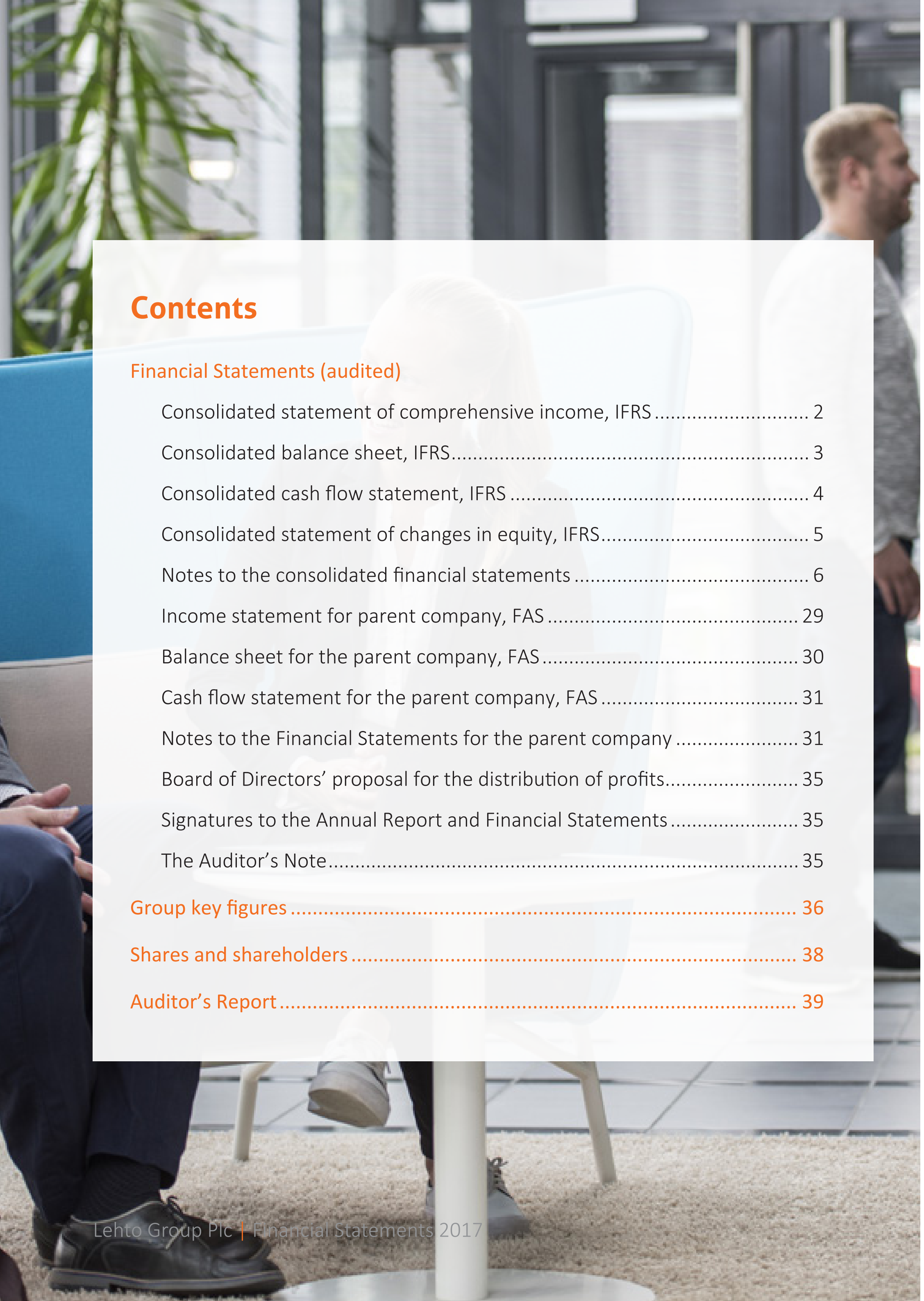
Lehto Group Plc | Financial Statements 2017

LEHTO
ECONOMICALLY DRIVEN CONSTRUCTION



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Consolidated statement of comprehensive income, IFRS

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

Consolidated balance sheet, IFRS

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

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

Consolidated cash flow statement, IFRS

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

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

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

Consolidated statement of changes in equity, IFRS

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

Accounting principles for the consolidated financial statements

Group basic information

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

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

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

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

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

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

Principles of consolidation

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

Property, plant and equipment

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

Goodwill and other intangible assets

Goodwill

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

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

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

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Other intangible assets

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

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

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

Investment properties

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

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

Impairment of intangible assets and property, plant and equipment

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

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

Associated companies

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

Joint arrangements

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

Inventories

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

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

Financial assets and liabilities

Financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

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

Financial liabilities

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

Derivatives

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

Capitalisation of borrowing costs

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

Provisions

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

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

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

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

Leases

Group as lessee

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

Revenue recognition principles

Long-term construction contracts and service agreements

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

Revenue recognised upon delivery

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

Sales of real estate properties and goods

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

Recognition of interest and dividend income

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

Operating profit

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

Employee benefits

Pension obligations

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

Share-based incentive plans

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

Related party transactions

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

Income taxes

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

Changes in deferred taxes are calculated on temporary differences between the carrying amount and taxable value on the basis of the tax rate in force at the balance sheet date or confirmed tax rates entering into force subsequently. Deferred tax assets have been recognised to the extent that it is probable that taxable income against which the temporary difference can be applied will materialise in the future. The most significant temporary differences arise from unused taxable losses, revenue recognised for construction contracts by stage of completion and capitalisation of and financial expenses.

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

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

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

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

Stage of completion revenue recognition

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

Inventories

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

Provisions

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

Goodwill impairment testing

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

New and revised standards and interpretations

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

- Amendment to IAS 7 Disclosure Initiative
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 12 (not yet endorsed for use by the European Union)
- Annual improvements to IFRSs, 20124–2016 cycle

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

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

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

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

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

The entry into force of the IFRS 15 Revenue from Contracts with Customers standard does not have a material impact on the consolidated financial statements apart from changing disclosure requirements. The Company's contracts with customers are generally less than 12 months in duration; hence, the final impact can only be assessed closer to the time of application. Based on our initial analysis, we have identified sections in our customer contracts that may be affected by the standard to a minor degree. These include the combination of customer contracts, the recognition of revenue from additional work not part of the contracts and the treatment of variable consideration. The long-term projects that are recognised using the percentage-of-completion method in accordance with the current standards mostly meet the IFRS 15 criteria for revenue recognition over time. Therefore, the time of revenue recognition for projects is not expected to significantly change. Developer contracting revenue will continue to be recognised when control is passed, i.e. at a certain point in time, if it does not meet the criteria for recognition over time. Based on our analysis, the Company does not expect the time of revenue recognition for projects to significantly change. The new standard will be applied in the financial year beginning on 1 January 2018. The Group will apply the new standard retroactively from 1 January 2018 in accordance with IAS 8, and will present adjusted comparative data for 2017. The impact on the company's net sales for 2017 is minor.

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

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

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

Notes to the consolidated financial statements

1. OPERATING SEGMENTS

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

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

Main customers

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

2. NET SALES

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

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

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

3. OTHER OPERATING INCOME

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

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

4. EMPLOYEE BENEFIT EXPENSES

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

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

Number of personnel in average during the year, Group	**2017**	**2016**
Salaried employees	512	296
Workers	501	270
Total	**1 013**	**566**

Number of personnel at the end of the financial year, Group	**2017**	**2016**
Salaried employees	579	392
Workers	605	355
Total	**1 184**	**747**

5. DEPRECIATION AND AMORTISATION

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

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

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

6. OTHER OPERATING EXPENSES

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

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

7. FINANCIAL INCOME AND EXPENSES

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

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

8. INCOME TAXES

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

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

9. SHARE-BASED KEY FIGURES

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

*) Dividend proposal

10. OTHER INTANGIBLE ASSETS

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

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

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

Allocation of and recording impairment losses

There was no indication of impairment within the Group.

Impairment tests

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

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

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

Sensitivity analysis

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

11. PROPERTY, PLANT AND EQUIPMENT

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

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

LEHTO
ECONOMICALLY DRIVEN CONSTRUCTION

12. INVESTMENT PROPERTIES

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

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

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

Fair values of investment properties

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

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

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

13. INVESTMENTS IN ASSOCIATED COMPANIES

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

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

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

14. OTHER FINANCIAL ASSETS

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

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

15. NON-CURRENT RECEIVABLES

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

16. DEFERRED TAX ASSETS AND LIABILITIES

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

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

Deferred tax liabilities 2016				
Temporary differences from capitalisation of financial expenses	34		-1	33
Other temporary differences	64	300	36	399
Total	**97**	**300**	**34**	**432**

17. INVENTORIES

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

18. TRADE AND OTHER RECEIVABLES

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

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

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

20. CASH AND CASH EQUIVALENTS

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

21. EQUITY

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

SHARES AND SHARE CAPITAL

Annual General Meeting on 11 April 2017

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

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

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

Invested non-restricted equity reserve

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

Share-based compensations

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

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

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

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

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

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

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

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

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

22. PROVISIONS

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

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

23. FINANCIAL LIABILITIES

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

	2017	2016
Current loans from financial institutions	18 283	8 516
Current instalment debts	288	267
Debts on shares in unsold housing and real estate company shares in progress	5 672	2 836
Debts on shares in unsold housing and real estate company shares completed	1 597	921
Total	**25 840**	**12 540**
Financial liabilities, total	**36 948**	**16 633**

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

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

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

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

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

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

25. FINANCIAL RISK MANAGEMENT

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

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

Foreign exchange risk

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

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

Interest rate risk

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

Sensitivity analysis for loans with floating rates	2017		2016	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	89	-89	27	-27

Credit risk

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

Liquidity risk

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

Analysis of debt maturity

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

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

Capital management

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

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

26. JOINT ARRANGEMENTS

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

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

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

27. OTHER LEASES

Group as lessee

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

Minimum lease payments payable for non-cancellable other leases:

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

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

28. LIABILITIES AND GUARANTEES

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

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

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

Liability to adjust value added tax (VAT) on property investments	2017	2016
Liability to adjust VAT	1 354	1 390

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

29. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

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

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

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

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

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

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

30. RELATED PARTY TRANSACTIONS

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

Transactions with related parties

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

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

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

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

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

31. ACQUIRED BUSINESS

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

There was no business acquisitions in 2017.

Acquired business 2016

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

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

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

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

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

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

Acquired assets	
Customer relationships	1 500
Other intangible assets	55
Property, plant and equipment	533
Inventories	1 197
Non-current receivables	763
Current receivables	4 561
Cash at bank and in hand	49
Assets, total	*8 658*
Acquired liabilities	
Deferred tax liabilities	300
Current liabilities	3 688
Liabilities, total	*3 988*
Net assets	4 670

Goodwill

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

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

Purchase price paid in cash	4 219
Contingent additional purchase price	3 393
Acquisition cost, total	*7 612*
Cash and cash equivalents of the acquired company	-49
Effect on cash flow in acquisition	*4 170*
Effect on cash flow after the payment of the additional purchase price	*7 563*

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

Dometalot business acquisition

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

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

EUR 1,000

Income statement for parent company, FAS

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

Balance sheet for the parent company, FAS

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

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

Cash flow statement for the parent company, FAS

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

Notes to the Financial Statements for the parent company

Measurement and timing principles

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

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

Bases of depreciation

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

No changes in the bases of depreciation.

Items denominated in foreign currency

There are no items denominated in foreign currency.

NOTES TO THE INCOME STATEMENT

Net sales by business area	2017	2016
Group internal service charges	6 008	3 494
Other net sales, internal	343	121
Other net sales, external	9	11
Total	**6 360**	**3 626**

Auditors' fees	2017	2016
Statutory auditing	55	56
Tax services	5	18
Other services	8	265
Total	**69**	**339**

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

Taxes	2017	2016
Current taxes	-615	
Total	**-615**	

NOTES ON BALANCE SHEET ASSETS

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

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

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

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

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

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

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

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

NOTES ON BALANCE SHEET LIABILITIES

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

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

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

Essential items included in adjusting entries for liabilities	2017	2016
Salary debt	240	493
Holiday pay debt with related costs	309	165
Non-wage labour cost debt	249	213
Tax debt	2	
Interest debt	0	1
Other liabilities		122
Total	**801**	**994**

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2017	2016
Loans from financial institutions	450	650
Total	**450**	**650**
Guarantees		
Absolute guarantees	325	1 174
Total	**325**	**1 174**
Amount of credit limits		
Credit limits available	2 009	2 005
Credit limits in use	364	
Credit limits outstanding	**1 645**	**2 005**
Guarantee limits available	204 729	130 000
Guarantee limits in use	86 579	63 434
Guarantee limits outstanding	**118 149**	**66 566**

Guarantees given on behalf of other Group companies	2017	2016
Guarantees given and other commitments	103 892	35 476
Leasing agreements not included in balance sheet		
Expiring in 12 months	51	11
Expiring in more than 12 months	87	23
Total	**138**	**35**
Lease liabilities		
Construction leases	6 195	702
Total	**6 195**	**702**

NOTES ON PERSONNEL AND MEMBERS OF ADMINISTRATIVE PERSONNEL

Average number of company personnel at the end of the financial year	2017	2016
Salaried employees	44	26
Total	**44**	**26**

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

Board of Directors' proposal for the distribution of profits

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

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

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

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

Signatures to the Annual Report and Financial Statements

Vantaa, 14 February 2018

Pertti Huuskonen
Chairman of the Board of Directors

Martti Karppinen
Member of the Board of Directors

Mikko Räsänen
Member of the Board of Directors

Päivi Timonen
Member of the Board of Directors

Sakari Ahdekivi
Member of the Board of Directors

Hannu Lehto
CEO

The Auditor's Note

A report on the audit performed has been issued today.

Vantaa, 14 February 2018

KPMG Oy Ab
Audit firm

Tapio Raappana
APA

Group key figures

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

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

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DEFINITIONS OF KEY FIGURES

Earnings per share

$$\frac{\text{Profit for the financial year}}{\text{Issue-adjusted average number of shares during the year}}$$

Equity / share

$$\frac{\text{Equity}}{\text{Issue-adjusted average number of shares at the end of year}}$$

Dividend / share

$$\frac{\text{Dividend}}{\text{Issue-adjusted number of shares on Dec 31}}$$

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

ALTERNATIVE PERFORMANCE MEASURES BY ESMA

Return on equity (ROE), %

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

Return on investments (ROI), %

$$100 \times \frac{\text{Profit before taxes + Interest and other financial expenses}}{\text{Balance sheet total - Non-interest bearing liabilities (average)}}$$

Equity ratio, %

$$100 \times \frac{\text{Equity}}{\text{Balance sheet total - Advances received}}$$

Gearing, %

$$100 \times \frac{\text{Non-current liabilities}}{\text{Equity + Provisions}}$$

Net gearing ratio, %

$$100 \times \frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$$

Dividend payout ratio, %

$$100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

Effective dividend yield, %

$$100 \times \frac{\text{Dividend per share}}{\text{Share price on Dec 31}}$$

Price / Earnings (P/E)

$$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$$

Shares and shareholders

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

SHAREHOLDERS 31 DECEMBER 2017

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

SHAREHOLDING BREAKDOWN

Shares	Number of shares	%	Number of share-holders	%
1 – 100 shares	146,045	0.3%	2,736	30.5%
101 – 1,000 shares	1,980,431	3.4%	5,414	60.3%
1,001 – 10,000 shares	1,798,672	3.1%	710	7.9%
10,001 – 100,000 shares	2,520,657	4.3%	75	0.8%
100,001 – 1,000,000 shares	11,155,644	19.2%	33	0.4%
over 1,000,000 shares	40,649,303	69.8%	8	0.1%
TOTAL	**58,250,752**	**100.0%**	**8,976**	**100.0%**
where of Nominee-registered	8,254,959	14.2%	9	10.0%

SHAREHOLDINGS BY SECTOR

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

Lehto Group Plc | Auditor’s Report 2017

LEHTO
ECONOMICALLY DRIVEN CONSTRUCTION

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

Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

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

In our opinion

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

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

Basis for Opinion

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

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

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

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

Materiality

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

Key Audit Matters

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

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

Net sales: revenue recognition

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

Key audit matters

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

Audit approach to the matters

- We evaluated the internal control over revenue and tested the effectiveness of controls over accuracy of revenue.
- We considered significant customer contracts entered into during the financial year and evaluated adherence to the company's internal operation principles. We evaluated the definition, classification and recording of transactions arising from the contracts in relation to both Group accounting principles applied in the preparation of consolidated financial statements as well as to provisions governing the preparation of financial statements.
- In regard to invoicing and revenue recognition, we evaluated the accuracy of entries recorded in the Group's enterprise resource planning system. We performed project-based substantive audit procedures on the project revenue calculations with the objective of assessing the accuracy of both the said calculations and profit margin recognized as well as the balances of receivables and received advance payments arising from long-term contracts presented in the financial statements.

Valuation of inventories

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

Key audit matters

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

Audit approach to the matters

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Other Reporting Requirements

Information on our audit engagement

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

Other Information

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

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

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

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

Vantaa, 14 February 2018

KPMG Oy Ab

Tapio Raappana
Authorised Public Accountant, KHT