



Financial Statements 2018

LEHTO GROUP PLC



Financial Statements 2018

Financial Statements (audited)

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Consolidated statement of comprehensive income, IFRS

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



Consolidated balance sheet, IFRS

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

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



Consolidated cash flow statement, IFRS

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

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

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

Consolidated statement of changes in equity, IFRS

CAPITAL ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

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

Accounting principles for the consolidated financial statements

Group basic information

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

Copies of the consolidated financial statements are available from the parent company headquarters at the address Voimatie 6 B, 90440 Kempele, Finland. Lehto Group Plc's Board of Directors approved the financial statements on 14 February 2019. Pursuant to the Finnish Companies Act, shareholders have a possibility to approve or reject the financial statements in a general meeting of shareholders to be held after the publication. The general meeting of shareholders also has a possibility to make a decision on amending the financial statements.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Basis of preparation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) by applying IAS and IFRS standards and their SIC and IFRIC interpretations, which were in force as at 31 December 2018. International Financial Reporting Standards refer to the standards, their interpretations, approved for application in the EU in accordance with the procedures in the EU regulation (EC) No. 1606/2002 and embodied in Finnish accounting legislation and the statutes enacted under it. The notes to the consolidated financial statements also comply with the Finnish accounting and corporate legislation, complementing the IFRS regulations.

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

The consolidated financial statements are prepared on historical cost basis except

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

Principles of consolidation

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

Property, plant and equipment

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

Goodwill and other intangible assets

Goodwill

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

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

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

Other intangible assets

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

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

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

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

Investment properties

Investment properties are properties which the Group holds in order to obtain rental income or appreciation in value or both. At inception investment properties are recognised at acquisition cost, which includes transaction costs. Investment properties

are subsequently valued at the original acquisition price less accumulated depreciation and impairments. Investment properties are depreciated in straight-line instalments during their estimated useful lives. Land areas are not depreciated. Investment properties are business and residential properties and the estimated useful life of buildings and structures on these properties is 20 years. The residual value, useful lives and method of depreciation of investment properties are reassessed at the end of each financial year and, as necessary, adjusted to reflect the changes in the expected economic benefit.

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

Impairment of intangible assets and property, plant and equipment

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

Recoverable amount is the higher of a unit's fair value less costs of disposal and its value in use. Value in use is the estimated discounted future net cash flows expected to be derived from the cash-generating unit. The discount rates used are pre-tax and reflect current market assessments of the time value of money and specific risks relating to the relevant asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is recognised as an expense. An impairment loss on a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets of the unit pro rata. At recognition of the impairment loss, the useful life of the depreciated assets

is reassessed. Impairment loss of other assets than goodwill is reversed in the case that a change has occurred in the estimates used in measuring the recoverable amount of the asset. A reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Impairment losses on goodwill are never reversed.

Associated companies

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

Joint arrangements

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

Inventories

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

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

Financial assets and liabilities

Financial assets

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

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

All purchases and sales of financial assets are recognised on the transaction date when the Group commits to the purchase or sale of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets recognised at amortised cost

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

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

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

Financial assets at fair value through profit or loss

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

Cash and cash equivalents

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

Financial liabilities

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

Derivatives

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

Capitalisation of borrowing costs

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

borrowing costs are capitalised in construction stage and recorded above operating profit as project cost upon delivery.

Provisions

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

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

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

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

Leases

Group as lessee

Property, plant and equipment leases in which a significant portion of the risks and rewards of ownership are transferred to the Group are classified as finance leases. Lease agreements concerning assets in which the Group holds a material share of the risks and benefits of ownership are treated as other lease agreements. Rents paid on other

lease agreements are expensed in even instalments in the income statement over the duration of the rental period. All of the Group's lease agreements are classified as other lease agreements.

Revenue recognition principles

Sales recognised as revenue over time

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

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

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

Sales recognised as revenue upon delivery

If a project does not fulfil the criteria for revenue recognised over time, it is recognised at a point in time. Property construction projects in which the buyer has not control

over the property are recognised upon delivery when the property has been completed and control has been transferred to the buyer. For apartments sold in the construction phase, control is deemed to have transferred upon completion, and for completed apartments, upon sale.

Sales of real-estate properties and goods

Sales of real-estate properties and goods are recognised as revenue when control of the product has been transferred to the buyer. This mainly refers to the point of time when the product is delivered to the customer in accordance with the agreed terms and conditions. Net sales are recognised at the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or properties to a customer, with the exception of amounts collected on behalf of third parties.

Recognition of interest and dividend income

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

Operating profit

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

Employee benefits

Pension obligations

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

recognised in the income statement in the period in which they were incurred. All of the Group's pension plans are defined contribution plans.

Share-based payments

The company has two share-based incentive plans in place. Rewards are paid under the incentive plan partly in the form of shares and partly in the form of cash. The granted benefits are measured at fair value at the time of granting and are recognised as expenses in the income statement and equity evenly over the vesting period of the rights. The expense recognised for the incentive plan is based on the Group's estimate on the number of shares that eventually vest at the end of the vesting period.

Related party transactions

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

Income taxes

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

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

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

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

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

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

Stage of completion revenue recognition

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

Inventories

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

Provisions

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

Goodwill impairment testing

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

New and revised standards and interpretations

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

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

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

IFRS 9 Financial Instruments brought major changes to the classification and measurement of financial instruments, liabilities and investments as well as to the recognition of credit losses and hedge accounting. The new standard has not had a material impact on the Group except for changing disclosure requirements. For the purpose of determining the impairment of financial assets, a simplified model based on expected credit losses has been applied from 1 January 2018, in which impairment

losses on trade receivables are recognised at an amount equal to the expected credit losses for the entire term of validity.

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

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

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

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

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

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

Notes to the consolidated financial statements

1. OPERATING SEGMENTS

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

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

Main customers

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

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

2. NET SALES

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

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

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

3. OTHER OPERATING INCOME

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

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

4. EMPLOYEE BENEFIT EXPENSES

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

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

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

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

5. DEPRECIATION AND AMORTISATION

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

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

Depreciation of investment properties	2018	2017
Buildings and structures	20	20
Total	20	20

Depreciation and amortisation, total	3,492	3,161
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**6. OTHER OPERATING EXPENSES**

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

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

7. FINANCIAL INCOME AND EXPENSES

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

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

8. INCOME TAXES

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

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

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

9. SHARE-BASED KEY FIGURES

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

^{*)} Dividend proposal

10. GOODWILL

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

Impairment tests

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

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

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

Allocation of and recording impairment losses

There was no indication of impairment within the Group.

Sensitivity analysis

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

11. OTHER INTANGIBLE ASSETS

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

Intangible assets 2017	Customer relationships	Other intangible assets	Total
Acquisition cost at 1 Jan. 2017	4,282	1,616	5,897
Increases		412	412
Acquisition cost at 31 Dec. 2017	4,282	2,027	6,309
Accumulated depreciation and amortisation at 1 Jan. 2017	-1,758	-741	-2,499
Amortisation		-198	-198
Depreciation	-1,218	-262	-1,480
Accumulated depreciation and amortisation at 31 Dec. 2017	-2,976	-1,202	-4,178
Carrying amount at 1 Jan. 2017	2,524	874	3,398
Carrying amount at 31 Dec. 2017	1,306	826	2,132

12. PROPERTY, PLANT AND EQUIPMENT

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

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

13. INVESTMENT PROPERTIES

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

Investment properties 2017	Undeveloped land	Properties	Total
Acquisition cost at 1 Jan. 2017	202	808	1,011
Acquisition cost at 31 Dec. 2017	202	809	1,011
Accumulated depreciation and amortisation at 1 Jan. 2017		-234	-234
Depreciation		-20	-20
Accumulated depreciation and amortisation at 31 Dec. 2017		-255	-255
Carrying amount at 1 Jan. 2017	202	575	777
Carrying amount at 31 Dec. 2017	202	554	757

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

Fair values of investment properties

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

Balance sheet values and fair values of investment properties	Valuation method	Balance sheet value 2018	Fair value 2018	Level
Business property	Acquisition cost	535	612	3
Land area	Acquisition cost	202	202	3
		737	814	

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

14. INVESTMENTS IN ASSOCIATED COMPANIES

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

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

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

**15. OTHER FINANCIAL ASSETS**

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

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

16. NON-CURRENT RECEIVABLES

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

17. DEFERRED TAX ASSETS AND LIABILITIES

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

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

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

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

**18. INVENTORIES**

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

19. TRADE AND OTHER RECEIVABLES

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

Ageing analysis of trade receivables

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

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

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

21. CASH AND CASH EQUIVALENTS

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

22. EQUITY

	Number of shares	Share capital	Invested non-restricted equity reserve	Total
31 December 2015	22,655,202	100	5,830	5,930
Share split 30 March 2016	22,655,202			
Directed share issue on 28 April 2016	11,874,705		58,333	58,333
Conversion of equity loan 28 April 2016	1,065,643		4,992	4,992
31 December 2016	58,250,752	100	69,155	69,255
31 December 2017	58,250,752	100	69,155	69,255
31 December 2018	58,250,752	100	69,155	69,255

SHARES AND SHARE CAPITAL

Annual General Meeting on 11 April 2018

The Annual General Meeting authorised the Board to decide on the purchase of the company's own shares in one or several instalments using assets belonging to the unrestricted equity of the company, so that the maximum quantity purchased be 5,800,000 shares. The shares shall be purchased through public trading organised by Nasdaq Helsinki in accordance with its rules or using another method. The consideration paid for the purchased shares shall be based on the market price. The authorisation entitles the Board of Directors to decide on the purchase of shares also otherwise than in proportion to the shares owned by the shareholders (directed purchase). Then, there shall be weighty financial reasons for the company to purchase its own shares. Shares may be purchased to implement arrangements linked to the company's business operations, to implement the company's share-based incentive programmes or otherwise to be transferred on or the shares may be cancelled. The purchased shares may also be held by the company. The Board of Directors is authorised to make decisions on all other terms and matters pertaining to the purchase of own shares. The purchase of own shares reduces the unrestricted equity of the company. The term of the authorisation extends until the Annual General Meeting 2019.

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

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

Invested non-restricted equity reserve

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

Share-based compensations

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

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

The long-term incentive plan is directed to 70 key employees, in the maximum, including the members of the Group Management. The rewards to be paid on the basis of the performance periods 2016-2018 correspond to the value of an approximate maximum total of 1,300,000 Lehto Group Plc shares including also the proportion to be paid in cash, on the share price level on the date of the plan resolution, if all key employees belonging to the target group decide to convert their performance bonuses entirely into the shares.

After the earning period, the gross performance bonus entered for the participant in the performance bonus plan will be converted into shares. When converting the performance bonus into shares, the trade volume weighted average quotation on

Nasdaq Helsinki Oy (conversion rate) will be the weighted trading rate of the 20 trading days following the date of release of the company's financial statement bulletin. For the earning period 2016, the performance bonus for members of the share plan was EUR 707,000, which was converted into 57,927 shares. For the earning period 2017, the performance bonus for members of the share plan was EUR 880,000, which was converted into 75,203 shares.

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

For the 2016, 2017 and 2018 earnings periods, the earnings-based terms have been met in full. The final amount of the shares to be issued for 2018 will be adjusted according to the terms and conditions once the conversion rate (subscription price) has been established. The number of shares issued on the balance sheet date is based on an estimate.

The fair value of the shares is based on the quoted share price. The amount recognised as an expense is presented under "Employee benefit expenses" in the Notes.

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

The restricted share plan is directed to selected key employees only. The rewards to be paid on the basis of the restricted share plan correspond to the value of an approximate maximum total of 50,000 Lehto Group Plc shares including also the proportion to be paid in cash. No key personnel were covered by the restricted share plan in 2018.

23. PROVISIONS

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

Guarantee provisions include estimated supplementary work expenses for construction projects completed during the financial year and actual supplementary work expenses incurred for construction projects completed during the previous financial year as a decrease. The provision is based on experience from previous years. Provisions are recorded as an expense in the item in which they are expected to materialise. Onerous projects include the estimated amount of expenditure that exceeds the benefits that may be derived from it.

24. FINANCIAL LIABILITIES

	2018	2017
Non-current loans from financial institutions	19,425	10,139
Non-current instalment debts	676	970
Total	20,101	11,109
	2018	2017
Current loans from financial institutions	46,585	18,283
Current instalment debts	298	288
Debts on shares in unsold housing and real estate company shares in progress	44,885	5,672
Debts on shares in unsold housing and real estate company shares completed	4,033	1,597
Total	95,802	25,840
Financial liabilities, total	115,903	36,948

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

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

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

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

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

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

26. FINANCIAL RISK MANAGEMENT

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

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

Foreign exchange risk

The Group's foreign exchange risk is currently somewhat low because income and expenses are denominated mainly in euros. If an order is agreed on in a foreign currency, the method of hedging the exchange rate risk and the hedge ratio is determined separately in each case. Foreign exchange differences arising from hedging is recorded in the income statement under financial income and expenses. During the financial period and at balance sheet date the Group had no open currency hedges.

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

Interest rate risk

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

Sensitivity analysis for loans with floating rates

	2018		2017	
Change, %	1%	-1%	1%	-1%
Impact on profit/loss after taxes	-161	161	-89	89

Credit risk

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

Liquidity risk

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

Analysis of debt maturity

2018	31 Dec 2018	Less than 1 year	1–5 years
Financial liabilities	115,903	95,802	20,101
Trade payables and other non-interest-bearing liabilities	70,797	65,206	5,591
2017	31 Dec 2017	Less than 1 year	1–5 years
Financial liabilities	36,948	25,840	11,109
Trade payables and other non-interest-bearing liabilities	57,434	55,749	1,684

Capital management

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



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

27. JOINT ARRANGEMENTS

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

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

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

28. OTHER LEASES

Group as lessee

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

Minimum lease payments payable for non-cancellable other leases:

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

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

29. LIABILITIES AND GUARANTEES

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

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

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

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

	2018	2017
Liability to adjust VAT	3,164	1,354

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

30. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

Group parent/subsidiary relationships

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

Company	Country of domicile	Holding, %	Share of votes, %
Lehto Components Oy	Finland	100%	100%
Insinööritoimisto Mäkeläinen Oy	Finland	100%	100%
Kiinteistö Oy Ylivieskan Arvokiinteistö	Finland	80%	80%
Kiinteistö Oy Oulun Eteläkeskus	Finland	100%	100%
Lehto Bygg Ab	Sweden	100%	100%
Lehto Sverige Ab	Sweden	88%	88%

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

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

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

31. RELATED PARTY TRANSACTIONS

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

Transactions with related parties

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

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

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

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

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

Income statement for parent company, FAS

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



Balance sheet for the parent company, FAS

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

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

Cash flow statement of the parent company, FAS

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

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



Notes to the Financial Statements for the parent company

Measurement and timing principles

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

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

Bases of depreciation

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

No changes in the bases of depreciation.

Items denominated in foreign currency

There are no items denominated in foreign currency.

NOTES TO THE INCOME STATEMENT

Net sales by business area	2018	2017
Group internal service charges	8,850	6,008
Other net sales, internal	125	343
Other net sales, external		9
Total	8,975	6,360
Auditors' fees	2018	2017
Statutory auditing	124	55
Tax services	2	5
Other services		8
Total	127	69

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

Taxes	2018	2017
Current taxes	36	615
Total	36	615

NOTES ON BALANCE SHEET ASSETS

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



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

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

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

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

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

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

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

**NOTES ON BALANCE SHEET LIABILITIES**

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

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

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

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

GUARANTEES AND CONTINGENT LIABILITIES

Loans covered by pledges on assets	2018	2017
Loans from financial institutions	20,250	450
Total	20,250	450

Guarantees		
Absolute guarantees	238	325
Total	238	325

Amount of credit limits		
Credit limits available	58,754	2,009
Credit limits in use	4	364
Credit limits outstanding	58,750	1,645
Guarantee limits available	215,020	204,729
Guarantee limits in use	111,732	86,579
Guarantee limits outstanding	103,288	118,149

Guarantees given on behalf of other Group companies

	2018	2017
Guarantees given and other commitments	159,771	103,892

Leasing agreements not included in balance sheet

Expiring in 12 months	55	51
Expiring in more than 12 months	87	87
Total	142	138

Lease liabilities

Construction leases	5,538	6,195
Total	5,538	6,195

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

	2018	2017
Salaried employees	66	44
Total	66	44

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

Board of Directors' proposal for the distribution of profits

The parent company's distributable funds are EUR 82,813,733.01, of which the profit for the year is EUR 15,674,875.79.

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

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

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

Signatures to the Annual Report and Financial Statements

Vantaa, 11 February 2019

Martti Karppinen

Chairman of the
Board of Directors

Pertti Korhonen

Member of the
Board of Directors

Mikko Räsänen

Member of the
Board of Directors

Päivi Timonen

Member of the
Board of Directors

Sakari Ahdekivi

Member of the
Board of Directors

Hannu Lehto

CEO

The Auditor's Note

A report on the audit performed has been issued today.

Oulu, 11 February 2019

KPMG Oy Ab

Audit firm

Tapio Raappana

APA

Group key figures

	2018	2017 ³⁾	2016	2015	2014
Net sales, EUR million	721.5	597.6	361.8	275.6	171.1
Net sales, change from the previous year %	20.7%	65.2%	31.3%	61.1%	50.8%
Operating profit, EUR million	37.2	64.6	40.4	27.2	5.8
Operating profit, as % of net sales	5.2%	10.8%	11.2%	9.9%	3.4%
Profit or loss for the financial year, EUR million	28.7	51.6	31.9	21.2	4.1
Profit or loss for the financial year, as % of net sales	4.0%	8.6%	8.8%	7.7%	2.4%
Return on investments (ROE), %	18.3%	38.8%	42.8%	85.1%	25.6%
Return on equity (ROI), %	16.1%	40.6%	44.5%	66.5%	21.6%
Equity ratio, %	42.7%	56.2%	60.4%	37.2%	27.3%
Gearing, %	21.3%	11.7%	9.4%	32.6%	48.8%
Net gearing ratio, %	38.5%	-20.6%	-44.2%	-22.9%	50.9%
Gross expenditure on assets, EUR million	15.9	15.9	7.6	1.1	0.8
Personnel during the period, average	1,457	1,013	566	402	312
Personnel at Dec 31	1,552	1,184	747	423	326
Equity / share	2.78	2.58	1.98	0.74	0.41
Earnings per share, EUR, basic ¹⁾	0.49	0.89	0.89	0.52	0.07
Earnings per share, EUR, diluted ¹⁾	0.49	0.88	0.88	0.52	0.07
Average number of shares during the year, basic ¹⁾	58,250,752	58,250,752	58,250,752	41,062,559	40,000,000
Average number of shares during the year, diluted ¹⁾	58,380,598	58,432,315	58,432,315	41,062,559	40,000,000
Number of shares at the end of the year ¹⁾	58,250,752	58,250,752	58,250,752	45,310,404	40,000,000
Market value of share, EUR million	247.6	737.5	593.6	-	-
Share turnover, shares	42,861,908	16,334,696	11,912,330	-	-
Share turnover out of average number of shares, %	73.6%	28.0%	20.5%	-	-
Share prices, EUR					
Highest price, EUR	14.18	14.26	10.19	-	-
Lowest price, EUR	4.02	9.79	5.52	-	-
Average price, EUR	9.13	12.25	8.03	-	-
Price at Dec 31, EUR	4.25	12.66	10.19	-	-
Dividend / share, EUR ^{1) 2)}	0.24	0.34	0.22	0.18	0.13
Dividend payout ratio, % ^{1) 2)}	48.7%	38.4%	24.8%	33.8%	184.9%
Effective dividend yield % ²⁾	5.6%	2.7%	2.2%	-	-
Price / Earnings	8.64	14.33	11.53	-	-

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

**DEFINITIONS OF KEY FIGURES**

Earnings per share	$\frac{\text{Profit for the financial year}}{\text{Issue-adjusted average number of shares during the year}}$	Gearing, %	$100 \times \frac{\text{Non-current liabilities}}{\text{Equity} + \text{Provisions}}$
Equity / share	$\frac{\text{Equity}}{\text{Issue-adjusted average number of shares at the end of year}}$	Net gearing ratio, %	$100 \times \frac{\text{Interest-bearing liabilities - Cash and cash equivalents and financial securities}}{\text{Equity}}$
Dividend / share	$\frac{\text{Dividend}}{\text{Issue-adjusted number of shares on Dec 31}}$	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)	$\frac{\text{Issue-adjusted share price on Dec 31}}{\text{Earnings per share}}$

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

ALTERNATIVE PERFORMANCE MEASURES BY ESMA

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

Shares and shareholders

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

SHAREHOLDERS 31 DECEMBER 2018

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

SHAREHOLDING BREAKDOWN

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

SHAREHOLDINGS BY SECTOR

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

A background image showing a person in a blue button-down shirt standing at a desk. They are looking at a laptop. A white mug is on the desk. The background is a bright, out-of-focus office window.

Auditor's Report 2018

LEHTO GROUP PLC

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

Auditor's Report

To the Annual General Meeting of Lehto Group Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lehto Group Plc (business identity code 2235443-2) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

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

Basis for Opinion

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

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

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

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

Materiality

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

Key Audit Matters

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

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

Net sales: revenue recognition

(Refer to Accounting principles for the consolidated financial statements, section "Revenue recognition principles" and notes 2, 19 and 25 to the consolidated financial statements)

Key audit matters

- The nature of operations of Lehto Group comprises the sale of construction contracts, related services, new apartments and real estate properties within the confines of a number of types of customer projects. The terms of delivery and invoicing of these deliverables are set in agreements entered into with customers.
- The amount and timing of revenue recognition is dependent on the content of different types of customer projects and related contracts. The revenue recognition principles are described under Accounting principles for the consolidated financial statements based on IFRS 15 Revenue from Contracts with Customer applied as from 1 January 2018. Factors of uncertainty related to revenue recognition for the Group concern principally the property construction projects for which revenue is recorded over time.
- The project revenue recognized over time is based on project-specific margin projections, which involve management judgement. Revenue recognition necessarily entails the balances of receivables and received advance payments arising from contracts with customers, which constitute significant components of the consolidated balance sheet.

Audit approach to the matters

- We evaluated the internal control over revenue and tested the effectiveness of controls over the accuracy of revenue.

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

Valuation of inventories

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

Key audit matters

- The inventory balance comprises 51 % of the total assets in the consolidated balance sheet.
- A significant proportion of the inventory balance is related to the capitalised cost of unfinished projects, which is based on the project-specific information produced by the enterprise resource planning system.

Audit approach to the matters

- We considered both the integrity of operations of the enterprise resource planning system, material to the reporting of Group companies' inventories, as well as the effectiveness of related general IT controls.

- We tested the internal controls in place over the cost monitoring of projects and performed substantive audit procedures aimed at assessing the accuracy of inventory valuation.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

We also:

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

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

Other Information

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

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

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

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

Oulu, 11 February 2019

KPMG Oy Ab

Tapio Raappana

Authorised Public Accountant, KHT