937**

Taxes	2018	2017
Current taxes	36	615
Total	**36**	**615**

NOTES ON BALANCE SHEET ASSETS

Intangible rights	2018	2017
Acquisition cost at 1 Jan.	574	390
Increases	124	184
Acquisition cost at 31 Dec.	**698**	**574**
Accumulated depreciation at 1 Jan.	-341	-233
Depreciation and amortisation	-130	-108
Accumulated depreciation at 31 Dec.	**-471**	**-341**
Book value at 1 Jan.	233	157
Book value at 31 Dec.	**228**	**233**

EUR 1,000

Other long-term expenditure	2018	2017
Acquisition cost at 1 Jan.	575	358
Increases	850	217
Acquisition cost at 31 Dec.	**1,425**	**575**
Accumulated depreciation at 1 Jan.	-359	-283
Depreciation and amortisation	-164	-76
Accumulated depreciation at 31 Dec.	**-523**	**-359**
Book value at 1 Jan.	216	75
Book value at 31 Dec.	**903**	**216**

Machinery and equipment	2018	2017
Acquisition cost at 1 Jan.	520	372
Increases	681	147
Acquisition cost at 31 Dec.	**1,200**	**520**
Accumulated depreciation at 1 Jan.	-317	-210
Depreciation and amortisation	-224	-107
Accumulated depreciation at 31 Dec.	**-541**	**-317**
Book value at 1 Jan.	202	162
Book value at 31 Dec.	**659**	**202**

Other tangible assets	2018	2017
Acquisition cost at 1 Jan.	1	0
Increases	0	1
Acquisition cost at 31 Dec.	**1**	**1**
Book value at 1 Jan.	1	0
Book value at 31 Dec.	**1**	**1**

Investments	2018	2017
Acquisition cost at 1 Jan.	30,142	28,765
Increases	0	2,504
Decreases	-1,940	-1,128
Acquisition cost at 31 Dec.	**28,201**	**30,142**
Accumulated amortisation at 1 Jan.	-95	-95
Amortisation	0	0
Accumulated amortisation at 31 Dec.	**-95**	**-95**
Book value at 1 Jan.	30,047	28,670
Book value at 31 Dec.	**28,106**	**30,047**

Non-current receivables from Group companies	2018	2017
Loan receivables	1,350	2,050
Total	**1,350**	**2,050**

Current receivables from Group companies	2018	2017
Trade receivables	304	431
Loan receivables	2,169	724
Other receivables	475	3,468
Group limit	62,915	16,851
Total	**65,863**	**21,474**

Essential items included in adjusting entries for assets	2018	2017
Other adjusting entries for assets	25	40
Total	**25**	**40**

EUR 1,000

NOTES ON BALANCE SHEET LIABILITIES

	2018	2017
Share capital on 1 Jan.	100	100
Share capital on 31 Dec.	**100**	**100**
Invested non-restricted equity reserve at 1 Jan.	71,335	71,335
Changes during for the financial year	0	0
Invested non-restricted equity reserve at 31 Dec.	**71,335**	**71,335**
Retained earnings at 1 Jan.	3,405	11,694
Retained earnings	12,197	4,526
Distribution of dividends	-19,797	-12,815
Retained earnings at 31 Dec.	**-4,196**	**3,405**
Profit/loss for the financial year	**15,675**	**12,197**
Equity, total	**82,914**	**87,036**

Statement of distributable funds	2018	2017
Invested non-restricted equity reserve	71,335	71,335
Retained earnings	-4,196	3,405
Profit/loss for the financial year	15,675	12,197
Total	**82,814**	**86,936**

Liabilities to Group companies	2018	2017
Trade payables	1,070	2
Other payables	800	0
Group limit	32,040	26,587
Total	**33,910**	**26,589**

Essential items included in adjusting entries for liabilities	2018	2017
Salary debt	0	240
Holiday pay debt with related costs	423	309
Non-wage labour cost debt	208	249
Tax debt	36	2
Interest debt	75	0
Other liabilities	0	0
Total	**743**	**801**

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2018	2017
Loans from financial institutions	20,250	450
Total	**20,250**	**450**
Guarantees		
Absolute guarantees	238	325
Total	**238**	**325**
Amount of credit limits		
Credit limits available	58,754	2,009
Credit limits in use	4	364
Credit limits outstanding	**58,750**	**1,645**
Guarantee limits available	215,020	204,729
Guarantee limits in use	111,732	86,579
Guarantee limits outstanding	**103,288**	**118,149**

EUR 1,000

Guarantees given on behalf of other Group companies	**2018**	**2017**
Guarantees given and other commitments	159,771	103,892

Leasing agreements not included in balance sheet		
Expiring in 12 months	55	51
Expiring in more than 12 months	87	87
Total	**142**	**138**

Lease liabilities		
Construction leases	5,538	6,195
Total	**5,538**	**6,195**

NOTES ON PERSONNEL AND MEMBERS OF ADMINISTRATIVE PERSONNEL

Average number of company personnel at the end of the financial year	**2018**	**2017**
Salaried employees	66	44
Total	**66**	**44**

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 82,813,733.01, of which the profit for the year is EUR 15,674,875.79.

The Board of Directors proposes to the Annual General Meeting that the dividend payable for the financial year 1 January–31 December 2018 would be EUR 0.24 per share, or 13,980,180.48 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, 11 February 2019

Martti Karppinen
Chairman of the
Board of Directors

Pertti Korhonen
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.

Oulu, 11 February 2019

KPMG Oy Ab
Audit firm

Tapio Raappana
APA

Group key figures

	2018	2017 [3]	2016	2015	2014
Net sales, EUR million	721.5	597.6	361.8	275.6	171.1
Net sales, change from the previous year %	20.7%	65.2%	31.3%	61.1%	50.8%
Operating profit, EUR million	37.2	64.6	40.4	27.2	5.8
Operating profit, as % of net sales	5.2%	10.8%	11.2%	9.9%	3.4%
Profit or loss for the financial year, EUR million	28.7	51.6	31.9	21.2	4.1
Profit or loss for the financial year, as % of net sales	4.0%	8.6%	8.8%	7.7%	2.4%
Return on investments (ROE), %	18.3%	38.8%	42.8%	85.1%	25.6%
Return on equity (ROI), %	16.1%	40.6%	44.5%	66.5%	21.6%
Equity ratio, %	42.7%	56.2%	60.4%	37.2%	27.3%
Gearing, %	21.3%	11.7%	9.4%	32.6%	48.8%
Net gearing ratio, %	38.5%	-20.6%	-44.2%	-22.9%	50.9%
Gross expenditure on assets, EUR million	15.9	15.9	7.6	1.1	0.8
Personnel during the period, average	1,457	1,013	566	402	312
Personnel at Dec 31	1,552	1,184	747	423	326
Equity / share	2.78	2.58	1.98	0.74	0,41
Earnings per share, EUR, basic [1]	0.49	0.89	0.89	0.52	0.07
Earnings per share, EUR, diluted [1]	0.49	0.88	0.88	0.52	0.07
Average number of shares during the year, basic [1]	58,250,752	58,250,752	58,250,752	41,062,559	40,000,000
Average number of shares during the year, diluted [1]	58,380,598	58,432,315	58,432,315	41,062,559	40,000,000
Number of shares at the end of the year [1]	58,250,752	58,250,752	58,250,752	45,310,404	40,000,000
Market value of share, EUR million	247.6	737.5	593.6	-	-
Share turnover, shares	42,861,908	16,334,696	11,912,330	-	-
Share turnover out of average number of shares, %	73.6%	28.0%	20.5%	-	-
Share prices, EUR					
Highest price, EUR	14.18	14.26	10.19	-	-
Lowest price, EUR	4.02	9.79	5.52	-	-
Average price, EUR	9.13	12.25	8.03	-	-
Price at Dec 31, EUR	4.25	12.66	10.19	-	-
Dividend / share, EUR [1] [2]	0.24	0.34	0.22	0.18	0.13
Dividend payout ratio, % [1] [2]	48.7%	38.4%	24.8%	33.8%	184.9%
Effective dividend yield % [2]	5.6%	2.7%	2.2%	-	-
Price / Earnings	8.64	14.33	11.53	-	-

[1] Years 2014-2015 adjusted for share issue (split) in March 30, 2016 [2] Year 2018 dividend proposal [3] Restated according IFRS 15

EUR 1,000

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), %

$$100 \times \frac{\text{Profit for the financial year}}{\text{Equity (average)}}$$

SiReturn 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 2018

	Number of shares	%
Lehto Invest Oy	21,685,216	37.2%
OP-Finland	2,763,375	4.7%
Kinnunen Mikko	1,794,265	3.1%
Ilmarinen Mutual Pension Insurance Company	1,252,440	2.2%
Saartoala Ari	862,007	1.5%
Myllymäki Asko	709,215	1.2%
Danske Finnish Institutional Equity Fund	676,965	1.2%
Heikkilä Jaakko	640,000	1.1%
Lunacon Oy	590,944	1.0%
Säästöpankki Kotimaa Mutual Fund	471,470	0.8%
10 LARGEST SHAREHOLDERS	**31,445,897**	**54.0%**
Nominee-registered	10,283,661	17.7%
Other shareholders	16,521,194	28.4%
TOTAL	**58,250,752**	**100.0%**

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share-holders	%
1 – 100 shares	289,403	0.5%	5,425	32.7%
101 – 1,000 shares	3,546,937	6.1%	9,203	55.5%
1,001 – 10,000 shares	4,719,567	8.1%	1,798	10.8%
10,001 – 100,000 shares	3,318,729	5.7%	119	0.7%
100,001 – 1,000,000 shares	8,955,656	15.4%	29	0.2%
over 1,000,000 shares	37,420,460	64.2%	6	0.0%
TOTAL	**58,250,752**	**100.0%**	**16,580**	**100.0%**
where of Nominee-registered	10,283,661	17.7%	11	7.0%

SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share-holders	%
Companies	25,680,800	44.1%	702	4.2%
Financial and insurance institutions	15,608,417	26.8%	33	0.2%
Public sector organizations	1,764,453	3.0%	4	0.0%
Households	14,689,760	25.2%	15,746	95.0%
Non-profit organizations	174,832	0.3%	50	0.3%
Foreign countries	332,490	0.6%	34	0.2%
TOTAL	**58,250,752**	**100.0%**	**16,569**	**100.0%**
where of Nominee-registered	10,283,661	17.7%	11	0.1%

Auditor’s Report 2018

LEHTO GROUP PLC

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 2018. 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, 19 and 25 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 amount 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 based on IFRS 15 Revenue from Contracts with Customer applied as from 1 January 2018. Factors of uncertainty related to revenue recognition for the Group concern principally the property construction projects for which revenue is recorded over time.
- The project revenue recognized over time is based on project-specific margin projections, which involve management judgement. Revenue recognition necessarily entails the balances of receivables and received advance payments arising from contracts with customers, 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 the 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 contracts with customers presented in the financial statements.

Valuation of inventories

(Refer to Accounting principles for the consolidated financial statements, section "Inventories" and note 18 to the consolidated financial statements)

Key audit matters

- The inventory balance comprises 51 % of the total assets in the consolidated balance sheet.
- A significant proportion of the inventory balance 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 a 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 about 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 the 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.

Oulu, 11 February 2019

KPMG Oy Ab

Tapio Raappana
Authorised Public Accountant, KHT

Corporate Governance Statement 2018

LEHTO GROUP PLC

Corporate Governance Statement 2018

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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 11 February 2019, 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 of the shareholders' Nomination Committee 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, and furthermore it shall be ensured that the Board of Directors and its members have sufficient expertise, know-how and experience to meet the requirements of the company. 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 2018 consisted of Martti Karppinen, Mikko Räsänen, Päivi Timonen, Sakari Ahdekivi and Pertti Korhonen. Martti Karppinen has acted as Chairman of the Board of Directors. During the financial year 2018, the Board of Directors had a total of 11 meetings, one of which was conducted by email. The average attendance rate of Board members was 100 per cent. During 2018 the Board of Directors focused its attention especially into developing the Company's strategy, on deciding the policy regarding the Building renovations service area, and to find the measures to improve profitability, especially on the Building renovations and Social Care and Educational Premises service areas.

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
Martti Karppinen	Chairman of the Board of Directors	1947	M.Sc. (Tech.)	Yes	Yes
Sakari Ahdekivi	Member of the Board of Directors	1963	M.Sc. (Econ.)	Yes	Yes
Pertti Korhonen	Member of the Board of Directors	1961	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 2018

Name	No. of shares held	Shareholding ratio
Martti Karppinen	2,000	0.00%
Sakari Ahdekivi	0	0.00%
Pertti Korhonen	5,000	0.00%
Mikko Räsänen	0	0.00%
Päivi Timonen	0	0.00%
Board of Directors in total	**7,000**	**0.00%**

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

Name	Remuneration for 2018, EUR	Sale of services to the Company in 2018, EUR	Attendance in Board meetings
Martti Karppinen	58,200	0	11/11
Sakari Ahdekivi	35,217	0	11/11
Pertti Korhonen	26,383	0	8/8
Mikko Räsänen	32,867	0	11/11
Päivi Timonen	34,617	0	11/11
Board of Directors in total	**187,238**	**0**	**100%**

Presentation of Board members

Martti Karppinen has been the Chairman of the Board of Directors since 2018 and a 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 and acts as the Deputy CEO of the company. 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.

Pertti Korhonen has been a member of the Board of Directors since 2018. Korhonen started his long career with Nokia in 1986, first in product development duties as the head of its Oulu unit and later as Chief Technology Officer and a member of the Group Executive Board. In 2006–2009, Korhonen served as the CEO of Elektrobit Corporation, and in 2010–2016 as the CEO of Outotec Corporation. Korhonen also holds numerous positions of trust. For instance, he serves as the Chairman of the Board of Directors of DNA Plc, Chairman of the Board of Directors of Traffic Management Finland Group, a member of the Board of Directors of Granlund Oy and the Chairman of the Board of Business Finland.

The memberships of the Board of Directors that ended during 2018

Pertti Huuskonen acted as the member of the Board of Directors during 2013–2014 and as the Chairman of the Board since 2014 until the Annual General Meeting of the year 2018.

Statement on the implementation of the Board Diversity Policy 2018

In 2018, 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.

At the 2018 Annual General Meeting, the shareholders' Nomination Committee proposed that Martti Karppinen, Sakari Ahdekivi, Mikko Räsänen and Päivi Timonen be re-elected as members of the Board of Directors. Furthermore, the shareholders' Nomination Committee proposed that Pertti Korhonen be elected to the Board to replace Pertti Huuskonen, who stepped down from the Board due to time constraints. The proposed persons were elected to the Board. At its organisation meeting, Martti Karppinen was elected as Chairman 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 most have strong expertise in the real estate business. The Board members additionally have experience in international duties, and they have the capacity to develop the Company and 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 11 April 2018, the Board of Directors elected Sakari Ahdekivi (Chairman), Pertti Korhonen, 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. Furthermore, the Committee members may meet the external auditors without the operative management being present in such meetings.

During 2018 the Audit Committee had four meetings. In its meeting the committee discussed especially the practicalities of predicting the result and the risk management of projects. Furthermore, the audit committee focused its attention to the management of risk capital in transactions, to cash flow planning, and to necessary measures in order to secure the financing.

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 2018 Hannu Lehto owns directly or indirectly 21,685,216 shares of the Company which are 37.23 per cent of the Company's shares

Group's executive team

The CEO is supported by the Group's executive team which on 31 December 2018 comprises in addition to CEO:

- Veli-Pekka Paloranta, CFO, Chief Financial Officer
- Pasi Kokko, EVP, Housing
- Jaakko Heikkilä, EVP, Business Premises
- Ville Kettunen, EVP, Social Care and Educational Premises (since 11 September 2018)
- Timo Reiniluoto, EVP, Business Support Services
- Pekka Korkala, EVP, Factory Production (since 20 March 2018)
- Arto Tolonen, CDO, Chief Development Officer (since 24 May 2018)

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.

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 Oyj (former Elektrobit Oyj), 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.

Ville Kettunen, born 1977, has over 15 years' experience of construction business. He has held various management positions in on-site construction, construction management and property development. Previously Kettunen acted as area manager in Lemminkäinen Talo Oy.

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.

Pekka Korkala, born 1969, has served since 10 July 2017 as CEO of Lehto´s subsidiary Lehto Components Oy. Previously he has worked as a business and factory production director in car industry in Finland and abroad.

Arto Tolonen, born 1966, has worked in various leadership positions in Nokia Networks for a development of business processes, product development, productization and product data management globally. In the University of Oulu, Tolonen established a new research and education stream for product management for faculty of technology, industrial engineering and management research unit within the last five years.

DIRECT AND INDIRECT SHAREHOLDINGS OF GROUP'S EXECUTIVE TEAM 31 DECEMBER 2018

Name	No. of shares held	Shareholding ratio
Veli-Pekka Paloranta	320,000	0.55%
Pasi Kokko	140,000	0.24%
Jaakko Heikkilä	640,000	1.10%
Ville Kettunen (since 11 September 2018)	70	0.00%
Timo Reiniluoto	8,342	0.01%
Pekka Korkala (since 20 March 2018)	9,000	0,02%
Arto Tolonen (since 24 May 2018)	1,782	0,00%
Total	**1,119,194**	**1.92%**

The memberships of the Group's Executive Team that ended during 2018

Asko Myllymäki, born 1968, was the Company's Chief Operating Officer since 2014. He has also served as the Company's Chief Development Officer in 2008–2013 and as the CEO in 2013–2014.

Tuomo Mertaniemi, born 1972, worked in Lehto Group first as Chief Financial Officer and, since November 2014, in charge of the Social Care and Educational Premises business. Currently Mr. Mertaniemi is working in the Company as the Commercial Director in Business Premises.

Pekka Lindeman, born 1959, was a member of the Group's Executive Team until 5 November 2018 when the Company announced its plan to discontinue the Building Renovation service area.

Business operations management

The Group's operational business was during 2018 divided into four service areas: Business Premises, Social Care and Educational Premises, Housing, and Building Renovation. In the beginning of 2019 the Building Renovation service area was merged into the Housing and Business Premises service areas and from the beginning of the year 2019 the business of the Company has been organised into Housing, Business Premises, and Social Care and Educational Premises service areas. 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, CFO, CDO, and the EVP of Business Support Services.

The actual operative business of the company takes place in the subsidiaries of the company. Three 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.

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.

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 administrational 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, regulations, and internal procedures 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 with Analyste Banking system.

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.

General Counsel

It is the task of the General Counsel to ensure and monitor the Group's compliance with its legal obligations and the manageability of contractual risks as well as to assist the service areas with the legal risk assessment of projects.

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 2018, 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 280,000. Furthermore, the Company paid the auditor approximately EUR 93,000 for services not related to auditing.

ECONOMICALLY DRIVEN CONSTRUCTION

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