

# 2016

Lehto Group Plc

Report by the Board of Directors  
Financial Statements 2016





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## REPORT BY THE BOARD OF DIRECTORS

Summary 2016	10-12/ 2016	10-12/ 2015	1-12/ 2016	1-12/ 2016
Net sales, EUR million	129.7	98.1	361.8	275.6
Change in net sales, %	32.3%	78.3%	31.3%	61.1%
Operating profit, EUR million	16.0	10.5	40.4	27.2
Operating profit, % of net sales	12.3%	10.7%	11.2%	9.9%
Profit for the period, EUR million	12.6	8.5	31.9	21.2
Order backlog at period end, EUR million	309.1	195.0	309.1	195.0
Earnings per share, EUR *)	0.22	0.23	0.59	0.52
Cash and cash equivalents, EUR million	67.7	24.6	67.7	24.6
Interest-bearing liabilities, EUR million	16.4	17.0	16.4	17.0
Equity ratio, %	60.4%	37.2%	60.4%	37.2%
Net gearing ratio, %	-44.2%	-22.9%	-44.2%	-22.9%

\*) Adjusted average number of shares during the period as denominator.

The Group's net sales for January–December grew by 31.3% to EUR 361.8 (275.6) million. Net sales grew in the Business Premises, Housing, and Social Care and Educational Premises service areas but declined in the Building Renovation service area. Operating profit was EUR 40.4 (27.2) million, or 11.2% (9.9%) of net sales.

### Net sales by service area, EUR million

	2013	2014	2015	2016
Business Premises	64.3	95.3	109.8	129.5
Housing	20.1	28.5	69.5	136.0
Social Care and Educational Premises	3.3	17.7	38.4	62.1
Building Renovation	25.8	29.6	58.0	34.2
Total	113.4	171.1	275.6	361.8

The order book at year end was EUR 309.1 million (EUR 195.0 million at 31 December 2015), most of which is expected to be recognised during 2017.

### Net sales and operating profit by quarter, EUR million

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	H1 2016	H2 2016	Total
<b>Net sales</b>							
Business Premises	20.5	28.5	37.4	43.1	49.0	80.5	129.5
Housing	28.3	24.9	31.6	51.1	53.2	82.8	136.0
Social Care and Educational Premises	7.1	17.2	15.9	21.9	24.4	37.8	62.1
Building Renovation	6.3	7.6	6.7	13.6	14.0	20.2	34.2
Net sales total	62.3	78.3	91.6	129.7	140.5	221.3	361.8
Operating profit	4.0	10.0	10.4	16.0	14.0	26.4	40.4
Operating profit, % of net sales	6.5%	12.7%	11.3%	12.3%	9.9%	11.9%	11.2%

Net sales in the second half of the year were EUR 221.3 (178.4) million. Net sales in all service areas were higher in the second half of the year than in the first half. This is due to the spike in the completion of developer contracting housing projects at the end of the year, as well as the growth in the number of business premises and social care and education premises in the latter half of the year. The net sales of the last quarter were the highest according to the last year. Net sales grew by 32.2% to EUR 129.7 million (EUR 98.1 million in Q4 2015).



## Business environment and business development in 2016

### DEVELOPMENT OF THE BUSINESS ENVIRONMENT

Lehto's business environment developed favourably during 2016. Finland's gross national product was estimated to have grown by approximately 1.7% (OP Financial Group's economic barometer), investments by 3% and consumption by approximately 1.5%. Inflation remained moderate during 2016, while the building cost index rose by approximately 1.0%.

According to Statistics Finland, there were approximately 6% more construction starts in the first eleven months of the year than in 2015. Growth has been driven by housing production boosted by low loan interest rates. According to the latest economic outlook published by the Confederation of Finnish Construction Industries RT, there were as many as 36,000 housing starts in 2016. Thanks to investor demand, housing construction was particularly active in the Helsinki region and other major growth centres. A slight increase in consumer demand compensated for the beginning saturation of the investor market.

Starts of business and office premises construction were delayed in the latter half of the year, and the volume was heavily focused on construction in a few major city centres. Stronger growth in new construction was restrained by the continuing high number of vacant office premises and the slow decision-making related to changing the purpose of use of older premises unsuitable for modern offices.

Starts of industrial and warehouse buildings appear to remain at the level of 2015 at most. The volumes of this segment were sustained by the modernisation of existing logistics facilities into automated facilities. Starts of public service buildings increased by almost one fifth in 2016, which is primarily attributable to the active end of the year, concentrating on the construction of educational and hospital buildings. The Finnish social welfare and health care reform will have a considerable impact on municipal finances and the implementation of new projects. The growth in renovation building slowed down in 2016, although the need for renovations has not decreased.

Growth in construction is particularly reflected in the availability of labour. This is an exceptional situation, as construction is a trailing indicator of the economy and has improved employment in Finland during the last year. In June, Lehto successfully organised a comprehensive recruitment campaign to secure personnel suitable for its operating model. The public visibility brought about by the listing has helped in the recruitment of new salaried employees and construction employees.

### FACTORY PRODUCTION

Lehto built a building component factory of approximately 9,000 m<sup>2</sup> in Oulainen during the financial year. The factory manufactures bathroom-kitchen modules, apartment elements, wall elements, windows and some smaller renovation building modules for Lehto's own use. In addition to the new factory, Lehto also has a smaller factory unit in Oulainen, a production facility for large roof elements in Humppila and a unit that manufactures HVAC control rooms in Oulu. The purpose of developing modules is to enhance building quality and to accelerate the construction process.





## BUSINESS PREMISES

In the Business Premises service area, Lehto builds office premises, retail premises, logistics, warehouse and production facilities, sports and hobby facilities and also large shopping centres. Business premises are designed according to the customers' needs and are built using the structural and spatial solutions developed or tried and tested by Lehto. Lehto builds business premises across Finland for local, national and international customers.

Most of the service area's business is in the form of contracting. However, Lehto implements some business premises as developer contracting, which means that construction begins when a binding lease agreement has been signed but the buyer is not yet certain. The company has defined internal euro limits for the number of developer contracting business premises projects in order to keep the overall risks related to such projects at a moderate level.

Net sales in the Business Premises service area grew by 17.9% to EUR 129.5 (109.8) million in 2016. A total of 33 projects were completed during the period, including the Prisma supermarket in Seppälä, Jyväskylä, the Muurame commercial centre, an XXL sports store in Oulu, and the Leo's Leikkimaa adventure park in Tampere. At the end of the financial year, 20 properties were under construction.

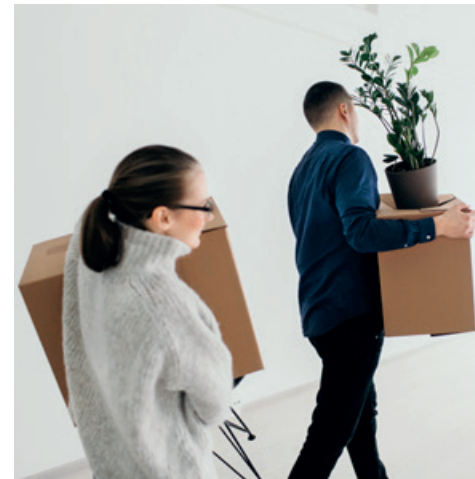
In May, Lehto began construction of the Zemppe sports centre and an adjoining hotel in Kempele. The size of the sports centre is approximately 8,100 m<sup>2</sup>, while the hotel will accommodate 54 rooms. Lehto owns a third of the shares of Kiinteistö Oy Zemppe. In June, Lehto began construction of the Leo's Leikkimaa indoor sports park in the same block as Zemppe.

In June, Lehto also signed a turn-key contract on the construction of an office and commercial complex with a floor area of 11,900 m<sup>2</sup> in Tikkurila, Vantaa. The value of the contract is EUR 26,8 million. The customer is Sponda Plc.

Based on the preliminary agreement signed in March, Lehto continued the development project of the Lippulaiva shopping centre in Espoonlahti, together with Citycon Oyj and designers. The final agreement on the Lippulaiva contract has not yet been signed, but Lehto has signed a contract for the construction of Pikkulaiva, the temporary property to house the shopping centre. The construction of Pikkulaiva is already underway. The Lippulaiva project implementation involves uncertainties which are typical of property development.

Lehto has made certain preparations regarding the Barents Center under planning in Haparanda, Sweden. Lehto has a contract with the Swedish client, according to which Lehto will be the contractor of the project, if it is started. Lehto does not have accurate information on the schedule, extent or funding status of this potential project.

The order book of the Business Premises service area grew during the review period and was EUR 75.5 million at year end (EUR 57.5 million on 31 December 2015).



## 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, who can be private persons or private or institutional investors.

Most of the houses are blocks of flats. The kitchen/bathroom modules developed by Lehto will be used in their construction. The modules are 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 through large volumes. The factory also manufactures wooden wall elements and space elements that can be used to rapidly build terraced houses and balcony access houses particularly well suited for urban environments.

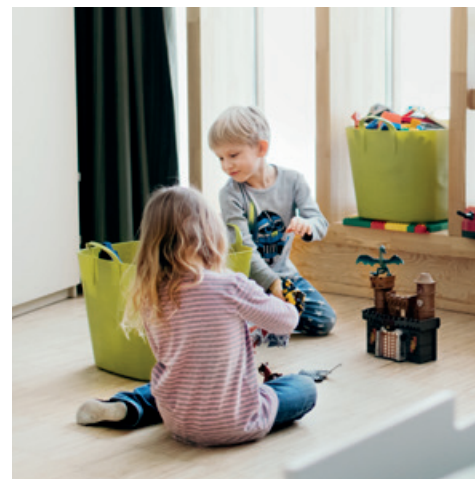
Net sales in the Housing service area grew strongly. Net sales were EUR 136.0 (69.5) million, 95.6% higher than in 2015. The major part of the growth was generated by developer contracted blocks of flats built in growth centres in the Helsinki metropolitan area and elsewhere in Finland, but growth was also seen in the construction of terraced house developments. 23 new construction premises were completed during 2016 (13 in 2015), totalling 853 (469) apartments. The Group had 21 developer contracting housing companies under construction, totalling 747 apartments. Completed properties had seven unsold apartments.

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

In June, Lehto bought the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. The net sales of the acquired business were approximately EUR 1.5 million in 2015.

In August, Lehto signed a contract with the Joint Stock Company "Concern Titan-2" branch office in Finland to construct accommodation premises for about 1,000 employees at Pyhäjoki's nuclear power plant construction site. The project will be delivered as a turn-key project in which Lehto is responsible for planning and construction in stages, according to a defined time and payment schedule agreed upon with the customer. Lehto will use its own developed modular building concept in the project. Apartment modules will be prefabricated in Lehto's own factory and assembled at the construction site. The total gross floor area of the project is about 17,000 m<sup>2</sup> and the first occupants are expected to arrive in spring 2017. It is estimated that the entire project will be completed in January 2019. The total value of the construction contract is around EUR 25.3 million, excluding value-added tax.

The housing construction order book at year end was approx. EUR 132.8 million (EUR 103.9 million on 31 December 2015). The housing production order book includes the proportion of started developer contracting projects that has not been recognised as net sales. A construction project is included in the order book once the decision to start construction has been made and the contract for a developer contracting project has been signed.



### SOCIAL CARE AND EDUCATIONAL PREMISES

In the Social Care and Educational Premises business area, Lehto plans and builds nursing homes, day care centres and schools to meet the needs of nationwide care service providers and municipalities. In most cases, Lehto makes a lease agreement with a service operator 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.

Companies that provide care services for the elderly people continue to grow and expand their operations. The sector's building stock is aging, especially in the public sector, and is being replaced with new construction. This has created new demand for nursing homes, but at the same time, competition has increased in the nursing home construction market. A similar development can be seen in the day care centre business, where nationwide companies that provide day care services are growing and expanding. This will increase the demand for day care centre buildings.

In 2016, net sales for Lehto's social care and educational premises grew faster than the market in general. Net sales grew by 61.8% to EUR 62.1 million. Net sales grew for both new and existing accounts, with nursing homes for the elderly accounting for most of the net sales. A total of 21 nursing homes were completed during the period, and 22

projects were under construction at the end of the year. Lehto started building one new school and two new day care centres. Lehto will continue to invest in the construction of schools and day-care centres.

In December, Lehto and a care sector property fund managed by Northern Horizon ("NHC") signed a framework agreement for the construction and sale of care sector premises. The total value of the framework agreement is approximately EUR 57 million. Lehto will build the premises and sell them to the fund after completion and when other agreed requirements are met. Some of the premises are already under construction. Most of the properties will be completed during 2017, while some will be completed during the first quarter of 2018.

The order book at year end was EUR 57.2 million (EUR 15.2 million on 31 December 2015).



### BUILDING RENOVATION

Lehto's Building Renovation service area involves the performance of plumbing renovations, basic renovations and renovation projects in the form of developer contracting, in which Lehto buys an old building, renovates or converts it for residential use, and sells the renovated apartments on to customers.

Net sales in Building Renovation declined during the review period by 41.0% to EUR 34.2 (58.0) million. Despite the

growth of net sales from plumbing renovations, net sales in the service area as a whole declined, as, contrary to 2015, no developer contracting-based renovation projects were completed during the review period. In these projects, net sales from the sale of shares are not recognised as income until the project is completed.

In October, Lehto acquired the entire share capital of Rakennus Oy Wareco ("Wareco"), which operates in the Helsinki metropolitan area. Wareco's areas of expertise include

real estate renovations, plumbing renovations in housing companies, renovation and modification projects for facades, as well as accessory and complementary building. Wareco's key personnel have several decades of experience in building renovation. At the time of the acquisition, Wareco employed almost 70 people. In 2015, its net sales totalled EUR 28.7 million. The acquisition supports Lehto's growth targets, enabling it to strengthen and expand its building renovation business. The acquisition also brought additional talented resources to the company in areas such as large renovation projects and plumbing renovations.

At the end of the period, Lehto had 21 renovation projects ongoing. These include developer contracting housing projects in the centre of Helsinki, in Myllypuro, Helsinki and in Oulu, as well as several other repair and plumbing renovation projects in the Helsinki metropolitan area.

The order book of Building Renovation grew to EUR 43.5 million at year end (EUR 18.4 million on 31 December 2015).

## Significant events during the financial period

**During the first quarter of 2016**, all Group units started using the name Lehto. The name of the parent company had been changed from the former name Päätoimija Oyj to Lehto Group Plc in December 2015. The rapidly expanded group wanted to aggregate its business under the Lehto brand in order to promote its wide range of services in a unified manner and increase brand awareness.

**In March**, Lehto Group Oyj and Citycon Finland Oy signed a preliminary agreement on a development project for the Lippulaiva shopping centre in Espoonlahti. According to the preliminary agreement, the development project will be prepared in close cooperation between Citycon, Lehto and the project designers. The goal was to sign the final agreement for the contract in 2016, but it had not yet been signed at the end of the review period. Around 550 apartments, a connection to the metro, a bus terminal and 1,400 parking spaces are also planned to be built next to Lippulaiva. The total gross area for the project is approximately 170,000 brm<sup>2</sup>. Lehto plans to build the shopping centre, bus terminal, metro connection and parking slots as a turn key project and the



housing project as a developer contracting project. The estimated time of construction is 2017–2020. The project involves uncertainties that are typical of property development.

Lehto Group Plc carried out its Initial Public Offering (“IPO”) **in April 2016**. Trading in the company’s shares on the pre-list of the Nasdaq Helsinki Ltd commenced on 28 April 2016. As part of the issue for institutional investors, private persons and the company’s employees, the company issued 11,874,705 new shares. In addition, a convertible capital loan granted by Osuuskunta PPO was converted into shares by issuing 1,065,643 new Lehto Group Plc’s shares. The number of shares increased to 58,250,752 after the IPO issue of shares and the conversion. The company’s existing shareholders sold 3,199,608 shares in connection with the IPO issue of shares.

The funds received during the IPO totalled approximately EUR 60.5 million. The total fees and expenses for the IPO were approximately EUR 2.6 million.

The main events and announcements related to the listing:

- **On 29 March 2016**, the company announced its plan on an Initial Public Offering and listing on the official list of Nasdaq Helsinki.
- The Annual General Meeting held on **30 March 2016** authorised the Board of Directors to carry out the actions required for listing on the stock exchange.
- **On 12 April 2016**, the company announced the preliminary price range for the planned Initial Public Offering, the number of shares offered for subscription and other key terms of the offering.
- **On 14 April 2016**, the company announced that it had submitted the listing application to the Helsinki Stock Exchange.
- **On 22 April 2016**, the company announced that the initial Public Offering had been oversubscribed and the subscription period had been discontinued.
- **On 27 April 2016**, the company announced that its Initial Public Offering had been completed and the final subscription price for the public offering and institutional offering was EUR 5.10 per share.
- **On 28 April 2016**, trading in the company’s shares commenced on the pre-list of Nasdaq Helsinki Ltd.

- **On 3 May 2016**, the company announced its ten largest shareholders after the end of the initial public offering.
- **On 18 May 2016**, the company announced that the over-allotment option related to the initial public offering had been fully exercised.

**In May**, the company announced that it would build a Prisma centre of approximately 11,350 m<sup>2</sup> in Nokia.

**In June**, Optimikodit Oy, a Lehto Group company, acquired the business operations of Dometalot Oy, comprising energy-efficient construction solutions. The sale of the business included the transfer of customary business contracts, immaterial rights and 13 employees to Lehto. Dometalot Oy’s personnel continued at Lehto under their existing terms and conditions of employment. The net sales of the acquired business were approximately EUR 1.5 million in 2015.

**In June**, Lehto announced that it will build a new office and commercial complex in the vicinity of the Tikkurila railway station in Vantaa. The customer is Sponda Plc, for whom Lehto has also previously built properties as turn-key projects. Sponda plans to implement the project in two phases. The value of Lehto’s construction contract for the first phase is approximately EUR 26.8 million. Sponda will decide on the start of the second phase on the basis of the lease status.

**In August**, Lehto Group Plc’s subsidiary Rakennuskartio Ltd signed a contract with the Joint Stock Company “Concern Titan-2” branch office in Finland to construct accommodation premises for about 1,000 employees at Pyhäjoki’s nuclear power plant construction site. The project will be delivered as a turn-key project in which Lehto is responsible for planning and construction in stages, according to a defined time and payment schedule agreed upon with the customer. Lehto will use its own developed modular building concept in the project. Apartment modules will be prefabricated in Lehto’s own factory and assembled at the construction site. The total gross floor area of the project is about 17,000 m<sup>2</sup> and the first occupants are expected to arrive in April 2017. It is estimated that the entire project will be completed in January 2019. The total value of the construction contract is around EUR 25.3 million, excluding value-added tax.



Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco by an agreement signed **in October**. Wareco is a building renovation company operating in the Helsinki metropolitan area. Its areas of expertise include real estate renovations, plumbing renovations in housing companies, renovation and modification projects for facades, as well as accessory and complementary building. Wareco's key personnel have several decades of experience in building renovation. At the time of the acquisition, Wareco employed almost 70 people. In 2015, its net sales totalled EUR 28.7 million and its operating profit was EUR 0.7 million. The acquisition supports Lehto's growth targets, enabling it to strengthen and expand its building renovation business. The acquisition also brought additional talented resources to the company in areas such as large renovation projects and plumbing renovations.

**In December**, Lehto Group Plc's subsidiary Rakennusliike Lehto Oy ("Lehto") and care sector property fund managed by Northern Horizon ("NHC") signed a framework agreement for the construction of care sector premises. The total value of the framework agreement is approximately EUR 57 million, and it covers 16 social care and educational premises across Finland. The agreement also includes an option for the construction of additional properties. The construction and sale of social care and educational premises to the fund is part of Lehto's normal business, but under the signed framework agreement, a larger number of properties will be built and sold to a single fund at one time. Lehto will build the premises and sell them to the fund after completion and when other agreed requirements are met.

Some of the premises are already under construction. Most of the properties will be completed during 2017, while some will be completed during the first quarter of 2018. The financing for the construction will be arranged by Lehto using both equity and borrowed capital. The premises in the scope of the agreement will be built for elderly care, child care and for other groups with special needs. The users of the premises will be both communal sector operators and nationwide service providers.

**In December**, Lehto Group Plc's Board of Directors decided on the launch of two new share-based incentive plans for 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 long-term incentive plan is directed at a maximum of 70 key employees, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2016 and 2017 correspond to the value of an approximate maximum total of 1,000,000 Lehto Group Plc shares, including 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 shares.

The Board of Directors also decided on the Group's new restricted share plan. The reward from the restricted share plan is based on the key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period of one to three years, partly in the company's shares and partly in cash. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed at 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 the proportion to be paid in cash.

## Balance sheet and financing

The Group's financial position strengthened during the financial year, mainly due to its successful listing on the stock exchange. The funds received during the Initial Public Offering totalled approximately EUR 60.5 million. The total fees and expenses for the Initial Public Offering were approximately EUR 2.6 million. The difference between the IPO funds and expenses, EUR 57.8 million, was posted in the invested non-restricted equity reserve. The IPO expenses did not burden the profit for the period.

GROUP BALANCE SHEET, EUR MILLION	31 Dec 2016	31 Dec 2015
Non-current assets	21.5	14.6
Current assets		
Inventories	77.5	51.3
Current receivables	92.0	47.2
Cash and cash equivalents	67.7	24.6
<b>Total assets</b>	<b>258.7</b>	<b>137.6</b>
Equity	115.6	33.4
Financial liabilities	16.4	17.0
Advances received	67.3	47.9
Other payables	59.5	39.3
<b>Total equity and liabilities</b>	<b>258.7</b>	<b>137.6</b>

Non-current assets grew by EUR 7.0 million primarily due to the investment in the Oulainen factory and the acquisition. Inventories grew in line with sales growth and mostly comprise developer contracting housing projects under construction. A minor part of the inventories is related to the stocks of raw materials and unfinished production at Lehto's factories.

Current receivables include EUR trade receivables of 40.2 (19.2) million and percentage-of-completion receivables of EUR 41.7 (25.3) million. Their growth is attributable to the growth in business volume and the concentration of sales invoicing at the end of the year.

Equity grew by EUR 82.2 million to EUR 115.6 million, while financial liabilities decreased slightly to EUR 16.4 million. The company has increasingly financed projects using its own cash reserves, and borrowed capital has not been used in all projects. Interest-bearing liabilities include normal bank loans, instalment debts and loans drawn by developer contracting housing companies to the extent these are allocated to unsold apartments.

Advances received include payments received for projects under construction to the extent these are not yet recorded in net sales.

CASH FLOW STATEMENT, EUR MILLION	1-12/2016	1-12/2015
Cash flow from operating activities	8.3	21.3
Cash flow from investments	-14.1	-5.1
Cash flow from financing	48.9	2.5
<b>Change in cash and cash equivalents</b>	<b>43.1</b>	<b>18.7</b>

Cash and cash equivalents grew by EUR 43.1 million during the financial year. Net cash from operating activities was EUR 8.3 million positive, which includes a negative impact of EUR 27.8 million due to the growth in working capital. The increase in net working capital was particularly attributable to the growth in sales invoicing towards the end of the year and the relatively large number of buildings under construction at the end of the financial period.

Net cash from investments was EUR 14.1 million, of which approximately EUR 7.3 is related to the construction of the Oulainen production plant and EUR 4.2 million is related to the acquisition of the share capital of Rakennus Oy Wareco. In addition, the company paid additional purchase prices of EUR 0.2 million related to previous subsidiary acqui-

sitions. Cash flow from investments also includes loans amounting to EUR 2.3 million granted to developer contracting construction projects.

Net cash used in financing activities was EUR 48.9 million, including net proceeds of EUR 57.8 million received from the Initial Public Offering and EUR 7.9 million paid in dividends. There was no significant change in the amount of interest-bearing liabilities during the financial year.

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

## Risks and uncertainties

Lehto assesses risks in its daily operations on a continual basis and develops Group-wide risk management practices together with its operative companies. Through the continuous development of risk management, Lehto seeks to attract new business opportunities and partners well as to further improve the profitability and predictability of Lehto's operations. Further improvement of risk management and responding to the challenges of a growing business are Lehto's top operational priorities.

The main risks in the operative business include general risks related to project pricing, schedules, quality, technical implementation and the adherence of stakeholders to agreements. Lehto's reliance on module production and the partial dependence of its housing production on the schedule and efficiency of module production present a risk related to deviations or interruptions in the implementation of modular products.

In its business operations, Lehto is also exposed to 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. As part of its operational business, Lehto continuously concludes agreements with various parties. The related risks include the technical, legal and commercial condition of the acquired property. The unique and complex construction projects in Lehto's Business Premises service area, in particular, always involve risks related to implementation and costs.

Lehto's business is partly so-called traditional contracting and partly its own production, where the final customer is not always known when starting the construction project. These two business models involve different risks. In traditional contracting, project income is recognised according to the degree of completion. The main risk in this model is that total costs for the project exceed the estimated costs or the completion of the project is delayed.

The main risk in own production is that the company is not able to sell the production within the planned time schedule or at the planned price.

In addition, project costs can exceed the estimated costs. Failure in project pricing, technical implementation, estimating costs and time schedule, selling the property or finding financing can have a negative impact on the company's result and financial position.

A part of Lehto's business involves agreements according to which Lehto builds premises according to the customer's needs and only sells the premises upon their completion or at a later stage to a fund, for example. Despite Lehto's completion of premises according to the agreed schedule and costs, Lehto carries a risk related to the capacity of the fund 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 potentially be significant, of 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 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. In a period of economic growth in construction, the availability of skilled labour may also present a risk for the planned launch of a project in the agreed schedule.

Lehto aims to control risks at each level of the organisation. Risk management includes risk identification, estimation and plans to avoid them. More information on Lehto's risks and risk management is available at [www.lehto.fi](http://www.lehto.fi). There were no significant changes in Lehto's risks in the last quarter of 2016.

## Personnel

The average number of personnel during the review period was 566 (402). The number of personnel at year end was 747 (423). About 52% (53%) of the Group's personnel are salaried employees and 48% (47%) employees working at construction sites. The relative proportion of salaried employees and employees working at construction sites remained approximately the same as the personnel numbers increased.

In June, Lehto launched a comprehensive recruitment campaign to secure its labour supply. During the second half, Lehto recruited over 100 new employees, most of them related to the ramp-up of the new module factory in Oulainen. The personnel number was further increased in October by the acquisition of Rakennus Oy Wareco, which brought Lehto Group almost 70 new employees.

Growth in construction is particularly reflected in the availability of labour. Within personnel management, resources are strongly focused on growth, continuous improvement of competitiveness, and well-being and safety at work.

## Research and development

Lehto develops and manufactures building modules and elements, such as bathroom/kitchen modules, housing space elements, wall elements, large roof elements, HVAC control rooms, 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, concepts and space solutions is part of continuing operations, and the related costs are recorded as an expense in the income statement. The major development efforts during the financial year focused on the design of new building model ranges and the ramp-up of the new factory in Oulainen, which also involved some changes to product manufacturing methods.

## Environmental aspects

Lehto is committed to responsibly develop its operations and it seeks to minimize the adverse effects on the environment of its operations. The amount of waste produced at construction sites is minimized through careful planning, guidance and increasing recycling and recovery.

## Group Legal Structure

Lehto Group Plc, as the Group's parent company, is responsible for arranging common support functions for the Group, such as financial administration, information management and human resources. The parent company also co-ordinates functions substantial to Group operations, such as planning, financing and business development. In addition to the parent company, the Group comprises at the end of the financial year eight fully owned operative subsidiaries and temporary shareholdings in real-estate companies.

## Decisions by the Annual General Meeting 2016

Lehto Group Plc's Annual General Meeting was held on 30 March 2016. Essential decisions made by the Annual General Meeting are presented below: The meeting adopted the company's financial statements and released the members of the board and the CEO from liability for the financial year 1 January – 31 December 2015.

The meeting decided to distribute dividends of EUR 0.35 per share, totalling EUR 7.9 million according to the number of shares at that time. The dividend was paid on 8 April 2016.

Pertti Huuskonen, Martti Karppinen, Päivi Timonen and Mikko Räsänen were re-elected as members and Sakari Ahdekivi was elected as a new member of the Board of Directors. Hannu Lehto and Tomi Koivukoski left the Board of Directors.



The firm of authorised public accountants KPMG Oy Ab was elected as the company's auditor, headed by Tapio Raappana, Authorised Public Accountant, as the principal auditor denominated by KPMG.

The Annual General Meeting authorised the Board of Directors to carry out the actions required for listing on the stock exchange, such as the so-called share split, and the directed share issue to institutional investors, private persons and organisations as well as to the employees of the company and its subsidiary.

The Annual General Meeting authorised the Board of Directors to decide on buying own shares and accepting them as collateral. The number of own shares to be bought and accepted as collateral is 4,500,000, at a maximum, which is approx. 10% of all shares of the company before the intended IPO. The Board of Directors will decide how shares are purchased and accepted as collateral. The authorisation will remain in force until 30 September 2017.

The Annual General Meeting authorised the Board of Directors to decide on the issue of shares and other specific rights that entitle the holder to purchase shares. Shares issued on the basis of this authorisation are new shares in the company or existing shares held by the company. The number of shares to be issued on the basis of this authorisation is 4,500,000, at a maximum, which is around 10% of all shares in the company before carrying out the IPO. On the basis of this authorisation, the Board of Directors can also decide whether or not to issue new shares to the company itself, however in such a manner that the company, together with its subsidiaries, at no time owns more than 10% of all of the company's registered shares. The Board of Directors was authorised to decide on all terms and conditions relating to the issue of shares and special rights that entitle to purchasing shares. The issue of shares and special rights that entitle to purchasing shares can be directed, i.e. deviating from the shareholders' pre-emption rights, provided that there is an important financial reason for this. The authorisation will remain in force until 30 September 2017.

## Annual General Meeting 2017

The Annual General Meeting 2017 of Lehto Group Plc will take place 11 April 2017 at 1.00 p.m EET (address: Yrttipellontie 1, Oulu, Finland). The Board of Directors will publish the invitation for Annual General Meeting on 1 March 2017.

## Flagging notifications

During the review period, no changes in ownership occurred that would have led to the obligation to make an announcement according to the Security Markets Act, chapter 2, section 9, i.e. a so-called flagging announcement.

## Significant events after the reporting period

Lehto Group Plc's subsidiary Rakennuskartio Ltd ("Lehto") has acquired tenure rights to land areas in Kilo in Espoo and Kaivoksela in Vantaa. The local plans that enable housing construction in the areas were confirmed at the turn of January–February 2017. The sites have building rights for a total of 57,000 m<sup>2</sup> of gross floor area. The purchase price for the land areas totalled approximately EUR 31.9 million, which will be paid in stages as construction progresses.

Lehto plans to build 12 blocks of flats and a nursing home for the elderly at the Kilo site and 9 blocks of flats at the Kaivoksela site. In total, 21 blocks of flats will be built on the sites, amounting to some 850 apartments. Construction will begin in spring 2017, and it is estimated that the buildings will be completed between 2018 and 2020.

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

## Outlook for 2017

In 2017 Lehto's net sales is expected to grow at minimum 30% (31.3% in 2016) and operating profit is expected to be above 10% (11.2% in 2016) of the net sales.

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 2017.

The key factors affecting net sales and operating profit are the completion schedules of developer contracting housing production, the number of apartments sold as well as starts and sales of business premises and social care and educational premises.

## Long-term financial targets

Lehto Group Plc's Board of Directors has modified on 16 February 2017 the long-term financial targets concerning net sales. The growth target of net sales is slightly higher than the one that Lehto has published earlier.

Modified long-term financial targets:

- Annual growth of net sales 10–20% on average
- Operating profit 10% of net sales on average
- Equity ratio minimum 35%
- Dividend distribution 30–50% of the net profit for the year

## 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 2016 are EUR 87,554,323.46, of which the operating profit is EUR 4,525,917.86.

The Board of Directors proposes to the Annual General Meeting on 11 April 2017 that the dividend payable for the financial year 1 January – 31 December 2016 be EUR 0.22 per share, totalling EUR 12,815,165.44. The dividend shall be paid to shareholders who on the record date for the dividend payment, 13 April 2017, are recorded in the shareholders' register held by Euroclear Finland Oy. The Board of Directors proposes that the dividend payment date be 24 April 2017.

### Kempele 16 February 2017

Lehto Group Plc

Board of Directors



## Consolidated statement of comprehensive income, IFRS

	Note	1 Jan– 31 Dec 2016	1 Jan– 31 Dec 2015
Net sales	2	361 789	275 631
Other operating income	3	387	976
Changes in inventories of finished goods and work in progress		23 921	716
Capitalised production			229
Raw materials and consumables used		-133 137	-94 326
External services		-162 146	-119 640
Employee benefit expenses	4	-36 921	-26 231
Depreciation and amortisation	5	-2 167	-1 408
Other operating expenses	6	-11 375	-8 733
<b>Operating profit</b>		<b>40 351</b>	<b>27 213</b>
Financial income	7	233	105
Financial expenses	7	-442	-549
Share of associated company profits (losses)	13	3	31
<b>Profit before taxes</b>		<b>40 146</b>	<b>26 800</b>
Income taxes	8, 16	-8 243	-5 557
<b>Profit for the financial year</b>		<b>31 904</b>	<b>21 243</b>
<b>Profit attributable to</b>			
Equity holders of the parent company		31 903	21 242
Non-controlling interest		1	1
		31 904	21 243
<b>Earnings per share calculated from the profit attributable to equity holders of the parent company, EUR per share</b>	9		
Earnings per share, basic		0.59	0.52
Earnings per share, diluted		0.59	0.52

## Consolidated balance sheet, IFRS

ASSETS	Note	31 Dec 2016	31 Dec 2015
<b>Non-current assets</b>			
Goodwill	10	4 624	1 682
Other intangible assets	10	3 398	2 557
Property, plant and equipment	11	8 001	906
Investment properties	12	777	779
Investments in associated companies	13	796	793
Other financial assets	14	199	277
Receivables	15	1 050	4 680
Deferred tax assets	16	2 688	2 896
<b>Non-current assets total</b>		<b>21 534</b>	<b>14 570</b>
<b>Current assets</b>			
Inventories	17	77 460	51 253
Trade and other receivables	18	91 689	47 148
Current tax assets	18	317	2
Financial assets at fair value through profit or loss	19	30 120	
Cash and cash equivalents	20	37 570	24 616
<b>Current assets total</b>		<b>237 155</b>	<b>123 019</b>
<b>TOTAL ASSETS</b>		<b>258 689</b>	<b>137 589</b>



## Consolidated balance sheet, IFRS

EQUITY AND LIABILITIES	Note	31 Dec 2016	31 Dec 2015
<b>Equity</b>			
Share capital		100	100
Invested non-restricted equity reserve		69 155	5 830
Equity loans			4 992
Translation adjustment		1	1
Retained earnings		14 398	1 189
Profit for the financial year		31 903	21 242
<b>Capital attributable to equity holders of the parent company</b>		<b>115 557</b>	<b>33 354</b>
Non-controlling interest		3	38
<b>Equity, total</b>	<b>21</b>	<b>115 560</b>	<b>33 391</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	16	432	97
Provisions	22	3 044	1 265
Financial liabilities	23	4 093	8 244
Other non-current liabilities	24	3 634	1 683
<b>Non-current assets, total</b>		<b>11 203</b>	<b>11 288</b>
<b>Current liabilities</b>			
Advances received	24	67 287	47 901
Trade and other payables	24	49 418	33 594
Current income tax liabilities	24	2 681	2 703
Financial liabilities	23	12 540	8 712
<b>Current assets, total</b>		<b>131 927</b>	<b>92 910</b>
<b>Liabilities, total</b>		<b>143 129</b>	<b>104 198</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>258 689</b>	<b>137 589</b>

## Consolidated cash flow statement, IFRS

	Note	31 Dec 2016	31 Dec 2015
<b>Cash flow from operating activities</b>			
Profit for the financial year		31 904	21 243
<i>Adjustments:</i>			
Non-cash items	22	1 783	334
Depreciation and amortisation		2 167	1 408
Share of associated company profits (losses)		-3	-31
Financial income and expenses		224	1 000
Capital gains		-71	-375
Dividends received		-16	
Income taxes		8 243	5 557
<i>Changes in working capital:</i>			
Change in trade and other receivables		-32 850	-10 074
Change in inventories		-25 316	-4 143
Change in trade and other payables		30 345	11 896
Interest paid and other financial expenses		-441	-1 007
Financial income received		214	104
Income taxes paid		-7 878	-4 565
<b>Net cash from operating activities</b>		<b>8 304</b>	<b>21 347</b>
<b>Cash flow from investments</b>			
Investments in property, plant and equipment		-7 413	-704
Investments in intangible assets		-144	-354
Acquisition of subsidiaries		-4 490	-830
Sale of subsidiaries			849
Proceeds from sale of property, plant and equipment and intangible assets		53	
Purchases of available-for-sale financial assets and proceeds		91	284
Repayments of loan receivables		65	
Loans granted		-2 311	-4 391
Dividends received		16	
<b>Net cash from investments</b>		<b>-14 133</b>	<b>-5 147</b>
<b>Cash flow from financing</b>			
Loans drawn		9 130	25 457
Loans repaid		-8 992	-19 197
Equity loans drawn			4 992
Equity loans interest paid		-174	
Acquisition of non-controlling interest		-921	-1 816
Dividends paid		-7 929	-6 948
Share issue		60 505	
Direct cost related to paid share issue		-2 714	
<b>Net cash used in financing activities</b>		<b>48 903</b>	<b>2 489</b>
<b>Change in cash and cash equivalents (+/-)</b>		<b>43 074</b>	<b>18 689</b>
Cash and cash equivalents at 1 Jan.		24 616	5 927
<b>Cash and cash equivalents at 31 Dec.</b>	<b>19, 20</b>	<b>67 690</b>	<b>24 616</b>

## Consolidated statement of changes in equity, IFRS

	Capital attributable to equity holders of the parent company						Equity, total
	Share capital	Invested non-restricted equity reserve	Equity loan	Retained earnings	Capital attributable to equity holders of the parent company	Non-controlling interest	
<b>Equity at 1 January 2015</b>	<b>100</b>	<b>300</b>		<b>14 504</b>	<b>14 904</b>	<b>1 635</b>	<b>16 539</b>
<i>Comprehensive income</i>							
Profit or loss for the financial period				21 242	21 242	1	21 243
<b>Total comprehensive income</b>				<b>21 242</b>	<b>21 242</b>	<b>1</b>	<b>21 243</b>
<i>Transactions with equity holders</i>							
Distribution of dividends				-5 000	-5 000	-1 948	-6 948
Share issue		5 530			5 530		5 530
Other changes				1	1		1
<b>Transactions with equity holders, total</b>		<b>5 530</b>		<b>-4 999</b>	<b>530</b>	<b>-1 948</b>	<b>-1 418</b>
Equity loan			4 992		4 992		4 992
<i>Changes in holdings in subsidiaries</i>							
Acquisitions of non-controlling interest not resulting change in control				-8 315	-8 315	350	-7 965
<b>Equity at 31 December 2015</b>	<b>100</b>	<b>5 830</b>	<b>4 992</b>	<b>22 432</b>	<b>33 354</b>	<b>38</b>	<b>33 391</b>
<b>Equity at 1 January 2016</b>	<b>100</b>	<b>5 830</b>	<b>4 992</b>	<b>22 432</b>	<b>33 354</b>	<b>38</b>	<b>33 391</b>
<i>Comprehensive income</i>							
Profit or loss for the financial period				31 903	31 903	1	31 904
<b>Total comprehensive income</b>				<b>31 903</b>	<b>31 903</b>	<b>1</b>	<b>31 904</b>
<i>Transactions with equity holders</i>							
Distribution of dividends				-7 929	-7 929		-7 929
Share issue		65 497	-4 992		60 505		60 505
Direct expenses related to share issue		-2 172			-2 172		-2 172
Share-based compensation				33	33		33
Equity loan interest				-138	-138		-138
Other changes				1	1	-35	-34
<b>Transactions with equity holders, total</b>		<b>63 325</b>	<b>-4 992</b>	<b>-8 033</b>	<b>50 300</b>	<b>-35</b>	<b>50 265</b>
<b>Equity at 31 December 2016</b>	<b>100</b>	<b>69 155</b>		<b>46 301</b>	<b>115 557</b>	<b>3</b>	<b>115 560</b>

## 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, domiciled in Kempele. The registered address is Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc is the Group's parent company and its business operations are organised for its subsidiaries.

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 to be published on 16 February 2017. 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 2015. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

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

The consolidated financial statements are prepared on historical cost basis except

for available-for-sale financial assets which are measured at fair value. The financial information is presented in thousands of euro.

## PRINCIPLES OF CONSOLIDATION

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

## PROPERTY, PLANT AND EQUIPMENT

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

## GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

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

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

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

### Other intangible assets

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

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

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

## INVESTMENT PROPERTIES

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

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

#### **IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT**

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

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

#### **ASSOCIATED COMPANIES**

Associated companies are companies over which the Group has significant influence. Significant influence exists when the Group owns more than 20% of the company's

voting power or when it otherwise has significant influence but not control. Associated companies have been consolidated using the equity method of accounting.

#### **JOINT ARRANGEMENTS**

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

#### **INVENTORIES**

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

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

#### **FINANCIAL ASSETS AND LIABILITIES**

##### **Financial assets**

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



have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

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

#### **Financial assets at fair value through profit or loss**

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

#### **Cash and cash equivalents**

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

#### **Financial liabilities**

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

to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### **Derivatives**

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

#### **CAPITALISATION OF BORROWING COSTS**

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

#### **PROVISIONS**

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

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

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

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

## LEASES

### Group as lessee

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

## REVENUE RECOGNITION PRINCIPLES

### Long-term construction contracts and service agreements

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

by a third party. If it is likely that the total costs of project completion exceed the total income from the project, the expected loss is recorded entirely as an expense.

### Revenue recognition for sales of new housing units

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

### Sales of real estate properties and goods

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

### Recognition of interest and dividend income

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

## OPERATING PROFIT

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

## EMPLOYEE BENEFITS

### Pension obligations

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

### Share-based incentive plans

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

## RELATED PARTY TRANSACTIONS

The Group's related parties include Group companies, members of the Board of Directors, the managing director and members of the Management Board 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 30.

## 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 end 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 11.

## NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Group has applied the following new and amended standards as from 1 January 2016:

- Amendment to IAS 1 Presentation of Financial Statements
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures
- Amendments to IFRS 11 Joint Arrangements
- Annual improvements to IFRSs, 2012–2014 cycle

New or amended standards have no significant impact on the financial statements. Due amendments to IAS 1 small changes has been made to presentation of financial statements.

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

- IAS 7 Statement of Cash Flows
- IFRS 2 Share-based payments
- IFRS 4 Insurance Contracts
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IAS 40 Investment properties
- Annual improvements to IFRSs, 2014–2016 cycle

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

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

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



the financial year beginning on 1 January 2018. The Group will apply the new standard retroactively from 1 January 2018 in accordance with IAS 8, and will present adjusted comparative data for 2017.

**IFRS 16 Leases** will replace the IAS 17 standard. Most of the company's lease agreements are for office premises and small machinery and equipment. These can be terminated at short notice. The Company estimates that the new standard will not have a material impact on the consolidated financial statements, at least with regard to the current leases.

**IFRS 9 Financial Instruments** will bring major changes to the classification and measurement of financial instruments, liabilities and investments as well as to the recognition of credit losses and hedge accounting. The new standard primarily applies to banks, but it also affects businesses in other sectors. The Company estimates that the new standard will not have a material impact except for changing disclosure requirements.

## 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	2016	2015
<b>Net sales</b>	<b>361 789</b>	<b>275 631</b>
Other operating income	387	976
Other operating expenses	-319 658	-247 985
Depreciation and amortisation	-2 167	-1 408
<b>Operating profit</b>	<b>40 351</b>	<b>27 213</b>
Interest income	233	105
Interest costs	-442	-549
Shares of associated company results	3	31
<b>Segment's profit/loss before income taxes</b>	<b>40 146</b>	<b>26 800</b>
<b>Assets</b>		
<b>Segment's assets</b>	<b>258 689</b>	<b>137 589</b>
Investments in associated companies	796	793
Investments	13 042	4 023
<b>Liabilities</b>		
<b>Segment's liabilities</b>	<b>143 129</b>	<b>104 198</b>

### Main customers

Revenue of the Building Services segment from the three largest customers was a total of EUR 40.3 million in 2016 (EUR 62.0 million in 2015), corresponding to approx. 11% (22%) of the segment's net sales. In 2016, the share of net sales of the largest individual customer was 3% and 9% in 2015.

## 2. NET SALES

	2016	2015
Long-term construction contracts and service agreements	225 613	206 102
Revenue recognition for sales of new housing units	135 961	69 483
Rental income	215	46
<b>Total</b>	<b>361 789</b>	<b>275 631</b>

By the end of the financial year, costs incurred and recognised profits (net of losses) for construction contracts in progress amounted to EUR 196.9 million (EUR 77.1 million in 2015) and receivables to EUR 41.7 million (EUR 25.3 million) and advances received to EUR 24.2 million (EUR 8.9 million).

## 3. OTHER OPERATING INCOME

	2016	2015
Rental income	147	311
Subsidies	4	105
Damages	165	159
Capital gains	71	395
Other income	0	7
<b>Total</b>	<b>387</b>	<b>976</b>

Capital gains consist of the gain on sales of share investments.

## 4. EMPLOYEE BENEFIT EXPENSES

	2016	2015
Salaries and wages	29 600	20 963
Share-based incentives, to be paid out in shares	33	
Pension costs— defined contribution plans	6 541	4 708
Other personnel costs	748	560
<b>Total</b>	<b>36 921</b>	<b>26 231</b>

More detailed description of share-based incentive plans is in note 21.

### Number of personnel in average during the year, Group

	2016	2015
Salaried employees	296	206
Workers	270	196
<b>Total</b>	<b>566</b>	<b>402</b>

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

	2016	2015
Salaried employees	392	224
Workers	355	199
<b>Yhteensä</b>	<b>747</b>	<b>423</b>

## 5. DEPRECIATION AND AMORTISATION

	2016	2015
<b>Depreciation of property, plant and equipment</b>		
Machinery and equipment	493	387
Other tangible assets	8	6
<b>Total</b>	<b>501</b>	<b>393</b>

Amortisation of intangible assets	2016	2015
Software and licences	321	248
Customer relationships	993	765
<b>Total</b>	<b>1 314</b>	<b>1 013</b>

Depreciation of investment properties	2016	2015
Properties in own use	350	
Buildings and structures	2	3
<b>Total</b>	<b>353</b>	<b>3</b>

<b>Depreciation and amortisation, total</b>	<b>2 167</b>	<b>1 408</b>
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## 6. OTHER OPERATING EXPENSES

	2016	2015
Voluntary personnel expenses	1 442	780
Business premises expenses	1 600	1 309
Equipment expenses	1 627	1 046
Travel expenses	2 120	1 584
Product development expenses	217	739
Office expenses	530	494
Marketing expenses	1 302	604
Administrative services	1 367	839
Other operating expenses	1 170	1 338
<b>Total</b>	<b>11 375</b>	<b>8 733</b>

Fees paid to auditor:	2016	2015
Audit fees	119	42
Professional services related to share issue	238	
Other services	61	37
<b>Total</b>	<b>441</b>	<b>79</b>

## 7. FINANCIAL INCOME AND EXPENSES

Financial income	2016	2015
Dividend income from available-for-sale financial assets	16	0
Other financial income	218	104
<b>Total</b>	<b>233</b>	<b>105</b>

Financial expenses	2016	2015
Interest costs	718	826
Capitalised interest costs	-586	-556
Other financial expenses	310	279
<b>Total</b>	<b>442</b>	<b>549</b>

<b>Financial income and expenses, total</b>	<b>-208</b>	<b>-444</b>
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## 8. INCOME TAXES

	2016	2015
Current income tax	-8 121	-5 481
Change deferred tax assets	-87	-19
Change deferred tax liabilities	-34	-57
<b>Total</b>	<b>-8 243</b>	<b>-5 557</b>

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

	2016	2015
Tax rate	20.0%	20.0%
Profit before taxes	40 146	26 800
Taxes calculated at the tax rate of the domicile country	8 029	5 360
Tax-exempt income	-27	-0
Non-deductible expenses	67	21
Amortisation of intangible assets from business combination	184	152
Taxes for the previous financial years	-10	-17
Other items		41
<b>Total</b>	<b>8 243</b>	<b>5 557</b>

**9. EARNINGS PER SHARE**

	2016	2015
Profit for the financial year attributable to equity holders of the parent company	31 903	21 242
Issue-adjusted average number of shares during the year, basic	54,067,297	41,062,559
Earnings per share, basic, EUR/share	0.59	0.52
Issue-adjusted average number of shares during the year, diluted	54,073,804	41,062,559
Earnings per share, diluted, EUR/share	0.59	0.52

**10. OTHER INTANGIBLE ASSETS**

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

Intangible assets 2015	Goodwill	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2015	1 682		545	2 227
Increases		2 782	416	3 198
<b>Acquisition cost at 31 Dec. 2015</b>	<b>1 682</b>	<b>2 782</b>	<b>961</b>	<b>5 425</b>
Accumulated depreciation and amortisation at 1 Jan. 2015			-173	-173
Depreciation and amortisation		-765	-248	-1 013
<b>Accumulated depreciation and amortisation at 31 Dec. 2015</b>		<b>-765</b>	<b>-421</b>	<b>-1 186</b>
Carrying amount at 1 Jan. 2015	1 682		371	2 054
<b>Carrying amount at 31 Dec. 2015</b>	<b>1 682</b>	<b>2 017</b>	<b>540</b>	<b>4 239</b>

### Allocation of goodwill

In the IFRS financial statements the Group applied the relief according to IFRS 1 First-time Adoption of International Financial Reporting Standards from applying IFRS 3 Business Combinations retroactively.

Cash-generating unit: Building Services	2016	2015
Goodwill	4 624	1 682

### Allocation of and recording impairment losses

There was no indication of impairment within the Group.

### Impairment tests

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

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

	2016	2015
Discount rate	7.85 %	7.20 %
Growth rate	2.00 %	2.00 %

### Sensitivity analysis

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

## 11. PROPERTY, PLANT AND EQUIPMENT

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



Property, plant and equipment 2015	Machinery and equipment	Other tangible assets	Total
Acquisition cost at 1 Jan. 2015	1 505	13	1 517
Increases	612	141	753
<b>Acquisition cost at 31 Dec. 2015</b>	<b>2 117</b>	<b>153</b>	<b>2 270</b>
Accumulated depreciation and amortisation at 1 Jan. 2015	-967	-4	-971
Depreciation and amortisation	-387	-6	-393
<b>Accumulated depreciation and amortisation at 31 Dec. 2015</b>	<b>-1 354</b>	<b>-10</b>	<b>-1 364</b>
Carrying amount at 1 Jan. 2015	537	9	546
<b>Carrying amount at 31 Dec. 2015</b>	<b>763</b>	<b>143</b>	<b>906</b>

## 12. INVESTMENT PROPERTIES

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

Investment properties 2015	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2015	202	808	1 011
<b>Acquisition cost at 31 Dec. 2015</b>	<b>202</b>	<b>808</b>	<b>1 011</b>
Accumulated depreciation and amortisation at 1 Jan. 2015		-228	-228
Depreciation and amortisation		-3	-3
<b>Accumulated depreciation and amortisation at 31 Dec. 2015</b>		<b>-231</b>	<b>-231</b>
Carrying amount at 1 Jan. 2015	202	580	782
<b>Carrying amount at 31 Dec. 2015</b>	<b>202</b>	<b>577</b>	<b>779</b>

Net rental income	2016	2015
Rental income from investment properties	74	79
Direct maintenance costs for investment properties	25	12
	<b>49</b>	<b>67</b>

### 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 2016	Fair value 2016	Level
<b>Business property</b>	Acquisition cost	575	612	3
<b>Land area</b>	Acquisition cost	202	202	3
		<b>777</b>	<b>814</b>	

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

### 13. INVESTMENTS IN ASSOCIATED COMPANIES

	2016	2015
Investments in associated companies at 1 Jan.	793	762
Increases	34	
Elimination of Group's internal profit	-34	
Share of profit or loss for the financial year	3	31
<b>Investments in associated companies at 31 Dec.</b>	<b>796</b>	<b>793</b>

Associated companies 2016	Koy Zemppe	Koy Limingan Arvokiinteistöt	Koy Hauki- putaan Arvo- kiinteistöt
Holding	33.33%	38.10%	29.41%
Assets	9 552	3 911	4 354
Liabilities	9 452	1 813	4 352
Net sales	0	416	397
Profit/loss for the financial year	0	58	0

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

### 14. OTHER FINANCIAL ASSETS

Available-for-sale financial assets	2016	2015
Available-for-sale financial assets at 1 Jan.	277	314
Increases		1
Decreases	-78	-39
<b>Available-for-sale financial assets at 31 Dec.</b>	<b>199</b>	<b>277</b>

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

### 15. NON-CURRENT RECEIVABLES

	2016	2015
Receivables from associated companies	485	500
Loan receivables	388	4 000
Other receivables	178	180
<b>Total</b>	<b>1 050</b>	<b>4 680</b>

**16. DEFERRED TAX ASSETS AND LIABILITIES**

			Recognised in income statement	31 Dec 2016
<b>Deferred tax assets 2016</b>	<b>1 Jan 2016</b>	<b>Increases</b>		
Inventory item internal margin	23		59	81
Confirmed losses	797		-422	375
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	1 956		268	2 224
Other temporary differences			8	8
Exchange rate difference in opening balance				-1
<b>Total</b>	<b>2 776</b>		<b>-87</b>	<b>2 688</b>
<b>Deferred tax liabilities 2016</b>				
Temporary differences from capitalisation of financial expenses	34		-1	33
Other temporary differences	64	300	36	399
<b>Total</b>	<b>97</b>	<b>300</b>	<b>34</b>	<b>432</b>
			Recognised in income statement	31 Dec 2016
<b>Deferred tax assets 2015</b>	<b>1 Jan 2016</b>	<b>Increases</b>		
Investment property internal margin	28		-28	
Inventory item internal margin	25		-2	23
Confirmed losses	561		237	797
Temporary differences from stage-of-completion revenue recognition and depreciation and amortisation	2 181		-225	1 956
<b>Total</b>	<b>2 795</b>		<b>-19</b>	<b>2 776</b>
<b>Deferred tax liabilities 2015</b>				
Temporary differences from capitalisation of financial expenses	40		-6	34
Other temporary differences			64	64
<b>Total</b>	<b>40</b>		<b>57</b>	<b>97</b>

**17. INVENTORIES**

	2016	2015
Materials and supplies	697	240
Work in progress	64 194	39 976
Completed products	4 939	3 504
Inventory shares	6 115	6 183
Other inventories	1 514	1 349
<b>Total</b>	<b>77 460</b>	<b>51 253</b>

**18. TRADE AND OTHER RECEIVABLES**

	2016	2015
Trade receivables	40 189	19 189
Loan receivables	7 060	65
Current tax assets	317	2
Other receivables	2 341	2 346
Receivables from customers for constructing contracts	41 742	25 276
Adjusting entries for assets	357	272
<b>Total</b>	<b>92 005</b>	<b>47 150</b>

Ageing analysis of trade receivables	2016	2015
Not yet due	30 049	15 974
Due for		
less than 30 days	4 045	2 228
30–60 days	2 011	173
61–90 days	650	123
more than 90 days	3 434	692
<b>Total</b>	<b>40 189</b>	<b>19 189</b>

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

**19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2016	2015
Financial assets at fair value through profit or loss	30 120	
<b>Total</b>	<b>30 120</b>	

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

**20. CASH AND CASH EQUIVALENTS**

	2016	2015
Cash in hand and at banks	37 570	24 616
<b>Total</b>	<b>37 570</b>	<b>24 616</b>

**21. EQUITY**

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
<b>31 December 2014</b>	<b>20,000,000</b>	<b>100</b>	<b>300</b>	<b>400</b>
Directed share issue on 27 February 2015	428 571		1 500	<b>1 500</b>
Directed share issue on 3 December 2015	2,226,631		4 030	<b>4 030</b>
<b>31 December 2015</b>	<b>22,655,202</b>	<b>100</b>	<b>5 830</b>	<b>5 930</b>
Share split 30 March 2016	22,655,202			
Directed share issue on 28 April 2016	11,874,705		58 333	<b>58 333</b>
Conversion of equity loan 28 April 2016	1,065,643		4 992	<b>4 992</b>
<b>31 December 2016</b>	<b>58,250,752</b>	<b>100</b>	<b>69 155</b>	<b>69 255</b>

**Shares and share capital***Annual General Meeting on 30 March 2016*

On 30 March 2016, the Annual General Meeting decided on a bonus issue in which one (1) new share was issued per each existing share, amounting to 22,655,202 new shares. The number of shares after the bonus issue was 45,310,404.

The Annual General Meeting authorised the Board of Directors to decide on buying own shares and accepting them as collateral. The number of own shares to be bought and accepted as collateral is 4,500,000, at a maximum, which is approx. 10% of all shares of the company before the intended IPO. The Board of Directors will decide how shares are purchased and accepted as collateral. The authorisation will remain in force until 30 September 2017.

The Annual General Meeting authorised the Board of Directors to decide on the issue of shares and other specific rights that entitle the holder to purchase shares. Shares issued on the basis of this authorisation are new shares in the company or existing shares held by the company. The number of shares to be issued on the basis of this authorisation is 4,500,000, at a maximum, which is around 10% of all shares in the company before carrying out the IPO. On the basis of this authorisation, the Board of Directors can also decide whether or not to issue new shares to the company itself, however in such a manner that the company, together with its subsidiaries, at no time owns more than 10% of all of the company's registered shares. The Board of Directors was authorised to decide on all terms and conditions relating to the issue of shares and special rights that entitle to purchasing shares. The issue of shares and special rights that entitle to purchasing shares can be directed, i.e. deviating from the shareholders' pre-emption rights, provided that there is an important financial reason for this. The authorisation will remain in force until 30 September 2017.

**Listing to Nasdaq Helsinki Ltd**

Lehto Group Plc carried out the IPO in April 2016. Trading in the company's shares on the prelist of the Helsinki Stock Exchange commenced on 28 April 2016. As part of the issue for institutional investors, private persons and the company's employees the company issued 11,874,705 new shares. In addition, a convertible capital loan granted by Osuuskunta PPO was converted into shares by issuing 1,065,643 new Lehto Group Plc's

shares. The number of shares increased to 58,250,752 after the IPO issue of shares and the conversion. The funds received during the IPO totalled approx. EUR 60.5 million. The total fees and expenses for the IPO were approx. EUR 2.6 million.

After the share issues and 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.

#### Equity loans

Equity loan (convertible capital loan) in 2015 include an equity loan granted by Osuus-kunta PPO in September 2015 less transaction costs. Equity loan was converted into shares with share issue.

#### 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 and 2017 correspond to the value of an approximate maximum total of 1,000,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

Furthermore, the Board of Directors resolved on the Group's new restricted share plan. The reward from the restricted share plan is based on a key employee's valid and continuing employment or service during the restriction period. The reward will be paid after a restriction period lasting for one to three years, partly in the Company's shares and partly in cash. The cash proportion is meant for covering taxes and tax-related costs arising from the reward to the key employee.

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash.

#### Acquisition of non-controlling interest

In year of reference 2015 the parent company acquired the minority shares Optimikodit Oy and the participation of one shareholder in Koivukoski Oy. The acquisition price for these was a total of EUR 2.3 million. In addition, the parent company carried out an exchange of shares with the minority shareholders in Rakennusliike Lehto Oy, Rakennusliike Koivukoski Oy and Remonttipartio Oy.

The acquisitions are presented in the 2015 Group's statement of changes in equity on row "Acquisitions of non-controlling interest not resulting in change in control".

## 22. PROVISIONS

	2016	2015
Provisions at 1 Jan.	1 265	931
Increases	2 757	844
Decreases	-977	-511
<b>Provisions at 31 Dec.</b>	<b>3 044</b>	<b>1 265</b>



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

### 23. FINANCIAL LIABILITIES

	2016	2015
Non-current loans from financial institutions	2 963	8 244
Non-current instalment debts	1 130	
<b>Total</b>	<b>4 093</b>	<b>8 244</b>
Current loans from financial institutions	8 516	4 495
Current instalment debts	267	
Debts on shares in unsold housing and real estate company shares in progress	2 836	1 817
Debts on shares in unsold housing and real estate company shares completed	921	2 400
<b>Total</b>	<b>12 540</b>	<b>8 712</b>
<b>Financial liabilities, total</b>	<b>16 633</b>	<b>16 956</b>

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

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

Non-current non-interest-bearing liabilities	2016	2015
Estimated additional purchase prices from acquired business	3 634	1 683
<b>Total</b>	<b>3 634</b>	<b>1 683</b>

### Current non-interest-bearing liabilities

	2016	2015
Advances received		
From customers for constructing contracts	24 178	8 927
For projects with revenue recognised upon delivery	42 154	38 266
Other advances received	955	708
Trade payables	22 661	17 221
Other liabilities		
Liabilities paid to the Tax Administration	12 772	7 449
Other liabilities	3 134	955
Adjusting entries for liabilities		
Accrued liabilities due to employee benefits	8 580	5 346
Income tax debt	2 681	2 703
Other adjusting entries for liabilities	2 271	2 622
<b>Total</b>	<b>119 386</b>	<b>84 197</b>

### 25. FINANCIAL RISK MANAGEMENT

The Group's principal capital resources consist of cash flow from normal business operations and project-based debt financing. In addition, the Company has revolving credit limits available. At the end of 2016, the cash and cash equivalents were EUR 67.7 million (EUR 24.6 million 31 December, 2015). The credit limits were not in use at the end of 2016.

The Group has taken out so-called RS loans for its developer contracting projects. RS loans are provided by credit institutions under certain terms and condition for designated housing construction sites. Despite the growth of its housing business, the Group has not invested significant capital in housing construction sites such as land lots. The Group has not historically held a significant number of own lots, as instead its developer contracting projects have typically been built on lease lots.

#### Foreign exchange risk

The Group is not active in international market and therefore the foreign exchange risk is currently minimal. The Group's income and expenses are mainly in euros. If an order

is agreed on in a foreign currency, the method of hedging the exchange rate and the hedge ratio is determined separately in each case. Foreign exchange differences arising from hedging is recorded in the income statement under financial income and expenses. During the financial period and at balance sheet date the Group had no currency hedges.

The Group's functional currency is euro. At the balance sheet date the Group had liabilities denominated in foreign currency EUR 494 thousand (EUR 0 thousand in 31 December 2015) and receivables denominated in foreign currency totalling EUR 154 thousand at 31 December 2016 (EUR 67 thousand in 2015).

### Interest rate risk

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

### Sensitivity analysis for loans with floating rates

	2016		2015	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	27	-27	80	-80

### Credit risk

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

### Liquidity risk

The liquidity risk is managed through adequate planning of financing, monitoring and cash flow management. To secure immediate liquidity the Group has credit and

guarantee limits available, totalling EUR 148.9 million. The amount of credit and guarantee limits outstanding at 31 December 2016 was EUR 82.3 million (EUR 12.8 million in 2015).

	31 Dec 2016	Less than 1 year	1–5 years	More than 5 years
<b>Analysis of debt maturity 2016</b>				
Financial liabilities	16 633	12 540	4 093	
Trade payables and other non-interest-bearing liabilities	42 201	38 567	3 634	

	31 Dec 2015	Less than 1 year	1–5 years	More than 5 years
<b>Analysis of debt maturity 2015</b>				
Financial liabilities	16 956	8 712	8 244	
Trade payables and other non-interest-bearing liabilities	27 309	25 626	1 683	

### 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.

Net liabilities	2016	2015
Interest-bearing liabilities	16 633	16 956
Cash and cash equivalents and interest-bearing receivables	67 690	24 616
	<b>-51 057</b>	<b>-7 660</b>
Equity, total	115 560	33 391
Gearing	9.4%	32.6%
Net gearing ratio	-44.2%	-22.9%

## 26. JOINT ARRANGEMENTS

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

	2016	2015
Current assets	39	25
Current liabilities	0	0
Revenue	29	20
Expenses	18	5

## 27. OTHER LEASES

### Group as lessee

The Group has leased office premises and other premises necessary for business operations. The lease agreements were mainly cancellable lease agreements with a period of notice not exceeding 12 months.

Minimum lease payments payable for non-cancellable other leases:

	2016	2015
During one year	1 356	659
<b>Total</b>	<b>1 356</b>	<b>659</b>

Lease expenses for other lease agreements were recorded in the income statement in 2016 to a total amount of EUR 1 297 thousand (EUR 1 094 thousand in 2015).

## 28. LIABILITIES AND GUARANTEES

Loans covered by pledges on assets	2016	2015
Loans from financial institutions	11 227	12 460
Debts on shares in unsold housing company shares	3 757	4 742
Instalment debts	1 415	11
<b>Total</b>	<b>16 398</b>	<b>17 213</b>

Guarantees	2016	2015
Corporate mortgages	1 800	1 751
Real-estate mortgages	4 580	12 250
Pledges	5 658	4 648
Absolute guarantees	1 227	282
<b>Total</b>	<b>13 265</b>	<b>18 931</b>

Contract guarantees	2016	2015
Production guarantees	21 734	19 870
Warranty guarantees	9 406	4 667
RS guarantees	19 496	13 366
Payment guarantees	15 410	180
<b>Total</b>	<b>66 047</b>	<b>38 083</b>

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

	2016	2015
Liability to adjust VAT	1 390	4

The collateral for instalment debt is the financed equipment. Absolute guarantees include contract guarantees given on behalf of another Group company and loan guarantees for housing companies under construction. Pledges are inventory items and other financing assets pledged as collateral for financial institution loans and loans

for housing companies under construction. Pledges are presented at carrying amount. Furthermore, a right of claim to a lease agreement entered into by the company was given as a collateral for a loan to a subsidiary.

## 29. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

### Group parent/subsidiary relationships

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

During the financial year, Lehto Group Plc acquired the entire share capital of Rakennus Oy Wareco. A more detailed description and acquisition calculation is presented in note 31.

A list of associated companies is presented in note 13 "Investments in associated companies" and a list of joint ventures is presented in note 26 "Joint arrangements".

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

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

## 30. RELATED PARTY TRANSACTIONS

The Group's related parties include Group companies, members of the Board of Directors, the CEO, the CFO and the COO 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 2016	Sales 2015	Purchases 2016	Purchases 2015
Associated companies	10 647	1 625	1	
Key personnel and their controlled entities	10 102	16 493	2 005	1 330
<b>Total</b>	<b>20 750</b>	<b>18 118</b>	<b>2 006</b>	<b>1 330</b>

	Receivables at 31 Dec. 2016	Receivables at 31 Dec. 2015	Liabilities at 31 Dec. 2016	Liabilities at 31 Dec. 2015
Associated companies	1 394	500	1	
Key personnel and their controlled entities	798	65	227	6
<b>Total</b>	<b>2 192</b>	<b>565</b>	<b>228</b>	<b>6</b>

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	2016	2015
Salaries and other short-term employee benefits	357	896
<b>Total</b>	<b>357</b>	<b>896</b>

Salaries and remuneration	2016	2015
Chief Executive Officer, CEO		
Hannu Lehto	110	76
Members of the Board of Directors:		
Pertti Huuskonen, chairman	51	33
Hannu Lehto (until 30 March, 2016)		76
Martti Karppinen	28	18
Mikko Räsänen	29	16
Päivi Timonen	28	18
Sakari Ahdekivi	22	
Tomi Koivukoski (until 30 March, 2016)		42

No separate remuneration was paid to CEO Hannu Lehto for membership of the Board of Directors.

### 31. ACQUIRED BUSINESS

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

#### Acquired business 2016

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

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

Through the acquisition Lehto strengthens and expands its business in building renovation and gets more professional personnel for example for large renovation projects and plumbing renovations. Wareco employed almost 70 persons at the time of

acquisition and its net sales in 2015 was EUR 28.7 million and the operating profit was EUR 0.7 million.

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

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



Naval Academy / Rakennus Oy Wareco



*Acquired assets*

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

**Assets, total** 8 658

*Acquired liabilities*

Deferred tax liabilities	300
Current liabilities	3 688

**Liabilities, total** 3 988

Net assets 4 670

*Goodwill*

Consideration transferred	7 612
Identifiable net assets of the acquired business	4 670
Goodwill	2 942

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

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

**Acquisition cost** 7 612

Cash and cash equivalents of the acquired company -49

**Effect on cash flow in acquisition** 4 170

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

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

*Dometalot business acquisition*

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

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



Lumo / Dometalot Oy

## Acquired business 2015

### *Assets and liabilities arising from the acquisition of Insinööritoimisto Mäkeläinen Oy*

In late February 2015, Lehto Group Plc acquired the entire share capital of Insinööritoimisto Mäkeläinen Oy in Kajaani. The sellers were the company's key personnel. Insinööritoimisto Mäkeläinen focuses on planning extensive and long-term construction projects. The company's net sales in 2014 totalled approx. EUR 1.9 million and it had 19 employees at the time of acquisition.

#### *Acquired assets*

Customer relationships	2 782
Other intangible assets	62
Property, plant and equipment	49
Current receivables	282
Cash at bank and in hand	218

<b>Assets, total</b>	<b>3 393</b>
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#### *Acquired liabilities*

Current liabilities	344
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<b>Liabilities, total</b>	<b>344</b>
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Net assets	3 048
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Purchase price paid in cash	1 040
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Purchase price paid in shares	1 500
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Contingent additional purchase price	508
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<b>Acquisition cost</b>	<b>3 048</b>
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Cash and cash equivalents of the acquired company	-218
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<b>Effect on cash flow in acquisition</b>	<b>2 322</b>
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<b>Effect on cash flow after the payment of the additional purchase price</b>	<b>2 830</b>
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Nonrecurring costs from the acquisition, which are recorded in the income statement, totalled EUR 51 thousand.

## Acquisition of an individual business

Takuuelementti Oy, a Group company, acquired the business operations of Rakennusliike Valkia Oy on 11 February 2015. The transaction includes Valkia's space element production in Oulainen and new row house projects to be started. Valkia Oy's net sales in the previous year was approx. EUR 6 million. The company employs about 20 construction professionals at the facility in Oulainen. The entire personnel was transferred to Takuuelementti as established employees. The purchase price of EUR 0.4 million is allocated entirely on the acquired business's fixed assets and inventories.

Were the business acquisitions described above carried out at the beginning of the financial year, the Group's estimated net sales would have been EUR 276.0 million and operating profit EUR 27.3 million.

## Group Key Figures

	2016	2015	2014	2013	2012
Net sales, EUR million	361.8	275.6	171.1	113.4	113.9
Net sales, change from the previous year %	31.3%	61.1%	50.8%	-0.4%	-
Operating profit, EUR million	40.4	27.2	5.8	9.2	9.2
Operating profit, as % of net sales	11.2%	9.9%	3.4%	8.1%	8.1%
Profit or loss for the financial year, EUR million	31.9	21.2	4.1	6.7	6.7
Profit or loss for the financial year, as % of net sales	8.8%	7.7%	2.4%	5.9%	5.9%
Return on investments (ROE), %	42.8%	85.1%	25.6%	51.7%	82.6%
Return on equity (ROI), %	44.5%	66.5%	21.6%	49.0%	51.0%
Equity ratio, %	60.4%	37.2%	27.3%	40.7%	34.4%
Gearing, %	9.4%	32.6%	48.8%	26.7%	23.4%
Net gearing ratio, %	-44.2%	-22.9%	50.9%	-16.2%	-8.8%
Gross expenditure on assets, EUR million	7.6	1.1	0.8	2.3	0.1
Personnel during the period, average	566	402	312	246	226
Personnel at Dec 31	747	423	326	287	204
Equity / share	1.98	0.74	0.41	0.38	0,26
Earnings per share, EUR, basic <sup>1)</sup>	0.59	0.52	0.07	0.13	0.12
Earnings per share, EUR, diluted <sup>1)</sup>	0.59	0.52	0.07	0.13	0.12
Average number of shares during the year, basic <sup>1)</sup>	54,067,297	41,062,559	40,000,000	40,000,000	40,000,000
Average number of shares during the year, diluted <sup>1)</sup>	54,073,804	41,062,559	40,000,000	40,000,000	40,000,000
Number of shares at the end of the year <sup>1)</sup>	58,250,752	45,310,404	40,000,000	40,000,000	40,000,000
Market value of share, EUR million	593.6	-	-	-	-
Share turnover, shares	11,912,330	-	-	-	-
Share turnover out of average number of shares, %	22.0%	-	-	-	-
Share prices, EUR					
Highest price, EUR	10.19	-	-	-	-
Lowest price, EUR	5.52	-	-	-	-
Average price, EUR	8.03	-	-	-	-
Price at Dec 31, EUR	10.19	-	-	-	-
Dividend / share, EUR <sup>1) 2)</sup>	0.22	0.18	0.13	0.04	0.02
Dividend payout ratio, % <sup>1) 2)</sup>	37.3%	33.8%	184.9%	25.9%	19.8%
Effective dividend yield % <sup>2)</sup>	2.2%	-	-	-	-
Price / Earnings	17.27	-	-	-	-

<sup>1)</sup> Years 2012-2015 adjusted for share issue (split) in March 30, 2016

<sup>2)</sup> Year 2016 dividend proposal

## DEFINITIONS OF KEY FIGURES

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

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

## ALTERNATIVE PERFORMANCE MEASURES BY ESMA

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

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

## Income statement for the parent company, FAS

	1 Jan– 31 Dec 2016	1 Jan– 31 Dec 2015
Net sales	3 626	1 682
Other operating income	33	485
Personnel expenses		
Salaries and fees	-1 991	-1 139
Personnel expenses		
Pension costs	-342	-197
Indirect employee costs	-80	-56
Depreciation according to plan and impairment	-302	-247
Other operating expenses	-2 283	-1 559
<b>Operating loss</b>	<b>-1 339</b>	<b>-1 031</b>
<i>Financial income and expenses</i>		
Income from holdings in Group companies	1 066	9 284
Income from other investments held as non-current assets, from others	15	
Interest and other financial income		
From Group companies	236	14
From others	126	6
Amortisation from other investments held as non-current assets	-4	
Interest and other financial expenses		
To Group companies	-12	-8
To others	-2 763	-252
<i>Financial income and expenses, total</i>	<i>-1 335</i>	<i>9 044</i>
<b>Profit / loss before appropriations and taxes</b>	<b>-2 674</b>	<b>8 013</b>
Appropriations		
Group contribution	7 200	
<b>Profit for the financial year</b>	<b>4 526</b>	<b>8 013</b>

## Balance sheet for the parent company, FAS

ASSETS	31 Dec 2016	31 Dec 2015
<b>Non-current assets</b>		
Intangible assets	232	363
Machinery and equipment	162	123
Holdings in Group companies	27 889	20 186
Investments in associated companies	781	781
Other shares and investments	1	5
<b>Non-current assets, total</b>	<b>29 065</b>	<b>21 458</b>
<b>Current assets</b>		
Inventories	83	83
<i>Non-current receivables</i>		
Receivables from Group companies	2 550	375
Receivables from associated companies	485	500
Other receivables	178	177
<i>Current receivables</i>		
Trade receivables	9	11
Receivables from Group companies	22 335	2 809
Other receivables	21	109
Adjusting entries for assets	52	19
Financial securities	30 120	
Cash and cash equivalents	34 380	16 115
<b>Current assets total</b>	<b>90 213</b>	<b>20 197</b>
<b>ASSETS TOTAL</b>	<b>119 278</b>	<b>41 655</b>



## Balance sheet for the parent company, FAS

EQUITY AND LIABILITIES	31 Dec 2016	31 Dec 2015
<b>Equity</b>		
Share capital	100	100
Invested non-restricted equity reserve	71 335	5 830
Retained earnings	11 694	11 610
Profit for the financial year	4 526	8 013
<b>Equity, total</b>	<b>87 654</b>	<b>25 553</b>
<b>Liabilities</b>		
<i>Non-current liabilities</i>		
Convertible loans		5 000
Loans from financial institutions	450	450
Other liabilities	3 256	1 683
<i>Non-current liabilities, total</i>	<i>3 706</i>	<i>7 133</i>
<i>Current liabilities</i>		
Loans from financial institutions	200	400
Trade payables	336	143
Liabilities to Group companies	24 388	6 842
Other liabilities	2 000	1 041
Adjusting entries for liabilities	994	543
<i>Current liabilities, total</i>	<i>27 917</i>	<i>8 970</i>
<b>Liabilities, total</b>	<b>31 624</b>	<b>16 103</b>
<b>EQUITY AND LIABILITIES TOTAL</b>	<b>119 278</b>	<b>41 655</b>

## Cash flow statement for the parent company, FAS

	31 Dec 2016	31 Dec 2015
<b>Cash flow from operating activities</b>		
Profit for the financial year	-2 674	8 013
<i>Adjustments:</i>		
Depreciation according to plan and impairment	302	247
Gain on sale of non-current assets		-247
Non-cash items	4	
Financial income and expenses	1 331	-9 044
<i>Changes in working capital:</i>		
Change in trade and other receivables	-260	-17
Change in trade and other payables	922	346
Interest paid and other financial expenses	-2 867	-170
Interests received from operations	363	20
Dividends received from operations	1 066	12 681
Income taxes paid		34
<b>Net cash from operating activities</b>	<b>-1 814</b>	<b>11 863</b>
<b>Cash flow from investments</b>		
Investments in intangible and tangible assets	-210	-286
Investments in other investments	-5 424	-2 921
Proceeds from sale of investments	65	256
Repayment of loan receivables		30
Loans granted	-8 940	-473
Dividends received	15	
<b>Net cash from investments</b>	<b>-14 493</b>	<b>-3 393</b>
<b>Cash flow from financing</b>		
Long-term loans drawn		5 000
Short-term loans drawn		2 600
Short-term loans repaid	-200	-3 600
Change in Group financing	12 317	6 216
Dividends paid	-7 929	-5 000
Share issue paid	60 505	
<b>Net cash used in financing activities</b>	<b>64 693</b>	<b>5 216</b>
<b>Change in cash and cash equivalents (+/-)</b>	<b>48 386</b>	<b>13 686</b>
Cash and cash equivalents at 1 Jan.	16 115	2 429
<b>Cash and cash equivalents at 31 Dec.</b>	<b>64 500</b>	<b>16 115</b>

## 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	2016	2015
Group internal service charges	3 494	1 682
Other net sales, internal	121	
Other net sales, external	11	
<b>Total</b>	<b>3 626</b>	<b>1 682</b>
<b>Auditors' fees</b>	<b>2016</b>	<b>2015</b>
Statutory auditing	56	15
Tax services	18	
Other services	265	57
<b>Total</b>	<b>339</b>	<b>71</b>

Financial income and expenses	2016	2015
Dividend income from Group companies	1 066	9 284
Dividend income from others	15	
Interest income from Group companies	236	14
Interest income from others	126	6
Amortisation from other investments held as non-current assets	-4	
Interest costs on intra-Group liabilities	-12	-8
Interest costs to others	-113	-173
Other financial expenses	-2 650	-79
<b>Total</b>	<b>-1 335</b>	<b>9 044</b>

### NOTES ON BALANCE SHEET ASSETS

Intangible rights	2016	2015
Acquisition cost at 1 Jan.	304	206
Increases	86	98
<b>Acquisition cost at 31 Dec.</b>	<b>390</b>	<b>304</b>
Accumulated depreciation at 1 Jan.	-132	-52
Depreciation and amortisation	-101	-80
<b>Accumulated depreciation at 31 Dec.</b>	<b>-233</b>	<b>-132</b>
Book value at 1 Jan.	172	154
<b>Book value at 31 Dec.</b>	<b>157</b>	<b>172</b>

Other long-term expenditure	2016	2015
Acquisition cost at 1 Jan.	358	241
Increases		117
<b>Acquisition cost at 31 Dec.</b>	<b>358</b>	<b>358</b>
Accumulated depreciation at 1 Jan.	-167	-58
Depreciation and amortisation	-116	-109
<b>Accumulated depreciation at 31 Dec.</b>	<b>-283</b>	<b>-167</b>
Book value at 1 Jan.	191	184
<b>Book value at 31 Dec.</b>	<b>75</b>	<b>191</b>

Machinery and equipment	2016	2015
Acquisition cost at 1 Jan.	248	203
Increases	124	71
Decreases		-25
<b>Acquisition cost at 31 Dec.</b>	<b>372</b>	<b>248</b>
Accumulated depreciation at 1 Jan.	-126	-93
Depreciation and amortisation	-84	-58
Accumulated depreciation on decreases		25
<b>Accumulated depreciation at 31 Dec.</b>	<b>-210</b>	<b>-126</b>
Book value at 1 Jan.	123	110
<b>Book value at 31 Dec.</b>	<b>162</b>	<b>123</b>

Investments	2016	2015
Acquisition cost at 1 Jan.	21 063	9 903
Increases	7 804	11 169
Decreases	-101	-10
<b>Acquisition cost at 31 Dec.</b>	<b>28 765</b>	<b>21 063</b>
Accumulated amortisation at 1 Jan.	-91	-91
Amortisation	-4	
<b>Accumulated amortisation at 31 Dec.</b>	<b>-95</b>	<b>-91</b>
Book value at 1 Jan.	20 972	9 812
<b>Book value at 31 Dec.</b>	<b>28 670</b>	<b>20 972</b>

Non-current receivables from Group companies	2016	2015
Loan receivables	2 550	375
<b>Total</b>	<b>2 550</b>	<b>375</b>

Current receivables from Group companies	2016	2015
Trade receivables	1 536	618
Loan receivables	8 024	1 259
Other receivables	7 545	932
Group limit	5 230	
<b>Total</b>	<b>22 335</b>	<b>2 809</b>

Essential items included in adjusting entries for assets	2016	2015
Other adjusting entries for assets	52	19
<b>Total</b>	<b>52</b>	<b>19</b>

## NOTES ON BALANCE SHEET LIABILITIES

	2016	2015
Share capital on 1 Jan.	100	100
<b>Share capital on 31 Dec.</b>	<b>100</b>	<b>100</b>
Invested non-restricted equity reserve at 1 Jan.	5 830	300
Changes during for the financial year	65 505	5 530
<b>Invested non-restricted equity reserve at 31 Dec.</b>	<b>71 335</b>	<b>5 830</b>
Retained earnings at 1 Jan.	11 610	11 483
Retained earnings	8 013	5 127
Distribution of dividends	-7 929	-5 000
<b>Retained earnings at 31 Dec.</b>	<b>11 694</b>	<b>11 610</b>
<b>Profit/loss for the financial year</b>	<b>4 526</b>	<b>8 013</b>
<b>Equity, total</b>	<b>87 654</b>	<b>25 553</b>
<b>Statement of distributable funds</b>	<b>2016</b>	<b>2015</b>
Invested non-restricted equity reserve	71 335	5 830
Retained earnings	11 694	11 610
Profit/loss for the financial year	4 526	8 013
<b>Total</b>	<b>87 554</b>	<b>25 453</b>
<b>Liabilities to Group companies</b>	<b>2016</b>	<b>2015</b>
Trade payables	4	6
Group limit	24 384	6 836
<b>Total</b>	<b>24 388</b>	<b>6 842</b>

## Essential items included in adjusting entries for liabilities

	2016	2015
Salary debt	493	157
Holiday pay debt with related costs <sup>1)</sup>	165	123
Non-wage labour cost debt	213	70
Interest debt	1	93
Other liabilities	122	101
<b>Total</b>	<b>994</b>	<b>543</b>

<sup>1)</sup> Holiday pay debt in 2015 includes related costs to holiday pay debt.

## GUARANTEES AND CONTINGENT LIABILITIES

<b>Loans covered by pledges on assets</b>	<b>2016</b>	<b>2015</b>
Loans from financial institutions	650	850
<b>Total</b>	<b>650</b>	<b>850</b>
<b>Guarantees</b>		
Absolute guarantees	1 174	59
<b>Total</b>	<b>1 174</b>	<b>59</b>
<b>Amount of credit limits</b>		
Credit limits available	2 005	4 005
Credit limits in use		3
<b>Credit limits outstanding</b>	<b>2 005</b>	<b>4 002</b>
Guarantee limits available	130 000	49 300
Guarantee limits in use	63 434	36 519
<b>Guarantee limits outstanding</b>	<b>66 566</b>	<b>12 781</b>

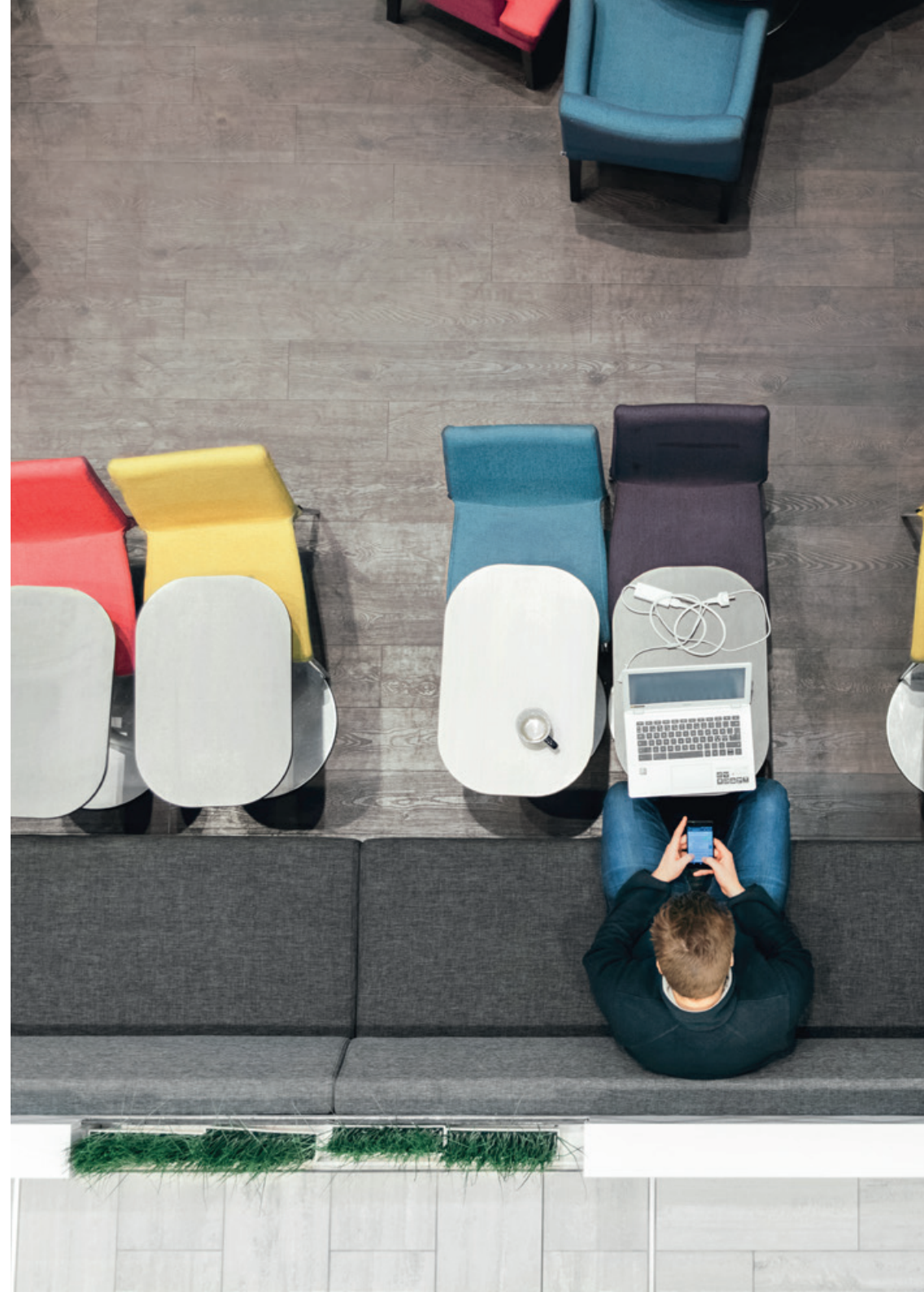
EUR 1,000

<b>Pledged shares in subsidiaries</b>	<b>2016</b>	<b>2015</b>
Pledged shares in subsidiaries		9 170
<b>Guarantees given on behalf of other Group companies</b>		
Guarantees given and other commitments	35 476	38 088
<b>Leasing agreements not included in balance sheet</b>		
Expiring in 12 months	11	4
Expiring in more than 12 months	23	4
<b>Total</b>	<b>35</b>	<b>9</b>
<b>Lease liabilities</b>		
Construction leases	702	379
<b>Total</b>	<b>702</b>	<b>379</b>

#### NOTES ON PERSONNEL AND MEMBERS OF ADMINISTRATIVE PERSONNEL

<b>Average number of company personnel at the end of the financial year</b>	<b>2016</b>	<b>2015</b>
Salaried employees	26	17
<b>Total</b>	<b>26</b>	<b>17</b>

Remuneration of the CEO and members of the Board of Directors are specified in note 30 to the consolidated financial statements.



## 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 2016

	Number of shares	%
Lehto Invest Oy	21,735,216	37.3
Myllymäki Asko	6,408,112	11.0
Kinnunen Mikko	2,581,768	4.4
Winduo Oy	1,827,686	3.1
Koivukoski Tomi	1,748,061	3.0
Saartoala Ari	1,242,243	2.1
Heikkilä Jaakko	820,268	1.4
Lunacon Oy	808,570	1.4
Sr SEB Gyllenberg Finlandia	666,494	1.1
Fondita Nordic Micro Cap Placeringsf	625,000	1.1
<b>10 LARGEST SHAREHOLDERS</b>	<b>38,463,418</b>	<b>66.0</b>
Nominee-registered	6,321,154	10.9
Other shareholders	13,466,180	23.1
<b>TOTAL</b>	<b>58,250,752</b>	<b>100.0</b>

### SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share-holders	%
1- 100	68,047	0.1	1 206	19.3
101 - 1,000	1,614,020	2.8	4 426	70.6
1,001 - 10,000	1,338,528	2.3	534	8.5
10,001 - 100,000	2,268,147	3.9	58	0.9
100,001 - 1,000,000	11,145,098	19.1	34	0.5
over 1,000,000	41,816,912	71.8	8	0.1
<b>TOTAL</b>	<b>58,250,752</b>	<b>100.0</b>	<b>6 266</b>	<b>100.0</b>
where of Nominee-registered	6,321,154	10.9	6	0.1

### SHAREHOLDINGS BY SECTOR

	Number of shares	%	Number of share-holders	%
Companies	26,149,068	44.9	309	4.9
Financial and insurance institutions	10,990,148	18.9	24	0.4
Public sector organizations	383,718	0.7	7	0.1
Households	20,543,339	35.3	5 886	93.9
Non-profit organizations	119,643	0.2	27	0.4
Foreign countries	64,836	0.1	13	0.2
<b>TOTAL</b>	<b>58,250,752</b>	<b>100.0</b>	<b>6 266</b>	<b>100.0</b>
where of Nominee-registered	6,321,154	10.9	6	0.1



## Board of Directors' proposal for the distribution of profits

The parent company's distributable funds are EUR 87,554,323.46, of which the profit for the year is EUR 4,525,917.86.

The Board of Directors proposes to the Annual General Meeting that the dividend payable for the financial year 1 January–31 December 2016 would be as follows:

Dividends to be paid to shareholders a maximum of EUR 0.22 per share, or 12,815,165.44 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

**Kempele, 16 February 2017**

**Pertti Huuskonen**

Chairman of the Board of Directors

**Martti Karppinen**

Member of the Board of Directors

**Mikko Räsänen**

Member of the Board of Directors

**Päivi Timonen**

Member of the Board of Directors

**Sakari Ahdekivi**

Member of the Board of Directors

**Hannu Lehto**

CEO

## The Auditor's Note

A report on the audit performed has been issued today.

**Kempele, 16 February 2017**

KPMG Oy Ab

Audit firm

**Tapio Raappana, APA**



*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 Oyj (business identity code 2235443-2) for the year ended 31 December 2016. 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, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance, financial position 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.

#### 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.

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.

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

(Accounting principles for the consolidated financial statements section "Revenue recognition principles" and Notes 2, 18 and 24)

#### Key audit matter

- The nature of operations of Lehto Group Corporation comprises the sale of construction contracts, related services, new apartments and real estate properties within the confines of a number of types of customer projects. The terms of

delivery and invoicing of these deliverables are set in agreements entered into with customers.

- The quantity and timing of revenue recognition is dependent on the content of different types of customer projects and related contracts. The principles of revenue recognition are presented under group accounting principles in the consolidated financial statements. Factors of uncertainty related to revenue recognition for the Group concern principally the projects for which revenue is recorded according to the percentage-of-completion method.
- The project revenue recognized under the percentage-of-completion method is based on project-specific margin projections, which involve management judgements. Revenue recognition has a material influence on the balances of receivables and received advance payments arising from long-term contracts, which constitute significant components of the consolidated balance sheet.

#### *How the matter was addressed in the audit*

- We evaluated the internal control over revenue and tested the effectiveness of accuracy controls over revenue recorded.
- We considered significant customer contracts entered into during the financial year and evaluated adherence to 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 financial reporting standards.
- In regard to invoicing and revenue recognition, we evaluated the accuracy of entries recorded in the Group's resource planning system. We performed project-based substantive audit procedures on the project revenue calculations with the objective of assessing the accuracy of both said calculations and profit margin recognized as well as the balances of receivables and received advance payments arising from long-term contracts.

#### **Valuation of inventories**

(Accounting principles for the consolidated financial statements section "Inventories" and Note 17)

#### *Key audit matters*

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

#### *How the matter was addressed in the audit*

- We evaluated 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 MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS**

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing

Director'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

### OTHER INFORMATION

The Board of Directors and the Managing Director 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.

**Kempele, 16 February 2017**

**Tapio Raappana**

Authorised Public Accountant, KHT





ECONOMICALLY DRIVEN CONSTRUCTION